Minnesota
Department of Finance

February 2003

Highlights

Forecast for FY 2003 Down $11 million, Outlook for 2004-05 Worsens by $14 million

A slightly weaker outlook for Minnesota's economy has reduced revenues modestly for both fiscal 2003 and the 2004-05 biennium. Minor changes in the expenditure forecast almost completely offset the revenue losses leaving no material change in the state's financial situation.

Deficit of $11 Million Now Projected for Fiscal 2003

Action by the Governor in early February eliminated the projected $356 million fiscal 2003 general fund deficit. This forecast, after recognizing the additional revenues collected since November, changes made by the governor, and changes in the economic outlook, estimates that expenditures will exceed available resources by $11 million in FY 2003.

Projected Budget Shortfall for FY 2004-05 Changes Little

The budget outlook for 2004 and 2005 has changed only slightly from November. General fund revenues are now projected to be $26.707 billion, $150 million (0.6 percent) below November's forecast. Net expenditures and other changes are expected to be $136 million less than November's estimate, adding $14 million to the budget shortfall that must be dealt with in the state's FY 2004-05 budget.

Short-term Economic Risk Has Grown

The national economic outlook has changed little between November and February. Global Insight's February baseline forecast now calls for real GDP growth of 3.0 percent in 2003 and 4.6 percent in 2004. Geo-political unrest and uncertainty about the composition and timing of any fiscal stimulus program add significantly to the risk associated with that forecast. Minnesota's Council of Economic Advisors believes that the economy is much more likely to under perform the forecast than exceed it. The Council urged restoring Minnesota's budget reserve as part of budget plans for the 2004-05 biennium.

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Budget Summary

Budget Outlook for Current Biennium and Fiscal 2004-05 Worsens Slightly

Minnesota's budget outlook has worsened slightly since November. February's revenue and spending forecast shows projected fiscal 2003 general fund revenues to be $11 million less than expected expenditures. The $11 million deficit takes into account administrative actions and unallotments used to solve the fiscal 2003 budget deficit forecast in November. This forecast also increases budget shortfall projected for the 2004-05 biennium by $14 million. Combined, these changes increase the $4.204 billion shortfall for FY 2003-05 originally projected in November by $25 million to $4.229 billion.

$11 Million Deficit Projected for Fiscal 2002-03

The November forecast projected a deficit of $356 million for FY 2003. Executive action taken in early February to eliminate this deficit included delaying $50 million in sales tax refunds, using the $24 million balance in the budget reserve and making unallotments and voluntary cancellations totaling $282 million. Expected 2003 revenues fall by $30 million in this forecast. That revenue loss is partially offset by a $19 million reduction in expenditures, leaving a projected deficit of $11 million for the current fiscal year.

FY 2003 Forecast Changes

$ Millions

	February Forecast
November Forecast Deficit	($356)
Revenues:	
Forecast Changes	(30)
Sales Tax Refunds*	50
Unallotments*	73
Expenditure	
Forecast Changes	(19)
Unallotments*	(209)
Budget Reserve*	(24)
Revised Deficit	**($11)**

* Executive actions

Projected Shortfall for 2004-05 Biennium Now $4.229 Billion

State general fund revenues are now projected to total $26.707 billion during the next biennium, $150 million (0.6 percent) less than forecast in November. The current law spending estimate is now $30.828 billion, $147 million below November's projected spending levels. When combined with the FY 2003 deficit and a reduction in forecast reserves, the projected budget shortfall at the end of fiscal 2005 increases by $25 million.

FY 2004-05 Biennium Shortfall
Change from November 2002 Estimates

$ Millions

	November Forecast	February Forecast	$ Change
Beginning Balance	$24	($11)	($35)
Forecast Revenues	26,857	26,707	(150)
Projected Spending	30,975	30,828	(147)
Reserves	110	96	(14)
Forecast Shortfall	**($4,204)**	**($4,229)**	**($25)**

Projected FY 2003-05 Spending Slightly Lower

Forecast spending for FY 2003, excluding unallotment, is $19 million below November estimates. This change largely reflects slight reductions in forecast spending for E-12 education, health and human services and property tax aids and credits, offset in part by a reduction in estimated year-end cancellations.

FY 2004-05 projected spending has been reduced to $30.828 billion, $147million less than forecast in November. Two areas account for the majority of this reduction. E12 education estimates have been reduced $80 million largely due to a reduction in the number of forecast pupil units. Health and human services spending has been reduced $40 million from November estimates. Reductions in projected spending for General Assistance Medical Care and Medical Assistance Long-Term Care Waivers, while offset by increases in other areas, account for the major portion of the net forecast reduction.

Forecast Changes in Revenues Small in Both Fiscal 2003 and 2004-05 Biennium

There was little change in the revenue forecast for both the current fiscal year and the next biennium. After adjusting for the Governor's actions to balance the current biennium's budget, expected revenues fell by $30 million. For fiscal 2004-05 the forecast for the five major revenues was reduced by $137 million or just 0.6 percent.

A modest decline in Minnesota's employment outlook for 2003 and 2004 and lower projected first quarter 2003 wage growth were the sources of much of the reductions to the revenue forecast reduction.

The income tax changed the most, down $63 million in fiscal 2003 and $124 million or 1.0 percent in the next biennium. Gross sales tax receipts were also below November's forecast, for fiscal 2003. However, an administrative decision to delay sales tax refunds on capital equipment by 90 days reduced fiscal 2003 refunds by $50 million, leaving a $43 million net forecast gain. Lower corporate profits forecasts for 2003 and 2004 yielded a small reduction in corporate income taxes. All other changes to revenues were minor. Unallotments provided one-time transfers to the general fund of $73 million in fiscal 2003.

February Revenue Forecast Changes
FY 2003, FY 2004-05
$ Millions

	FY 2003	FY 2004-05
Revenues:		
Income Tax	($63)	($124)
Sales Tax	43	16
Corporate Income Tax	(12)	(43)
Motor Vehicle Sales Tax	7	13
Statewide Property Tax	(4)	1
Subtotal Major Revenues	**(29)**	**(137)**
All Other Non-Dedicated	65	25
Total Revenues	36	(112)
Transfers, Others	(16)	(38)
Unallotments	73	0
Total	**$93**	**($150)**

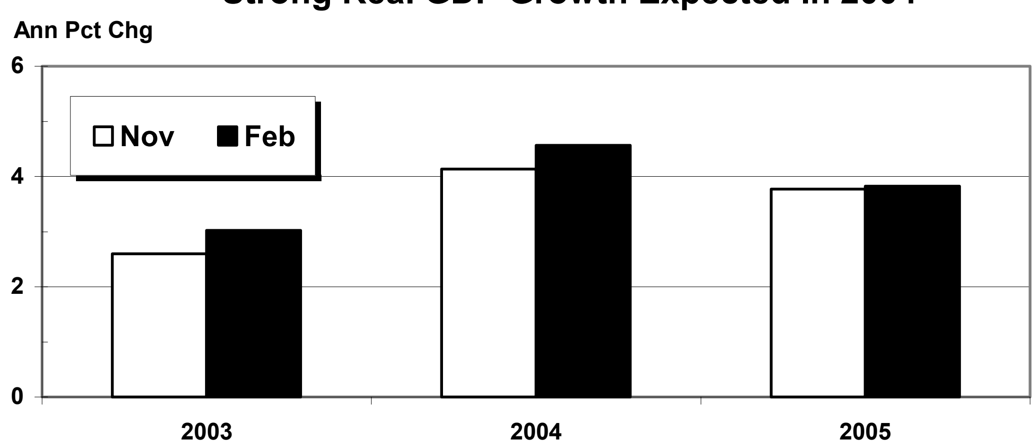
Little Change in U.S. Economic Outlook

The recession appears to be over, but the U.S. economy continues to struggle. Real GDP has grown for 5 quarters in a row, but that growth has not been sufficient to turn the employment situation around. Nationally more than 367,000 jobs were lost in 2002, in addition to the 1.4 million lost during the recession year of 2001. Government spending and the consumer have done their parts, but business investment has yet to fully recover, and the uncertainty associated with the current geo-political situation continues to give corporate managers reason to delay new plant and equipment spending.

At present almost every forecaster says the same thing. Assuming the uncertainty surrounding conflict with Iraq is eliminated by late spring, economic growth is likely to strengthen by fall, and by the end of 2003 employment will be growing again. Of course, what is often left unsaid is that failure to resolve that uncertainty could extend the current period of economic stagnation.

The February baseline forecast from Global Insight, Inc. (GII), Minnesota's national economic consultant, is similar to those of most national forecasters. It includes both a short, successful war with Iraq, and a substantial fiscal stimulus package for late 2003 and early 2004. In this forecast real GDP growth averages 3.0 percent in 2003, 4.6 percent in 2004 and 3.8 percent in 2005. Inflation remains well under control, with the CPI growing by only 2.1 percent in 2003, 1.9 percent in 2004 and 2.1 percent in 2005. GII assigned a 60 percent probability to their baseline forecast in early February, with 20 percent to a more favorable, victory without war scenario, and 20 percent to a more pessimistic scenario in which the war extends into early summer. The pessimistic scenario contains a 2-quarter recession in 2003.

Strong Real GDP Growth Expected In 2004



Almost all members of Minnesota's Council of Economic Advisors were more pessimistic than the GII forecast, because they believe that the impending war is likely to create greater economic problems than are implied by the GII baseline. The Council and the Finance Department agreed, however, that it was appropriate to use the GII baseline as the base for

Minnesota's revenue forecast, even though most believed that forecast would prove somewhat optimistic should war occur. Council members requested that the Finance Department convene a special Council Meeting in late summer to re-examine the economic outlook. A special forecast will be prepared in early fall if the economic outlook has materially changed. Council members emphasized the need to rebuild the state's budget reserve in these very uncertain times.

Slower Growth Expected in Minnesota in 2003 and 2004

Minnesota's economy continues to lag behind the national averages in employment growth. In December of 2001 U.S. employment had fallen by 1.2 percent while Minnesota employment was down by 1.5 percent from its pre-recession high. Now, one year later, U.S. employment is down 1.3 percent, but Minnesota employment is down 2.4 percent. Despite an unemployment rate that remains well below the U.S. averages, Minnesota has lost jobs much faster than the rest of the nation. This was not true in the 1990-91 recession. And, following that recession Minnesota's economy recovered more rapidly than the rest of the nation.

More than 64,000 jobs have been lost over the past two years in Minnesota, about 40,000 of them in manufacturing. Manufacturing employment has fallen by 8.9 percent since February 2001. This is a significant turn around from the gains in manufacturing employment that were observed during the 1990's. But, Minnesota's manufacturing job losses were less on a percentage basis than the U.S. average. Sectors which under performed at the U.S. average include the financial services industry were employment declined in Minnesota while increasing nationally. Employment in the transportation, communications, and utilities sector fell significantly more in Minnesota than nationally and government employment in Minnesota, while growing, did not increase as rapidly as the national averages.

FY 2006-07 Revenue-Spending Gap Widens Slightly

The FY2006-07 planning estimates represent a benchmark which can be used to determine if ongoing spending exceeds ongoing revenues. The gap between yearly revenues and yearly spending measures whether budget decisions made for the FY2004-05 budget will be sustainable in the following biennium.

Projected revenues for FY 2006-07 have fallen $348 million. This drop in revenue is partially offset by a $173 million reduction in projected spending. When combined, these changes increase the projected revenue-spending gap. The forecast changes increase the projected "structural gap" in FY 2006 to $1.346 billion and the FY 2007 gap to $1.097 billion.

FY 2006-07 Planning Estimates
($ in millions)

	November		February	
	FY 2006	FY 2007	FY 2006	FY 2007
Projected Revenues	$14,658	$15,329	$14,532	$15,107
Projected Spending	15,964	16,289	15,878	16,204
Difference	$(1,306)	$(960)	$(1,346)	$(1,097)

The planning estimates make no assumptions about likely actions in the 2003 session to balance the FY 2004-05 budget. Economic changes, as well as final budget actions, will materially affect both projected revenues and spending through the FY 2006-07 planning horizon.

A complete version of the February 2003 forecast can be found at the Department of Finance's World Wide Web site at -- www.finance.state.mn.us. This document is available in alternate format.

Forecast Fundamentals: About the Revenue and Expenditure Forecast

The February forecast updates the state's financial outlook for fiscal 2003 and provides a new estimate of expected revenues and expenditures for the FY 2004-05 budget considerations now underway in the legislature. It also updates the planning estimates for the FY 2006-07 biennium. The forecast and planning estimates are revised to reflect the most recent information about the national and state economic outlook, as well as caseload, enrollment and cost projections. No adjustments are made for future cost of living spending increases except for those contained in statute.

The revised revenue estimates reflect changes in Global Insight's national economic outlook since November, changes in the Minnesota economy, and recent revenue collection experience. Income tax receipts include fourth quarter estimated tax payments and January withholding tax collections. Sales tax receipts include results from the Christmas shopping season. The current law revenue forecast also reflects recent administrative actions and the unallotments used to balance the fiscal 2003 budget.

Revenue estimates for the current year and the next biennium are based on econometric models that forecast the Minnesota economy. The revenue forecast is prepared based on a national economic forecast provided by Global Insight Inc., (GII). That national forecast was reviewed by Minnesota's Council of Economic Advisors. A summary of their comments is found in the "Economic Summary." The "Economic Outlook" which follows provides a more comprehensive overview of the outlook for the U.S. and Minnesota economies. The revenue planning estimates for the 2006-07 biennium are obtained from slightly less complex models but are based on the Global Insight baseline forecast for 2006 and 2007.

Expenditure estimates in most areas are shown at the level of the appropriation made during the 2003 legislative session, plus any authorized future spending increases. Entitlement programs such as K-12 education, intergovernmental aids, health care, and family support are forecast based on expected changes in eligibility, enrollment and average cost. No adjustments for inflation were made in future spending except those already in statute. For programs affected by the February unallotments, fiscal 2003 expenditures reflect the level of spending estimated after unallotment.

The expenditure forecast reflects only current law. It does not reflect the Governor's budget recommendations or any potential legislative actions. The difference between the forecast and a budget proposal is clearly defined, but often confused. Presentation of the current law forecast for various areas will likely be accompanied by discussion of possible future legislative changes. The forecast provides a current law framework for these discussions. A forecast level of spending for any area for the next biennium does not preclude the governor or the legislature from proposing and enacting budget changes that would lead to significantly different spending levels than shown in this forecast.

Economic Summary

Forecasters are always concerned about the effect an unexpected outside event might have on the economy. An unexpected international incident, a financial shock, a terrorist act, a supply disruption, or an unanticipated policy development at home can turn the economy quickly, making last week's forecast irrelevant. Usually though, the probability of such an external shock is small, so small that warnings about the sources of uncertainty in the forecast can be left as minor caveats.

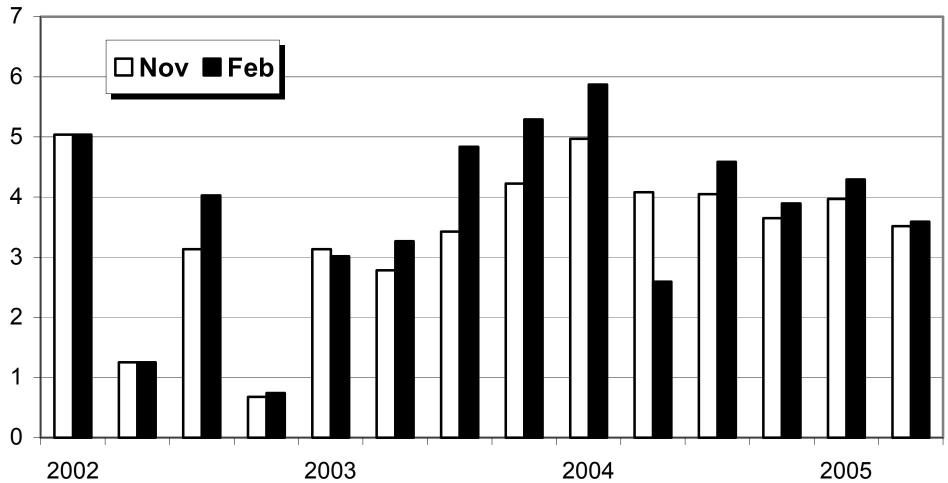
This is not one of those times. Unfortunately, the likelihood of an invasion of Iraq is now so high that it cannot be ignored. That leaves economists with the difficult task of either incorporating a war with Iraq into their baseline forecast, or preparing an alternative Iraqi war scenario to go with their "no war" baseline. Preparing a war scenario is not easy because historical data on the behavior of an "at war" economy is limited, and because every war is different. Uncertainty about the date hostilities begin and end, the extent of the destruction and casualties, and the cost and duration of the peace-keeping activities add to the complexity of preparing such a forecast.

Last fall, most baseline forecasts did not include a war with Iraq. While noting that conflict was possible, most economists chose to base their projections on a scenario assuming that the United States would not be forced to take direct action. Now, the no-war assumption appears unrealistic, and many have incorporated a war with Iraq into their baseline forecast. But, the geo-political concerns are so numerous, and so potentially devastating to the economic outlook, that it is impossible to factor them in with any confidence. The problem every forecaster faces is defining the uncertain economic effects of an action that itself is less than certain. Everyone recognizes that there is substantial downside risk to this forecast should the war turn out to be anything other than the short, decisive action that is generally expected.

Unfortunately, the impending war has also deflected attention from the underlying state of a less-than-robust national economy. And, there is reason for concern about the economic outlook for the next 12 to 18 months, even in the absence of a war. The U.S. economy grew at an anemic 0.7 percent annual rate during the fourth quarter of 2002, well below the 4.0 percent growth rate observed in the third quarter, and consumer spending could be running out of steam as a tepid job market and a still weak stock market begin to take their toll. Exports also continue weak, hurt by the strong dollar and a weak global economy. Federal spending increases are expected to help lift the economy in the short term, but no stimulus plan under consideration is likely to have a significant impact until early 2004. A pick-up in business investment spending continues to be the key to full recovery. Investment spending grew at a 1.5 percent annual rate in fourth quarter, the first increase since the fall of 2000, but much stronger growth rates are typical during a period of economic expansion. With short-term interest rates already at extremely low levels the economy is largely on its own for the next 12 months.

The February Baseline forecast from Global Insight (GII), Minnesota's national economic consultant, includes a two month war with Iraq beginning before the end of March. It also assumes a stimulus package of tax cuts and rebates totaling $80 billion for calendar 2003. With those assumptions GII now expects real GDP growth to average 3.0 percent during 2003, up from November's forecast of 2.6 percent. In calendar 2004 real growth is projected to proceed at a 4.6 percent rate; in 2005, 3.8 percent rate. November's Baseline forecast projected growth rates of 4.1 and 3.8 percent for those years.

GII Expects Real GDP Growth to Begin Accelerating by Summer



GII's Baseline forecast is slightly above February's Blue Chip Consensus forecast of 2.7 percent for 2003, and substantially more optimistic than the Blue Chip Consensus forecast of 3.6 percent for 2004. There is, however, a much wider than usual spread among the forecasters in the Blue Chip panel. That spread probably reflects different levels of optimism about the duration and severity of the war with Iraq. There continues to be little sign of renewed inflation. GII now projects CPI growth of just 1.6 percent in 2003, 2.1 percent in 2004 and 1.9 percent in 2005. Those inflation rates are well below GII's November baseline projections for 2004 and 2005.

GII assigns a probability of 60 percent to their baseline forecast, up 5 percent from November. A scenario with a return to recession in the first two quarters of 2003 is assigned a 20 percent probability. A more optimistic scenario in which Iraq capitulates without a war is also assigned a 20 percent probability. In that scenario real GDP grows about 0.6 percent faster than the baseline in 2003 and 0.4 percent faster in 2004.

Members of Minnesota's Council of Economic Advisors and Finance Department economists agreed that the February GII Baseline forecast is within the bounds of the consensus short-term outlook. Individually though, almost all Council members were more pessimistic than the GII Baseline, because they believe that the impending war is likely to create a greater problem for the economy than is implied by the GII forecast. Council members noted that the $80 billion of fiscal stimulus assumed in GII's February forecast masks some of the adverse economic impacts of the war. Some doubt was expressed about whether a stimulus package of that size would be approved in a timely fashion. Council members and the Finance Department also agreed that if this forecast is wrong, it is much more likely to be too optimistic than too pessimistic.

Finance Department economists noted that the Minnesota economy has been under-performing the U.S. economy since the start of the recession, and that recent population growth estimates indicate a significant slowing in the state's growth rate over the next few years. Finance Department economists also noted that their current projections for key measures of the Minnesota economy, including wages, show growth rates below the national average. Finance economists believe that national wage growth forecasts have again underestimated the impact of lower bonuses on aggregate wages in the first quarter of the calendar year.

There was an extended discussion at both Council meetings over whether the GII baseline outlook was so optimistic that it should be rejected as the base for the state's revenue projections. Reflecting the extreme uncertainty about the economic outlook for the next 18 months, all Council members and the Finance Department's economists were uneasy with the GII forecast. There was, though, no agreement on how that forecast's underlying assumptions might be changed to make it more acceptable. After examining the GII February baseline, the Council and the Finance Department agreed that its use as the base for Minnesota's revenue forecast was appropriate, even though most believed that forecast would prove somewhat optimistic should war occur.

Council members requested that the Finance Department convene a special Council meeting in late summer to re-examine the economic outlook. By that time much of the uncertainty about the war should be resolved, and the outlook for the economy for the remainder of the biennium can be evaluated based on economic fundamentals and not intuition about how geo-political conflicts may resolve themselves. The Finance Department endorsed the idea and said a special forecast would be prepared in early September if the economic outlook had materially changed.

Council members strongly encouraged the Governor and the legislature to rebuild the state's reserves beginning with the 2004-05 budget. While recognizing that providing for reserves adds to the size of the state's budget problem, the alternative could well be a special legislative session devoted to budget fixes soon after the start of the biennium. The Council continues to believe that the proper goal for the state's budget reserve is five percent of biennial spending. At present the Minnesota has no formal budget reserve.

ECONOMIC OUTLOOK

It seems the recovery has plateaued. In mid-January, the National Bureau of Economic Research (NBER) announced that it will wait further before declaring an official end to the recession which began in March 2001. They appear to be waiting for improvement in the labor market, which is unlikely until business firms regain confidence in the economy's future.

Uncertainty born of geopolitical tension greatly clouds the outlook. GII's Baseline includes a successful war with Iraq beginning in March and lasting no more than 2 months. In that scenario, increased federal spending and tax cuts help the recovery survive despite higher oil prices and mounting uncertainty. GII is betting oil prices drop and everyone breathes a big sigh of relief following a successful war, setting a rebound in motion.

The GII Baseline has significant downside risk because the Iraqi situation may not be resolved as easily as assumed, and because GII has no good way to predict fear of the unknown. Anxiety over war and terrorism has temporarily masked concern about the economy's wobbly short-term fundamentals including a stagnant job market, heavy debt loads, and low capacity utilization. Once the war is over, that concern could intensify. Already there are signs the long job market slump is generating significant household financial stress. Finance Department economists would not be surprised to find that post-war consumers, investors, and business firms continue to postpone spending decisions.

Many believe the economy will need help. The President and Congress are discussing potentially stimulative federal fiscal policy changes. Economists are divided over what to do. Some believe the economy is in urgent need of more stimulus, now. Dr. Greenspan disagrees. He and others focus on growth over the next several years. But, that discussion may not matter. GII indicates the President's stimulus package would have its largest impacts in 2004, with relatively little impact earlier or, later.

Probably The Recovery Will Continue

Late 2002 may have been when the economy was most vulnerable as consumer outlays slowed due to payback from a burst of spending on vehicles earlier. GDP data indicate a fourth quarter 2002 contraction was avoided because of increased defense spending and a slight rebound in business fixed investment.

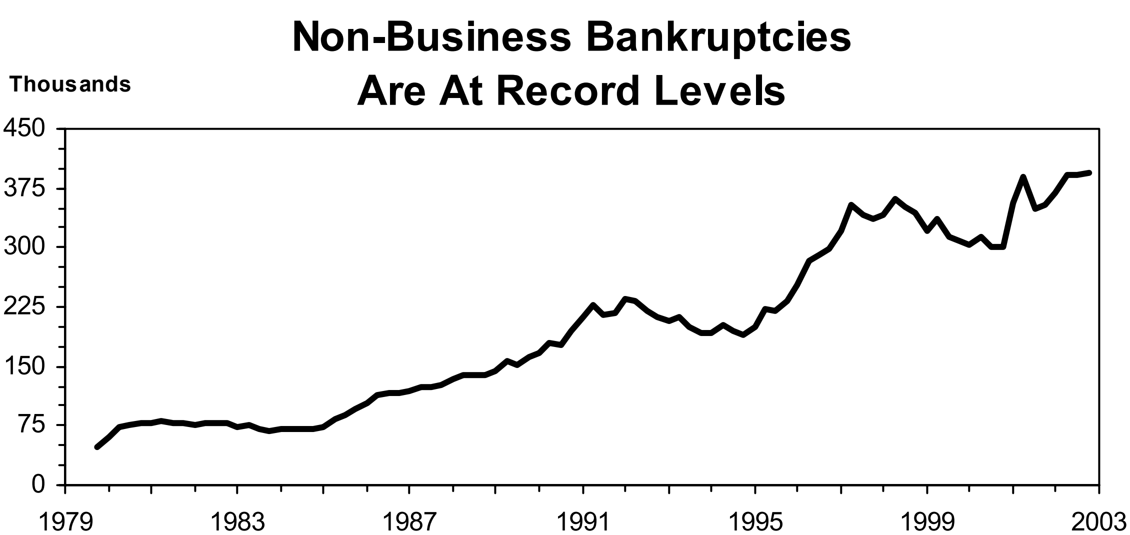
Now, there are reasons to believe both consumer spending and business investment will soon gather momentum. American Express Financial Advisors economists believe the recession is over. That is true by some measures used by the NBER. Those include real disposable income and real business sales. Even industrial production is above year-ago levels. Only payroll employment shows no clear sign of improvement. That apparently was the reason the NBER dating committee decided to wait.

As Dr. Greenspan regularly reminds us, much depends on productivity growth. That was unsustainably strong in 2002. However, economists generally believe part of last year's gain is solid, the result of an upward shift in the trend which is already stimulating the economy. Improved productivity appears to be reflected in recent increases in wages and profits. Consumers are spending their wages, and current modest profits gains appear to be resulting in small increases in business investment for inventories and computer equipment.

Uncertainty Creates Downside Risk

Despite their outlook for continued recovery, GII and other forecasters know that the current combination of skidding consumer confidence, lots of household debt, low capacity utilization, and a high level of uncertainty is a potentially volatile mix. Uncertainty could be a powerful destabilizing factor. It is already causing consumers and firms to postpone some spending decisions. Clearly it might not take much bad news to cause them to retrench further. So far, rising wages, low interest rates, and cash taken out of mortgage refinancings have overcome consumers' fears, but firms are largely sitting on the sidelines.

Most economists believe household spending can only sustain a weak, jobless recovery. To lower the unemployment rate there must be a further pickup in business outlays, especially for structures. Like most forecasters, GII expects an investment rebound will get underway late this year. Finance Department economists note that date has been regularly pushed ahead during the past 12 months.



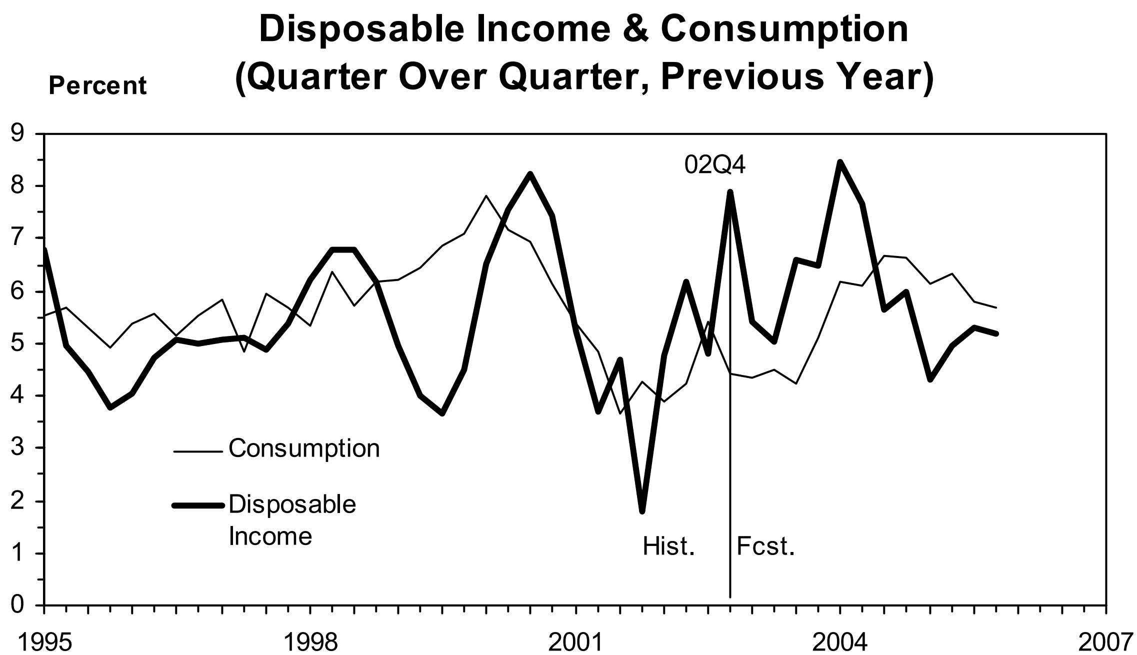
A prolonged slump in the job market, and heavy debt loads are generating signs of mounting household financial stress. Consumers' resolve shows signs of cracking as demonstrated by the worst Christmas retail season in many years.

Consumption

U.S. Commerce Department data indicate that real consumer spending grew at only a 1 percent annual rate in fourth quarter 2002, the slowest in almost a decade according to the *Wall Street Journal*. Some of that was clearly payback for the third quarter surge in auto sales. But, consumers' resolve also shows signs of cracking as demonstrated by the worst Christmas retail season in many years.

Christmas was no surprise. Sagging consumer sentiment indexes continue to reflect rising geopolitical tensions, the first three-year decline in the stock market since the Depression, and mounting household financial stress. While massive losses in the stock market are a factor, most of the financial stress is grounded in the weak job market.

The job market is in one of its longest slumps in post-World War II history. Hardly anyone expects any change for at least several months. The persistent weakness has surprised economists. In November and December, seasonally adjusted employment fell sharply while the unemployment rate rose to 6.0 percent, matching an 8-year high. And the number of people unemployed 15 weeks or more climbed. GII notes that unemployment is clearly weakening household finances, with credit card delinquency rates, personal bankruptcies, and mortgage foreclosures reaching new highs in 2002.



Despite signs of financial stress, GII and other forecasters expect consumers to continue spending as long as incomes grow. In their view, disposable income is the critical variable in household spending decisions.

Consumers have reacted by confining their spending to autos and practical purchases for their homes, and by reducing debt. In December they slashed their credit card debt by the largest amount since data were first collected in 1968 according to the *Wall Street Journal*. Regardless, GII and other forecasters expect consumers to continue spending as long as incomes are growing. In their view, disposable income is the critical variable in household spending decisions. In the Baseline scenario, tax cuts begin to increase disposable income in late 2003. One of the risks of a war with Iraq, though, is higher oil prices which are already eroding discretionary spending.

Investment

The housing market is expected to slow after setting new records in 2002. Despite 40-year low interest rates, GII expects that deteriorating household finances will dampen the housing market in 2003. However, a softer market no longer appears to hold great risk for a general decline in housing prices. Mortgage applications suggest demand is holding up better than expected, and realtors report a lean supply of existing homes for sale. If the market weakens, GII expects that new single-family home price increases will only slow to be more in line with inflation in construction costs. As long as no adverse shock occurs, housing should continue to be a much needed source of strength for the economy.

The Christmas season left unsold goods on retailers' shelves. In addition, some goods stranded by the West Coast dock strike could not be delivered in time and stayed in wholesalers' warehouses. While preliminary inventory data through December suggest there is no big overhang of unwanted goods, news reports indicate liquidators have significantly increased their offerings on the Internet. Inventories will bear watching for the next few months. After the poor Christmas 2000 retail season, a large inventory liquidation helped push the economy into recession in early 2001.

In the Baseline scenario, the economy accelerates in 2003's last half as business investment slowly picks up. But, the investment expansion is not solidly underway until early 2004. As 2004 goes on, the economy will be depending on growing business spending to put idle human and capital resources back to work.

Unfortunately just when investment will accelerate is highly uncertain. The nebulous relationship between capacity utilization, profits, and capital spending decisions is an unresolved problem in business cycle analysis. Current events are compounding the problem. Firms are very reluctant to commit to capital spending. In view of intense global competition and the uncertain geopolitical outlook, it is unclear when needed business confidence will be restored.

Some forecasters point to the recent revival in outlays for computers and software as an early sign of the expected rebound. That could be the case, but it is also likely that part of current spending is being driven by technological obsolescence, not by need for additional capacity.

Government

Rising federal outlays are making a significant positive contribution to real final demand. By GII's estimate, an Iraq war adds $50 billion to federal purchases in 2003. Real federal expenditures on a National Income and Product Accounts (NIPA) basis are expected to rise 14.1 percent at an annual rate in the current quarter, up from an already strong 10.1 percent in 2002's fourth quarter. However, that boost will be short lived, with subsequent increases tapering off to a small decline in 2004's first quarter. Some economists have argued that expected federal spending is not enough to ensure the economy's sustained expansion should there be another negative shock, or if business investment does not begin a rebound in late 2003.

Low interest rates and the federal automatic fiscal stabilizers helped keep the recession relatively mild, but they seem unable to push the economy back to full employment of labor and capital resources. The long slump in the job market, low levels of capacity utilization, and weak profits have convinced many that a more stimulative fiscal policy is needed. President Bush's proposals are drawing the most attention, but there are others.

While there are many issues, forecasters are primarily concerned with the costs and economic impacts of the competing packages. The President’s proposals would reduce federal revenues some $600 billion over 10 years, but the exact timing and magnitude of the changes is subject to considerable uncertainty in many cases.

Some proposals are readily quantifiable and would have a relatively certain impact. If enacted, policy changes which result in lower payroll taxes, reduced withholding, or rebates would soon stimulate consumer spending. Spending should also rise in response to increased deductions and credits, but probably not until after tax returns are filed even if the changes are made retroactive to January 1, 2003.

Personal tax changes intended to boost economic growth through increased saving and investment are less certain because little is known about the potential response. These include the President's proposals to replace current deferred-tax plans with Roth-like personal savings and retirement plans funded with after tax dollars. Employer sponsored deferred-tax plans like 401(k)s and 403(b)s would also be replaced with another plan. How much change would result is unclear because no one is sure why participation is so low in the current deferred-tax plans, much less whether the proposed plans would show any improvement.

In hopes of boosting the stock market and increasing investment spending, the President also is proposing reduced dividend taxation achieved by creating a pass-through credit for corporate taxes paid. Shareholders in companies not paying dividends would get a capital gains tax cut based on retained earnings subject to tax. Again, the potential response is unclear. Response to the dividend and capital gains changes is uncertain and they would greatly complicate the tax code, so they are very difficult to analyze.

Finance Department economists note that their peers are divided on many of the analytical issues. That means the policy discussion is contributing to uncertainty in the outlook, since some sort of stimulus package is likely to be enacted. In the Baseline, GII has assumed a package of personal tax cuts, rebates, and increased credits retroactive to January 1, 2003 amounting to $80 billion, much of which could be realized only when tax returns are filed in 2004.

As a result, the federal deficit increases, but still declines to zero by about 2011. GII has come down on one side of the debate over the impact of larger deficits on financial markets by assuming that stronger federal demand for funds will drive interest rates up, but not enough to curtail growth.

International

On a trade weighted basis, the dollar's value has declined about 9 percent in the past year. GII notes that is the sharpest depreciation in 10 years. While temporary rebounds are possible, a general decline is expected to persist through 2005.

According to news articles, the sliding dollar reflects concerns about geopolitical tension, the weak stock market, and uncertainty about the U.S. economy's future. The impacts, both positive and negative, are already showing up in the trade statistics.

On the positive side, the declining dollar is making imported goods more expensive, and U.S. exports less costly to overseas buyers. Eventually, that will slow growth in the trade deficit. But a declining dollar cuts both ways. GII reports that higher prices for imported goods are giving inflation a modest boost.

Monetary

In its most recent *Beige Book* report, the Federal Reserve indicated the economy's "soft patch" extended into 2003. That is consistent with what Dr. Greenspan has been saying for months, namely that the economy shows few signs of rebounding soon.

Despite the soft patch, the Fed's Open Market Committee decided in January to leave short term interest rates unchanged at the 41-year low where they have been since early last November. Standard & Poor's chief economist was quoted in a press report suggesting the Fed wanted to save the remaining spread between the 1.25 percent Federal Funds rate and zero as ammunition to expend should something bad happen in the war. The Fed itself said relatively little, making no change in its announced neutral policy position that risks are equally balanced between inflation and weak growth. Another meeting is scheduled for March 18.

Behind the scenes, the Fed is considering ways to manage the next expansion. *Business Week* reports that Chairman Greenspan, members of the Board of Governors, and others in the private sector and in academia are considering monetary policy options once the economy recovers. The discussion is driven by the conviction that the post-recovery economy will not work the way it did prior to the recession, requiring a shift in strategy if policy is to remain effective. Although the participants hold some sharply different views, there appears to be a consensus that a broader policy goal is desirable.

Business Week indicates the discussion is about how the Fed might reduce uncertainty. That is not entirely new since successful inflation management reduces uncertainty, and no one is suggesting abandoning that longstanding though narrowly focused goal. Rather, there is a tempting possibility that uncertainty could be further reduced by expanding the Fed's objectives to include moderating volatility in asset markets like stocks, housing, and currency. If that could be done successfully, some economists think the economy might be less recession prone, resulting in increased saving and investment which would accelerate long term real growth. Other economists, though, think the Fed should stick with what it knows best, managing inflation.

Inflation

There is little immediate need for monetary policy change given the weak economy and benign outlook for inflation. Only modest acceleration in inflation is expected over the course of the next year. In the GII Baseline, after rising 1.6 percent in 2002, the Consumer Price Index increases only 2.1 percent in 2003 and 1.9 percent in 2004. Similarly, the GDP deflator rises 1.8 percent in 2003 and 2.0 percent in 2004.

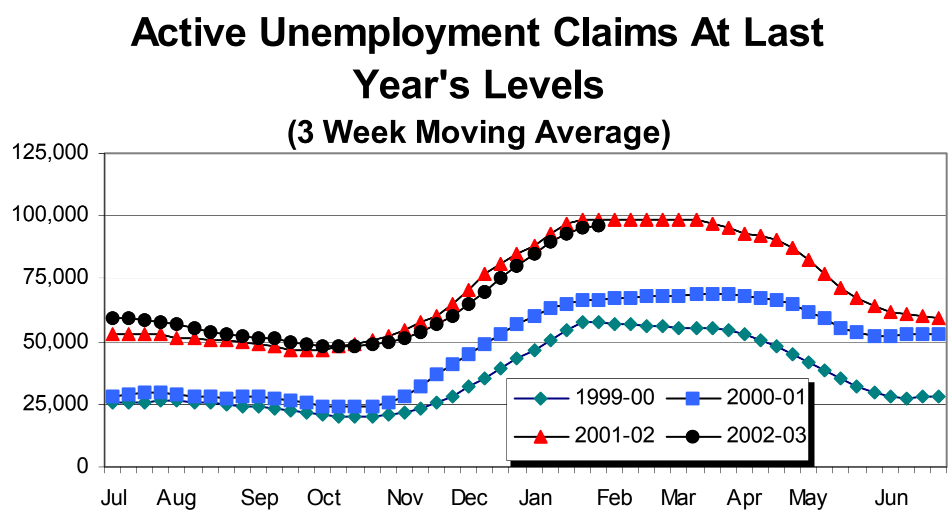
GII attributes that outlook to a legacy of excess capacity and intense competition born of strong 1990's investment spending in basic industries including steel, autos, chemicals, aluminum, and paper, as well as in high tech telecommunications and computers. In the forecast through 2005, domestic capacity utilization stays well below the 82% threshold that usually leads to accelerating goods price increases.

While the outlook for inflation is benign, concerns over the possibility of a general deflation appear to have abated over the past few months. Most of that concern was focused on potential deflation in housing values which would leave homeowners having relatively little equity saddled with debt that is rising in real value. Now, except possibly for the most expensive homes, there seems to be less likelihood of declining prices.

MINNESOTA OUTLOOK

Minnesota's economy weakened during the past few months. Much like the national economy, that was most noticeable in the labor market data. Preliminary data for 2002 show Minnesota's economy did not bottom out as expected in the third quarter, so seasonally adjusted employment is trailing last November's forecast. Several sectors are underperforming including manufacturing; transportation; communication, and public utilities; services; trade; and the public sector. Some of the weakness in trade employment may be attributable to the dismal Christmas retail season, but the general malise cannot.

Persistent weakness is often the subject of news reports. In early February, the Minnesota Department of Economic Security announced that new unemployment claims were down 3.6 percent from January 2002, but still 56 percent above January 2000. Articles about manufacturing layoffs appear frequently. A Wells Fargo survey indicates most Minnesota employers do not intend to increase their staffing levels over the next six months.



Active Minnesota unemployment claims remain at last year's level and more than 50 percent above those observed in January 2000.

As in November, the Minnesota economy is forecast to under-perform its U.S. counterpart for the next several quarters. Sometime in late 2004 or early 2005, the state economy should begin to pull ahead. Finance Department economists note that is not a pessimistic forecast.

Minnesota's Outlook Revised Down Slightly

Compared with November, employment and income forecasts have been revised down slightly through the forecast horizon. The revisions are based partly on recent underperformance already noted, partly on technical changes in the GII Baseline not reflected in their improved outlook for real GDP, and partly on a lower Minnesota population forecast.

The outlook for the state's manufacturing employment has been revised downward to reflect GII's lowered forecast for U.S. industrial production. GII is also less optimistic for the stock market. That lowers expected Minnesota income derived from stock options and bonuses. Less income, in turn, reduces the forecast for employment in the state's services and trade sectors. The lower Minnesota population forecast further reduces the forecast for services and trade jobs.

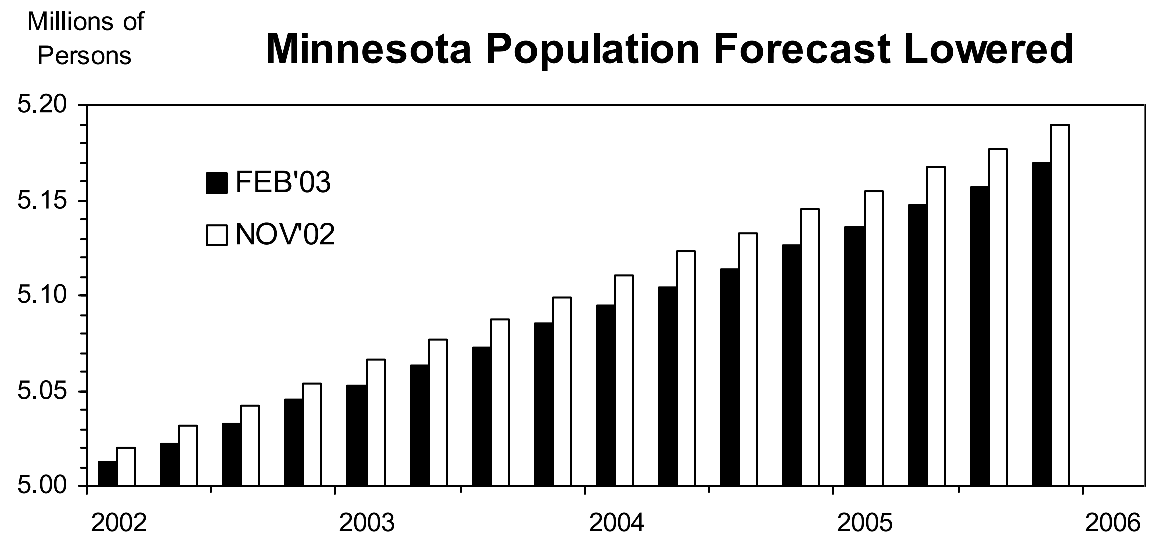
MINNESOTA OUTLOOK COMPARED TO THE U.S.
(Calendar Year Percent Changes)

	2001	2002	2003	2004	2005
Non-Farm Employment					
Minnesota					
November 2002	-0.1	-0.7	0.5	1.9	1.8
February 2003	-0.1	-0.9	0	1.7	2.1
United States					
November 2002	0.2	-0.8	0.9	2.5	1.7
February 2003	0.2	-0.9	0.4	2.3	2.2
Wage and Salary Income					
Minnesota					
November 2002	2.9	0.9	3.9	6.4	6.3
February 2003	2.9	0.9	2.8	5.9	6.4
United States					
November 2002	2.4	1.4	4.1	6.7	6.0
February 2003	2.4	1.5	4.2	6.4	5.7

Population Growth Slows

Unexpected demographic developments point to slower growth in Minnesota’s economy. In December, the Bureau of the Census announced that in 2002 Minnesota population growth was only 0.7 percent, down from 1.0 percent the previous year, and less than the 0.9 percent assumed in the November forecast. At 0.7 percent, Minnesota population growth is significantly less than the 1.2 percent annual compound rate of the 1990's. According to Census, in 2002 Minnesota lost more people to other states than moved in for the first time since 1987.

Finance Department economists have no hard evidence to explain the shift, but the state economy's performance is a likely reason. Minnesota employment has declined some 2.4 percent since February 2001 as compared to 1.3 percent nationally, implying that job opportunities are relatively better elsewhere. People probably became more reluctant to migrate to the state as jobs became harder to find. And in many cases when someone became unemployed, moving must have been an option since many Minnesota workers have lived elsewhere. The State Demographer indicates that, in the 2000 Census, about 10 percent of the state's labor force was composed of people who did not live in the Minnesota 5 years earlier.



Recently the Bureau of the Census announced that Minnesota's population grew only 0.7 percent in 2002, down from 1.0 percent the previous year. Consequently, Finance department economists have lowered the forecast for Minnesota population growth from 0.9 percent to 0.8 percent annually.

The Demographer also indicates that once population trends shift, they are usually slow to turn around. Consequently, Finance Department economists lowered the forecast for Minnesota population growth from 0.9 percent to 0.8 percent annually through the end of 2005, reducing the outlook at that time by some 20,000 persons and 13,500 jobs relative to the November forecast. In the February forecast, some of that loss was offset by Minnesota's share of a stronger GII outlook for the U.S. economy.

A Rebound in Manufacturing Could Be Delayed

As anticipated in the November forecast, Minnesota's manufacturing sector continues to lose jobs. This critical sector is needed for meaningful recovery in both the U.S. and Minnesota economies. A turnaround in late 2003 is still expected, though a delay would be no surprise. The risks are rooted in both the U.S. economy and in international trade.

While Minnesota's manufacturing sector continues to outperform its U.S. counterpart, current job losses reflect weak nationwide demand for capital goods. Firms remain reluctant to invest in new plant and equipment. If business investment does not pick up later this year, a timely rebound in Minnesota manufacturing activity is unlikely.

The global economic slowdown has cut into exports, with a direct impact on Minnesota. U.S. Commerce Department data released last December shows a 2 percent drop in Minnesota's exports in third quarter 2002 compared to a year earlier, led by a sharp decline in shipments of computers and electronic components. While shipments to Canada, Minnesota's largest market were up, that was not enough to offset lower sales to Japan, China, and the United Kingdom.

Now, Canadian growth is slowing, Japan's economy remains mired in deflation, and European forecasts are being revised down, so the international outlook for 2003 does not seem favorable. A cheaper dollar could help by making the state's exports less expensive, but exchange rates are subject to highly unpredictable fluctuations in international financial markets.

The Public Sector

GII's February forecast for nationwide state and local government employment assumes a year-long decline beginning in the current quarter. That significant downward revision from November reflects widespread public sector financial distress. GII assumes an early 2004 U.S. rebound in public sector employment.

News reports lead Finance Department economists to doubt that there will be much rebound in public sector employment in Minnesota. February's forecast for state and local employment was revised downward slightly to be consistent with fourth quarter employment results. The new forecast is based on current law and makes no assumptions about how the 2004-05 budget will be balanced during the current legislative session. In this forecast, public employment remains relatively stable, declining by only about 0.5 percent in 2003, then recouping that loss by the end of 2005. Because the legislature has not acted on the budget, no significant layoffs are assumed, nor is a public employee wage freeze included in the Minnesota economic outlook. Significant job cuts or a wage freeze would have both direct and second round effects on the Minnesota economy and on state revenues. Estimates of those impacts are provided in the box below.

Public Sector Layoffs or a Pay Freeze Will Reduce State Revenues

Department of Finance revenue forecasts are based on current law and make no assumptions about future legislative action. Since no spending cuts for the 2004-05 biennium have been enacted, the forecast was not adjusted to incorporate the effects of any such action. That does not, however, mean that state revenues would be unaffected by reductions in the public work force or a pay freeze.

Cuts in public employment or wage freezes for state and local employees will affect both Minnesota's economy and future state revenues. Incomes for state employees would be less, and that reduced income will be reflected in lower spending levels in the state. That, in turn, will have second round effects on private employment and wages and further reduce state income and sales tax revenues. To provide guidance about the relative magnitudes of the revenue losses associated with such actions, several alternative scenarios were simulated, providing rough estimates of the impact on state revenues. In each scenario an assumed change in public sector activity was inserted into the Minnesota economic model and allowed to continue through the end of the forecast horizon. The estimates of Minnesota wages, employment and personal income obtained in those alternative scenarios were then used as inputs for the state's income and sales tax forecasting models. Only differences between the current forecast and the alternative scenarios for the individual income tax and the sales tax are reported. Other tax revenues would also be affected, but the impacts would be small and well within the margin for error in this type of exercise.

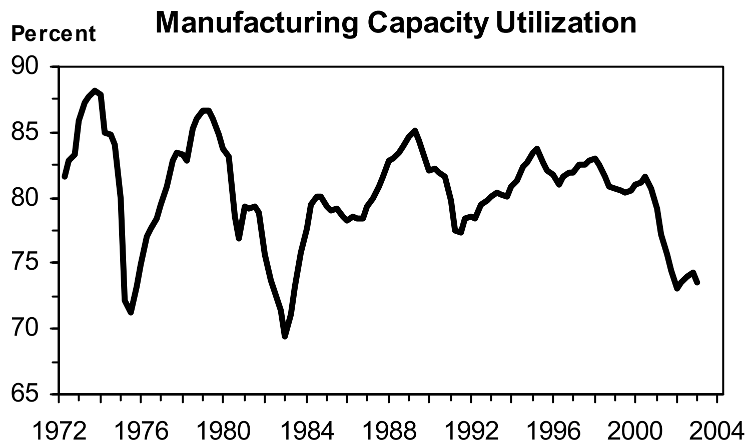
Two layoff simulations were run. In the first, layoffs occur at the start of the 2004 fiscal year and jobs are lost for the entire biennium. In the second, no layoffs occur in the first year of the biennium, and all layoffs occur at the start of fiscal 2005. In both instances, workers laid off are assumed to draw 26 weeks of unemployment compensation. The wage freeze scenario holds total state and local wages at the level forecast for the start of the 2004 fiscal year. No layoffs are assumed in the wage freeze scenario. In all scenarios, indirect effects on private sector employment, incomes, and taxes paid are included in the impact estimates.

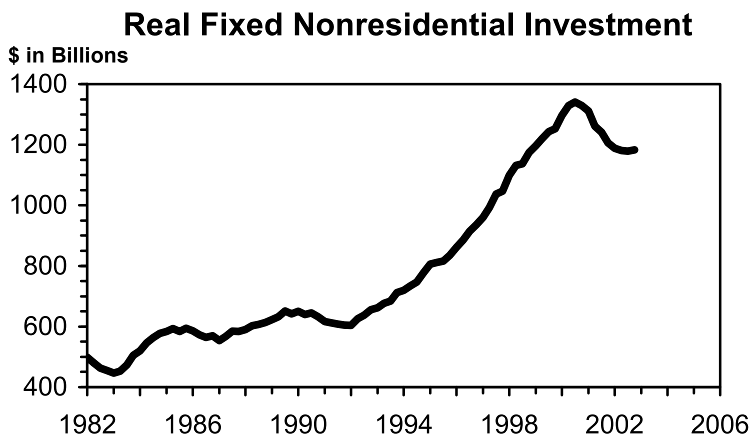
The projected revenue losses should be considered only indicative, not precise estimates. Indeed, specific information about numbers of public layoffs and millions of dollars of wages saved would be necessary to provide more than a general estimate of the loss in state revenues. The particular circumstances surrounding any action will have a significant impact on projected revenue losses. For example, the wage freeze scenario assumes that there are no increases in wages paid after the start of 2004 fiscal year. In some instances, however, provisions of existing contracts may require wage increases, reducing the income lost to the economy.

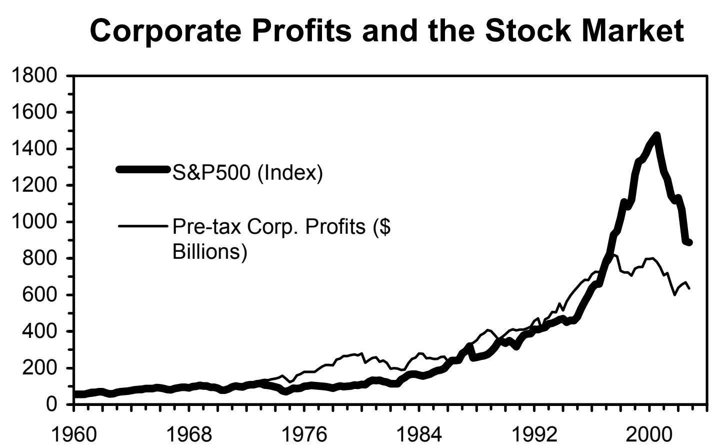
Simulation results indicate that income and sales tax receipts would fall by about $5 million for each 1,000 public sector workers terminated, if all layoffs occurred at the start of the biennium. A layoff of 1,000 public sector workers at the start of fiscal 2005 would reduce fiscal 2004-05 biennial revenues by about $2 million. A fiscal year 2004 reduction in state and local employment of 5,000 jobs, (1.4 percent) would reduce state revenues by $25 million over the biennium. Larger layoffs would, of course, increase the size of the state revenue loss. In Minnesota's financial problems of the early 1980's, public sector employment fell by more than 6 percent or about 17,000 jobs.

State revenue losses from a two-year wage freeze will be somewhat larger. For each $100 million of wage savings during the first year of the biennium, the two-year loss in state revenues is estimated to total about $32 million, assuming the wage freeze remains in place for two full years. A total wage freeze on the salaries received by each of the 353,000 state and local government employees in Minnesota is estimated to reduce state revenues by more than $115 million over the 2004-05 biennium after all indirect impacts are taken into account. The actual reduction in state revenues from a wage freeze, however, would be less if existing contracts providing for wage increases during fiscal 2004 or 2005 are honored.

Selected National Economic Indicators







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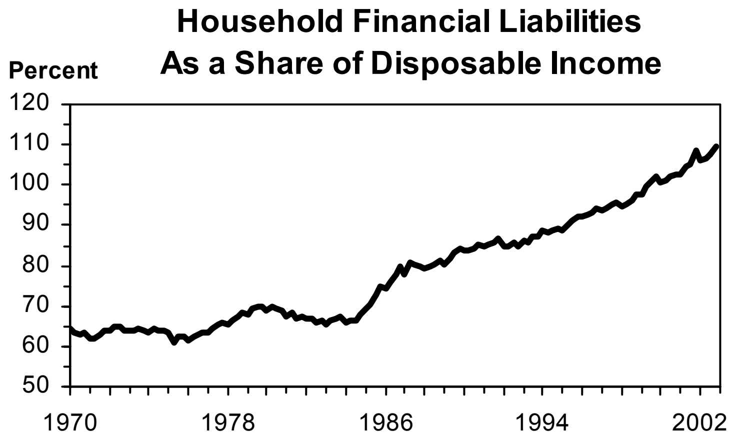

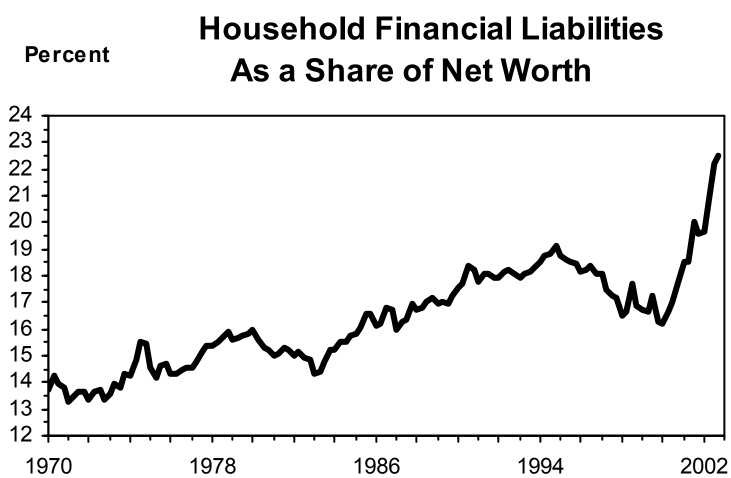

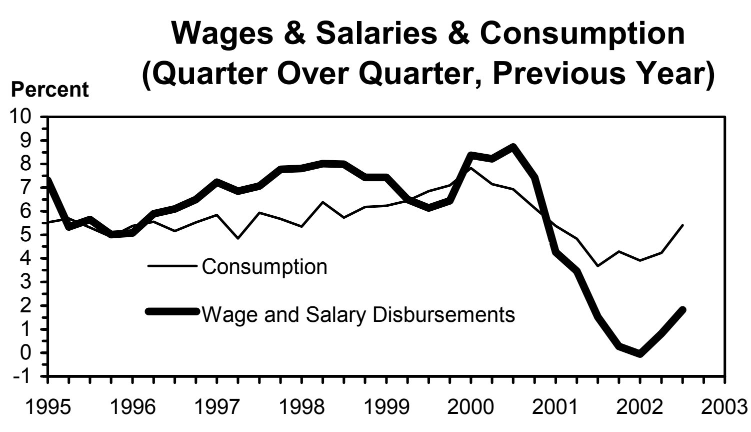

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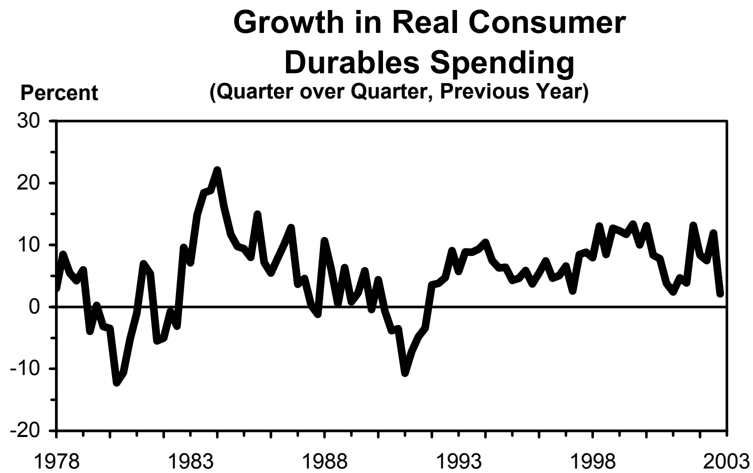

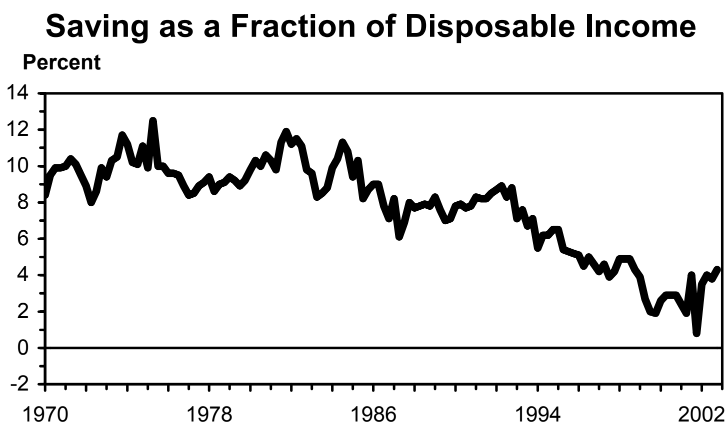

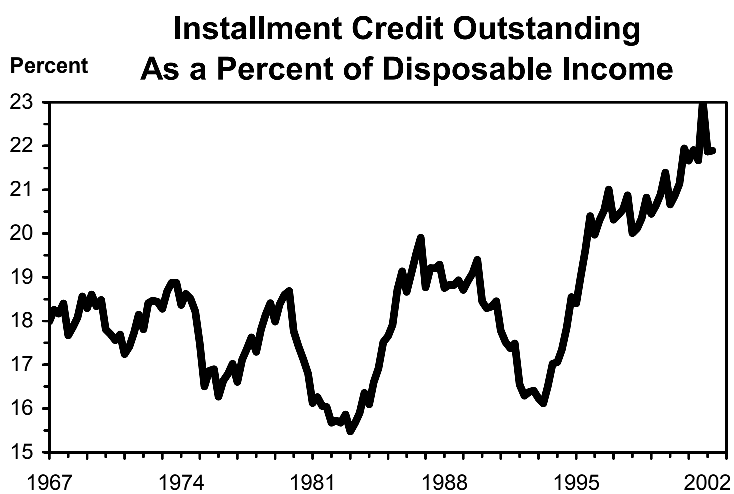

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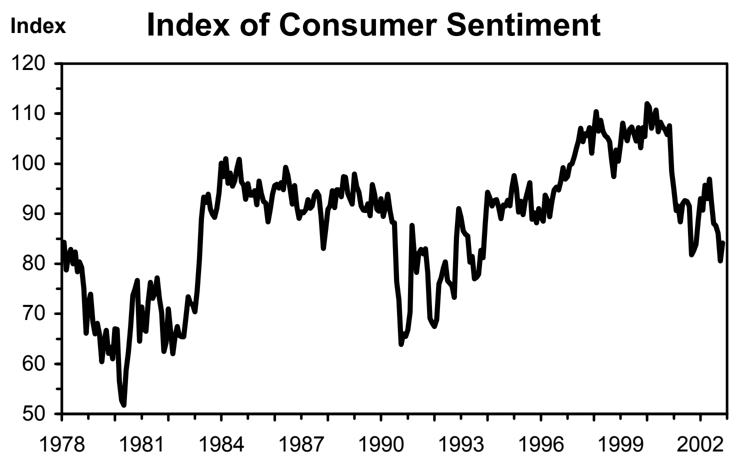

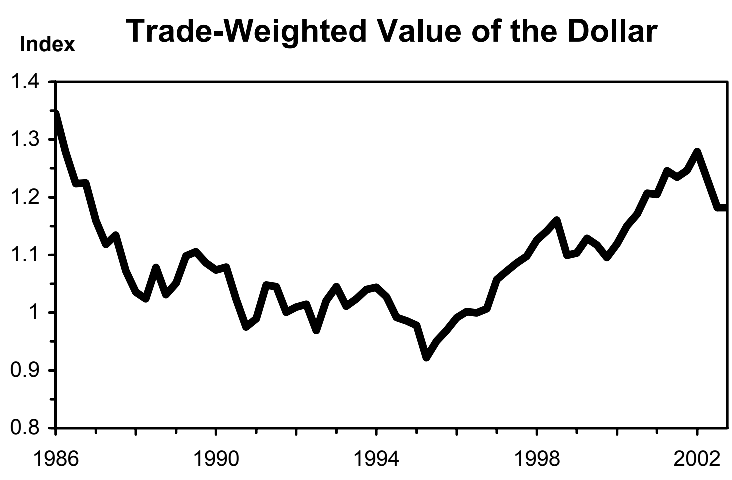

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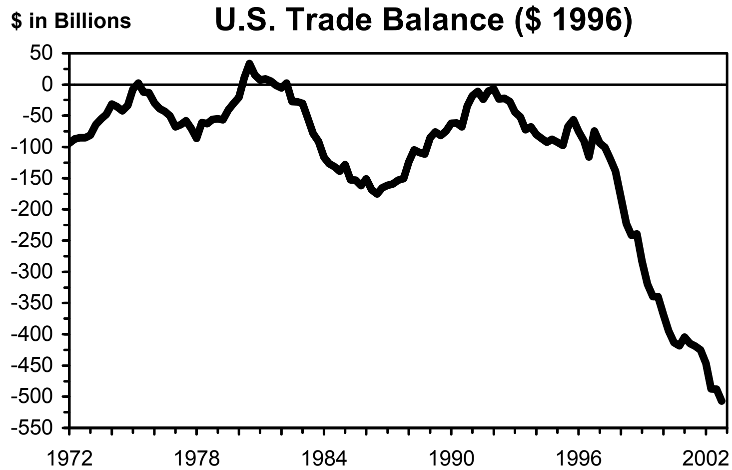

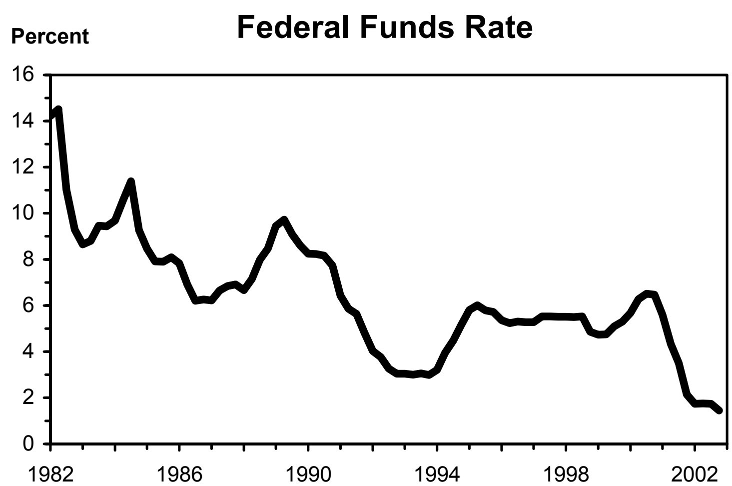

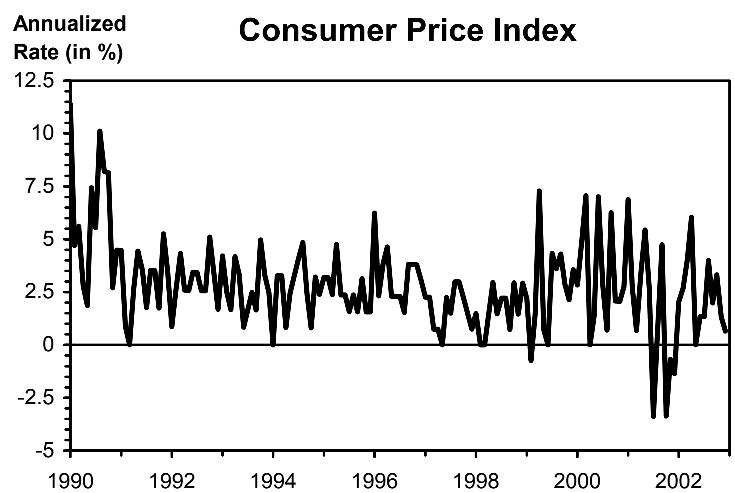

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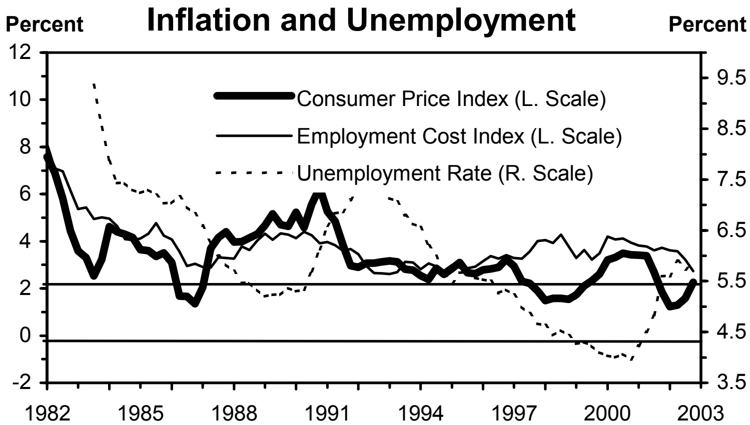

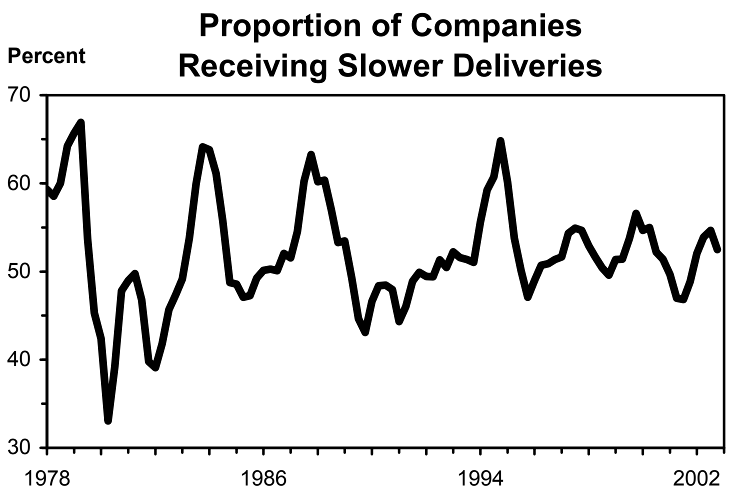

FY2002-03 Budget Status

FY 2003 Deficit Now Forecast to be $11 Million

The November 2002 forecast projected a $356 million general fund deficit by the end of the FY 2002-03 biennium. In early February 2003, the Governor acted through a series of administrative actions, use of the budget reserve, and reductions in spending to eliminate the projected deficit. Those changes are now current law and are incorporated in this forecast. After incorporating revised revenue and expenditure estimates, a deficit of $11 million is now projected at the end of FY 2003.

FY 2002-03 Forecast
($ in millions)

	November Forecast	February Changes: Exec Action	February Changes: Other Changes	Revised Forecast
Beginning Balance	$1,574			$1,574
Revenues	25,194	123	(30)	25,287
Expenditures	27,100	(209)	(19)	26,872
Budget Reserve	24	(24)		0
Balance	**($356)**	**$356**	**($11)**	**($11)**

Interim Action Eliminated Initial $ 356 Million Deficit for FY2003

The Commissioner of Finance, with the approval of the Governor, acted in early February 2003 under the provisions of Minnesota Statutes 16A.152 to balance revenue and expenditures for the current biennium. Based on the November 2002 forecast deficit of $356 million, the action included three parts:

- sales tax refunds on capital equipment were delayed, increasing projected FY2003 sales tax receipts by $50 million;
- the $24 million balance in the budget reserve account was used;
- $282 million was credited in expenditure reductions and transfers to the general fund through the unallotment process authorized in statute.

Forecast Changes Leave $11 Million Deficit for FY2003

The forecast for general fund revenues, excluding interim actions, is now $30 million less than November's estimates. Forecast expenditures declined $19 million, leaving an $11 million deficit projected for June 30, 2003.

Total general fund revenues for the biennium are now expected to be $93 million greater than projected in November. The decrease of $30 million in the current forecast for state revenues is offset by a $123 million increase in revenues attributable to interim executive actions. Of the $123 million increase, $50 million comes from a delay in payment of sales tax refunds on capital equipment. The remaining $73 million reflects transfers and other resources to the general fund from the unallotment process.

Excluding interim actions, forecast revenues declined $30 million or 0.1 percent. The forecast for the income tax, sales tax, and corporate income tax all were lowered. Offsetting those decreases were higher estimates for estate taxes, and deed and mortgage taxes.

Spending for the biennium has been reduced by a total of $228 million. Nearly all of the change, $209 million is accounted for by reductions in spending associated with the reductions in expenditures ("unallotment") implemented in early February. The remaining $19 million is from expenditure savings forecast for the major spending areas. This forecast expenditure change, excluding unallotment, represents less than a 0.1 percent change in projected spending for the biennium

Executive action reduced the $24 million balance in the budget reserve to zero for FY 2003. Because Minnesota's Constitution prohibits borrowing beyond the end of a biennium for operating budget purposes action will be required to address the additional $11 million deficit and bring revenues and expenditures into balance before June 30, 2003.

Revenue Forecast
FY 2002-03

Current general fund resources for the 2002-03 biennium are now forecast to total $25.287 billion, $93 million (0.4 percent) more than forecast in November. The forecast for net non-dedicated revenues increased by $36 million, (0.1 percent). Actions by the Governor to deal with the projected fiscal 2003 budget shortfall added $123 million to the forecast. In the absence of those actions revenues would have been $30 million (0.1 percent) below November's forecast.

Revenues from the five major taxes are expected to fall short of November's forecast by $31 million or 0.1 percent. Projected individual income tax receipts were reduced by $63 million and corporate income tax receipts by $12 million. Fiscal 2003 sales tax receipts increased by $43 million. A slower payment schedule for sales tax refunds more than offset a small projected decline in gross collections. Other tax and non-tax revenues are now projected to be $68 million above November's forecast.

Revenues FY 2002-03

($ in millions)

	FY2000-01	FY 2002	FY 2003	FY 2002-03
Individual Income Tax	$11,472	$5,443	$5,507	$10,950
Sales Tax	6,135	3,784	3,934	7,718
Corporate Tax	1,529	529	530	1,059
Motor Vehicle Sales Tax	1,087	425	283	708
Statewide Property Tax	0	306	584	890
Five Major Taxes	20,223	10,487	10,838	21,325
Other Revenue	2,483	1,533	1,517	3,050
Tobacco	235	157	153	310
Net Non-dedicated	22,941	12,177	12,508	24,685
Other Resources	892	133	469	602
Current Resources	**23,833**	**12,310**	**12,977**	**25,287**

Individual Income Tax

Individual income tax receipts are forecast to total $5.507 billion in fiscal 2003, down $63 million from November's estimate. Through January, fiscal 2003 withholding tax receipts were $18 million below forecast. Estimated taxes and miscellaneous payments were above forecast, but that gain was offset by a higher level of tax refunds leaving net income tax receipts $18 million short of November's estimates.

Slower than previously projected wage growth accounts for more than two thirds of the reduction in income tax receipts. A downward revision to the forecast for capital gains realizations in tax year 2002 and technical adjustments are the other major reasons the individual income tax forecast for fiscal 2003 was lowered.

Projected wage growth for the remainder of fiscal 2003 was reduced to reflect a weaker employment outlook. At the end of the current fiscal year Minnesota employment is projected to be 2.646 million, 16,000 (0.6 percent) less than anticipated in November. Much of that decline has already occurred. Employment in the fourth quarter of calendar 2002 was 11,000 less than projected. First quarter wage growth was set at 1.8 percent over first quarter 2002 to be consistent with observed withholding tax receipts through mid February.

Capital gains realizations are now projected to fall by 19 percent in tax year 2002, 3 percentage points more than was forecast in November. That decline also comes from a lower base level assumed for tax year 2001 realizations. Minnesota capital gains realizations are now assumed to have fallen by 57.5 percent from tax year 2000 to tax year 2001. The combination of the assumed lower base level for tax year 2001 and the larger decline in tax year 2002 produced a 9 percent decline in projected capital gains realizations for tax year 2002, and left realizations at one-third the level observed in 2000. These changes in the forecast for capital gains realizations lowered the base through the entire forecast horizon.

Tax year 2002 withholding and estimated tax payments are more or less known. What remains is refunds and final payments. Forecast results for 2002 were examined to ensure that projected liability left a reasonable net refund forecast. Finance Department economists believe net refunds (the difference between final payments and refunds) will be slightly less than in tax year 2001. If net refunds are higher than expected, then liability for tax year 2002 will have been over forecast and, other things equal, liability for subsequent years will have been over forecast as well.

Final liability for tax year 2001 was $77 million less than estimated in November. Because there was no sample of tax year 2001 income tax returns the House Income Tax Simulation (H.I.T.S) model could not be directly calibrated to tax year 2001. To make the liability projected by the H.I.T.S. model conform to observed liability, growth rates for capital gains income, pension income, and distributions from IRAs were reduced from November's forecast. Those reductions totaled $54 million in tax year 2001. The remaining $23 million was removed through an off model adjustment.

November's forecast was based on the assumption that 75,000 tax year 2001 returns would be processed in November and December. Under that assumption the total number of returns filed for tax year 2001 would be equal to the total filed for tax year 2000. The number of returns actually processed in those two months fell short of that projection producing an actual decline in the number of Minnesota income tax filers. Slightly more than 52,000 returns were processed during those two months, about twice the number processed in a typical year, but more than 22,000 less than projected. The filer growth rate for tax year 2002 was set equal to 1.0 to avoid artificially raising average taxable income.

Sales Tax

Net sales tax collections for the 2002-03 biennium are now expected to reach $7.718 billion, $43 million (0.6 percent) more than forecast in November. The sales tax refund forecast was reduced by $39 million, and projected gross sales tax receipts increased by $4 million. A change in the refund payment schedule produced the large percentage change in the sales tax refund estimate, not a change in the underlying economic variables. Sales tax refund payments were delayed by 90 days as part of the governor's plan for eliminating the projected 2002-03 budget deficit.

Changes in the outlook for key economic variables influencing the sales tax forecast were small. Minnesota sales tax is forecast as a share of U.S. taxable sales, and Minnesota's share of U.S. taxable sales is dependent on Minnesota's share of personal income. DOF economists believe recent estimates of U.S. wages to be high and the short term GII forecast of wages to be high, artificially depressing Minnesota's share of taxable sales. The forecast was adjusted to avoid artificially depressing the sales tax forecast. Those assumptions increased projected sales tax revenues in fiscal 2003 and beyond. Collections for November, December and January were $10 million above forecast. That collection experience was incorporated into the forecast for the remainder of the forecast horizon and accounts for the increase in the fiscal 2003 forecast.

The receipts elasticity used to convert the simulated sales tax base to gross revenues was set at .975, as in recent forecasts, to adjust for the current sales tax model's history of over estimating receipts. The adjustment for revenue lost due to further increases in the use of e-commerce remained unchanged from that used in November.

Corporate Franchise Tax

Net corporate tax receipts for the 2002-03 biennium are now estimated to total $1.059 billion, $12 million (1.1 percent) less than November's forecast. Net corporate tax receipts for November, December and January were almost precisely on target, falling short of forecast by just $100,000. Estimated payments reflecting liability for tax year 2002, however, were slightly below forecast.

GII's February baseline forecast calls for corporate profit growth in fiscal 2003 to be slightly weaker than was projected in November. The weaker growth and the lower than previously projected estimated payments for the past quarter were the source of the reduction in the forecast.

Motor Vehicle Sales Tax

The sales tax on motor vehicles is now projected to add $283 million to the general fund during fiscal 2003, $7 million (2.2 percent) more than November's estimate. Slightly more than $4 million of the addition to the forecast has already been collected. Fourth quarter motor vehicle sales substantially exceeded GII's November baseline forecast, and expected sales for the remainder of the biennium are also up from November's estimates.

Other Revenues

Other tax and non-tax revenues are now expected to totals $3.360 billion during the current biennium up $68 million, (2.0 percent) from November's forecast. Mortgage tax collections are forecast at $161 million in fiscal 2003, an increase of $23 million from prior estimates, and deed taxes are projected to exceed the previous forecast by $7 million. Historically low interest rates continue to encourage home purchases and refinancing activity. Much of that forecast increase has already been realized. Through January mortgage and deed tax collections combined were more than $25 million above forecast.

Other resources increased by $56 million to $602 million. Actions taken by the governor to balance the 2003 budget brought in $73 million in additional revenues to the general fund, including $49 million from the 21st Century Minerals Fund, and $11 million from the Employee Insurance Trust Fund. Early capital project cancellations added $12 million to other resources.

Expenditure Forecast
FY2002-03

Current Biennium Spending Reduced by Action and Forecast

The expenditure forecast for the current biennium totals $26.872 billion, $228 million less then November's estimates. Interim actions that reduced spending through unallotment accounts for $209 million of decrease. Minor decreases in E-12 education spending, health and human services spending, and all other spending account for the remaining $19 million decrease in estimated spending for the current biennium.

FY 2002-03 Expenditure Forecast
($ in millions)

	November	February	Difference
Spending by Omnibus Bill			
E-12 Education	$ 10,725	$ 10,690	$ (35)
Payment Change/Prop Tax Recog.	(445)	(442)	3
Higher Education	2,806	2,756	(50)
Property Tax Aids & Credits	3,389	3,379	(10)
Health & Human Services	6,528	6,501	(27)
Environment & Agriculture	486	447	(39)
Economic Development	433	415	(18)
Transportation	451	428	(23)
Criminal Justice	1,368	1,349	(19)
State Government	678	667	(11)
Debt Service	581	581	0
All Other	2	12	10
Subtotal	27,002	26,783	(219)
Dedicated Expenditures	98	89	(9)
Total Expenditures & Transfers	**$ 27,100**	**$ 26,872**	**$ (228)**

Action to Reduce Allotments Accounts for Majority of Spending Reduction

As part of the actions to eliminate the $356 million deficit forecast last November, a total of $282 million was reduced from state spending. General fund spending was reduced $209 million. The remaining $73 million is treated as revenue to the general fund, since monies originally appropriated from the general fund are recaptured from various special revenue funds.

The spending reductions related to executive unallotment and voluntary cancellations are summarized below by omnibus bill area to assist in distinguishing changes related to executive action from underlying forecast changes:

Unallotment: Spending Reductions
($ in thousands)

E-12 Education	$25,872
Property Tax Aids & Credits	1,596
Higher Education	50,307
Health & Human Services	23,500
Environment and Agriculture	38,782
Economic Development	17,580
Transportation	22,815
Criminal Justice	18,309
State Government	10,178
Total	$208,939

E-12 Education Forecast Down $9 Million, $36 Million Total

E-12 Education spending is now expected to be slightly lower than forecast in November. A decline of $9 million in forecast spending for FY2003 is primarily due to a decline in the forecast of pupil units. The balance of the change for E-12 education funding from the November forecast is related to the nearly $26 million in operating and grant reductions made through the unallotment process.

Health & Human Services Spending Decreases $26 Million in 2003

Total spending on health and human services programs in the current year is projected to be $26 million lower than was estimated in November, a 0.4 percent decline. Almost all of this reduction ($23.5 million) is related to reductions made as spending reductions under M.S.16A.152.

A relatively small net reduction in forecast spending of $2.7 million makes up the remainder of the reduction from November's forecast. But, despite little net change, there were significant, but offsetting changes in individual programs. Those changes are highlighted below.

Health Care

Changes in health care spending for FY2003 include reductions in Medical Assistance (MA) MFIP & Families Basic Care of $10.3 million, General Assistance Medical Care (GMAC) of $10.7 million, and MA Long-Term Care Facilities of $3.9 million. These reductions are offset by increases in MA Elderly & Disabled Basic Care of $10.8 million, and MA Long-Term Care Waivers & Home Care of $17.0 million.

The changes are the result of several factors including: lower than expected capitation rate and average payment increases for families, children, and other adults enrolled in MA or

GAMC; higher than expected average payments in the Mental Retardation and Related Conditions (MR/RC) Waiver and for Private Duty Nursing (PDN) services; and higher than expected caseloads in the Traumatic Brain Injury (TBI) Waiver. The forecast for MA Elderly & Disabled Basic Care increased due to higher than expected average costs ($3.4 million), and a transfer for children's services and mental health grants that was not reflected in the November 2002 forecast ($7.4 million).

Economic Self-Sufficiency & Other Programs

Spending for Economic Self-Sufficiency programs in FY 2003 is slightly less than November estimates. Small reductions in Minnesota Family Investment Program (MFIP) spending ($383,000) are offset by slight increases in General Assistance (GA) spending ($298,000).

Changes in total MFIP spending are due to a combination of smaller than anticipated caseloads as well as a projected decrease in both child support collections and MFIP recoveries. Spending in GA is projected to increase due to higher than anticipated caseloads.

The Department of Health's budget reflects a $5.5 million reduction. This reflects a revised estimate of allowable spending for community clinics and rural hospital capital improvement grants under the hospital intergovernmental transfer provisions passed in the 2001 legislative session.

Property Tax Aids and Credits Estimates Slightly Lower

FY2003 Property Tax Aids and Credits spending are expected to be $10.5 million or 0.6 percent lower than that forecast in November. Forecast changes account for $ 9 million of the total reduction including a $12 million reduction in tax refund interest payments. This is partially offset by a $3.6 million increase in Police and Fire Aids estimates and other minor changes. The balance of the net $10.5 million in the forecast is due to a cut of $1.5 million in the TIF grant program as part of the unallotment process.

All Other Spending Changes Have Little Material Impact

Reductions shown for all other spending areas reflect, in large part, the effect of the spending reductions implemented in early February. Since other spending areas are limited by fixed appropriations, there is little material change in the forecast for individual agencies or items. However, the February forecast does include several technical changes and corrections to current law base numbers for individual agencies.

The forecast for estimated cancellations for the biennium has been reduced from $15 million to $5 million. This change in the forecast of expected cancellations at year-end reflects the level of budget reductions that have occurred and the likelihood that unspent year-end monies will be significantly reduced.

FY2004-07 Budget Outlook

This forecast for the FY2004-05 biennium describes the budget outlook if current laws and policies remain unchanged. The revenue forecast is based on GII's February 2003 baseline forecast for the U.S. economy. It establishes the resources available under current law to fund state programs and is the basis for actions by the Governor and legislature to approve the general fund budget for the upcoming biennium. The February 2003 forecast provides the final basis for action on the FY 2004-05 budget, updating estimates that were made in November 2002.

FY 2004-05 Budget Gap Increases by $14 Million to $4.229 Billion

Including the deficit currently projected for FY 2003, the revenue-expenditure gap for the FY 2004-05 budget is now $4.229 billion. Compared to the November forecast, the forecast shortfall has grown slightly from $4.204 billion, this is an increase of $25 million. Lower forecast revenues are almost totally offset by a corresponding decrease in forecast current law spending for FY 2004-05. A $10 million increase in the forecast for the dedicated education reserve is, offset by the $24 million reduction in the budget reserve, the remaining element accounting for the increase in the forecast shortfall.

FY 2004-05 Biennium Shortfall
Change from November 2002 Estimates

$ Millions

	November Forecast	February Forecast	$ Change
Beginning Balance	$24	($11)	($35)
Forecast Revenues	26,857	26,707	(150)
Projected Spending	30,975	30,828	(147)
Reserves	110	96	(14)
Forecast Shortfall	**($4,204)**	**($4,229)**	**($25)**

Unlike the $11 million deficit currently forecast for FY2003, the projected $4.229 shortfall for FY2004-05 does not represent an enacted budget. Instead the February revenue forecast, when matched against "base level" current spending, provides the framework for enacting a budget for the next two years.

FY 2004-05 forecast revenues have been reduced $150 million from November's estimates. Lower projected individual income tax collections and lower corporate income tax estimates account for a $167 million decrease, while small increases in sales tax, motor vehicle sales tax, and other revenue sources, offset some of the decline

Expenditure estimates for the next biennium are $147 million lower in the February forecast, including $80 million of forecast reductions in E-12 education estimates, a $40 million decline in health and human services spending, and a nearly $32 million reduction in forecast dedicated revenue spending. All other changes net to a $5 million increase in spending, offsetting a part of the reduction in the primary forecast areas.

The FY 2004-05 revenue forecast is based on GII's February 2003 baseline forecast. For planning purposes, revenues are projected based on current tax laws; expenditure projections include provisions and formulae currently in law and are adjusted only for enrollment and caseload in E-12 education, higher education, human services and corrections. The expenditure forecast does not include estimated inflation increases beyond that currently required in statute and that integral to the heath care components of the forecast.

FY 2006-07 Planning Estimates

The planning estimates for FY 2006-07 are materially different from the short-term forecasts for the current and FY 2004-05 biennia. Projection methods are different and the longer-term numbers carry a higher degree of uncertainty and a larger range of potential error. The February 2003 budget projection updates the information initially released in November 2002 for the FY 2006-07 planning horizon.

FY 2006-07 Planning Estimates / Structural Balance

($ in millions)

	FY 2006	FY 2007
Projected Revenues	**$14,532**	**15,107**
Projected Spending	**15,878**	**16,204**
Difference	**$ (1,346)**	**$ (1,097)**

The projected revenue-expenditure gap in FY 2006 and FY 2007 has widened from the November 2002 forecast. General fund revenue projections FY 2006-07 are $348 million below the November forecast, while state spending for the same period is $171 million below previous projections. The structural gap between ongoing revenues and spending has increased from $1.306 billion to $1.346 billion for FY 2006 and from $960 million to $1.097 billion for FY 2007.

Planning estimates of current law revenues and expenditures for FY 2006-07 are presented as part of budget development to identify longer term impacts. Revenue planning estimates are based on an assumed long-term real GDP growth rate. Expenditure estimates assume current laws and policies updated for caseload, enrollment and other forecast variables in all major program areas.

Expenditure estimates do not include the potential cost of estimated inflation on changes in the cost of wages, goods and services. Since the impact of inflation is not generally reflected in the expenditure projections, it is important to recognize that increases in state spending may be significantly greater than that shown

Finally, since the forecast is based on current law, the planning estimates do not reflect the Governor's budget recommendations, nor do they anticipate any future legislative changes.

Revenue Forecast
FY 2004-05

Total current resources for the 2004-05 biennium are forecast to be $26.707 billion, $150 million (0.6 percent) less than forecast in November. Net non-dedicated revenues are projected to be $26.450 billion, $112 million (0.4 percent) below the previous forecast. Projected collections from the five major taxes are now expected to drop by $138 million (0.6) percent from November's estimates to a total of $23.315 billion. Forecast changes for each of the major taxes were small.

Revenues FY 2004-05
($ in millions)

	FY2002-03	FY2004	FY2005	FY2004-05
Individual Income	10,950	5,805	6,244	12,049
Sales	7,718	3,901	4,302	8,203
Corporate	1,059	625	680	1,305
Motor Vehicle Sales	708	273	276	549
Statewide Levy	890	598	610	1,208
Five Major	21,325	11,202	12,113	23,314
Other Revenue	3,050	1,370	1,385	2,756
Tobacco	310	189	191	380
Net Non-dedicated	24,685	12,761	13,689	26,450
Other Resources	602	130	127	257
Current Resources	**25,287**	**12,891**	**13,816**	**26,707**

Forecasts for individual income tax receipts and corporate franchise tax receipts were reduced slightly from November. The income tax had the largest dollar change, down $124 million or 1.0 percent. Projected corporate income tax receipts fell by $43 million or 3.2 percent. Forecasts for receipts from the sales tax, the motor vehicle sales tax and the statewide property tax all were increased slightly.

Net non-dedicated revenues for the 2004-05 biennium are now projected to grow by 7.1 percent over projected 2002-03 receipts. However, tax law changes and the start-up of the statewide property tax distort that comparison. After adjusting for the elimination of the June accelerated sales tax payment, the shifting of a portion of motor vehicle sales tax receipts to the Highway User's Distribution Fund, the Metropolitan Area Transit Fund, and the Greater Minnesota Transit Fund and the start-up of the statewide property tax net non-dedicated revenues grow by 7.3 percent from FY 2002-03 to FY 2004-05.

Individual Income Tax

Individual income tax revenues for the 2004-05 biennium are now forecast to total $12.049 billion, $124 million (1.0 percent) less than forecast in November. Slower than previously projected wage growth explained virtually all of the decline in revenues. Capital gains realizations grow slightly faster than forecast in November, but from a lower base, leaving the forecast for that segment of income down slightly. Proprietors' income and dividends grow faster than anticipated in November's forecast.

Total Minnesota wages are now forecast to grow at a 2.8 percent rate in calendar 2003, down from November's projected growth rate of 3.9 percent. Calendar 2004 wage growth is also lower than previously forecast with growth projected at a 5.9 percent annual rate, 0.5 percentage points below November's estimate. The combination of the lower base level and growth at a slower rate leaves Minnesota wages $1.41 billion less than previously projected in calendar 2005. Weaker employment growth and slower growth in wages per job contributed to the downward revisions to wages. Minnesota wages are now forecast to grow at an annual rate of 5.6 percent between the fourth quarter of 2002 and the fourth quarter of 2005. In November wage growth was projected to average 6 percent. Accelerating growth in bonuses and options as well as growth in base wages are assumed for both 2004 and 2005.

Capital gains realizations are now projected to grow at an annual rate of 20 percent per year in calendar 2004 and 2005, up slightly from November's projected growth rate of 18 percent.

In the past the H.I.T.S. model appeared to over forecast liability for the alternative minimum tax (AMT), and a special adjustment was made to reduce the AMT forecast. Results from the 2001 income tax processing report indicate that the model now would underforecast the AMT so H.I.T.S. model users have decided to eliminate the AMT adjustment and simply accept the model values. This change in assumption has the effect of adding about $22 million to FY 2004 and FY 2005 revenues.

A more favorable forecast of inflation as measured by the CPI resulted in reduced indexing and a revenue gain of $11 million.

Sales Tax

Net sales tax receipts for the 2004-05 biennium are now expected to reach $8.203 billion, $16 million (0.2 percent) more than forecast in November. The improvement was entirely due to a change in the sales tax refund forecast. Gross sales tax receipts are now forecast to be $4 million (less than 0.1 percent) below November's estimate.

Minnesota's share of non-auto consumer durable spending and capital equipment spending fell slightly from November, despite an improved national economic outlook for both sectors. Slower growth in wages and personal income than the national average was the reason for the slight slowing in growth. No changes were made to the adjustments for sales tax revenues lost to e-commerce.

Corporate Franchise Tax

Corporate tax revenues for the 2004-05 biennium are forecast to total $1.305 billion, $43 million (3.2 percent) less than forecast in November. The Global Insight forecast for before tax corporate profits was reduced slightly from November's levels. Global insight now projects corporate profits averaging about $860 billion in 2004 and 2005, up from $750 billion in 2003. Corporate profits share of GDP remains below its historical level through the entire forecast horizon. The corporate income tax remains Minnesota's most volatile revenue source.

Motor Vehicle Sales Tax

The sales tax on motor vehicles is now projected to yield $549 million in the 2004-05 biennium, $13 million (2.4 percent) more than forecast in November. The GII forecast for consumer spending on motor vehicles and parts in fiscal 2005 has been increased. Light vehicle sales during fiscal 2005 are now expected to be at the 17.6 million unit level. In November sales at the 17.4 million unit level were projected for 2005.

Other Revenues

Other tax and non-tax revenues are expected to total $3.136 billion, $26 million (0.8 percent) more than was projected in November. The medical assistance surcharge was the largest source of additional revenue, increasing $25 million from the previous forecast. Projected revenues from the estate tax, the insurance gross premiums tax, and lottery revenues also were increased. Mortgage and deed tax revenues, tobacco settlement revenue and projected income tax reciprocity receipts off set some of those gains in revenue.

Revenue Planning Estimates
FY 2006-07

Current general fund resources for the 2006-07 biennium are now projected to total $29.640 billion, an increase of $2.933 billion or 11.0 percent over the current forecast for the 2004-05 biennium. Net non-dedicated revenues reach $29.385 billion, $2.935 billion more than is forecast for 2004-05. Receipts from the five major taxes grow by 12.0 percent. Individual income tax receipts grow by 13.9 percent from levels forecast for the 2004-05 biennium; the sales tax grows by 12.7 percent. The forecast for net non-dedicated revenues for the 2006-07 biennium is $304 million below November's estimate. About two thirds of that difference comes from a reduction in projected individual income tax collections.

Revenue FY 2006-07
$ in millions

	FY2004-05	FY2006	FY2007	FY2006-07
Individual Income	12,049	6,695	7,033	13,728
Sales	8,203	4,523	4,719	9,242
Corporate	1,305	668	646	1,314
Motor Vehicle Sales	549	275	287	562
Statewide Property Tax	1,208	624	640	1,264
Five Major Taxes	23,314	12,785	13,325	26,110
Other Revenue	2,756	1,427	1,459	2,887
Tobacco Settlement	380	193	196	389
Net Non-dedicated	26,450	14,405	14,980	29,385
Other Resources	257	127	127	254
Current Resources	**26,707**	**14,532**	**15,107**	**29,640**

No one can forecast the path of the economy five years into the future. These baseline revenue planning estimates are not explicit forecasts, they are extrapolations of projected trends in the economy. Even small deviations from the assumed trend over five years will compound and produce sizeable changes in revenues. In addition, because of the way the estimates are constructed, any change in the base level of revenues for fiscal 2005 will be reflected in the revenue planning estimates for 2006 and 2007. Other things equal, stronger than anticipated revenue growth through fiscal 2005 will carry forward and add significantly to revenues in the 2006-07 biennium. But, should the economy grow more slowly than forecast during the next three years, or should some item of portfolio income such as capital gains fall well below forecast – as it did in tax year 2001 -- the revenue outlook for the 2006-07 biennium will deteriorate.

These revenue planning estimates are only a guide to the level of future revenues. They are not a guarantee. If the economy remains as strong as GII projects through 2007, and if projections of items such as capital gains realizations are accurate, these planning estimates are likely to slightly understate actual receipts. But, the GII baseline forecast includes strong growth with no recession for at least the next five years, and that scenario could be overly optimistic, particularly with today's geo-political uncertainties. Actual revenues could exceed or fall short of the planning estimates by $2 billion or more depending on the economy's performance over the next 4 years.

As is customary before planning estimates are first prepared for a new biennium, Finance Department economists evaluated the methodology used to establish the economic growth assumptions used in preparing the revenue planning estimates. For a number of years the Finance Department was concerned about the positive bias created by use of the growth rates provided in DRI's Trendlong scenario. The Trendlong scenario, which DRI identified as the envelope of the maximum sustainable growth rates over time, failed to take into account the possibility that the economy might not perform at peak level for one or more years during the forecast horizon. Finance Department economists also noted that typically there was a sudden surge in the assumed real growth rate at the point the 3-year short-term forecast was spliced to the long-term outlook. That higher economic growth rate appeared to add a further positive bias to the forecast for the years covered in Minnesota's revenue planning estimates.

Since 1994 the Finance Department has used a series of alternative, hybrid forecasts to overcome that apparent positive bias in the Trendlong estimates. It has also been Finance Department practice to replace the first year of the hybrid estimate with values from the Control forecast in November of odd numbered years. This practice limited the use of hybrid projections to forecasts for calendar years beginning more than 3 years into the future, consistent with the length of the forecast made by DRI's short-term macro-economic model. For example, last February's 2004-05 planning estimates were based on the calendar year 2004 Control values. The hybrid estimates were used only for the final six months of fiscal 2005.

GII's purchase of DRI and WEFA necessitated some reworking of their U.S. macro model. The improvements appear to include a smoother growth path for years four and five of the forecast and a less abrupt transition to the long-term growth path. After examining the GII projections for 2006 and 2007, Finance Department economists and the Council of Economic Advisors agreed to use the GII baseline growth rates for 2006 and 2007 in preparing the revenue planning estimates. The original real growth rates assumed 3.5 percent and 3.1 percent were consistent, but slightly above those assumed by the CBO and those of the Blue Chip Consensus. The inflation rates, a CPI rate of 2.2 percent and 2.1 percent, while slightly below both the Blue Chip Consensus and CBO, are well within normal limits. The February Baseline forecast from GII calls for slightly slower real GDP growth rates in 2006 and 2007, and slightly higher inflation rates. The February 2003 revenue planning estimates are built on the assumption that real GDP growth will average 3.1 percent in calendar 2006 and 2.9 percent in calendar 2007. CPI growth rates of 2.2

percent and 2.5 percent are also assumed. Finance Department economists note, however, that because this forecast calls for strong economic growth lasting for at least 5 years, revenue projections based on this forecast are more likely to prove to be too optimistic than too pessimistic.

The individual income tax estimates were prepared using the House Income Tax Simulation Model. Assumed filer growth in Minnesota was consistent with average national employment growth for the years in question. All elements of income and all individual itemized deductions were assumed to grow at the growth rate of taxable personal income – the combination of wages and salaries, proprietors' incomes, dividend, interest and rents – projected by GII in their baseline forecast. Calendar year income tax liabilities were converted into fiscal year revenues using the same proportions as forecast for 2005.

Use of the GII baseline scenario for 2006 and 2007 allows use of the complete sales tax model to estimate sales tax revenue planning estimates. In prior years sales tax planning estimates had been made based on a model using 14 broad categories of items in Minnesota's sales tax base. Corporate tax receipts in Minnesota were estimated to grow at the same rate as GII's forecast of national before tax corporate profits. Minnesota's motor vehicle sales tax collections are expected to grow at the GII baseline growth rate for national consumption of motor vehicles and parts. The deed and mortgage tax was forecast based on the projected growth in the value of new and existing home sales. Planning estimates for other tax and no tax revenues were prepared by extrapolating existing trends.

Expenditure Forecast
FY 2004-2007

FY 2004-05 Forecast Expenditures Decline Slightly

Forecast spending for the next biennium is $147 million below November 2002 estimates. Spending for FY 2004-05 is now expected to total $30.828 billion, a 14.7 percent increase over revised spending estimates for FY 2002-03.

These expenditure estimates are projections of the cost of continuing current law programs after adjusting for changes in education enrollment, human service program caseload, net tax capacity, the number of households, and formula driven items.

FY 2004-05 Budget Expenditure Estimates
($ in millions)

	November	February	Difference
Spending by Omnibus Bill			
E-12 Education	$ 12,876	$ 12,796	(80)
Payment Change/Prop Tax Recog.	(3)	(3)	0
Higher Education	2,911	2,911	0
Property Tax Aids & Credits	3,271	3,279	8
Health & Human Services	7,840	7,800	(40)
Environment & Agriculture	515	514	(1)
Economic Development	391	389	(2)
Transportation	185	182	(3)
Criminal Justice	1,525	1,525	0
State Government	606	598	(8)
Debt Service	695	695	0
All Other	(20)	(10)	10
Subtotal	30,792	30,676	(116)
Dedicated Expenditures	183	152	(31)
Total Expenditures & Transfers	**$30,975**	**$30,828**	**$(147)**

Only two areas of the forecast have material changes from November. E-12 education and health and human services spending account for $120 million reduction from November estimates. All other changes, including a $31 million reduction in dedicated general fund revenues and spending, account for the remaining $27 million reduction.

FY 2006-07 Projected Spending Also Declines Slightly

Planning estimates for FY 2006-07 project spending of $32.083 billion. This represents a projected growth in spending of $1.255 billion over the current law forecast for the FY 2004-05 biennium – a 4.1 percent increase.

Projected spending for FY 2006-07 is down $171 million from the November estimates. The largest portion of the decrease occurs in E-12 education ($73 million) and health and human services spending ($71 million). In both cases savings in the out-year projections mirror the forecast changes being made in the forecast for FY 2004-05.

FY 2006-07 Planning Estimates

($ in millions)

	November	February	Difference
Estimated Spending by Area			
E-12 Education	$12,961	$12,887	(73)
Higher Education	2,900	2,899	(1)
Property Tax Aids & Credits	3,384	3,392	8
Health & Human Services	8,773	8,701	(71)
Environment & Agriculture	500	499	(1)
Economic Development	390	388	(2)
Transportation	185	182	(3)
Criminal Justice	1,628	1,628	0
State Government	604	600	(4)
Debt Service	760	763	3
All Other	(20)	(10)	10
Subtotal	32,065	31,927	(138)
Dedicated Expenditures	189	156	(33)
Total Expenditures & Transfers	**$ 32,254**	**$ 32,083**	**$ (171)**

E-12 Estimates Reduced by $80 Million for FY 2004-05

Forecast E-12 education spending is now expected to be $12.793 billion for the FY2004-05 biennium. Compared to the November forecast, this is $80.3 million lower (0.6 percent). This decline is largely caused by a reduction in the projected number of students enrolled in public schools each year. On an adjusted pupil count basis, the forecast shows a reduction of over 3,000 pupil units each year. This ripples through most aspects of school finance and is most visible in General Education and Special Education spending estimates.

The General Education program is now forecast to be $63.3 million less than in November. Within General Education, lower pupil counts contribute to a decline in Basic Education Revenue of nearly $33 million. Compensatory Revenue is now forecast to be $51 million lower than November estimates. This is due to lower free and reduced price lunch counts in the 2002-03 school year, combined with lower projections of eligible students going forward. Limited English Proficiency (LEP) Revenue is expected to be $8.9 million higher for the biennium. This increase reflects the increase in LEP-eligible students after the initial offering of the Test of Emerging Academic English. This test added an additional 5,454 students to LEP estimates.

Health and Safety aid is forecast to increase by $4.5 million over the November forecast amount due to an anticipated increase in the number of indoor air quality projects.

Child care assistance expenditures for families in the Minnesota Family Investment Program (MFIP) are forecast to be $11.7 million less than in the November forecast, primarily due to a projected decline in the MFIP caseload.

FY 2006-07 E-12 Education Projections Also Expected to be Lower

Spending for the FY2006-07 biennium for E-12 Education is now projected to total $12.887 billion - $73.3 million lower than earlier estimates. This decline is largely due to the continuation of the trends seen in the FY2004-05 estimate, the most significant of which is lower pupil units.

General Education estimates are lower by $43.5 million, with Basic Education Revenue and Compensatory Revenue down almost $40 million apiece compared to November levels. These declines are offset by $9.7 million increase in the estimate for LEP Revenue as well as a $4 million increase in Training and Experience Revenue.

The lower pupil counts also are reflected in regular Special Education, down by $5.6 million from previous projections.

The increase projected for Health and Safety aid in FY 2004-05 is carried through to the next biennium resulting in a forecast increase of $4.4 million when compared to the November forecast.

For FY 2006-07, childcare assistance expenditures are estimated to be $18.7 million less than forecast in November. As in FY 2004-05, the projected decrease in Minnesota Family Investment Program (MFIP) participants is a significant factor driving this change.

Health & Human Services Projections $40 Million Lower in FY 2004-05; $71 Million Lower in FY 2006-07

Health Care

Health Care spending is forecast to reach $5.9 billion for FY2004-05. This is $34.5 million lower (0.6 percent) than November estimates. Reductions in spending projections for GAMC and MA Long-term Care Waivers, offset by increases in MA Elderly & Disabled Basic Care, explain most of this change.

Caseload projections for the GAMC program remain virtually unchanged for the biennium. However, lower than expected capitation rates for the individuals enrolled in managed care plans, as well as lower than expected average payments for the rest of the group, contribute to an overall reduction of $43.7 million for the program compared to November levels.

Spending projections for waiver programs that provide community-based services for a variety of individuals at risk of institutional placement are also lower for the upcoming biennium ($18.7 million). Reductions in average payments are expected in the MR/RC Waiver, due to administrative action taken by the Department of Human Services to "rebase" county-spending caps to better reflect the true costs of services for populations served. Average payments in the Elderly Waiver (EW) and Chronically Ill Waiver (CAC) are also down. Significant increases in the caseload projected for the TBI Waiver in each year of the biennium (54.6 percent in 2004, 71.3 percent in 2005) partially offset the downward spending movement attributable to average cost reductions in the budget for community-based waivers.

Increases in MA Elderly & Disabled Basic Care for FY2004-05 ($42.6 million) are due to higher than expected managed care rates and average payments for the elderly. Lower than expected managed care rates and average payments for families and children (MA MFIP & Families Basic Care) partially mitigate these increases.

Finally, similar small downward trends can also be observed in FY2006-07 projections. Spending on health care is now projected to total $6.8 billion, a decrease of $70.6 million from November (1.0 percent). Program trends for FY2006-07 are generally consistent with FY2004-05 changes, with reductions in GAMC ($54.4 million), MA Long-Term Care Waivers ($46.3 million), MA MFIP & Families Basic Care ($24.4 million), and MA Long-Term Care Facilities ($12.0 million), and an offsetting increase in MA Elderly & Disabled Basic Care ($66.5 million).

Economic Self-Sufficiency & Other Programs

Spending for Economic Self-Sufficiency programs is projected to increase by $6.7 million in FY2004-05 (3.1 percent) and by $11.8 million in FY2006-07 (6.2 percent).

This increase is the net result of reduced MFIP caseload projections (due primarily to lower than expected actual caseload numbers), substantially reduced projections for MFIP child support collections and MFIP recoveries, and Maintenance of Effort (MOE) requirements. Child support collections are linked to economic conditions; relatively high unemployment rates translate into fewer job opportunities for non-custodial parents, reducing the amount of child support they can pay. Finally, GA caseloads are projected to increase through 2007 due to economic circumstances.

As in FY2003, the reduction in the Department of Health's budget in 2004-05 and 2006-07 ($12.6 million each biennium) reflects revised estimates of allowable spending for community clinics and rural hospital capital improvement grants under the hospital intergovernmental transfer provisions passed in the 2001 legislative session.

Property Tax Aids Increase Slightly for FY 2004-05 and FY 2006-07

Forecast property tax aids and credits spending for FY 2004-05 is now projected to be $3.279 billion – an increase of $7.8 million or 0.2 percent from the November forecast. This change is attributable to small growth of Market Value Credits, small growth in Police & Fire Aids, and some reduction in renter's Property Tax Refunds.

Projections of FY 2006-07 of property tax aids and credits costs show a similar increase of $7.7 million or 0.2 percent from the November forecast. This change is attributable to growth of Market Value Credits, offset in part by reduction in both homeowner and renter's Property Tax Refunds.

All Other Spending Areas Are Largely Unaffected By Forecast

The majority of state agencies and programs, outside the major forecast areas highlighted above, show little net change from the levels projected in November.

Cancellation estimates for the FY2004-05 biennium and for FY 2006-07 have been reduced one-half, from $20 million to $10 million. The reduction mirrors action to reduce the cancellation estimate for FY2003. The expectation is that year-end cancellations will be significantly reduced as a result of budget reductions and continuing tight fiscal constraints on agencies operating budgets.

Reductions shown for forecast dedicated general fund spending are offset by similar reductions in dedicated general fund revenues – with no impact on the ending general fund balance.

Projected FY2004-05 Reserves Changed by Action and Forecast

The current law budget reserve for FY2004-05 is now shown at $55.3 million, down $23.9 million from the amount shown in the November forecast. The reduction is due to withdrawal of the entire $24 million balance in FY2003. Several current law provisions that restore the reserve to $55 million by FY2005 remain unchanged.

The education reserve account for FY2004-05 is now forecast to reach $40.5 million, $9.9 million greater than the amount forecast in November. The amount designated for the education reserve account is tied to the growth in collections of the statewide property tax. The amount in the account is set-aside within the general fund and dedicated by statute for future education spending.

Alternative Forecast Comparison
Real GDP (Annual Rates)

	02 III	02V	03I	03II	03III	03IV	03A	04A	05A
GII Baseline (02-03)	4.0	0.7	3.0	3.3	4.8	5.3	3.0	4.6	3.8
Blue Chip (02-03)	4.0	0.7	2.6	3.2	3.7	3.8	2.7	3.6	NA
Economy.Com (02-03)	4.0	0.7	2.4	2.4	NA	NA	2.4	NA	NA
American Express (11-02)	4.0	0.7	3.1	3.0	4.1	4.0	3.0*	3.5*	NA
UBS Warburg/Paine Webber (02-03)	4.0	0.7	2.5	4.5	3.5	3.5	2.8	3.1	NA
Standard & Poors (02-03	4.0	0.7	3.3	2.8	4.6	NA	2.9	4.5	3.9

Consumer Price Index (Annual Rates)

	02 III	02V	03I	03II	03III	03IV	03A	04A	05A
GII Baseline (02-03)	1.9	2.4	1.7	2.7	1.2	1.6	2.1	1.9	2.1
Blue Chip (02-03)	1.9	2.4	2.4	2.0	2.0	2.2	2.3	2.3	NA
Economy.Com (02-03)	1.9	2.4	2.2	2.2	NA	NA	2.1	NA	NA
American Express (02-03)	1.9	2.4	2.0	2.0	3.0	3.2	1.9*	2.3*	2.7
UBS Warburg/Paine Webber (02-03)	1.9	2.4	2.3	2.1	2.3	2.6	2.3	2.2	2.3
Standard & Poors (02-03)	1.9	2.4	2.3	2.1	2.3	2.6	2.3	2.2	2.3

* 4Q/4Q

Forecast Comparisons

Real Economic Growth

(Annual Percent Change in Real GDP)

	2002	2003	2004	2005	2006	2007
Feb 99 DRI Control	1.7[(1)]	1.7[(1)]				
Nov 99 DRI Control	2.0[(2)]	2.0[(2)]				
Feb 00 DRI Control	3.4	2.0[(2)]				
Nov 00 DRI Control	4.3	4.8	3.2[(3)]	3.2[(3)]		
Feb 01 DRI Control	4.0	4.8	3.2[(3)]	3.2[(3)]		
Nov 01 DRI Control	0.4	4.4	3.8	3.2[(3)]		
Feb 02 DRI Control	1.0	4.0	3.9	3.2[(3)]		
Nov 02 GII Baseline	2.3	2.6	4.1	3.8	3.5	3.1
Feb 03 GII Baseline	2.4	3.0	4.6	3.8	3.1	2.9

Inflation

(Annual Percent Change in CPI-U)

Feb 99 DRI Control	2.4	2.5				
Nov 99 DRI Control	2.6	2.8				
Feb 00 DRI Control	2.5	2.6				
Nov 00 DRI Control	1.7	1.9	2.4[(3)]	2.7[(3)]		
Feb 01 DRI Control	1.8	1.6	2.4[(3)]	2.7[(3)]		
Nov 01 DRI Control	1.9	2.4	2.6	2.7[(3)]		
Feb 02 DRI Control	1.4	2.4	2.5	2.7[(3)]		
Nov 02 GII Baseline	1.6	2.3	2.4	2.3	2.2	2.1
Feb 03 GII Baseline	1.6	2.1	1.9	2.1	2.2	2.5

(1) Long-term trend from DRI Cycle long, Summer 1998

(2) Long-term trend from DRI Cycle long, Summer 1999

(3) 10 year trend from DRI Early Recession (Pessim), November, 2000

Minnesota - U.S. Comparison Report

February 2003 Baseline
(Annual Percent Changes)

	1999	2000	2001	2002	2003	2004	2005
Wage and Salary Income							
United States	6.6	8.2	2.4	1.5	4.2	6.4	5.7
Minnesota	6.6	8.5	2.9	0.9	2.8	5.9	6.4
Implied Annual Wage							
United States	4.1	5.9	2.2	2.4	3.8	4.0	3.4
Minnesota	4.3	6.0	2.9	1.8	2.8	4.1	4.2
Non-Farm Employment							
United States	2.4	2.2	0.2	-0.9	0.4	2.3	2.2
Minnesota	2.3	2.4	-0.1	-0.9	0.0	1.7	2.1
Personal Income							
United States	4.9	8.0	3.3	3.0	4.7	6.0	5.6
Minnesota	4.7	7.6	2.9	2.5	3.9	6.1	6.3

Comparison of Actual and Estimated Non-Restricted Revenues
Fiscal Year-To-Date Through January 2003
($ in Thousands)

	Forecast Revenues	Actual Revenues	Variance Act-Fcst
Individual Income Tax			
Withholding	2,890,245	2,872,430	(17,815)
Declarations	562,351	580,351	18,000
Miscellaneous	101,000	106,852	5,852
Gross	3,553,596	3,559,633	6,037
Refund	97,300	121,096	23,796
Net	3,456,296	3,438,537	(17,759)
Corporate & Bank Excise			
Declarations	310,720	303,263	(7,457)
Miscellaneous	78,571	80,427	1,856
Gross	389,291	383,690	(5,601)
Refund	114,971	109,473	(5,498)
Net	274,320	274,217	(104)
Sales Tax			
Gross	2,349,490	2,360,018	10,528
Refunds	129,335	107,479	(21,855)
Net	2,220,155	2,252,539	32,384
2001 Sales Tax Rebates	(970)	(985)	(15)
Motor Vehicle Sales	160,624	164,845	4,221
Other Revenues			
Inherit/Gift/Estate	93,885	106,605	12,720
Liquor/Wine/Beer	38,114	38,093	(21)
Cigarette/Tobacco/Cont Sub	106,089	104,762	(1,327)
Deed and Mortgage	139,262	164,360	25,098
Insurance Gross Earnings	96,556	99,358	2,802
Lawful Gambling	30,071	30,404	333
Health Care Surcharge	83,438	82,197	(1,241)
Other Taxes	1,220	1,208	(12)
Statewide Property Tax	274,398	271,367	(3,031)
DHS RTC Collections	35,294	33,366	(1,928)
Income Tax Reciprocity	49,010	49,010	0
Investment Income	14,581	15,422	841
Tobacco Settlement	148,447	147,568	(879)
Departmental Earnings	120,082	125,100	5,018
Lottery Revenues	14,641	17,171	2,529
Revenues yet to be allocated	0	2,144	2,144
Residual revenues	43,276	46,551	3,275

Factors Affecting the Individual Income Tax

($ in billions)

	Calendar Year					
	2000	2001	2002	2003	2004	2005
Minnesota Non-Farm Tax Base						
February 1999 Control	125.150	130.330				
November 1999 Control	126.630	133.200				
February 2000 Control	127.870	134.090				
November 2000 Control	138.670	146.530	155.040	165.080		
February 2001 Control	139.420	145.300	152.840	162.610		
November 2001 Control	139.610	144.440	146.880	155.990		
February 2002 Baseline	139.610	143.910	145.890	153.470		
*November 2002 Baseline	134.530	138510	140.600	145.760	154.850	164.940
*February 2003	134.530	138.510	140.520	144.940	153.580	163.500
Minnesota Wage and Salary Income						
February 1999 Control	91.969	96.329				
November 1999 Control	95.060	100.590				
February 2000 Control	95.600	100.500				
November 2000 Control	96.555	102.910	109.420	116.870		
February 2001 Control	97.350	102.290	108.100	115.190		
November 2001 Control	96.490	100.340	102.920	109.210		
February 2002 Control	96.490	99.840	101.910	107.140		
*November 2002 Baseline	92.580	95.220	96.100	99.790	106.150	112.830
*February 2003 Baseline	92.580	95.220	96.100	98.830	104.690	111.420
Minnesota Property Income						
February 1999 Control	24.317	24.821				
November 1999 Control	22.523	23.243				
February 2000 Control	22.984	23.956				
November 2000 Control	32.711	33.690	35.015	36.754		
February 2001 Control	32.670	33.216	34.163	36.102		
November 2001 Control	33.339	33.868	33.184	35.201		
February 2002 Control	33.339	33.851	33.466	35.074		
November 2002 Baseline	32.124	32.918	33.564	34.408	36.104	39.119
February 2003 Baseline	32.124	32.918	33.464	34.389	36.176	38.513
Minnesota Proprietors' Income						
February 1999 Control	8.867	9.181				
November 1999 Control	9.045	9.365				
February 2000 Control	9.288	9.636				
November 2000 Control	9.405	9.938	10.607	11.455		
February 2001 Control	9.407	9.800	10.570	11.323		
November 2001 Control	9.778	10.232	10.779	11.586		
February 2002 Control	9.778	10.216	10.515	11.256		
November 2002 Baseline	9.828	10.373	10.936	11.761	12.297	12.996
February 2003 Baseline	9.828	10.373	10.955	11.720	12.712	13.573

* *Wages reflect ES202 Data*

Factors Affecting Sales Tax, Corporate Income Tax, and Sales Tax on Motor Vehicles

($ in billions)

	Fiscal Year					
	2000	2001	2002	2003	2004	2005
SALES TAX						
Minnesota's Proxy Share of U.S. Consumer Durable Spending (Excluding Autos)						
February 1999 Control	10.456	10.828				
November 1999 Control	10.442	11.041				
February 2000 Control*	9.648	10.100				
November 2000 Control	9.875	10.512	11.124	11.978		
February 2001 Control**	10.307	10.783	11.180	12.043		
November 2001 Control*	10.193	10.725	10.477	10.784		
February 2002 Control	10.193	10.723	10.740	10.843		
November 2002 Baseline	10.052	10.404	10.806	11.146	11.733	12.451
February 2003 Baseline	10.052	10.404	10.807	11.137	11.617	12.394
Minnesota's Proxy Share of U.S. Capital Equipment Spending						
February 1999 Control	11.103	11.461				
November 1999 Control	11.519	12.189				
February 2000 Control*	11.362	12.161				
November 2000 Control	11.243	12.887	13.717	14.577		
February 2001 Control	11.267	12.272	12.850	13.868		
November 2001 Control*	10.913	11.475	9.671	9.812		
February 2002 Control	10.913	11.474	9.683	9.850		
November 2002 Baseline	10.768	10.998	8.799	10.252	10.693	11.579
February 2003 Baseline	10.768	10.998	9.795	10.082	10.624	11.577
Minnesota's Proxy Share of U.S. Construction Spending						
February 1999 Control	6.872	7.081				
November 1999 Control	7.278	7.671				
February 2000 Control*	7.404	7.540				
November 2000 Control	7.595	7.677	7.985	8.507		
February 2001 Control	7.595	7.818	7.955	8.386		
November 2001 Control*	7.545	8.152	8.438	8.545		
February 2002 Control	7.545	8.152	8.345	8.420		
November 2002 Baseline	7.582	8.227	8.467	8.337	8.612	9.424
February 2003 Baseline	7.582	8.227	8.479	8.429	8.798	9.191

* Reflects data revision.

** Reflects change in data definition

Factors Affecting Sales, Corporate Income And Sales Tax on Motor Vehicles

($ in billions)

	Fiscal Year					
	2000	**2001**	**2002**	**2003**	**2004**	**2005**

SALES TAX (Cont.)

Minnesota's Non-Farm Personal Income

	2000	2001	2002	2003	2004	2005
February 1999 Control	142.42	148.03				
November 1999 Control*	141.35	147.91				
February 2000 Control	142.37	149.75				
November 2000 Control	152.34	161.70	170.86	181.54		
February 2001 Control	152.78	161.59	169.03	179.41		
November 2001 Control	151.24	161.58	163.61	174.93		
February 2002 Control	157.17	162.38	165.28	173.63		
November 2002 Baseline	151.51	162.41	166.54	173.04	181.57	192.47
February 2003 Baseline	151.51	162.41	166.43	172.40	181.12	192.14

SALES TAX ON MOTOR VEHICLES

Minnesota's Proxy Share of U.S. Consumption of Motor Vehicle and Parts

	2000	2001	2002	2003	2004	2005
February 1999 Control	5.803	6.039				
November 1999 Control*	6.425	6.519				
February 2000 Control	6.574	6.517				
November 2000 Control	6.646	6.671	6.764	7.452		
February 2001 Control	6.630	6.444	6.566	7.080		
November 2001 Control	6.780	7.097	7.007	7.484		
February 2002 Control	6.894	7.163	7.403	7.506		
November 2002 Baseline	6.737	6.939	7.493	7.353	7.568	7.361
February 2003 Baseline	6.737	6.939	7.496	7.572	7.619	7.676

CORPORATE FRANCHISE TAX **Calendar Year**

U.S. Corporate Profits

	2000	2001	2002	2003	2004	2005
February 1999 Control	678.9	688.4	678.9	688.4		
November 1999 Control*	883.8	894.2	883.8	894.2		
February 2000 Control	849.7	823.4	849.7	823.4		
November 2000 Control	940.7	910.0	993.5	1,089.0		
February 2001 Control	929.5	892.2	1,006.3	1,066.2		
November 2001 Control	845.4	663.6**	685.7	761.2		
February 2002 Control	845.4	631.9**	722.1	786.0		
November 2002 Baseline	782.3	670.2	662.2	771.1	873.5	871.0
February 2003 Baseline	782.3	670.2	650.7	753.8	859.6	857.1

* Data Revision.
** Finance Dept Estimate

February 2003 General Fund Forecast
FY 2003 Comparison - February 2003 vs November 2002
($ in thousands)

	11-02 Fcst FY 2003	2-03 Fcst F 2003	$ Difference
Actual & Estimated Resources			
Balance Forward From Prior Year	1,130,269	1,130,269	0
Current Resources:			
Tax Revenues	11,909,401	11,936,498	27,097
Non-Tax Revenues	562,375	571,502	9,127
Dedicated Revenue	68,369	59,254	(9,115)
Transfers In	307,808	300,823	(6,985)
Prior Year Adjustments	35,770	35,770	0
Budget Changes - Non-Taxes	0	72,661	72,661
Subtotal-Current Resources	12,883,723	12,976,508	92,785
Total Resources Available	**14,013,992**	**14,106,777**	**92,785**
Actual & Estimated Spending			
E-12 Education	6,179,270	6,144,267	(35,003)
Property Tax Recog/Payment Change	(444,642)	(442,350)	2,292
Property Tax Aids & Credits	1,609,478	1,598,932	(10,546)
Higher Education	1,411,548	1,361,241	(50,307)
Health & Human Services	3,481,503	3,455,274	(26,229)
Environment & Agriculture	247,407	208,287	(39,120)
Economic Development	211,283	193,703	(17,580)
Transportation	241,302	218,487	(22,815)
Criminal Justice	728,311	710,002	(18,309)
State Government	331,309	320,441	(10,868)
Debt Service & Borrowing	295,494	295,494	0
Estimated Cancellations	(15,000)	(5,000)	10,000
Subtotal Expenditures & Transfers	**14,277,263**	**14,058,778**	**(218,485)**
Dedicated Expenditures	68,369	59,254	(9,115)
Total Expenditures & Transfers	**14,345,632**	**14,118,032**	**(227,600)**
Balance Before Reserves	**(331,640)**	**(11,255)**	**320,385**
Budget Reserve	23,900	0	(23,900)
Budgetary Balance	**(355,540)**	**(11,255)**	**344,285**

February 2003 General Fund Forecast
FY 2004-05 Biennium
($ in thousands)

	FY 2004	FY 2005	Biennial Total
Actual & Estimated Resources			
Balance Forward From Prior Year	(11,255)	(2,391,452)	(11,255)
Current Resources:			
Tax Revenues	12,191,820	13,098,849	25,290,669
Non-Tax Revenues	569,505	590,253	1,159,758
Dedicated Revenue	73,736	78,201	151,937
Transfers In	37,644	38,184	75,828
Prior Year Adjustments	18,301	10,100	28,401
Subtotal-Current Resources	12,891,006	13,815,587	26,706,593
Total Resources Available	**12,879,751**	**11,424,135**	**26,695,338**
Actual & Estimated Spending			
E-12 Education	6,387,856	6,408,329	12,796,185
Property Tax Recog/Payment Change	(2,969)	0	(2,969)
Property Tax Aids & Credits	1,622,569	1,655,992	3,278,561
Higher Education	1,460,804	1,450,144	2,910,948
Health & Human Services	3,808,814	3,991,118	7,799,932
Environment & Agriculture	258,577	255,048	513,625
Economic Development	195,443	193,866	389,309
Transportation	91,151	91,121	182,272
Criminal Justice	745,312	779,674	1,524,986
State Government	298,401	299,719	598,120
Debt Service & Borrowing	333,509	361,755	695,264
Estimated Cancellations	(2,000)	(8,000)	(10,000)
Subtotal Expenditures & Transfers	**15,197,467**	**15,478,766**	**30,676,233**
Dedicated Expenditures	73,736	78,201	151,937
Total Expenditures & Transfers	**15,271,203**	**15,556,967**	**30,828,170**
Balance Before Reserves	**(2,391,452)**	**(4,132,832)**	**(4,132,832)**
Budget Reserve	43,300	55,300	55,300
Dedicated Reserves	13,728	40,478	40,478
Budgetary Balance	**(2,448,480)**	**(4,228,610)**	**(4,228,610)**

Comparison: FY 2004-05 General Fund Forecast
February 2003 vs November 2002
($ in thousands)

	11-02 Fcst FY 2004-05	2-03 Fcst FY 2004-05	$ Difference	% Change
Actual & Estimated Resources				
Balance Forward From Prior Year	(331,640)	(11,255)	320,385	-96.6%
Current Resources:				
Tax Revenues	25,408,221	25,290,669	(117,552)	-0.5%
Non-Tax Revenues	1,153,958	1,159,758	5,800	0.5%
Dedicated Revenue	183,485	151,937	(31,548)	-17.2%
Transfers In	90,761	75,828	(14,933)	-16.5%
Prior Year Adjustments	20,200	28,401	8,201	40.6%
Subtotal-Current Resources	26,856,625	26,706,593	(150,032)	-0.6%
Total Resources Available	**26,524,985**	**26,695,338**	**170,353**	**0.6%**
Actual & Estimated Spending				
E-12 Education	12,876,472	12,796,185	(80,287)	-0.6%
Property Tax Recog/Payment Change	(2,969)	(2,969)	0	0.0%
Property Tax Aids & Credits	3,270,757	3,278,561	7,804	0.2%
Higher Education	2,910,948	2,910,948	0	0.0%
Health & Human Services	7,840,289	7,799,932	(40,357)	-0.5%
Environment & Agriculture	514,299	513,625	(674)	-0.1%
Economic Development	390,662	389,309	(1,353)	-0.3%
Transportation	184,932	182,272	(2,660)	-1.4%
Criminal Justice	1,524,986	1,524,986	0	0.0%
State Government	606,346	598,120	(8,226)	-1.4%
Debt Service & Borrowing	694,972	695,264	292	0.0%
Estimated Cancellations	(20,000)	(10,000)	10,000	-50.0%
Subtotal Expenditures & Transfers	**30,791,694**	**30,676,233**	**(115,461)**	**-0.4%**
Dedicated Expenditures	183,485	151,937	(31,548)	-17.2%
Total Expenditures & Transfers	**30,975,179**	**30,828,170**	**(147,009)**	**-0.5%**
Balance Before Reserves	**(4,450,194)**	**(4,132,832)**	**317,362**	
Budget Reserve	79,200	55,300	(23,900)	
Dedicated Reserves	30,619	40,478	9,859	
Budgetary Balance	**(4,560,013)**	**(4,228,610)**	**331,403**	

Comparison: FY 2006-07 Planning Estimates
February 2003 vs November 2002
($ in thousands)

	11-02 Plng FY 2006-07	2-03 Plng FY 2006-07	$ Difference	% Change
Actual & Estimated Resources				
Balance Forward From Prior Year	(4,450,194)	(4,132,832)	320,385	-7.1%
Current Resources:				
Tax Revenues	28,486,392	28,175,866	(310,526)	-1.1%
Non-Tax Revenues	1,203,560	1,209,700	6,140	0.5%
Dedicated Revenue	188,238	156,641	(31,597)	-16.8%
Transfers In	89,323	77,167	(12,156)	-13.6%
Prior Year Adjustments	20,200	20,200	0	0.0%
Subtotal-Current Resources	29,987,713	29,639,574	(348,139)	-1.2%
Total Resources Available	**25,537,519**	**25,506,742**	**(30,777)**	**-0.1%**
Actual & Estimated Spending				
E-12 Education	12,960,623	12,887,335	(73,288)	-0.6%
Property Tax Aids & Credits	3,384,327	3,391,986	7,659	0.2%
Higher Education	2,900,288	2,899,440	(848)	0.0%
Health & Human Services	8,772,651	8,701,253	(71,398)	-0.8%
Environment & Agriculture	500,302	498,570	(1,732)	-0.3%
Economic Development	389,994	387,880	(2,114)	-0.5%
Transportation	184,902	182,242	(2,660)	-1.4%
Criminal Justice	1,628,308	1,628,308	0	0.0%
State Government	604,308	596,100	(8,208)	-1.4%
Debt Service & Borrowing	759,641	762,835	3,194	0.4%
Estimated Cancellations	(20,000)	(10,000)	10,000	-50.0%
Subtotal Expenditures & Transfers	**32,065,344**	**31,925,949**	**(139,395)**	**-0.4%**
Dedicated Expenditures	188,238	156,641	(31,597)	-16.8%
Total Expenditures & Transfers	**32,253,582**	**32,082,590**	**(170,992)**	**-0.5%**
Balance Before Reserves	**(6,716,063)**	**(6,575,848)**	**140,215**	
Budget Reserve	79,200	55,300	(23,900)	
Dedicated Reserves	176,287	136,783	(39,504)	
Budgetary Balance	**(6,971,550)**	**(6,767,931)**	**203,619**	

February 2003 General Fund Planning Horizon

($ in thousands)

	2-03 Fcst FY 2002-03	2-03 Fcst FY 2004-05	2-03 Plng FY 2006-07
Actual & Estimated Resources			
Balance Forward From Prior Year	1,574,200	(11,255)	(4,132,832)
Current Resources:			
Tax Revenues	23,357,910	25,290,669	28,175,866
Non-Tax Revenues	1,327,440	1,159,758	1,209,700
Dedicated Revenue	93,853	151,937	156,641
Transfers In	368,408	75,828	77,167
Prior Year Adjustments	66,261	28,401	20,200
Budget Changes - Non-Taxes	72,661	0	0
Subtotal-Current Resources	25,286,533	26,706,593	29,639,574
Total Resources Available	**26,860,733**	**26,695,338**	**25,506,742**
Actual & Estimated Spending			
E-12 Education	10,689,991	12,796,185	12,887,335
Property Tax Recog/Payment Change	(442,350)	(2,969)	0
Property Tax Aids & Credits	3,378,679	3,278,561	3,391,986
Higher Education	2,756,173	2,910,948	2,899,440
Health & Human Services	6,501,215	7,799,932	8,701,253
Environment & Agriculture	446,917	513,625	498,570
Economic Development	414,984	389,309	387,880
Transportation	428,013	182,272	182,242
Criminal Justice	1,349,417	1,524,986	1,628,308
State Government	667,095	598,120	596,100
Debt Service & Borrowing	581,047	695,264	762,835
Capital Projects	2,146	0	0
Deficiencies/Other	14,612	0	0
Estimated Cancellations	(5,000)	(10,000)	(10,000)
Subtotal Expenditures & Transfers	**26,782,939**	**30,676,233**	**31,925,949**
Dedicated Expenditures	89,049	151,937	156,641
Total Expenditures & Transfers	**26,871,988**	**30,828,170**	**32,082,590**
Balance Before Reserves	**(11,255)**	**(4,132,832)**	**(6,575,848)**
Budget Reserve	0	55,300	55,300
Dedicated Reserves	0	40,478	136,783
Budgetary Balance	**(11,255)**	**(4,228,610)**	**(6,767,931)**

FY 2003 Reductions Under M.S. 16A.152, Subdivision 4
General Fund
($ in thousands)

Agency Item	REVISED FY 2003
Revenues:	
Human Services, Dept of	
Administrative Savings	(1,333)
Delay New Autism Program	(15)
Trade & Economic Development	
21st Century Minerals Fund Balance	49,000
Workforce Development	1,158
Transportation, Dept of	
Sale of Jet	750
Employee Relations, Dept of	
Transfer from Employee Insurance Trust Fund	11,000
Capital Projects	
Early Cancellations	12,101
Total Revenues	**72,661**
Expenditures:	
E-12 Education	
Children, Families & Learning	(25,702)
Minn State Academies	(40)
Center for Arts Education	(130)
Total E-12 Education	**(25,872)**
Higher Education	
Higher Educ Svcs Office	(307)
University of Minnesota	(25,000)
MnSCU	(25,000)
Total Higher Education	**(50,307)**
Health & Human Services	
Human Services, Dept of	(13,084)
Health, Dept of	(9,936)
Emergency Medical Services Bd	(245)
Veterans Homes Board	(124)
Council on Disability	(29)
MH/MR Ombudsman	(73)
Ombudsman for Families	(9)
Total Health & Human Services	**(23,500)**

FY 2003 Reductions Under M.S. 16A.152, Subdivision 4
General Fund (Continued)

($ in thousands)

Agency Item	REVISED FY 2003
Environment & Agriculture	
Pollution Control Agency	(2,101)
Office of Environmental Assistance	(1,856)
Zoological Garden	(270)
Natural Resources, Dept of	(4,321)
Water & Soil Resources Bd	(7,445)
Agriculture, Dept of	(21,799)
Animal Health Board	(103)
Agriculture Utilization Research Inst	(887)
Total Environment & Agriculture	**(38,782)**
Economic Development	
Trade & Economic Development	(9,351)
Minnesota Technology, Inc.	(1,071)
Economic Security, Dept of	(1,626)
Housing Finance	(2,205)
Commerce, Dept of	(1,053)
Accountancy, Bd of	(24)
Architectural/Eng, Bd of	(29)
Barbers Exam, Bd of	(6)
Labor & Industry	(118)
Mediation Services	(347)
Historical Society	(1,066)
Council on Black MN	(13)
Council For Chicano Latino	(13)
Council Asian-Pacific MN	(11)
Council on Indian Affairs	(23)
Humanities Commission	(240)
State Arts Board	(384)
Total Economic Development	**(17,580)**
Transportation	
Transportation, Dept of	(20,200)
Metropolitan Transit Council	(2,615)
Total Transportation	**(22,815)**

FY 2003 Reductions Under M.S. 16A.152, Subdivision 4
General Fund (Continued)

($ in thousands)

Agency Item	REVISED FY 2003
Criminal Justice	
Private Detective Board	(6)
Public Safety, Dept of	(8,160)
Board of Public Defense	(1,537)
Human Rights, Dept of	(146)
Corrections, Dept of	(2,804)
Ombudsman for Corrections	(7)
Sentencing Guidelines Commission	(20)
Uniform Laws Commission	(2)
Total Criminal Justice	**(12,682)**
State Government	
Governor/Lt Gov Office	(162)
State Auditor Office	(390)
Attorney General Office	(1,038)
Secretary of State	(291)
Campaign Finance Board	(25)
Investment Board	(90)
Office of Strategic Planning	(338)
Administration, Dept of	(1,828)
Capitol Area Arch Pl Bd	(23)
Finance, Dept of	(694)
Employee Relations, Dept of	(305)
Revenue, Dept of	(1,810)
Amateur Sports Commission	(25)
Military Affairs, Dept of	(301)
Veterans Affairs, Dept of	(192)
Gambling Control Board	(89)
Minn Racing Commission	(16)
Total State Government	**(7,617)**
Property Tax Aids & Credits	
TIF Grants	(1,596)
Total Property Tax Aids & Credits	**(1,596)**
Voluntary Cancellations	
Legislature	(2,561)
Supreme Court	(1,733)
Court of Appeals	(50)
District Courts	(3,844)
Total Voluntary Cancellations	**(8,188)**