MINNESOTA DEPARTMENT OF FINANCE

February 2008

HIGHLIGHTS

$935 Million Deficit Forecast for 2008-09 Biennium

A forecast for further weakening of the U.S. economy has increased the expected state budget deficit. State general fund revenues for the 2008-09 biennium are now forecast to total $32.542 billion, $530 million less than projected in November and $1.270 billion less than end-of-session estimates. Expenditures are now expected to exceed November's projections by $64 million and end-of-session estimates by $130 million. When combined with a $33 million reduction in dedicated reserves, this leaves a projected $935 million deficit for the current biennium, $562 million more than forecast in November. The deficit is 2.7 percent of total general fund spending.

Recession Expected for U.S. Economy in First Half of 2008

Global Insight's February baseline scenario includes two quarters of declining real GDP. The forecast decline in real GDP is small, averaging just 0.2 percent on an annual basis for the first half of 2008. But, this short, mild recession eliminates about one year of economic growth and one year of state revenue growth. The federal stimulus package helps limit the recession's length, but the rebates come too late to prevent U.S. output from declining in the first half of 2008.

Individual and Corporate Income Tax Revenues Show Largest Declines

Individual income tax receipts in the 2008-09 biennium fall by $313 million (2.0 percent) from November's estimate. A reduction in non-wage income, primarily capital gains income, accounts for more than 75 percent of that decline in revenues. Corporate tax receipts were reduced by $139 million (7.3 percent) from November's estimate and are now $456 million (21 percent) below end-of-session estimates.

Projected Shortfall for 2010-11 Biennium Has Grown

Budget planning estimates for FY 2010-11 now show a shortfall of $1.086 billion. In November the projected shortfall was $211 million. Projected spending for FY 2010-11 does not include general inflation. Adjusting for inflation adds an additional $1.040 billion to spending estimates for the next biennium.

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February Forecast

BUDGET UPDATE AND OUTLOOK

Projected Budget Deficit Grows to $935 Million

The outlook for the U.S. economy has been downgraded since November and forecasts for 2008 have been cut back. Global Insight's February's baseline scenario includes both a projected recession during the first half of 2008 and the recently approved federal stimulus package. The projected short and mild economic slowdown will affect Minnesota. State revenues are now expected to fall short of November's estimates by $530 million or 1.6 percent. General fund expenditures are expected to increase by $64 million, with $33 million of that increase funded from the targeted case management reserve.

FY 2008-09 Forecast

($ in millions)

	November Forecast	February Forecast	$ Change
Beginning Balance	**$2,245**	**$2,245**	–
Revenues	33,072	32,542	(530)
Expenditures	34,654	34,718	64
Reserves	1,036	1,003	(33)
Balance	**$(373)**	**$(935)**	**$(562)**

The combined revenue, expenditure, and reserve changes leave a projected state deficit of $935 million for the 2008-09 biennium, $562 million more than forecast in November. Compared to end-of-session estimates, general fund revenues have fallen by $1.270 billion (3.8 percent), while expenditures have grown by $130 million (0.4 percent).

FY 2008-09 Forecast Compared to End-of-Session

($ in millions)

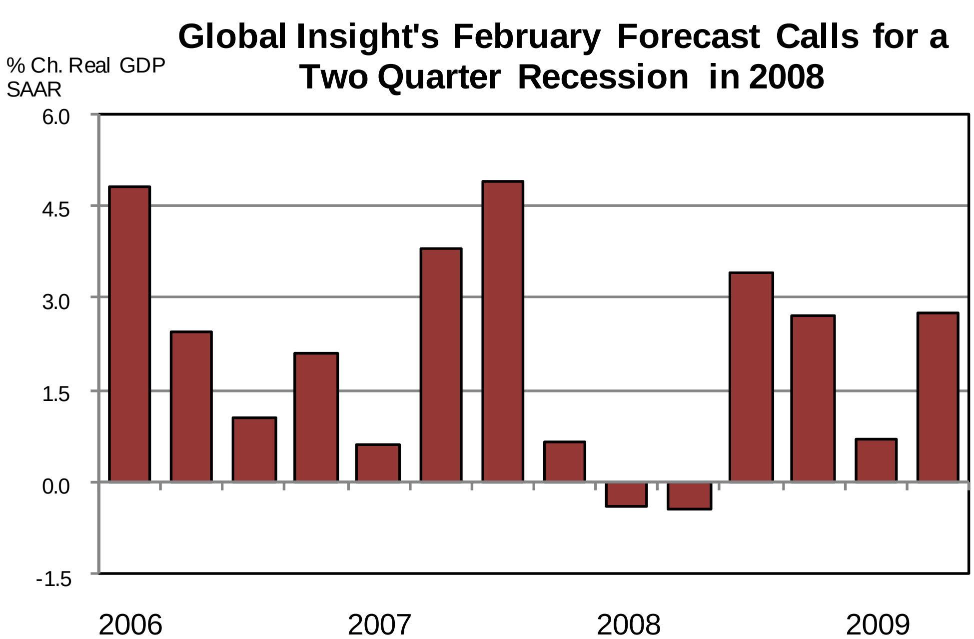
	End-of-Session	February Forecast	Total Change	
Beginning Balance	**$2,106**	**$2,245**	**$139**	
Revenues	33,812	32,542	(1,270)	(3.8%)
Expenditures	34,588	34,718	130	0.4%
Reserves	1,036	1,003	(33)	
Balance	**$294**	**$(935)**	**$(1,228)**	

A Short, Mild Recession Is Expected in 2008

Last fall most economists expected slow economic growth, but no recession, during 2008. Everyone agreed that the risk of recession had increased, but most believed central bankers' efforts to restore liquidity to the global financial system would be successful and that the availability of credit would not be an ongoing problem. The economic weakness caused by the housing slump and higher energy prices was seen as a serious, but manageable problem, as long as credit flowed normally.

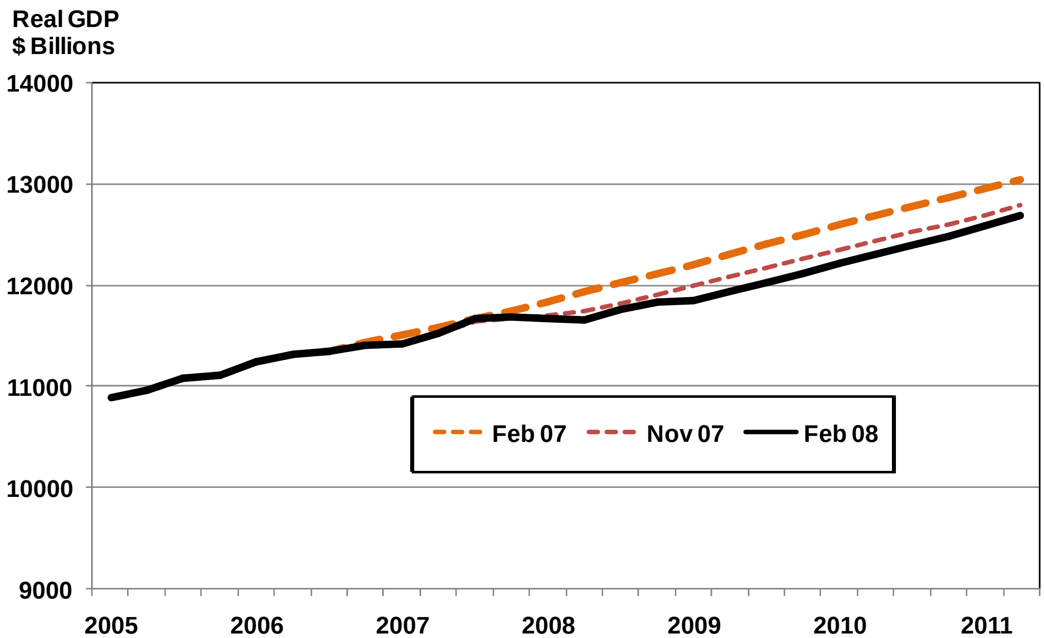
Since the beginning of 2008 though, the bad economic news has outweighed the good. January payroll employment declined by 17,000 jobs, December retail sales were weaker than expected, consumer confidence plunged, and the ISM non-manufacturing index plummeted. Any one of these items could be dismissed as a one-month anomaly. But when taken together, and coupled with signs that global financial markets still were struggling to deal with the fallout from mispriced sub-prime mortgages and other credit instruments, there was a clear sign that the economy was weaker than previously suspected. During January most forecasts for 2008 were reduced. And, since most of those original forecasts had previously called for only very slight growth, the markdowns produced declines in real GDP for the first half of 2008.

Global Insight Inc. (GII) is among those whose February baseline forecasts contains a recession in 2008. They now expect real GDP to decline at a 0.4 percent annual rate in the first quarter of 2008 and by 0.5 percent in the second quarter. The economy, buoyed by the stimulus package, then bounces back strongly, growing at a 3.4 percent annual rate in the third quarter, and at a 2.7 percent rate in the fourth quarter. In early 2009, though economic growth again slows considerably as the stimulus provided by the rebates fades.



February's GII baseline puts the U.S. economy on a path where real GDP is more than 2 percent below the levels projected in February 2007. Future economic growth rates in the current forecast never exceed the long term trend growth rate assumed a year ago. The gap between the level of real output currently projected and that forecast last February does not narrow appreciably through calendar 2011.

The Recession Eliminates about One Year of U.S. Economic Growth



The outlook for real GDP growth in both calendar 2008 and 2009 has been cut back. In November GII expected growth of 1.9 percent in 2008 and 2.9 percent in 2009. The February baseline calls for growth rates of 1.4 percent and 2.2 percent. In February 2007, growth rates of 3.0 percent and 3.2 percent were forecast.

GII believes inflation will remain under control, leaving the Fed free to concentrate on restoring economic growth. While CPI growth of 2.5 percent is now projected for 2008 a decline in oil prices allows inflation to slow to 1.6 percent in 2009. GII expects oil prices to fall below $80 per barrel in the second quarter and remain at that level beyond 2011. Global Insight assigns a probability of 50 percent to their February baseline forecast. A "double dip" recession is assigned a probability of 25 percent as is a scenario in which the economy barely avoids a recession.

FY 2008-09 Revenue Forecast Now $1.27 Billion Below End-of-Session Estimates

General fund revenues for the 2008-09 biennium are now forecast to total $32.542 billion, $530 million less than projected in November and $1.270 billion less than end-of-session estimates. While forecast receipts from each major tax – other than the statewide levy – fell between November and February, forecast declines in the income tax and the corporate income tax explain almost all of the additional decline in revenues.

Projected individual income tax receipts fell by $313 million from November's estimates. The decline in the personal income tax is due to slower growth in wages and declines in non-wage income. The forecast includes a small decrease in capital gains realizations in 2008. Declines in portfolio income, which includes interest and dividends as well as capital gains, explain about 75 percent of the decline in projected individual income tax receipts since the November forecast.

Forecast Revenue FY 2008-09, Change from November

($ in millions)

	February Forecast	$ Change from Nov	% Change
Individual Income	$15,345	$(313)	(2.0)
Sales	9,145	(13)	(0.1)
Corporate	1,760	(139)	(7.3)
Motor Vehicle Sales	293	(20)	(6.4)
Statewide Levy	1,442	4	0.3
Other	4,556	(49)	(1.1)
Total Revenues	**$32,542**	**$(530)**	**(1.6)**

Forecast receipts from all sources are now forecast to be $1.270 billion (3.8 percent) below end-of-session estimates. Projected corporate receipts fell by the largest dollar amount and the largest percentage, down $456 million or 20.6 percent from end-of-session estimates. Receipts from the individual income tax and the sales tax are now projected to be $282 million (1.8 percent) and $322 million (3.4 percent) less than forecast at the time the budget was passed.

Forecast Revenue FY 2008-09, Change from End-of-Session

($ in millions)

	End-of-Session	February Forecast	Change from End-of-Session	% Change
Individual Income	$15,628	$15,345	$(282)	(1.8)
Sales	9,467	9,145	(322)	(3.4)
Corporate	2,216	1,760	(456)	(20.6)
Motor Vehicle Sales	317	293	(23)	(7.4)
Statewide Levy	1,402	1,442	40	2.9
Other	4,782	4,556	(226)	(4.7)
Total Revenues	**$33,812**	**$32,542**	**$(1,270)**	**(3.8)**

The large decline in corporate receipts since last February's forecast comes from three sources. First, corporate estimated tax payments through November were substantially below levels forecast in February 2007 reducing the base level for future growth. Second, as is typical in economic downturns, the outlook for corporate profits, particularly in the financial sector, has declined. Finally, corporate tax refund payments for tax year 2006 have been well above previously expected levels, further reducing net receipts to the state from this tax. The forecast for net corporate tax receipts for the 2008-09 biennium is now less than 80 percent of the amount received in the 2006-07 biennium.

Forecast Spending $64 Million Higher; Reserves Lower by $33 Million

General fund spending for the biennium is forecast to be $34.718 billion, up $64 million (0.2 percent), from November's estimate. Modest increases in K-12 education and health and human services account for this change, with slight reductions in debt service, property tax aids and credits, and dedicated spending partially offsetting those increases.

Much of the change in K-12 education is a revision to pupil estimates. Almost half of the health and human services increase is money previously held as a reserve.

Forecast Spending, FY 2008-09

($ in millions)

	November Forecast	February Forecast	$ Change	% Change
K-12 Education	$13,788	$13,805	$17	0.1
Property Tax Aids & Credits	3,154	3,152	(3)	(0.1)
Health & Human Services	9,630	9,703	74	0.8
Debt Service	876	869	(7)	(0.9)
All Other	7,207	7,190	(17)	0.0
Total Spending	**$34,655**	**$34,718**	**$64**	**0.2**
Reserves				
Budget Reserve	$653	$653	$0	
Cash Flow Account	350	350	0	
Targeted Case Management Reserve	33	0	(33)	
Total Reserves	**$1,036**	**$1,003**	**$(33)**	

The reduction in budget reserves is due to use of the targeted case management reserve account. This account had held $33 million for counties for medical assistance case management services in anticipation of federal funding reductions. After the November forecast, federal rules were issued that triggered statutory provisions directing this money to be spent. As a result, reserves are $33 million lower compared to November, and $33 million of the health and human services increase is attributable to this change.

FY 2010-11 Planning Estimates Show Bigger Shortfall

The longer-term outlook for the state's budget has changed significantly. When the FY 2008-09 budget was enacted, the planning estimates showed a structural balance of $1.137 billion. They now show a structural shortfall of $1.086 billion.

Change in FY 2010-11 Planning Estimates

($ in millions)

	End-of-Session	Nov Change	Feb Change	Feb Forecast
Projected Revenues	$36,843	$(1,130)	$(669)	$35,044
Projected Spending	35,707	218	206	36,130
Difference	**$1,137**	**$(1,348)**	**$(875)**	**$(1,086)**

Projected revenue planning estimates for FY 2010-11 are now $669 million below November estimates, and $1.799 billion below end-of-session estimates. Projected expenditures are $206 million higher than in November and $424 million more than at the end of the special legislative session.

FY 2010-11 Revenue-Expenditure Balance

($ in millions)

	FY 2010	FY 2011	FY 2010-11
Projected Revenues	$16,998	$18,046	$35,044
Projected Spending	17,848	18,282	36,130
Difference	**(850)**	**(236)**	**(1,086)**
Estimated Inflation (CPI)	339	701	1,040

As specified in current law, expenditure projections for the next biennium do not include any adjustment for inflation. Estimated inflation at 1.9 percent per year would add $339 million and $701 million for FY 2010 and FY 2011 respectively, a total of $1.040 billion.

Projected spending and revenue in FY 2010-11 will be affected by actions taken to balance the budget in the current biennium.

After the forecast was completed, the Legislature overrode the Governor's veto of the omnibus transportation finance bill. Due to timing issues, the general fund impacts of this law change are *not* included in this forecast. This legislation contains $2.8 million of additional spending in FY 2008-09, and reduces general fund revenues by an estimated $77 million in FY 2010-11.

A complete version of this 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

February's forecast is the second of four forecasts that will occur during the biennium. It provides revised revenue and expenditure estimates for the current biennium based on the most recent information about the national and state economic outlook, and caseload, enrollment and cost projections. That updated revenue and expenditure information is also used to revise the revenue and expenditure planning estimates for the 2010-11 biennium.

The revised revenue estimates reflect changes in the national economic outlook that have occurred since November. This forecast also incorporates additional revenue collection experience into the projections. For example, state sales tax collections now include receipts from the crucial Christmas shopping season. And, fourth quarter estimated tax payments as well as withholding receipts through January are available for further guidance about tax year 2007 liability.

Revenue estimates for the remainder of the current biennium are based on econometric forecasts of the U.S. and Minnesota economy. The revenue forecast is prepared based on a national economic forecast provided by Global Insight Inc., (GII). Minnesota's Council of Economic Advisors reviewed the GII national baseline forecast. The Council's comments are found in the "Economic Summary." The "Economic Outlook" which follows provides a more comprehensive overview of the current outlook for the U.S. and Minnesota economies.

Revenue planning estimates for FY 2010-11 come from less complete models. As in the past the economic growth assumptions used to develop the revenue planning estimates are updated to be consistent with the GII February baseline scenario for the years under consideration. The revenue planning estimates should not be interpreted as explicit forecasts, but rather as a guide to indicate whether proposed actions are likely to create financial problems outside the current biennium.

Expenditure estimates in most areas are shown at the level of the appropriations made by the 2007 legislature for FY 2008-09, plus any authorized spending carried forward from prior years. 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 costs.

While wage and price inflation is included in revenue estimates, it is not included in projected expenditures. The estimated inflation rate for FY 2010 and FY 2011 is now 1.9 percent per year.

As with all budget forecasts this report reflects only current law. It does not reflect the Governor's budget recommendations, any potential legislative action, or the passage of any pending constitutional amendment dedicating an increase in state general fund revenues to specific uses. The forecast provides a current law framework for those discussions.

ECONOMIC SUMMARY

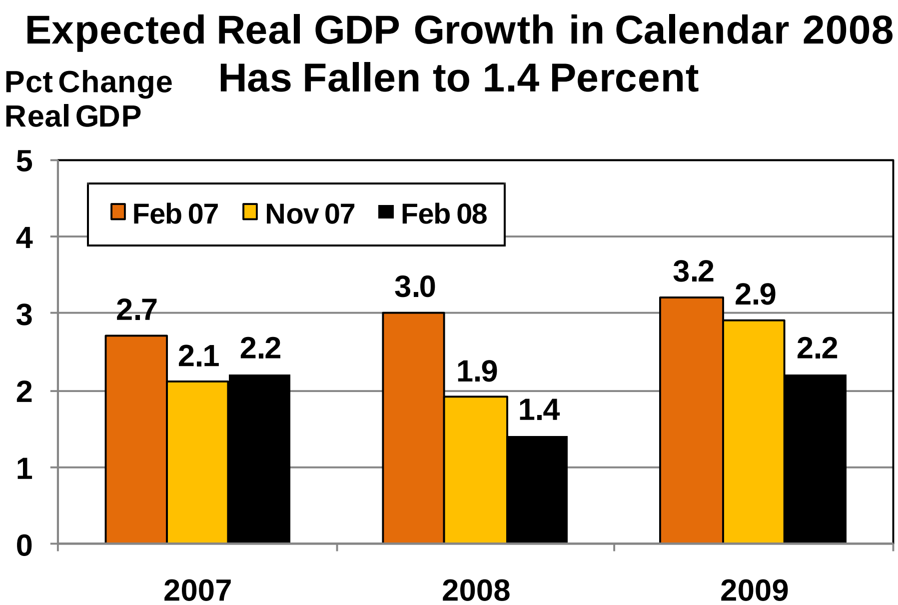
In November, most forecasters believed the economy had sufficient momentum to skirt a recession in early 2008. Real GDP growth was expected to slow significantly in late 2007, but that was only a minor concern since third quarter real GDP growth was generally thought too strong to be sustainable. Projections of real GDP growth for the fourth quarter generally ranged between 1 and 2 percent, and most forecasts anticipated similar growth rates for the first and second quarters of 2008. The Commerce Department's late January announcement that the U.S. economy had grown at just a 0.6 percent annual rate in the final three months of 2007 surprised almost everyone. One day later, when the January payroll employment report showed a loss of 17,000 jobs, it was clear that forecasts for 2008 would need to be lowered.

To be sure, there had been signs of impending weakness. The unemployment rate had jumped by 0.2 percentage points in December and by 0.5 percentage points since May. Job growth, particularly private sector job growth, had also been weak in the last two months of 2007. And, the December portion of the Christmas shopping season had been weak. Forecasters had reacted to those, and other early signs of weakness by lowering projected 2008 growth rates and significantly increasing their assessments of the likelihood of a recession, but few saw a high probability of a recession.

Following January's employment release many baseline forecasts were revised to include a recession in 2008. Then, when the Institute for Supply Management (ISM) Index for the service sector collapsed and the Federal Reserve's Senior Loan Officer Survey showed credit getting even tighter, even more forecasters became sufficiently pessimistic to call a recession. By early February it was apparent that whether or not the U.S. economy was in recession was only a matter of semantics. The real concern was how long it would be before the U.S. economy once again began to grow at a normal rate.

The Federal Reserve, the President, and the Congress all still publicly hold out hope that that a recession can be avoided, and they are taking action to stimulate the economy. Since mid January the Fed has cut interest rates by 125 basis points, while also providing additional liquidity into credit markets through its term auction facility. On the fiscal policy side the President and Congress reached agreement and enacted a short term fiscal stimulus package designed to encourage households and businesses to increase spending. Realistically neither monetary policy nor fiscal policy is likely to have any impact on U.S. economic growth until at least mid-summer. But, the consensus is that these policy actions provide a useful bit of insurance against a longer and deeper slump in the economy than is currently projected.

For Global Insight Inc. (GII), Minnesota's national economic consultant, the huge drop in the ISM Index was the final straw. Their February baseline forecast now contains a recession running through the first two quarters of 2008. The recession is quite mild, the economy shrinks at an annual rate of 0.4 percent in the first quarter and at a 0.5 percent annual rate in the second quarter. Economic activity then rebounds in the third and fourth quarters due to the increased spending expected from the stimulus package. But the artificially induced growth comes to a halt in the first quarter of 2009 when the real growth rate falls to 0.7 percent. In Global Insight's baseline the economy then resumes growing at the trend rate of roughly 3.0 percent by spring 2009 as the Fed's early 2008 rate cuts finally begin to have an impact. February's GII baseline forecast shows real GDP growth of 1.4 percent in 2008 and 2.2 percent in 2009. In November those growth rates were 1.9 percent and 2.9 percent respectively. While Global Insight continues to expect oil prices to fall below $80 per barrel in the second quarter, inflation remains a concern in 2008 at 2.5 percent. In 2009, however, CPI inflation falls to 1.6 percent. Global Insight assigns a probability of 50 percent to the baseline forecast. A more pessimistic scenario which contains a deeper recession followed by a brief recovery in the second half of 2008 and then a second decline in early 2009 was assigned a probability of 25 percent, as was a more optimistic scenario.



Members of Minnesota's Council of Economic Advisors agreed that Global Insight's February baseline forecast reflected the consensus short term outlook in early February, when that forecast was made. They also noted that forecasters do not have a good record in calling turning points in the economy. Some members believed it likely that the economy could still escape a recession, while others doubted that the recession would be as mild as GII projected. All agreed that the Global Insight forecast provided a reasonable starting point for the state revenue forecast.

Council members agreed that the probability the economy would underperform the forecast and the probability the economy would be stronger than forecast were balanced. But, several Council members and Finance Department economists believe the expected value of potential losses would exceed the expected value of potential gains. Finance Department economists pointed out that while the decline in economic output projected by GII in the 2008 recession would be less than occurred in the 2001 recession, that recession had one quarter of growth sandwiched between two quarters of economic decline.

The Council had a lengthy discussion of the likely efficacy of the federal stimulus package being debated in Congress. Most members felt that the household rebates would add modestly to consumption spending in the last half of 2008. Several Council members, noting that perceptions of the economy influence spending, indicated that action on a stimulus package would help ease fears about the economy's future path.

Council members and Finance Department economists agreed that credit markets were the most pressing short term concern for the economy. One Council member noted that fiscal policy tools, such as the proposed rebate are of little help in dealing with that problem. The status of the monoline insurance companies that have guaranteed substantial amounts of credits containing sub-prime mortgages remains a major uncertainty.

Department of Finance economists noted that January revenues had underperformed forecast. The weakness was broad based and affected individual income withholding, individual estimated payments, and sales tax receipts.

The Council again noted that projecting future expenditures without making allowance for inflation except where required under current law understates the severity of any financial problems the state may face in future biennia.

ECONOMIC OUTLOOK

The Christmas shopping season was the weakest since 2002. Since then most indicators have suggested the economy is cooling rapidly. In January, applications for unemployment benefits surged, payrolls declined 17,000 on a seasonally adjusted basis, same store retail sales reached their lowest level in nearly four decades, and some retail chains began to close stores. Economists were surprised again in late January when the Commerce Department announced that fourth quarter real GDP had grown at just a 0.6 percent annual rate. Despite the bad news, Global Insight (GII) held off from calling it a recession until the Institute of Supply Management (ISM) announced in early February that its service sector indicator fell to the lowest point in its 11 year history. The February baseline has the economy in a mild recession which will last at least until mid-year.

Since August a concerned Federal Reserve has been moving to overcome growing drag from the plunging housing market, tightening credit, and higher energy prices. Liquidity was pumped into the money markets in August and both the federal funds rate and the discount rate were cut in September. The economy continued to weaken, however, and its financial market malaise spread to other financial instruments. One example was auction rate bonds. Interest rates on these long term bonds reset as often as every week. Recently, these rates increased sharply, in some cases going from low single to double digits, as investors became convinced that the risk they were assuming was rising. That came in part because of financial difficulties faced by bond insurers. If the credit ratings of the major monoline insurers are downgraded, a forced re-pricing of a broad array of auction bonds and other financial instruments could occur.

If inflation accelerates during the next several months, it could force the Fed to shift its focus away from the recession. That would preclude additional monetary easing should the downturn deepen or show signs of lasting past mid-summer. In their February baseline, GII assumes the Fed stays focused on stimulating growth and lowers the federal funds rate another 100 basis points by spring.

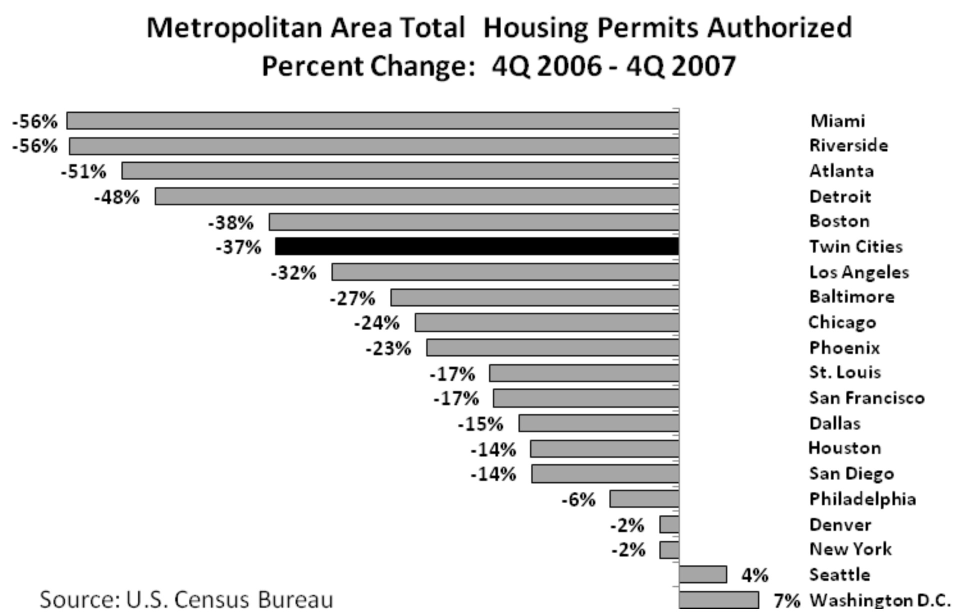
The recession could become worse if consumers retrench. Since Christmas, consumer spending has joined housing, the financial markets, and higher energy prices as a source of concern for the near term outlook. Though lower interest rates, improved banking liquidity, and the federal stimulus package should give consumers a boost next summer, job market conditions will have a big role in determining their spending in the meantime. Unfortunately, corporate earnings disappointed in the last half of 2007 and prospects for 2008 are likely worse. That could cause firms to scale back hiring at a tough time.

What is a Recession?

The organization responsible for formally identifying the existence and length of recessions is the National Bureau of Economic Research (NBER). Contrary to popular belief, the NBER uses a broad variety of monthly coincidental indicators to arrive at its conclusions regarding an economic downturn, such as employment, personal income, production, and retail sales. While the standard media definition of recession is often cited as two or more consecutive quarters of decline in real GDP, the actual dating process is determined more by judgment than with a single rule.

Housing Meltdown

News from the housing market has steadily worsened. What was a slump has turned into an almost unprecedented meltdown. For example, in late January the National Association of Realtors reported that existing home sales fell 13 percent in 2007. This represents the largest decline since recession year 1982. Moreover, the median price fell perhaps for the first time since the Great Depression. With few exceptions, prices for homes are declining across the country and new construction is drying up. GII now projects housing starts in 2008 will fall to their lowest level since the Census Bureau started keeping records in 1947.



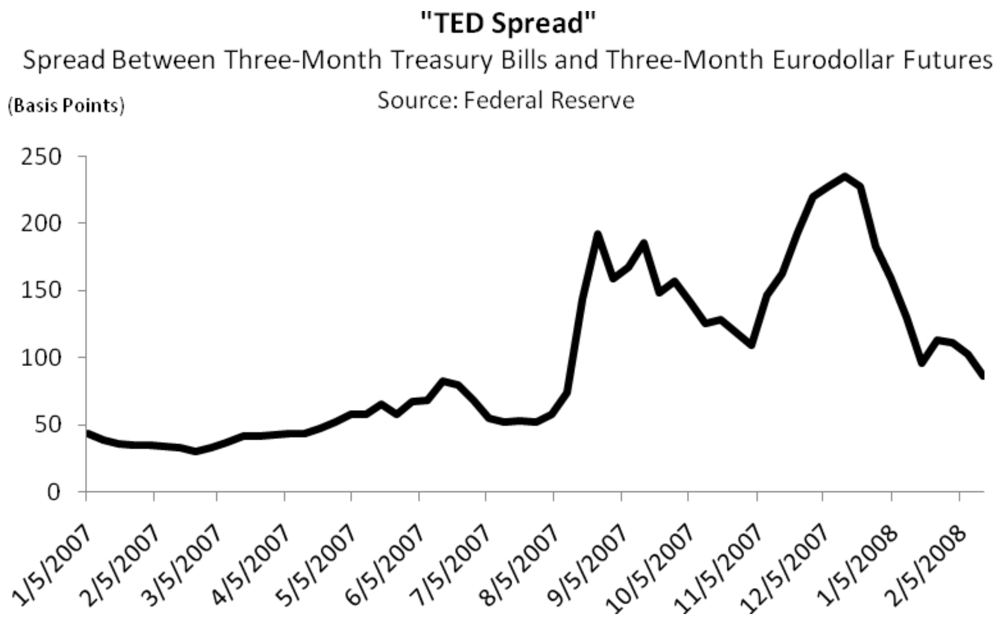
With few exceptions, new home construction is drying up across the country. Of the 20 largest metropolitan areas in the country, Minneapolis-St. Paul experienced the sixth largest decline in total authorized housing units between the fourth quarter of 2007 and the same period one year earlier.

Foreclosure rates are setting new records as adjustable rate subprime mortgages continue to reset. News reports indicate that an additional 1.8 million of these mortgages will reset in 2008 and 2009. Clearly the future has more mortgage-related problems in store. Finance Department economists believe there may be no end until bloated housing inventories return to normal and prices stabilize. GII assumes this will not occur until 2009. Not everyone is so optimistic. Recently a *Business Week* article gave plausibility to a nightmare scenario in which home prices decline an additional 25 percent from current depressed levels.

Prospects for an extended housing decline have policymakers considering federal intervention. At the urging of the Bush administration, a consortium of large banks serving 50 percent of the nation's mortgages has agreed to freeze some foreclosures for 30 days. This is intended to give lenders time to work things out with borrowers. The recently enacted stimulus package shifts some mortgage risk to the federal government by raising certain Federal Housing Administration (FHA) loan limits. Another proposal, not yet implemented, would let the FHA guarantee some mortgage refinancing by delinquent borrowers. Finally, a recent *Wall Street Journal* article indicates yet another proposal would make it easier for banks to write off unpaid balances on mortgages that exceed property values, a so-called "principal charge-off."

A More Aggressive and Creative Federal Reserve

The Fed began pumping liquidity into money markets last August. It also lowered interest rates sharply in September. Credit markets responded only tepidly and concerns over tightening credit joined the housing slump and higher energy prices as a major downside risk to the economy. In the minutes of its December 11 meeting some members of the Federal Open Market Committee (FOMC) noted the possibility of a downward spiral, where tightening credit slows economic growth, leading to more bad loans and still tighter credit.



The "Ted Spread", or the spread between three-month U.S. Treasury bills and three-month Eurodollar futures, has narrowed to around 80 basis points. While this is the smallest spread since early August, before it spiked to more than 200 basis points later that month, it still has not returned to normal levels. This is consistent with tighter credit conditions.

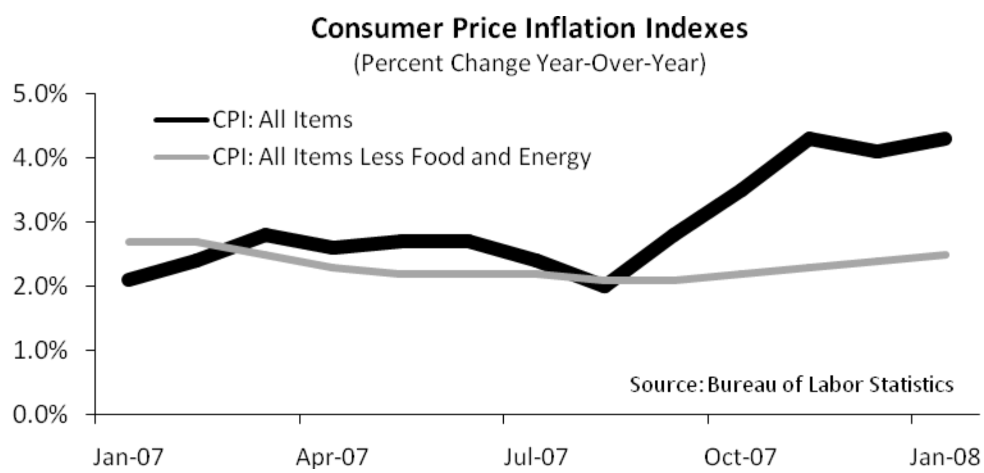
As credit markets struggled late last fall and early winter, monetary policy became much more aggressive. Some say it became creative. In December, for the first time ever, the Fed began auctioning loans to liquidity-starved banks as a way of overcoming reluctance to borrow at the discount window in times of financial market stress. These term auction facilities (TAFs) have been oversubscribed and a wide range of collateral has been accepted, including mortgage backed securities.

Bank liquidity has since improved and interest rates for interbank lending have moved closer to benchmark Treasuries. Credit conditions, however, have not yet eased for the general public. Analysts explain that liquidity provided by the TAFs does not address bank capital constraints which serve as a cap on lending. Many banks are close to their cap because of bad mortgage loans and leveraged buyout debt. Financial market turmoil has forced banks to take this bad debt onto their balance sheets and bank capital is expected to take a further writedown this year. GII estimates that with a mild recession the writedown could amount to 20 percent of bank capital or $200 billion net of capital infusions. News reports indicate a few successful efforts to raise more capital with some coming from foreign sources including the Middle East and Asia.

The monoline insurance companies' financial difficulties could contribute to further financial market stress, leading to still tighter credit. If their credit ratings are downgraded, this could trigger a re-pricing of virtually all risk. Ultimately credit conditions must ease if the economy is to resume normal growth in 2009 when the effects of federal fiscal stimulus wear off. If not, there is risk of the "double dip" recession. GII suggests this as their pessimistic scenario.

Is Inflation Emerging as a New Problem?

Last November, inflation seemed to be moderating. Disappointing news in the past few months, however, suggests this may no longer be the case. Recent Bureau of Labor Statistics (BLS) data for January indicates that headline CPI inflation rose to 4.3 percent over the past year. Food and energy price increases were the primary reason for the bump in the CPI. Over the same period the core inflation indicator rose to 2.5 percent, well above the Fed's 1 to 2 percent comfort zone. In the minutes of its January meeting held prior to the BLS release, FOMC members speculated that increases in the core mean that higher food and energy prices are being passed along into prices for other goods and services, an ominous development if true. GII assumes weak demand in a soft economy will stabilize inflation until energy prices recede.



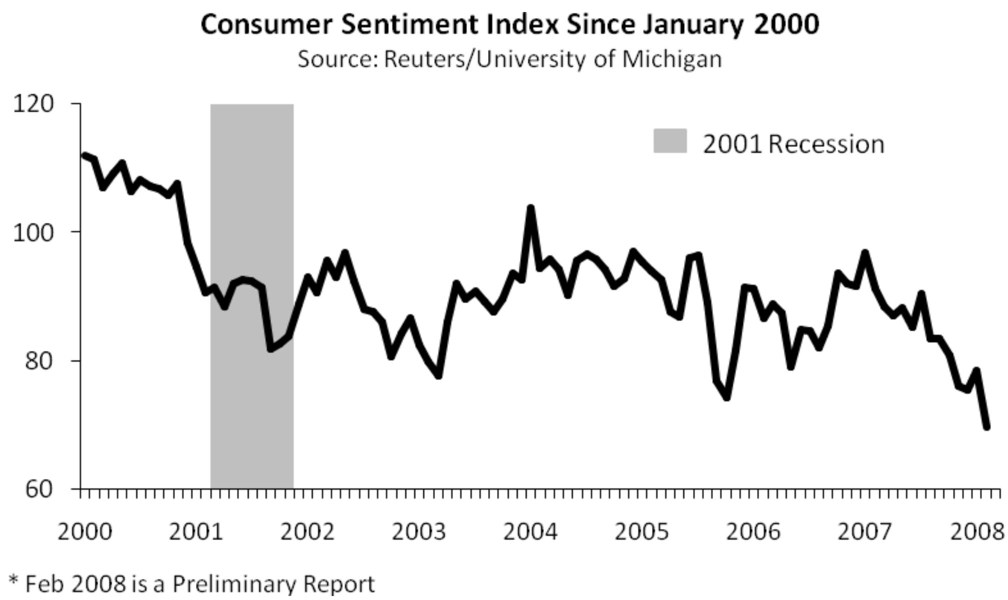
The recent increase in core inflation does not necessarily constitute a new trend, but could be a sign that high food and energy prices are being passed along into prices for other goods and services. If inflation accelerates over the next several months the Federal Reserve could be forced to shift its focus away from the recession.

Lower Energy Prices May Be Wishful Thinking

Oil prices broke the $100 per barrel level in January and closed above $100 in late February, inching closer to 1981's inflation adjusted $103 record. Since the Fed's interest rate cuts, TAFs, and the fiscal stimulus package will take time to have a meaningful impact, some analysts believe the economy's best chance of a near term boost is lower energy prices. Arguing that $100 oil is a speculative overshoot, GII assumes the price will fall to around $78 by early summer and to $73 at years' end. Not all analysts are so sanguine. Some cite growing demand for oil in the world's emerging economies. Others note that the dollar's falling value is putting upward pressure on oil.

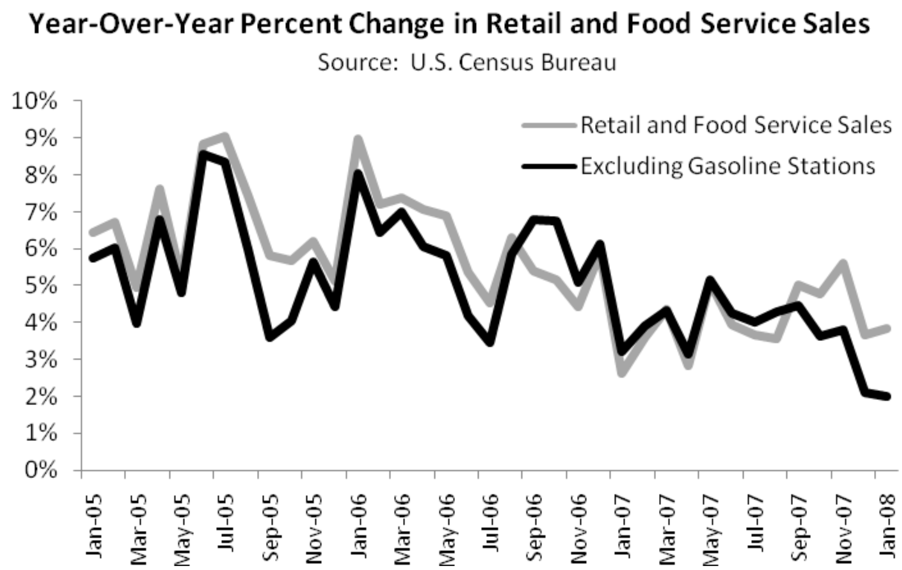
Consumption

GII expects growth in real consumer spending to drop close to zero in the current quarter. Some media reports even suggest consumers are retrenching which technically means negative growth. Finance Department economists believe that while retrenchment has not yet occurred, most indicators are flashing red. Sentiment has declined to recessionary levels and evidence is mounting that consumers are having difficulty sustaining current spending without cash from readily available mortgage refinancing and home equity loans. Late payments on heating bills, car loans, home improvements, and home equity loans are rising. Perhaps more ominously, the credit card industry reports slower cardholder spending and numbers of rising missed payments, especially in regions most affected by the housing slump. In early January, American Express announced that its relatively affluent cardholders were missing more payments and slowing their spending. Likewise, Minneapolis-based Target wrote off 6.8 percent of its charge receivables in December, a 20 percent increase from August.



Consumer sentiment has declined to recessionary levels in part due to a softening job market. It remains to be seen how much this will affect consumer outlays.

It remains to be seen how a softer job market will affect consumer spending. Payroll job growth has been decelerating since late fall. Preliminary data show a seasonally adjusted decline of 17,000 in January, the first decrease in more than 4 years. In addition, Bureau of Labor Statistics data suggest that rather than being laid off more workers are having their weekly hours cut below 35, the threshold for part time work. A *Wall Street Journal* article suggests that part time work can be a leading indicator of a rise in the unemployment rate. That would come on top of the sharp increase that occurred near the end of last year which surprised many analysts.



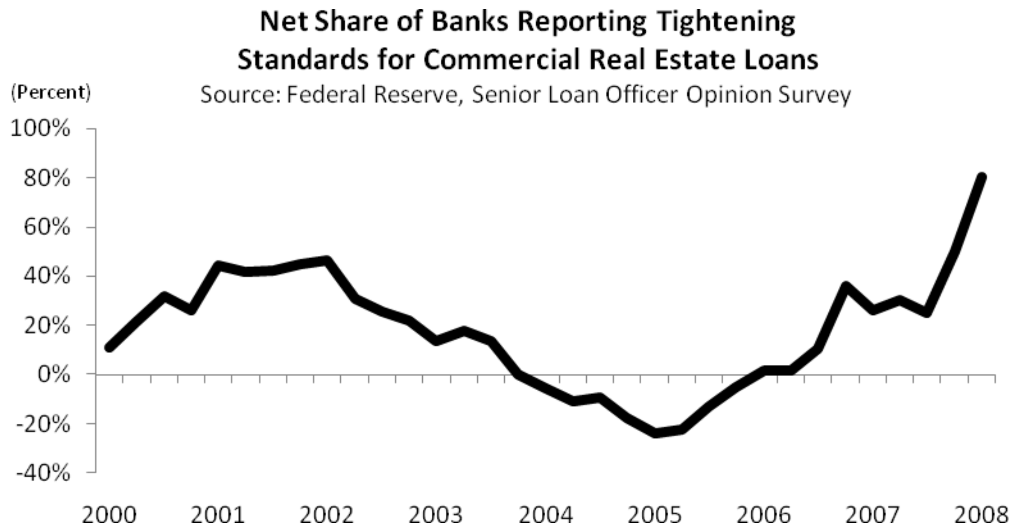
Some media reports have consumers retrenching which technically means negative spending growth. It seems that this has not happened yet. Evidence is mounting, however, that consumers are having difficulty sustaining current spending without cash from readily available home financing and home equity loans.

Investment

While business investment spending was strong during most of 2007, analysts generally expect a slowdown in 2008. Growth in real fixed nonresidential investment weakened some in the fourth quarter. GII expects negative growth in the first three quarters of 2008.

One reason for the decline is that investment in new nonresidential structures is expected to fall. In part that comes from tightening lending standards and rising interest rates on commercial real estate loans, a spillover from the subprime home mortgage mess. In addition, slowing job growth and layoffs by homebuilders, mortgage brokers, and real estate firms have pushed up office vacancy rates, reducing demand for new office buildings. If prices for existing commercial real estate decline 5 to 10 percent over the next year as some analysts anticipate, demand for new non-residential structures will be further reduced.

The federal fiscal stimulus package includes provisions intended to boost business spending for equipment and software in 2008. It seems unlikely, however, that firms will increase overall spending in a soft economy. GII assumes the principal effect of the stimulus package will be to pull spending into the last half of 2008 from 2009, adding to potential weakness early next year.



Real investment in new nonresidential structures is expected to decline. In part that comes from tightening lending standards and rising interest rates on commercial real estate loans, a spillover from the subprime home mortgage mess.

Government

The softening economy has created strong political momentum for a federal fiscal stimulus to boost consumer spending and business investment. Congress and the President speedily agreed on a bill earlier this month. The $168 billion stimulus package consists primarily of tax rebates to individuals and tax cuts for business. Consumers will receive checks for some $115 billion beginning in May, businesses will receive tax cuts of about $51 billion, and $2 billion will fund an expanded FHA program.

No one expects consumers to spend all their one-time money up front. Consistent with polls and studies of prior rebates, GII assumes about 40 percent will be spent by year's end and another 10 percent will be spent during the first half of 2009. The rest is assumed to be saved or used to pay off debt. The stimulus package is large enough to ensure that the current mild recession does not last past mid-summer, but the boost will be temporary and largely confined to the last half of 2008.

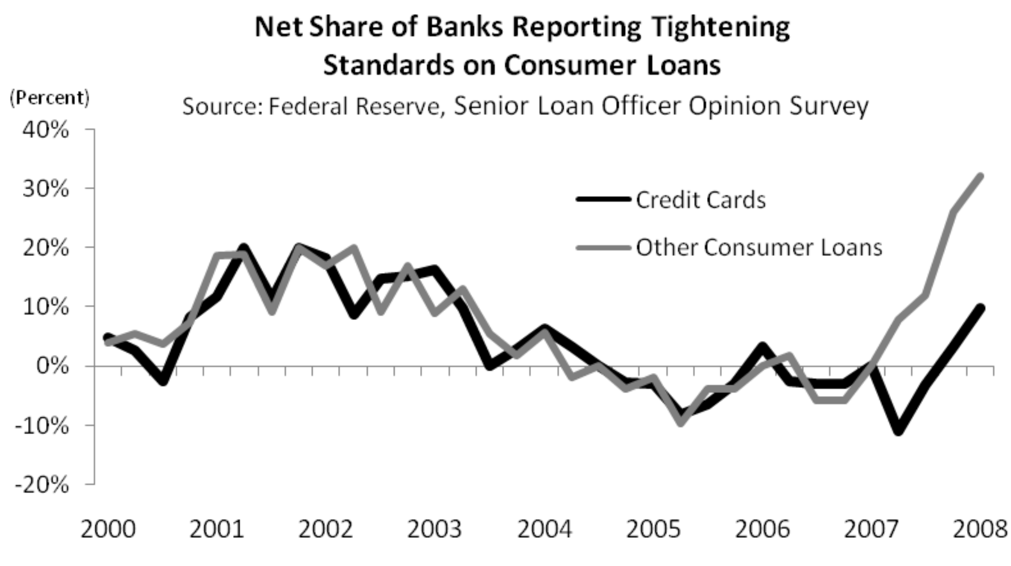
International

In the February baseline, an improving trade balance plays a critical role in moderating the length and depth of the recession. GII suggests that a few bad months in early 2008 would be enough to deepen the recession further. Finance Department economists believe this is possible. In view of political instability in the Middle East, Africa, and Latin America, imported oil prices could be higher than expected, worsening the trade deficit. In the minutes of its January meeting, the FOMC notes that recent increases in imports simply reflect the rising price of imported oil.

The deficit could also deteriorate if exports do not grow as assumed. This is also plausible. Many overseas banks have significant losses on securities backed by American subprime mortgages. As in the U.S., financial market difficulties have led to tighter credit and slower growth in other countries, particularly Europe. This has softened demand for U.S.-made goods. It remains to be seen whether there will be a significant adverse impact on exports to major trading partners despite a lower valued dollar.

Monetary Policy

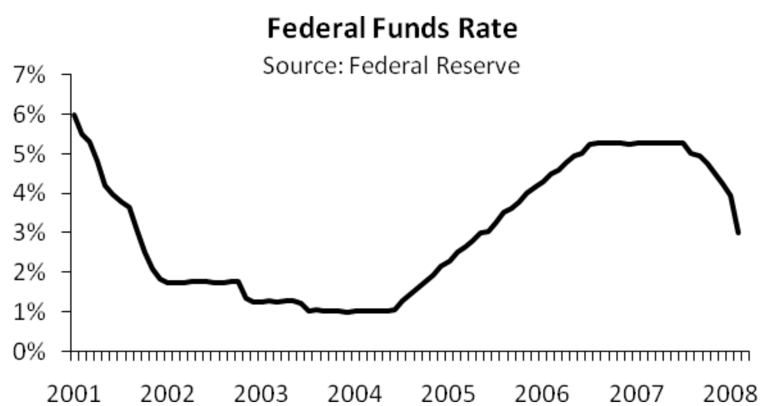
During the past few months, the Federal Reserve's actions and public statements have reflected increasing concern regarding unstable financial markets, tightening credit conditions, and a softening economy. In a departure from past practice, Fed Chairman Bernanke has addressed the downside risks to economic growth in public statements. In doing so, he eschewed the circumlocutions of his predecessor in favor of what some observers take to be refreshing candor. In particular, there has been more commentary about the Fed's view of the economic outlook. The *Wall Street Journal* reported that Dr. Bernanke asserted the Fed will act in a "decisive," "timely," and "substantive" manner to keep the economy growing. He seems to be trying to keep his promise.



Federal Reserve actions and public statements have reflected increasing concern over tightening credit conditions. The Fed has been very aggressive, even creative. Lending standards, however, have not yet eased for the general public. In an attempt to ease credit, the Fed began auctioning loans to liquidity starved banks for the first time ever in December.

Late last summer and early fall, credit conditions eased a bit after massive infusions of liquidity only to tighten again later. The response was TAFs. The Fed has asserted that these will be held every two weeks for an indefinite period. Furthermore, the federal funds rate and the discount rate have been lowered repeatedly. On Martin Luther King Jr. day, for example, the Fed moved quickly to keep the stock market from plunging in response to a sharp decline in overseas stock markets. That became the trigger for the Fed's intermeeting 75 basis point reduction in the federal funds rate the following morning. It was the first intermeeting action since the move following the September 2001 terrorist attack, and the single largest rate cut since 1982. Another 50 basis point reduction came January 30 at the FOMC's regular meeting.

Finance Department economists do not believe Dr. Bernanke is promising to end the recession. The economy continues to weaken despite the Fed’s aggressive action beginning last August. History shows that monetary policy affects economic output only with substantial lags. While it may take up to 18 months for monetary easing to have a significant impact, this recession is likely to be shorter and shallower than it would be without the Fed's action. The substantive impact will be to give the recovery a boost in early 2009 as the effects of fiscal stimulus wear off. By then, assuming GII's February baseline materializes, the recession will have been over for 6 months.



The Federal Reserve has cut the federal funds rate and discount rate repeatedly. While it may take up to 18 months for monetary easing to reach its full impact, this recession is likely to be shorter and shallower than it would be without the Fed's action.

Inflation

The recent increase in core inflation does not necessarily constitute a new trend, but it is an ominous sign because of the apparent source. Normally increases in the core can be attributed to rising wages in a tight labor market, declining productivity, or both. This time, however, the usual suspects do not appear to be involved. The labor market is weakening with rising unemployment. Productivity, though not as strong as earlier in the decade, improved in 2007 compared to 2006, and is expected to stay close to its long term trend. Instead, recent consumer price data suggests higher food and energy prices are being passed along into prices for other goods and services. If so, then future food or energy price shocks could get built into expectations, a necessary condition for accelerating core inflation. In the minutes of its January meeting, the FOMC notes a modest increase in inflation expectations.

GII assumes $100 oil is a speculative overshoot that will be corrected in 2008. Because of growing worldwide demand, however, not everyone is so sure. A recent *Wall Street Journal* article suggests that declining oil consumption among countries with advanced economies is more than offset by increasing demand in emerging-market economies like China, India, and the Middle East. While prices may decline temporarily because of reduced demand during a recession, the *Wall Street Journal* suggests the bottom line may be that higher energy prices and their inflationary potential are here to stay.

MINNESOTA OUTLOOK

Economic indicators suggest that Minnesota's economy is descending into recession along with its national counterpart. A weakening labor market, a deepening housing slump, and accelerating foreclosure rates reveal that the state's economy is performing below its long term trend. Just how this imbalance is remedied depends on the depth of the national recession, the speed at which a swollen inventory of unsold homes can be worked off, and the time it takes Minnesota's consumers and businesses to regain confidence.

Forecasts for state employment and wages have been revised based on recent Minnesota-specific information and Global Insight's (GII) February baseline. The February baseline was used to drive the same Finance Department model of the Minnesota economy used in November. That model, however, has been adjusted to incorporate preliminary benchmark employment and wage data revisions provided by the Minnesota Department of Employment and Economic Development (DEED). The revised data concludes that Minnesota's labor market has been particularly sluggish over the past 12 to 18 months. While business cycles are not defined by employment fluctuations alone weak job creation suggests that the state's economy is indeed participating in the national recession.

Minnesota wages are projected to continue rising, but a prolonged decline in residential housing permits is indicative of further job losses in home construction and related manufacturing industries into at least mid-2008. The forecast calls for a slow job recovery in early 2009 following a third quarter 2008 low.

Minnesota's Job Recession Forecast in Perspective

While Minnesota GDP is certainly the most reliable measure of overall economic activity, it is released on an annual basis with a six month lag. This forces economists to use more timely indicators, such as monthly employment, sales tax collections, construction activity, and personal income when forecasting the state's economy. Minnesota's job recessions do not necessarily coincide with NBER-defined recessions.

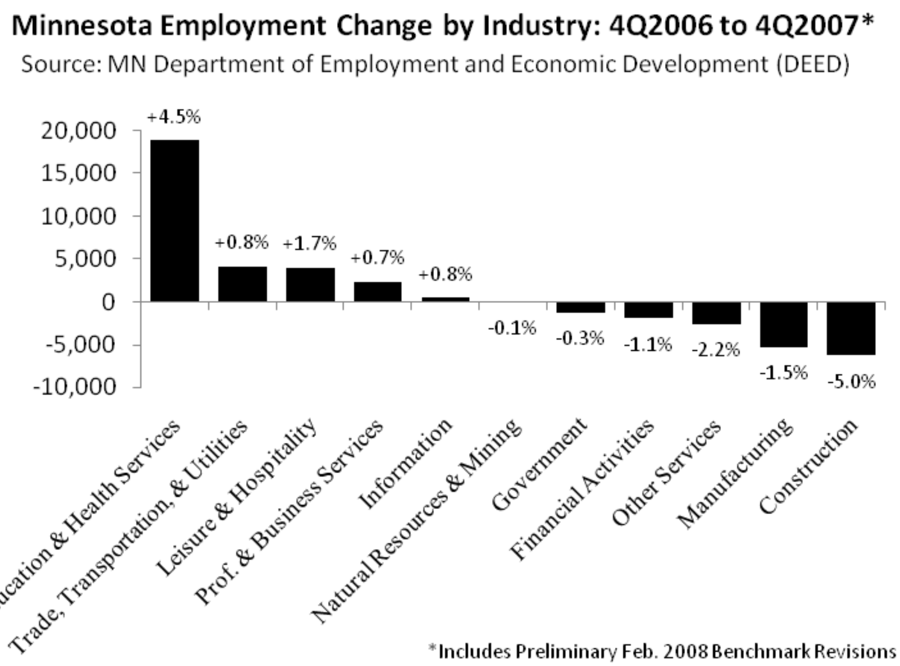
MN's Job Recessions	Net Jobs Lost	Percent
Aug. 1974 – Apr. 1975	- 36,000	- 2.4%
Dec. 1979 – Nov. 1982	- 102,000	- 5.7%
Nov. 1990 – Apr. 1991	- 10,000	- 0.5%
Mar. 2001 – Apr. 2002	- 51,000	- 1.9%
3Q 2007 – 3Q 2008	- 23,400*	- 0.8%

*Forecast Estimate

Notable signs of recession are now surfacing in Minnesota. Compared with previous recessions, this economic downturn's impact on employment will be milder than in 2001 and 2002, but more severe than in 1990 and 1991. Job losses will occur primarily in construction, housing-related manufacturing, and real estate. The remaining losses will be in retail trade and professional and business services.

Widespread Job Declines

The employment benchmark revision renews Finance Department economists' concern about Minnesota's narrow base of job creation. The revision shows that recent job declines continue to involve a wide range of industries. Year-over-year employment change through December remains negative in 6 of the 11 major industrial sectors leaving Minnesota employment more concentrated in the private education and health services industry, where employment is up 18,900 jobs in December from a year earlier. Healthcare alone is up 14,900 jobs.



Year-over-year employment change in the fourth quarter of 2007 was negative in 6 of the 11 major industrial sectors, including construction and manufacturing. During this period Minnesota's job growth has been heavily concentrated in the healthcare industry.

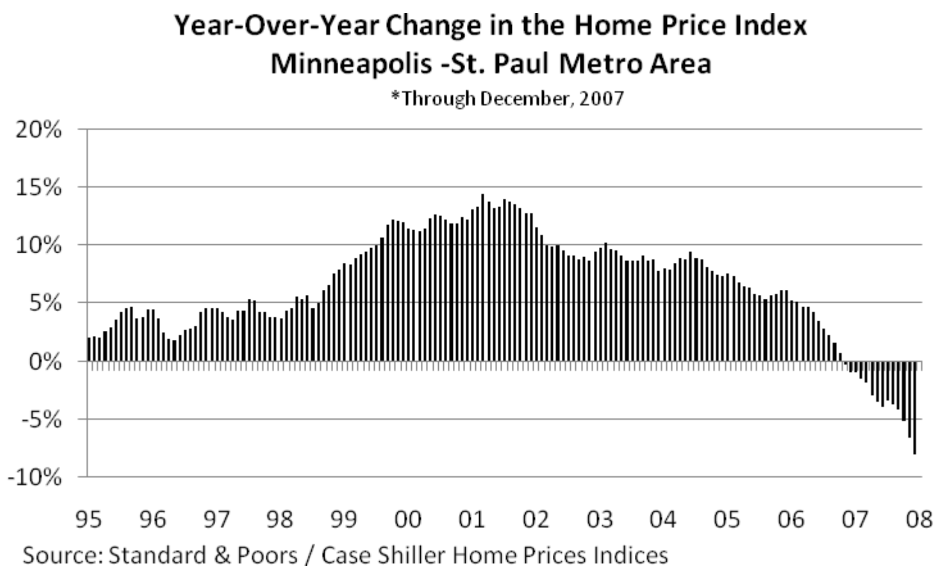
Spillover from falling home sales and an unprecedented slowdown in home building is triggering a contraction in Minnesota's construction industry, where employment is down 6,400 in December from a year earlier. This malaise is spreading into real estate, down 700 jobs, building material and supply stores, down 400 jobs, and credit intermediation, which includes mortgage loan brokers, down 2,300 jobs.

With substantial losses in housing-related production, manufacturing employment is down 5,400 jobs in December from the same month a year earlier. The nation's housing slump is especially disturbing in Minnesota because of the state's disproportionately large exposure to housing-related industries including plywood and engineered wood product, truss, window, cabinet, paint, door and other building materials manufacturing. Recent plant closings have put a heavy strain on a number of smaller, rural communities across Minnesota.

Recent unemployment trends are also a concern. Last spring Minnesota's unemployment rate exceeded the nation's rate for the first time on record, dating back to 1976. The state's rate returned to levels slightly below the U.S. in the last half of 2007.

Minnesota's Housing Market Continues to Weaken

While 2007 marked the beginning of a sharp housing market correction in Minnesota, the slowdown has now carried over into 2008 with no clear sign that the decline is moderating. In mid-February the Minneapolis Area Association of Realtors (MAAR) announced that the median sale price of single-family houses, condominiums and townhouses in the Twin Cities metro fell by 8.9 percent in January from a year earlier.



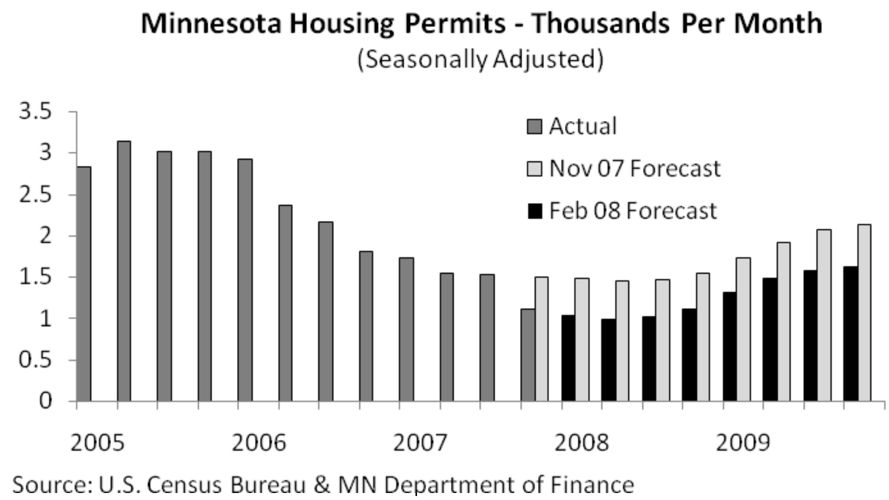
According to the S&P/Case-Shiller Home Price Index released at the end of February Minneapolis-St. Paul metro area home prices fell by 8.0 percent in December from a year earlier. The Minneapolis Area Association of Realtors announced that the median sale price fell by 8.9 percent in January from a year earlier.

Falling home prices make it difficult for existing homeowners to refinance or obtain a home equity loan, especially for those who have already borrowed heavily against the value of their home. With food, gasoline, and heating oil prices up sharply from this time last year, and with home equity credit growing more difficult to secure, this increases the level of delinquencies on everything from mortgage and car payments to credit card bills. State court data shows the number of default judgments on credit card payments and other bills rose 67 percent in 2007 from the year before.

According to a report released in late January by RealtyTrac, the number of Minnesota foreclosures more than doubled in the last three months of 2007 from one year earlier.
Increasing foreclosure rates coupled with tighter mortgage lending standards and falling home prices contribute to softening home sales. MAAR estimates that Minneapolis-St. Paul metro area unit home sales are down 21.3 percent in January from a year prior. They

also conclude that the inventory of homes for sale in the metro is currently at record high levels, up more than 30 percent from this time two years ago.

Weakening home sales coupled with a market saturated with vacant homes has forced home builders to put the brakes on new housing construction projects. Even though the number of previously owned homes for sale in the metro is up 20.6 percent over last year, newly constructed inventories are down 22 percent. Residential home builders have resorted to bringing down inventories through mass auctions of unsold homes. The cutback in new housing construction is forecast to continue well into 2008. According to the Federal Reserve Bank of Minneapolis, a recent survey noted that more than half of Minnesota commercial contractors anticipate a decrease in work over the next year.



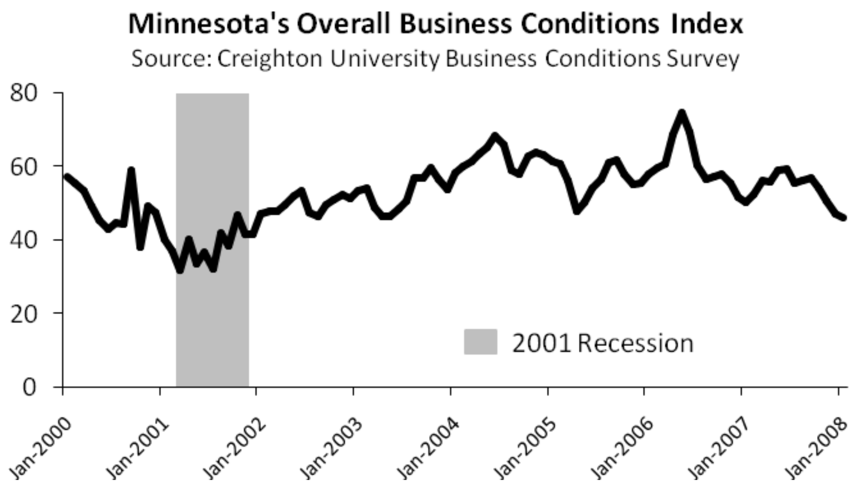
February's forecast for Minnesota housing permits has been revised downward from November. It assumes that housing permits will bottom out in the second and third quarter of 2008, and begin a sluggish recovery in early 2009. If the housing slump continues to deepen past late 2008, it is unlikely that Minnesota's economy will meet expectations.

Permits for new home construction continue to plunge at unprecedented rates. Housing units authorized by building permits in Minnesota declined 39.7 percent between the fourth quarter of 2007 and the same period one year earlier, and 63.9 percent from two years earlier. Preliminary estimates from the U.S. Bureau of the Census indicate that Minnesota's annual decline in authorized housing permits between 2006 and 2007 will be the largest decrease in over 20 years.

A similar drop has occurred in the Twin Cities metro area. Of the 20 largest metropolitan areas in the country, the Minneapolis-St. Paul metro experienced the sixth largest percentage decline in total authorized housing units and the eighth largest decline in single family housing units between the fourth quarter of 2007 and one year earlier.

Manufacturing Slump

According to a recent Creighton University survey of supply managers, overall Minnesota business conditions contracted for the fourth consecutive month in January to the lowest indexed level in over 6 years. An index for new orders in Minnesota has been in sharp decline since September, indices for production and inventories have been falling since August, and indices for employment and confidence flattened out in January following a steady decline since June. According to the survey's author, the results for Minnesota mirror those experienced shortly before the 2001 recession. The author blames the housing slump, higher commodity prices, and significant layoffs in durable goods manufacturing for Minnesota's contraction.



According to a recent Creighton University survey of supply managers, overall Minnesota business conditions contracted for the fourth consecutive month in January to the lowest indexed level since the end of the last recession in December 2001.

A national slowdown in sales of building materials and light trucks has severely affected Minnesota's manufacturing sector. Although the state's share of the nation's manufacturing employment has been growing in recent years, the level of jobs in this sector continues to sag. Minnesota's employment in manufacturing peaked during the spring of 1998 at almost 400 thousand jobs. Since then the industry has shed 15 percent of its workforce, or over 61 thousand jobs. October's seasonally adjusted manufacturing employment reading reached its lowest level in over 17 years. Finance Department economists, however, forecast some recovery in housing-related manufacturing once the national slump turns around.

A Revised Forecast

Total annual non-farm employment is now forecast to decline 0.5 percent in 2008. In November a decline of 0.3 percent was projected. This decline reflects GII's outlook for a mild national recession, a weaker than previously projected housing market, and deteriorating local business conditions. The February forecast for Minnesota's economy projects that seasonally adjusted employment will decline until the fourth quarter of this year. Modest growth is projected for the first half of 2009 before accelerating in the second half of the year. By the end of 2009, Minnesota employment is projected to exceed 2007's year-end level by 3,600 jobs or 0.1 percent. In 2010, Minnesota employment growth is forecast to match its U.S. counterpart.

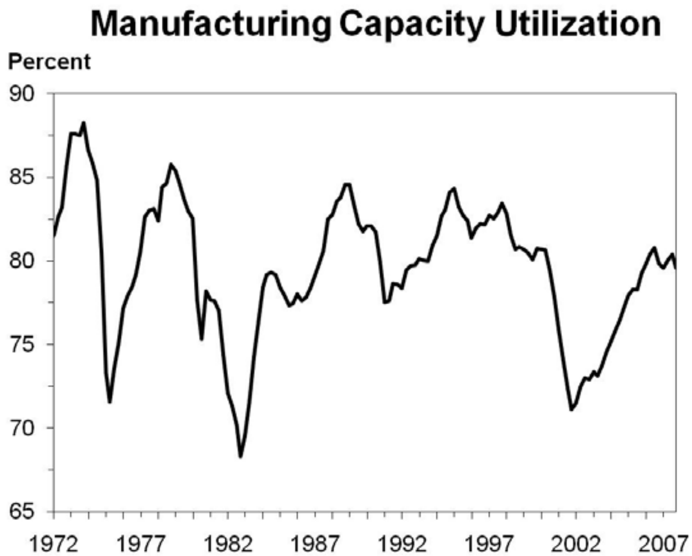
Minnesota Outlook Compared to the U.S.

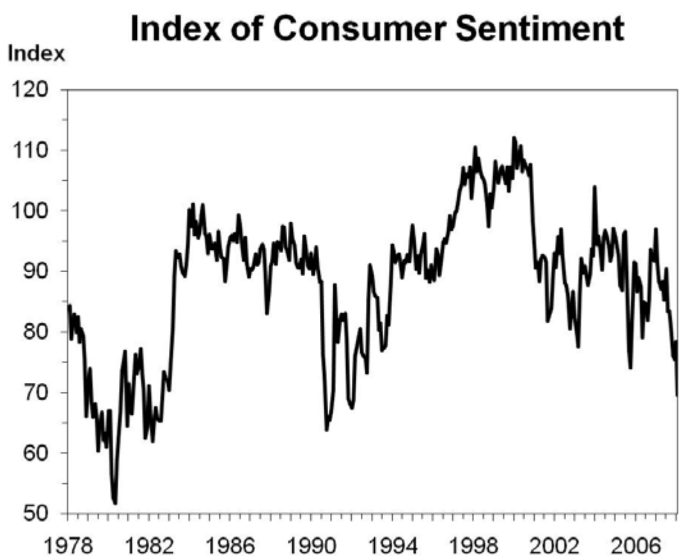
(Calendar Year Percent Change)

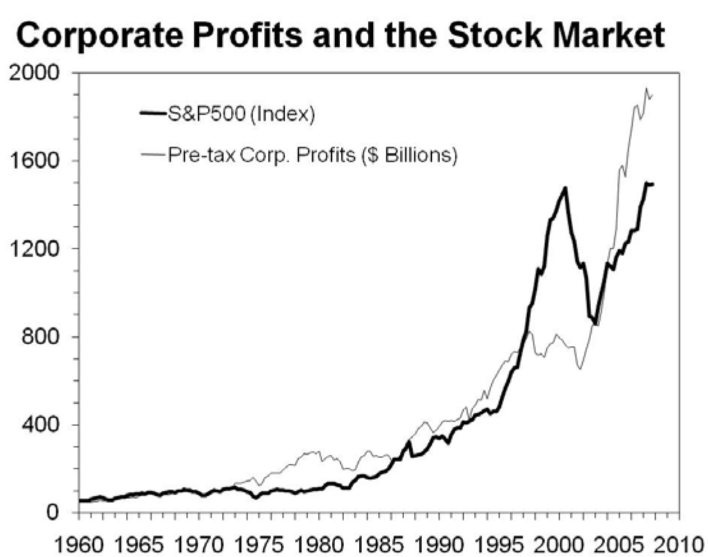
	2006	2007	2008	2009	2010
Non-Farm Employment					
Minnesota					
November 2007	1.4	0.5	- 0.3	0.8	1.3
February 2008	1.3	0.5	- 0.5	0.2	1.3
United States					
November 2007	1.9	1.3	0.8	1.2	1.3
February 2008	1.8	1.1	0.3	0.7	1.3
Wage and Salary Income					
Minnesota					
November 2007	5.2	5.5	2.7	3.8	4.0
February 2008	4.8	5.5	2.5	3.2	3.9
United States					
November 2007	6.2	6.4	4.5	4.7	5.0
February 2008	6.2	5.8	3.6	4.1	4.8

Housing is critical to the Minnesota outlook. Construction is expected to lose approximately 13,500 jobs in 2008. This forecast assumes housing permits bottom out in the second and third quarter of 2008. In 2007 it appears that job losses in construction lagged the decline in building permits up to 3 months, thus a "catch up" period is anticipated in the forecast. If the housing slump continues to deepen, however, it is unlikely that Minnesota's economy will perform as expected. The forecast also assumes that the GII baseline forecast materializes. Any unanticipated adverse developments in the U.S. economy will have unfavorable effects on Minnesota.

SELECTED NATIONAL ECONOMIC INDICATORS

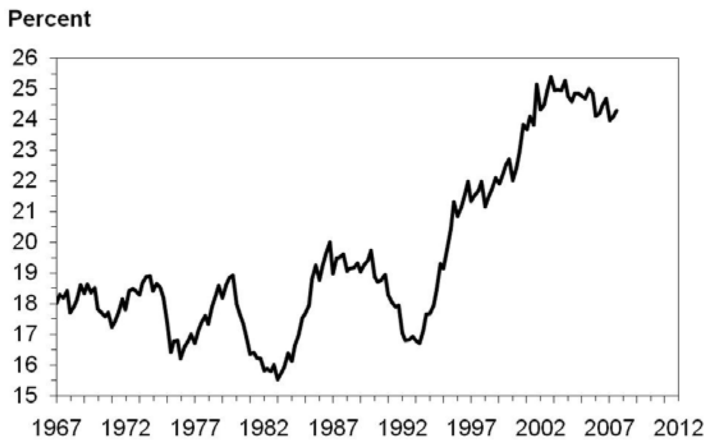






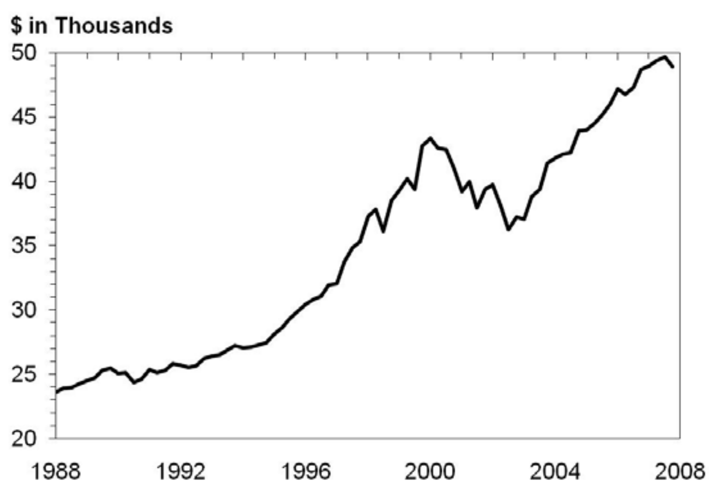
SELECTED NATIONAL ECONOMIC INDICATORS

Installment Credit Outstanding As a Percent of Disposable Income



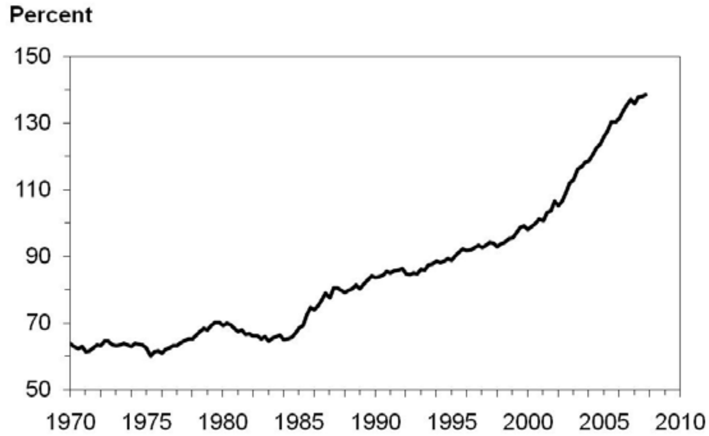
Household Financial Liabilities As a Share of Net Worth

Real Household Net Worth ($ 1996)

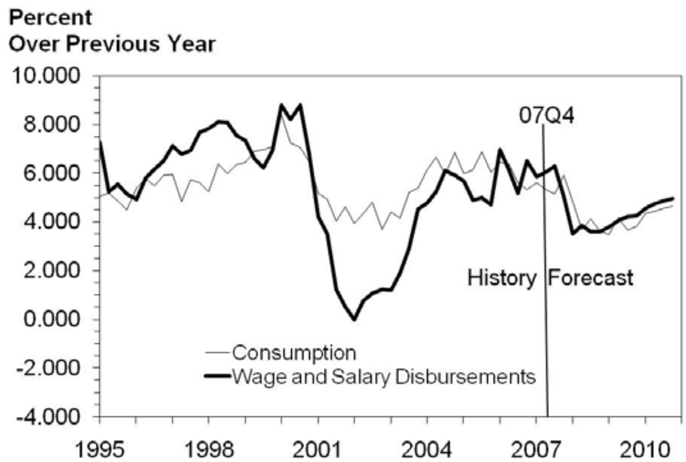


SELECTED NATIONAL ECONOMIC INDICATORS

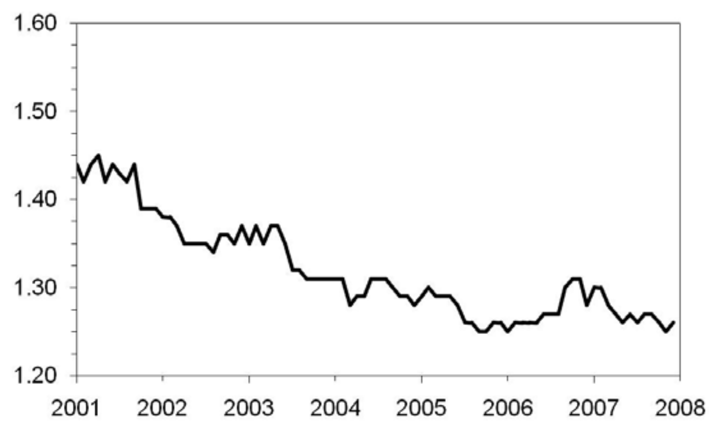
Household Financial Liabilities As a Share of Disposable Income



Consumption and Wages

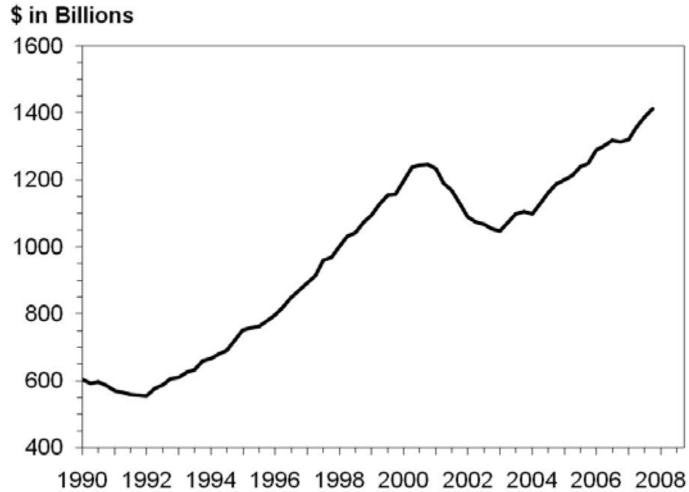


Manufacturing and Trade Inventory to Sales Ratio

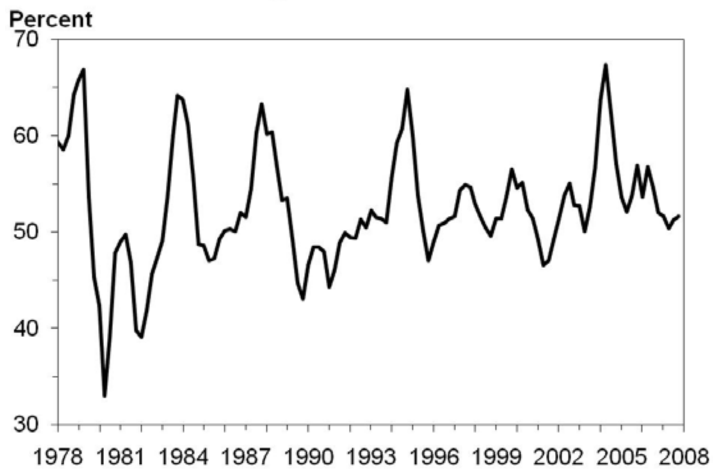


SELECTED NATIONAL ECONOMIC INDICATORS

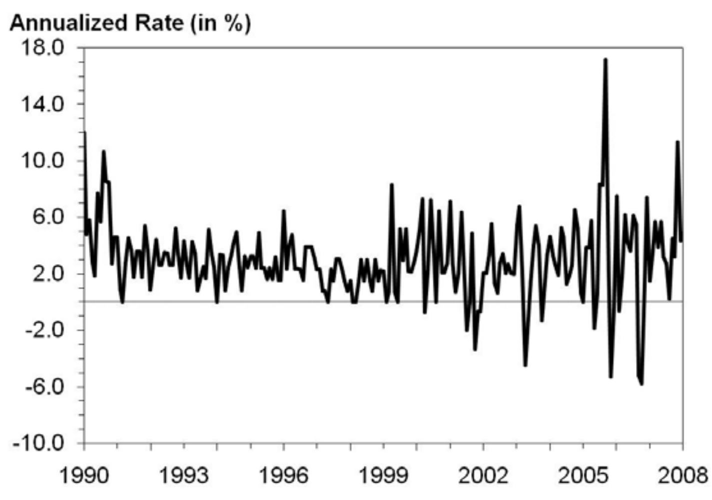
Real Fixed Nonresidential Investment



Proportion of Companies Receiving Slower Deliveries

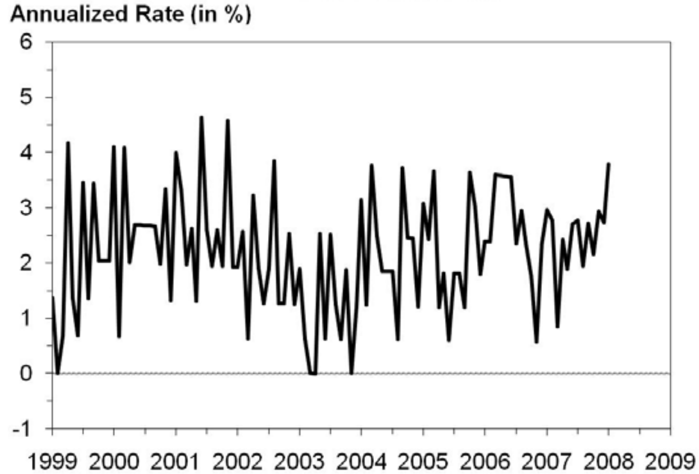


Consumer Price Index

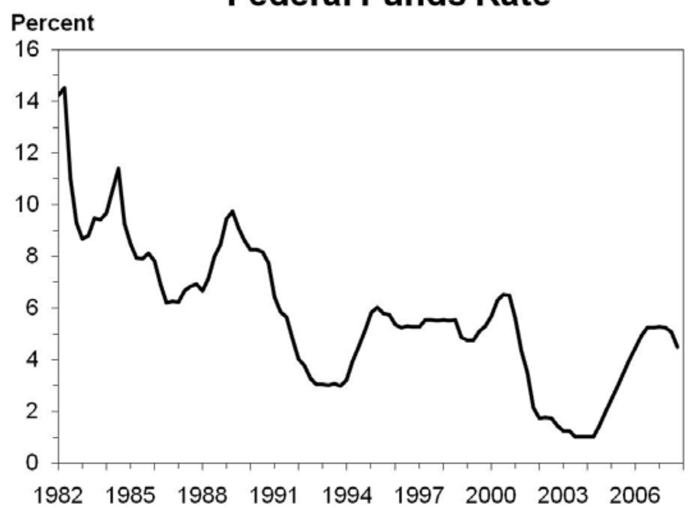


SELECTED NATIONAL ECONOMIC INDICATORS

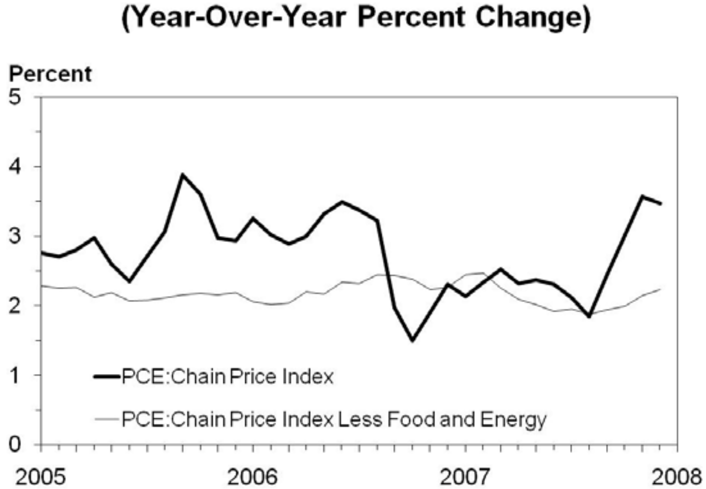
Core Inflation



Federal Funds Rate



Personal Consumption Expenditure (PCE) Inflation Indexes (Year-Over-Year Percent Change)



FY 2008-09 BUDGET SUMMARY
FY 2010-11 PLANNING ESTIMATES

$935 Million Deficit Forecast for FY 2008-09

The projected FY 2008-09 budget deficit has grown by $562 million this forecast. Non-dedicated revenues for the current biennium have decreased $502 million, and projected transfers, dedicated revenue and other resources decreased $28 million, producing a net revenue loss of $530 million. Forecast spending increased $64 million. The targeted case management contingency reserve has been spent, reducing reserves by $33 million and contributing to the increased level of forecast spending. These changes, when combined with November's projected deficit of $373 million, result in a forecast deficit of $935 million.

FY 2008-09 Budget
($ in millions)

	November Forecast	February Forecast	$ Change
Beginning Balance	$2,245	$2,245	–
Revenues	33,072	32,542	(530)
Expenditures	34,654	34,718	64
Budget Reserve	653	653	–
Cash Flow Account	350	350	–
Tgt Case Mgmt Rsv	33	–	(33)
Balance	**$(373)**	**$(935)**	$(562)

Revenue Forecast Reduced by $530 Million from November

General fund revenues are now forecast to total $32.542 billion in the 2008-09 biennium, $530 million (1.6 percent) less than projected in November. When compared to end-of-session estimates revenues are $1.270 billion (3.8 percent) less than projected. Individual income tax receipts are now projected to be $313 million less than November's estimates. Capital gains realizations, taxable interest income, and dividend income all are expected to decline. While the stimulus package boosts consumer spending over the summer, it is not enough to offset the weaker construction spending and business investment spending in the February baseline and sales tax receipts also fall from November's estimates. The forecast for corporate tax receipts has been reduced by $139 million (7.3 percent) since November. Corporate income tax receipts are now forecast to be $456 million or 20.6 percent less than end-of-session estimates.

Revenues Now Forecast to Grow by Just 0.6 Percent in Current Biennium

Revenue growth slows dramatically in the 2008-09 biennium. Some of that slowdown is from the phase-in of the constitutional dedication of the motor vehicle sales tax to transportation funding, and some due to one time events, but even after adjusting for those events biennial revenue growth is well below normal. Even though Global Insight is projecting only a short, mild recession the weaker economy eliminates about one year of revenue growth during the 2008-09 biennium.

Biennial Growth Revenues vs. Expenditures

($ in millions)

	Actual 2006-07	February 2008-09	Biennial Change	
Beginning Balance	$1,393	$2,245		
Revenues	32,341	32,542	201	0.6%
Expenditures	31,490	34,718	3,229	10.3%
Reserves	1,145	1,003		
Budgetary Balance	$1,100	$(935)		

Forecast Spending for FY 2008-09 Increased $64 Million

Forecast spending for the biennium is now expected to be $34.718 billion, $64 million (0.2 percent) more than projected in November. Higher K-12 education spending contributed $17 million of the increase while an increase in health and human services spending added $74 million. Modest reductions in debt service and dedicated spending offset part of these increases.

Both the $64 million increase in spending in this forecast and the $66 million increase in November are quite modest (0.4 percent combined). However, spending for the FY 2008-09 biennium is projected to be $3.229 billion (10.3 percent) higher than the previous biennium.

Targeted Case Management Reserve Used

In 2007, a special reserve account of $33 million was established to assist counties with the costs of medical assistance targeted case management (TCM) services in anticipation of federal funding reductions. This aid to counties was contingent on the establishment of federal rules for these services. In December final federal rules were issued, and consistent with this law, the Department of Human Services distributed the $33 million to counties for TCM services. This eliminates the contingency reserve account and contributes to higher human services spending compared to November's figures.

Use of Budget Reserve

The state’s $653 million budget reserve is not automatically drawn down as a result of the deficit projected for the 2008-09 biennium.

The state’s constitutional balanced budget requirement prohibits borrowing money across biennia for operating purposes. But, action to resolve any projected budget deficit need only occur prior to the close of the biennium, and can occur at any point in the biennium through legislative or executive action. The commissioner of finance has authority to reduce the budget reserve level in order to bring the budget into balance, but this action can occur only with the approval of the governor after consultation with the Legislative Advisory Commission.

FY 2010-11 Planning Estimates Also Indicate Lower Balances

Projected revenues for FY 2010-11 have been reduced by $669 million (1.9 percent) from November’s estimates, while spending has increased $206 million (0.6%). Projections for the individual income tax, the sales tax and the corporate income tax were all reduced reflecting reductions in the FY 2009 base. Revenues for FY 2011 include a one-time increase of $327 million in capital gains tax receipts, reflecting the expiration of the special federal capital gains rate in tax year 2010.

The net change in spending is small, mirroring revisions in 2008-09 estimates. K-12 education spending is slightly above November’s estimate reflecting out-year costs of higher pupil counts in the current biennium, while human services costs reflect higher estimated enrollment compared to November.

The planning estimates do not reflect any Governor's recommendations or potential legislative actions in the 2008 session. Since the forecast makes no assumption about possible budget actions to resolve the forecast deficit for FY 2008-09, the planning estimates for FY 2010-11 highlight only the difference between projected ongoing revenues and ongoing spending.

Change in FY 2010-11 Planning Estimates

($ in millions)

	End-of-Session	November Change	February Change	February Forecast
Projected Revenues	$36,843	$(1,130)	$(669)	$35,044
Projected Spending	35,707	218	206	36,130
Difference	**$1,137**	**$(1,348)**	**$(875)**	**$(1,086)**
Estimated Inflation (CPI)				*1,040*

The positive balance between FY 2010-11 revenues and expenditures that was projected at the end of the legislative session has fallen by more than $2.2 billion. At the end of session, planning estimates showed a positive balance of $1.137 billion in FY 2010-11; now, a shortfall of $1.086 billion is expected.

Current law projections for the next biennium do not include any adjustment for inflation. Inflation, based on the consumer price index is forecast to be 1.9 percent annually in FY 2010 and FY 2011, a level unchanged from November. If spending were uniformly adjusted for inflation, this would add about $1.040 billion to forecast spending, $339 million in FY 2010 spending and $701 million to FY 2011.

REVENUE FORECAST
FY 2008-09

Current general fund resources for the 2008-09 biennium are now forecast to total $32.542 billion. This forecast is $530 million (1.6 percent) less than November's forecast and $1.270 billion (3.8 percent) below estimates at the end of the 2007 special legislative session. Biennial receipts for Minnesota's five major taxes are now estimated to be $27.985 billion, $481 million (1.7 percent) less than forecast in November. Since the end of the special legislative session forecast receipts from the five major taxes have been reduced by $1.044 billion or 3.6 percent.

Revenues FY 2008-09
($ in millions)

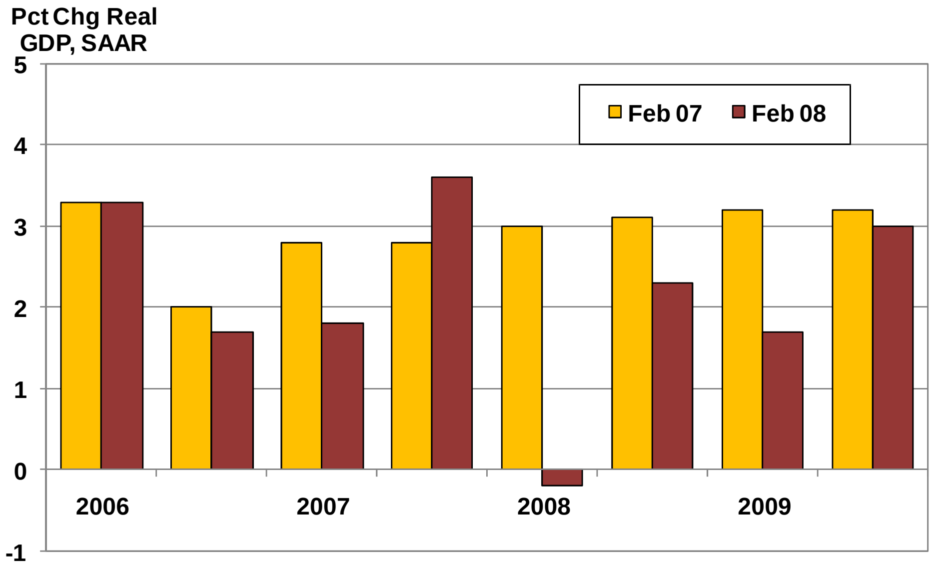
	FY 2006-07	FY 2008	FY 2009	FY 2008-09
Individual Income	$14,094	$7,589	$7,756	$15,345
Sales	8,970	4,575	4,570	9,145
Corporate	2,233	903	857	1,760
Motor Vehicle Sales	497	176	117	293
Statewide Levy	1,297	703	739	1,442
Five Major Taxes	27,091	13,946	14,039	27,985
Other Revenue	3,963	1,723	1,658	3,381
Tobacco	365	182	181	363
Net Non-dedicated	31,419	15,851	15,879	31,730
Other Resources	923	418	394	812
Current Resources	**$32,341**	**$16,269**	**$16,273**	**$32,542**

General fund receipts in the 2008-09 biennium are projected to exceed actual receipts in the 2006-07 biennium by $201 million, (0.6 percent). Individual income tax receipts are projected to grow by 8.9 percent over the prior biennium, while sales tax receipts grow by 2.0 percent. Corporate franchise tax receipts are now expected to fall 21 percent below the amount received in the 2006-07 biennium.

Changes in Economic Assumptions

February's baseline scenario from Global Insight (GII) includes a two quarter recession. The projected recession is both short and mild, but it produces a material reduction in state revenues. Real GDP is expected to decline by 0.2 percent in the first half of calendar 2008. The economy recovers in late summer as the tax rebates stimulate additional consumer spending. Economic growth jumps to a 2.3 percent rate in the second half of 2008, then slows modestly in the first half of 2009 to 1.7 percent as the one time lift to spending from the stimulus package fades. In the second half of 2009, at the beginning, of the 2010 fiscal year, real growth returns to its trend rate of 3.0 percent.

GII Baseline Calls for a Decling Real GDP in the First Half of 2008, Subpar Growth in Early 2009



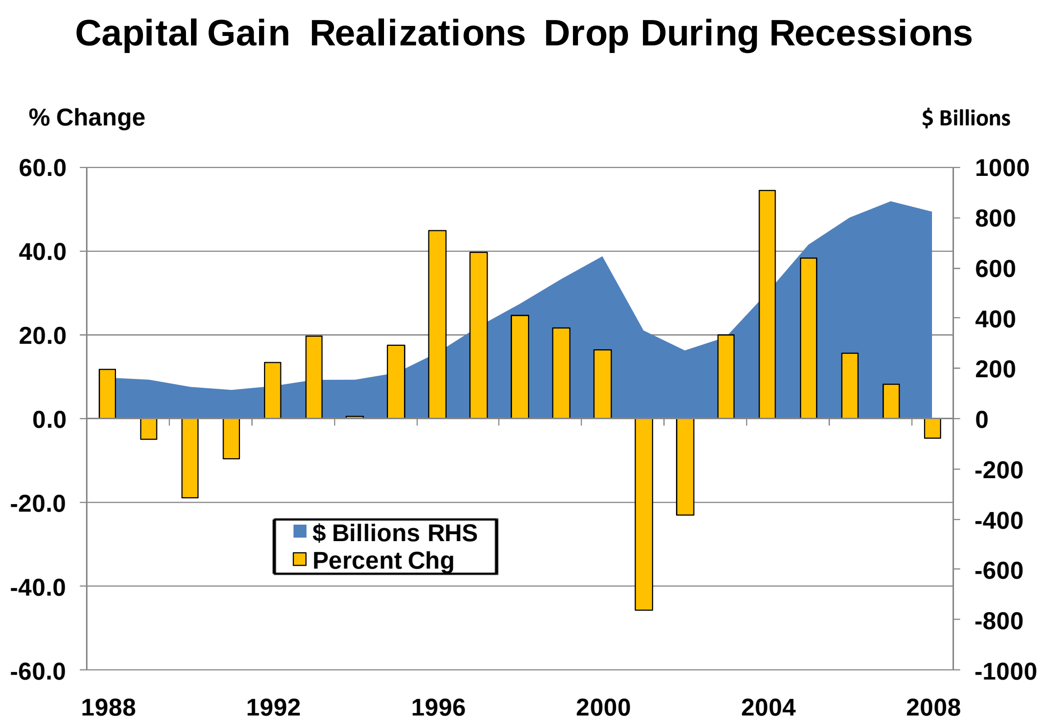
Global Insight's baseline forecast continues to assume that slower economic growth will reduce the demand for energy, allowing oil prices to fall to below $80 per barrel this spring. Housing starts are assumed to bottom out this summer then recover very slowly. The Fed Funds rate is assumed to fall to the 2 percent level and remain there until the spring of 2009. Inflation is still believed to remain under control with the CPI growing at a 2.5 percent rate in 2008 and a 1.6 percent rate in 2009.

The economic outlook for Minnesota is similar to that for the U.S. In 2008 growth rates for wages and personal income are forecast to be less than in 2007 and less than was forecast in November. While the rate at which wages are expected to grow declines from November's forecast both nationally and in Minnesota, the projected national decline is greater than that for Minnesota, leaving the state with a slightly larger share of total U.S. wages. U.S. payroll employment is now forecast to grow at just a 0.4 percent annual rate in 2008. In Minnesota payroll employment is expected to decline by 0.5 percent in 2008. Minnesota's construction and wood products industries are among those hardest hit by the recession.

Individual Income Tax

Individual income tax receipts for the 2008-09 biennium are now forecast to total $15.345 billion, $313 million (2.0 percent) less than November's estimate. February's forecast of income tax receipts is $282 million (1.8 percent) less than end-of-session estimates. In November the income tax forecast was increased by $31 million.

In this forecast the adjusted gross income of Minnesota residents grows more slowly in tax years 2008 and 2009 than was previously projected. While wage income grows more slowly than forecast in November, the loss in wage income is small compared to the decline in non-wage income. More than 80 percent of the decline in tax year 2008 adjusted gross income and about two-thirds of the tax year 2009 reduction in this forecast comes from a decline in non-wage income. Non-wage income is now projected to grow by only 1.2 percent in tax year 2008. In 2009 it grows at a 6 percent rate, but from a lower base. For the just completed 2007 tax year non-wage income of Minnesota residents is now thought to have grown at an 8 percent rate.



Capital gains realizations typically decline in recessions, even relatively short, mild recessions. A revised outlook for capital gains realizations in 2008 was the source of much of the decline in non-wage income. Capital gains realizations in Minnesota are now expected to decline by a relatively modest 5 percent in 2008, and then grow by 10 percent in 2009. In November's forecast taxable capital gains realizations in Minnesota were projected to grow by 9.3 percent in both 2008 and 2009. The forecast decline in capital gains realizations is much less than has occurred during the past two recessions. In the last recession U.S. capital gains realizations fell by more than 40 percent in 2001 and an additional 22 percent in 2002.

Interest and dividend income also declines in 2008. In November's forecast taxable interest income was projected to grow at a 4.0 percent annual rate in 2008 while dividend income (which includes earnings on money market funds) was expected to grow by 0.8 percent. Now, consistent with expectations that the Federal Reserve will continue to cut interest rates in 2008 to stimulate the economy, taxable interest and dividends are expected to fall below the levels received in tax year 2007. In this forecast interest income for 2008 declines by 9 percent from tax year 2007 estimates, while dividend income falls by 5.5 percent from year earlier levels. Lower interest and dividend income accounts for just under 25 percent of the decline in adjusted gross income of Minnesota residents in 2008. Lower interest rates also affect the mortgage interest deduction, reducing the amount expected to be claimed compared to November and raising income tax receipts slightly.

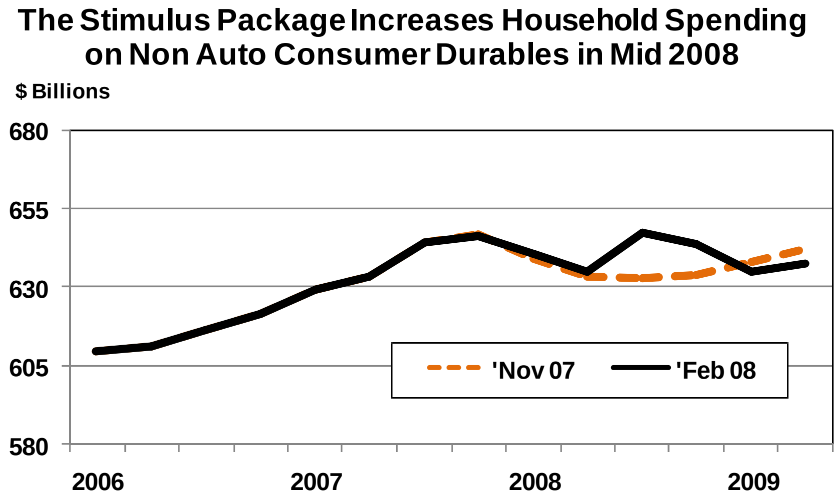
Technical adjustments were small and largely offsetting. Tax liability from 2006 returns was $26 million less than expected.

Sales Tax

Net sales tax collections for the 2008-09 biennium are now expected to reach $9.145 billion, $13 million (0.1 percent) less than in November's forecast and $322 million (3.4 percent) less than end-of-session estimates. Gross sales tax receipts are now expected to be $49 million below November's estimate, but that decline was largely offset by a $36 million reduction in projected sales tax refunds.

The federal stimulus package boosts non-auto durable spending during the last half of calendar 2008, lifting revenues significantly. In the absence of that stimulus projected sales tax receipts would have been further below November's estimates. Sales tax receipts for purchases made in the months of October, November and December were more than $20 million less than November's forecast. That base reduction was carried forward into fiscal 2009. A narrowing of the difference between Minnesota wage growth and U.S. average wage growth added to the forecast.

Receipts elasticities were left the same as in November. There were no changes in the estimated losses of sales tax receipts to e-commerce and catalog sales.



Corporate Franchise Tax

Net corporate franchise tax receipts during the 2008-09 biennium are now estimated to total $1.760 billion, $139 million (7.3 percent) less than forecast in November. Projected corporate franchise tax receipts are now $456 million (20.6 percent) below end-of-session results and $474 million (21.2 percent) below actual corporate tax receipts in the 2006-07 biennium.

The corporate refund forecast was increased by $65 million reflecting recent payment experience. January refunds exceeded forecast by more than $30 million, and in early February additional refunds totaling more than $20 million were paid. In fiscal 2007 a total of $157 million was paid in corporate refunds. Through mid-February a total of more than $136 million had been paid in fiscal 2008.

Global Insight's outlook for domestic profits changed little since November. The Global Insight baseline forecast continues to show an unusually high ratio of corporate profits to GDP, even after adjusting for the temporary surge in profits due to the bonus depreciation portion of the recently enacted stimulus package. Finance Department economists felt it prudent to adjust prospective corporate tax receipts to reflect weaker earnings in the financial sector. Prospective estimated payments were also adjusted accordingly. The forecast still includes more than $30 million in additional refunds associated with the Hutchinson Technology decision. The associated reductions in future settle-up payments, however, are now considered to be in the base for FY 2008.

The corporate franchise tax remains Minnesota's most volatile revenue source.

Motor Vehicle Sales Tax

General fund receipts from Minnesota's sales tax on motor vehicles are now projected to total $293 million in the 2008-09 biennium, $20.1 million (6.4 percent) less than November's forecast and $23 million (7.3 percent) less than end-of-session estimates. The $3 million positive variance observed for this revenue source since November was incorporated into the forecast. Global Insight expects both unit light vehicle sales and the dollar volume of those sales to decline as the economy weakens. For calendar 2008 light vehicle sales are expected to fall to 15.2 million, about 900,000 fewer sales than occurred in 2007.

Other Revenues

Other tax and non-tax revenues, including the statewide property tax, are expected to total $5.186 billion, $17 million (0.3 percent) less than forecast in November. Forecasts for the estate tax and investment income were increased by $18 million and $17 million respectively, while departmental earnings and fines and surcharges fell by $37 million and projected cigarette tax receipts by $8 million. The largest single item reflected a $19 million refund of fine revenue by the Public Utilities Commission, which resulted from an appeals court decision. All other forecast changes were small and largely offsetting.

REVENUE PLANNING ESTIMATES FY 2010-11

Total current resources for the 2010-11 biennium are estimated to be $35.044 billion, $2.502 billion (7.7 percent) more than the amount now forecast for the 2008-09 biennium. General fund receipts for the five major taxes are now projected to be 9.0 percent more than in the previous biennium. This includes the reduction in motor vehicle sales tax revenues required by approval of a constitutional amendment phasing in the dedication of those revenues to transportation funding. The reduction in the revenue forecast for the 2008-09 biennium carries forward into the next biennium. The national growth rate for FY 2010 and FY 2011 in Global Insight's February baseline is slightly stronger than November's baseline, but growth starts from a lower base. Total current resources are now estimated to be $669 million (1.9 percent) less than projected in November.

Revenues FY 2010-11

($ in millions)

	FY 2008-09	FY 2010	FY 2011	FY 2010-11
Individual Income	$15,345	$8,320	$9,122	$17,442
Sales	9,145	4,665	4,866	9,531
Corporate	1,760	913	953	1,866
Motor Vehicle Sales	293	77	31	108
Statewide Levy	1,442	765	782	1,548
Five Major Taxes	27,986	14,741	15,754	30,495
Other Revenue	3,381	1,690	1,728	3,418
Tobacco	363	182	183	366
Net Non-dedicated	31,729	16,613	17,666	34,279
Other Resources	812	385	380	765
Current Resources	**$32,542**	**$16,998**	**$18,046**	**$35,044**

The individual income tax is the major source of growth, up 13.7 percent from levels forecast for the 2008-09 biennium. Income tax receipts increase by 9.6 percent from fiscal 2010 to 2011, much stronger growth than has been observed in recent years. That unusually large percentage change is due in part to the scheduled expiration of certain provisions in the federal tax code in tax year 2010 which will boost state revenues. Some of those changes increase the base level of taxable income and yield a permanent increase in state income tax revenue. The largest portion of the additional revenue, however, comes from a scheduled increase in the federal capital gains tax rate. The tax rate on capital gains is scheduled to return to 20 percent in 2011, an increase of 5 percentage points from its current 15 percent rate level. That will produce a one-time jump in revenues in 2010 as taxpayers accelerate their realization of gains to take advantage of the lower tax rate. Those additional realizations will borrow from future realizations in the 2012-13 biennium, leaving 2012 income tax revenues well below the level realized in 2010.

Sales tax receipts are projected to grow by 4.2 percent ($386 million), the statewide property tax is expected to increase by 7.4 percent ($106 million) and the corporate franchise tax by 6.0 percent ($106 million). State general fund receipts from the motor vehicle sales tax fall by 63 percent from fiscal 2008-09 levels due primarily to the increasing percentage dedicated to transportation funding. In 2012 the motor vehicle sales tax is completely dedicated to transportation funding and will disappear from the general fund.

No one can forecast the path of the economy five years into the future. The baseline revenue planning estimates presented above 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, due to the way the estimates are constructed any change in the base level of revenues for fiscal 2009 will change the revenue planning estimates for 2010 and 2011. Other things equal, stronger than anticipated revenue growth through fiscal 2009 will carry forward and add significantly to revenues in the 2010-11 biennium. But, should the economy grow more slowly than forecast during the next 17 months, 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 2010-11 biennium will deteriorate.

These revenue planning estimates are only a guide to the level of future revenues. They are not a guarantee. Normally, if the economy remains as strong as GII projects through 2011 the planning estimates are likely to slightly understate actual receipts. But, taxpayer reaction to the scheduled increase in the tax rate on capital gains could be quite different from that forecast. That could lead to either a material increase in revenues in fiscal 2011, or a significant decline. Also, Minnesota is assumed to grow at the national rate in 2009, 2010, and 2011. While Minnesota has typically grown at or above the national rate in the past, Minnesota could grow more slowly than the U.S. averages during the 2009-2011 period covered by the planning estimates. Actual revenues for 2010-11 could exceed or fall short of the planning estimates by $2.5 billion or more depending on the economy’s performance.

Since November 2002 the Finance Department has based its revenue planning estimates on Global Insight’s baseline forecast. These revenue planning estimates again were prepared consistent with the GII baseline forecast. GII projects real GDP growth rates of 3.0 percent and 3.2 percent for calendar 2010 and 2011 and nominal GDP growth of 4.9 percent in 2010 and 5.2 percent in 2011. The Blue Chip Consensus has a similar outlook. GII’s real GDP growth rate is slightly lower than the 3.2 percent growth rate for 2010 used by CBO in its August budget update, but their nominal growth rates for both 2010 and 2011 are slightly similar to CBO’s forecast. GII now expects the CPI to increase at an annual rate of 1.9 percent in 2010 and 1.8 percent in 2011. Those rates are lower than both the Blue Chip rate of 2.3 percent and CBO's projection of 2.2 percent for those years. When viewed on a fiscal year basis Global Insight is now projecting CPI growth of 1.9 percent in fiscal 2010 and 1.8 percent in fiscal 2011. Price increases at those rates are implicitly included in the revenue planning estimates for the 2010-11 biennium.

As in the past, the individual income tax estimates were prepared using the House Income Tax Simulation (HITS) 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 – as projected by GII in their baseline forecast.

HITS model pin files were adjusted for changes in federal tax law that will occur in 2011 when provisions initially enacted in the Economic Growth and Tax Relief Act of 2001 and the Jobs and Growth Tax Relief Reconciliation Act of 2003 expire. Among those changes is the return of the federal capital gains tax rate to 20 percent from its current level of 15 percent. Since Minnesota taxes capital gains at the same rate as ordinary income that change in the federal code will not affect the rate at which capital gains are taxed in Minnesota. It is likely, however, to have a large indirect impact on Minnesota taxable income as investors seeking to maximize after tax returns on investment accelerate realizations into 2010. Since that additional capital gains activity would not be part of taxable personal income as defined for the national income accounts, the Finance Department has included one-time off-model adjustments to tax liability in tax years 2010 and 2011. An additional $327 million was added to liability in tax year 2010. For tax year 2011, $313 million was subtracted. Those changes affect tax receipts in fiscal years 2011 and 2012.

As in recent years the complete sales tax model was used to prepare sales tax revenue planning estimates. Each component of the sales tax base was assumed to grow at the national average rate for that group of goods or services. Corporate tax receipts in Minnesota were estimated using the same revised model based on before tax corporate profits on a national income accounts basis reduced for foreign source profits. The general fund's share of Minnesota's motor vehicle sales tax collections falls dramatically due to the phase in of the constitutional dedication of these receipts to transportation funds. Total 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 non-tax revenues were based on extrapolation of existing trends.

Expenditure Forecast
FY 2008-2011

FY 2008-09 Spending Slightly Higher

Forecast expenditures for FY 2008-09 have changed little from November. Spending is now forecast to total $34.718 billion, an increase of $64 million (0.2 percent) from November's estimates. Of this increase, $33 million is due to the use of the targeted case management contingency reserve. Use of this money results in lower reserves and higher spending, with no impact on the budgetary balance.

Forecast Change in FY 2008-09 Spending
($ in millions)

	November Forecast	February Forecast	Difference
K-12 Education	$13,788	$13,805	$17
Higher Education	3,155	3,155	0
Property Tax Aids & Credits	3,154	3,152	(3)
Health & Human Services	9,630	9,703	74
Public Safety	1,887	1,887	0
Transportation	250	250	0
Environment, Energy & Natural Res.	450	451	1
Agriculture & Veterans	276	276	0
Economic Development	397	397	0
State Government	664	664	0
Debt Service	876	869	(7)
Other	21	21	0
Est. Cancellations	(21)	(21)	(0)
Subtotal	$34,525	$34,607	$81
Dedicated Expenditures	129	112	(18)
Total	**$34,655**	**$34,718**	**$64**

A number of minor changes result in the overall increase in spending estimates. K-12 education pupil estimates are slightly higher. Caseloads in health and human services are higher than November, and the use of the targeted case management reserve shows up as higher spending in this area as well. These increases are partially mitigated by small savings in debt service, tax aids and credits, and dedicated expenditures.

FY 2010-11 Expenditure Planning Estimates

Projected spending has increased from November for the FY 2010-11 planning estimates. Spending estimates for the next biennium have increased a total of $206 million. The out-year impacts of higher pupil counts result in a $71 million increase in K-12 estimates. Caseload increases in health care programs contribute to health and human services estimates increasing $141 million from November levels. Changes in all other spending areas are largely offsetting. Small increases in forecast debt service and tax aids and credits are countered by savings in dedicated spending.

Forecast Change: FY 2010-11 Spending Projections

($ in millions)

	November Forecast	February Forecast	Difference
K-12 Education	$13,805	$13,876	$71
Higher Education	3,191	3,191	0
Property Tax Aids & Credits	3,204	3,209	6
Health & Human Services	10,988	11,129	141
Public Safety	1,906	1,906	0
Transportation	212	212	0
Environment, Energy & Natural Res.	376	378	2
Agriculture & Veterans	250	250	0
Economic Development	281	281	0
State Government	621	622	0
Debt Service	987	991	4
Other	21	21	0
Est. Cancellations	(20)	(20)	0
Subtotal	$35,823	$36,047	$224
Dedicated Expenditures	101	83	(18)
Total	**$35,924**	**$36,130**	**$206**

The estimated impact of inflation during the FY 2010-11 biennium is not included in expenditure planning estimates. Inflation during the planning period is expected to be 1.9 percent annually in FY 2010 and FY 2011 based on GII's forecast of the consumer price index. If major expenditure categories were to be uniformly adjusted for inflation, this would add approximately $339 million to FY 2010 spending and $701 million to FY 2011 amounts, a total of $1.040 billion for the biennium.

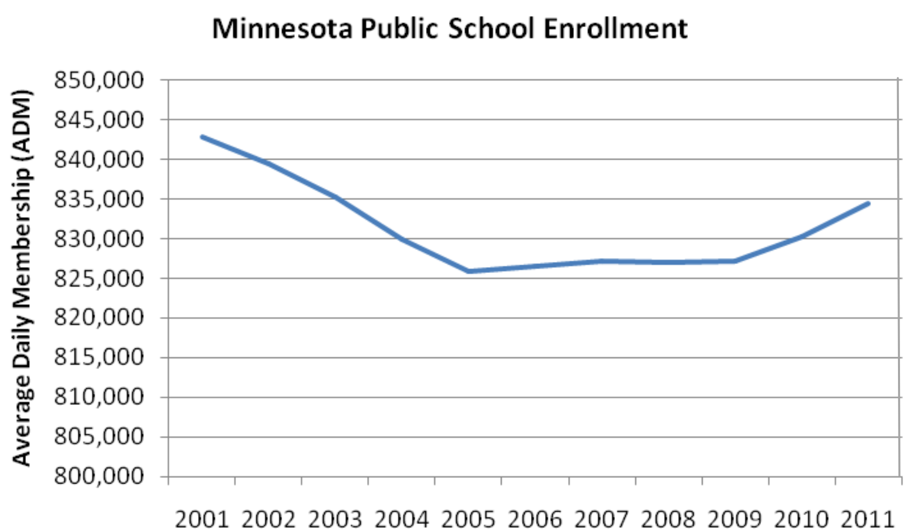
K-12 Education Forecast Up $16.9 Million for FY 2008-09, $71 million for FY 2010-11

Education finance, the largest category of state general fund spending, consists of aid programs for general education, special education, early childhood and family education, charter schools, nonpublic pupil programs, and desegregation programs.

K-12 aids can be divided into two major funding parts: 1) general education, the primary source of basic operating funds for schools, and 2) categorical aids tied to specific activities or programs. For the current biennium, education finance spending is now forecast to be $13.805 billion, an increase of $16.9 million (0.1 percent) from November estimates. Projected education finance spending in FY 2010-11 is now expected to reach $13.876 billion, an increase of $71 million (0.5 percent) over November estimates.

General Education

Over 80 percent of K-12 aid ($11.25 billion in FY 2008-09) is distributed to schools through the General Education program, and most of the forecast change is also in this program. While there are several factors that account for this change, the most significant is pupil estimates. Pupil estimates are up slightly compared to November estimates. The recent trend of relatively flat enrollment continues through FY 2009. Public enrollment, as measured by Average Daily Membership (ADM), is now projected to be 826,963 in FY 2008 and 827,215 in FY 2009. In FY 2010-11, the recent history of flat enrollment reverses and estimates of ADM begin to increase. Public enrollment is now projected to reach 830,302 in FY 2010 and 834,438 in FY 2011. The change in enrollment was anticipated in previous forecasts, but the ADM growth in FY 2010-11 is larger than previous estimates.



The increase in ADM projections results in a $12.75 million (0.1 percent) increase in Basic Education entitlements in FY 2008-09 and a $22.36 million (0.2 percent) increase in FY 2010-11 compared to November estimates. The ADM changes also cause increases in Extended Time and Compensatory entitlements. Extended Time entitlements increased $2.98 million (2.7 percent) for the current biennium compared to November estimates and $3.29 million (3 percent) for FY 2010-11. Extended Time revenue provides districts additional funding for extended day, extended week and summer school programming. The increase is due to higher than anticipated Extended Time pupil units in FY 2007 than in November. Compensatory entitlements are anticipated to increase by $1.67 million (0.2 percent) over the current biennium and $11.46 million (1.6 percent). The change in Compensatory entitlements results from a combination of pupil unit increases and an increase in the concentration of poverty compared to November.

Limited English Proficiency (LEP) entitlements decreased by $2.91 million (3.5 percent) from previous estimates for the current biennium and $3.24 million (3.8 percent) in FY 2010-11. This reduction is due to fewer actual LEP ADM in FY 2007 than was estimated in November.

Categoricals

There are relatively minor changes in the K-12 categorical aids forecast compared to November. In addition to increases in General Education, categorical aid appropriations are projected to increase in various program areas. Integration Revenue is projected to increase $1.28 million (1 percent) in FY 2010-11 due to increased pupil units related to this aid. In addition, nonpublic pupil transportation aid is up $757,000 in FY 2008-09 and $2.31 million (5.8 percent) in FY 2010-11 since November due to higher nonpublic pupil enrollment projections.

These increases are partially offset by decreases in several other categorical aids. Charter School Lease Aid is projected to decrease by $1.1 million (1.2 percent) in FY 2010-11 from previously forecasted amounts, reflecting lower charter school ADM. Home Based Travel is down $104,000 (19 percent) in FY 2008-09 due to lower than expected FY 2007 final cost estimates. This decrease continues into FY 2010-11 with Home Based Travel down $130,000 (20 percent).

Since November, state aid estimates have decreased for the subset of districts qualifying for Debt Service Equalization Aid and Deferred Maintenance Aid. In FY 2008-09, there is a $26,000 (0.1 percent) decrease in Debt Service Equalization Aid and a $91,000 (1.5 percent) decrease in Deferred Maintenance Aid. Decreases in Debt Service Equalization Aid are due to a reduction in required debt service revenue brought about by school districts refunding bonds. Deferred Maintenance Aid is lower due to declining enrollment projections within eligible districts. The decreases projected in FY 2008-09 for Debt Service Equalization Aid and Deferred Maintenance Aid do not continue into FY 2010-11 where projected forecast growth of $2.94 million (26 percent) and $846,000 (28 percent) respectively occurs compared to the November forecast. This change is primarily due to reduced growth rates in Adjusted Net Tax Capacity (ANTC) for 2007 and 2008. As school districts' tax capacity growth slows, state aid obligations within these programs increase.

Health and Human Services Forecast up $73.6 million in FY 2008-09 and $141.1 million in FY 2010-11

For the current biennium, health and human services spending is expected to be $9.7 billion, a $73.6 million (0.8 percent) increase over November estimates. In FY 2010-11 health and human services spending is projected to reach $11.1 billion, an increase of $141.1 million (1.3 percent) from previous estimates.

The primary factor for increases in the health and human services forecast is worsening economic conditions. Recent program enrollment growth as well as new unemployment data has increased enrollment estimates for Medical Assistance (MA) Families and Children, General Assistance Medical Care (GAMC), General Assistance (GA) and the Minnesota Family Investment Program (MFIP).

Basic Health Care

Basic Health Care spending increased to $4.2 billion in FY 2008-09 and $5.2 billion in FY 2010-11, up $34.9 million (0.8 percent) in FY 2008-09 and $103.2 million (2.0 percent) in FY 2010-11 from November estimates. MA Families and Children spending increased from previous estimates by $42.7 million (2.7 percent) in FY 2008-09 and $104.9 million (5.6 percent) in FY 2010-11. In November enrollment was projected to increase 1.1 percent in FY 2008 and 1.7 percent in FY 2009. This forecast revises enrollment growth estimates to 2.5 percent in FY 2008 and 3.9 percent in FY 2009.

MA Elderly and Disabled spending is down $19.3 million in FY 2008-09 and $18.7 million in FY 2010-11, primarily because capitation rates for MA Elderly and Disabled are 3 percent lower than anticipated in November. An increase in enrollment due to the expansion of SeniorCare Plus to additional counties partially offsets the decline.

GAMC expenditures are projected to increase $11.5 million (2.1 percent) in the current biennium, and $17.1 million (2.8 percent) in the next biennium. This change is attributable to an enrollment increase in the GA segment of GAMC.

Continuing Care Grants

Spending for Continuing Care grants is $3.5 billion in FY 2008-09 and $3.9 billion in FY 2010-11, down less than $1 million (0.02 percent) for the current biennium and $28.1 million (0.7 percent) higher for the next biennium, compared to the November forecast. Estimated expenditures for MA Long Term Care Facilities are slightly higher, $2.3 million (.2 percent) in FY 2008-09 and $3.8 million (.4 percent) in FY 2010-11, primarily the result of slightly higher average costs for nursing facilities.

Recent data shows continued strong growth in the number of individuals utilizing private duty nursing services, increasing spending for MA Long Term Care Waivers. At the same time, the movement of Elderly Waiver recipients into managed care observed in previous forecasts continues to expand, shifting more spending into the Elderly and Disabled Basic Care activity. The net impact of these changes puts the total MA LTC Waiver spending at $2.0 billion in FY 2008-09, a reduction of $4.4 million (0.2 percent), and $2.4 billion in FY 2010-11, an increase of $24.4 million (1 percent).

Children and Economic Assistance Grants

Both MFIP and General Assistance caseloads are higher than November estimates, primarily due to the worsening economy. MFIP spending is up $14.2 million (9.7 percent) in FY 2008-09 and $10.8 million (7.6 percent) in FY 2010-11 over prior estimates, and General Assistance spending is up $4.6 million (5.7 percent) for FY 2008-09 and $4.4 (5.1 percent) million for FY 2010-11.

MFIP Child Care is now $11.2 million (9.3 percent) lower in FY 2008-09 and $7.1 million (5.5 percent) in FY 2010-11 due to lower than anticipated caseloads. Because general fund expenditures for MFIP Child Care are down, more general fund dollars (and less TANF) are spent on MFIP to meet our maintenance of effort (MOE) requirement.

Spending in the Children and Community Services activity is $32.7 million higher compared to the November, even though this is not a forecast program. In 2007 a one-time appropriation was made available to counties once federal regulations implementing reductions to targeted case management services became effective. The final rule was implemented in December, so the funds now appear as an expenditure in this budget activity. The funds were included as a dedicated reserve in November, so this change has no impact on the state’s budgetary balance.

FY 2008-09 Debt Service Forecast $7 Million Lower

The total estimated debt service cost for the 2008-09 biennium is now $869 million, $7 million below the November forecast.

The primary reason for the savings is premiums forecast to be paid by the winning bidders for the bond sales in the biennium. Lower interest rates result in higher premiums on the bonds sold and forecast interest rates on bond sales are now lower than forecast in November. This results in forecast premiums increasing by $18 million. The savings from higher premiums, is partially offset by lower short-term interest rates on cash balances in the bond proceeds fund and the debt service fund that produced a $10 million reduction in investment income.

FY 2010-11 Estimates Higher Debt Service Costs

Projected debt service for FY 2010-11 is $991 million, up $4 million from November estimates.

The state expects to refinance outstanding bonds in April 2008. Savings from the refinancing is expected to be $16 million more than was forecast in November. These savings are offset by a $21 million reduction in investment income and $3 million higher premiums paid on bonds sold as a result of lower forecast interest rates.

The forecast assumes future capital budgets of $645 million in each even numbered legislative session and $120 million in each odd numbered legislative session.

Alternative Forecast Comparison
Real GDP (Annual Rates)

	07III	07IV	08I	08II	08III	08IV	07A	08A	09A
GII Baseline (02-08)	4.9	0.6	-0.4	-0.5	3.4	2.7	2.2	1.4	2.2
Blue Chip (02-08)	4.9	0.6	0.5	1.1	2.3	2.5	2.2	1.7	2.6
Moody's Economy.Com (02-08)	4.9	0.6	-0.3	-0.3	3.5	4.0	2.2	1.5	3.4
Ameriprise (02-08)	4.9	0.6	2.5	3.6	4.8	2.4	2.5	3.4	0.8
UBS (02-08)	4.9	0.6	-1.0	-1.5	1.5	2.8	2.2	0.8	2.5
Standard & Poors (02-08)	4.9	0.6	-0.7	-0.7	2.3	NA	2.2	1.2	1.9

Consumer Price Index (Annual Rates)

	07III	07IV	08I	08II	08III	08IV	07A	08A	09A
GII Baseline (02-08)	1.9	4.3	2.8	2.1	1.9	1.3	2.9	2.5	1.5
Blue Chip (02-08)	1.9	4.3	3.2	2.2	2.2	2.1	2.9	3.0	2.2
Moody's Economy.Com (02-08)	1.9	4.3	2.3	2.1	1.7	2.3	2.9	2.7	2.0
Ameriprise* (02-08)	1.9	4.3	3.5	2.6	2.7	2.8	4.0*	2.9*	3.9*
UBS (02-08)	1.9	4.3	3.3	1.1	0.6	1.4	2.9	2.6	1.7
Standard & Poors (02-08)	1.9	4.3	2.8	0.9	1.5	NA	2.9	2.5	1.6

*4Q/4Q

Forecast Comparisons

Real Economic Growth

(Annual Percent Change in Real GDP)

	2006	2007	2008	2009	2010	2011
Feb 03 GII Control	3.1	2.9				
Nov 03 GII Control	3.6	2.9				
Feb 04 GII Control	3.6	2.9				
Nov 04 GII Baseline	3.6	3.1	3.1	3.2		
Feb 05 GII Baseline	3.1	3.2	3.1	3.3		
Nov 05 GII Baseline	3.4	3.1	3.4	3.1		
Feb 06 GII Baseline	3.3	2.7	2.9	3.2		
Nov 06 GII Baseline	3.3	2.4	3.1	3.3	3.3	2.9
Feb 07 GII Baseline	3.4	2.7	3.0	3.2	3.1	2.7
Nov 07 GII Baseline	2.9	2.1	1.9	2.9	2.9	2.8
Feb 08 GII Baseline	2.9	2.2	1.4	2.2	3.0	3.2

Inflation
(Annual Percent Change in CPI-U)

Feb 03 GII Control	2.2	2.5				
Nov 03 GII Control	2.0	2.5				
Feb 04 GII Control	1.5	2.5				
Nov 04 GII Baseline	1.3	1.7	1.9	2.1		
Feb 05 GII Baseline	1.6	2.0	2.1	2.2		
Nov 05 GII Baseline	2.6	1.5	2.0	2.2		
Feb 06 GII Baseline	2.5	1.8	2.0	1.9		
Nov 06 GII Baseline	3.3	2.1	1.9	1.8	1.8	1.7
Feb 07 GII Baseline	3.2	1.5	2.3	2.1	1.9	2.0
Nov 07 GII Baseline	3.2	2.9	2.0	1.6	1.9	1.8
Feb 08 GII Baseline	3.2	2.9	2.5	1.6	1.9	1.8

Minnesota - U.S. Comparison Report

February 2008 Baseline

(Annual Percent Changes)

	2003	2004	2005	2006	2007	2008	2009
Wage and Salary Income							
United States	2.6	5.5	5.1	6.2	5.8	3.6	4.1
Minnesota	3.1	5.0	2.8	4.8	5.5	2.5	3.2
Implied Annual Wage							
United States	2.9	4.4	3.3	4.0	4.6	3.4	3.3
Minnesota	3.3	4.3	1.1	3.4	5.0	3.1	3.0
Non-Farm Employment							
United States	-0.3	1.1	1.7	1.8	1.1	0.3	0.7
Minnesota	-0.1	0.8	1.6	1.3	0.4	-0.5	0.2
Personal Income							
United States	3.2	6.2	5.9	6.6	6.2	4.1	4.4
Minnesota	4.1	5.9	3.9	5.0	6.4	3.9	3.6

COMPARISON OF ACTUAL AND ESTIMATED

NON-RESTRICTED REVENUES

January YTD 2007, FY 2008

($ IN THOUSANDS)

	FORECAST REVENUES	ACTUAL REVENUES	VARIANCE ACT-FCST
Individual Income Tax			
Withholding	3,518,175	3,525,067	6,891
Declarations	893,100	884,637	-8,463
Miscellaneous	188,222	198,912	10,690
Gross	4,599,497	4,608,616	9,118
Refund	169,224	173,489	4,264
Net	4,430,273	4,435,127	4,854
Corporate & Bank Excise			
Declarations	518,765	518,824	60
Miscellaneous	109,764	126,823	17,059
Gross	628,529	645,647	17,119
Refund	82,642	116,080	33,438
Net	545,886	529,568	-16,319
Sales Tax			
Gross	2,744,986	2,725,240	-19,745
Refunds	137,085	130,169	-6,916
Net	2,607,901	2,595,071	-12,829
Motor Vehicle Sales Tax	104,541	107,222	2,681
Other Revenues:			
Estate	71,284	83,024	11,740
Liquor/Wine/Beer	38,825	38,984	160
Cigarette/Tobacco/Cont Sub	98,119	98,294	176
Deed and Mortgage	105,473	110,321	4,848
Insurance Gross Earnings	127,014	126,971	-44
Lawful Gambling	26,089	24,555	-1,534
Health Care Surcharge	122,828	124,627	1,799
Other Taxes	417	1,197	780
Statewide Property Tax	308,357	317,858	9,501
DHS SOS Collections	33,990	35,457	1,467
Income Tax Reciprocity	69,050	69,050	0
Investment Income	48,136	61,864	13,728
Tobacco Settlement	180,383	182,004	1,621
Departmental Earnings	163,035	158,207	-4,828
Fines and Surcharges	49,158	30,224	-18,934
Lottery Revenues	22,262	22,197	-65
Revenues yet to be allocated	1,671	1,340	-331
Residual Revenues	32,117	49,371	17,254
Sales Tax Rebates (all years)	0	0	0
County Nursing Home, Pub Hosp IC	3,940	3,940	0
Other Subtotal	1,502,148	1,539,486	37,338
Other Refunds	28,129	23,036	-5,093
Other Net	1,474,019	1,516,450	42,431
Total Gross	**9,579,701**	**9,626,212**	**46,511**
Total Refunds	**417,080**	**442,773**	**25,693**
Total Net	**9,162,621**	**9,183,439**	**20,818**

Factors Affecting the Individual Income Tax

($ in billions)

	Calendar Year					
	2004	2005	2006	2007	2008	2009
Minnesota Non-Farm Tax Base						
February 2004 Baseline	152.201	160.413				
November 2004 Baseline	149.277	156.214	163.506	171.373		
February 2005 Baseline	149.075	156.519	163.983	172.200		
November 2005 Baseline	147.263	153.310	161.799	170.983		
February 2006 Baseline	148.030	153.618	161.561	170.274		
November 2006 Baseline	148.372	152.872	161.271	169.111	177.669	187.572
February 2007 Baseline	148.367	152.927	160.564	169.026	178.408	189.146
November 2007 Baseline	149.206	154.513	162.525	171.000	176.126	182.836
February 2008 Baseline	149.174	154.506	162.284	171.215	176.042	182.122
Minnesota Wage and Salary Income						
February 2004 Baseline	103.570	108.910				
November 2004 Baseline	103.632	109.075	114.465	120.202		
February 2005 Baseline	103.416	108.997	114.473	120.360		
November 2005 Baseline	104.225	108.959	114.328	119.824		
February 2006 Baseline	104.992	108.639	113.713	118.957		
November 2006 Baseline	104.680	107.783	113.827	119.133	124.673	130.636
February 2007 Baseline	104.677	107.838	113.045	118.579	124.034	130.567
November 2007 Baseline	104.907	107.782	113.369	119.589	122.871	127.595
February 2008 Baseline	104.886	107.777	112.953	119.173	122.189	126.100
Minnesota Property Income						
February 2004 Baseline	36.027	38.197				
November 2004 Baseline	32.956	33.650	34.760	36.088		
February 2005 Baseline	32.978	34.014	35.200	36.744		
November 2005 Baseline	30.825	31.190	33.432	36.204		
February 2006 Baseline	30.824	31.610	33.754	36.367		
November 2006 Baseline	32.230	32.802	34.633	36.654	38.739	41.925
February 2007 Baseline	32.229	32.802	34.659	37.168	40.223	43.666
November 2007 Baseline	32.469	34.121	36.063	38.161	39.560	40.713
February 2008 Baseline	32.642	34.120	36.251	38.852	40.162	41.289
Minnesota Proprietors’ Income						
February 2004 Baseline	12.601	13.308				
November 2004 Baseline	12.689	13.489	14.281	12.083		
February 2005 Baseline	12.681	13.507	14.309	15.156		
November 2005 Baseline	12.213	13.161	14.037	14.956		
February 2006 Baseline	12.213	13.369	14.093	14.950		
November 2006 Baseline	11.461	12.287	12.811	13.324	14.256	15.017
February 2007 Baseline	11.461	12.287	12.861	13.279	14.150	14.912
November 2007 Baseline	11.830	12.610	13.093	13.251	13.694	14.529
February 2008 Baseline	11.826	12.610	13.080	13.192	13.691	14.733

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

($ in billions)

	Fiscal Year					
	2004	2005	2006	2007	2008	2009
SALES TAX						
Minnesota Synthetic Sales Tax Base						
November 2005 Baseline	66.460	70.850	74.979	77.651		
Pct		6.6%	5.83%	3.6%		
February 2006 Baseline	66.355	70.553	74.807	77.366		
Pct		6.3%	6.0%	3.4%		
November 2006 Baseline	67.141	70.888	74.170	76.219	78.115	81.901
Pct			4.63%	2.76%	2.49%	4.85%
*February 2007 Baseline		67.609	70.497	72.139	73.905	77.157
Pct		5.4%	4.3%	2.3%	2.4%	4.4%
*November 2007 Baseline		66.116	68.299	69.405	70.381	70.572
Pct		5.0%	3.3%	1.6%	1.4%	0.3%
*February 2008 Baseline		66.130	68.299	69.342	70.593	70.388
Pct		5.0%	3.3%	1.5%	1.8%	-0.3%
Minnesota's Proxy Share of U.S. Consumer Durable Spending (Excluding Autos)						
November 2005 Baseline	11.775	12.456	12.849	12.265		
February 2006 Baseline	11.775	12.447	12.993	13.247		
November 2006 Baseline	11.807	12.507	13.229	13.606	13.697	14.291
February 2007 Baseline	11.807	12.507	13.232	13.788	14.055	14.552
November 2007 Baseline	11.781	12.375	12.885	13.289	13.525	13.229
February 2008 Baseline	11.781	12.375	12.885	13.287	13.560	13.451
Minnesota's Proxy Share of U.S. Capital Equipment Spending						
November 2005 Baseline	10.639	11.906	12.862	13.935		
February 2006 Baseline	10.639	11.891	12.610	13.841		
November 2006 Baseline	10.329	10.845	11.616	12.443	13.204	13.778
February 2007 Baseline	10.329	10.845	11.619	12.179	12.834	13.419
November 2007 Baseline	10.295	10.975	11.698	11.822	12.227	12.404
February 2008 Baseline	10.295	10.975	11.698	11.820	12.199	12.078
Minnesota's Proxy Share of U.S. Construction Spending						
November 2005 Baseline	10.200	10.995	11.868	11.939		
February 2006 Baseline	10.200	10.996	11.714	11.729		
November 2006 Baseline	10.210	11.267	12.135	11.775	11.622	12.398
**February 2007 Baseline	7.226	7.981	8.510	8.031	7.509	7.829
***November 2007 Baseline	6.183	6.822	7.276	7.067	6.304	5.812
February 2008 Baseline	6.183	6.825	7.290	6.784	6.267	5.421

* Series revised
** New Series
*** New Series

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

($ in billions)

	Fiscal Year					
	2004	2005	2006	2007	2008	2009
SALES TAX (Cont.)						
Minnesota's Personal Income Excluding Farm Proprietors Income*						
February 2004 Baseline	178.82	187.04				
November 2004 Baseline	176.02	185.30	194.41	204.46		
February 2005 Baseline	175.82	184.34	194.76	204.77		
November 2005 Baseline	177.36	188.44	196.70	207.71		
February 2006 Baseline	177.36	188.18	195.47	206.78		
November 2006 Baseline	177.78	187.38	195.19	205.96	216.03	227.93
February 2007 Baseline	177.78	187.37	195.42	205.82	216.81	229.20
November 2007 Baseline	172.54	181.66	190.95	200.20	207.70	215.85
February 2008 Baseline	172.50	181.66	190.84	200.00	209.19	216.12
SALES TAX ON MOTOR VEHICLES						
Minnesota's Proxy Share of U.S. Consumption of Motor Vehicles and Parts						
February 2004 Baseline	8.770	8.891				
November 2004 Baseline	9.025	9.095	9.132	9.594		
February 2005 Baseline	9.025	9.207	9.140	9.495		
November 2005 Baseline	8.989	9.185	8.925	9.340		
February 2006 Baseline	8.990	9.194	8.919	9.258		
November 2006 Baseline	8.882	9.110	9.018	9.061	8.993	9.292
February 2007 Baseline	8.837	9.396	8.963	8.951	9.159	9.597
November 2007 Baseline	8.875	9.093	8.869	8.892	8.681	8.852
February 2008 Baseline	8.913	9.062	8.803	8.887	8.383	8.748
CORPORATE FRANCHISE TAX		**Calendar Year**				
U.S. Corporate Profits						
February 2004 Baseline	1,016.8	997.5**				
November 2004 Baseline	810.3	949.5**	1,019.7**	1,010.9**		
February 2005 Baseline	810.3	945.5**	971.8**	965.8**		
November 2005 Baseline	853.5	1,016.9**	1,137.8**	1,299.8**		
February 2006 Baseline	853.3	1,016.9**	1,137.8**	1,329.9**		
November 2006 Baseline	837.1	1,039.6**	1,237.4**	1,460.7**	1,481.5**	1,382.8**
February 2007 Baseline	837.1	1,039.6**	1,237.4**	1,460.7**	1,617.8**	1,463.6**
November 2007 Baseline	1,011.3**	1,181.5**	1,368.6**	1,392.4**	1,302.8**	1,355.1**
February 2008 Baseline	1,011.3**	1,181.5**	1,368.6**	1,373.7**	1,310.7**	1,326.7**

* Bureau of Economic Analysis Concept

** Finance Dept Estimate

FY 2008-09 General Fund Budget
February 2008 Forecast
($ in thousands)

	FY 2008	FY 2009	Biennial Total
Actual & Estimated Resources			
Balance Forward From Prior Year	2,244,935	1,299,021	2,244,935
Current Resources:			
Tax Revenues	15,067,238	15,140,330	30,207,568
Non-Tax Revenues	783,730	738,326	1,522,056
Subtotal - Non-Dedicated Revenue	15,850,968	15,878,656	31,729,624
Dedicated Revenue	74,985	64,313	139,298
Transfers In	317,549	305,477	623,026
Prior Year Adjustments	25,000	25,000	50,000
Subtotal - Other Revenue	417,534	394,790	812,324
Subtotal-Current Resources	16,268,502	16,273,446	32,541,948
Total Resources Available	**18,513,437**	**17,572,467**	**34,786,883**
Actual & Estimated Spending			
K-12 Education	6,852,579	6,955,806	13,808,385
K-12 Shift Buyback	(11,058)	7,248	(3,810)
Subtotal K-12 Education	6,841,521	6,963,054	13,804,575
Higher Education	1,570,749	1,584,413	3,155,162
Property Tax Aids & Credits	1,570,222	1,581,614	3,151,836
Health & Human Services	4,669,323	5,033,876	9,703,199
Public Safety	932,254	954,379	1,886,633
Transportation	143,586	106,055	249,641
Environment, Energy & Natural Resources	256,747	193,835	450,582
Agriculture & Veterans	145,673	129,974	275,647
Economic Development	256,128	140,725	396,853
State Government	350,034	314,418	664,452
Debt Service	409,296	459,525	868,821
Capital Projects	10,250	10,250	20,500
Estimated Cancellations	(6,164)	(15,000)	(21,164)
Subtotal Expenditures & Transfers	**17,149,619**	**17,457,118**	**34,606,737**
Dedicated Expenditures	64,797	46,913	111,710
Total Expenditures & Transfers	**17,214,416**	**17,504,031**	**34,718,447**
Balance Before Reserves	**1,299,021**	**68,436**	**68,436**
Cash Flow Account	350,000	350,000	350,000
Budget Reserve	653,000	653,000	653,000
Budgetary Balance	**296,021**	**(934,564)**	**(934,564)**

FY 2008-09 General Fund Forecast Change
February 2008 vs November 2007
($ in thousands)

	11-07 Fcst FY 2008-09	2-08 Fcst FY 2008-09	$ Difference
Actual & Estimated Resources			
Balance Forward From Prior Year	2,244,935	2,244,935	0
Current Resources:			
Tax Revenues	30,694,562	30,207,568	(486,994)
Non-Tax Revenues	1,537,268	1,522,056	(15,212)
Subtotal - Non-Dedicated Revenue	32,231,830	31,729,624	(502,206)
Dedicated Revenue	156,998	139,298	(17,700)
Transfers In	633,476	623,026	(10,450)
Prior Year Adjustments	50,000	50,000	0
Subtotal - Other Revenue	840,474	812,324	(28,150)
Subtotal-Current Resources	33,072,304	32,541,948	(530,356)
Total Resources Available	**35,317,239**	**34,786,883**	**(530,356)**
Actual & Estimated Spending			
K-12 Education	13,791,476	13,808,385	16,909
K-12 Shift Buyback	(3,810)	(3,810)	0
Subtotal K-12 Education	13,787,666	13,804,575	16,909
Higher Education	3,155,162	3,155,162	0
Property Tax Aids & Credits	3,154,482	3,151,836	(2,646)
Health & Human Services	9,629,584	9,703,199	73,615
Public Safety	1,886,633	1,886,633	0
Transportation	249,641	249,641	0
Environment, Energy & Natural Resources	450,037	450,582	545
Agriculture & Veterans	275,647	275,647	0
Economic Development	396,853	396,853	0
State Government	664,277	664,452	175
Debt Service	875,761	868,821	(6,940)
Capital Projects	20,500	20,500	0
Estimated Cancellations	(21,164)	(21,164)	0
Subtotal Expenditures & Transfers	**34,525,079**	**34,606,737**	**81,658**
Dedicated Expenditures	129,410	111,710	(17,700)
Total Expenditures & Transfers	**34,654,489**	**34,718,447**	**63,958**
Balance Before Reserves	**662,750**	**68,436**	**(594,314)**
Cash Flow Account	350,000	350,000	0
Budget Reserve	685,667	653,000	(32,667)
Budgetary Balance	**(372,917)**	**(934,564)**	**(561,647)**

FY 2010-11 General Fund Planning Estimates Change
February 2008 vs November 2007
($ in thousands)

	11-07 Plng Est FY 2010-11	2-08 Plng Est FY 2010-11	$ Difference
Actual & Estimated Resources			
Balance Forward From Prior Year	662,750	68,436	(594,314)
Current Resources:			
Tax Revenues	33,392,891	32,787,831	(605,060)
Non-Tax Revenues	1,520,981	1,491,476	(29,505)
Subtotal - Non-Dedicated Revenue	34,913,872	34,279,307	(634,565)
Dedicated Revenue	136,026	117,626	(18,400)
Transfers In	613,319	597,324	(15,995)
Prior Year Adjustments	50,000	50,000	0
Subtotal - Other Revenue	799,345	764,950	(34,395)
Subtotal-Current Resources	35,713,217	35,044,257	(668,960)
Total Resources Available	**36,375,967**	**35,112,693**	**(1,263,274)**
Actual & Estimated Spending			
K-12 Education	13,805,385	13,876,426	71,041
Higher Education	3,191,030	3,191,030	0
Property Tax Aids & Credits	3,203,756	3,209,303	5,547
Health & Human Services	10,987,782	11,128,920	141,138
Public Safety	1,906,244	1,906,244	0
Transportation	212,054	212,054	0
Environment, Energy & Natural Resources	376,155	378,373	2,218
Agriculture & Veterans	250,096	250,096	0
Economic Development	281,318	281,318	0
State Government	621,429	621,622	193
Debt Service	987,305	991,148	3,843
Capital Projects	20,500	20,500	0
Estimated Cancellations	(20,000)	(20,000)	0
Subtotal Expenditures & Transfers	**35,823,054**	**36,047,034**	**223,980**
Dedicated Expenditures	101,226	82,826	(18,400)
Total Expenditures & Transfers	**35,924,280**	**36,129,860**	**205,580**
Balance Before Reserves	**451,687**	**(1,017,167)**	**(1,468,854)**
Cash Flow Account	350,000	350,000	0
Budget Reserve	653,000	653,000	0
Budgetary Balance	**(551,313)**	**(2,020,167)**	**(1,468,854)**
Structural Balance	***(211,063)***	***(1,085,603)***	***(874,540)***

Comparison: February 2008 Forecast vs End-of-Session
FY 2008-09 General Fund
($ in thousands)

	9-07 Enacted FY 2008-09	2-08 Fcst FY 2008-09	$ Difference
Actual & Estimated Resources			
Balance Forward From Prior Year	2,106,087	2,244,935	138,848
Current Resources:			
Tax Revenues	31,441,264	30,207,568	(1,233,696)
Non-Tax Revenues	1,524,720	1,522,056	(2,664)
Subtotal - Non-Dedicated Revenue	32,965,984	31,729,624	(1,236,360)
Dedicated Revenue	156,998	139,298	(17,700)
Transfers In	638,579	623,026	(15,553)
Prior Year Adjustments	50,000	50,000	0
Subtotal - Other Revenue	845,577	812,324	(33,253)
Subtotal-Current Resources	33,811,561	32,541,948	(1,269,613)
Total Resources Available	**35,917,648**	**34,786,883**	**(1,130,765)**
Actual & Estimated Spending			
K-12 Education	13,784,771	13,808,385	23,614
K-12 Shift Buyback	(3,810)	(3,810)	0
Subtotal K-12 Education	13,780,961	13,804,575	23,614
Higher Education	3,155,158	3,155,162	4
Property Tax Aids & Credits	3,109,342	3,151,836	42,494
Health & Human Services	9,606,620	9,703,199	96,579
Public Safety	1,886,474	1,886,633	159
Transportation	249,402	249,641	239
Environment, Energy & Natural Resources	448,020	450,582	2,562
Agriculture & Veterans	272,374	275,647	3,273
Economic Development	389,116	396,853	7,737
State Government	656,096	664,452	8,356
Debt Service	913,145	868,821	(44,324)
Capital Projects	20,500	20,500	0
Estimated Cancellations	(21,164)	(21,164)	0
Subtotal Expenditures & Transfers	**34,466,044**	**34,606,737**	**140,693**
Dedicated Expenditures	122,198	111,710	(10,488)
Total Expenditures & Transfers	**34,588,242**	**34,718,447**	**130,205**
Balance Before Reserves	**1,329,406**	**68,436**	**(1,260,970)**
Cash Flow Account	350,000	350,000	0
Budget Reserve	685,667	653,000	(32,667)
Budgetary Balance	**293,739**	**(934,564)**	**(1,228,303)**

Comparison: February 2008 Forecast vs End-of-Session
FY 2010-11 General Fund
($ in thousands)

	9-07 Plng Est FY 2010-11	2-08 Plng Est FY 2010-11	$ Difference
Actual & Estimated Resources			
Balance Forward From Prior Year	1,329,406	68,436	(1,260,970)
Current Resources:			
Tax Revenues	34,585,863	32,787,831	(1,798,032)
Non-Tax Revenues	1,505,194	1,491,476	(13,718)
Subtotal - Non-Dedicated Revenue	36,091,057	34,279,307	(1,811,750)
Dedicated Revenue	89,426	117,626	28,200
Transfers In	612,745	597,324	(15,421)
Prior Year Adjustments	50,000	50,000	0
Subtotal - Other Revenue	752,171	764,950	12,779
Subtotal-Current Resources	36,843,228	35,044,257	(1,798,971)
Total Resources Available	**38,172,634**	**35,112,693**	**(3,059,941)**
Actual & Estimated Spending			
K-12 Education	13,701,275	13,876,426	175,151
Higher Education	3,191,030	3,191,030	0
Property Tax Aids & Credits	3,120,645	3,209,303	88,658
Health & Human Services	10,982,384	11,128,920	146,536
Public Safety	1,906,291	1,906,244	(47)
Transportation	212,054	212,054	0
Environment, Energy & Natural Resources	375,534	378,373	2,839
Agriculture & Veterans	250,216	250,096	(120)
Economic Development	281,272	281,318	46
State Government	621,406	621,622	216
Debt Service	1,009,391	991,148	(18,243)
Capital Projects	20,500	20,500	0
Estimated Cancellations	(20,000)	(20,000)	0
Subtotal Expenditures & Transfers	**35,651,998**	**36,047,034**	**395,036**
Dedicated Expenditures	54,626	82,826	28,200
Total Expenditures & Transfers	**35,706,624**	**36,129,860**	**423,236**
Balance Before Reserves	**2,466,010**	**(1,017,167)**	**(3,483,177)**
Cash Flow Account	350,000	350,000	0
Budget Reserve	653,000	653,000	0
Budgetary Balance	**1,463,010**	**(2,020,167)**	**(3,483,177)**
Structural Balance	***1,136,604***	***(1,085,603)***	***(2,222,207)***

Current Biennium vs Previous Biennium
February 2008 General Fund Forecast
($ in thousands)

	Closing FY 2006-07	2-08 Fcst FY 2008-09	$ Difference	% Change
Actual & Estimated Resources				
Balance Forward From Prior Year	1,393,086	2,244,935	851,849	61.1%
Current Resources:				
Tax Revenues	29,680,960	30,207,568	526,608	1.8%
Non-Tax Revenues	1,737,809	1,522,056	(215,753)	-12.4%
Subtotal - Non-Dedicated Revenue	31,418,769	31,729,624	310,855	1.0%
Dedicated Revenue	84,872	139,298	54,426	64.1%
Transfers In	787,930	623,026	(164,904)	-20.9%
Prior Year Adjustments	49,820	50,000	0	0.4%
Subtotal - Other Revenue	922,622	812,324	(110,298)	-12.0%
Subtotal-Current Resources	32,341,391	32,541,948	200,557	0.6%
Total Resources Available	**33,734,477**	**34,786,883**	**1,052,406**	**3.1%**
Actual & Estimated Spending				
K-12 Education	12,738,967	13,808,385	1,069,418	
K-12 Shift Buyback	609,435	(3,810)	(613,245)	
Subtotal K-12 Education	13,348,402	13,804,575	456,173	3.4%
Higher Education	2,761,530	3,155,162	393,632	14.3%
Property Tax Aids & Credits	3,022,998	3,151,836	128,838	4.3%
Health & Human Services	8,220,658	9,703,199	1,482,541	18.0%
Public Safety	1,706,389	1,886,633	180,244	10.6%
Transportation	215,536	249,641	34,105	15.8%
Environment, Energy & Natural Resources	330,868	450,582	119,714	36.2%
Agriculture & Veterans	202,532	275,647	73,115	36.1%
Economic Development	294,965	396,853	101,888	34.5%
State Government	557,356	664,452	107,096	19.2%
Debt Service	752,098	868,821	116,723	15.5%
Capital Projects	0	20,500	20,500	n/m
Deficiencies/Other	14,859	0	(14,859)	n/m
Estimated Cancellations	0	(21,164)	(21,164)	n/m
Subtotal Expenditures & Transfers	**31,428,191**	**34,606,737**	**3,178,546**	**10.1%**
Dedicated Expenditures	61,351	111,710	50,359	82.1%
Total Expenditures & Transfers	**31,489,542**	**34,718,447**	**3,228,905**	**10.3%**
Balance Before Reserves	**2,244,935**	**68,436**	**(2,176,499)**	
Cash Flow Account	350,000	350,000	0	
Budget Reserve	653,000	653,000	0	
Tax Relief Account	109,660	0	(109,660)	
Appropriations Carried Forward	32,658	0	(32,658)	
Budgetary Balance	**1,099,617**	**(934,564)**	**(2,034,181)**	

FY 2006-11 Planning Horizon
February 2008 General Fund Forecast
($ in thousands)

	Closing FY 2006-07	2-08 Fcst FY 2008-09	2-08 Plng Est FY 2010-11
Actual & Estimated Resources			
Balance Forward From Prior Year	1,393,086	2,244,935	68,436
Current Resources:			
Tax Revenues	29,680,960	30,207,568	32,787,831
Non-Tax Revenues	1,737,809	1,522,056	1,491,476
Subtotal - Non-Dedicated Revenue	31,418,769	31,729,624	34,279,307
Dedicated Revenue	84,872	139,298	117,626
Transfers In	787,930	623,026	597,324
Prior Year Adjustments	49,820	50,000	50,000
Subtotal - Other Revenue	922,622	812,324	764,950
Subtotal-Current Resources	32,341,391	32,541,948	35,044,257
Total Resources Available	**33,734,477**	**34,786,883**	**35,112,693**
Actual & Estimated Spending			
K-12 Education	12,738,967	13,808,385	13,876,426
K-12 Shift Buyback	609,435	(3,810)	0
Subtotal K-12 Education	13,348,402	13,804,575	13,876,426
Higher Education	2,761,530	3,155,162	3,191,030
Property Tax Aids & Credits	3,022,998	3,151,836	3,209,303
Health & Human Services	8,220,658	9,703,199	11,128,920
Public Safety	1,706,389	1,886,633	1,906,244
Transportation	215,536	249,641	212,054
Environment, Energy & Natural Resources	330,868	450,582	378,373
Agriculture & Veterans	202,532	275,647	250,096
Economic Development	294,965	396,853	281,318
State Government	557,356	664,452	621,622
Debt Service	752,098	868,821	991,148
Capital Projects	0	20,500	20,500
Deficiencies/Other	14,859	0	0
Estimated Cancellations	0	(21,164)	(20,000)
Subtotal Expenditures & Transfers	**31,428,191**	**34,606,737**	**36,047,034**
Dedicated Expenditures	61,351	111,710	82,826
Total Expenditures & Transfers	**31,489,542**	**34,718,447**	**36,129,860**
Balance Before Reserves	**2,244,935**	**68,436**	**(1,017,167)**
Cash Flow Account	350,000	350,000	350,000
Budget Reserve	653,000	653,000	653,000
Tax Relief Account	109,660	0	0
Appropriations Carried Forward	32,658	0	0
Budgetary Balance	**1,099,617**	**(934,564)**	**(2,020,167)**

Historical and Projected Revenue Growth

General Fund, February 2008 Forecast

($ in millions)	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	Average Annual
Individual Income Tax	$6,863	$7,231	$7,589	$7,756	$8,320	$9,122	
$ change		368	358	167	564	802	
% change		**5.4%**	**5.0%**	**2.2%**	**7.3%**	**9.6%**	**5.9%**
Sales Tax	4,464	4,506	4,575	4,570	4,665	4,866	
$ change		42	69	(5)	95	201	
% change		**0.9%**	**1.5%**	**-0.1%**	**2.1%**	**4.3%**	**1.7%**
Corporate Tax	1,062	1,171	903	857	913	953	
$ change		109	(268)	(46)	56	40	
% change		**10.3%**	**-22.9%**	**-5.1%**	**6.5%**	**4.4%**	**-2.1%**
Statewide Property Tax	631	666	703	739	765	782	
$ change		34	37	37	26	17	
% change		**5.5%**	**5.5%**	**5.2%**	**3.6%**	**2.2%**	**4.4%**
Motor Vehicle Sales	250	247	176	117	77	31	
$ change		(2)	(71)	(60)	(39)	(47)	
% change		**-1.0%**	**-28.6%**	**-33.8%**	**-33.8%**	**-60.1%**	**-34.1%**
Other Tax Revenue	1,380	1,211	1,121	1,101	1,125	1,167	
$ change		(169)	(90)	(20)	24	42	
% change		**-12.2%**	**-7.5%**	**-1.8%**	**2.2%**	**3.7%**	**-3.3%**
Total Tax Revenue	$14,649	$15,032	$15,067	$15,140	$15,866	$16,921	
$ change		383	35	73	726	1,055	
% change		**2.6%**	**0.2%**	**0.5%**	**4.8%**	**6.6%**	**2.9%**
Non-Tax Revenues	861	876	784	738	747	744	
$ change		15	(93)	(45)	9	(3)	
% change		**1.7%**	**-10.6%**	**-5.8%**	**1.2%**	**-0.4%**	**-2.9%**
Dedicated, Transfers, Other	452	471	418	395	385	380	
$ change		19	(53)	(23)	(10)	(4)	
% change		**4.1%**	**-11.3%**	**-5.4%**	**-2.6%**	**-1.2%**	**-3.4%**
Total Current Resources	$15,962	$16,379	$16,269	$16,273	$16,998	$18,046	
$ change		417	(111)	5	725	1,047	
% change		**2.6%**	**-0.7%**	**0.0%**	**4.5%**	**6.2%**	**2.5%**

Historical and Projected Spending Growth

General Fund, February 2008 Forecast

($ in millions)	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	Average Annual
K-12 Education	$6,301	$6,438	$6,853	$6,956	$6,904	$6,972	
$ change		138	414	103	(51)	67	
% change		**2.2%**	**6.4%**	**1.5%**	**-0.7%**	**1.0%**	**2.0%**
Higher Education	1,348	1,414	1,571	1,584	1,595	1,596	
$ change		66	157	14	11	0	
% change		**4.9%**	**11.1%**	**0.9%**	**0.7%**	**0.0%**	**3.4%**
Prop. Tax Aids & Credits	1,464	1,559	1,570	1,582	1,598	1,611	
$ change		96	11	11	16	14	
% change		**6.5%**	**0.7%**	**0.7%**	**1.0%**	**0.9%**	**1.9%**
Health & Human Services	3,910	4,311	4,669	5,034	5,411	5,718	
$ change		401	358	365	377	307	
% change		**10.3%**	**8.3%**	**7.8%**	**7.5%**	**5.7%**	**7.9%**
Public Safety	812	895	932	954	951	955	
$ change		83	37	22	(3)	4	
% change		**10.3%**	**4.2%**	**2.4%**	**-0.4%**	**0.5%**	**3.3%**
Debt Service	352	400	409	460	472	519	
$ change		47	10	50	12	48	
% change		**13.4%**	**2.4%**	**12.3%**	**2.7%**	**10.1%**	**8.1%**
All Other	1,356	931	1,210	934	917	910	
$ change		(426)	279	(276)	(18)	(7)	
% change		**-31.4%**	**30.0%**	**-22.8%**	**-1.9%**	**-0.7%**	**-7.7%**
Total Spending	$15,542	$15,947	$17,214	$17,504	$17,848	$18,282	
$ change		405	1,267	290	344	434	
% change		**2.6%**	**7.9%**	**1.7%**	**2.0%**	**2.4%**	**3.3%**