MINNESOTA Management & Budget

February 2009

February Forecast

HIGHLIGHTS

$4.6 Billion Shortfall Forecast for 2010-11 Biennium

There has been no material change in Minnesota's FY 2010-11 budget outlook. There have, however, been significant changes affecting the forecast. A $1.166 billion reduction in forecast revenues caused by further deterioration in the U.S. economic outlook was more than offset by $1.359 billion in general fund assistance from the federal stimulus package. After factoring in a small ($152 million) spending increase and the carry-forward of FY 2009's projected ending balance ($236 million) the projected shortfall for the 2010-11 biennium falls by $277 million to $4.570 billion. In November the shortfall was $4.847 billion. In both this forecast and the November forecast expected revenues fall short of projected expenditures by more than 13 percent.

$236 Million Balance Now Projected for FY 2009

A budget deficit is no longer forecast for the 2008-09 biennium. Minnesota is now expected to end the 2008-09 biennium with a balance of $236 million and a $350 million cash flow account. The deficit was eliminated by withdrawing the remaining $155 million from the budget reserve and unalloting $271 million. Expected federal stimulus aid of $464 million was more than sufficient to offset a forecast reduction in FY 2009 revenues.

A Longer and Deeper Recession Is Now Forecast

We are currently in what is likely to be the longest and deepest recession since World War II. Global Insight expects real GDP to fall by 2.7 percent in 2009. November's baseline called for a 1 percent decline. The stimulus is expected to shorten the recession. The economy now is expected to begin growing again by early fall. But job growth is not expected to resume until early 2010. Through January, U.S. payroll employment has fallen by more than 3.6 million. Further job losses of more than 2.5 million are expected through the end of 2009.

Federal Stimulus Aid Helps, But It Is Not a Permanent Budget Solution

One-time federal stimulus aid helps in the upcoming biennium. But it only reduces budgetary pressures through FY 2011. In FY 2012-13 revenues are now expected to be $5.133 billion less than projected expenditures before adjusting for inflation.

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BUDGET UPDATE AND OUTLOOK

FY 2010-11 Budget Shortfall Is $4.570 Billion, but $236 Million Balance Forecast for FY 2008-09

The short term outlook for the U.S. economy has deteriorated significantly since November's forecast. Over the past 3 months the nation has lost nearly 1.8 million jobs and the end of this downward spiral is not yet in sight. Most observers now believe the national recession will be the longest and deepest since World War II. The recently approved federal stimulus package will help, but even under the most optimistic assumptions the tax relief and spending increases it contains are not expected to stabilize the national economy until late 2009.

Minnesota's economy is also expected to struggle, but the weaker economic outlook has not translated into large changes in the state budget outlook. State revenues do decline more than forecast in November, but after taking into account the projected budgetary impacts of the stimulus package and the actions taken by the Governor to eliminate the projected FY 2009 deficit Minnesota's fiscal position has not changed materially from that reported in November. For the 2010-11 biennium a budget shortfall of $4.570 billion is forecast. A $236 million balance is now projected for FY 2008-09.

FY 2009-2011 Forecast Changes
Compared to November
($ in millions)

	FY 2009	FY 2010-11
November Forecast Shortfall	**($426)**	**($4,847)**
Changes:		
Budget Reserve Used	155	—
Governor's Unallotment	271	—
February Forecast Changes	(228)	(1,318)
Federal Stimulus	464	1,359
February Forecast Balance	$236	($4,806)
Budget Deficit FY 2009-11		**($4,570)**

The larger than anticipated downturn in the economy has reduced state revenues through the end of the forecast horizon. Other things equal the further decline in the national economic outlook would have increased the 2008-09 budget deficit by $228 million and $1.318 billion for the 2010-11 biennium. But the federal stimulus package, coupled with use of the budget reserve and the Governor's unallotment more than offset the additional projected decline in revenue and increase in spending.

Budget Balance of $236 Million Projected for 2008-09 Biennium

Minnesota's general fund revenues are now forecast to total $32.232 billion in the 2008-09 biennium, $213 million (0.7 percent) less than forecast in November. State general fund expenditures are now expected to be $33.891 billion, $720 million (2.1 percent) below earlier estimates. The budget reserve has been eliminated, but the state's cash flow account continues to have a balance of $350 million.

FY 2008-09 Budget Forecast

($ in millions)

	November Forecast	February Forecast	Difference
Beginning Balance	$2,245	$2,245	—
Revenues	32,445	32,232	(213)
Expenditures	34,611	33,891	(720)
Cash Flow Acct	350	350	—
Budget Reserve	155	—	(155)
Balance	**($426)**	**$236**	**$662**

Much of the change to this forecast was unrelated to changes in the economic outlook. In December, the Governor acted to eliminate the projected deficit for FY 2009 by drawing down the state's budget reserve and unallotting $271 million. The unallotment decreased spending by $193 million and yielded $78 million in transfers. The stimulus package also improved the budget outlook by reducing projected FY 2009 spending by $464 million. Revenues would have declined by $291 million and expenditures fallen by $63 million in the absence of unallotment and the stimulus package.

Budget Shortfall of $4.570 Billion Projected for 2010-11 Biennium

General fund revenues for the next biennium are now forecast at $30.700 billion, $1.166 billion (3.8 percent) less than projected in November. Net general fund revenues for the 2010-11 biennium are projected to fall by 4.8 percent from 2008-09 levels. Excluding the unallotment related transfers, revenues fall by 4.6 percent. Expenditures are now projected to be $35.506 billion, a decline of $1.207 billion (3.3 percent) from November's estimate. The federal stimulus funding has the effect of reducing projected 2010-11 spending by $1.359 billion. Without that assistance projected expenditures for the next biennium would be $36.865 billion, an increase of 7.3 percent over the current biennium.

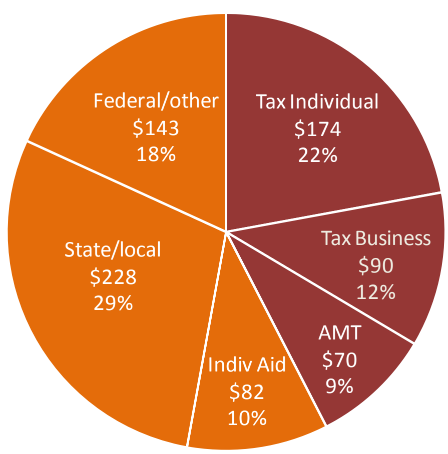
FY 2010-11 Budget Outlook
($ in millions)

	November Forecast	February Forecast	Difference
Beginning Balance	$79	$586	$508
Revenues	31,866	30,700	(1,166)
Expenditures	36,713	35,506	(1,207)
Cash Flow Acct	350	350	—
Budget Reserve	155	—	(155)
Balance	**($5,273)**	**($4,570)**	**$704**

Federal Stimulus Bill Will Provide Relief

President Obama signed the American Recovery and Reinvestment Act (ARRA) into law on February 17, 2009. The ARRA provides $787 billion of federal tax reductions and federal spending increases to accelerate the nation's economic recovery and preserve and create jobs. The Congressional Joint Committee on Taxation estimates the act contains $334 billion in tax relief between now and the close of the 2011 federal fiscal year. Individual filers receive a tax reduction of $174 billion; businesses, $90 billion. The alternative minimum tax is also reduced for tax year 2009 at a cost of $70 billion.

Composition of Federal Stimulus Bill
By Type of Tax Relief and Type of Spending



The ARRA also provides for $453 billion in additional federal spending. About 20 percent of the additional federal spending goes directly to individuals through increases in spending on programs such as food stamps. The remainder goes to pay for federal projects and to state and local governments. The National Governors Association estimates about one-half of the spending authorized by the ARRA will be directed through state and local governments.

Much of the spending is not expected to occur until 2010 or 2011. About 20 percent of ARRA authorized spending will occur before October, 2009 and an additional 38 percent is projected to be spent before October 2010. By the close of the 2011 federal fiscal year about 80 percent of stimulus package-related spending will have taken place according to Congressional Budget Office estimates.

State and local governments in Minnesota are expected to be eligible to receive nearly $4.6 billion in assistance under the ARRA. At this time, however, the forecast impact of the additional federal spending on the state's budget outlook is much smaller than that amount. Much of the spending authorized by the ARRA is dedicated to specific purposes and projects so it will have no direct impact on Minnesota's general fund outlook. For example, Minnesota is expected to be eligible to receive about $450 million in additional funds for highway and bridge construction projects. When received those funds will be directed into dedicated highway construction funds and not comingled with general fund revenues, leaving the state's general fund budget outlook unchanged.

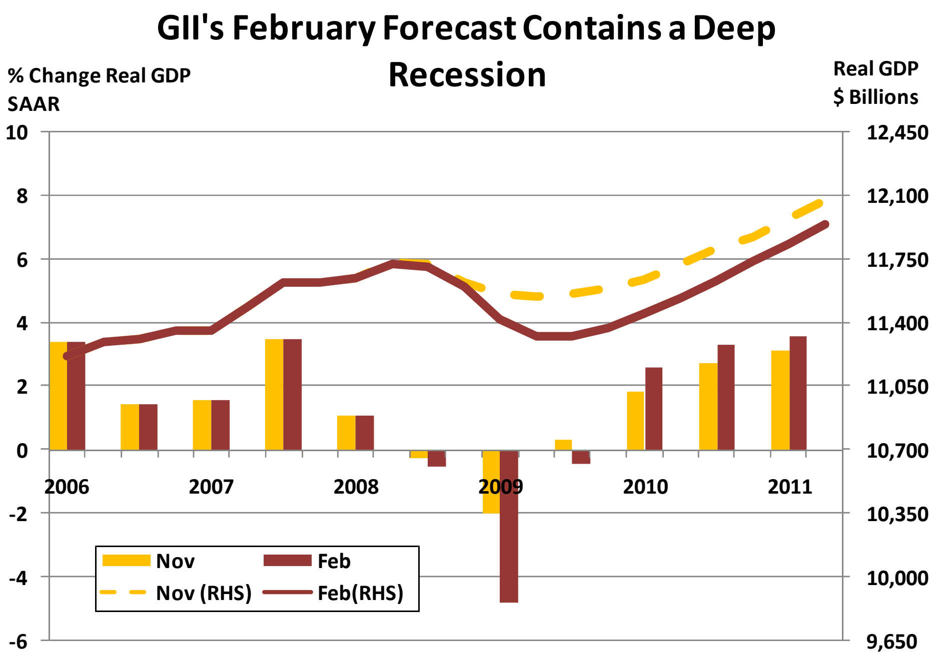
This forecast includes only one direct ARRA related budget adjustment, the change in the Federal Medical Assistance Percentage (FMAP). Unlike other federal funds, Minnesota can recognize and spend these funds within current law and without additional review. In fact, the state is already preparing to receive the retroactive portion of the FMAP increase. The change in FMAP is expected to provide Minnesota with an additional $464 million in FY 2009 and $1.359 billion in FY 2010-11. The change in the FMAP is shown in this forecast as a reduction in expenditures in FY 2009, FY 2010, and FY 2011, not as an increase in revenues.

But, It Will Not Jump-Start the U.S. Economy

The 2009 stimulus package will provide a welcome lift to the U.S. economy, but the tax reductions and spending increases it contains will not arrive soon enough to offset the large declines in real GDP already largely in place for the first and second quarters of 2009. Households are reacting to job losses and what seems like a never ending run of bad-news stories about financial institutions by cutting back their spending. The economy is now in a consumer-led recession where reduced demand for goods and services leads managers to cut back employment, which then leads to further cutbacks in demand. Since consumer spending accounts for more than 70 percent of U.S. economic activity, it will be extremely difficult for the economy to rebound until this self-reinforcing downward cycle is broken and consumer spending once again begins to grow.

The enormous decline in household net worth that has occurred during the past 18 months further complicates the problem since baby-boomers approaching retirement are likely to increase their savings to rebuild their retirement accounts. In the short term money saved is money that will not be spent. Policy makers also face the challenge of dealing with declining export demand for U.S. produced goods, since much of the rest of the world is also in recession.

February's baseline economic forecast from Global Insight (GII), Minnesota's national macro-economic consultant, calls for real GDP to decline at a 2.7 percent annual rate in 2009. The recession extends into early fall, with the economy growing at below trend rates through mid 2010. The unemployment rate reaches 9.4 percent in early 2010 and remains at that level until the fall of that year. By the end of 2009 U.S. payroll employment is expected to be 6 million below its fourth quarter 2007 peak, it then recovers very slowly. It is not until mid-2012 that the number of U.S. jobs exceeds the 2007 high. In GII's February baseline real GDP grows at a 2.0 percent annual rate in 2010 and at a 3.5 percent annual rate in 2011.



Inflation is no longer a concern, at least until the economy once again begins to grow. A CPI increase of 1.0 percent is expected for the current fiscal year; a decline of 0.7 percent is anticipated for fiscal 2010. In fiscal 2011, the CPI is projected to increase by 2.3 percent. Oil prices are expected to remain under $40 per barrel until late this year, then gradually trend higher, reaching $60 per barrel by mid 2011.

Global Insight assigns a probability of 60 percent to their baseline forecast, the same as in November. Their optimistic and pessimistic scenarios are both given probabilities of 20 percent. In the optimistic scenario the economy starts to grow again by midsummer. In the pessimistic scenario, growth is delayed until early 2010.

FY 2009 Revenues Down $213 Million from November's Estimate,
Revenue Forecast for FY 2010-11 Reduced by $1.166 Billion

General fund revenues for the 2008-09 biennium are forecast to total $32.232 billion, $213 million less than projected in November. The change in revenues is large for a biennium that has just four months remaining, and it indicates how rapidly the economic outlook has deteriorated since November. Between November and January receipts from the individual income tax, the sales tax, and the corporate franchise tax all were below forecast. For the past three months actual general fund revenues were $133 million less than November's estimates. The difference between actual and projected receipts accounted for more than one-half of the reduction in the FY 2008-09 revenue forecast. A lower forecast for corporate tax receipts accounted for about 60 percent of the decline. About one-half of the expected reduction in corporate tax receipts has already occurred. The declines in the individual income tax and the sales tax also build on lower than expected receipts since November. The $87 million increase shown in other revenues is almost entirely due to transfers of balances to the general fund under the Governor's unallotment actions.

FY 2008-09 and FY 2010-11 Revenues
Forecast Changes
($ in millions)

	FY 2008-09	FY 2010-11
Income	($83)	($701)
Sales	(84)	(202)
Corporate	(133)	(230)
Motor Vehicle	1	(7)
Subtotal	(299)	(1,140)
Other	87	(26)
Total	**($213)**	**($1,166)**

General fund revenues for the 2010-11 biennium are projected to decline by $1.166 billion from November's forecast. Revenues are now expected to be $30.700 billion, 3.7 percent less than previously projected and 4.7 percent less than expected receipts for the 2008-09 biennium. Again, declines in projected receipts from the three major taxes account for almost the entire decline in the forecast. More than 60 percent of the revenue decline was in individual income tax receipts forecast. Larger than previously projected declines in wages and capital gains realizations in tax year 2009 were the primary sources of the reduction in the income tax forecast.

Significant Changes in Spending for FY 2008-09, FY 2010-11

Forecast spending for FY 2008-09 is now $33.892 billion, $720 million below November's estimates. The decline is almost exclusively due to unallotment and the federal stimulus bill. Of the projected $561 million reduction in costs for health and human services, $90 million was due to unallotment and $464 million was due to lower state Medical Assistance obligations under federal stimulus. Projected costs for property tax aids and credits were reduced $108 million, almost exclusively due to unallotment.

FY 2008-09 and FY 2010-11 Spending Forecast Changes

($ in millions)

	FY 2008-09	FY 2010-11
K-12 Education	($12)	($9)
Higher Education	(20)	(1)
Property Tax Aids & Credits	(108)	16
Health & Human Services	(561)	(1,214)
Public Safety	—	—
Debt Service	—	(1)
All Other Spending	(19)	2
Total Change	**($720)**	**($1,207)**

Projected current law spending for the upcoming biennium is now $35.506 billion, a decline of $1.207 billion (3.3 percent) since November. Lower anticipated state Medical Assistance spending of $1.359 billion due to the federal stimulus bill is offset by somewhat higher health and human services caseloads and small revisions in other spending areas.

Impact of Federal Stimulus Bill on Health and Human Services Spending

The Federal Medical Assistance Percentage (FMAP) is used in determining the amount of Federal matching funds for Minnesota's Medical Assistance program and portions of the MinnesotaCare program. Minnesota's FMAP is currently 50 percent. That is, the state draws 50 cents in federal funding for every dollar it spends on medical services.

Under the American Recovery and Reinvestment Act (ARRA), Minnesota's FMAP rate is projected to increase to 60.19 percent from October 1, 2008 through June 30, 2009 and to 61.59 percent from July 1, 2009 to December 31, 2010. During this period, all states are eligible for a 6.2 percentage point FMAP increase, and Minnesota would be eligible for an additional 3.99 percentage point FMAP increase for the first three calendar quarters and 5.39 percentage points for the next six quarters based on projected changes in the state's unemployment rate. The enhanced FMAP results in reductions in state general fund obligations for Medical Assistance of $464 million for FY 2009, $862 million for FY 2010, and $497 million for FY 2011. Since the FMAP also applies to portions of the MinnesotaCare program, a reduction in Health Care Access Fund spending is also expected.

FY 2012-13 Planning Outlook Tightens

Changes in the FY 2012-13 planning outlook have implications for FY 2010-11 budget decisions. The long-term budget outlook for FY 2012-13 has deteriorated slightly since November. General fund revenues are $314 million below November's projections while projected spending is $215 million higher. The gap between ongoing revenues and spending has increased by $529 million for FY 2012-13.

FY 2012-13 Planning Outlook

($ in millions)

	FY 2008-09	FY 2010-11	FY 2012-13
Forecast Revenues	$32,232	$30,700	$34,244
Projected Spending	33,891	35,506	39,377
One-time Savings, Federal Stimulus	(464)	(1,359)	—
Adjusted Spending	**34,355**	**36,865**	**39,377**
Difference	($2,123)	($6,165)	($5,133)
Estimated Inflation (CPI)		$170	$1,360

The impact of the one-time enhanced federal matching rate from the federal stimulus bill on projected spending is shown above. When compared to November's estimates, the structural deficit for FY 2010-11 has increased, from $4.847 billion to $6.165 billion due to the worsening economy.

The impact of inflation is not reflected in expenditure projections. The consumer price index (CPI) is projected to fall by 0.7 percent for FY 2010, then grow by 2.3 percent for FY 2011, 2.2 percent for FY 2012, and 2.4 percent for FY 2013.

The planning estimates become more meaningful when specific budget proposals for closing the FY 2010-11 budget gap are being considered and a starting point for the following biennium is being established. The large structural gap for FY 2012-13 has implications for determining the long term impact of FY 2010-11 budget reductions.

A complete version of this forecast can be found at the Minnesota Management & Budget's World Wide Web site at http://www.mmb.state.mn.us/. This document is available in alternate format.

FORECAST FUNDAMENTALS: About the Revenue and Expenditure Forecast

The February forecast updates the state's financial outlook for fiscal 2009 and provides a new estimate of expected revenues and expenditures for the FY 2010-11 budget considerations now underway in the legislature. It also updates the planning estimates for the 2012-13 biennium. The forecast and planning estimates are revised to reflect the most recent information about the national and state economic outlook, as well as caseload, enrollment and cost projections. No adjustments are made for future inflation except for those contained in statute.

The revised revenue estimates reflect changes in Global Insight's national economic outlook since November, changes in the Minnesota economy, and recent revenue collection experience. Income tax receipts include fourth quarter estimated tax payments and January withholding tax collections. They were also adjusted to reflect legislative action early in the 2009 legislative session. Sales tax receipts include results from the Christmas shopping season.

Revenue estimates for the current year and the next biennium are based on econometric models that forecast the Minnesota economy. The revenue forecast is prepared based on a national economic forecast provided by Global Insight Inc. (GII). That national forecast is then reviewed by Minnesota's Council of Economic Advisors. A summary of their comments is found in the "Economic Summary." The "Economic Outlook" which follows provides a more comprehensive overview of the outlook for the U.S. and Minnesota economies. The revenue planning estimates for the 2012-13 biennium are obtained from slightly less complex models but are based on the Global Insight baseline forecast for 2012 and 2013.

Expenditure estimates in most areas are shown at the level of the appropriation made during the 2008 legislative session. Entitlement programs such as K-12 education, intergovernmental aids, health care, and family support are forecast based on expected changes in eligibility, enrollment and average cost. No adjustments for inflation are made in future spending except where required in statute.

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

ECONOMIC SUMMARY

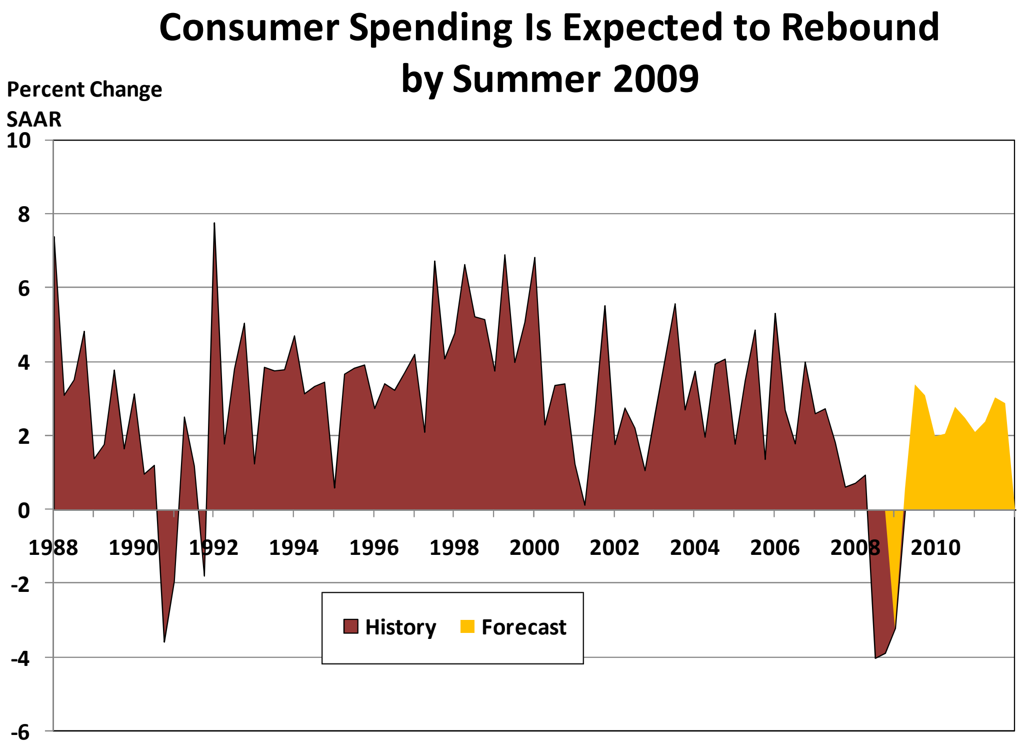
The U.S. economy has weakened noticeably since November and the outlook for 2009 has also deteriorated. Recent economic forecasts have shown some of the largest downward adjustments in memory and real GDP at the end of 2009 is now expected to be well below earlier estimates. As recently as September the baseline forecast from IHS-Global Insight (GII), the state's national macroeconomic consultant, projected real GDP growth of 1 percent in 2009. GII's February baseline calls for a decline of 2.7 percent. The 2007-09 recession now appears likely to be the longest since World War II; it may also turn out to be the deepest.

Most forecasters shifted to a recession scenario following the October financial market seize-up. But, although a sustained drop in real GDP was anticipated, few had factored into their forecast anything near the enormous decline in U.S. payroll employment reported by the U.S. Department of Labor in early December. That report, which showed job losses of 533,000 in November plus downward revisions totaling 199,000 for September and October, triggered further reductions in forecasts. Since then there has been a preponderance of gloomy economic news. January's U.S. employment report showed the loss of 3.5 million jobs since the December, 2007 peak, and a loss of 1.8 million jobs in the last three months. Consumer confidence measures are at historic lows and the housing and auto markets continue their slumps.

The Federal Reserve and the Treasury Department have taken actions to stabilize financial institutions and restore order in credit markets. To this point there have been some successes with the TED spread narrowing, and the commercial paper market, the high grade corporate bond market and the tax exempt market all showing signs of improved liquidity. However, problems still remain, particularly in the market for collateralized mortgage backed securities, and further improvements in credit markets will be necessary before the economy returns to its long term growth path.

But, restoring liquidity to credit markets is not all that must be done. The economy's most serious problem is declining consumer spending. Consumer spending is currently about 70 percent of GDP and, adjusted for inflation, it has declined at an annual rate of more than 3 percent for two quarters in a row. It is hard to imagine a scenario where there is a sustained increase in real output in the absence of growth in consumer spending.

The challenge forecasters face at present is projecting when consumers again begin to increase their purchases. Consumer spending depends primarily on after-tax household income. Changes in wealth, employment, prices (including energy prices), debt levels, and consumer confidence also are typically included in models of household spending. The increased economic activity encouraged by the stimulus package will add to employment and increase aggregate income, but that stimulus is unlikely to have any major impact for 6 months or more. And, while the tax cuts in the stimulus package will add to spendable income a little more quickly, the additional amounts available will be modest through mid summer. Lower prices, particularly energy prices will help free-up additional money for discretionary spending, but debt levels, employment news, and consumer confidence are all likely to be a drag on consumer spending until late 2009.



The potential impact of the substantial loss in household wealth due to declines in the stock market and housing prices adds to the uncertainty about when the recovery begins. Household savings rates typically increase during a recession, as families add to their cash cushion to protect against potential loss of employment. Then, once the economy turns up again, they quickly return to their pre-recession spending and savings rates.

This time though, consumer savings rates may stay above pre-recession levels for an extended period. The age distribution of households is quite different now than in the early 1980s when the last major recession occurred. The age structure has skewed older. That means that unlike in prior recessions household are likely to increase savings rates, not only to increase precautionary balances, but also to re-build retirement savings. This difference in the motivation behind the savings increase may slow the recovery since older households are expected to be likely to continue to add to savings, even after the economy begins to improve. It will not be necessary for the savings rate to begin to decline for consumer spending to increase. But if near-retirees focus on rebuilding their retirement savings for an extended period, the recovery from this recession will be slower than in the past.

Most forecasters, including Global Insight, believe that the stimulus package will prove sufficient to stabilize the economy by late summer or early fall, building a base for modest recovery in 2010. But they warn against expecting a quicker turn-around, cautioning that "The economy's path for the first half of the year has been set already." GII's February baseline forecast calls for real GDP to decline by 2.7 percent in calendar 2009, and then to grow by 2.0 percent in 2010. In their forecast the economy finally strengthens in 2011, growing by 3.5 percent. February's Blue Chip Consensus outlook is slightly more optimistic calling for a decline of 1.9 percent in real GDP in 2009 followed by growth at a 2.1 percent rate in 2010. The survey of the Blue Chip panel, however, was conducted prior to release of January's payroll employment report which showed a decline of almost 600,000 jobs.

Global Insight believes that deflation (actual declines in prices), not inflation, is the concern on the price side. The February baseline has the CPI falling by 1.9 percent in 2009, and then growing at a 1.7 percent rate during 2010. The Blue Chip consensus also has a decline in the CPI in 2009, but the drop (0.8 percent) is more modest than that forecast by GII. CPI inflation is projected to increase at a 1.8 percent in 2010 by the Blue Chip panel.

As in November Global Insight assigns a probability of 60 percent to their baseline forecast. They assign a probability of 20 percent to a more optimistic scenario in which real GDP declines by 1.7 percent in 2009 and then grows by 3.5 percent in 2010. They also assign a probability of 20 percent to a more pessimistic scenario in which real GDP falls by 3.6 percent in 2009 and does not grow in 2010. In the pessimistic scenario real GDP falls for six consecutive quarters.

Members of Minnesota's Council of Economic Advisors believe that Global Insight's February baseline forecast reflects the current outlook for the U.S. economy for the next 18 months. Council members noted that economists have not been particularly successful at calling the point at which the business cycle will turn down and that there is no reason why forecasters should be more accurate when trying to call the end of a recession. All Council members agreed that the February baseline was an appropriate base for the state to use in the coming revenue forecast.

That said, most Council members expressed concern that the February baseline assumption that the recession would be over by late summer, might be too optimistic. Council members were concerned that no area of the economy appeared to be strong enough to lead the economy back to a period of sustained growth. Net exports and business investment spending were expected to languish for at least another year as the excess global production capacity is worked off.

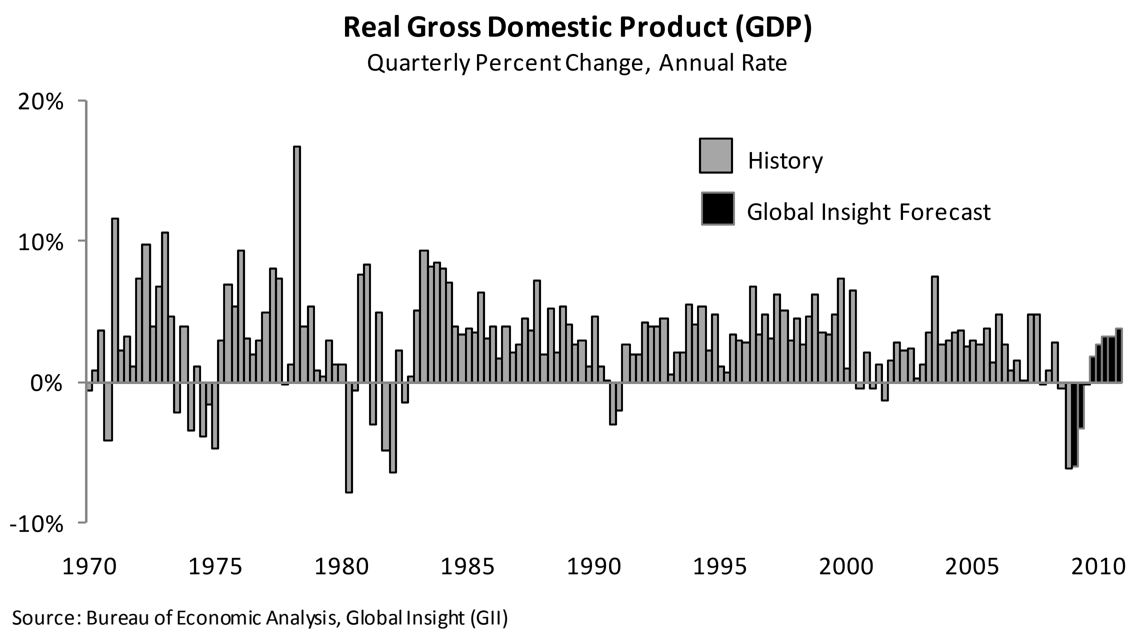
Council members were generally more pessimistic for 2009 than the Blue Chip Consensus. Several Council members stated that they expected the recession to last until late 2009 or early 2010. The composition of the stimulus package and how soon the tax cuts and additional spending would begin to take effect was discussed at some length. Some members were concerned that projections about how rapidly the spending and tax changes could be put in place were overly optimistic and that the recovery might be delayed a quarter or more.

Minnesota Management and Budget (MMB) economists noted that for this forecast to be realized credit markets also would need to improve substantially by mid-summer. Neither MMB economists nor the Council believed there was sufficient detail about actions to be taken under the Treasury's recently announced financial stability plan to inspire confidence that credit markets would soon be operating well enough to support a recovery.

The Council again noted that projecting future expenditures without making allowances for inflation except where required under current law understates the severity of financial problems facing the state.

ECONOMIC OUTLOOK

Recent news reflects an economy performing much as Global Insight's November pessimistic “meltdown” scenario described. Accelerating job losses, rising unemployment, plunging retail sales, soaring foreclosures, and plummeting home prices, along with the lowest factory output in almost 30 years, and the worst stock market performance since 1931 are all signs of an economy in free fall. Global Insight’s (GII) February baseline depicts an economy in the grip of the most serious recession in the post-World War II era with five consecutive quarterly declines in real GDP beginning in third quarter 2008.



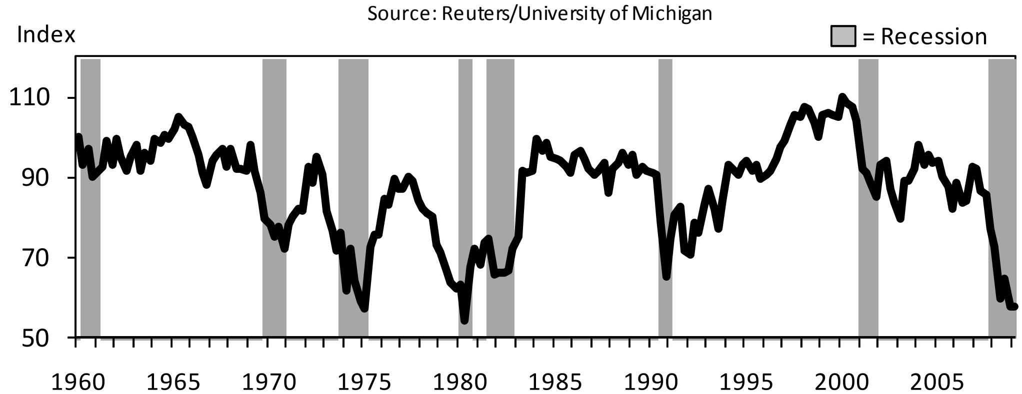
Real GDP in the fourth quarter of 2008 was recently revised to a 6.2 percent annual rate of decline, the sharpest quarterly contraction since the early 1980s. Forecasters widely expect the country’s total output of goods and services in the first quarter of 2009 to plunge again at a 6 percent annual rate.

In November, GII and other forecasters believed the economy was in a deepening, but manageable, recession. Low interest rates, massive infusions of liquidity into the banking system, and a not-yet-enacted $200 billion fiscal stimulus program were expected to slow the housing downturn and support consumer spending growth by early 2009. By mid-December, however, it became evident that monetary measures were not having a noteworthy impact on the real economy and a targeted fiscal stimulus was not to be enacted until sometime after the new administration took office. Faced with an economy in free fall, economists and policymakers shifted their attention to the fiscal stimulus package. As economic reports grew more dismal, determining an appropriate size became more challenging. It soon became clear, however, that after two consecutive quarters of deep declines in the last half of 2008, nothing could be done to save consumer spending from falling further in the opening months of 2009. Consumer demand indeed continues to decline and fourth quarter 2008 real GDP plunged at a revised annualized rate of 6.2 percent, the sharpest quarterly contraction since 1982. The country's total output of goods and services in the current quarter is widely expected to contract at another 6 percent annual rate.

GII's February baseline assumes the worst of the recession is now underway. Consumer spending is forecast to bottom out in the first quarter of 2009 and begin rising by mid-summer in response to the $787 billion stimulus package passed by Congress and signed by President Obama in mid-February. No one, however, is quite sure just how well the stimulus will work. An effective package is hard to design because there is little past experience to draw from. The package includes individual income support measures as well as reduced withholding from paychecks, expanded unemployment and food stamp benefits, and increased Medicaid assistance. These could quickly boost the economy by putting money into the hands of those most likely to spend it almost immediately. In addition, there are programs which will take more time to produce results, such as grants for infrastructure repair and improvement, education and training benefits, and housing assistance. This delayed spending could help ensure continued recovery into 2010 and beyond, provided the credit markets improve enough to support transactions needed by a growing economy.

Consumer Sentiment Index Since 1960

Source: Reuters/University of Michigan



The nation's gridlocked financial markets are a foremost concern. Without improved flow of credit, the housing market will continue to deteriorate, further undermining confidence and consumer spending. In February, the Reuters/University of Michigan Consumer Sentiment Index tumbled back to levels not witnessed since 1980, while consumer expectations of the recession's duration lengthened. Similarly, the Conference Board's Consumer Confidence Index fell 12.4 points to 25.0, the lowest level in its 42-year history.

Minnesota Management & Budget (MMB) economists are concerned that many of the nation's financial markets remain gridlocked. Without improved flow of credit, the housing market will continue to deteriorate, further undermining confidence and consumer spending. There is also significant near-term risk that the self-reinforcing cycle of consumer retrenchment and job losses now underway will overwhelm the initial boost to the economy from the stimulus in 2009, allowing the recession to extend well into 2010. A heavy household debt load has proven devastating to consumers in an environment of frozen credit markets, the housing slump, declining net worth, and job losses. With consumer demand for goods and services shrinking, firms are slashing output, laying off employees, idling factories, and emptying office space. Some 3.6 million jobs have been lost since January 2008, with half of those occurring in just the last three months. Firms are now dealing with excess physical capacity by reducing capital spending. This puts additional downward pressure on an already ailing economy.

The Stimulus Package: Will it Work?

GII believes that the fiscal stimulus package will have a significant impact on the economic outlook. In the February baseline, GII assumes a $780 billion stimulus package similar to the one ultimately enacted and estimates that $523 billion in spending and tax cuts will enter the economy by the end of 2010. The overall net effects of the stimulus will take about one percentage point off the peak unemployment rate and there will be about 2.6 million more jobs saved or created than without the stimulus. Without the stimulus, real GDP growth remains negative for all four quarters of 2009 and the year averages minus 3.5 percent growth, instead of the negative 2.7 percent in the baseline. Media’s reports cause MMB economists to believe GII's assumptions are consistent with those of two other major national forecasting services, Moody’s Economy.com and Macroeconomic Advisors.

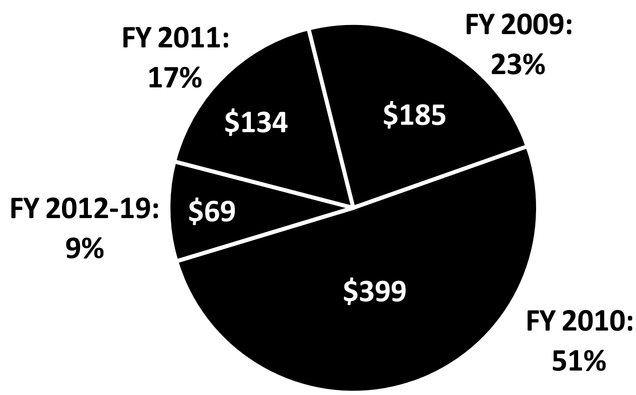
Fiscal stimulus is intended to work by increasing federal outlays and cutting taxes. In theory, this creates incentives for individuals and firms to purchase added goods and services, thereby raising GDP which generates additional jobs and income. Unfortunately, however, this is not a certain outcome. Last summer, for instance, individuals and families received nearly $100 billion in stimulus cash. Much of that was quickly absorbed by higher energy prices or treated by consumers as a one-time windfall and saved or used to pay down debt, which added nothing to GDP. Firms were eligible for some $60 billion in bonus depreciation, but few were willing to increase capital spending into a moribund economy. Consequently, the impact on the economy was at best, short-lived.

The $787 billion stimulus package passed by Congress and signed by President Obama in mid-February is much larger and appears designed to be more effective. Within the package there is a broad array of provisions which could boost demand for goods and services quickly by putting money into the hands of those most likely to spend it. The package includes contributions to federal programs aiding individuals, such as expanded unemployment benefits, improved food stamp benefits, one-time direct cash payments to social security recipients, and increased Medicaid funding. There are also provisions for expanded income tax credits which will slowly dispense money to individuals through reduced withholding. In theory, unlike last summer's lump sum payment, the trickle will seem like a permanent income gain and will therefore be more likely to be spent quickly. Media reports note each household's withholding will be reduced about $13 per week during 2009, beginning before April, and about $8 in 2010. The *Wall Street Journal* labels the $116 billion program "...an experiment in consumer behavior."

Longer-term provisions are intended to boost the economy in 2010 and 2011, helping ensure continued recovery once the economy turns upward. Those include increased funding for infrastructure repair and improvement, education, health care, energy, and technology among other things. In all, the Congressional Budget Office (CBO) estimates about 23 percent of the $787 billion stimulus money is put into the economy in federal fiscal year 2009, 51 percent in 2010, 17 percent in 2011, and the remaining 9 percent by 2019. In the CBO's view, the increased federal debt needed to fund the stimulus may eventually crowd out financing for private sector investment, thereby reducing the stock of private capital as well as GDP in the long run.

As the bill moved through Congress in early February and onto President Obama's desk, economists generally lowered their estimates of the stimulus program's impact and the range of possible outcomes increased. Based on preliminary information, the CBO estimates that with the stimulus, employment will be 0.8 million to 2.3 million higher by the end of 2009, 1.2 million to 3.6 million higher by the end of 2010, and 0.6 million to 1.9 million higher by the end of 2011, with small positive impacts through 2019.

Estimated Net Federal Outlays and Tax Cuts of the $787 Billion American Recovery and Reinvestment Act of 2009 by Federal Fiscal Year



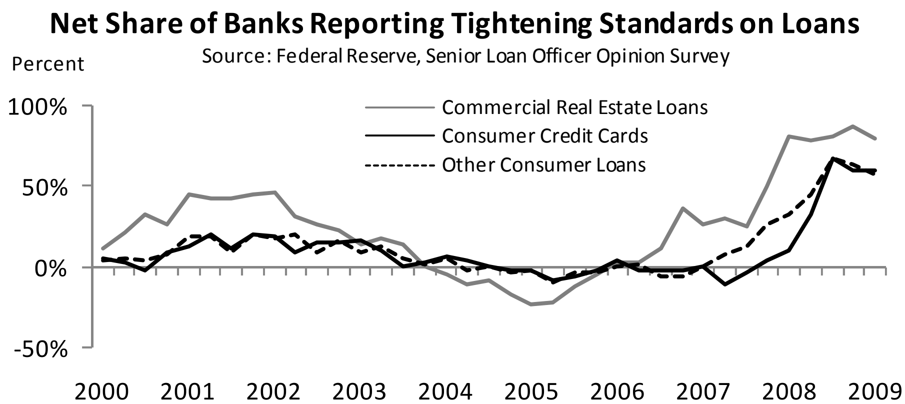
Source: Congressional Budget Office (CBO)

The Congressional Budget Office (CBO) estimates about 23 percent of the $787 billion stimulus money is put into the economy in federal fiscal year 2009, 51 percent, in 2010, 17 percent in 2011, and the remaining 9 percent by 2019.

Credit Markets Not Ready to Support Recovery

In a recent speech, former Federal Reserve chairman Dr. Alan Greenspan suggested that improvement in the credit markets must precede any significant attempt at fiscal stimulus. While there has been improvement in some key financial indicators, credit markets currently do not appear able to adequately support a strong economic recovery. The declining London interbank offered rate, or Libor, suggests that interbank lending has improved, but the most recent Federal Reserve loan officer survey indicates banks are maintaining tight credit standards for consumer and commercial real estate loans.

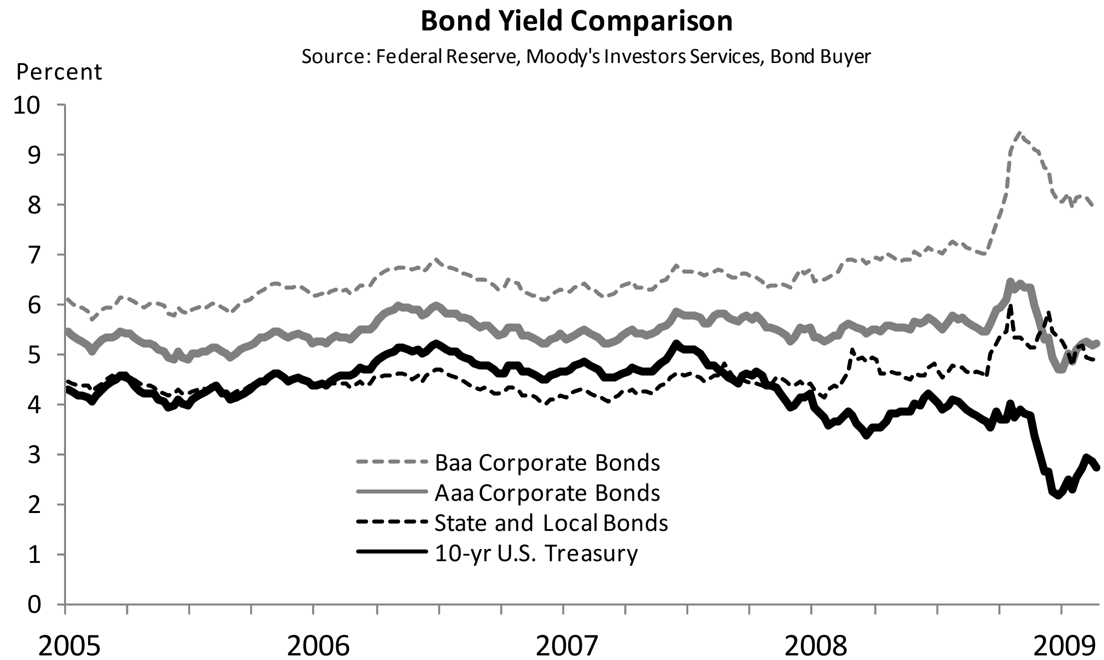
Long term yields on corporate, state, and local government bonds, and treasury notes have also moved noticeably lower since October and the *Wall Street Journal* reports that there does seem to be a market for high grade corporate bonds not guaranteed by a federal program, but spreads remain abnormally high. Commercial paper rates have also come down, but the asset-backed credit market activity needed to support a consumer-led recovery, including issuance of credit card and auto loan securities, remains distressed. Consequently, the Treasury recently committed an additional $80 billion of Troubled Asset Relief Program (TARP) funds to the Term-Asset Backed Lending Facility (TALF), increasing public capital available for household and consumer credit securitization to $100 billion. In addition, a program to boost the availability of consumer loans is widely expected to become operational soon.



The most recent Federal Reserve loan officer survey indicates banks are maintaining tight credit standards for consumer and commercial real estate loans, an indication that credit markets are not ready to support a sustained economic recovery.

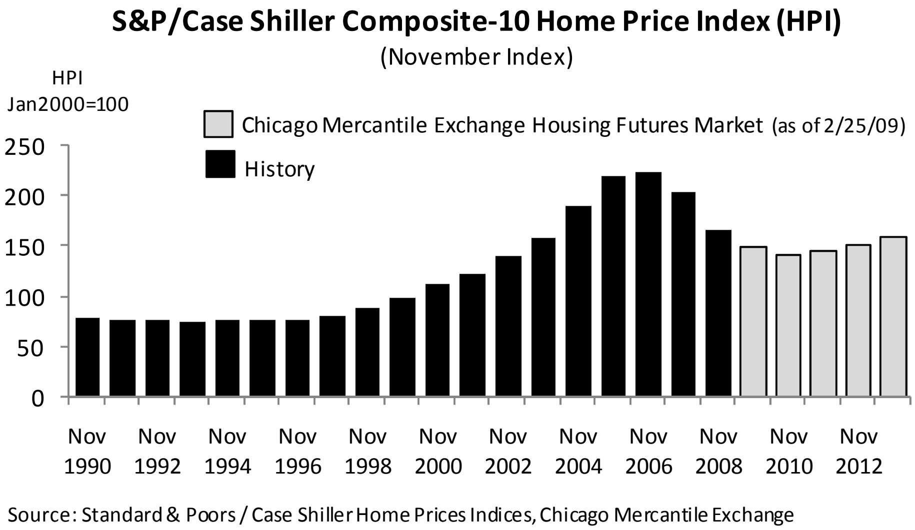
Federal Reserve and Treasury actions continue to reflect a financial system under severe stress. General Motors Acceptance Corporation (GMAC), for example, has become a bank holding company, qualifying it for discount window lending. After evaluating its Countrywide Financial acquisition, Citigroup needed a second infusion of TARP funds and subsequently, in a move to bolster the banks' equity base, negotiated an agreement that would leave the federal government with up to 36 percent of the bank's common shares. Bank of America required $45 billion in federal assistance after uncovering new problems at Merrill-Lynch and, in early March, in addition to the $40 billion TARP investment it received in November, AIG was given access to up to $30 billion in new cash as part of a revamped government bailout. Under the original TARP program, so far the Treasury has invested about $286 billion in some 450 U.S. financial companies since October. In what may be a sign of events to come, *BusinessWeek* reports that thousands of small banks have pending applications for TARP funding.

Recently, Treasury Secretary Geithner outlined a TARP II program which among other things could inject additional capital into banks following a "stress" test of long term viability. GII estimates that over the next several quarters banks will need at least an additional $250 billion in external capital. This will probably come from the second $350 billion tranche of TARP funds released by Congress late last year. In addition, the Obama administration sent a proposed budget to Congress in the last week of February that would provide the government an additional placeholder of $250 billion in contingent reserves that could support $750 billion in further asset purchases or continued efforts to stabilize the financial system if necessary. While the effects of deploying funds under the auspices of TARP II remain uncertain, the first TARP has yet to demonstrate a noteworthy impact except to possibly prevent an even steeper drop than the economic plunge now underway.



Long term yields on corporate, state, and local government bonds, and ten-year treasury notes have moved noticeably lower since October, but spreads remain abnormally high, yet another indication that credit markets are not ready to support a sustained economic recovery.

Even with unprecedented Federal Reserve and Treasury efforts, credit markets may not improve enough in the short run to sustain an economic recovery unless the housing market begins to stabilize. Moody’s Economy.com and others, however, indicate that the recently announced Homeowner Affordability and Stability Plan is unlikely be enough to keep foreclosures from rising in 2009. Many analysts, including GII, believe median house prices in most areas of the country have declined to a normal level relative to incomes. However, with rising foreclosures and an unemployment rate expected to increase to over 9 percent by the end of the year, GII now assumes an undershoot of home prices extending into early 2010. Some analysts even predict the decline in prices will last into late 2010 or 2011, a view supported by futures contracts trading on the Chicago Mercantile Exchange. To some, this appears to be a more plausible scenario because defaults on option ARMs, alt-As, and even prime mortgages are rising at an alarming rate. Growing problems with prime mortgages may mean job losses are becoming a significant factor in defaults.



Credit markets may not improve enough in the short run to support a sustainable economic recovery unless the housing market begins to stabilize. GII assumes home prices will stabilize early next year, but futures contracts suggest a decline until the end of 2010.

Avoiding "The Great Recession"

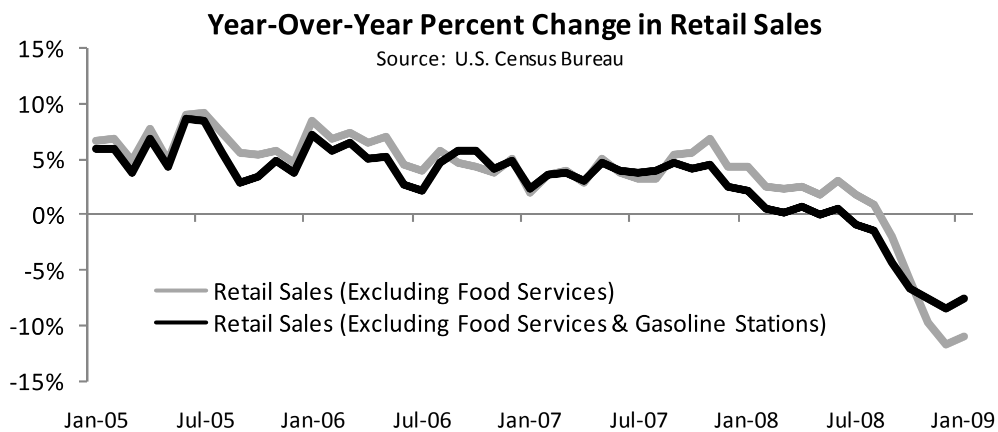
GII's February baseline calls for the economy to bottom out near the end of 2009. The pessimistic alternative, however, is for a "Great Recession" that lasts well into 2010. For the economy to bottom in 2009 and avoid the “Great Recession”, some conditions need to be met. The necessary condition, in the view of MMB economists, is that the fiscal stimulus measures must break the self-reinforcing cycle of consumer retrenchment, job losses, and reductions in capital outlays and inventories which is now underway. This reversal is a much greater undertaking than simply boosting stagnant consumer spending in an ordinary recession.

In addition, unless a sufficient condition is met, GII's February pessimistic scenario could become reality. The sufficient condition is that financial markets must improve enough to support any recovery generated by the fiscal stimulus. It is unclear whether the Homeowner Affordability and Stability Plan enacted in February will reduce the number of foreclosures enough to stabilize the housing market, making financial market improvement possible. Details of the plan are to be announced March 4.

Currently, there are few signs that these conditions will be adequately met by the end of 2009. GII observes that "the recession tunnel looks very long, and it remains extremely difficult to perceive any light at the end...," despite policy measures recently put in place.

Consumption

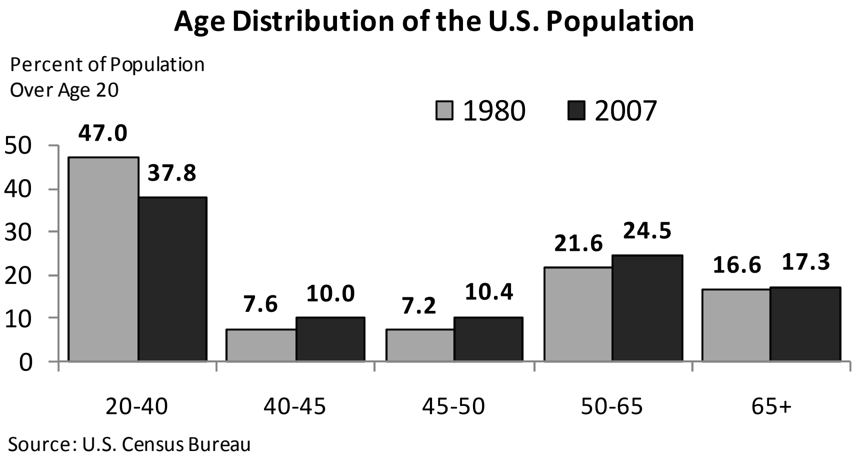
With tighter credit conditions and falling household asset values, consumers continue to show signs of more dramatic cutbacks in spending. Sentiment improved temporarily as gas prices retreated from $4 per gallon late in the summer, but nominal consumer spending, which first declined in July, contracted in every month through December, before experiencing a slight increase. It is widely believed that this recent uptick is simply an anomaly in view of the strong downward trend. Real consumer spending fell in the last two quarters of 2008, the first consecutive quarterly declines in data going back to 1947. The consequences have been dramatic. Christmas retail sales growth was the weakest since 1969. In January, auto sales dropped to 9.5 million units at an annual rate, down from 15.3 million a year earlier. Consumers have even cut back on spending at both grocers and restaurants according to the *Wall Street Journal*.



Christmas retail sales were the weakest since 1969. In December, retail and food service sales combined to decline 10.4 percent from the same month a year earlier. According to the Wall Street Journal, consumers have rapidly cut back on spending at both grocers and restaurants.

Recent data suggests the national retail sector is in serious trouble. An *Associated Press* article quotes industry analysts as expecting 2009 to be catastrophic, with upwards of 200,000 stores closing nationwide and 2 to 3 thousand malls expected to shut down. If industry analysts are correct, the biggest retail contraction in 35 years is in the offing. Recent retail bankruptcies and store closings, such as Circuit City, may only be the beginning.

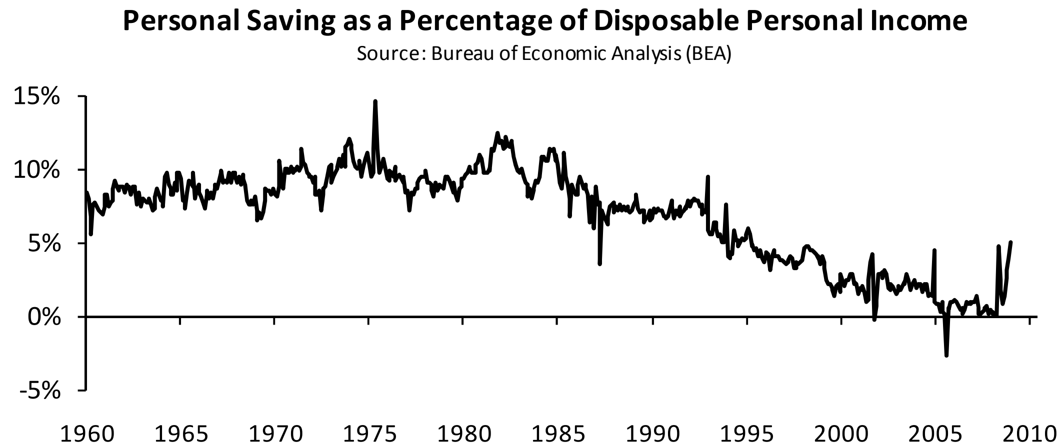
There is some disagreement among economists concerning the short-term outlook for consumer spending. GII's February baseline assumes a mid-summer rebound which may be possible since real incomes are receiving a boost from lower prices. The consumer price index (CPI) is expected to decline by 1.9 percent in 2009, the first annual decline since 1955. Another boost to discretionary incomes will come from the stimulus package through lower individual income taxes and extended unemployment and food stamp benefits. Job gains could contribute to higher income, but in the GII baseline that will not occur until early 2010.



Since the mid-1980s, consumers have increasingly outspent their incomes by relying heavily on debt. Unlike the robust consumer recovery that followed the twin recessions of the early 1980s, however, the population is aging and consumers are almost surely going to be less willing to borrow than before the recession. In 1980, 54.6 percent of the U.S. population over the age of 20 was less than 45 years old compared to just 47.8 percent in 2007.

Even with help from lower prices, job gains, and easier credit, MMB economists are concerned about the near-term recovery in consumer spending. Since the mid-1980s, consumers have increasingly outspent their incomes by relying heavily on debt. Unlike the robust consumer recovery that followed the twin recessions of the early 1980s, however, the population is aging and consumers are almost surely going to be less willing to borrow than before the recession. In 1980, 54.6 percent of the U.S. population over the age of 20 was less than 45 years old compared to just 47.8 percent in 2007. Federal Reserve data on installment credit suggests households are in the early stages of an effort to rebuild net worth lost in the housing slump and the stock market's plunge. Likewise, the aging population appears to be contributing to what seems to be a shifting attitude toward debt. If consumers are turning to increased saving at the expense of spending, the economy's contraction could be extended.

The February baseline assumes saving as a percentage of disposable income recedes from current “lofty” levels. How far the saving rate will recede, however, remains unclear. GII cautions that if the savings rate continues to climb back toward its 7 percent historical average, consumer spending will underperform the February baseline forecast.



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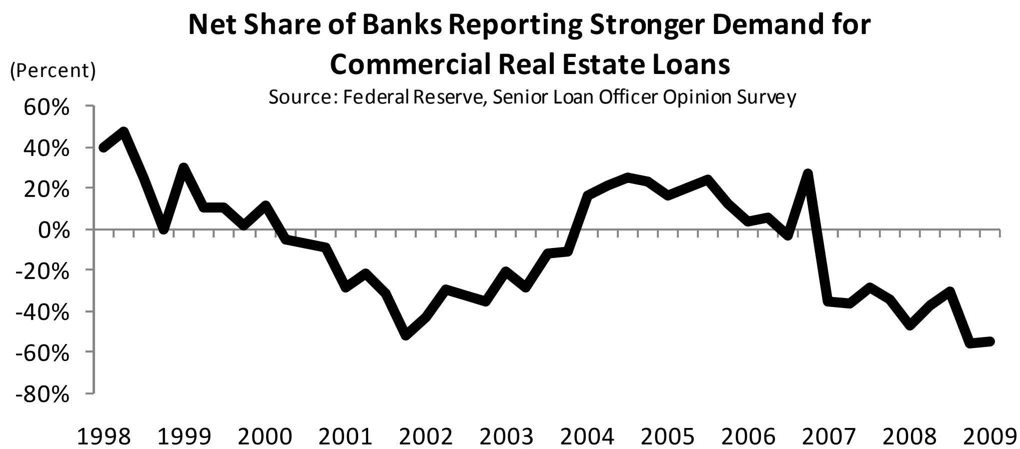
Investment

Business firms are sharply reducing capital outlays, putting additional downward pressure on an already sinking economy. The cutback comes as no surprise since the American Institute of Architect's architecture billings index, a 9 to 12 month leading indicator, has remained in negative territory for 11 consecutive months and reached a record low in January. After a slight decline in third quarter 2008, real business spending plunged at a 21.3 percent annual rate in the fourth quarter. GII expects a similar decline in the current quarter and in each of the next two quarters. In fourth quarter 2009, if a relatively modest 6.3 percent decline occurs as expected, real business spending will have contracted for six consecutive quarters. Virtually all categories of non-residential investment will be affected including spending for equipment, software, non-residential structures, and inventories. According to GII, the only bright spot is refinery upgrades.

The downward spiral in capital spending is a reaction to excess capacity created as firms cut back production and lay off workers in an effort to control inventories in the face of declining consumer demand for goods and services. That leaves factories and offices underutilized or empty and will probably force many retailers to close their doors completely.

Some consequences of declining demand for goods and services have yet to appear. GII reports that construction nearing completion on auto dealerships and shopping malls is redundant, the lodging sector is overbuilt, and commercial real estate prices are falling. As a result, some analysts, including Moody's, are questioning the quality of commercial and development loans made by many banks. According to a *Wall Street Journal* article, the proportion of regional bank lending secured by commercial real estate almost doubled in last several years. It remains to be seen if regional and community banks will have their own real estate related crisis which will constrain commercial lending once the economy begins recovering.

If business investment is to begin growing in early 2010 as GII projects, demand for goods and services must improve and commercial credit conditions must ease in 2009. Much of the improvement in demand depends on the success of the stimulus package in reviving consumer spending. Easier credit conditions depend on the success of Federal Reserve and Treasury efforts to improve functioning in financial markets.



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Government

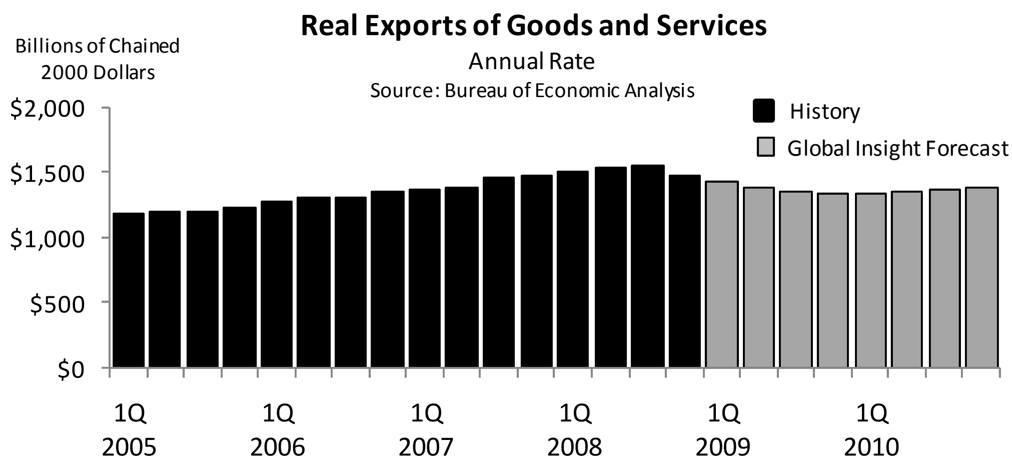
The bulk of stimulus package spending will be spread throughout 2009, 2010, and 2011. Most analysts including GII believe the stimulus will help, but the question is by just how much and when. During a serious downturn in the 1990's, Japan implemented a package which is widely viewed as a failure. Articles in the *Wall Street Journal* indicate that the Japanese experience may be especially relevant because their package was intended to deal with the consequences of a bursting real estate bubble which led to a financial market crisis and a long recession. No one knows exactly what went wrong in Japan, but apparently policymakers waited too long to cut interest rates, commence bank rescues, and step up spending. Eventually, seemingly necessary steps were taken, but they were executed in a halting and tepid manner which diminished their effectiveness.

It will be some time before U.S. policymakers know whether or not they have avoided the same serious mistakes as Japan. With its multiple provisions, the stimulus package could, even with a few disappointments, have a significant impact on most sectors of the economy. Computer simulations with macroeconomic models by the CBO and other forecasters indicate that without the stimulus the recession could last through 2010.

MMB economists observe that a successful computer simulation does not necessarily guarantee real world success.

International

As the International Monetary Fund (IMF) predicted last fall, an unprecedented global recession is now underway. GII expects that 2009 will likely see the first decline in global real GDP since the 1930s. In November, it was widely assumed that the recession had its origins in the U.S. financial crisis which spread overseas largely because the world economy is heavily dependent on U.S. financial markets. Consequently, leaders of several countries have publicly blamed the U.S. In retrospect, however, GII notes that a fair share of the problem was generated overseas, not in the U.S. In their view, there was a global housing and credit bubble fueled by excessive money supply growth in many countries including the U.S. The U.S. financial market turmoil in the wake of the subprime mortgage backed asset crisis was only the first hole to appear in a global bubble.



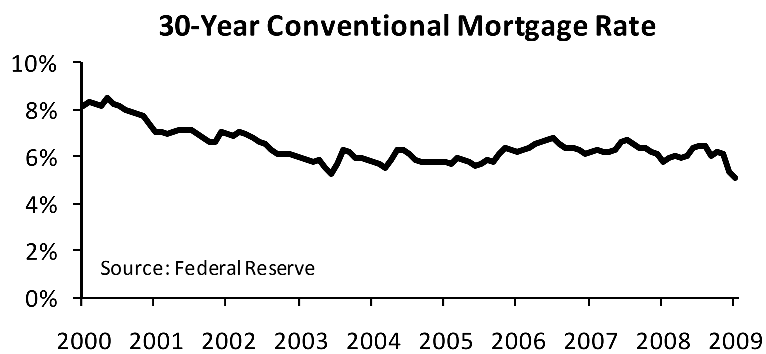
An extended, severe global recession poses significant downside risk to U.S. exports and hence to any economic recovery that domestic monetary policy and fiscal stimulus manage to generate.

Foreign central banks and governments are cutting interest rates and injecting massive amounts of liquidity into capital starved financial institutions. As in the US, however, these actions have yet to boast any noteworthy effect on the real economy. Consequently there is a growing overseas interest in fiscal stimulus, and several countries including China, Germany, and Japan are implementing plans. There is much more coordination among central banks and governments than in the past in recognition that single country solutions to current problems are unlikely to be effective. GII economists, however, have indicated that overseas monetary and fiscal efforts thus far have been rather tepid compared with the actions of the U.S. and China.

As there continues to be significant downside risk present which may not be fully reflected in the forecasts, it remains unclear just how long and how deep the global recession will be. Today, there are stronger two-way linkages or feedbacks between world economies than ever before. These are less understood than the internal linkages in a developed economy. Predicting the length and depth of the global recession depends on accurately accounting for all of these feedbacks. Without that information, it seems to MMB economists that the length and depth of the global recession is likely to be underestimated. An extended, severe global recession poses significant downside risk to U.S. exports and hence to any economic recovery that domestic monetary policy and fiscal stimulus manage to generate.

Monetary

In December, the Federal Reserve committed to holding the federal funds rate to a 0 to .25 percent range, the lowest in its 54 year history. Since the rate cannot go below zero, that move sidelined the Fed's primary tool for managing the economy. The Fed has, however, developed new and expanded sovereign credit programs which are directly supporting financial markets with mixed results. A commitment to purchase mortgage-backed securities has driven 30-year mortgage rates down, leading to a sharp increase in refinancing by creditworthy borrowers whose homes are worth more than their mortgages, but relatively few additional home sales. The Fed has also begun buying three-month commercial paper directly from firms. This program seems to have helped restore confidence. In a slightly different approach, the Fed is propping up the money market industry by backing private sector purchases of short-term debt like certificates of deposit and commercial paper from money market investors including but not limited to money market funds. This program should help money market funds which cannot easily cover expenses if the federal funds rate is zero or nearly so.



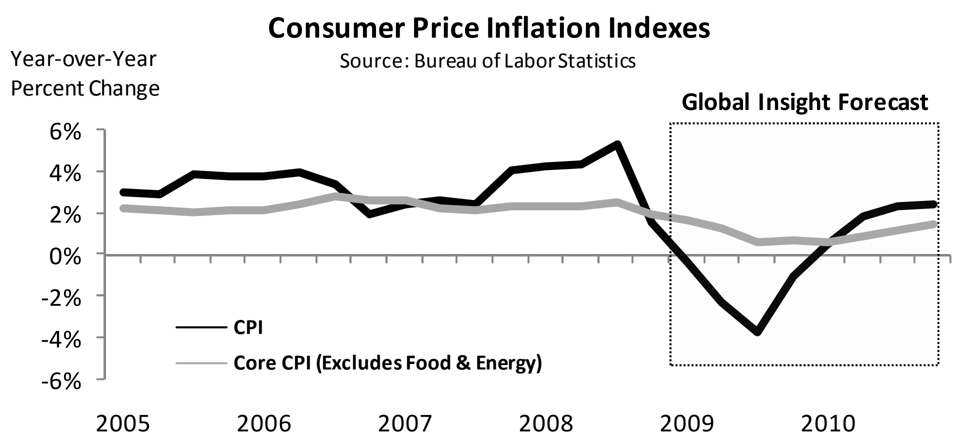
A commitment to purchase mortgage-backed securities has driven 30-year mortgage rates down, leading to a sharp increase in refinancing by creditworthy borrowers whose homes are worth more than their mortgages, but relatively few additional home sales.

It seems likely that efforts to support the financial system will be needed for some time. A recent *Wall Street Journal* article indicates that problems with bad assets extend far beyond subprime mortgages and exotic securities. Most other kinds of mortgages, commercial real estate loans, credit card debts, home equity loans, and auto loans are experiencing rising defaults. It remains to be seen how much the sinking economy will contribute to problems with bad assets.

Inflation

Retreating oil and commodity prices, declining home values, and a rapidly weakening labor market have virtually eliminated near term prospects for accelerating inflation, freeing the Federal Reserve to concentrate on the recession for the time being. Headline consumer prices declined four months in a row before rising slightly in January. GII expects the consumer price index to decline 1.9 percent this year, down from a negative 0.9 percent forecast in November. An annual decline in 2009 would be the first since 1955. Lower oil prices are the primary reason. West Texas Intermediate crude is forecast to average $37.48 per barrel in 2009, down from $99.76 in 2008, and down from the $52.75 per barrel forecast in November. Core inflation excluding food and energy has slowed considerably, but remains positive. GII expects core inflation to be 1.0 percent in 2009, down from 2.3 percent in 2008, and well within the Fed's alleged "comfort zone".

Analysts are unsure just what the rare experience of declining headline prices will do to consumer behavior. Some say increasing real incomes will encourage spending. GII recently suggested that expectations of widespread price declines could cause consumers to postpone non-essential purchases, slowing a recovery. Led by energy, prices for food, clothing, transportation, and housing are all declining. Services prices, however, are still rising. It seems to MMB economists that any further retail sector weakness this spring will lead to further price cutting which could reinforce expectations of still lower prices.



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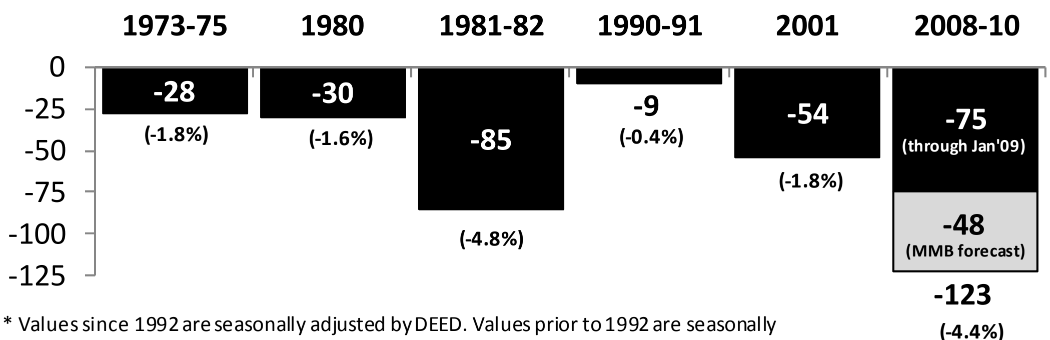
MINNESOTA OUTLOOK

Just like the U.S., Minnesota's economy continues to weaken. Retail sales in December were exceptionally weak, there is no clear indication that deterioration in the housing market has subsided, and the number of major Minnesota employers cutting workers from payrolls has grown at an alarming rate in recent months. From computer component manufacturing to hospitals to financial services to consumer electronics retailing to legal services, mass layoff announcements have been widespread throughout the state as employers respond to a sweeping drop in demand for goods and services.

January marked another dismal month for the state's labor market as payrolls declined by nearly 21 thousand. Since February 2008, Minnesota has shed 75 thousand jobs on a seasonally adjusted basis, returning Minnesota's total payroll to levels first reached in late 2000. The state's job losses during this recession have already far surpassed those experienced during both the 1990-91 and 2001 economic downturns. By the end of 2009, job losses will exceed those incurred during the twin-recessions of the early 1980s.

Peak-to-Trough Minnesota Job Losses by Recession
(in Thousands)*



* Values since 1992 are seasonally adjusted by DEED. Values prior to 1992 are seasonally adjusted using the U.S. Census Bureau X-12 seasonal adjustment to the raw data.
Source: MN Department of Employment and Economic Development (DEED) and MN Management & Budget (MMB)

The 75 thousand jobs lost during this recession have already surpassed the losses incurred during both the 1990-91 and 2001 economic downturns. By the end of 2009, the losses will exceed those experienced during the twin-recessions of the early 1980s. Measured on a quarterly seasonally adjusted basis, the state will have lost 123 thousand jobs peak-to-trough since early 2008, or 4.4 percent of employment.

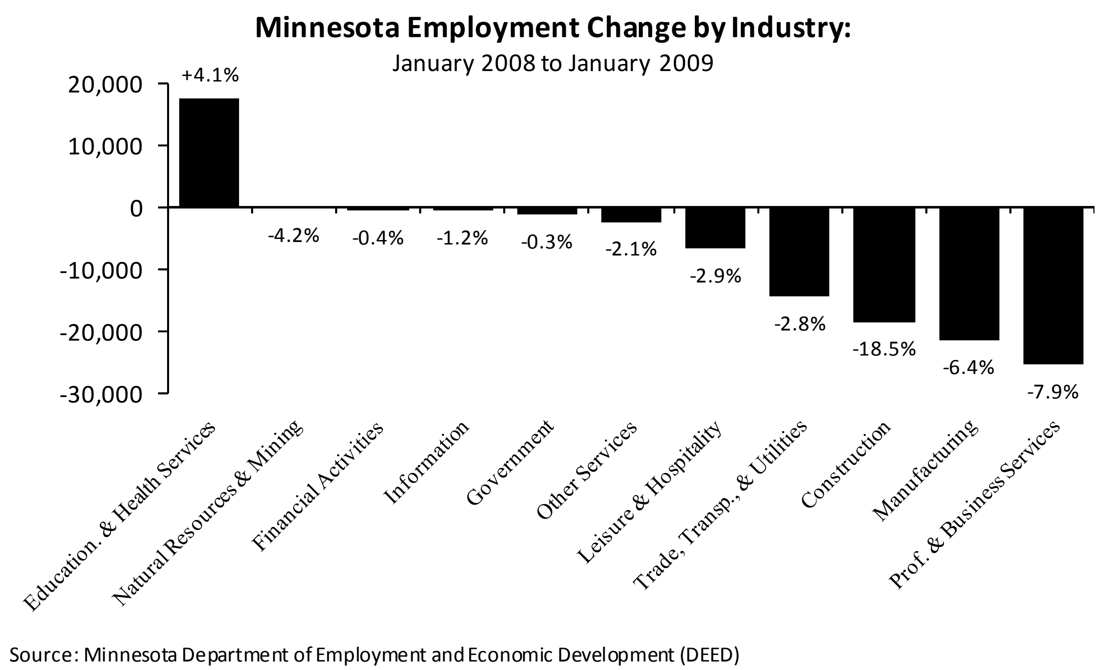
Forecasts for state employment and wages have been revised based on recent Minnesota specific information and Global Insight's (GII) February baseline, which assumes the impacts of a $780 billion fiscal stimulus package. The February baseline was used to drive the same Minnesota Management & Budget (MMB) model of the Minnesota economy used in November. That model, however, has been adjusted to incorporate recent information on mass layoff activity, the explicit impact of the economic stimulus package on Minnesota job levels, and preliminary benchmark data revisions to employment provided by the Minnesota Department of Employment and Economic Development (DEED). The revised employment data through January suggests that

Minnesota's labor market is weakening. As a result, the February forecast calls for additional job losses of up to 48 thousand more by the spring of 2010. Measured on a quarterly seasonally adjusted basis, the state will have lost 123 thousand jobs peak-to-trough since first quarter 2008, or 4.4 percent of employment.

Deflationary Spiral Accelerates

As demand for goods and services cools, businesses have been cutting jobs at an alarming pace. The rapid increase in the number of mass layoffs reported by state employers in the past several weeks is reflected in Minnesota's rising seasonally adjusted unemployment rate. Already, the rate has climbed from 4.5 percent in the early months of 2008 to a 25-year high of 7.6 percent in January.

Rapidly rising unemployment coupled with deflating asset values puts added pressure on homeowners and consumers to keep pace with monthly bills. Minneapolis-based Target Corp., for example, recently reported that expenses related to bad credit-card debt tripled in the fourth quarter of 2008 relative to the same period last year. As delinquency rates on credit card and home mortgage loans rise, qualifying standards in the lending market tighten, and even creditworthy borrowers find it more difficult to finance major purchases, such as homes or automobiles. This further suppresses the demand for goods and services and leads to more job losses and additional asset price devaluation. Ultimately, the deterioration produces a lasting adverse deflationary spiral that can be very difficult to reverse.



Job destruction in 2008 is apparent in nearly every sector of the economy, with only education and health care services experiencing over-the-year gains. Recent labor market data suggest that Minnesota is losing jobs very rapidly while at the same time job creation is practically non-existent.

In Minnesota, as well as nationally, there are notable signs that a self-reinforcing downward spiral is in motion. In December, for example, the number of seasonally adjusted first-time filers for state unemployment insurance benefits rose to a 26-year high of over 32 thousand, a level not seen since the 40 thousand monthly record high set during the 1981–82 recession. Just as disturbing is the number of Minnesota workers remaining on unemployment insurance rolls for more than a week. In January, it reached the highest level since tracking began in 1987. Job destruction is evident in nearly every sector of the economy, with only education and health care services experiencing over-the-year job gains. Finally, DEED's fourth quarter 2008 Job Vacancy Survey for the state showed that job vacancies dropped to 31,100, compared with 51,000 one year earlier. This suggests that the number of unemployed people per job opening in the state more than doubled over this period from 2.5 jobseekers per opening to 5.7. These indicators imply that Minnesota's labor market is losing jobs very rapidly while at the same time job creation is practically non-existent.

Mass layoffs, forced unpaid furloughs, employee buyouts, and retail closures will continue to add more Minnesotan's to the state's unemployment rolls in 2009. Add retrenching consumer demand, tighter credit standards, and falling home values to this scenario and the state's unemployment rate could plausibly grow to over 9 percent by this time next year despite the impact of the economic stimulus package.

Federal Stimulus and the Minnesota Economy

Most states, including Minnesota, have constitutional mandates that require a state government to maintain a balanced budget. As a result, while the economy struggles and tax revenues on items such as retail sales and corporate profits fall, nearly every state from California to Maine is wrestling with serious fiscal challenges. Many are being forced to draw down rainy day reserves, impose hiring freezes, suspend pay raises, or start making mid-year cuts to state jobs and programs in order to keep fiscal 2009 in balance.

Economic theory suggests that reductions to state and local government outlays will drag down economic activity. To provide a boost to the economy and address rapidly rising unemployment, the Obama Administration and Congress passed a $787 billion fiscal stimulus package in mid-February that includes billions of dollars in direct state aid over the next two years. At present, the Minnesota state government's share of the stimulus comes in the form of increased Medicaid assistance and other general fiscal relief to help stabilize existing payrolls and programs. The remainder of the federal package includes tax cuts to individuals, increases in food stamp benefits, expanded unemployment benefits, and outlays for infrastructure projects.

Minnesota's share of the federal aid package will help ease the state budget deficit. Its broader effects will help fend off the overall economic slide. Using analysis provided by GII and Mark Zandi, chief economist at Moody's Economy.com, MMB economists estimate that all major industries in Minnesota will either directly or indirectly benefit from the state's share of the stimulus plan. The largest boost to jobs will be in construction trades, where MMB estimates industry employment will be 7 percent higher by the end of 2010 as a result of additional infrastructure spending. In total, MMB economists estimate that Minnesota's share of the stimulus package could save or create approximately 45 thousand jobs, or 1.6 percent of employment, in Minnesota by the end of 2010.

Estimated Minnesota Industry Employment
Impact from the Federal Stimulus Package
(MN jobs saved or created by 4Q 2010)*

Industry	Thousands of Jobs Saved or Created	Percent of Total MN Industry Employment
Natural Resources & Mining	0.3	5.0%
Construction	7.5	7.0%
Manufacturing	5.1	1.6%
Wholesale Trade	2.1	1.6%
Retail Trade	5.9	2.0%
Information	0.9	1.6%
Financial Activities	3.1	1.7%
Professional & Bus Services	5.1	1.6%
Education and Health Services	3.0	0.7%
Leisure and Hospitality	4.9	2.0%
Other Services	1.9	1.6%
Government	3.7	0.9%
Transp., Warehousing, & Utilities	1.5	1.7%
Total Nonfarm	**45.0**	**1.6%**

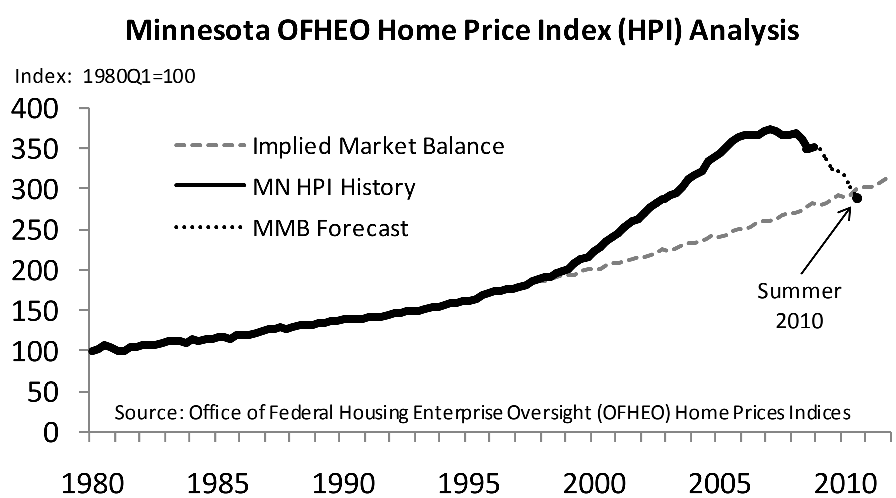
* MMB estimates using analysis from Global Insight and Moody's Economy.com

MMB economists estimate that Minnesota's share of the stimulus package could save or create approximately 45 thousand jobs, or 1.6 percent of employment, in Minnesota by the end of 2010. Forecasts for state employment have been estimated based on recent Minnesota specific information and Global Insight's (GII) February baseline, which assumes the impacts of a $780 billion fiscal stimulus package. The model simulation has been adjusted to include explicit information concerning the impact of the stimulus on Minnesota construction employment. The jobs impact in all other industries was assumed to be implicitly captured within the model simulation of GII's February baseline forecast.

Housing Correction Continues

While recessions often have cruel consequences, they also provide a necessary process for correcting market excess and economic imbalance. Today, both the U.S. and Minnesota housing markets are enduring a systematic economic adjustment. Beginning in the late 1990s, relaxed lending standards, historically low interest rates, and extreme speculation helped fuel a national housing boom. As the boom escalated, home construction swelled, property values soared, homeowners assumed unmanageable risk, affordability deteriorated, and new buyers were priced out of the market. In Minnesota, for example, according to the Office of Federal Housing Enterprise Oversight (OFHEO) nominal home prices for conventional, conforming mortgage transactions (less than $417,000) grew at an average annual rate of 9.1 percent between 2000 and 2005. Over the same period, nominal state personal income grew at less than half that rate, or an average of 4.4 percent.

By the spring of 2006, serious weaknesses in lending standards began to surface and an oversupply of houses began to undermine prices. Home sales started to decline, inventories rose, and the market correction was well underway. Declining home values left more and more homeowners with mortgage debt higher than the value of their property. Unable to refinance into more affordable terms, foreclosure rates grew rapidly. This put further downward pressure on home prices. OFHEO estimates that by the fourth quarter of 2008 conventional home prices in Minnesota declined 5.9 percent from their peak in first quarter 2007 and 8.7 percent in the Minneapolis-St Paul metro area. MMB economists estimate that Minnesota conventional home values need to fall an additional 15 to 18 percent before an implied market balance is restored. This suggests balance may not be fully restored until the summer of 2010.



OFHEO estimates that by the fourth quarter of 2008 conventional home prices in Minnesota declined 5.9 percent since their peak in first quarter 2007. Given escalating job losses in addition to already historically high foreclosure rates, MMB economists believe that as job losses escalate there is growing risk that home prices will overshoot the implied market balance on the downside, extending the housing downturn well into late 2010 or 2011.

Despite favorable home sales and inventory figures in recent months from the Minneapolis Area Association of Realtors, the declining housing market coupled with escalating job losses and rising unemployment will worsen already historically high default and foreclosure rates. This will push inventories up, putting downward pressure on home prices in 2009. With more home sellers on the market than interested buyers in a down economy, MMB economists believe that as long as credit and financial markets continue to function abnormally there is growing risk that Minnesota home prices will overshoot their implied market balance on the downside. This could extend the state's housing market correction well into late 2010 or 2011.

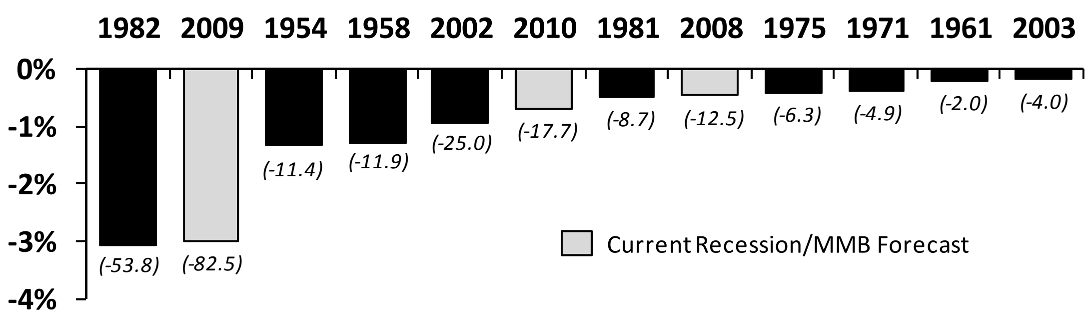
A Revised Forecast

Forecasts for state employment have been estimated based on recent Minnesota specific information and Global Insight's (GII) February baseline, which assumes the impacts of a $780 billion fiscal stimulus package. The model simulation has been adjusted to include explicit information concerning the impact of the stimulus on Minnesota construction employment. The jobs impact in all other industries was assumed to be implicitly captured within the model simulation of GII’s February baseline forecast.

The February forecast for Minnesota’s economy projects that annual wage and salary disbursement income will decline 1.4 percent and non-farm employment will decline 3.0 percent in 2009. To gain perspective, Minnesota wage and salary disbursements have not declined on an annual basis since the 1930s. Likewise, the 2009 employment forecast represents the worst annual jobs performance in percentage terms since 1982 and the greatest yearly loss of jobs in the post-WWII era.

Years with Minnesota Job Losses by Percent: 1950-2010

(Thousands of Job Losses in Parenthesis)



Source: MN Department of Employment and Economic Development (DEED) and MN Management & Budget (MMB)

The February forecast for Minnesota’s economy projects that annual non-farm employment will decline 3.0 percent in 2009. This represents the worst annual jobs performance in percentage terms since 1982 and the greatest yearly loss of jobs in the post-WWII era.

The February forecast includes additional seasonally adjusted job losses of 48 thousand between January 2009 and the first quarter of 2010. This is in addition to the 75 thousand jobs Minnesota has shed since February 2008. Measured on a quarterly seasonally adjusted basis, the state will lose 123 thousand jobs peak-to-trough between the first quarter 2008 and the first quarter of 2010. This decline reflects Global Insight’s outlook for a deep national recession, deteriorating local business conditions, and a weaker than previously projected Minnesota housing market. The employment rebound will be slow with modest growth projected over the summer of 2010 before accelerating later into 2011. Recent job destruction is so extensive that MMB economists estimate that it will take until the end of 2012 before Minnesota payroll employment regains the 2.770 million high reached last winter.

Housing continues to remain critical to the Minnesota outlook. Despite the impact of the economic stimulus package, construction is expected to lose 12 thousand jobs between the fourth quarter of 2008 and the fourth quarter of 2009. There are two principal assumptions behind this outlook. First, similar to November, the February forecast assumes authorized housing permits will establish a floor in late 2009 before beginning a slow recovery by mid-2010. Second, it is assumed that the state's housing slump begins to show signs of improvement, via home price stabilization and noticeable inventory declines, by early-to-mid 2010. If the housing downturn continues to deepen later into 2010 and 2011, however, it is unlikely that Minnesota's economy will perform as expected in the February forecast.

Minnesota Outlook Compared to the U.S.

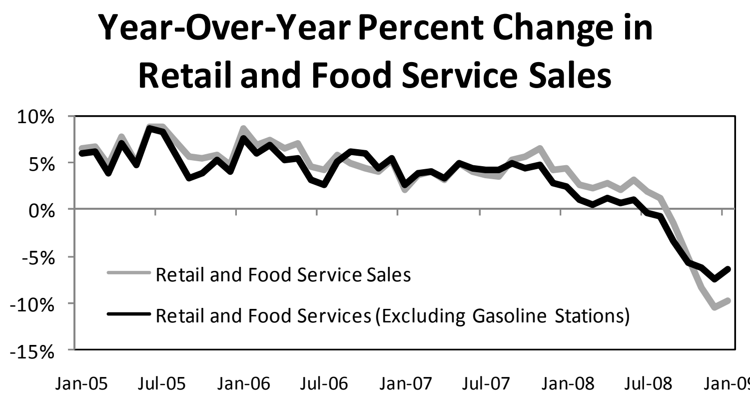
(Calendar Year Percent Change)

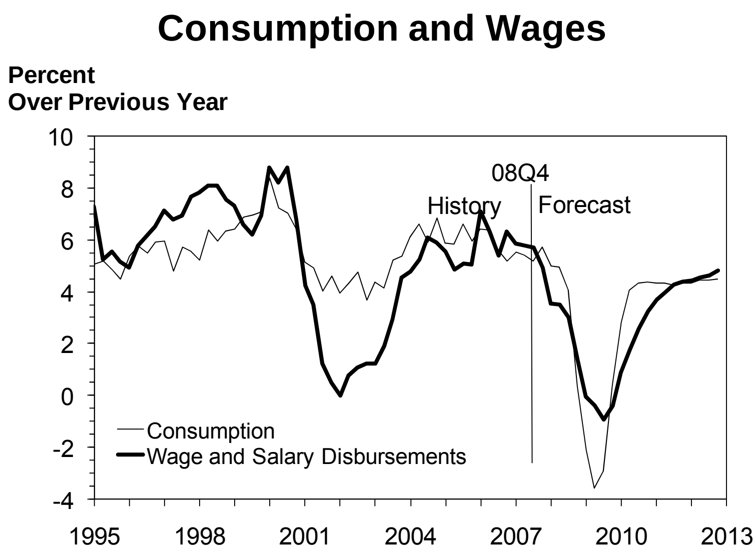
	2007	2008	2009	2010	2011
Non-Farm Employment					
Minnesota					
November 2008	0.4	-0.1	-1.8	0.0	1.5
February 2009	0.5	-0.4	-3.0	-0.7	1.4
United States					
November 2008	1.1	-0.1	-1.5	0.1	1.4
February 2009	1.1	-0.4	-3.1	-0.1	1.7
Wage and Salary Income					
Minnesota					
November 2008	5.6	3.4	0.2	2.4	4.2
February 2009	5.6	2.8	-1.4	2.0	4.2
United States					
November 2008	5.6	3.5	1.2	2.4	4.1
February 2009	5.6	2.8	-0.4	2.1	4.1

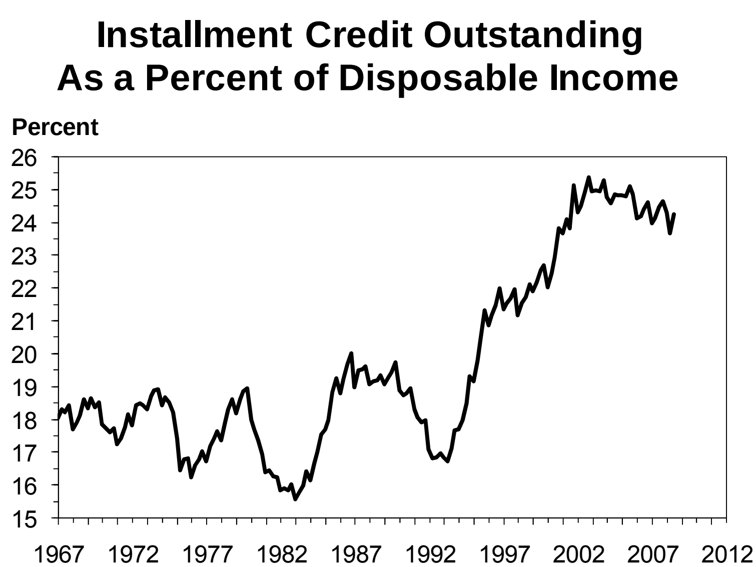
Health care is also an important factor in the forecast. Often thought of as recession proof, because people get sick no matter what is happening to the economy, Minnesota's job growth in health services unexpectedly slowed in 2008 as demand for medical services suddenly deteriorated. Recent evidence suggests that rising unemployment has left many individuals without health insurance and hospitals are reporting increases in uninsured patients. Since health care is the only sector of the economy currently experiencing over-the-year job gains through January 2009, a sharp slowdown in the growth of health services jobs will have harmful effects on the state's labor market.

Finally, the forecast assumes the Global Insight baseline forecast materializes. Any unanticipated adverse developments in the U.S. economy, such as further deterioration in the financial markets or a slower than projected recovery in consumer spending, will have unfavorable effects on the Minnesota economy.

SELECTED NATIONAL ECONOMIC INDICATORS

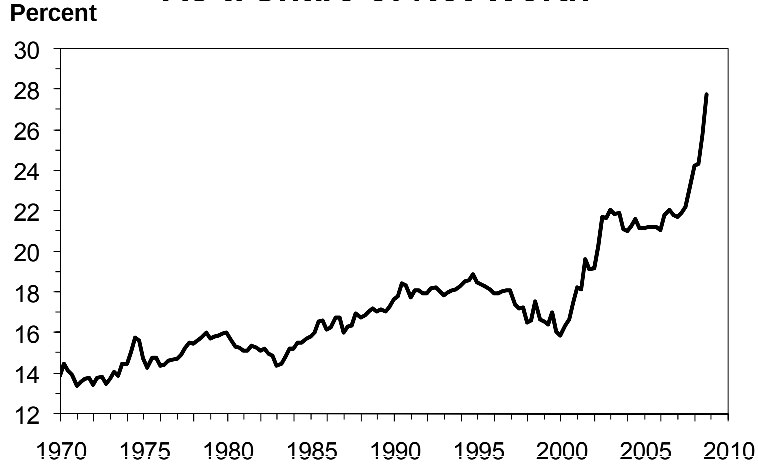




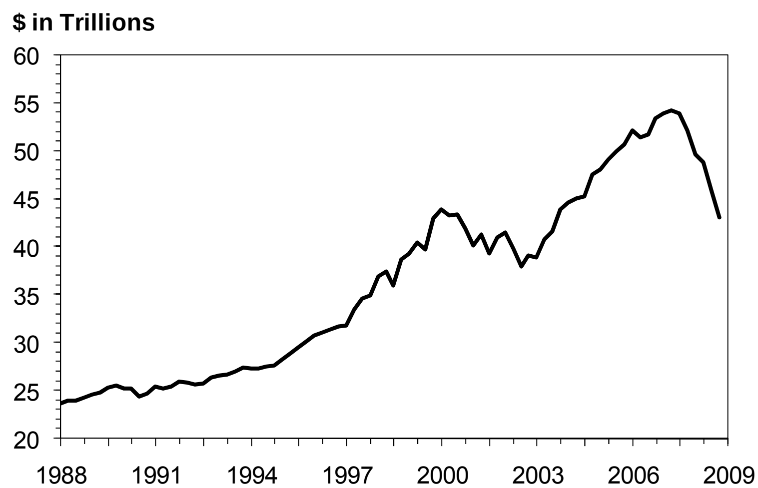


SELECTED NATIONAL ECONOMIC INDICATORS

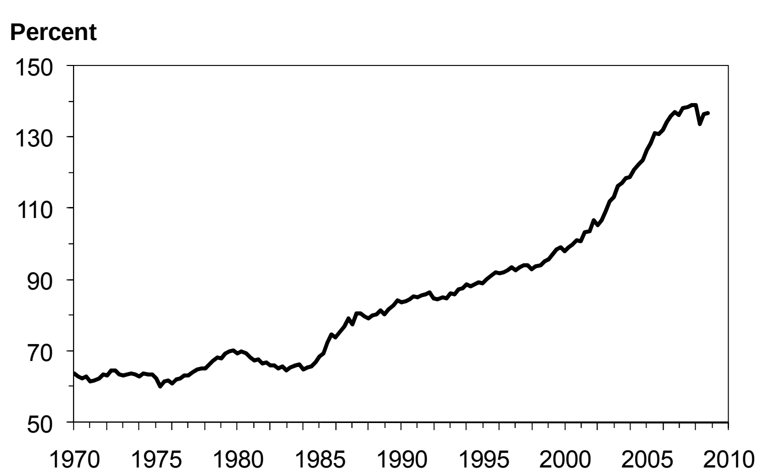
Household Financial Liabilities As a Share of Net Worth



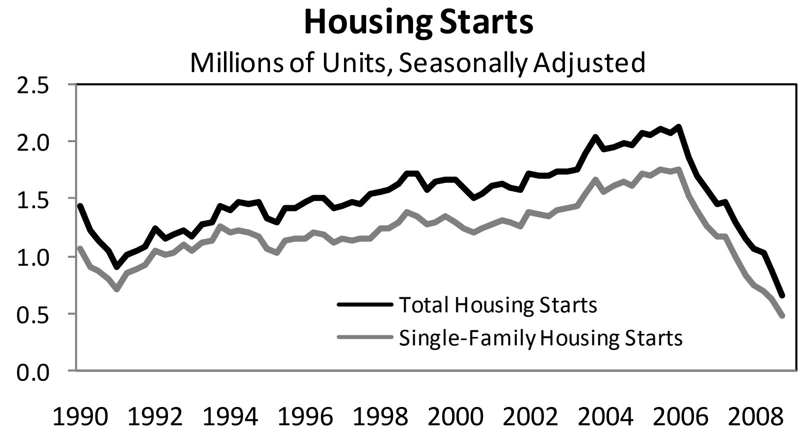
Real Household Net Worth ($ 2000)

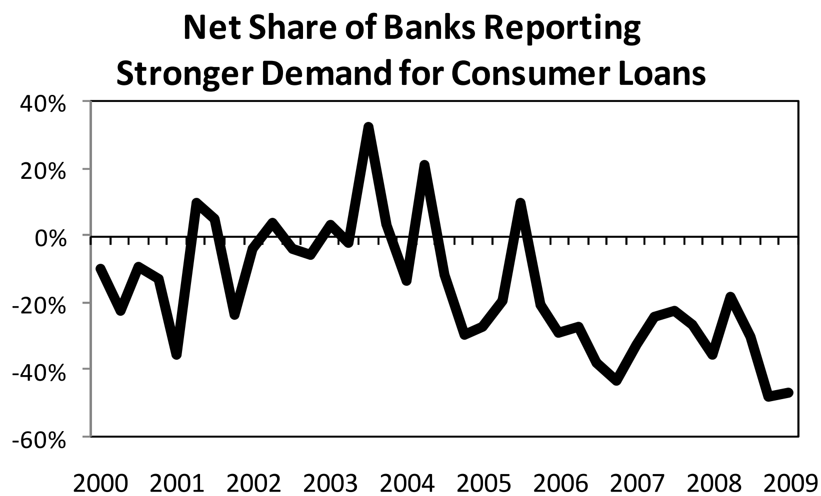


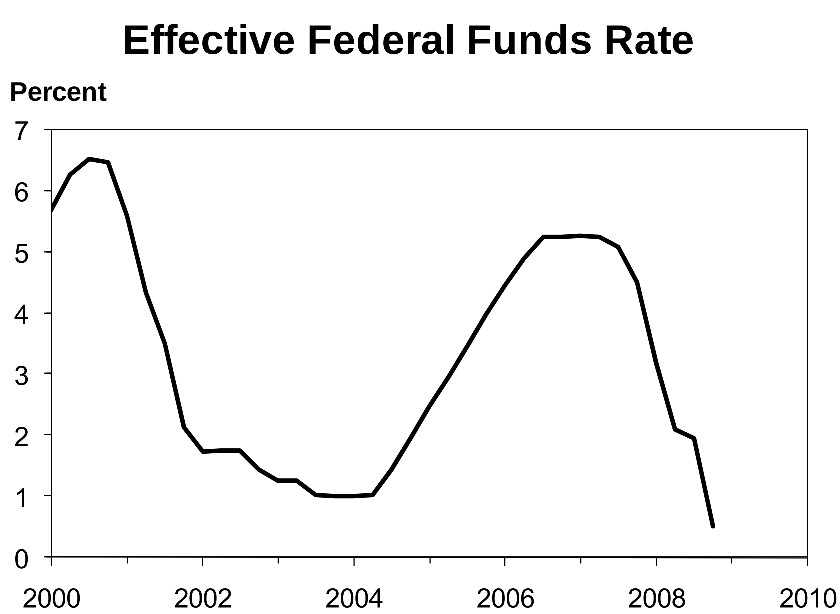
Household Financial Liabilities As a Share of Disposable Income



SELECTED NATIONAL ECONOMIC INDICATORS

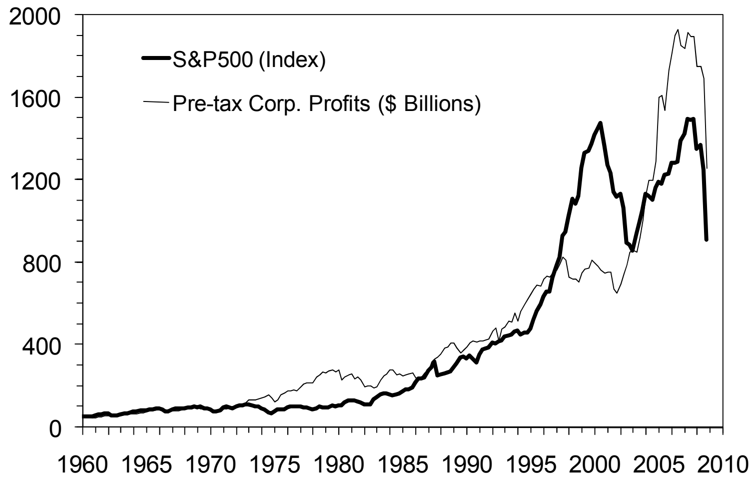




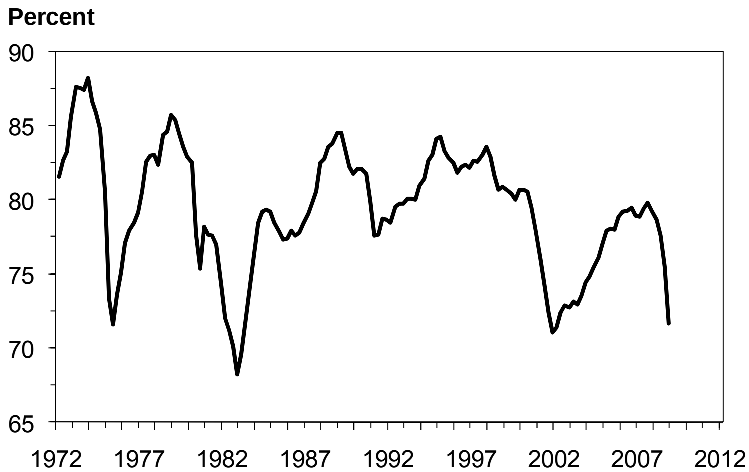


SELECTED NATIONAL ECONOMIC INDICATORS

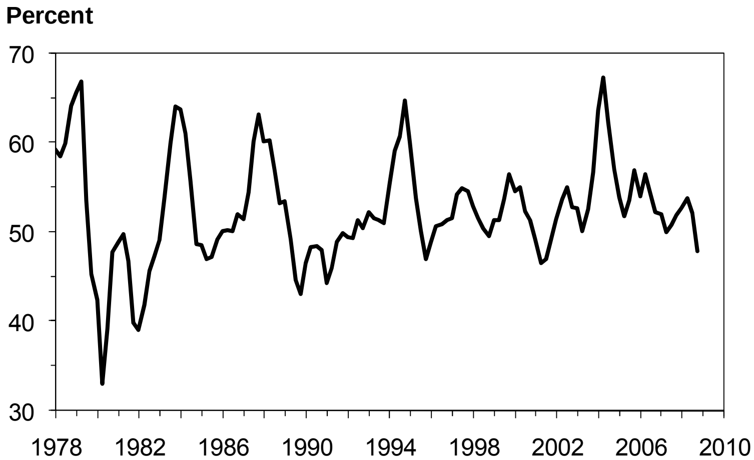
Corporate Profits and the Stock Market



Manufacturing Capacity Utilization



Proportion of Companies Receiving Slower Deliveries



FY 2008-09 BUDGET STATUS

Projected FY 2009 Deficit Turns into $236 Million Balance

The November 2008 forecast projected a $426 million general fund deficit for the end of the 2008-09 biennium. A positive balance of $236 million is now forecast for the end of the current biennium, a $662 million turnaround since November

The new balance reflects three key changes: the Governor's executive actions to balance FY 2009; recognition of reduced state obligations in the Medical Assistance program due to the federal stimulus bill; and forecast changes to revenue and expenditure estimates.

FY 2008-09 Forecast
($ in millions)

		February Changes			
	November Forecast	Governor's Unallotments	Federal Stimulus	Other Forecast Changes	Revised Forecast
Beginning Balance	**$2,245**				**$2,245**
Revenues	32,445	78		(291)	32,232
Expenditures	34,611	(193)	(464)	(63)	33,891
Cash Flow Account	350				350
Budget Reserve	155	(155)			—
Balance	**($426)**	**$426**	**$464**	**($228)**	**$236**

Executive Actions to Balance FY 2009

To solve the $426 million FY 2009 budget deficit projected in November, the Governor released the $155 million in the budget reserve. The Governor also reduced spending across many state agencies totaling $271 million. Of this total $78 million reflects transfers from other funds and appears above as increased revenues. For a detailed listing of all FY 2009 allotment reductions, please see http://www.mmb.state.mn.us/unallotment.

Federal Stimulus

The Federal Medical Assistance Percentage (FMAP) is used to determine the amount of Federal matching funds for Minnesota's Medical Assistance program and portions of the MinnesotaCare program. Minnesota's FMAP is currently 50 percent which means the state draws 50 cents in federal funding for every dollar it spends on medical services.

Under the American Recovery and Reinvestment Act (ARRA), Minnesota's FMAP rate is projected to increase from 50 percent to 60.19 percent from October 1, 2008 through June 30, 2009 and to 61.59 percent from July 1, 2009 to December 31, 2010. In FY 2009, the enhanced FMAP results in total projected reductions in state general fund obligations for Medical Assistance of $464 million. Expenditure reductions of $862 million and $497 million are projected for FY 2010 and FY 2011 respectively.

Other Forecast Changes

Excluding unallotment and federal stimulus and the forecast for the current biennium fell by $228 million. A decline in forecast revenues of $291 million (0.9 percent) has partially offset by a decline in forecast expenditures of $63 million (0.2 percent) compared to November estimates. The change in revenues is especially significant given that the biennium has only four months remaining, and indicates a rapid decline in the economic outlook since the last forecast. Between November and January receipts from the individual income tax, the sales tax, and the corporate income tax all were below forecast.

REVENUE FORECAST
FY 2008-09

Current general fund revenues for the 2008-09 biennium are now forecast to total $32.232 billion, $213 million (0.7 percent) less than forecast in November. The forecast for net non-dedicated revenues has been reduced by $293 million or 0.9 percent and the forecast for other resources has been raised by $80 million. That increase reflects transfers to the general fund from funds formerly supporting programs included in December's executive unallotments designed to balance the FY 2008-09 budget. That revenue increase did not result from an improvement in the economic outlook or a change in tax receipts. Unlike in November's forecast, year to date receipts are below forecast. Nearly 45 percent of the projected revenue shortfall for FY 2009 has already been observed in lower than forecast collections.

Revenues FY 2008-09
($ in millions)

	FY 2006-07	FY 2008	FY 2009	FY 2008-09
Individual Income	$14,094	$7,759	$7,217	$14,976
Sales	8,970	4,571	4,378	8,948
Corporate	2,233	1,020	659	1,679
Motor Vehicle Sales	497	186	107	293
Statewide Levy	1,297	704	743	1,447
Five Major Taxes	27,091	14,240	13,103	27,344
Other Revenue	3,963	1,812	1,691	3,502
Tobacco	365	184	177	361
Net Non-dedicated	31,419	16,236	14,971	31,208
Other Resources	923	444	581	1,025
Current Resources	**$32,341**	**$16,680**	**$15,553**	**$32,232**

Revenues for the current biennium from the five major taxes are expected to be $299 million (1.1 percent) less than forecast in November. A lower forecast for corporate tax receipts accounted for about 45 percent of the decline. About one-half of the expected reduction in the corporate tax receipts has already occurred. Projected individual income tax receipts were reduced by $83 million (0.6 percent) and the sales tax forecast fell by $84 million (0.9 percent). Year to date receipts for both also were below levels forecast in November. Total current resources for the 2008-09 biennium are now forecast to be $109 million less than was received in the 2006-07 biennium.

Changes in Economic Assumptions

Global Insight's February baseline is more pessimistic than their November forecast. The nation's economic problems have grown more severe than anticipated as recently as 4 months ago. The GII November baseline forecast did contain a recession lasting through the end of the 2009 fiscal year, but the recession in February's baseline is substantially deeper, even deeper than the recession included in GII's November pessimistic scenario. Real GDP is now expected to decline by 1.2 percent during this fiscal year. In November a decline of 0.4 percent was anticipated.

Payroll employment has fallen by 3.6 million since December 2007, but nearly half of the job loss occurred in November, December, and January. Global Insight now projects that the U.S. economy will shed 4.5 million jobs over the 2009 fiscal year, more than double the 2.2 million job loss projected in November. Minnesota payroll employment is now expected to fall by 85,000 jobs in fiscal 2009; in November a decline of 55,000 jobs was anticipated.

All sectors of the economy will be affected. Business fixed investment is projected to decline by more than 10 percent this fiscal year. In November a decline of 6.8 percent was expected. Consumer durable spending, a key component of Minnesota's sales tax base is now projected to decline by 5.1 percent, 0.5 percent more than in November's forecast.

Individual Income Tax

Individual income tax receipts for the 2008-09 biennium are now forecast to total $14.976 billion, $83 million (0.6 percent) less than projected in November. Actual receipts since the November forecast have been below estimates by $51 million (2.5 percent). Through January, withholding receipts were $44 million below forecast.

Changes in the underlying economic variables affecting FY2009 income tax receipts were small. The adjusted gross income estimate for tax year 2008 is estimated to be 0.7 percent less than November's estimate. Reductions to wages, capital gains, and interest income were the major contributors to that change. Capital gains realizations in Minnesota are now expected to decline by 36 percent in tax year 2008. In November a 32 percent decline was projected.

Wage data for the first and second quarter of 2008 have now been published and complete tax year 2008 withholding receipts is available. After examination of that data, the wage growth forecast was revised down slightly. Wages are now projected to have grown at a 2.8 percent annual rate during tax year 2008. November's forecast called for wage growth at a 3.4 percent rate. For tax year 2009, however, more substantial reductions in assumed wage growth were made. Aggregate wages are now assumed to decline by 1.4 percent during 2009. In November's forecast growth of 0.2 percent was assumed. Only about one-half of the decline in 2009 wages affects fiscal year 2009 receipts, however. The remainder carries into fiscal 2010.

Preliminary data from the Department of Revenue's (DOR) sample of tax year 2007 individual income tax returns were used as a check on the calibration of the income tax micro-simulation. The sample showed stronger tax year 2007 capital gains growth in Minnesota than had been previously thought and HITS model parameters were adjusted accordingly. Final liability for tax year 2007 was $51 million more than estimated in November and the capital gains growth factor was increased consistent with preliminary results from the DOR's 2007 sample. That increase was treated as a one-time variation around a long term relationship and not as a change in the base so the additional revenue did not carry forward into tax year 2008. Technical adjustments to assumptions about accounts receivables and refund, partial paid, and non-remit returns reduced the forecast by $36 million fiscal 2009. Changes to fiduciary income and partnership income reduced the forecast by $17 million and $4 million respectively. Revised AMT payments reduced the forecast by $6 million. A change in the timing assumed for estimated tax receipts shifted $80 million into FY 2009.

Sales Tax

Net sales tax collections for the 2008-09 biennium are now expected to be $8.948 billion, $84 million (0.9 percent) less than November's estimates. The entire decline in projected net sales tax receipts is due to a reduction in sales tax gross receipts. There was no change in the sales tax refund forecast for fiscal 2009. At the end of January gross sales tax receipts were $41 million below the level forecast in November, while sales tax refunds were $25 million less than earlier projections. The year-to-date decline in gross sales tax receipts is built into the base and carries forward. The gain from lower than expected refunds was assumed to be due to timing differences and not reflect any permanent gain to the state.

Global Insight's February baseline anticipates there will be considerably less spending in 2009 and 2010 than they had projected in November. While the additional decline in consumer purchases of durable goods, such as furniture and electronics, is relatively modest, the outlook for purchases of business equipment and software and construction materials has deteriorated. November's forecast had Minnesota's sales tax base declining by 2.9 percent in FY 2009. In this forecast the fiscal 2009 sales tax base falls by 4.4 percent. Taxable business equipment spending in Minnesota is now projected to fall by 7.3 percent and construction material purchases by 9.1 percent. In November declines of 4.5 percent and 6.8 percent were expected. Sales tax receipts for this biennium are now projected to fall below net sales tax receipts in the 2006-07 biennium.

Corporate Franchise Tax

Corporate tax revenues for the 2008-09 biennium are forecast to total $1.679 billion, $133 million (7.4 percent) less than projected in November. The forecast for the current biennium is $554 million (24.8 percent) less than net corporate tax receipts in the 2006-07 biennium.

Since November net corporate receipts have been well below forecast. Corporate refunds have exceeded forecast by $36 million and gross receipts have fallen short of estimates by $28 million. At the end of January, net corporate receipts were more than $64 million (41 percent) below November's projections. Those lower receipts accounted for about one half of the decrease in the forecast for corporate tax receipts for FY 2009.

In addition, the equation used to forecast the quarterly estimated tax payments made by corporations was re-specified to improve its responsiveness to changes in the economic outlook. Projected refunds for the remainder of the fiscal year were increased reflecting the large refund variance observed since November's forecast. There was no change in the assumptions in the forecast about the remaining costs associated with the Hutchinson Technology decision.

Motor Vehicle Tax Receipts

Minnesota's sales tax on motor vehicles is now projected to yield $293 million in the current biennium, $1 million more than forecast in November. General fund receipts from this tax for the November through January period were $2.5 million more than estimated and this small positive variance offsets a slight decline in the forecast for the remainder of the fiscal year.

Other Revenues and Other Resources

Although there were changes in forecasts for individual receipts the forecast for other tax and non tax revenues, including the state wide property tax, was almost unchanged. Receipts from the mortgage registry tax were increased by $27 million in anticipation of an increase in re-financing brought on by lower home mortgage rates. Other, non tax revenues, including fees, tobacco settlement revenue, and other no-dedicated revenue was reduced by $22 million. Other resources increased by $84 million due primarily to the transfer of funds to the general fund as specified in the executive unallotment.

EXPENDITURE FORECAST
FY 2008-09

Spending Reductions Due Largely to Unallotment and Federal Stimulus

Expenditures for the current biennium are now forecast to be $33.891 billion, $720 million below November's estimates, almost exclusively due to unallotment and the federal stimulus bill. Of the projected $560 million reduction in costs for health and human services, $91 million was due to unallotment and $464 million was due to lower state Medical Assistance obligations under federal stimulus. The other large downward revision in the property tax aids and credits area ($108 million) was also almost exclusively due to unallotment.

FY 2008-09 Expenditure Forecast
($ in millions)

	November Forecast	February Forecast	Difference
K-12 Education	$13,789	$13,777	($12)
Higher Education	3,140	3,119	(21)
Property Tax Aids & Credits	3,172	3,064	(108)
Health & Human Services	9,594	9,034	(560)
Public Safety	1,687	1,687	—
Transportation	452	451	(1)
Environment, Energy & Natural Res.	429	423	(6)
Agriculture & Veterans	271	270	(1)
Economic Development	399	396	(3)
State Government	707	695	(12)
Debt Service	862	862	—
All Other	33	37	4
Est. Cancellations	(24)	(24)	—
Subtotal	$34,511	$33,790	($721)
Dedicated Expenditures	100	101	1
Total	**$34,611**	**$33,891**	**($720)**

K-12 Education Spending Down $12 Million in FY 2008-09

K-12 Education spending in FY 2008-09 has not changed significantly since November. Spending is expected to be $13.8 billion, $11.9 million (0.1 percent) less than forecast in November. Unallotment accounts for $2.4 million of the reduction. The additional savings is largely driven by a decline of approximately 500 pupil units resulting in a

Basic aid reduction of $6.2 million (0.06 percent). Pupil units increased for Extended Time aid based on actual student data compared to preliminary data used in November. The increased pupil units raised Extended Time Revenue by $2.1 million (1.8 percent).

Changes in the categorical aid component of the K-12 forecast include: a decrease of $1.1 million (4.7 percent) in Interdistrict Desegregation Transportation due to a lower than expected rise in expenses since November, and a decrease of $1.4 million (31.8 percent) in Aid for Children with Disabilities due to updated pupil counts since November.

Health and Human Services Spending Forecast Down $560 Million in FY 2008-09

Total health and human services spending in the current biennium is expected to be $9.0 billion, a $560.7 million (5.8 percent) decrease from November. Most of the decrease, $463.6 million, is attributable to a reduction in state Medical Assistance (MA) expenditures due to the enhanced Federal Medical Assistance Percentage (FMAP) included in the federal stimulus package. The governor's unallotment of $90.5 million accounted for the majority of the remaining reduction in forecast spending for FY 2009.

Property Tax Aids and Credits Spending Down $108 Million for FY 2008-09

Spending for tax aids and credits in the current biennium now totals $3.064 billion, down $107.9 million since November. Unallotments of $110 million accounts for this change, partially offset by forecast increases of $2.1 million. This small net change is the result of various offsetting increases and decreases.

Property tax refund expenditures increased $5 million due to higher tax return counts than were projected in November. Amortization aid payments also increased due to a misinterpretation of current law in the November forecast. These small increases were offset by decreases in disparity reduction aid, political contribution refunds and tax refund interest. Disparity reduction aid expenditures were decreased to reflect actual spending while political contribution refund and tax refund expenditures were reduced to reflect lower anticipated political contributions in a weakened economy.

Changes in Other Spending Areas Largely Due to Unallotment

The forecast for all other spending areas decreased by $39 million, largely due to the governor's unallotment actions.

FY 2010-13 BUDGET OUTLOOK

The forecast for the 2010-11 biennium describes the budget outlook if current laws and policies remain unchanged. It establishes the resources available under current law to fund state programs and is the basis for action by the Governor and legislature in setting the general fund budget for the upcoming biennium. The February 2009 forecast updates the forecast estimates made in November 2008.

Modest Improvement in FY 2010-11 Outlook, Projected Shortfall at $4.570 Billion

The projected shortfall for FY 2010-11 is now $4.570 billion. The forecast balance has improved by $703 million from the $5.273 billion cumulative shortfall projected in November. However this is largely due to the projected balance in FY 2009 that carries forward into the next biennium. For FY 2010-11, the reduction in health and human services spending due to the federal stimulus bill ($1.359 billion) is almost completely offset by other underlying forecast changes, including a decline in revenues ($1.166 billion) and an increase in spending ($152 million).

FY 2010-11 Forecast
($ in millions)

	November Forecast	Federal Stimulus	Other Forecast Changes	Revised Forecast
Beginning Balance	$79		$507	$586
Revenues	31,866		(1,166)	30,700
Expenditures	36,713	(1,359)	152	35,506
Cash Flow Account	350		—	350
Budget Reserve	155		(155)	—
Balance	**($5,273)**	**$1,359**	**($656)**	**($4,570)**

Unlike the forecast for FY 2008-09, the projected $4.570 billion shortfall for FY 2010-11 is not based on an enacted budget, or even a proposed, budget. Instead the February revenue forecast, is matched against “base level” current law spending. The projected balance provides the framework for establishing the budget for the next two years.

Federal Stimulus

The Federal Medical Assistance Percentage (FMAP) is used to determine the amount of Federal matching funds for Minnesota's Medical Assistance program and portions of the MinnesotaCare program. Minnesota's FMAP is currently 50 percent which means the state draws 50 cents in federal funding for every dollar it spends on medical services.

Under the American Recovery and Reinvestment Act (ARRA), Minnesota's FMAP rate is projected to increase from 50 percent to 60.19 percent from October 1, 2008 through June 30, 2009 and to 61.59 percent from July 1, 2009 to December 31, 2010. The enhanced FMAP results in reductions in state general fund obligations for Medical Assistance of $862 million and $497 million for FY 2010 and FY 2011 respectively, or $1.359 billion for the biennium.

Other Revenue and Spending Changes

General fund revenues for the 2010-11 biennium are now $1.166 billion, 3.7 percent lower than November's forecast. Revenues are now expected to be $30.700 billion, 4.7 percent less than expected receipts for the 2008-09 biennium. The forecast for all three major taxes has been reduced. More than 60 percent of the revenue decline occurred in individual income taxes. General fund revenues are projected based on current tax laws and rates.

Forecast spending increased $152 million for FY 2010-11 offsetting a portion of the federal stimulus impact. Changes largely relate to caseload increases in the health and human services area. All forecast spending continues to be based on current laws, not Governor's or legislative proposed budgets. Expenditure projections include provisions currently in law and are adjusted only for enrollment and caseload changes in K-12 education, higher education, human services and corrections. The expenditure forecast does not include estimated general inflation increases beyond the portion that is integrated into the health care cost components of the forecast.

FY 2012-13 Planning Estimates

The planning estimates for FY 2012-13 differ from the short-term forecasts prepared for the 2008-09 and 2010-11 biennia. Projection methods are different and the longer-term estimates carry a higher degree of uncertainty and a larger range of potential error.

Changes in the FY 2012-13 planning outlook have implications for FY 2010-11 budget decisions. The long-term budget outlook for FY 2012-13 has worsened since November. General fund revenues are $314 million lower while projected spending is $215 million higher than November projections. The gap between ongoing revenues and spending has increased by $529 million for FY 2012-13.

FY 2012-13 Planning Outlook
($ in millions)

	FY 2008-09	FY 2010-11	FY 2012-13
Forecast Revenues	$32,232	$30,700	34,244
Projected Spending	33,891	35,506	39,377
One-time Savings, Federal Stimulus	(464)	(1,359)	—
Adjusted Spending	**34,355**	**36,865**	**39,377**
Difference	($2,123)	(6,165)	(5,133)
Estimated Inflation (CPI)		$170	$1,360

The one-time savings from the enhanced federal matching rate from the federal stimulus bill on projected spending is highlighted above. When compared to November estimates, the structural deficit for FY 2010-11 has increased significantly, from $4.847 billion to $6.165 billion due to the worsening economy.

The impact of inflation is not reflected in expenditure projections. Consumer prices are now projected to decline 0.7 percent in FY 2010, then increase 2.3 percent for FY 2011, 2.2 percent for FY 2012, and 2.4 percent for FY 2013.

Adjusting current estimates of forecast spending for inflation would add approximately $170 million to forecast estimates for FY 2010-11. Simply applying forecast inflation to current law projected spending for FY 2012-13 would add nearly $1.4 billion.

REVENUE FORECAST
FY 2010-11

Total current resources for Minnesota's general fund in the 2010-11 biennium are forecast to total $30.700 billion, $1.166 billion (3.7 percent) less than forecast in November. General fund current resources are now expected to be $1.533 billion (4.8 percent) less than is forecast for the 2008-09 biennium. General fund receipts for the 5 major taxes are expected to shrink by $1.131 billion (4.1 percent) between the 2008-09 and 2010-11 biennia. About 18 percent of that decline is due to a constitutionally mandated increase in the percentage of motor vehicle sales tax receipts dedicated to the state highway users fund and the transit fund. The remaining 82 percent of the decline is due to actual declines in ongoing revenue sources brought about by the weak economy.

Revenues FY 2010-11
($ in millions)

	FY 2008-09	FY 2010	FY 2011	FY 2010-11
Individual Income	$14,976	$7,034	$7,876	$14,910
Sales	8,948	4,157	4,328	8,485
Corporate	1,679	450	725	1,175
Motor Vehicle Sales	293	64	28	92
Statewide Levy	1,447	770	782	1,552
Five Major Taxes	27,344	12,474	13,738	26,213
Other Revenue	3,502	1,671	1,669	3,340
Tobacco	361	175	177	352
Net Non-dedicated	31,208	14,321	15,584	29,905
Other Resources	1,025	399	397	795
Current Resources	**$32,232**	**$14,720**	**$15,981**	**$30,700**

The individual income tax falls by $701 million (4.5 percent) from November's forecast. Income tax receipts in the coming biennium are also projected to be slightly, $67 million (0.4 percent), below collections in the 2008-09 biennium. Forecasts for sales tax and corporate income tax receipts are also below levels anticipated in November. Projected sales tax receipts are down $202 million, (2.3 percent) and corporate tax receipts are down $230 million (16.4 percent) from November's estimates. When compared to expected collections in FY2008-09 sales tax receipts and corporate tax receipts are down 5.2 percent and 30 percent respectively.

Changes in Economic Assumptions

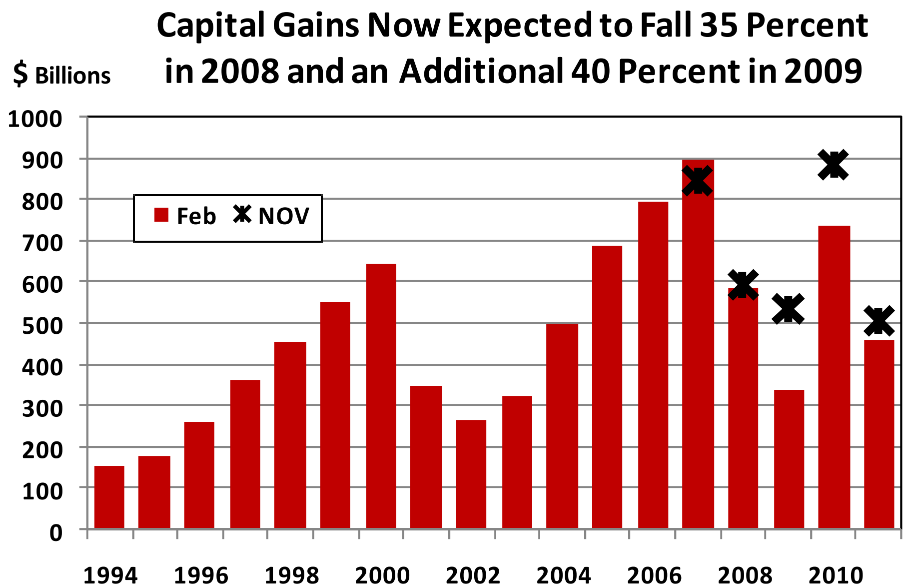
Global Insight's February baseline forecast is less optimistic than November's. The upturn in the economy is delayed slightly, the economy reaches bottom early in fiscal 2010 and then begins a slow climb back to trend growth by late spring, 2010. And the recession is substantially deeper. In fiscal 2010 real GDP is expected to decline at a 0.8 percent annual rate. In November, the economy was expected to grow at a 0.1 percent rate. This deeper, longer recession leaves real GDP at the end of fiscal 2011 1.1 percent below November's forecast. Projected inflation for FY2010-11 has also been scaled back. Global Insight projects a decline of 0.7 percent in the consumer price index in FY2010 and an increase of 2.3 percent in FY2011. Nominal (current dollar) GDP is now expected to be 3 percent below November's forecast at the close of FY2011.

Income Tax

Individual income tax revenues in the 2010-11 biennium are forecast to total $14.909 billion, $701 million (4.5 percent) less than forecast in November. Income tax receipts in the 2010-11 biennium are now expected to be $67 million (0.4 percent) less than forecast for the 2008-09 biennium. The combination of a weaker than previously anticipated economy and a major reduction in expected capital gains realizations in tax year 2009 reduces the forecast for Minnesota resident taxable income by 4.4 percent from November's forecast.

The forecast for Minnesota wages in calendar year 2009 has been lowered consistent with Global Insight's February baseline forecast. In calendar year 2009 total wages received by Minnesota employees are now forecast to decline by 1.4 percent, 1.2 percentage points more than in November's forecast. The forecast for calendar 2010 wage growth in Minnesota was also reduced slightly from November, consistent with February's GII baseline. Changes in wages account for 42 percent of the forecast change in adjusted gross income (agi) in tax year 2009 and 54 percent of the change in tax year 2010. In tax year 2011 wage changes explain 80 percent of the change in agi.

The forecast for non-wage income, such as capital gains, interest, dividends, and proprietor's incomes, also declines in this forecast. While a portion of that decline is due to a reduction in Global Insight's interest rate outlook, the largest portion of the decline is due to a change in the capital gains forecast. Minnesota capital gains realizations are forecast to fall by 45 percent in tax year 2009 after a weaker economic outlook and a weaker stock market are accounted for. In November capital gains were projected to decline by only 10 percent in the 2009 tax year. As in November capital gains realizations then jump dramatically in 2010 as individuals accelerate sales of capital assets to take advantage of the favorable tax treatment available under existing federal tax law. In this forecast realizations jump by 120 percent between tax year 2009 and tax year 2010. They then fall by 38 percent in 2011 reflecting the fact that much of the additional activity in 2010 was an acceleration of transactions that would otherwise have occurred in 2011.

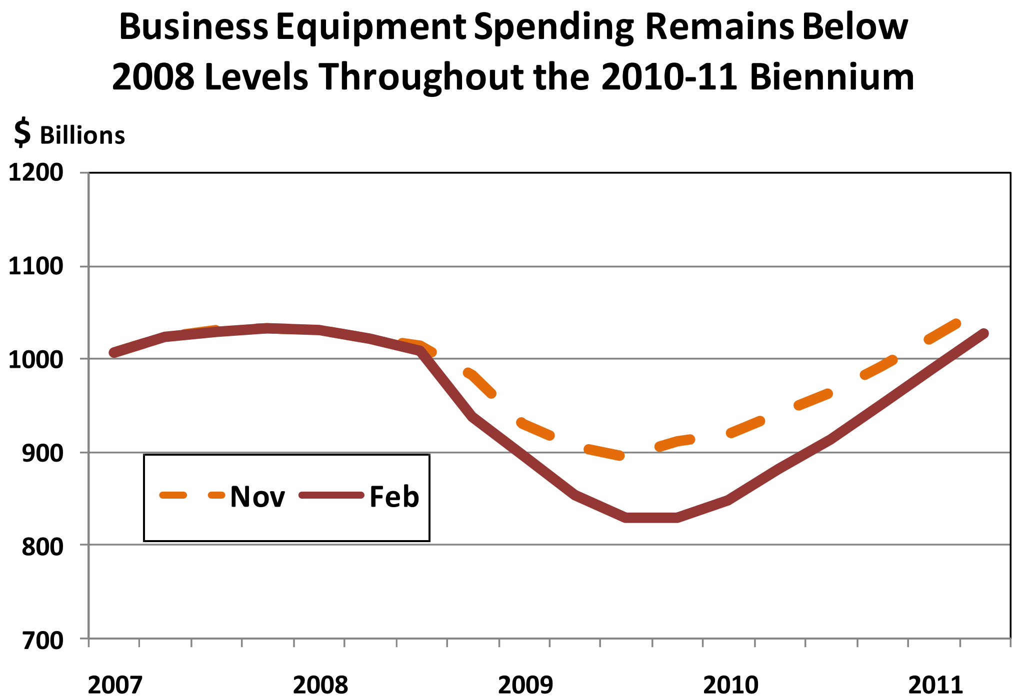


The forecast for other non-wage income, particularly interest, dividends and proprietor's incomes also falls in tax years 2009 through 2011. The declines in taxable revenue from those sources, however, is partly offset by a projected decline in deduction for home mortgage interest brought on by an expected increase in home mortgage refinancing given the favorable rates currently available.

Revenues were reduced by almost $20 million reflecting recent federal legislation that eliminated the required minimum distribution for IRA holders in tax year 2009. Technical adjustments to assumptions about accounts receivables, refunds, estimated payments, and partial paid and no remit returns made for fiscal year 2009 carry forward and reduce receipts by a total of $90 million in the 2010-11 biennium. A change in the alternative minimum tax estimate lowered the income tax forecast by $16 million. Net receipts in fiscal year 2010 were reduced to reflect potential tax impacts of Madoff related losses. As in November the additional Friday payday was factored into the forecast. It added more than $40 million to FY2010 receipts.

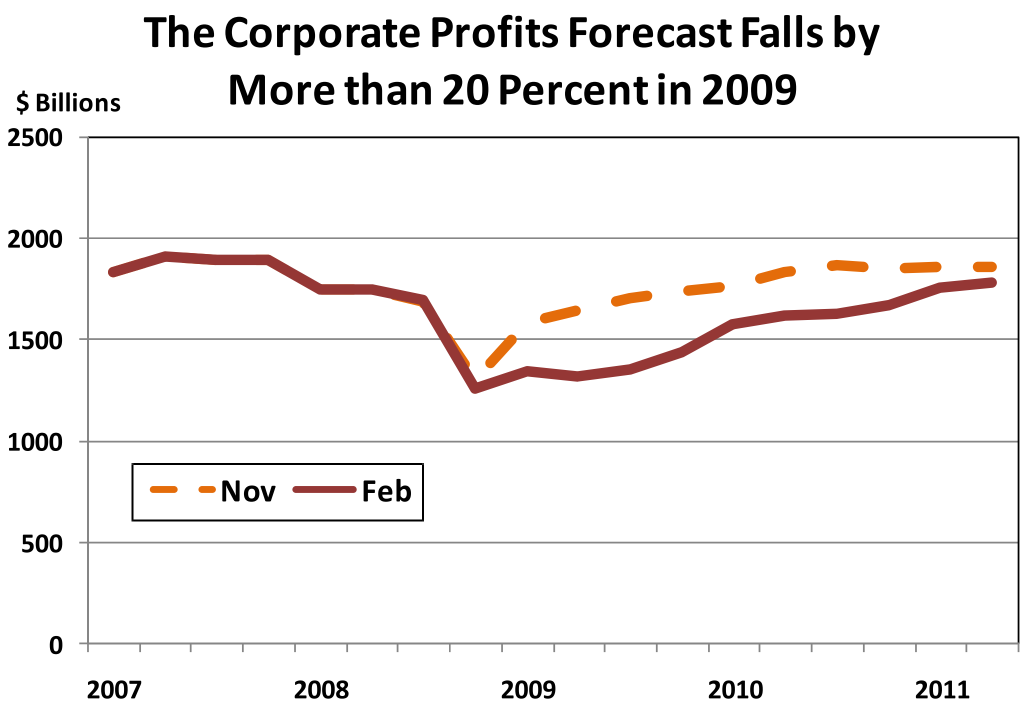
Sales Tax

Net sales tax receipts for the 2010-11 biennium are projected to total $8.485 billion, a net decline of $202 million (2.3 percent) from November's forecast. The amount expected to be collected in the 2010-11 biennium is $463 million (5.2 percent) less than the current forecast for sales tax receipts in the 2008-09 biennium. All portions of the sales tax base are expected to remain weak through the forecast horizon. Forecasts for capital equipment spending and construction spending show the largest declines since November. The sales tax base is expected to decline by 4.6 percent in fiscal 2010 and then increase by 5.0 percent in fiscal 2011. In November a 3 percent decline and a 3.8 percent increase were projected. In this forecast the sales tax base recovers only to fiscal year 2006 levels in fiscal 2011. Construction material spending in fiscal 2011 is below the level observed in fiscal 2005. Receipts elasticities were unchanged from those used in November.



Corporate Franchise Tax

Corporate tax revenues for the 2010-11 biennium are forecast to total $1.175 billion, $230 million (16.4 percent) less than forecast in November. The corporate revenue forecast for the 2010-11 biennium is now $504 million (30.0 percent) less than the corporate tax forecast for FY2008-09. There were small adjustments to the forecast to reflect better estimates of the impact of the transition to a single sales factor and changes in the treatment of foreign operating income, but almost all of the decline was due to a reduction in the forecast of domestic corporate profits. Global Insight has lowered their forecast for calendar year 2009 and 2010 corporate profits substantially and those lower profits translate into lower corporate tax receipts. The corporate income tax remains the most volatile of Minnesota's major taxes.



Motor Vehicle Sales Tax

Minnesota's sales tax on motor vehicles is now projected to yield $92.1 million in FY2010-11, the final two years in which the general fund receives a portion of this tax. In FY2012 all receipts from this tax will be directed to dedicated funds for transportation and transit.

Other Revenues

Other tax and non-tax revenues, including the statewide property tax levy are expected to total $5.243 billion during fiscal 2010-11, $26 million (0.5 percent) less than previously forecast. Projected increases in receipts from the mortgage tax and the cigarette and tobacco tax were offset by more modest declines in the estate tax, the deed tax, income tax reciprocity, and the tobacco settlement. Projected fee revenue is now projected to be $34 million less than forecast in November.

REVENUE PLANNING ESTIMATES
FY 2012-13

Total current resources for the 2012-13 biennium are estimated to be $34.244 billion, a $3.544 billion (11.5 percent) increase from the amount now forecast for the 2010-11 biennium, but a $314 million (0.9 percent) decline from November's revenue planning estimates. General fund receipts for the five major taxes are now projected to be 13.0 percent more than in the previous biennium. This reflects the complete elimination of motor vehicle sales tax revenues from the general fund as required by the constitutional amendment dedicating of those revenues to transportation funding. While the U.S. and Minnesota economies are assumed to return to a normal growth path beginning in early 2011, that growth comes from a substantially lower base level and revenues fall below the level that would have been expected in the absence of the current recession.

Revenues FY 2012-13

($ in millions)

	FY 2010-11	FY 2012	FY 2013	FY 2012-13
Individual Income	$14,910	$8,138	$8,886	$17,024
Sales	8,485	4,557	4,764	9,320
Corporate	1,175	823	859	1,682
Motor Vehicle Sales	92	—	—	—
Statewide Levy	1,552	794	810	1,604
Five Major Taxes	26,213	14,312	15,319	29,631
Other Revenue	3,340	1,719	1,764	3,484
Tobacco	352	177	175	352
Net Non-dedicated	29,905	16,209	17,258	33,467
Other Resources	795	389	387	776
Current Resources	**$30,700**	**$16,599**	**$17,645**	**$34,244**

The individual income tax is the major source of growth, up 14.2 percent from levels forecast for the 2010-11 biennium. Projected growth in income tax receipts would have been even stronger in the absence of the reduction in tax year 2011 capital gains realizations caused by a scheduled increase in the federal capital gains tax rate effective in 2011. The tax rate increase 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. In this forecast tax year 2011 capital gains realizations were reduced by 38 percent from tax year 2010 levels.

Sales tax receipts are projected to grow by 9.8 percent, the statewide property tax is expected to increase by 3.4 percent and the corporate franchise tax by 43.1 percent. Receipts from the motor vehicle sales tax are no longer a source of revenue for the state general fund.

No one can accurately 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 can 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 2011 will change the revenue planning estimates for 2012 and 2013. Other things equal, stronger than anticipated revenue growth through fiscal 2011 will carry forward and add significantly to revenues in the 2012-13 biennium. But, should the economy grow more slowly than forecast during the next twenty-eight months, as it has in the last year, or should some item of portfolio income such as capital gains fall well below forecast – as it did in tax year 2001 and is forecast to do in 2008 and 2009 -- the revenue outlook for the 2012-13 biennium will deteriorate.

The revenue planning estimates are only a guide to the level of future revenues. They are not a guarantee. Normally, if the economy remains strong 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 2012, or a significant decline. Also, Minnesota's economy is assumed to grow at the national rate in 2012 and 2013. While Minnesota has typically grown at or above the national rate, the state has underperformed the U.S. economy in recent years. Either outperforming or underperforming the national averages would lead to a material change in projected revenues. Actual revenues for 2012-13 could exceed or fall short of the planning estimates by $5 billion or more depending on the economy's performance.

Since November 2002 Minnesota Management & Budget has based its revenue planning estimates on Global Insight's baseline forecast. February's 2012-13 revenue planning estimates again were prepared consistent with the GII baseline forecast. GII projects real GDP growth rates of 3.3 percent and 2.9 percent for calendar 2012 and 2013 and nominal GDP growth of 4.7 percent in 2012 and 4.8 percent in 2013. GII's real GDP growth rate is below that assumed by the CBO in their January economic and budget update. The CBO expects annual real GDP growth to average 4.0 percent between 2011 and 2014. Nominal GDP is expected to grow at a 5.7 percent annual rate during that same period. GII now expects the CPI to increase at an annual rate of 2.3 percent in 2012 and 2.6 percent in 2013. Those rates are greater than the 2.1 percent growth assumed by CBO.

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. Calendar year income tax liabilities were converted into fiscal year revenues using the same proportions as forecast for 2011.

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, Minnesota Management & Budget has included one-time off-model adjustments to tax liability in tax year 2012 and 2013 where liabilities were increased by $204 million and $214 million respectively. In November a spreadsheet problem caused the planning estimate for FY 2013 revenues to be understated by $420 million. That problem was corrected in these estimates.

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 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 2010-2013

FY 2010-11 Forecast Expenditures Decline $1.207 Billion

Forecast current law spending for FY 2010-11 is now expected to total $35.506 billion, $1.207 billion below November's forecast estimates, largely due to the impact of the federal stimulus bill on health and human services spending. The revised spending estimates represent projected growth of $1.615 billion over the current law forecast for the FY 2008-09 biennium – a 4.8 percent increase.

FY 2010-11 Budget Expenditure Estimates
($ in millions)

	November	February	Difference
K-12 Education	$13,903	$13,894	($9)
Higher Education	3,158	3,157	(1)
Property Tax Aids & Credits	3,419	3,435	16
Health & Human Services	11,406	10,192	(1,214)
Public Safety	1,697	1,697	—
Transportation	390	389	(1)
Environment, Energy & Natural Res.	370	370	—
Agriculture & Veterans	259	259	—
Economic Development	280	280	—
State Government	624	627	3
Debt Service	1,067	1,067	—
Other	30	30	—
Estimated Cancellations	(20)	(20)	—
Subtotal	$36,583	$35,377	($1,206)
Dedicated Expenditures	130	129	(1)
Total	**$36,713**	**$35,506**	**($1,207)**

A $1.214 billion decrease in health and human services accounts for nearly all the forecast spending reduction for FY 2010-11. The enhanced Federal Medical Assistance Percentage (FMAP) in the federal stimulus bill reduces state general fund Medical Assistance spending by $1.359 billion. This savings is partially offset by an underlying forecast increase of $145 million for the biennium. Minor forecast revisions in other areas produce a net increase of $7 million.

FY 2012-13 Projected Expenditures Increase $215 Million

Projected current law spending for FY 2012-13 is now expected to total $39.377 billion, $215 million above November. The revised spending estimates now represent projected growth of $3.871 billion over the current law forecast for the FY 2010-11 biennium – a 10.9 percent increase. Nearly one-third of this growth ($1.359 billion) is due to artificially lower health and human services spending shown for FY 2010-11 due to one-time provisions in the federal stimulus bill.

FY 2012-13 Planning Estimates

($ in millions)

	November	February	Difference
K-12 Education	$14,346	$14,349	$3
Higher Education	3,145	3,157	12
Property Tax Aids & Credits	3,543	3,593	50
Health & Human Services	13,182	13,321	139
Public Safety	1,712	1,712	—
Transportation	389	389	—
Environment, Energy & Natural Res.	377	377	—
Agriculture & Veterans	257	256	(1)
Economic Development	280	280	—
State Government	624	627	3
Debt Service	1,166	1,174	8
Other	45	46	1
Estimated Cancellations	(20)	(20)	—
Subtotal	$39,046	$39,261	$215
Dedicated Expenditures	116	116	—
Total	**$39,162**	**$39,377**	**$215**

K-12 Education Spending Reduced $9 Million for FY 2010-11

Total spending for K-12 Education is now expected to be $13.9 billion in FY 2010-11, a decrease of $9.1 million (0.1 percent) from November 2008 estimates.

February Forecast enrollment projections for public K-12 schools are now based on actual FY 2008 student data. Average Daily Membership (ADM) is projected to be slightly lower than the totals forecast in November 2008, down approximately 700 per fiscal year. The change per year compared to November's projections is approximately 0.1 percent.

Despite the projected decrease in ADM since November's forecast, the trend of declining enrollment is still expected to reverse in FY 2010 with a pupil number increase of approximately 2,000 in FY 2010 and approximately 3,000 FY 2011. The following years are expected to experience more rapid growth with increases of approximately 6,000 and 10,000 in FY 2012 and FY 2013 respectively.

General Education spending is forecast to be $8.8 million (0.08 percent) lower in FY 2010-11 than was anticipated in November. Basic Education Aid entitlements are down $9.6 million (0.1 percent) due to lower student counts. Entitlements in Compensatory Aid, now based on preliminary actual free and reduced price meal eligibility totals from October 2008, have also decreased since November. The data shows a 3.3 percent decrease in average poverty concentration on a statewide basis (from 0.2987 Compensatory poverty counts per ADM to 0.2889). This results in a $4.7 million (0.06 percent) savings in FY 2010-11 Compensatory Aid entitlements.

Q Comp entitlement spending is also down. New estimates are based on preliminary actual fall enrollment data for FY 2010 which is lower than projected in November. This results in a $1.8 million (1.5 percent) reduction in Q Comp entitlements.

Levy Equalization aid entitlements increased as a result of updated tax base calculations. Referendum Market Value (RMV) and Adjusted Net Tax Capacity (ANTC) are now based on preliminary 2008 assessment data. On a statewide basis, RMV is down 0.4 percent and ANTC is down 3.3 percent from estimates in the November 2008 forecast. These factors led to a $4.1 million increase across all equalization aid categories in FY 2010-11. The majority of the increases occurred in the following categories: $3.2 million (2.3 percent) increase in Operating Capital Equalization Aid and a $1.2 million (1.0 percent) increase in Referendum Equalization Aid.

There are relatively minor changes to the overall categorical aid component of the K-12 forecast compared to November, however significant changes occurred within individual programs. Aid for Children with Disabilities is down $1.7 million (31.8 percent) in FY 2010-11 due to updated pupil participation information. Interdistrict Desegregation Aid decreased by $2.5 million (7.2 percent) since November due to adjustments in forecast formulas.

These decreases are mostly offset by several items: an increase of $2.2 million (5.1 percent) in Nonpublic Transportation since November due to increased costs; a Debt Service Equalization aid increase of $1.5 million (9.0 percent) in FY 2011 due to the lower than expected growth in ANTC values; and an increase of $281,000 (6.9 percent) in Deferred Maintenance Aid in FY 2010-11 based on pupil unit and ANTC value reductions.

K-12 Education Spending Up $3 Million for FY 2012-13

K-12 Education expenditures are projected to total $14.3 billion in FY 2012-13, up $2.8 million (0.02 percent) from previous estimates.

General Education estimates are $2.7 million (0.02 percent) higher, with large increases in equalization aids partially offset by decreases in Basic and Compensatory aid. Since November, Operating Capital Equalization Aid is up $8.5 million (4.5 percent) Referendum Equalization Aid is up $6.7 million (4.9 percent) and Equity Equalization Aid is $1.1 million (3.5 percent) higher due to lower than expected ANTC values. These increases are partially offset by a $12.4 million (0.1 percent) decrease in Basic Education Aid entitlements resulting from slightly lower ADM estimates and a decrease in ANTC values.

FY 2010-11 trends continue into FY 2012-13 in K-12 Categorical aids. Interdistrict Desegregation Transportation decreases by $2.6 million (5.2 percent) from November estimates due to adjustments in forecast calculations. Aid for Children with Disabilities decreases by $2 million (31.8 percent) based on updated pupil estimates. Nonpublic Pupil Transportation Aid and Debt Service Equalization aid increase $3 million (7 percent) and $3.1 million (20 percent) respectively compared to the November forecast. The increases are due to the increase in transportation costs and ANTC decreases in districts qualifying for debt service aid.

Health and Human Services Projections Decrease $1.2 Billion for FY 2010-11

Health and human services spending is now expected to be $10.2 billion in FY 2010-11, a $1.2 billion (10.6 percent) decrease compared to November estimates. The decline is largely due to a $1.4 billion reduction in Medical Assistance (MA) expenditures because of the increased Federal Medical Assistance Percentage (FMAP) authorized by the American Recovery and Reinvestment Act. An underlying forecast increase of $145 million for the 2010-11 biennium partially offsets the savings from the federal stimulus bill.

Basic Health Care Grants

Spending for MA Basic Care for Families and Children is projected to decrease $323.9 million (14.6 percent) from November estimates. The enhanced FMAP reduces projected state obligations by $383.5 million. About two-thirds of the $60 million offset to FMAP savings results from technical changes concerning medical education (MERC) payments. The remainder of the offset results from increased enrollment projections based on the economic forecast. Similarly, spending for MA Basic Care for Elderly and Disabled is expected to decrease by $374.2 million (14.6 percent) from earlier estimates, with the enhanced FMAP reducing projected state obligations by $386.5 million. A projected increase in the MA disabled caseload partially offsets this reduction.

The forecast for General Assistance Medical Care (GAMC) in FY 2010-11 is $16.9 million (2.3 percent) higher than previous estimates. Most of the change in GAMC is attributable to enrollment increases due to the weaker economic outlook and an increase in managed care rates due to risk adjustment calculations that are revised quarterly.

Continuing Care Grants

Estimated spending for Continuing Care Grants is forecast to decrease $585.9 million (15.6 percent) for FY 2010-11. Of this amount, spending is reduced by $588.9 million due to the impact of the federal stimulus legislation, and increased $3.0 million due to changes in the MA Long Term Care (LTC) Waiver budget activity. The higher MA LTC Waiver spending is due to higher average cost estimates for personal care services.

Children and Economic Assistance Grants

Children and Economic Assistance Grants increased $52.8 million (8.0 percent) from November estimates. The increases are concentrated in two activities: the Minnesota Family Investment Program/Diversionary Work Program (MFIP/DWP), projected to increase by $24.1 million (16.6 percent); and MFIP Child Care Assistance, projected to increase $14.1 million (10.8 percent). This is due to a change in the model used to estimate the impact of unemployment on the projected MFIP caseload. The federal stimulus package includes an increase in food stamp benefits. This adds spending in two programs with benefits linked to this federal change – Group Residential Housing and Minnesota Supplemental Aid (MSA). As a result, GRH spending is up $12.2 million (5.5 percent) and MSA spending is up $2.4 million (3.6 percent).

Health and Human Services Spending Projections Increase $140 Million for FY 2012-13

Total health and human services spending is now expected to total $13.3 billion in FY 2012-13, a $139.6 million increase (1.1 percent) from November estimates. The largest increase occurs in Basic Health Care Grants, where expenditures are $84.6 million (1.3 percent) higher than the previous forecast. Contributing to this increase are growing caseloads in GAMC and Basic Care for Families and Children due to economic conditions, as well as an increase in the caseload for disabled enrollees. Expenditures for Children and Economic Assistance Grants increased $47.4 million (6.5 percent), primarily due to the weaker economic conditions.

Tax Aids and Credits Projections Increase $16 Million for FY 2010-11

Expenditures for tax aids and credits are projected to increase $16.4 million from prior estimates, totaling $3.435 billion for the biennium. This increase is primarily the result of growth in property tax refunds and market value credits partially offset by savings in political contribution refund and tax refund interest.

The biggest change was a $12.4 million increase in expected property tax refund payments. This increase is mainly due to increased program participation and assumptions of residential property tax growth due to anticipated levy back of 2008 local aid unallotments. Growth in market value credit expenditures stems from slower than anticipated projected market value growth. Amortization aid payments also increased due to a misinterpretation of current law in the November forecast.

The increase in the property tax refunds, market value credits and amortization spending was partially offset by a $2 million reduction in expected payments of tax refund interest and a $1.3 million reduction in political contribution refund expenditures.

Tax Aids and Credits Projections Increase $50 Million for FY 2012-13

For FY 2012-13, tax aid and credit expenditures will grow to $3.593 billion, an increase of $50.2 million or 1.4 percent over November's estimates. This change in planning estimates is primarily the result of a $38.9 million increase in expected property tax refund program payments and an $11.5 million increase in market value credit payments. Higher than expected participation and an increase in expected residential property tax growth cause property tax refund growth while lower market value growth projections will cause increased market value credit expenditures.

Debt Service Projections Increase $8 Million for FY 2012-13

There are negligible changes in the debt service forecast for FY 2010-11. In FY 2012-13, debt service projections increase to $1.174 billion, or by $7.9 million (0.7 percent) over prior estimates. The increase is due to adjustments in the timing of future bond sales from the 2010-11 to the 2012-13 biennium, slightly higher interest rates on future bond sales, and lower short-term interest rates on cash balances for investment earnings. This forecast continues to assume future capital budgets of $725 million in each even-numbered legislative session and $120 million in each odd-numbered session.

ALTERNATIVE FORECAST COMPARISON
REAL GDP (ANNUAL RATES)

	08III	08IV	09I	09II	09III	09IV	08A	09A	10A
GII Baseline (02-09)	-0.5	-3.8	-6.0	-3.4	0.0	1.7	1.3	-2.7	2.0
Blue Chip (02-09)	-0.5	-3.8	-4.9	-1.5	0.8	2.0	1.3	-1.9	2.1
Moody's Economy.Com (02-09)	-0.5	-3.8	-5.0	-2.2	-0.5	1.7	1.3	-2.2	1.8
Ameriprise (02-09)	-0.5	-3.8	-3.5	0.6	3.5	4.5	1.3	-0.7	4.1
UBS (02-09)	-0.5	-3.8	-4.0	0.0	2.0	2.5	1.3	-1.2	2.2
Standard & Poors (02-09)	-0.5	-3.8	-5.8	-3.3	0.1	NA	1.3	-2.5	2.0

Consumer Price Index (Annual Rates)

	08III	08IV	09I	09II	09III	09IV	08A	09A	10A
GII Baseline (02-09)	6.7	-9.2	-3.4	-2.6	0.5	1.5	3.8	-1.9	1.7
Blue Chip (02-09)	6.7	-9.2	-2.5	0.8	1.7	1.5	3.8	-0.8	1.8
Moody's Economy.Com (02-09)	6.7	-9.2	-2.5	0.5	1.9	1.0	3.8	-0.9	1.8
Ameriprise (02-09)	6.7	-9.2	-3.0	1.2	1.4	2.0	1.5*	0.4*	2.0*
UBS (02-09)	6.7	-9.2	-2.1	2.1	6.1	0.7	3.8	0.0	2.3
Standard & Poors (02-09)	6.7	-9.2	-3.1	-1.9	0.2	NA	3.8	-1.7	1.8

FORECAST COMPARISONS

Real Economic Growth

(Annual Percent Change in Real GDP)

	2008	2009	2010	2011	2012	2013
Nov 04 GII Baseline	3.1	3.2				
Feb 05 GII Baseline	3.1	3.3				
Nov 05 GII Baseline	3.4	3.1				
Feb 06 GII Baseline	2.9	3.2				
Nov 06 GII Baseline	3.1	3.3	3.3	2.9		
Feb 07 GII Baseline	3.0	3.2	3.1	2.7		
Nov 07 GII Baseline	1.9	2.9	2.9	2.8		
Feb 08 GII Baseline	1.4	2.2	3.0	3.2		
Nov 08 GII Baseline	1.3	-1.0	1.7	3.1	3.5	3.1
Feb 09 GII Baseline	1.3	-2.7	2.0	3.5	3.3	2.9

Inflation

(Annual Percent Change in CPI-U)

Nov 04 GII Baseline	1.9	2.1				
Feb 05 GII Baseline	2.1	2.2				
Nov 05 GII Baseline	2.0	2.2				
Feb 06 GII Baseline	2.0	1.9				
Nov 06 GII Baseline	1.9	1.8	1.8	1.7		
Feb 07 GII Baseline	2.3	2.1	1.9	2.0		
Nov 07 GII Baseline	2.0	1.6	1.9	1.8		
Feb 08 GII Baseline	2.5	1.6	1.9	1.8		
Nov 08 GII Baseline	3.9	-0.9	2.4	3.0	2.4	2.4
Feb 09 GII Baseline	3.8	-1.9	1.7	2.2	2.3	2.6

MINNESOTA - U.S. COMPARISON REPORT

February 2009 Baseline

(Annual Percent Changes)

	2005	2006	2007	2008	2009	2010	2011
Wage and Salary Income							
United States	5.1	6.3	5.6	2.8	-0.4	2.1	4.1
Minnesota	2.7	5.0	5.6	2.8	-1.4	2.0	4.2
Implied Annual Wage							
United States	3.3	4.4	4.4	3.3	2.7	2.2	2.4
Minnesota	1.1	3.6	5.2	3.2	1.7	2.7	2.8
Non-Farm Employment							
United States	1.7	1.8	1.1	-0.4	-3.1	-0.1	1.7
Minnesota	1.6	1.3	0.5	-0.4	-3.0	-0.7	1.4
Personal Income							
United States	5.6	7.1	6.1	3.7	0.7	2.3	4.1
Minnesota	3.8	5.4	6.2	4.0	-0.1	2.3	4.4

COMPARISON OF ACTUAL AND ESTIMATED NON-RESTRICTED REVENUES

($ IN THOUSANDS)

	January YTD 2009, FY 2009		
	FORECAST REVENUES	ACTUAL REVENUES	VARIANCE ACT-FCST
Individual Income Tax			
Withholding	3,667,200	3,623,523	(43,677)
Declarations	787,600	827,430	39,830
Miscellaneous	228,737	191,077	(37,660)
Gross	4,683,537	4,642,030	(41,507)
Refund	188,553	197,914	9,361
Net	4,494,984	4,444,116	(50,868)
Corporate & Bank Excise			
Declarations	450,606	431,562	(19,044)
Miscellaneous	116,230	107,180	(9,050)
Gross	566,836	538,742	(28,094)
Refund	141,707	178,067	36,360
Net	425,128	360,675	(64,453)
Sales Tax			
Gross	2,714,968	2,673,722	(41,247)
Refunds	152,896	127,462	(25,434)
Net	2,562,072	2,546,259	(15,813)
Motor Vehicle Sales Tax	65,240	67,741	2,500
Other Revenues:			
Estate	79,074	81,982	2,908
Liquor/Wine/Beer	40,751	40,543	(207)
Cigarette/Tobacco/Cont Sub	122,533	122,777	245
Deed and Mortgage	80,673	83,057	2,384
Insurance Gross Earnings	134,745	137,820	3,075
Lawful Gambling	22,718	22,038	(680)
Health Care Surcharge	123,854	121,010	(2,844)
Other Taxes	758	405	(353)
Statewide Property Tax	326,319	333,632	7,313
DHS SOS Collections	33,019	19,457	(13,563)
Income Tax Reciprocity	75,580	75,880	300
Investment Income	20,223	28,862	8,639
Tobacco Settlement	180,573	176,982	(3,591)
Departmental Earnings	166,478	170,871	4,392
Fines and Surcharges	47,783	46,125	(1,659)
Lottery Revenues	25,223	24,853	(370)
Revenues yet to be allocated	2,714	1,116	(1,598)
Residual Revenues	57,738	52,198	(5,540)
Sales Tax Rebates (all years)	0	0	0
County Nursing Home, Pub Hosp IGT	3,962	3,962	0
Other Subtotal	1,544,719	1,543,570	(1,149)
Other Refunds	22,486	25,271	2,784
Other Net	1,522,233	1,518,299	(3,934)
Total Gross	**9,575,300**	**9,465,804**	**(109,496)**
Total Refunds	**505,643**	**528,714**	**23,072**
Total Net	**9,069,658**	**8,937,090**	**(132,568)**

FACTORS AFFECTING THE INDIVIDUAL INCOME TAX

($ in billions)

	Calendar Year					
	2006	**2007**	**2008**	**2009**	**2010**	**2011**
Minnesota Non-Farm Tax Base						
February 2005 Baseline	163.983	172.200				
November 2005 Baseline	161.799	170.983				
February 2006 Baseline	161.561	170.274				
November 2006 Baseline	161.271	169.111	177.669	187.572		
February 2007 Baseline	160.564	169.026	178.408	189.146		
November 2007 Baseline	162.525	171.000	176.126	182.836		
February 2008 Baseline	162.284	171.215	176.042	182.122		
November 2008 Baseline	162.407	172.180	178.014	178.017	180.893	189.211
February 2009 Baseline	162.396	172.166	176.869	173.201	175.674	183.239
Minnesota Wage and Salary Income						
February 2005 Baseline	114.473	120.360				
November 2005 Baseline	114.328	119.824				
February 2006 Baseline	113.713	118.957				
November 2006 Baseline	113.827	119.133	124.673	130.636		
February 2007 Baseline	113.045	118.579	124.034	130.567		
November 2007 Baseline	113.369	119.589	122.871	127.595		
February 2008 Baseline	112.953	119.173	122.189	126.100		
November 2008 Baseline	113.072	119.459	123.530	123.834	126.854	132.244
February 2009 Baseline	113.065	119.942	122.772	121.060	123.518	128.709
Minnesota Property Income						
February 2005 Baseline	35.200	36.744				
November 2005 Baseline	33.432	36.204				
February 2006 Baseline	33.754	36.367				
November 2006 Baseline	34.633	36.654	38.739	41.925		
February 2007 Baseline	34.659	37.168	40.223	43.666		
November 2007 Baseline	36.063	38.161	39.560	40.713		
February 2008 Baseline	36.251	38.852	40.162	41.289		
November 2008 Baseline	36.253	39.071	40.622	39.994	39.271	41.252
February 2009 Baseline	36.250	39.072	40.322	38.687	37.993	39.363
Minnesota Proprietors' Income						
February 2005 Baseline	14.309	15.156				
November 2005 Baseline	14.037	14.956				
February 2006 Baseline	14.093	14.950				
November 2006 Baseline	12.811	13.324	14.256	15.017		
February 2007 Baseline	12.861	13.279	14.150	14.912		
November 2007 Baseline	13.093	13.251	13.694	14.529		
February 2008 Baseline	13.080	13.192	13.691	14.733		
November 2008 Baseline	13.081	13.650	13.861	14.188	14.768	15.447
February 2009 Baseline	13.081	13.651	13.775	13.453	14.164	15.167

FACTORS AFFECTING SALES, CORPORATE INCOME AND SALES TAX ON MOTOR VEHICLES

($ in billions)

	Fiscal Year					
	2006	2007	2008	2009	2010	2011
SALES TAX						
Minnesota Synthetic Sales Tax Base						
November 2006 Baseline	74.170	76.219	78.115	81.901		
Pct	4.63%	2.76%	2.49%	4.85%		
*February 2007 Baseline	70.497	72.139	73.905	77.157		
Pct	4.3%	2.3%	2.4%	4.4%		
*November 2007 Baseline	68.299	69.405	70.381	70.572		
Pct	3.3%	1.6%	1.4%	0.3%		
*February 2008 Baseline	68.299	69.342	70.593	70.388		
Pct	3.3%	1.5%	1.8%	-0.3%		
November 2008 Baseline	68.104	69.284	71.375	69.278	67.178	69.730
Pct	3.5%	1.7%	3.8%	-2.9%	-3.0%	3.8%
February 2009 Baseline	68.122	69.306	71.434	68.297	65.132	68.395
Pct	3.5%	1.7%	3.1%	-4.4%	-4.6%	5.0%
Minnesota's Proxy Share of U.S. Consumer Durable Spending (Excluding Autos)						
November 2006 Baseline	13.229	13.606	13.697	14.291		
February 2007 Baseline	13.232	13.788	14.055	14.552		
November 2007 Baseline	12.885	13.289	13.525	13.229		
February 2008 Baseline	12.885	13.287	13.560	13.451		
November 2008 Baseline	12.715	13.163	13.567	12.869	12.257	12.549
February 2009 Baseline	12.715	13.163	13.573	12.812	12.150	12.456
Minnesota's Proxy Share of U.S. Capital Equipment Spending						
November 2006 Baseline	11.616	12.443	13.204	13.778		
February 2007 Baseline	11.619	12.179	12.834	13.419		
November 2007 Baseline	11.698	11.822	12.227	12.404		
February 2008 Baseline	11.698	11.820	12.199	12.078		
November 2008 Baseline	11.640	11.922	12.316	11.760	10.854	11.711
February 2009 Baseline	11.640	11.922	12.234	11.427	9.858	10.775
Minnesota's Proxy Share of U.S. Construction Spending						
November 2006 Baseline	12.135	11.775	11.622	12.398		
**February 2007 Baseline	8.510	8.031	7.509	7.829		
***November 2007 Baseline	7.276	7.067	6.304	5.812		
February 2008 Baseline	7.290	6.784	6.267	5.421		
November 2008 Baseline	7.248	6.716	6.401	5.966	5.445	6.180
February 2009 Baseline	7.247	6.720	6.307	5.732	4.826	5.486

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

FACTORS AFFECTING SALES, CORPORATE INCOME AND SALES TAX ON MOTOR VEHICLES

($ in billions)

	Fiscal Year					
	2006	**2007**	**2008**	**2009**	**2010**	**2011**
SALES TAX (Cont.)						
Minnesota's Personal Income Excluding Farm Proprietors Income*						
February 2005 Baseline	194.76	204.77				
November 2005 Baseline	196.70	207.71				
February 2006 Baseline	195.47	206.78				
November 2006 Baseline	195.19	205.96	216.03	227.93		
February 2007 Baseline	195.42	205.82	216.81	229.20		
November 2007 Baseline	190.95	200.20	207.70	215.85		
February 2008 Baseline	190.84	200.00	209.19	216.12		
November 2008 Baseline	190.82	200.36	210.61	216.41	219.52	227.48
February 2009 Baseline	190.80	200.35	210.20	213.84	215.33	223.33
SALES TAX ON MOTOR VEHICLES						
Minnesota's Proxy Share of U.S. Consumption of Motor Vehicles and Parts						
February 2005 Baseline	9.140	9.495				
November 2005 Baseline	8.925	9.340				
February 2006 Baseline	8.919	9.258				
November 2006 Baseline	9.018	9.061	8.993	9.292		
February 2007 Baseline	8.963	8.951	9.159	9.597		
November 2007 Baseline	8.869	8.892	8.681	8.852		
February 2008 Baseline	8.873	8.872	8.569	8.506		
November 2008 Baseline	8.846	8.862	8.571	6.895	7.977	8.380
February 2009 Baseline	8.846	8.862	8.561	6.642	7.074	7.699
CORPORATE FRANCHISE TAX			**Calendar Year**			
U.S. Corporate Profits						
February 2005 Baseline	971.8	965.8				
November 2005 Baseline	1,137.8	1,299.8				
February 2006 Baseline	1,137.8	1,329.9				
November 2006 Baseline	1,237.4	1,460.7	1,481.5	1,382.8		
February 2007 Baseline	1,237.4	1,460.7	1,617.8	1,463.6		
November 2007 Baseline**	1,368.6	1,392.4	1,302.8	1,355.1		
February 2008 Baseline**	1,368.6	1,373.7	1,310.7	1,326.7		
November 2008 Baseline**	1,557.8	1,510.5	1,402.8	1,286.4	1,446.5	1,493.8
February 2009 Baseline**	1,557.8	1,510.5	1,378.7	993.6	1,286.7	1,480.7

* Bureau of Economic Analysis Concept
** MMB Estimate of Domestic Corporate Profits & adjusted to net effects of the Federal Tax Acts of 2002, 2003, and 2008.

February 2009 General Fund Forecast

FY 2008-09 Biennium Comparison: February 2009 vs November 2008

($ in thousands)

	11-08 Fcst FY 2008-09	2-09 Fcst FY 2008-09	Difference
Actual & Estimated Resources			
Balance Forward From Prior Year	2,244,935	2,244,935	0
Current Resources:			
Tax Revenues	29,916,788	29,646,194	(270,594)
Non-Tax Revenues	1,583,838	1,561,353	(22,485)
Subtotal - Non-Dedicated Revenue	31,500,626	31,207,547	(293,079)
Dedicated Revenue	162,896	162,908	12
Transfers In	731,763	815,685	83,922
Prior Year Adjustments	49,951	46,569	(3,382)
Subtotal - Other Revenue	944,610	1,025,162	80,552
Subtotal-Current Resources	32,445,236	32,232,709	(212,527)
Total Resources Available	**34,690,171**	**34,477,644**	**(212,527)**
Actual & Estimated Spending			
K-12 Education	13,799,898	13,788,000	(11,898)
K-12 Ptx Rec Shift/Aid Payment Shift	(10,525)	(10,525)	0
Subtotal K-12 Education	13,789,373	13,777,475	(11,898)
Higher Education	3,139,859	3,119,469	(20,390)
Property Tax Aids & Credits	3,172,177	3,064,166	(108,011)
Health & Human Services	9,594,253	9,033,517	(560,736)
Public Safety	1,686,829	1,686,529	(300)
Transportation	452,210	451,002	(1,208)
Environment, Energy & Natural Resources	428,962	422,515	(6,447)
Agriculture & Veterans	270,937	269,937	(1,000)
Economic Development	398,915	396,235	(2,680)
State Government	706,776	695,023	(11,753)
Debt Service	862,058	862,071	13
Capital Projects	20,495	20,495	0
Deficiencies/Other	12,140	16,030	3,890
Estimated Cancellations	(23,700)	(23,700)	0
Subtotal Expenditures & Transfers	**34,511,284**	**33,790,764**	**(720,520)**
Dedicated Expenditures	100,262	100,686	424
Total Expenditures & Transfers	**34,611,546**	**33,891,450**	**(720,096)**
Balance Before Reserves	**78,625**	**586,194**	**507,569**
Cash Flow Account	350,000	350,000	0
Budget Reserve	154,922	0	(154,922)
Budgetary Balance	**(426,297)**	**236,194**	**662,491**

February 2009 General Fund Forecast
FY 2010-11 Biennium
($ in thousands)

	2-09 Fcst FY 2010	2-09 Fcst FY 2011	Biennial Total
Actual & Estimated Resources			
Balance Forward From Prior Year	586,194	(1,942,451)	586,194
Current Resources:			
Tax Revenues	13,604,339	14,870,254	28,474,593
Non-Tax Revenues	716,326	713,858	1,430,184
Subtotal - Non-Dedicated Revenue	14,320,665	15,584,112	29,904,777
Dedicated Revenue	82,257	82,257	164,514
Transfers In	291,836	289,157	580,993
Prior Year Adjustments	25,000	25,000	50,000
Subtotal - Other Revenue	399,093	396,414	795,507
Subtotal-Current Resources	14,719,758	15,980,526	30,700,284
Total Resources Available	**15,305,952**	**14,038,075**	**31,286,478**
Actual & Estimated Spending			
K-12 Education	6,902,076	6,992,023	13,894,099
Higher Education	1,578,397	1,578,467	3,156,864
Property Tax Aids & Credits	1,693,096	1,742,299	3,435,395
Health & Human Services	4,675,628	5,516,595	10,192,223
Public Safety	846,973	849,858	1,696,831
Transportation	194,720	194,720	389,440
Environment, Energy & Natural Resources	185,506	184,289	369,795
Agriculture & Veterans	129,326	129,272	258,598
Economic Development	140,097	139,981	280,078
State Government	311,818	314,949	626,767
Debt Service	517,409	549,121	1,066,530
Capital Projects	13,500	16,300	29,800
Estimated Cancellations	(5,000)	(15,000)	(20,000)
Subtotal Expenditures & Transfers	**17,183,546**	**18,192,874**	**35,376,420**
Dedicated Expenditures	64,857	64,857	129,714
Total Expenditures & Transfers	**17,248,403**	**18,257,731**	**35,506,134**
Balance Before Reserves	**(1,942,451)**	**(4,219,656)**	**(4,219,656)**
Cash Flow Account	350,000	350,000	350,000
Budgetary Balance	**(2,292,451)**	**(4,569,656)**	**(4,569,656)**

FY 2010-11 Biennial Comparison

February 2009 Forecast vs November 2008 Forecast

($ in thousands)

	11-08 Fcst FY 2010-11	2-09 Fcst FY 2010-11	Difference
Actual & Estimated Resources			
Balance Forward From Prior Year	78,625	586,194	507,569
Current Resources:			
Tax Revenues	29,589,108	28,474,593	(1,114,515)
Non-Tax Revenues	1,480,987	1,430,184	(50,803)
Subtotal - Non-Dedicated Revenue	31,070,095	29,904,777	(1,165,318)
Dedicated Revenue	164,514	164,514	0
Transfers In	581,281	580,993	(288)
Prior Year Adjustments	50,000	50,000	0
Subtotal - Other Revenue	795,795	795,507	(288)
Subtotal-Current Resources	31,865,890	30,700,284	(1,165,606)
Total Resources Available	**31,944,515**	**31,286,478**	**(658,037)**
Actual & Estimated Spending			
K-12 Education	13,903,227	13,894,099	(9,128)
Higher Education	3,157,824	3,156,864	(960)
Property Tax Aids & Credits	3,418,955	3,435,395	16,440
Health & Human Services	11,406,553	10,192,223	(1,214,330)
Public Safety	1,696,831	1,696,831	0
Transportation	389,888	389,440	(448)
Environment, Energy & Natural Resources	369,661	369,795	134
Agriculture & Veterans	259,006	258,598	(408)
Economic Development	280,078	280,078	0
State Government	624,302	626,767	2,465
Debt Service	1,067,310	1,066,530	(780)
Capital Projects	29,800	29,800	0
Estimated Cancellations	(20,000)	(20,000)	0
Subtotal Expenditures & Transfers	**36,583,435**	**35,376,420**	**(1,207,015)**
Dedicated Expenditures	129,714	129,714	0
Total Expenditures & Transfers	**36,713,149**	**35,506,134**	**(1,207,015)**
Balance Before Reserves	**(4,768,634)**	**(4,219,656)**	**548,978**
Cash Flow Account	350,000	350,000	0
Budget Reserve	154,922	0	(154,922)
Budgetary Balance	**(5,273,556)**	**(4,569,656)**	**703,900**

General Fund Biennial Comparison
FY 2010-11 vs FY 2008-09
($ in thousands)

	2-09 Fcst FY 2008-09	2-09 Fcst FY 2010-11	$ Change	% Change
Actual & Estimated Resources				
Balance Forward From Prior Year	2,244,935	586,194	(1,658,741)	-73.9%
Current Resources:				
Tax Revenues	29,646,194	28,474,593	(1,171,601)	-4.0%
Non-Tax Revenues	1,561,353	1,430,184	(131,169)	-8.4%
Subtotal - Non-Dedicated Revenue	31,207,547	29,904,777	(1,302,770)	-4.2%
Dedicated Revenue	162,908	164,514	1,606	1.0%
Transfers In	815,685	580,993	(234,692)	-28.8%
Prior Year Adjustments	46,569	50,000	3,431	7.4%
Subtotal - Other Revenue	1,025,162	795,507	(229,655)	-22.4%
Subtotal-Current Resources	32,232,709	30,700,284	(1,532,425)	-4.8%
Total Resources Available	**34,477,644**	**31,286,478**	**(3,191,166)**	**-9.3%**
Actual & Estimated Spending				
K-12 Education	13,788,000	13,894,099	106,099	0.8%
K-12 Ptx Rec Shift/Aid Payment Shift	(10,525)	0	10,525	-100.0%
Subtotal K-12 Education	13,777,475	13,894,099	116,624	0.8%
Higher Education	3,119,469	3,156,864	37,395	1.2%
Property Tax Aids & Credits	3,064,166	3,435,395	371,229	12.1%
Health & Human Services	9,033,517	10,192,223	1,158,706	12.8%
Public Safety	1,686,529	1,696,831	10,302	0.6%
Transportation	451,002	389,440	(61,562)	-13.7%
Environment, Energy & Natural Resources	422,515	369,795	(52,720)	-12.5%
Agriculture & Veterans	269,937	258,598	(11,339)	-4.2%
Economic Development	396,235	280,078	(116,157)	-29.3%
State Government	695,023	626,767	(68,256)	-9.8%
Debt Service	862,071	1,066,530	204,459	23.7%
Capital Projects	20,495	29,800	9,305	45.4%
Deficiencies/Other	16,030	0	(16,030)	-100.0%
Estimated Cancellations	(23,700)	(20,000)	3,700	-15.6%
Subtotal Expenditures & Transfers	**33,790,764**	**35,376,420**	**1,585,656**	**4.7%**
Dedicated Expenditures	100,686	129,714	29,028	28.8%
Total Expenditures & Transfers	**33,891,450**	**35,506,134**	**1,614,684**	**4.8%**
Balance Before Reserves	**586,194**	**(4,219,656)**	**(4,805,850)**	
Cash Flow Account	350,000	350,000	0	
Budgetary Balance	**236,194**	**(4,569,656)**	**(4,805,850)**	

FY 2008-13 Planning Horizon
February 2009 General Fund Forecast
($ in thousands)

	2-09 Fcst FY 2008-09	2-09 Fcst FY 2010-11	2-09 Plng Est FY 2012-13
Actual & Estimated Resources			
Balance Forward From Prior Year	2,244,935	586,194	(4,219,656)
Current Resources:			
Tax Revenues	29,646,194	28,474,593	32,028,979
Non-Tax Revenues	1,561,353	1,430,184	1,438,301
Subtotal - Non-Dedicated Revenue	31,207,547	29,904,777	33,467,280
Dedicated Revenue	162,908	164,514	150,514
Transfers In	815,685	580,993	575,913
Prior Year Adjustments	46,569	50,000	50,000
Subtotal - Other Revenue	1,025,162	795,507	776,427
Subtotal-Current Resources	32,232,709	30,700,284	34,243,707
Total Resources Available	**34,477,644**	**31,286,478**	**30,024,051**
Actual & Estimated Spending			
K-12 Education	13,788,000	13,894,099	14,349,294
K-12 Ptx Rec Shift/Aid Payment Shift	(10,525)	0	0
Subtotal K-12 Education	13,777,475	13,894,099	14,349,294
Higher Education	3,119,469	3,156,864	3,156,934
Property Tax Aids & Credits	3,064,166	3,435,395	3,593,447
Health & Human Services	9,033,517	10,192,223	13,321,045
Public Safety	1,686,529	1,696,831	1,711,437
Transportation	451,002	389,440	389,440
Environment, Energy & Natural Resources	422,515	369,795	376,989
Agriculture & Veterans	269,937	258,598	256,398
Economic Development	396,235	280,078	280,078
State Government	695,023	626,767	627,076
Debt Service	862,071	1,066,530	1,174,337
Capital Projects	20,495	29,800	45,219
Deficiencies/Other	16,030	0	0
Estimated Cancellations	(23,700)	(20,000)	(20,000)
Subtotal Expenditures & Transfers	**33,790,764**	**35,376,420**	**39,261,694**
Dedicated Expenditures	100,686	129,714	115,714
Total Expenditures & Transfers	**33,891,450**	**35,506,134**	**39,377,408**
Balance Before Reserves	**586,194**	**(4,219,656)**	**(9,353,357)**
Cash Flow Account	350,000	350,000	350,000
Budgetary Balance	**236,194**	**(4,569,656)**	**(9,703,357)**
Structural Balance	***(1,658,741)***	***(4,805,850)***	***(5,133,701)***

FY 2012-13 Biennial Comparison

February 2009 Forecast vs November 2008 Forecast

($ in thousands)

	11-08 Plng Est FY 2012-13	2-09 Plng Est FY 2012-13	Difference
Actual & Estimated Resources			
Balance Forward From Prior Year	(4,768,634)	(4,219,656)	548,978
Current Resources:			
Tax Revenues	32,290,180	32,028,979	(261,201)
Non-Tax Revenues	1,501,371	1,438,301	(63,070)
Subtotal - Non-Dedicated Revenue	33,791,551	33,467,280	(324,271)
Dedicated Revenue	150,514	150,514	0
Transfers In	565,874	575,913	10,039
Prior Year Adjustments	50,000	50,000	0
Subtotal - Other Revenue	766,388	776,427	10,039
Subtotal-Current Resources	34,557,939	34,243,707	(314,232)
Total Resources Available	**29,789,305**	**30,024,051**	**234,746**
Actual & Estimated Spending			
K-12 Education	14,346,463	14,349,294	2,831
Higher Education	3,144,594	3,156,934	12,340
Property Tax Aids & Credits	3,543,221	3,593,447	50,226
Health & Human Services	13,181,651	13,321,045	139,394
Public Safety	1,711,437	1,711,437	0
Transportation	389,440	389,440	0
Environment, Energy & Natural Resources	376,761	376,989	228
Agriculture & Veterans	256,806	256,398	(408)
Economic Development	280,078	280,078	0
State Government	624,506	627,076	2,570
Debt Service	1,166,404	1,174,337	7,933
Capital Projects	45,219	45,219	0
Estimated Cancellations	(20,000)	(20,000)	0
Subtotal Expenditures & Transfers	**39,046,580**	**39,261,694**	**215,114**
Dedicated Expenditures	115,714	115,714	0
Total Expenditures & Transfers	**39,162,294**	**39,377,408**	**215,114**
Balance Before Reserves	**(9,372,989)**	**(9,353,357)**	**19,632**
Cash Flow Account	350,000	350,000	0
Budget Reserve	154,922	0	(154,922)
Budgetary Balance	**(9,877,911)**	**(9,703,357)**	**174,554**

Historical and Projected Revenue Growth

General Fund, February 2009 Forecast

($ in millions)	Actual FY 2006	Actual FY 2007	Actual FY 2008	Estimated FY 2009	Estimated FY 2010	Estimated FY 2011	Average Annual
Individual Income Tax	$6,863	$7,231	$7,759	$7,217	$7,034	$7,876	
$ change		368	528	(542)	(183)	842	
% change		**5.4%**	**7.3%**	**-7.0%**	**-2.5%**	**12.0%**	**2.8%**
Sales Tax	4,464	4,506	4,571	4,378	4,157	4,328	
$ change		42	65	(193)	(221)	171	
% change		**0.9%**	**1.4%**	**-4.2%**	**-5.0%**	**4.1%**	**-0.6%**
Corporate Tax	1,062	1,171	1,020	659	450	725	
$ change		109	(151)	(361)	(209)	275	
% change		**10.3%**	**-12.9%**	**-35.4%**	**-31.7%**	**61.1%**	**-7.3%**
Statewide Property Tax	631	666	704	743	769	782	
$ change		34	38	39	26	13	
% change		**5.5%**	**5.7%**	**5.5%**	**3.5%**	**1.7%**	**4.4%**
Motor Vehicle Sales	250	247	186	107	64	28	
$ change		(2)	(61)	(79)	(43)	(36)	
% change		**-1.0%**	**-24.7%**	**-42.5%**	**-40.2%**	**-56.3%**	**-35.4%**
Other Tax Revenue	1,380	1,211	1,172	1,130	1,130	1,131	
$ change		(169)	(39)	(42)	0	1	
% change		**-12.2%**	**-3.2%**	**-3.6%**	**0.0%**	**0.1%**	**-3.9%**
Total Tax Revenue	$14,649	$15,032	$15,412	$14,234	$13,604	$14,870	
$ change		383	380	(1,178)	(630)	1,266	
% change		**2.6%**	**2.5%**	**-7.6%**	**-4.4%**	**9.3%**	**0.3%**
Non-Tax Revenues	861	876	824	737	717	714	
$ change		15	(52)	(87)	(20)	(3)	
% change		**1.7%**	**-6.0%**	**-10.6%**	**-2.7%**	**-0.4%**	**-3.7%**
Dedicated, Transfers, Other	452	471	444	581	399	396	
$ change		19	(27)	137	(182)	(3)	
% change		**4.1%**	**-5.7%**	**30.9%**	**-31.3%**	**-0.8%**	**-2.6%**
Total Current Resources	$15,962	$16,379	$16,680	$15,552	$14,720	$15,980	
$ change		417	301	(1,128)	(832)	1,260	
% change		**2.6%**	**1.8%**	**-6.8%**	**-5.3%**	**8.6%**	**0.0%**

Historical and Projected Spending Growth

General Fund, February 2009 Forecast

($ in millions)	Actual FY 2006	Actual FY 2007	Actual FY 2008	Estimated FY 2009	Estimated FY 2010	Estimated FY 2011	Average Annual
K-12 Education	$6,301	$6,438	$6,820	$6,957	$6,902	$6,992	
$ change		138	382	137	(55)	90	
% change		**2.2%**	**5.9%**	**2.0%**	**-0.8%**	**1.3%**	**2.1%**
Higher Education	1,348	1,414	1,563	1,556	1,578	1,578	
$ change		66	149	(7)	22	0	
% change		**4.9%**	**10.6%**	**-0.4%**	**1.4%**	**0.0%**	**3.2%**
Prop. Tax Aids & Credits	1,464	1,559	1,581	1,483	1,693	1,742	
$ change		96	22	(98)	210	49	
% change		**6.5%**	**1.4%**	**-6.2%**	**14.2%**	**2.9%**	**3.5%**
Health & Human Services	3,910	4,311	4,630	4,403	4,676	5,516	
$ change		401	319	(227)	273	840	
% change		**10.3%**	**7.4%**	**-4.9%**	**6.2%**	**18.0%**	**7.1%**
Public Safety	812	895	817	870	847	850	
$ change		83	(78)	53	(23)	3	
% change		**10.3%**	**-8.7%**	**6.5%**	**-2.6%**	**0.4%**	**0.9%**
Debt Service	352	400	409	453	517	549	
$ change		47	9	44	64	32	
% change		**13.4%**	**2.3%**	**10.8%**	**14.1%**	**6.2%**	**9.3%**
All Other	1,356	931	1,185	1,164	1,035	1,031	
$ change		(426)	254	(21)	(129)	(4)	
% change		**-31.4%**	**27.3%**	**-1.8%**	**-11.1%**	**-0.4%**	**-5.3%**
Total Spending	$15,542	$15,947	$17,005	$16,886	$17,248	$18,258	
$ change		405	1,058	(119)	362	1,010	
% change		**2.6%**	**6.6%**	**-0.7%**	**2.1%**	**5.9%**	**3.3%**