Minnesota Department of Finance

February 2007

Highlights

Outlook for FY 2008-09 Budget Unchanged

Changes in revenue and expenditure forecasts for the 2006-07 and 2008-09 biennia were small and offsetting. When those forecasts are combined the projected balance is $2.163 billion, $7 million less than forecast in November.

Balance for Current Biennium Now $1.013 Billion

FY 2006-07 general fund revenues are now expected to total $32.211 billion, $879 million more than estimated at the end of the 2006 legislative session, but $34 million (0.1 percent) less than November's forecast. Projected spending for the current biennium has fallen by $9 million. The surplus projected for the close of the biennium falls by $25 million to $1.013 billion.

FY 2008-09 Revenues and Spending Up Only Slightly from November

A small improvement in the FY 2008-09 revenue outlook is almost completely offset by a small increase in projected expenditures. The revenue forecast is up by $160 million (0.5 percent) while projected spending increased by $142 million.

Little Change in U.S. Economic Outlook

There were only small changes to Global Insight's U.S. economic outlook between November and February. Real GDP growth in the 2008-09 biennium remains at 3.0 percent while the CPI is expected to increase at a 2.1 percent annual rate over the biennium, 0.2 percentage points more than in November's forecast. The inflation outlook for the FY 2010-11 biennium is also 0.2 percentage points higher.

FY 2010-11 Planning Outlook Becomes Tighter

Corporate income taxes and sales tax receipts in FY 2010-11 are now expected to be lower than November's estimates. Projected current law spending is higher. Their combined impact has reduced FY 2010-11 balances by $418 million. Higher inflation, consistent with GII's new baseline forecast, would add $220 million to inflationary cost pressures in the 2010-2011 biennium.

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BUDGET UPDATE AND OUTLOOK

FY 2007 Balance Now Projected at $1.013 Billion, Down $25 Million

The forecast for general fund revenue and spending for the balance of the current biennium is almost unchanged. A balance of $1.013 billion is now forecast for the end of the current biennium, $25 million less than the $1.038 billion forecast in November. Forecast revenues declined $34 million. A portion of this decrease, however, is offset by a $9 million net reduction in spending. Changes reflected in this forecast are historically small.

FY 2006-07 Forecast

($ in millions)

		February Changes		
	November Forecast	Leg. Action	Forecast	Revised Forecast
Beginning Balance	$1,393	$0	$0	$1,393
Revenues	32,245	(24)	(10)	32,211
Expenditures	31,487	0	(9)	31,478
Cash Flow Acct	350	0	0	350
Budget Reserve	653	0	0	653
Tax Relief Acct	110	0	0	110
Balance	**$1,038**	**$(24)**	**$(1)**	**$1,013**

The $1.013 billion forecast balance is 3.15 percent of projected general fund revenues for the biennium. Current law requires that forecast balances exceeding one-half of one percent be designated as available for rebate to taxpayers. A rebate, however, is not automatic and requires approval by the 2007 Legislature.

FY 2008-09 Projected Budget Balance Is $2.163 Billion

The $1.013 billion forecast balance for the current biennium, when combined with the $1.150 billion balance now projected for FY 2008-09, leaves a total of $2.163 billion for FY 2008-09 budget development. This is a decrease of $7 million from November's estimates.

FY 2008-09 revenues are now forecast to be $33.678 billion, $160 million (0.5 percent) higher than November. The increase in revenues is almost totally offset by a $142 million (0.4 percent) increase in projected current law spending.

FY 2008-09 Forecast

($ in millions)

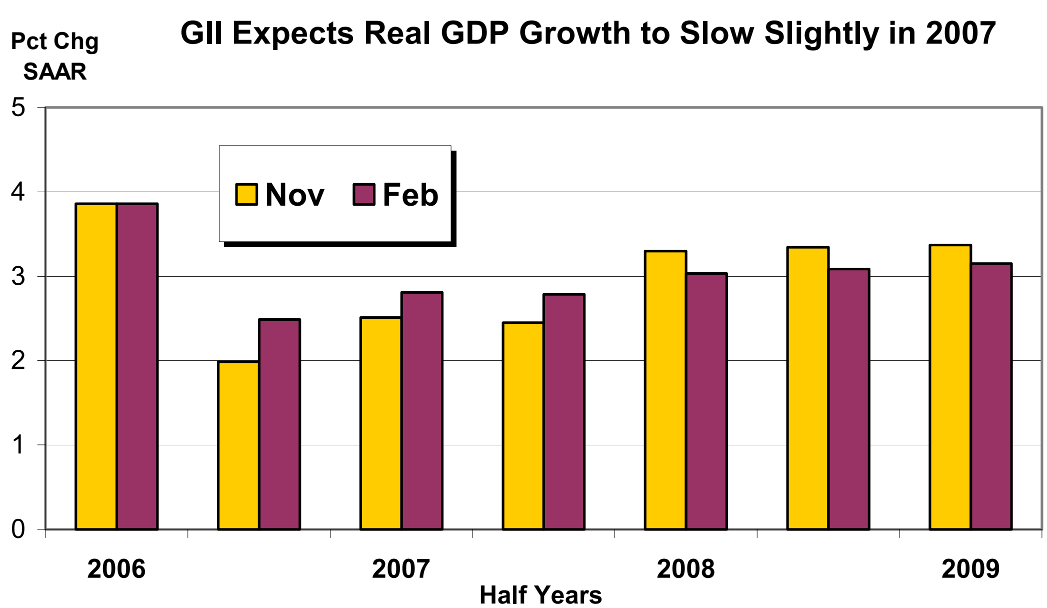
	November	February	Difference
Beginning Balance	$2,151	$2,126	$(25)
Revenues	33,518	33,678	160
Expenditures	32,496	32,628	142
Cash Flow Acct	350	350	0
Budget Reserve	653	653	0
Balance	**$2,170**	**$2,163**	**$(7)**

Little Change in Outlook for U.S. Economy

There were modest amounts of good news for the U.S. economy between November and early February. Real GDP grew at an annual rate of 3.5 percent according to the U.S. Department of Commerce's advance estimate, payroll employment numbers were revised upward to average more than 170,000 in the fourth quarter, and there were slight signs that the recession in housing might be easing. Lower energy prices and milder than normal winter weather also helped keep consumer spending strong during the fourth quarter.

Economists ratcheted up their forecasts following the start of the year reflecting some of the economy's apparent additional strength. The consensus continues to believe that real GDP growth in 2007 will fall below the 3 to 3.5 percent increases we have begun to consider normal. But, by early February almost everyone was anticipating that real growth in 2007 would be stronger than had been thought likely when November's forecasts were made.

Global Insight Inc. (GII), Minnesota's national economic consultant, was among those raising their short-term outlook. Their February baseline projects real GDP will grow at a 2.9 percent annual rate in fiscal 2007, up 0.3 percent from November's forecast. GII's outlook for FY 2008 and FY 2009 remain much the same as in November. For the 2008-09 biennium real GDP growth is expected to average 3.0 percent, the same as forecast in November. A small increase in the inflation outlook leaves nominal GDP at the end of FY 2009 almost unchanged as was forecast in November. Global Insight's February baseline is identical to the Blue Chip Consensus outlook.



Since early February, economic reports have not been quite as rosy. January housing starts fell dramatically raising questions about whether the decline in the housing sector might extend longer than previously expected. Also, it appears that fourth quarter real GDP growth will be revised down by 1 percent or more. Recent inflation news has not been good. And, the short term benefits of lower oil prices and warmer winter temperatures have been reversed. At this point there are no signs of a recession in the immediate future. But, the U.S. economy's recovery to trend (3 to 3.5 percent) growth seems a little shakier than it did in early January.

Revenues Down $34 Million in Current Biennium, Up $160 Million in FY 2008-09

Since there were no major changes in the economic outlook, changes in the revenue forecast were small. FY 2006-07 general fund revenues are forecast to total $32.211 billion, $34 million (0.1 percent) less than November's estimates. Declines of less than one percent in the individual income tax and sales tax were almost completely offset by small increases in the corporate income tax, the motor vehicle sales tax, and other revenues. The reduction in the sales tax forecast reflects recent collections experience. Most of the net revenue decrease is attributable to recent legislative action conforming Minnesota tax law to changes in the federal code. That law change reduced FY 2007 collections by $24 million.

FY 2006-07 and FY 2008-09 Revenues
Forecast Changes
($ in millions)

	FY 2007	FY 2008-09
Income Tax	$(99)	$26
Sales Tax	(18)	(53)
Corporate Income Tax	70	153
Motor Vehicle Sales Tax	4	(4)
Other Revenues, Transfers	9	38
Total Change	**$(34)**	**$160**

Changes to the FY 2008-09 revenue forecast also were very modest and offsetting. Total current resources are forecast to be $33.678 billion, $160 million (0.5 percent) more than anticipated in November. Projected individual income tax receipts were increased by $26 million (0.2 percent) and corporate income tax receipts by $153 million. The sales tax and motor vehicle sales tax forecasts were reduced slightly from November's estimates.

Little Change in Spending for FY 2006-07, FY 2008-09 Estimates Up $142 Million

Forecast spending for FY 2006-07 is now $31.478 billion, $9 million below November's estimates. Projected costs for K-12 education were reduced $4 million and the forecast for human services spending is now $14 million below November's estimates. The changes came from a small decline in pupil units and lower than expected medical spending for the elderly and disabled. Those savings were partially offset by a net $9 million increase in all other spending areas.

FY 2006-07 and FY 2008-09 Spending Forecast Changes

	FY 2007	FY 2008-09
K-12 Education	$ (4)	$15
Health and Human Services	(14)	91
Debt Service	0	17
All Other Spending	9	19
Total Change	**$ (9)**	**$142**

Projected current law spending for the coming biennium is now $32.638 billion, an increase of $142 million (0.4 percent) million over November. A $91 million increase in forecast human services costs accounts for nearly two-thirds of the change, reflecting projected increases in hospital costs. K-12 education estimates increased $15 million due to higher forecast spending for compensatory aid and levy equalization programs. Debt service projections increased $17 million reflecting the effect of slightly higher interest rate forecasts.

FY 2010-11 Planning Outlook Becomes Tighter

Changes in the FY 2010-11 planning outlook have implications for FY 2008-09 budget decisions. The long-term budget outlook for FY 2010-11 has declined since November. General fund revenues are $286 million below November's projections while projected spending is $131 million higher. The balance between ongoing revenues and spending has decreased by $418 million for FY 2010-11.

As noted in November, FY 2011 also includes $327 million of one-time capital gains revenue attributable to the scheduled increase of the federal capital gains tax rate to 20 percent.

FY 2008-11 Planning Estimates
($ in millions)

	FY 2008	FY 2009	FY 2010	FY 2011
Projected Revenues	$16,551	$17,127	$17,818	$18,889
Projected Spending	$16,143	$16,494	$16,785	$17,123
Balance	$408	$633	$1,033	$1,766
Forecast Change	*$64*	*$(45)*	*$(187)*	*$(231)*
Estimated Inflation (CPI)	$320	$700	$1,060	$1,430
Forecast Change	*$(20)*	*$50*	*$90*	*$130*

The impact of inflation is not reflected in expenditure projections. Inflation for FY 2008 and FY 2009, based on the consumer price index, is expected to be 2.0 and 2.2 percent. For FY 2010 and FY 2011 CPI growth rates of 2.0 and 1.9 percent are projected. The inflation forecast is down slightly for FY 2008, but about 0.2 percent for FY 2009-11.

Using current law projections, if spending increases at the rate of inflation, revenues and spending will remain in balance through FY 2011. Historically increases in spending have been greater than those attributable to inflation alone.

The planning estimates become more meaningful when specific budget proposals for FY 2008-09 are being considered and a starting point for the following biennium is being established. The reduction in projected FY 2010-11 balances has implications for determining the sustainability of FY 2008-09 budget decisions. The reduction in the planning estimates, the risk associated with the scheduled end of federal tax cuts, and the increase in projected inflation require that the use of current forecast balances for one-time and ongoing budget purposes be carefully evaluated.

FORECAST FUNDAMENTALS:
About the Revenue and Expenditure Forecast

The February forecast updates the state's financial outlook for fiscal 2007 and provides a new estimate of expected revenues and expenditures for the FY 2008-09 budget considerations now underway in the legislature. It also updates the planning estimates for the FY 2010-11 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 2007 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 2008-09 biennium are obtained from slightly less complex models but are based on the Global Insight baseline forecast for 2010 and 2011.

Expenditure estimates in most areas are shown at the level of the appropriation made during the 2006 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

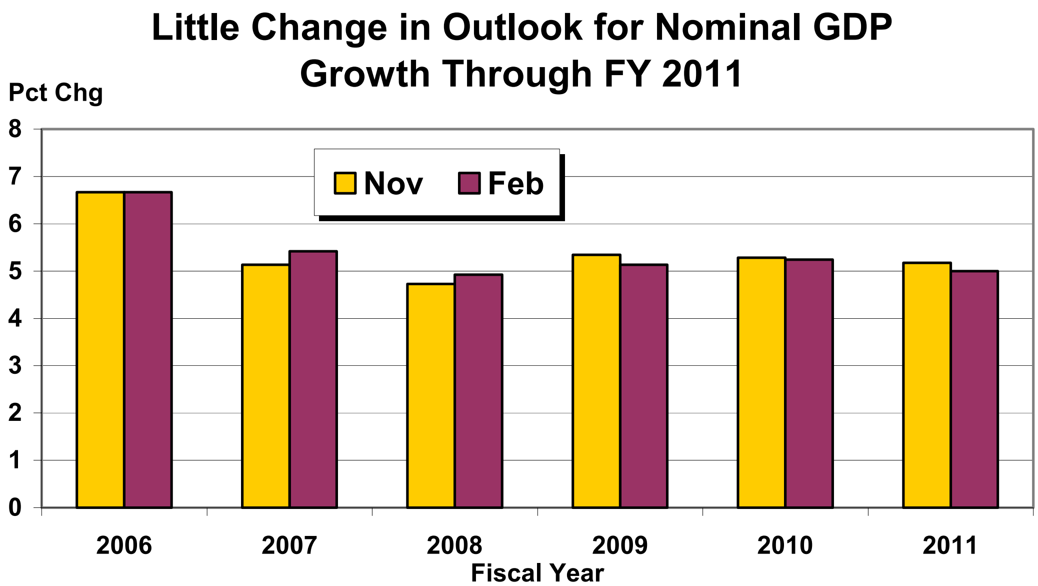
The U.S. economy's performance in late 2006 was a pleasant surprise. Lower energy prices and milder than expected winter weather provided just enough stimulus to keep consumer spending strong despite a weak housing sector. The U.S. Department of Commerce's advance estimate showed fourth quarter real GDP growth at an annual rate of 3.5 percent. Employment increased by an average of 170,000 per month. And, CPI inflation fell by 2.2 percent. To be sure, more recent information indicates that fourth quarter GDP growth was not as strong as first reported. December inventory, construction, and foreign trade data all indicate that real GDP growth is likely to be reduced significantly when a revised GDP report is released in late February.

Most economists ratcheted up their outlooks for 2007 following January's GDP and employment reports. The economy appears to be responding better to the current housing down turn than many had feared. That optimism remained in place even after it became clear that fourth quarter GDP growth was not as strong as originally reported. Almost all forecasters continue to expect economic growth to slow slightly in the first half of this year. That slowdown is now projected to be brief and just deep enough to remove any underlying inflationary pressures. Then, in 2008 economic growth is expected to return to the 3 to 3.5 percent pace we have grown accustomed to. Some forecasters even see hints we may skip the brief slowdown entirely and grow at a 3 plus percent rate in 2007.

Most differences in individual forecasts come from alternative outlooks for the housing industry. All agree that the residential construction industry will struggle through the end of 2007. The real question is whether the housing slump will affect overall consumption levels. Housing prices have been declining in recent months, reducing household wealth and the amount of home equity available for withdrawal through refinancing. That could lead to a reduction in consumer spending. Those more optimistic rally around the Federal Reserve's statement that "some tentative signs of stabilization have appeared in the housing market." Others believe that optimism premature.

Global Insight Inc.(GII), Minnesota's national economic consultant, is among the forecasters who continue to expect modestly slower growth in 2007, but a quick recovery in 2008. The GII February baseline scenario calls for real GDP growth of 2.7 percent in 2007, followed by growth of 3.0 percent in 2008 and 3.2 percent in 2009. November's baseline called for growth rates of 2.4 percent, 3.1 percent, and 3.3 percent for 2007, 2008, and 2009. Inflation is also expected to remain under control with the CPI increasing at a 1.5 percent annual rate in 2007, by 2.3 percent in 2008 and 2.1 percent in 2009. Small offsetting changes in the real growth rate and projected inflation leave nominal GDP forecast almost unchanged from November through the end of the forecast horizon.

GII's energy outlook has changed slightly. They now expect oil to remain below $60 per barrel in 2007 and to hold below $62 per barrel in 2008 and 2009. November's baseline assumed oil prices would be above $64 per barrel through 2009. Recent economic reports also led to changes in Global Insight's interest rate outlook. They now have just one 25 basis point rate cut in the forecast. The November baseline assumed three rate cuts totaling 75 basis points.



Global Insight assigns a 60 percent probability to their baseline forecast. A more optimistic scenario is assigned a probability of 25 percent; a more pessimistic scenario a 15 percent probability. As in November, the more pessimistic scenario shows the economy growing in 2007 at less than a 1 percent rate for three quarters, but no recession.

Members of Minnesota's Council of Economic Advisors agreed that Global Insight's baseline forecast was consistent with the consensus short-term outlook for the economy. There were only small differences between GII's forecast and those of most individual members. Council members also agreed that the probability that the forecast would be too pessimistic and the probability it is too optimistic were balanced.

Finance Department economists noted that GII's forecast continues to call for corporate profits to remain at an historically high ratio of GDP throughout the forecast horizon. As in November to minimize the risk of a major shortfall in corporate tax revenues the Finance Department has decided to replace GII's estimate of corporate profits with a forecast based on the Congressional Budget Office's projections of corporate profits as a percentage of GDP.

Finance Department economists also noted that Minnesota's economy appears to have been weaker than the national economy recently. That relative weakness will be reflected in the revenue forecast. Revised payroll employment data is expected to show slower year-over-year growth than believed previously, and withholding tax receipts and gross sales tax revenues have fallen short of the forecast since November. The payroll employment revisions required more extensive re-calibration of the Minnesota economic model than is typical between November and February forecasts. A full re-estimation of the model incorporating both the national and state benchmark employment revisions will be done before the November, 2007 forecast.

Members of the Council of Economic Advisors again noted they believe it would be prudent to add to the budget reserve. The current budget reserve is only 3.1 percent of projected spending. The Council also believes that projecting future expenditures without making allowance for inflation except where required under current law understates the severity of the financial problems the state will face in future biennia. They again suggested that the price deflator for state and local government services was the appropriate price index to use to adjust future state expenditures for inflation.

ECONOMIC OUTLOOK

Concerns about the U.S. economy have eased. Though it is too early to relax, recent data suggest the economy has made a soft landing, lowering the risk of an inflation surprise or a recession. As a result, many observers now believe the next Federal Reserve move is on hold, possibly for most of the year.

Some uncertainty remains because the data are not yet completely convincing. Reports for the last few months indicate robust jobs growth, strong consumer spending, and future improvement in the housing market. The January inflation data were disturbing, but could be just an uptick after months of improvement. Low January housing starts were also disturbing, but are not necessarily inconsistent with expectations for recovery next summer. With new data, the risk appears to be shifting. Some economists who were once expecting a Federal Reserve interest rate reduction in mid-2007 now believe the economy's current performance points to tightening late this year or early in 2008. Global Insight may be a bit out on a limb in predicting one more small rate cut in September.

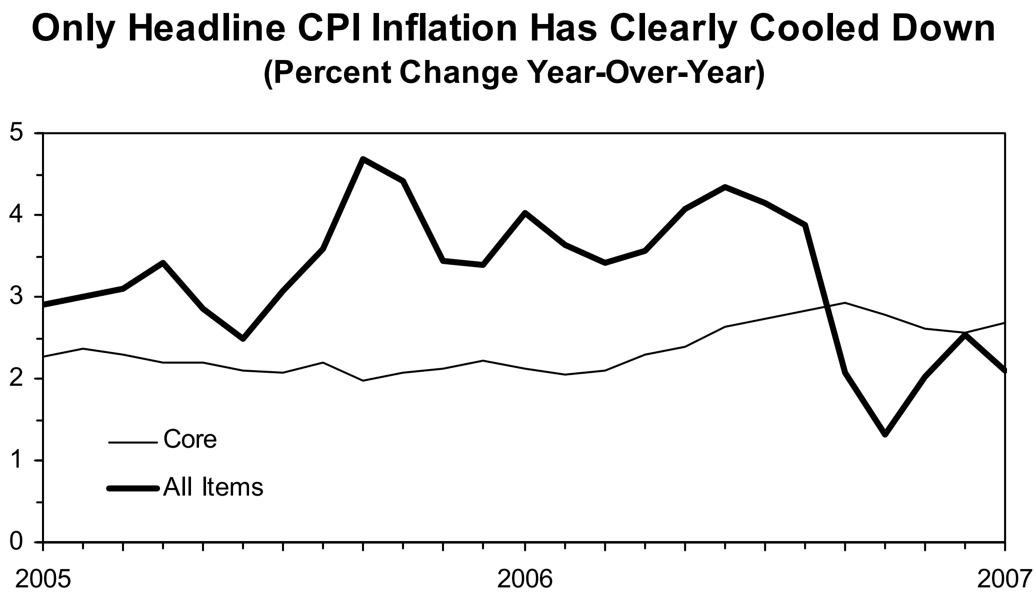
As in November, Global Insight believes housing is critical to the outlook. Housing is providing the drag needed to slow real GDP growth enough to bring inflation down into the Fed's acceptable range. But, this is a two-edged sword. If the housing slump deepens unexpectedly, there could be a sharp downturn in consumer spending or in business investment. The February baseline assumes housing starts will bottom out and begin a gradual recovery this summer. Were the Fed to tighten too soon, a housing recovery could be derailed.

A rate increase could be headed off if lower oil prices reduce inflation. Reports that Saudi Arabia will try to stabilize crude prices, speculative investors bailing out of long positions, and warm weather contributed to a sharp decline in oil prices in January. Prices are back up to around $60 now and Global Insight predicts oil will remain in the $55 to $60 range during 2007, down from $60 to $65 forecast previously. If the change is permanent, it would raise 2007 real GDP by very little while lowering the consumer price index by as much as -0.6 percent, which would be welcome news at the Federal Reserve.

The Fed's Gamble Has Not Yet Paid Off

Last summer, the Fed stopped tightening despite no sign that core inflation was headed down. The bet was that delayed effects of earlier tightening and a softening housing sector would cool the economy enough to dampen inflation. Preliminary fourth quarter real GDP growth was an above-trend 3.5 percent, but Global Insight and many others expect a downward revision to 2.5 percent or a little lower. However, if the economy is growing that slowly, it is not clear inflation is responding. Signs of slowing inflation were encouraging until the January core inflation data made it clear the Fed has not yet won its bet.

For several months, chances of an inflationary surge seemed to be receding. Headline CPI inflation came down last fall with lower energy prices. Core inflation appeared to be following until the January data were released. But, Global Insight's outlook has not changed. They are standing by the February baseline scenario which has the core declining to just above 2.0 percent, the top of the Fed's comfort zone, by late summer. That could head off a rate increase which some observers believe would seriously damage an already struggling housing industry.



Headline inflation came down last fall with lower energy prices. Core inflation appeared to be following until the January data were released. Global Insight believes the core will resume declining.

Housing Will Fall Further, But the End Could Be in Sight

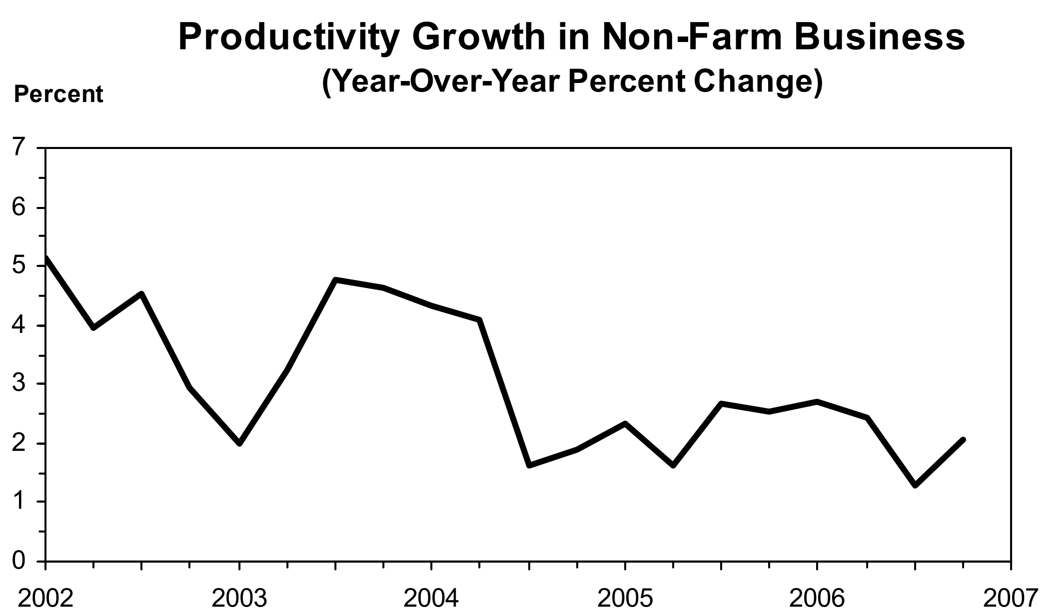
Housing starts fell 12 percent in 2006, and Global Insight expects a further 15 percent decline in 2007. After leveling off next summer, the baseline outlook is for a slow recovery. Many analysts accept that scenario because leading indicators seem on the mend. Among the indicators, *Business Week* reports Goldman Sachs economists believe the average monthly supply of unsold new homes is best. Unsold new homes, mortgage applications, and home sales, have improved slightly in recent months in response to lower mortgage rates and softening home prices. While the leading indicators bode well for next summer, January seasonally adjusted housing starts fell nearly 10 percent below December. During the next few months, starts will be watched closely for signs of a deeper-then-expected housing slump.

A *Wall Street Journal* article warns that downward pressure on real estate prices may intensify because the number of vacant homes now stands at a record high. However, even though many of the vacant homes are owned by speculators, prices appear to be only softening and do not seem in imminent danger of collapse.

Some Other Risks

If risks of a surprise from inflation, recession, housing starts, or house prices decline in the next several months, other concerns will surely take their place in headline news. Some potential candidates are already in the wings. There could be serious spillover from cutbacks in domestic auto production. Auto job losses will approach 130,000 by year's end. Fortunately, about 100,000 of the jobs lost will be bought out, providing many workers extended benefits. Another prospect is a downturn in business investment which is surprisingly low since resource utilization is high and firms are awash in cash. Yet another is excessive inventories, which will have at least two adverse consequences. One is that selling off inventories subtracts from GDP. The other, as the *Wall Street Journal* indicates, is that while inventory liquidation is going on, low "fire sale" prices may mask inflationary pressure.

Among the risks, weak productivity is often overlooked despite its potential for boosting unit labor costs. Since 2002, annual increases in non-farm business output per hour have steadily declined from more than 5.0 percent to 2.0 percent. And for most of last year, the employment cost index crept upward, though not enough to alarm the Fed. Global Insight assumes the productivity decline is cyclical and expects a rebound in early 2007 which will head off an inflationary rise in labor costs. A slight improvement in the fourth quarter seems to support that assumption.



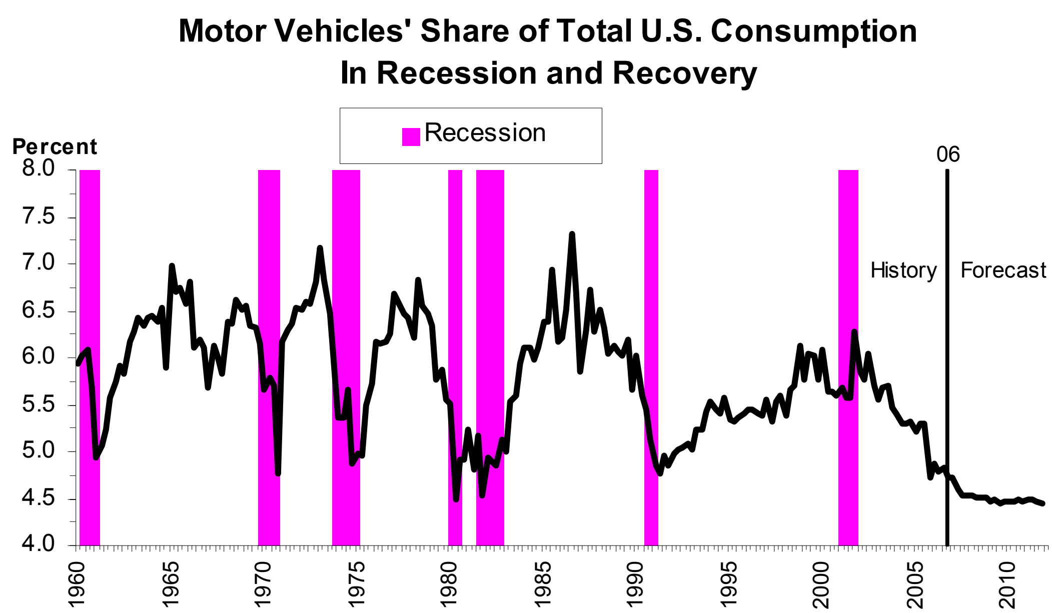
Weak productivity is often overlooked despite its potential for boosting unit labor costs. Since 2002, annual increases in non-farm productivity have declined from more than 5 percent to 2 percent. Global Insight assumes there will be a rebound in 2007. In view of the trend, Finance Department economists are somewhat skeptical.

Consumption

Global Insight estimates declining gasoline prices added some $96 billion or 1.0 percent to disposable income between August and November. That was just in time for Christmas. Holiday spending was unexpectedly strong, suggesting that the housing market has not turned off consumers.

The February baseline assumes consumer spending will slow selectively in 2007. That seems almost inevitable. Much of the slowdown is expected to be concentrated in home goods, and in autos. Auto sales have softened for years. Since 2001, the dollar value of motor vehicle sales as a share of total consumption has declined as it normally does just before and during a recession. While no recession seems in sight, Global Insight's February baseline anticipates autos' share will decline a little more before leveling off in a manner not seen in data going back to 1960.

Unit light vehicle sales have been declining since 2001 despite a growing population, more jobs, and ever more attractive sales incentives. Rising gasoline prices may have contributed but, in view of long term trends, it seems that consumer preferences are shifting away from cars and toward other goods and services. In the February baseline, unit sales begin a gradual recovery in early 2008. Finance Department economists are concerned that current weakness will extend into 2008.



Auto sales have softened for years. Since 2001, the dollar value of motor vehicle sales as a share of consumption, has declined as it normally does just before and during a recession. Global Insight anticipates auto's share will level off in a manner not seen in data going back to 1960.

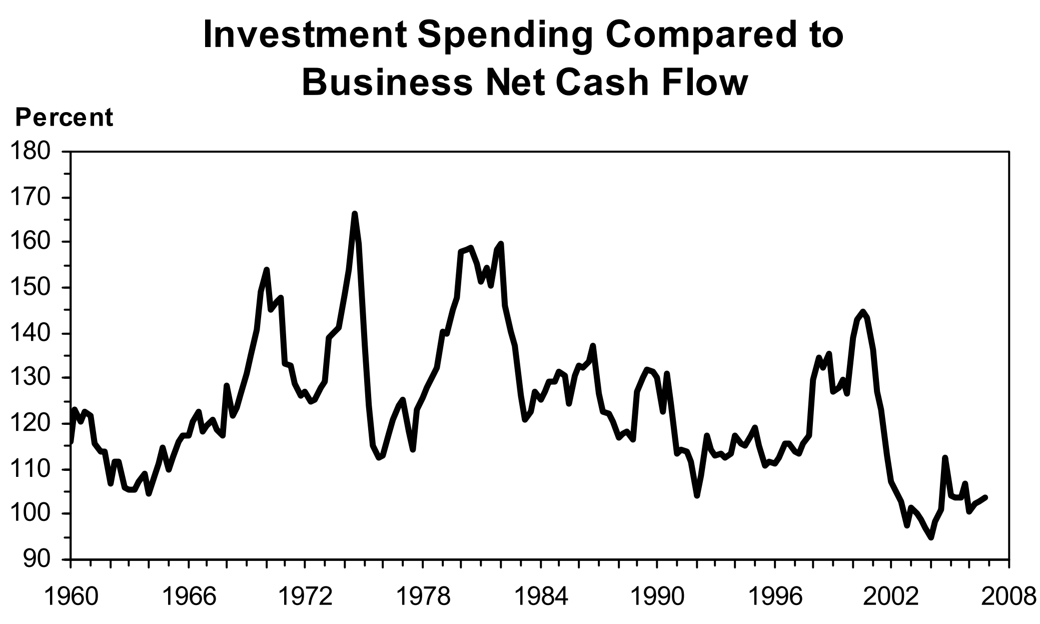
Investment

Compared with November, February's baseline has a slightly lower outlook for residential investment in 2007. Housing starts are now expected to drop 15 percent in 2007 after last year's 12 percent decline. However, leading indicators hint the descent will not extend into 2008. In recent months, the supply of unsold new homes, home sales, and mortgage applications have shown slight improvement. If that continues, starts could begin recovering next summer provided the Federal Reserve does not raise interest rates in the meantime.

Meanwhile, all eyes will be on housing permits which fell through most of 2006. Before there can be a start, there must be a permit. Global Insight indicates that if permits do not bottom out in the next few months, housing starts will not begin the slow recovery assumed for 2007.

The baseline outlook for business fixed investment is lower than in November. *Business Week* reports anecdotes of weakening business confidence and a modest scaling back of planned spending. Global Insight has lowered its outlook for 2007 while indicating the situation bears close watching because of slower profits growth, rising wages, and weakness in manufacturing which extends beyond auto production.

Current levels of business investment are low for a time when resource utilization is relatively high and firms have unusually strong net cash flow relative to capital spending. Most analysts assume confidence and spending will improve once it becomes clear that problems in housing and in the auto industry will not spill over in a big way into the rest of the economy.



Current levels of business investment are low for a time when resource utilization is relatively high and firms have strong net cash flow. Presumably, spending will improve once it becomes clear that problems in housing and in the auto industry will not drag down the economy. However, Global Insight is wary of future weakening in capital outlays.

Primarily because of weakness in housing and autos, inventories are excessive. There are excessive inventories of building materials and some household goods, and stocks of autos are especially large. Working off the excesses will subtract from real GDP. However, no one is suggesting this could lead to a serious downturn.

Government

February's baseline recognizes federal tax relief legislation passed by Congress last December. Congress extended certain credits and deductions which expired at the end of 2005 or were scheduled to expire in 2008. Despite the fiscal impacts, the baseline's outlook for economic growth adds revenue, so the federal deficit is expected to decline a bit in 2007 and 2008 compared to 2006. In addition, some additional revenue is assumed to come from the Alternative Minimum Tax or from unspecified tax code tweaking, but no major tax legislation is assumed.

International

Rising exports to a strong overseas economy, the dollar's downward trend, and less expensive imported oil are shrinking the current account deficit. Once a decade-long negative for GDP growth, trade made a significant positive contribution in fourth quarter 2006. Further contributions are expected in 2007 as the declining dollar leads to additional exports and slows imports. Global Insight estimates improving trade offset over half the drag imposed by the softening housing market in fourth quarter 2006.

Inflation

Most observers, including Global Insight, are taking a more optimistic view of prospects for inflation. Headline CPI is now forecast to rise only 1.5 percent in 2007, down from 2.1 percent in November. The reasons include a slowing economy, lower petroleum prices, and lower housing costs. Also relatively little of last year's spike in energy costs is being passed through to other prices, in part because strong profits help firms absorb cost increases.

But, as the January CPI data reminded everyone, some inflation risk remains. Consumer demand is far too strong. Real consumer spending grew at a 4.4 percent annual rate in the fourth quarter. The widely anticipated downward revision to GDP is not likely to involve consumer spending which must slow to around 3.0 percent if a buildup of inflationary pressure is to be avoided. If the GDP revision is not as large as expected or if strong consumer outlays persist, Finance Department economists believe inflation forecasts will be raised in coming months.

Finally, there is little solace in last fall's decline in crude oil prices or in Saudi Arabia's plan to stabilize the market. Oil fundamentals have not changed. A geopolitical event or bad weather could cause another surge in energy prices almost any time. The next increase will be more likely to get passed on through higher prices if profits growth slows into the single digits as expected.

Monetary Policy

Open Market Committee minutes and public statements indicate the Federal Reserve continues to focus on inflation, disappointing those hoping for a rate cut to help stabilize the housing market. While the Fed is not saying, some observers believe January's inflation data, robust employment reports, strong consumer spending, and tight labor markets have virtually eliminated the possibility of rate cuts in 2007, and make it likely there will an increase late this year or early in 2008.

In February's baseline, Global Insight assumes one small rate cut at summer's end though conceding the odds of an increase are rising. Finance Department economists believe it would be best if any rate increase was postponed until the housing sector is clearly on the mend.

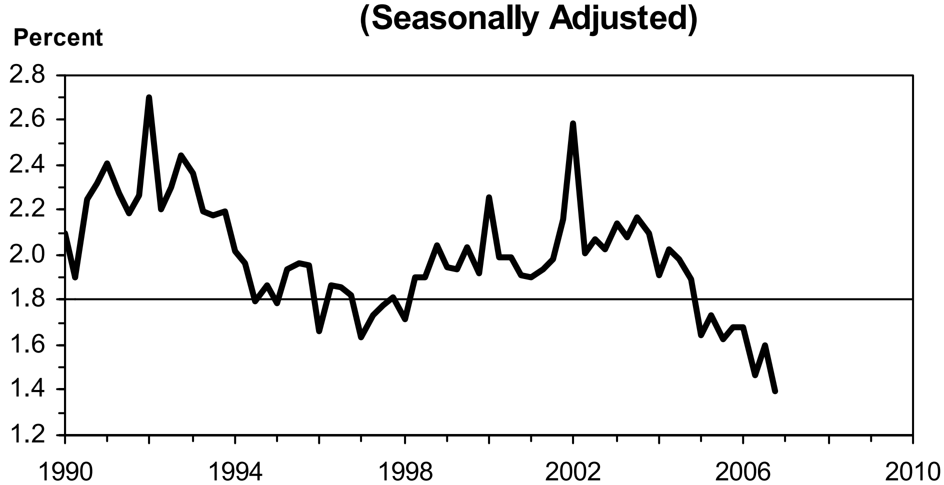
MINNESOTA OUTLOOK

Concerns about the Minnesota economy are deepening. Building permits declined on a seasonally adjusted basis throughout 2006. Measured by its share of total permits, Minnesota's housing sector is clearly underperforming its national counterpart. Partly because of declining construction employment, extensively revised jobs data now seems to have no upward trend. Many of the seasonally adjusted monthly gains in 2006 were reversed, leaving December up 20,000 jobs over a year earlier. Meanwhile, withholding collections indicate wages have been rising, though the fourth quarter increase was 5.6 percent compared to a year earlier, or about one percentage point less than forecast in November.

Wages are expected to continue rising, but the forecast is for very slow jobs growth in 2007. Most indicators support that view. A recent Manpower employment survey indicates current hiring intentions are down significantly from a year ago. Claims for unemployment insurance are staying close to last year's level. And declining building permits indicate further job losses in housing construction next spring and summer. Despite the problems, if the U.S. growth accelerates in 2007's second half as in the February baseline, and if housing begins a recovery, Finance Department economists anticipate the job market in Minnesota will improve toward the end of the year.

Minnesota is like the U.S. in that the housing market seems to be critical to the outlook. At the end of 2006, residential building permits were down some 40 percent from a year earlier, with no sign of bottoming out. Accompanying the decline in permits, in 2006 about 5,000 jobs were lost on a seasonally adjusted basis in construction, 1,500 in building materials retailing, and 1,400 in wood products manufacturing. Even if permits bottom out now, seasonally adjusted construction jobs could decline by another 10,000 next spring and summer.

Minnesota Share of U.S. Housing Permits
(Seasonally Adjusted)

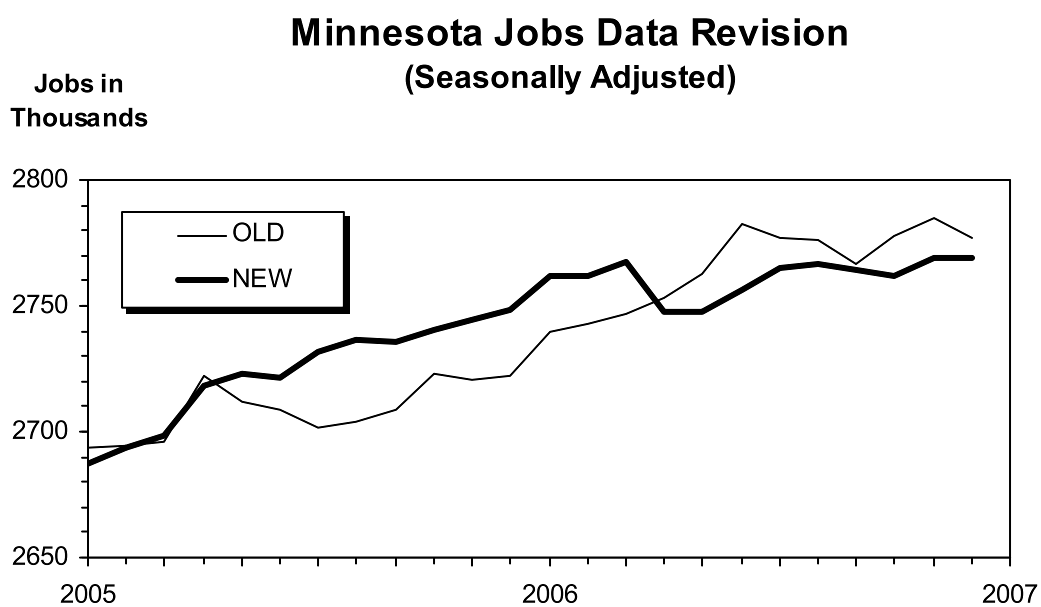


Minnesota's share of U.S. housing permits is declining after several above average years. In recent years Minnesota's share regularly exceeded the 1.8 percent which seems normal given the state's employment and population. It may take an extended period before excess housing is absorbed.

Jobs Data Extensively Revised

Recently, Minnesota's jobs data received the most extensive revision Finance Department economists can remember. Normally, the revision would have been confined to 2006, but this time both 2005 and 2006 were revised substantively. For 2005, the revision was based on the last three quarters of unemployment insurance system (UI) data. During the revision, an extensive review of the UI data was conducted and information from the Department of Employment and Economic Development's sample of Minnesota employers was added. For 2006, the revision was based on the first three quarters of UI data, all that is currently available.

The result of the revision was to raise 2005 year-over-year jobs growth from 1.0 percent to 1.6 percent, and to lower 2006 from 2.1 percent to 1.4 percent. To incorporate these changes into the forecast, Finance Department economists used a preliminary version of the revisions to make adjustments to data built into the Finance Department's econometric model of the Minnesota economy. A full re-estimation of the model will take place before next November's forecast.



Minnesota jobs data have been extensively revised and now seem to have no upward trend. The revision raised 2005 year-over-year jobs growth from 1.0 percent to 1.6 percent and lowered 2006 from 2.1 percent to 1.4 percent. February's forecast takes the revision into account.

Minnesota's Housing Construction Bubble

Minnesota's housing correction may be deepening. News reports indicate last year was the worst since 1997 for Twin Cities home builders, an observation supported by building permits data. The data also show Minnesota's share of total U.S. permits declined in 2006, the first indication that the state's residential construction sector is underperforming its national counterpart. That is a sharp reversal from the 1999-2005 period when

Minnesota's share of total permits regularly exceeded the 1.8 percent level which can be viewed as normal given the state's population and employment. If excess housing was built in that period as seems likely, the permits data suggest it may take about three years to fully absorb it, allowing construction activity to return to normal.

A Revised Forecast

Forecasts for employment and wages have been revised based on recent information and Global Insight's February baseline. The new baseline was used to drive the same Finance Department model of the Minnesota economy used in November as adjusted for data revisions. Jobs growth for 2007 has been revised downward to 0.5 percent, reflecting a weak construction outlook, and no upward trend in total jobs which is forecast to turn up in 2007.

Through the end of the forecast horizon in 2009, jobs growth is expected to be highly concentrated. Health care, leisure and hospitality, professional and business services, and trade, which currently constitute 50 percent of total jobs, are expected to generate 75 percent of total growth. Finance Department economists continue to be concerned about Minnesota's narrow base for jobs growth.

Minnesota Outlook Compared to the U.S.

(Calendar Year Percent Change)

	2005	2006	2007	2008	2009
Non-Farm Employment					
Minnesota					
November 2006	1.0	2.1	0.9	1.1	1.1
February 2007	1.6	1.4	0.5	1.2	1.6
United States					
November 2006	1.5	1.4	1.1	1.3	1.5
February 2007	1.7	1.9	1.4	1.4	1.5
Wage and Salary Income					
Minnesota					
November 2006	3.0	5.6	4.7	4.7	4.8
February 2007	3.0	4.8	4.9	4.6	5.3
United States					
November 2006	5.1	7.9	4.8	5.0	5.5
February 2007	5.1	6.6	5.0	5.1	5.5

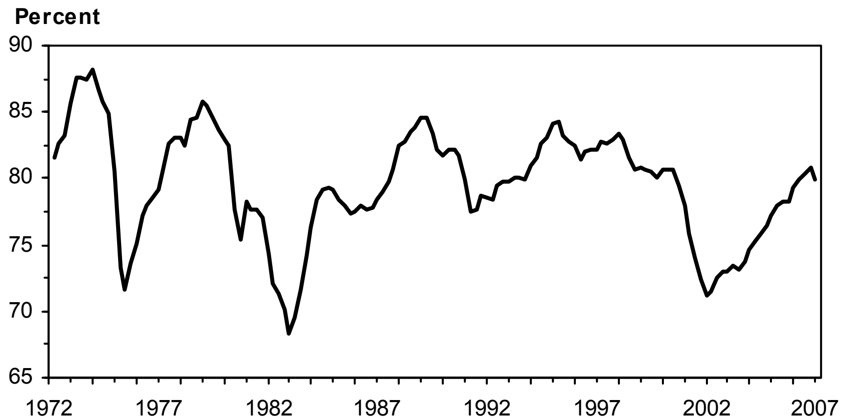
A Summary of Assumptions

If the February forecast is to materialize, Minnesota must now be in the process of adding some 2,300 jobs per month on a seasonally adjusted basis despite a strong headwind from the construction industry. In addition, job gains must accelerate significantly toward years' end.

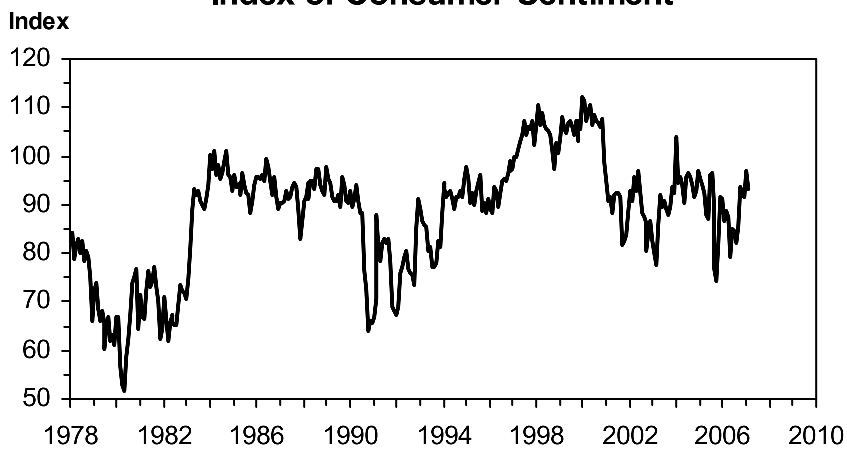
Housing seems critical to the Minnesota outlook. The forecast assumes housing permits bottomed out in the fourth quarter and are now beginning a slow recovery which will take about three years. If the housing slump continues to deepen, Minnesota's economy is unlikely to meet forecast.

SELECTED NATIONAL ECONOMIC INDICATORS

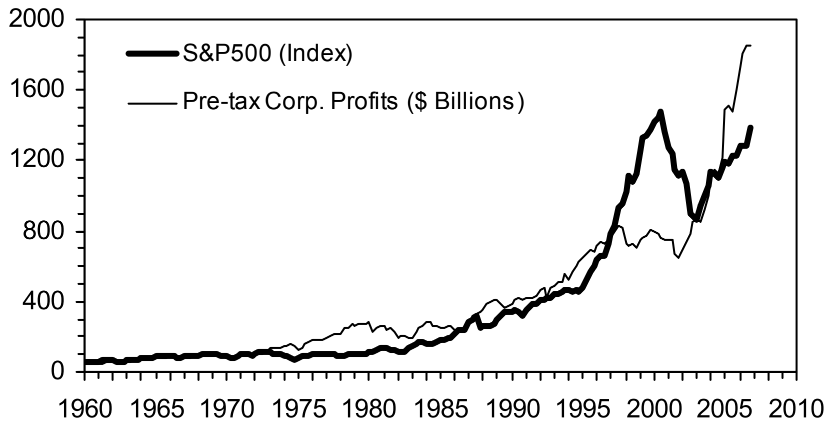
Manufacturing Capacity Utilization



Index of Consumer Sentiment

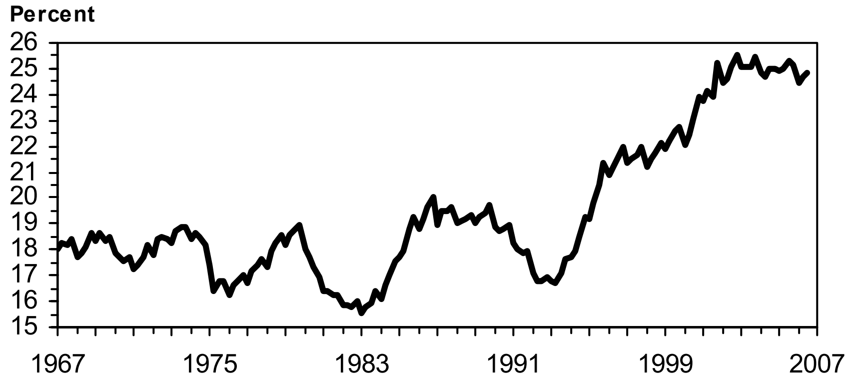


Corporate Profits and the Stock Market

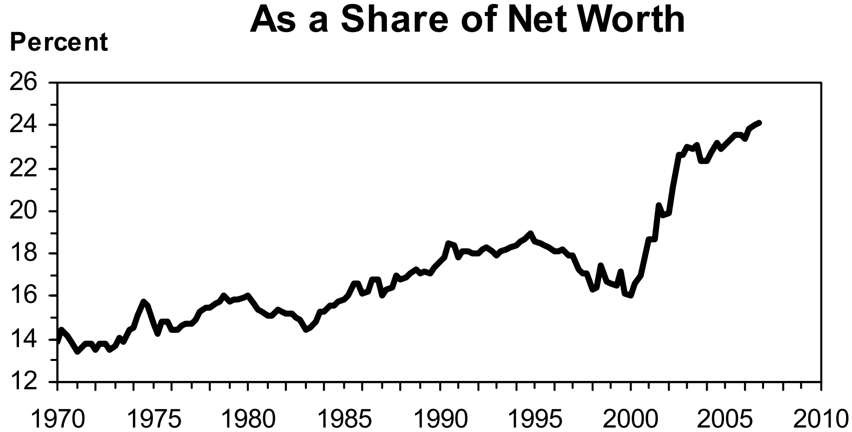


SELECTED NATIONAL ECONOMIC INDICATORS

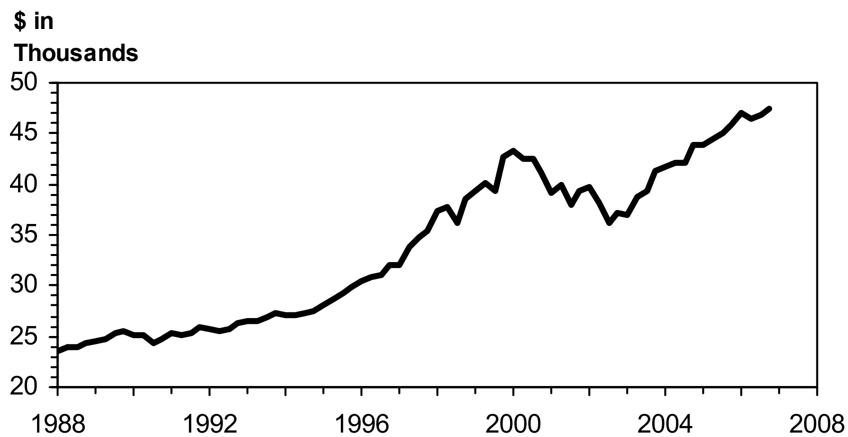
Installment Credit Outstanding As a Percent of Disposable Income



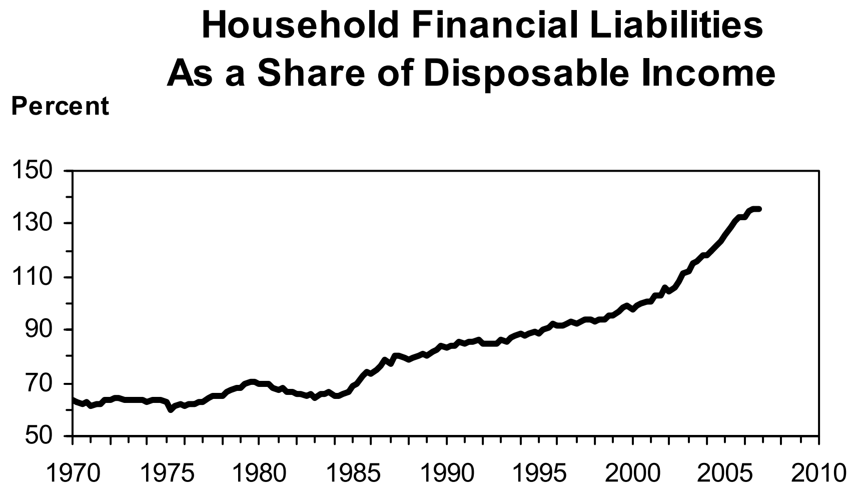
Household Financial Liabilities As a Share of Net Worth

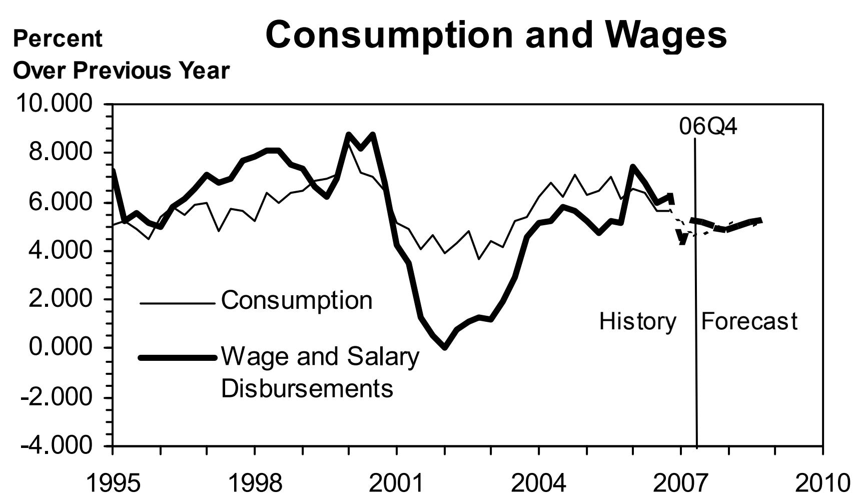


Real Household Net Worth ($ 1996)



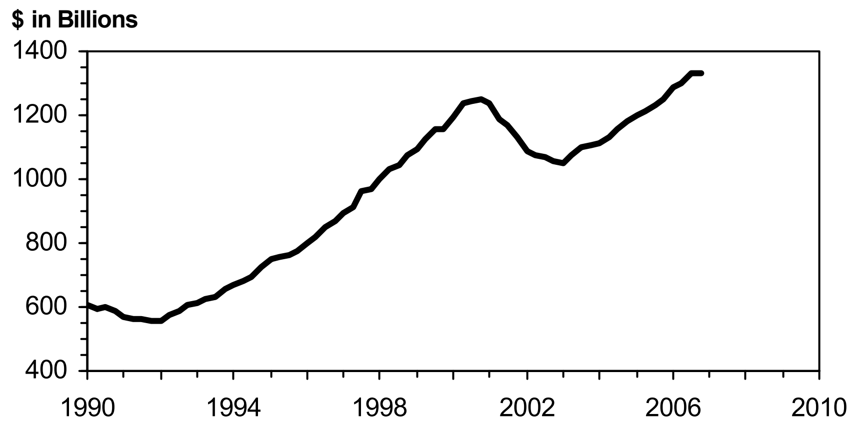
SELECTED NATIONAL ECONOMIC INDICATORS



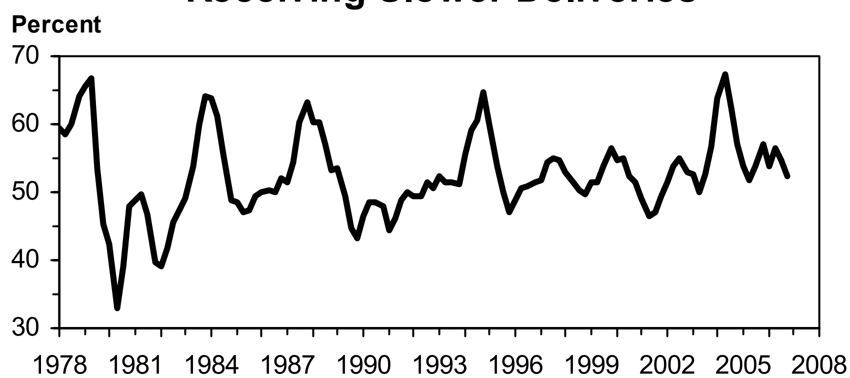


SELECTED NATIONAL ECONOMIC INDICATORS

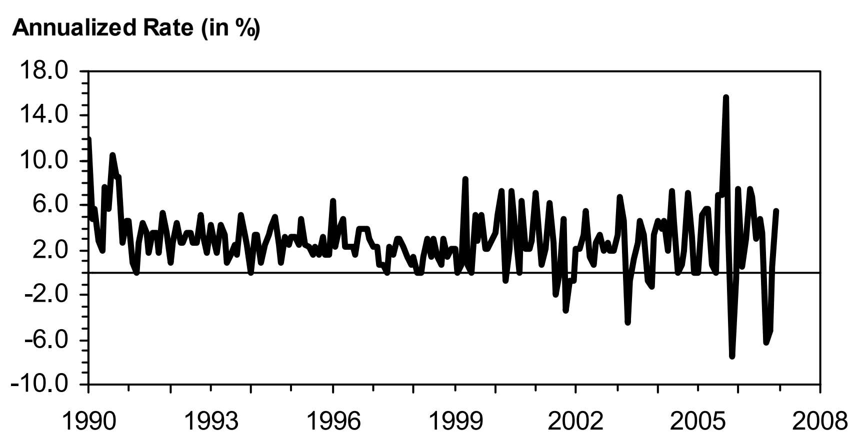
Real Fixed Nonresidential Investment



Proportion of Companies Receiving Slower Deliveries

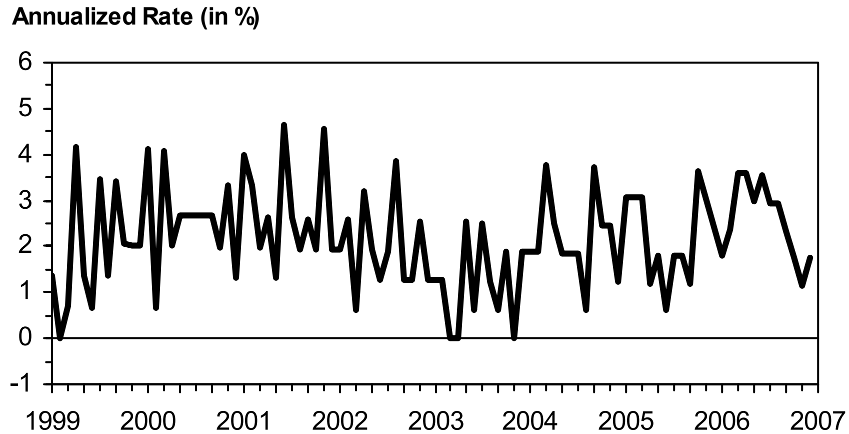


Consumer Price Index

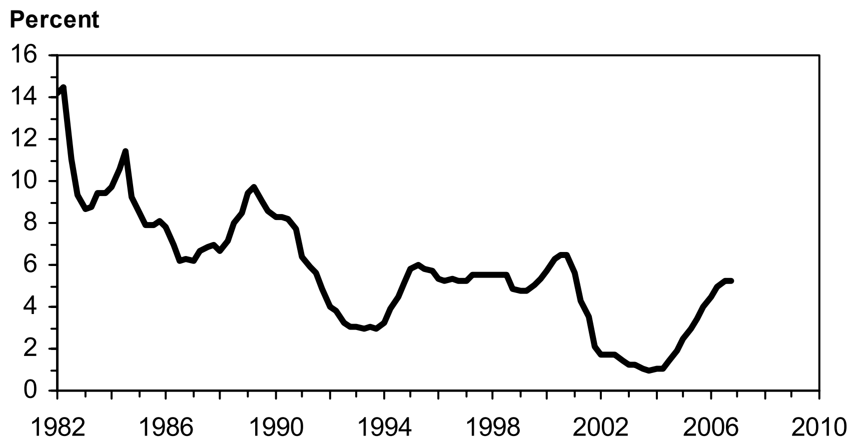


SELECTED NATIONAL ECONOMIC INDICATORS

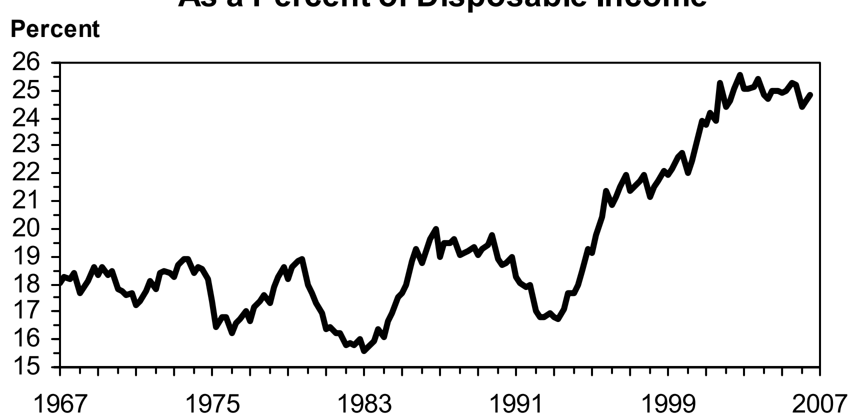
Core Inflation



Federal Funds Rate



Installment Credit Outstanding As a Percent of Disposable Income



FY 2006-07 BUDGET STATUS

Projected FY 2007 Balance Reduced to $1.013 Billion

The November 2006 forecast projected a $1.038 billion general fund balance for the end of the FY 2006-07 biennium. Under current law, that entire balance was designated as available for a tax rebate.

Revised revenue and expenditure estimates now indicate a $1.013 billion balance for FY 2006-07. That new balance reflects changes to the revenue and expenditure forecast revisions, as well as the cost of changes to Minnesota law made early in the 2007 legislative session to conform to federal tax law made late in 2006.

FY 2006-07 Forecast
($ in millions)

		February Changes		
	November Forecast	Leg. Action	Forecast Changes	Revised Forecast
Beginning Balance	$1,393	$0	$0	$1,393
Revenues	32,245	(24)	(10)	32,211
Expenditures	31,487	0	(9)	31,478
Cash Flow Acct	350	0	0	350
Budget Reserve	653	0	0	653
Tax Relief Acct	110	0	0	110
Balance	**$1,038**	**$(24)**	**$(1)**	**$1,013**

Slightly Lower Revenues, Offset by Lower Spending

The forecast for general fund revenues is $34 million below November's estimates. Forecast expenditures decreased $9 million.

The general fund revenue forecast for the current biennium has been lowered by $34 million to $32.211 billion. Expected income tax collections are $99 million (0.7 percent) below November's estimate, while projected sales tax collections have been reduced $18 million (0.2 percent). Most of the decline, however, is offset by a $70 million (3.2 percent) increase in forecast corporate tax collections and a $4 million increase in motor vehicle sales tax collections. Changes in all other tax and non-tax revenues were small, yielding a net increase of $9 million.

Revised revenue estimates for FY 2007 include the impact of Laws 2007, Chapter 1 that conformed Minnesota tax code to 2006 federal tax changes. These changes reduced 2006 tax liability by $24 million. Estimates for individual income taxes were reduced by $22 million, corporate taxes by $2 million.

Biennial spending has decreased by $9 million to $31.478 billion. A $14 million reduction is reflected in human services spending, and a $4 million savings is incorporated in the forecast for K-12 education spending. Those savings are almost offset by a $3 million increase in projected property tax aid spending and a net $6 million increase for all other spending changes. This forecast change represents less than a 0.02 percent change in projected biennial spending.

REVENUE FORECAST
FY 2006-07

Current general fund resources for the 2006-07 biennium are now forecast to total $32.211 billion, $879 million more than estimated at the end of the 2006 legislative session, but $34 million (0.1 percent) less than the November forecast. Current resources for the biennium are now expected to exceed those for the 2004-05 biennium by $3.058 billion or 10.5 percent.

Revenue Forecast FY 2006-07
($ in millions)

	FY 2004-05	FY 2006	FY 2007	FY 2006-07
Individual Income	$12,051	$6,863	$7,094	$13,957
Sales	8,340	4,464	4,519	8,983
Corporate	1,554	1,062	1,178	2,239
Motor Vehicle Sales	534	250	241	491
Statewide Levy	1,210	631	663	1,295
Five Major Taxes	23,689	13,270	13,695	26,964
Other Revenue	3,513	2,060	1,886	3,946
Tobacco	344	181	181	361
Net Non-dedicated	27,546	15,510	15,762	31,272
Other Resources	1,607	452	487	939
Current Resources	**$29,153**	**$15,962**	**$16,249**	**$32,211**

Changes in the revenue outlook for the major taxes were very modest. Small percentage declines in the outlook for the individual income tax and the sales tax were almost completely offset by a slight increase in expected corporate tax receipts. The reduction in projected income and sales tax revenue reflects recent collections experience. Through January income tax receipts were $57 million below November's forecast and net sales tax receipts $26 million below projected levels. Corporate income tax receipts were $32 million above forecast through January.

Changes in Economic Assumptions

Global Insight's February baseline forecast contains a slightly more optimistic economic outlook for the first half of 2007 than did November's. First half real GDP growth at an annual rate of 2.8 percent is now expected, up 0.3 percentage points from the 2.5 percent growth projected in November. The improved outlook for real growth was accompanied by a decline in inflation leaving nominal GDP growth for the first half of 2007 unchanged at 5.1 percent.

Most forecasters expect the U.S. Department of Commerce to announce a substantial downward revision to fourth quarter 2006 real GDP on February 28. This revision is expected to reduce previously reported fourth quarter growth by 1 percentage point or more. Because the data that has led forecasters to expect a large revision was not available at the time Global Insight made its February forecast, the expected weaker base for the U.S. economy is not part of this forecast. The Finance Department's practice of calibrating revenue models to the most recent quarter of tax collections, as well as the most recent quarter of economic data limits the impact of any downward real GDP revision on the revenue forecast.

Significant revisions to Minnesota employment data for 2005 and 2006 also were expected in the last week of February. Finance Department economists were given access to a preliminary version of those revisions so that this forecast would reflect the most recent information on the Minnesota economy. Compared to data available in November Minnesota's economy now appears to have grown more rapidly in 2005 but at a slower rate in 2006.

Individual Income Tax

Individual income tax receipts in Minnesota are forecast to total $7.094 billion in fiscal 2007, $99 million less than November's estimate. For the months of November, December and January individual income tax receipts were $57 million below forecast. Withholding receipts and estimated tax payments were below forecast, while refunds and miscellaneous payments were above. Through mid-February withholding tax receipts, the most current indicator of the strength of the Minnesota economy, were $20 million below levels forecast in November.

Minnesota wages are forecast to grow by 4.9 percent in the 2007 tax year, up 0.2 percentage points from November's estimate. Payroll employment is expected to grow by just 0.5 percent as weakness in the housing sector extends beyond construction related employment. The Minnesota outlook is for weaker jobs growth than the national average. Wages per job, however, are projected to grow by 4.3 percent, 0.8 percentage points faster than the national average.

Wage growth in 2006 was revised down by 0.8 percentage points based on preliminary third quarter 2006 wage data and withholding receipts attributable to the fourth quarter of 2006. This change reduced fiscal year 2007 revenues by lowering expected final payments and increasing projected refunds.

Data from the Department of Revenue's sample of 2005 tax year returns was used as a check on the calibration of the income tax micro-simulation model. Changes in most parameters were small leaving revised model "blow-up" factors very close to those used in the November forecast. Final liability for tax year 2005 was increased by $18 million to match the actual final liability observed when current-year processing ended at the close of December. A one-time, $10 million reduction in withholding receipts and liability was made in the first quarter of 2007 to adjust for the currently observed shortfall in withholding. Other one-time technical adjustments reduced the forecast by an additional $19 million in fiscal 2007. The fiscal 2007 forecast was reduced by $22 million to reflect the cost of the federal conformity provisions approved by the 2007 legislature.

Sales Tax

Net sales tax collections for the 2006-07 biennium are now expected to reach $8.983 billion, $18 million (0.2 percent) less than forecast in November. Gross sales tax receipts are now projected to finish fiscal 2007 $17 million below forecast and sales tax refunds are expected to exceed November's forecast by $1 million. Gross sales tax receipts were $13 million less than forecast for the November through January period, while sales tax refunds were $13 million more than forecast.

Net sales tax receipts are now projected to grow by 1.2 percent during the 2007 fiscal year. In the absence of the change in the June accelerated payment schedule, forecast sales tax growth would have been 1.7 percent. The outlook for consumer durable spending has improved since November, but the outlook for both business capital equipment spending and for construction material purchases has weakened.

For several years Finance Department economists have lowered the sales tax receipts elasticity to adjust for a continuing pattern of lower than projected receipts. New information indicates that construction materials account for a smaller proportion of construction output than previously believed. This may explain the sales tax model's tending to over forecast. The estimate of spending for construction material used in this forecast was based on the new information on the composition of construction spending. Weights in the sales tax model were adjusted to be consistent with the change in the composition of construction material spending.

Corporate Franchise Tax

Net corporate franchise tax receipts for the 2006-07 biennium are now estimated to total $2.240 billion, $70 million (3.2 percent) more than forecast in November. About one half of that increase in revenue is already on hand. Net corporate tax receipts for November, December, and January were $32 million more than forecast. Miscellaneous payments, which include payments accompanying final returns and payments from audits and claims for prior years, were $39 million more than forecast. Estimated payments were $3 million less than forecast and refunds $3 million more than projected in November.

Estimates of corporate profits for the third and fourth quarters of 2006 have grown since November's forecast. The slightly stronger outlook for corporate profits raises the forecast for corporate estimated payments by $40 million. The forecast for miscellaneous payments was increased by $39 million reflecting the positive variance in existing collections, while projected refunds were increased by $11 million. The estimate of corporate tax revenue lost due to the Hutchinson Technology decision remain the same as in November and was incorporated into the forecast. To this point $4.5 million of the Hutchinson related refunds expected for fiscal 2007 have been issued.

Motor Vehicle Sales Tax

The motor vehicle sales tax is now projected to add $491 million to Minnesota's general fund in the 2006-07 biennium, $4 million (0.9 percent) more than was forecast in November. Motor vehicle sales tax receipts in November, December, and January were $3 million above forecast and this forecast recognizes that revenue increase and carries it forward through the end of the biennium. Global Insight's forecast for light vehicle sales and for consumer durable spending on light vehicles and parts is up slightly from November, but the impact of that growth on Minnesota revenues is reduced because the value of Minnesota auto sales has not grown as fast as the U.S. total.

Other

Other tax and non-tax revenues are now expected to total $5.602 billion in the current biennium, up $10 million (0.2 percent) from November's estimate. Changes in most revenues were small and offsetting. The mortgage tax was $14 million above forecast and investment income $13 million more than previously projected. The insurance gross premiums tax was $14 million less than forecast while fees fell short of November's estimates by $9 million.

EXPENDITURE FORECAST
FY 2006-07

Little Change in Spending

Expenditures for the current biennium are now forecast to be $31.478 billion, $9 million less than November's estimates. A $3 million decrease in K-12 education and a $14 million reduction in human service payments accounted for the majority of the savings. These savings, however, were offset by minor forecast adjustments that increased property tax aid estimates by $3 million, and all other spending by $5 million.

FY 2006-07 Expenditure Forecast
($ in millions)

	November	February	Difference
K-12 Education	$12,756	$12,753	$(3)
Payment Change/Prop Tax Recog.	609	609	0
Higher Education	2,763	2,763	0
Property Tax Aids & Credits	3,025	3,028	3
Health & Human Services	8,256	8,242	(14)
Environment and Agriculture	367	367	0
Economic Development	346	346	0
Transportation	208	208	0
Public Safety	1,710	1,710	0
Military & Veterans Affairs	46	46	0
State Government	568	570	2
Debt Service	752	752	0
All Other	(7)	(7)	0
Subtotal	31,399	31,387	(12)
Dedicated Expenditures	88	91	3
Total Expenditures & Transfers	**$31,487**	**$31,478**	**$(9)**

K-12 Education Spending Virtually Unchanged in FY 2006-07

K-12 Education spending in FY 2006-07 is now expected to be $13.4 billion. This is $3.6 million (0.03 percent) less than forecast in November. The change is almost entirely driven by a decline of approximately 1,200 pupils in the K-12 system when compared to November.

Forecast Health and Human Services Spending Down $14 Million in FY 2007

Total health and human services estimates in the current biennium are expected to be $8.2 billion, a $13.7 million (0.2 percent) decrease from November. Most of the decrease is due to lower than expected spending for Medical Assistance (MA) Basic Care for Elderly and Disabled. The decrease is partially offset by increases in the MA Long-Term Care Waiver and Facilities costs.

Property Tax Aids and Credits Spending Slightly Higher

Tax aids and credits total $3.028 billion for the current biennium, $2.8 million more than was forecast in November 2006. The largest single change is a $4.4 million increase in expected property tax refunds. This increase is partially offset by forecast decrease in expected payments of tax refund interest and penalties.

Other Spending Changes Have Little Material Impact

Since other spending areas are limited by fixed appropriations, there is little material change in the forecast for other areas. The forecast for all other spending has increased by a net $5 million. This is largely the result of technical changes in two areas: a $2 million increase due to lower indirect cost recoveries, and a $3 million increase in forecast dedicated revenue spending programs.

Other spending also includes $5 million to recognize appropriations liabilities not included in November. However, this increase was offset by a $5 million increase in forecast cancellations. Human Services State Operated Services accounts will likely cancel a portion of excess funding due to lower than anticipated commitments at the end of the biennium. The total cancellation estimate has been raised from $15 million to $20 million.

FY 2008-11 BUDGET OUTLOOK

This forecast for the 2008-09 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 2007 forecast updates the forecast estimates made in November 2006.

FY 2008-09 Outlook Unchanged, Projected Balance at $2.163 Billion

The projected balance for the FY 2008-09 budget is now $2.163 billion. The forecast balance has changed by just $7 million from the $2.170 billion projected in November. Higher forecast revenues added $160 million in additional resources, but this was largely offset by a $142 million increase in projected spending.

FY 2008-09 Forecast
Change from November 2006 Estimates
($ in millions)

	November	February	Difference
Beginning Balance	$2,151	$2,126	$(25)
Revenues	33,518	33,678	160
Expenditures	32,496	32,638	142
Reserves	1,003	1,003	0
Projected Balance	**$2,170**	**$2,163**	**$(7)**

Unlike the forecast for FY 2006-07, the projected $2.163 billion balance for FY 2008-09 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.

FY 2008-09 forecast revenues have increased by $160 million over November's estimates. Slightly higher projected individual income tax collections and higher corporate income tax revenues are partially offset by lower expected net sales tax receipts and slightly lower motor vehicle sales tax receipts. Revenue from the four major taxes is $122 million more than forecast in November. Small net changes in all other tax and non-tax revenue sources add $38 million to the gain, increasing the total revenue change to $160 million.

Projected spending in FY 2008-09 also increased, but by a small amount. At $32.638 billion, spending is $142 million above November estimates. Three areas account for most of this change: K-12 spending increased by $15 million, resulting primarily from increases in compensatory aid and levy equalizations estimates; human services programs increased $91 million, due to increased costs associated with hospital fee-for service rate rebasing; and projected debt service costs increased $17 million, reflecting slightly higher interest rates effect on future state bond sales.

Forecast changes for all other spending areas resulted in a net a $19 million increase. Of this total however, a change in dedicated revenue spending estimates accounts for a significant amount. Forecast intergovernmental revenues in the human services programs have been increased $25 million. This "flow-thru" revenue is reflected in correspondingly higher spending – but there is an equal revenue offset Consequently, there is no significant impact on the projected general fund balance.

Forecast spending estimates continue to be based on current laws, not Governor's or legislative proposed budgets. General fund revenues are projected based on current tax laws and rates. 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 2010-11 Planning Estimates

The planning estimates for FY 2010-11 differ from the short-term forecasts prepared for the FY 2006-07 and FY 2008-09 biennia. Projection methods are different and the longer-term estimates carry a higher degree of uncertainty and a larger range of potential error.

The projected revenue-expenditure balances in FY 2010 and FY 2011 have decreased from those projected in November. The structural balance between ongoing revenues and spending has decreased from $1.220 billion to $1.033 billion for FY 2010 and from $1.997 billion to $1.766 billion for FY 2011. General fund revenue projections for FY 2010-11 are now $286 million lower than the November forecast, while state spending for the same period is $131 million above previous projections.

Planning estimates of current law revenues and expenditures for FY 2010-11 are presented to identify longer-term impacts of proposed budget actions. Revenue planning estimates are based on an assumed long-term real GDP growth rate. Expenditure estimates assume current laws and policies adjusted for caseload, enrollment and other forecast variables in major program areas.

FY 2008-11 Estimates
Forecast Change
($ in millions)

	FY 2008	FY 2009	FY 2010	FY 2011
Projected Revenues	$16,551	$17,127	$17,818	$18,889
Forecast Change	*124*	*36*	*(121)*	*(165)*
Projected Spending	16,143	16,494	16,785	17,123
Forecast Change	*60*	*81*	*66*	*66*
Balance	$408	$633	$1,033	$1,766
Forecast Change	*64*	*(45)*	*(187)*	*(231)*
Estimated Inflation (CPI)	$320	$700	$1,060	$1,430
Forecast Change	*$(20)*	*$50*	*$90*	*$130*

Inflation Rates Increase for FY 2009 –11

Since the impact of inflation is not reflected in the expenditure projections, changes in state spending are likely to be significantly greater than those shown. Forecast general inflation, based on the Consumer Price Index (CPI) is expected to be 2.0 and 2.2 percent for FY 2008 and FY 2009, and 2.0 percent and 1.9 percent for FY 2010 and FY 2011 respectively.

Inflation Estimates – Forecast Changes
($ in millions)

	FY 2008	FY 2009	FY 2010	FY 2011
Spending (November)	$16,083	$16,413	$16,719	$17,057
CPI – November	2.1%	1.8%	1.8%	1.7%
Estimated Inflation ($)	$340	$650	$970	$1,300
Spending (February)	$16,143	$16,494	$16,785	$17,123
CPI – February	2.0%	2.2%	2.0%	1.9%
Estimated Inflation ($)	$320	$700	$1,060	$1,430
Difference Inflation ($)	($20)	$50	$90	$130

The revised inflation forecast is about 0.2 percent per year higher than those used in November. While projected inflation for the planning horizon remains low, the small increase represents about a 10 percent change. That yields relatively large dollar increases compounded over the forecast horizon, increasing inflationary pressures.

Uniformly adjusting current estimates of forecast spending for inflation would add approximately $1.0 billion to planning estimates for FY 2008-09. Compounded over four years, inflation would add over $2.5 billion to spending estimates for FY 2010-11. Using current spending projections, revenues and spending would remain in balance through FY 2011 even if spending were adjusted for inflation.

An alternative inflation measure, the index of government purchased goods and services (PGSL), is expected to average 2.5 percent per year for the FY 2008-11 forecast horizon, about one-half percent above forecast increases for the consumer price index. Simple inflation based on the PGSL would be over $400 million per year, compounding to over $3 billion for FY 2010-11.

REVENUE FORECAST
FY 2008-09

Total current resources for the 2008-09 biennium are forecast to be $33.678 billion, $160 million (0.5 percent) more than projected in November. Receipts from the five major taxes are expected to total $28.927 billion, an increase of $122 million over November's estimate. Other tax and non-tax revenues also show a modest increase from levels forecast in November. General fund current resources for the 2008-09 biennium are now expected to be 4.6 percent greater than in the 2006-07 biennium.

Revenue Forecast FY 2008-09

($ in millions)

	FY 2006-07	FY 2008	FY 2009	FY 2008-09
Individual Income	$13,957	$7,551	$8,017	$15,567
Sales	8,983	4,616	4,817	9,432
Corporate	2,239	1,141	1,068	2,209
Motor Vehicle Sales	491	180	137	317
Statewide Levy	1,295	691	711	1,402
Five Major Taxes	26,964	14,178	14,749	28,927
Other Revenue	3,946	1,780	1,779	3,559
Tobacco	361	181	182	363
Net Non-dedicated	31,272	16,140	16,710	32,849
Other Resources	939	411	417	828
Current Resources	**$32,211**	**$16,551**	**$17,127**	**$33,678**

The corporate franchise tax showed the largest increase over November's estimates, up $153 million or 7.4 percent. Changes in the outlook for the other major taxes were small. The income tax forecast was increased by $26 million (0.2 percent). The sales tax and the motor vehicle sales tax forecasts were both lowered. Biennial sales tax receipts were reduced by $52 million (0.6 percent) from November. The general fund share of motor vehicle sales tax receipts fell by $4 million or 1.3 percent.

Changes in Economic Assumptions

Global Insight's February baseline forecast is very similar to their November forecast. A stronger than projected fourth quarter of 2006 lifted real GDP slightly above November's estimate, but by the end of fiscal 2009 baseline real GDP is almost to November’s level. GII now expects real GDP to grow at an annual rate of 2.9 percent in fiscal 2008 and at a

3.1 percent rate in fiscal 2009. In November the comparable growth rates were 2.7 percent and 3.3 percent. For the biennium both the November and February forecasts show real GDP increasing at an annual rate of 3.0 percent.

Global Insight's current inflation outlook is slightly more pessimistic than November's. For example, CPI growth is expected to average 2.1 percent over the coming biennium. In November CPI growth of 1.9 percent was projected. The higher inflation comes from a slightly lower base at the start of the biennium, however. Nominal GDP is at almost identical levels through the entire 2007-2009 forecast horizon. The current outlook for corporate profits is somewhat stronger than projected in November, as is the outlook for wages and consumer durable spending. The outlook for construction spending and business investment has weakened slightly.

Shortly after GII issued their February forecast some additional data was released by the U.S. Department of Commerce. That data, which provides more detail on economic activity in December, indicates that fourth quarter GDP growth was not as strong as earlier reported. GII noted the new data suggest that fourth quarter GDP growth will be revised down by about 1 percentage point. More recent data indicate the revision may well be as much as 1.5 percentage points. The downward revision to fourth quarter 2006 real GDP growth is not necessarily a sign the economy is stumbling or that the forecast growth rates for 2008 and 2009 will be lowered materially. GII notes "Such a revision...could even have positive implications for future growth if it means that inventory adjustments are further advanced than previously thought." It is likely, however, that these revisions will lead to a modest reduction in Global Insight's March baseline forecast for the U.S. economy.

Income Tax

Individual income tax receipts for the 2008-09 biennium are forecast to total $15.567 billion, $26 million (0.2 percent) more than was forecast in November. Both wages and non-wage income are now projected to grow slightly faster than November's estimate. But, since the additional growth comes from a lower base, there is almost no change in the individual income tax forecast for the 2008-09 biennium. Minnesota wages are now estimated to grow by 4.5 percent in fiscal 2008 and 5.1 percent in fiscal 2009. In November growth rates of 4.4 percent and 4.9 percent were forecast.

Filer growth rates for tax year 2007 were lower than those used in November, reflecting the lower employment growth. Since there were only slight changes in the national economic outlook the changes in forecast growth rates for non-wage sources of income were very small and offsetting. Capital gains were assumed to grow at a 5 percent rate in 2007 and at a 10 percent rate in both 2008 and 2009. Those same growth rates were used in November's income tax forecast. Lower filer growth paired with constant total income yields additional revenue due to the progressivity of the income tax rate structure.

The forecast of lower inflation for the twelve months ending in August 2007 and August 2008 yield lower indexing and slightly higher income tax revenues for tax years 2008 and 2009.

Sales Tax

Net sales tax receipts for the 2006-07 biennium are projected to reach $9.432 billion, $53 million (0.5 percent) less than forecast in November. A reduction in expected gross sales tax receipts was the source of the shortfall; the sales tax refund forecast fell by less than $1 million. About one-half of the forecast reduction is attributable to lower than projected receipts for the fourth quarter of 2006. That shortfall reduced the base level for the forecasts for fourth quarter 2007 and fourth quarter 2008. Further weakness in construction materials and business investment spending were the sources of much of the remainder of the change in the sales tax forecast.

Corporate Franchise Tax

Corporate tax revenues for the 2008-09 biennium are forecast to total $2.209 billion, $153 million (7.4 percent) more than forecast in November. The corporate franchise tax remains Minnesota's most volatile revenue source.

As in November, Finance Department economists believe it is prudent to replace Global Insight's corporate profits forecast with one that follows a time path similar to that used by the Congressional Budget Office. The alternative forecast assumes, as did CBO, that corporate profits fall from their current level of 13.8 percent of GDP in the fourth quarter of 2007 to 10 percent of GDP in the first quarter of 2010. In the Global Insight forecast corporate profits would be 11.9 percent of GDP at that time.

Third quarter corporate profits have been revised up since November's forecast and the first report on fourth quarter corporate profits was also stronger than projected. Those increases in corporate profits raise the base from which future estimates are created and increase the corporate income tax forecast. Meeting the 10 percent of GDP target by the beginning of 2010 now requires a steeper decline in profits than in November’s forecast. Finance Department economists expect the revision to fourth quarter GDP to contain a lower corporate profits estimate than that on which February's forecast was based.

Estimates of the revenue loss due to the Hutchinson Technology decision are unchanged from November. Hutchinson related refunds totaling $35 million are included in this forecast as is a reduction in biennial corporate tax receipts of $71 million.

Motor Vehicle Sales Tax

The sales tax on motor vehicles is now projected to yield $317 million in general fund receipts during the 2008-09 biennium, $4 million (1.3 percent) less than previously forecast. Global Insight expects unit light vehicle sales and consumer spending for motor vehicles and parts to be slightly stronger than was forecast in November. A technical change was made to the motor vehicle sales tax estimating model to improve future forecast accuracy. The combination of the modest increase in the forecast for motor vehicle sales and the minor change in the specification of the model produced a very small reduction in forecast revenues.

Other Revenues

Other tax and non tax revenues, including the statewide property tax, are expected to total $5.325 billion in the 2008-09 biennium, $10 million (0.2 percent) more than was forecast in November. Most forecast changes for the tax and fee items in this category were small. Larger changes occurred in projected estate tax receipts, up $25 million, and expected mortgage tax receipts, up $12 million. The investment income forecast was increased by $10 million. Projected receipts from the insurance gross premiums tax fell by $28 million, and departmental earnings fell by $20 million.

REVENUE PLANNING ESTIMATES FY 2010-11

Total current resources for the 2010-11 biennium are estimated to be $36.707 billion, an increase of $3.030 billion (9.0 percent) over the level forecast for the 2008-09 biennium. General fund receipts for the five major taxes are now projected to be 10.4 percent more than in the previous biennium. These revenue planning estimates incorporate the reduction in motor vehicle sales tax revenues required by approval of a constitutional amendment phasing in the dedication of those revenues to transportation funding. Total current resources are now estimated to be $286 million (0.8 percent) less than projected in November.

Revenue Forecast FY 2010-11

($ in millions)

	FY 2008-09	FY 2010	FY 2011	FY 2010-11
Individual Income	$15,567	$8,610	$9,497	$18,107
Sales	9,432	4,996	5,175	10,171
Corporate	2,209	1,023	1,021	2,044
Motor Vehicle Sales	317	88	36	124
Statewide Levy	1,402	728	746	1,475
Five Major Taxes	28,927	15,446	16,475	31,921
Other Revenue	3,559	1,814	1,856	3,672
Tobacco	363	182	183	365
Net Non-dedicated	32,849	17,442	18,516	35,958
Other Resources	828	376	373	749
Current Resources	**$33,678**	**$17,819**	**$18,889**	**$36,707**

The individual income tax is the major source of growth, up 16.3 percent from levels forecast for the 2008-09 biennium. Income tax receipts increase by 10.3 percent from fiscal 2010 to 2011, much stronger growth than has been observed in recent years. That unusually large percentage change is caused by scheduled expiration of certain provisions in the federal tax code in tax year 2010. Some of the changes increase the base level of taxable income and yield a permanent increase in state income tax revenue. The largest portion of the additional revenue, however, comes from a scheduled increase in the federal capital gains tax rate. The tax rate on capital gains is scheduled to return to 20 percent in 2011, an increase of 5 percentage points from its current 15 percent rate. That increase is anticipated to produce a one-time jump in revenues in 2010 as taxpayers accelerate realizations of existing gains to take advantage of the lower tax rate. Those additional realizations will borrow from future realizations in the 2012-13 biennium, potentially leaving 2012 income tax revenues below the level realized in 2010.

Sales tax receipts are projected to grow by 7.8 percent ($832 million) from levels forecast for the 2008-09 biennium, the corporate income tax falls by $165 million, (7.5 percent), and the statewide property tax by 5.2 percent ($73 million). Corporate income tax receipts are now projected to grow more slowly than in November's estimate following correction of a data problem. State general fund receipts from the motor vehicle sales tax fall by more than 60 percent from fiscal 2008-09 levels due to the increasing percentage dedicated to transportation funding. In 2012 the motor vehicle sales tax is completely dedicated to transportation funding and disappears from the general fund.

No one can forecast the path of the economy five years into the future. The baseline revenue planning estimates presented above are not explicit forecasts; they are extrapolations of projected trends in the economy. Even small deviations from the assumed trend over five years will compound and produce sizeable changes in revenues. In addition, due to the way the estimates are constructed any change in the base level of revenues for fiscal 2009 will change the revenue planning estimates for 2010 and 2011. Other things equal, stronger than anticipated revenue growth through fiscal 2009 will carry forward and add significantly to revenues in the 2010-11 biennium. But, should the economy grow more slowly than forecast during the next twenty-eight months, or should some item of portfolio income such as capital gains fall well below forecast - as it did in tax year 2001 -- the revenue outlook for the 2010-11 biennium will deteriorate.

These revenue planning estimates are only a guide to the level of future revenues. They are not a guarantee. Normally, if the economy remains as strong as GII projects through 2011 the planning estimates are likely to slightly understate actual receipts. But, taxpayer reaction to the scheduled increase in the tax rate on capital gains could be quite different from that forecast. That could lead to either a material increase in revenues in fiscal 2011, or a significant decline. And, the GII baseline forecast includes strong growth with no recession over the entire five-year forecast horizon, a scenario that could be overly optimistic. Actual revenues for 2010-11 could exceed or fall short of the planning estimates by $2.5 billion or more depending on the economy's performance.

Since November 2002 the Finance Department has based its revenue planning estimates on Global Insight's baseline forecast. The revenue planning estimates for fiscal 2010 and 2011 were prepared consistent with the GII baseline forecast for those years. GII projects real GDP growth rates of 3.1 percent and 2.7 percent and nominal GDP growth of 5.2 percent and 4.9 percent. The Blue Chip Consensus has a similar outlook. GII's real GDP growth rate is also consistent with the 2.9 percent average used by CBO in its January budget update, but the GII nominal growth rate is slightly above CBO's forecast of 4.7 percent in 2010 and 2011. GII expects the CPI to increase at an annual rate of 1.9 percent in 2010 and 2.0 percent in 2011. Those rates are lower than the Blue Chip rate of 2.3 percent for those years. CBO projects CPI growth to average 2.2 percent in those years. When viewed on a fiscal year basis Global Insight is now projecting CPI growth of 2.0 percent in fiscal 2010 and 1.9 percent in fiscal 2009. Price increases at those rates are implicitly included in the revenue planning estimates for the 2010-11 biennium.

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

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 2007.

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 their investments accelerate realizations into 2010. Since that additional capital gains activity would not be part of taxable personal income as defined for the national income accounts, the Finance Department has included one-time off-model adjustments to tax liability in tax years 2010 and 2011. An additional $327 million was added to liability in tax year 2010. For tax year 2011, $313 million was subtracted. Those changes affect tax receipts in fiscal years 2011 and 2012.

As in recent years the complete sales tax model was used to prepare sales tax revenue planning estimates. Each component of the sales tax base was assumed to grow at the national average rate for that group of goods or services. Corporate tax receipts in Minnesota were estimated to grow slightly more slowly than GII's forecast of national before tax corporate profits, consistent with the lower ratio of corporate profits to GDP assumed. Those receipts were then reduced for the reduction in prospective collections expected to follow from the Hutchinson Technology decision. The Department of Revenue now estimates that ruling will reduce receipts in the 2010-11 biennium by $82 million. The general fund's share of Minnesota's motor vehicle sales tax collections falls dramatically due to the phase in of the constitutional dedication of these receipts to transportation funds. Total motor vehicle sales tax collections are expected to grow at the GII baseline growth rate for national consumption of motor vehicles and parts. The deed and mortgage tax was forecast based on the projected growth in the value of new and existing home sales. Planning estimates for other tax and non-tax revenues were based on extrapolation of existing trends.

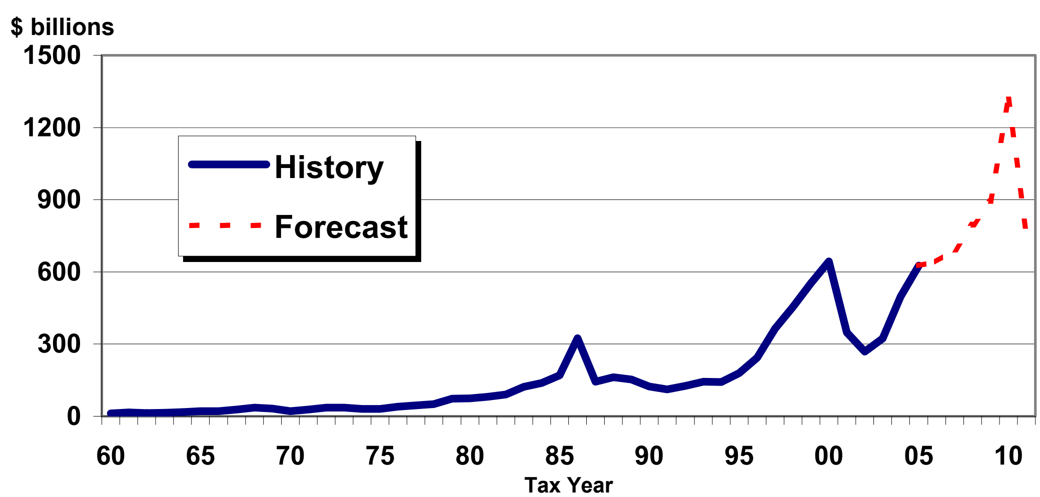
Beyond the Forecast Horizon

In 2003, Congress lowered the maximum capital gains tax rate to 15 percent. As originally enacted, that rate reduction was temporary, scheduled to expire at the end of 2008. In 2005 the Tax Increase Prevention and Reconciliation Act extended those cuts through December 31, 2010. Under current law the federal capital gains rate will revert to its former level of 20 percent for sales of capital assets made after December 31, 2010.

Taxpayers are likely to accelerate sales of capital assets into 2010 to take advantage of the lower tax rate. Then, realizations are likely to drop significantly below normal levels since asset sales that normally would have occurred in later years will be advanced to 2010. After adjusting for timing differences between the tax year in which liability is incurred and the fiscal year the tax payment is actually remitted there will be a material change in the pattern of income tax receipts for fiscal years 2011, 2012, and possibly beyond. Both federal and state income tax receipts will be affected. The changes will be driven by current federal law and are independent actions taken by state governments.

There are no precise estimates of the size of the effect this scheduled change in tax rates will have on Minnesota income tax liability for tax years 2010 and 2011. The actual impact will depend on conditions in 2010 including the proportion of household wealth made up by unrealized capital gains as well as how aggressively mutual fund and hedge fund managers try to minimize client tax burdens. Historical evidence, however, indicates that the acceleration in realizations could be substantial. Tax reforms approved during the Reagan administration contained a significant increase in the effective tax rate on capital gains effective in 1987. Capital gains realizations grew by more than 90 percent between 1985 and 1986. Then, in 1987 fell to a level below that observed in 1985. Realizations fell still further in 1988. It was not until 1995 that capital gains realizations again reached the level observed in 1985.

A Large Increase in Capital Gain Realizations Is Projected for the U.S. in 2010



The large changes in capital gains realizations expected under current law in 2010 and 2011 are likely to leave Minnesota revenues in fiscal 2011 several hundred million dollars above the level of revenues that would have occurred were there no impending increase in the capital gains rate. Then, in fiscal 2012 and possibly beyond, revenues will be well below their trend level. The abrupt drop expected in revenues means that a budget showing balance between expected revenues and expenditures in fiscal 2011 could show a shortfall once it was extended to 2012, even if spending remained the same as in the prior year and no adjustments for inflation were made. Under some assumptions total income tax revenues actually decline between fiscal 2011 and 2012.

The table below provides examples of the possible magnitude of the change in total tax and net tax revenues between the 2011 and 2012 fiscal years using alternative assumptions about the growth of the entire tax base and the size of the capital gains revenue shift. In all simulations non-tax revenue in 2012 was held constant at $750 million, the average level currently projected for the fiscal 2008-11 forecast horizon. For simplicity all but $100 million of the capital gains revenue increase in fiscal 2011 was assumed to come from fiscal year 2012.

Impacts of the Federal Capital Gains Tax Increase on Minnesota Tax and Non-Tax General Fund Revenues, Fiscal Years 2011 and 2012, in Millions of Dollars.

One time Gain	FY 2011	FY 2012	Change	Pct
$ Millions	**--------4 percent growth--------**			
$300	$18,491	$18,689	$198	1.1
$500	$18,691	$18,488	($202)	(1.1)
	--------5 percent growth--------			
$300	$18,491	$18,863	$372	2.0
$500	$18,691	$18,663	($28)	(.02)

If a $300 million shift is assumed state revenues grow very slowly between fiscal 2011 and 2012. If a $500 million shift is assumed, state revenues actually decline between fiscal years. The higher the growth rate assumed for all tax non capital gains related tax revenues, the smaller the decline in revenues.

EXPENDITURE FORECAST
FY 2008-2011

FY 2008-09 Forecast Expenditures Increased $142 Million

Forecast current law spending for FY 2008-09 is now expected to total $32.638 billion, $142 million above November's forecast estimates. The revised spending estimates represent projected growth of $1.160 billion over the current law forecast for the FY 2006-07 biennium – a 3.7 percent increase.

FY 2008-09 Budget Expenditure Estimates
($ in millions)

	November	February	Difference
K-12 Education	$12,985	$13,000	$15
Payment Change/Prop Tax Recog.	(4)	(4)	0
Higher Education	2,802	2,802	0
Property Tax Aids & Credits	3,107	3,108	1
Health & Human Services	9,369	9,460	91
Environment and Agriculture	383	383	0
Economic Development	300	300	0
Transportation	225	225	0
Public Safety	1,723	1,723	0
Military & Veterans Affairs	50	50	0
State Government	555	549	(6)
Debt Service	902	919	17
All Other	1	1	0
Subtotal	32,298	32,516	118
Dedicated Expenditures	98	122	24
Total Spending	**$32,496**	**$32,638**	**$142**

A $91 million increase in the Human Services forecast accounts for nearly two-thirds of the increase in forecast spending. The Human Services changes combined with a $15 million increase in forecast K-12 education spending, a $17 million increase in projected debt service costs, and a net $19 million increase in all other spending changes combined with the Human Service changes to raise total spending by $142 million.

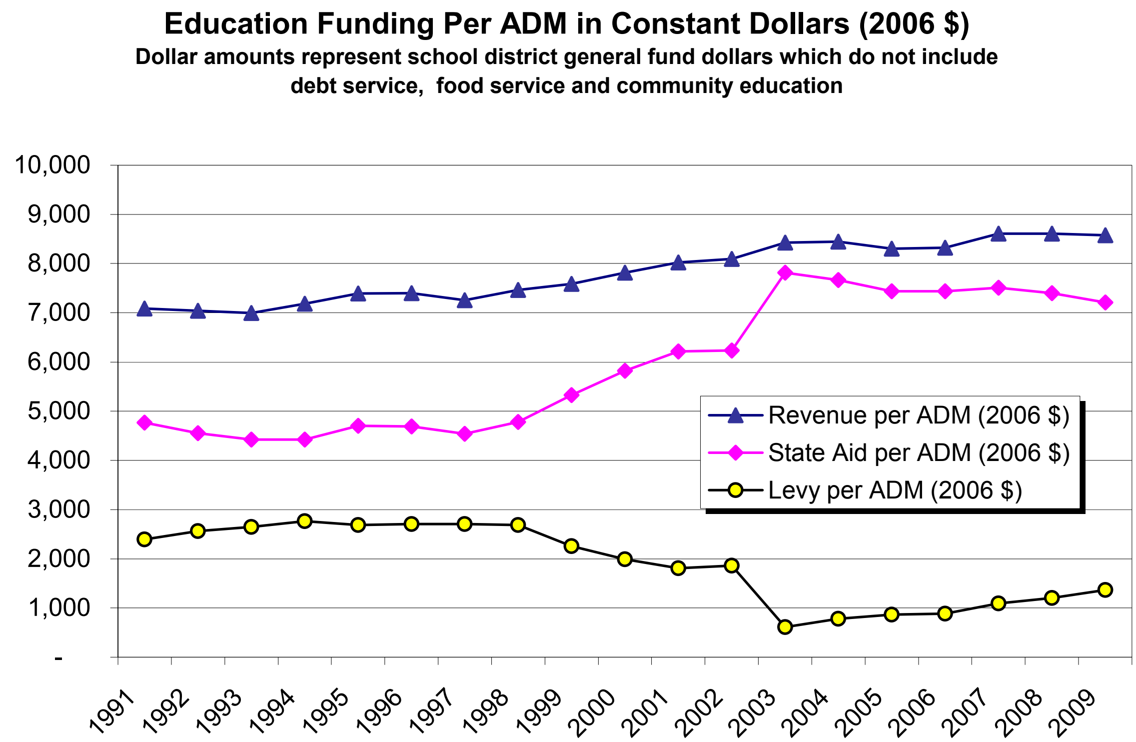
FY 2010-11 Planning Estimates
($ in millions)

	November	February	Difference
K-12 Education	$12,858	$12,876	$18
Higher Education	2,801	2,803	2
Property Tax Aids & Credits	3,112	3,120	8
Health & Human Services	10,671	10,788	117
Environment and Agriculture	385	385	0
Economic Development	300	300	0
Transportation	209	210	1
Public Safety	1,744	1,744	0
Military & Veterans Affairs	50	49	(1)
State Government	555	551	(4)
Debt Service	1,036	1,026	(10)
All Other	1	1	0
Subtotal	33,722	33,853	131
Dedicated Expenditures	55	55	0
Total Spending	**$33,777**	**$33,908**	**$131**

K-12 Education Expenditures Increase $15 Million for FY 2008-09

Total spending for K-12 Education is now expected to be $13.0 billion in FY 2008-09, an increase of $14.9 million (0.1 percent) over November 2006 estimates.

The most accurate way to evaluate education funding is to examine education spending on a per pupil basis over time. This eliminates swings in overall education spending caused by changes in pupil numbers or accounting shifts. The trend since the state eliminated the General Education levy and began to fully fund the General Education formula with state aid in FY 2003 has been a decline in state aid per pupil in constant dollars and an increase in levy per pupil in constant dollars. Revenues per pupil and the portions of that revenue from aid and levy have not changed significantly since November's estimates.



Enrollment projections for public K-12 schools are now based on actual FY 2006 student data. Average Daily Membership (ADM) is projected to be slightly lower than the totals forecast in November 2006, falling from 826,542 in FY 2006 to 823,533 in FY 2009. The change per year compared to November's projections is approximately 0.1 percent.

The trend of declining enrollment is expected to continue through FY 2009, then reverse in FY 2010. Pupil numbers increase by approximately 2,000 per year in both FY 2010 and FY 2011.

General Education spending is forecast to be $15 million (0.1 percent) higher in FY 2008-09 than was anticipated in November. Basic Education Aid entitlements are down $9.5 million (0.1 percent) due to lower student counts. However, this was offset by higher entitlements in Compensatory Aid and various levy equalization aid programs. Compensatory projections are now based on preliminary actual free and reduced price meal eligibility totals from October 2006. That data shows a 2.6 percent increase in average poverty concentration on a statewide basis (from 0.1369 Compensatory pupil units per ADM to 0.1405). This results in a $15.4 million (2.4 percent) increase in FY 2008-09 Compensatory Aid.

Levy equalization aid entitlements increased as a result of tax base data changes and modeling changes. These factors led to a $6.3 million (3.4 percent) increase in Referendum Equalization Aid, a $1.9 million (4.4 percent) increase in Equity Equalization Aid, and a $2.2 million (1.4 percent) increase in Operating Capital

Equalization Aid in FY 2008-09. Referendum Market Value (RMV) and Adjusted Net Tax Capacity (ANTC) are now based on actual 2006 assessment data. On a statewide basis, RMV is down 0.5 percent and ANTC is down 2 percent from estimates in the November 2006 forecast. This accounts for $2.5 million of the total increase across all equalization aid categories. The remaining increase is a one-time change and are attributable to more accurate modeling of levy equalization aid.

There are relatively minor changes in the categorical aids component of the K-12 forecast compared to November. Special Education Regular Aid is down $820,000 (0.1 percent) in FY 2008-09 due to reductions in ADM projections since November. Debt Service Equalization Aid is also down since November by $759,000 (2.8 percent) in FY 2008-09. This reduction is due to ANTC increases in districts eligible for debt service equalization. Although statewide ANTC estimates declined since November, the subset of districts qualifying for debt service aid saw an increase in tax capacity per student. Transportation related aid programs are up due to rising transportation costs. There is a $1.5 million (7.4 percent) increase in FY 2008-09 for Interdistrict Desegregation Transportation Aid and a $1.4 million (3.4 percent) increase in FY 2008-09 for Nonpublic Pupil Transportation Aid. Nonpublic pupil increases are also due to an increased number of nonpublic students receiving transportation services.

FY 2010-11 K-12 Education Spending Up $18 Million

K-12 Education expenditures are projected to total $12.9 billion in FY 2010-11, up $17.7 million (0.1 percent) from previous estimates.

General Education estimates are $17.6 million (0.2 percent) higher, with Compensatory Aid entitlements up $15.3 million (2.4 percent) and significant increases in levy equalization aid entitlements. Referendum Equalization Aid is up $6.2 million (5.7 percent), Operating Capital Equalization Aid is up $4.9 million (4.5 percent) and Equity Equalization Aid is $2.5 million (8.8 percent) higher. These increases are partially offset by a $10.5 million (0.1 percent) decrease in Basic Education Aid entitlements resulting from slightly lower ADM estimates.

The decreases projected in FY 2008-09 for Special Education Regular Aid and Debt Service Equalization Aid continue into FY 2010-11. Special Education Regular Aid for FY 2010-11 is down $851,000 (0.1 percent) since the November forecast due to reductions in ADM projections. Debt Service Equalization Aid is down $569,000 (3.5 percent) for FY 2010-11 since the November forecast due to ANTC increases in districts qualifying for debt service aid.

The increases projected in FY 2008-09 for Interdistrict Desegregation Transportation Aid and Nonpublic Pupil Transportation Aid also continue into FY 2010-11, resulting in forecast reductions of $2.1 million (7.4 percent) and $1.2 million (3 percent) respectively when compared to the November forecast. This change is again due to increases in the cost of transportation and an increased number of nonpublic students receiving transportation services.

Health and Human Services Projections Increase $91 million in FY 2008-09

Total health and human services spending is now expected to be $9.5 billion in FY 2008-09, a $91 million (1.0 percent) increase from November estimates. This represents a $1.2 billion (14.8 percent) increase over the current biennium. Basic Health Care Grants experienced the largest change, increasing $57.7 million (1.4 percent), while estimates for Continuing Care Grants increased $36.1 million (1.1 percent).

Basic Health Care Grants

The most significant change in Basic Health Care Grants in this forecast comes from inpatient hospital rate rebasing. Hospital rate rebasing adjusts inpatient hospital fee-for-service rates to reflect changes over time in hospital specific costs. This rebasing occurred on January 1, 2007. Hospital rate rebasing is normally done every two years, but the January adjustment reflected four years of change in hospital costs due to a statutory delay of 2005 rebasing. The November forecast had included projected increases in Basic Health Care Grants for hospital rebasing, but this forecast increases that estimate by $95.6 million in FY 2008-09.

MA Basic Care for Families and Children is up $59.7 million (3.9 percent) from November estimates. The majority of this change is due to higher than projected costs for hospital rebasing.

The forecast for General Assistance Medical Care (GAMC) is $28.3 million (6.2 percent) higher than previous estimates. Most of the change in GAMC is due to a decrease in the projected number of enrollees shifting to MinnesotaCare and cost increases due to hospital rebasing.

MA Basic Care for elderly and disabled is down $30.4 million (1.4 percent) from November due to fewer Elderly Waiver recipients than previously anticipated shifting from fee-for-service payment in the MA LTC Waivers activity. A corresponding increase is seen in MA Long-Term Care Waiver activity. Increased costs for hospital rebasing in this activity are netted out by slightly lower enrollment and average cost projections for both elderly and disabled recipients.

Continuing Care Grants

Estimated spending for Continuing Care Grants is increased $36.1 million (1.1 percent) in this forecast for FY 2008-09 due to changes in the MA Long-Term Care Waiver and MA Long-Term Care Facilities activities, which increase $25.1 million and $12.3 million, respectively. The increase in the MA LTC Waiver budget activity is due to higher caseload estimates for Elderly Waiver (EW) services. As mentioned above, the caseloads were previously accounted for in the MA Elderly and Disabled Basic Care budget activity and, therefore, do not result in higher overall spending. Slightly higher caseloads in nursing facilities and intermediate care facilities for the mentally retarded (ICF/MR) are responsible for the increased projections in MA LTC Facilities.

Children and Economic Assistance Grants

Children and Economic Assistance Grants decreased marginally, $2.8 million (0.3 percent) from November estimates. Increases in the Minnesota Family Investment Program/Transition Year (MFIP/TY) estimates are more than offset by decreases in the MFIP Child Care and Group Residential Housing budget activities.

FY 2010-11 Health and Human Services Spending Increases $117 Million

Total health and human services spending is now expected to be $10.8 billion in FY 2010-11, a $117 million increase from November estimates (1.1 percent). This represents a $1.3 billion increase (14.0 percent) from the FY 2008-09 biennium. The largest increase is seen in Basic Health Care Grants, where expenditures are $75.0 million (1.5 percent) greater than previous estimates. Spending within Continuing Care Grants increases $42.6 million (1.2 percent).

The same trends that increase the spending estimates in FY 2008-09 continue in the subsequent biennium. The revised estimate for hospital rebasing adds $68.7 million to the MA Families and Children program. The revised projections of elderly waiver recipients transferring to managed care plans decreases MA Elderly and Disabled spending and increases MA LTC Waiver spending approximately $27 million. Lastly, the slower shift of individuals from the GAMC program to MinnesotaCare increases GAMC spending approximately $25 million in FY 2010-11.

General Fund/Health Care Access Fund Connections

Forecast Changes

FY 2008-09 general fund health care spending is slightly higher in this forecast, although the trend is different in the state's health care access fund. Forecast health care access fund revenues and expenditures, have both declined from November's forecast. Estimated MinnesotaCare expenditures are $20.7 million below November estimates for FY 2006-07 and $75.9 million lower for FY 2008-09. The reduction is due to lower estimated costs per person for those moving from GAMC to MinnesotaCare, a slightly lower number of estimated persons moving into MinnesotaCare, and lower enrollment estimated for MinnesotaCare. These estimates are moving in the opposite direction of higher costs in the general fund, which shows a $91 million increase. Revenues for the health care access fund are down only $12.4 million from previous estimates for FY 2008-09.

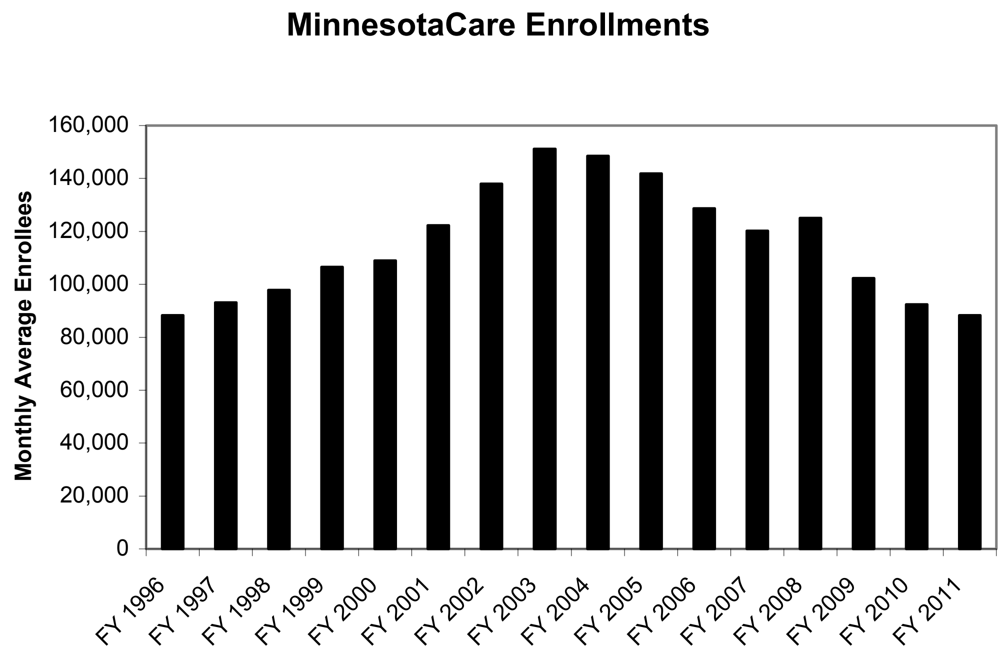
In November, the FY 2009 health care access fund balance was projected at $188 million. It is now projected to be $270 million by the end of FY 2009 and $531 million by FY 2011.

Background

The health care access fund was created to increase access to health care for the uninsured, contain health care costs and improve the quality of health care services. Revenues come primarily from a 2 percent tax on providers, a 1 percent gross premium tax, and and the state share of MinnesotaCare enrollee premiums. Spending is primarily for MinnesotaCare, which provides health care services to eligible individuals and families who do not have access to affordable health insurance

Although the health care access fund is separate from the general fund, there is a strong connection between them. This is due to budget and policy decisions, which transfer dollars between the funds, and move enrollees between health care programs. This movement of enrollees between programs has a similar effect as moving resources, as the programs involved are financed from different funds.

Two policy decisions that shift enrollees between programs, affect General Assistance Medical Care (GAMC) recipients moving into MinnesotaCare, and MinnesotaCare enrollees moving to Medical Assistance (MA) with implementation of HealthMatch, an automated eligibility determination system for Minnesota's publicly funded health care programs. Moving GAMC enrollees into MinnesotaCare has already begun and is expected to increase enrollment in MinnesotaCare by approximately 17,000 enrollees in FY 2008. Because a significant portion of MinnesotaCare families are eligible for Medical Assistance, HealthMatch will cause most MA-eligible MinnesotaCare enrollees to move to Medical Assistance. This is expected to shift an average of 14,000 enrollees to MA in FY 2008-09, and roughly $44 million in costs from the health care access fund to the general fund. The effect of the enrollment shift is expected to rise to 36,000 enrollees in FY 2010-11.



HealthCare Access Fund - Structural Balance

The HealthMatch shift and underlying enrollment trends reduce enrollment over the forecast horizon as shown above. At the same time that MinnesotaCare enrollment is declining, provider and premium taxes are being assessed against a growing base of health care costs and insurance premiums. Health care access fund revenues are increasing at an average rate of 6.6 percent annually over the forecast horizon. The result is a growing structural balance as shown below.

Health Care Access - Structural Balance

February 2007 Forecast

($ in millions)

	Forecast FY2 008	Forecast FY 2009	Forecast FY 2010	Forecast FY 2011
Current Year Resources	$530	$563	$603	$648
Total Uses	482	479	486	505
Difference	$45	$84	$117	$144

Tax Aids and Credits Increase Slightly in FY 2008-09

Expenditure estimates for tax aids and credits increased by just under $1 million for FY 2008-09. This small net change is the result of offsetting increases and decreases.

The biggest change was a $6.8 million increase in expected property tax refunds payments. This increase is mainly due to higher program participation. A smaller portion of the growth, $200,000, is the result of estimated impacts on the program as a result of administrative rule changes made by the Department of Revenue regarding the valuation of utility properties. Expenditure estimates for the targeting portion of the property tax refund program went down $5.6 million due to actual residential homestead net tax increases being less than previously anticipated.

The increase in the property tax refund program was partially offset by a $4.5 million reduction in expected payments of tax refund interest and penalties.

Tax Aids and Credits Projections for FY 2010-11 Increase $8 Million

For FY 2010-11, tax aid and credit programs increased $8.1 million from November's estimates to $3.120 billion, a 2.6 percent increase over the FY 2008-09 forecast. This change in planning estimates is mainly the result of an $8.2 million increase in expected property tax refund program payments. Higher participation than anticipated is the main reason for this growth. $1.4 million of the projected increase is the result of recent changes made to the administrative rules governing the valuation of utility properties

Debt Service Estimates for FY 2008-09 Biennium Increase $17 Million

Estimated debt service costs for the FY 2008-09 biennium are now $918.6 million, $16.7 million higher the November 2006 forecast.

Bidders on the state's bonds have bid large premiums during this period of low interest rates. Higher interest rates decrease the amount of the premiums bid. Global Insight's forecast for interest rates on long-term tax-exempt bonds, which is used to forecast the interest rates on state bonds, has increased from that used in the November 2006. The increase in forecast interest rates has reduced forecast premiums bid on the state bonds sold by $19.6 million. Higher short-term interest rates on cash balances in the bond proceeds fund and debt service fund produce $4.5 million of investment earnings that reduces the general fund debt service transfer required, offsetting a portion of the increase due to lower premiums.

FY 2010-11 Debt Service Projections Decline Nearly $11 Million

Projected debt service costs for FY 2010-11 are now expected to be $1.025 billion, down $10.5 million from the November 2006 planning estimates.

The forecast continues to assume future capital budgets of $645 million in each even-numbered legislative session and $135 million in each odd-numbered session. The impact of projected changes in future interest rates however, adds $8.9 million in expected additional investment earnings and a $1.7 million increase in expected bond premiums that combine to reduce previous forecast estimates.

Alternative Forecast Comparison
Real GDP (Annual Rates)

	06III	06IV	07I	07II	07III	07IV	06A	07A	08A
GII Baseline (02-07)	2.0	3.0	2.5	2.8	2.8	2.9	3.4	2.7	3.0
Blue Chip (02-07)	2.0	3.5	2.5	2.6	2.9	3.1	3.4	2.7	3.0
Moody's Economy.Com (02-07)	2.0	3.5	2.4	2.6	3.0	3.3	3.4	2.7	3.2
Ameriprise (02-07)	2.0	3.5	2.2	2.0	3.3	3.5	3.4	2.7	3.4
UBS (02-07)	2.0	3.5	1.8	1.9	2.3	2.7	3.4	2.7	3.2
Standard & Poors (02-07)	2.0	3.5	2.6	2.5	2.4	NA	3.4	2.6	2.9

Consumer Price Index (Annual Rates)

	06III	06IV	07I	07II	07III	07IV	06A	07A	08A
GII Baseline (02-07)	2.9	-2.2	1.6	2.3	2.6	2.0	3.2	2.1	2.0
Blue Chip (02-07)	2.9	-2.2	2.4	2.6	2.5	2.3	3.2	1.9	2.3
Moody's Economy.Com (02-07)	2.9	-2.2	2.3	3.0	2.0	2.1	3.2	1.8	2.1
Ameriprise (02-07)	2.9	-2.2	2.8	2.7	2.5	2.4	2.0	2.6*	3.0
UBS (02-07)	2.9	-2.2	1.8	3.6	2.9	0.7	3.2	1.8	2.4
Standard & Poors (02-07)	2.9	-2.2	1.6	2.4	2.6	NA	3.2	1.5	2.3

*4Q/4Q

Forecast Comparisons

Real Economic Growth
(Annual Percent Change in Real GDP)

	2006	2007	2008	2009	2010	2011
Nov 02 GII Control	3.5	3.1				
Feb 03 GII Control	3.1	2.9				
Nov 03 GII Control	3.6	2.9				
Feb 04 GII Control	3.6	2.9				
Nov 04 GII Baseline	3.6	3.1	3.1	3.2		
Feb 05 GII Baseline	3.1	3.2	3.1	3.3		
Nov 05 GII Baseline	3.4	3.1	3.4	3.1		
Feb 06 GII Baseline	3.3	2.7	2.9	3.2		
Nov 06 GII Baseline	3.3	2.4	3.1	3.3	3.3	2.9
Feb 07 GII Baseline	3.4	2.7	3.0	3.2	3.1	2.7

Inflation
(Annual Percent Change in CPI-U)

Nov 02 GII Control	2.2	2.1				
Feb 03 GII Control	2.2	2.5				
Nov 03 GII Control	2.0	2.5				
Feb 04 GII Control	1.5	2.5				
Nov 04 GII Baseline	1.3	1.7	1.9	2.1		
Feb 05 GII Baseline	1.6	2.0	2.1	2.2		
Nov 05 GII Baseline	2.6	1.5	2.0	2.2		
Feb 06 GII Baseline	2.5	1.8	2.0	1.9		
Nov 06 GII Baseline	3.3	2.1	1.9	1.8	1.8	1.7
Feb 07 GII Baseline	3.2	1.5	2.3	2.1	1.9	2.0

Minnesota - U.S. Comparison Report

February 2007 Control

(Annual Percent Changes)

	2003	2004	2005	2006	2007	2008	2009
Wage and Salary Income							
United States	2.6	5.5	5.1	6.6	5.0	5.1	5.5
Minnesota	2.9	5.1	3.0	4.8	4.9	4.6	5.3
Implied Annual Wage							
United States	2.9	4.3	3.3	4.7	3.5	3.6	3.9
Minnesota	3.0	4.3	1.4	3.4	4.3	3.4	3.6
Non-Farm Employment							
United States	-0.3	1.1	1.7	1.9	1.4	1.4	1.5
Minnesota	-0.2	0.8	1.6	1.4	0.5	1.2	1.6
Personal Income							
United States	3.2	6.2	5.2	6.4	5.5	5.7	5.9
Minnesota	3.9	6.0	3.4	5.8	5.3	5.4	5.9

COMPARISON OF ACTUAL AND ESTIMATED
NON-RESTRICTED REVENUES

January 2007- FY2007 YTD
($ in thousands)

	FORECAST REVENUES	ACTUAL REVENUES	VARIANCE ACT-FCST
Individual Income Tax			
Withholding	3,344,908	3,326,059	(18,849)
Declarations	848,660	830,810	(17,850)
Miscellaneous	167,068	173,454	6,386
Gross	4,360,635	4,330,323	(30,312)
Refund	135,249	161,921	26,672
Net	4,225,386	4,168,402	(56,984)
Corporate & Bank Excise			
Declarations	619,664	616,285	(3,379)
Miscellaneous	80,677	119,222	38,544
Gross	700,341	735,507	35,166
Refund	89,328	92,644	3,316
Net	611,013	642,863	31,850
Sales Tax			
Gross	2,696,453	2,683,605	(12,847)
Refunds	127,543	140,401	12,858
Net	2,568,909	2,543,204	(25,705)
Motor Vehicle Sales Tax	136,258	139,142	2,884
Other Revenues:			
Estate	72,477	76,320	3,843
Liquor/Wine/Beer	39,248	38,454	(794)
Cigarette/Tobacco/Cont Sub	88,000	89,100	1,100
Deed and Mortgage	144,497	147,232	2,735
Insurance Gross Earnings	127,568	128,491	923
Lawful Gambling	26,997	26,487	(510)
Health Care Surcharge	121,319	123,949	2,630
Other Taxes	24	1,592	1,568
Statewide Property Tax	290,875	299,687	8,812
DHS SOS Collections	28,015	30,816	2,802
Income Tax Reciprocity	63,481	63,481	0
Investment Income	42,174	49,968	7,793
Tobacco Settlement	178,355	180,605	2,249
Departmental Earnings	175,442	164,165	(11,276)
Fines and Surcharges	54,080	54,593	513
Lottery Revenues	21,518	22,148	630
Revenues yet to be allocated	1,259	1,405	145
Residual Revenues	33,644	28,481	(5,163)
Sales Tax Rebates (all years)	(0)	(0)	0
County Nursing Home, Pub Hosp IGT	3,962	3,396	(566)
Other Subtotal	1,512,935	1,530,369	17,434
Other Refunds	25,057	23,988	(1,069)
Other Net	1,487,878	1,506,381	18,503
Total Gross	**9,406,622**	**9,418,946**	**12,324**
Total Refunds	**377,177**	**418,954**	**41,777**
Total Net	**9,029,445**	**8,999,991**	**(29,453)**

Factors Affecting the Individual Income Tax
($ in billions)

	Calendar Year					
	2004	2005	2006	2007	2008	2009
Minnesota Non-Farm Tax Base						
February 2003 Baseline	153.580	163.500				
November 2003 Baseline	152.011	160.690				
February 2004 Baseline	152.201	160.413				
November 2004 Baseline	149.277	156.214	163.506	171.373		
February 2005 Baseline	149.075	156.519	163.983	172.200		
November 2005 Baseline	147.263	153.310	161.799	170.983		
February 2006 Baseline	148.030	153.618	161.561	170.274		
November 2006 Baseline	148.372	152.872	161.271	169.111	177.669	187.572
February 2007 Baseline	148.367	152.927	160.564	169.026	178.408	189.146
Minnesota Wage and Salary Income						
February 2003 Baseline	104.690	111.420				
November 2003 Baseline	103.830	109.140				
February 2004 Baseline	103.570	108.910				
November 2004 Baseline	103.632	109.075	114.465	120.202		
February 2005 Baseline	103.416	108.997	114.473	120.360		
November 2005 Baseline	104.225	108.959	114.328	119.824		
February 2006 Baseline	104.992	108.639	113.713	118.957		
November 2006 Baseline	104.680	107.783	113.827	119.133	124.673	130.636
February 2007 Baseline	104.677	107.838	113.045	118.579	124.034	130.567
Minnesota Property Income						
February 2003 Baseline	36.176	38.513				
November 2003 Baseline	36.045	38.041				
February 2004 Baseline	36.027	38.197				
November 2004 Baseline	32.956	33.650	34.760	36.088		
February 2005 Baseline	32.978	34.014	35.200	36.744		
November 2005 Baseline	30.825	31.190	33.432	36.204		
February 2006 Baseline	30.824	31.610	33.754	36.367		
November 2006 Baseline	32.230	32.802	34.633	36.654	38.739	41.925
February 2007 Baseline	32.229	32.802	34.659	37.168	40.223	43.666
Minnesota Proprietors' Income						
February 2003 Baseline	12.712	13.573				
November 2003 Baseline	12.691	13.508				
February 2004 Baseline	12.601	13.308				
November 2004 Baseline	12.689	13.489	14.281	12.083		
February 2005 Baseline	12.681	13.507	14.309	15.156		
November 2005 Baseline	12.213	13.161	14.037	14.956		
February 2006 Baseline	12.213	13.369	14.093	14.950		
November 2006 Baseline	11.461	12.287	12.811	13.324	14.256	15.017
February 2007 Baseline	11.461	12.287	12.861	13.279	14.150	14.912

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

($ in billions)

	Fiscal Year					
	2004	2005	2006	2007	2008	2009
SALES TAX						
Minnesota Synthetic Sales Tax Base						
November 2004 Baseline	66.848	71.014	73.521	75.447		
Pct	6.9%	6.2%	3.5%	2.6%		
February 2005 Baseline	66.710	70.957	74.046	76.286		
Pct	6.8%	6.4%	4.4%	3.0%		
November 2005 Baseline	66.460	70.850	74.979	77.651		
Pct		6.6%	5.83%	3.6%		
February 2006 Baseline	66.355	70.553	74.807	77.366		
Pct		6.3%	6.0%	3.4%		
November 2006 Baseline	67.141	70.888	74.170	76.219	78.115	81.901
Pct			4.63%	2.76%	2.49%	4.85%
*February 2007 Baseline		67.609	70.497	72.139	73.905	77,157
Pct		5.4%	4.3%	2.3%	2.4%	4.4%
Minnesota's Proxy Share of U.S. Consumer Durable Spending (Excluding Autos)						
November 2004 Baseline	11.705	12.241	12.612	13.021		
February 2005 Baseline	11.700	12.267	12.783	13.205		
November 2005 Baseline	11.775	12.456	12.849	12.265		
February 2006 Baseline	11.775	12.447	12.993	13.247		
November 2006 Baseline	11.807	12.507	13.229	13.606	13.697	14.291
February 2007 Baseline	11.807	12.507	13.232	13.788	14.055	14.552
Minnesota's Proxy Share of U.S. Capital Equipment Spending						
November 2004 Baseline	11.438	12.766	13.674	14.289		
February 2005 Baseline	11.449	12.926	13.957	14.751		
November 2005 Baseline	10.639	11.906	12.862	13.935		
February 2006 Baseline	10.639	11.891	12.610	13.841		
November 2006 Baseline	10.329	10.845	11.616	12.443	13.204	13.778
February 2007 Baseline	10.329	10.845	11.619	12.179	12.834	13.419
Minnesota's Proxy Share of U.S. Construction Spending						
November 2004 Baseline	10.171	11.188	11.620	11.676		
February 2005 Baseline	10.123	10.864	11.444	11.708		
November 2005 Baseline	10.200	10.995	11.868	11.939		
February 2006 Baseline	10.200	10.996	11.714	11.729		
November 2006 Baseline	10.210	11.267	12.135	11.775	11.622	12.398
**February 2007 Baseline	7.226	7.981	8.510	8.031	7.509	7.829

* Series revised
** New Series

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

($ in billions)

	Fiscal Year					
	2004	2005	2006	2007	2008	2009
SALES TAX (Cont.)						
Minnesota's Personal Income Excluding Farm Proprietors Income*						
February 2003 Control	181.12	192.14				
November 2003 Baseline	178.50	187.08				
February 2004 Baseline	178.82	187.04				
November 2004 Baseline	176.02	185.30	194.41	204.46		
February 2005 Baseline	175.82	184.34	194.76	204.77		
November 2005 Baseline	177.36	188.44	196.70	207.71		
February 2006 Baseline	177.36	188.18	195.47	206.78		
November 2006 Baseline	177.78	187.38	195.19	205.96	216.03	227.93
February 2007 Baseline	177.78	187.37	195.42	205.82	216.81	229.20
SALES TAX ON MOTOR VEHICLES						
Minnesota's Proxy Share of U.S. Consumption of Motor Vehicles and Parts						
February 2003 Control	7.619	7.676				
November 2003 Baseline	7.988	8.060				
February 2004 Baseline	8.770	8.891				
November 2004 Baseline	9.025	9.095	9.132	9.594		
February 2005 Baseline	9.025	9.207	9.140	9.495		
November 2005 Baseline	8.989	9.185	8.925	9.340		
February 2006 Baseline	8.990	9.194	8.919	9.258		
November 2006 Baseline	8.882	9.110	9.018	9.061	8.993	9.292
February 2007 Baseline	8.837	9.396	8.963	8.951	9.159	9.597
CORPORATE FRANCHISE TAX		**Calendar Year**				
U.S. Corporate Profits						
February 2003 Control	859.6	857.1				
November 2003 Baseline	869.6	890.9				
February 2004 Baseline	1,016.8	997.5**				
November 2004 Baseline	810.3	949.5**	1,019.7**	1,010.9**		
February 2005 Baseline	810.3	945.5**	971.8**	965.8**		
November 2005 Baseline	853.5	1,016.9**	1,137.8**	1,299.8**		
February 2006 Baseline	853.3	1,016.9**	1,137.8**	1,329.9**		
November 2006 Baseline	837.1	1,039.6**	1,237.4**	1,460.7**	1,481.5**	1,382.8**
February 2007 Baseline	837.1	1,039.6**	1,237.4**	1,460.7**	1,617.8**	1,463.6**

* Bureau of Economic Analysis Concept
** Finance Dept Estimate

February 2007 General Fund Forecast
FY 2006-07 Biennium Comparison: February 2007 vs November 2006
($ in thousands)

	11-06 Fcst FY 2006-07	2-07 Fcst FY 2006-07	Difference
Actual & Estimated Resources			
Balance Forward From Prior Year	1,393,086	1,393,086	0
Current Resources:			
Tax Revenues	29,604,932	29,564,998	(39,934)
Non-Tax Revenues	1,699,857	1,707,300	7,443
Dedicated Revenue	115,422	113,022	(2,400)
Transfers In	776,606	777,433	827
Prior Year Adjustments	48,190	48,190	0
Subtotal-Current Resources	32,245,007	32,210,943	(34,064)
Total Resources Available	**33,638,093**	**33,604,029**	**(34,064)**
Actual & Estimated Spending			
K-12 Education	12,756,456	12,752,868	(3,588)
Property Tax Recog/Payment Change	609,435	609,435	0
Subtotal K-12 Education	13,365,891	13,362,303	(3,588)
Property Tax Aids & Credits	3,024,911	3,027,757	2,846
Higher Education	2,762,597	2,762,911	314
Health & Human Services	8,255,721	8,242,038	(13,683)
Environment & Agriculture	367,085	366,985	(100)
Economic Development	345,996	345,996	0
Transportation	207,770	207,770	0
Public Safety	1,710,150	1,710,150	0
Military & Veterans Affairs	46,450	46,450	0
State Government	567,986	569,547	1,561
Debt Service	752,098	752,098	0
Deficiencies/Other	7,324	12,824	5,500
Estimated Cancellations	(15,000)	(20,000)	(5,000)
Subtotal Expenditures & Transfers	**31,398,979**	**31,386,829**	**(12,150)**
Dedicated Expenditures	88,034	91,234	3,200
Total Expenditures & Transfers	**31,487,013**	**31,478,063**	**(8,950)**
Balance Before Reserves	**2,151,080**	**2,125,966**	**(25,114)**
Cash Flow Account	350,000	350,000	0
Budget Reserve	653,000	653,000	0
Tax Relief Account	109,660	109,660	0
Budgetary Balance	**1,038,420**	**1,013,306**	**(25,114)**

February 2007 General Fund Forecast
Current Biennium
($ in thousands)

	Actual FY 2006	2-07 Fcst FY 2007	2-07 Fcst FY 2006-07
Actual & Estimated Resources			
Balance Forward From Prior Year	1,393,086	1,813,145	1,393,086
Current Resources:			
Tax Revenues	14,648,961	14,916,037	29,564,998
Non-Tax Revenues	861,392	845,908	1,707,300
Dedicated Revenue	44,101	68,921	113,022
Transfers In	384,715	392,718	777,433
Prior Year Adjustments	23,190	25,000	48,190
Subtotal-Current Resources	15,962,359	16,248,584	32,210,943
Total Resources Available	**17,355,445**	**18,061,729**	**33,604,029**
Actual & Estimated Spending			
K-12 Education	6,302,426	6,450,442	12,752,868
Property Tax Recog/Payment Change	569,847	39,588	609,435
Subtotal K-12 Education	6,872,273	6,490,030	13,362,303
Property Tax Aids & Credits	1,463,635	1,564,122	3,027,757
Higher Education	1,347,880	1,415,031	2,762,911
Health & Human Services	3,942,148	4,299,890	8,242,038
Environment & Agriculture	167,451	199,534	366,985
Economic Development	162,686	183,310	345,996
Transportation	102,201	105,569	207,770
Public Safety	811,562	898,588	1,710,150
Military & Veterans Affairs	19,259	27,191	46,450
State Government	262,121	307,426	569,547
Debt Service	352,447	399,651	752,098
Deficiencies/Other	4,524	8,300	12,824
Estimated Cancellations	0	(20,000)	(20,000)
Subtotal Expenditures & Transfers	**15,508,187**	**15,878,642**	**31,386,829**
Dedicated Expenditures	34,113	57,121	91,234
Total Expenditures & Transfers	**15,542,300**	**15,935,763**	**31,478,063**
Balance Before Reserves	**1,813,145**	**2,125,966**	**2,125,966**
Cash Flow Account	350,000	350,000	350,000
Budget Reserve	653,000	653,000	653,000
Tax Relief Account	109,660	109,660	109,660
Appropriations Carried Forward	182,150	0	0
Budgetary Balance	**518,335**	**1,013,306**	**1,013,306**

February 2007 General Fund Forecast
FY 2008-09 Biennium
($ in thousands)

	2-07 Fcst FY 2008	2-07 Fcst FY 2009	Biennial Total
Actual & Estimated Resources			
Balance Forward From Prior Year	2,125,966	2,533,237	2,125,966
Current Resources:			
Tax Revenues	15,374,614	15,964,250	31,338,864
Non-Tax Revenues	765,124	745,500	1,510,624
Dedicated Revenue	74,385	82,613	156,998
Transfers In	311,570	309,635	621,205
Prior Year Adjustments	25,000	25,000	50,000
Subtotal-Current Resources	16,550,693	17,126,998	33,677,691
Total Resources Available	**18,676,659**	**19,660,235**	**35,803,657**
Actual & Estimated Spending			
K-12 Education	6,531,290	6,468,472	12,999,762
Property Tax Recog/Payment Change	(11,058)	7,248	(3,810)
Subtotal K-12 Education	6,520,232	6,475,720	12,995,952
Property Tax Aids & Credits	1,549,666	1,558,076	3,107,742
Higher Education	1,400,345	1,401,675	2,802,020
Health & Human Services	4,572,970	4,886,684	9,459,654
Environment & Agriculture	191,314	191,760	383,074
Economic Development	150,063	149,979	300,042
Transportation	119,898	105,066	224,964
Public Safety	858,990	864,382	1,723,372
Military & Veterans Affairs	25,166	25,218	50,384
State Government	272,884	276,238	549,122
Debt Service	419,659	498,961	918,620
Capital Projects	10,250	10,250	20,500
Estimated Cancellations	(5,000)	(15,000)	(20,000)
Subtotal Expenditures & Transfers	**16,086,437**	**16,429,009**	**32,515,446**
Dedicated Expenditures	56,985	65,213	122,198
Total Expenditures & Transfers	**16,143,422**	**16,494,222**	**32,637,644**
Balance Before Reserves	**2,533,237**	**3,166,013**	**3,166,013**
Cash Flow Account	350,000	350,000	350,000
Budget Reserve	653,000	653,000	653,000
Budgetary Balance	**1,530,237**	**2,163,013**	**2,163,013**

FY 2008-09 Biennial Comparison
February 2007 Forecast vs November 2006 Forecast
($ in thousands)

	11-06 Fcst FY 2008-09	2-07 Fcst FY 2008-09	Difference
Actual & Estimated Resources			
Balance Forward From Prior Year	2,151,080	2,125,966	(25,114)
Current Resources:			
Tax Revenues	31,205,416	31,338,864	133,448
Non-Tax Revenues	1,511,205	1,510,624	(581)
Dedicated Revenue	132,298	156,998	24,700
Transfers In	618,581	621,205	2,624
Prior Year Adjustments	50,000	50,000	0
Subtotal-Current Resources	33,517,500	33,677,691	160,191
Total Resources Available	**35,668,580**	**35,803,657**	**135,077**
Actual & Estimated Spending			
K-12 Education	12,984,867	12,999,762	14,895
Property Tax Recog/Payment Change	(3,810)	(3,810)	0
Subtotal K-12 Education	12,981,057	12,995,952	14,895
Property Tax Aids & Credits	3,106,793	3,107,742	949
Higher Education	2,802,020	2,802,020	0
Health & Human Services	9,368,746	9,459,654	90,908
Environment & Agriculture	383,074	383,074	0
Economic Development	300,042	300,042	0
Transportation	224,964	224,964	0
Public Safety	1,723,372	1,723,372	0
Military & Veterans Affairs	50,529	50,384	(145)
State Government	555,080	549,122	(5,958)
Debt Service	901,953	918,620	16,667
Capital Projects	20,500	20,500	0
Estimated Cancellations	(20,000)	(20,000)	0
Subtotal Expenditures & Transfers	**32,398,130**	**32,515,446**	**117,316**
Dedicated Expenditures	97,498	122,198	24,700
Total Expenditures & Transfers	**32,495,628**	**32,637,644**	**142,016**
Balance Before Reserves	**3,172,952**	**3,166,013**	**(6,939)**
Cash Flow Account	350,000	350,000	0
Budget Reserve	653,000	653,000	0
Budgetary Balance	**2,169,952**	**2,163,013**	**(6,939)**

Biennial Comparison
FY 2008-09 vs FY 2006-07
($ in thousands)

	2-07 Fcst FY 2006-07	2-07 Fcst FY 2008-09	$ Change	% Change
Actual & Estimated Resources				
Balance Forward From Prior Year	1,393,086	2,125,966	732,880	52.6%
Current Resources:				
Tax Revenues	29,564,998	31,338,864	1,773,866	6.0%
Non-Tax Revenues	1,707,300	1,510,624	(196,676)	-11.5%
Dedicated Revenue	113,022	156,998	43,976	38.9%
Transfers In	777,433	621,205	(156,228)	-20.1%
Prior Year Adjustments	48,190	50,000	1,810	3.8%
Subtotal-Current Resources	32,210,943	33,677,691	1,466,748	4.6%
Total Resources Available	**33,604,029**	**35,803,657**	**2,199,628**	**6.5%**
Actual & Estimated Spending				
K-12 Education	12,752,868	12,999,762	246,894	
Property Tax Recog/Payment Change	609,435	(3,810)	(613,245)	
Subtotal K-12 Education	13,362,303	12,995,952	(366,351)	-2.7%
Property Tax Aids & Credits	3,027,757	3,107,742	79,985	2.6%
Higher Education	2,762,911	2,802,020	39,109	1.4%
Health & Human Services	8,242,038	9,459,654	1,217,616	14.8%
Environment & Agriculture	366,985	383,074	16,089	4.4%
Economic Development	345,996	300,042	(45,954)	-13.3%
Transportation	207,770	224,964	17,194	8.3%
Public Safety	1,710,150	1,723,372	13,222	0.8%
Military & Veterans Affairs	46,450	50,384	3,934	8.5%
State Government	569,547	549,122	(20,425)	-3.6%
Debt Service	752,098	918,620	166,522	22.1%
Capital Projects	0	20,500	20,500	nm
Deficiencies/Other	12,824	0	(12,824)	-100.0%
Estimated Cancellations	(20,000)	(20,000)	0	0.0%
Subtotal Expenditures & Transfers	**31,386,829**	**32,515,446**	**1,128,617**	**3.6%**
Dedicated Expenditures	91,234	122,198	30,964	33.9%
Total Expenditures & Transfers	**31,478,063**	**32,637,644**	**1,159,581**	**3.7%**
Balance Before Reserves	**2,125,966**	**3,166,013**	**1,040,047**	
Cash Flow Account	350,000	350,000	0	
Budget Reserve	653,000	653,000	0	
Tax Relief Account	109,660	0	(109,660)	
Budgetary Balance	**1,013,306**	**2,163,013**	**1,149,707**	

FY 2006-11 Planning Horizon

February 2007 General Fund Forecast

($ in thousands)

	2-07 Fcst FY 2006-07	2-07 Fcst FY 2008-09	2-07 Plng Est FY 2010-11
Actual & Estimated Resources			
Balance Forward From Prior Year	1,393,086	2,125,966	3,166,013
Current Resources:			
Tax Revenues	29,564,998	31,338,864	34,464,463
Non-Tax Revenues	1,707,300	1,510,624	1,493,958
Dedicated Revenue	113,022	156,998	89,426
Transfers In	777,433	621,205	609,443
Prior Year Adjustments	48,190	50,000	50,000
Subtotal-Current Resources	32,210,943	33,677,691	36,707,290
Total Resources Available	**33,604,029**	**35,803,657**	**39,873,303**
Actual & Estimated Spending			
K-12 Education	12,752,868	12,999,762	12,875,511
Property Tax Recog/Payment Change	609,435	(3,810)	0
Subtotal K-12 Education	13,362,303	12,995,952	12,875,511
Property Tax Aids & Credits	3,027,757	3,107,742	3,119,975
Higher Education	2,762,911	2,802,020	2,803,350
Health & Human Services	8,242,038	9,459,654	10,788,426
Environment & Agriculture	366,985	383,074	384,619
Economic Development	345,996	300,042	300,042
Transportation	207,770	224,964	210,132
Public Safety	1,710,150	1,723,372	1,744,014
Military & Veterans Affairs	46,450	50,384	49,818
State Government	569,547	549,122	551,010
Debt Service	752,098	918,620	1,025,807
Capital Projects	0	20,500	20,500
Deficiencies/Other	12,824	0	0
Estimated Cancellations	(20,000)	(20,000)	(20,000)
Subtotal Expenditures & Transfers	**31,386,829**	**32,515,446**	**33,853,204**
Dedicated Expenditures	91,234	122,198	54,626
Total Expenditures & Transfers	**31,478,063**	**32,637,644**	**33,907,830**
Balance Before Reserves	**2,125,966**	**3,166,013**	**5,965,473**
Cash Flow Account	350,000	350,000	350,000
Budget Reserve	653,000	653,000	653,000
Tax Relief Account	109,660	0	0
Budgetary Balance	**1,013,306**	**2,163,013**	**4,962,473**