MINNESOTA DEPARTMENT OF FINANCE

November 2007 Forecast

November 2007

HIGHLIGHTS

$373 Million Deficit Projected for FY 2008-09 Budget

A weaker U.S. economic forecast has changed the state's budget outlook. General fund revenues now are forecast to fall $739 million (2.2 percent) below end-of-session estimates, while spending is projected to be $66 million (0.2 percent) higher. A budget deficit of $373 million is now projected for the biennium. Previously a balance of $294 million had been expected.

Slow Economic Growth Forecast through Mid-2008

Expectations of further weakening in the housing sector, higher oil prices, and tighter credit standards have led Global Insight (GII) to scale back their U.S. economic outlook. Economic growth in the last two quarters has been strong, but GII forecasts three quarters of very weak growth with annual real GDP growth rates of 2.3 percent in FY 2008 and 2.2 percent in FY 2009. In February's forecast real growth rates of 2.9 percent and 3.1 percent were used.

The long term economic outlook has also been cut back. Weaker growth in 2008 and 2009 leaves the economy starting the next biennium from a lower point than was assumed in February. Projected growth rates for 2010 and 2011 also are slightly lower due to a reduction in assumed long-term productivity growth.

GII's baseline forecast does not contain a recession, but the low growth rate projected for the near term leaves the economic outlook very fragile. GII assigns a probability of 55 percent to their baseline forecast and 35 percent to a more pessimistic scenario which includes a recession beginning in the current quarter. A more optimistic scenario is assigned a probability of 10 percent.

Structural Shortfall Expected in 2010-11 Biennium

Budget planning estimates for the next biennium show a $211 million structural shortfall – a small shortfall in FY 2010 followed by a small balance in FY 2011. Projected spending levels for FY 2010-11 do not include general inflation. Adjusting for inflation would add $337 million to the spending estimates in FY 2010 and $697 million in FY 2011.

400 CENTENNIAL BUILDING, 658 CEDAR STREET, ST. PAUL, MINNESOTA 55155 (651) 201-8000

BUDGET UPDATE AND OUTLOOK

$373 Million Deficit Projected for 2008-09 Biennium

The outlook for the U.S. economy has changed materially since mid-summer. Real GDP growth rates for the remainder of 2007 and the first half of 2008 now are expected to be significantly below those anticipated in February's GII baseline forecast. Only a few forecasters expect a recession, but everyone agrees that the probability of a recession by mid-year is much higher than normal. Prospects for the housing industry are worse than expected, and the housing market's problems have spread to the credit markets. Oil prices, now well above the $60 per barrel anticipated when forecasts were made in early 2007, also will contribute to slower economic growth in 2008.

The weakness now projected for the U.S. economy through mid-2008 will reduce state revenue collections in the 2008-09 biennium and beyond. The state's general fund budget is now forecast to face a deficit of $373 million at the end of the current biennium. At the close of the September 2007 special legislative session an ending balance of $294 million had been expected. General fund revenues are now forecast to be $739 million (2.2 percent) less than end-of-session estimates, while expenditures increase by $66 million (0.2 percent). The deficit projected for the current biennium was partially offset by a $139 million increase in the balance carried forward from fiscal 2007.

FY 2008-09 Budget
($ in millions)

	End-of-Session	November Forecast	Difference
Beginning Balance	**$2,106**	**$2,245**	**$139**
Revenues	33,812	33,072	(739)
Expenditures	34,588	34,654	66
Reserves	1,036	1,036	
Balance	**$294**	**$(373)**	

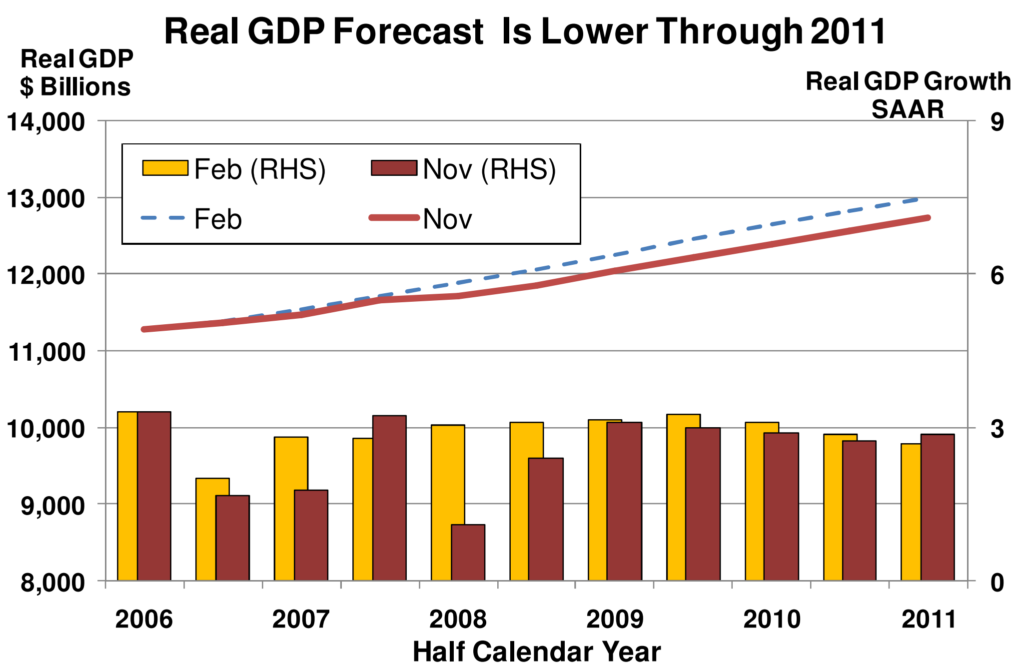
Minnesota's budget reserve remains unchanged at $653 million while the state's cash flow account continues at $350 million. There is also a small $33 million reserve dedicated to Human Services case management.

U.S. Economic Growth Rate Expected to Slow Through Mid-2008

The U.S. economy put in a strong performance during the second and third quarters of 2007. Unfortunately, a slowdown appears underway. The continuation of the current slump in residential housing is the source of much of the anticipated weakness. But, there also are other, potentially more serious, problems. The greatest concern is that the financial sector's problems will eventually restrict the availability of credit throughout the economy. The Federal Reserve and the European Central Bank have injected additional liquidity, but lending standards have already tightened, and further tightening is likely. Risks of a more severe slowdown are compounded by substantially higher than anticipated oil prices. Few economists expect a recession, but all agree the probability of a recession by mid-2008 is much higher than usual.

Most economists have factored further weakening in housing into their forecasts. Where there is disagreement is on the fallout from further defaults on mortgage loans. The near term outlook for oil prices also is a matter of concern. Almost every 2008 forecast has been reduced but November's baseline forecast from Global Insight Inc. (GII), Minnesota's national economic consultant, is now among the least optimistic. GII's projected real GDP growth of 1.9 percent for calendar 2008 is well below the Blue Chip consensus estimate of 2.4 percent.

GII's less rosy outlook for the housing and financial sectors and their assumption that oil prices will average $90 per barrel in the current quarter and $80 per barrel in the first quarter of 2008 reduces real GDP growth to just 1.1 percent during the first half of 2008. February's baseline called for a real growth rate of 3.0 percent during that period. Real growth rates of 2.3 percent in FY 2008 and 2.2 percent in FY 2009 are now expected. February's baseline called for real growth rates of 2.9 and 3.0 percent. Global Insight assigns a probability of 55 percent to their baseline forecast. A more pessimistic scenario which includes a three quarter recession starting before year end is assigned a 35 percent probability. A more optimistic outlook is assigned a probability of ten percent.



Revenue Forecast for 2008-09 biennium down by $739 million

General fund revenues for the 2008-09 biennium are now expected to total $33.072 billion, down $739 million (2.2 percent) from end-of-session estimates. Fiscal 2008 revenues are now projected to be $219 million (1.3 percent) below previous estimates, while the forecast for fiscal 2009 is down $522 million (3.0 percent). Corporate income taxes were the source of the largest decline in both dollar and percentage terms. Corporate tax revenues are now projected to be $318 million (14.3 percent) below earlier estimates. Projected sales tax revenues fell $309 million (3.3 percent) from prior estimates, while the individual income tax collections are expected to be $31 million (0.2 percent) above previous estimates.

Forecast Revenue FY 2008-09

($ in millions)

	End-of-Session	November Forecast	$ Change	% Change
Individual Income	$15,628	$15,659	$31	0.2
Sales	9,467	9,158	(309)	(3.3)
Corporate	2,216	1,899	(318)	(14.3)
Motor Vehicle Sales	317	313	(3)	(1.0)
Statewide Levy	1,402	1,437	36	2.5
Subtotal	29,029	28,466	(563)	(1.9)
Other Taxes	2,412	2,228	(184)	(7.6)
Non-Tax Revenues	1,525	1,537	13	0.8
Dedicated, Transfers	846	840	(5)	(0.6)
Total Revenues	**$33,812**	**$33,072**	**$(739)**	**(2.2)**

Corporate tax receipts have been well below projections since February. That reduction in the starting point was the largest source of change in the corporate tax projections. The decline in projected sales tax receipts is driven by weaker outlooks for the U.S. and Minnesota economies. Since the decline is all prospective, a disproportionate share of the reduction in the forecast occurs in fiscal 2009.

Preliminary estimates indicate that individual income tax liability for tax year 2006 exceeded February's estimate by more than $100 million. Tax year 2007 individual withholding and individual estimated payments have exceeded February's forecast by $94 million. This combination of a higher base and stronger year-to-date receipts partially offsets the weaker economic assumptions for 2008 and 2009. The extended slowdown in housing sales reflected in the November baseline led to a $105 million reduction in forecast mortgage and deed tax revenues.

Forecast Spending Slightly Higher

General fund spending for the current biennium is forecast to be $34.654 billion, up $66 million (0.2 percent) from end-of-session estimates. Of the $66 million spending increase, one-half ($33 million) represents appropriations carried forward in various spending areas when the books were closed for FY 2007.

Forecast Spending, FY 2008-09

($ in millions)

	End-of-Session	Nov Forecast	$ Change	% Change
K-12 Education	$13,781	$13,788	$7	0.0
Property Tax Aids & Credits	3,109	3,154	45	1.5
Health & Human Services	9,695	9,718	23	0.2
Debt Service	913	876	(37)	(4.1)
All Other	7,090	7,119	29	0.4
Forecast Total	**$34,588**	**$34,654**	**$66**	**0.2**

Small changes in spending occurred primarily in four areas. K-12 education estimates increased by $7 million, with lower forecast Q-Comp spending offsetting increases from slightly higher pupil estimates. Within health and human services programs, lower Medical Assistance estimates partially offset higher projections for General Assistance Medical Care and Chemical Dependency services, resulting in a net increase of $23 million. Property tax aids and credits estimates have increased $45 million reflecting slower income growth among eligible filers. These spending increases were partially offset by a $37 million decrease in forecast debt service costs for the biennium.

FY 2010-11 Planning Estimates Turn Negative

The reductions in the 2008-09 revenue forecast combined with the underlying growth in projected spending, result in a $211 million structural shortfall in the next biennium. This compares with a $1.137 billion structural balance projected at the end of September's legislative session. Planning estimates for the next biennium now show general fund revenues of $35.713 billion and projected spending of $35.924 billion. The difference between ongoing revenues and spending has decreased by $1.348 billion from end-of-session estimates.

FY 2010-11 Revenue-Expenditure Balance

($ in millions)

	FY 2010	FY 2011	FY 2010-11
Projected Revenues	$17,341	$18,372	$35,713
Projected Spending	17,763	18,161	35,924
Difference	**(422)**	**211**	**(211)**
Forecast Change	*(648)*	*(700)*	*(1,348)*
Estimated Inflation (CPI)	337	697	1,034

The expenditure projections do not include any adjustment for projected inflation. The November baseline forecast shows the Consumer Price Index (CPI) increasing by 1.9 percent in both FY 2010 and 2011.

The expenditure and revenue planning estimates make no assumptions about any actions that might be taken in the 2008 legislative session to balance the FY 2008-09 deficit or to resolve the structural shortfall for the 2010-11 biennium. The FY 2010-11 planning estimates are simply a benchmark to determine if ongoing spending exceeds revenues in succeeding budget periods. Economic changes as well as the nature and timing of budget actions will materially affect both revenue and expenditure projections for the FY 2010-11 biennium.

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

FORECAST FUNDAMENTALS:
About the Revenue and Expenditure Forecast

November's forecast provides the first comprehensive review of Minnesota's financial outlook for FY 2008-09 since the close of September's Special Legislative Session. It is the first of four forecasts that will occur during the biennium. This forecast provides revised revenue and expenditure estimates for the current biennium based on the most recent information about the national and state economic outlook, as well as caseload, enrollment, and cost projections. Actual closing information for fiscal year 2007 revenues and expenditures is also included in this report as are revised revenue and expenditure planning estimates for the FY 2010-11 biennium.

The revised revenue estimates reflect the substantial changes in the national economic outlook that have occurred since February's forecast. That forecast was the basis for the FY 2008-09 enacted budget. This forecast also incorporates additional year-to-date revenue collection experience. For example, state individual income tax receipts now build from a preliminary estimate of tax year 2006 liability.

Revenue estimates for the next 20 months of the current biennium are based on econometric forecasts of the U.S and Minnesota economy. The revenue forecast is based on a national economic forecast provided by Global Insights Inc. (GII). GII's national forecast was reviewed by Minnesota's Council of Economic Advisors. The council's comments are found in the "Economic Summary." The "Economic Outlook" which follows provides a more comprehensive overview of the current outlook for the U.S. and Minnesota economies.

Revenue projections for FY 2010-11 budget planning are developed from less complex models. As in past years, the economic growth assumptions used to develop the revenue planning estimates have been updated. Economic growth rates for calendar 2010 and 2011 are taken from the GII November baseline scenario. Planning estimates should not be interpreted as explicit forecasts, but rather as a guide to indicate whether any proposed budget actions will create financial problems in future years.

FY 2010-11 Expenditure estimates in most areas are shown at the level of the appropriations made for FY 2009. Entitlement programs — such as K-12 general education, intergovernmental aids, health care, and family support — are forecast based on expected changes in eligibility, enrollment, and average costs.

Wage and price inflation is included in the revenue projections, which are based on current laws and tax rates. Inflation is not included in projected expenditures for FY 2010-11. GII's estimated inflation, based on the Consumer Price Index, is now 1.9 percent for both FY 2010 and FY 2011.

ECONOMIC SUMMARY

Even though economists knew the U.S. economy had done well this summer, the Commerce Department's announcement that real GDP grew at a 3.9 percent annual rate in the third quarter came as a pleasant surprise. The Department of Labor's October payroll employment report also had good news, showing the U.S. economy added 166,000 jobs in the month. And, there also was good news on the inflation front. While the personal consumption expenditure (PCE) deflator has grown by 2.4 percent during the past year, the PCE excluding food and energy grew by just 1.8 percent. The latter measure, reputedly the Fed's favorite inflation indicator, remains within the Fed's target range of 1 to 2 percent growth and gives no cause to worry that inflation is poised to take off.

Unfortunately, those positive reports have not made forecasters as optimistic as might have been expected. That good economic news has been outweighed by concerns that the continuing weakness in the residential housing market may spillover to the rest of the economy. A recent surge in oil prices to levels approaching $100 per barrel has further added to short term economic uncertainty. The U.S. economy is expected to benefit from an increasingly competitive dollar, but the impact of the most recent declines in the value of the dollar on exports are not likely to be seen until next summer, after current concerns about the economy have been worked through.

The problems facing residential home builders are well known and stories of construction layoffs, large increases in inventories of unsold homes, and declining housing prices have been plentiful over the past year. What is less well understood, and what may be much more serious, is that the fallout from the housing industry's slump could produce significant problems elsewhere in the economy. Uncertainty about the size of the impact that the housing sector's problems will have on the rest of the economy is the reason for forecasters more subdued outlooks.

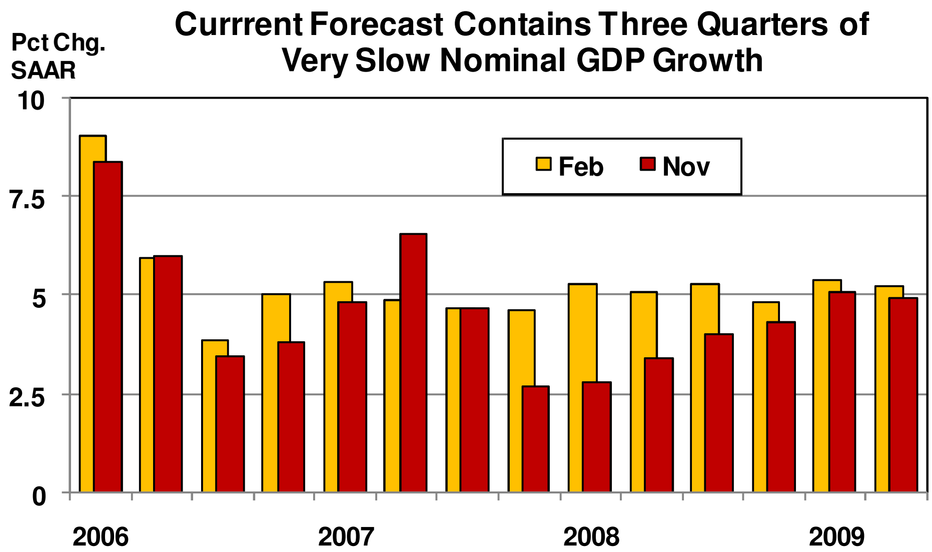
There are two sources of concern. First, existing home prices have fallen for more than 12 months and they are expected to continue to fall into 2009. No one knows how much further or how much longer housing prices will fall, but projections of drops in home values of 10 percent or more over the next year are common. For forecasters the more important question is not how much further housing prices will fall, it is how the current and future declines in home values will affect consumer spending. For most households their home's value is the largest portion of their net worth, so other things equal, a decline in housing values means a decline in household wealth. Historically increases in wealth, other things equal, have been found to produce small additions to consumer spending. But forecasters attempting to project the impact of the current decline in housing values on consumption find themselves in uncharted territory since there has not been a year-long decline in housing values since the Great Depression.

The second concern is potentially much more serious. It is that defaults in sub-prime and alternative mortgages will restrict the ability of financial markets to meet the economy's credit needs. Over the last six months bank balance sheets have been forced to absorb hundreds of billions of dollars of exposure to collateralized debt obligations (CDOs) containing mortgage backed securities. This has eroded banks' ability to make new loans to consumers and businesses. Since many of the CDOs are held by financial institutions and funds outside the U.S. this has become a global concern, not just a U.S. problem. The Federal Reserve and the European Central Bank have taken actions to provide additional liquidity for the financial sector and the Fed has cut rates by 75 basis points since August, but there are still good reasons for concern. First, the largest portion of those problem subprime and alternative mortgage loans has yet to reach the time at which they are eligible for reset. And, the credit quality of loans yet to reset has generally been inferior to those which were the source of recent problems. The substantial volume of poorly underwritten LBO debt outstanding further increases financial sector risks.

It will take at least another 12 months, and probably longer, for the banks to work through the worst of the financial problems triggered by the housing slump. The Federal Reserve reports that lending standards have already tightened across the board, for all types of loans, and more adjustments in lending practices are undoubtedly underway. Until the financial sector works its way through these current problems the U.S. economy's short-term growth will remain extremely vulnerable to an unrelated shock. While only a few forecasters see a near term recession, most forecasters have recognized the seriousness of the current situation and have raised their probability of recession significantly since last summer.

One potential shock that is only now being incorporated into economists' projections is still higher oil prices. Recent increases have pushed oil prices much higher than forecasters had imagined as recently as last summer. For the short term at least, higher energy prices have added to the drag on the economy. As prices for gasoline and heating oil begin to catch up with crude prices consumer spending for non-energy items is likely to weaken. And, as Chairman Bernanke noted in his Joint Economic Committee testimony, higher oil prices could also cause core inflation to begin to grow.

November's baseline forecast from Global Insight (GII), Minnesota's national economic consultant, plots a conservative course for the U.S. economy over the next 18 months. While there is no recession in their baseline outlook, they assign a 35 percent probability to a scenario containing a recession that begins in the current quarter and extends through mid-summer. The GII baseline scenario has real GDP growing much more slowly than its long-term trend rate of roughly 3 percent over the next 12 months. In the first quarter of 2008 the real growth rate falls to 0.7 percent. The forecast slowdown is relatively short lived. In the fourth quarter of 2008 real GDP growth in the U.S. resumes growing at trend rate again. In February real GDP growth rates of 2.7 and 3.0 percent were projected for 2007 and 2008 respectively. GII's November baseline now calls for growth rates of 2.1 percent and 1.9 percent.



Although almost all forecasters now expect economic growth rates to slow until spring, November's GII baseline is noticeably less optimistic than most. While their forecast for 2007 real growth is at the consensus rate, the 1.9 percent annual growth rate they project for real growth in 2008 is well below the Blue Chip consensus forecast of 2.4 percent. In fact, GII's outlook for 2008 places them 48th out of the 52 forecasters surveyed in the Blue Chip report. The personal forecasts of some members of Minnesota's Council of Economic Advisors are substantially more optimistic than the GII baseline.

Most forecasters expect economic growth rates to slow in the current quarter and the first quarter of 2008, and then accelerate through the end of the year, leaving the economy back on trend at the start of 2009. Global Insight's November baseline follows a similar path, but contains uniformly lower growth rates until late 2008.

The weakness in Global Insight's November baseline comes from three items--housing, credit, and energy prices. None of their assumptions for these sectors are extreme. Indeed given current news they appear very reasonable. Energy prices are the most prominent example. GII now assumes that oil prices will average $90 per barrel in the current quarter, then fall to an average of $80 per barrel in the first quarter of 2008, and then average $75 per barrel for the remainder of the year. Global Insight is also modestly less optimistic than the consensus on housing starts and consumer confidence. Taken together though, these differences in assumptions produce a noticeable difference in the short term economic outlook.

Members of Minnesota's Council of Economic Advisors did not object to use of the November baseline as the basis for the state's revenue forecast. While some members were more optimistic than GII for the near term, they noted that they were comfortable with Global Insights outlook and thought it was an appropriate forecast to use given the economic uncertainty that currently exists. Council members also agreed that the risk that the economy would underperform the baseline forecast was greater than the risk economic growth would be greater than projected.

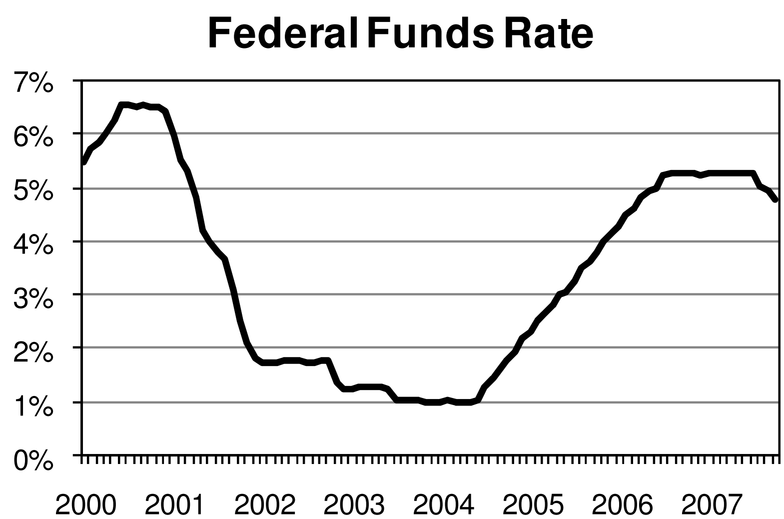
Department of Finance economists noted that Minnesota's economy has underperformed its national counterpart for several years on a variety of measures. Some of the relative weakness observed in the Minnesota economy can be attributed to special events such as the financial problems facing the airline industry and some is attributable to a disproportionate impact of the housing industry's recent problems on Minnesota. Finance Department economists expressed some concern, however, that the state's weak relative performance may also reflect longer term changes in the structure of the U.S. economy.

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

ECONOMIC OUTLOOK

Global Insight sharply lowered its baseline forecast in September. The concern was that financial markets had become less capable of financing general economic growth and that tightening credit conditions would extend the housing downturn. In November, Global Insight reduced their outlook further following the discouraging news of oil prices nearing $100 per barrel. Oil was yet another shock to an economy already weakened by an unrelenting housing downturn and tightening credit.

In early August, financial markets were surprised by surging mortgage default and foreclosure rates, making it clear that the risks in subprime variable rate mortgages were seriously underestimated. Demand for short-term commercial paper exposed to risk in mortgage-backed securities vanished, bringing trading to a halt. Trading in other asset backed paper declined sharply. This prompted the Fed to lower the discount rate and pump hundreds of billions of dollars into the money supply. The added liquidity allowed some trading to resume, but not in commercial paper exposed to mortgage risk. Meanwhile, although rating agencies downgraded mortgage-exposed paper, financial market turmoil persisted and the cost of virtually all borrowing rose. Lending standards tightened, generating increased concerns about recession. In September, and again in October, the Fed sharply lowered the federal funds rate, a move generally perceived as an attempt to ensure that the economy does not slip into a recession.



The Federal Reserve has lowered interest rates twice beginning in September. This was apparently an attempt to ensure that the economy did not fall into a recession. Global Insight believes that at least one more rate reduction is in store for coming months.

Global Insight and most other forecasters believe consumer and business spending is slowing. Housing-related outlays are already weakening. Whether other components of spending will follow, and by how much, is still to be determined. There is general agreement that the housing downturn, ongoing financial market liquidity problems, tightening lending standards, and high energy prices have significantly raised the risk of recession for the U.S. economy. Under these circumstances it seems ominous that foreclosures on conventional prime mortgages are rising and there are signs lenders are becoming increasingly reluctant to make commercial mortgages.

Global Insight currently assumes that oil prices retreat to near $75 per barrel next spring. Without this assumption they indicate their November baseline would approach recessionary levels. Many energy experts doubt this oil scenario is possible, thus most of the risk in 2008 is on the downside. Global Insight's pessimistic alternative gives the U.S. economy a 35 percent chance of slipping into a recession by early 2008. The optimistic alternative is given just a 10 percent probability. While estimates of the odds of recession vary, the risk is above normal. It is also clear that if credit conditions ease and oil prices retreat, near term recession risks would decline significantly. A weak housing market, however, will remain a drag on the economy as home prices fall over the next two years.

Subprime Mortgage Foreclosures

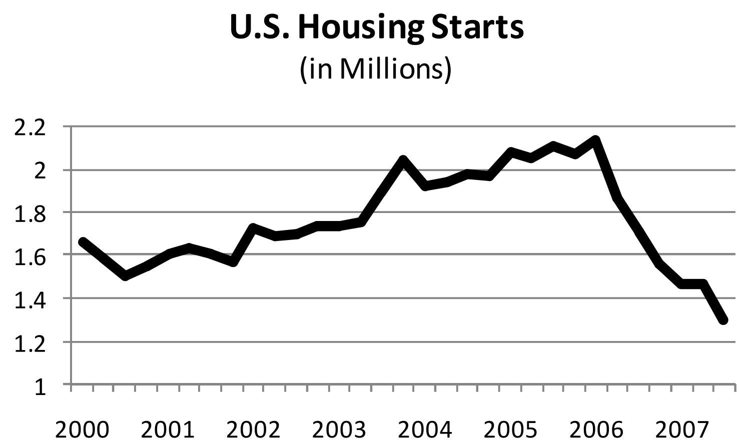
Media reports indicate that during the third quarter U.S. mortgage foreclosures more than doubled from a year earlier. Conventional mortgage foreclosures are rising, but subprime mortgage foreclosures are soaring. This is extending the housing downturn and further weakening the U.S. economy. Subprime adjustable rate mortgages issued in 2005 are now resetting at higher interest rates many homeowners cannot afford. Declining home values and poor credit records leave many of these borrowers unable to refinance.

More troubling news appears in store. Subprime mortgages issued in 2006 will be reset to higher rates in 2008. More foreclosures will undoubtedly follow, putting further downward pressure on home prices. The housing market slump and declining employment in housing related industries, coupled with rising energy costs, is expected to slow consumer spending and business investment. U.S. retailers anticipate the slowest holiday shopping season sales growth in five years.

The Subprime Mortgage Mess

Financial market conditions are critical to the short term economic outlook. Media reports indicate that current problems stem from market innovations dating back to the 1980s, when mortgage-backed securities first appeared. Twenty years later, with the advent of specialized mathematical models for evaluating default risk, financial firms began selling sharply increasing volumes of securities backed in part by pools of subprime mortgages. To be subprime the borrower's income was relatively low, their credit was in some way compromised, or non-standard lending practices were used, such as not requiring proof of income.

Much of the housing bubble of 2005 and 2006 was financed by subprime mortgages. To raise cash to lend homeowners, mortgage lenders packaged subprime mortgages and sold them to legal entities that created complex asset-based securities called collaterized debt obligations (CDOs). The legal entity, also typically called a CDO, normally pooled the mortgages with other asset backed securities. A *Business Week* article provides a look at what may be a fairly simple CDO portfolio. In that $5 billion portfolio about 10 percent consists of bonds backed by conventional prime mortgages, 51 percent consists of bonds backed by subprime mortgages and home equity loans, 38 percent consists of commercial paper sold by other CDOs, and the remaining one percent is backed by other collateral.



Much of the 2005-2006 housing bubble was financed by subprime mortgages. October's estimated U.S. housing starts were down 16.4 percent from a year earlier and down 46.3 percent from the peak in January 2006.

This may appear to be nothing more than risk diversification, but there is more to it. CDOs issue short term commercial paper as a way to finance their longer term holdings. CDO asset managers have discretion to create multiple packages of rights to the cash flow from parts of the portfolio. Each package, representing a different combination of diversification and risk, is sold separately.

Finance Department economists believe it is fair to say that no one fully understands current events in the financial markets. For a long time, however, it appears as though two fundamental details about CDOs were somehow downplayed. One is that they were simply another way to borrow short and lend long, so investors depended on being able to roll over short term debt. Second, the commercial paper market's sharp reaction to surging defaults and foreclosures suggests the computer-based risk evaluation methods used by CDO asset managers were not able to properly take into account the possibility of decelerating or declining house prices.

Last summer, soaring delinquencies, defaults, and foreclosures suddenly made it clear that the quality of subprime mortgages was deteriorating and that risks were higher than previously thought. Consequently, banks and other financial institutions have begun lowering the estimated value of their CDO holdings. Assigning an accurate price, however, is difficult because CDOs are not actively traded on the open market. This has raised the level of uncertainty, virtually halting new issuance of subprime mortgage exposed CDOs and further limiting the availability of mortgage credit.

More Trouble in the Financial System is Possible

Most prime mortgages conforming to standard lending practices are either purchased or guaranteed by Fannie Mae and Freddie Mac. In contrast, much of the subprime market liquidity was provided by selling CDOs sponsored off-balance-sheet by depository lenders and investment banks. Sponsoring institutions earned fees by making commitments to provide credit when the securities matured should the commercial paper market seize up as it did in August.

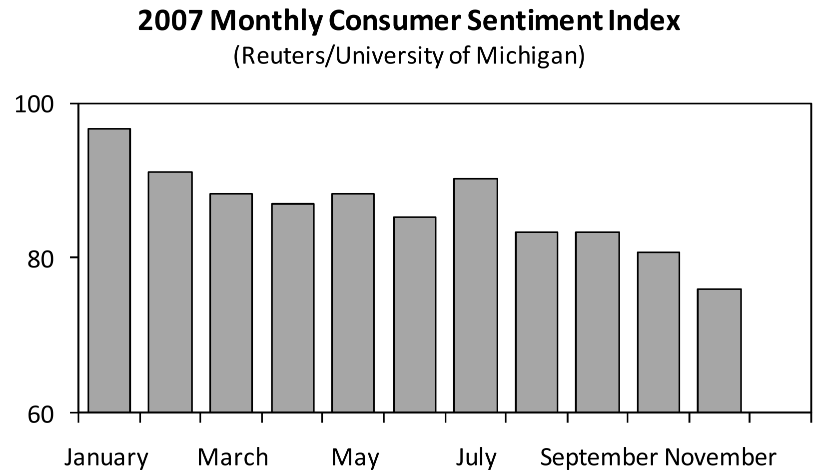
When it is necessary to honor those commitments, the balance sheets of sponsoring institutions become loaded with low quality loans. This requires additional loss reserves, consequently reducing liquidity in the banking system. Less liquidity reduces lending ability and hence the capacity of the banking system to finance general economic growth. Several of the nation's largest depository lenders and investment banks have recently reported significantly lower earnings because of additions to loss reserves. Most observers believe more earnings write-downs will be announced in the coming year as mortgages made in 2005 and 2006 continue to default. More trouble, however, could be emerging in the financial system. Recent news indicates that loans made in the first half of 2007 are becoming delinquent faster than mortgages sold in 2006.

Declining Home Values May Depress Consumer Spending

Analysts sometimes speak of a “burst housing bubble” in the past tense. Reality is that the housing market bubble is still collapsing. That will put enough housing on the market to drive nationwide average prices down 10 to 15 percent during the next two or three years according to Global Insight and other forecasters.

In recent years rising real estate values have helped drive consumer spending through the "wealth effect". Increases in home equity have stimulated consumption through cash-out refinancing and home equity loans to purchase big ticket items such as automobiles. Falling home prices could further erode the wealth effect and dry up home equity lending. This would seriously depress consumer spending, which accounts for two-thirds of U.S. economic activity.

Sharp federal funds rate reductions in September and October suggest the Fed is worried about consumer spending. Amid tighter credit conditions, high energy prices, and falling real estate values, consumer confidence has weakened sharply. The Reuters/University of Michigan survey indicates that consumer sentiment sank to a two year low for November. As long as consumer spending is weak, the economy will be vulnerable to yet another major economic shock.



Consumer sentiment weakened sharply during the summer and fall of 2007. Many forecasters believe consumer spending will slow during the current quarter and the first half of 2008.

Consumption

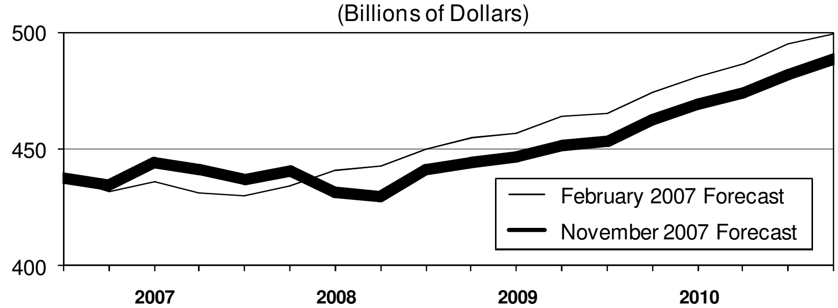
Last February, the labor market was turning in a strong performance. Consumer sentiment was strong and real earnings were improving. Weakness in outlays for housing and automobiles was expected to be offset by health and entertainment spending. Additional stimulus was expected to come from business investment and growing exports. Accordingly, Global Insight expected real consumer outlays to grow 3.0 percent annually through the end of the decade.

Events since February have changed this outlook. Consumer sentiment has weakened. Many forecasters believe higher energy prices, more stringent lending practices, higher borrowing costs, declining home sales and prices, less home equity lending, and slower job growth will slow consumer spending in the current quarter and the first half of 2008. Global Insight believes the period of greatest risk is the first quarter of 2008 when real GDP is projected to grow by just 0.7 percent at an annual rate. This could leave the economy especially vulnerable to relatively small unexpected shocks. Once past this rough spot, Global Insight has real spending growing about 2.5 percent annually through 2010.

Prior to last summer, the primary economic concern had been energy prices. Nevertheless, hardly anyone expected oil at nearly $100 per barrel by early November. The reality is that threats posed by higher energy prices have not receded. They have just been superseded by other concerns. Rising gasoline prices and winter heating costs are now refocusing consumer’s attention closer to home. Along with credit woes and the housing downturn, higher energy costs appear to be the main reason why major retailers are preparing for sluggish holiday sales. News articles indicate normal seasonal run-ups have not occurred in imported goods arriving at ports and in shipments handled by Federal Express, UPS, Yellow Freight trucking, and Burlington Northern Santa Fe.

In the Global Insight baseline scenario, softening consumer spending is largely confined to building materials, furniture, apparel, and automobiles. Softness in spending for building materials, furniture, and apparel has already surfaced, but automobile sales appear to be holding up. Recent news reports, however, point out that some dealers are noting a decline in automobile sales financed by home equity loans. Others indicate a recent softening in large pickup sales which appears to be directly related to the housing slump. Global Insight has significantly lowered its November baseline motor vehicle sales forecast from February. A lengthy decline in home prices could make this worse.

Consumer Spending on Motor Vehicles and Parts
Global Insight Baseline Forecast Comparison
(Billions of Dollars)



Motor vehicle sales appear to be holding steady, but are expected to slow with consumer spending in the first half of 2008. Global Insight has lowered its outlook since February.

Investment

In the first half of 2007, business outlays, particularly for non-residential construction, helped offset declining investment in new homes. It appears that this will come to an end. A recent National Association of Business Economists survey reported that many respondents are pulling back on capital spending plans in response to tighter credit and slowing demand.

Forecasters believe sluggishness in business investment will develop for at least three reasons. First, the profits needed to justify investment at current growth rates may no longer be available. Profits were revised downward in the annual release of national income and product accounts data last July, and current softness in federal and state corporate franchise tax collections suggests another downward revision could be coming. Slower employment growth and tighter lending conditions will dampen office construction. Finally, declining sales of new homes means there is less demand for commercial structures which normally follow urban development. A *Wall Street Journal* article notes there are already signs that commercial construction is slowing. More ominously, a recent Moody's Investors Service survey indicates that the value of commercial real estate has slipped, apparently because lenders are reluctant to make commercial mortgages despite a very low default rate.

Government

The federal deficit for 2007 is $163 billion, down from the $225 billion Global Insight forecast last February. According to *The Wall Street Journal*, slower growth in spending combined with rapid growth in both individual and corporate tax payments is responsible for the shrinking deficit. Next year's deficit, however, is widely expected to rise, driven by spending for wars in Iraq and Afghanistan and for domestic programs.

Congress and the Bush administration are considering a one-year change which would keep some 20 million additional taxpayers from paying the alternative minimum tax for tax year 2007. Also pending are farm, transportation, energy, and war funding bills, plus various plans which would provide assistance to homeowners with resetting adjustable rate mortgages. Without legislation, part of a mortgage forgiven by a lender during restructuring can create a federal tax liability. Some action on these matters seems likely, but it is unclear how much will be accomplished. This makes any forecast of the federal deficit highly uncertain.

International

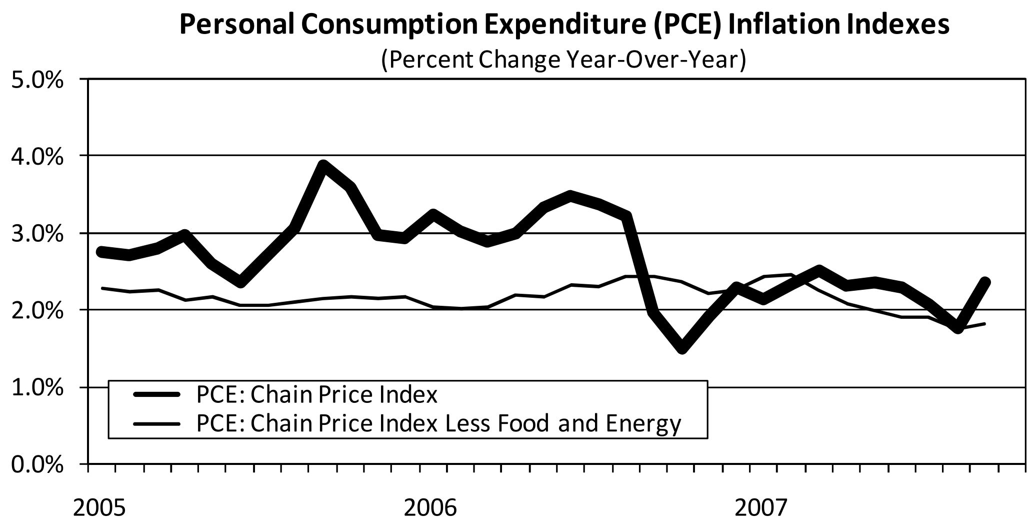
Global Insight and other forecasters assume rising exports will play a critical role in offsetting slower growth in consumer spending and business investment. This will help stabilize the U.S. economy. At present, overseas economies, particularly those of Asia and Europe, are forging ahead while the U.S. lags behind. Strong demand from overseas plus a declining dollar are contributing to a much needed surge in exports. The trade deficit narrowed in 2007. If currently favorable conditions prevail, export growth should be even stronger in 2008.

The outlook for U.S. markets in Asia is good, but Europe is questionable. Most observers agree that Asia should continue experiencing strong growth as long as China can lead. Compared with Asia, Europe's outlook is less certain and bears watching. Articles in *The Wall Street Journal* and *USA Today* describe the weaknesses of the euro zone economy. Leading indicators suggest European growth could slow in 2008 even without higher interest rates.

Inflation

There is more than the normal amount of controversy among economists concerning the inflation outlook. Some economists see accelerating inflation as the principal risk facing the economy, possibly as early as 2009. There seem to be multiple reasons to take inflation seriously. Former Federal Reserve Chairman Alan Greenspan has a new book stating that deflationary forces of the past two decades, such as the impact of cheap Chinese manufactured goods, are about to become a thing of the past. Other economists believe rising energy and food prices, soaring raw materials costs, a declining dollar, and slowing U.S. productivity growth could lead to accelerating inflation.

Global Insight disagrees with these views, arguing that slowing economic growth will reduce firms' ability to raise prices. That will leave consumer prices rising at a modest 1.6 to 2.0 percent annual rate for the next several years. In Global Insight's view, recent news on inflation has been good. For the past year, both of the Federal Reserve's allegedly favorite indicators, the implicit price deflator for personal consumption expenditures and its core measure excluding food and energy, have trended downward. Inflation measures excluding food and energy are now in the 1.0 to 2.0 percent range many believe is the Fed's comfort zone.



Recent news on inflation has been good. For the past year both the Federal Reserve's favorite indicators have trended downward. This seems to have given the Fed flexibility to cut interest rates in an attempt to keep the economy from softening further.

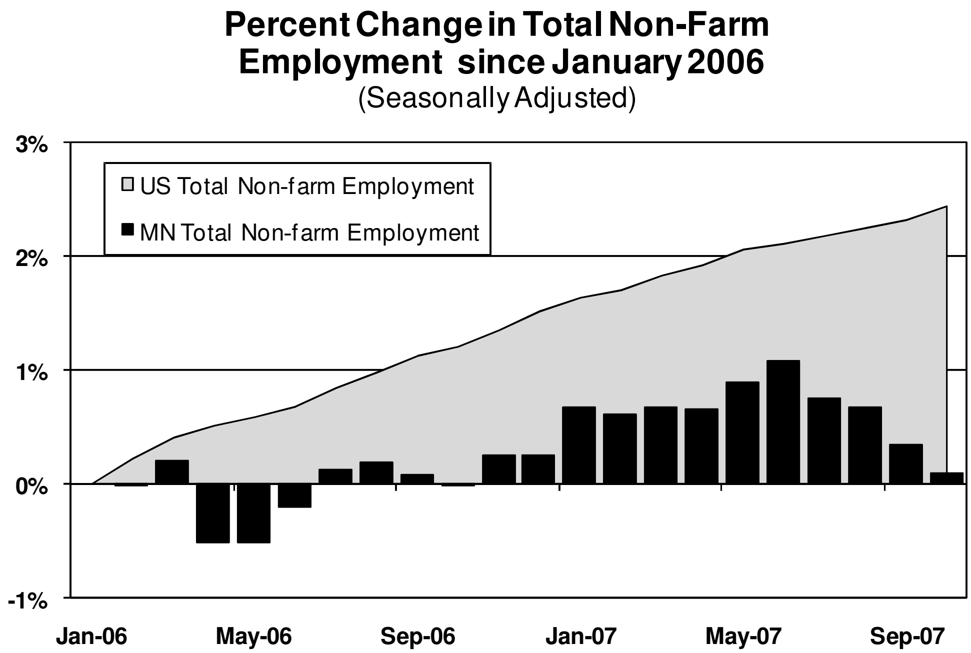
Monetary Policy

Moderate inflation appears to be the reason the Federal Reserve felt it had the flexibility to at least temporarily shift its focus towards stabilizing the financial markets and stimulating the economy. As financial market conditions deteriorated over the past several months, the Fed moved aggressively to counter what could be a source of serious damage. Massive amounts of liquidity were pumped into the money market and the discount and federal funds rates were lowered sharply. The funds rate reduction was the first in four years.

Some economists think the Fed's responses have significantly raised the risk of accelerating inflation and, ultimately, recession. An article in *The Wall Street Journal*, however, takes a more moderate view. It asks whether the Fed will shift gears back toward containing inflation in a timely manner. While a shift can be accomplished quickly, proper timing is difficult because it normally takes from six to 18 months for interest rate increases to have an effect on the economy.

MINNESOTA OUTLOOK

Instead of gathering strength in the second half of 2007 as forecast, Minnesota’s labor market has weakened. Data for October indicate that since last June, seasonally adjusted total employment has declined some 27,000 and is 16,000 below January's level. Minnesota's unemployment rate now exceeds its U.S. counterpart for the first time in records dating back to 1976. A bright spot is that state withholding collections indicate total wages are still increasing.

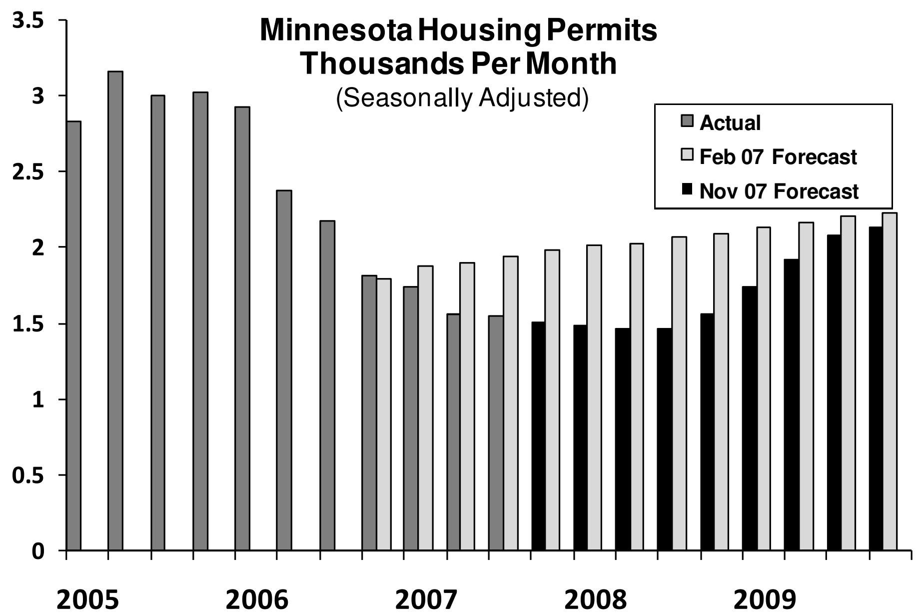


Total Minnesota employment in October 2007 remains near January 2006 levels and is just over 2,100 jobs ahead of a year earlier. Since last June, however, total employment has declined by some 27,000 jobs and is 16,000 jobs below January 2007’s level. Employment in several major private sector industries has declined, led by construction.

Wages are assumed to continue rising, but the outlook is for a slow employment rebound following a 4th quarter 2007 low. Minnesota’s employment recovery is expected to begin in 2008, although indicators seem to support the view that initial growth will be sluggish. September's seasonally adjusted residential housing permits were 43 percent below year-ago levels. This suggests that job losses in construction and related industries will continue late into 2008. Furthermore, according to the Minnesota Department of Employment and Economic Development (DEED), second quarter 2007 job vacancies were 6.3 percent below their level of a year earlier and, despite a weak labor market, recent claims for unemployment insurance are below 2006 levels. This seems paradoxical, but implies that recent employment declines outside construction are more connected to decelerating hiring rates rather than rising layoff rates.

Minnesota's Housing Construction Bubble is Still Deflating

Like its U.S. counterpart, Minnesota's slumping housing market did not bottom out in the middle of 2007 as forecast last February. According to the Builders Association of the Twin Cities, Minnesota building activity in late 2007 continues to lag compared to late 2006. According to the National Association of Realtors, sales of existing homes in Minnesota fell 20.2 percent during the 3rd quarter of 2007 compared one year earlier.



Like its U.S. counterpart, Minnesota's slumping housing market did not bottom out in the middle of 2007 as forecast last February. The housing downturn is now forecast to turn around in late 2008.

An increase in subprime mortgage foreclosures has added to the oversupply of new and existing homes on the Twin Cities housing market. The number of active listings on the market grew 9.9 percent in the 3rd quarter of 2007 compared to 12 months earlier. Rising foreclosures also put downward pressure on property values. The median sales price of existing single-family homes in the Minneapolis-St. Paul metro has fallen 4.5 percent in September from a year ago.

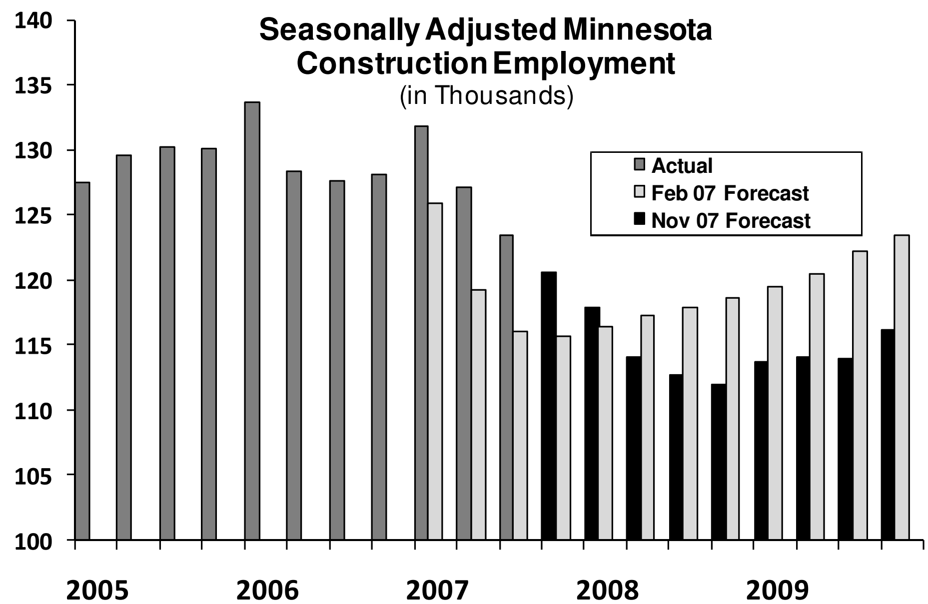
The housing slump continues to deepen and is now forecast to turn around in late 2008. Assuming financial market conditions ease and the oversupply of unsold Minnesota homes is reduced, the November forecast anticipates that building permits will begin to rise in the second half of 2008. If permits begin to increase next fall as projected, construction activity would pick up in the spring and summer of 2009.

Widespread Minnesota Job Stagnation

Total employment in October 2007 is just over 2,100 jobs ahead of 12 months earlier. Minnesota's over-the-year job growth of just 0.1 percent in October is well under the 1.2 percent growth of the nation.

Starting in late 2006, several major private sector industries in Minnesota began losing jobs on a seasonally adjusted basis. Construction, down 8.0 percent or 11,000 jobs since January's peak, leads the list. Employment levels in manufacturing, retail trade, information, financial activities, professional and business services, and other services have also declined.

The losses in construction, wood product manufacturing, furniture and related manufacturing, and building materials are clearly the result of the housing downturn. The other losses appear to be a combination of additional factors, including the weakening U.S. economy, Minnesota's relatively slow population growth compared to the nation, and still unidentified structural changes. The current Minnesota forecast anticipates a sluggish rebound with normal employment growth returning in 2010.



The construction sector has been a leading source of Minnesota job losses in 2007. While construction employment declines were not as great as forecast in February, the construction sector is now forecast to bottom out and begin to recover in late 2008 or early 2009.

A Revised Forecast

Forecasts for employment and wages have been revised based on recent Minnesota-specific information and Global Insight's November baseline. The baseline was used to drive a newly re-estimated Finance Department model of the Minnesota economy.

If the November forecast for the Minnesota economy is correct, seasonally adjusted employment will end its decline in the 4th quarter of 2007. Thereafter, sluggish employment growth is projected for several months. In the second half of 2008, growth is assumed to accelerate modestly. By the end of 2008, employment is projected to exceed 2007's year-end level by 16,000 jobs or 0.6 percent. On a year-over-year basis, however, employment will decline 0.3 percent. In 2009, employment growth is expected to accelerate. By 2010, Minnesota employment growth will slightly exceed its U.S. counterpart, assuming that the losses experienced in 2007 were temporary in nature and reverse by late 2009.

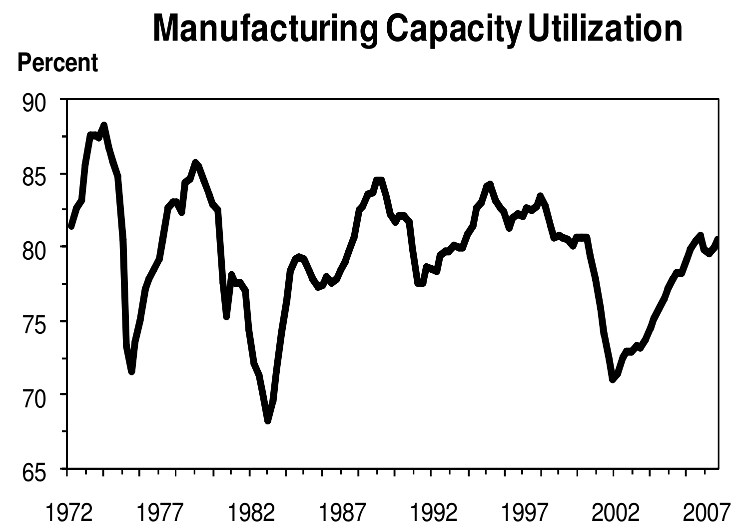
Minnesota Outlook Compared to the U.S.

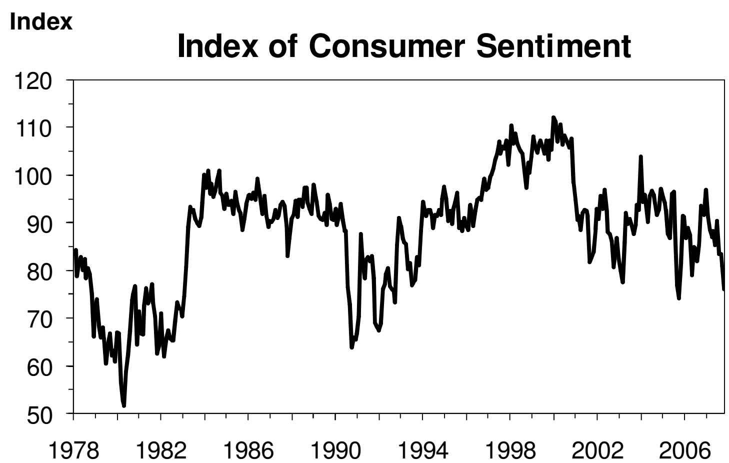
(Calendar Year Percent Change)

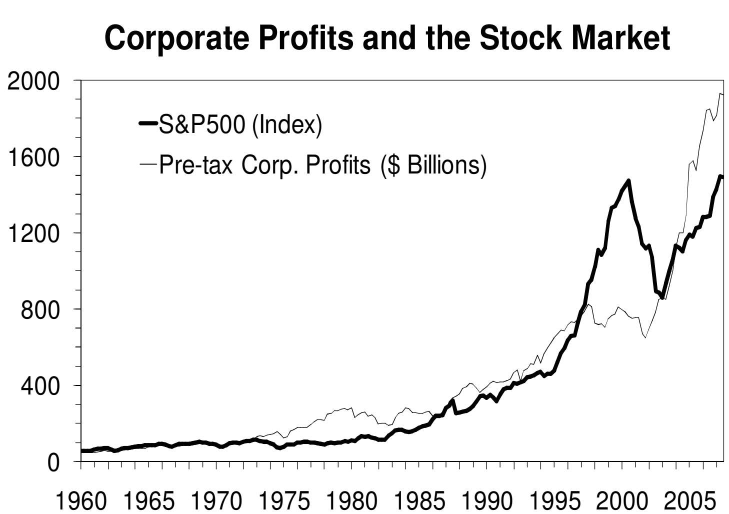
	2006	2007	2008	2009	2010
Non-Farm Employment					
Minnesota					
February 2007	1.4	0.5	1.2	1.6	N/A
November 2007	1.4	0.5	-0.3	0.8	1.3
United States					
February 2007	1.9	1.4	1.4	1.5	N/A
November 2007	1.9	1.3	0.8	1.2	1.3
Wage and Salary Income					
Minnesota					
February 2007	4.8	4.9	4.6	5.3	N/A
November 2007	5.2	5.5	2.7	3.8	4.0
United States					
February 2007	6.6	5.0	5.1	5.5	N/A
November 2007	6.2	6.4	4.5	4.7	5.0

Housing is critical to the Minnesota outlook. By the end of 2008, construction is expected to lose approximately 9,600 jobs. That loss is more than the decline to date from one year prior. There are two assumptions behind this outlook. One is that during 2007 it appears that job losses lagged behind the decline in building permits, so a "catch up" period is likely. Second, the outlook assumes that the Global Insight baseline forecast materializes. However, they do indicate that virtually all risk in their forecast is on the downside. Finance Department economists cannot recall Global Insight ever taking a similar position before. It is clear, however, that any unanticipated adverse developments in the U.S. economy are likely to have unfavorable impacts on Minnesota.

SELECTED NATIONAL ECONOMIC INDICATORS

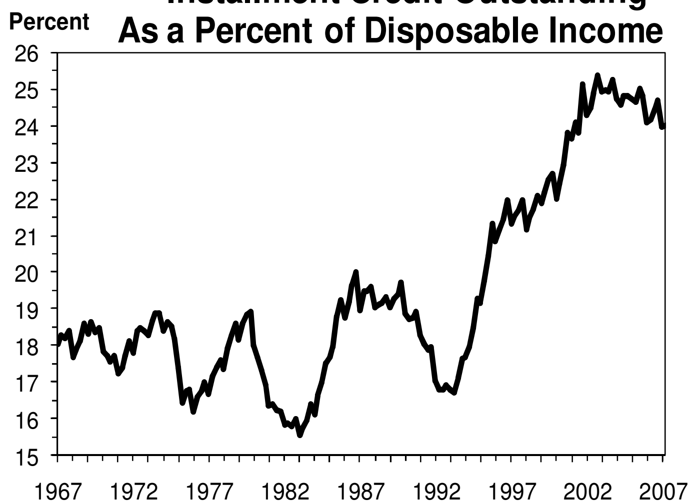




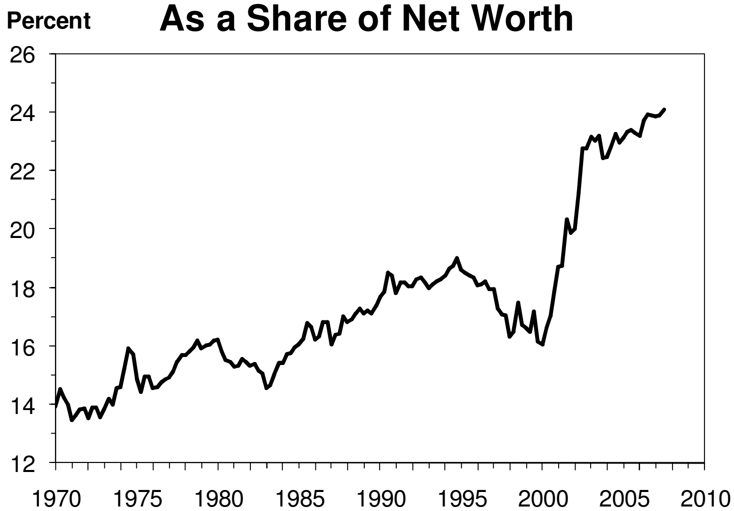


SELECTED NATIONAL ECONOMIC INDICATORS

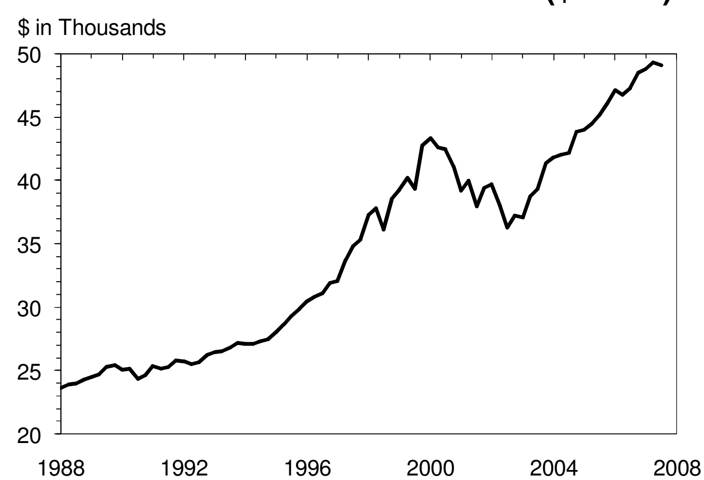
Installment Credit Outstanding As a Percent of Disposable Income



Household Financial Liabilities As a Share of Net Worth



Real Household Net Worth ($ 1996)



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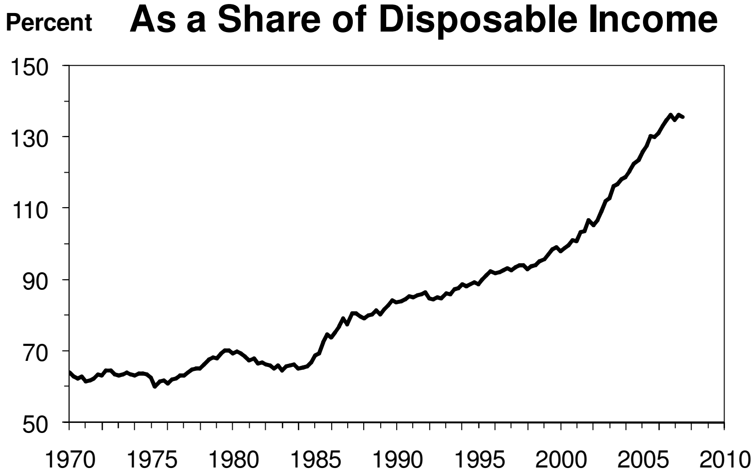
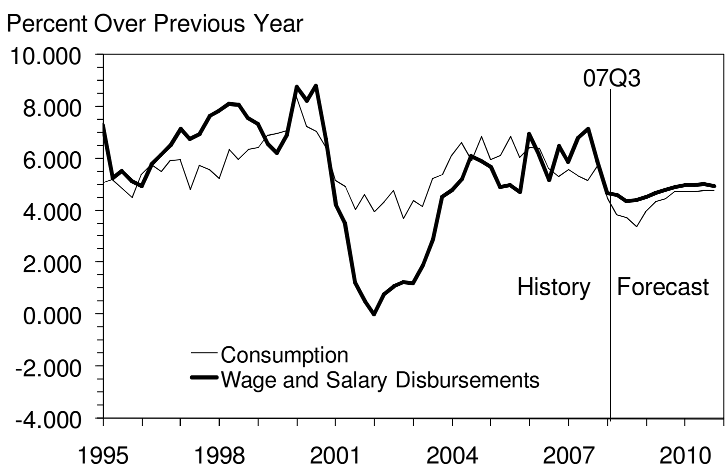
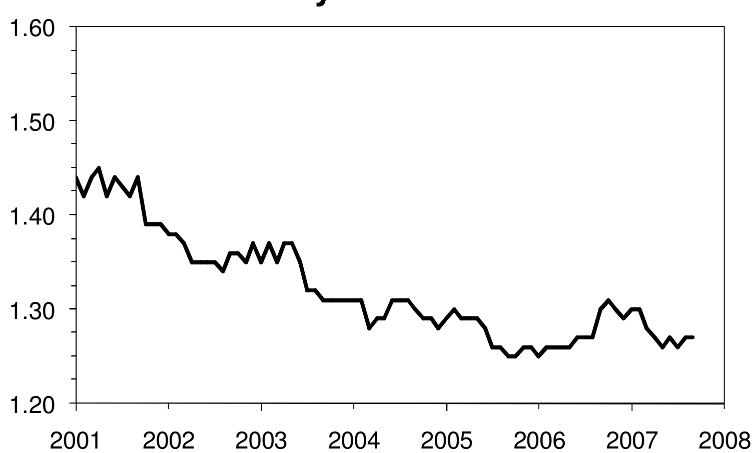
Household Financial Liabilities As a Share of Disposable Income



Consumption and Wages

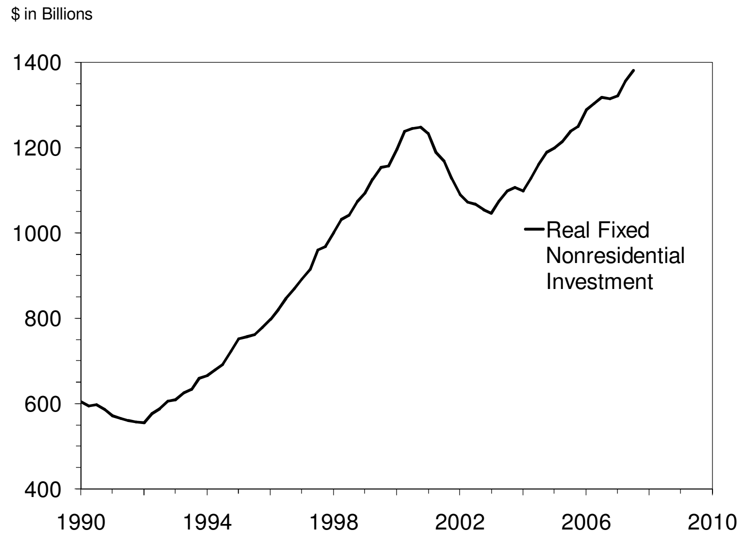


Manufacturing and Trade Inventory to Sales Ratio

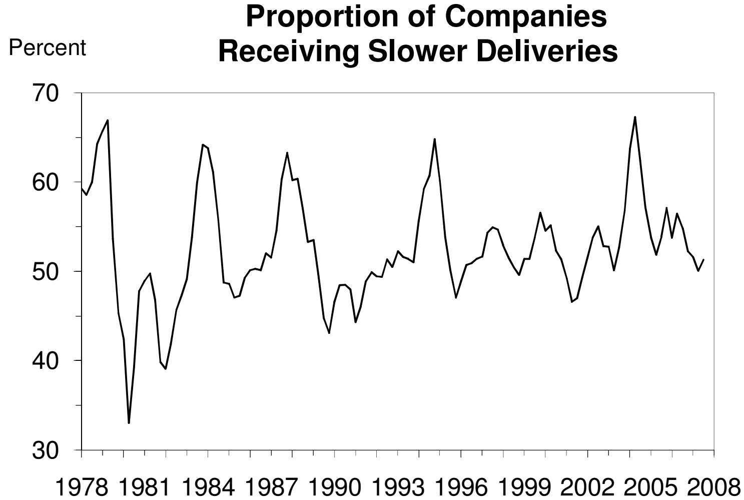


SELECTED NATIONAL ECONOMIC INDICATORS

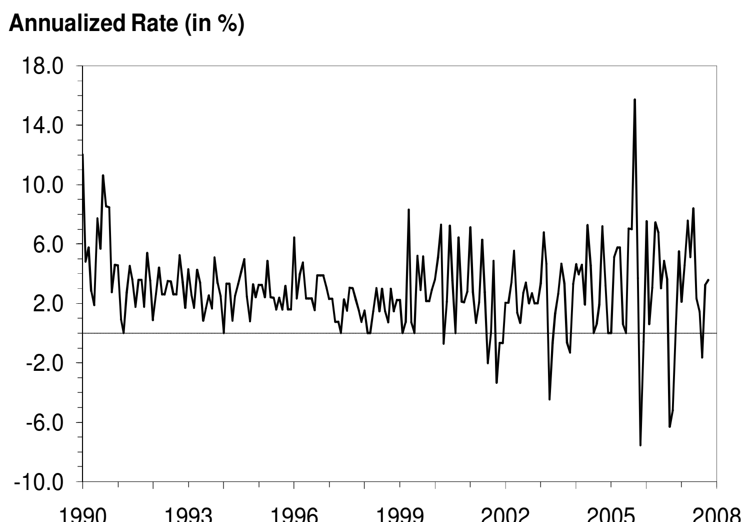
Real Fixed Nonresidential Investment



Proportion of Companies Receiving Slower Deliveries



Consumer Price Index



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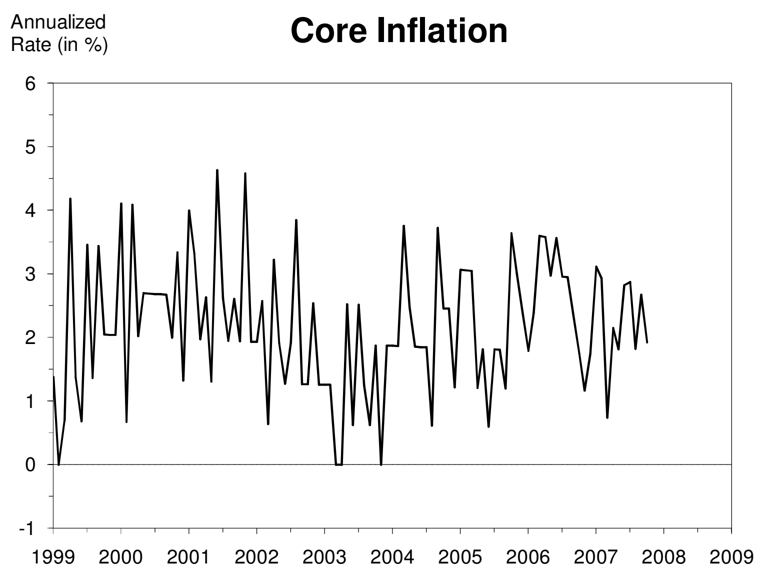
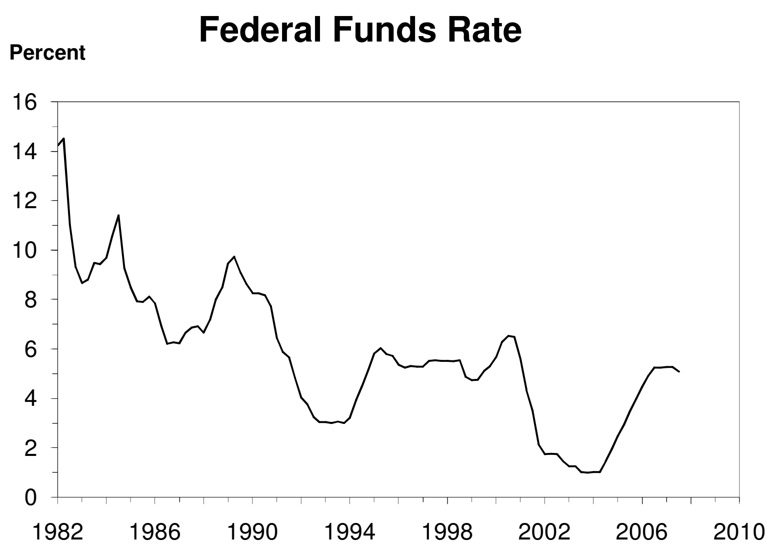




FY 2007 YEAR END SUMMARY

In August 2007, the books were officially closed for the fiscal year that ended June 30, 2007. Fiscal year 2007 concluded with a general fund balance of $1.1 billion, $106 million more than estimated at the end of the 2007 legislative session. The budget reserve account was $653 million, the cash flow account had a balance of $350 million, and a temporary tax relief account had a balance of $110 million. The table below compares final FY 2007 numbers to estimates at the end of the 2007 legislative session.

FY 2007 Actual
Change From End-of-Session Estimates
($ in millions)

	End of 2007 Session	FY 2007 Close	Difference
Beginning Balance	$1,813	$1,813	$0
Non-Dedicated Revenue	15,762	15,908	146
Transfers, Other Resources	487	471	(16)
Total Resources	18,062	18,192	130
Expenditures	15,956	15,947	(9)
Balance Before Reserves	2,106	2,245	139
Cash Flow Account	350	350	0
Budget Reserve	653	653	0
Tax Relief Account	110	110	0
Appropriations Carried Forward	0	33	33
Budgetary Balance	**$993**	**$1,100**	**$106**

Final FY 2007 Revenues Were $130 Million Above End-of-Session Estimates

Final revenues were $130 million higher than estimated at the end of the 2007 legislative session based on the February forecast. Individual income tax receipts were $137 million higher, while corporate income taxes were $7 million lower, and sales tax receipts were $13 million lower. All other taxes and other resources were $13 million higher than end-of-session estimates.

FY 2007 Spending $9 Million Below Forecast

Final FY 2007 spending was $9 million below previous estimates. But, at year-end, agencies carried forward $33 million of unspent appropriations into FY 2008. While a reduction of FY 2007 spending, this amount is now reflected as an increase in FY 2008 spending.

Excluding the impact of this technical change between fiscal years, FY 2007 would have been $24 million higher. Higher spending in health and human services programs accounts for most of the increase.

Reserves

The cash flow account of $350 million, budget reserve at $653 million, and tax relief account of $110 million remained unchanged from end-of-session estimates.

While the $110 million tax relief account was available at year-end, it does not carry forward as a reserve for FY 2008-09. This money is released to the general fund at the beginning of FY 2008 under provisions enacted in the 2006 legislative session to pay for out-year impacts of budget changes made that session.

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

Projected Deficit of $373 Million Forecast for FY 2008-09

At the end of the September 2007 special legislative session there was an available balance of $294 million. In this forecast a weaker national economic outlook lowers estimated revenues for the current biennium by $739 million and biennial spending is projected to be $66 million higher. These changes were partially offset by a $139 million increase in the balance brought forward from FY 2007. As a result the combined forecast changes result in a $373 million deficit for the 2008-09 biennium.

FY 2008-09 Budget
($ in millions)

	End-of-Session	November Forecast	Change
Balance from FY 2007	$2,106	$2,245	$139
Revenues	33,812	33,072	(739)
Expenditures	34,588	34,654	66
Reserves	1,036	1,036	
Balance	**$294**	**$(373)**	

Forecast revenues from the state's five major taxes fell by $563 million. Declines in the corporate income tax and the sales tax each exceeded $300 million. There were small increases in the individual income tax and the statewide property tax forecasts and a small decline in projected motor vehicle sales tax revenues. Projected other tax and non-tax revenues are lower by $184 million. Much of the drop in the forecast for other revenues was in the mortgage and deed taxes.

Expenditures estimates increased by just $66 million, of which $33 million came from FY 2007 appropriations authorized to carry forward into FY 2008. Small increases in spending for property tax aids and credits, health and human services, and K-12 education were partially offset by lower expected debt service costs.

Use of Budget Reserve

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

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

Planning Estimates for FY 2010-11 Significantly Lower

Planning estimates for FY 2010-11 current law revenues and expenditures are an important part of budget decision-making. They help identify longer-term impacts of current decisions. The November forecast updates the FY 2010-11 planning estimates relative to end-of-session figures. They now show projected spending in the 2010-11 biennium exceeding projected revenues by $211 million. End-of-session estimates showed revenues exceeding expenditures by $1.137 billion.

FY 2010-11 Planning Estimates

($ in millions)

	End-of-Session FY 2010-11	November FY 2010-11	Change
Resources	$36,843	$35,713	$(1,130)
Spending	35,707	35,924	218
Difference	**1,137**	**(211)**	**(1,348)**
Inflation	*$1,064*	*$1,034*	*$(30)*

The combination of a lower revenue base in FY 2008-09 from which to grow and expectations of slower economic growth reduce the 2010-11 revenue planning estimates by $1.1 billion, or 3.1 percent.

Current law projections of expenditures in the next biennium increased by $218 million (0.6 percent) from the end-of-session estimates. Trends from the FY 2008-09 forecast continue with small increases to K-12 education and property tax aids and credits.

These expenditure projections do not include any adjustment for inflation. Inflation, based on the consumer price index forecast, is expected to be 1.9 percent each year. If spending were uniformly adjusted for inflation, it would add about $1.0 billion to the amounts shown, $337 million to FY 2010, and $697 million to FY 2011.

REVENUE FORECAST
FY 2008-09

Current general fund resources for the 2008-09 biennium are now expected to total $33.072 billion, down $739 million (2.2 percent) from February's forecast after adjusting for legislative action during the 2007 regular session and September's special session. Receipts for the state's five major taxes are projected to be $563 million less than previous estimates, while other tax and non-tax revenues, including dedicated revenues and transfers from other funds are $176 million less than forecast.

Revenues FY 2008-09
($ in millions)

	FY 2006-07	FY 2008	FY 2009	FY 2008-09
Individual Income	$14,094	$7,642	$8,017	$15,659
Sales	8,970	4,570	4,588	9,158
Corporate	2,233	973	926	1,899
Motor Vehicle Sales	497	182	132	314
Statewide Levy	1,297	702	735	1,437
Five Major Taxes	27,091	14,069	14,398	28,467
Other Revenue	3,963	1,712	1,691	3,403
Tobacco	365	180	182	362
Net Non-dedicated	31,419	15,961	16,271	32,232
Other Resources	923	430	410	840
Current Resources	**$32,341**	**$16,391**	**$16,681**	**$33,072**

Forecasts for most state taxes were below levels projected in February reflecting the generally weaker U.S. economic outlook provided by the state's national economic consultant, Global Insight (GII). Recent weaknesses specific to Minnesota's economy further reduced forecast revenues. Projected receipts from the corporate income tax and the sales tax each fell by more than $300 million from February's estimates, while forecasts for the individual income tax and the statewide property tax each increased by just over $30 million. Recent data show that projected tax liability for tax year 2006 was slightly more than previously thought and there has been a small positive variance in withholding receipts since February's forecast. Combined, those two factors raised the starting point for the income tax forecast. While that increase was enough to offset the slower economic growth in the forecast for FY 2008, the further cutbacks in the economic outlook in FY 2009 yielded a small decline in projected individual income tax receipts.

For the 2008-09 biennium total current resources are now projected to be $739 million (2.2 percent) more than 2006-07 collections.

Changes in Economic Assumptions

Global Insight's baseline forecast has been cutback significantly since February. The combination of a weaker than expected housing sector, potential liquidity problems in global credit markets, and much higher than anticipated energy prices has led them to insert three quarters of very slow growth into their baseline forecast. GII expects the economy to resume growing at the trend rate of about 3 percent by the third quarter of 2008. Until then, the current U.S. economic expansion is seen as very fragile with any major shock likely to tip it into recession.

There is broad economic weakness in Global Insight's November baseline forecast, with projected 2008 growth rates for employment, wages, consumer spending, producers durable spending, and construction spending all reduced significantly. GII's less optimistic U.S. economic outlook coupled with disappointing recent news about job growth in Minnesota translates into a somewhat larger decline in Minnesota's economy than GII is projecting for the nation. While Minnesota employment does not continue to drop after the current quarter, it takes until the summer of 2009 for employment to return to the level recorded in the early summer of 2007. In this forecast Minnesota wage growth also slows to a rate below the U.S. average.

Individual Income Tax

Individual income tax receipts for the 2008-09 biennium are now forecast to total $15.659 billion, up $31 million (0.2 percent) from end-of-session estimates. While the forecast for FY 2008 is up $67 million, the outlook for FY 2009 has been reduced by $36 million from prior estimates.

Fiscal 2007 closed with a positive variance for the individual income tax of $137 million. Although final data from tax year 2006 processing will not be available until year end, preliminary estimates indicate that income tax liability for tax year 2006 will be greater than forecast in February. Tax year 2006 final payments, including both those accompanying returns and those filed with requests for extensions, were $93 million more than projected in February. Refunds were $15 million less than anticipated. The combination of higher final payments and lower refunds raises tax year 2006 individual income tax liability by $108 million over February's forecast. That increased level of liability, in turn, raises the starting point for income tax forecasts for succeeding tax years. Other things equal, the additional liability observed for tax year 2006 added more than $200 million to the income tax forecast for the 2008-09 biennium. Starting from this higher base more than offset the weaker economic growth assumptions used to drive the House Income Tax Simulation (HITS) model.

A small number of extension returns remained to be processed at the time of the forecast and some additional returns will be filed between mid-November and the end of calendar

2007. The additional liability shown on those, as yet unprocessed, returns was estimated and added to the level of tax year 2006 liability currently reported by the Department of Revenue. In February's forecast that estimated liability will be replaced by the actual tax year 2006 liability. At that time tax year 2006 final liability could be either increased or decreased from the current estimate.

Withholding tax receipts for tax year 2007 also have been slightly greater than previously forecast. Since February, withholding has exceeded forecast by $41 million. Because the wage growth implied by the growth in withholding appeared more reliable than that implied by employment reports withholding growth was used as a guideline for third and fourth quarter 2007 wage growth estimates in the Minnesota economic model. This caused the wage growth rate for calendar 2007 to be raised slightly above the level projected in February. If there had been no change in the economic outlooks for 2008 and 2009 the increased wage growth projected for 2007 would have added more than $48 million to the income tax forecast for the biennium.

For this forecast the House Income Tax Simulation (HITS) model was calibrated to produce an estimated 2006 liability consistent with the higher receipts already observed. Currently information on the sources of the additional tax liability observed for tax year 2006 is limited. More detailed Minnesota specific information will be available in January after a sample of Minnesota tax returns becomes available. Findings from that sample will be used to calibrate the HITS model for next February's forecast. Following discussions with other revenue forecasters the capital gains growth rate for tax year 2006 was raised to 11.5 percent from the 2.5 percent growth rate used in February. However, no material changes to future growth rates for capital gains realizations were made. Capital gains growth is expected to slow to 6.5 percent in tax year 2007, then grow at a 9 percent rate in 2008 and 2009. A portion of that growth comes from additional realizations brought on by the elimination of the federal income tax on capital gains for individuals in the two lowest tax brackets.

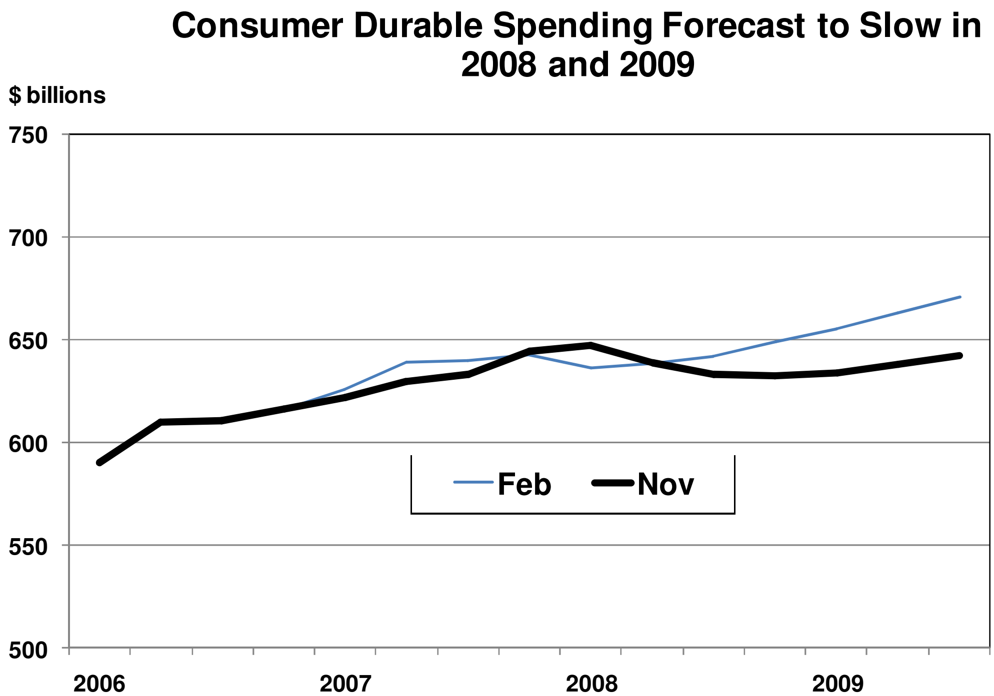
Technical changes to the forecast were largely offsetting reducing FY 2008-09 revenues by $5 million. Additional compliance activity funded in the 2007 session is assumed to produce $60 million in additional income tax receipts during the current biennium.

Sales Tax

Net sales tax receipts in the 2008-09 biennium are projected to reach $9.158 billion, $309 million (3.3 percent) less than end-of-session estimates. The forecast for gross tax receipts fell by $288 million and expected sales tax refunds increased by $21 million. Additional sales tax compliance revenue of $35 million is included in the gross revenue estimates. Net sales tax receipts, including compliance revenue is now expected to be 2.1 percent greater than in the 2006-07 biennium. In the absence of the assumed compliance revenues net sales tax receipts grow by 1.7 percent. The negative variance of $13 million in year-to-date gross sales tax receipts for FY 2008 was incorporated into the forecast.

Global Insight's November baseline forecast shows much slower growth in consumer spending for durable goods, business purchases of software and equipment, and construction spending. Because the state's economy is forecast to grow more slowly than the U.S., the purchases of taxable items grow even more slowly in Minnesota. The combination of slower national growth and a further reduction in Minnesota's share of national sales leaves Minnesota with extremely low growth in the volume of taxable sales for the biennium.

Department of Finance economists have again revised their estimates of the proportion of construction spending going to taxable materials. After further examining data on the composition of construction spending published by the U.S. Department of Commerce the portion assumed taxable was reduced from 35 percent to 30 percent. This assumption reduced the sales tax revenue loss slightly. No changes were made to the receipts elasticity. It remains at .95. Nor were any changes made to projections of sales tax losses to e-commerce and catalog sales. They are projected to grow at an annual rate of 11 percent.



Corporate Franchise Tax

Corporate tax revenues for the 2008-09 biennium are forecast to total $1.899 billion, $318 million (14.4 percent) less than end-of-session estimates. The forecast for the current biennium is $334 million (15 percent) below corporate tax receipts in the 2006-07 biennium. The current forecast is adjusted for the Department of Revenue's estimates of the revenue loss associated with the Hutchinson Technology decision. Those projections indicate that Hutchinson related refunds in the 2008-09 biennium will total $39 million and that the Hutchinson decision will allow firms to reduce settle-up payments by $84 million. While there have been no changes to the projected total cost of the Hutchinson decision, the cost in the 2008-09 biennium has increased slightly since $4 million less than projected was paid out in refunds in FY 2007. This forecast assumes that all remaining refund claims will be paid in FY 2008. Payments from tax orders were also affected by the Hutchinson decision, and a reduction of $22 million in tax orders was also carried into FY 2008.

Through October FY 2008 corporate tax receipts were $20 million (5.8 percent) below forecast and corporate quarterly estimated tax payments, $44 million (13.3 percent) less than anticipated. Quarterly estimated payments received for the last half of FY 2007 were $70 million below forecast. The large negative variances for corporate estimated payments were incorporated into the forecast and lowered the starting point for estimating the remainder of the current biennium. About three-quarters of the reduction in the corporate tax forecast is attributable to the reduction in the base.

Much of the remainder of the reduction in the corporate tax forecast is attributable to a major revision to the model used to translate national corporate profits to Minnesota tax receipts. The model had not been performing satisfactorily in recent years, due in part to the increasing importance of foreign earnings in corporate income. Since much of the foreign source income generated by U.S. based corporations will not be taxed under current Minnesota law, Finance Department economists have revised their model to use pre-tax domestic profits as the key driving variable. While this change appears to eliminate the need to reduce the ratio of corporate profits to GDP as was done in several previous forecasts, Global Insight's November baseline continues to show an unusually high ratio of corporate profits to GDP through the entire forecast horizon. The corporate income tax remains Minnesota's most volatile revenue source.

Motor Vehicle Sales Tax

Minnesota's sales tax on motor vehicles is now projected to yield $314 million, $3 million (1.0 percent) less than end-of-session estimates. The forecast for the current biennium is $183 million (37 percent) less general fund receipts from this tax in the 2006-07 biennium. A constitutional amendment that phases in the full dedication of the motor vehicle sales tax to funding for transportation is the source of the large drop in revenues between biennia. By fiscal 2012 all motor vehicle sales tax receipts will be dedicated to transportation funds.

The forecast for sales of light motor vehicles in Minnesota has been reduced slightly since February. The small ($4 million) positive variance observed in FY 2008 year to date receipts from the motor vehicle sales tax partially offsets the loss due to a weaker economic outlook.

Other Revenues

Other tax and non-tax revenues including the statewide property tax levy are expected to total $6.640 billion, $100 million (1.5 percent) less than end-of session estimates. The mortgage and deed taxes and the insurance gross premiums tax were the primary sources of the reduction in revenues. Weakness in the housing market and a decline in the use of home equity loans reduce the mortgage and deed taxes by $107 million. Weaker current receipts led to a reduction in the insurance gross earnings tax of $64 million. The forecast for the statewide property tax is up by $36 million. Investment income estimates also increased $36 million.

REVENUE PLANNING ESTIMATES
FY 2010-11

Total current resources for the 2010-11 biennium are estimated to be $35.713 billion, $2.641 billion (8.0 percent) more than the amount now forecast for the 2008-09 biennium. General fund receipts for the five major taxes are now projected to be 9.0 percent more than in the previous biennium. This includes the reduction in motor vehicle sales tax revenues required by approval of a constitutional amendment phasing in the dedication of those revenues to transportation funding. The reduction in the revenue forecast for the 2008-09 biennium carries forward into the next biennium. A reduction in the national growth rate for FY 2010 and FY 2011 in Global Insight's November baseline scenario further reduces projected revenues. Total current resources are now estimated to be $1.130 billion (3.1 percent) less than projected in November.

Revenues FY 2010-11
($ in millions)

	FY 2008-09	FY 2010	FY 2011	FY 2010-11
Individual Income	$15,659	$8,529	$9,373	$17,902
Sales	9,158	4,729	4,901	9,630
Corporate	1,899	935	932	1,867
Motor Vehicle Sales	313	85	35	120
Statewide Levy	1,437	757	774	1,531
Five Major Taxes	28,466	15,035	16,015	31,050
Other Revenue	3,404	1,723	1,776	3,499
Tobacco	362	182	183	365
Net Non-dedicated	32,232	16,940	17,974	34,914
Other Resources	840	401	398	799
Current Resources	**$33,072**	**$17,341**	**$18,372**	**$35,713**

The individual income tax is the major source of growth, up 14.3 percent from levels forecast for the 2008-09 biennium. Income tax receipts increase by 9.9 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 which will boost state revenues. Some of those changes increase the base level of taxable income and yield a permanent increase in state income tax revenue. The largest portion of the additional revenue, however, comes from a scheduled increase in the federal capital gains tax rate. The tax rate on capital gains is scheduled to return to 20 percent in 2011, an increase of five percentage points from its current 15 percent rate level. That will produce a one-time jump in revenues in 2010 as taxpayers accelerate their realization of gains to take advantage of the lower tax rate. Those additional realizations will borrow from future realizations in the 2012-13 biennium, leaving 2012 income tax revenues well below the level realized in 2010.

Sales tax receipts are projected to grow by 5.2 percent ($473 million) and the statewide property tax is expected to increase by 6.5 percent ($94 million). State general fund receipts from the motor vehicle sales tax falls by nearly 62 percent from fiscal 2008-09 levels due primarily to the increasing percentage dedicated to transportation funding. In 2012 the motor vehicle sales tax is completely dedicated to transportation funding and will disappear from the general fund. The corporate income tax falls by 1.7 percent ($32 million) from FY 2008-09 levels due to a reduction in projected domestic profits.

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 thirty-one 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 $3.0 billion or more depending on the economy's performance.

Since November 2002 the Finance Department has based its revenue planning estimates on Global Insight's baseline forecast. These revenue planning estimates again were prepared consistent with the GII baseline forecast. GII projects real GDP growth rates of 2.9 percent and 2.8 percent for calendar 2010 and 2011 and nominal GDP growth of 4.9 percent for both years. The Blue Chip Consensus has a similar outlook. GII's real GDP growth rate is slightly lower than the 3.2 percent growth rate for 2010 used by CBO in its August budget update, but their nominal growth rates for both 2010 and 2011 are similar to CBO's forecast. GII now expects the CPI to increase at an annual rate of 1.9 percent in 2010 and 1.8 percent in 2011. Those rates are lower than both the Blue Chip rate of 2.3 percent and CBO's projection of 2.2 percent for those years. When viewed on a fiscal year basis Global Insight is now projecting CPI growth of 1.9 percent in both fiscal 2010 and fiscal 2011. 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 models used in the FY 2008-09 forecast.

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

As in recent years the complete sales tax model was used to prepare sales tax revenue planning estimates. Each component of the sales tax base was assumed to grow at the national average rate for that group of goods or services. Corporate tax receipts in Minnesota were estimated using projected trends in domestic corporate profits. As in prior years those receipts were then reduced to reflect the reduction in prospective collections expected to be lost due to the Hutchinson Technology decision. The general fund's share of Minnesota's motor vehicle sales tax collections falls dramatically due to the phase in of the constitutional dedication of these receipts to transportation funds. Total motor vehicle sales tax collections are expected to grow at the GII baseline growth rate for national consumption of motor vehicles and parts. The deed and mortgage tax was forecast based on the projected growth in the value of new and existing home sales. Planning estimates for other tax and non-tax revenues were based on extrapolation of existing trends.

EXPENDITURE FORECAST
FY 2008-2011

Actual, Forecast and Projected Spending, FY 2006-2011

Actual spending for the biennium that ended June 30, 2007 totaled $31.489 billion. The forecast for the current biennium now totals $34.654 billion, an increase of $3.165 billion over spending in FY 2006-07. Spending in 2010-11 is projected to be $35.924 billion, $1.270 billion more than that for the current biennium.

Actual & Estimated Spending
($ in millions)

	Biennial Budget Period				
	FY 2006-07	FY 2008-09	Change	FY 2010-11	Change
K-12 Education	$12,746	$13,792	$1,046	$13,805	$13
K-12 Shift Buyback	609	(4)	(613)	0	4
Property Tax Aids & Credits	3,023	3,154	131	3,204	50
Higher Education	2,762	3,155	393	3,191	36
Health & Human Services	8,287	9,718	1,431	11,072	1,354
Public Safety	1,706	1,887	181	1,906	19
Transportation	216	249	33	212	(37)
Environment, Energy & Natural Resources	331	450	119	376	(74)
Agriculture & Veterans	136	187	51	166	(21)
Economic Development	295	397	102	281	(116)
State Government	557	664	107	622	(42)
Debt Service	752	876	124	987	111
Other	8	21	13	21	0
Est. Cancellations	0	(21)	(21)	(20)	1
Subtotal	31,428	34,525	3,097	35,823	1,298
Dedicated Expenditures	61	137	68	101	(28)
Total	**$31,489**	**$34,654**	**$3,165**	**$35,924**	**$1,270**

FY 2008-09 spending of $34.654 billion represents 10.1 percent increase over the prior biennium. Projected FY 2010-11 biennial spending is 3.7 percent above levels forecast for 2008-09.

The largest budget growth from FY 2006-07 to FY 2008-09 occurs in health and human services and K-12 education. The increase for health and human services is largely due to underlying growth in entitlement programs, whereas increases for K-12 education and other agencies and programs are primarily due to enacted budget increases for FY 2008-09.

FY 2008-09 Forecast Expenditures Increase $66 Million

Forecast changes for the FY 2008-09 biennium show little change compared to the end of the September 2007 special session. Spending estimates have increased $66 million, or 0.2 percent. A significant portion of this increase, $33 million, is attributable to unspent appropriations carried forward from FY 2007 that is now shown as FY 2008 spending.

Forecast Change in FY 2008-09 Spending

($ in millions)

	End-of-Session FY 2008-09	November FY 2008-09	Forecast Change
K-12 Education	$13,781	$13,788	$7
Property Tax Aids & Credits	3,109	3,154	45
Higher Education	3,155	3,155	0
Health & Human Services	9,695	9,718	23
Public Safety	1,887	1,887	0
Transportation	249	249	0
Environment, Energy & Natural Resources	448	450	2
Agriculture & Veterans	184	187	3
Economic Development	389	397	8
State Government	656	664	8
Debt Service	913	876	(37)
Other	21	21	0
Est. Cancellations	(21)	(21)	0
Subtotal	34,466	34,525	59
Dedicated Expenditures	122	129	7
Total	**$34,588**	**$34,654**	**$66**

A $45 million increase in property tax aids and credits, a $23 million increase in health and human services, and a $7 million increase in K-12 education are partially offset by a $37 million reduction in debt service costs. Remaining changes in expenditures for other spending areas are primarily attributable to the carry forward of FY 2007 appropriations now shown as FY 2008 spending.

FY 2010-11 Projected Spending Slightly Higher

Compared to the end of the special session, projected spending for FY 2010-11 has increased $217 million, or 0.6 percent over end-of-session estimates. A $104 million increase in K-12 education and an $83 million increase in property tax aids and credits account for most of the change. Changes in forecast trends seen in the FY 2008-09 estimates carry through to the out-year planning figures in both cases.

Additionally, dedicated expenditures are $46 million higher, nearly doubling previous estimates. This increase is attributable to session action to continue claiming federal Medicaid disproportionate share hospital (DSH) match in FY 2010-11 on certified public expenditures made by Hennepin County Medical Center. This revenue is dedicated to the Medical Assistance program at the Department of Human Services. The dedicated revenues and expenditures were not correctly reflected in end-of-session numbers.

Forecast Change: FY 2010-11 Spending Projections

($ in millions)

	End-of-Session FY 2010-11	November FY 2010-11	Forecast Change
K-12 Education	$13,701	$13,805	$104
Property Tax Aids & Credits	3,121	3,204	83
Higher Education	3,191	3,191	0
Health & Human Services	11,066	11,072	6
Public Safety	1,906	1,906	0
Transportation	212	212	0
Environment, Energy & Natural Res.	376	376	0
Agriculture & Veterans	166	166	0
Economic Development	281	281	0
State Government	622	622	0
Debt Service	1,009	987	(22)
Other	21	21	0
Est. Cancellations	(20)	(20)	0
Subtotal	35,652	35,823	171
Dedicated Expenditures	55	101	46
Total	**$35,707**	**$35,924**	**$218**

Education Finance Forecast Up $6.7 Million for FY 2008-09

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

K-12 aids has two major funding parts: 1) general education, the primary source of basic operating funds for schools, and 2) categorical aid tied to specific activities or categories of funding. For the current biennium, Education Finance spending is estimated to be $13.7 billion, an increase of $6.7 million from end-of-session estimates.

General Education

Over 80 percent of K-12 aid ($11.2 billion in FY 2008-09) is distributed to schools through the General Education program, and most of the forecast change occurs in this program. While there are several factors that account for this change, the most significant is pupil estimates. Although pupil counts are projected to decrease on an annual basis through FY 2009, the rate of decline is occurring at a slightly more modest pace than was anticipated previously. Public enrollment as measured by Average Daily Membership (ADM) is now projected to be 826,161 in FY 2008 and 825,960 in FY 2009.

The changes in ADM projections result in a $20.9 million (0.2 percent) increase in Basic Education entitlements. The ADM changes also drive increases in Compensatory and Limited English Proficiency (LEP) entitlements. Compensatory entitlements are anticipated to increase $13.2 million (2.0 percent) over the biennium compared to end-of-session estimates. LEP entitlements are anticipated to increase $5.2 million (6.7 percent) above previous estimates. Greater concentrations of LEP students and students generating compensatory aid are also driving the increases in these entitlements.

The increases in General Education noted above are offset by decreases in others areas of the General Education program, most notably Alternative Teacher Compensation (Q-Comp). Compared to end-of-special-session, Q-Comp is forecast to decrease $28.8 million (37.5 percent) for FY 2008. This change is due to fewer schools applying for and receiving approval for participation in the program in FY 2008 than was previously anticipated. Q-Comp participation is expected to increase in FY 2009 leaving the FY 2009 forecast unchanged.

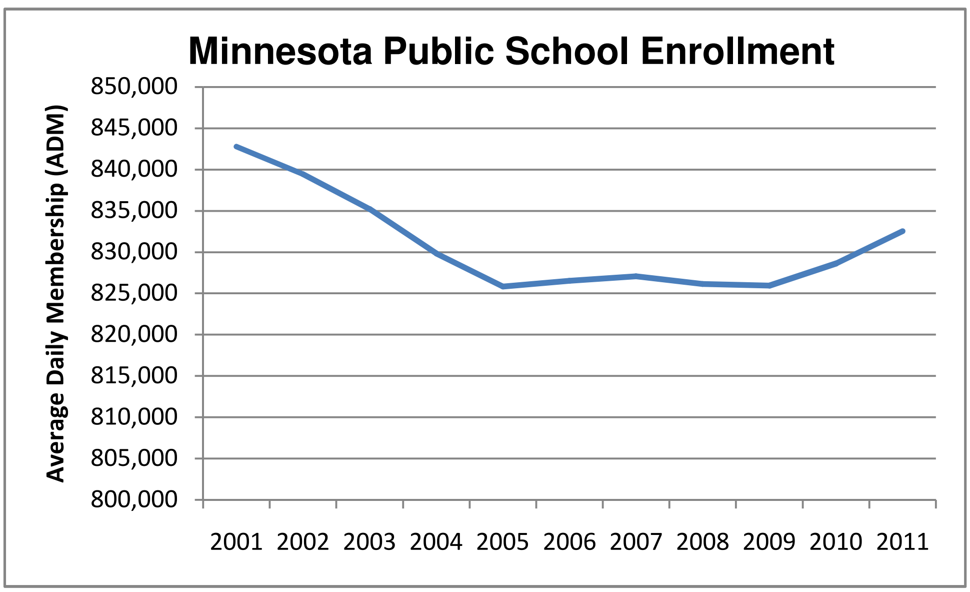
Categoricals

Most programs in the categorical aids show only small changes compared to end-of-session estimates while a few programs show more significant changes. Charter School Lease Aid appropriations are projected to increase $2 million (2.9 percent) over previously forecasted levels, reflecting a rising number of students enrolling in charter schools. In addition, Aid for Children with Disabilities is expected to increase $1.1 million (33.7 percent). This increase is due to higher projected participation. Savings are expected in Nonpublic Pupil Transportation Aid which decreased by $1.9 million (4.5

percent) reflecting fewer nonpublic students requiring transportation services. In addition, Health and Developmental Screening aid decreased by $1.1 million (17.5 percent) as a result of lower base year expenditures in FY 2007 and revised screening rate assumptions. Debt Service Equalization Aid and Health and Safety Equalization Aid appropriations are also $2.1 million lower primarily due to increases in Adjusted Net Tax Capacity (ANTC) for the subset of Debt Service eligible districts.

Education Finance Forecast Up by $104 million for FY 2010-11

Education Finance spending in the next biennium is now expected to be $13.8 billion, $104 million above end-of-session projections. Similar to FY 2008-09, an increase in pupil unit estimates is driving much of this change. In FY 2010-11 the trend of declining enrollment reverses and statewide estimates of ADM begin to increase. Public enrollment as measured by Average Daily Membership (ADM) is now projected to be 828,606 in FY 2010 and 832,522 in FY 2011. The reversal of declining enrollment was anticipated in previous forecasts, but the ADM growth in FY 2010-11 is larger than previous estimates. The increase in enrollment in FY 2010-11 is primarily due to an increase in children born in Minnesota five years prior to the respective forecast year.



General Education

General Education entitlements for FY 2010-11 have increased by $104 million from earlier estimates. This change is due primarily to growth in the entitlement estimates for Basic Education, Compensatory and LEP. Increased pupil unit numbers are driving all of these changes. The Basic Education entitlement increases by $38.8 million (0.4 percent) over end-of-session estimates. Compensatory aid is projected to increase by $39.6 million (6.0 percent) over previous estimates while LEP entitlements are projected to increase by $6.9 million (8.8 percent) over previous estimates. Similar to FY 2008-09, the increases in Compensatory and LEP entitlements are not only driven by growth in total pupil units, but also an anticipated increase in the concentration of students generating this aid.

Another driver of the forecast increase in General Education is Referendum and Operating Capital equalization aids. The aid and levy mix for Referendum and Operating Capital revenue is determined by property values and the number of pupil units in the districts. The estimates for the aid portion of these formulas have increased since the February forecast because property values statewide have grown at a slower pace than anticipated and total pupil unit numbers have increased over February estimates. In addition, higher than anticipated dollar amounts and passage rates of the referendum questions this November are also driving the increase in state aid relative to end-of-session estimates. Referendum aid entitlements are $10.2 million (9.0 percent) higher than February estimates, while Operating Capital entitlements are up by $6.1 million (5.0 percent).

Categoricals

In addition to increases in General Education, categorical aid appropriations are also projected to increase for various program areas. Charter School Lease Aid is expected to increase by $5 million (5.8 percent) above end-of-session estimates. This change is primarily due to increasing growth in charter school student enrollment. In addition, Integration Revenue is projected to increase $3.7 million (3.1 percent) due to increased pupil units generating this aid. Spending for both Aid for Children with Disabilities and School Breakfast is also expected to grow $1.2 million (28.5 percent) and $1 million (9 percent) respectively, over previous estimates.

These increases in categorical aids are partially offset by decreases in other program areas. Nonpublic Pupil Transportation Aid is expected to decrease $3.4 million (7.7 percent) reflecting fewer nonpublic students requiring transportation services. Continued growth in districts' ANTC decreases levy equalization aid estimates $15.8 million (52.6 percent), which includes Health and Safety Equalization Aid, Debt Service Equalization Aid, and Deferred Maintenance Aid.

Health & Human Services Estimates Remain Virtually Unchanged

Total Health and Human Services spending is projected to total $9.7 billion in FY 2008-09 and $11.1 billion in FY 2010-11. This is an increase of $23.0 million (0.2 percent) in the current biennium and $5.4 million (0.05 percent) in planning estimates for FY 2010-11. While overall costs are largely unchanged from end-of-session estimates, there are some significant changes within specific programs: (1) reductions in Medical Assistance (MA) Families and Children Basic Care due to revised HealthMatch assumptions; (2) higher than anticipated General Assistance Medical Care (GAMC) managed care rates; and (3) a combination of increased placements and higher average costs in the Chemical Dependency (CD) treatment program.

Basic Health Care

Basic Health Care pays for acute health care services such as physician visits, prescription drugs and hospitalizations that are covered under MA Families and Children Basic Care, MA Elderly and Disabled Basic Care, and GAMC. Basic Health Care expenditures are projected to reach $4.2 billion in FY 2008-09 and $5.1 billion in FY 2010-11, up 0.9 percent and down 0.4 percent from end-of-session estimates, respectively.

MA Basic Care for Families and Children estimates are $22.2 million (1.4 percent) lower in FY 2008-09 and $122.8 million (6.2 percent) in FY 2010-11. This reduction is largely due to changed assumptions related to the implementation of HealthMatch, a system that will automate and expedite eligibility determinations. When the system is implemented, MinnesotaCare enrollees who are eligible will be automatically assigned to MA, causing a shift in expenditures from the health care access fund (HCAF) to the general fund. Because the schedule for system implementation is uncertain, this forecast does not assume any shift will occur during the FY 2008-09 or FY 2010-11 biennium. As a result, expenditures in MA Basic Care for Families and Children are down $19 million in FY 2008-09 and $132 million in FY 2010-11 from end-of-session estimates. There is a corresponding increase in MinnesotaCare expenditures within the HCAF. There are also less significant reductions in this segment of MA due to lower than anticipated managed care rates and average payments.

MA Elderly and Disabled Basic Care projections are up $14.9 million (0.7 percent) in FY 2008-09 and $46.5 million (1.8 percent) in FY 2010-11. More Elderly Waiver recipients than previously anticipated are moving into managed care arrangements that cover both basic health care and home and community-based services, and as such, more costs previously associated with MA Long-Term Care Waivers are shifting to MA Elderly and Disabled Basic Care. Managed care rates for the elderly are also higher than projected at end-of-session.

GAMC expenditures are up $43.3 million (8.8 percent) in FY 2008-09 and $58.4 million (10.4 percent) in FY 2010-11. This is primarily due to higher than anticipated managed care rate increases effective January 2008. Rates are now expected to increase 21 percent while the previous forecast was based on an 8.5 percent assumption. The expected increase in managed care rates is based on updated claims information and increased costs for the pool of individuals who are not required to move to Transitional MinnesotaCare and remain in GAMC. The group required to move to Transitional MinnesotaCare is healthier, leaving a more costly residual group in GAMC. There is also a small increase in enrollment and average costs in this area.

Continuing Care Grants

Continuing Care Grants provide funding for long-term care services for individuals with chronic physical and mental health conditions, in both institutional and community-based settings. Two activities within this area comprise the majority of spending: MA Long-

Term Care Waivers and MA Long-Term Facilities. Overall, expenditures for Continuing Care Grants are expected to total $3.5 billion for FY 2008-09 and $3.9 billion in FY 2010-11, down $16 million (0.5 percent) and up $7.4 million (0.2 percent) from end-of-session estimates, respectively.

Expenditures for MA LTC Facilities are estimated to decrease $15.5 million (1.6 percent) in FY 2008-09 current biennium, and $2.3 million (0.2 percent) in FY 2010-11. This decrease in spending estimates is primarily attributable to lower than expected nursing facility caseloads and average costs. MA Long-Term Care Waiver spending is down $39.2 million (1.9 percent) in FY 2008-09, and $33.0 million (1.4 percent) in FY 2010-11. This change is due to lower estimated caseloads across most waiver programs, as well as more Elderly Waiver recipients than previously anticipated entering managed care programs under the MA Elderly and Disabled Basic Care activity. Spending projections in one waiver program, Community Alternative for Disabled Individuals (CADI) waiver, are higher due to increased caseload and average cost estimates, but is offset by other reductions in this area.

Estimates of CD treatment spending have increased significantly, $24.9 million (15 percent) in FY 2008-09 and $42.7 million (22.1 percent) in FY 2010-11. Recent program experience suggests both the number of placements and the average cost of treatment will increase significantly compared to end-of-session estimates. For example, in the current biennium, placements are projected to increase 5.5 percent and the average cost of treatment is expected to rise 4.4 percent over end-of-session estimates. The trend is expected to continue into the next biennium – projections of placements rise by 9.6 percent and average costs grow 7 percent.

Children and Economic Assistance Grants

Children and Economic Assistance Grants provide a variety of supports to low-income families and individuals. These programs include cash, food support, child care, housing assistance, and job training services. These expenditures are now forecast to reach $1.04 billion in FY 2008-09 and $1.05 billion in FY 2010-11.

Minnesota Family Investment Program/Diversionary Work Program (MFIP/DWP) general fund expenditures are expected to total $147.1 million in FY 2008-09 and $142.2 million in FY 2010-11, up 18.2 percent and 19.4 percent respectively. The increase in forecast general fund expenditures is primarily due to maintenance-of-effort (MOE) changes rather than increased costs within the MFIP program itself. Because MFIP child care expenditures are down, more general fund dollars (and less Temporary Assistance for Needy Families, or TANF) are spent on MFIP. Also, there is a delay in implementation of the Work Participation Bonus program which leads to an increase in MOE requirements in FY 2010. MFIP caseloads are down compared to earlier estimates.

MFIP Child Care is expected to reach $121 million in FY 2008-09 and $128 million in FY 2010-11, down 17.5 percent and 9.9 percent compared to previous estimates. This change is related to lower than anticipated caseloads and average costs. Caseloads are down from end-of-session due to lower MFIP caseloads.

Projected spending for Group Residential Housing (GRH) decreased $7.4 million (3.9 percent) in FY 2008-09 and $2.5 million (1.2 percent) in FY 2010-11 due to a decline in caseloads and lower average costs for all segments of the population receiving GRH services.

General Assistance (GA) expenditure estimates increased $4.0 million in FY 2008-09 (5.2 percent) and $9.1 million (11.8 percent) in FY 2010-11. The increases are not due to changes in the underlying program, but rather due to that fact GA recoveries are now treated as non-dedicated revenue. This forecast aligns recoveries for all DHS forecast programs as non-dedicated revenue.

Tax Aid and Credit Programs Increase $45 Million in FY 2008-09, $83 Million in FY 2010-11

Tax aids and credits spending is projected to reach $3.154 billion in FY 2008-09 and $3.204 billion in FY 2010-11. This is an increase of $45 million (1.4 percent) in the current biennium and $83 million (2.7 percent) in the planning estimates for FY 2010-11.

Most of the change occurs in the property tax refund area. Due to slower income growth than previously estimated and slightly higher program participation, costs of the homeowner's property tax refund program increased $32.6 million (7.1 percent) in FY 2008-09 and $46.8 million (9.3 percent) in FY 2010-11. Slow growth in personal income is also driving an increase in projected property tax refund payments to renters, increasing $4 million (1.3 percent) in FY 2008-09 and $4.9 million (1.5 percent) in FY 2010-11.

The targeted property tax refund program, which directs property tax relief to homeowners who have large property tax increases from one year to the next, is experiencing higher than estimated participation. As a result, forecast payments are expected to increase $5.6 million (54.3 percent) in FY 2008-09 and $7.4 million (48.6 percent) in FY 2010-11. Estimated refund payments for sustainably-managed forestland have also increased $3.1 million (42.8 percent) in FY 2008-09 and $5.1 million (56.9 percent) in FY 2010-11. This significant growth is the result of increased timberland values, which have led to higher payouts per acre of forestland enrolled in the sustainable forest incentive program. Homestead market value credit estimates increased $8.4 million (1.6 percent) in FY 2008-09 and $15.6 million (3.2 percent) in FY 2010-11 reflecting actual credit amounts for 2007 being higher than previously projected. Overall, homestead market value credit estimates continue to fall over time as a result of declining credit amounts as home prices rise.

These increases are partially offset by decreases related to police and fire aid. Police and fire aid distributions are based on insurance premium tax collections. The forecast for revenues from these taxes has been reduced, decreasing the total amount available for police and fire aid. As a result, fire aid estimates were reduced $4.3 million (7.3 percent) in FY 2008-09 and $8.6 million (15.8 percent) in FY 2010-11 from end-of-session projections. Though police aids are also affected by this decline, the projected police aid payments for FY 2008-09 were increased by $5.4 million in FY 2008-09 (4.8 percent) and $17.5 million (13.2 percent) in FY 2010-11. This net change is the result of phased-in contribution increases for police retirement benefits.

Declining insurance premium tax collections and higher police benefit payouts result in a decline in excess police and fire aid money that funds amortization aids. Forecasts for amortization aid, supplemental amortization aid, and additional amortization aid related to police and fire aids have been reduced $10.3 million (68 percent) in FY 2008-09 and $6 million (79.9 percent) in FY 2010-11, before their scheduled termination in FY 2011.

Debt Service Forecast Reduced for Both Biennia

The total estimated debt service for the FY 2008-09 biennium is now $876 million, $37 million lower than end-of-session estimates.

The primary reason for the savings is the dollar amount of the premiums forecast to be paid by the winning bidders on the bond sales during the biennium. Lower interest rates result in higher premiums on the bonds sold and the forecast interest rates at both bond sales are now lower than the forecast interest rates in the February 2007 forecast. The lower interest rates result in higher premiums, increasing $30 million.

The state refinanced outstanding bonds in April 2007. The budget savings from the refinancing was $5 million more than was forecast in February. Additional debt service savings resulted from interest earnings on cash balances being greater than previously forecast.

Projected debt service for the FY 2010-11 biennium is expected to be $987 million, down $22 million from the end-of-session. Higher premiums paid on bonds sold as a result of lower forecast interest rates is the primary reason for the lower debt service costs.

The forecast assumes future capital budgets of $645 million in each even numbered legislative session and $120 million in each odd numbered legislative session, based on ten-year rolling averages.

Appropriations Carried Forward Increase All Other Spending in FY 2008-09

The remaining categories of state spending total $6.989 billion for the current biennium. This amount represents 20 percent of total general fund spending. Higher Education accounts for nine percent, all other agencies and functions 11 percent. While a relatively small percentage of the total budget, these areas include a broad range of agencies, programs and services. The breadth of activities includes: natural resources and environmental programs; trade, economic development, and agriculture programs; housing programs; the state prisons, public safety activities and courts; state regulatory and licensing activities; a portion of general fund financed transit and transportation-related funding; state funding for the arts, the Minnesota Zoo and Historical Society – as well as general state administration including tax collection, accounting and financial management, and human resources functions and legislative and constitutional offices.

Other Spending, FY 2008-09
($ in millions)

	End-of-Session FY 2008-09	November FY 2008-09	Forecast Change
Higher Education	$3,155	$3,155	$0
Public Safety	1,887	1,887	0
Transportation	249	249	0
Environment, Energy & Natural Res.	448	450	2
Agriculture & Veterans	184	187	3
Economic Development	389	397	8
State Government	656	664	$8
Total	**$6,968**	**$6,989**	**$21**

Funding for these areas is primarily set as fixed amounts by legislative appropriations. Changes in estimates associated with the forecast largely reflect amounts carried forward from FY 2007, transfers between agencies, or other technical adjustments, as well as a limited number of smaller open appropriations. The differences shown from end-of-session estimates are almost exclusively appropriations carried forward from FY 2007. Generally, these are not significant changes related to the forecast and have little or no effect on the general fund projected balance.

No Change in All Other Spending for 2010-11

The planning estimates for FY 2010-11 remain virtually unchanged, including those for the Department of Corrections. Although the prison population increase has slowed slightly during the current biennium, the projected growth rate for the next biennium remains nearly identical to last year's forecast. The biennium to biennium growth is 23 offenders less than projected last year.

For other agencies, FY 2010-11 current law planning estimates generally represent the FY 2009 level of appropriations extended into the following two fiscal years. Adjustments are made only to remove one-time appropriations or to annualize the costs of programs only partially reflected in FY 2009. These adjustments are identified and made as part of the legislative and executive branch tracking of out-year costs when the budget is enacted.

Alternative Forecast Comparison
Real GDP (Annual Rates)

	07II	07III	07IV	08I	08II	08III	06A	07A	08A
GII Baseline (11-07)	3.8	3.9	1.3	0.7	1.6	2.5	2.9	2.1	1.9
Blue Chip (11-07)	3.8	3.9	1.7	1.9	2.3	2.6	2.9	2.1	2.4
Moody’s Economy.Com (11-07)	3.8	3.9	1.6	1.4	1.8	2.7	2.9	2.1	2.3
Ameriprise (11-07)	3.8	3.9	2.2	3.4	3.3	2.9	2.9	2.2	3.2
UBS (11-07)	3.8	3.9	1.2	1.4	1.4	1.9	2.9	2.1	2.0
Standard & Poors (11-07)	3.8	3.9	1.4	0.6	1.5	NA	2.9	2.1	1.9

Consumer Price Index (Annual Rates)

	07II	07III	07IV	08I	08II	08III	06A	07A	08A
GII Baseline (11-07)	6.0	1.9	4.3	0.8	0.7	1.3	3.2	2.8	1.6
Blue Chip (11-07)	6.0	1.9	2.8	2.7	2.2	2.2	3.2	2.8	2.6
Moody’s Economy.Com (11-07)	6.0	1.9	3.6	2.4	1.8	1.5	3.2	2.8	2.5
Ameriprise* (11-07)	6.0	1.9	2.5	2.5	2.9	3.4	2.0*	3.5*	3.0*
UBS (11-07)	6.0	1.9	4.2	3.8	-0.6	2.0	3.2	2.9	2.5
Standard & Poors (11-07)	6.0	1.9	4.3	2.1	1.3	NA	3.2	2.9	2.5

*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
Nov 07 GII Baseline	2.9	2.1	1.9	2.9	2.9	2.8

Inflation
(Annual Percent Change in CPI-U)

	2006	2007	2008	2009	2010	2011
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
Nov 07 GII Baseline	3.2	2.9	2.0	1.6	1.9	1.8

Minnesota - U.S. Comparison Report

November 2007 Control

(Annual Percent Changes)

	2003	2004	2005	2006	2007	2008	2009
Wage and Salary Income							
United States	2.6	5.5	5.1	6.2	6.4	4.5	4.7
Minnesota	3.1	5.0	2.7	5.2	5.5	2.7	3.8
Implied Annual Wage							
United States	2.9	4.4	3.3	4.2	5.0	3.6	3.5
Minnesota	3.3	4.3	1.1	3.7	5.0	3.0	3.1
Non-Farm Employment							
United States	-0.3	1.1	1.7	1.9	1.3	0.8	1.2
Minnesota	-0.1	0.8	1.6	1.4	0.5	-0.3	0.8
Personal Income							
United States	3.2	6.2	5.9	6.6	6.5	4.9	5.0
Minnesota	4.1	5.9	3.9	4.7	6.0	3.2	4.0

COMPARISON OF ACTUAL AND ESTIMATED

NON-RESTRICTED REVENUES

October 2007, FY 2008

($ IN THOUSANDS)

	FORECAST REVENUES	ACTUAL REVENUES	VARIANCE ACT-FCST
Individual Income Tax			
Withholding	1,867,860	1,884,375	16,515
Declarations	305,675	332,418	26,742
Miscellaneous	119,631	119,594	(37)
Gross	2,293,167	2,336,387	43,220
Refund	59,615	66,609	6,995
Net	2,233,552	2,269,778	36,226
Corporate & Bank Excise			
Declarations	331,300	287,235	(44,065)
Miscellaneous	48,066	63,589	15,523
Gross	379,366	350,825	(28,541)
Refund	37,300	28,826	(8,474)
Net	342,066	321,998	(20,067)
Sales Tax			
Gross	1,496,610	1,483,766	(12,844)
Refunds	74,245	65,078	(9,167)
Net	1,422,365	1,418,688	(3,677)
Motor Vehicle Sales Tax	62,713	66,463	3,750
Other Revenues:			
Estate	36,667	47,454	10,788
Liquor/Wine/Beer	21,062	19,772	(1,290)
Cigarette/Tobacco/Cont Sub	58,228	59,915	1,687
Deed and Mortgage	70,339	61,926	(8,413)
Insurance Gross Earnings	64,200	62,391	(1,809)
Lawful Gambling	14,938	13,106	(1,831)
Health Care Surcharge	68,545	69,968	1,423
Other Taxes	343	274	(69)
Statewide Property Tax	99	1,114	1,015
DHS SOS Collections	22,210	18,621	(3,589)
Income Tax Reciprocity	0	0	0
Investment Income	13,300	33,609	20,309
Tobacco Settlement	0	100	100
Departmental Earnings	78,673	83,193	4,520
Fines and Surcharges	30,878	25,766	(5,112)
Lottery Revenues	11,013	11,136	123
Revenues yet to be allocated	0	1,671	1,671
Residual Revenues	11,157	12,288	1,131
Sales Tax Rebates (all years)	0	0	0
County Nursing Home, Pub Hos	2,264	2,242	(22)
Other Subtotal	503,916	524,549	20,633
Other Refunds	10,765	12,540	1,775
Other Net	493,151	512,009	18,858
Total Gross	**4,735,771**	**4,761,989**	**26,218**
Total Refunds	**181,925**	**173,054**	**(8,871)**
Total Net	**4,553,847**	**4,588,935**	**35,089**

Factors Affecting the Individual Income Tax

($ in billions)

	Calendar Year					
	2004	2005	2006	2007	2008	2009
Minnesota Non-Farm Tax Base						
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
November 2007 Baseline	149.206	154.513	162.525	171.000	176.126	182.836
Minnesota Wage and Salary Income						
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
November 2007 Baseline	104.907	107.782	113.369	119.589	122.871	127.595
Minnesota Property Income						
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
November 2007 Baseline	32.469	34.121	36.063	38.161	39.560	40.713
Minnesota Proprietors' Income						
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
November 2007 Baseline	11.830	12.610	13.093	13.251	13.694	14.529

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						
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%
*November 2007 Baseline		66.116	68.299	69.405	70.381	70.572
Pct		5.0%	3.3%	1.6%	1.4%	0.3%
Minnesota's Proxy Share of U.S. Consumer Durable Spending (Excluding Autos)						
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
November 2007 Baseline	11.781	12.375	12.885	13.289	13.525	13.229
Minnesota's Proxy Share of U.S. Capital Equipment Spending						
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
November 2007 Baseline	10.295	10.975	11.698	11.822	12.227	12.404
Minnesota's Proxy Share of U.S. Construction Spending						
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
***November 2007 Baseline	6.183	6.822	7.276	7.067	6.304	5.812

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

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

($ in billions)

	Fiscal Year					
	2004	2005	2006	2007	2008	2009
SALES TAX (Cont.)						
Minnesota's Personal Income Excluding Farm Proprietors Income*						
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
November 2007 Baseline	172.54	181.66	191.03	200.20	208.45	215.83
SALES TAX ON MOTOR VEHICLES						
Minnesota's Proxy Share of U.S. Consumption of Motor Vehicles and Parts						
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
November 2007 Baseline	8.875	9.093	8.869	8.892	8.681	8.852
CORPORATE FRANCHISE TAX	**Calendar Year**					
U.S. Corporate Profits						
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**
November 2007 Baseline	1,011.3**	1,181.5**	1,368.6**	1,392.4	1,302.8	1,355.1

* Bureau of Economic Analysis Concept

** Finance Dept Estimate

FY 2006-07 Biennium

General Fund

($ in thousands)

	Actual FY 2006	Closing FY 2007	Biennial Total
Actual & Estimated Resources			
Balance Forward From Prior Year	1,393,086	1,813,145	1,393,086
Current Resources:			
Tax Revenues	14,648,961	15,031,999	29,680,960
Non-Tax Revenues	861,392	876,417	1,737,809
Subtotal - Non-Dedicated Revenue	15,510,353	15,908,416	31,418,769
Dedicated Revenue	44,101	40,771	84,872
Transfers In	384,715	403,215	787,930
Prior Year Adjustments	23,190	26,630	49,820
Subtotal - Other Revenue	452,006	470,616	922,622
Subtotal-Current Resources	15,962,359	16,379,032	32,341,391
Total Resources Available	**17,355,445**	**18,192,177**	**33,734,477**
Actual & Estimated Spending			
K-12 Education	6,300,715	6,445,327	12,746,042
K-12 Shift Buyback	569,847	39,588	609,435
Subtotal K-12 Education	6,870,562	6,484,915	13,355,477
Higher Education	1,347,880	1,413,650	2,761,530
Property Tax Aids & Credits	1,463,635	1,559,363	3,022,998
Health & Human Services	3,942,148	4,345,098	8,287,246
Public Safety	811,562	894,827	1,706,389
Transportation	102,201	113,335	215,536
Environment, Energy & Natural Resources	147,099	183,769	330,868
Agriculture & Veterans	62,158	73,786	135,944
Economic Development	140,139	154,826	294,965
State Government	262,121	295,235	557,356
Debt Service	352,447	399,651	752,098
Deficiencies/Other	6,235	1,549	7,784
Subtotal Expenditures & Transfers	**15,508,187**	**15,920,004**	**31,428,191**
Dedicated Expenditures	34,113	27,238	61,351
Total Expenditures & Transfers	**15,542,300**	**15,947,242**	**31,489,542**
Balance Before Reserves	**1,813,145**	**2,244,935**	**2,244,935**
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	32,658	32,658
Budgetary Balance	**518,335**	**1,099,617**	**1,099,617**

FY 2007 General Fund Closing
Compared to End of 2007 Session
($ in thousands)

	9-07 Enacted FY 2007	Closing FY 2007	Difference
Actual & Estimated Resources			
Balance Forward From Prior Year	1,813,145	1,813,145	0
Current Resources:			
Tax Revenues	14,916,037	15,031,999	115,962
Non-Tax Revenues	845,908	876,417	30,509
Subtotal - Non-Dedicated Revenue	15,761,945	15,908,416	146,471
Dedicated Revenue	68,921	40,771	(28,150)
Transfers In	392,718	403,215	10,497
Prior Year Adjustments	25,000	26,630	1,630
Subtotal - Other Revenue	486,639	470,616	(16,023)
Subtotal-Current Resources	16,248,584	16,379,032	130,448
Total Resources Available	**18,061,729**	**18,192,177**	**130,448**
Actual & Estimated Spending			
K-12 Education	6,450,442	6,445,327	(5,115)
K-12 Shift Buyback	39,588	39,588	0
Subtotal K-12 Education	6,490,030	6,484,915	(5,115)
Higher Education	1,415,031	1,413,650	(1,381)
Property Tax Aids & Credits	1,564,122	1,559,363	(4,759)
Health & Human Services	4,299,956	4,345,098	45,142
Public Safety	902,142	894,827	(7,315)
Transportation	113,938	113,335	(603)
Environment, Energy & Natural Resources	178,370	183,769	5,399
Agriculture & Veterans	74,549	73,786	(763)
Economic Development	157,116	154,826	(2,290)
State Government	307,816	295,235	(12,581)
Debt Service	399,651	399,651	0
Deficiencies/Other	8,300	1,549	(6,751)
Estimated Cancellations	(12,500)	0	12,500
Subtotal Expenditures & Transfers	**15,898,521**	**15,920,004**	**21,483**
Dedicated Expenditures	57,121	27,238	(29,883)
Total Expenditures & Transfers	**15,955,642**	**15,947,242**	**(8,400)**
Balance Before Reserves	**2,106,087**	**2,244,935**	**138,848**
Cash Flow Account	350,000	350,000	0
Budget Reserve	653,000	653,000	0
Tax Relief Account	109,660	109,660	0
Appropriations Carried Forward	0	32,658	32,658
Budgetary Balance	**993,427**	**1,099,617**	**106,190**

FY 2008-09 Current Biennium Forecast Comparison
November 2007 vs End-of-Session
General Fund
($ in thousands)

	9-07 Enacted FY 2008-09	11-07 Fcst FY 2008-09	$ Difference	% Change
Actual & Estimated Resources				
Balance Forward From Prior Year	2,106,087	2,244,935	138,848	6.6%
Current Resources:				
Tax Revenues	31,441,264	30,694,562	(746,702)	-2.4%
Non-Tax Revenues	1,524,720	1,537,268	12,548	0.8%
Subtotal - Non-Dedicated Revenue	32,965,984	32,231,830	(734,154)	-2.2%
Dedicated Revenue	156,998	156,998	0	0.0%
Transfers In	638,579	633,476	(5,103)	-0.8%
Prior Year Adjustments	50,000	50,000	0	0.0%
Subtotal - Other Revenue	845,577	840,474	(5,103)	-0.6%
Subtotal-Current Resources	33,811,561	33,072,304	(739,257)	-2.2%
Total Resources Available	**35,917,648**	**35,317,239**	**(600,409)**	**-1.7%**
Actual & Estimated Spending				
K-12 Education	13,780,961	13,787,666	6,705	0.0%
Higher Education	3,155,158	3,155,162	4	0.0%
Property Tax Aids & Credits	3,109,342	3,154,482	45,140	1.5%
Health & Human Services	9,695,010	9,717,974	22,964	0.2%
Public Safety	1,886,474	1,886,633	159	0.0%
Transportation	249,402	249,641	239	0.1%
Environment, Energy & Natural Resources	448,020	450,037	2,017	0.5%
Agriculture & Veterans	183,984	187,257	3,273	1.8%
Economic Development	389,116	396,853	7,737	2.0%
State Government	656,096	664,277	8,181	1.2%
Debt Service	913,145	875,761	(37,384)	-4.1%
Capital Projects	20,500	20,500	0	0.0%
Estimated Cancellations	(21,164)	(21,164)	0	0.0%
Subtotal Expenditures & Transfers	**34,466,044**	**34,525,079**	**59,035**	**0.2%**
Dedicated Expenditures	122,198	129,410	7,212	5.9%
Total Expenditures & Transfers	**34,588,242**	**34,654,489**	**66,247**	**0.2%**
Balance Before Reserves	**1,329,406**	**662,750**	**(666,656)**	
Cash Flow Account	350,000	350,000	0	
Budget Reserve	685,667	685,667	0	
Budgetary Balance	**293,739**	**(372,917)**	**(666,656)**	

FY 2008-09 General Fund Budget
November 2007 Forecast
($ in thousands)

	11-07 Fcst FY 2008	11-07 Fcst FY 2009	11-07 Fcst FY 2008-09
Actual & Estimated Resources			
Balance Forward From Prior Year	2,244,935	1,453,091	2,244,935
Current Resources:			
Tax Revenues	15,185,000	15,509,562	30,694,562
Non-Tax Revenues	775,678	761,590	1,537,268
Subtotal - Non-Dedicated Revenue	15,960,678	16,271,152	32,231,830
Dedicated Revenue	83,185	73,813	156,998
Transfers In	322,024	311,452	633,476
Prior Year Adjustments	25,000	25,000	50,000
Subtotal - Other Revenue	430,209	410,265	840,474
Subtotal-Current Resources	16,390,887	16,681,417	33,072,304
Total Resources Available	**18,635,822**	**18,134,508**	**35,317,239**
Actual & Estimated Spending			
K-12 Education	6,833,404	6,954,262	13,787,666
Higher Education	1,570,749	1,584,413	3,155,162
Property Tax Aids & Credits	1,571,189	1,583,293	3,154,482
Health & Human Services	4,679,525	5,038,449	9,717,974
Public Safety	932,254	954,379	1,886,633
Transportation	143,586	106,055	249,641
Environment, Energy & Natural Resources	257,097	192,940	450,037
Agriculture & Veterans	102,489	84,768	187,257
Economic Development	256,128	140,725	396,853
State Government	349,951	314,326	664,277
Debt Service	409,276	466,485	875,761
Capital Projects	10,250	10,250	20,500
Estimated Cancellations	(6,164)	(15,000)	(21,164)
Subtotal Expenditures & Transfers	**17,109,734**	**17,415,345**	**34,525,079**
Dedicated Expenditures	72,997	56,413	129,410
Total Expenditures & Transfers	**17,182,731**	**17,471,758**	**34,654,489**
Balance Before Reserves	**1,453,091**	**662,750**	**662,750**
Cash Flow Account	350,000	350,000	350,000
Budget Reserve	685,667	685,667	685,667
Budgetary Balance	**417,424**	**(372,917)**	**(372,917)**

November 2007 Forecast vs End-of-Session

General Fund

($ in thousands)

	9-07 Plng Est FY2010-11	11-07 Plng Est FY2010-11	$ Difference	% Change
Actual & Estimated Resources				
Balance Forward From Prior Year	1,329,406	662,750	(666,656)	-50.1%
Current Resources:				
Tax Revenues	34,585,863	33,392,891	(1,192,972)	-3.4%
Non-Tax Revenues	1,505,194	1,520,981	15,787	1.0%
Subtotal - Non-Dedicated Revenue	36,091,057	34,913,872	(1,177,185)	-3.3%
Dedicated Revenue	89,426	136,026	46,600	52.1%
Transfers In	612,745	613,319	574	0.1%
Prior Year Adjustments	50,000	50,000	0	0.0%
Subtotal - Other Revenue	752,171	799,345	47,174	6.3%
Subtotal-Current Resources	36,843,228	35,713,217	(1,130,011)	-3.1%
Total Resources Available	**38,172,634**	**36,375,967**	**(1,796,667)**	**-4.7%**
Actual & Estimated Spending				
K-12 Education	13,701,275	13,805,385	104,110	0.8%
Higher Education	3,191,030	3,191,030	0	0.0%
Property Tax Aids & Credits	3,120,645	3,203,756	83,111	2.7%
Health & Human Services	11,066,296	11,071,694	5,398	0.0%
Public Safety	1,906,291	1,906,244	(47)	0.0%
Transportation	212,054	212,054	0	0.0%
Environment, Energy & Natural Resources	375,534	376,155	621	0.2%
Agriculture & Veterans	166,304	166,184	(120)	-0.1%
Economic Development	281,272	281,318	46	0.0%
State Government	621,406	621,429	23	0.0%
Debt Service	1,009,391	987,305	(22,086)	-2.2%
Capital Projects	20,500	20,500	0	0.0%
Estimated Cancellations	(20,000)	(20,000)	0	0.0%
Subtotal Expenditures & Transfers	**35,651,998**	**35,823,054**	**171,056**	**0.5%**
Dedicated Expenditures	54,626	101,226	46,600	85.3%
Total Expenditures & Transfers	**35,706,624**	**35,924,280**	**217,656**	**0.6%**
Balance Before Reserves	**2,466,010**	**451,687**	**(2,014,323)**	
Cash Flow Account	350,000	350,000	0	
Budget Reserve	653,000	653,000	0	
Budgetary Balance	1,463,010	(551,313)	(2,014,323)	
Structural Balance	**1,136,604**	**(211,063)**	**(1,347,667)**	

FY 2006-11 Planning Horizon
November 2007 General Fund Forecast
($ in thousands)

	Closing FY 2006-07	11-07 Fcst FY 2008-09	11-07 Plng Est FY 2010-11
Actual & Estimated Resources			
Balance Forward From Prior Year	1,393,086	2,244,935	662,750
Current Resources:			
Tax Revenues	29,680,960	30,694,562	33,392,891
Non-Tax Revenues	1,737,809	1,537,268	1,520,981
Subtotal - Non-Dedicated Revenue	31,418,769	32,231,830	34,913,872
Dedicated Revenue	84,872	156,998	136,026
Transfers In	787,930	633,476	613,319
Prior Year Adjustments	49,820	50,000	50,000
Subtotal - Other Revenue	922,622	840,474	799,345
Subtotal-Current Resources	32,341,391	33,072,304	35,713,217
Total Resources Available	**33,734,477**	**35,317,239**	**36,375,967**
Actual & Estimated Spending			
K-12 Education	12,746,042	13,791,476	13,805,385
K-12 Shift Buyback	609,435	(3,810)	0
Subtotal K-12 Education	13,355,477	13,787,666	13,805,385
Higher Education	2,761,530	3,155,162	3,191,030
Property Tax Aids & Credits	3,022,998	3,154,482	3,203,756
Health & Human Services	8,287,246	9,717,974	11,071,694
Public Safety	1,706,389	1,886,633	1,906,244
Transportation	215,536	249,641	212,054
Environment, Energy & Natural Resources	330,868	450,037	376,155
Agriculture & Veterans	135,944	187,257	166,184
Economic Development	294,965	396,853	281,318
State Government	557,356	664,277	621,429
Debt Service	752,098	875,761	987,305
Capital Projects	0	20,500	20,500
Deficiencies/Other	7,784	0	0
Estimated Cancellations	0	(21,164)	(20,000)
Subtotal Expenditures & Transfers	**31,428,191**	**34,525,079**	**35,823,054**
Dedicated Expenditures	61,351	129,410	101,226
Total Expenditures & Transfers	**31,489,542**	**34,654,489**	**35,924,280**
Balance Before Reserves	**2,244,935**	**662,750**	**451,687**
Cash Flow Account	350,000	350,000	350,000
Budget Reserve	653,000	685,667	653,000
Tax Relief Account	109,660	0	0
Appropriations Carried Forward	32,658	0	0
Budgetary Balance	**1,099,617**	**(372,917)**	**(551,313)**