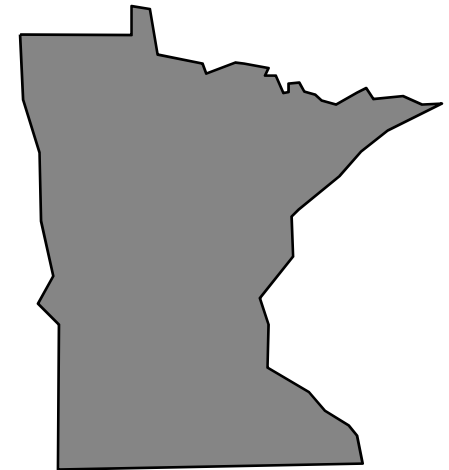


Minnesota Budget Forecast

February 2008



February 28, 2008

\$935 Million Deficit Projected for FY 2008-09

(\$ millions)	<u>Nov</u>	<u>Feb</u>	<u>Change</u>
Beginning Balance	\$2,245	\$2,245	\$0
Revenues	33,072	32,542	(530)
Spending	34,654	34,718	64
Reserves	<u>1,036</u>	<u>1,003</u>	<u>(33)</u>
<i>Ending Balance</i>	<i>\$(373)</i>	<i>\$(935)</i>	<i>\$(562)</i>

Understanding This Forecast

- ▶ Recession expected for first half of 2008
- ▶ Deficit now at **\$935M**
- ▶ FY 2008-09 revenues *down \$530M* from November; *down \$1.27B* from end-of-session
- ▶ FY 2008-09 spending *up \$64M* from November; *up \$130M* from end-of-session
- ▶ **\$1.1B** shortfall expected for FY 2010-11

Revenues Down \$530 Million From November Estimates

(\$ millions)	February <u>Forecast</u>	Change <u>2008-09</u>
Individual Income	\$15,345	\$(313)
Sales Tax	9,145	(13)
Corp. Inc. Tax	1,760	(139)
All Other	<u>6,292</u>	<u>(65)</u>
Total Change	\$32,542	\$(530)

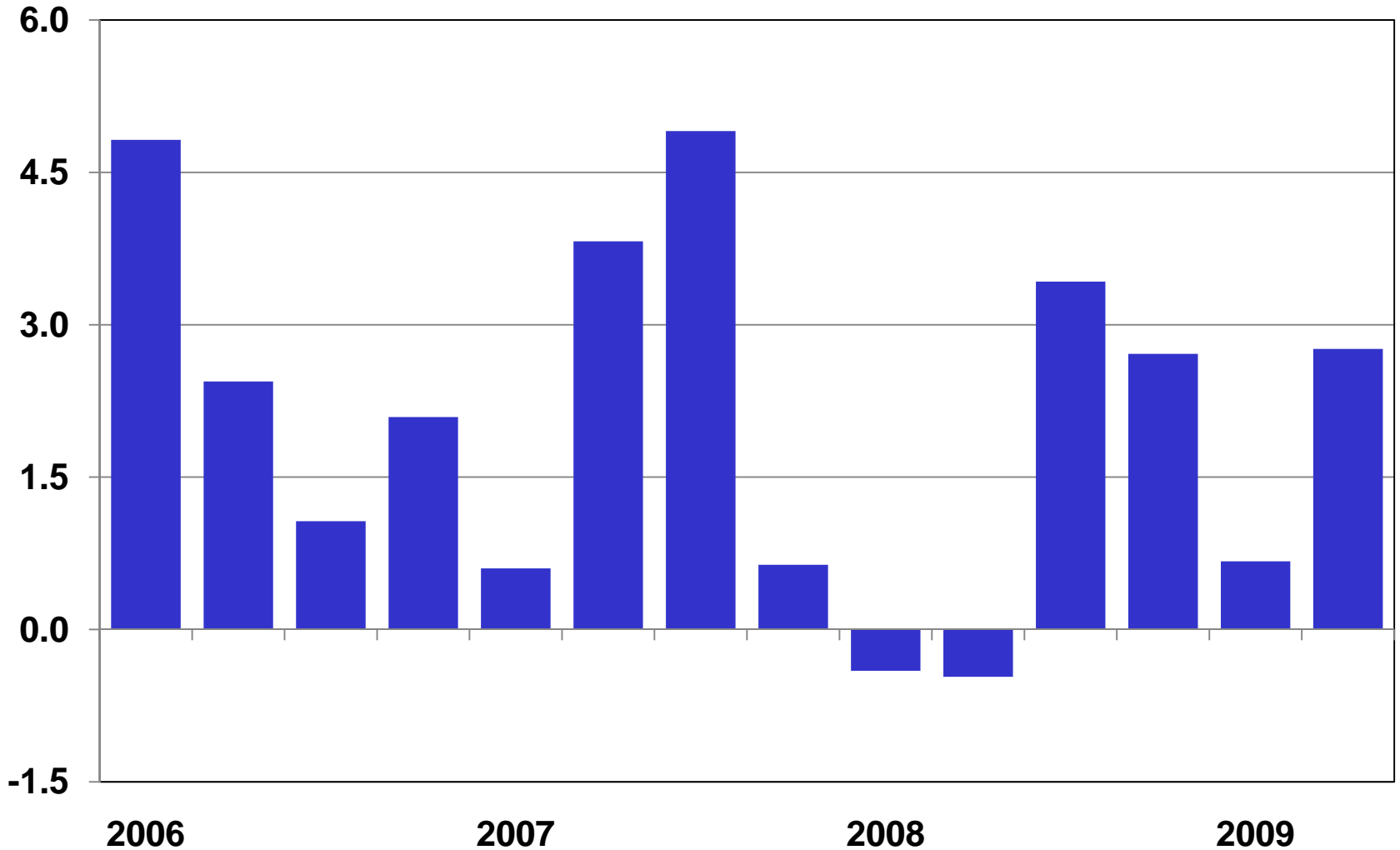
Revenues Down \$1.27 Billion From End-of-Session

(\$ millions)

	<u>\$ Change</u>	<u>% Change</u>
Individual Income	\$(282)	(1.8)
Sales Tax	(322)	(3.4)
Corp. Inc. Tax	(456)	(20.6)
All Other	<u>(209)</u>	<u>(3.2)</u>
Total Change	\$(1,270)	(3.8)

Global Insight Forecast Calls for a Two Quarter Recession in 2008

% Change
Real GDP SAAR

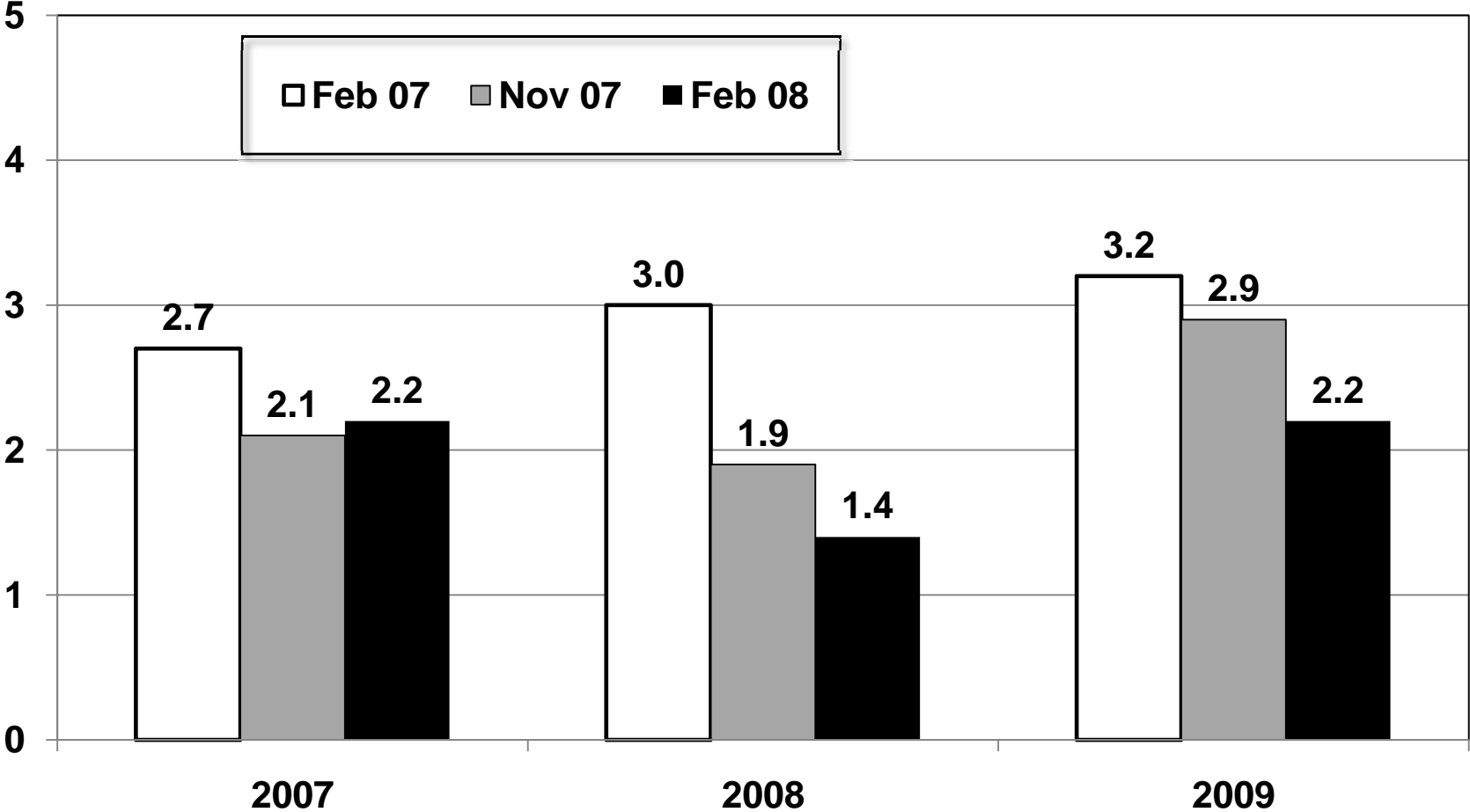


Major Economic Concerns

- ▶ Housing**
- ▶ Credit Markets**
- ▶ Energy Prices**

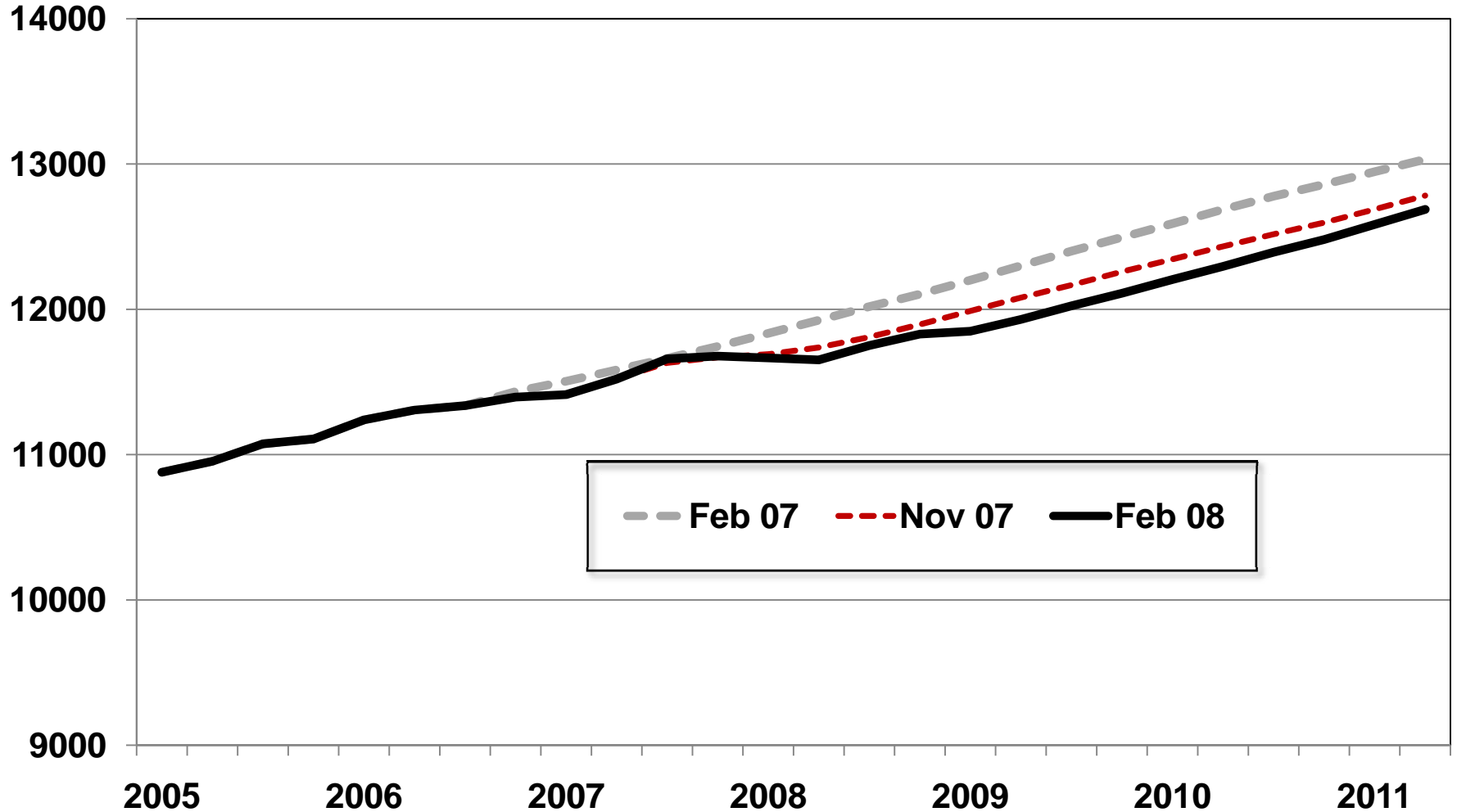
Expected Real GDP Growth in 2008 Has Fallen to 1.4 Percent

% Change
Real GDP



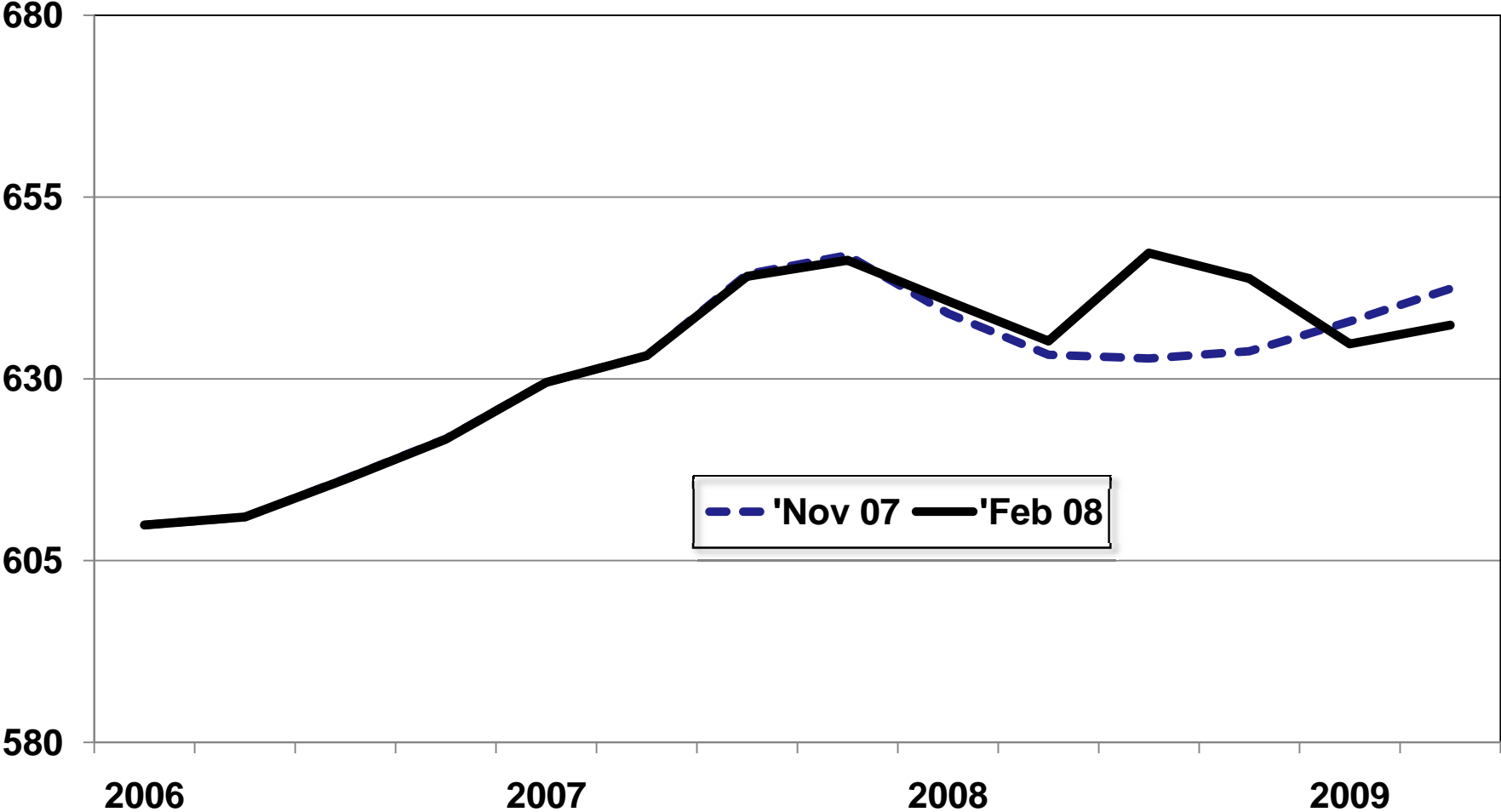
The Recession Eliminates about One Year of U.S. Economic Growth

Real GDP
\$ Billions



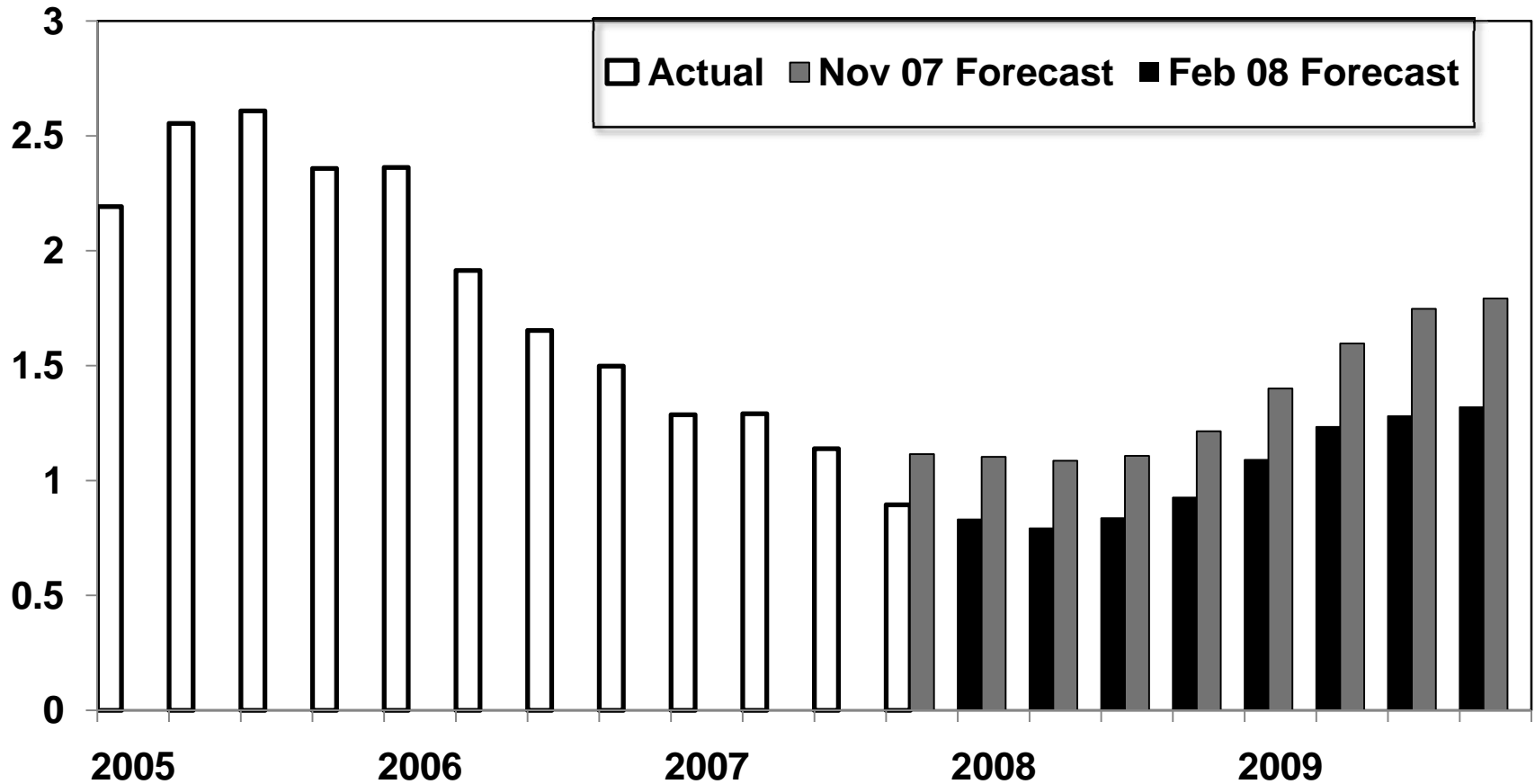
The Stimulus Package Increases Household Spending on Non-Auto Consumer Durables in Mid 2008

\$ Billions

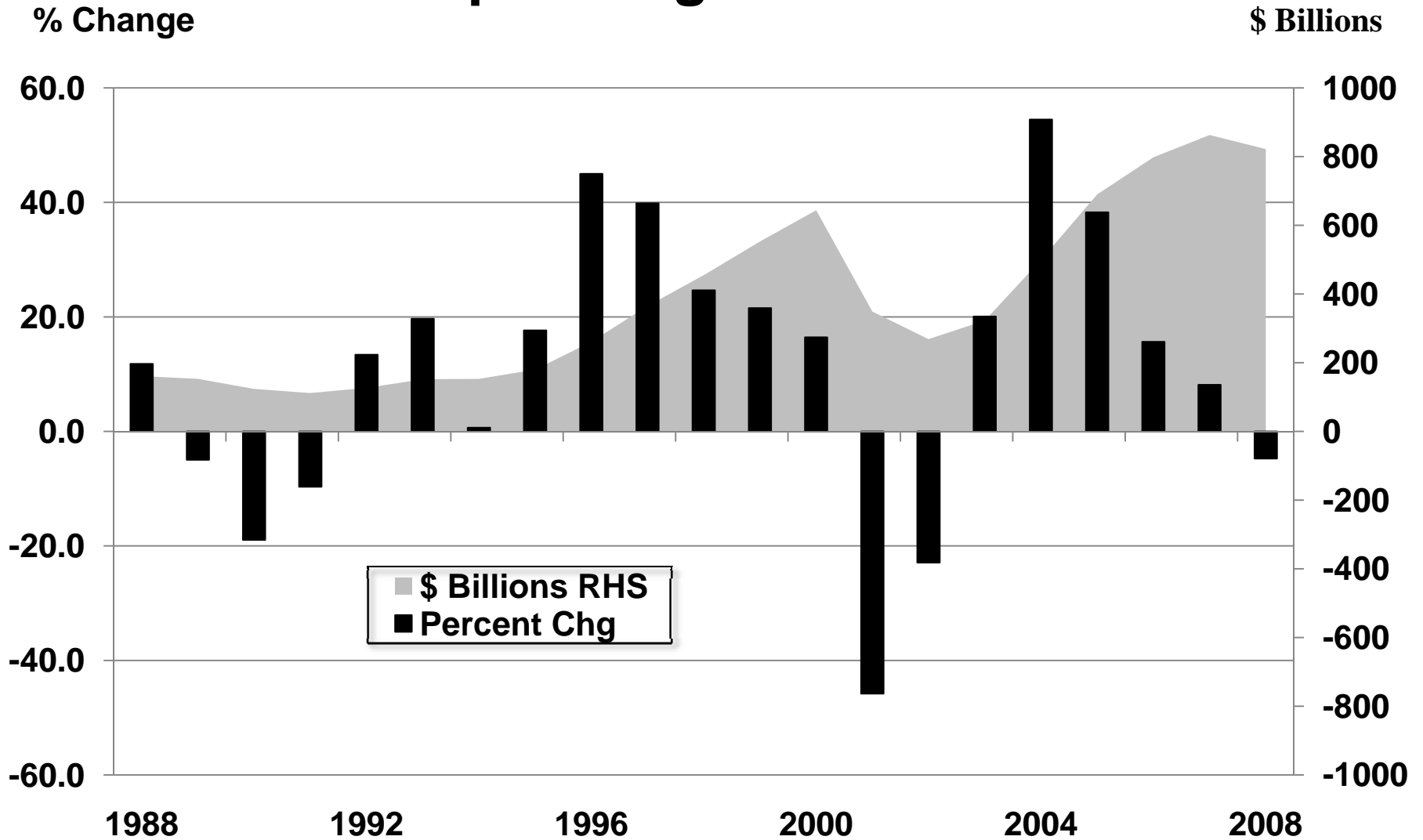


Minnesota's 4th Quarter 2007 Housing Permits Fell Below the November Forecast

1000's per Month SA



Capital Gain Realizations Drop During Recessions



Small Changes in Spending Estimates

(\$ millions)	February <u>Forecast</u>	Change <u>2008-09</u>
K-12 Education	\$13,805	\$17
Aids and Credits	3,152	(3)
Health & Human Svcs	9,703	74
Debt Service	869	(7)
All Other	<u>7,190</u>	<u>(17)</u>
Total Spending	\$34,718	\$64

FY 2010-11 Planning Estimates Continue to Weaken

(\$ millions)	<u>End-of- Session</u>	<u>Nov Change</u>	<u>Feb Change</u>	<u>February Forecast</u>
Revenues	\$36,843	\$(1,130)	\$(669)	\$35,044
Spending	<u>35,707</u>	<u>218</u>	<u>206</u>	<u>36,130</u>
<i>Difference</i>	\$1,137	\$(1,348)	\$(875)	\$(1,086)
Inflation (1.9%/year)				1,040