Minnesota
Department of Finance

February 2000

February 2000 Economic Forecast

Highlights

FY 2000-01 Budget Outlook up $229 Million from November

Net general fund revenues for the 2000-01 biennium are now forecast to reach $24.595 billion, $222 million (0.9 percent) more than November's forecast. Expected expenditures during the current biennium have dropped by $12 million to $23.581 billion. After adjusting for a $5 million increase in dedicated reserves, the expected FY 2000-01 balance increased by $229 million.

2003 Structural Balance Widens by $87 Million

Revenue and expenditure planning estimates have both increased by small amounts. Total current resources in the 2002-03 biennium are now projected to increase by $128 million (0.5 percent), while expenditure increases of $65 million offset part of the revenue gain. The structural balance for FY 2003 is now $549 million, $87 million more than projected in November.

Little Change in Economic Outlook

The economic outlook has changed only slightly since November. Further interest rate hikes are expected to slow growth slightly during 2001, but changes in the Data Resources Inc. (DRI) forecast for the U.S. economy are small. Real GDP growth is forecast to average 3.3 percent between 1999 and 2003, and the Consumer Price Index is projected to grow at an average rate of 2.4 percent through the end of 2002-03 biennium. Income and sales tax receipts grow modestly but corporate income taxes fall below November's estimates in both the current biennium and the next. Corporate tax revenues are now projected to be $106 million less in FY 2002-03 than previously anticipated.

Risk of Recession in 2002 Now at 35 Percent

DRI's overwhelmingly positive outlook extends through 2002 and 2003. There is, however, no guarantee that the economy will perform at or above the levels forecast for four more years. DRI has raised the probability of a recession beginning in 2002 by 5 percentage points, signaling a slight increase in their concern about the longer term outlook.

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BUDGET SUMMARY

FY 2000-01 Budget Outlook Improves by $229 Million

General fund revenues for the current biennium are now forecast to total $24.595 billion, up $222 million (0.9 percent) from November's forecast. State spending for the two-year period is projected to be $23.581 billion, down $12 million (0.01 percent) from prior estimates. A $5 million increase in the investment earnings dedicated to the Property Tax Reform Account reduces the net forecast gain to $229 million.

FY 2000-01 Budget Summary
($ in Millions)

	Nov 1999	Feb 2000	Change
Beginning Balance	**$1,921**	**$1,921**	**$0**
Forecast Revenues	24,373	24,595	222
Estimated Expenditures	23,593	23,581	(12)
Reserves			
Cash Flow Acct.	350	350	0
Budget Reserve	622	622	0
Dedicated Reserves	145	145	0
Property Tax Reform Account	**1,013**	**1,018**	**5**
Available Balance	**$571**	**$800**	**$229**

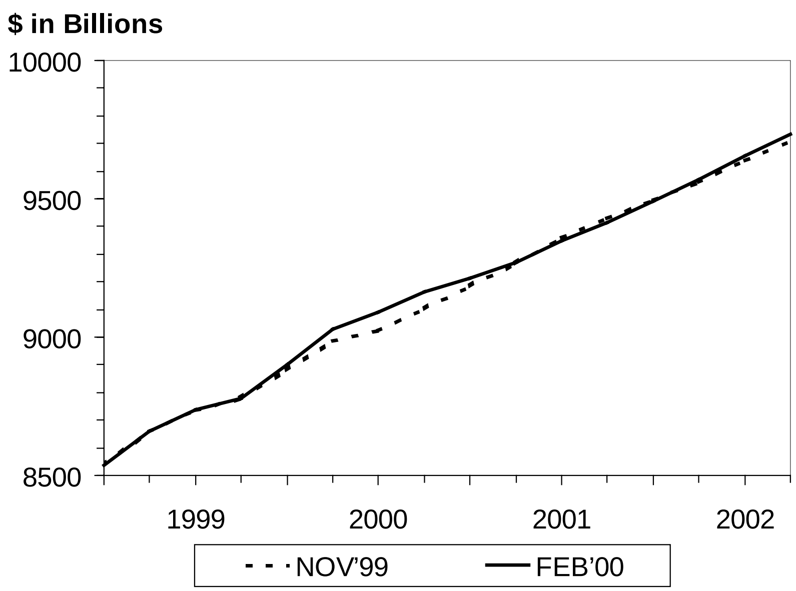
An available balance of $571 million was projected in November after allocating $1.013 billion in principal and forecast interest to the Property Tax Reform Account. The $229 million increase in the current forecast is an undesignated surplus which raises the available general fund balance to $800 million. Adding the dedicated funds in the Property Tax Reform Account brings the general fund surplus to $1.818 billion.

Economic Outlook: More of the Same, Good Growth and Low Inflation

The U.S. economy has been growing at a rate well in excess of what even the most optimistic forecasters believe is sustainable. While undoubtedly influenced by Y2K activity, fourth quarter 1999's real GDP growth rate of 6.9 percent is only the most recent example of the current economic expansion's momentum. The Federal Reserve has raised interest rates four times since last June. Growing federal budget surpluses further restrain the economy. And, higher oil prices also are beginning to hold down consumer demand by reducing discretionary income. Soon, the U.S. economic growth rate should begin to slow.

But, even with those strong, counter cyclical forces all working in concert, Federal Reserve Chairman Greenspan remains concerned that the economy will overheat and that inflationary forces will be rekindled. Financial markets have interpreted his recent remarks as a signal the Fed will do whatever is required to keep inflation under control, be it two, or three, or even more interest rate hikes in 2000. Many believe that a year of sub 3.0 percent economic growth may be required before the inflationary pressures are reduced sufficiently to satisfy the Fed Chairman. Since economic policy instruments work with long lags, policy actions could cause growth to slow even more than currently anticipated, but still not create a recession.

Economic Outlook Has Changed Little Since November
(Real GDP)



Data Resources Inc., (DRI), Minnesota's national economic consultant, assumes that the U.S. economy suffers from no serious policy mistakes or external shocks during the next four years. The result is the economy continues to grow at a near-trend pace, with real GDP growth averaging 3.3 percent between 1999 and 2003. Inflation, while trending higher in 2002 and 2003 also remains in check. The CPI grows at an average rate of 2.4 percent between now and the end of 2003.

Slightly slower growth in fiscal 2001 is projected in the February Control, but the economy closes the biennium at almost the same level as forecast in November. While most changes from November were small, the outlook for corporate profits was an exception. DRI cut their corporate profits forecast substantially. Corporate profits are now expected to plateau in 2000 and fall by 3 percent in 2001. This change in corporate profits forecast removes roughly one-third of the increase in the corporate profits forecast in November. For 2001 and 2002 the declines from November's forecast are slightly larger.

The probability of a recession during the current biennium is very small. While DRI assigns a 10 percent probability to their pessimistic scenario which contains a recession starting in 2000, Minnesota's Council of Economic Advisors believed that scenario to be extremely unlikely. The probability DRI assigns to a scenario containing a recession in 2002, is 35 percent (up 5 percent from November). The Council thought this to be an adequate measure of the downside risk to this forecast.

Minnesota's Economy Has Been Strong

Minnesota's economy has been one of the best performing state economies in recent years. In 1998, the state's 2.5 percent unemployment rate was the lowest in the nation. Even with a weakened agricultural sector personal income per capita grew by 5.4 percent and average annual pay per worker by 6.1 percent, the fourth and fifth best performances in the U.S. While all data is not yet in for 1999, the unemployment rate remained at 2.5 percent and wage growth and personal income growth both appear to have exceeded the U.S. averages.

Minnesota's economy is expected to continue to show good growth through the current biennium. While job growth may slow due to the ongoing tight labor market, wages per job and personal income are expected to continue to show healthy increases.

Revenues Up $185 million in Current Biennium

Net non-dedicated revenues for the 2000-01 biennium are now forecast to total $23.734 billion, $185 million (0.8 percent) more than November's estimate. Changes in the forecast for each of the major taxes were small. The forecast for individual income tax receipts was raised by $140 million (1.3 percent), and corporate tax projections were cut by $46 million (3.0 percent), consistent with the reduction in the forecast for corporate profits in 2001.

The forecast of general fund revenues coming from the tobacco settlement were reduced by $8 million (3.5 percent), to reflect lower actual FY 2000 payments and reduced estimates for FY 2001. This decrease is in addition to a $23 million reduction made in November to reflect reductions in U.S. tobacco consumption.

FY 2000-01 Non-Dedicated Revenues

($ in Millions)

	Nov 99	Feb 00	Change	%
Individual Income	$11,126	$11,226	140	1.3
Sales	7,561	7,582	21	0.3
Corporate	1,527	1,481	(46)	(3.0)
Motor Vehicle Sales	1,046	1,055	9	0.9
Major Taxes	21,260	21,384	124	0.6
Other Revenues	2,058	2,027	69	3.3
Tobacco Settlement	230	222	(8)	(3.5)
Total Revenues	**$23,549**	**$23,734**	**$185**	**0.8**

Forecast Spending Reduced $12 Million for Current Budget

Expenditures for the 2000-01 biennium are now forecast to total $23.581 billion, down $12 million from November's estimate. A net $8 million increase in spending for K-12 Education and Children and Family programs reflects slightly higher pupil unit estimates and special education costs. Some of that increase was offset by lower spending estimates for family and early childhood programs. Family support costs are forecast to be $13 million higher due to changes in the mix of federally eligible spending which increased the state share of MFIP program costs. Spending in all other program areas increased estimate spending by $9 million.

FY 2000-01 Expenditures
($ in Millions)

	Nov 99	Feb 00	Change	%
Education/Children & Families	$8,104	$8,112	$8	0.1
Health Care	3,773	3,731	(42)	(1.1)
Family Support	414	427	13	3.1
All Others	11,302	11,311	9	0.1
Total	**$23,593**	**$23,581**	**$(12)**	**(0.0)**

Those spending increases were more than offset by a $42 million reduction in health care spending. Declining costs in the Medical Assistance program - due to lower caseloads in nursing homes - account for the majority of the savings.

Outlook for FY 2002-03 Changes Little

There were small changes in the planning estimates for the 2002-03 biennium. Net non-dedicated revenues in fiscal years 2002 and 2003 are now projected to total $26.379 billion, up $97 million from November's estimates. The increase in projected income tax and sales tax receipts is partially offset by a $106 million reduction in expected corporate income tax receipts.

Expenditures for the 2002-03 biennium are forecast at $25.688 billion, up $65 million from November. Small changes in expected enrollments and caseload were the source of the general fund expenditure increases. The expenditure planning estimates assume a 2.5 percent per year inflation increase for FY 2002 and FY 2003 to reflect expected pressures from wage and price increases during the next budget period.

FY 2002-03 Planning Estimates
($ in Millions)

	Nov 99	Feb 00	Change
Resources:			
Revenues	$26,282	$26,379	$97
Transfers, other	889	920	31
Total	$27,171	$27,299	$128
Spending:			
Baseline	$24,716	$24,781	$64
Estimated Inflation	906	907	1
Total	$25,622	$25,688	$65

Structural Balance for FY 2003 Increases $87 Million

The revised revenue and expenditure planning estimates for FY 2003 leave a structural balance of $549 million after adjusting the one-time tobacco settlement payments which end in FY 2003 and dedicated property tax reform account interest. The $549 million structural balance shown for FY2003 is $87 million greater than that projected in November. The structural balance is simply the difference between a given year's revenues and expenditures – excluding any balance from prior years.

Structural Balance Analysis
($ in Millions)

	FY 2001	FY 2002	FY 2003
Revenues	$12,560	$13,405	$13,895
Expenditures	11,995	12,524	13,164
Difference	565	881	731
Less:			
One-time Tobacco Settlement	N/A	(225)	(115)
Property Tax Reform Account Earnings	N/A	(63)	(67)
Structural Balance	**$565**	**$593**	**$549**

Because the structural balance is viewed as measuring the ongoing balance of revenues and spending, the second year of the planning estimates, FY 2003, is a key fiscal indicator. The primary purpose is to assess how tax and spending decisions made in the current biennium may affect ongoing revenues or expenditures.

A complete version of the February 2000 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

The February revenue and expenditure forecast updates state revenue and expenditure projections just prior to the start of final legislative action on the budget. The forecast provides revised revenue and expenditure estimates for the current biennium based on the most recent information about the national and state economic outlook and caseload, enrollments, and cost projections. It also reports how current revenue collections match with November's forecast.

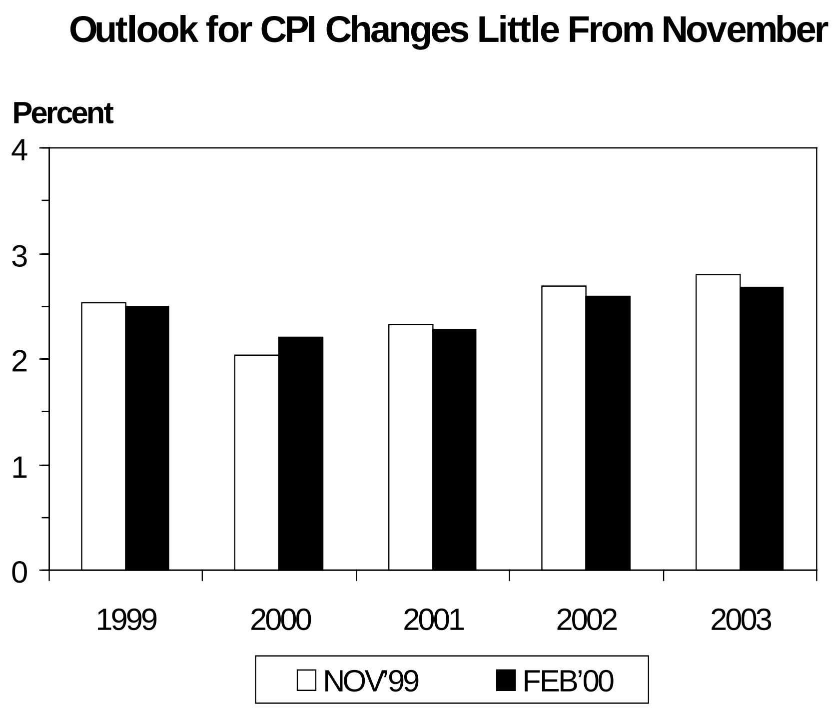
The revenue forecast is prepared based on a national economic forecast provided by Data Resources Inc., (DRI). That national forecast is reviewed by Minnesota's Council of Economic Advisors. The "Economic Summary" provides a summary of the Council's discussion of the DRI forecast. The "Economic Outlook" which follows provides a more comprehensive overview of the current outlook for the U.S. and Minnesota economy.

A revised forecast for the current FY 2000-01 biennium and updated planning estimates for the FY 2002-03 biennium are presented. Planning estimates for FY 2002-03 should not be interpreted as explicit forecasts. Instead, policymakers should use them as a guide to indicate whether proposed actions will create financial problems in future years.

The price of government estimates and a series of tables that highlight the changes in the economic outlook and the changes in state revenues and expenditures are included in the document's appendix.

Revenue estimates for the current biennium are based on micro-simulations and econometric models which draw on the Minnesota Department of Finance's forecast for the Minnesota economy. The revenue estimates for FY 2002-03 are obtained from less complex models and are driven entirely by the long term national economic outlook of DRI.

For the current biennium most state agency operations and grants are shown at the level of the appropriations made during the prior legislative session, plus any authorized spending carried forward from prior years. Spending for entitlement programs -- such as K-12 education, property tax aids and credits, health care, and family support -- is forecast based on expected changes in eligibility, enrollment, and average cost. The FY 2002-03 planning estimates add 2.5 percent per year to current law spending to represent the effect of inflation on state expenditures.

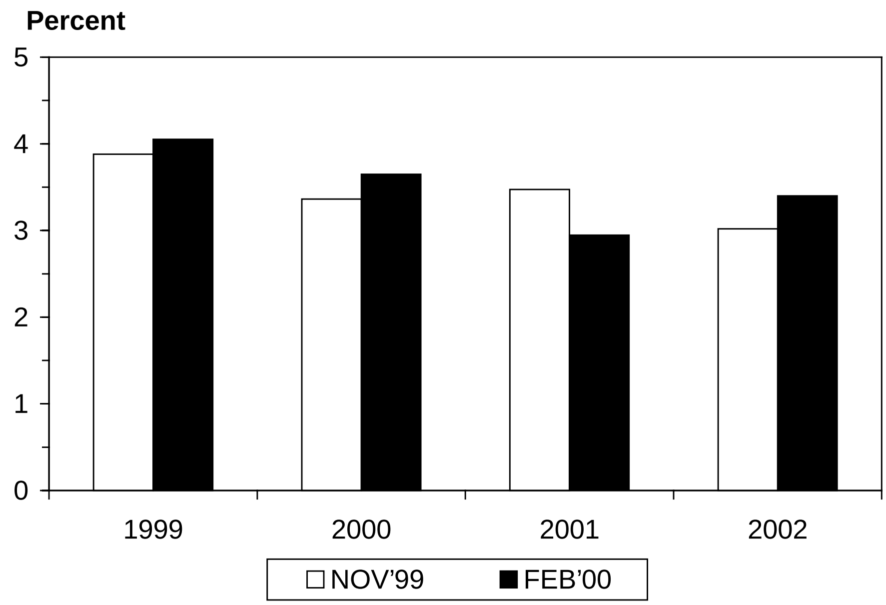


The difference between the forecast and the budget process is clearly defined, but often confused. The forecast does not reflect the Governor's budget recommendations, or potential legislative action, only current law. While the forecast for such diverse items as the tobacco settlement's one-time and ongoing payments, federal-state funding in TANF, and other areas may be accompanied by a discussion of possible future legislative changes, the forecast presents only a current law framework for these discussions. Similarly, a forecast increase in spending for health care in the current biennium or estimated inflation in planning estimates for the next biennium -- does not preclude the Governor or the legislature from proposing budget changes that will significantly change expected spending or revenues from those shown in the current forecast.

ECONOMIC SUMMARY

Only the most pessimistic forecasters believe the end to our current economic expansion is near. While it soon will be more than nine years since end of the last recession, there are few signs of the imbalances and weaknesses which typically proceed a slump in the economy. Job growth continues strong, real wages are increasing, and inflation remains under control. Unemployment is at 4 percent, productivity has increased, and consumers are confident. Economists may debate whether it is reasonable to expect annual real GDP growth rates to continue to exceed 4 percent, but almost no one believes that the level of real output will actually decline in 2000. Even though this expansion has gone on longer than any in U.S. history there is, at present, no reason it could not extend well into 2001, or even beyond.

Strong Real GDP Growth Expected Through 2002



The overwhelmingly favorable economic outlook is tempered only by the likelihood that this year's economic growth rate is likely to slow slightly from recent experience. The U.S. economy has grown at a 4 percent annual rate during each of the last three years, and the tight national labor market leaves future growth largely dependent on further productivity gains. Many, including the President's Council of Economic Advisors, see productivity growth slowing from the 2.9 percent average rate observed between 1995 and 1999. Without similar productivity growth in 2000, inflationary pressures could easily emerge, leading the Federal Reserve to raise interest rates even more than currently projected. Indeed, many believe recent and anticipated Federal Reserve actions are attempts to keep inflation low by slightly reducing future growth in demand.

The Control forecast of Data Resources Inc. (DRI), Minnesota's national economic consultant has changed little since November. Reflecting the widespread optimism about the near term economic outlook DRI now projects real GDP to grow at a 3.6 percent annual rate in 2000, and by 2.9 percent in 2001. November's forecast called for growth rates of 3.4 and 3.5 percent respectively. DRI's present inflation outlook is also similar to November's. Their current CPI forecasts for 2000 and 2001, 2.4 percent and 2.2 percent, are both up 0.1 percent from November's projections. The Blue Chip Consensus forecast calls for real GDP growth rates of 3.8 percent in 2000 and 3.0 percent in 2001, virtually identical to DRI's projections. The Blue Chip CPI forecast is at 2.6 percent for both 2000 and 2001.

Members of Minnesota's Council of Economic Advisors agreed that DRI's forecast for 2000 and 2001 closely reflects the consensus outlook. Differences between their individual forecasts for 2000 and the DRI Control were slight. For 2001 Council members' forecasts were distributed over a somewhat wider range, but all agreed that DRI's forecast was consistent with most other current forecasts. Economic forecasts are more tightly grouped for both 2000 and 2001 than has been typical.

Council members and Finance Department economists emphasized that while the outlook is favorable, there are no guarantees. When expected real growth rates are as high as those currently projected the economy can significantly underperform the forecast without plunging into a recession. With most forecasters currently calling for calendar year 2000 growth at a rate of 3.5 percent or more, a slip to real GDP growth of 2.4 percent (the rate at which the economy grew in 1993, for example) would cause revenue collections to fall well short of projections based on that higher growth rate.

Finance Department economists noted that revised withholding tables reflecting the income tax rate changes approved during the 1999 Legislative Session may not have been put in place in all firms at mid-year. This raises the possibility of larger than anticipated tax year 1999 refunds. Capital gains realizations and IRA distributions also remain major sources of uncertainty which could either increase revenues beyond forecast levels, or cause them to fall short.

DRI now assigns a probability of 55 percent to their Control forecast, down 5 percent from November. Their pessimistic scenario which contains a 2000 recession driven by a stock market collapse, high oil prices and further Federal Reserve interest rate hikes is assigned a 10 percent probability. DRI's principal alternative, Late Recession, contains a recession in 2002. DRI assigns a 35 percent probability to this scenario in which rising inflation brings this expansion to an end.

When asked about their outlooks for 2002 and 2003 Council members were much more uncertain. No one believed it impossible for the current expansion to continue at roughly the current pace through the end of the next biennium. But, adding four more years of growth to the record expansion would require any major external shocks and avoiding policy mistakes. One Council member noted that the errors in his model were such that when looking beyond two years its forecast was not very useful. Council members generally believed that the probability assigned to DRI's Late Recession scenario was appropriate. Council members and Finance Department economists agreed that a recession in 2000 was very unlikely. Council members urged caution in making long term commitments based on projections from a forecast for 2002 and 2003.

The Council once again cautioned policy makers against assuming that budget surpluses will continue into the future. Prudent financial management would call for using some of any surplus to increase Minnesota's budget reserves beyond the current level. Minnesota's budget reserve remains well below the recommended long-term goal of 5 percent of biennial spending.

ECONOMIC OUTLOOK

Asked if the economy will crash in 2000, one economist replied he didn't know since it is still flying at 37,000 feet. That sentiment is widely shared. Like practically everyone else, DRI sees no reason for the longest expansion in U.S. history to end in the foreseeable future unless the Federal Reserve mistakenly lets inflation get out of hand.

Currently, there are no signs of the wage-fueled inflation economists fear. But, there are no signs the consumer led economy is slowing either, despite four Federal Reserve interest rate increases since last June. In the fourth quarter, real GDP soared at a 6.9 percent annual rate. That growth far exceeds even the most optimistic estimates of the maximum sustainable pace. DRI expects at least two more rate increases before midyear, with the first following the March 21 Open Market Committee meeting. While there is no clear evidence that monetary tightening is working, DRI assumes higher rates will succeed in slowing consumer spending during the next several months.

Business Week thinks Dr. Greenspan has a dicey task. The Fed will need to gradually raise interest rates enough to slow real GDP growth without destabilizing financial markets or frightening consumers. If it begins to look as though incremental tightening will not work, aggressive, potentially unsettling interest rate moves may be needed to curb booming demand which is outrunning supply.

Higher inflation seems imminent because already very tight labor markets are becoming tighter, oil prices have tripled, and other commodity prices are rebounding. Many observers think this year is the Fed's last chance to slow the economy if accelerating inflation is to be avoided. Although the year-end surge in productivity is not likely to be sustainable, it may hold labor costs in check long enough to give the Fed's tightening moves time to work.

Why No Wage-Fueled Inflation?

Economists are surprised by the absence of accelerating wage rate inflation. Normally, low unemployment rates encourage workers to demand larger pay raises. And, in a high-flying economy, employers scrambling to fill jobs usually are accommodating because they can pass on increased labor costs by raising prices.

Explanations of currently modest wage rate increases are numerous and mostly speculative. Federal Reserve economists believe some employers are holding down wages by substituting stock options. DRI thinks low inflation is keeping workers from more actively seeking raises. In addition, many employers seem to be resisting pay increases because they believe competition will keep them from boosting prices. Other economists, among them Nobel prizewinner Paul Samuelson, suggest global competition is eroding worker's bargaining power. According to this view, workers are reluctant to seek significant raises out of fear that firms will shift operations to other parts of the U.S. or overseas.

In both the U.S. and Minnesota, real wages per job are rising rapidly, but not because of large pay raises. Instead, employers seem to be dealing with tight labor markets by moving employees into more productive, better paid jobs, and by making more intensive use of alternative forms of compensation such as bonuses and stock options. Continued strong growth in wages is a key component of the outlook.

Wage Inflation Anxiety

In late January, wage inflation concerns were raised by a 1.1 percent spike in the Department of Labor's employment cost index. While there are anecdotes of more employers offering health benefits in order to lure scarce workers, that does not appear to be what is driving the employment cost index. Rather, there was a large increase in employer health benefit costs stemming from HMOs' shaky financial condition. DRI reports HMOs are facing huge operating losses attributable to price cutting and inability to repeat cost savings like those achieved earlier. For 2000, DRI expects employer's premium increases to average 11 percent, more than double the 5.4 percent experienced in 1999.

While contributing to higher prices, rising employer health care costs are not the sign of accelerating wage rate inflation economists are looking for. What worries them most is a wage-price spiral with workers demanding pay increases to cover expected higher inflation. Any wage hikes passed on as higher prices are then likely to further fuel inflationary expectations, leading to still higher wages and prices.

Interest Rates Will Surely Go Higher

At year's end, the economy was expanding at a 6.9 percent annual rate, the strongest since 1996 and well above almost any estimate of the maximum sustainable pace. While there are few signs of accelerating inflation, most economists doubt the forces holding it in check can prevail much longer. Labor markets are clearly getting tighter because the pool of available workers is declining as new non-farm jobs are added. And the *Wall Street Journal* reports that only a new seasonal adjustment procedure kept the unemployment rate from dropping below 4.0 percent in recent months.

No one can say exactly when, but there seems little reason to doubt that workers will soon be in a position to demand significantly larger pay increases. And stronger growth in the world economy could reduce competitive pressures on employers seeking to raise prices to cover labor costs. For that reason, most observers including DRI expect the Federal Reserve will continue tightening until there are clear signs of slower growth.

Will Federal Reserve Success Continue?

There is general agreement that under Chairman Greenspan the Fed has conducted monetary policy with skill and unprecedented success, contributing significantly to the expansion's record length. Most observers welcomed Dr. Greenspan's confirmation for a fourth term because it virtually guarantees continued vigilance on inflation. Practically everyone including DRI assumes successful management of the economy will continue.

But economists realize that goal can only be achieved if consumer's euphoria is somehow dampened without destabilizing the financial markets. Ideally, interest rate moves should not be a surprise. Recently, the Fed admitted that its now-abandoned policy of announcing its "bias" toward future rate changes was contributing to market volatility, an embarrassing failure for a practice begun only last spring. And the gaffe came at a time when some analysts were raising questions about the effectiveness of monetary policy. No one knows whether the new practice of announcing "risks" to the economy will work any better.

Despite concern about monetary policy, analysts seem to have few detailed scenarios about how the expansion could come to an end. Apart from an unexpected external shock, DRI thinks only a Federal Reserve error which lets inflation get out of hand is likely to bring on the next recession. In the February forecast, that outcome is given a 35 percent probability of occurring by 2003. An alternate recession scenario involving a stock market crash is given only a 10 percent probability. DRI cautions, though, that a market downturn has never caused a recession unless inflation and interest rates were rising.

DRI Expects Strong Consumer Spending

Over several months DRI has raised their forecast for household spending. Revised data indicates there was more income and spending in the past few years than previously thought. In addition, a stock market correction is no longer part of the Control scenario. With more income and no stock market crash, DRI expects consumers will continue to save little and spend heavily for discretionary big ticket items like autos, light trucks, appliances, and furniture.

Consumption

Revised National Income and Product Accounts (NIPAs) released in late October led DRI to adopt a more optimistic outlook. The new NIPAs include a significant upward revision to wages for 1998. Beginning in 1995, there are also upward revisions to dividend income, non-farm proprietors' income, and other personal income components.

In addition to more income, the new NIPAs include higher estimates of consumer outlays in recent years. Much of the newly discovered spending was for food and other non-durable goods. Hard evidence of more income and spending is one reason DRI raised its outlook.

Another reason for optimism is the February Control's assumption that there will be no stock market correction in the foreseeable future. That change is significant because it means household wealth is assumed to continue to grow, keeping consumer sentiment near current high levels. In DRI's view, equity wealth is an important driving factor in current consumer spending, especially for big ticket durable goods. Many economists agree, notably Dr. Greenspan.

Investment

Because it has been a very interest rate sensitive sector, housing is expected to play a critical role in Federal Reserve efforts to slow the economy. Despite higher mortgage rates, housing starts accelerated in January. DRI expects the resurgence will be short lived and that starts will decline 5.0 percent this year. The shift toward more expensive upscale homes will offset some of that, so real residential spending will slip 2.0 percent.

Higher rates will have little impact on business investment spending. This year, firms will raise their real capital outlays more than they did in 1999. Now that Y2K is history, spending on computer equipment and software will weaken by the end of the year, but investment in buildings and other structures will accelerate.

DRI is not alone in expecting that business investment will remain strong despite rising borrowing costs. Goldman-Sachs economists report there are at least two reasons why firms will continue to add capacity. One is that a strong stock market will stabilize capital costs since firms can shift from borrowing to equity financing. Another is that Commerce Department data indicate the real net non-residential capital stock is growing more slowly than real GDP, implying that usage of production capacity is intensifying.

It appears as though non-manufacturing industries are the most in need of additional plant and equipment. Manufacturing capacity utilization was at 81.6 percent in January, below the 84 percent threshold at which additions to capacity are needed.

Revised fourth quarter 1999 GDP data suggest there was some unnecessary Y2K related stockpiling at year's end. Those inventories will probably be disposed of quickly because the non-farm inventory to sales ratio has been setting new record lows. Many analysts attribute lean inventories to just-in-time management techniques made possible by improved computers and telecommunications.

Government

Congress passed the fiscal 2000 budget in mid-November. Then it took several weeks to review the massive document. It now appears that discretionary spending will exceed the spending caps by about $15 billion according to the Congressional Budget Office (CBO). And that is after raising the caps by about $19 billion designated to be "emergency" spending. According to DRI, rules legislated in 1997 specify that emergency spending raises the cap in future years. Using this gimmick, the current cap was increased from $566 billion to $597 billion during the past two years.

The booming economy has led to higher federal revenue estimates. In late January, the CBO raised its July, 1999 forecast. Under current law, the new "baseline" revenue outlook through 2009 is more than $600 billion higher than projected previously. Some $500 billion of that is attributable to upward revisions in the CBO's economic forecast, primarily from higher projections of wage and salary income which raise estimated receipts from individual income and social insurance taxes. In making the forecast, the CBO used the revised NIPA data which significantly raised 1998 wage and salary growth.

In contrast to optimism about incomes and related tax revenues, CBO adopted a more guarded outlook for federal corporate tax receipts. The concern is that heavy investment in computers and software will lead to an unanticipated surge in depreciation charges which will significantly reduce profits. In recent months, certain Wall Street economists have also expressed reservations about profits growth. DRI shares these concerns and lowered the outlook for corporate profits in the February Control.

CBO's higher revenue forecast has led to a larger estimated surplus through 2009. There is a general consensus that the Social Security surplus is off limits from political tampering. But, there may be a significant surplus outside Social Security. That would be subject to the discretion of the President and Congress who have several options to consider. Using different spending assumptions, the CBO has generated three alternative surplus estimates without endorsing one as the most valid. Another option has been suggested by Federal Reserve Chairman Greenspan, who wants to use the surplus to pay down national debt held by the public.

If Dr. Greenspan has his way, any fiscal stimulus to the economy from tax cuts or higher spending would be avoided. That would help his efforts to cool down the economy. Retiring national debt should also lead to lower long term interest rates, generating more business investment and economic growth. But DRI believes the Fed will not prevail. The February Control assumes that in 2001, regardless of how the 2000 election turns out, there will be both tax cuts and spending increases exceeding the caps.

International

Recent news articles indicate the U.S. trade deficit is soaring as imports flood in and exports fail to keep up. Ordinarily, such large, persistent deficits would force down the dollar's value in international trade as foreigners become increasingly reluctant to hold ever larger portfolios of dollar-denominated assets. Surprisingly, in 1999 the dollar declined only modestly. DRI predicts further slippage in 2000, but the cost of imported goods will not rise enough to keep the trade deficit from setting more records.

While high priced oil imports are contributing, economists attribute record trade deficits primarily to weak economic growth outside the U.S. and overseas financial debacles. As a result, huge amounts of foreign saving arrived in the U.S. seeking higher returns and safe haven. Foreigners investing in the U.S. bid up the value of the dollar. The rising dollar made imported goods cheaper to U.S. consumers who increased their purchases. At the same time a higher valued dollar made foreign purchases of U.S. made goods more expensive, so exports lagged behind imports, and the trade deficit soared.

The foreign saving inflow and resulting trade imbalance have both pros and cons. There are at least two significant advantages. One, as pointed out by Federal Reserve Bank of New York economists, is that the foreign capital inflow helps support domestic investment spending which expands much needed production capacity and creates jobs. Another is that consumers are benefiting from lower priced imported goods and services.

On the other hand, there are significant disadvantages. Jobs are often lost in import-competing industries. There are also some risks to the expansion. Goldman-Sachs economists are cautioning that terms of trade risks are currently more significant than they seem. Recovery in Asia and Europe is creating better opportunities for investment there. Current softness in the dollar is generally interpreted to mean investors are starting to put their U.S. based money to work elsewhere. If large sums move overseas, long term interest rates could rise sharply, causing a stock market sell off. Another risk is that a declining dollar could drive imported goods prices higher, giving inflation a sharp boost. That could force the Federal Reserve to raise interest rates aggressively, a move which could destabilize financial markets.

Monetary

The economy finished 1999 with real GDP growth running at 6.9 percent, well above the approximately 4.5 percent rate very optimistic economists consider to be sustainable without accelerating inflation. And there was no clear evidence of any slowing as an unprecedented ninth year of expansion began in February, suggesting to most analysts that more inflation could soon appear unless consumer spending is somehow curbed. That view seems shared by Chairman Greenspan who has been saying that the Fed is "intent" on holding the consumer led expansion to a sustainable pace.

Dr. Greenspan believes consumer demand for goods and services is outrunning supply because of wealth generated in the stock market. With the market doing their saving for them, many households are accumulating debt and spending practically everything they earn. So, the solution seems to be slowly rising interest rates which should cool the stock market and raise consumers' borrowing costs. But since higher rates were largely ignored in 1999, some analysts are speculating as to whether the Fed could be considering something more draconian than the incremental 25 basis point moves which have been its standard practice.

Concerns over stock market volatility may make the Fed reluctant to raise rates more aggressively and run the risk of a crash. Analysts attribute at least some volatility in 1999 to uncertainty stemming from the Fed's practice of announcing its "bias" toward future rate changes. Apparently the markets were never sure whether bias was a promise of future action. So, in a policy change, the February rate increase was accompanied by a statement that the Open Market Committee believes foreseeable future "risks" to the economy are weighted toward higher inflation. The *Wall Street Journal* reported that investors read the risk statement to mean the Fed is leaning toward more rate increases. But no one knows whether "risks" will work any better than "bias" in keeping Fed actions from surprising the financial markets.

The federal surplus is a new potential source of market volatility because fewer new Treasuries will be sold at auction. In January, the Treasury announced it would begin selling 30-year bonds once a year, 10-year notes twice, and 52-week bills only four times annually. The longer maturities were previously sold more often on an irregular basis and the bills were auctioned every four weeks. Lack of frequent auctions will deprive the markets of their traditional "benchmark" interest rates on new, risk-free securities which were used to price other public and private sector issues.

One of the immediate consequences of the Treasury announcement was an unusual inversion of the yield curve's upper end as investors scrambled to buy up available longer term bonds. There is now considerable uncertainty over what will eventually take the place of the benchmark issues, and over what yield spreads will be. Federal Reserve open market operations will also be affected by the smaller supply of short-term bills, but analysts believe the Fed can substitute Fannie Maes and other Treasury backed private debt

Recently, new questions have been raised about the effectiveness of monetary policy. Some observers believe the economy has become less interest rate sensitive for several reasons. Articles in *The Economist* and the *Wall Street Journal* reported that consumers and business firms are now better insulated from higher rates. Consumers have stock market gains to help finance big purchases and they can get variable rate mortgages which reduce the role of interest rates in housing decisions. Many firms have strong cash flows from the booming economy, reducing their need for external financing. For others, secondary equity offerings at today's inflated prices are an attractive substitute for debt. In addition, many loans now create no need for the central bank reserves which the Fed manipulates. Bank intermediaries including pension funds, insurers, and mutual funds have increased their share of the credit market at the expense of commercial banks. The banks, the sector most directly affected by interest rates, now account for only 27 percent of private sector borrowing, down from 38 percent 25 years ago.

Inflation

While rising inflation has not yet appeared, many observers believe the wait is almost over. Even if wages are not bid up sharply in tight labor markets, DRI believes inflation will start to drift upward this year. Other analysts share that view. For example, a recent Goldman-Sachs analysis indicates that forces which have worked to suppress inflation in recent years are no longer present. Import costs are no longer being held down by a rising dollar, oil prices have soared, and other commodity prices are rebounding. In those circumstances, a strong U.S. economy plus accelerating overseas growth seems a favorable environment for nurturing inflation.

Ever expanding foreign trade is leading some economists to think import prices are gaining an increasingly important role in determining the rate of inflation. While there are few if any signs of higher import prices except for oil, the value of the dollar stopped rising in 1999. If the dollar drops as many economists expect it to, import prices could surge.

Economists are watching closely, but are not yet especially concerned about the impact of higher oil prices. There is some disagreement, though, about the reason why. Some suggest the economy is more resistant to oil price inflation than it was in the 1970s because energy consumption per dollar of GDP has dropped Now, a larger proportion of GDP comes from the services sector which is a low intensity energy user.

Other analysts are no less sanguine, but believe OPEC will not maintain current oil prices long enough to have much impact on overall inflation. DRI reasons that it is not in OPEC's best interest to jeopardize the U.S. expansion, but concedes that a miscalculation is possible.

OPEC appears to be leaning toward deciding to raise production levels at its March 27 meeting. It is widely expected that output will be raised enough to eventually lower oil prices from $30 per barrel to the $20-$25 range. But that could take several months, and in the meantime gasoline prices are likely to continue rising. The *Wall Street Journal* reports that commercial oil stocks in major industrial countries plunged to the lowest level in a decade at year's end and are still declining. Once production is raised, relatively high prices will prevail until depleted inventories are restored.

MINNESOTA OUTLOOK

Minnesota's economy has been one of the best performing state economies in recent years. In 1998, the state's 2.5 percent unemployment rate was the lowest in the nation. Personal income per capita grew by 5.4 percent and average annual pay per worker by 6.1 percent, the fourth and fifth best performances in the U.S. All this despite a weakening agricultural sector. In 1999 unemployment remained at 2.5 percent, and while all data is not yet in, wage growth and personal income growth both appear to have exceeded the U.S. averages.

Minnesota's economy is expected to continue to show growth through the current forecast horizon. The unemployment rate is unlikely to increase noticeably, and payroll employment is expected to increase by an additional 50,000 jobs in the remainder of this biennium. Job growth has been slowing in recent months, as the tight labor market appears to finally have begun to limit the number of new positions which can be filled. Wages per job in 2000 are now anticipated to increase by 4.4 percent, and personal income by 5.7 percent.

As always, complete and revised Minnesota total wages and employment data for the previous year was not available at the time of the February forecast. Consequently, estimates for 1999 form the critically important jumping-off point for the 2000-2001 outlook. Wages estimates have become increasingly important in the forecast benchmark as total wages accelerated while employment growth slowed in recent years. Since there are only three quarters of preliminary 1999 wages available, the outlook is more uncertain than in earlier forecasts when four quarters of employment data had a more critical role.

Forecast Slightly Revised

Based on data provided by the U.S. Department of Commerce and the Minnesota Department of Economic Security, total Minnesota wages are now estimated to have increased 7.3 percent in 1999, up from 6.6 percent in November's forecast. Preliminary data for four quarters of 1999 indicate Minnesota employment rose 2.0 percent, the same as forecast in November. In comparison, estimated total U.S. wages are 6.8 percent in 1999, up from 6.4 percent. Employment rises 2.2 percent, the same as previously.

In 2000, total Minnesota wages are forecast to rise 6.1 percent, slightly less than November's 6.2 percent. Minnesota jobs are expected to increase by 1.6 percent, the same as in November. For the U.S., total wages should rise 6.4 percent, up from the November Control's 6.1 percent. DRI now expects U.S. employment will increase 2.0 percent, up from 1.6 percent previously.

Compared with November, the February forecast is slightly less optimistic for 2001. Total Minnesota wages are now expected to rise 5.1 percent, down from 5.8 percent in November. Minnesota jobs are expected to grow 1.2 percent, down slightly from 1.3 percent. Both these changes are reflected in DRI's February U.S. outlook. Nationally, wages grow 5.4 percent, down from 5.9 percent in November. Employment increases 1.2 percent, down from 1.5 percent previously.

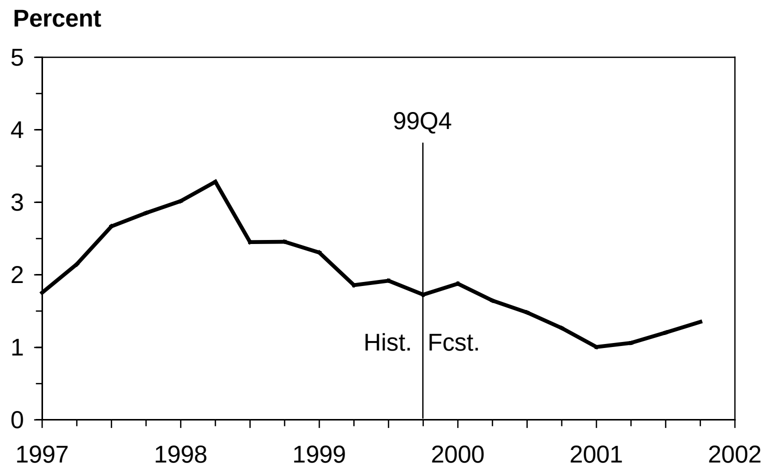
Forecast Reflects Tight Labor Markets

Last year Minnesota's strong economy drove up total wages, particularly in the last half. It seems that total wages are rising rapidly not because of large pay raises, but apparently because employers are dealing with tight labor markets by moving current employees into more productive, better paid jobs. It also appears many employers are making more intensive use of alternative forms of compensation such as stock options and bonuses.

Minnesota's labor market now appears too tight to respond normally to rising demand. Probably the pool of available workers is too small to readily fill many job openings because, during 1999, employment growth slowed even though employers looked harder for workers. Very tight labor market conditions are expected to continue in 2000 and 2001, further constraining jobs growth.

Consequently, the Minnesota economic forecast is more focused on total wages than previously. In the view of Finance Department economists, that raises forecast uncertainty. One reason is that relatively little is known about how workers move up into higher paying jobs. Another is that the U.S. Department of Commerce has difficulty making accurate estimates of compensation from stock options. Finally, it is unclear why wage rates are not responding as they did the past to tight labor market conditions.

Minnesota Employment Growth
(Quarter Over Quarter, Previous Year)



Minnesota's labor market now appears to be too tight to respond normally to rising demand. During 1999, employment growth slowed even though employers looked harder for workers. Very tight labor market conditions are expected to continue, further restraining jobs growth.

Minnesota Population

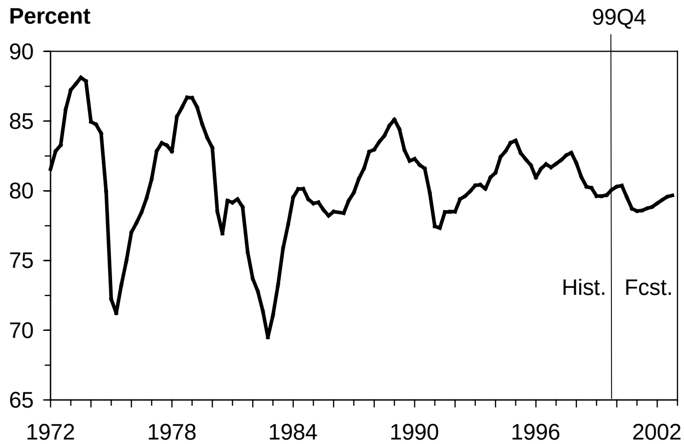
Without an adequate pool of unemployed to draw from, the supply of new workers depends heavily on population growth. Recent Bureau of the Census data indicates Minnesota population increased 1.0 percent in 1999, the fastest rate since 1993. Much of this gain was in preliminary data incorporated into the November forecast. More migration into the state seems to be the reason for faster population growth. Since this migration is likely to continue for the near future, the population forecast has been raised through 2001. However, the slightly faster population expansion will not generate enough additional workers to noticeably ease Minnesota's now chronically tight labor market.

Farm Sector Outlook Not Improved

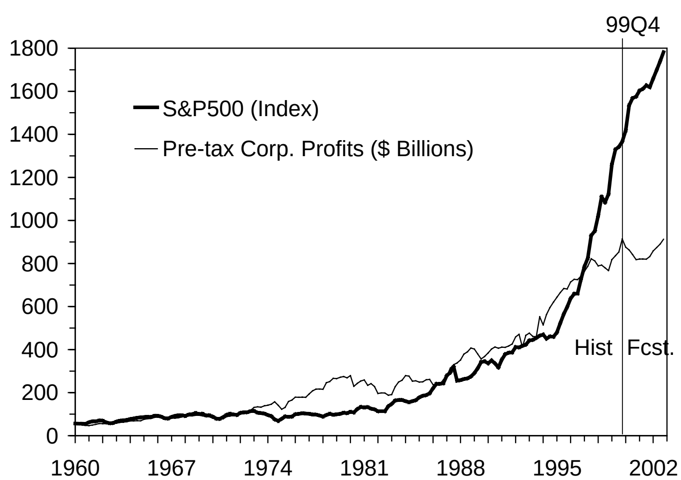
In late February the U.S. Department of Agriculture confirmed what most involved in agriculture already knew. The outlook for corn, wheat, and soybean prices in 2000 is bleak. USDA's chief economist noted that soybean prices are expected to be the lowest since 1972-73, and corn and wheat at the lowest levels since the 1986-87 crop year. Milk prices, also depressed, are projected to be the lowest in 10 years. Minnesota farmers received $314 million in federal supplemental disaster aid in 1999 in addition to the regular farm program payments and loan deficiency payments. In the absence of both additional federal assistance and another year of higher than normal yields, Minnesota farm income will be down significantly from that of the past two years.

SELECTED NATIONAL ECONOMIC INDICATORS

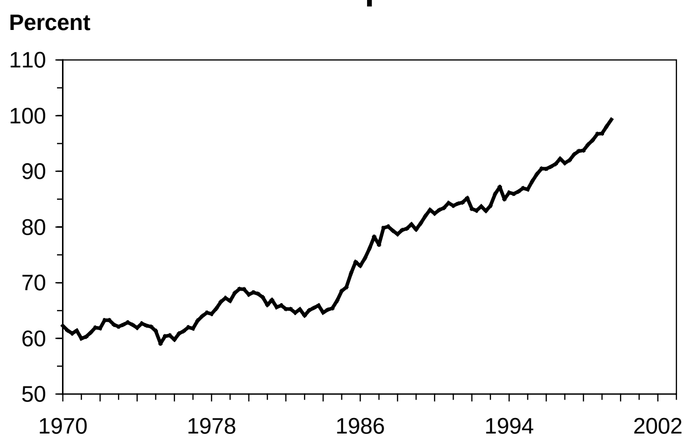
Manufacturing Capacity Utilization



Corporate Profits and the Stock Market

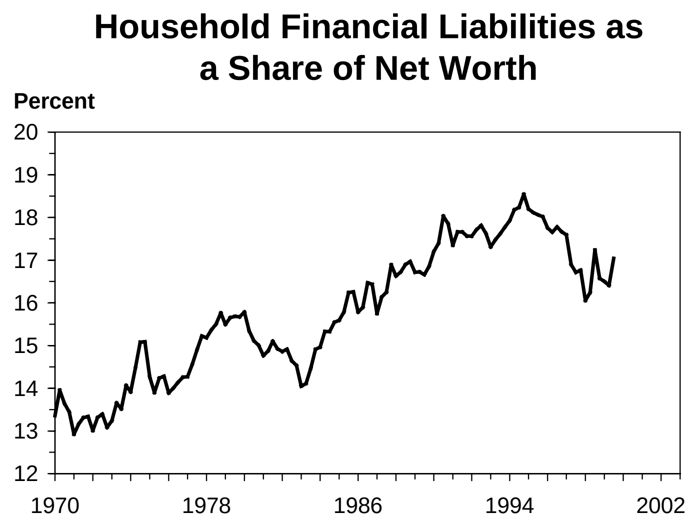


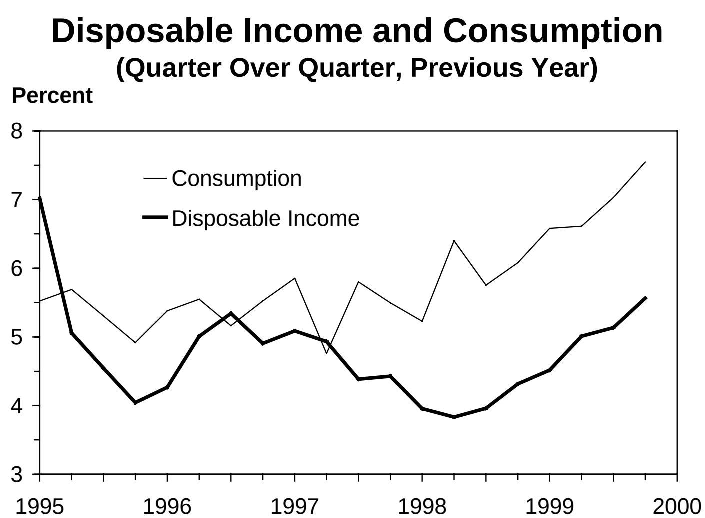
Household Financial Liabilities as a Share of Disposable Income

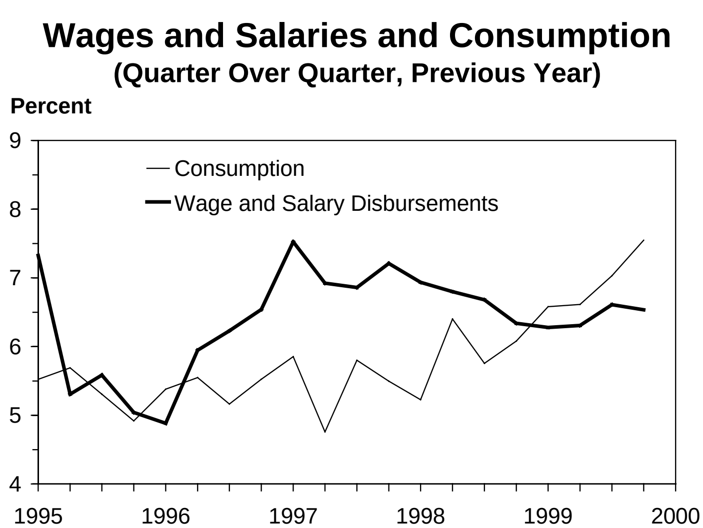


Economic Indicators

SELECTED NATIONAL ECONOMIC INDICATORS







Economic Indicators

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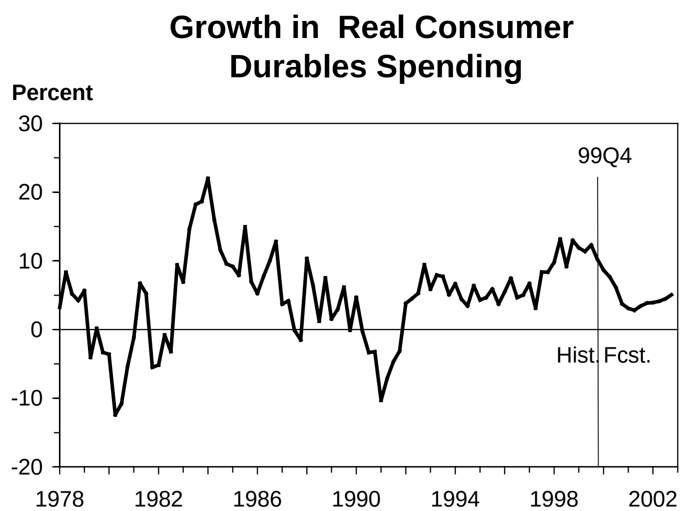
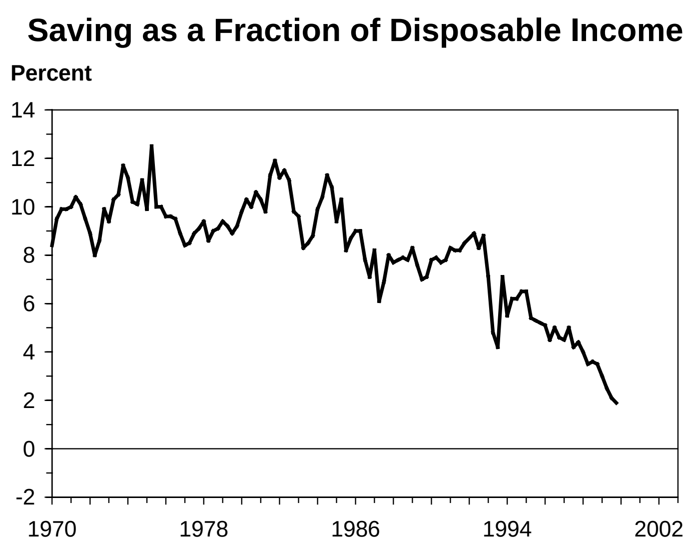
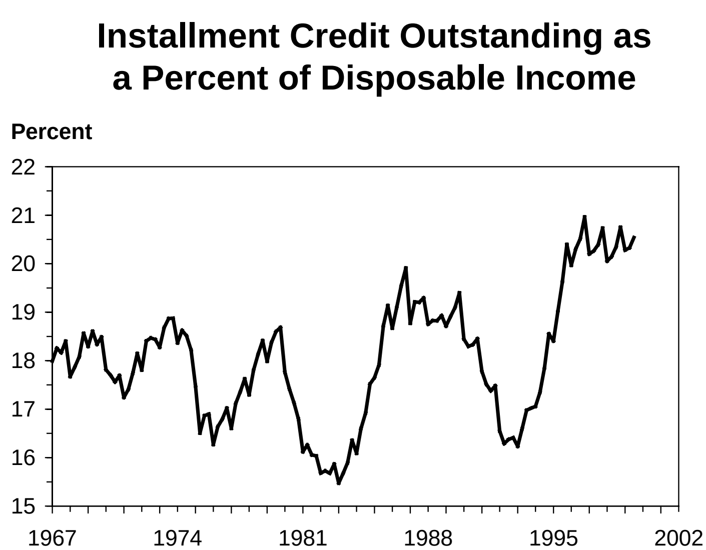
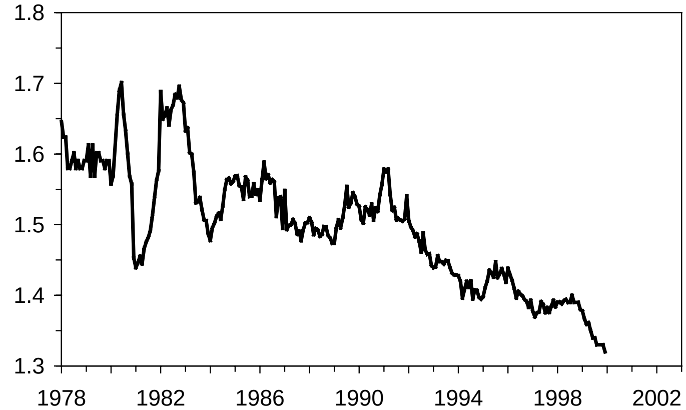




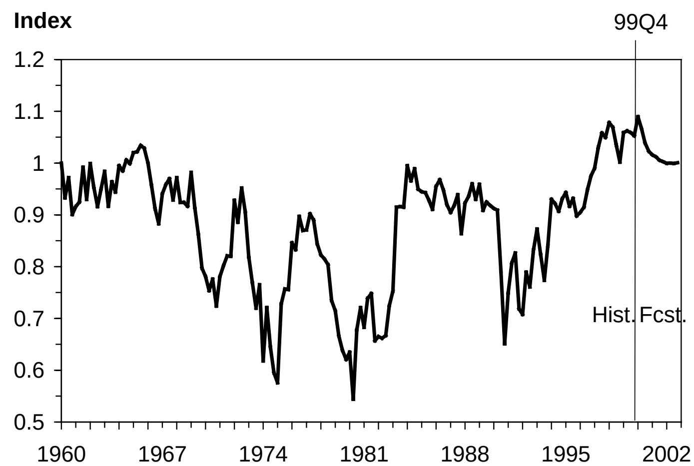


SELECTED NATIONAL ECONOMIC INDICATORS

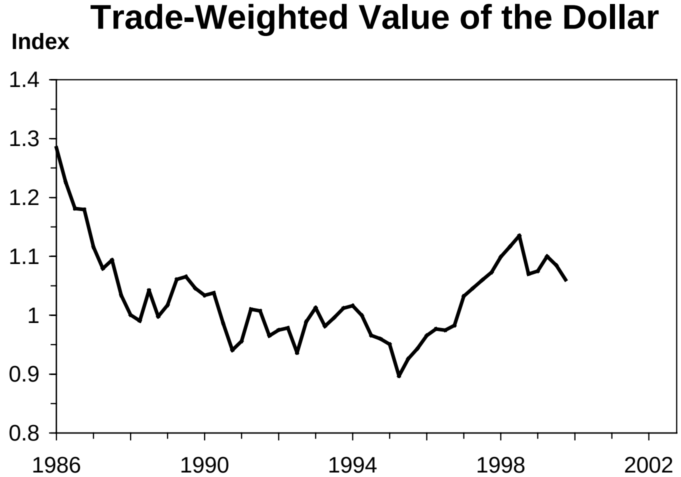
Manufacturing and Trade Inventory to Sales Ratio



Index of Consumer Sentiment



Trade-Weighted Value of the Dollar



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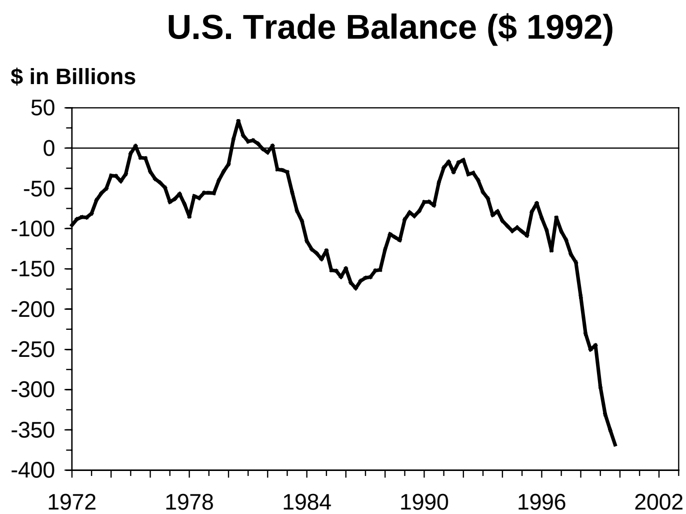

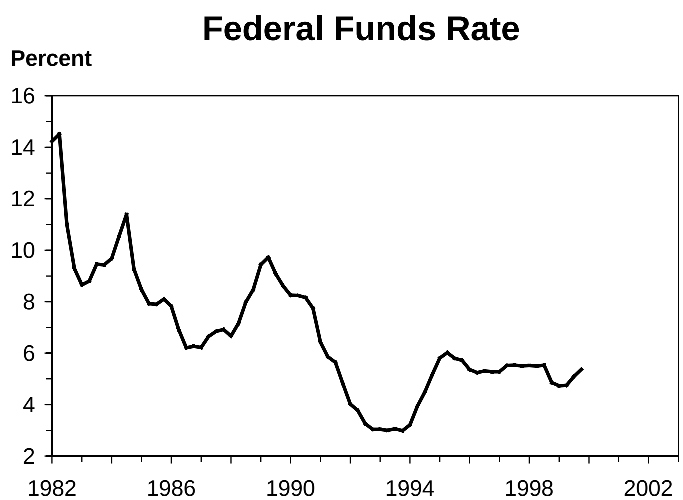

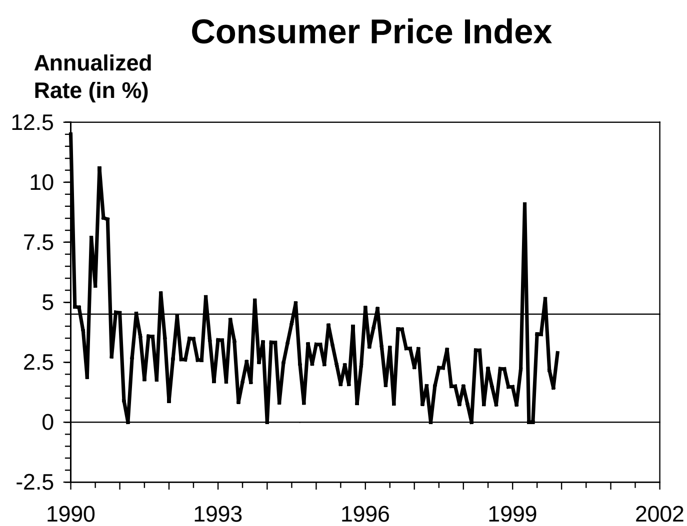

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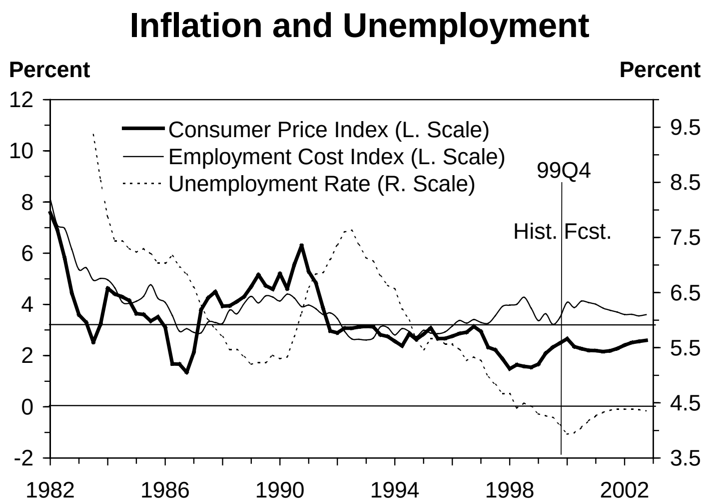
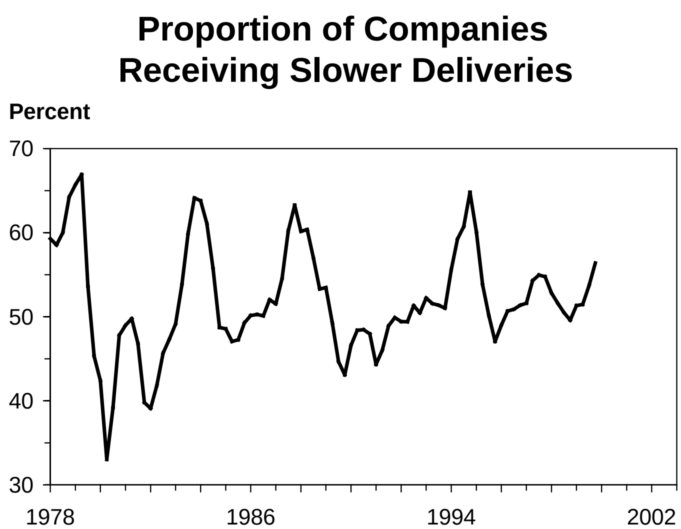




Economic Indicators

CURRENT BIENNIUM SUMMARY FY 2000-01

Forecast Improves by $229 Million

Projected FY 2000-01 resources have increased by $222 million for the current biennium while projected expenditures have decreased by $12 million. These changes, combined with a $5 million interest change to the Property Tax Reform Account increase the projected available balance expected for the end of the biennium from $571 million forecast in November of $800 million. If dedicated funds in the Property Tax Reform Account are added, the $1.584 billion forecast total in November has increased to $1.818 billion.

FY 2000-01 Budget Summary
($ in Millions)

	Nov 99	Feb 00	Change
Beginning Balance	**$1,921**	**$1,921**	**$0**
Forecast Resources	24,373	24,595	222
Estimated Expenditures	23,593	23,581	(12)
Balance Before Reserves	$2,701	$2,935	$234
Reserves:			
Cash Flow Account	350	350	0
Budget Reserve	622	622	0
Dedicated Reserve	145	145	0
Property Tax Reform Account	**1,013**	**1,018**	**5**
Available Balance	**$571**	**$800**	**$229**

A $140 million increase in expected individual income tax revenues accounts for 75 percent of a $185 million increase in non-dedicated revenues - an eight-tenths of a percent change. Small increases in expected sales tax revenues, motor vehicle sales taxes, estate taxes and investment income are largely offset by a significant decline in the outlook for corporate taxes. Increases in forecast dedicated revenues and transfers accounts for the additional $37 million increase in expected resources.

Total spending for the biennium is now estimated at $23.581 billion, a $12 million (or 0.1 percent) decrease from November. Reduced health care spending ($42 million) is largely offset by slightly higher projected K-12 education costs ($8 million), higher family support costs ($13 million) and other small forecast changes.

BUDGET PLANNING ESTIMATES
FY 2002-03

The February forecast also updates planning projections for FY 2002 and FY 2003. It is important to recognize that the planning projections are materially different than the forecast of the budget for the current biennium. The methodology is different and longer term projections carry a higher degree of risk and an inherently larger potential range of error than the short term forecast for the FY 2000-01 biennium.

FY 2002-03 revenue projections are based on DRI's February 2000 and summer 1999 cycle long forecasts. In developing the forecast DRI's outlook for inflation was reviewed for possible changes. DRI's February Control forecast now estimates that the Consumer Price Index on a *state fiscal year* basis will be 2.3 percent and 2.6 percent for fiscal years 2002 and 2003 respectively. This represents a minimal change from DRI's November forecast of 2.4 percent and 2.7 percent per year used as the basis for November's planning estimates.

Biennial Comparison: FY 2000-01 and FY 2002-03
($ in Millions)

	FY 2000-01	FY2002-03	Difference
Beginning Balance	$1,921	$2,935	$1,014
Revenues	24,595	27,299	2,704
Baseline Expenditures	23,581	24,781	1,200
Estimated Inflation		907	907
Reserves:			
Cash Flow Account	350	350	0
Budget Reserve	622	622	0
Dedicated Reserves	145	145	0
Prop Tax Reform Acct	**1,018**	**1,147**	**129**
Ending Balance	**$800**	**$2,282**	**$1,482**

Planning estimates of current law revenues and expenditures for FY 2002-03 are presented to help decision makers identify longer term state finance issues. Revenue forecasts are based on DRI long term forecasts. Expenditure projections for FY 2002-03 assume current laws and policies will continue unchanged, and consider caseload, enrollment, and other forecast variables in all major program areas. The estimates do not reflect any potential Governor's supplemental budget recommendations, nor anticipate any legislative action in the 2000 session.

FY 2002-03 Structural Balance Improves Slightly

A primary purpose for providing out-year planning estimates is to assess how tax and spending decisions made for one biennium affect the following biennium. One way of measuring this sustainability of ongoing tax or spending changes is to focus on the state's structural balance. The *structural balance* is simply the difference between current year revenues and expenditures, excluding beginning balances from prior periods.

Current estimates for the FY 2002-03 biennium show little change in the state's structural balance. While revenues have increased by $128 million this increase is mostly offset by a $65 million increase in spending. As a result the structural balance expected in the FY 2003 has increased by $87 million to $549 million.

FY 2002-03 Planning Estimates
Structural Balance
($ in Millions)

	FY 2001	FY 2002	FY 2003
Revenues	$12,560	$13,405	$13,895
Expenditures	$11,995	$12,524	$13,164
Difference	**$565**	**$881**	**$731**
Less:			
One-time Tobacco Settlement	N/A	(225)	(115)
Property Tax Reform Account Interest	N/A	(63)	(67)
Structural Balance	**$565**	**$593**	**$549**

Because the emphasis is on measuring the *ongoing* balance of revenues and spending, the second year, FY 2003, is viewed as a key measure. For the same reason, the structural balance is adjusted for significant one-time revenues which may not be an available part of the continuing revenue stream. In the current analysis reductions are shown for one-time tobacco settlement payments which end in FY 2003 and dedicated Property Tax Reform account interest.

The long-term projections are not intended to predict with any certainty balanced or unbalanced budgets in the future. The purpose is to assist analysis of how well future projected revenues and expenditures will match based on trend projections of Minnesota's economy and the current structure of government services.

REVENUE FORECAST
FY 2000-01

Current general fund resources for the 2000-01 biennium are now forecast to total $24.595 billion, up $222 million, (0.9 percent) from November's estimate. The forecast for net non-dedicated revenues was increased by $185 million (0.8 percent) to $23.734 billion.

Revenues from the four major taxes are expected to exceed November's forecast by $125 million or 0.6 percent. The individual income tax forecast is up by $140 million, while corporate income tax receipts are now projected to be $46 million below previous estimates. The sales tax and the motor vehicle sales tax both showed small increases. Although fourth quarter 1999 GDP growth was stronger than anticipated, revenue growth for the four major taxes was modest due to DRI's weaker corporate profit outlook and an increase in expected sales tax refunds. Other tax and non-tax revenues were $61 million above forecast. The investment income forecast was increased by $30 million and the estate tax forecast by $25 million, while tobacco settlement revenues and the mortgage and deed tax were each reduced by more than $8 million. Positive variances in revenue collections since November account for about one-fourth of the additional revenue.

FY 2000-01 Revenue Forecast
($ in Millions)

	FY 1998-99 Biennium	FY 2000	FY 2001	FY 2000-01 Biennium
Revenues				
Individual Income Tax	$10,067	$5,447	$5,820	$11,267
Sales Tax	5,392	3,705	3,877	7,582
Corporate Income Tax	1,530	741	740	1,481
Motor Vehicle Sales Tax	932	530	526	1,055
Four Major Taxes	17,921	10,423	10,963	21,385
Other Revenues	2,205	1,087	1,040	2,127
Tobacco Settlement	-0-	105	117	222
Net Non-dedicated Revenue	20,126	11,614	12,120	23,734
Other Resources	993	422	439	861
Current Resources	**$21,119**	**$12,036**	**$12,559**	**$24,595**

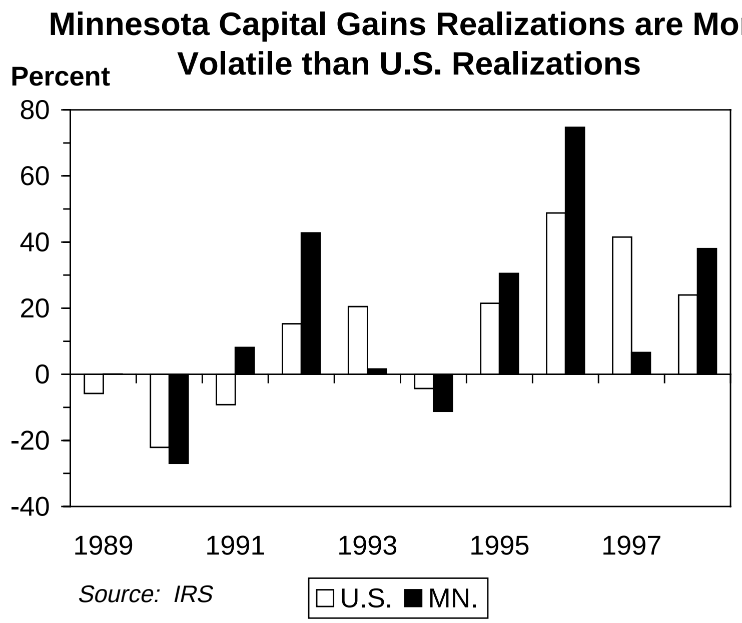
Net non-dedicated revenues for the 2000-01 biennium are now projected to grow by 17.9 percent over 1998-99 biennial levels after taking into account the property tax rebates approved for tax years 1998 and 1999 and the sales tax rebate. After adjusting for the general fund revenues attributable to the tobacco settlement, net non-dedicated revenues grew by 16.8 percent. The biennial growth rate for the income tax is now expected to be 11.9 percent. The sales tax growth rate, without the sales tax rebate, is 13.4 percent.

Individual Income Tax

Individual income tax receipts are forecast to total $11.267 billion in the 2000-01 biennium, up 1.3 percent from November's forecast. All of the additional revenue comes in the current fiscal year; projected income tax receipts in fiscal 2001 were $2.1 million less than November's estimates. Much of the additional revenue came from technical adjustments, not changes in the economic outlook. Revenues in fiscal 2000 benefitted slightly from an improved economic outlook in 2000, but the combination of a modest slowing of the economy in fiscal 2001 and some minor technical adjustments left fiscal 2001 income tax revenues almost unchanged from November's estimates.

Final 1998 income tax liability was $17 million more than the preliminary estimate used in preparing the November forecast. Preliminary results from a sample of tax year 1998 Minnesota income tax filers were used to calibrate the income tax simulation model to that final 1998 liability. This sample, which was unavailable in November, showed a 38 percent increase in capital gains realizations by Minnesota residents in 1998. That growth was well in excess of the 24 percent growth rate observed nationally. Much of the additional Minnesota gain was concentrated among a small number of taxpayers. Newspaper reports indicate that three large, Minnesota headquarters corporations with a heavy concentration of Minnesota ownership were acquired by other firms during 1998. Those sales were inferred to have produced the large gains observed. This unusual concentration of capital gains was incorporated into the forecast by making a one-time off-model adjustment of $47 million to 1998 liability, and allowing 28 percent growth in the 1998 capital gains base.

Newspaper reports and Securities and Exchange Commission filings also revealed the sale of two Minnesota firms during 1999 is likely to have a disproportionate impact on Minnesota capital gains realizations. These sales were incorporated into the tax year 1999 forecast with a second, one-time, off-model adjustment of $48 million. Minnesota's capital gains base is now projected to grow by 6 percent in 1999, in addition to the $48 million off model adjustment. Capital gains realizations in Minnesota are forecast to grow by 6 percent in both tax year 2000 and tax year 2001. The Congressional Budget Office forecasts that capital gains realizations will grow by 14 percent in tax year 1999, but then drop by 3 percent in tax year 2000 and by an additional 2 percent in 2001.



A recent U. S. Department of Labor report notes that Minnesota wages grew by 8.6 percent in 1998, the fifth highest growth rate in the nation. The very strong wage growth appears to have continued in 1999. This forecast assumes wages grew by 7.3 percent in 1999, up significantly from the 6.6 percent growth assumed in November. Typically, the growth in calendar year withholding receipts is used as a rough check on the wage forecast for the year just concluded. This year, however, the change in withholding which accompanied the income tax rate reduction muddies those comparisons, and raises uncertainty about actual wage growth in 1999.

Because withholding tables were adjusted on July 1 for a tax cut which was retroactive to January 1, six months of over withholding were automatically built into collections. That would add to expected refunds. In addition, it appears that all firms did not immediately incorporate the new withholding tables into their payroll systems. This further increases the amount over withheld during tax year 1999, and will further add to expected refunds in the current tax processing season. To account for this change the refund forecast for FY 2000 was adjusted based on estimates of the extent of potential over withholding. However, if the percentage of wages paid by those who failed to adjust withholding is significantly greater (or less) than anticipated, the variance in tax year 1999 refunds could be large.

Tax analysts from the Department of Revenue's research division and House and Senate staff agreed in mid-February that the H.I.T.S. model materially overstates future alternative minimum tax (AMT) collections. Because it was impossible to reprogram the model to correct the AMT estimates in time for use in this forecast, an off-model reduction to final liability was used. The adjustment reduced tax year 1999 through 2001 liabilities by $11 million, $13 million and $15 million respectively. This adjustment was not included in the November forecast.

Other technical changes including changes in the ratio of final receipts to final liability added $11 million to both FY 2000 and FY 2001. A change in timing of the transfer of S-corporation withholding from the corporate income tax to the individual income tax added $6 million in FY 2000.

Sales Tax

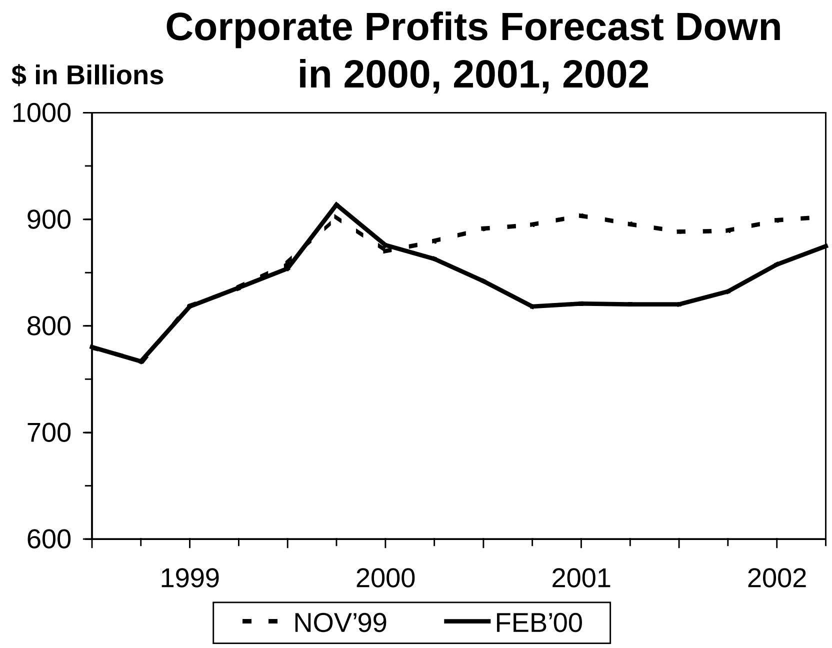
Net sales tax receipts for the 2000-01 biennium are now expected to reach $7.581 billion, $21 million (0.3 percent) more than forecast in November. The forecast for gross sales tax receipts increased by $46 million, but half of that gain is offset by an increase in expected sales tax refunds of $23 million. Larger than anticipated sales tax rebate payments in FY 2000 reduced net sales tax revenues by an additional $2 million. At the end of January sales tax refunds were $14 million above November's forecast. Despite very strong retail sales growth during the fourth quarter of 1999, Minnesota's gross sales tax receipts were only $19 million above that quarter's forecast.

Much of the increase in the forecast came from technical adjustments, not from stronger economic growth. Projected growth rates for spending on consumer durables, business equipment, and construction were very similar to those used in the November forecast. Re-weighting the components of the sales tax base to reflect the national income accounts revisions improved the fit of the model over recent quarters but had little direct impact on the forecast.

The receipts elasticity used to convert the simulated tax base to gross revenues was increased slightly from .95 to .975 to better reflect recent experience in collections and the better fit of the revised sales tax model. This change added $12 million to the forecast for this biennium. The impact of the sales tax rebate on sales tax revenues was increased slightly to $22 million based on the increase in October and November's taxable sales. A small ($5 million) one-time adjustment to FY 2000 receipts was made to reflect the additional day in February. No explicit adjustment was made for growth in internet sales over the forecast horizon.

Corporate Franchise Tax

Net corporate income tax receipts for the 2000-01 biennium are now estimated to total $1.481 billion, $46 million (3.0 percent) less than forecast in November. The decline in the corporate income tax forecast was due to a significant reduction in the outlook for corporate profits by DRI which extends through 2002. Higher interest rates, higher energy prices, increasing wage cost pressures, and higher depreciation attributable to Y2K driven investment in systems and hardware all contribute to the decline in corporate profits.



Corporate income tax receipts for FY 2000 were also reduced by $6 million to reflect a change in the timing of transfers to the individual income tax withholding. An offsetting increase of $6 million was included in the individual income tax forecast. The corporate income tax remains the most volatile of Minnesota's major taxes.

Motor Vehicle Sales Tax

The sales tax on motor vehicles is now projected to total $1.055 billion during the 2000-01 biennium, $9 million (0.9 percent) more than forecast in November. Sales of light vehicles during 1999 were at a record level of 16.9 million units, and light vehicle sales in January continued on that very strong pace. DRI's current forecast calls for only modest slowing in sales through 2002.

Other Revenues

Other tax and non-tax revenues are expected to total $2.339 billion during the current biennium, up $61 million from November's estimate. The forecast for investment income was raised by $35 million and projected estate tax receipts were increased by $25 million.

These investment income estimates assume that only the current level of reserves and the Property Tax Reform Account balance will remain through the biennium and that the current available general fund balance will be completely drawn down by the close of FY 2001. Higher interest rate assumptions over the forecast horizon more than offset the revenue lost due to lower assumed balances.

The same interest rate increase which added to investment income is expected to reduce deed and mortgage tax receipts by $8 million from levels projected in November. The tobacco settlement revenues also were reduced by $8 million, reflecting a December, 1999 payment $4 million lower than forecast and revised U. S. consumption estimates.

Dedicated revenues increased by $28 million, $10 million of which was caused by a correction to FY 1999 appropriations carried forward in Human Services regional treatment centers. Other increases reflect year-to-date experience plus an increase in the forecast for MnSCU non-tuition fees and charges. Dedicated general fund spending increased by $25 million leaving little net impact on the general fund balance.

REVENUE PLANNING ESTIMATES FY 2002-03

Current resources for the 2002-03 biennium are now projected to total $27.299 billion, 11.0 percent more than the forecast for the 2000-01 biennium. The four major taxes are expected to grow by 10.4 percent, while other tax and non-tax revenues, including tobacco settlement payments, are projected to grow by 15.3 percent from projected levels for fiscal 2000-01. Tobacco settlement revenues increase over fiscal 2000-01 levels because under current law none of the settlement revenue received in FY 2002 or FY 2003 is dedicated to funding the Medical Education Endowment or the Tobacco Prevention Trust. Under current law the settlement portion of the tobacco payments in FY 2001 and FY 2002 are dedicated to the endowments. Projected tobacco receipts decline by $22 million (3.2 percent) from November's estimates due to lower U.S. consumption.

FY 2002-03 Revenue Planning Estimates
($ in Millions)

	FY 2000-01 Biennium	FY 2002	FY 2003	FY 2002-03 Biennium
Revenues				
Individual Income Tax	$11,267	$6,231	$6,562	$12,794
Sales Tax	7,582	4,068	4,250	8,319
Corporate Income Tax	1,481	717	770	1,487
Motor Vehicle Sales Tax	1,053	533	550	1,083
Four Major Taxes	21,386	11,549	12,132	23,683
Other Revenues	2,127	1,018	1,028	2,046
Tobacco Settlement	222	379	272	651
Net Non-dedicated Revenue	23,734	12,946	13,432	26,379
Other Resources	861	459	462	920
Current Resources	**$24,595**	**$13,405**	**$13,894**	**$27,299**

This baseline planning estimate is not an explicit forecast. It is simply an extrapolation of projected trends in the economy. Because of the way it is constructed, any changes in the base level of revenues for fiscal 2001 will be reflected in the revenue planning estimates for FY 2002 and FY 2003. Other things equal, stronger than anticipated growth in either FY 2000 or FY 2001 will add significantly to revenues available in the 2002-03 biennium. Similarly, should the economy grow more slowly than forecast during the next two years, the revenue outlook for the 2002-03 biennium will deteriorate.

These revenue planning estimates are only a guide to the level of future revenues, not a guarantee. If the economy remains strong through calendar 2001, if projected capital gains realizations for tax years 1999, 2000, and 2001 are accurate, and if recent technical adjustments to the income and sales tax models are appropriate these planning estimates could underestimate future revenues. But if the economy fails to perform at the level anticipated in DRI's February Control, or, if capital gains realizations fail to reach the level projected, the current planning estimates will overstate future revenues. Actual revenues could exceed or fall short of the planning estimates by as much as $1.5 billion, depending on the economy's performance during the next 4 years. There is no recession in the long term forecast, only slightly slower real and nominal growth, and while no signs of a recession are currently visible, for this economic expansion to continue through the 2002-03 biennium would mean that the U.S. economy would go more than 12 years without a recession, nearly 4 years longer than any prior U.S. economic expansion.

The projected growth rate for revenues in the 2002-03 biennium is less than that forecast for the 2000-01 biennium. The $1.3 billion sales tax rebate, and two $450 million property tax rebate programs administered through the individual income tax system reduced revenues in the 1998-99 biennium. Returning to normal growth rates without those one-time items, even after the income tax reduction approved by the 1999 legislature, yields artificially high revenue growth rates for the 2000-01 biennium. When the one-time events and the tax cut are netted out revenue growth in fiscal 2002-2003 is only slightly below average.

Estimates of fiscal 2002-03 revenues are based on DRI's February 2000 and Summer 1999 Cyclelong forecasts. Nominal growth rates for variables used in projecting fiscal 2002 tax revenues were computed using the appropriate growth rates from DRI's February Control forecast. For fiscal 2003, growth rates from the February Control were used for the first two quarters of the fiscal year. For the second half of the fiscal year a synthetic nominal growth rate was obtained by multiplying the average real growth rate for each key series computed over the entire 25 year Cycle forecast horizon by the appropriate inflation estimate for fiscal 2003 taken from the October Control forecast. While inflation estimates normally would have been taken from the February Control, definitional inconsistencies created by recent national income accounts revisions made it necessary to use October's inflation estimates (the last inflation estimate made using the prior definitions) to ensure consistency between the deflators and the sector growth rates in the Summer Cycle forecast.

Although DRI extended the forecast horizon for its Control forecast to 5 years, in October 1996, there is still only limited data on the reliability of their year four and year five forecasts. The Department of Finance has chosen to continue to use its previous methodology for preparing revenue planning estimates. Department economists will continue to evaluate the advisability of basing their long term planning estimates on the year four and year five projections from the DRI Control.

Individual income tax estimates were prepared using the House Income Tax Simulation Model. Assumed filer growth in Minnesota was consistent with average national employment growth in the Cyclelong forecast. All elements of taxable income and all individual itemized deductions were assumed to grow at the growth rate for taxable personal income forecast by DRI. Calendar year income tax liabilities were converted into fiscal year revenues using the same proportions as forecast for 1999. Income tax receipts were reduced for model over estimation of alternative minimum tax payments using the same off-model approach as was used for FY 2000 and FY 2001.

Future sales tax revenues were estimated by computing percentage growth rates for each of eight broad categories of products in the sales tax base. The growth rates for FY 2002 were based on values from DRI's February Control forecast for calendar 2002 and 2003. For FY 2003 the growth rates were a blend of the Control growth rate for 2002 and the synthetic growth rate for 2003 described above. The growth rates were then weighted by the fraction of the expected 2001 sales tax base attributable to each category of purchases. The sum of the weighted growth rates was used as a measure of expected growth in the sales tax base for FY 2002 and FY 2003. Corporate tax receipts in Minnesota were estimated to grow at the same rate as DRI's Control forecast of national before tax corporate profits. Minnesota's motor vehicle excise tax collections are expected to grow at the same rate as the national consumption of motor vehicles and parts. Planning estimates for other tax and non tax revenues were prepared by extrapolating existing trends.

For the 2002-03 biennium, tobacco settlement payments were reduced an additional 2 percent per year from the revised forecast base because of forecasts of declining U.S. cigarette sales. Since under current law all tobacco settlement revenues in fiscal 2002 and fiscal 2003 accrue to the general fund, the entire $22 million decrease in settlement revenues reduces general fund revenues.

It is impossible to anticipate the economy's performance three or four years in advance. Economic projections which look that far into the future can only be extrapolations of historical trends consistent with the current short-term outlook. It is important to remember that the long term revenue planning estimate is only a guide to what revenues three and four years from now might be, not a guarantee of a specific level of revenues, and that there may be large positive or negative errors in the long term estimate.

EXPENDITURE FORECAST
FY 2000-2003

Current Biennium: FY 2000-01

The February 2000 expenditure forecast for the current biennium totals $23.581 billion, a $12 million decrease from the comparable estimates in November 1999. Expenditure changes generally reflect small forecast adjustments with minor increases in K-12 and family support spending largely offset by savings in health care spending and other programs.

FY 2000-01 Expenditure Forecast
($ in Millions)

	Nov 99	Feb 00	Difference
Estimated Spending by Function:			
Education/Children & Families	$8,104	$8,112	$8
Post-Secondary Education	2,627	2,627	0
Property Tax Aids & Credits	3,264	3,259	(5)
Other Major Local Assistance	1,102	1,100	(2)
Health Care	3,773	3,731	(42)
Family Support	414	427	13
State Operated Institutions	974	965	(9)
Legislature, Judicial, Const. Officers	572	572	0
State Agencies' Operations & Grants	1,950	1,964	14
Debt Service	576	577	1
Estimated Cancellations	(20)	(35)	(15)
Subtotal-Major Spending Categories	23,336	23,299	(37)
Dedicated Expenditures	257	282	25
Total Expenditures & Transfers	**$23,593**	**$23,581**	**$(12)**

Next Biennium: FY 2002-03 Planning Estimates

Forecast expenditures for the FY 2002-03 biennium total $25.688 billion, an 8.9 percent increase over the current biennium. These planning estimates are projections of the cost of continuing current law programs after adjusting for changes in education enrollment, caseloads in correctional institutions and human service programs, net tax capacity, and number of households.

The planning estimates provide for a 2.5 percent annual increase in the cost of goods, services and major state grant programs for FY 2002-03. This discretionary inflation reflects the impact of expected price increases on the cost of government operations.

FY 2002-03 Expenditure Planning Estimates
($ in Millions)

	Forecast Base FY 2002-03	Discretionary Inflation	Total FY 2002-03
Estimated Spending by Function:			
Education/Children & Families	$8,340	$316	$8,656
Post-Secondary Education	2,676	101	2,777
Property Tax Aids & Credits	3,480	133	3,613
Other Major Local Assistance	1,145	43	1,189
Health Care	4,501	173	4,674
Family Support	407	16	423
State Operated Institutions	1,012	38	1,050
Legislature, Judicial, Const. Officers	561	21	582
State Agencies' Operations & Grants	1,776	66	1,842
Debt Service	619	0	619
Estimated Cancellations	(20)	0	(20)
Subtotal-Major Spending Categories	24,498	907	25,405
Dedicated Expenditures	282	0	282
Total Expenditures & Transfers	**$24,780**	**$907**	**$25,688**

The planning estimates for FY 2002-03 are $65 million higher than the November 1999 forecast - a change of three-tenths of a percent. The changes largely parallel forecast adjustments that occurred in the current biennium estimates.

Change from November Forecast
FY 2002-03 Expenditure Estimates
($ in Millions)

	Nov 99 FY 2002-03	Feb 00 FY 2002-03	Difference
Estimated Spending by Function:			
Education/Children & Families	$8,631	$8,656	$24
Post-Secondary Education	2,777	2,777	0
Property Tax Aids & Credits	3,606	3,613	7
Other Major Local Assistance	1,189	1,189	0
Health Care	4,692	4,674	(18)
Family Support	411	423	12
State Operated Institutions	1,050	1,050	0
Legislature, Judicial, Const. Officers	582	582	0
State Agencies' Operations & Grants	1,832	1,842	10
Debt Service	615	619	4
Estimated Cancellations	(20)	(20)	0
Subtotal-Major Spending Categories	25,366	25,405	39
Dedicated Expenditures	256	282	26
Total Expenditures & Transfers	**$25,622**	**$25,688**	**$65**

SPENDING BY FUNCTIONAL AREA

Education/Children & Families

The education forecast for FY 2000-01 has increased by $8 million (less than one-tenth of a percent) over November projections, with increases in K-12 education largely offset by decreases occurring in the family and early childhood programs.

For FY 2000-01, K-12 spending estimates have increased $14 million. General education accounts for a relatively small part of this increase, with several changes that net to a small increase of $4 million in that program. These changes include:

- Higher pupil unit projections, increase spending by $6 million;
- Increased enrollment in contracted alternative programs, a $3 million increase;
- Lower compensatory student counts, a $3 million decrease;
- Lower projections for training and experience aid, decreasing spending by $3 million.

Most of the increase in other education programs was due to growth in special education excess costs totaling $12 million. While the November forecast used a 6.5 percent growth rate for special education costs, the February forecast increases this growth rate to 7.0 percent to reflect recent experience. Integration aid estimates have been refined based on recent discussions with districts regarding implementation of the new desegregation rule, and have increased by $3 million. The most significant projected decrease, $2 million, occurs in the tribal contract schools and results from decreased participation in the program. State expenditures on adult basic education (ABE) and adult graduation aid are forecast to decline $4 million and $2 million respectively.

FY 2002-03 spending is projected to increase by approximately $24 million (0.3 percent) over November's forecast. K-12 increases of nearly $31 million are offset by nearly $7 million in decreases in family and early childhood programs.

General education aid increased $10 million over the November forecast. Approximately $5 million of this increase corrects a miscalculation in the November appropriation estimates. As in the current biennium, projected participation in contracted alternative programs increases costs by $3 million. Referendum aid increased slightly, about $1 million.

Other education programs are projected to increase $14 million. The special education excess cost increase of $19 million reflects more rapid expenditure growth. Integration aid projections have increased by over $3 million, reflecting a more rapid implementation of the desegregation rule by the Anoka school district than previously projected. Updated estimates from districts lead to a projected increase of over $1 million in nonpublic pupil transportation, and a $2 million decrease in abatement aid. State expenditures on adult basic education and adult graduation aid are forecast to decline $4 million and $3 million respectively, reflecting revised growth expectations.

Lower Health Care Spending Reverses November Increase

Health care spending in the current biennium is now expected to be $42 million lower (1.13 percent) than was projected in November. Most of the decline occurs in the Medical Assistance (MA) program, with the decrease largely attributable to lower caseloads in nursing homes.

The health care decreases in this forecast offset virtually all of the expected increases projected in November, raising the estimates to $8 million more than estimates carried at the end of the 1999 legislative session.

FY 2002-03 planning estimates also show little change. Estimates for health care spending in FY 2002-03 are $17 million lower than in November, a change of only 0.4 percent from earlier estimates. Lower long-term care costs, for both facilities and waivers, are partially offset by higher basic care costs. The lower long-term care costs are largely due to the continued strong economic picture in the state.

Family Support Costs Slightly Higher Due to Federal Requirements

FY 2000-01 spending for family support programs is expected to be $13 million higher (3.2 percent) than estimated in November. This change is mainly driven by the maintenance of effort (MOE) requirement of the federal Temporary Assistance for Needy Families (TANF) program, and this offsets part of the savings from family support that were expected in the November Forecast.

Lower forecasts for some categories of MOE-eligible spending means that additional resources are needed in the state's MFIP program in order to meet the $191 million MOE. Decreases in the estimated amounts of MOE that Minnesota could claim from Child Care Assistance and child support collections result in the $26 million increase in the MFIP forecast for the 2000-01 biennium. The lower spending on MFIP Child Care Assistance is due to lower caseload estimates in the MFIP cash assistance program.

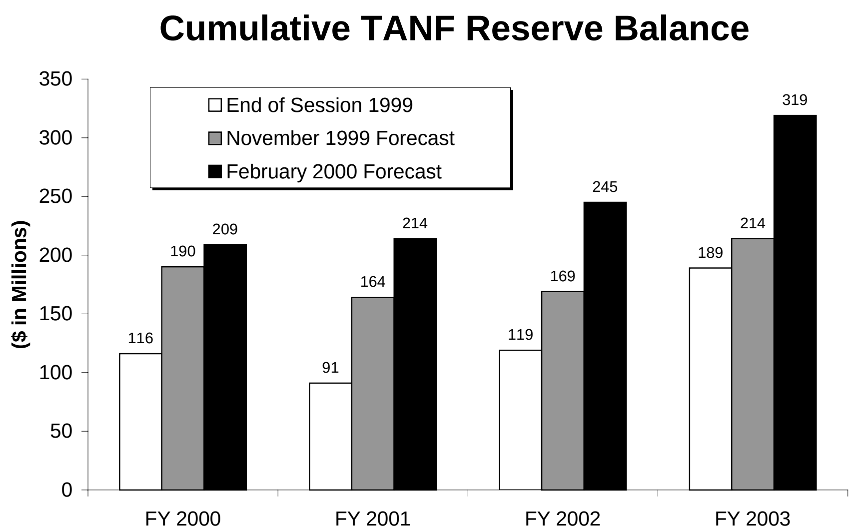
Meeting MOE -- Savings in Other Family Supports
Increases State Share of MFIP
($ in Millions)

	FY 2000	FY 2001
Changes in February Forecast		
Child Care	(1)	(9)
State Child Support Collections	(1)	(3)
State and County Administration	(5)	(4)
Other MOE Components	(1)	(2)
Decrease in MOE from Other Sources	(8)	(18)
Resulting Increase in *State* MFIP Costs needed to Reach MOE	**8**	**18**
Net Change in MOE	**0**	**0**

The higher general fund spending in MFIP, combined with lower caseload estimates for the MIFP program, results in significantly higher TANF Reserve balances than were projected in November. The cumulative unobligated balance of TANF block grant funds is estimated to be $214 million at the end of the current biennium.

FY 2002-03 Family Support Spending (FY 2002-03) is also expected to be slightly higher than expected in November. Higher MFIP costs due to MOE requirements are offset by lower Child Care Assistance and General Assistance costs, resulting in a net increase of $11 million (2.8 percent) for the biennium from previous estimates.

The cumulative TANF Reserve balance continues to grow in the planning estimates, as projections of MFIP caseloads show additional declines. These lower caseloads are the result of a favorable economic climate. The TANF Reserve is now estimated to be $319 million at the end of FY 2003 assuming the continuation of federal funding at its current annual level. The forecast also assumes that roughly 5,600 MFIP cases will lose benefits in 2003 due to the 60-month time limit, thus lowering the spending estimate and raising the projected reserve level.



Property Tax Aids and Credits Spending Shows Slight Reduction

FY 2000-01 property tax refunds are expected to total $381 million, $3 million lower than previously forecast. This reduction is due to the fact that property tax refunds are income sensitive, based in part on an individual's or family's income. Therefore, as an individual's income increases, the refund that person qualifies for decreases. With a higher growth rate forecast for personal income, estimates for property tax refunds fall under the current formula by $3 million in FY 2000-01 and $7 million in FY 2002-03.

The TIF deficit aid program shows a decrease in FY 2000-01 of $3 million, with a corresponding increase in FY 2002-03. This is due to carry-forward of obligations into the next biennium as allowed by law. The program ends on January 1, 2002.

Decrease in Forecast State Institutions' Spending Reflects Technical Correction

A $10 million reduction is shown for Human Services State Residential Facilities in FY 2000-01. Previously this amount was added to FY 2000 spending as a carry forward of appropriations from FY 1999. While the amount of the carry forward was correct, it represented dedicated general fund receipts not general fund direct appropriations. In this forecast, the amount shown as available from direct appropriations has been reduced by $10 million with dedicated expenditures increasing by a like amount.

Interest Rate Changes Result in Slightly Higher Debt Service Costs

Debt service costs are estimated by forecasting several variables. Two of the variables are the size of future capital budgets and the interest costs on new bonds that are sold. The basic forecast continues to be based on planning assumptions of $400 million capital budgets in even number years and $50 million in odd numbered years. Debt service costs increased from the November forecast by $0.9 million for FY 2000-01 and $4 million for FY 2002-03. The increase is the result of higher forecast interest rates.

Higher State Agencies' Operating Costs Reflect Tax Penalty and Interest Increase

A net $14 million increase shown for state agencies largely reflects a single forecast change. Tax penalties and interest paid by the Department of Revenue reflects payments owed to taxpayers as a result of late refund processing, audit findings, or litigation settlements. It is an open appropriation that is reflected as a state agency operating cost.

The February forecast projects that penalties and interest will total $70 million for FY 2000-01, a $14 million increase from November. Similarly, the planning estimates for FY 2002-03 have increased by $8 million, from $54 million to $62 million. The Department of Revenue reports that the growth in this area is occurring mostly in the sales tax and corporate income tax areas, while the bulk of the expansion is attributable to the outcome of audit activities and litigation settlements rather than processing delays.

Dedicated Spending Increases are offset by Corresponding Revenue Increases

FY 2000-01 dedicated expenditures increased by $25 million. Ten million of the increase is due to a correction to FY 1999 appropriations carried forward in Human Services regional treatment center dedicated expenditures. This amount was previously reported as a direct appropriation in the Department of Human Services. All other dedicated expenditure estimates increased by $16 million. Year-to-date receipts and expenditures are greater than forecast, FY 1999 actual dedicated expenditures were greater than projected, and the forecast for MnSCU fees has been increased. Offsetting this increase in dedicated general fund spending is a $28 million increase in dedicated revenues - leaving little net impact on the forecast available general fund balance.

Increased Cancellations Reflect Status of Senior Drug Program

FY 2000-01 cancellations reflect an estimate of the amount of operating appropriations, excluding forecast items, that will remain unspent at the close of the fiscal year and that will revert back to the general fund. The estimated amount, $35 million for the biennium, reflects a $15 million increase. While cancellations reflect an aggregate estimate for all agencies and programs based on historical experience, the forecast has been increased to recognize an unusually large single item. Current spending for the Senior Drug Program (DHS) is expected to be more than $17 million below authorized appropriations for FY 2000 and FY 2001, significant enough to warrant an increase in the general cancellation estimate. No change has been made to the appropriations base for FY 2002-03.

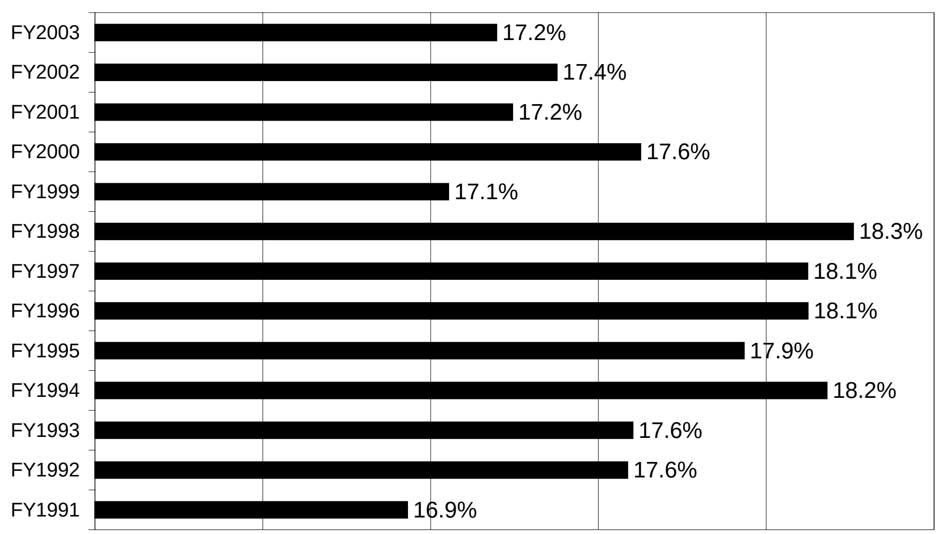
Appendix

PRICE OF GOVERNMENT

The state general fund forecast represents only a portion of public sector revenues and spending in Minnesota. In broad terms the "Price of Government" is a measure of the cost of all general government services statewide. It answers the question: How much do Minnesotans pay to state and local government? It is comprehensive and includes nearly all revenues generated by state and local units of government as well as public school districts. All state taxes, property taxes, special assessments, fees and charges are included.

The aggregate annual receipts collected by each unit of government are considered the total cost that Minnesota taxpayers pay for public services. The Price of Government measures that cost for each fiscal year relative to Minnesota Personal Income. The result is stated as a percentage of statewide personal income. For calendar year 2000, fiscal year 2001, it is estimated at 17.2%. In other words, for every dollar of a Minnesota taxpayer's personal income, 17.2 cents will be paid for state, county, city, township and school district services during the year.

Minnesota Price of Government
State and Local Revenue as % of Personal Income



The Price of Government has decreased from the November 1999 forecast by three-tenths of a percent in fiscal years 2001 and 2002 and four-tenths of a percent in fiscal year 2003. These decreases are mainly the result of a higher forecast of Minnesota Personal Income.

The following table shows the revenues raised at each level of government. Federal grants and aids are excluded, as are intergovernmental transfers between state and local units. The resulting "own source revenues" are revenues raised by taxes, fees and charges at each individual level of government.

Own Source Revenues
($ in Millions)

	FY 2000	FY 2001
State Revenues		
Tax Revenues	$12,701	$13,270
Non-Tax Revenues	2,218	2,150
Total State Revenues	14,919	15,420
Local Non-School		
Property, Other Taxes	3,006	3,096
Non-Tax Revenues	4,182	4,434
Total Non-School	7,188	7,530
School District Revenues		
Property, Other Taxes	1,860	1,860
Non-Tax Revenues	612	659
Total School District	2,472	2,519
Total Own Source Revenues	**$24,579**	**$25,469**
Minnesota Personal Income	**$139,459**	**$147,700**
Revenue as % of Personal Income	**17.6%**	**17.2%**

For FY 2000, the state will collect 61 percent of all dollars Minnesotans will pay in taxes, fees and charges; counties, cities and townships will collect about 29 percent; and school districts will collect about 10 percent. However, when intergovernmental aids and transfers are included, the state will spend only 53 percent of the total collected, while non-school local governments will spend 27 percent and school districts 20 percent.

The following table displays detailed price of government data. It shows major taxes and other revenue sources by level of government by year for the period FY 1991 through FY 2003.

February 2000 Forecast
Price of Government
State & Local Revenues, C.Y. 1990-2002
as a Percent of Personal Income
($ in Thousands)

	C.Y. 1990	C.Y. 1991	C.Y. 1992	C.Y. 1993	C.Y. 1994	C.Y. 1995	C.Y. 1996	C.Y. 1997	C.Y. 1998	C.Y. 1999	C.Y. 2000	C.Y. 2001	C.Y. 2002
	F.Y. 1991	**F.Y. 1992**	**F.Y. 1993**	**F.Y. 1994**	**F.Y. 1995**	**F.Y. 1996**	**F.Y. 1997**	**F.Y. 1998**	**F.Y. 1999**	**F.Y. 2000**	**F.Y. 2001**	**F.Y. 2002**	**F.Y. 2003**
State Revenues													
Tax Revenues:													
Individual Income Tax	2,972,983	3,144,636	3,471,374	3,539,994	3,753,268	4,135,332	4,768,390	4,746,569	5,320,918	5,446,900	5,819,700	6,231,200	6,562,400
General Sales Tax	1,965,209	2,193,451	2,378,482	2,522,271	2,722,596	2,901,268	3,012,746	3,251,685	2,140,351	3,704,620	3,877,207	4,068,100	4,250,400
Corporate Income Tax	457,934	420,278	509,534	551,822	665,757	701,735	680,898	752,061	777,491	741,000	740,400	717,100	769,600
Gasoline & Special Fuels Taxes	430,213	437,817	441,619	457,614	468,738	495,458	516,664	529,211	555,187	566,832	576,592	586,675	597,005
Motor Vehicle License Tax	351,664	370,650	404,655	425,036	452,317	475,669	511,113	539,865	584,359	601,019	625,060	650,062	676,065
Motor Vehicle Sales Tax	236,720	270,356	296,284	332,994	347,523	381,219	401,751	444,976	487,041	529,500	525,900	532,900	550,000
Health Care Taxes	0	0	13,566	64,532	145,978	171,597	186,035	155,370	158,103	161,660	186,354	225,047	267,023
All Other Taxes	549,253	585,022	662,167	759,729	743,678	792,194	811,597	876,959	936,798	949,780	919,100	939,818	956,191
Subtotal - State Taxes	6,963,976	7,422,210	8,177,681	8,653,992	9,299,855	10,054,472	10,889,194	11,296,696	10,960,248	12,701,311	13,270,313	13,950,902	14,628,684
Non-Tax Revenues:													
Fees & Charges	249,168	338,879	326,518	366,305	369,337	410,604	450,229	466,675	437,200	487,387	480,057	481,759	488,904
Investment Earnings	172,861	109,360	77,989	79,419	120,028	149,943	194,920	255,243	299,413	252,741	215,413	213,129	215,543
Post-Secondary Tuition	354,404	379,134	409,787	415,135	417,787	415,775	447,607	463,147	479,621	496,376	501,596	506,918	512,346
Tobacco Settlements	0	0	0	0	0	0	0	297	0	104,926	117,141	379,366	271,554
All Other Resources	570,118	560,559	571,254	651,005	613,591	517,831	583,593	763,474	709,960	876,882	835,307	813,036	806,141
Subtotal - State Non Tax Revenues	1,346,551	1,387,932	1,385,548	1,511,864	1,520,743	1,494,153	1,676,349	1,948,836	1,926,194	2,218,312	2,149,514	2,394,208	2,294,488
Subtotal - State Own Source Revenues	8,310,527	8,810,142	9,563,229	10,165,856	10,820,598	11,548,625	12,565,543	13,245,532	12,886,442	14,919,623	15,419,827	16,345,110	16,923,172
Federal Grants	2,260,587	2,530,697	2,778,303	3,133,023	3,212,969	3,292,314	3,479,377	3,684,064	3,783,696	4,275,506	4,346,071	4,146,449	4,131,638
TOTAL STATE REVENUES	10,571,114	11,340,839	12,341,532	13,298,879	14,033,567	14,840,939	16,044,920	16,929,596	16,670,138	19,195,129	19,765,898	20,491,559	21,054,810
Local Non-School Revenues													
Tax Revenues:													
Property Tax	1,781,901	1,979,384	2,090,992	2,165,434	2,218,545	2,328,364	2,449,028	2,561,031	2,670,265	2,771,852	2,850,884	2,997,638	3,148,353
Sales Tax	49,852	52,750	60,272	64,023	74,381	78,433	80,200	85,349	95,212	101,496	105,962	111,155	116,157
Other Taxes	82,961	92,774	99,262	103,591	102,707	104,375	114,318	122,051	129,236	132,434	138,854	145,643	152,826
Subtotal - Local Taxes	1,914,714	2,124,908	2,250,526	2,333,048	2,395,633	2,511,172	2,643,546	2,768,431	2,894,713	3,005,782	3,095,700	3,254,436	3,417,336
Non-Tax Revenues:													
Special Assessments	203,949	207,957	239,171	241,280	227,548	222,077	236,857	236,273	239,594	243,154	246,972	258,088	269,835
Licenses and Permits	58,168	62,802	68,530	72,874	78,211	86,705	97,800	105,568	116,732	129,111	142,837	149,276	156,081
Charges for Services	388,710	414,902	438,234	482,785	479,682	483,770	531,204	644,330	683,808	726,468	772,607	804,937	839,034
Investment Earnings	326,643	291,536	260,507	253,102	260,010	313,453	306,628	363,843	395,979	430,993	469,149	505,978	545,723
Selected Enterprise Revenues	1,238,569	1,418,282	1,527,277	1,627,881	1,750,121	1,834,630	1,899,526	1,963,385	2,058,287	2,158,584	2,264,602	2,363,285	2,467,480
Miscellaneous Revenues	254,965	262,455	273,537	287,094	324,313	352,768	385,130	416,599	453,637	493,976	537,913	560,597	584,526
Subtotal - Local Non Tax Revenues	2,471,004	2,657,934	2,807,256	2,965,016	3,119,885	3,293,403	3,457,145	3,729,998	3,948,037	4,182,286	4,434,080	4,642,161	4,862,679
Subtotal - Local Own Source Revenues	4,385,718	4,782,842	5,057,782	5,298,064	5,515,518	5,804,575	6,100,691	6,498,429	6,842,750	7,188,068	7,529,780	7,896,597	8,280,015
Intergovernmental Revenue:													
State Aid	1,702,770	1,650,831	1,676,587	1,753,224	1,762,645	1,777,730	1,860,951	1,947,050	2,028,960	2,024,663	2,074,181	2,135,213	2,154,144
Local Aid	66,439	72,799	72,554	66,338	72,498	68,512	71,143	87,949	87,949	87,949	87,949	87,949	87,949
Federal Aid	542,064	470,091	441,744	530,827	509,880	504,965	529,905	538,262	532,200	532,200	532,200	532,200	532,200
Subtotal - Intergovernmental Revenue	2,311,273	2,193,721	2,190,885	2,350,389	2,345,023	2,351,207	2,461,999	2,573,261	2,649,109	2,644,812	2,694,330	2,755,362	2,774,293
TOTAL LOCAL NON-SCHOOL REVENUES	**6,696,991**	**6,976,563**	**7,248,667**	**7,648,453**	**7,860,541**	**8,155,782**	**8,562,690**	**9,071,690**	**9,491,859**	**9,832,880**	**10,224,110**	**10,651,959**	**11,054,308**

February 2000 Forecast
Price of Government
State & Local Revenues, C.Y. 1990-2002
as a Percent of Personal Income
($ in Thousands)

	C.Y. 1990 F.Y. 1991	C.Y. 1991 F.Y. 1992	C.Y. 1992 F.Y. 1993	C.Y. 1993 F.Y. 1994	C.Y. 1994 F.Y. 1995	C.Y. 1995 F.Y. 1996	C.Y. 1996 F.Y. 1997	C.Y. 1997 F.Y. 1998	C.Y. 1998 F.Y. 1999	C.Y. 1999 F.Y. 2000	C.Y. 2000 F.Y. 2001	C.Y. 2001 F.Y. 2002	C.Y. 2002 F.Y. 2003
School District Revenues													
Tax Revenues:													
Property Tax	1,358,929	1,516,895	1,614,796	1,783,311	1,877,076	1,963,009	2,082,650	2,163,208	1,973,608	1,838,573	1,839,397	1,913,454	1,973,325
Taconite Production Tax	23,289	25,344	25,421	25,536	26,001	26,028	26,786	23,576	23,274	21,050	21,050	21,050	21,050
Subtotal - School District Tax Revenues	1,382,218	1,542,239	1,640,217	1,808,847	1,903,077	1,989,037	2,109,436	2,186,784	1,996,882	1,859,623	1,860,447	1,934,504	1,994,375
Non-Tax Revenues:													
Sales & Fee Revenue	111,848	110,624	118,700	122,046	127,635	135,713	146,870	151,682	165,552	174,988	184,963	195,506	206,650
Other Miscellaneous Revenue	181,697	206,996	249,532	276,801	303,902	332,488	334,517	378,101	403,590	437,492	474,241	514,077	557,260
Subtotal - School District Non Tax Revenues	293,545	317,620	368,232	398,847	431,537	468,201	481,387	529,783	569,142	612,480	659,204	709,583	763,910
Subtotal - School Dist Own Source Revenues	1,675,763	1,859,859	2,008,449	2,207,694	2,334,614	2,457,238	2,590,823	2,716,567	2,566,024	2,472,103	2,519,651	2,644,087	2,758,285
Intergovernmental Revenue:													
State Aid	2,243,533	2,313,643	2,373,532	2,470,649	2,837,324	2,956,485	3,008,251	3,267,620	3,567,418	3,951,224	4,103,668	4,114,902	4,132,876
State Paid Tax Credits	181,582	166,379	187,905	210,446	162,920	165,986	137,379	113,573	77,649	48,490	36,601	25,727	20,869
Education Homestead Credit	0	0	0	0	0	0	0	0	160,271	304,629	394,815	404,818	412,918
Education Agricultural Credit	0	0	0	0	0	0	0	0	0	0	45,000	46,000	47,000
Local Aid	29,707	29,887	30,000	29,558	29,414	27,503	39,416	32,998	30,011	32,225	33,610	35,122	36,771
Federal Aid	182,435	200,860	224,445	236,807	248,375	254,149	263,193	294,325	317,517	336,568	356,762	378,168	400,858
Subtotal - Intergovernmental Revenue	2,637,257	2,710,769	2,815,882	2,947,460	3,278,033	3,404,123	3,448,239	3,708,516	4,152,866	4,673,136	4,970,456	5,004,737	5,051,292
TOTAL SCHOOL DISTRICT REVENUES	**4,313,020**	**4,570,628**	**4,824,331**	**5,155,154**	**5,612,647**	**5,861,361**	**6,039,062**	**6,425,083**	**6,718,890**	**7,145,239**	**7,490,107**	**7,648,824**	**7,809,577**

	C.Y. 1990 F.Y. 1991	C.Y. 1991 F.Y. 1992	C.Y. 1992 F.Y. 1993	C.Y. 1993 F.Y. 1994	C.Y. 1994 F.Y. 1995	C.Y. 1995 F.Y. 1996	C.Y. 1996 F.Y. 1997	C.Y. 1997 F.Y. 1998	C.Y. 1998 F.Y. 1999	C.Y. 1999 F.Y. 2000	C.Y. 2000 F.Y. 2001	C.Y. 2001 F.Y. 2002	C.Y. 2002 F.Y. 2003
Total State, Local & School District Revenues													
Tax Revenues	11,089,357	12,068,424	12,795,887	13,598,565	14,554,681	15,642,176	16,251,911	15,851,843	17,566,716	18,226,460	19,139,842	20,040,395	20,040,395
Non-Tax Revenues	4,363,486	4,561,036	4,875,727	5,072,165	5,255,757	5,614,881	6,208,617	6,443,373	7,013,078	7,242,798	7,745,952	7,921,077	7,921,077
Intergovernmental Revenue	7,435,187	7,785,070	8,430,872	8,836,025	9,047,644	9,389,615	9,965,841	10,585,671	11,593,454	12,010,857	11,906,548	11,957,223	11,957,223
TOTAL ALL REVENUES	22,888,030	24,414,530	26,102,486	27,506,755	28,858,082	30,646,672	32,426,369	32,880,887	36,173,248	37,480,115	38,792,342	39,918,695	39,918,695
Less: Intergovernmental Revenues	-7,435,187	-7,785,070	-8,430,872	-8,836,025	-9,047,644	-9,389,615	-9,965,841	-10,585,671	-11,593,454	-12,010,857	-11,906,548	-11,957,223	-11,957,223
Total Own Source Revenues	15,452,843	16,629,460	17,671,614	18,670,730	19,810,438	21,257,057	22,460,528	22,295,216	24,579,794	25,469,258	26,885,794	27,961,472	27,961,472
Minnesota Personal Income	87,867,500	94,475,000	97,202,500	104,110,000	109,305,000	117,292,500	123,010,000	130,738,000	139,458,750	147,700,000	154,727,500	162,603,200	162,603,200
Revenue as Percent of Personal Income		**17.6%**	**18.2%**	**17.9%**	**18.1%**	**18.1%**	**18.3%**	**17.1%**	**17.6%**	**17.2%**	**17.4%**	**17.2%**	**17.2%**

ALTERNATIVE FORECAST COMPARISON

Real GDP (Annual Rates)

	99IV	00I	00II	00III	00IV	99A	00A	01A
DRI Control (2-00)	5.8	2.9	3.2	2.2	2.6	4.0	3.6	2.9
Blue Chip (2-00)	4.1	2.1	2.8	2.9	3.1	3.9	3.0	N.A.
American Express (IDS) (2-00)	5.8	4.0	3.6	2.9	2.6	4.2*	3.3*	2.6*
Merrill-Lynch (2-00)	5.8	4.0	3.5	3.5	3.2	4.0	4.2	3.5

**** 4Q/4Q***

Consumer Price Index (Annual Rates)

	99IV	00I	00II	00III	00IV	99A	00A	01A
DRI Control (2-00)	2.4	2.1	2.3	2.3	2.3	2.1	2.4	2.2
Blue Chip (2-00)	2.4	2.6	2.4	2.4	2.4	2.1	2.6	2.6
American Express (IDS) (2-00)	2.4	2.8	3.0	2.8	3.3	2.6*	3.0*	3.1*
Merrill-Lynch (2-00)	2.4	2.3	1.5	1.3	1.5	2.1	2.2	1.6

**** 4Q/4Q***

Appendix

FORECAST COMPARISONS

Real Economic Growth
(Annual Percent Change in Real GDP)

	1998	1999	2000	2001	2002	2003
Nov 95 DRI Control	1.7(1)	1.7(1)	1.7(1)	1.7(1)		
Feb 96 DRI Control	1.7(1)	1.7(1)	1.7(1)	1.7(1)		
Nov 96 DRI Control	2.4	2.0	1.6(2)	1.6(2)		
Feb 97 DRI Control	2.1	2.1	1.6(2)	1.6(2)		
Nov 97 DRI Control	2.3	2.0	2.5	1.7(3)		
Feb 98 DRI Control	2.7	1.4	2.4	1.7(3)		
Nov 98 DRI Control	3.6	1.7	2.3	2.1	1.7(4)	1.7(4)
Feb 99 DRI Control	3.0	3.4	1.9	2.3	1.7(4)	1.7(4)
Nov 99 DRI Control	4.3	3.9	3.4	3.5	2.0(5)	2.0(5)
Feb 00 DRI Control	4.3	4.0	3.6	2.9	3.4	2.0(5)

Inflation
(Annual Percent Change in CPI-U)

Feb 96 DRI Control	2.8	3.1	3.2	3.1		
Nov 96 DRI Control	2.8	2.9	3.0	3.1		
Feb 97 DRI Control	2.7	3.0	3.2	3.4		
Nov 97 DRI Control	2.0	2.3	2.6	2.7	2.8	
Feb 98 DRI Control	1.7	2.6	2.9	2.8	2.8	
Nov 98 DRI Control	1.6	2.4	2.7	2.8	2.8	2.9
Feb 99 DRI Control	1.6	2.0	2.3	2.3	2.4	2.5
Nov 99 DRI Control	1.6	2.2	2.3	2.1	2.6	2.8
Feb 00 Control	1.6	2.1	2.4	2.2	2.5	2.6

(1) Long-term trend from DRI Cyclelong, Summer 1995
(2) Long-term trend from DRI Cyclelong, Summer 1996
(3) Long-term trend from DRI Cyclelong, Summer 1997
(4) Long-term trend from DRI Cyclelong, Summer 1998
(5) Long-term trend from DRI Cyclelong, Summer 1999

MINNESOTA - U.S. COMPARISON REPORT
ANNUAL PERCENT CHANGES

February 2000 Control

	1995	1996	1997	1998	1999	2000	2001
Wage and Salary Income							
United States	5.8	5.9	7.2	7.6	6.8	6.4	5.4
Minnesota	6.5	7.5	7.2	8.7	7.3	6.1	5.1
Implied Annual Wage							
United States	3.1	3.8	4.4	5.0	4.4	4.3	4.2
Minnesota	3.5	5.1	4.7	5.8	5.2	4.4	3.9
Non-Farm Employment							
United States	2.7	2.0	2.6	2.5	2.2	2.0	1.2
Minnesota	2.9	2.3	2.4	2.8	2.0	1.6	1.2
Personal Income							
United States	5.5	5.8	5.6	5.0	5.3	6.0	5.0
Minnesota	5.0	7.3	4.9	6.3	5.7	5.7	4.8

Comparison of Actual and Estimated Non-Restricted Revenues
Fiscal Year-To-Date Through January 2000
($ in Thousands)

	Forecast Revenues	Actual Revenues	Variance Act-Fcst
Individual Income Tax			
Withholding	2,665,200	2,683,341	18,141
Declarations	663,400	671,910	8,510
Miscellaneous	93,700	101,542	7,842
Gross	3,422,300	3,456,793	34,493
Refund	73,400	79,680	6,280
Net	3,348,900	3,377,113	28,213
Corporate & Bank Excise			
Declarations	388,691	401,262	12,571
Miscellaneous	55,814	39,201	(16,614)
Gross	444,505	440,463	(4,042)
Refund	62,738	64,811	2,073
Net	381,767	375,651	(6,116)
Sales Tax			
Gross	2,186,350	2,205,205	18,855
Refunds	89,966	103,811	13,845
Net	2,096,384	2,101,394	5,010
Sales Tax Rebate	(7,985)	(9,525)	(1,540)
Motor Vehicle Sales	293,592	297,403	3,811
Other Revenues:			
Inherit/Gift/Estate	44,990	62,404	17,414
Liquor/Wine/Beer	32,033	33,540	1,508
Cigarette/Tobacco/Cont Sub	97,860	98,451	591
Deed and Mortgage	90,152	91,051	899
Insurance Gross Earnings	52,140	53,171	1,031
Lawful Gambling	31,111	33,604	2,494
Health Care Surcharge	67,538	67,239	(298)
Other Taxes	538	614	75
DHS RTC Collections	13,478	7,835	(5,643)
Income Tax Reciprocity	45,199	46,475	1,276
Investment Income	67,470	77,448	9,978
Other Tax Refunds	0	0	0
Tobacco Settlement	108,826	104,926	(3,900)
Other and unallocated	41,645	45,849	4,204
Other Subtotal	692,979	722,608	29,629
Other Refunds	11,986	9,444	(2,542)
Other Net	680,993	713,164	32,171
Total Gross	7,031,741	7,112,946	81,205
Total Refunds	238,090	257,747	19,657
Total Net	6,793,651	6,855,199	61,548

Appendix

FACTORS AFFECTING THE INDIVIDUAL INCOME TAX
(Dollars in Billions)

	Calendar Year					
	1996	1997	1998	1999	2000	2001
Minnesota Non-Farm Tax Base						
February 1996 Control	94.170	97.880				
November 1996 Control	95.750	100.570	105.170	109.960		
February 1997 Control	96.410	101.500	106.270	111.140		
November 1997 Control	100.450	106.250	111.700	116.240		
February 1998 Control	100.450	107.250	113.040	116.960		
November 1998 Control	100.430	107.490	113.850	118.500	123.620	128.830
February 1999 Control	100.430	107.490	114.640	120.320	125.150	130.330
November 1999 Control	98.760	105.200	112.920	119.790	126.630	133.200
February 2000 Control	98.760	105.200	112.920	120.416	127.870	134.090
Minnesota Wage and Salary Income						
February 1996 Control	69.754	72.680				
November 1996 Control	71.244	74.966	78.407	82.127		
February 1997 Control	71.712	75.572	79.203	82.961		
November 1997 Control	72.146	76.118	80.099	83.793		
February 1998 Control	72.146	76.773	81.433	84.502		
November 1998 Control	72.115	77.427	82.538	86.724	91.370	95.761
February 1999 Control	72.115	77.427	83.279	87.884	91.969	96.329
November 1999 Control	72.040	77.230	83.980	89.550	95.060	100.590
February 2000 Control	72.040	77.230	83.980	90.080	95.600	100.500
Minnesota Property Income						
February 1996 Control	17.077	17.604				
November 1996 Control	17.084	17.987	18.925	19.740		
February 1997 Control	17.212	18.133	19.011	19.782		
November 1997 Control	21.053	22.300	23.196	23.623		
February 1998 Control	21.053	22.265	23.112	23.606		
November 1998 Control	21.053	22.380	23.117	23.348	23.438	23.891
February 1999 Control	21.053	22.380	23.129	23.787	24.317	24.821
November 1999 Control	19.496	20.362	20.913	21.464	22.523	23.243
February 2000 Control	19.496	20.362	20.813	21.509	22.984	23.956
Minnesota Proprietors' Income						
February 1996 Control	7.337	7.597				
November 1996 Control	7.422	7.617	7.834	8.099		
February 1997 Control	7.489	7.798	8.056	8.401		
November 1997 Control	7.251	7.833	8.400	8.821		
February 1998 Control	7.251	8.017	8.500	8.855		
November 1998 Control	7.261	7.684	8.193	8.429	8.808	9.182
February 1999 Control	7.261	7.684	8.230	8.651	8.867	9.181
November 1999 Control	7.216	7.618	8.134	8.774	9.045	9.365
February 2000 Control	7.217	7.618	8.134	8.820	9.288	9.636

Appendix

FACTORS AFFECTING SALES, CORPORATE INCOME AND SALES TAX ON MOTOR VEHICLES (DOLLARS IN BILLIONS)

SALES TAX

	Fiscal Year 1996	1997	1998	1999	2000	2001
Minnesota's Proxy Share of U.S. Consumer Durable Spending (Excluding Autos)						
February 1996 Control	7.729	8.151				
November 1996 Control*	7.758	8.233	8.601	8.948		
February 1997 Control	7.758	8.233	8.705	9.026		
November 1997 Control	7.802	8.334	8.911	9.430		
February 1998 Control	7.767	8.291	8.802	9.226		
November 1998 Control	7.911	8.498	9.182	9.750	10.207	10.662
February 1999 Control	7.911	8.498	9.187	9.854	10.456	10.828
November 1999 Control	7.801	8.354	8.962	9.729	10.442	11.041
February 2000 Control*	7.384	7.803	8.307	8.968	9.648	10.100
Minnesota's Proxy Share of U.S. Capital Equipment Spending						
February 1996 Control	8.679	8.971				
November 1996 Control	8.069	8.757	9.316	9.900		
February 1997 Control	8.066	8.777	9.503	10.154		
November 1997 Control	7.707	8.511	9.461	10.148		
February 1998 Control	7.744	8.518	9.344	10.038		
November 1998 Control	7.824	8.555	9.475	10.338	10.743	11.224
February 1999 Control	7.824	8.555	9.485	10.417	11.103	11.461
November 1999 Control	7.821	8.546	9.452	10.384	11.519	12.189
February 2000 Control*	7.992	8.672	9.541	10.288	11.362	12.161
Minnesota's Proxy Share of U.S. Construction Spending						
February 1996 Control	4.855	4.916				
November 1996 Control	4.966	5.105	5.243	5.356		
February 1997 Control	4.966	5.170	5.290	5.344		
November 1997 Control	5.015	5.436	5.752	6.018		
February 1998 Control	5.027	5.435	5.810	6.066		
November 1998 Control	5.051	5.494	5.983	6.259	6.620	6.927
February 1999 Control	5.051	5.494	5.983	6.593	6.872	7.081
November 1999 Control	5.045	5.486	6.018	6.727	7.278	7.671
February 2000 Control*	5.038	5.507	6.126	6.863	7.404	7.540

*** Reflects data revision.**

Appendix

FACTORS AFFECTING SALES, CORPORATE INCOME AND SALES TAX ON MOTOR VEHICLES
(DOLLARS IN BILLIONS)

	Fiscal Year					
	1996	**1997**	**1998**	**1999**	**2000**	**2001**
SALES TAX (Cont.)						
Minnesota's Non-Farm Personal Income						
February 1996 Control	109.15	113.74				
November 1996 Control	110.87	115.94	121.93	127.60		
February 1997 Control	110.85	117.14	121.03	128.57		
November 1997 Control	113.98	121.14	127.68	133.13		
February 1998 Control	114.53	121.70	128.73	133.98		
November 1998 Control	114.11	121.80	129.20	135.40	141.19	147.71
February 1999 Control	114.11	121.80	129.58	136.44	142.42	148.03
November 1999 Control*	112.32	119.14	126.46	133.73	141.35	147.91
February 2000 Control	112.31	119.14	126.46	133.76	142.37	149.75
SALES TAX ON MOTOR VEHICLES						
Minnesota's Proxy Share of U.S. Consumption of Motor Vehicle and Parts						
February 1996 Control	5.324	5.357				
November 1996 Control	5.310	5.381	5.582	5.806		
February 1997 Control	5.310	5.290	5.404	5.625		
November 1997 Control**	5.132	5.123	5.191	5.339		
February 1998 Control	5.132	5.128	5.293	5.392		
November 1998 Control	5.170	5.249	5.550	5.575	5.718	5.900
February 1999 Control	5.170	5.249	5.576	5.955	5.803	6.039
November 1999 Control*	5.026	5.093	5.519	6.066	6.425	6.519
February 2000 Control	5.026	5.093	5.519	6.068	6.574	6.517
CORPORATE FRANCHISE TAX			Calendar Year			
U.S. Corporate Profits						
February 1996 Control	472.5	476.6				
November 1996 Control**	624.6	618.2	642.6	671.4		
February 1997 Control	624.6	645.3	659.6	677.8		
November 1997 Control	676.6	723.9	737.4	762.6		
February 1998 Control	676.6	735.4	756.3	754.3		
November 1998 Control	680.2	734.4	711.8	678.9	697.4	710.9
February 1999 Control	680.2	734.4	725.6	732.1	678.9	688.4
November 1999 Control*	726.4	795.9	781.9	853.9	883.8	894.2
February 2000 Control	726.4	795.9	781.9	855.3	849.7	823.4

*** Data Revision.**
**** Change in Definition**

FY 2000-01 General Fund Budget
February 2000 Forecast
($ in Thousands)

	FY 2000	FY 2001	Biennial Total
Actual & Estimated Resources:			
Balance Forward From Prior Year	1,920,779	2,370,414	1,920,779
Current Resources:			
Net Non-Dedicated Revenue			
Individual Income Tax	5,446,900	5,819,700	11,266,600
Sales Tax	3,704,620	3,877,207	7,581,827
Corporate Income Tax	741,000	740,400	1,481,400
Motor Vehicle Sales Tax	529,500	525,900	1,055,400
Tobacco Settlements	104,926	117,141	222,067
Other Non-Dedicated Revenue	1,086,913	1,039,716	2,126,629
Subtotal Net Non-Dedic Revenue	11,613,859	12,120,064	23,733,923
Dedicated Revenue	172,343	191,255	363,598
Transfers In	239,349	238,325	477,674
Prior Year Adjustments	10,100	10,100	20,200
Subtotal-Current Resources	12,035,651	12,559,744	24,595,395
Total Resources Available	**13,956,430**	**14,930,158**	**26,516,174**
Actual & Estimated Spending by Function:			
Education / Children & Families	3,972,207	4,139,799	8,112,006
Post-Secondary Education	1,289,372	1,338,030	2,627,402
Property Tax Aids & Credits	1,563,543	1,695,562	3,259,105
Other Major Local Assistance	538,165	562,278	1,100,443
Health Care	1,777,768	1,953,030	3,730,798
Family Support	225,083	202,185	427,268
State Operated Institutions	472,030	492,550	964,580
Legisl., Judicial, Const. Officers	290,816	281,527	572,343
State Agencies' Operations & Grants	1,065,049	898,546	1,963,595
Debt Service	263,205	313,589	576,794
Estimated Cancellations	(12,340)	(23,000)	(35,340)
Subtotal-Major Spending Categories	11,444,898	11,854,096	23,298,994
Dedicated Expenditures	141,118	141,228	282,346
Total Expenditures & Transfers	**11,586,016**	**11,995,324**	**23,581,340**
Balance Before Reserves	**2,370,414**	**2,934,834**	**2,934,834**
Cash Flow Account	350,000	350,000	350,000
Budget Reserve	622,000	622,000	622,000
Property Tax Reserve Account	**596,621**	**1,017,780**	**1,017,780**
Dedicated Reserves	144,690	145,272	145,272
Budgetary Balance	**657,103**	**799,782**	**799,782**

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FY 2000-01 Forecast Change
February 2000 Forecast vs November 1999 Forecast
($ in Thousands)

	11-99 Forecast FY 2000-01	2-00 Forecast FY 2000-01	Difference	% Change
Actual & Estimated Resources:				
Balance Forward From Prior Year	1,920,779	1,920,779	0	0.0%
Current Resources:				
Net Non-Dedicated Revenue				
Individual Income Tax	11,126,200	11,266,600	140,400	1.3%
Sales Tax	7,561,041	7,581,827	20,786	0.3%
Corporate Income Tax	1,527,200	1,481,400	(45,800)	-3.0%
Motor Vehicle Sales Tax	1,046,200	1,055,400	9,200	0.9%
Tobacco Settlements	230,170	222,067	(8,103)	-3.5%
Other Non-Dedicated Revenue	2,057,838	2,126,629	68,791	3.3%
Subtotal Net Non-Dedic Revenue	23,548,649	23,733,923	185,274	0.8%
Dedicated Revenue	335,200	363,598	28,398	8.5%
Transfers In	469,548	477,674	8,126	1.7%
Prior Year Adjustments	20,200	20,200	0	0.0%
Subtotal-Current Resources	24,373,597	24,595,395	221,798	0.9%
Total Resources Available	**26,294,376**	**26,516,174**	**221,798**	**0.8%**
Actual & Estimated Spending by Function:				
Education / Children & Families	8,104,018	8,112,006	7,988	0.1%
Post-Secondary Education	2,627,402	2,627,402	0	0.0%
Property Tax Aids & Credits	3,263,894	3,259,105	(4,789)	-0.1%
Other Major Local Assistance	1,102,055	1,100,443	(1,612)	-0.1%
Health Care	3,773,315	3,730,798	(42,517)	-1.1%
Family Support	413,869	427,268	13,399	3.2%
State Operated Institutions	974,123	964,580	(9,543)	-1.0%
Legisl., Judicial, Const. Officers	572,278	572,343	65	0.0%
State Agencies' Operations & Grants	1,949,741	1,963,595	13,854	0.7%
Debt Service	575,892	576,794	902	0.2%
Estimated Cancellations	(20,340)	(35,340)	(15,000)	73.7%
Subtotal-Major Spending Categories	23,336,247	23,298,994	(37,253)	-0.2%
Dedicated Expenditures	256,937	282,346	25,409	9.9%
Total Expenditures & Transfers	**23,593,184**	**23,581,340**	**(11,844)**	**-0.1%**
Balance Before Reserves	**2,701,192**	**2,934,834**	**233,642**	
Cash Flow Account	350,000	350,000	0	
Budget Reserve	622,000	622,000	0	
Property Tax Reserve Account	**1,012,894**	**1,017,780**	**4,886**	
Dedicated Reserves	145,272	145,272	0	
Budgetary Balance	**571,026**	**799,782**	**228,756**	

FY 1998 - FY 2003 General Fund Budget
February 2000 Planning Estimates
($ in Thousands)

	Closing FY 1998-99	2-00 Forecast FY 2000-01	2-00 Plng Est FY 2002-03
Actual & Estimated Resources:			
Balance Forward From Prior Year	1,994,720	1,920,779	2,934,834
Current Resources:			
Net Non-Dedicated Revenue			
Individual Income Tax	10,067,487	11,266,600	12,793,600
Sales Tax	5,392,036	7,581,827	8,318,500
Corporate Income Tax	1,529,552	1,481,400	1,486,700
Motor Vehicle Sales Tax	932,017	1,055,400	1,082,900
Tobacco Settlements	297	222,067	650,920
Other Non-Dedicated Revenue	2,204,319	2,126,629	2,046,156
Subtotal Net Non-Dedic Revenue	20,125,708	23,733,923	26,378,776
Dedicated Revenue	360,388	363,598	411,876
Transfers In	581,413	477,674	488,504
Prior Year Adjustments	51,658	20,200	20,200
Subtotal-Current Resources	21,119,167	24,595,395	27,299,356
Total Resources Available	**23,113,887**	**26,516,174**	**30,234,190**
Actual & Estimated Spending by Function:			
Education / Children & Families	6,909,879	8,112,006	8,655,529
Property Tax Recognition	108,905	0	0
Post-Secondary Education	2,428,214	2,627,402	2,777,461
Property Tax Aids & Credits	2,606,995	3,259,105	3,613,288
Other Major Local Assistance	994,423	1,100,443	1,188,883
Health Care	3,090,947	3,730,798	4,674,528
Family Support	512,050	427,268	422,782
State Operated Institutions	876,554	964,580	1,049,697
Legisl., Judicial, Const. Officers	518,203	572,343	581,796
State Agencies' Operations & Grants	1,809,092	1,963,595	1,842,040
Debt Service	537,076	576,794	619,252
Capital Projects	500,690	0	0
Estimated Cancellations	0	(35,340)	(20,000)
Subtotal-Major Spending Categories	20,893,028	23,298,994	25,405,256
Dedicated Expenditures	300,080	282,346	282,456
Total Expenditures & Transfers	**21,193,108**	**23,581,340**	**25,687,712**
Balance Before Reserves	**1,920,779**	**2,934,834**	**4,546,478**
Cash Flow Account	350,000	350,000	350,000
Budget Reserve	622,000	622,000	622,000
Property Tax Reserve Account	327,961	1,017,780	1,147,200
Dedicated Reserves	139,346	145,272	145,272
Appropriations Carried Forward	103,105	NA	NA
Budgetary Balance	**378,367**	**799,782**	**2,282,006**

Comparison: FY 2002-03 Planning Estimates vs November 1999 Forecast
February 2000 Forecast
($ in Thousands)

	November 1999 FY 2002-03	February 2000 FY 2002-03	$ Difference	% Change
Actual & Estimated Resources:				
Balance Forward From Prior Year	2,701,192	2,934,834	233,642	8.6%
Current Resources:				
Net Non-Dedicated Revenue				
Individual Income Tax	12,673,900	12,793,600	119,700	0.9%
Sales Tax	8,238,200	8,318,500	80,300	1.0%
Corporate Income Tax	1,593,000	1,486,700	(106,300)	-6.7%
Motor Vehicle Sales Tax	1,090,800	1,082,900	(7,900)	-0.7%
Tobacco Settlements	673,089	650,920	(22,169)	-3.3%
Other Non-Dedicated Revenue	2,012,751	2,046,156	33,405	1.7%
Subtotal Net Non-Dedic Revenue	26,281,740	26,378,776	97,036	0.4%
Dedicated Revenue	376,148	411,876	35,728	9.5%
Transfers In	492,963	488,504	(4,459)	-0.9%
Prior Year Adjustments	20,200	20,200	0	0.0%
Subtotal-Current Resources	27,171,051	27,299,356	128,305	0.5%
Total Resources Available	**29,872,243**	**30,234,190**	**361,947**	**1.2%**
Actual & Estimated Spending by Function:				
Education / Children & Families	8,316,378	8,339,959	23,581	0.3%
Post-Secondary Education	2,676,267	2,676,267	0	0.0%
Property Tax Aids & Credits	3,473,257	3,480,230	6,973	0.2%
Other Major Local Assistance	1,145,444	1,145,482	38	0.0%
Health Care	4,518,526	4,501,199	(17,327)	-0.4%
Family Support	395,904	407,356	11,452	2.9%
State Operated Institutions	1,011,406	1,011,406	0	0.0%
Legisl., Judicial, Const. Officers	560,396	560,596	200	0.0%
State Agencies' Operations & Grants	1,766,734	1,775,931	9,197	0.5%
Debt Service	615,241	619,252	4,011	0.7%
Estimated Cancellations	(20,000)	(20,000)	0	0.0%
Estimated Discretionary Inflation	906,221	907,578	1,357	0.1%
Subtotal-Major Spending Categories	25,365,774	25,405,256	39,482	0.2%
Dedicated Expenditures	256,590	282,456	25,866	10.1%
Total Expenditures & Transfers	**25,622,364**	**25,687,712**	**65,348**	**0.3%**
Balance Before Reserves	**4,249,879**	**4,546,478**	**296,599**	
Cash Flow Account	350,000	350,000	0	
Budget Reserve	622,000	622,000	0	
Property Tax Reserve Account	**1,132,452**	**1,147,200**	**14,748**	
Dedicated Reserves	145,272	145,272	0	
Budgetary Balance	**2,000,155**	**2,282,006**	**281,851**	

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FY 2002-03 Planning Estimate vs Forecast
February 2000 Forecast
($ in Thousands)

	2-00 Fcst FY 2000-01	2-00 Base FY 2002-03	$ Difference	% Change
Actual & Estimated Resources:				
Balance Forward From Prior Year	1,920,779	2,934,834	1,014,055	52.8%
Current Resources:				
Net Non-Dedicated Revenue				
Individual Income Tax	11,266,600	12,793,600	1,527,000	13.6%
Sales Tax	7,581,827	8,318,500	736,673	9.7%
Corporate Income Tax	1,481,400	1,486,700	5,300	0.4%
Motor Vehicle Sales Tax	1,055,400	1,082,900	27,500	2.6%
Tobacco Settlements	222,067	650,920	428,853	193.1%
Other Non-Dedicated Revenue	2,126,629	2,046,156	(80,473)	-3.8%
Subtotal Net Non-Dedic Revenue	23,733,923	26,378,776	2,644,853	11.1%
Dedicated Revenue	363,598	411,876	48,278	13.3%
Transfers In	477,674	488,504	10,830	2.3%
Prior Year Adjustments	20,200	20,200	0	0.0%
Subtotal-Current Resources	24,595,395	27,299,356	2,703,961	11.0%
Total Resources Available	**26,516,174**	**30,234,190**	**3,718,016**	**14.0%**
Actual & Estimated Spending by Function:				
Education / Children & Families	8,112,006	8,339,959	227,953	2.8%
Post-Secondary Education	2,627,402	2,676,267	48,865	1.9%
Property Tax Aids & Credits	3,259,105	3,480,230	221,125	6.8%
Other Major Local Assistance	1,100,443	1,145,482	45,039	4.1%
Health Care	3,730,798	4,501,199	770,401	20.6%
Family Support	427,268	407,356	(19,912)	-4.7%
State Operated Institutions	964,580	1,011,406	46,826	4.9%
Legisl., Judicial, Const. Officers	572,343	560,596	(11,747)	-2.1%
State Agencies' Operations & Grants	1,963,595	1,775,931	(187,664)	-9.6%
Debt Service	576,794	619,252	42,458	7.4%
Estimated Cancellations	(35,340)	(20,000)	15,340	-43.4%
Estimated Discretionary Inflation	0	907,578	907,578	na
Subtotal-Major Spending Categories	23,298,994	25,405,256	2,106,262	9.0%
Dedicated Expenditures	282,346	282,456	110	0.0%
Total Expenditures & Transfers	**23,581,340**	**25,687,712**	**2,106,372**	**8.9%**
Balance Before Reserves	**2,934,834**	**4,546,478**	**1,611,644**	
Cash Flow Account	350,000	350,000	0	
Budget Reserve	622,000	622,000	0	
Property Tax Reserve Account	**1,017,780**	**1,147,200**	**129,420**	
Dedicated Reserves	145,272	145,272	0	
Budgetary Balance	**799,782**	**2,282,006**	**1,482,224**	