

# Minnesota's big budget surplus stable at \$17.5B in new forecast

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Minnesota is now projected to post a \$17.5 billion budget surplus, down slightly from the number they forecast in December, state officials said Monday.

Andrew Krueger | MPR News

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Minnesota Management and Budget leaders on Monday announced that the state is projected to post a \$17.5 billion budget surplus, down slightly from the number they forecast in December.

The state continued to bring in more revenue than it expected over the last two months, which bumped up the surplus total. But inflation for current state government spending, along with some spending lawmakers have passed already this year, chipped away at the amount.

The update kick starts discussions about how much DFL lawmakers and the governor can spend on the state's next two-year budget, as well as on their priorities such as starting a new paid family leave program, boosting funding to schools and additional child care programs.

Minnesota Management and Budget Commissioner Jim Schowalter said the state's economy withstood the challenges posed by the COVID-19 pandemic and outpaced the U.S. economy overall.

"Minnesota is doing really well," Schowalter said. "We're continuing to outperform other states, and really are looking really quite strong in comparison to the national economy."

In December, the forecast showed a nearly \$18 billion budget surplus after the state's economy exceeded expectations and Minnesota posted higher-than-expected income and sales tax revenues. Those trends have continued in the months since, and the surplus is still expected to be substantial.

Lawmakers and the governor approved a change requiring economists to include inflation as they look at state program costs in this forecast.

## **Why is inflation back in the forecast?**

For the last two decades, Minnesota has kept inflation estimates for state spending out of the budget forecast. Economists would offer a tentative total for a budget surplus or deficit, and lawmakers had to either consider or ignore inflation on their own.

But lawmakers this year moved quickly to reincorporate inflation into the forecast, arguing that it paints a clearer picture of the state's finances.

“Bottom line is that every economist wants you to have accurate numbers,” said Sen. John Marty, DFL-Roseville, who led the push in the Senate to bring back the measure. “A forecast does not spend any money, it does not raise any money, it's simply giving you honest information so that we as a Legislature can put together a good budget.”

MMB Commissioner Schowalter summed it up this way: “If gas prices go up, we will have to pay for that. And so saying that there's a surplus, and that recognizing some of those inflationary costs, will be picked up in a number this time.”

But not everyone was on board with the change.

Republicans at the Capitol opposed the switch, and said it would lead to putting state spending on “auto-pilot” and could shrink the amount of money available to send back to taxpayers.

“The government doesn't need the numbers stacked any more in its favor and against the little guy,” Sen. Zach Duckworth, R-Lakeville, said during a floor debate. “If the state of Minnesota that is sitting on an \$18 billion surplus feels the need to adjust those numbers downward, I can only imagine what the people of Minnesota are feeling.”

## Where will the surplus go?

Lawmakers will spend the next two and a half months debating how to spend the surplus, as well as tens of billions of dollars more in a two-year budget. And they've already hinted at where they want the money to go.

Democrats who control the House, Senate and the governor's office, have said they hope to make big investments in child care, education, and a paid family and medical leave program for workers. They've also pitched a \$1.9 billion capital investment package.

"I think the DFL governor, the DFL Senate and the DFL in the House are all aligned around the objective of trying to make it easier for people to afford their lives," House Speaker Melissa Hortman, DFL-Brooklyn Park, said. "So we'll be looking for all the ways in which this surplus can be prosperity that's shared with all Minnesotans."

Gov. Tim Walz has pitched an overall \$65 billion budget plan, complete with increased funding for schools, a paid family and medical leave program and rebate checks for 2.5 million Minnesota households. He also proposed a tax increase for some stock sales and a payroll tax increase to fund the paid leave program into the future.

Republicans at the Capitol have said taxpayers have contributed to the surplus and should see a tax cut or rebate from that funding. They've also pushed back on DFL efforts to implement earned sick and safe time and paid family leave programs, arguing that they create too big a burden for employers.

## What's next?

With the latest budget information at hand, state lawmakers will immediately start work on a two-year budget plan. The governor will use the forecast to revise his budget proposal, and legislative caucuses come up with their own plans over the next several weeks. They're then expected to spend the spring ironing out a proposal that can pick up majority support in both chambers and get the governor's signature.

Expect long debates in the weeks and months ahead about where the state should boost funding, who should get a tax cut or rebate check, and whether now is the time to raise taxes.

The governor and Legislature have a hard deadline of July 1 to reach an agreement or risk a state government shutdown. DFL leaders have said they're hopeful that they can finish their work by the time the Legislature must adjourn on May 22.