

Minnesota's staggering surplus stays mostly unchanged at \$17.5 billion

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By [Jessie Van Berkel](#) Star Tribune

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Minnesota's staggering estimated budget surplus remained largely unchanged, with the latest financial forecast at \$17.5 billion. But for the first time in two decades, that figure factors in inflation in spending.

Minnesota legislators and advocates have spent months devising plans to spend the state's record-breaking surplus, previously estimated at [\\$17.6 billion](#). On Monday, budget officials are providing a detailed update on state finances and a long-range look at national and local economic trends.

"Individual income and corporate franchise tax forecast up, offset by inflation," the Minnesota Management and Budget office said in its announcement of the latest surplus figure.

Total tax and other revenue jumped by nearly \$599 million compared to the last forecast from November. State revenue is expected to continue to exceed spending through 2027.

"This is great news for Minnesota and a sign that our economy is strong and growing," Gov. Tim Walz said in a statement. "Minnesota continues to have a record-low unemployment rate, one of the most diverse economies in the nation, and is on a path to be the best state in the country to raise a family. "

Budget estimates now account for inflation on the spending side, eating up part of the projected revenue growth. Inflation in the cost of government services is projected to amount to more than \$1.4 billion in the next two-year budget and nearly \$3.1 billion the following two years, according to state forecast figures.

Some legislators and experts have long criticized a 2002 decision to [remove inflation from spending projections](#) but include it in revenue estimates, calling it a gimmick to make the state's financial picture appear stronger.

Sen. John Marty, DFL-Roseville, [pushed for the recent change](#) to factor inflation into the budget forecast. He likened it to having the best possible prediction for a snowstorm.

"We want the weather forecast to be as accurate as possible so that we can make good decisions about our response to the bad weather that we are likely to face," Marty said.

Laws already enacted during this year's fast-moving legislative session also will impact the forecast, most notably the measure to [align some state and federal tax laws](#) that is expected to cost the state about \$104 million in the next budget.

National inflation continues to rise, with a [U.S. Commerce Department report Friday](#) showing consumer prices jumping from December to January. That could lead to continued interest rate hikes by the Federal Reserve, potentially exacerbating concerns of a recession.

Minnesota receives economic forecasts twice a year. The February forecast, which comes in the middle of the legislative session, could prompt DFL Gov. Tim Walz to adjust his budget plan and will help legislators shape their spending and revenue goals for the next two years.

[Walz proposed a \\$65 billion budget](#) in January that contains significant increases to education spending and tax breaks. He is also aiming to use the surplus for one-time expenses, including sending checks to some Minnesotans and providing an influx of cash to jumpstart a paid family and medical leave program.

The governor and DFL-controlled House and Senate will work together to try to finalize the next budget before the Legislature adjourns in May. Meanwhile, GOP lawmakers have repeatedly pushed for the surplus to be used for tax breaks and plan to debut a so-called "give it back" tax plan Tuesday.

Union and progressive advocacy group leaders held a news conference Friday ahead of the forecast to press lawmakers to spend more on schools, health care, transportation, child care and paid leave.

They said the state should not give tax breaks to corporations or wealthy residents and opposed an across-the-board elimination of Social Security taxes, an idea that has divided Democrats at the Capitol.

"This is the year to fix the shortages, expand the policies that work and provide every Minnesota student a world-class education in a school that's safe, welcoming and effective for everyone," Education Minnesota President Denise Specht said.