



December 15, 2021

2021 Minnesota Legislative Update: November Forecast

On Tuesday, December 7th, Minnesota Management and Budget (MMB) released Minnesota's November Forecast, projecting a \$7.75 billion surplus for the FY 2022-23 biennium. This is a record surplus for Minnesota.

The projected surplus is the result of several factors, including roughly \$3 billion in surplus carryover from the previous biennium, higher than projected tax receipts, and decreased expenditures over the next two and four years. The higher tax receipts include higher than anticipated revenue collections from individual income taxes, consumer spending and corporate franchise taxes. This forecast, while positive, cautions several remaining risk factors including the path of the pandemic, inflation, labor force participation, supply chain issues, global growth and 19 months remaining until the end of the FY 2022-23 biennium.

The \$7.75 billion projected surplus does not include an additional \$870 million used to replenish the state's budget reserve to \$2.656 billion — consistent with state law. It also does not include the \$1.15 billion remaining from Minnesota's American Rescue Plan allocation that legislative leaders and the Governor agreed to jointly allocate this session.

Not surprisingly, the Governor and legislative leadership immediately signaled their priorities for spending the surplus. Governor Walz said this surplus is attributable to responsible policies advanced by his administration and demonstrates that government doesn't have to choose between public health and the economy in addressing the pandemic. Governor Walz said he will be proposing a sizable supplemental budget in January that advances several of his priorities including helping those hit hardest and who have not recovered from the pandemic. Some areas he suggested investing in are paid family and medical leave, affordable housing, lowering the cost of energy and public safety.

House and Senate DFL leaders believe that the projected surplus provides an opportunity to invest in Minnesotans and ensure a fair recovery for families, children and front-line workers. Acknowledging that the economic recovery of the pandemic has been uneven, they will focus on those areas that have been slower to recover, including childcare, health care and education.

Republican leaders responded to the projected surplus with an emphasis on providing Minnesotans relief without growing state government. Potential forms of relief mentioned are addressing high energy costs, continuing the reinsurance program, and providing tax relief, including eliminating the tax on social security benefits and continuing to reduce the state's property tax on commercial and industrial properties.

One significant issue facing state leaders is the more than \$1 billion deficit in the unemployment insurance (UI) trust fund. UI was a key mechanism Minnesota used to pay benefits to individuals severely impacted by the pandemic. Under the current statutory mechanism, failure to replenish the trust fund will result in a significant payroll tax increase for the state's employers as soon as March 2022. Republicans have urged Governor Walz to use federal funds or state dollars to repay the debt rather than increasing payroll taxes. Some DFL members have urged Governor Walz to not use the surplus or federal funds, believing that replenishing the trust fund amounts to a tax break for large corporations. Governor Walz on Tuesday did not indicate how he and the legislature would ultimately address the UI deficit, but stated, "we'll fix it."

Unless Governor Walz calls a special session, the legislature will reconvene on January 31, 2022, to begin addressing the projected surplus, a capital investment bill and other priorities. The legislature will receive an updated forecast at the end of February which will ultimately be used to address any investments and tax relief for Minnesotans.

The full economic and budget forecast can be found [here](#).

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