

CATHY WURZER: Our top story, Minnesota state lawmakers are getting their first look at a revised financial forecast that will guide them for the next couple of months as they make final decisions on a new state budget. The forecast was released this morning. And for the first time in two decades, it includes inflation in spending estimates. And that has left that big projected state surplus a little flat. To help explain it all is our political editor Mike Mulcahy. Hey, welcome.

MIKE MULCAHY: Hey, thanks for having me, Cathy.

CATHY WURZER: OK. So as I say, it's nearly flat. What impact did inflation have on the big budget surplus that was projected to be, what, \$17.6 billion?

MIKE MULCAHY: Right. It's a little complicated. So stick with me. The surplus announced today is just under \$17.5 billion. But without inflation factored in on the spending side, it would have been bigger, about 18.9 billion. And if you really want to max out the numbers here and do apples to apples, go back to that original forecast in December, factor in inflation again, it would have been about \$16 billion.

So it's complicated. But the surplus is up a little bit. Stable is the word used by Minnesota Management and Budget. They say income taxes, corporate tax collections have been coming in better than expected. But that is offset a bit by inflation. They say outlook for the economy is a bit better with just a slight recession predicted for next year.

And they say that revenue still looks strong through the next few years, really.

CATHY WURZER: I want to just kind of focus on inflation here for just a moment if I could, Mike. Why did lawmakers decide to include that in the forecasts again? I mean, they used to factor it in a number of years ago and then they dropped the idea.

MIKE MULCAHY: It all goes back to about 20 years ago. Remember, back then, the state was facing a big deficit. It was right after 9/11. And so they decided by taking inflation out of these forecasts, it made spending look a little smaller and that gap was easier to fill. And I should say there's a philosophical angle to it too.

Republicans argued back then and they still argue now that including inflation in the spending projections basically puts government spending on autopilot. And it assumes that spending from one budget will always continue into the future. Democrats say that by not including inflation, you're just being unrealistic and it tends to paper over problems with budgets.

They say it's responsible budgeting to include inflation. And Democrats, as you know are in charge at the Capitol this year. So they finally had the votes to change it back and put inflation back in. And that's what they did.

CATHY WURZER: So the bottom line is there's still a pile of money that can be used for a number of different things, right? What are Democrats-- as you say, who control the House and Senate, and of course, the governorship, what are they all saying about how we move forward from here to the end of the session?

MIKE MULCAHY: Well, generally speaking, the Democrats and the governor agree on some of the big spending areas. The governor wants to spend more on schools. He wants to spend more on child care, paid family and medical leave program, and some targeted tax breaks for families. In general, the DFL legislative majorities seem to agree with those priorities.

But with this much money on the table, even some slight disagreements can mean some big amounts. For example, there's already a bill moving in committees at the Capitol that would spend even more than the governor has proposed on K-12 schools, and his increase there is about \$5 billion.

So it's a lot of money. The governor has also proposed some direct checks to people within some income limits. He calls them walls checks. He's got about \$4 billion targeted there. It's still not quite clear what the legislature wants to do there. So that'll be a big part of the debate. And so I think you get the sense Cathy that there's still a lot of work to be done a lot of details to be worked out, even with one party in control of the House, Senate, and the governor's office.

CATHY WURZER: And what are Republicans saying?

MIKE MULCAHY: Well, they've been pretty clear from the beginning that they think a lot of this money should go to tax cuts. Last year, when Republicans controlled the state senate, they had negotiated a total elimination of the tax on Social Security income. And rate cut for income taxes, we all know the session ended last year before those things were actually passed.

So Republicans may have given up much of their leverage. They kind of expected voters would give them a bigger majority this year. And that's not what happened when people actually voted last November. So it's unclear what kind of impact Republicans can have on this budget debate. They may have some influence in the debate over a public works construction bill.

That's where Democrats will need their votes, if those projects are paid for by selling bonds. The number to remember, I think, is 34 Democrats to 33 Republicans in the state senate. So stay tuned on what happens there.

CATHY WURZER: It'll be interesting. All right, Mike Mulcahy. Thanks so much.

MIKE MULCAHY: You bet.

CATHY WURZER: Mike is our political editor here at MPR News. You can tune in Friday at noon for the return of Politics Friday on MPR News. Mike's going to interview the governor about the state's budget surplus and his top priorities for the rest of the legislative session.