A bill for an act

relating to finance; requiring reports and recommendations to bring the state budget into compliance with generally accepted governmental accounting principles; requiring disclosure of the impact of inflation on state expenditures; amending Minnesota Statutes 2004, sections 16A.055, subdivision 1; 16A.103, subdivisions 1a, 1b; 16A.11, subdivision 2.

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF MINNESOTA:

Section 1. Minnesota Statutes 2004, section 16A.055, subdivision 1, is amended to read:

Subdivision 1. [LIST.] <u>(a)</u> The commissioner shall:

(1) receive and record all money paid into the state treasury and safely keep it until lawfully paid out;

(2) manage the state's financial affairs;

(3) keep the state's general account books according to generally accepted government accounting principles;

(4) keep expenditure and revenue accounts according to generally accepted government accounting principles;

(5) develop, provide instructions for, prescribe, and manage a state uniform accounting system;

(6) provide to the state the expertise to ensure that all state funds are accounted for under generally accepted government accounting principles; and

(7) coordinate the development of, and maintain standards for, internal auditing in state agencies and, in cooperation with the commissioner of administration, report to the

legislature and the governor by January 31 of odd-numbered years, on progress made.

(b) As part of the comprehensive annual financial report, the commissioner shall list any laws that require the state's general fund budget not to be reported in accordance with generally accepted government accounting principles.

Sec. 2. Minnesota Statutes 2004, section 16A.103, subdivision 1a, is amended to read:

Subd. 1a. [FORECAST PARAMETERS.] The forecast must assume the continuation of current laws and reasonable estimates of projected growth in the national and state economies and affected populations. Revenue must be estimated for all sources provided for in current law. Expenditures must be estimated for all obligations imposed by law and those projected to occur as a result of deflation, inflation and other variables outside the control of the legislature. ~~Expenditure-estimates-must-not-include-an allowance-for-inflation.~~

Sec. 3. Minnesota Statutes 2004, section 16A.103, subdivision 1b, is amended to read:

Subd. 1b. [FORECAST VARIABLE.] In determining the rate of deflation or inflation, the application of deflation or inflation, the amount of state bonding as it affects debt service, the calculation of investment income, and the other variables to be included in the expenditure part of the forecast, the commissioner must consult with the chairs and lead minority members of the senate ~~State Government~~ Finance Committee and the house Ways and Means Committee, and legislative fiscal staff. This consultation must occur at least three weeks before the forecast is to be released. No later than two weeks prior to the release of the forecast, the commissioner must inform the chairs and lead minority members of the senate State Government Finance Committee and the house Ways and Means Committee, and legislative fiscal staff of any changes in these variables from the previous forecast.

Sec. 4. Minnesota Statutes 2004, section 16A.11, subdivision 2, is amended to read:

Subd. 2. [PART ONE: MESSAGE.] Part one of the budget, the governor's message, shall include the governor's recommendations on the financial policy of the state for the coming biennium, describing the important features of the budget plan, embracing a general budget summary setting forth the aggregate figures of the budget so as to show the balanced relation between the total proposed expenditures and the total anticipated income, with the basis and factors on which the estimates are made, the amount to be borrowed, and other means of financing the budget for the coming biennium, compared with the corresponding figures for at least the last two completed fiscal years and the current year. <u>The budget plan must include recommendations on how to bring the budget into compliance with generally accepted governmental accounting principles.</u> The budget plan shall be supported by explanatory schedules or statements, classifying its expenditures by agencies and funds, and the income by agencies, sources, funds, and the proposed amount of new borrowing, as well as proposed new tax or revenue sources. The budget plan shall be submitted for all special and dedicated funds, as well as the general fund, and shall include the estimated amounts of federal aids, for whatever purpose provided, together with estimated expenditures from them.

Sec. 5. [EFFECTIVE DATE.]

<u>This act is effective the day following final enactment.</u>

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Senate
State of Minnesota

S.F. No. 2 - Inflation in State Budgets

Author: Senator Richard J. Cohen

Prepared by: Peter S. Wattson, Senate Counsel (651/296-3812) PSW

Date: January 6, 2005

S.F. No. 2 restores inflation to state budget expenditure forecasts, which had been required until inflation was taken out of forecasts by Laws 2002, ch. 220, art. 13, §§ 1-2. It also requires the Commissioner of Finance to identify laws that require the state's general fund budget not to be reported in accordance with generally accepted governmental accounting principles and requires the Governor to recommend how to bring the budget into compliance with generally accepted governmental accounting principles.

Section 1 requires the Commissioner of Finance to identify, as part of the state's comprehensive annual financial report, laws that require the state's general fund budget not to be reported in accordance with generally accepted governmental accounting principles.

Section 2 requires that each forecast of general fund expenditures include the effects of inflation.

Section 3 includes inflation among the forecast variables on which the Commissioner of Finance must consult with legislative leaders before issuing a new forecast of state revenues and expenditures. It also updates a reference to the Senate Finance Committee.

Section 4 requires the Governor to recommend, as part of the biennial budget message, how to bring the budget into compliance with generally accepted governmental accounting principles.

PSW:ph

Senator ..... moves to amend S.F. No. 2 as follows:

Page 2, line 31, strike "State Government"

Note 20 – Budgetary Basis vs GAAP

Actual revenues, transfers-in, expenditures, encumbrances, and transfers-out on the budgetary basis do not equal those on the GAAP basis in the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances for the General Fund. This inequality results primarily from the differences in the recognition of accruals, reimbursements, deferred revenue, intrafund and loan transactions, and from the budgetary basis of accounting for encumbrances. On the budgetary basis, encumbrances are recognized as expenditures in the year encumbered. The modified accrual basis of accounting recognizes expenditures when the goods or services are received, regardless of the year funds are encumbered. A reconciliation of the fund balances under the two bases of accounting for the General Fund is provided in the following table.

Reconciliation of GAAP Basis Fund Balance
to Budgetary Fund Balance
As of June 30, 2004
(In Thousands)

	General Fund
GAAP Basis Fund Balance:	$ (327,959)
Less: Reserved Fund Balance	120,506
Undesignated Fund Balance	$ (448,465)
Basis of Accounting Differences:	
Revenue Accruals/Adjustments:	
Taxes Receivable	$ (376,153)
Tax Refunds Payable	532,704
Human Services Receivable	(33,228)
Deferred Revenue	(7,709)
Other Receivables	(18,304)
Investments at Market	(1,183)
Expenditure Accruals/Adjustments:	
Medical Assistance	284,060
Human Services Grants Payable	44,302
Education Aids	1,224,718
Police and Fire Aid	73,269
Permanent School Fund Reimbursement	(6,568)
Other Payables	13,394
Fund Structure Differences:	
Terminally Funded Pension Plans	8,286
Designated for Appropriation Carryover and Budgetary Reserve	(597,599)
Budgetary Basis:	
Undesignated Fund Balance	$ 691,524

GOVERNMENTAL FUNDS BALANCE SHEET
JUNE 30, 2004
(IN THOUSANDS)

	GENERAL	FEDERAL	NONMAJOR FUNDS	TOTAL
ASSETS				
Cash and Cash Equivalents	$ 1,465,328	$ 168	$ 2,199,443	$ 3,664,939
Investments	46,830	-	905,503	952,333
Accounts Receivable	1,521,821	227,143	330,378	2,079,342
Interfund Receivables	193,655	4,516	137,725	335,896
Due from Component Units	-	-	122,347	122,347
Accrued Investment/Interest Income	6,742	-	8,713	15,455
Federal Aid Receivable	-	610,566	87,530	698,096
Inventories	-	49	15,202	15,251
Loans and Notes Receivable	51,997	117	276,123	328,237
Advances to Other Funds	4,700	-	-	4,700
Securities Lending Collateral	333,364	-	292,916	626,280
Investment in Land	-	-	15,441	15,441
Total Assets	$ 3,624,437	$ 842,559	$ 4,391,321	$ 8,858,317
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts Payable	$ 2,334,115	$ 657,643	$ 428,241	$ 3,419,999
Interfund Payables	36,204	142,523	143,106	321,833
Due to Component Units	101,083	2,591	38,324	141,998
Deferred Revenue	1,147,630	32,709	172,213	1,352,552
Securities Lending Collateral	333,364	-	292,916	626,280
Total Liabilities	$ 3,952,396	$ 835,466	$ 1,074,800	$ 5,862,662
Fund Balances:				
Reserved Fund Balances:				
Reserved for Encumbrances	$ 65,242	$ -	$ 259,365	$ 324,607
Reserved for Local Governments	-	-	441,027	441,027
Reserved for Trust Principal	-	-	918,428	918,428
Other Reserved Fund Balances	55,264	7,093	917,293	979,650
Total Reserved Fund Balances	$ 120,506	$ 7,093	$ 2,536,113	$ 2,663,712
Unreserved Fund Balances:				
Designated for:				
Special Revenue Funds	$ -	$ -	$ 580,118	$ 580,118
Undesignated, reported in:				
General Fund	(448,465)	-	-	(448,465)
Capital Project Funds	-	-	(62,340)	(62,340)
Special Revenue Funds	-	-	262,630	262,630
Total Unreserved Fund Balance	$ (448,465)	$ -	$ 780,408	$ 331,943
Total Fund Balances	$ (327,959)	$ 7,093	$ 3,316,521	$ 2,995,655
Total Liabilities and Fund Balances	$ 3,624,437	$ 842,559	$ 4,391,321	$ 8,858,317

The notes are an integral part of the financial statements.

Startribune
Commentary
Jan 4th, 05

Time for state to stop all the fiscal charades

By John Gunyou, Jay Kiedrowski and Pamela Wheelock

It's official. Minnesota is now facing its fourth straight year of budget deficits. This time the gap is $1.4 billion. It is not $700 million, as our governor and some legislators have suggested, because this lower amount ignores the real cost of funding the state's program commitments.

Minnesota should not be facing yet another budget deficit. The economic recovery is well behind us, and other states have already returned to making investments in their future. We're still saddled with a budget deficit because the problems that began in fiscal year 2003 were never resolved.

The shortfalls of 2003, 2004 and 2005 were mostly deferred, rather than permanently fixed. For three years in a row, the governor and Legislature have relied on one-time patches to put off the day of reckoning. One-time fixes should only be used during a recession to phase in the necessary permanent revenue and spending changes — reforms yet to be made in Minnesota.

Rather than craft a permanent resolution to the shortfalls, the governor and Legislature used one-time reserves and accounting tricks to paper over the problem. Although our leaders claimed they balanced the budget when the crisis first hit, in truth, the 2003 budget was nearly $1 billion out of balance on an accrual basis. That meant they didn't fix the problem by balancing 2006-07 and 2008-09 with no more gimmicks.

➤ Second, the governor and Legislature must work together on a bipartisan basis. From our years of experience, we know that real bipartisan efforts will be needed to craft an honest and lasting budget solution. For the governor and his legislative allies, that means putting taxes back on the table. Despite all their high-tax claims, Minnesota is no longer among the most expensive states in the country. The Minnesota Taxpayers Association recently reported that our total state and local spending now ranks 22nd among states — right down there in the middle of the pack.

For starters, we should seriously consider raising the gas tax to provide a stable source of funding for Minnesota's transportation needs. It hasn't been increased in 16 years, and a higher gas tax is widely supported by business and government groups throughout the state.

The cigarette tax is another strong candidate — it would raise revenue and reduce health care costs by cutting back smoking, especially among young people. Minnesota's current tax is 35th among states, which ranks us down with the tobacco-producing Southern states.

Compromise also means putting favorite projects and programs on the table, even though past budget actions have already reduced spending on many state programs in the last several years. We would hope that the Legislature looks first at programs that are not clearly linked to state priorities or where there is insufficient evidence that the programs are effective in delivering results.

Minnesota should...

Minnesota should not be facing yet another budget deficit. Our leaders must honestly balance the budget, and stop shifting fiscal problems into the future.

ongoing revenue with ongoing spending.

As three former Minnesota finance commissioners who have served Republican, DFL and Independent governors, we believe it's time for a permanent solution to these chronic budget crises. We think it's time for our leaders to set aside their partisan finger-pointing and political posturing, and do the right thing for Minnesota.

The governor and Legislature must restore fiscal stability by adopting a budget that carefully balances both taxing and spending decisions. How they do that is open to policy debate — some leaders want to hold the line on taxes, while others want to invest more resources in priority programs. Regardless of their choices, the solution must be balanced and sustainable in the long run.

Here are three steps to achieving fiscal stability:

➤ First and foremost, our leaders must absolutely forgo the use of any more gimmicks — no more shifts, transfers, reserves, revenue accelerations or other "smoke and mirror" tricks. Ongoing revenue must be balanced with ongoing spending to permanently resolve the budget problem.

Our leaders must honestly balance the budget, and stop shifting fiscal problems into the future. For example, they must not claim they avoided a gas tax increase by borrowing against future federal transportation allotments. That has the short-term political benefit of building road projects today, but forcing a future burden onto taxpayers — either by reducing construction or by increasing taxes.

There is no free lunch. The governor must set the standard with his January budget proposal to the Legislature by structurally balancing both

fective in delivering results.

However, that doesn't mean just cutting budgets — it means spending smarter. For example, it's going to take real leadership to achieve the reforms necessary to bring health care spending into line, which is one of the most significant parts of the state budget — specifically long-term care for the elderly and disabled. This is a time for hard work, collaboration and creativity — not political posturing and sound bites.

➤ Finally, the House and Senate should commit to pass a concurrent revenue resolution by March 15, as required by state law. The brinkmanship that led to a legislative stalemate last year must end. Have the debate as to how much revenue Minnesota should raise for the 2006-07 budget, and then set that amount by March 15. This will allow ample time for the finance and appropriation committees to craft the details of the program expenditures for the next budget during their open hearings.

We would suggest starting at the current price of government — how many cents of every dollar earned goes to pay for government programs. That current share is about 16 percent of personal income. It's fallen from 17 percent a decade earlier, and is scheduled to drop to 15 percent over the next five years.

There's no need to drive it lower. If we simply freeze the share of income that state and local governments are already taking from taxpayers, there should be adequate resources to pay for real growth and inflationary costs of priority programs as our economy continues to grow.

That's it — three steps to fiscal stability. True leaders have the courage to make the tough choices. They don't avoid dealing with the real issues by using accounting gimmicks and symbolic gestures. It's time for the governor and the Legislature to lead. It's time to stop all the fiscal charades and honestly balance the budget.

John Gunyou is Minnetonka's city manager, Jay Kiedrowski is a senior fellow at the University of Minnesota's Humphrey Institute, and Pamela Wheelock is executive vice president and chief finance officer of Minnesota Sports and Entertainment.