

Budget Rules

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What Are Budget Rules

- An agreement between MMB and Legislative fiscal staff that govern how proposed fiscal policy items will be understood and tracked.

--Budget Rules do not have the force of law and are not binding.

- Budget rules are written in connection to statutory requirements for sound fiscal policy
- Budget rules are used to ensure that MMB and Legislative fiscal staff track and understand fiscal matters and proposals in the same way.
- Budget rules are used to convey best budget practices to the executive branch, legislative branch, and organizations that engage in the budget process.
- Budget rules are typically updated annually to make technical changes. Occasionally, new rules are added to accommodate the budget process.
- Budget rules are intended to provide guidance to policymakers regarding how legislation will be tracked by legislative staff and reflected in budgetary statements produced by MMB.
- Budget rules are transparent communication document for state agencies, the legislature, advocacy organization, the public, and others.
- Budget rules are not intended to place restrictions on policymakers, rather their intent is to communicate how tracking documents and budgetary fund statements will reflect the fiscal effect of proposed legislation.

Budget Rules History

- Late 1990s -- early versions of budget rules were developed separately by the House, Senate and Executive branch (then, the Department of Finance).
- Early 2000s – Department of Finance and Legislative fiscal staff agreed upon a uniform set of rules to govern the tracking of fiscal provisions proposed by the Governor or the Legislature.
- December 5, 2002 – The Legislative Commission on Planning and Fiscal Policy (LCPFP) reviewed and approved the budget rules.
- 2002-2013 – Annual updates to the budget rules.
- December 18, 2013 – The LCPFP reviewed and approved the budget rules.
- 2014-2016 – Annual updates to the budget rules.
- 2017 – Changes: several new rules, a minor reorganization, and a tracking system for individual rules.
- 2018 – 2023 – Annual updates to the budget rules.
- Summer of 2024 – A significant review and update to modernize the rules and clarify evolving budget practices.

Updates for 2025

- The two of us and Emily Adriaens, from House Fiscal, met throughout the 2024 interim to develop a series of revisions for the 2025 session. Fiscal staff in the House, Senate, and MMB were actively consulted throughout the interim to arrive at the rules that you have today.
- The 2025 budget rules are organized in a group of eight sections. These sections were reconsidered and revised last summer. Several rules were added to accommodate developing trends in the budget process, changes in the law, and to improve drafting and understanding of fiscal legislation.
- Most individual budget rules contain an italicized reference to its origin and when it was last changed.

Process for Changing Budget Rules

- MMB, SCRFA, and House Fiscal staffs continuously monitor budget practices and consider whether the rules should receive updating to reflect current practices.
- Budget rules receive an annual review by the group.
- In most years budget rules are updated for technical reasons including updated dates.
- When appropriate, a revision or a new rule is proposed. The group rigorously discuss the implications of new rules and revisions.
- If the group agrees to a change, the rules are circulated among MMB and Legislative fiscal staff to solicit feedback.
- Rewrites and revisions to proposed changes are common.
- The change becomes “final” when MMB, SCRFA, and House Fiscal all agree to a change.
- The budget rules are posted and used by MMB and fiscal staff to help guide budget proposals.

Organization of Budget Rules

A. General Budget Rules

General budget rules provide guidance on:

- the purpose of tracking documents
- the comparison references for budget proposals
- the definition of certain budget terms
- the treatment of tracking errors
- the tracking of budget proposals over four years

General budget rules make recommendations that:

- changes to current law should be understood by the author of the tracking document
- discourages making budget changes beyond the four-year budget horizon
- money should be deposited into the general fund and provides examples for exceptions

Organization of Budget Rules

B. Rules Governing Appropriations

Appropriation budget rules provide guidance on:

- the constitutional requirement that money must be appropriated to leave the treasury
- general appropriation drafting convention should provide: how much, when, from where, to whom, for what
- which fiscal years direct appropriations should be drafted for in a given legislative session
- drafting riders and how riders are treated relative to statute governing base budget
- the treatment of unallotment in tracking documents
- the general preferred use of direct appropriations that have a specified cancellation date
- the conditions under which a statutory or open appropriation may be appropriate

C. Rules Governing Transfers

Transfer budget rules provide guidance on:

- the definition of a transfer, specifying that a transfer is not an appropriation authorizing money to leave the state treasury
- specific drafting advice to assist staff when needing to affect transfers in law.

D. Rules Governing Revenues

Revenue budget rules provide guidance on:

- the source for tax revenue estimates. In almost all cases tax revenue tracking must be based on revenue estimates provided by the department of revenue.

E. Rules Governing the Treatment of Inflation

In the 2023 session, a new law was enacted to add a calculation of inflation to the November and February budget forecasts.

This new law required the addition of rules to govern the treatment of inflation in the forecast.

The inflation rules explain that inflation estimates in a forecast:

- are a general estimate of inflationary pressure on the budget biennium and the planning years,
- are not appropriated,
- are not applied to estimates for programs or agencies.

The inflation rules also specify that all fiscal change items that have a cost compared to current law must be tracked against the most recent forecast. Proposed change items cannot be offset against inflation estimates in the forecast.

F. Rules for Determining and Tracking the Planning Estimate Budget

These rules establish the practice of determining and tracking the planning estimates, sometimes called the “budget tails”.

The rules are consistent with statute and help guide MMB’s practices for establishing the tails budget forecast.

Generally, the planning years are assumed to continue at the second year of the budget biennium. Planning estimates for formulas are tracked at the level to fully fund those formulas.

The rules specify that appropriations that are codified in statute are assumed to be ongoing unless sunsetted or terminated. Planning estimates must be tracked until the sunset date.

These rules also provide some drafting advice to limit the planning estimates or to make an appropriation onetime.

The general advice is to draft appropriations and fiscal provisions to clearly and concisely explain legislative intent to ensure that changes are easily understood.

G. Rules Governing Cancellations or the Availability of Appropriation Authority

These rules provide guidance regarding how tracking will reflect the effect of changes to appropriation availability within and beyond the biennium in which it is appropriated.

Guiding these rules is the principle that making a balance available is separate decision from reappropriating those funds and thus should be highlighted for policymakers so that alternative uses of the balances may be considered.

These rules provide guidance for tracking and drafting legislation to extend the availability of an appropriation or to cancel and reappropriate an unused appropriation.

Budget rules guide staff to highlight circumstances where a current law balance could be available for another use or extended for the same use. Budget rules guide staff on transparently tracking these circumstances.

Finally, these rules note that the general fund forecast assumes an aggregate amount of savings from future appropriation cancellations and given this forecast, tracking savings from a cancellations requires specific language cancelling an appropriation.

H. Rules Governing State Agency Operating Appropriations

Specifies that appropriations for state agencies' operations for the first year of the biennium may be carried into the second year unless the bill or other language in law specifically prohibit it and that balances carried forward from the first year to the second year do not increase the base for subsequent years.

Notes that agencies may transfer operating funds between programs within the agency under M.S. 16A.285 and provides guidance for drafting language to prohibit this authority if desired. Also notes that amounts transferred under this authority do not change base levels for subsequent years.

Specifies that appropriations for agency operations are ongoing unless otherwise specified in law.

Finally budget rules note that M.S. 16B.98, subdivision 14 provides general authority that permit state agencies to retain a specified percentage of a grant appropriations for agency administrative costs and provide drafting guidance in cases where a different administrative cost for a grant is preferred.

Use of Budget Rules

Legislative

Provide guidance to members and fiscal staff for uniform treatment of fiscal provisions.

Mediate disputes related to how to track unique circumstances.

Provides fiscal staff with support when advocates/members wish to draft language that is not consistent with best budget practices.

Provides the Finance/Ways and Means Committees with a set of best practices which can be used to review fiscal bills.

Executive

Provides guidance to MMB and agency staff when developing the Governor's budget to allow for uniform treatment of fiscal provisions.

Provides MMB and agency staff with support when program staff wish to draft language that is not consistent with best budget practices

Allows for uniform treatment of fiscal provisions between legislative tracking, forecast documents, and budgetary fund statements

Provides guidance for state agencies in the preparation of fiscal notes

Budget Rules are Consistent with Statutory Requirements for Sound Fiscal Policy

At their core, budget rules provide guidance that is consistent with statutory provisions that require statewide financial statements to comply with generally accepted accounting principles (GAAP).

MMB's budgetary fund statements are produced following a strict annual process designed to ensure reconciliation with that state's audited financial statements.

Compliance with budget rules ensure that legislative tracking is consistent with statutory provisions that require sound budget and fiscal policy.

Questions

2025 Budget Rules:

<https://assets.senate.mn/fiscalpol/tracking/2025/24-Budget-Rules-FINAL-2025-Session-December-18.pdf>

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