



The State Budget Process

January 31, 2024

Presented by:

Emily Adriaens, House Fiscal Staff

Eric L. Nauman, Senate Fiscal Staff



Contents

- Role of Legislative Fiscal Staff
- Budget Development Process
 - Constitution, Statute, Legislative Rules
 - Timelines
 - Legislative Process
 - Committees, Budget Targets, Information Sources, Important Terms, Budget Rules
- Appropriations
- Fiscal Notes
- Budget Chart, A Fiscal Interlude
- Funds and Accounts
- Questions/Wrap-Up



What We Do, Role of Legislative Fiscal Staff

- Analyze spending and revenue proposals, including modeling of many proposed education and tax law changes.
- Assist committees and members in developing and analyzing budget options.
- Request and interpret Fiscal Notes and Revenue Analysis; interface with state agencies to ascertain information in support of the policy process.
- Draft budgetary legislation.
- Track budget proposals and decisions using spreadsheets.
- Support legislative oversight of enacted budgets.
- Fiscal staff organized by legislative jurisdiction (12 House fiscal analysts; 11 Senate fiscal analysts).



Constitutional Framework

- Article IV ...provides for a Legislature and vests it with power to pass bills for approval by the Governor (enactment) or to override the objections of the Governor (enactment).
- Article IV, section 23, also provides for partial veto of bills containing appropriations.
- Article V ...provides for an Executive with powers and duties that include...to “take care that the laws be faithfully executed.”
- Article XI, section 1...”No money shall be paid out of the treasury of this state except in pursuance of an appropriation by law.”
- Article XI, section 6, requires a balanced biennial budget by implication, by prohibiting the issuance of certificates of indebtedness that go beyond the biennium.
- Constitution contains numerous other provisions related to the authority to tax, creation of dedicated funds, and to public debt.



Budget Process Requirements

The budget process and legislative decision-making is facilitated through various tools in statute:

- Creation of a state budget system (M.S. 16A.095)
- Budget forms and instructions and timeline for agency budget preparation (M.S. 16A.11)
- State Budget Forecasts (M.S. 16A.103)
- Revenue Uncertainty Report (M.S.16A.103)
- Budget Close Report (M.S.16A.103)
- Requirements for the Governor to submit budget recommendations to the Legislature (M.S. 16A.11, Subd. 1).
- Governor's budget must be balanced (M.S. 16A.11, Subd. 2).
- Numerous other requirements related to cash and budget management, accounting system, budget information and reporting.



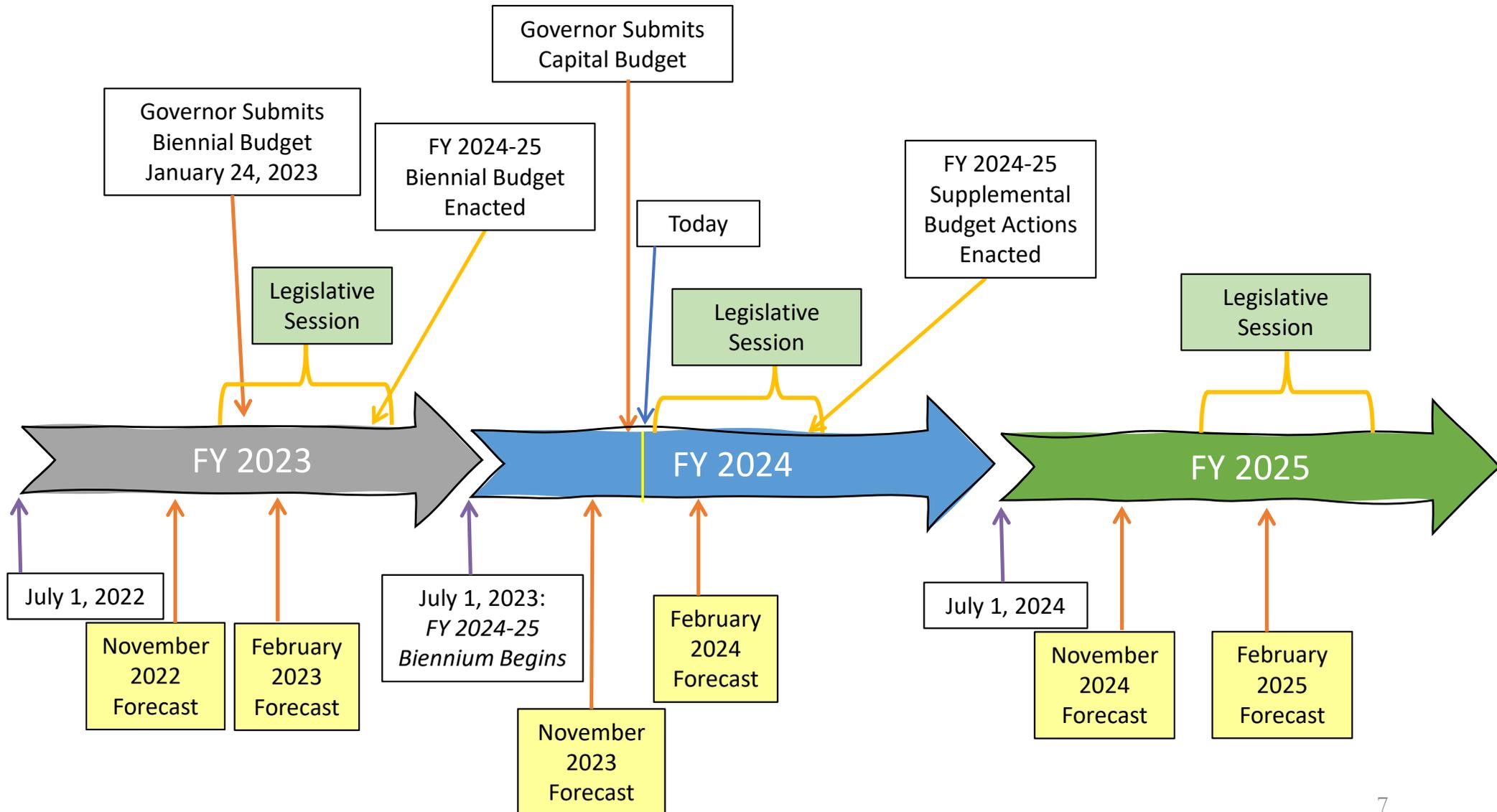
Legislative Rules

The House and Senate have separate rules, and joint rules that govern how the Legislature operates. Many of these rules relate to the budget development process.

- Joint Rules establish three committee deadlines to define when policy and fiscal bills must be processed through committees. The House and Senate establish these deadlines through a concurrent resolution.
- House and Senate Rules separately provide a process for establishing general fund spending/revenue targets to allocate decisions among the various budget committees
- Numerous other rules guide various fiscal decisions in the budget development process.

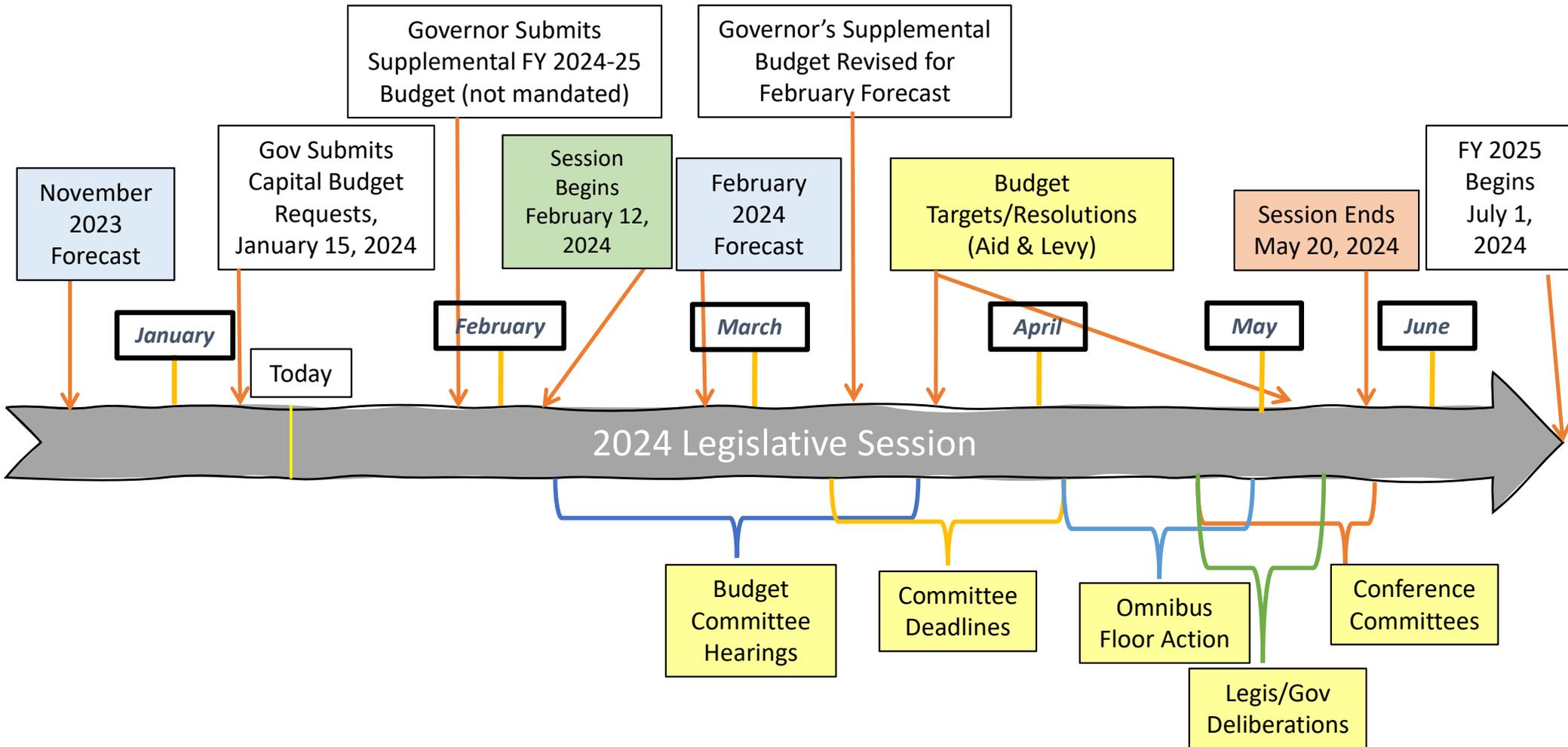


Statutory & Constitutional Timeline Through the Biennium



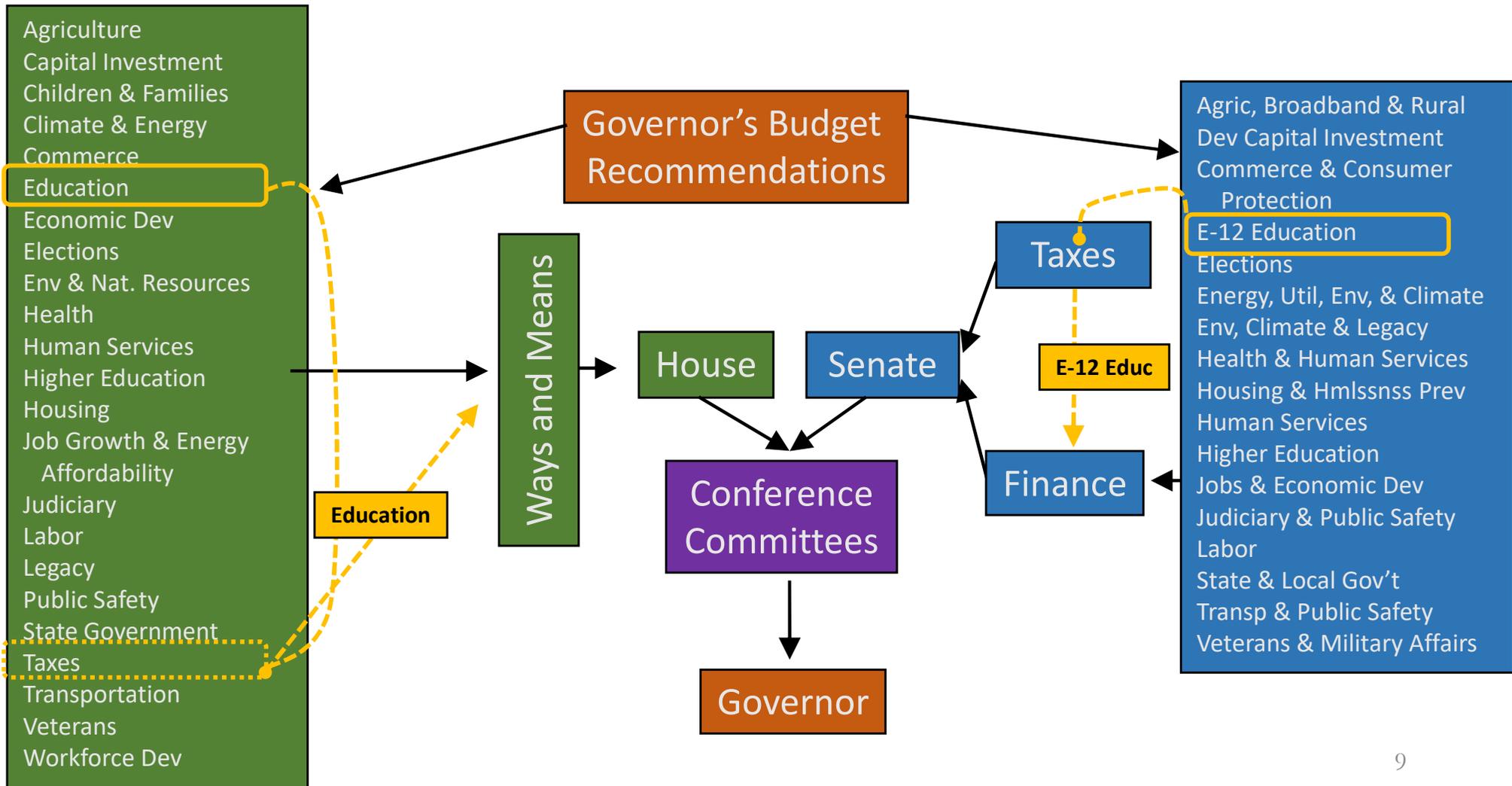


Budget Year Timeline





Budget Development Process





Committee Process

- Legislative Committees are a key part of the way legislative bodies organize themselves to get the work done - including both policy and budget committees.
- Committees typically hold hearings to review the budget, including the Governor's budget recommendations, along with budget-related bills introduced by Legislators.
- Bills may propose policy changes that have no budget impact, bills with budget implications only, or a mix of policy and budget.
- Committees typically hear budget bills and then combine budget provisions into to an Omnibus Bill after weighing the various options.
- House budget bills produced by a budget committee must conform to the limits established in budget targets for that bill.
- Senate budget bills typically conform to the limits established in the targets for that bill, but Senate rules limit bills based on how they were reported to the floor of the Senate.
- Rules (House, Senate and Joint) and Committees help drive the process to an end point.



Budget Targets

- Budget Targets – mechanism used by the House and Senate to set broad spending/revenue levels by committee.
- Developed by Legislative Leaders with input from political caucuses and others.
- Formally adopted by the Ways and Means Committee in the House and publically announced by the Chair of the Finance Committee or the Majority Leader in the Senate.
- May be stated in terms of budget totals or change amount from forecasted budget levels. Usually stated in terms of “net spending” (spending plus or minus change in revenue).
- Target setting process is typically repeated during conference committee phase, and potentially, again during negotiations with the executive branch.



Information Sources

- **State Budget Forecasts** (<https://mn.gov/mmb/forecast/forecast/>)
- **Budget Books—Executive Budget Materials**
<https://mn.gov/mmb/budget/current-budget/governors-budget-recommendations/>
<https://mn.gov/mmb/budget/current-budget/current-enacted-budget/>
- **Fiscal Notes** (<https://www.mn.gov/mmbapps/fnsearchlbo/>)
A formal document prepared by the relevant state agencies, with coordination from the Legislative Budget Office, that estimates the costs, savings, revenue gain/loss that would result from proposed legislation.
- **Revenue Analysis** (<https://www.revenue.state.mn.us/revenue-analyses>)
A formal document prepared by the Department of Revenue that estimates the revenue/spending change that would result from the proposed change to state or local tax laws or property tax aids and credit programs.
- **Legislative Budget Tracking Spreadsheets**
(<http://www.house.leg.state.mn.us/Fiscal/Home/TrackingSheets> ;
<http://www.senate.mn/departments/fiscalpol/tracking/index.php?ls=#header>)
Compile cost information from fiscal notes, revenue estimates and other sources.



Important Terms

- General Fund – Largest fund in the state treasury where receipts for most major taxes are deposited. Most money in the General Fund is not earmarked for specific purposes and is available for general spending.
- Other Funds - Various other funds usually designated for certain purposes such as the Trunk Highway Fund, Game & Fish Fund, Federal Fund.
- Measures of Fund Balance
 - Budgetary Balance - Total Resources (including transfers, carry-forward) less spending; typically measured for the biennium but also fiscal years.
 - Structural Balance - Biennial (or Fiscal Year) current revenues less current spending
- Planning Period or “Tails” (FY 2026-27)
 - A current law budget constructed carrying FY 2025 appropriations forward.
NEW: The tails budget now includes an estimate for inflation based on FY 2024-25 spending levels.
- For more common terms see “State of Minnesota Budget Basics:” or Money Matters at: <https://assets.senate.mn/publications/topics/2024-Minnesotas-Budget-Process-Basics.pdf>, <http://www.house.leg.state.mn.us/Fiscal/Download/934>



Budget “Rules”

- Informal guidance that specifies how to “count” money in the context of the state budget.
- Used by MMB and the Legislature for budget forecasts, Governor’s budget recommendations, fiscal notes, and legislative budget changes.
- The rules provide a uniform understanding of how to track the overall budget. This uniform set of rules minimizes technical fiscal disagreements.
- Legislative fiscal staff and MMB jointly update and agree upon the rules every year.
- The budget rules were originally established in 2002 and were most recently approved by the Legislative Commission on Planning and Fiscal Policy in 2013.
- In 2017 the rules have been reorganized for clarity. Rules are routinely updated for changing dynamics in the budget process.



Appropriations

- Budget Rules suggest that an appropriation should be a direct appropriation unless there is a compelling reason to make it statutory.
- MS 16A.11, subd 3 (b) and Budget Rules specify that existing appropriations are assumed to be ongoing to the next biennium at the level appropriated in the second year of the current biennium unless a different number is specified.



Authority and Definitions

- Direct Appropriation – short term authority usually within the biennium
- Statutory Appropriation – ongoing codified authority
- Open Appropriation – unlimited amount – whatever is needed for the purpose
- Standing Appropriation – ongoing but limited



Recommendations for Establishing Statutory Appropriations

- Activities funded by the appropriation are outside the scope of normal agency operations and would be discontinued if the dedicated revenues were no longer available.
- Constitutional requirements would trigger automatic state obligations or levy new taxes.
- Revenues and expenditures are difficult to predict and appropriate directly.
- Link to “Statutory Appropriations Guide” adopted by the LCPFP in 2002 is at: <http://www.house.leg.state.mn.us/Fiscal/Download/125> ; or <https://assets.senate.mn/publications/topics/Final%20Report%20to%20the%20LCPFP%20%202003.pdf>
- Budget Rules advise statutory appropriations in limited circumstances. (Rule A-10, https://assets.senate.mn/fiscalpol/tracking/2023/OVERALL_Budget-Rules-2023.pdf)



Fiscal Notes

Definition

- A fiscal note estimates the costs, savings, revenue gain, or revenue loss resulting from the implementation of proposed legislation. The baseline for the fiscal note is the most recent budget forecast so the fiscal note numbers show changes from that forecast.
- It is a tool to help legislators better understand how a bill might impact the state budget as a whole, individual agencies, and in some instances, local governments.



Fiscal Notes Types; Revenue Estimates; Local Impact Notes

Fiscal Notes: Minnesota Statutes 3.98

- Fiscal note examines spending and fee changes
- Fiscal note requested by committee chairs
- LBO coordinates and signs off

Unofficial Fiscal Notes: Minnesota Statutes 13.64, subd. 3

- Same form and format as a regular fiscal note
- Bill language is available, but not yet introduced
- Are public, except when the requester directs note to be classified as not public data

Local Impact Notes: Minnesota Statutes 3.987-3.989

- Local impact note examines fiscal impact of proposed law change on counties, cities, school districts and any other local governments
- Local impact note requested by Tax, Finance or Ways & Means committee chairs or ranking minority members
- LBO coordinates

Revenue Estimate: Minnesota Statutes 270C.11, subd. 5

- Revenue estimate examines tax changes
- Revenue estimate requested by tax committee chairs or ranking minority members
- DOR is responsible



Fiscal Notes

Requirements

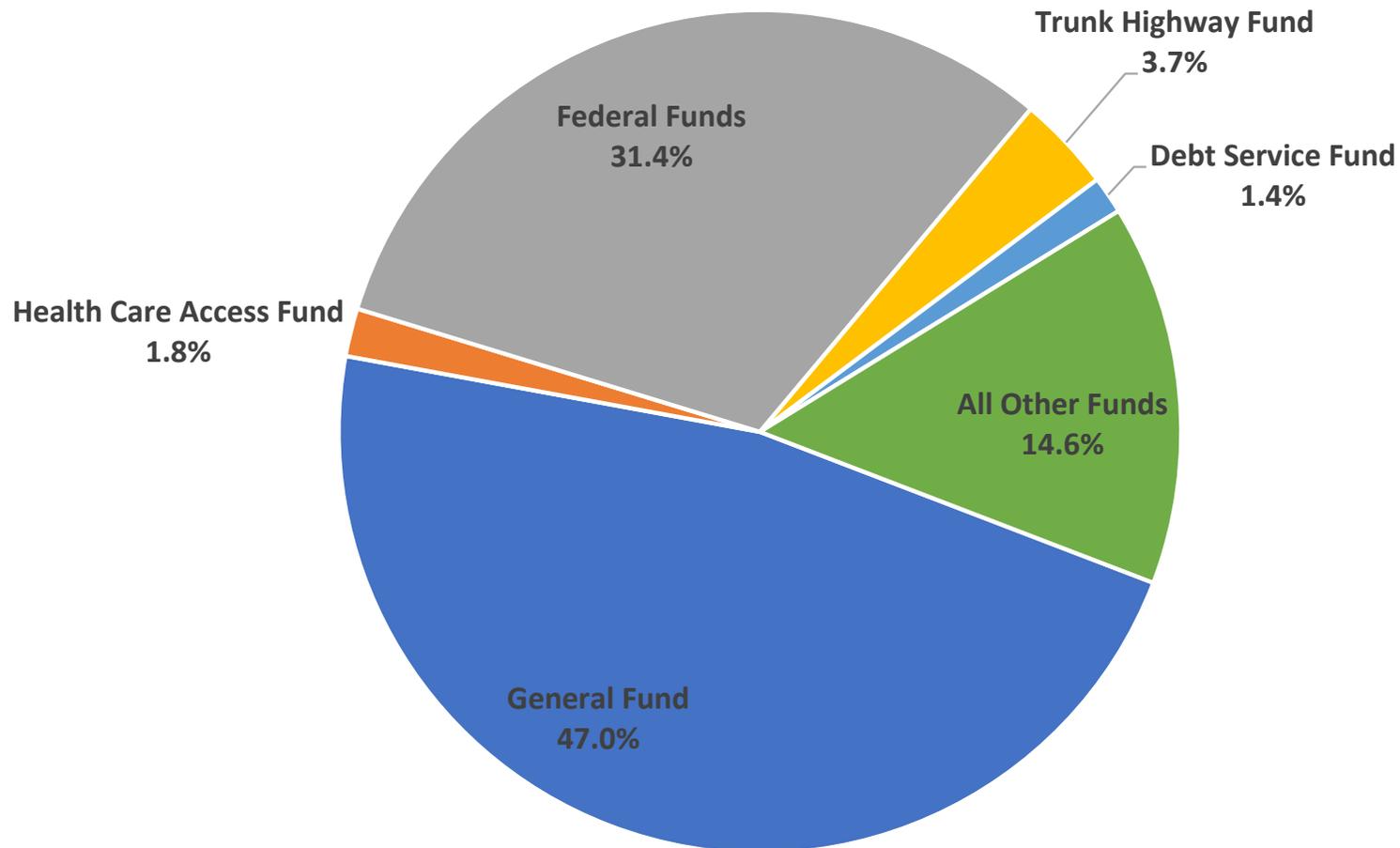
- Cite the effect in dollar amounts
- Cite the statutory provisions affected
- Estimate the increase or decrease in expenditures or revenues
- Include the costs that may be absorbed without additional funds
- Include the assumptions used in determining the cost estimates
- Specify any long-range cost implications.

The fiscal note may comment on technical or mechanical defects in the bill but may not express opinions concerning the merits of the proposal.

The LBO prescribes uniform form, format and procedures that govern all agencies.



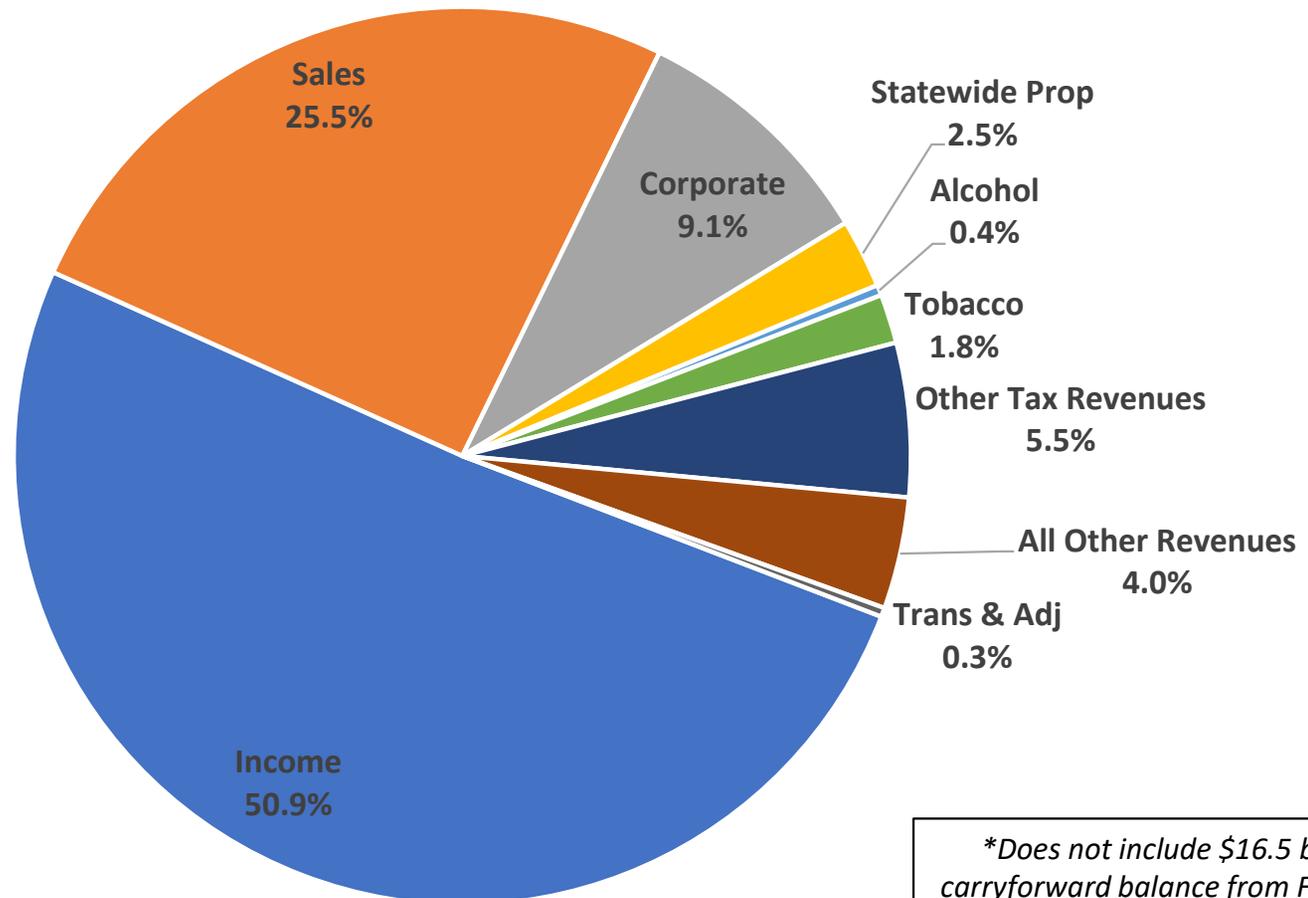
All Funds, By Type— FY 2024-25 Total Spending = \$130.2 Billion November 2023 Forecast





Where Do General Fund Resources Come From? – FY 2024-25

Total Current Revenues = \$59.7 Billion*
November 2023 Forecast

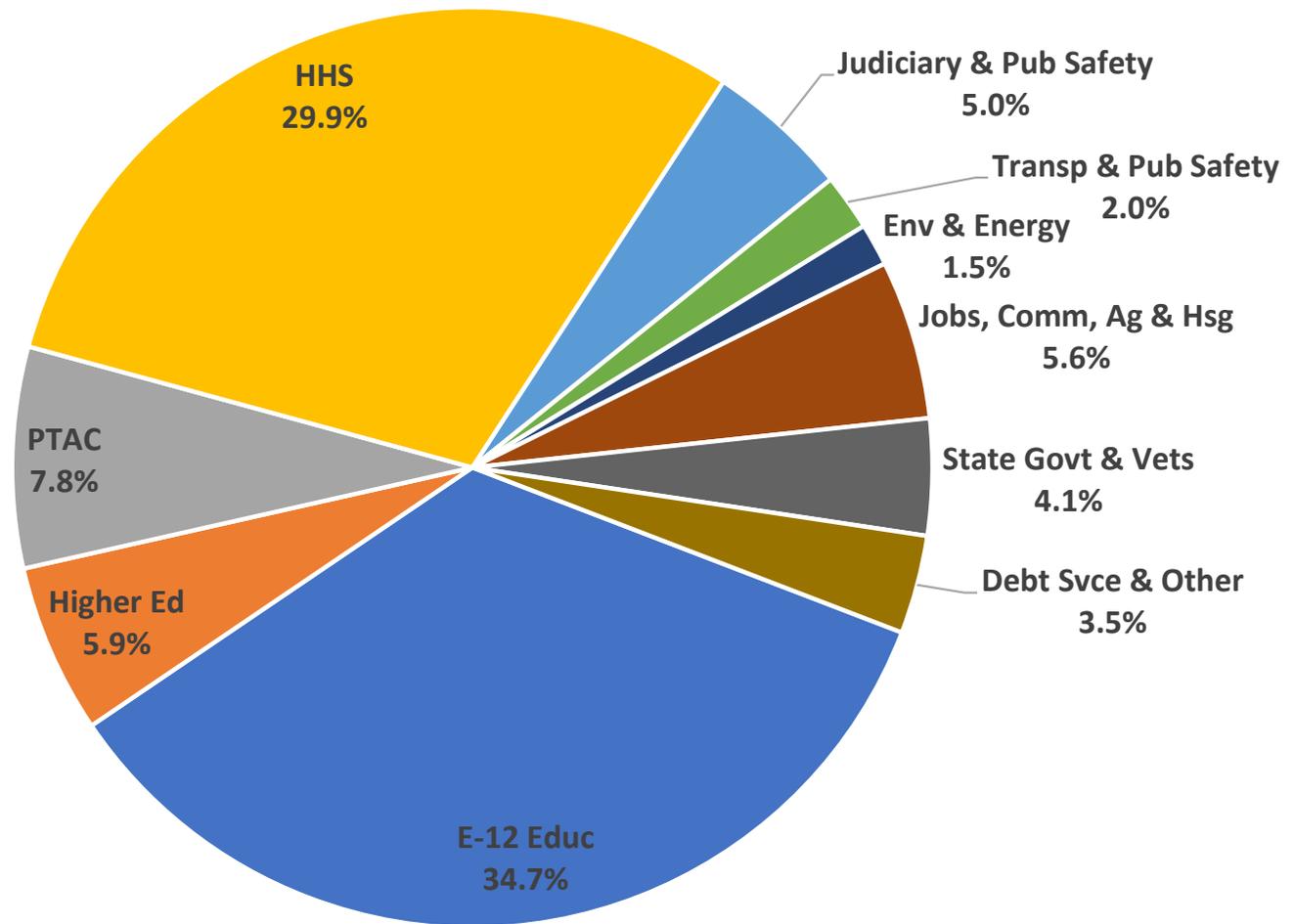


**Does not include \$16.5 billion in carryforward balance from FY 2022-23.*



Where Do General Fund Dollars Go? – FY 2024-25

Total Current Revenues = \$70.5 Billion





The Ongoing FY 2024-25 General Fund Budget

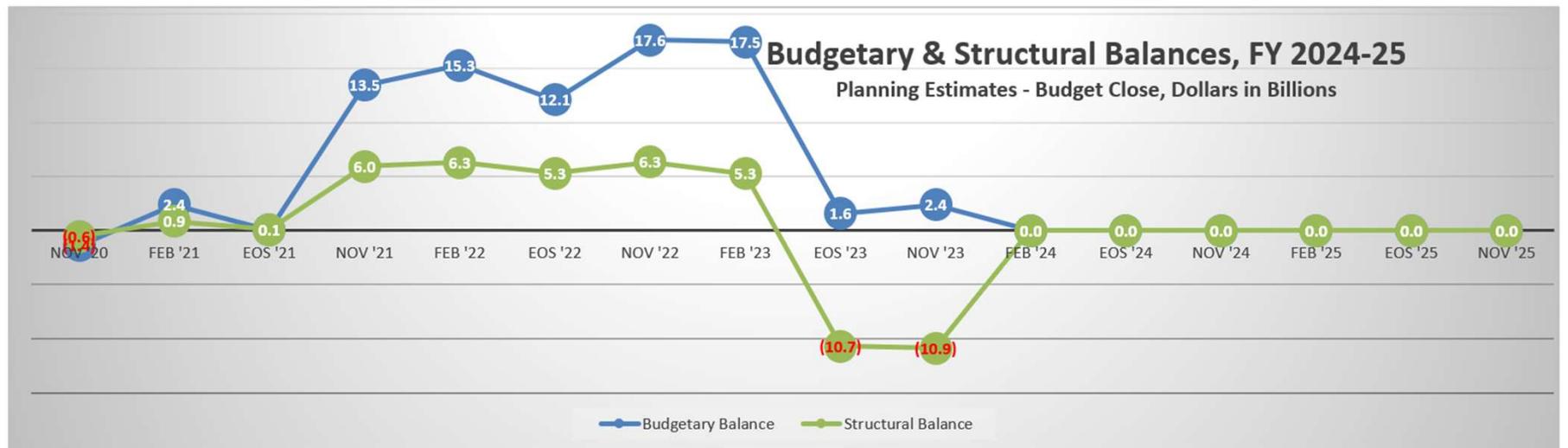
(dollars in billions)

Forecast/EOS	Planning Estimate Forecasts		Planning Estimates After Budget Session	Planning Estimate Forecasts		Planning Estimates After Supp'tl Session	Estimates Before Budget Established		Budget Initially Set	Estimates of Enacted Budget		Supp'tl Budget	Estimates of Enacted Budget with Supplemental Changes		Final Action	Final Look, Budget Close
	Nov '20	Feb '21	EOS '21	Nov '21	Feb '22	EOS '22	Nov '22	Feb '23	EOS '23	Nov '23	Feb '24	EOS '24	Nov '24	Feb '25	EOS '25	Nov '25
Carryforward	1.8	4.1	2.5	11.1	12.6	10.4	15.2	16.1	15.5	16.5						
Current Revenues	53.1	54.3	54.8	60.3	60.6	59.9	60.3	60.8	58.8	59.7						
Total Revenues	54.9	58.4	57.3	71.3	73.2	70.3	75.5	76.8	74.3	76.2						
Spending	53.6	53.4	54.7	54.3	54.3	54.6	54.0	55.5	69.5	70.5						
Inflation (3)								1.4	0.0	0.0						
Reserves	2.7	2.6	2.5	3.6	3.6	3.6	3.9	3.9	3.2	3.3						
Budgetary Balance	(1.378)	2.379	0.060	13.460	15.288	12.112	17.616	17.455	1.583	2.392	0.000	0.000	0.000	0.000	0.000	0.000
Structural Balance	(0.552)	0.865	0.091	5.953	6.289	5.317	6.327	5.282	(10.700)	(10.861)	0.000	0.000	0.000	0.000	0.000	0.000
Budgetary Bal w/Infl	(1.378)	2.379	0.060	13.460	15.288	12.112	17.616	16.032	1.583	2.392	0.000	0.000	0.000	0.000	0.000	0.000
Structural Bal w/Infl	(0.552)	0.865	0.091	5.953	6.289	5.317	6.327	3.860	(10.700)	(10.861)	0.000	0.000	0.000	0.000	0.000	0.000

Footnotes:

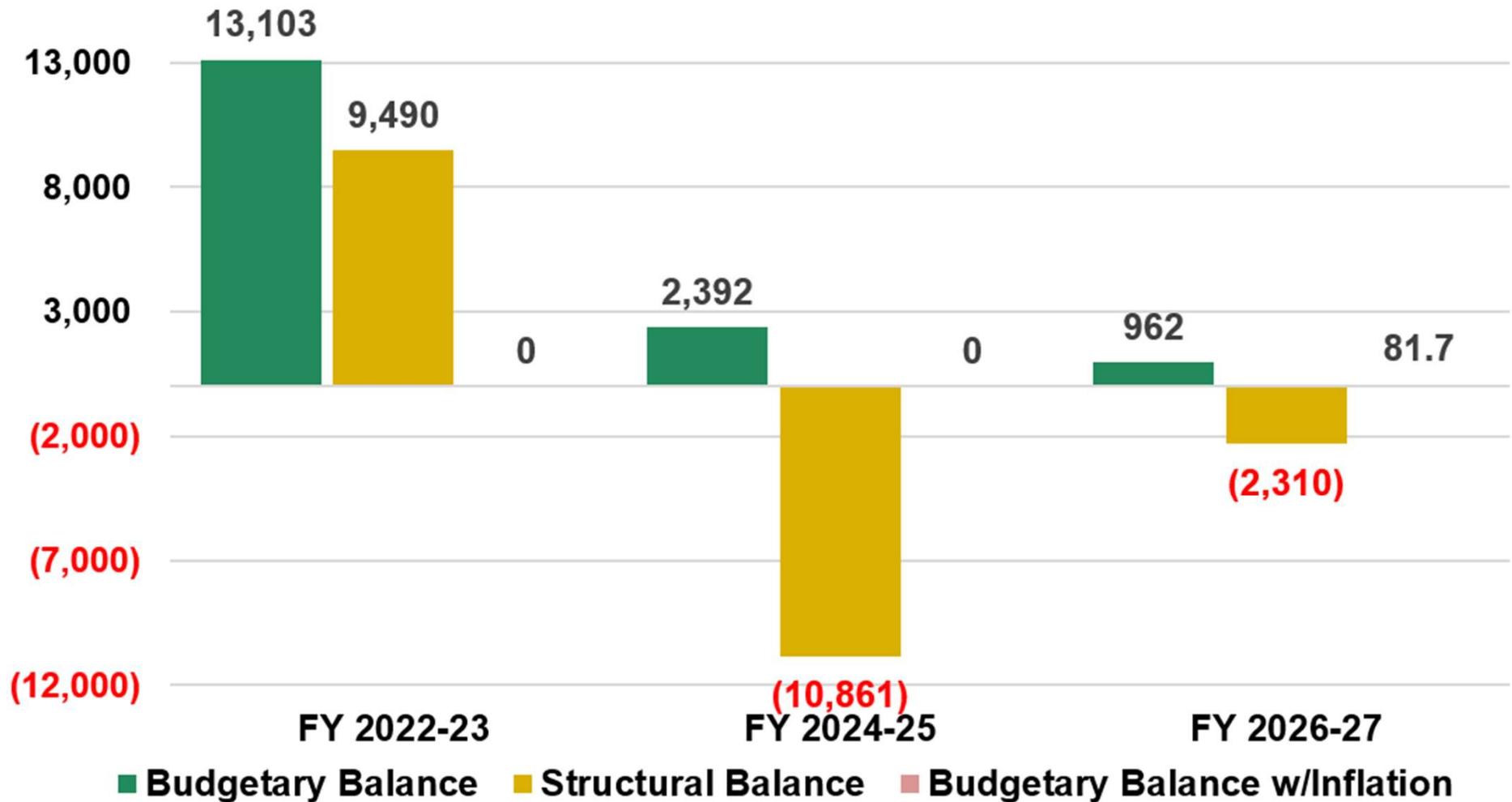
(1)

(2)





General Fund Balances, Budgetary and Structural FY 2022-23 through FY 2026-27, Nov '23 Forecast *(dollars in millions)*





Funds and Accounts

- General rule – the number of funds should be as few as possible
- Reasons for separate funds:
 - Constitutional
 - Federal Requirements
 - Policy
- Link to “Funds and Accounts Guide” adopted by the LCPFP in 2002 is at:
<http://www.house.leg.state.mn.us/Fiscal/Download/126>



Types of Government Funds

Governmental accounting identifies eight different types of funds:

- General Fund
- Special Revenue Funds
- Capital Projects Funds
- Debt Service Funds
- Permanent Funds
- Enterprise Funds
- Internal Service Funds
- Trust and Agency Funds



Funds and Accounts; Concerns to Consider

A proliferation of funds can lead to:

- Budget complexity
- Inflexibility
- Program funding confusion
- Inefficiency
- Lack of transparency



Contact Information:

Emily.Adriaens@house.mn.gov or 651/296-7176

Eric.Nauman@mnsenate.gov or 651/296-5539

More budget information available at <https://mn.gov/mmb/>,
www.house.mn, or www.senate.mn.