Budget Rules – 2023 Legislative Session March 23, 2023

Adopted by the Legislative Commission on Planning and Fiscal Policy 12/18/2013, updated for the 2023 session.

A. General Budget Rules

1. All tracking documents should accurately reflect the fiscal effect of all proposed changes contained in legislation or proposed by the Governor. Tracking documents should facilitate the understanding of proposed legislation to enable policymakers and the public to understand proposed legislative changes. *(Initially added for 2017 session)*

2. As a general rule, all documents that track proposed changes should include a comparison to the most current forecast and to the FY 2022-23 biennium. (In the even-numbered year session, incremental tracking documents may omit tracking comparisons to the previous biennium.) Tracked change items must show the fiscal effect (positive or negative) in the FY 2024-25 biennium as well as the fiscal effect on the planning estimates budget in the subsequent biennium, if appropriate. *(Initially added for 2017 session)*

3. The base level amounts for FY 2024 and FY 2025 should be consistent with previous end of session spreadsheets. Any changes, due to errors or other reasons should be reviewed and understood. For forecasted programs, any subsequent forecast changes must also be acknowledged.

4. "Change requests" are recommendations for changes from the base level amounts for FY 2024 and FY 2025. Changes may be positive or negative.

5. "Forecast adjustments" are changes from base level amounts to make appropriations consistent with the most recent forecast. Forecast adjustments have no cost relative to the forecast.

6. As a general rule (open or statutory appropriations are an exception), bills in the 2023 and 2024 sessions should not include appropriations for any fiscal year beyond 2025.

7. In most cases revenue should go into the general fund and spending should be by direct appropriation from the general fund. When there are compelling reasons to create dedicated revenue and dedicated spending for a program, that program funding should not be in the general fund. If a program's financing is designed like a special revenue fund account, then the program funding should be in an account in the special revenue fund or another fund but not the general fund.

8. Constitutional amendments may have future expenditure or revenue implications. While it cannot be assumed that the voters will pass a proposed constitutional amendment, its potential costs must be identified and tracked separately. Potential fiscal effects of constitutional amendments will be recognized in official state budget documents.

9. Unallotment is a one-time action that affects an appropriation only in the biennium in which the appropriation was unalloted. An action to restore an unallotment does not have a cost in the next biennium. This is the case if the action is only restoration of an unallotment, any additional program or appropriation change may have a fiscal effect in the next biennium.

10. As a general rule, appropriations should be made as direct appropriations. A direct appropriation is available for a limited period of time, usually within a biennium, and is made in session law. A direct appropriation encourages an affirmative and periodic review of the appropriation by the legislature and the Governor.

A statutory appropriation is authority to spend resources that is codified in state statute. Once enacted, a statutory appropriation will continue until the statute sunsets or is repealed. As a general rule, a statutory appropriation should only be considered in specific circumstances where a policy outcome cannot be delivered with a direct appropriation. Historically, the use of a statutory appropriation has been limited to circumstances where the proposed appropriation requires certainty in the budget process, is tied to a specific fee, or is necessary due to the unpredictable nature of the revenue source or proposed use. *(Initially added for the 2023 session.)*

B. Rules for Tracking The Planning Estimate Budget (FY 2026-27) in the 2023 session

Cost implications for FY 2026-27 (tails) must be tracked. The following rules describe how to track the effect a change request has on the planning estimates for the subsequent budget.

1. The general rule is that funding for FY 2026 and 2027 planning years is assumed to continue at the FY 2025 appropriated level unless some other level is specified (consistent with the definition of base in M.S. 16A.11, Subd. 3, paragraph (b)).

2. Appropriations for programs that are codified in statute are always assumed to be on-going unless the program is sunsetted, terminated on a certain date, or one time by definition (such as a transfer to the budget reserve). Tails must be counted until the sunset date.

3. Appropriations for agency operations (agency staff, space rental, etc.) are assumed to be on-going unless otherwise indicated.

4. Appropriations for infrastructure and large equipment may be one-time. However, it is important to clarify that these are one-time appropriations. Some portion of such project appropriations may be ongoing, that amount should be made clear.

5. Capital projects may have a positive or negative impact on future state agency operating costs. These cost implications should be evaluated when capital budget requests are being discussed, especially by the finance committee or division that considers the agency's operating budget. Due to the time-frame of a capital project coming on-line, the actual cost implication on the agency operating budget may be

several years away.   Planning estimates for operating costs should reflect that time-frame.

If an appropriation is made for capital budget related operating costs in FY 2024-25, that appropriation would be tracked like any other appropriation. If capital budget related operating costs for the next biennium (FY 2026-27) are to be added to a budget base for those years, language is required to effect that change and the costs would be tracked in FY 2026-27.

6. If the situation is unclear regarding the status of a program in the FY 2026-27 planning years, language should be added to the bill clarifying the status of the program′s appropriation in future years. Note the language in M.S. 16A.11, Subdivision 3, paragraph (b) regarding determination of the budget base.

C. Rules for Determining the Planning Estimate Budget Base (FY 2026-27)

1. Planning estimates for grants are carried forward in FY 2026 and 2027 at the level appropriated in FY 2025.

2. Biennial appropriations are assumed to continue at one-half of the biennial amount per year in the future unless indicated by other documentation (legislative tracking, implementation plans in statute or session law, etc.). A $10 million appropriation made in FY 2024 but available until June 30, 2025 would be tracked as a tail of $5 million in FY 2026 and $5 million in FY 2027.

3. Planning estimates for formulas that have statutory appropriation language are carried forward at the level needed to fund those formulas (including caseload changes and other factors) in FY 2026 and 2027.

4. Planning estimates for formulas that have variables such as caseload or enrollment changes (forecasted formulas) are carried forward at the level needed to fully fund those formulas in FYs 2026 and 2027.

5. If the rules listed in section C, rules 1-4 do not apply to an appropriation, or if there is any uncertainty about the status of an appropriation, or to ensure that an appropriation does not have tails or has limited tails, clarification language should be included as a rider with the appropriation. Examples of such rider language include:

> ‟This appropriation is one-time.″
>
> ‟This appropriation is for fiscal years 2024 and 2025 only.’
>
> ‟This appropriation is for fiscal year 2025 only.″
>
> ‟Of this appropriation, $xx are one-time.″
>
> “The funding base for this program in fiscal years 2026 and 2027 is $xxx per

year."

6. Language authorizing transfers between funds, accounts or agencies needs to be clear whether the transfer is one-time or ongoing. A transfer is essentially an appropriation from one fund (or account or agency) to another. If a transfer occurs in the second year of the biennium the language should be clear whether the transfer is one-time or ongoing. A transfer that is in the first year only is assumed to be one-time.

Language to clarify the nature of transfers can be similar to the example above such as "This transfer is one-time." or "This transfer is for FY 2025 only." *(Language clarifying the one-time treatment of transfers added for the 2017 session.)*

7. Any provision that changes revenue or expenditures beyond the planning period (FY 2026-27 during the 2023 or 2024 sessions) must be identified and tracked separately. Changes under this rule should be tracked with a footnote on a spreadsheet or in the fund balance.

D. Rules Governing Cancellations or the Availability of Appropriation Authority

1. Time within a biennium will not be used as a controlling factor in counting spending. Appropriations for grants and pass-through funds do not carry forward from the first year of the biennium to the second year unless the bill language specifically allows it. (Note, under M.S. 16A.28, subdivision 6, grant funds that are encumbered before the end of a fiscal year are available for up to one year beyond the end of the year for which they were originally appropriated.) If a bill enacted in 2023 appropriates $100,000 for a specific purpose in FY 2024 but in the 2024 session it is determined that only $60,000 is being spent, a law change is required to allow that excess FY 2024 money to be spent in FY 2025. Extending the availability of an appropriation from the first year of the biennium to the second year of the same biennium **does not** require that the unexpended first year's amount be counted as additional spending even though that funding would presumably have canceled without the law change.

However, an amendment or a change that allows an unexpended existing appropriation to be carried past the end of the biennium **does** require that spending being carried forward to be counted as additional spending.

2. General fund expenditure forecasts assume an aggregate amount of savings from expected cancellations from grants and operating appropriations ($20 million of undesignated cancellations in FY 2024-25). For that reason, capturing or redirecting under-spending (excess) within a current appropriation **must be explicitly stated in the bill language and tracked on the spreadsheet**.

a. To effect a reduction in a FY 2024 or FY 2025 appropriation, bill language must identify a specific amount of reduction and the spreadsheet must clearly specify the amount of savings from the reduction. If the savings from the reduction is reallocated for another purpose (a new initiative) that reallocation must be specified in bill language and tracked on the spreadsheet as a cost. The specific bill language and tracking on the spreadsheet must be done even if the reallocation occurs within the same appropriation or budget activity.

In addition, if the reduction is in a forecasted program, a clear formula or programmatic change causing the reduction must be specified in the bill language and an estimated amount of savings must be included in the bill language.

b. If the change is to expand the eligibility or use for the existing program that the appropriation is for, the budget item should be tracked with no cost, but descriptions should note the amount that is estimated to cancel if the authorized use was not expanded. (For example, a line on the spreadsheet could state "If eligibility is not expanded from 5 to 6 grants, $50,000 of the appropriation for XX grants is estimated to cancel.")

Reductions in an appropriation for the second year of the current biennium (FY 2025) appropriations will reduce the base for that appropriation in future years unless otherwise specified (See the definition of base in M.S. 16A.11, subdivision 3, paragraph (b)). *(Rule changed for the 2019 session to distinguish the treatment between new initiatives vs expanded services from an existing appropriation.)*

3. Language that makes direct appropriations "available until spent" should be avoided unless there is an extremely compelling reason to use it. Under M.S. 16A.28, unencumbered and unspent funds cancel to the fund from which they were appropriated at the end of the second year of the biennium, except for grant funds that cancel after the first and second year. Making an appropriation "available until spent" supersedes this statute. If an appropriation needs to be available past the FY 2024-25 biennium, set a specific ending date such as June 30, 2026. If the appropriation is exempted from the ending date specified in M.S. 16A.28 and no other specific ending date is provided in law, future legislative action may be needed to cancel the remaining unspent balance.

E. Rules Governing State Agency Operating Appropriations

1. Most appropriations are made by fiscal year. However, 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 prohibits it. (See M.S., section 16A.28, subdivisions 1- 4) Amounts carried forward from the first year to the second year do not increase the base for subsequent years.

2. Agencies may transfer operating funds between programs within the agency (See M.S., section 16A.285). This provides agencies with additional flexibility. If the decision is that an agency should not have this flexibility, language must be included in a bill stating that a transfer under M.S. 16A.285 is not allowed for that specific appropriation, program, or agency. Again, amounts transferred under this authority do not change base levels for subsequent years.

These rules are drafted for the 2023 session. Date and year references need to be updated each year or biennium. This version of the budget rules was reorganized for the 2017 session by the topic of each rule to improve understanding and readability. Notes following a rule refer to substantive changes to rules.

The budget rules were initially adopted by the Legislative Commission on Planning and Fiscal Policy (LCPFP) on December 5, 2002. They have been updated each subsequent year by agreement between House and Senate Fiscal Staff and Minnesota Management and Budget staff. The rules were reviewed and adopted by the LCPFP again on December 18, 2013.