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## FISCAL ISSUE BRIEF



### Minnesota Budget Basics Key Processes and Terms

MINNESOTA SENATE  
OFFICE OF COUNSEL, RESEARCH, AND FISCAL ANALYSIS

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#### QUESTIONS

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*This Issue Brief summarizes key terms and statutory requirements of the Minnesota budget process. More specific information is available by contacting the Lead Fiscal Analyst or the fiscal analyst for the relevant budget area.*

<i>Budget Process Background</i>	<i>Pages 1 – 2</i>
<i>Alphabetical Listing of Key Budget Terms</i>	<i>Pages 3 - 10</i>
<i>Page 3</i>	<a href="#"><u>A – B</u></a>
<i>Page 4</i>	<a href="#"><u>B – B</u></a>
<i>Page 5</i>	<a href="#"><u>C – D</u></a>
<i>Page 6</i>	<a href="#"><u>E – F</u></a>
<i>Page 7</i>	<a href="#"><u>F – R</u></a>
<i>Page 8</i>	<a href="#"><u>S – T</u></a>
<i>Page 9</i>	<a href="#"><u>T – Z</u></a>

## BUDGET PROCESS BACKGROUND

The Minnesota Constitution states that “no money shall be paid out of the state treasury of this State except in pursuance of an appropriation by law.” It also provides for the power to contract public debt, issue bonds, collect taxes, establishes certain funds and dedicates certain revenue streams, and requires a balanced biennial budget by prohibiting general fund borrowing across biennia. There is, however, little specific direction for the state budgeting process.

The major budget processes reflect statutory requirements that have been enacted into law over many years. Those process requirements apply primarily to the Executive and the Department of Finance, but the budget process is also guided by requirements upon other state agencies, tradition, and other factors.

Minnesota operates on a two-year (biennial) budget enacted in odd-year legislative sessions; biennial budget revisions and major capital investments tend to be the focus of even-year legislative sessions. Revenue and spending amounts may be presented as biennial amounts (two-

year) or annual amounts. Annual amounts often provide a more complete understanding of the timing of revenue and appropriation changes, and are typically shown on budget tracking spreadsheets maintained by legislative fiscal staff (and often posted on the Senate Web site at [http://www.senate.mn/departments/office\\_bio.php?ls=&office\\_id=1007](http://www.senate.mn/departments/office_bio.php?ls=&office_id=1007)).

The state budget is managed through a variety of funds and accounts within those funds. The largest and most common fund is the general fund, which is required by the Minnesota Constitution to be balanced. The term “All Funds” is typically used to refer to the 30 or so budgetary funds, including the general fund, from which come the appropriations that authorize spending for the biennial operating budget. In total, the State manages over one hundred funds but some are trust funds—such as for pensions—or revolving loan funds or other funds that are not used to support the annual operation of state and local programs.

**Budget Background and Performance Information.** In June and July of even-numbered years, the Commissioner of Finance, with the advice of relevant legislative committees, is required to prepare budget forms and instructions, including guidelines for reporting performance measures, that all state agencies use when developing biennial budget information and recommendations. By October 15 and November 30, agencies must file budget estimates, mission statements and outcome performance measures, and explanations of planned services or new activities, with the Commissioner of Finance. By November 30, final budget format, budget estimates, and copies of filed material must be provided to relevant legislative committees. Such information is also posted on the Minnesota Management and Budget Web site at: <http://www.mmb.state.mn.us/fin/budget>. *See M.S.    16A.10.*

**Forecast of Revenue and Expenditures.** In November and February of each year, the Commissioner of Finance is required to complete a state budget forecast, including consultation with relevant legislators and legislative staff. The budget forecast assumes the continuation of current law revenues and spending. *See M.S.    16A.103.*

**Executive Budget Recommendations.** The Governor is required to present a three-part budget to the Legislature, including: a budget message, a detailed budget, and a detailed capital budget. The Governor’s budget recommendations must be submitted by the fourth Tuesday in January of odd-years, or the third Tuesday in February for a newly elected governor. *See M.S.    16A.11.*

During the odd-numbered year’s legislative session (usually January through May), the House and Senate separately consider the Governor’s proposed budget (based on revised forecast information and public testimony) within the context of their own budget priorities and pass budget bills to conference committees. After conference committees work out the differences between the bills, the House and Senate repass the agreed upon versions of budget bills and send the bills to the Governor. The Governor may veto the whole bill or individual appropriations within the bill. When the Governor signs budget bills, or when the Legislature repasses budget bills after being vetoed by the Governor, they become law. In even-numbered years, emergency or supplemental changes may be made to the budget adopted in the previous odd-numbered year.

## ALPHABETICAL LISTING OF KEY BUDGETING TERMS

### **Account**

An account is a detailed record of money received into and paid out of the state treasury. Accounts are created by the Commissioner of Finance as required by law or under the general authority of Minnesota Statutes, section 16A.055. When the law specifically requires the creation of an account, it is usually done to dedicate money to certain purposes. *See M.S. §§ 16A.53; and 16A.69, subdivision 1.*

### **Allotment**

An allotment is an amount, typically a portion, of an appropriation that is made available in the state accounting system for a defined use during a given period. State agencies develop spending plans for the amounts appropriated to them and those plans, once approved by the Commissioner of Finance, are used to set spending limits within the accounting system as a means of budgetary control. Allotments must be consistent with appropriations, which establish the legal authority to spend. An allotment period is normally a fiscal year, but may be a shorter period of time. *See M.S. §§ 16A.011, subdivision 3; and 16A.14.*

### **Appropriation**

An appropriation is an authorization in law to spend money from the state treasury. This is a budgetary control set at the legislative level. While the Governor can veto appropriations, appropriations cannot be created unless approved through the legislative process. The State Constitution expressly bans any spending from the state treasury without an appropriation. *See Minnesota Constitution, article XI, section 1, and M.S. § 16A.011, subdivision 4.*

### **Appropriation Reduction**

An appropriation reduction is an act of law that directly amends an existing appropriation (changes the wording of) or indirectly affects an appropriation in a way that lessens the amount of money authorized to be spent by that appropriation, such as by changing a formula to reduce eligibility.

### **Biennial Budget (Operating Budget)**

A biennial budget is a two-year spending plan. The focus of the biennial budget for the State of Minnesota is to determine desired levels of appropriations to state agencies.

### **Biennium**

A biennium is a two-year period. In Minnesota, an operating budget is made for a fiscal biennium, which is made up of two fiscal years. For the State of Minnesota, a fiscal biennium begins on July 1 of each odd-numbered year and ends on June 30 of the next odd-numbered year. Fiscal biennia are referenced by their fiscal year names. For example, July 1, 2003, is the beginning of the 2004-2005 biennium. *See M.S. § 16A.011, subdivision 6.*

### **Budgetary Balance (Balanced Budget)**

The amount left on the bottom line of the general fund (or another fund) after expenditures and reserve funds are subtracted from the beginning balance plus revenues. The balance could be positive or negative.

The Minnesota Constitution requires budgetary balance by prohibiting borrowing beyond the end of a biennium to pay operating expenses for the biennium. Borrowing for cash flow purposes within the biennium is allowed. Revenues plus any balances carried forward from the previous biennium must be greater than or equal to expenditures. *See M.S. § 16A.11 and Minnesota Constitution, article XI, section 6.*

### **Budget Base**

The budget base is the common starting point in the construction of the next biennial budget. Minnesota Statute mandates that base budgets be set from current appropriation levels. Minnesota Statutes, section 16A.11, subdivision 3, defines the base as the amount that was appropriated for the second year of the current biennium. This amount is to be carried forward into each year of the following biennium as a common starting point for developing the next budget. Where specific amounts are not appropriated in the second year, such as with dedicated expenditures, the base amount is set at the amount estimated to be expended.

### **Budget Base Adjustments**

Minnesota Statutes, section 16A.11, subdivision 3, requires that the budget prepared by the Governor must list base numbers. In addition, the statute requires base *adjustments* to be listed for some appropriations. Where current law calls for specific changes to appropriated amounts in the next budget base, the statute requires the Governor's budget to list these adjustments. The most common of these are onetime appropriations, which specify that these appropriations are not to continue in the base. For forecasted programs—programs where funding levels are adjusted in the forecast based on changed caseloads, enrollments, or average costs; funding formulas for these programs are like entitlements and appropriations may either be open or for a fixed amount based on the forecast estimates available at the time appropriations were made—the statute requires adjustments to be listed to bring the associated appropriations in line with the most recently forecast amounts.

### **Budget Reserve**

The budget reserve is a special account established in the general fund (separate from the cash flow account) that serves as a savings account to be used to offset budget shortfalls during economic downturns. Reserve funds may be spent in the event that probable general fund receipts will be less than anticipated, and the amount of resources available for the remainder of the biennium will be less than needed to cover projected spending. Reserve funds may be reduced, after consultation with the Legislative Advisory Commission, to the extent needed to balance expenditures with revenues. Like the cash flow account Reserve, the amount in the budget reserve account is set in law. *See M.S. § 16A.152*

### **Cancellations**

Money appropriated but unspent and unencumbered at the end of a biennium or end of the period of time for which the appropriation was made. Because the appropriation—legal authority to

expend such funds has expired—these amounts cancel back to the fund from which they were appropriated. The term may also be used to refer to legislative action taken to terminate an appropriation earlier than previously enacted.

### **Capital Budget**

A capital budget is a spending plan for durable physical improvements. The State of Minnesota typically adopts a budget for capital improvement projects (buildings and other physical improvements) each even-numbered year. The focus of the capital budget for the State of Minnesota is the issuance of state bonds (borrowing) and appropriation of the bond proceeds for the construction of buildings and other physical improvements for the State, the State's public higher education institutions, and sometimes for local units of government. In order to qualify for bond funds, projects must meet certain requirements set out in the State Constitution and in state statute. The main requirements are that improvements must be owned by the State or a political subdivision of the State (usually a county or city) and that the improvements have an estimated useful lifetime of at least ten years. Most appropriations for capital improvements must be spent within four years of enactment. In odd-numbered years, emergency or supplemental capital budgets may be approved. *See Minnesota Constitution, article XI, sections 2-7 and M.S. §§ 16A.641 and 16A.642.*

### **Cash Flow Account**

A special account established in the general fund (separate from the budget reserve) that is intended to avoid short term borrowing by bridging gaps between revenue flows and expenditure flows during a biennium that result from differences in the timing of when revenues come in relative to when expenditures are made. Like the budget reserve account, the amount in the cash flow account is set in law. *See M.S. § 16A.152, subdivision 1*

### **Dedicated Appropriation**

A dedicated appropriation is an authorization, usually in statute, that makes a stream of revenue (dedicated revenues) available for spending for a particular activity or group of activities (dedicated expenditures). In other words, a dedicated appropriation is a revenue-driven appropriation whereby the stream of revenue determines spending levels. A dedicated appropriation might, for example, make specific fee-for-service revenues available to cover the costs of providing the service. Amounts shown in budget documents for authorized spending levels reflect estimates of the revenues to be generated and the allocation of those revenues established in law.

### **Direct Appropriation**

A direct appropriation is an authorization to spend a specified amount of money from the state treasury. Direct appropriations are almost never codified in state statutes. A direct appropriation normally makes money available for a limited amount of time, usually one biennium. On rare occasions, an appropriation will be made available until the full amount is spent.

### **Effective Date**

The effective date is the day when a provision of law takes force and must be followed. All laws containing appropriations become effective at 12:01 a.m. on the next July 1 after enactment unless a different date is specified. All laws not containing appropriations become effective at

12:01 a.m. on the next August 1 after enactment unless a different date is specified. *See M.S.   645.02*

### **Enactment**

Enactment is the completion of the legislative process referring to a bill becoming law after the bill has been passed by both the House and Senate and signed by the Governor, or repassed by the House and Senate after having been vetoed by the Governor. Note that the provisions in the law may become effective at a later date.

### **Fiscal Note**

A fiscal note is a formal estimate of the fiscal effects that would be caused by the enactment of a bill. Fiscal note requests are initiated by legislative fiscal analysts on behalf of committee chairs. These requests are processed by the Department of Finance. Agencies that would be affected by a bill prepare estimates of cost changes (including costs that could be absorbed within existing budgets) and revenue changes the bill would cause. Fiscal notes must not assume any changes in law that are not included in the bill, but may provide commentary on potential defects in the bill. No opinions on the merits of a bill may be expressed in a fiscal note. Agency estimates are reviewed by executive budget officers at the Department of Finance before fiscal notes are released. *See M.S.   3.98*

### **Fiscal Year**

A fiscal year is a 12-month period upon which the State's budget is based, beginning on July 1 and ending on the following June 30. A fiscal year is numbered by the calendar year in which it ends. For example, the fiscal year 2000 begins July 1, 1999, and ends on June 30, 2000. In contrast, the fiscal year for Minnesota counties, cities, and towns coincide with calendar years. The federal fiscal year begins on October 1 and runs through the following September 30. *See M.S.   16A.011, subdivision 14; 375.17; and 471.696.*

### **Forecast**

A forecast is an official estimate of future state revenues and expenditures. Forecasts are prepared by the Commissioner of Finance each November and February. Forecasts are used by the Governor and the Legislature as a planning document to help determine what changes to propose when preparing biennial budgets. Forecasts assume a continuation of existing law but the spending levels assumed in forecasts do not become law unless enacted by the Legislature. If a direct appropriation has traditionally been calculated by a statutorily set formula (as with several programs in human services and K- 12 education), the amount necessary to fulfill that formula is included in the forecast based on reasonable estimates of projected growth in affected populations. While inflation is not included in spending estimates, revenue estimates assume reasonable economic growth based on forecasting models maintained by the Department of Finance. *See M.S.   16A.103.*

### **Fund**

A fund is a separate accounting entity in the state treasury that contains a self-balancing set of accounts. Funds may be created in the State Constitution, in state statute, or by the Commissioner of Finance in order to segregate different types of financial activity. A fund usually has language in law establishing it and identifying what money should be deposited into

the fund and for what purposes money may be expended from the fund. State statute requires that no fund may carry a negative balance at the end of a state fiscal biennium.

When any spending of money from the state treasury is authorized by an appropriation, the appropriation must be made from a specific fund. If an appropriation does not identify the fund, state statute directs that the appropriation is by default from the general fund. The Department of Finance assigns three-digit fund codes to track spending from funds in the State's accounting system. A fund code may be given to a fund or to an account within a fund. The general fund, for example, is assigned fund code 100 for most projects but fund code 110 for capital project appropriations made from the general fund rather the bond proceeds fund. *See M.S. §§ 16A.53; 16A.575; and 16A.152, subdivision 4.*

### **General Fund**

The general fund is the State's main depository for taxes and general revenues. State statute directs that this fund is used "for the usual, ordinary, running, and incidental expenses of the state government and does not include moneys deposited in the treasury for a special or dedicated purpose." The general fund is the State's largest and most important fund because it has the most flexibility in its use. *See M.S. §§ 16A.54 and 16A.72.*

### **Omnibus Bill or Act**

A collection of separate bills or appropriations in a single, large bill or act. Often there is a separate omnibus finance bill for each budget area and for taxes.

### **Onetime Appropriation**

A onetime appropriation is a spending authorization that does not continue into the next biennial budget base.

### **Open Appropriation**

An open appropriation is an authorization, usually in statute, that makes available for spending an amount sufficient to fulfill a specified need; a need-driven appropriation with an "open-ended" appropriation amount. Debt service and emergency firefighting for wildfires are examples of open appropriations. Although a forecast is made for how much money will be required, the appropriation authority remains available even if fire emergencies occur after the forecasted amount has been spent.

### **Revenue Estimate**

A revenue estimate is an official fiscal estimate prepared by the Department of Revenue, forecasting the revenue gain or loss from enactment of proposed legislation, or estimating the spending impact of changes to property tax aid and credit programs. Revenue estimates do not identify the costs a state agency or local government may incur (or save) by implementing the proposed change. Administrative costs are reflected in fiscal notes. Revenue estimates are requested by legislative fiscal staff on behalf of the chair of the Tax Committee. *See M.S. § 270C.11.*

### **Special Revenue Fund, A**

The term “special revenue fund” may be used to generally refer to any fund established by law or by the Commissioner of Finance to account for the proceeds of specific revenue sources that are legally restricted to expenditure for specific purposes. Some examples of specifically created special revenue funds are the highway user tax distribution fund, the health care access fund, the game and fish fund, and the maximum effort school loan fund.

### **Special Revenue Fund, The Miscellaneous**

The miscellaneous special revenue fund (referred to as “the special revenue fund”) is established by the Commissioner of Finance to account for numerous small special revenue accounts that are dedicated to a variety of specific purposes. Spending from these accounts is typically authorized by statutory appropriations.

### **Special Revenue Fund, The State Government**

The state government special revenue fund is established by the Commissioner of Finance to account primarily for various health-related special revenue accounts. The revenues in these accounts are normally not specifically dedicated and spending from these accounts is generally authorized by direct appropriations.

### **Statutory Appropriation**

A statutory appropriation is an authorization to expend money from the state treasury that is codified in state statute and continues automatically unless an act of law is passed to change or repeal the authorization. The word “standing” is sometimes used to describe a statutory appropriation. An appropriation is usually codified in statute when the dollar amounts involved fluctuate based on activity levels but the authorization is intended to remain in effect on an ongoing basis. The two main types of statutory appropriations are open appropriations from the general fund and dedicated appropriations from special revenue funds, both of which authorize spending of nonspecified amounts. On rare occasions, statutory appropriations may also be made for specific onetime or ongoing annual amounts. *See M.S. § 3.23.*

### **Structural Balance**

Structural balance is a measure of whether or not revenues are greater than or equal to expenditures in a future fiscal year or biennium. This measure differs from budgetary balance in that it does not take into account the beginning balance or reserves.

### **Tails (or Appropriation Tails)**

Appropriation tails are estimates of future revenue or spending amounts that will continue as base amounts in the next biennium, including estimates to continue current services and estimates of an appropriation, formula, or tax expenditure not scheduled to take effect in a future biennium. These amounts are also recognized in spending forecasts and are used in the determination of whether or not a fund has structural balance.

### **Targets**

Targets refer to limits on spending (and/or revenues) set during the legislative process to guide budget decision making by legislative committees, and to ensure that collective budget decisions meet expectations for budget balance, revenues, spending, and reserves.

**Unallotment**

An unallotment is a reduction to a previous allotment of an appropriation that makes the previously allotted funds unavailable for expenditure in the state accounting system. Statutes direct the Commissioner of Finance, with the approval of the Governor and after consulting the Legislative Advisory Commission, reduce allotments when the Commissioner determines that receipts deposited into a fund will not be sufficient to cover expenditures from the fund during a biennium. In the general fund, allotments are made only after the budget reserve account has been fully exhausted. An unallotment has the practical effect of an appropriation reduction but does not change the legal authorization to expend money, and does not change the budget base used for estimates of future spending. *See M.S. § 16A.152, subdivision 4.*

Fiscal Issue Briefs offer background information and analyses on the budget process and specific budgeted issues related to matters that have been or are likely to be addressed by the Legislature. Senate Fiscal Issue Briefs can be viewed on the Office of Counsel, Research & Fiscal Analysis web site at [www.senate.leg.state.mn.us/departments](http://www.senate.leg.state.mn.us/departments) and follow the links to the Office of Counsel, Research, and Fiscal Analysis.