
FISCAL ISSUE BRIEF



Minnesota Budget Process Requirements

MINNESOTA SENATE
OFFICE OF COUNSEL, RESEARCH, AND FISCAL ANALYSIS

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QUESTIONS

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This Issue Brief summarizes key statutory requirements of the Minnesota budget process, including those related to state budget forecasts, the presentation of executive budget recommendations, fiscal management, and development and provision of information needed to facilitate the 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 are, however, almost no provisions specific to the budgeting process beyond the creation of a Legislative Department and conferring upon it the responsibility to consider and adopt legislation, and present that legislation to the Governor for his or her approval, veto or partial veto. However, the Constitution provides little specific direction for state budgeting.

The major budget process components are the result of statutory requirements, primarily requirements for the executive and the Department of Finance. While the budget process is also guided by requirements upon other state agencies, tradition and other factors, the requirements for budget forecasts and for the submittal of Governor’s budget recommendations and associated budget documents are central to the budget process.

The budgeting process that has evolved in Minnesota can perhaps best be characterized as a “traditional” and “incremental” system of budgeting. Incremental in that the immediately preceding state budget tends to be the starting point for making future budget decisions; traditional in the sense that budgets tend to focus on expenditure controls or inputs (what money buys) rather than outcomes. While comprehensive budget reviews—such as re-justifications of the base budget—occur periodically, statutes do not require such reviews. Performance measures and expectations for policy outcomes are considered but funding levels are not linked to explicit program goals or objectives.

Statutory Requirements

In reality, the budget process is a never ending cycle of budget adoption by the legislature followed by budget implementation by the executive, oversight by the legislature and planning for the beginning of planning for subsequent budgets. The following table describes some of the key statutory provisions establishing the current state budget process.

Citation	Provision/Description
16A.04	Budget and Cash Projections. A general requirement that the Finance Commissioner prepare a biennial budget with projections of revenues and expenditures for the biennial budget and the following biennium with supervision of the Governor, or Governor-elect.
16A.095	State Budget System. The Commissioner of Finance shall make <u>rules and instructions for budget preparation</u> , must deal with <u>classification of expenditures</u> ; (2) may choose agencies to test improvements, shall recommend to the legislature language to improve budget system; the system must, to the greatest extent practicable, emphasize alternative approaches in program development and <u>criteria to evaluate and measure performance</u> .
16A.10	Budget Preparation. (1) Budget Format: In even-years, commissioner shall <u>prepare budget forms and instructions</u> , including guidelines for reporting performance measures, to all agencies. Must seek advice from Senate Finance/House Ways & Means Chairs, and send proposed forms by June 15, committees have until July 15 to respond; to facilitate, there must be a working group established and involved in all stages of development of forms/instructions. (1a) <u>Performance data shall be presented in the budget proposal</u> ; (1b) performance data format specified; (1c) budget documents to propose performance measures for change items; (2) <u>By October 15 and November 30</u> , agencies must file (with DOF) budget estimates, mission statements and outcome performance measures, explanations of planned services or new activities. <u>By November 30</u> , final budget format, budget estimates, and copies of filed material to Finance/Ways & Means, except not required to file information identifying executive branch decision items.
16A.103	Forecasts of Revenue and Expenditures. Requires <u>November and February forecasts</u> , sets timing and forecast parameters (assume continuation of current laws); must consult and inform chairs, minority members (Senate Finance/House Ways & Means) and legislative fiscal staff of variables of be included in expenditure part of forecast; (1c) state agencies must submit expenditure data as needed; (1d) commissioner must update legislative fiscal staff monthly on state revenues; (1e) must review economic information, inc. economic forecasts with legislative fiscal staff no later than two weeks prior to forecast and provide legislative fiscal staff with monthly economic information received from outside sources (1f) forecast personal income; (1g) forecast period is two biennium; (2) Local revenue— commissioner must prepare November and February estimates local revenues; for property taxes, state and federal aids, local sales taxes and all other revenues as a group. (4) <u>Fast growing expenditure report in January of odd-numbered years</u> .
16A.11	Budget to Legislature. Sets the timeline for a Governor to present a <u>three-part budget</u> to the Legislature and describes the components of the three parts: message, detailed budget, and detailed capital budget. The Governor’s budget recommendations are submitted by fourth Tuesday in January of odd-years; third Tuesday in February if a new Governor. Agency capital requests must be submitted by July of odd year, with Governor recommendations by January 15 of even-year. The budget must be in three parts. <u>Part I:</u> Governor’s budget message. <u>Part II:</u> detailed budget. <u>Part III:</u> detailed capital budget. The detailed budget must show revenues and expenditures, statements on Governor’s financial plan, to be arranged in tabular form. Also required: line listing professional and technical contracts, estimates of internal service funds, and proposals for any new fees or increases to existing fees. <u>Budget based defined in 16A.11, subd. 3, b,</u>

The requirements for the Commissioner of Finance to produce budget forecasts each November

and February and the requirement for the Governor to deliver budget recommendations to the Legislature are central to framing budget deliberations. The legislative budget deliberations that follow, however, are substantially supported by requirements for a state budget information system, data available from the state accounting system, and biennial budget documents.

Citation	Provision/Description
16A.055 – 16A.06	General Commissioner Duties – to keep the state’s <u>general account books</u> according to GAAP in a unified accounting system; from time to time to require an executive agency to prepare <u>financial reports</u> so the administration and legislature can compare spending plans with appropriations; executive agencies shall prepare <u>performance-based budget plans</u> on forms established by the commissioner; obtain from an executive agency any information needed to make state financial policy. The department must prepare a <u>technology budget book</u> .
16A.105	Debt Capacity Report – in November and February of each year.
16A.102	Budgeting Revenues Relative to Personal Income —this is the requirement for price-of-government (POG) data, Governor recommendations and Legislative resolutions for POG.
16A.129	Other Commissioner Powers —may require a list of agency employees and salaries; may classify revenues and expenditures for budget making and accounting. This section also authorizes cash advances among state funds in certain circumstances.
16A.14 and 16A.15	These sections provide for an <u>Allotment and Encumbrance System</u> and <u>Accounting System</u> .

Other Requirements for Supporting Data/Information

In addition to the biennial budget documents and the information available to agencies and legislative fiscal staff through the budget information system (BIS), the Minnesota state accounting system (MAPS), and other data sources, the budget development process also relies heavily fiscal notes and revenue estimates. The following table describes the statutory requirements related to those and selected other information mechanisms.

Citation	Provision/Description
3.98	Fiscal Notes – Directs that the heads or chief administrative officers of state agencies shall prepare fiscal notes at the request of chair of the standing committee to which the bill is referred, or the chair of the house committee on Ways and Means or the senate Finance Committee. Prescribes contents including the estimate of the increase or decrease in revenues or spending, the costs which may be absorbed by the agency, the assumptions in determining costs, long-range implications, and may include comment on technical defects of the bill. Distribution is specified and there is a requirement that the Commissioner of Finance provide for a uniform procedure but no other requirements for format or process.
3.986 – 3.988	Local Fiscal Impacts Notes – Various provisions defining local fiscal impacts, providing for the Commissioner of Finance to coordinate development of local impact notes for any legislation proposing state mandated services upon the chair or ranking minority member of either legislative Tax Committee. Also provides for notification of completed notes and provides a process for requesting the bill authors to provide explanations of proposed mandates. Provides for certain exceptions to local notes.
3.989	Report on Costs of State Mandates – Requires the Commissioner of Finance to provide an annual report on the costs of local mandates.
13.605	Data Practices; Legislative Data. - Provides that budget proposals are classified as non-public data until after the budget is presented to the Legislature; after “supporting

	data, including agency requests, are public data.”
270C.11, subd. 5	Revenue Estimates – Upon notice by chair of the house or senate Tax Committees, that a bill has been scheduled for a hearing, the Commissioner of Revenue is to prepare an estimate of the effects that the bill would have on state revenues. This is part of a larger requirement for periodic reports of tax expenditures.
16A.122	Workforce Planning and Reporting. Budget reporting of staffing levels expressed as FTE’s based on funding levels in the years indicated. The biennial budget document submitted by the Governor to the Legislature shall indicate base level FTE, projected positions, and FTE for previous two years before base. All fiscal notes and other budgetary items shall specify relevant changes, both in FTE and salary dollars.

Related Legislative Process Requirements

The Legislature has also adopted various statutory provisions to support its efforts to oversee the budget while not in session and to provide legislative forums for budget process matters. Following is a brief description of two key legislative commissions with responsibilities specific to budget development and oversight—the Legislative Advisory Commission (LAC) and the Legislative Commission on Planning and Fiscal Policy (LCPFP).

Citation	Provision/Description
3.30	Legislative Advisory Commission (LAC) - Establishes a legislative panel and process for overseeing general fund and non-general fund contingent appropriations during the legislative interim, as well as various other appropriations.
3.3005	Federal Funds Expenditure Review - Provides for presumptive spending of federal funds (see 4.01) subject to legislative review, including review by LAC when the Legislature is not in session.
3.885	Legislative Commission on Planning and Fiscal Policy (LCPFP) Establishes a joint legislative commission with broad duties to provide budget research, analysis, economic reports, budget recommendations.
3.921	Standing Committees as Interim Study Committees - Directs that agency heads shall prepare fiscal notes at request of chair of standing committee; contents and distribution prescribed; commissioner of finance to provide for uniformity.

To be clear, this overview is by no means an exhaustive list of statutory requirements influencing the budgeting process, and does not reflect the many provisions related to budget and fiscal management. The budgeting process is also supported by numerous other targeted provisions for data collection and dissemination and studies and reports, including provisions that tend to be specific to certain agencies or budget areas. Further, the budget process undoubtedly benefits from the reports completed by the Legislative Auditor, legislative commissions, NCSL, and various other State and non-state entities.

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 and follow the links to the Office of Counsel, Research, and Fiscal Analysis.
