STATE OF MINNESOTA
BUDGET BASICS

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Senate

State of Minnesota

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ALPHABETICAL LISTING

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 16A.055.

When the law specifically requires the creation of an account it is usually done to dedicate money to certain purposes. This is sometimes called a "sub-fund" because it is intended to have the self-balancing features of a fund even though it is not a fund. This is done either because the money is from a separate revenue source or is to be spent for a separate purpose or both.

When an account is created by the Commissioner of Finance, it is usually an "appropriation account," which is an accounting system record made by the Department of Finance to track appropriations authorized by law. An appropriation may be tracked by more than one appropriation account if it is useful to have the accounting system identify separate purposes within an appropriation that authorizes money to be spent for a variety of purposes. In some cases, more than one appropriation may be combined into one common appropriation account.

See M.S. 16A.53 and M.S. 16A.69, Subdivision 1

Allotment

An allotment is an amount of an appropriation that is made available in the state accounting system for expenditure during a given period. This is a budgetary control at the executive level. Money appropriated to state agencies is made available based upon spending plans submitted to and approved by the Commissioner of Finance. An allotment period is normally a fiscal year; it may be shorter but not longer than a fiscal year.

See M.S. 16A.011, Subdivision 3 and M.S. 16A.14

Appropriation

An appropriation is an authorization in law to spend money from the state treasury. This is a budgetary control at the legislative level. While the Governor can veto appropriations, appropriations can not be created unless they go 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 (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.

Appropriation Tails

Appropriation tails are the portions of appropriated amounts that will continue as base amounts in the next biennium. These amounts are also recognized in spending forecasts and are used in the determination of whether or not a fund has structural balance, meaning it will not have expenditures that exceed revenues in the next biennium.

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. On the fourth Tuesday in January in odd-numbered years, the Governor issues what he or she believes should be the budget for the following biennium. If a new Governor has just been elected, the release may be delayed until the third Tuesday in February.

Since the Minnesota Constitution prohibits borrowing beyond the end of a biennium to pay operating expenses, biennial budgets must be balanced. If a deficit is forecast for any fund for the next biennium, the Governor must reduce spending and/or increase revenues by a) reducing direct appropriations from their base levels, b) amending statutes to reduce statutory appropriations, c) amending statutes to reduce amounts forecast to be spent under statutory spending formulas, or d) amend statutes that cause revenues to go into the fund (taxes, fees and other payments) to increase revenues. The most important fund is the General Fund, both because it is the largest fund and because its use is more flexible than other funds.

During the odd-numbered year's legislative session (usually January through May) the House and Senate separately amend the Governor's proposed budget (based on revised forecast information and public testimony) and pass budget bills to conference committees. After conference committees work out the differences between the two bills, the House and Senate re-pass the agreed upon version and send the bills to the Governor. The Governor may veto the whole bill or individual appropriations within the bill. When the Governor signs the bills, they become law.

In even-numbered years, emergency or supplemental changes may be made to the budget adopted in the previous odd-numbered year.

See M.S. 16A.11, Minnesota Constitution, Article XI, Section 6

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. Fiscal bienniums for the State of Minnesota begin on July 1 of odd-numbered years and end on June 30 of odd-numbered years. Fiscal bienniums are referred to 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

Budget Base

The budget base is the common starting point in the construction of the next biennial budget. Minnesota statute mandates base budgets be set from current appropriation levels. Other approaches could start the base from expenditure levels or "zero base" levels. An expenditure base would assume that some programs may have been appropriated more than was needed, but does not provide a neutral starting point and may have the tendency to encourage unnecessary spending of appropriations to protect them. A zero base would assume that all spending should be reviewed without regard to current practice, but people want to know how proposals differ from current practice. Moreover, starting from appropriation levels does not preclude a review of all spending.

M.S. 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 appropriated in the second year, (direct appropriations and static statutory appropriations) the base is clear. Where the appropriation is not for a specific amount, the base is not so clear. When dedicated revenue streams are made available for spending or an open ("blank check") authorization is made to fulfill whatever the need turns out to be, the second year's *expended* amount is the appropriated amount. Even though that specific amount was never spelled out in law, that is the amount that the appropriation ultimately authorized in the second year. Since the biennial budget is put together before the second year spending is finished, however, the expended amount must be estimated.

M.S. 16A.11 requires that the budget prepared by the Governor must list base numbers. In addition, the statute requires base *adjustments* must 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 one-time appropriations which specify that these appropriations are not to continue in the base. Where programs are forecast, the statute requires adjustments to be listed to bring the associated appropriations in line with the most recently forecast amounts. The first and most obvious application of the forecast adjustment requirement is with appropriations where no amount is specified, as discussed above. Since standing law contains the ongoing authorization for these amounts to change because of fluctuating activity, M.S. 16A.11 requires that good faith (forecast) estimates of these spending commitments must be adjusted into the budget. The second application of this requirement is with appropriations that were made in specific amounts but that were generated by formulas that are prescribed in state statute. Though not legally appropriations, the assumption is made for the purpose of setting a budget base that these formulas will be followed in the next biennium.

After these adjustments are made, the resulting budget is referred to as the "adjusted base" or planning estimate. Any other changes, including adding inflation to keep directly appropriated programs at current activity levels, must be made as specific initiatives.

See M.S. 16A.11, Subdivision 3(b)

Capital Budget

A capital budget is a spending plan for durable physical improvements. The State of Minnesota adopts budgets 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, M.S. 16A.641, and M.S. 16A.642

Dedicated Appropriation

A dedicated appropriation is an authorization, usually in statute, that makes a stream of revenue available for spending for a particular activity or group of activities. In other words, it is a revenue-driven appropriation. A stream of revenue is "dedicated" to spending for a specified purpose. A dedicated appropriation might, for example, make specific fee-for-service revenues available to cover the costs of providing the service. Another example might be license fees that are collected in a special account and made available for spending for certain ongoing work or when related unforeseen needs arise.

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. Unless a law specifies differently, all laws containing appropriations become effective at 12:01 a.m. on the next July 1 after enactment. Unless a law specifies differently, all laws not containing appropriations become effective at 12:01 a.m. on the next August 1 after enactment.

See M.S. 645.02

Enactment
Enactment is the completion of the legislative process, after a bill has been passed by both the House and Senate and signed by the Governor, or repassed after his veto, when the bill becomes law. Note that the provisions in the law may become effective at a later date.

Fiscal Note
A fiscal note is an official 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 one year of financial activity. A state fiscal year begins on July 1 and ends the following June 30. A fiscal year is numbered by the calendar year in which it ends. For example, fiscal year 2000 begins July 1, 1999, and ends on June 30, 2000. This is different from Minnesota county, city and town fiscal years, which coincide with calendar years, and the federal fiscal year, which begins on October 1.

See M.S. 16A.011, Subdivision 14, M.S. 375.17 and M.S. 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 to help determine what changes to propose when preparing biennial budgets. Forecasts must assume that no changes will be made in existing law except that base levels of direct appropriations will be enacted. 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. Inflation is not included in spending estimates. In revenue estimates, reasonable economic growth is considered.

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 are created in the state Constitution, in state Statute and 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, M.S. 16A.575 and M.S. 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

One-Time Appropriation

A one-time 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. In other words, it is a need-driven appropriation. An "open-ended" amount is appropriated. One activity that receives an open appropriation is emergency firefighting for wildfires. Although a forecast is made for how much money will be required, the appropriation remains available if fire emergencies occur after the forecasted amount has been spent. Another activity that receives open appropriations is the state's Payment In-Lieu of Taxes (PILT) program, by which the state makes payments for state-owned land to local jurisdictions to help compensate for the loss of property tax revenues that those jurisdictions would have assessed to private property owners.

Special Revenue Fund, A

A special revenue fund is 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.

Special Revenue Fund, A Specifically Created

A specifically created special revenue fund is a special revenue fund that is created by the state Constitution or by an act of law. 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 generally 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 for a number of mostly 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 on-going 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 non-specified amounts. On rare occasions, statutory appropriations may also be made for specific one-time or on-going annual amounts.

See M.S. 3.23

Unallotment

An unallotment is a reduction of a previous allotment. As such, it is an amount of an appropriation that is made unavailable for expenditure in the state accounting system. This is a budgetary control at the executive level. An unallotment has the practical effect of an appropriation reduction but does not change the legal authorization to expend money and does not change any implication for base within the budgetary process. If the Commissioner of Finance determines that receipts deposited into any fund will not provide enough money in the fund to make the expenditures appropriated from the fund during a biennium, Minnesota statute directs the Commissioner to unallot a total amount that will eliminate the deficit. If the anticipated deficit is in the General Fund, Minnesota statute requires the Commissioner to consult with the Legislative Advisory Commission and have the approval of the Governor before taking action on the deficit and requires the Commissioner to reduce the amount in the budget reserve account before making unallotments to cover any remaining deficit.

See M.S. 16A.152, Subdivision 4

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