Budget Rules – 2025 Legislative Session January 23, 2025

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, documents that track proposed changes should be made available and include a comparison to the most current forecast and to the FY 2024-25 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 2026-27 biennium as well as the fiscal effect on the planning estimates budget in the subsequent biennium, if appropriate. *(Initially added for 2017 session.)*

3. All proposed changes to current law should be understood by the author of the tracking document, and tracking documents should accurately reflect all fiscal effects of a given proposal. *(Initially added for the 2025 session.)*

4. The base level amounts for the budget biennium and planning estimates 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 and tracked. *(Technical adjustment added for the 2025 session. Previously displayed as Rule A-3)*

5. (a) Minnesota establishes its budget over a four-year budget horizon (two biennia). Therefore, budget changes are traditionally limited to these two biennia, and change items are initiated in the current or budget biennium. Initiating a change in the planning biennium or later is rare and must be displayed in tracking documents.
(b) Proposals to effect a change in spending for the current biennium or the budget biennium require appropriation authority in language. Proposals to effect a change in spending for the planning biennium require language to make a base adjustment.
(Initially added for the 2025 session.)

6. In most cases revenue should be deposited into the general fund and spending should be by direct appropriation from the general fund. Special revenue fund accounts or other funds should be used when there are compelling reasons to create dedicated revenue and dedicated spending for a program. Examples of such instances include:

- programs that collect fees to pay for the cost of a license or a specific service;
- programs in which penalty revenue is used for enforcement activities;
- establishment of an ongoing loan program; or
- funds that were created by the Minnesota Constitution.

Money should not be transferred or deposited into a special revenue fund account without a compelling reason. Avoiding cancellation or carryforward limitations under M.S. section 16A.28 is not a compelling reason to transfer or deposit money into, or appropriate money from a special revenue fund account. *(Reorganized and clarified for the 2025 session. Previously displayed as Rule A-7.)*

7. "Change items" are recommendations for changes from the base level amounts for the current biennium, the budget biennium, or the planning estimates. Changes may be positive or negative. *(Technical adjustment added for the 2025 session. Previously displayed as Rule A-4.)*

8. "Forecast adjustments" are changes from base level amounts to make appropriations consistent with the most recent forecast. Forecast adjustments have no trackable effect relative to the forecast. *(Previously displayed as Rule A-5.)*

9. 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. A footnote on a spreadsheet is appropriate to track the potential costs while the amendment is being considered by the legislature. Potential fiscal effects of constitutional amendments will be recognized in official state budget documents. *(Clarified for the 2025 session. Previously displayed as Rule A-8.)*

B. Rules Governing Appropriations

1. Article XI, section 1 of the state constitution requires that no money shall be paid from the state treasury unless the money is appropriated by law. Legislative language appropriating money is required before an appropriation may be tracked on legislative tracking documents or a fund balance. *(Initially added for the 2025 session.)*

2. Appropriation language drafting order should follow the convention: how much, when, from where, to whom, for what. For example:
"$10,000 (how much) is appropriated in fiscal year 2025 (when) from the general fund (from where) to the commissioner of education (to whom) for education testing standards (for what)." *(Initially added for the 2025 session.)*

3. Generally (open or statutory appropriations are an exception), bills in the 2025 and 2026 sessions should not include appropriations for any fiscal year beyond 2027.

(Reorganized for the 2025 session. Previously displayed as Rule A-6.)

4. A rider is a condition placed on an appropriation. Riders often govern the allocation of an appropriation, the use of an appropriation, the appropriation base in future years, and other conditions. While the appropriation base is governed by statute and is generally assumed to continue beyond a biennium, the conditions imposed by a rider are not assumed to continue beyond the specific appropriation even if the appropriation is extended into future planning years. Rider language must be re-enacted to continue into future years. *(Initially added for the 2025 session.)*

5. Unallotment (under M.S. section 16A.152, Subd. 4) 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. *(Reorganized for the 2025 session. Previously displayed as Rule A-9)*

6. Generally, 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. *(Clarified for the 2025 session. Previously displayed as Rule A-10)*

A statutory appropriation is an authority to spend resources that is codified in state statute. Once enacted, a statutory appropriation will continue until the statute sunsets or is repealed. Generally, 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. Reorganized for the 2025 session. Previously displayed as Rule A-10.)*

C. Rules Governing Transfers

1. A transfer (under M.S. section 16A.011, Subd. 15a) is an authorization to move money from one fund, account, or agency to another fund, account, or agency. A transfer does not authorize money to leave the state treasury. A transfer is not an appropriation. Appropriation language should only be used for money that leaves the state treasury. *(Initially added for the 2025 session.)*

2. If a transfer is made, an appropriation would be required to provide legal authority for the money to leave the state treasury. *(Initially added for the 2025 session.)*

3. Language authorizing transfers between funds, accounts, or agencies needs to be clear whether the transfer is one-time or ongoing. A transfer is one-time unless the authorizing language specifically states differently. If a transfer occurs more than once, an end date should be specified.

Language to specify an ongoing transfer should read:

- "This transfer is for fiscal years 2027, 2028, and 2029 only." or

- "$1,000,000 is transferred annually from the general fund to the special revenue fund."

Language to specify a different transfer amount in a subsequent fiscal year should read:

- "$1,000,000 is transferred from the general fund to the special revenue fund in fiscal year 2027, and $2,000,000 is transferred from the general fund to the special revenue fund in fiscal year 2028 and each year thereafter." or

- "$1,000,000 is transferred from the general fund to the special revenue fund in fiscal year 2027, and $2,000,000 is transferred from the general fund to the special revenue fund in fiscal year 2028. This transfer is $0 in fiscal year 2029 and each year thereafter."

Language to specify an end date for a transfer should be specific and should read:

- "This transfer is effective through fiscal year 2029." or

- "This transfer is effective annually through fiscal year 2029."

(Language clarifying the one-time treatment of transfers added for the 2017 session. Edited for clarity in 2024 and reorganized for the 2025 session. Previously displayed as Rule C-6.)

D. Rules Governing Revenues

1. Changes to tax revenue or property tax, aids, and credits expenditures must be tracked using the amounts identified in a revenue analysis completed by the Department of Revenue. If a revenue analysis is not available, tracking documents may use amounts identified through other analyses, though such amounts must be replaced with amounts identified in a revenue analysis when a revenue analysis becomes

available. *(Initially added for the 2025 session.)*

E. Rules Governing the Treatment of Inflation

1. [Minnesota Statutes, section 16A.103] permits that the November and February forecasts include a general estimate of inflation for the budget biennium and the planning estimates. General inflation estimates are not appropriated, and the estimate is not applied to base level estimates for programs and agencies in the forecast.

2. All change items that have a fiscal cost compared to current law must be tracked against the most recent forecast. The specific cost of change items may not be offset against the inflation estimates in the forecast.
(Initially added for the 2025 session.)

F. Rules for Determining and Tracking the Planning Estimate Budget (FY 2026-27) in the 2025 Session *(Reorganized for the 2025 session, previously displayed as separate sections B and C.)*

1. The general rule is that funding for each of the planning years is assumed to continue at the level appropriated in the second year of the budget biennium unless another level is specified (consistent with the definition of base in [M.S. 16A.11, Subd. 3, paragraph (b)]). *(Previously displayed as Rule B-1 and C-1.)*

2. Appropriations and formulas that are codified in statute are always assumed to be ongoing unless the program is sunsetted, terminated on a certain date, or one time by definition (such as a transfer to the budget reserve). Planning estimates must be tracked until the sunset date. *(Clarified for the 2025 session. Previously displayed as Rule B-2.)*

3. Planning estimates for formulas, including those with forecast variables (such as caseload or enrollment changes), are established and tracked at the level needed to fully fund those formulas. *(Previously displayed as Rules C-3 and C-4.)*

4. If the rules listed in section F, rules 1-5 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 2026 and 2027 only.'
- "This appropriation is for fiscal year 2027 only."
- "Of this appropriation, $10,000 is one-time."

If legislation establishes a different base amount for the planning biennium, language should provide clear guidance for determining the base for the biennium following the planning biennium. For example:

- "The base for this appropriation is $100,000 in fiscal year 2028 and $0 in fiscal year 2029 and beyond."
- "The base for this appropriation is $100,000 in fiscal year 2028 and $150,000 in fiscal year 2027 and later."
- "The base for this appropriation is $100,000 in fiscal year 2028 and each year thereafter."

(Clarified for the 2025 session. Previously displayed as Rule C-5.)

5. Appropriations for infrastructure and large equipment may be one-time. However, it is important that legislative language specify that these appropriations are one-time appropriations. Some portion of such project appropriations may be ongoing, that amount and distinction should be made clear in legislative language. *(Previously displayed as Rule B-4.)*

6. 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 timeframe 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 timeframe. If the change in operating costs will not occur until after the planning estimates, tracking documents should include a footnote that accurately describes the future fiscal effects.

If an appropriation is made for capital budget related operating costs in the budget biennium, that appropriation would be tracked like any other appropriation. If capital budget related operating costs for the planning biennium 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 the planning biennium. *(Clarified for the 2025 session. Previously displayed as Rule B-5.)*

7. Any provision that changes revenue or expenditures beyond the planning period must be identified and tracked separately. Changes under this rule must be tracked with a footnote on a spreadsheet or in the fund balance. *(Previously displayed as Rule C-6.)*

G. 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 2025 appropriates $100,000 for a specific purpose in FY 2026 but in the 2026 session it is determined that only $60,000 is being spent, a law change is required to allow that excess FY 2026 money to be spent in FY 2027. 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. *(Rule divided into two components. Previously displayed as Rule D-1)*

2. (a) An amendment or a change item that allows an unexpended existing appropriation to be carried past the end of the biennium requires tracking documents to reflect the cost of extending that appropriation and, on a separate line, an estimated savings from the assumed cancellation if the appropriation were not extended.
(b) To effect an extension of an appropriation availability beyond the biennium in which it was appropriated:

    (1) bill language should amend the original appropriation with a date identifying the new cancellation date.
    (2) Tracking documents must identify a specific amount expected to cancel without extension and should track that amount as savings in the current budget year. On a separate line tracking documents must track an equal cost of extending the appropriation in the current budget year. *(Rule divided into two components. Tracking requirements added for 2025 session. Previously displayed as Rule D-1)*

3. General fund expenditure forecasts assume an aggregate amount of savings from expected cancellations from grants and operating appropriations. 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 2026 or FY 2027 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 [grant name] grants is estimated to cancel.")

Reductions in an appropriation for the second year of the current biennium (FY 2027) 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. Previously displayed as Rule D-2.)*

4. 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 2026-27 biennium, set a specific ending date such as June 30, 2028. 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 would be needed to cancel the remaining unspent balance. *(Previously displayed as Rule D-3.)*

H. 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. 16A.28, subdivisions 1- 4) Amounts carried forward from the first year to the second year do not increase the base for subsequent years. *(Previously displayed as Rule E-1.)*

2. Agencies may transfer operating funds between programs within the agency (See M.S. 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. Amounts transferred under this authority do not change base levels for subsequent years. *(Previously displayed as Rule E-2.)*

3. Appropriations for agency operations (agency staff, space rental, etc.) are assumed to be ongoing unless otherwise indicated in legislative language. This appropriation

must be tracked. *(Clarified for the 2025 session. Previously displayed as Rule B-3.)*

4. M.S. 16B.98, subdivision 14 provides general authority that permits state agencies to retain a specified percentage of a grant appropriations for agency administrative costs. If a different administrative cost for a grant is preferred, language to clearly "notwithstand" the authority in M.S. 16B.98, subdivision 14 should be added as a rider to the grant. *(Initially added for the 2025 session.)*

These rules are drafted for the 2025 session. Date and year references need to be updated each year or biennium. This version of the budget rules was substantially revised for the 2025 session by the topic of each rule to improve understanding and readability. The 2025 revision added additional rules and extensively rewrote other rules. 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.

The budget rules were substantially reorganized and rewritten in the summer of 2024. The Senate Finance Committee reviewed and approved the revised rules on January 23, 2025.