Budget Principles and Review
A Final Report to the Legislative Commission on Planning and Fiscal Policy

February, 2003

Introduction

This document is the final report to the Legislative Commission on Planning and Fiscal Policy required under legislation enacted in the1999 session. There are three sections to the report. The first section establishes guidelines to be followed when establishing statutory appropriations. Section two establishes guidelines to be followed when creating new funds and accounts in the state treasury. The third section describes budget rules followed by the Administration and the Legislature in developing and counting appropriations for both the current biennium and later fiscal years. As noted in this section, the year reference in this section need to be updated every two years.

The guidelines contained in this document were formally adopted by the Commission on December 5, 2002.

This report was developed under the joint efforts of the Fiscal Analysis Department in the House, The Office of Fiscal Policy Analysis in the Senate, and the Department of Finance.

Statutory Appropriations Guidelines

Introduction

A search of statutes indicates that here are nearly 350 citations of statutory appropriations in current law. In FY 2002, nearly $9.7 billion was spent through statutory appropriations. Many of these expenditures, such as pension accounts, have very legitimate rationale for being statutory appropriations. Of the funds reported by the Department of Finance in the Consolidated Funds Statement, about $5.8 billion or 33 percent of the total spending reported in that statement was in statutory appropriations.

Rationale for Standing Appropriations

A direct appropriation requires an affirmative and periodic act by the legislature. Statutory appropriations are very different. While the initial act establishing a statutory appropriation (usually every two years) requires affirmative action, the appropriation remains in effect until the legislature either decides to change the original law or until a sunset takes effect. This difference has a significant bearing on the way statutory appropriations are treated in the budget process. Statutory appropriations are often assumed as given. As a result, some statutory appropriations, especially those with a dedicated revenue source, receive very little legislative oversight or scrutiny.

The rationale underlying legislative decisions to make an appropriation statutory in the first instance vary. Reasons include:

A. To prioritize programs in the appropriation process. A statutory appropriation places the receiving program first in line to use available resources. This implies that the program is considered so important that the legislature treats its funding as nearly automatic. A good example of this rationale is the statutory appropriation for debt service on state bonds. A reduction in a statutory appropriation requires an enactment of legislation. On the other hand, direct appropriations require enactment of legislation for the appropriation to occur.

B. To assure certainty to the recipients of the resources. Programs funded by statutory appropriation are more certain of receiving an appropriation than programs funded through direct appropriations. This result is a function of the budget process. While statutory appropriations can be changed by the legislature, because they do not require affirmative action they are not as integral a part of the policy tradeoffs that characterize direct appropriations.

C. To prevent something else less desirable from occurring. Constitutional or federal requirements may cause an undesirable action to occur without a statutory appropriation. For example, the state constitution requires a statewide property tax levy to be imposed to cover state bond debt service if appropriated funds are inadequate. While a direct appropriation could be used to fund the debt service, the actual needs are uncertain at the time of the appropriation process. A statutory appropriation makes a statewide property tax much less likely to occur.

D. To cover the operating costs related to large fixed expenditures of recipients. Some statutory appropriations are related to large capital expenditures made by recipients. One example is the statutory appropriation for a subsidy for ethanol plants. Without some security of resources of more than two years in advance these projects might not be undertaken.

E. To match erratic revenues with spending. Many statutory appropriations simply make available for spending revenue from fees raised for a certain purpose. If the fees are erratic or there is difficulty forecasting the amount in order to make a direct appropriation, a statutory appropriation may be used to match needed expenditures to revenues.

F. To match appropriations with needs. Some programs serve clients where demand is hard to forecast. Rather than make a direct appropriation and deal with deficiencies as they occur a statutory appropriation is used to cover any shortfall. Many tax aids and credits work this way.

G. To respond to uncontrollable resources. Federal funds must be spent according to the requirements of federal law. The legislature or the executive branch may have very little discretion. A statutory appropriation makes this money available for the purpose specified in federal law.

Criteria for Open or Standing Appropriation Standards

Each of these reasons has been used to justify placing statutory appropriations into law. But there are no standards to use to determine when the reason is appropriate. For example, under letter A, how important does a program need to be to funded with a statutory appropriation? What guidelines should legislators use to make that judgment? Under letter B, how much uncertainty must exist to justify use of a statutory appropriation rather than a direct appropriation. Under letter E, how erratic do receipts need to be? Under letter F, why not use the deficiency approach for any shortfalls in a direct appropriation? Under letter G, direct appropriations of federal funds would allow legislators to more closely align appropriations for state and federal programs.

Why are standards or guidelines important? The reason is discussed throughout the rationale above. Statutory appropriations are automatic, do not require an affirmative act by the legislature, and place some programs ahead of others in the budget process. The reasons why an appropriation was made statutory at one point in time may no longer be valid. These facts may distort the policy debate when the legislature is determining budget priorities.

Improved reporting and review should be developed for oversight and control of statutory appropriations.

A separate well-defined executive-legislative branch process should be established to identify and report based on current information resources that meet appropriately defined needs. The basic operating activity of each statutory appropriation is captured in the accounting system. Joint agreement is needed to identify sufficient information necessary for legislative oversight and control and to improve in formation access. Better and timely information will provide legislators and legislative staff with the opportunity to review the activities associated with statutory appropriations.

A. A review of statutory appropriations should be conducted within the respective legislative committees. A schedule for reviewing statutory appropriation should be determined by the respective committees over a 4 - 8 year period. As an alternative, the review schedule could include a stratified schedule where statutory appropriations are reviewed every 2, 4, 6, or 8 years based on size.

B. Additionally, an annual review should be conducted be conducted on all accounts carrying substantial balances between fiscal years at year-end.

C. If a review suggests that a statutory appropriation is no longer necessary or desired, the activity should be funded with a direct appropriation

Appropriation definitions and use of the terminology should be standardized. The following definitions are commonly used in the Governor's Biennial Budget documents and current accounting practices.

A. "**Statutory Appropriation**" refers to the authority to spend resources that is codified in state statute, rather than session laws. This means the expenditure authority is ongoing and not dependent on the passage of an appropriations bill each biennium. Typically, statutory appropriations are made in dedicated receipt activities, but are also applicable to situations where state resources are perpetually made available for spending. Statutory appropriations are displayed in the Governor's biennial budget as " Statutory Appropriations" and are generally based on anticipated receipts within an agency's budget. These codified appropriations are processed in the accounting system annually based on agency estimates -- without legislative action.

Statutory Appropriations generally should not be established in the general fund, and all current statutory appropriations in the general fund should be reviewed for possible change to a different fund.

B. "**Direct Appropriation**" is an appropriation made in biennial or annual budget bills and is for a limited period of time, usually within the biennium.

C. "**Open Appropriation**" refers to the authority to spend an unspecified amount of resources to meet a program's objective or a constitutional requirement. These resources are typically made available when an agency provides a forecast of the estimated need. These open appropriations are reported in the Governor's biennial budget as " Open Appropriations". Approval of the funding is made using agency estimates and documentation that establishes the funds in the accounting system. Rather than canceling at year-end, any excess dollars are processed as a reduction in the appropriation amount, rather than a cancellation.

D. "**Standing Appropriation**" is the authority to spend a pre-determined dollar annual amount for an activity for a specific period of time or indefinitely. (Example: MS

240A.08 Appropriation…."$750,000 is appropriated annually from the general fund to the Minnesota amateur sports commission for the purpose of….."

Specific Recommendations

1. Statutory appropriations should be established when:

A. The activities funded by the appropriation are outside of the scope of normal agency operations and would be discontinued if the dedicated revenues were no longer available.
B. Constitutional requirements would trigger automatic state obligations or levy new taxes.
C. Revenues and expenditures are difficult to predict and appropriate directly.
D. Legal or regulatory requirements prohibit the co-mingling of funds.

2. Statutory appropriations should be subjected to legislative reviews through:

A. Systematic analysis of all newly created statutory appropriations after 4 years.
B. Periodic and systematic analysis of each statutory appropriation at least once every eight years.
C. Alternatively, placing a sunset date in the statutory appropriation.

3. Control and oversight of statutory appropriations should be performed by:

A. Establishing standards for annual and interim reporting of statutory appropriation activity.
B. Training legislative staff in proper use of system information and tools to access the information.
C. Provide increased access to necessary statutory appropriation information by modifying current or developing new budget reporting.

4. Minnesota Statutes, section 3.23 should be modified to conform with current day, commonplace usage and definitions, limiting the term "standing" to specific class of appropriations defined above.

3.23 Appropriations.

A ~~standing~~ <u>statutory</u> appropriation, within the meaning of this section and section 3.24, is one which sets apart a specified or unspecified and open amount of public money or funds of the state general fund for expenditure for a purpose and makes the amount, or part of it, available for use continuously and ~~at a time more distant than~~ <u>for a period of time beyond</u> the end of the second fiscal year after the session of the legislature at which the appropriation is made.

Every appropriation stated to be "annual appropriation." "payable annually,' appropriated annually,""or "annually appropriated," and every appropriation described by equivalent terms or language is a ~~standing~~ statutory appropriation as defined by this section.

5. Consideration should be given to limiting the broad statutory appropriation authority in Minnesota Statutes, section 4.07, Subdivision 3, regarding the appropriation of federal funds.

Guidelines for Creating and Evaluating Funds and Accounts

Introduction
This section presents a general background of government budget and accounting principles and concepts. The document is not an accounting manual that defines accounting rules to be applied to state government spending and revenue transactions. The development of these rules is clearly the role of the Department of Finance and other government accounting agencies such as the Government Accounting Standards Board (GASB). Rather, this document describes the accounting structure and how it affects the budget decision process as a fiscal policy issue. Accounting principles are considered because they inform policy deliberations. These are broad principles that are appropriate for policy issues, not minor rules that are required for day-to-day operations.

Why is this background important? First, it provides the context needed to understand state accounts and funds. Second, it provides a context for analyzing state accounts and funds. What is the rationale for the current structure? How does it affect the decision process? Are there ways to simplify the structure to facilitate priority setting? This background can aid in the development of criteria to evaluate the current fund and account structure. These criteria could also be used in the future as new funds and accounts are developed.

Funds and Accounts Definitions
Governmental accounting systems are organized and operated on a fund basis. A fund is the basic unit used to segregate resources and expenditures in the state treasury.
A fund is defined as:

> A fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations.[1]

There are other related entities that have some of the same characteristics as a fund but do not fully meet the definition. The general purpose of these entities is to segregate resources and restrict expenditures to clearly identifiable purposes. These entities include a number of specifically defined accounts reserves, and dedicated revenues with related restricted expenditures. In each case, revenue is dedicated or appropriated, spending is restricted and any balance remains in the account and does not cancel to the general or other fund.

Number of Funds
Are there accounting rules that should be applied when establishing funds, accounts and reserves? (The remainder uses the term funds but for simplicity this is meant to include separate

[1] Hay, Leon, Accounting for Governmental and Nonprofit Entities, Homewood, Illinois 1989, p13

accounts and reserves.) The general rule is that the number of funds should be as few as possible.

> "Governmental units should establish and maintain those funds required by law and sound financial administration. Only the minimum number of funds consistent with legal and operating requirements should be established, since unnecessary funds results in inflexibility, undue complexity, and inefficient financial administration."[2]

According to the National Conference of State Legislatures:

> "Having a large number of separate funds is a relic of 19th century state budgeting, when the practice was to assign a revenue source and a fund to each of the many different activities and to get along without a comprehensive budget. A large number of funds unnecessarily complicates revenue forecasting, budgeting and accounting, and is likely to confuse the public. Money management can be a profitable revenue source for state governments; consolidated fund management can simplify it"

We can dismiss an examination of the legal aspects of fund establishment. If a fund is established in law, it is legal. The policy issue presented each time a fund or account is established is the inherent conflict between the reasons the new account is established and increased inflexibility, complexity and inefficiency that generally results from the expansion.

How many funds should there be? In the simplest possible situation, a governmental unit could be in conformity with generally accepted accounting principles if it used a single fund, the General Fund, to account for all events and transactions. [3] But there are very good reasons for more than one fund. These are:

- *Constitutional* - the state's constitution establishes separate funds which controls the actions of the Legislature. The several transportation funds, the Permanent School Fund, the Permanent University Fund, and the Environment and Natural Resources Fund are examples of constitutionally established funds.

- *Federal Requirements* - There may be requirements under federal law to segregate resources from the federal government into a separate fund.

- *Policy Reasons* - There may be policy reasons to establish a separate fund. One may be to improve control and oversight. A separate fund may enhance the Legislature's ability to maintain proper oversight. A second reason may be to address the concerns of interest groups affected by a related tax or fee increase. A third reason may be that the new spending activity is significantly different from general fund spending so that a new fund is required. Since new funds create other problems identified above, these reasons should be well articulated and should demonstrate a clear need for the separate fund. A fund should not be established when the accounting system can accomplish the same goals. Funds established for policy reasons should be reviewed periodically to

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[2] Hay, P14

[3] Hay, P 14. A single fund would also require at least two separate accounts for long-term debt and the value of fixed assets.

determine whether those reasons remain valid. For example, a fund may be established to segregate revenue for a specific need. Once that need is met the separate fund should be abolished and the revenue should be deposited in the general fund.

Accounting Purposes- Government accountants have identified eight different types of funds that are useful for sound accounting administration. These are:

1) General Fund - to account for all financial resources except those required to be accounted for in another fund.

2) Special Revenue Funds - to account for the proceeds of specific revenue sources (other than major capital projects) that are legally restricted to expenditures for specified purposes.

3) Capital Projects Funds - to account for financial resources to be used for the acquisition or construction of major capital facilities (other then those financed by proprietary funds and trust funds).

4) Debt Service Funds - to account for the accumulation of resources for, and the payment of, general long term debt principle and interest.

5) Permanent Funds – to account for resources that are restricted to the extent that only earnings, not principal, may be used to support that program.

6) Enterprise Funds - to account for operations (a) that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

7) Internal Service Funds - to account for the financing of goods or services provided by one department or agency to other departments or agencies of the governmental unit, or to other governmental units, on a cost reimbursement basis.

8) Trust and Agency Funds - to account for assets held by a governmental unit in a trustee capacity or as an agent for individuals, private organizations, other governmental units, and/or other funds. These include pension, investment trust and agency funds.

The last type, Trust and Agency Funds, usually comprise pension funds but may include other funds with similar fiduciary responsibility. Types six and seven are referred to as proprietary funds and are usually tied to some activity by a state agency that sells goods or services internally or externally. Types three and four are quite specific and deal with capital projects and the servicing of debt for those projects. The first two types, the general fund and special revenue funds are the types where the proliferation of accounts, reserves and dedication occurs.

Fund Related Problems

What occurs when the number of funds operated by state government grows? The following are possible outcomes:

- *Complexity and Budget Priorities* - As the number of funds increase, setting the budget at the macro level becomes more complex. Setting overall budget targets is the essence of the prioritization process of the Legislature. Should more resources be put into education and housing or into tax reductions? Setting program priorities becomes difficult when there are one or two funds to consider. An expansion in the number of funds currently in law significantly exacerbates this problem. Without giving consideration to all resources, the priorities ostensibly established for the general fund may not in fact be reached in the end.

- *Public Accountability* - A complex accounting structure makes it more difficult for the public to understand the system. Government, unlike the private sector, does not have the information produced by the marketplace to demonstrate that it is performing efficiently. While there is much more to accountability than an accounting system, a system more complex than needed makes public accountability more difficult.

- *Inflexibility* - Resource balances may be tied up in separate funds and could be made available for other priorities, but identification can be difficult. The inflexibility created by the separate fund may prevent priorities from being fully met.

- *Program Funding Confusion* - Government is a complex business, and often a program structure used when allocating resources can be difficult to understand. Programs may receive resources from a number of funds or accounts. At times, the extent of these resources may not even be known to the decision makers and a program may receive more resources than decision makers would have otherwise chosen. Creating complex funding schemes can only make understanding the process more difficult.

- *Inefficiency* - Inflexibility and complexity may result in inefficient allocation of resources. Since government is under a great deal of pressure to use taxpayers' resources efficiently, the accounting structure should not hinder the allocation process.

Recommendations

1. Fund and Account definition should be standardized. If the intent is gather data for control or reporting information at the account level, the word "account" should be used rather than the word "fund".

2. The following criteria should be considered before a "fund" is created.

A. Does the law require the agency to establish a new fund? - *legal requirement*

B. Will the fund need to create discrete financial statements? - *GAAP requirement*
C. Does an agency currently use a separate side system to duplicate accounting information to facilitate fund reporting? - *efficiency*
D. Will the new fund improve information necessary for the agency's management of resources? - *information*
E. Does the activity require the tracking of assets or liabilities beyond the fiscal year? - *continuity*
F. Are activities across agency lines going to be consolidated for reporting purposes? - *multiple entities impact*
G. Will the activity, as a fund, have sufficient resources to make timely payments on its obligations? - *cash flow requirements*
H. Will the activity be material in relationship to other funds so as to require that it be tracked discretely? - *materiality*
I. Will there be appropriations made from an accumulated balance of which any unused portion will cancel back? - *appropriations*

A "fund" should be created or continue to exist when a majority of the following criteria apply:

A. If either the revenues or expenditures of the activity will exceed $10 million dollars.
B. If the activities create assets or liabilities that will continue beyond a normal budget cycles.
C. If multiple agencies will be involved in collection or use of fund resources.
D. If there are enough resources available to cash flow the activity when the program begins operating.
E. If a separate fund is necessary to comply with constitutional requirements, federal regulatory requirements, or generally accepted accounting principles.

While the limit on creating funds based on size is a reasonable beginning point, it is difficult to establish an absolute threshold on the dollar values necessary to create a new fund. However, it is more appropriate to ask if the new activity is material enough in relationship to other activities so as to require a new fund. The Department of Finance has been using $10,000,000 as the guide in discussions of materiality.

The ongoing nature of an activity is an important criterion. But since all funds are subject to legislative intervention, it is also appropriate to specify the creation of a new fund if the activity will create new assets or liabilities that will extend beyond the normal budget cycles.

The complexity of a program and the necessary level of oversight again are difficult criteria to objectify when deciding on the need to create a new fund. It may be more appropriate to respond to this recommendation in two parts: complexity and oversight.

The complexity of the program would include the number of agencies that will participate in the collection and use of resources in the fund. The complexity of the program may also include the regulatory requirements imposed on the activities by federal agencies, e.g. entitlements, pensions.

Despite the use of terms in statute, some agencies have administratively requested that a fund be created to maintain the discrete accounting information necessary to report by "account". The creation of a fund to respond to the creation of each new "account" in law would result in many new funds being created each legislative session. While the creation of funds may make oversight easier, that is not practical or desirable tin light of other goals e.g. simplification.

3. The use of the term "account" in statute or appropriations law should limited since there is no automatic mechanism to manage or report on them outside of their individual agencies.

The general purpose of "accounts" has been to segregate resources and restrict expenditures to a clearly identified purpose. Generally, amounts are either dedicated or appropriated, spending is restricted to a specified purpose, and any balances do not cancel to the general fund or other funds.

Where necessary for oversight and reporting "accounts" may be created:

A. Revenues or resources of an "account" should be limited and collected into one MAPS appropriation account.
B. Authority for spending the resources of an "account" should be authorized by specific transfer authority.
C. Alternatively, if multiple appropriations with dedicated receipts are designated as an "account" the individual appropriation accounts should have specific dedicated receipt caps.
D. Agencies with an "account" must designate a unique identifier to be used on all MAPS appropriation accounts included in the "account' in order to aggregate information for reporting and management purposes.

The most effective oversight and reporting are created by individual direct appropriations. "Accounts" are not practical oversight mechanisms since there is no counterpart in the MAPS chart of accounts and there are no automatic reporting vehicles available.

The definition of "Accounts" however, appears to mean a collection of related appropriation or revenue sources. The term "Account" is not defined in statute, nor does it exist as a discrete accounting entity in the state's financial systems. An account by standard usage in statute generally refers to a single unique component or part of the accounting structure that matches sources and uses of revenues, but is a part of a larger fund. Because of the unique structure of an account it is not easily consolidated or combined with similar or related accounts. As a result, agencies have had to respond by manually compiling information related to individual appropriation and spending accounts in the accounting system to meet consolidated reporting needs.

4. The fund (and account) structures used in managing the state's funds should be periodically reviewed.

Although sunsetting some funds seems appropriate as a review mechanism, sunsetting could create problems with budgeting. For instance, if a fund is to be sunset, should the activity be consolidated by default to the general fund?   It may be more appropriate for the legislature to have a scheduled review of all new funds or accounts that are created and that an affirmative decision is made as to their continuation or consolidation with other funds.

Oversight of activities should be most effectively accomplished by:

A. Direct legislative appropriations of specific dollar amounts to be used for specific programs.
B. Placing dedicated receipts caps (spending limits) on non-direct appropriated activities.
C. Periodic and systematic review of all new funds and accounts created by legislation after four years.
D. Periodic and systematic review of all existing funds and accounts every eight years.

Budget Rules

These rules are drafted for the 2003 session. Dates and years need to be updated each year or biennium.

A. For FY 2004-05 budget presentations, the following apply:

1. Base level appropriations for FY 2004 and 2005 must be consistent with previous end of session spreadsheets.

2. The Department of Finance (DOF) makes two types of adjustments to base level budgets. Technical base adjustments are those items that should already be accounted for in the legislative tracking spreadsheets. Technical base adjustments include those for one-time appropriations, biennial appropriations made annual, agency transfers, and similar items.

3. Policy base adjustments are not technical in nature and should be highlighted to make sure they are discussed. Policy base adjustments include inflation for salaries, rent changes, small agency operational expense, and attorney general costs.

4. Transfers between agencies are supposed to be technical base adjustments but in 2001, some of these base adjustments were not technical. In that case, they should be highlighted.

B. For FY 2006-07 budget presentations in 2003, the following apply:

Cost implications for FY 2006-07 (tails) must be tracked.

1. Rules for tracking base level tails are:

> a. The general rule is that funding for FY 2006 and 2007 is assumed to continue at the FY 2005 appropriated level unless some other level is specified.
>
> b. Appropriations for programs that are codified in statute are always assumed to be on-going unless the program is sunsetted or terminated on a certain date. Tails must be counted until the sunset date.
>
> c. Appropriations for agency operations (agency staff, space rental, etc.) are assumed to be on-going unless otherwise indicated.
>
> d. Appropriations for infrastructure and large equipment are assumed to be one-time. However, it may be helpful to clarify that these are one-time appropriations. Some portion of systems projects may be ongoing, that amount should be made clear.
>
> e. Capital projects may have a positive or negative impact on future state agency operating cost. These cost implications should be evaluated when capital budget

requests are being discussed, especially in the finance committee or budget 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 several years away. Planning estimates for operating costs should reflect that time-frame. However, capital budget related operating cost impacts should be tracked in the current biennium and the next biennium for projects recommended by the Governor and for projects recommended by legislative committees. If legislative committees disagree with operating cost estimates for specific projects, they should determine and track alternative estimates.

f. If the situation is unclear regarding the status of a program in FY 2006-07, language should be added to the bill clarifying status of the program's appropriation in future years. If some may think that an appropriation is ongoing and that is not intended, language should be added to clarify that the appropriation is one-time.

2. Rules for determining the base amount of tails are:

a. Appropriations for grants are carried forward in FY 2006 and 2007 at the level appropriated in FY 2005.

b. 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 2004 but available until 6-30-2005 would be tracked as a tail of $5 million in FY 2006 and $5 million in FY 2007.

c. Appropriations for formulas that have open and standing appropriation language in statute are carried forward at the level needed to fund those formulas (including caseload changes and other factors) in FY 2006 and 2007.

e. Appropriations 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 FY 2006 and 2007.

f. If the rules listed in A-D above 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 2004 and 2005 only.
>
> This appropriation is for fiscal year 2005 only.
>
> Of this appropriation, $xx are one-time.
>
> The funding base for this program in fiscal year 2006 and 2007 is $xxx per year.

C. Other Rules and Issues Regarding Appropriations

1. Most appropriations are made by fiscal year. However, appropriations for state agencies 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 Minnesota Statutes, 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 funds between programs within the agency (See Minnesota Statutes, section 16A.285). This provides agencies with additional flexibility. If the committee does not want an agency to have this flexibility, language should be included in a bill stating that a transfer under M.S. 16A.285 is not allowed for the that specific appropriation, program, or agency. Again, amounts transferred under this authority do not change base levels for subsequent years.

3. 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 thee end of the year for which they were originally appropriated.) If a bill enacted in 2003 appropriates $100,000 for a specific purpose in FY 2004 but in the 2004 session it is determined that only $60,000 is being spent, a law change is required to allow that excess FY 2004 money to be spent in FY 2005. Extending 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 that allows an unexpended appropriation to be carried past the end of the biennium **will** be counted as additional spending.

4. Changing the purpose of an appropriation **does require** otherwise unexpended funds to be counted as new spending. If a 2003 law appropriated $1 million to make five grants and in the 2004 session, the committee learns that only $800,000 will be used to make the five grants and wants to allow more grants to be made, increasing the number of grants will count as additional spending of $200,000. Likewise, if $1 million was appropriated to fund a formula based on anticipated need but only $800,000 was needed for the current purpose, expanding eligibility under the formula to spend the additional $200,000 would require the $200,000 to be counted as additional spending. (Also, an expenditure forecast may have already anticipated the savings.)

5. As a general rule (open and standing or statutory appropriations are an exception), bills in the 2003 and 2004 sessions should not include appropriations for any fiscal year beyond 2005. There may be a few exceptions for deficiency appropriations.