



**Responsible.  
Accountable.  
Flexible.  
Informed.  
Stable.**

## **The Campaign for a Better Budget Process**

### **Ensure the State's Economic Forecasts Take Inflation into Account**

Minnesota's Economic Forecasts, prepared by the Minnesota Department of Finance in February and November of each year, are an essential tool for understanding the state's fiscal health. They measure the state's projected revenues against projected spending under current law conditions.

**The Forecast does not adjust future spending for inflation**, although it does adjust future revenues based on inflation. This is due to a law passed in 2002 that prohibits including the influence of inflation on most spending in the Forecast. While it was a reasonable decision at that time to combat a state budget deficit by restraining growth in spending, that outcome should have been achieved in budget legislation, rather than by changing the state's forecasting methods.

It is important to distinguish between *providing information* about the cost of maintaining the state's current service levels and the *budget choices* about whether to fund an inflationary increase. Each year, the cost of providing a service generally rises as the cost of materials, rent, and personnel rises. If the level of funding remains constant, over time inflation will erode the state's ability to provide the same level of service.

When the impact of inflation on future spending is not included in the Forecast, **the public and policymakers are given a mistaken impression of the state's economic future**. The Forecast may imply that there are more resources available for new initiatives than it would be prudent to spend, or disguise that the state does not have sufficient resources to meet its current commitments.

**Including inflation in the Forecast helps decision-makers understand whether fiscal decisions are sustainable.**

#### **Our Recommendation:**

**The Minnesota Budget Project recommends taking inflation into account in the Forecast**, by eliminating the provision in current law that prevents the Department of Finance from doing so. As was done prior to 2002, the Department of Finance should include a general inflationary increase in determining the state's fiscal health in future budget cycles. This would not impact the "base" funding for state services — in order for a program or service to receive an increase in its base funding, this increase would need to be authorized by the Legislature.

Enacting this recommendation would:

- Provide good financial information about the future cost of the state's commitments.
- Encourage responsible fiscal management by providing a clear understanding of the state's future fiscal health and whether proposed initiatives are sustainable.
- Maintain flexibility by preserving existing budget authority; no automatic funding increases are created.
- Encourage accountability by recognizing the long-term implications of budget decisions.
- Promote stability by providing the tools needed to make sustainable budget decisions.

Senate File 25, which passed the Minnesota Senate on January 26, overturns the 2002 law that forbids the inclusion of the impact of inflation in the Forecast. SF 25 is consistent with the Minnesota Budget's Project's recommendations for a better budget process.

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The Minnesota Budget Project is an initiative of the Minnesota Council of Nonprofits.  
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