

HF9003 - 0 - State Forecast Must Include Rate of Inflation

Chief Author: **Zack Stephenson**
 Committee: **State And Local Government Finance And Policy**
 Date Completed: **1/4/2023 8:09:37 PM**
 Agency: **Minn Management and Budget**

State Fiscal Impact	Yes	No
Expenditures		X
Fee/Departmental Earnings		X
Tax Revenue		X
Information Technology		X
Local Fiscal Impact		
		X

This table shows direct impact to state government only. Local government impact, if any, is discussed in the narrative. Reductions shown in the parentheses.

State Cost (Savings)	Biennium			Biennium		
	Dollars in Thousands	FY2023	FY2024	FY2025	FY2026	FY2027
General Fund	-	536,757	1,015,371	1,438,649	1,870,292	
Total	-	536,757	1,015,371	1,438,649	1,870,292	
Biennial Total			1,552,128		3,308,941	

Full Time Equivalent Positions (FTE)	Biennium			Biennium	
	FY2023	FY2024	FY2025	FY2026	FY2027
General Fund	-	-	-	-	-
Total	-	-	-	-	-

LBO Analyst's Comment

I have reviewed this fiscal note for reasonableness of content and consistency with the LBO's Uniform Standards and Procedures.

Including the CPI inflation factor in the forecast expenditures to programs that currently do not include any expenditure inflationary factor, would typically result in larger forecast expenditures. The practice of adding a CPI inflation factor to expenditures will also impact the forecast for non-general fund programs. The expenditure impacts in the table are illustrative of the current impact of applying the CPI inflation factor on general fund expenditures as described in the bill language. Because the bill doesn't actually appropriate any money or prescribe a methodology to distribute the dollars, the Legislature would still need to determine how to allocate and/or appropriate the inflationary amount.

LBO Signature: Susan Nelson **Date:** 1/4/2023 8:09:36 PM
Phone: 651-296-6054 **Email:** susan.nelson@lbo.mn.gov

State Cost (Savings) Calculation Details

This table shows direct impact to state government only. Local government impact, if any, is discussed in the narrative. Reductions are shown in parentheses.

*Transfers In/Out and Absorbed Costs are only displayed when reported.

State Cost (Savings) = 1-2		Biennium			Biennium	
Dollars in Thousands	FY2023	FY2024	FY2025	FY2026	FY2027	
General Fund	-	536,757	1,015,371	1,438,649	1,870,292	
Total	-	536,757	1,015,371	1,438,649	1,870,292	
			1,552,128		3,308,941	
1 - Expenditures, Absorbed Costs*, Transfers Out*						
General Fund	-	536,757	1,015,371	1,438,649	1,870,292	
Total	-	536,757	1,015,371	1,438,649	1,870,292	
			1,552,128		3,308,941	
2 - Revenues, Transfers In*						
General Fund	-	-	-	-	-	
Total	-	-	-	-	-	
			-		-	

Bill Description

HF 9003 amends MS 16A.103 to remove the prohibition of factoring inflation into base forecast expenditure estimates published with the November and February forecast. It also explicitly requires that expenditure estimates factor in obligations that occur as the result of inflation. The bill also requires that commissioner of MMB to consult with the chairs and lead minority members of the senate State Government Finance Committee and the house of representatives Ways and Means Committee, and legislative fiscal staff when determining the rate of inflation and the application of inflation in the preparation of the expenditure forecast.

Assumptions

1. The provisions of the bill only apply to state fiscal years where there is not already a current law appropriation. For instance, in the November 2022 and February 2023 forecast the requirements in the bill would impact the expenditure estimates for FY 2024 -27, but not FY 23 because appropriations for that FY have already been set in law.
2. The provisions in the bill would not have the effect of changing appropriations already set in law.
3. Administrative costs to implement the bill would be negligible as the requirements in the bill would be incorporated into regular forecast preparation.
4. MMB is only addressing general fund in review of the impact of HF9003.
5. While the bill would not have an administrative cost, it would have a trackable cost because the requirements in the bill would increase forecast base expenditure by the rate of inflation see Expenditure and/or Revenue Formula section.

Expenditure and/or Revenue Formula

The requirements in the bill would increase forecast expenditure amounts to the November 2022 expenditure forecast. The following assumptions are used in calculation the amount added to the expenditure forecast.

1. The state share for some managed care, long-term care, and cash assistance appropriations at DHS have cost increases factors in current law and would not be inflated under this bill
2. The Special education program at MDE has cost increase factors in current law and would not be inflated under this

bill

3. Property tax refund payments result from market changes in home prices and local property levels and thus would not be inflated under this bill
4. Debt service and capital project payments are set in law to fund specific debt obligations and capital projects where amounts do not change with inflation.
5. Forecast Consumer Price Index growth based on the November 2022 forecast is the following: FY24: 3.0%, FY 25: 2.5%, FY 26: 2.2%, FY 27: 2.2%
6. Additional inflationary cost is calculated by taking forecast expenditures for a given FY, removing programs with an inflationary factor already included under current law, the growing the remainder by the rate of inflation for that FY, compounding for the 2nd, 3rd and 4th FY in the forecast horizon.
7. Inflationary factors only include the impact of inflation projected to occur in future fiscal years and would not adjust spending for inflation that has occurred since the budget for the current biennium was enacted.

The following table shows the added forecast expenditures under the requirement in this bill:

	FY 24	FY 25	FY 26	FY 27
Forecast Expenditures with Inflation	26,561,218	27,391,943	27,877,361	28,283,376
managed care_long term care	5,304,592	5,596,286	5,788,594	6,021,554
Special Ed	1,946,135	2,060,779	2,171,739	2,283,638
Ptax Refunds	944,920	981,700	999,500	1,011,130
Debt Service	559,960	586,797	615,311	641,985
Capital Projects	166,719	170,633	171,596	173,494
Forecast Expenditures w/o Inflation	17,638,892	17,995,748	18,130,621	18,151,575
Inflation Added (annual)	536,757	1,015,370.89	1,438,649	1,870,292
Inflation Added (biennial)		1,552,128		3,308,941
CPI November 2022 Forecast	3.0%	2.5%	2.2%	2.2%

Long-Term Fiscal Considerations

None

Local Fiscal Impact

None

References/Sources

November 2022 Budget and Economic Forecast (Minnesota Management and Budget)

Agency Contact: Ronika Rampadarat

Agency Fiscal Note Coordinator Signature: Ronika Rampadarat

Phone: 612-659-6873

Date: 1/4/2023 7:28:09 PM

Email: ronika.rampadarat@state.mn.us