



**OKLAHOMA HOUSE OF
REPRESENTATIVES**

**APPROPRIATIONS
PROCESS**

An Overview of
Appropriations, Budget and
Revenue Processes

2015

APPROPRIATIONS PROCESS

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Appropriations Process

INTRODUCTION

Overview

The budget process encompasses four major stages: executive preparation, legislative consideration, execution and audit.

In Oklahoma, legislators and their constituents alike face some of the same tasks in a daily routine. Citizens may drop the kids off at school, pick up a prescription from the pharmacy, or obtain a copy of his or her birth certificate. Such actions, all common to many Oklahomans, also involve state agency operations: public schools are funded through the State Board of Education, citizens may receive stipends for prescriptions through the Oklahoma Health Care Authority as Medicaid recipients, and the Health Department is responsible for maintaining birth records. The operation of Oklahoma's state agencies, which would not be possible without the funding

provided through the appropriations process, affects us all.

Though the Legislature will perform many functions over the course of a session, one of the most important of these is appropriating state revenue. As appropriations to all state agencies occur each fiscal year, so must the legislature review sources of revenue; analyze agency budgets; negotiate budget changes; and draft appropriation measures, all to ensure agencies are able to deliver the goods and services within their purview to all Oklahomans. This appropriations process begins with the budget cycle.

The budgeting process in Oklaho-

ma is characterized by several unique elements: the balanced budget amendment, appropriation of only 95 percent of estimated income, a limit on growth in appropriations authority, restriction on tax increases, a cash-flow system that does not rely on short-term borrowing, a budget stabilization fund, and limitations on the use of public debt.

The budget process or cycle encompasses four major stages: **executive preparation, legislative consideration, execution, and audit.** The four phases are both continuous and overlapping. A state agency is in different phases of each at any given time during the course of the calendar year.

Budget Cycle



By law, state agencies must submit a budget request by October 1 of each year.

Budget Cycle (cont).

Executive preparation includes state agency submission of budget requests by October 1 of each year, administrative reviews of the request document, and the transmission of the executive budget to the Legislature.

The Governor, with the assistance of the Office of Management and Enterprise Services (OMES), prepares and submits the executive budget proposal to the Legislature at the beginning

of each regular session. The major portions of this proposal are generally presented during the Governor’s State of the State address as executive budget recommendations.

The Legislature considers the agency budget request and the executive budget simultaneously through budget hearings at the committee level. **Legislative consideration** results in final passage of appropriations to state agencies. State agencies

then **execute** their approved budgets during the fiscal year. The approved budget becomes an important device to monitor agency spending activity. **Audit** and evaluation of agency spending is a review of whether state agencies allocated and spent their appropriations appropriately and executed their budget according to state law. The audit and evaluation may be performed by the State Auditor and Inspector, the OMES, and legislative committees.

Oklahoma’s fiscal year begins on July 1 and ends on June 30.

Budgeting Method

The Legislature currently uses a variation of incremental and program performance budgeting. Previous years’ appropriations are increased or decreased in increments from an agreed-on base level appropriation. The base level is a negotiated removal of one-time and capital expenditures, the addition of resources to annualize partial year funding from the prior year, or across-the-board cuts to match estimated revenue in the upcoming fiscal year. Once a base level of appropriation is determined, budgets

are adjusted according to state fiscal priorities.

In recent years, the State’s budgeting method has evolved to include agency performance measures and accountability standards. Agency budgets are examined by subcommittees to determine if programs are operating effectively and as intended, and Appropriation subcommittees are required to report on agency budget performance by March 15 each fiscal year. A combination of program budget limits, performance outputs, and

zero-based accountability techniques are employed when conducting budget reviews and developing appropriation bills.

Oklahoma’s budget process is one of few states in which the legislature develops a budget independently from that of the Governor. This approach enables legislators to develop priorities and negotiate outcomes to the needs of the state and to their constituents.

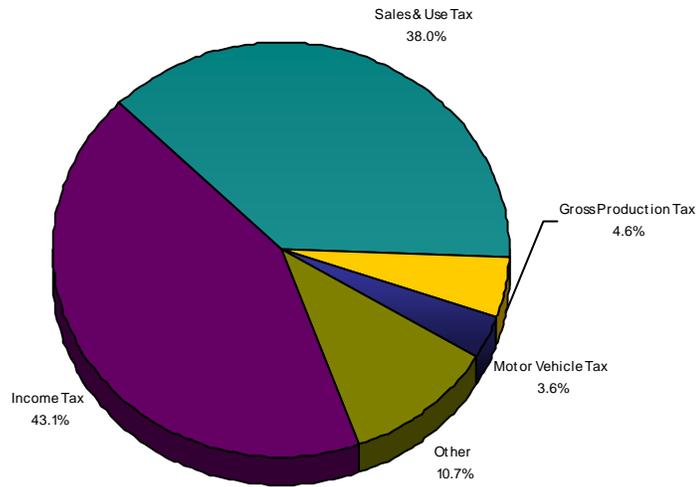
REVENUE SOURCES

Overview

Prior to appropriating state funds, Legislators must know how much will be available to allocate amongst state agencies. Most sources of funding must first be certified by the State Board of Equalization, then Members of the House and Senate are able to negotiate agency allocation levels. Some sources are unique, in that they are generated solely for use by one agency; others can be used for virtually any state government function.

Some of the state’s most significant sources of revenue are derived from individual and corporate income taxes, sales and use taxes, and gross production taxes. Each revenue source is apportioned to specific funds, and these funds become the sources from which the Legislature appropriates.

**General Revenue Fund
FY-16 Estimates**



Certification Process

As provided in the Oklahoma Constitution, the State’s annual budget must be balanced. Oklahoma’s budget operates on a fiscal year basis.

Between 35 to 45 days prior to the start of the annual regular legislative session, the State Board of Equalization meets to certify all estimated sources of the State’s income for the next fiscal year, not including revolving, federal or other special funds. The Board of Equalization is composed of the Governor, Lieutenant Governor, Attorney General, State Treasurer, State Auditor and Inspector, State Superintendent of Public Instruction, and President of the Board of Agriculture.

The Board is required to base its estimate of income, as recommended by the Office of Management and Enterprise Services, on economic forecasts rather than averages of prior years’ revenues. This methodology makes it possible to quickly adjust to volatile economic conditions. The Office of Management and Enterprise Services bases its recommendation to the Board of Equalization on Tax Commission and agency revenue projections and econometric modeling.

The Board is constitutionally required to revise its estimate in February, at which time the Board will meet again to make adjustments to its estimates. However, any changes to this fiscal estimate certified after Feb-

ruary may be made only as a result of changes in the law. Changes in economic conditions may not be considered. The final estimate usually occurs in June.

Under the State Constitution, only 95 percent of the State’s certified estimate can be appropriated by the Legislature along with cash balances and prior year certified but un-appropriated funds.

Growth in all legislative appropriations authority available for the upcoming fiscal year is further limited under the Constitution to last year’s appropriation level, plus 12 percent plus inflation. Any appropriations made in excess of actual revenues are considered null and void.

The State Board of Equalization certifies all sources of revenue 35 to 45 days prior to the legislative session.

Appropriations Sources

Appropriations are composed of the certified amounts for appropriation authority as well as cash on hand, unspent balances or idle funds.

Appropriations are composed of cash on hand, unspent fund balances, idle funds, and the following certified sources:

- 1) The **General Revenue Fund**, which represents the primary state funding source for state government operations. This fund consists of revenue collected from taxes, fees, charges and investment income, and may be used for any number of purposes;
- 2) The **State Transportation Fund** – The depository for most of the State’s motor fuel taxes. This fund is traditionally authorized for expenditure by the Transportation Department;
- 3) The **Cash Flow Reserve Fund** – As revenue collections tend to fluctuate above and below monthly expenditures, this reserve fund is used to stabilize cash flow. The fund minimizes the peaks and valleys of collections to match monthly expenditure requirements;

- 4) The **Education Reform Revolving (HB 1017) Fund** – House Bill 1017 (1990) included increases in the personal and corporate income tax and sales and use tax rates, the revenue from which is to be annually identified and directed toward the funding of the common schools. Later, the apportionment of these revenues were apportioned to the Education Reform Revolving Fund and are subject to authorization for education expenditure. The sources of funding to the Education Reform Revolving Fund has been expanded to include portions of the cigarette and tobacco taxes and a significant majority of the revenue derived from tribal gaming agreements between the State and tribal entities engaged in gaming activities;

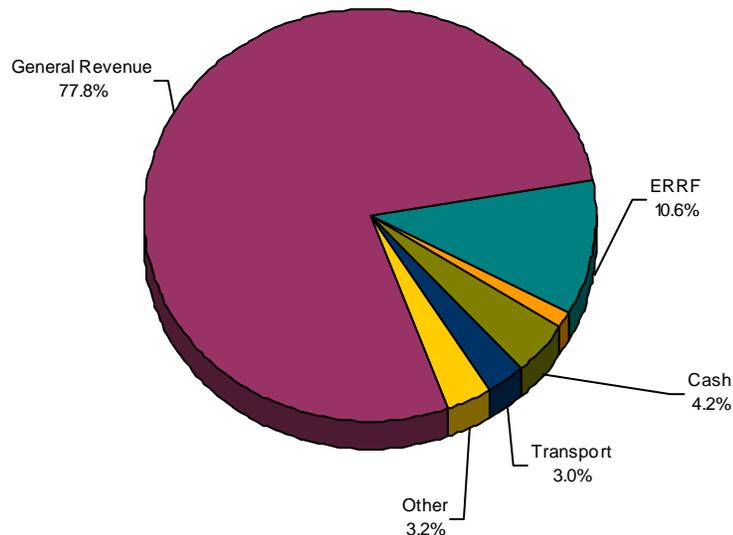
- 5) The **Oklahoma Education Lottery Trust Fund** – The Education Lottery Act, approved in 2004, creates a Trust Fund into which all net Lottery pro-

ceeds are deposited. Appropriations from the fund are restricted to education entities, including Common Education, Higher Education, Career and Technology Education, the School for the Deaf and School for the Blind. Funds may be used only for specific purposes as set forth in the statutes and are not to supplant other sources of funding; and

- 6) The **Tobacco Settlement Revolving Fund**—A revolving fund which represents seventy-five percent (75%) of the twenty-five percent (25%) of the payments from the Master Settlement Agreement resulting from a negotiated settlement between states and tobacco companies. Authorization from the revolving fund are typically made as a part of the funding for the Oklahoma Health Care Authority.

(Continued on p. 12)

FY-16 Appropriations By Source



The General Revenue Fund provides 78% of the total appropriations for FY-16.

Constitutional Reserve or “Rainy Day” Fund

The State’s budget stabilization fund is known as the Constitutional Reserve Fund, commonly referred to as the “Rainy Day” Fund. The source of the fund is state General Revenue Fund income or revenues collected above the certified estimate during the year, commonly referred to as “100 percent monies.” The fund is capped at fifteen percent (15%) of the certification level for the preceding fiscal year. When 100 percent monies are generated at an amount greater than the fund cap, such excess monies represent **spillover funds**, which are not subject to the appropriation limitations placed on Rainy Day Funds and are available for appropriation or transfer through legislation

Appropriations from the Fund are limited to the following amounts and purposes:

1) Up to one-quarter during **fiscal emergencies**, upon an emergency declaration by the Governor with concurrence of two-thirds of the House and Senate or by a joint declaration of an

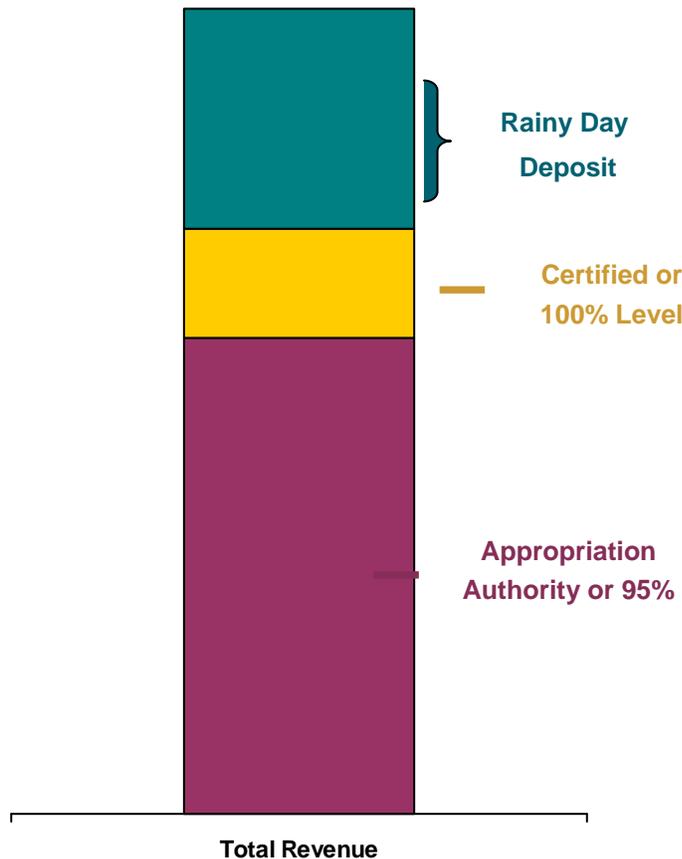
emergency by the Speaker of the House and the President Pro Tempore of the Senate with concurrence of three-fourths of the House and Senate.

2) Three-eighths for the upcoming fiscal year for **budget stabilization**, if the certification of the General Revenue Fund for said year is below the certification for the current fiscal year. The amount that can be appropriated is limited to the difference between the two certifications.

3) Three-eighths for the current fiscal year for budget stabilization, if a revenue shortfall has occurred with respect to the General Revenue Fund.

During fiscal emergencies, up to one quarter of the Rainy Day Fund balance may be appropriated upon an emergency declaration.

Rainy Day Fund



Revenue Shortfalls

In the event of a revenue shortfall, the Legislature may reduce agency appropriations.

In the case of a revenue shortage, the Oklahoma Constitution and state statutes contain provisions that automatically balance the budget. Statute enables the Director of the Office of Management and Enterprise Services to reduce agency appropriations proportionally when revenue problems occur outside of the legislative session, unless the Legislature chooses to act. The Director has statutory authority to borrow monies from any treas-

ury fund to temporarily solve cash-flow problems in general revenue. During the revenue shortfalls of FY-09 and FY-10, both of these options were exercised. The Statutes require the monies to be paid back by the end of the fiscal year. In some instances of revenue shortfalls, the Legislature has taken action to cut budgets.

As stated previously, the Legislature may access the Constitutional Reserve or “Rainy Day” Fund

to address revenue shortfalls. The Constitution provides that in the event of a revenue shortfall, the Legislature must reduce appropriations to match revenue inclusive of any Constitutional Reserve Fund appropriation. The Legislature, through statute, has authorized the Office of Management and Enterprise Services to reduce allotments to agencies from any fund which experiences a revenue failure (62 O.S., - 34.49(D)).

Limitations on the Legislature’s Authority to Increase Taxes

In 1992 the people voted to accept an initiative petition amending the Constitution to restrict “revenue raising” bills (State Question 640). Under the amendment, (Article X, Section 33 of the Oklahoma Constitution) a “revenue raising” bill can be adopted by a super-majority vote of 75 percent in both Houses of

the Legislature. The bill cannot be effective until 90 days after it has been acted on by the Governor.

“Revenue raising” bills also can be adopted with less than a 75 percent majority vote from each House of the Legislature. Any “revenue raising” measure must

initiate within the House of Representatives. These bills also must be submitted to a vote of the people for approval before they can go into effect. The Constitution requires the vote to occur at the next general election (November of even-numbered years) after the bills have been approved by the Governor.

Bonds are generally issued by the State as a means of raising capital to build or improve infrastructure.

Bonds

Bonds are generally issued by the State of Oklahoma as a means of raising capital to build or improve infrastructure. Similar to a loan, the bonds represent a promise to pay off the obligations over a defined duration, plus interest. Under the Constitution, bonds are the only means by which the State

may incur debt. Typically, the State has issued two types of bonds: general obligation bonds and revenue bonds.

General Obligation bonds are backed by a dedicated tax source and require a vote of the people before issuance. **Revenue**

bonds, on the other hand, are supported by a revenue stream originating from a project(s) funded by the bonds.

For more information on bonds, please see Appendix, Page 13.

APPROPRIATION OF REVENUE

Overview

The Appropriations and Budget (A&B) Committee is comprised of 27 members and serves as the coordinating committee for the development and implementation of House fiscal and budget policy. Much of the committee’s analytical and review activity is undertaken by its 11 subcommittees , which include:

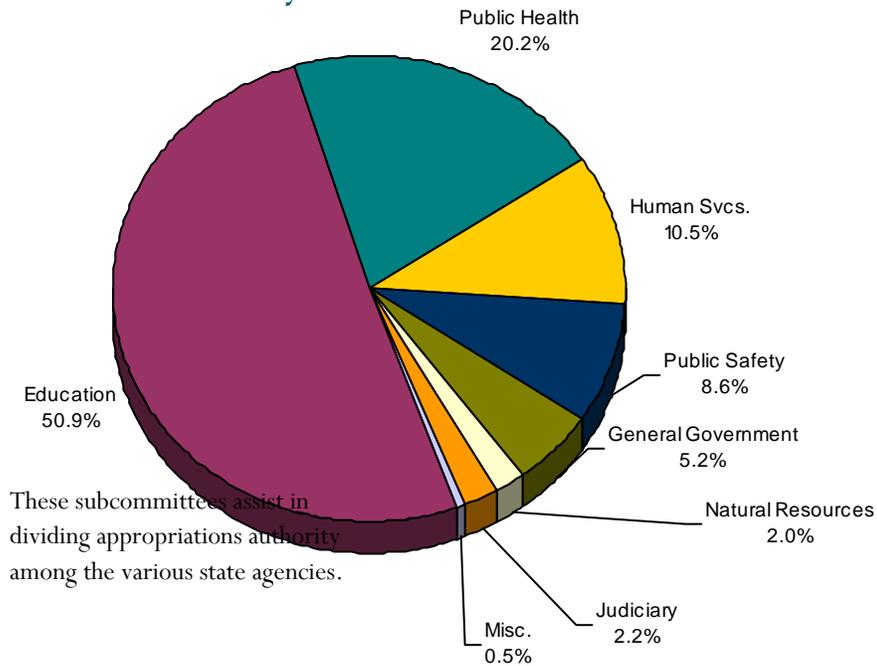
- Education
- General Government
- Transportation
- Public Health
- Human Services
- Natural Resources and Regulatory Services
- Public Safety
- Judiciary
- Revenue and Taxation

The Committee considers any substantive legislation assigned to it for consideration, usually after

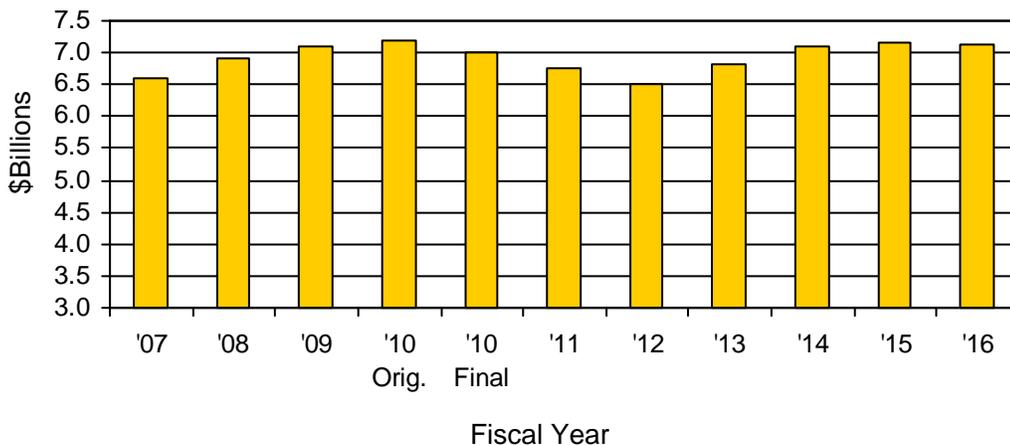
consideration by one of the sub-committees.

The A&B Committee coordinates and develops House fiscal and budget policy.

**Distribution of FY-16 Appropriations
By Subcommittee**



Ten Year Appropriation History



Joint Committee on Appropriations and Budget

Final appropriations recommendations are made to the Joint Committee on Appropriations and Budget.

The approval of SCR 4 during the 2011 Legislative Session provided joint rules for the 53rd Legislature. Included in the measure was the creation of the Joint Committee on Appropriation and Budget (“the Committee”), a significant change to the legislative process.

The committee, which includes members of the House and Senate, is typically comprised of the members serving on the House Appropriations and Budget Committee and the Senate Appropriations Committee.

The Committee is exempt from all intra-session legislative deadlines and may introduce budget related measures as needed in the development of the budget. Legislation approved by the Committee results in a committee report that is then placed on a Joint Calendar for Appropriations and Budget. The measure is scheduled for consideration by the chamber of origin, and upon final passage, is transmitted to the opposite chamber for consideration. No measure reported from the Committee is subject to amendment on either floor. After final passage in the

opposite chamber the measure is enrolled and sent to the Governor for approval.

The Committee considers legislation directly related to the budget, while the General Conference Committee on Appropriations (GCCA) serves as a standing conference committee for non-budget legislation.

The Fiscal Division consists of professional, non-partisan employees, each of which is an expert in his or her own specific policy area.

Fiscal Division

The Appropriations and Budget Committees and its subcommittees are assigned one staff member each from the fiscal, research, and legal divisions. The Fiscal Division consists of professional, non-partisan employees of the House, each of which is an expert in his or her own specific area.

Fiscal analysts are responsible for monitoring state agency budgets, reviewing past and current appropriations, and analyzing agency budget requests for the upcoming fiscal year. In addition to their fiscal knowledge, analysts are well-versed in the various policy issues that may impact an

agency’s operations.

Fiscal staff are also responsible for drafting appropriation bills and providing fiscal impact summaries for legislation considered by the House.

Appropriation Measures

The Legislature may appropriate funds to state agencies through a General Appropriations (GA) bill, which covers all state agencies, or a single-agency bill, though GA appropriations are more common.

The GA bill, as authorized by Article V, Section 56 of the Oklahoma Constitution, was used in the early years of statehood and has been in common use since the early 1990s. The bill primarily provides base level funding to all agencies for a fiscal year to prevent a shutdown of services if budget negotiations stall or fail.

The GA bill requires simple majorities in each chamber and does not require an emergency clause

in order for the measure to take effect upon the stated dates within the bill (Article V, Section 58) and upon the Governor's signature.

In most cases, any adjustments to the GA bill or final budgets are included in reconciliation bills, which deal with individual agencies. Generally, each contains appropriations or line-items for specific programs, expenditures and budget limits, full-time equivalent employee (FTE) limits, director salary limits, and other expressions of legislative intent related to fiscal matters. These bills may or may not contain emergency clauses and are effective on a specified date after signature by the Governor.

On occasion the Legislature has used single agency bills to affect appropriations and express intent as to how these funds should be spent. Each state agency is generally assigned one appropriation bill containing the agency's total appropriation level, spending limits, applicable salary and FTE limits and any specific legislative directive with regard to expenditure of appropriations. Currently there are 75 appropriated state agencies for which the Legislature may pass a separate appropriation bill. These bills generally contain an emergency clause when a General Appropriation Bill is not employed or when using only single agency appropriation bills to construct the state budget.

The "GA" bill is used to provide base level funding to all agencies for a fiscal year.

Gubernatorial Action

Bills approved by the Legislature are sent to the Governor. During the Legislative session, the Governor has five days to take action on a bill. Otherwise, the bill becomes effective without his or her signature. The Governor can take one of two actions- approve or veto the bill. If the Governor signs the bill, the appropriations become effective.

Appropriation bills typically contain an effective date of July 1 to conform to the state's fiscal year. An effective date prior to July 1 may result in an agency receiving funds prior to the beginning of the fiscal year; an effective date after July 1 may delay an agency's receipt of funds and hinder operations.

As general appropriation bills do not require an emergency, they may therefore go into effect as soon as the Governor signs. A single-agency or reconciliation bill, however, would still require an emergency for an effective date that fell prior to 90 days after adjournment. Typically, the Legislature votes separately on emergency sections, which require a two-thirds majority to pass. Bills without emergencies require a simple majority of the House membership (51).

The Governor may exercise veto authority in two ways. First, the Governor may veto line items. In this case, the veto can remove only specific expenditure items. Line item veto authority can be employed only with regard to

appropriation bills. Second, the Governor may veto the entire bill.

A full veto can be accomplished two ways. The Governor may return a bill to the Legislature within five days (Sundays excepted) with a veto message. Or, if the Sine Die adjournment of the Legislature prevents the return of the bill within five days, the Governor can take no action for 15 days and the bill becomes "pocket vetoed".

The Legislature may override a veto by a two-thirds majority vote on a bill without an emergency; bills with an emergency require a three-fourths majority for override. Pocket vetoes cannot be overridden.

Final agency budget adjustments are made in reconciliation bills.

INTERIM REVIEW AND PREPARATION

Overview

When the Legislative session comes to a close, staff prepares to end one budget cycle and begins preparation for the next. During

the interim, staff performs many general activities such as conducting fiscal research and responding to legislative requests; however,

formal budget activities continue throughout the interim.

Interim Studies

During session, it is sometimes impractical for members to study and investigate certain issues due to the responsibilities and time constraints of session. The inter-

im is an ideal time to delve more deeply into such issues. Often, members request approval for interim studies from the Speaker of the House. Once assigned to a

committee or subcommittee, these studies address or follow up on issues of interest from the previous session. In many instances interim studies proactively focus

Contingency Review Board

The Contingency Review Board (CRB) consists of the Governor, the Speaker of the House of Representatives, and the President Pro Tempore of the Senate. The CRB has statutory authority to allow agencies to increase spending and FTE limits, which they

may need to do if unanticipated funding sources become available to the agency. Typically, the CRB will meet only to address emergency situations or issues unforeseen during the regular legislative session.

A recent court case limits the CRB's ability to administer funds previously appropriated by enacted legislation to executive entities; however, the decision does not appear to prevent the CRB from performing its original purpose: dealing with unexpected

Agency Budget Submission

By law, state agencies must submit their budget request documents each year by October 1st. Included in these submissions are the agency's budget request for the ensuing fiscal year as well as any request for a supplemental appropriation for the current fiscal year. **Budget Requests**

include budget analysis of existing and proposed programs utilizing zero-based budgeting techniques, actual program expenditure for current and prior fiscal years, estimated revenues from all sources to be received by the agency during the ensuing fiscal year and a wide variety of perfor-

mance measures. **Supplemental Appropriation Requests** are made to address what agencies believe to be unanticipated or emergency needs. During the next legislative session, if funds are available, the legislature will usually pass a supplemental appropriation for items deemed

APPENDIX

APPROPRIATION SOURCES (cont.)

Other Funding Sources

Some agencies have at their disposal funds that are generated by the agency, normally deposited in a revolving fund, funds that are appropriated under special circumstances, such as the “Rainy Day Fund”, block grants or other federal funds, or funds generated by the issuance of bonds. Though these sources are not examined as often as other appropriation sources, it is extremely important to monitor these funds for expenditure trends, in addition to simply accounting for all sources of revenue available to the state. Federal funds, coupled with agency carryover and other sources of revenue, may comprise over half

of agency revenues. Maintaining a degree of oversight over such funds is vital to measuring agency performance and gauging future funding needs.

State agencies that collect monies from fees, fines, forfeitures and assessments often use revolving funds to supplement the agency’s budget. Revolving funds generally are created by law as agency programs are established. The laws governing collections and expenditures of agency revolving funds often contain unobligated cash at the end of each fiscal year. Revolving fund cash may be considered and applied to the agency’s upcoming budget

or transferred to another area of the state budget where more pressing needs exist.

Many state agencies receive federal funds in the form of program-specific grants or broad based block grants. The Legislature reviews block grant plans and addresses federal grant funds as issues arise. The level of federal funding for an agency is a key factor in determining the need for additional state funds, particularly for programs that receive a substantial federal match, such as Medicaid.

BONDS (continued from Page 6)

Outstanding Obligations

Oklahoma voters approved the issuance of general obligation bonds in 1992 for the purpose of making improvement to Higher Education and state facilities. The obligations were subsequently refinanced in 2003 and again in 2010, taking advantage of favorable market conditions. The bonds are secured by the full faith and credit of the state and are specifically secured by a pledge of a portion of the state’s cigarette excise tax.

The Oklahoma Capitol Improvement Authority (OCIA) currently has over twenty-five series of lease-revenue bonds outstanding with a total principal amount in excess of \$1.0 billion, including those issues on behalf of the Higher Education system and nearly \$400 million in transportation obligations issued periodically since 1998. Other outstanding series constitute obligations for vari-

ous state facilities and the refunding of previously issued series.

Other obligations, in the form of revenue bonds, are periodically issued by state entities, including the Oklahoma Turnpike Authority, the Oklahoma Finance Authority, the Oklahoma Development Finance Authority, and the Oklahoma Water Resources Board.

Lease Purchase

On occasion, a number of state agencies and higher education institutions have issued lease revenue obligations to meet capital needs. Often, annual lease payments are made from an agency’s normal appropriation, without the need for a budget increase. In other instances the agency is granted legislative approval to enter into an agreement that requires an increase in appropriations.

In 2001 the Regents for Higher Education created a master lease program, with obligations issued by the Oklahoma Development Finance Authority (ODFA), for the acquisition of personal property. Since inception, at least thirty series of bonds have been sold in a total principal amount of \$308 million, of which \$162.4 million remained outstanding as of December 31, 2011.

In 2006, a second master lease program was created to address real property needs. As of December 31, 2011 eighteen series of bonds have been sold in a total par amount of \$317.9 million. Many recent master lease issues have been sold to refund revenue bonds, resulting in a net savings to the institutions. (Information courtesy of the State Bond Advisor)

COMMITTEE STRUCTURE (cont.)



Structure depicted above represents the 55th Legislature.

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