



# Oklahoma House of Representatives

## Appropriations Process Overview 56<sup>th</sup> Oklahoma Legislature

# The Fiscal Division

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

## House Fiscal Division

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The Fiscal Division serves as the primary staff for the Appropriation and Budget committee and its sub-committees and provides fiscal analysis on every piece of legislation considered by all House standing committees. The Fiscal Division consists of professional, non-partisan employees of the House, each of whom is an expert in his or her own policy area.

Fiscal Policy Analysts are responsible for monitoring state agency budgets and expenditures, reviewing past and current appropriations, analyzing agency budget requests for the upcoming fiscal year, assisting subcommittees in their review of agency financial and program data, and drafting appropriation measures.

In addition to their fiscal knowledge, analysts are well versed in the various policy issues that may impact an agency's operations.

# Introduction

In Oklahoma, Legislators as well as their constituents, face many of the same tasks as they go about their daily lives.

You may drop the kids off at school, pick up a prescription from the pharmacy, fill up your gas tank, and eat dinner at a restaurant which serves alcohol.

All of these actions involve a state agency: public schools are funded through the State Board of Education, citizens may receive stipends for prescriptions through the Oklahoma Health Care

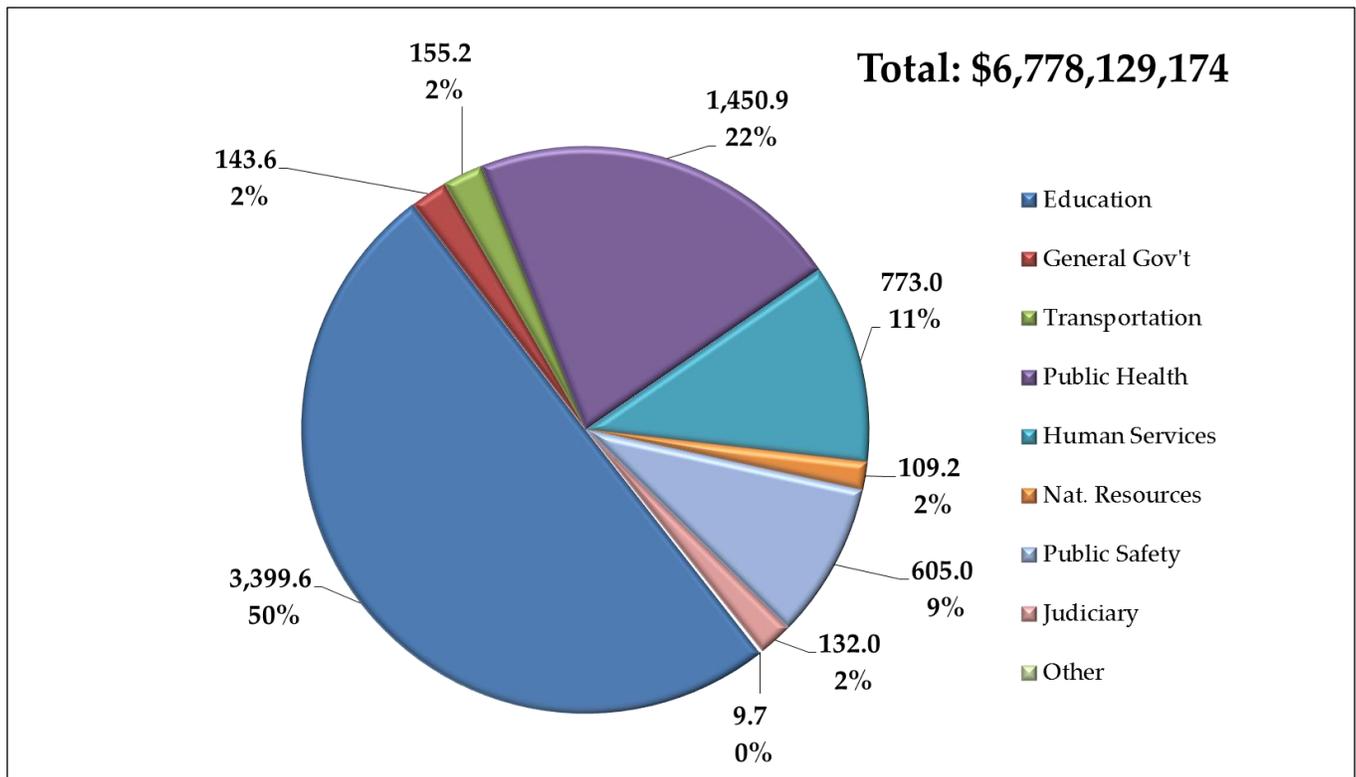
Authority as Medicaid recipients, every petroleum tank in the state is tested by the Corporation Commission to ensure fuel quality, and the ABLE Commission grants alcohol licenses to all restaurants and bars.

The operation of Oklahoma's state agencies would not be possible without adequate funding and affects us all.

Of the 299 state agencies, 68 are **appropriated** agencies i.e., agencies that receive all or part of their funding from the Legislature each year.

The remaining agencies are non-appropriated and collect revenue through other sources. So how do these agencies have the funding to operate, and how are the specific amounts determined year after year?

This fiscal manual serves as an introduction to the basics of funding for state agencies and breaks down in detail the House appropriations process.



# The Budget Cycle



The yearly process by which the Legislature formulates, negotiates, votes, and enacts each state budget is called the **appropriations process**. This process runs in tandem with the state fiscal year.

Unlike a calendar year, the **fiscal year or FY** (a period that government uses for accounting purposes)

in Oklahoma begins July 1<sup>st</sup> and ends June 30<sup>th</sup>. The **budget cycle** that occurs during the fiscal year encompasses four major stages which are both continuous and overlapping. A state agency experiences one or more of each at any given time:

- Executive preparation
- Legislative consideration
- Execution
- Audit

**Executive preparation** includes state agency submission of budget requests by October 1<sup>st</sup> of each year and includes administrative reviews of the request document and 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 each agency budget request and the executive budget simultaneously through pre-session budget hearings and at the sub-committee level throughout session.

Legislative consideration results in final passage of appropriations to state agencies usually in a **General Appropriations bill** (GA bill). The bill details the funding structure for all state agencies during the upcoming fiscal year and, after being signed by the Governor, generally becomes law on July 1<sup>st</sup>.

State agencies **execute** their approved budgets at the beginning of 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, OMES, or legislative committees and subcommittees during the interim.

# Budgeting Methodology

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Oklahoma 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 their constituents.

During the Legislative consideration period in the budget cycle, the full **Appropriations and Budget (A&B) Committee** as well as its nine subcommittees meet to craft the budget. This process is guided by several unique constitutional and statutory elements:

- The balanced budget amendment
- Appropriation of only 95% of certified 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
- Limitations on the use of public debt

The A&B Committee and its subcommittees use 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 or any other relevant adjustments. Once base levels are determined, budgets are adjusted according to legislative 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.

A combination of program budget limits, performance

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

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## ANNUAL CERTIFICATION PROCESS

Prior to appropriating state funds, Legislators must know how much revenue is available to allocate between the state agencies.

According to the Oklahoma Constitution, sources of revenue (excluding revolving, federal, or other special funds) must be annually certified by the State Board of Equalization; with initial certification 35 to 45 days prior to session, with adjustments made at a mid-February certification.

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 revenue, as recommended by agency revenue projections and econometric modeling, on economic forecasts rather than averages of prior years' revenues. This methodology makes it possible to quickly adjust to volatile economic conditions

During session, Members of the House and Senate negotiate agency appropriation levels based on the revenue certification. However, the State Constitution limits appropriations to 95% of the certified estimate, along with cash balances, certain revolving fund authorizations and prior year certified but un-appropriated funds.

The Constitution further limits growth in all legislative appropriations authority available for the upcoming fiscal year to the previous year's appropriation level plus 12 percent plus inflation. Any appropriations made in excess of actual revenues are considered null and void.

## **AGENCY REVENUE SOURCES**

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There are five sources of revenue from which agencies fund their operations or capital projects. It is important for the Legislature

to monitor all for expenditure trends and to account for the sources of revenue available to the state each year.

1. **Legislative appropriations:** the most significant source of agency revenue appropriated by the Legislature annually.
2. **Agency fines and fees:** monies from fees, fines, forfeitures, and assessments often accrue to specific agency **revolving funds**, which then supplement an agency's budget.  
  
Revolving funds generally are created by law as agency programs are established. Some revolving funds are statutorily restricted for specific purposes; others may be applied to the agency's upcoming budget or transferred to another area of the state budget where more pressing needs exist.
3. **Federal funds and block grants:** 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 the Medicaid program at the Oklahoma Health Care Authority.

4. **Special circumstances such as the Rainy Day Fund:** the State's budget stabilization fund is known as the Constitutional Reserve Fund (commonly recognized as the Rainy Day Fund). The source of this fund is the state revenue accruing to the General Revenue Fund above the certified estimate during the prior fiscal year. When funds are generated at an amount greater than the constitutional fund cap, the excess monies represent spillover funds, which are available for appropriation or transfer at the will of the Legislature.
5. **Bonds:** Bonds are issued by the State of Oklahoma as a means of raising capital for special projects including building and improving infrastructure. Similar to a loan, the bonds represent a promise to pay off obligations over a defined duration, plus any 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, while revenue bonds are supported by a revenue stream originating from a project funded by the bonds.

Though the last four sources are not examined as often as Legislative appropriations, maintaining a degree of oversight over all five sources is vital to measuring agency performance and gauging future funding needs.

## LEGISLATIVE APPROPRIATION SOURCES

Appropriations are composed of cash on hand, unspent fund balances, idle funds and 7 certified sources. Some of these are unique, in that they are generated solely for use by one agency; others can be used for virtually any state government function. The certified sources are as follows:

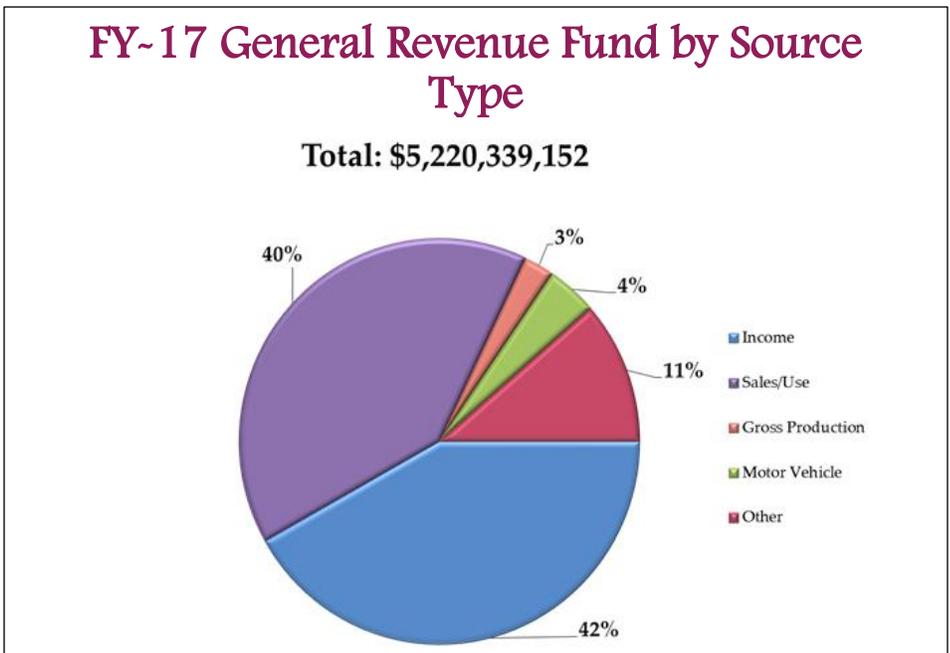
1. **The General Revenue Fund (GRF)** represents the primary state funding source for state government operations. The GRF provides an estimated 78% of the total appropriations for FY-17. This fund consists of revenue collected from taxes, fees, charges and investment income, and may be used for any number of purposes.

The GR Fund mainly consists of:

- Individual and corporate income taxes
- Sales and use taxes
- Gross production taxes
- Motor vehicle collection
- Numerous other taxes, fees, charges and income from investments

2. **The State Transportation Fund**, a revolving fund, is 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** stabilizes cash flow, as revenue collections tend to fluctuate above and below monthly expenditures. This reserve fund minimizes the peaks and valleys of collections to match monthly expenditure requirements and consists of General Revenue Funds accruing at the close of the prior fiscal year.



**4. The Education Reform Revolving Fund (ERRF)** passed as part House Bill 1017 (1990), originally included portions of the the personal and corporate income taxes, sales and use taxes, the revenue from which is to be annually identified and directed by legislative authorization or appropriation toward the funding of public schools. Sources of funding to the ERRF have 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.

**5. The Oklahoma Education Lottery Trust Fund** approved in 2004, created a Trust Fund into which all net lottery proceeds are deposited. Appropriations from the fund are restricted to education entities, including Common Education, Higher Education, Career Technology Education, the School for the Deaf, and the School for the Blind and the Teachers Retirement System.

Funds are utilized only for specific purposes as set forth in the statutes and are not to supplant other sources of funding.

**6. The Tobacco Settlement Revolving Fund** represents portions of the payments resulting from a negotiated settlement between states and tobacco companies. Authorizations from the revolving fund are typically made as a part of the funding for the Oklahoma Health Care Authority.

**7. The Rainy Day Fund (Constitutional Reserve Fund)** can be used under the following circumstances:

- Up to one-quarter of the Fund 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.
- Up to three-eighths for the upcoming fiscal year for budget stabilization if the current fiscal year. The amount that can be appropriated is limited to the difference between the two certifications.
- Up to three-eighths for the current fiscal year for budget stabilization, if a revenue shortfall has occurred with respect to the General Revenue Fund.

## REVENUE SHORTFALLS

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In the case of a **revenue shortfall**, the Oklahoma Constitution and state statutes contain provisions that automatically balance the budget. The statutes enable the Director of OMES to reduce agency appropriations proportionally when revenue problems occur outside of the legislative session, unless the Legislature chooses to act. The Director of OMES also has statutory authority to borrow monies from any treasury fund to temporarily solve cash-flow problems in general revenue. Statutes require the monies to be paid back to each fund by the end of the fiscal year.

During the revenue shortfalls in FY-09, FY-10, and FY-16 both of these options were exercised.

The Constitution provides that in the event of a revenue shortfall, the Legislature must reduce appropriations to match revenue inclusive of any Rainy Day Fund appropriation.

**The GR Fund mainly consists of the following taxes:**

- **Income**
- **Sales and use**
- **Gross production**
- **Motor vehicle collections**

In some instances of revenue shortfalls, the Legislature has taken action to cut budgets, often on an “across the board” percentage basis. This action can reduce the amount of services state agencies are able to provide to citizens.

The Legislature, through statute, authorizes OMES to reduce allotments to agencies from any fund which experiences a revenue failure.

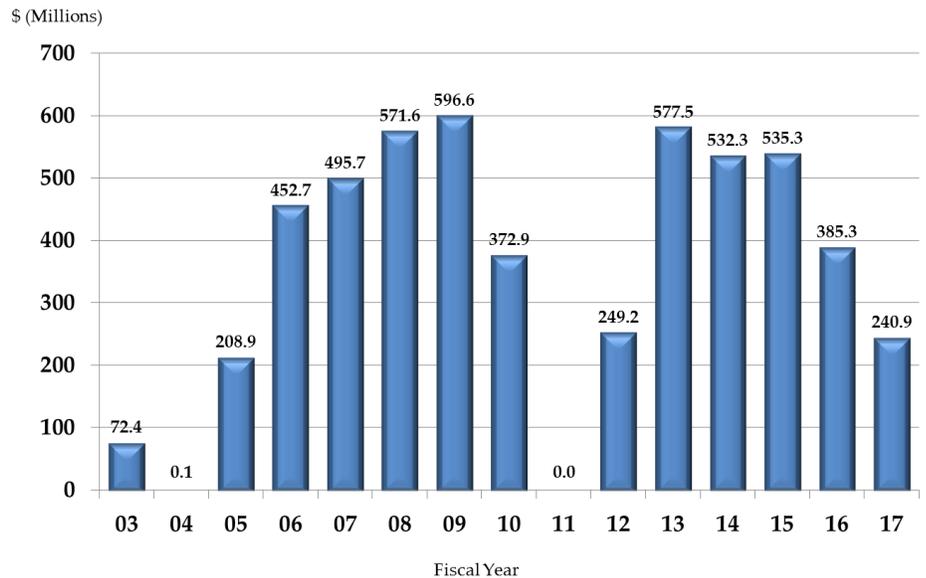
As stated previously, the Legislature may access the Rainy Day Fund to address revenue shortfalls.

### LIMITATIONS ON THE LEGISLATURE’S AUTHORITY TO INCREASE TAXES

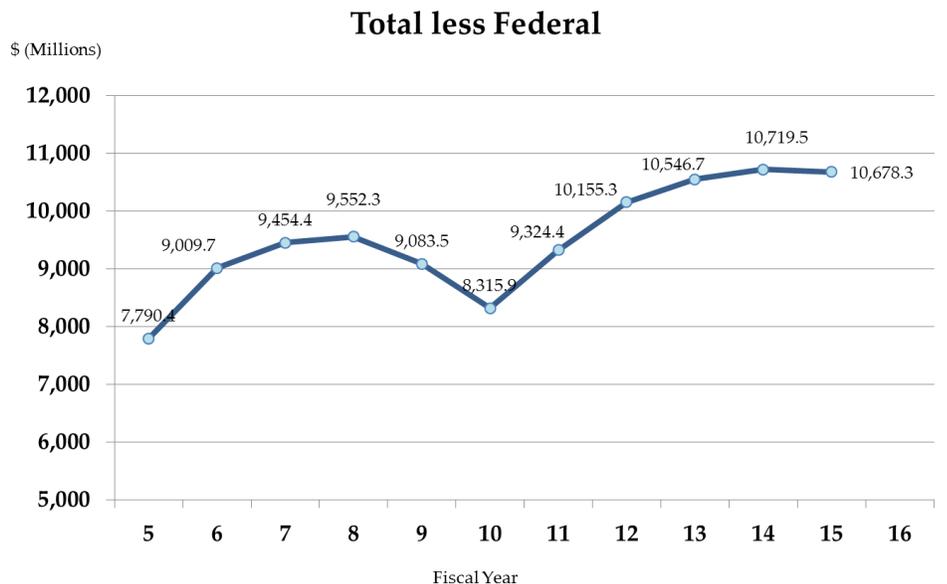
In 1992, a citizen-initiated ballot measure was approved to amend Article 5, Section 33 of the Oklahoma Constitution. Under this Section, a revenue bill can only become law if:

- It is approved by a three-fourths supermajority vote of both the House and Senate and is signed by the Governor; or
- It is referred by the Legislature to a vote of the people at the next general election and receives a majority of affirmative votes

### Constitutional Reserve Fund Balance History



### Total State Revenue, Less Federal Grants



# Budget Passage & Enactment

## APPROPRIATION OF REVENUE

The A&B Committee is comprised of members appointed by the Speaker of the House and is staffed by members of the fiscal division. The Committee serves as the coordinating committee for the development and implementation of House fiscal and budget policy. It considers any substantive legislation assigned to it, usually after consideration by one of the subcommittees. These subcommittees assist in dividing appropriations authority among the various state agencies.

## JOINT COMMITTEE ON APPROPRIATIONS AND BUDGET

Beginning with the 53<sup>rd</sup> Legislature, the **Joint Committee on Appropriation and Budget (JCAB)** was created. This committee includes members of both 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.

## APPROPRIATION MEASURES

The Legislature can appropriate funds to state agencies through a single-agency bill but more commonly utilizes a General Appropriations (GA) bill which covers all state agencies in a single document. The GA bill, as authorized by Article V, Section 56 of the Oklahoma Constitution, generally provides agency funding and occasionally necessary supplemental funding. The GA bill has been used to provide base level funding to all agencies for a fiscal year to prevent an interruption of services should 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, 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.

### A&B Subcommittees

Education

General Government

Public Health

Human Services

Judiciary

Natural Resources & Regulatory Services

Public Safety

Revenue & Taxation

Transportation

On occasion, the Legislature uses 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. These bills generally contain an emergency clause when a GA bill is not employed or when using only single agency appropriation bills to construct the state budget.

## **GUBERNATORIAL ACTION**

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After bills are approved by the Legislature they are sent to the Governor who has five days to take one of two actions: approve or veto. If there is no action, the bill becomes effective without his or her signature except following sine die adjournment.

Depending on the specifics in the bill itself, a bill becomes law:

1. On the date specified in the bill
2. If no date is specified, and the bill contains an emergency clause, it is effective immediately upon the Governor's signature

3. If no date is specified and no emergency clause exists, the bill becomes law 90 days after sine die adjournment

As GA bills do not require an emergency, they go into effect as soon as the Governor signs. However, they typically contain an effective date of July 1<sup>st</sup> to conform to the state's fiscal year. An effective date prior to July 1<sup>st</sup> may result in an agency receiving funds prior to the beginning of the fiscal year, and, an effective date after July 1<sup>st</sup> may delay an agency's receipt of funds and hinder operations.

A single-agency appropriation or reconciliation bill requires an emergency for an effective date that falls prior to ninety days after adjournment. Typically, the Legislature votes separately on emergency sections, which require a two-thirds majority to pass.

**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 start dates with the bill (Article V, Section 58) and upon the Governor's signature.**

Bills without emergencies require a simple majority of the House membership (51 affirmative votes).

The Governor may exercise veto authority on an appropriations bill in two ways. First, the Governor may veto line items. In this case, the veto can remove only specific expenditure items. 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 excluded) 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 fifteen 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.

## **AFTER SINE DIE: INTERIM REVIEW & PREPARATION**

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After the Legislative session comes to a close, fiscal staff prepares to end one budget cycle and begins preparation for the next. During the interim, the analysts conduct

fiscal research and respond to legislative requests in addition to conducting formal budget activities.

## INTERIM STUDIES

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During session it is often impractical for members to study and investigate certain issues due to their heightened responsibilities and the time constraints of the legislative calendar. The interim is an ideal time to delve more deeply into such issues. Members request approval for interim studies from the Speaker of the House. Once approved by the Speaker and assigned to a committee or subcommittee, these studies address or follow up on policy and budget issues of interest from the previous session. In many instance interim studies proactively focus on subjects likely to be of consequence in the upcoming session.

## THE CONTINGENCY REVIEW BOARD (CRB)

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The 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 modify spending and FTE limits during the interim.

which they may need to do if unanticipated funding sources become available to the agency.

## SUPPLEMENTAL APPROPRIATIONS

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A supplemental appropriation is funding approved by the Legislature after the fiscal year budget has been finalized.

Should an agency experience unanticipated or emergency financial obligations during the course of the year, the agency may request a supplemental appropriation. Supplemental appropriations are funding approved by the legislature. Such appropriations are subject to the availability of available cash and may or may not require annualization of funding for the subsequent fiscal year.

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