



OKLAHOMA HOUSE OF REPRESENTATIVES

Appropriations Process Overview 58th Oklahoma Legislature

Prepared by the
House Fiscal Division

The Fiscal Division

The Fiscal Division serves as the primary staff for the Appropriation and Budget Committee, its subcommittees, and the Joint Committee on Appropriations and Budget (JCAB). The Fiscal Division also provides fiscal analysis on every piece of legislation considered by the House. The Fiscal Division consists of non-partisan employees of the House, each of whom is an expert in their 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.

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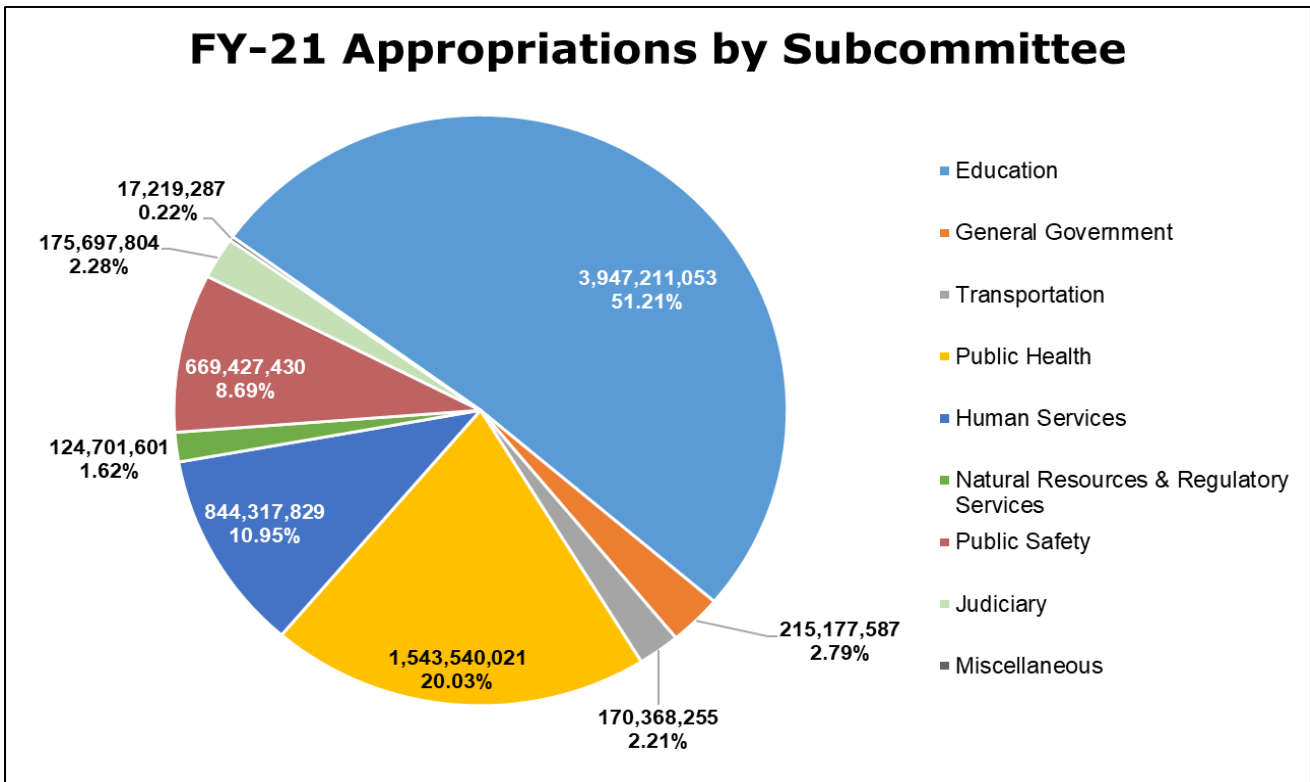
In Oklahoma, legislators and their constituents face many of the same tasks as they go about their daily lives. Each may drop the kids off at school, pick up a prescription from the drug store, fill up a car's gas tank, or eat dinner at a restaurant that serves alcohol.

All of these actions involve a state agency: public schools are primarily 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 administers the licensing and inspections of all restaurant bars.

The operation of Oklahoma's state agencies would not be possible without adequate funding. Of the 197 state agencies, boards, and commissions, 66 are appropriated agencies i.e., agencies that receive all or part of their funding from the Legislature each year.

The remaining agencies, boards, and commissions 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 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 (a period used for accounting purposes) begins July 1st and ends June 30th. The fiscal year encompasses four major stages, which are continuous and overlapping:

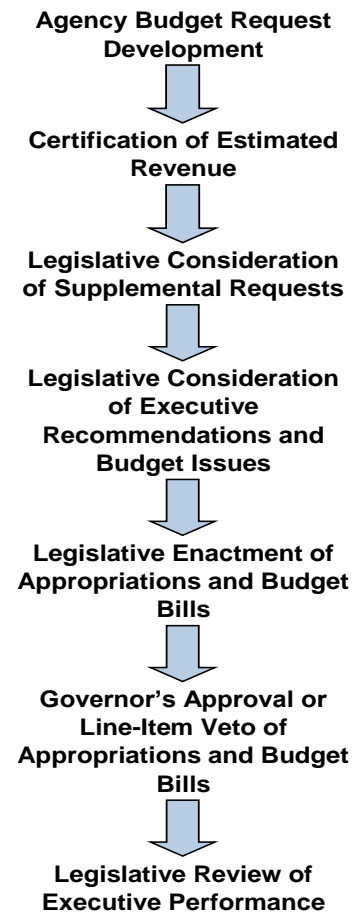
- Executive preparation
- Legislative consideration
- Execution
- Audit

Executive preparation includes state agency submission of budget requests by October 1st of each year and includes administrative reviews of request documents 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. Major portions of this proposal are generally presented during the Governor's State of the State address. The Legislature considers each agency budget request and the executive budget simultaneously through pre-session budget hearings and at the subcommittee level throughout session.

Legislative consideration results in final passage of appropriations to state agencies often through a [General Appropriations Bill](#) (GA bill). The GA bill details the funding structure for all state agencies during the upcoming fiscal year and, after being signed by the Governor, generally

becomes effective on July 1st. 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 expenditures is a review of whether state agencies allocated and expended their appropriations and executed their budgets according to state law. Such oversight is needed to assess performance measures and accountability standards.



Budget Passage & Enactment

Oklahoma is one of only a 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 subcommittees meet to craft the budget. This process is guided by several unique constitutional and statutory elements:

- A balanced budget amendment
- Appropriation of only 95 percent 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
- Budget stabilization funds
- Limitations on the use of public debt

The A&B Committee and its subcommittees typically use a variation of incremental and program performance budgeting. Previous years' appropriations are increased or decreased in increments from an agreed-on base level of 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 the Legislature's 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 accountability techniques are employed when conducting budget reviews and developing appropriations bills.

REVENUE CERTIFICATION PROCESS

Prior to appropriating state funds, the Legislature must know how much revenue is available to allocate between the state agencies. Pursuant to the Oklahoma Constitution, sources of revenue (excluding revolving, federal, or other special funds) must be annually certified by the State Board of Equalization (The Board), with initial certification 35 to 45 days prior to session, with adjustments made at a mid- February certification.

The Board is composed of the Governor, Lieutenant Governor, Attorney General, State Treasurer, State Auditor and Inspector, State Superintendent of Public Instruction, and Secretary of Agriculture. The Board is required to base its estimate of revenue, on economic forecasts rather than averages of prior year

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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 Oklahoma Constitution limits appropriations to 95 percent of the certified estimate, along with cash balances, certain revolving fund authorizations and prior year certified but unappropriated funds.

The Oklahoma 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 and inflation. All appropriations made in excess of actual revenues are considered null and void.

AGENCY REVENUE SOURCES

There are six sources of revenue from which agencies fund their operations or capital projects. It is important for the Legislature to monitor all such sources for expenditure trends and to account for the sources of revenue available to the state each year.

1. **Legislative appropriations:** a significant source of agency funding provided by the Legislature annually.
2. **Agency fines and fees:** monies from licenses, permits, 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.

3. **Federal funds and block grants:** some 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. **Constitutional Reserve Fund (commonly referred to as the Rainy Day Fund):** the state's budget stabilization fund. The source of this fund is state revenue accruing to the General Revenue Fund above the certified estimate at the close of the fiscal year. When funds are generated at an amount greater than the constitutionally established Fund cap, the excess monies represent spillover funds, which are available for appropriation or transferred at the will of the Legislature.
5. **Bonds:** Bonds are issued by the State of Oklahoma as a means of providing capital for special projects including building and

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improving infrastructure. Similar to a loan, the bonds represent a promise to pay off obligations over a defined duration, plus any interest. Under the Oklahoma 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.

6. **Other:** Other revenue may be derived from income from money and property, higher education charges, sales and services and certain non-revenue receipts.

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 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. Certified Funds

The **General Revenue Fund (GRF)** is the largest state fund and the primary source from which appropriations are made. GRF appropriations were 82 percent of total FY-19 appropriations. The fund consists of all or parts of the state's major tax sources – income, sales, gross production taxes and motor vehicle collections – and numerous other taxes, fees, charges, and investment income.

The **Oklahoma Education Lottery Trust Fund**, approved by voters in 2004, is comprised of net lottery sales, after prizes and allowable administration costs, in an amount not to exceed \$50 million per year. Amounts over the statutory cap are apportioned to the State Department of Education, for public schools based on end-of-year average daily membership in grades PK-12 during the preceding school year, to implement prekindergarten-through-third-grade reading intervention initiatives or science, technology, engineering and math (STEM) programs. Appropriations from the trust fund are limited to education entities.

The **Oklahoma Public Safety Fund**, was created by statute in 2016 for the support of public safety. Revenue to the fund consists of portions of driver license and motor vehicle registration fees.

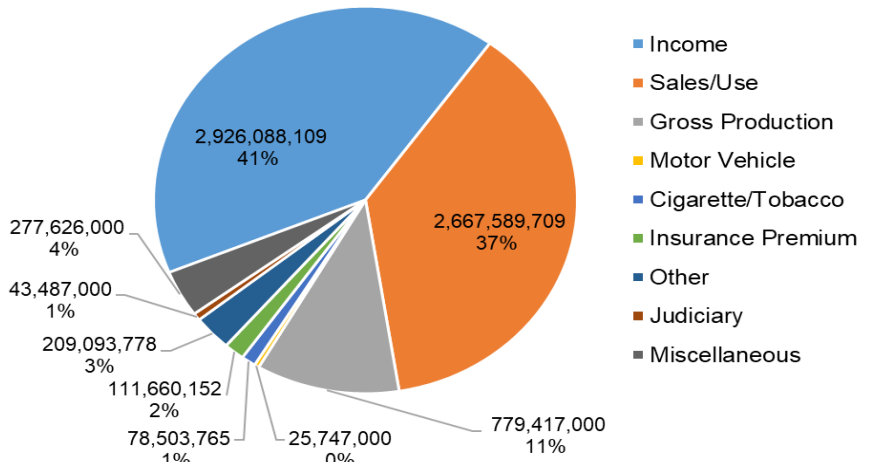
Other certified funds include:

- Commission on Law Enforcement Education and Training (CLEET) Fund

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- Mineral Leasing Fund
- Occupational Health and Safety (OHSA) Fund – restricted to the Oklahoma Department of Labor
- Public Building Fund
- Commissioners of the Land Office (CLO) Fund – restricted to the Commissioners of the Land Office
- Health Care Enhancement Fund
- Alcoholic Beverage Control Fund
- Oklahoma Pension Improvement Revolving Fund

FY 20 General Revenue Fund Estimate by Source



The **State Transportation Fund** consists primarily of portions of motor fuel tax revenue and, while not restricted in its use, is generally authorized for the use of the Department of Transportation.

The **State Judicial Fund** consists of various charges paid within the court system and is authorized for the use of judicial branch agencies.

The **Tobacco Settlement Revolving Fund** represents a portion of the payments made by tobacco companies to the State pursuant to the Master Settlement Agreement (MSA), an accord reached in 1998 between the state Attorneys General of 46 states, five U.S. territories, the District of Columbia and the five largest cigarette manufacturers in America concerning the advertising, marketing and promotion of cigarettes. While 75 percent of MSA payments to the State are deposited into the Tobacco Settlement Endowment Trust, much of the remaining 25 percent is deposited into the revolving fund and is authorized for the use of health-related agencies.

2. Authorized Non-Certified Funds

The appropriation funding structure includes several non-certified funds from which expenditures are appropriated and authorized by the Legislature and are included in certification documents of the State Board of Equalization as part of the compilation of resources available to the Legislature for appropriation, as each of the funds was, at one time, a certified fund. Funds include:

The **Education Reform Revolving Fund**, commonly referred to as the “House Bill 1017 Fund”, consists of portions of several major tax sources, gaming proceeds, and tobacco-related taxes. Originally a specific account within the GRF, the fund is restricted for appropriation to the State Board of Education.

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The **Common Education Technology Revolving Fund, Oklahoma Student Aid Revolving Fund, and Higher Education Capital Revolving Fund** receive portions of the gross production tax on oil. The funds, along with three water-related funds, are subject to an aggregated cap of \$150 million each fiscal year, with any collections in excess of the cap accruing to the General Revenue Fund.

3. Special Cash Fund

The **Special Cash Fund** is often a significant part of the appropriations funding structure. The fund has no statutory source of revenue and consists of monies specifically directed to the fund by the Legislature. Sources may include excess balances in agency revolving funds.

4. The Constitutional Reserve Fund

Commonly recognized as the Rainy Day Fund, this fund may be used only under the following circumstances:

- Up to one-quarter of the fund for fiscal emergencies, upon 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.
- Up to 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.

- 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.

5. The Revenue Stabilization Fund

Created in 2016 by statute, providing for deposits into the Fund based on five year averages of General Revenue Fund collections from gross production and corporate income taxes as compared to the estimate made by the Board of Equalization for the next fiscal year.

- One hundred percent (100%) of the difference in gross production average to estimate
- Seventy-five percent (75%) of the difference in corporate income tax average to estimate
- Appropriation of up to one-quarter (1/4) of the Fund balance may be made when a revenue failure is declared with respect to the General Revenue Fund.
- Appropriation of up to one-half (1/2) of the Fund balance may be made when the General Revenue certified estimate made by the Board of Equalization in February is less than the amount certified for the current fiscal year.

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- Total deposits to the Fund are reduced when one or more revenue sources are forecasted to experience a revenue decrease

6. The Rate Preservation Fund

- Created in 2019 by statute, the Fund was established for the sole purpose of maintaining reimbursement rates to Medicaid providers
- Funded through Legislative appropriations

REVENUE SHORTFALLS

In the case of a revenue shortfall, the Oklahoma Constitution and Oklahoma Statutes contain provisions that automatically balance the budget. These provisions enable the Director of OMES to reduce agency appropriation allocations proportionally when revenue problems occur unless the Legislature chooses to act.

The Director of OMES also has authority to borrow monies from any treasury fund to temporarily solve cash-flow problems for the General Revenue Fund. Statutes require such monies to be repaid to each utilized fund by the end of the fiscal year. Both were utilized during the revenue shortfalls in FY-09, FY-10, FY-16, and FY-17.

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 for approval at the next general election.

APPROPRIATIONS & BUDGET COMMITTEE

The Appropriation and Budget Committee serves as the coordinating committee for the development and implementation of House fiscal and budgetary policy. It also considers any substantive legislation assigned to it, usually after consideration by one of its subcommittees.

JOINT COMMITTEE ON APPROPRIATIONS & BUDGET

The Joint Committee on Appropriations & Budget (JCAB) was created during the 53rd Legislature through the adoption of joint rules. 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 and consider budget related measures as needed.

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A & B SUBCOMMITTEES

Though subcommittee designations are subject to change with each legislature, subcommittee designations in recent years have aligned with the following subject areas:



APPROPRIATION MEASURES

The Legislature can appropriate funds to state agencies through a single- agency bill but more commonly utilizes a GA bill, which covers all state agencies in a single measure. The GA bill, as authorized by Article V, Section 56 of the Oklahoma Constitution, generally provides agency funding and occasionally supplemental funding.

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. Often such measures contain 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.

On occasion, the Legislature uses single agency bills to effect appropriations and express intent as to how funds should be spent. When this happens each state agency is generally assigned one appropriation bill containing the agency’s total appropriation level, spending limits, applicable salaries, FTE salary limitations and any specific legislative directives with regard to expenditure of

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appropriations. These bills must 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

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 the governor's 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 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, and, an effective date after July 1 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. Bills without emergencies require a simple majority of the House membership (51 affirmative votes).

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 within the bill (Article V, Section 58) and upon the Governor's signature. 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 is 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.

SUPPLEMENTAL APPROPRIATIONS

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 fiscal year, the agency may request a

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supplemental appropriation from the Legislature. Such appropriations are subject to the availability cash resources and may or may not require annualization of funding for subsequent fiscal years.

AFTER SINE DIE: INTERIM REVIEW & PREPARATION

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

INTERIM STUDIES

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 instances interim studies proactively focus on subjects likely to be of consequence in the upcoming session.

For any additional information regarding the appropriations process or budget policy, please feel free to reach out to any of the following fiscal staff.

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