

The Appropriations Committee

**FY'88
APPROPRIATIONS
SUMMARY**

A Senate Fiscal Report

August 1987

Oklahoma State Senate



Oklahoma State Senate

STATE CAPITOL

OKLAHOMA CITY, OKLAHOMA 73105



August 10, 1987

To All Members of the Senate:

The 1987 Legislature made FY'88 appropriations totaling \$2,234,808,532, a reduction of over \$43 million from the FY'87 appropriations base. This represents appropriations that are 4.3% below the amount originally appropriated for FY'83, and 12% below FY'83 when compared to constant (inflation adjusted) dollars.

The action taken by the 1987 Legislature represents a bold step in preserving state government services in the areas of education, social services, law enforcement and transportation. Our responsibility was to review the options available and clarify the role of state government for the upcoming fiscal year. The choices were painful, especially considering the severe fiscal pressures that this body has faced for the past several years. However, once again the Legislature has met its responsibility and has ensured the continuation of essential state services, within the limited resources available.

This document provides a summary of the major policy changes affected by the 1987 Legislature's action on the FY'88 budget. It places the abstract numbers into tangible terms. A more detailed, agency-by-agency, summary which represents the actual budgetary changes will be forthcoming.

Bob Cullison, Chairman
1987 Appropriations Committee

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FY'88 APPROPRIATIONS FOR OPERATIONS

Historical Overview

The 1987 Legislature appropriated a total of \$2,234,808,532 for FY'88, a reduction of \$43,133,196, or approximately 2%, from the FY'87 appropriations base.

The appropriation for operations for FY'88 is \$100.6 million less than the amount initially appropriated for FY'83, a reduction of 4.3%. When compared to the "actual" operating level for FY'83, the amount for FY'88 is only \$64.6 million, or 3%, more. In constant dollars, FY'88 appropriations are \$260.2 million, or 12%, less than the amount appropriated for "actual" FY'83 operations.

Table 1

<u>Fiscal Year</u>	<u>Total Appropriations for Operations</u> (in millions)	<u>Percentage that FY'88 Appropriation is Over/(Under) Prior Year Appropriation</u>
1988	\$2,234.8	
1987r (HB 1196)	2,165.9	3.2
1987	2,193.8	1.9
1986	2,461.6	(9.2)
1985	2,138.6	4.5
1984r (HB 1451)	2,051.7	8.9
1984	2,227.0	0.4
1983r (SB 69)	2,170.2	3.0
1983	2,335.4	(4.3)
1982	1,925.6	16.1

It is worthy to note that even though the Legislature has increased revenue in three of the past four years, state government funding has remained virtually at a standstill. The FY'85 budget caused nearly half (36) of Oklahoma's appropriated state agencies to experience further cuts, after two years of substantial reductions -- \$166.2 million in FY'83, \$118.5 million in FY'84 or remain at a "standstill" level. Increases in FY'85 were directed to those agencies deemed to have critical funding needs (Public Schools - \$26.9 million; Higher Education - \$6.0 million; Corrections, Vo-Tech, Tax Commission).

The primary issue for the FY'86 budget was that the focus of the previous three legislative sessions had been primarily on meeting current budget difficulties with little consideration for future needs. Due to the small increase in revenue for FY'85 and budget reductions in the previous two fiscal years, there was a general consensus that enough revenue should be raised to grant statewide pay increases for teachers and state employees and to enhance state programs and services, especially in education.

The 1985 Legislature increased taxes to provide sufficient revenue for increases in teacher salaries, state employee salaries and education programs. An improved revenue estimating formula was also approved to more accurately reflect current economic conditions, restrict state government growth and provide a mechanism to set aside funds during future shortages.

Total appropriations for operations grew by approximately 15%, or \$323 million between FY'85 and FY'86. More specifically, increased spending for FY'86 was in the following areas:

Education pay increase	\$130.8 million
Education programs	\$76.8 million
State employee pay increase	\$57.0 million
Non-education programs	\$58.4 million

A number of state agencies received only pay increases and a small increase for common adjustments, resulting in operating levels at or below fiscal year 1982 levels.

Due to pressures within OPEC to control more of the market for oil, the world price for oil continued its fall from the high levels of the early 1980s. This rapid decline in oil prices and several other factors resulted in a FY'87 certification level of \$406 million less than the FY'86 level, a drop of 16.5%. Other factors that contributed to the shortage include:

- Out-of-state insurance companies continued to pay taxes under protest (\$21 million in revenue unavailable for appropriation).
- The FY'86 budget had been supported with \$63 million in nonrecurring cash.
- Oil companies received a preliminary injunction against the unclaimed mineral interest law (\$16 million in revenue unavailable for appropriation).

A number of steps were taken to mitigate the effect of such reductions. At first, agencies were asked to achieve savings in FY'86 to help alleviate FY'87 reductions. This action in effect stretched the cuts over 20 months rather than 12. Second, there was an agreement to have no capital/special projects bill (\$62 million); third, special cash sources were tapped for \$123 million. Nearly half (34) of the agencies experienced cuts greater than the average reduction of 12.8%.

The Legislature believed certain areas had critical funding needs and should receive lower reductions, since substantial reductions would adversely affect the services they provide. Those areas were: education, the courts, corrections and human services. All of these agencies received reductions less than the average reduction of 12.8%.

1987 Session

Governor's Budget Proposal

Governor Bellmon submitted his FY'88 budget recommendation on January 26, 1987, based on the official revenue estimates adopted at the December 1, 1986, meeting of the State Board of Equalization and based on additional revenue from proposed tax and fee increases. The Governor wanted to cut the FY'88 appropriations for government operations to \$2.091 billion. Even though his recommendation was almost \$160 million below FY'87, an increase in user fees and tax increases dedicated to specific areas would have resulted in FY'88 budgets of approximately \$2.366 billion or \$54.5 million over FY'87. Within the overall proposal, the Governor specifically recommended cutting appropriations an average of 7%.

The Governor basically proposed a standstill budget for the major education agencies if the tuition increase proposed for higher education was included. He also planned to redistribute \$69 million in public service tax revenue, which was previously "off budget". Other state agencies would have received a 15.5% reduction in appropriations, whereas education agencies were slated for a 0.2% cut. Total appropriations, that is, education and other state government spending, would be cut by 7.1% from the FY'87 appropriation level. However, as noted above, the FY'88 budget would have been some \$54 million higher than the FY'87 budget through increases in dedicated taxes and increases in user fees.

One of the Governor's primary goals was to fund a level budget for FY'88. To this end the Governor made significant alterations to the structure and funding of state government. Reductions in retirement contributions, tax increases, fee increases and changes in programs were recommended.

A substantial part of Governor Bellmon's budget required other political entities to fund services that he does not consider to be state services. In particular, he would have required counties and local governments to provide support for over \$25 million in programs and services that had been previously funded by the state. As examples, \$9.5 million in funds currently provided to school districts serviced by vo-tech schools were proposed for elimination and counties would provide one-half the cost of all district attorney salaries and operating costs (\$10.1 million).

Other services provided by the state were to be phased out entirely, such as funding for the Physician's Manpower Training Commission (PMTTC), and funding would have been reduced substantially for community arts programs, museums and sites and specific services in the Health Department.

The Governor would have abolished or consolidated a number of agencies and programs. Closing the University of Science and Arts of Oklahoma (USAO), the state dental school, the osteopathic medical school, the Eldercare program, the Office of Handicapped Concerns, Consumer Credit Department, State Fire Marshal and Civil Defense were all part of the Governor's budget proposal and were rejected ultimately by the Legislature.

Budget Reconciliation Act

Immediately after the Governor introduced his budget, the Legislature was faced with a two-dimensional problem for the current (FY'87) year budget. First, the Office of State Finance projected that there would be insufficient revenue to fund current appropriations; and revenue failures in April and June were predicted. Secondly, it was projected that, due in part to the revenue failures, the state would not have sufficient revenues to build up the FY'88 cash flow reserve fund and ease the monthly fluctuation of revenues.

The Governor proposed that the Legislature immediately increase the motor fuels tax to 6 cents per gallon and that the revenues from this source flow to the General Revenue Fund for the remainder of FY'87. Beginning July 1, 1987 (FY'88) 5 cents would flow to the DOT Construction and Maintenance Fund and 1 cent would flow to an escrow account for funding capital projects. Also proposed were an immediate reduction in the state's contribution to the OPERS, the consolidation of the Human Services Fund with the General Revenue Fund and a 3% across-the-board cut to all state agencies.

The Legislature, however, opted to reduce agency budgets selectively rather than make across-the-board reductions. The Legislature decided to make no reductions to the major education agencies (common education, vo-tech education and higher education) and to make cuts of approximately \$35 million, depending upon agency circumstances. Ultimately, total agency reductions of \$27.9 million were made. At this point, the Legislature opted not to increase taxes but rather to improve the state's cash flow. The Legislature consolidated three (Human Services, Public Safety and Medicolegal) funds into the General Fund, which, when coupled with approximately \$28 million in cuts, saw the state through its immediate crisis.

Tax Increases

During February of 1987, the Board of Equalization recertified \$1,954 million as the maximum amount available for FY'88 appropriation. Although this amount was a \$22 million increase over the November 1986, initial certification, overall funding of state services was facing an approximate \$348 million reduction. A portion of this reduction was attributable to the use of approximately \$123 million of existing cash (one-time monies) to fund the previous fiscal year's budget.

In spite of the sizable cuts in the previous year's agency budgets, it was considered impractical to further shelter such areas as education, courts, corrections and social services from the full impact of their pro-rata share of the indicated cuts. Since these agencies accounted for over 80% of the appropriated budget, it was obviously impossible to provide adequate funding of such critical services without additional revenue sources.

HB 1061, the omnibus tax bill, was used to meet the critical funding needs of state government. A summary of FY'88 tax increases are as follows:

<u>Item</u>	<u>Increase in Appropriations Authority</u>
Sales and Use Tax - 3/4%	\$128,184,450
Federal Tax Reform Adjustment ¹	64,330,200
Consumer Tax (cigarette, alcohol beverages, etc.)	22,817,100
Other	1,126,396
	<u>\$216,458,146</u>

¹ A total of \$121 million was certified for FY'88 due to Federal Tax Reform.

In addition, the tax on gasoline and special fuel was increased by 6 cents per gallon, and the tax on diesel fuel was increased by 3 cents per gallon. Although this tax increase raised approximately \$116 million in additional revenue, the full increase was dedicated to the Department of Transportation. However, the additional funds did have a \$69 million positive impact on the General Revenue Fund by substituting previous general revenue funding with the new tax revenue.

During July of 1987, the Board of Equalization certified \$2,224 million as the maximum amount available for FY'88 appropriation. The Board's action was the final certification for the new fiscal year, and included the additional revenues to be realized from the

recently authorized tax increases. An analysis of the certified amount is as follows (amounts in millions):

<u>Item</u>	<u>FY'87 Certification</u>	<u>Estimated Changes</u>	<u>Statutory Changes</u>	<u>FY'88 Certification</u>
Income Tax ¹	\$773.44	\$(72.61)	\$115.12	\$815.95
Sales & Use Tax	572.95	(16.94)	128.18	684.19
Gross Production Tax ²	211.74	(41.08)	—	170.66
Tag Agent Remittance	140.82	2.38	—	143.20
Other General Revenue	354.75	(18.20)	49.79	386.34
Total General Revenue	<u>\$2,053.70</u>	<u>\$(146.45)</u>	<u>\$293.09</u>	<u>\$2,200.34</u>
Other Certified	21.86	1.48	—	23.34
Total Certified	<u><u>\$2,075.56</u></u>	<u><u>\$(144.97)</u></u>	<u><u>\$293.09</u></u>	<u><u>\$2,223.68</u></u>

¹ Income tax collections were originally estimated to decline approximately 10% from the FY'87 certification amount. However, income tax collections were ultimately estimated to increase approximately 15% as a result of the 1986 federal tax reform.

An analysis of FY'88 income tax is as follows:

Individual	\$647.73
Corporate	90.00
Federal Tax Reform	121.39
Exemption for Blind	(0.22)
Total Estimated Income Tax	<u>\$858.90</u>
	x .95
Certified Amount	<u><u>\$815.95</u></u>

² FY'87 problems in the receipt of gross production taxes were estimated to continue during FY'88. Current estimates are based on an oil production decline of 10% and gas production remaining constant when compared to the FY'87 estimate. Prices are anticipated to fall \$1.50 per barrel, with an overall decline in gross production to equal approximately 20%.

Fee Increases and Other Budget Agreements

The tax package that was finally agreed to and enacted still would have necessitated additional cuts of over \$60 million, or 2.5%, if applied across-the-board. Shielding the major education agencies would have meant 6 to 8% reductions to all other areas. As a means to mitigate or alleviate those cuts the Legislature chose to increase fees, reduce retirement contributions, make reductions selectively to those agencies that could best handle the reductions, and alter the funding priorities for state government services.

Slightly more than \$39 million in additional revenue will be provided for the FY'88 budget through fee increases. Of that amount, approximately \$16 million will accrue directly to appropriated funds. The other \$23 million will accrue directly to agency budgets; however, revenue attributable to those fees was still a major consideration as the FY'88 budget was written. (For specifics, see Table 1.)

Funding for state agencies varied considerably and reflected legislative priorities for such services as education, the courts, general government services, social services,

FY'88 GENERAL REVENUE FUND

REVENUE SOURCES

INTEREST INCOME (2.7%)

BUSINESS AND ESTATE TAXES (5.2%)

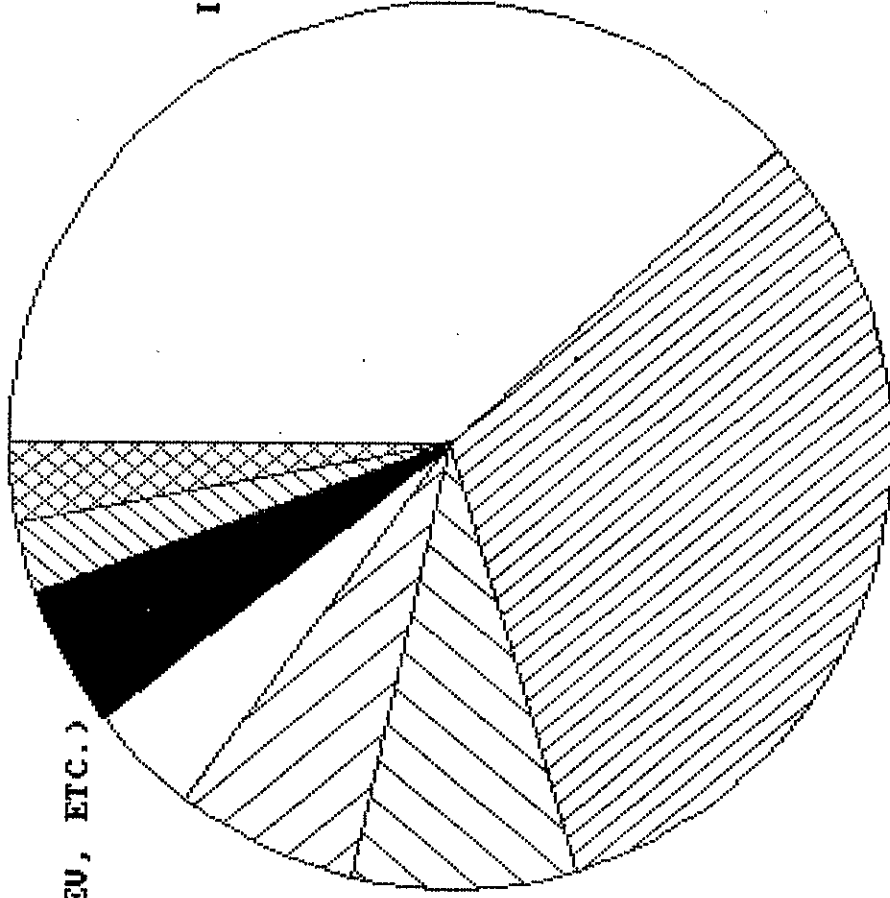
CONSUMER TAXES (CIGARETTES, ALCOHOLIC BEV, ETC.) (4.1%)

TAG AGENT REMITTANCE (6.2%)

GROSS PRODUCTION (8.2%)

INCOME TAX (38.2%)

OTHER (2.8%)



SALES & USE (32.1%)

TABLE 1

FEE INCREASES
FISCAL YEAR 1988

	<u>General Revenue</u>	<u>Other Appropriated</u>	<u>Revolving</u>
EDUCATION			
Common Education			
- Abolish Drivers Education Fund			
Deposit to General Revenue Fund	\$2,500,000		
Higher Education			
- General Enrollment & Tuition Fees			\$20,000,000
- Authorized to Charge Fee			
- Authorized to Charge Fee			
J.M. Davis			
Will Rogers			
EDUCATION SUBTOTAL	<u>\$2,500,000</u>		<u>\$20,000,000</u>
GENERAL GOVERNMENT AND JUDICIARY			
District Courts			
- Various Court Fees		\$3,578,691	
Secretary of State			
- Agriculture Fee Lien User Fee	\$485,000		
GENERAL GOVERNMENT SUBTOTAL	<u>\$485,000</u>	<u>\$3,578,691</u>	
HEALTH AND SOCIAL SERVICES			
Health Department			
- Dairy Inspection Fee			\$147,178
- Water Supply User Fees			278,459
- Waste Water User Fees			28,700
- Air Quality User Fees			86,581
- Review Home Owner Waste Water Systems			400,000
- Solid Waste Disposal Facilities			20,000
- Radioactive Waste Generation			25,000
- Nursing Home Certificate of Need Fee			201,000
- Hospital Certificate of Need Fee			111,000
- Annual HMO License Fee			13,000
- Patient Payment Schedule			1,005,337
Veterans			<u>\$2,316,255</u>
HEALTH AND SOCIAL SERVICES SUBTOTAL			

NATURAL RESOURCES AND REGULATORY SERVICES

	<u>General Revenue</u>	<u>Other Appropriated</u>	<u>Revolving</u>
Banking			
Consumer Credit			
- Bank Assessment Fee	\$185,000		
- Credit Service License Fee	8,000		
- Investigation Fee	4,000		
- Examination Fee	8,000		
- Pawnbroker Investigation Fee	2,000		
- Supervised Lenders License Fee	40,725		
- Supervised Lenders Examination Fee	65,500		
- Intent to Drill Permits			\$750,000
- Agent Appointment Fee	\$1,686,744		
- Bail Bond Fee			53,000
- Asbestos Fee			
- Coal Production Fee	300,000		
- Noncoal Production Fee			56,250
- Broker/Dealer Registration Fee	915,000		75,000
- Exemption Notification	25,000		50,000
- Amendment Examination Fee	10,000		
NATURAL RESOURCES SUBTOTAL	<u>\$3,249,969</u>		<u>\$984,250</u>
PUBLIC SAFETY AND TRANSPORTATION			
CLEET			
- Security Guard & Private Investigator Fee	\$965,000		
- Duplicate License Fee	240,000		
- Notification of Lien Holders	135,000		
- Non-resident Violators Compact	6,000,000		
PUBLIC SAFETY AND TRANSPORTATION SUBTOTAL	<u>\$7,340,000</u>		
TOTAL	<u>\$13,574,969</u>	<u>\$3,578,691</u>	<u>\$23,300,505</u>

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economic development, law enforcement and transportation. The effect that budgetary changes will have on state government services is explained in the next several sections.

Potential Revenue and Cash Flow Reserve Outlook

The Legislature made significant changes in how the state will accommodate monthly fluctuations in revenue. First, the Legislature consolidated three funds totaling almost \$370 million into the General Revenue Fund. This change adds over 20% to the General Revenue Fund and should smooth out the monthly fluctuations. Second, the Legislature authorized the Director of State Finance to transfer monies from other funds to the General Revenue Cash Flow Reserve Fund to meet monthly allocation needs. However, prior to filling the next fiscal year's cash flow reserve fund the Director of State Finance must repay any monies "borrowed" from other funds. Third, the Legislature continued the practice of funding the common schools on an eleven-month budget to ease early cash flow problems.

These three legislative actions are important in the context of projected revenue collections during FY'88. The Director of State Finance is required to place up to 11% of the General Revenue Fund fiscal year's certification into the cash flow reserve fund. The cash flow reserve fund is used to meet monthly allocation requirements. The current cash flow reserve fund will begin with approximately \$220 million or 10% of the FY'88 General Revenue Fund certification. This compares with the previous fiscal year balance of 10.4%.

The beginning cash flow reserve balance would normally be sufficient to meet monthly revenue fluctuations. However, due to the Federal Tax Reform Act the state might experience problems later in the fiscal year. The Board of Equalization certified and the Legislature appropriated approximately \$121 million in additional income tax revenue due to federal tax reform. This amount is over 5% of the total FY'88 certification and more than 16% of the projected income tax collections. Due to the collection pattern of income taxes in general and the probability that the new revenue from federal tax reform will not accrue to the General Revenue Fund until the last six months of FY'88, revenue problems might appear as early as January. This assumes, however, that collections for FY'88 are only 95% of the itemized estimate or collections actually equal the amount that is appropriated. Collections of 96 to 100% of the estimate will considerably alter the revenue projections. (Note: FY'87 revenue collections were 95.5% of the itemized estimate and the state did not experience a revenue failure.) The new authority vested in the Director of State Finance, that allows him to transfer monies from other funds to meet General Revenue monthly allocation requirements should mitigate any potential revenue problems.

Senator Robert Cullison, Appropriations Chairman
Senator Gerald Dennis, Appropriations Vice-Chairman
Brian L. Maddy, Fiscal Staff Director

**STATUS OF SUBCOMMITTEE ACTION
BY SUBCOMMITTEE
FISCAL YEAR 1988**

<u>Subcommittee</u>	<u>FY'87 Initial Approp. Base</u>	<u>FY'88 Appropriations</u>	<u>Amount Change From FY'87 Approp. Base</u>	<u>Percent Change From FY'87 Approp. Base</u>
Education	\$1,246,740,075	\$1,261,203,913	\$14,463,838	1.16%
General Government & Judiciary	134,099,763	139,687,984	5,588,221	4.17%
Health & Social Services	588,735,756	580,918,228	(7,817,528)	(1.33)%
Natural Resources & Regulatory	65,611,883	68,956,299	3,344,416	5.10%
Public Safety & Transportation	<u>242,754,251</u>	<u>184,042,108</u>	<u>(58,712,143)</u>	<u>(24.19)%</u>
TOTAL	<u>\$2,277,941,728</u>	<u>\$2,234,808,532</u>	<u>(\$43,133,196)</u>	<u>(1.89)%</u>

**TY 88 TOTAL APPROPRIATION
\$2,234.8 MILLION**

**PUBLIC SAFETY AND
TRANSPORTATION (8.2%)
\$184.1 MILLION**

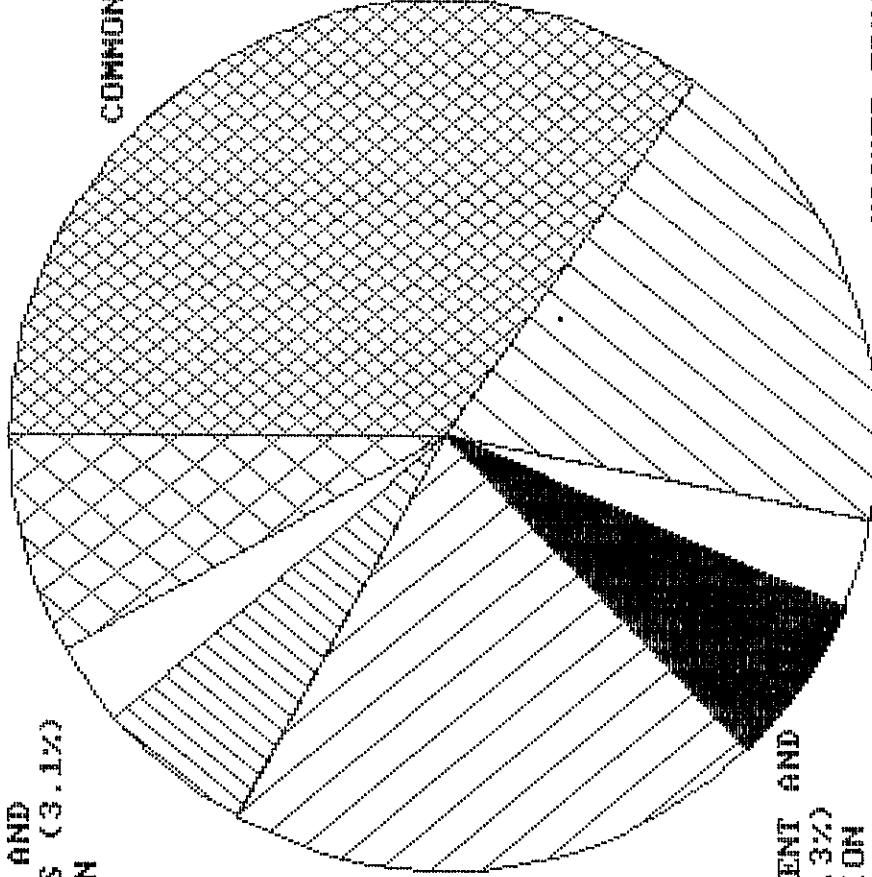
**NATURAL RESOURCES AND
REGULATORY SERVICES (3.1%)
\$68.9 MILLION**

**HEALTH (5.8%)
\$129.3 MILLION**

**HUMAN SERVICES
(20.2%)
\$451.6 MILLION**

**GENERAL GOVERNMENT AND
JUDICIARY (6.3%)
\$139.7 MILLION**

**VO-TECH AND OTHER EDUCATION
AGENCIES (3.5%)
\$77.7 MILLION**



**COMMON EDUCATION (34.8%)
\$778.1 MILLION**

**HIGHER EDUCATION (18.1%)
\$405.4 MILLION**

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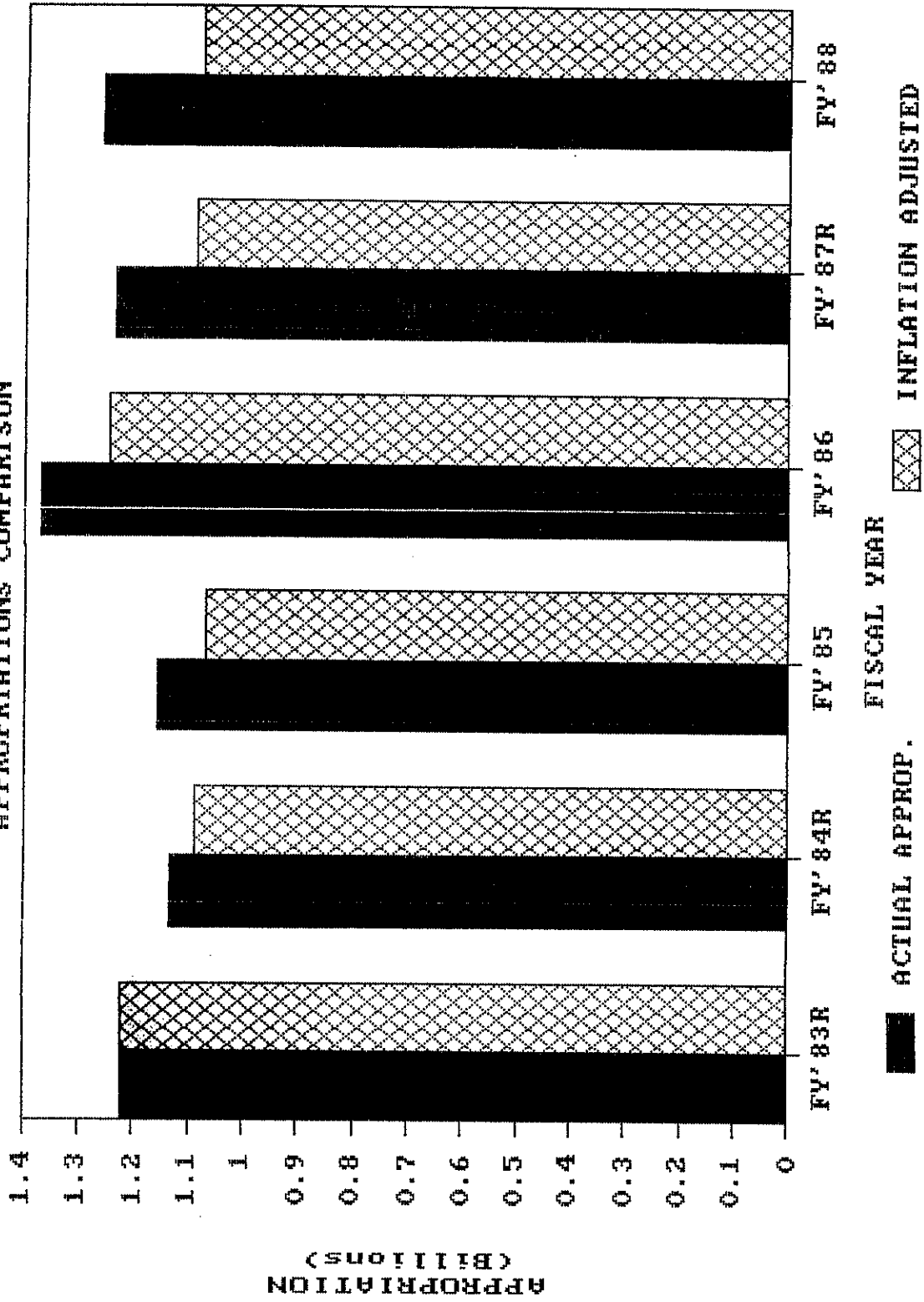
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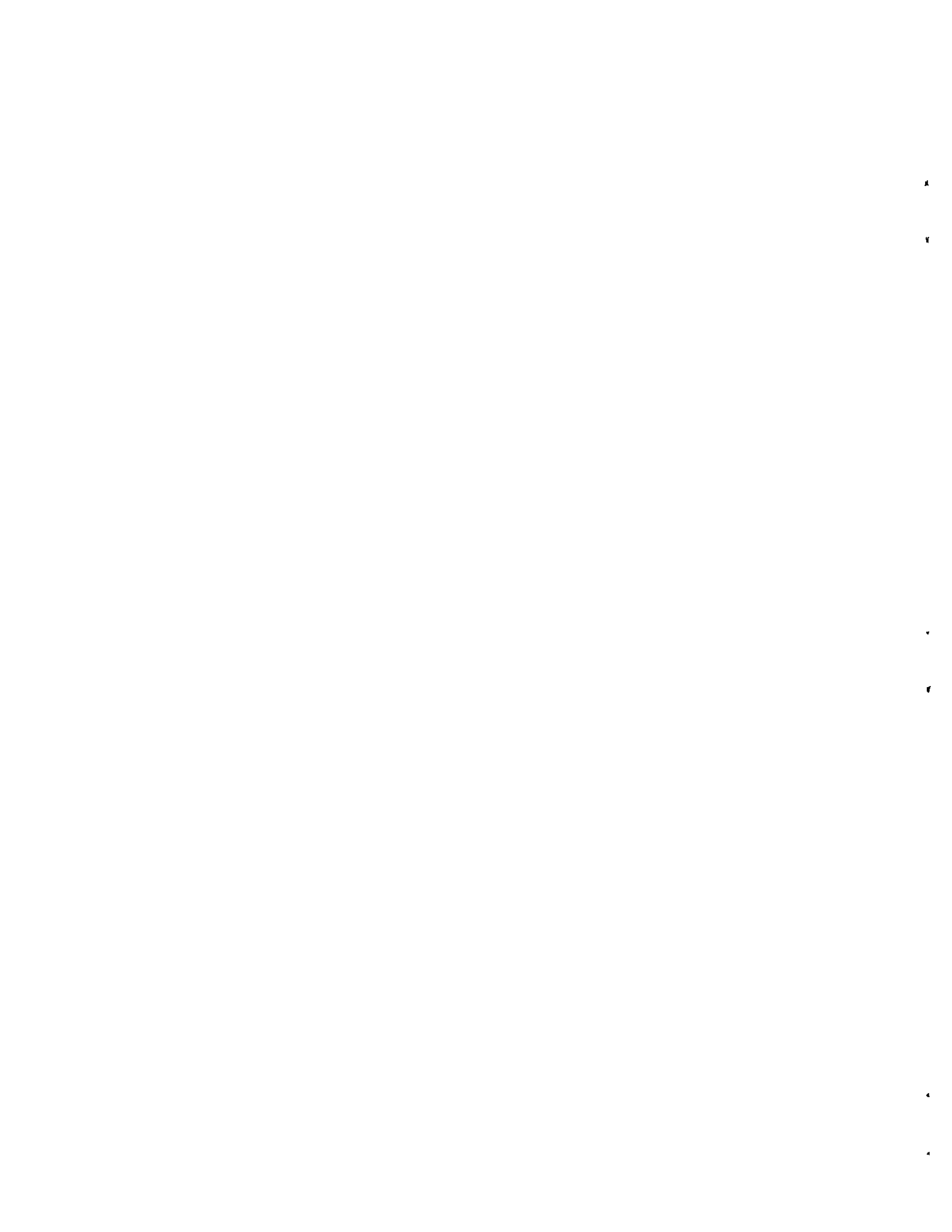
EDUCATION



SUBCOMMITTEE ON EDUCATION

APPROPRIATIONS COMPARISON





EDUCATION SUBCOMMITTEE HIGHLIGHTS

Historical Overview

In actual dollars state appropriations for education programs during the past six years have remained fairly constant. The low point in FY'84 was 7.2% below the FY'83 level, but by FY'86 appropriations surpassed the FY'83 figure and have remained higher ever since. When the effects of inflation are considered however, the lost ground amounts to 11.7% from FY'83 to FY'88.

<u>Fiscal Year</u>	<u>Appropriation</u>	<u>Inflation Adjusted Figure</u>	<u>FTE</u>
1983 Revised	\$1,220,623,459	\$1,220,623,459	1,481.5
1984 Revised	1,132,492,935	1,086,845,427	1,474.5
1985	1,156,634,856	1,069,967,489	1,474.5
1986	1,366,889,127	1,243,757,167	1,483.0
1987	1,234,358,434	1,088,499,501	1,453.0
1988	1,261,203,913	1,077,952,062	1,468.5

1987 Session

Budget Reconciliation Act

Major education programs were spared cuts in HB 1196. OETA, however, was cut 2.4%, further impairing the agency's ability to maintain equipment properly. That agency, along with the Historical Society, J.M. Davis Commission, and Will Rogers Commission has seen substantial deterioration of facilities due to erosion of funding during the past two years. Reductions of 4.2% in the Arts Council appropriation and 5.3% in that of the Physician Manpower Training Commission have necessitated reduced state support for local programs.

Major Policy and Program Issues

Major policy issues focused on increased accountability for the state's top spending priority. Activities of the Chancellor and fiscal propriety at the higher education institutions received special attention in legislative committees. Senate Bill 77 addressed major concerns by requiring periodic audits of institutions and of foundations under certain circumstances. Restrictions are placed on certain funds.

Considerable pressure from the Legislature and education policymakers effected an agreement on the "hold-harmless" issue that provides for a one-time 33% reduction in the supplement and its gradual elimination as state formula funding increases. Driver's education funds were merged into the General Revenue Fund and distributed through the formula. An examination of duplication in vocational-technical and higher education programs resulted in a statutory mandate for increased coordination.

Augmentation of nonappropriated funding for education received increased scrutiny. General enrollment fees and tuition were increased in the hope of adding \$20 million to the budgets at colleges and universities. The higher rates represent a 21% increase at the lower division level to as much as 33% at the graduate level. The appropriation for the Commissioners of the Land Office was increased to implement programs to maximize earnings and to enhance revenue collections. Earnings from Land Office investments benefit public schools and various colleges and universities.

The Oklahoma Center for the Advancement of Science and Technology was established as a separate agency in HB 1444, growing out of the Division of Science and Technology at the Department of Commerce. It is to be governed by a board of directors comprised of public sector members and private sector members with experience in small business, industry and basic or applied research. The center will administer six major programs: Centers of Excellence for basic research and for applied research at the state's universities; creation of endowed chairs and research funding; health research and commercial development; applied research project funding; providing technical information and data to minority businesses; and "seed capital" financing, both debt and limited equity, to encourage innovation in products and services.

Higher Education

The FY'88 appropriation is \$3.9 million (1.0%) less than the FY'87 appropriations base. However, the increased fee and tuition revenue and the \$11 million to the Oklahoma Center for the Advancement of Science and Technology will put the institutions in a stronger position than the previous year. Legislative action merged Sayre Junior College with Southwestern Oklahoma State University. An additional trustee was added to the boards of Tulsa, Ardmore and McCurtain Higher Education Centers.

Common Education

Appropriated funding was increased \$2,465,000 (0.3%) above the FY'87 appropriations base. Priorities in programs were examined and a \$3 million increase was given to the formula. Due to the hold harmless agreement, considerable changes will occur in formula funding. Aside from Red Rock, which was disqualified from formula funding due to disproportionate local receipts, the magnitude of change ranged from -73% to +79%, but 382 of the 613 districts showed a change, whether positive or negative, of less than 10%. However, 328 (53.5%) districts lost formula funding. Districts whose total revenues exceed 300% of state average per child revenue are prohibited from receiving formula aid. The Science and Math High School received \$50,000 and Community Literacy \$200,000.

The class-size reduction moratorium was extended for yet another year. The writing assessment component of the School Testing Program has been expanded to include seventh grade. HB 1110 expresses intent that only academic coursework (including vocational education) be approved for credit.

New Programs: H.B. 1344 encourages districts to apply for funds under the federal Drug-free Schools and Communities Act and to implement the programs fully by 1990. A 21-member council is to advise the State Board of Education on curriculum, model policies, and training workshops.

H.B. 1476 requires that after grade seven children are to receive periodic education about AIDS prevention. Locally developed curriculum is permitted, but the State Department of Education is directed to make plans and materials available. Parents may request in writing that their children not participate in the instruction.

Vocational Technical Education

The Board of Private Vocational Schools, transferred to Vo-tech in FY'87, has been given independent agency status again with funding of \$101,391. The funding increase, then, for FY'88 amounts to almost \$5.5 million. One-time capital projects total \$3,955,000 and the increase to programs and operations is \$1,532,500. Of the latter amount, new and existing industry training receives \$450,000; the bid assistance centers receive \$336,500 in additional funding; displaced homemakers' programs receive \$75,000. The Oklahoma City District #22 Aviation Career Center receives \$300,000 for operations and \$1 million of the capital funds for construction and equipment. This new program will be located at Will Rogers Airport and promises to become a major component of the offerings in Oklahoma City. The bid assistance centers program is less than one year old, yet has assisted Oklahoma companies in obtaining 121 contracts worth \$14 million.

Commissioners of the Land Office

Legislative committees conferred at length with agency management concerning new programs and reorganization to maximize earnings. Efforts will focus on increased auditing, substantial penalties for delinquent payments, and a commercial leasing program. A recent pilot program in auditing suggests that earnings may increase by more than \$100,000 per year for each auditor hired. To carry out these plans the agency's budget was increased by 35.4%. Statutory change provides that the Depletion, Management and Sale Fund, the source of agency operations, is to be certified by the Board of Equalization. Revenues to the fund are income from surface leases.

Other Agencies

J.M. Davis Commission and Will Rogers Commission both suffered an effective 2% cut in operations. Although the Legislature authorized an admission charge at both museums, the two commissions have historically resisted such an action, and a change in the lease with the J.M. Davis Foundation may be necessary if this potential source of funds is to be utilized. The Physician Manpower Training Commission appropriation, vetoed in H.B. 1110, was restored in H.B. 1473 and signed by the Governor. A six per cent cut in appropriated funds will mean reductions in the scholarship, intern and residency, and perinatal programs.

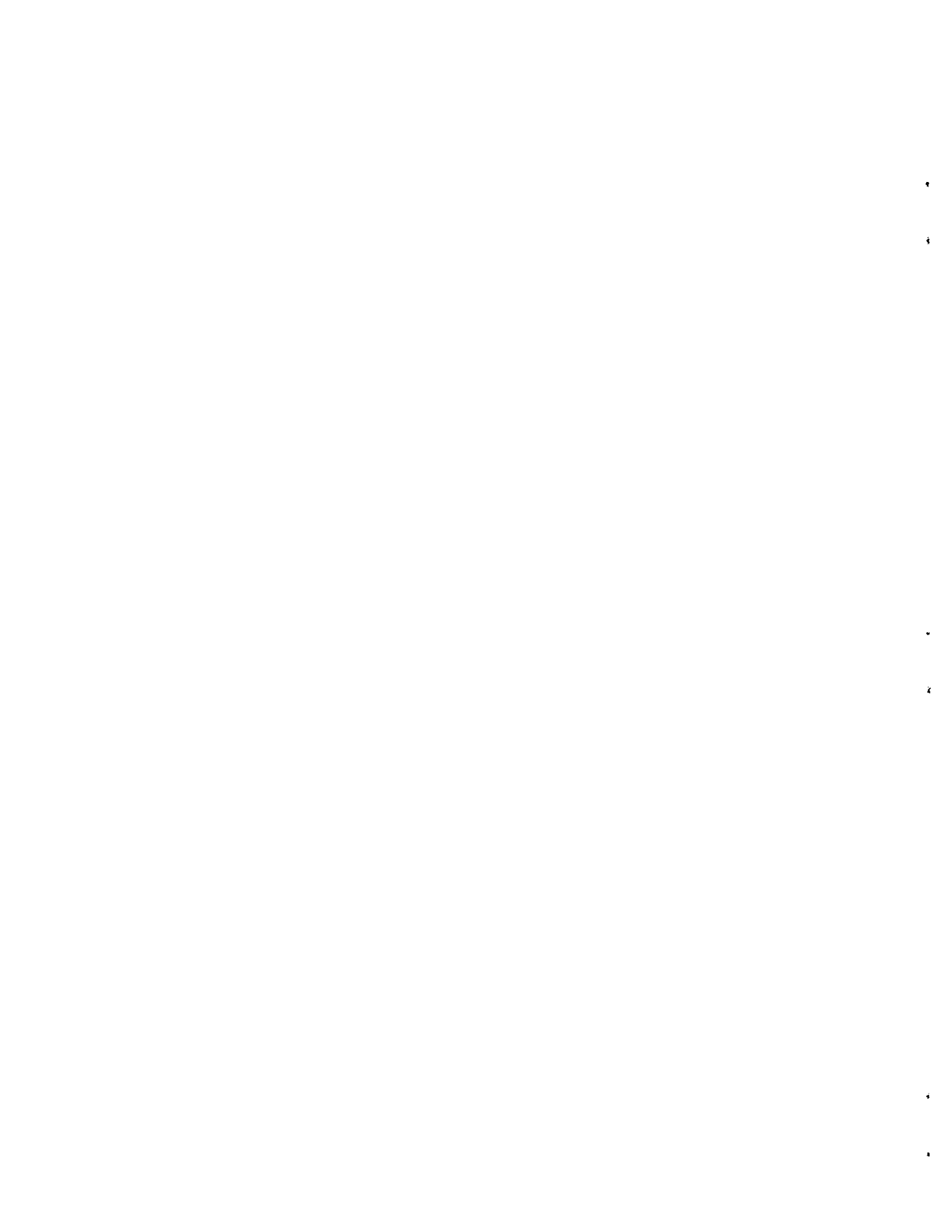
All other small agencies in the subcommittee were spared cuts, except for the OPERS contribution reduction. The Arts Council received new funds for cultural and artistic activities for the National Conference of State Legislatures Conference in Tulsa in 1989 and for the Centennial Celebration of the Land Run. The Department of Libraries received additional funding to publish the Directory of Oklahoma. Reductions in the operating budget would have threatened the "maintenance of effort" by the state required to receive federal funds.

After a year of funding through Vocational Technical Education, the Board of Private Schools was once again given a separate appropriation. Certain difficulties had made the combined funding unworkable.

Senator Bernice Shedrick, Subcommittee Chairman
Maryanne Maletz, Education Fiscal Analyst

**SUBCOMMITTEE ON EDUCATION
STATUS OF SUBCOMMITTEE ACTION
FISCAL YEAR 1988**

<u>Agencies</u>	<u>FY'87 Initial Approp. Base</u>	<u>FY'88 Appropriations</u>	<u>Amount Change From FY'87 Approp. Base</u>	<u>Percent Change From FY'87 Approp. Base</u>
Arts Council	\$1,411,125	\$1,480,157	\$69,032	4.89%
Common Education	775,632,942	778,097,942	2,465,000	0.32%
Historical Society	3,261,227	3,292,485	31,258	0.96%
J.M. Davis	221,168	208,314	(12,854)	(5.81)%
Land Office Commission	3,589,831	3,610,000	20,169	0.56%
Libraries Department	3,442,225	3,398,886	(43,339)	(1.26)%
O.E.T.A.	1,755,947	1,697,756	(58,191)	(3.31)%
Physician Manpower Training	5,807,020	5,453,652	(353,368)	(6.09)%
Private Schools	-0-	101,391	101,391	0.00%
Regents for Higher Education	398,327,906	394,403,922	(3,923,984)	(0.99)%
Science & Technology	-0-	11,000,000	11,000,000	0.00%
Vo-Tech Education	52,944,335	58,130,444	5,186,109	9.80%
Will Rogers Memorial	346,349	328,964	(17,385)	(5.02)%
TOTAL	<u>\$1,246,740,075</u>	<u>\$1,261,203,913</u>	<u>\$14,463,838</u>	<u>1.16%</u>

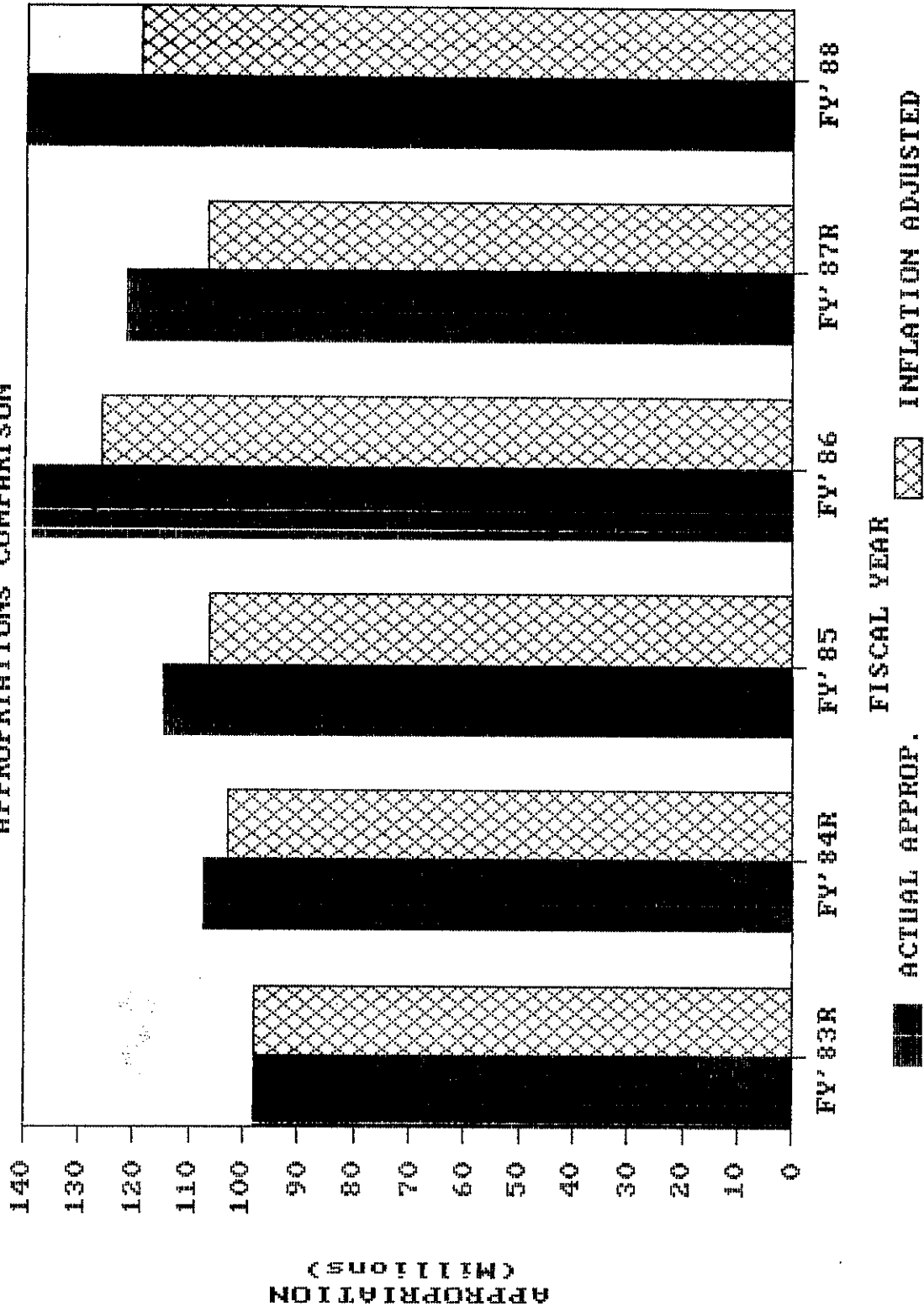


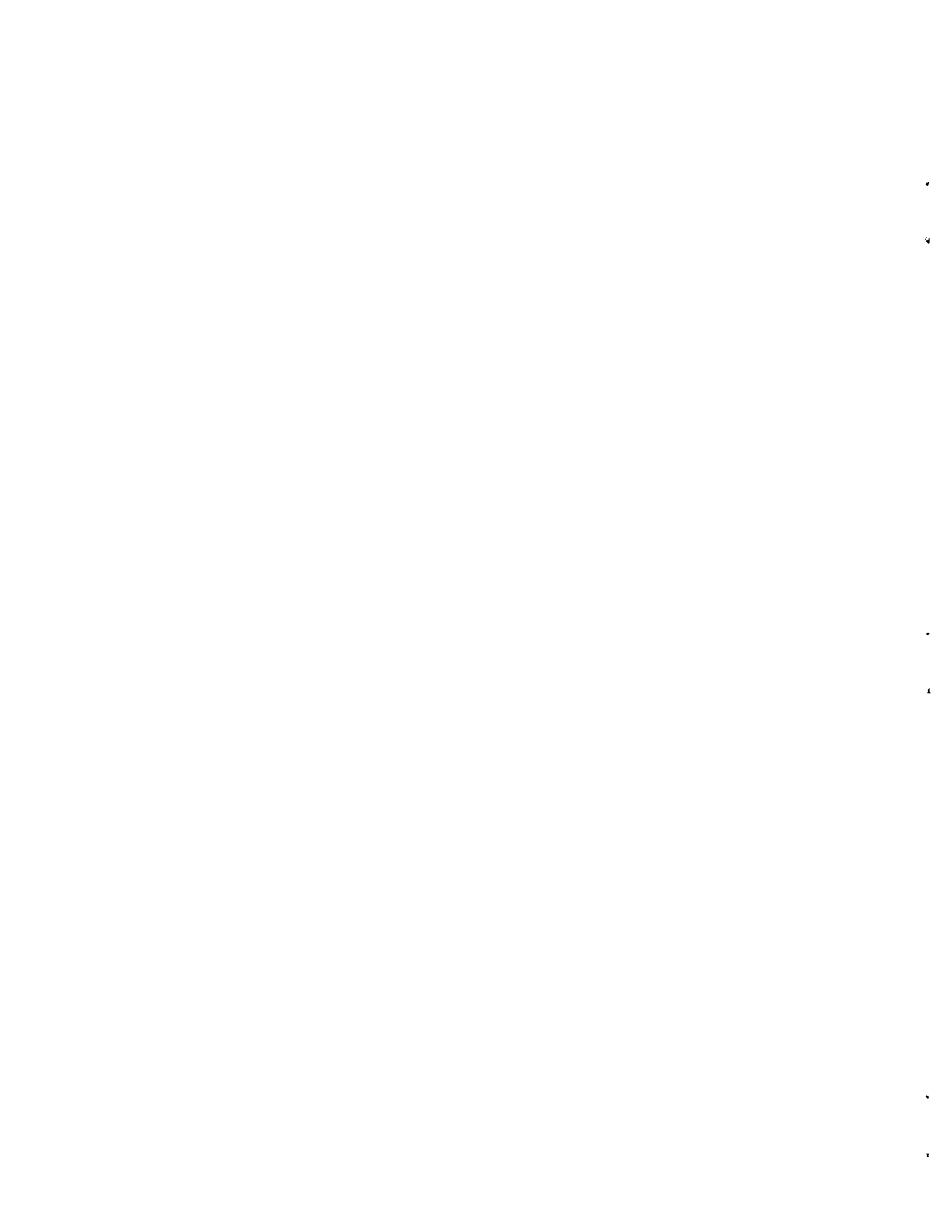
GENERAL GOVERNMENT AND JUDICIARY



GENERAL GOVERNMENT AND JUDICIARY

APPROPRIATIONS COMPARISON





GENERAL GOVERNMENT AND JUDICIARY HIGHLIGHTS

Historical Overview

The FY'88 appropriation for this subcommittee is 42.3% above the FY'83 appropriation level. In constant dollars, the FY'88 appropriation is only 21.6% above the FY'83 level. Authorized FTE for the same period have increased by 26.0%. Most of the increase in authorized FTE has come from additional responsibilities assigned to the Office of State Finance, the Office of Public Affairs, the Auditor and Inspector, and the Tax Commission. Current actual FTE levels are approximately 4.3% below the authorized level.

<u>Fiscal Year</u>	<u>Appropriation</u>	<u>Inflation Adjusted Figure</u>	<u>FTE</u>
1983 Revised	\$98,196,016	\$98,196,016	2845.0
1984 Revised	107,164,734	102,845,234	3000.0
1985	114,978,873	106,363,434	3348.0
1986	138,490,365	126,014,891	3510.0
1987 Revised	121,502,712	107,145,249	3505.0
1988	139,687,984	119,391,439	3585.0

1987 Session

Budget Reconciliation Act

HB 1196 cut the total FY'87 appropriation to the General Government and Judiciary Subcommittee by 3.3%. However, the cut for each individual agency varied from 0.0% to 5.0%. Seven agencies sustained cuts of 4.5% or more, including several major agencies: the Office of Personnel Management (4.9%); the Office of Public Affairs (4.5%); the Office of State Finance (5.0%); and the Tax Commission (4.9%). The remaining agencies sustained cuts of less than 3.0%. Most agencies were able to absorb the cuts without significant negative effects on the agency's activities. Many agencies used savings accrued from periodic job vacancies throughout the year. The Office of State Finance utilized savings from reduced lease-purchase costs on equipment. The Tax Commission reduced its equipment expenditures to a minimum for the fiscal year as a whole. In general, the cuts were absorbed without RIFs, furloughs or serious reductions in service levels. On the other hand, the Legislature chose to spare the courts from any major reductions at all. The District Courts, Court of Criminal Appeals and the Workers' Compensation Court received no cuts at all. The Supreme Court received only a minor cut of 0.5%.

HB 1196 also provided a supplemental appropriation of \$10,000 to the Ethics Commission. The additional funds were needed to meet the unexpected debts incurred in hiring outside counsel to represent the Commission in the David Walters case.

Major Policy and Program Issues

The Legislature also moved to strengthen the funding base for the court system. Funding for the courts (Supreme Court, Court of Criminal Appeals, District Courts, Workers' Compensation Court) comes primarily from the State Judicial Fund and the Workers' Compensation Administration Fund. In FY'87 General Revenue funded 22% of the courts' total budget of \$25.3 million. However, due to depletion of cash resources in the court funds in FY'87, the demand on General Revenue funds was much greater for FY'88. Therefore, the Legislature approved court fee increases of \$3.4 million. Despite the increases, General Revenue funding will still account for 33% of the courts' \$25.4 million FY'88 budget. This is partly due to the fact that the increases will be in effect for only three-quarters of FY'88 collections. In FY'89 the courts will receive the full benefit of the fee increases approved this year. This action should ensure that the court system remains supported primarily by users of the system and offenders of the law.

In addition, the Legislature took several initial steps toward restructuring the state's cash and funds management system. During the interim period of 1986, the consulting firm of Deloitte, Haskins and Sells conducted a study of the state's cash management system and submitted a report of its recommendations to the Legislature shortly before the 1987 session convened. The study's recommendations received strong support from both the newly-elected State Treasurer and the Legislature. Some of the important recommendations included were: expansion of the state's investment options; implementation of a sophisticated cash flow forecasting system; closer monitoring of state accounts in outlying banks; and replacement of the state's antiquated punch-card check-writing system with a paper check system. The Legislature responded by making necessary statutory changes in HB 1492 and providing a generous budget for the Treasurer to implement operational changes in his office.

Finally, the 1987 Legislature also initiated some potentially significant changes in the operation of the Tax Commission. As part of the agreement to get a tax package passed, the Governor was allowed to appoint a Republican as chairman of the Tax Commission. The new chairman's term will expire January 1989. The other two commissioners' terms will expire in 1991 and 1993.

One other aspect of the tax bill agreement permitted the Governor to appoint a Republican administrator to the agency. The Governor's appointee assumed his position at the Tax Commission on June 1. However, the role and specific responsibilities of the administrator remained undefined until the end of the session.

In the final compromise agreement reached at the end of the session, several provisions regarding the administration of the Tax Commission were codified in the statutes. First, the membership of the commission will be bipartisan; no more than two of the three positions can be occupied by members of the same political party. Second, the commission was required to appoint an administrator to serve at the pleasure of the commission. The administrator was made the "administrative officer" of the agency with specific reference to personnel matters.

State Legal Services

The 1987 Legislature approved several measures to meet the increasing burdens placed upon the state's legal services. Both the Supreme Court and the Workers' Compensation Court received additional funds to provide for needed personnel. The Supreme Court was

appropriated an additional \$336,125 for five judicial assistants and three legal secretaries. Currently the nine Supreme Court Justices are assigned one judicial assistant. Despite increasing caseloads over the years, no judicial assistants have been added to the court since statehood. The new assistants (half the number the court requested) will be assigned to justices according to need.

The Workers' Compensation Court received funds for additional personnel to meet responsibilities added by the 1986 Legislature. The court received a total of \$97,973 for four FTE. Two of the FTE will handle the additional docketing demands created by the implementation of prehearing conferences. These prehearing conferences attempt to resolve cases in an informal setting prior to the use of official hearings. The other two FTE will administer the new medical fee schedule which became operational in March 1987. The medical fee schedule sets compensation rates for specific medical services provided by doctors. The court anticipates protests over this new policy.

An important new program was also created in the Oklahoma Appellate Public Defender System at the Center for Criminal Justice in Norman. The substantive language for the program was contained in HB 1178. The program, funded at \$265,045 in FY'88, will address the problem of post-conviction relief for indigent capital defendants. In short, the program will provide legal representation for indigent murder defendants now on death row. According to the director of the center, this program will dramatically speed up the appeals process in death cases. It should also prevent potential lawsuits against the state for providing inadequate legal representation to indigent capital defendants. The agency also received an additional \$55,000 to help bring salaries for attorneys of the Oklahoma Appellate Public Defender System to a level closer to the District Attorneys and the Public Defender's Office in Oklahoma County and Tulsa County. This additional funding should help prevent the loss of experienced attorneys to the county public defender's offices.

Central Services

In the area of the central service agencies, several new programs were initiated to provide more effective and efficient services to the state. One major expenditure that the Legislature approved, \$1,500,000, will expand and enhance the effort toward providing the state with a modern statewide telecommunications network. Last year the Legislature approved \$1,000,000 to provide the state with less expensive long-distance service between the 405 and 918 area codes. This previous appropriation also allowed replacement of telecommunication circuits and the installation of conduit for fiber optics in the capitol complex. The \$1,000,000 appropriation in FY'87 will be repaid to the General Revenue Fund through the savings achieved. The new appropriation will accomplish two primary objectives. First, a new central phone switch and other necessary equipment will be installed for the four state agencies located at the N.E. 36th Street and Martin Luther King Blvd. campus in Oklahoma City. These agencies needed the equipment replaced, and by providing a single system for all the agencies, the state should realize initial savings of \$75,000 to \$200,000. These agencies will also be connected with the Capitol switch allowing them to take advantage of long-distance savings to the 918 area.

The other major objective of this appropriation is to link the state's telecommunication system with the telecommunication system of the State Regents for Higher Education. The Regents received a Kellogg grant previously for the construction of a system connecting various campuses in the state. Linking the two systems will provide a foundation

network for the transmission of voice, data, and video signals among most parts of the state.

The Legislature also approved several other changes to increase the effectiveness of the state's central services. The Office of Personnel Management received \$74,712 to initiate an employee assistance program. The ultimate aim of the program is to combat the negative effects on employee productivity caused by substance abuse and emotional problems. The two FTE funded by the appropriation will coordinate agency efforts to put effected employees in contact with existing social service programs.

The Legislature also consolidated the authority and responsibility for the development of the Integrated Central System (the state's central computer system) under the Director of State Finance. This change makes the director solely responsible for policy decisions regarding the project and requires the director to submit a quarterly report to the Legislature describing the progress and goals of the project. In the past there have been some problems with direction and accountability for the project.

The Legislature also moved to ensure that agencies take advantage of low interest rates when they are available for the lease-purchase of equipment. Whenever an agency renews a lease-purchase arrangement in the future, it must check the current rates being received by the Purchasing Division in the Office of Public Affairs to see if any overall savings to the state can be obtained.

One other central service program was created by the Legislature to bring the state into compliance with federal law and to provide an important service to the state's agricultural-finance sector. The new program, the Agricultural Commodity Lien Central Filing System, was created in HB 1052 and funded in the Secretary of State's budget. The program, which will be operated in the Secretary's office, will bring the state into compliance with the Food Security Act of 1985. The program will also protect commodity buyers and lenders by providing a central record of liens against commodities available for purchase. Once in full operation and certified by the USDA, the program should become self-supporting through fees charged to users of the service.

Cash and Funds Management

The Legislature also made several major changes in the management of state funds. Included were significant changes in the operation of the Treasurer's office. In HB 1492, the Legislature expanded the options for investment of state funds to include, among others, prime banker's acceptances, prime commercial paper, and certain repurchase agreements. Previously, state funds could only be invested in certificates of deposit from in-state banks or federal Treasury notes. Under the new expanded investment policy, the state should collect an estimated \$17,000,000 in additional interest earnings. The bill also requires the Treasurer to develop a written investment policy and make quarterly reports summarizing investment activities.

The Legislature also provided the Treasurer's office with a large budget increase to perform the additional duties of the agency. The Legislature appropriated the Treasurer \$2.6 million for FY'88, double the average annual operating budget of previous years. This level of funding will allow the agency to set up a modern data processing network to handle the cash management needs and to replace the state's outdated punch-card check writing system with a paper check system. It is also important to note that FY'88 will be the first time in several years that the Treasurer's office has operated with appropriated

funds. In past years the Treasurer's office received revenue through a revolving fund with an independent source of income and the Legislature exercised limited oversight of the agency's activities.

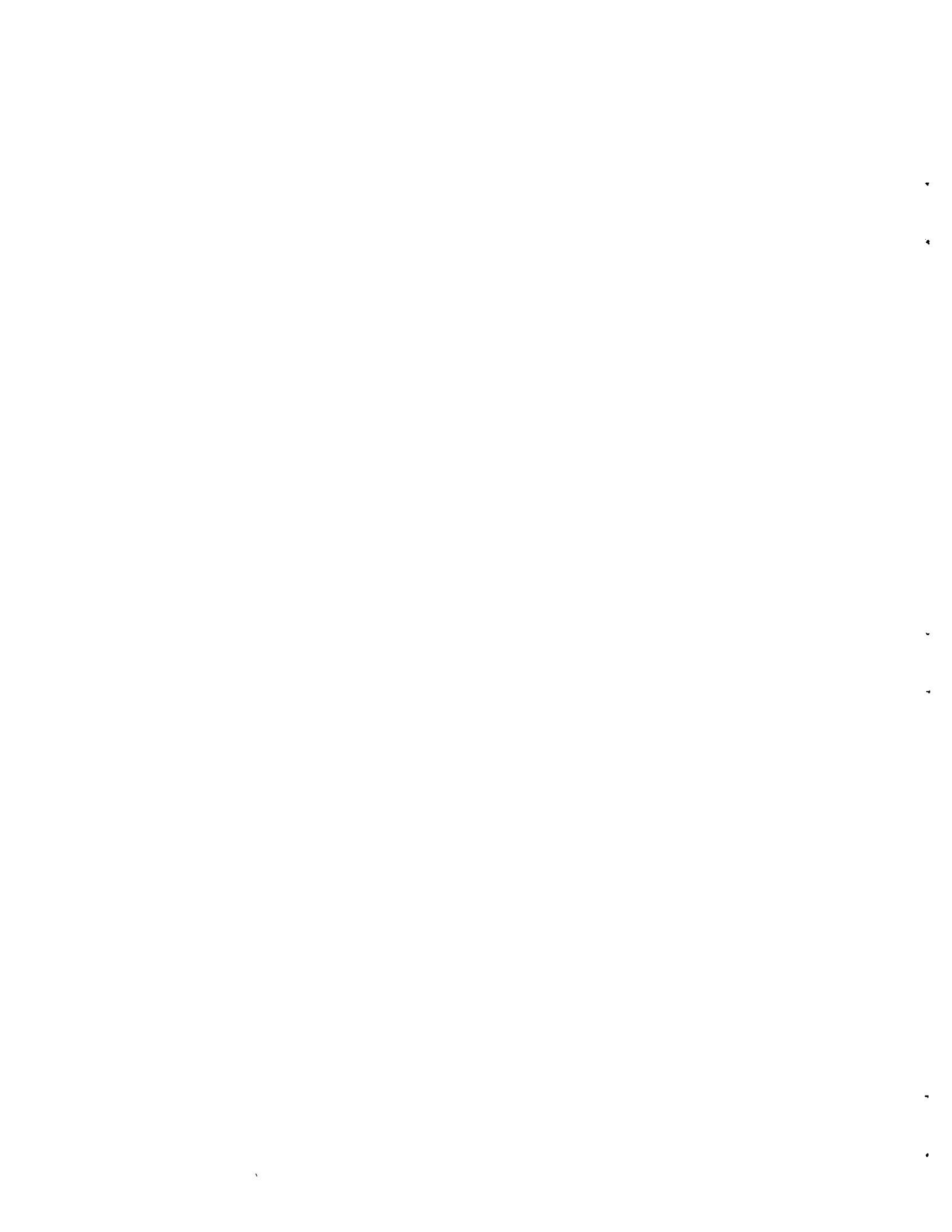
And finally, the Legislature acted to provide more flexibility in meeting the state's cash management needs. The Director of State Finance will now be able to transfer monies from any fund (Pension Reserve Fund, Highway Fund, etc.) to the General Revenue Cash Flow Reserve Fund to meet General Revenue Fund monthly allocation needs. Any such "borrowed" monies are required to be repaid to their respective funds before any money is transferred to the Cash Flow Reserve Fund for the next fiscal year. This change should prevent dramatic strains on the General Revenue Fund due to the cyclical and volatile nature of General Revenue Fund collections.

Senator Ben Brown, Subcommittee Chairman
Bryce Fair, General Government & Judiciary Fiscal Analyst

**SUBCOMMITTEE ON GENERAL GOVERNMENT AND JUDICIARY
STATUS OF SUBCOMMITTEE ACTION
FISCAL YEAR 1988**

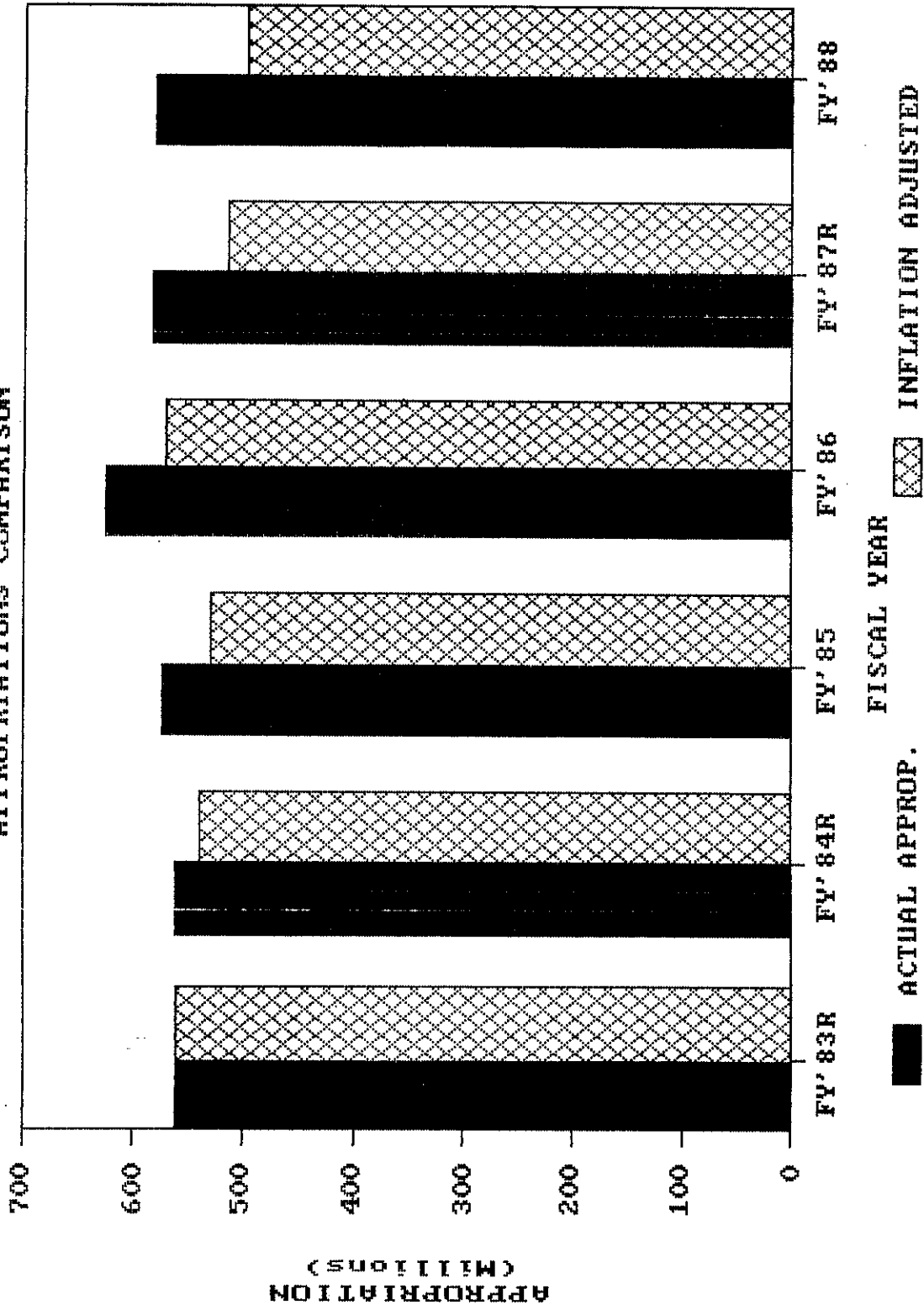
<u>Agencies</u>	<u>FY'87 Initial</u> <u>Approp. Base</u>	<u>FY'88</u> <u>Appropriations</u>	Amount Change From FY'87 <u>Approp. Base</u>	Percent Change From FY'87 <u>Approp. Base</u>
Attorney General	\$2,474,625	\$2,789,228	\$314,603	12.71%
Auditor & Inspector	2,958,272	2,772,306	(185,966)	(6.29)%
Capitol Improvement Authority	527,404	575,895	48,491	9.19%
Court of Criminal Appeals	770,966	777,521	6,555	0.85%
Center for Criminal Justice	456,969	794,640	337,671	73.89%
District Attorneys & DATCC	20,930,797	20,395,920	(534,877)	(2.56)%
District Courts	16,601,523	16,374,776	(226,747)	(1.37)%
Election Board	2,172,477	3,628,804	1,456,327	67.04%
Ethics Commission	100,000	98,375	(1,625)	(1.63)%
Finance	7,844,937	8,860,294	1,015,357	12.94%
Governor	1,729,735	1,556,762	(172,973)	(10.00)%
House of Representatives	7,926,497	8,192,652	266,155	3.36%
Legislative Service Bureau	1,345,789	2,159,418	813,629	60.46%
Lieutenant Governor	286,458	386,485	100,027	34.92%
Merit Protection Commission	418,339	405,201	(13,138)	(3.14)%
Personnel Management	3,578,196	3,541,920	(36,276)	(1.01)%
Public Affairs	9,920,276	9,334,934	(585,342)	(5.90)%
Secretary of State	308,667	719,977	411,310	133.25%
Senate	5,314,680	5,121,557	(193,123)	(3.63)%
Supreme Court	5,374,910	5,730,290	355,380	6.61%
Tax Commission	40,511,606	40,230,121	(281,485)	(0.69)%
Treasurer	-0-	2,658,089	2,658,089	0.00%
Workers' Compensation Court	2,546,640	2,582,819	36,179	1.42%
TOTAL	<u>\$134,099,763</u>	<u>\$139,687,984</u>	<u>\$5,588,221</u>	<u>4.17%</u>

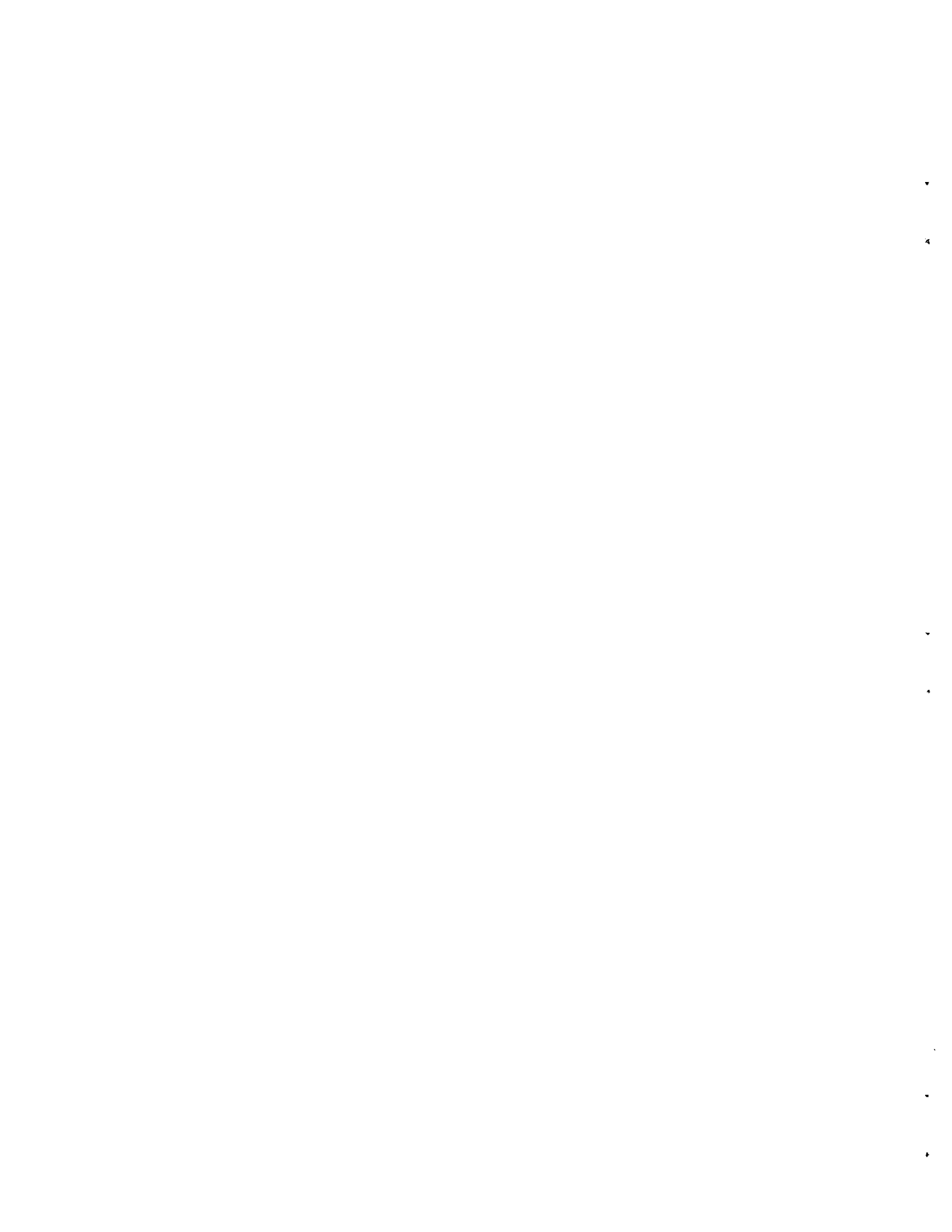
HEALTH AND SOCIAL SERVICES



HEALTH AND SOCIAL SERVICES

APPROPRIATIONS COMPARISON





HEALTH AND SOCIAL SERVICES HIGHLIGHTS

Historical Overview

Appropriations

Actual appropriations to the Health and Social Services Subcommittee have remained relatively constant since FY'83. The subcommittee's appropriation level has grown only 3.6% or \$20.1 million in the past six years. The only notable exception is FY'86, the peak appropriation level for this period, in which an 8.0% across-the-board pay increase for all state employees was authorized.

<u>Fiscal Year</u>	<u>Appropriation</u>	<u>Inflation Adjusted Figure</u>	<u>FTE</u>
1983 Revised	\$560,850,894	\$560,850,894	19,333.0
1984 Revised	\$560,960,927	\$538,350,218	19,449.5
1985	\$573,217,019	\$530,265,512	18,373.5
1986	\$626,531,561	\$570,092,412	18,212.5
1987 Revised	\$583,667,239	\$514,697,742	17,027.0
1988	\$580,918,228	\$496,511,306	17,239.5

However, a careful examination of this 3.6% growth reveals very different impacts upon the Department of Human Services versus other agencies within the subcommittee. The Department of Human Services appropriation has grown 8.3% since FY'83, the first year DHS was included in the appropriations process. The bulk of this increase is attributable to entitlement program growth and changes in federal regulations. At the same time, appropriations to all other health and social service agencies have decreased by 9.9%, reflecting implementation of cost efficiencies and elimination of various discretionary programs.

In actual dollars available for operating expenses, the FY'88 appropriation reflects a 0.5% or \$2.7 million reduction over FY'87 and a 7.3% or \$45.6 million reduction over FY'86. Factored into this year's appropriations determinations for the health and social service agencies is \$14.8 million in savings due to the one-time adjustment in the Oklahoma Public Employees Retirement System contribution level. As a result, these agencies will actually "feel" an average 2% increase in spending power over FY'87. This increase has been allocated proportionately between DHS and other health and social service agencies.

In inflation-adjusted dollars, appropriation figures are shown to be steadily decreasing, with the exception of FY'86 due to the across-the-board pay increase. Between FY'83 and FY'88 "buying power" of the agencies has dropped 11.5%. When DHS and other health and social service agencies are analyzed separately, the percent decline in dollars available to DHS is 7.4%, while the decline for all other agencies is a dramatic 23.0%.

FTE Comparison

The FTE authorization level for the subcommittee has declined 10.8% since FY'83; only FY'84 and FY'88 show slight increases over the previous fiscal years.

Over 90% of this decline is due to a conscious FTE reduction effort at the Department of Human Services. Since FY'83 DHS has cut 13.5% or 1,891 FTE of its labor force, over 1,150 FTE at the Oklahoma Teaching Hospitals alone. They plan to reduce another 75 FTE this year through attrition, 50% of whom will be from the Administration and Management Information Divisions. However, this cut is not factored into their FY'88 FTE limit. The remainder of the subcommittee's FTE decline since FY'83 is primarily due to a 10.4% or 319 FTE reduction at the Department of Mental Health due to a decreased patient census at the state hospitals and a shift toward community care as provided by private organizations.

These reductions are offset to some degree by modest increases in FTE levels at the Department of Veterans Affairs in FY'85 due to the opening of 61 new nursing beds at their Ardmore Center and in FY'86 to the anticipated opening of a new 51-bed nursing care wing at Talihina and the start-up for the new 250-bed Claremore Center, the latter two expansions requiring an additional 36 FTE and 34 average FTE respectively. This represents an 8.5% overall increase in FTE over six years. The J.D. McCarty Center has increased FTE by 32.5 FTE or 58.0% since FY'83 in order to achieve standards necessary for Medicaid certification and other third party reimbursements. The Health Department's FTE authorization for FY'88 is virtually identical to its FY'83 level; however, its limit tends to fluctuate 2-3% from year to year depending upon the anticipated level of millage revenue for that year. This is due to the fact that Health Department employees paid from locally generated or WIC funds are not included in the FTE limit.

1987 Session

Budget Reconciliation Act

Approximately \$4.85 million in midyear cuts were made to health and social service agencies other than DHS. Fortunately a great many agencies had anticipated a midyear cut and had been underspending their budget in order to accommodate such a possibility. On the average, health and social service agencies were cut 3.5%, with the range being 0% to 24.7%. The Health and Mental Health Departments did pass on midyear cuts to private contract agencies, averaging 2.6% and totaling \$477,000. However, the effect of the midyear cuts on all state operations was negligible, primarily due to vacancy savings or increased utilization of revolving funds.

Unlike most agencies, the Board of Medicolegal Investigations faced a serious budget shortfall in FY'87, lagging 30% behind its target in fee collections due to autopsy fee nonpayment by cities and counties, despite a successful court decision on the issue then pending appeal. To resolve this problem, the bill redirected the agency's income into the General Revenue Fund, as opposed to the agency's revolving fund, and provided a supplemental appropriation, thereby averting a drastic curtailment of agency operations.

DHS was originally proposed to be cut \$6.8 million from their appropriation; however, joint legislative action reduced this to \$4.4 million. At the time it was not determined how this cut should be taken; the agency was prohibited only from increasing furloughs as a result of the cut. In the flurry of activity in which the bill was written and passed, no clear signals were received from DHS regarding their capability to accommodate this 1% cut to their FY'87 appropriation.

A critical policy change included in the Budget Reconciliation Act was the elimination of the 49-year tradition of earmarking sales tax and other revenue for the Human Services Fund. The Human Services Fund was composed primarily of tax revenues from 2% of the state's gross retail sales, but also included motor vehicle licensing fees and funds collected from a telephone access line surcharge. The fund was utilized for any and all programs assigned to the Department of Human Services. When instituted in 1938 this revenue provided the sole source of state revenue to the agency, and historically it provided DHS with flexibility in quickly matching federal dollars, as well as insulation from political pressures on funding levels.

DHS FY'87 Midyear Budget Changes

Immediately following the passage of the Budget Reconciliation Act the agency brought to the Legislature's attention the need for a supplemental appropriation or implementation of drastic cuts to programs due to the anticipation of a \$14.2 million shortfall. The agency was facing \$3.8 million in entitlement program overruns, \$6 million in unbudgeted payroll and operating costs due to their inability to meet its optimistic FTE and other cost reduction plans, and a \$4.4 million reduction from the recently passed Budget Reconciliation Act. The agency was also mired in a near crisis situation over the delays in medical claims payments through UNISYS, a private firm under DHS contract, leading some members of the Legislature to question whether the shortfall might be even larger. The Legislature ultimately granted \$12.5 million in relief to DHS, but required \$1.7 million in cuts of which \$1 million was taken from the Oklahoma Teaching Hospitals subsidy and \$700,000 from restrictions on hiring, travel, and equipment and supply purchases.

By the end of the fiscal year, DHS had made considerable progress in reducing encumbrances and correcting other problems in the medical claims area. However, they put themselves in a cash poor situation by year-end, necessitating a \$4 million transfer from the Oklahoma Teaching Hospitals subsidy for FY'87. The teaching hospitals were able to accommodate this reduction, combined with the previous cut — a total of \$5 million in FY'87, due to lower than expected expenditures combined with improved collections.

Another significant policy issue was the abolition of the two-year-old DHS regional administration system and the recent reorganizational structure. Legislative members had significant concerns that the agency's regional system had caused confusion regarding lines of authority and duplication of work, thus undermining program integrity and quality, as well as employee morale. In addition, there were concerns about a mid-year staff reorganization that produced pay raises for top management staff in a year of furloughs and hiring freezes. By June 1, 1987, the agency had abolished the regional system and put an interim organizational structure in place.

Major Policy and Program Issues

Revenue Generating Strategies

Within the subcommittee, three agencies will pay for new program initiatives or offset General Revenue cuts with increased fees. All of the fees described below flow to agency revolving funds.

Health Department: The Legislature directed the Health Department to initiate a mechanical licensing program, primarily for heating and air conditioning installers, and to institute a fee schedule, expected to raise \$242,000, to pay for the cost of the new program.

Approximately \$200,000 in fees will be generated as part of the newly consolidated Grade A and Manufactured Grade Dairy Inspection Program. The "Oklahoma Milk and Milk Products Act" transferred the manufactured grade milk inspection program from the Agriculture Department to the Health Department and instituted a \$0.01/cwt. fee on Grade A and manufactured grade milk to help in covering the inspection costs.

As part of the FY'88 appropriation bill, statutes involving the Health Department fee levying authority were modified to allow for higher ranges for license or permit issuance and renewal fees. In addition, language was inserted to limit the dollar impact of new fees on rural water supply users. In order to offset a portion of their appropriations cut, the agency is implementing fee modifications, expected to generate up to \$1.2 million annually, in the following areas: water supply treatment; waste water treatment; air quality; solid waste disposal; existing homeowner waste water systems; and radioactive waste generators.

Health Planning Commission: Certificate of need fees for nursing homes and hospitals were increased from 1/4% to 3/4% of the project cost, and the annual health maintenance organization (HMO) licensure fee was increased from \$3,700 to \$5,000. Combined these fees are estimated to generate an additional \$325,000 annually. In order to maintain current agency operations, the fees were increased to offset what would have otherwise been a fourfold increase in appropriations over the previous year due to the use of one-time federal and revolving funds in FY'87.

Veterans Affairs: In anticipation of budget cuts to the agency and their desire to have sufficient revenue to open new bed capacity at Talihina and Claremore Centers, the patient payment schedule for single veterans was changed from 70% to 85% of gross income according to a War Veterans Commission rule change. However, statutory language was included in the appropriations bill to increase the minimum retained income allowance for veterans and to amend the maximum care and treatment charge system. The net result of these changes is a revenue gain of approximately \$1 million for the department annually.

Children And Youth Initiatives

A number of legislative decisions will impact programming for children and youth within a variety of state agencies, among them: the Department of Health, the Department of Mental Health, the Department of Human Services, and the Commission on Children and Youth.

Out of concerns regarding overlapping responsibilities, a fragmented service delivery system, and the unmet needs of children and families, a joint resolution was passed that authorized the Legislative Service Bureau to conduct a comprehensive study of the organizations that serve children and families and of the interrelationships among them.

A desire for assurance of a maintenance level of youth program funding in FY'88 led to line itemization in the DHS appropriation bill of \$7.5 million for support of contracts with agencies which comprise the Oklahoma Association of Youth Services. In addition, statutes were amended to set new standards for funding eligibility for youth service agencies. These standards will facilitate the DHS contracting process with youth service agencies and will enhance the quality of services to troubled youth and their families. There was also an attempt to better coordinate funding for agencies serving youth and families by transferring pass-through funding currently within the Health Department to DHS and consolidating it in the youth services contracting system.

The Health Department completed its first full year of statewide child abuse prevention programming, serving children and families through contracts with 45 private organizations. Efforts were made in the Health Department appropriation deliberations to ensure that the Child Abuse Prevention Program would not be placed at risk, despite the uncertainty about and ultimate inability of the Legislature to establish a state children's trust fund in FY'88. In compliance with the state plan, a specific level of General Revenue funding was directed into the Child Abuse Prevention Revolving Fund; when combined with the anticipated 25% federal challenge grant match, it will allow for continuation of the FY'87 level of expenditures of \$945,000. Continued efforts to identify a suitable funding mechanism for the establishment of a children's trust fund are anticipated in order to ensure compliance with future regulations for the federal matching grant and to establish a permanent source of funding for primary prevention programming.

In accordance with the state's jail removal deadline for juveniles, revised during this legislative session to January 1, 1988, DHS is completing the development of a \$4 million statewide regional juvenile detention system. The system will ultimately be composed of a total of 10 facilities and 128 beds, anticipated to serve over 1,000 youth annually, with an additional 800 youth utilizing DHS "jail alternatives" programs available in 60 counties. Although the two major urban areas, Oklahoma City and Tulsa, have operated facilities for two decades, they have recently expanded capacity and now operate as regional centers. Three other new centers around the state are presently operational, and the remaining five are expected to be "on line" prior to January 1, 1988. Although \$1.8 million in capital funds is needed to complete the system and only \$1.1 million has been secured, the agency expects to obtain the remainder in local contributions. In separate legislation related to juvenile detention the cost sharing formula for the state and counties was defined. A 50:50 split will prevail for most of the detention costs in the two largest metropolitan areas, while a 90:10 state-county split will be instituted for all costs in all other counties. In addition, DHS is responsible for transportation costs.

Apart from the development of a system of secure residential beds for youth prior to adjudication, the Juvenile Justice System has recently struggled with the shortage of appropriated resources for custody youth, aggravated by the recent closings of DHS youth institutions, resulting in a dramatic decrease in the number of secure residential beds for delinquent youth and residential services for deprived youth. In a two-year period, 1983-1985, there was a 20% increase in juvenile arrests and a 37% increase in

delinquency petitions; from 1980 to 1986 there was a 500% increase in child abuse and neglect confirmations.

In response to pressure on the system's capacity and in order to provide better treatment for youth in the department's custody and protection for the community, \$1.3 million in new state funds will be invested in enhanced continuum of care services for: 1) expanded utilization of foster care; 2) development of highly structured, secure, community-based residential facilities; and 3) the development of residential diagnostic and evaluation beds.

In addition, funding was provided for 18 vehicles in critical need of replacement and with an average of 125,000 miles each at youth institutions including training schools, state schools for the mentally retarded and the School for the Deaf.

Two other children's programs addressed as part of the FY'88 appropriations process were: 1) Teenline, a \$72,000 statewide crisis hotline staffed by volunteers which was assumed by the Department of Mental Health; and 2) OASIS, a computerized information and referral system for children with handicaps which will receive \$75,000 in state support through the Commission on Children and Youth.

Entitlement Programs

Public assistance and other welfare related caseloads, which compose 70% of the total Department of Human Services budget, have grown significantly in the past three years and have contributed to most of the growth in the DHS budget during that time. As a percentage of the total DHS budget, AFDC and Medicaid alone have jumped from 37% in FY'83 to 57% in FY'87. Oklahoma's human services budget, like that of many other states, is increasingly driven by the uncontrollable caseload level of assistance programs, the regulations for which are primarily determined by the federal government. As Oklahoma's economy has worsened, ever increasing numbers of families have fallen into poverty and become eligible for Medicaid, Aid to Families with Dependent Children (AFDC), Emergency Assistance, Day Care Assistance, Food Stamps, Aid to Aged, Blind and Disabled (AABD), and other programs.

There are no immediate signs of a reversal or even a halt to the growth in the number of eligible clients. In fact, there are indications that there has been a long-term increase in the number of those living below the poverty line in the state. DHS entitlement program expenditures grew 5.8% in FY'87, and FY'88 state appropriations have allowed for an additional 5.3% increase to maintain programs at FY'87 levels. When the planned Medicaid expansions are also included, the entitlement programs' budget will reflect a substantial 11.3% or \$77.9 million increase over FY'87.

Fortunately, the state share of the FY'88 anticipated growth is nominal, due to the increase in the federal matching rate from 59.86% to 63.33% effective October 1, 1987, and bringing to the state an additional \$19.8 million in federal revenues. Oklahoma's matching rate has been adjusted upwards annually for the past two years based on the state's declining per capita income.

Increased caseloads combined with reduced staffing have also brought problems in quality control, potentially costing huge financial penalties. Despite a rigorous FTE reduction plan at DHS Central Offices in FY'88, the agency anticipates increasing field staff in order to alleviate the workload on current staff and improve quality control standards.

Medical Services

In the past two decades there has been a nationwide shift in focus regarding the provision of publicly financed medical care, away from a reliance on institutional care toward home and community-based care and away from traditional fee for service systems to more innovative payment schemes. The intention has been to move recipients into less expensive settings that also foster independence and enhance the quality of life.

Oklahoma, like other states lacking discretionary state resources, has emphasized maximum utilization of federal Medicaid matching dollars, which carry an institutional bias. Not until the early 1980s did federal law governing the Title XIX (Medicaid Program) change (1) to allow for reimbursement for alternative care through waivers, (2) to move away from a cost reimbursement methodology to alternative systems with incentives for shorter lengths of stay, and (3) to shift its emphasis from only physician providers to nontraditional providers, like nurses and clinic staff. In recent years the state implemented only a limited number of these options into the state Title XIX plan. Instead, in the last four years the state has focused on an examination of how to control the state share of medical expenses through restrictions on provider reimbursement increases and client eligibility.

The 1987 Legislative Session is highly significant for its contributions to major Medicaid expansions which will be implemented in FY'88. Two bills signed into law focused on recommendations for the provision of indigent health care, including authorization for a comprehensive, two-year contracted study of the issue under the direction of an Oklahoma County on Health Care Delivery, with staff support from the Health Planning Commission. In addition, the Legislature, after careful study, endorsed implementation of a DHS indigent health care proposal, allowing for the development of a \$24.2 million expansion of the Medicaid Program and bringing into the state \$15.3 million in new federal dollars. The funding mechanism for this expansion is the conversion of \$9 million of the Oklahoma Teaching Hospitals (OTH) state subsidy into Medicaid federal/state matching funds by adjusting the Medicaid reimbursement rate, based on the disproportionate share of indigent care from which OTH and 11 other hospitals will benefit.

The planned Title XIX expansions are the first major enhancements since 1975 when the Vendor Drug Program was added. The only other major change was in 1979 involving an increase in the resource standards for cash assistance recipients. The expansions will include the following caseloads: (1) 1,200 new pregnant women and 1,500 new children under two if income is below the poverty line; (2) 570 two-parent families who are categorically related to the AFDC program; and (3) 5,300 individuals categorically related to the AFDC Program with incomes up to the "needs" standard, a 40% increase in the income eligibility. The latter group may have previously been eligible for the Medically Needy Program, but have been ineligible for prescription benefits and have had to utilize a portion of their incomes to receive benefits.

The most significant change about this year's proposals involves eligibility criteria. As part of a change in federal regulations two years ago, the previously inseparable eligibility linkage between the Medicaid Program and cash assistance programs was severed. In providing the latitude for the perinatal coverage option, Medicaid is turning toward a posture of being a program for the poor, not just the poor who categorically relate to a cash assistance program.

Case management services is another new area of Medicaid expansion in FY'88. Though not a specific service, case management represents a coordinated approach to social services delivery. Both DHS and the Department of Mental Health are relying heavily on new federal matching dollars in this area in order to offset General Revenue cuts of \$3.8 million for DHS and \$1.7 million for Mental Health.

The DHS FY'88 appropriation included \$9.8 million for the implementation of Medicaid rate increases of \$2.50 per day for nursing homes, \$5.00 per day for nursing homes for the mentally retarded, and 3.7% for hospitals. Reimbursement rates are set in accordance with Title XIX regulations by recommendations from a DHS Rates and Standards Committee to be commensurate with the costs necessary to run effective and economically operated facilities.

Under the oversight and management of the Oklahoma Teaching Hospitals, the Department of Human Services will open its new George Nigh Rehabilitation Center in Okmulgee in August, 1987. Beginning with 26 beds, but ultimately expanding to 48 beds, this center is expected to provide a broad range of quality rehabilitative services to eastern Oklahoma clients, as well as maintain its services to vocational rehabilitation clients from across the state. OTH expects to obtain licensing for the upgraded facility and to initiate the process of obtaining Medicaid certification by year-end.

Considerable legislative and media attention during the 1987 Legislative Session was devoted to DHS medical claims processing system due to difficulties with UNISYS, the company responsible for the processing and payment of these claims for the state. The department also came to a resolution over a two-year contract dispute with UNISYS, a \$5.24 million settlement which was 82% of the original contract price and included \$1.2 million in additional contract requirements. Faulty design, insufficient testing, inadequate technical assistance from UNISYS, and breach of contract provisions led to the difficulties. At worst the average time needed to process claims was 70 days, and there were over 178,000 claims in suspense. Beginning in March an interdisciplinary team of DHS and UNISYS staff devoted themselves to correcting the difficulties. As of July 1987, the average claims payment period was 12 days, and there were only 36,000 claims in suspense.

The department will seek in FY'88 Medicaid Management Information System (MMIS) certification of the system which will allow for the federal matching rate for related DHS administration costs to increase from 50% to 75%. If approved retroactively, this would offer a \$1 million windfall to the agency, and an additional \$1.5 million annual increase in revenues.

Public Health

In recent years the State Department of Health has strived to make creative use of increasingly limited resources and to steadily increase its range of personal, environmental and occupational health services and, correspondingly, local funds to support those services.

While attracting considerable legislative attention with regard to premarital testing, mandatory testing of prisoners, sex education and criminal activity, AIDS also received funding attention. Despite General Revenue cuts to the FY'88 Health Department budget, the Legislature provided new funding for the expansion of AIDS screening,

counseling, testing, and epidemiology. Combined with federal funds and current Health Department epidemiology service funds, the department will operate a \$800,000 program.

Due to the new Medicaid coverage of pregnant women, the Health Department anticipates indirect, and possibly direct, benefits, allowing expansion of perinatal services, especially to high risk populations in rural areas. Various other initiatives, new consumer protections involving electricians and heating/air condition installers, an upgraded and consolidated dairy inspection program, improved public water supply testing, and the ongoing Superfund-supported, environmental clean-up program, are examples of the ways in which the state is protecting the interests of public health.

Services for the Mentally Retarded

The Department of Human Services provides for the care and treatment of an estimated 1,250 children and adults with developmental disabilities at three state schools. An additional 620 clients reside in community-based group homes, supported by DHS funds. During the past four years there has been a 68% increase in state funds devoted to this area as a result of increased federal regulations related to maintaining certification, federal court pressures associated with Oklahoma's continuing "Homeward Bound" case, and a state commitment to deinstitutionalize and move toward community-based care. Beginning in 1983, group home capacity for the mentally retarded has grown to 758 beds as of the end of FY'87. The process is now becoming more expensive and more difficult as the placements involve clients with higher levels of disabilities.

The Legislature affirmed the commitments of the state plan by allowing for an increased \$1.9 million to maintain group home beds started midyear and to open an additional 150 beds in FY'88. However, the state plan may fall far short of needed improvements for care and treatment of the mentally retarded. An August, 1987, district court judgment in the "Homeward Bound" case demanded the closure of Hissom State School within four years and the immediate expansion of a broad range of community services for the mentally retarded. Regardless of the ultimate outcome of this case, the impact of this judgment is profound and will entail substantial increases in both state and federal funding.

Though requiring no new funding in FY'88, the Legislature also made a commitment to the financial support of a new 48-bed facility to be dedicated to the care and treatment of clients diagnosed as both mentally ill and mentally retarded. It is being constructed in FY'88 with bond financing through a public trust on the Enid State School campus. It is expected that the bulk of the facility's cost will be reimbursable with Medicaid funds, unlike costs at freestanding psychiatric facilities where most of the dually diagnosed clients currently receive residential treatment services.

Services for Deaf and Blind

A broad new \$300,000 initiative within the Department of Mental Health will allow for the development of community mental health and alcohol and drug abuse treatment services for the deaf and hearing impaired. It will allow for the hiring of specialized staff, the training of current staff and purchase of telephone equipment for the deaf.

The Telecommunications for the Deaf and Hearing Impaired Act allowed DHS to purchase \$317,000 of specialized telephone hearing equipment for 600 income eligible deaf and hearing impaired individuals in FY'87. This year's appropriation bill directed all revenues from the \$0.05 monthly telephone access line surcharge into a newly created revolving fund to insure that all such collections are spent for their intended purpose. It is expected that over \$500,000 of equipment for 1,000 individuals will be expended in FY'88. In addition, the surcharge allows for the payment of message relay services.

A new Transition Program for the Deaf, utilizing \$200,000 in new state funds, will be developed in FY'88 to enable high school students from the School for the Deaf to complete their final year of high school in Oklahoma City, building the skills they will need as adults living and working in an urban setting.

The Legislature also passed legislation to allow for the sale of a bond to construct a new Library for the Blind in Oklahoma City to replace the seriously dilapidated current facility. The project is anticipated to be completed in FY'89.

Community Mental Health Services

Over the past decade the state has been engaged in the development of a comprehensive community mental health system, as part of a shift from the costly investment in state hospitals and in order to have care provided to patients in the least restrictive setting. This trend is consistent with prevailing concepts at the national level and follows recommendations made in the 1978 Georgetown University study, "Revitalizing Oklahoma's Commitment to the Mentally Ill", and the 1980 legislative report from the Special Committee on Health Care Delivery System.

Despite these efforts the Department of Mental Health expended \$61.4 million or 53% of its FY'87 budget for the care and treatment of adults and children at four psychiatric centers. The average daily census (excluding home visits) at the four institutions was 812, although admissions were 6824. Community mental health services, much of which is provided by private, voluntary agencies, composed \$36.9 million or 31.8% of the department's budget and served at least seven times the number of clients served by the hospitals.

In FY'88 the department's budget work program includes a reduction in the hospital capacity, based on an anticipated average daily census of 780, and budget of \$56.6 million, translating to 48.6% of the agency budget. Also included is a significant expansion of community services, permitting expenditures of \$43 million or 36.9% of the agency budget. A shift in resources from the hospitals to community-based services, combined with a conservatively estimated \$3.8 million expansion of the state Title XIX plan will permit the enhancements.

As state funds have shrunk, community mental health centers have increasingly focused their efforts on the needs of chronically mentally ill and those who can be reimbursed under entitlement programs. Despite reduced state funding in FY'88, a Title XIX (Medicaid) program expansion in FY'88 will not only prevent a curtailment of services, but will allow for enhancements. Private and state community mental health centers (CMHCs) will be the prime beneficiaries of the Medicaid expansion, which will encompass case management services and increased limits on day treatment services, for a total increase of \$11 million in federal/state Medicaid dollars once fully operational.

Start-up of a 40-bed, \$2.8 million, short-term emergency center in Oklahoma City and a 50-bed, \$4.1 million crisis center network in Tulsa is planned in early FY'88. The crisis centers will provide for greater "front door" control over hospital admissions. In addition to providing an alternative to hospital inpatient stays, the facilities will make high-quality, emergency psychiatric services more available to people who need them in the state's population centers.

An essential component of the state's community mental health plan is the development of residential psychiatric services, without which the hospital census cannot be successfully reduced. Approximately 150 new community placement beds are budgeted in FY'88, and the agency ultimately hopes to fund start-up of an additional 100 beds before the end of FY'88. This step will enable a more therapeutic setting for individuals currently receiving insufficient support in room and board facilities and those in state hospitals for whom institutional care is inappropriate. An estimated \$1.5 million, and perhaps as much as \$2.3 million, in state appropriations will be expended for supervised apartments, advanced residential facilities, secure nursing homes, CMHC locked unit beds, foster care, and other monitored housing arrangements, geared to client needs. In addition, the Legislature endorsed a 14% rate increase for the 32 room and board homes. The department contracts, which pay for resocialization programs for 1700 individuals, will not only better compensate room and board operators, but will improve the quality of care due to increased staff training requirements and the addition of new program activities.

The final area of community program enhancement is in the area of youth services. Legislative and advocate concerns about the care and treatment of juveniles in unsegregated, adult psychiatric residential settings provided a major impetus for the program's development. The department plans implementation of a \$822,600 program, including: 1) three regional residential crisis centers for youth to be linked with current community mental health center inpatient units and 2) three new "Homebuilder" outreach programs, anticipated to help 180 families annually with the intensive therapy necessary to keep the families together.

Alcohol and Drug Treatment

The state continues to struggle with an underfunded system which ranks among the lowest states in expenditures for both prevention and treatment of alcohol and drug abuse. However, a major enhancement of state-supported services in this area is the development of the Oklahoma City Crisis Center, 20 beds of which will be devoted to emergency intervention services for alcohol and drug abuse. State appropriations will also allow for a 25% expansion of residential alcohol and drug abuse services for adolescents in Wetumka. Further, federal "War on Drugs" funds, estimated at \$1.9 million, will allow for first-year support of the crisis center and will fund a variety of private projects aimed at preventing and reducing alcohol and drug abuse, especially as it affects Native Americans, chronic alcoholics, women and adolescents.

Prison overcrowding has forced Oklahoma to examine the needs of the incarcerated and try to find appropriate methods of rehabilitation or alternatives to incarceration. In FY'87 the Department of Mental Health, through the treatment alternatives to drunk driving (TADD), trusty, forensic and medical-surgical programs, served 1500 inmates. Although no new state funding was appropriated to specifically expand treatment services to alcohol and drug abusing inmates, joint Mental Health-Corrections ventures

were encouraged by appropriations legislation and may be possible if additional "War on Drugs" funds are provided through other state agencies.

Veterans Centers

A major issue at the outset of the 1987 Legislative Session was the Governor's proposal to eliminate the Department of Veterans Affairs and phase out veterans centers. The department provides skilled nursing care and domiciliary care to 884 veterans at five veterans centers at a cost of approximately \$70/day. Though more than double the Medicaid intermediate care nursing home reimbursement rate, the level of care is skilled versus intermediate care, and Oklahoma's costs rank in the median when compared to the costs of veterans centers in other states. The Legislature affirmed its support of veterans and the agency by resolution and later through its appropriations decisions.

The agency's FY'88 appropriation level and resulting agency budget will allow for the opening of a new 51-bed Talihina wing in January 1988 and to prepare for the opening of a new 250-bed veterans center in Claremore in July 1988. As a result of these commitments an additional \$3.1 million in state revenue will be needed in FY'89.

Senator Bernest Cain, Subcommittee Chairman
Barbara Norton, Health and Social Services Fiscal Analyst

**SUBCOMMITTEE ON HEALTH AND SOCIAL SERVICES
STATUS OF SUBCOMMITTEE ACTION
FISCAL YEAR 1988**

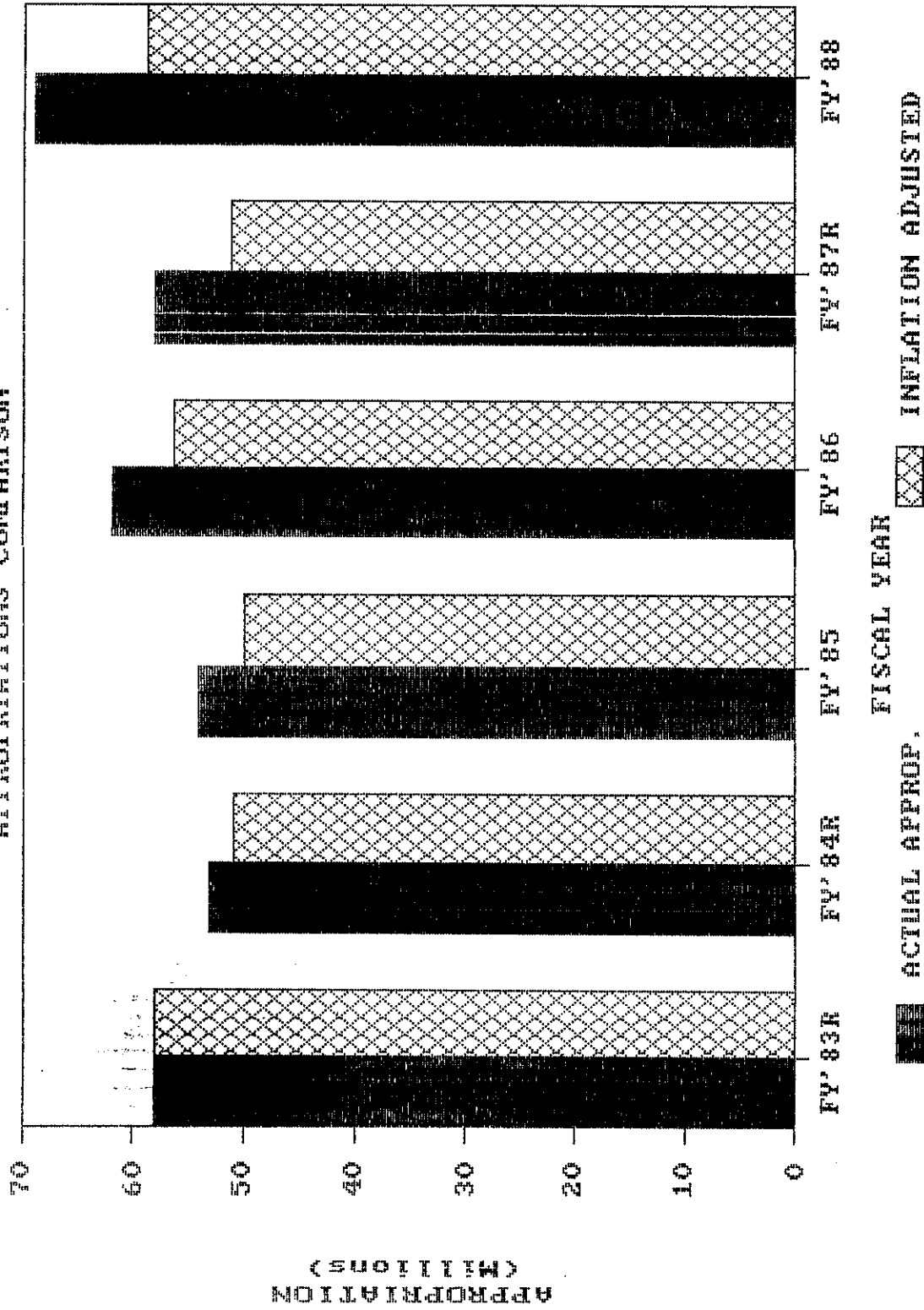
<u>Agencies</u>	<u>FY'87 Initial</u> <u>Approp. Base</u>	<u>FY'88</u> <u>Appropriations</u>	<u>Amount Change</u> <u>From FY'87</u> <u>Approp. Base</u>	<u>Percent Change</u> <u>From FY'87</u> <u>Approp. Base</u>
Children and Youth	\$621,866	\$664,522	\$42,656	6.86%
Handicapped Concerns	218,237	210,847	(7,390)	(3.39)%
Health Department	35,004,901	33,189,663	(1,815,238)	(5.19)%
Health Planning Commission	127,074	165,987	38,913	30.62%
Human Rights Commission	539,848	521,835	(18,013)	(3.34)%
Human Services	450,726,485	450,152,021	(574,464)	(0.13)%
Indian Affairs Commission	170,912	60,231	(110,681)	(64.76)%
J.D. McCarty Center	1,529,818	1,219,518	(310,300)	(20.28)%
Medical Center Authority (OMCA)				
Medical Center Investigations	1,887,406	1,879,038	(8,368)	(0.44)%
Mental Health	86,032,992	82,496,338	(3,536,654)	(4.11)%
Nursing Homes Board	144,457	119,944	(24,513)	(16.97)%
Veterans Affairs	11,731,760	10,238,284	(1,493,476)	(12.73)%
TOTAL	<u><u>\$588,735,756</u></u>	<u><u>\$580,918,228</u></u>	<u><u>(7,817,528)</u></u>	<u><u>(1.33)%</u></u>



NATURAL RESOURCES AND REGULATORY SERVICES

NATURAL RESOURCES AND REGULATORY SERVICES

APPROPRIATIONS COMPARISON





NATURAL RESOURCES AND REGULATORY SERVICES HIGHLIGHTS

Historical Overview

The appropriation level for FY'88 represents an increase in funding for the Natural Resources and Regulatory Services Subcommittee of approximately 19% from the revised FY'87 amount. The increase is also approximately 19% from the revised FY'83 level. After adjusting for inflation however, the increase from FY'83 is only 1.4%. The FY'88 appropriation represents an actual increase of \$10.8 million and an inflation adjusted increase of just over \$840,000 from the FY'83 level.

This funding increase came as the Legislature has provided support for various programs and activities. For FY'86, the Legislature passed a pay increase for state employees and provided over \$4 million for the agencies of this subcommittee to implement the increase. This was the first employee pay increase since FY'83. For FY'88, the Legislature appropriated \$6.3 million more for economic development to the Department of Commerce than was appropriated to the old Departments of Economic Development and Economic and Community Affairs in FY'83. These funds are going for many new programs, some of which are discussed later in this report.

The \$1.1 million appropriation made this session to the Horse Racing Commission compares to no funding provided for this activity in FY'83. The first year funding provided to the Commission was in FY'84. For the \$1.1 million appropriated for FY'88, the state expects to receive over \$2.2 million in direct revenues from horse racing in the state.

The appropriation level for the Labor Department has increased over \$1 million since FY'83. This funding has gone primarily for boiler inspection, asbestos abatement inspection, amusement ride inspection and the new Job Safety Program. The reduced role of the federal government in examining banks and problems in the banking industry has required an additional \$700,000 in funding be added to the Banking Department since FY'83.

Over \$14 million in expanded programs and other increases granted in the past five years have been funded with less than \$1 million in new appropriations (adjusted for inflation). The remainder of the funding has come from cuts made in other agencies and in other programs in this subcommittee. Three out of the five natural resources related agencies have received actual funding declines since FY'83. This is true for two out of the nine regulatory agencies. While many new programs have been initiated over the last several years, funding has often been provided through reallocating existing funds.

<u>Fiscal Year</u>	<u>Appropriation</u>	<u>Inflation Adjusted Figure</u>	<u>FTE</u>
1983 Revised	\$58,007,314	\$58,007,314	2632.0
1984 Revised	53,127,294	50,985,887	2453.0
1985	54,161,420	50,103,071	2480.5
1986	61,869,246	56,295,947	2558.0
1987 Revised	58,171,191	51,297,346	2446.5
1988	68,855,299	58,850,682	2473.0

1987 Session

Budget Reconciliation Act

To accommodate a potential budget shortfall most agency budgets in the Natural Resources and Regulatory Services Subcommittee were cut approximately 5% for the remainder of FY'87. Cuts were made according to each agency's ability to achieve a certain reduction. Two agencies, the LPG Board and the Mining Department, were spared any cuts due to the serious impact a reduction would have on their operations. The Horse Racing Commission's budget was cut only 1.9% to prevent the cancellation of any race days. The Securities Commission received a 9.1% cut because funds received from another source allowed for state funds to be saved. Most reductions were met by personnel savings. Many agencies had held positions open and reduced expenditures during the year in anticipation of budget reductions.

Subcommittee Budget Approach

The subcommittee approached the FY'88 budget by first identifying those areas where budget cuts could be made and by prioritizing additional funding needs. New programs and activities were initiated by redirecting funds from activities that no longer were considered to be priorities, thereby allowing over \$7 million in reductions from the FY'87 budget to be utilized for new activities.

Fee increases were reviewed as a means of offsetting some of the cuts and to provide funding for essential new programs and services. Fee changes considered by the subcommittee would have generated nearly \$16 million in new revenues. The Governor's executive budget recommended nearly \$9 million in fee increases. After consideration of the funding needs of the agencies and the merits of the fee proposals, the committee adopted \$3.3 million in fee increases. Nearly half of this revenue is generated from changing the insurance agent appointment fee from \$10 to \$20. This fee is paid by the insurance companies and not by individual agents. Changes in securities fees will generate approximately \$1 million in new revenue. Many of these changes involve simplifying the fee structure by consolidating small fees and modifying assessment methods. A new fee was established for asbestos inspection to offset the increasing costs of the inspection program. This fee will be collected by the Department of Labor and will be deposited in the General Fund. Mineral production fees were increased to offset declining revenue to the Mining Department Revolving Fund. Other changes include increasing the bank assessment fee from 17¢ to 19¢ per \$1,000 of assets and increasing the fees paid by supervised lenders and credit service organizations.

Major Policy and Program Issues

Economic Development

For the 1988 fiscal year the Legislature provided additional funding to expand the work performed by the Department of Commerce. Many of these additional funds are directly tied to legislation passed this session which adds additional responsibilities to the agency. Other additions will broaden the approach of the Department away from the traditional recruitment approach of economic development to a more comprehensive approach that focuses on assisting existing and new businesses.

Over \$1.3 million in new funding was added to the department to carry out provisions of HB 1444, the Economic Recovery Act of 1987. Of these funds, \$250,000 will go for the establishment of the ORIGINS information system. This system will establish in Oklahoma a central source of economic, demographic, and trade data that will be made available to communities and groups across the state. The information available on this system will also be used by the Department to develop the state's economic development strategy, to provide support for Oklahoma Futures, and to complete the state's five-year economic development plan.

To assist localities in preparing for economic development, HB 1444 contained provisions establishing a Certified Cities program and for establishing the Economic Innovation Network. Through the Certified Cities program cities attain certification designating that they have met established criteria regarding preparedness for economic development. This program provides an incentive for communities to go through the procedures essential for implementing development practices. The Economic Innovation Network will distribute \$600,000 appropriated this year as incentive funds. These funds will be awarded on a competitive basis to regional entities for locally sponsored development activities. This program offers a financial incentive for regional areas of the state to better coordinate their development activities.

The addition of funds for small business development, financial advisory assistance, business retention and revitalization, and new regional offices will allow the department to focus more attention on assisting existing Oklahoma companies and new business ventures. The department will now have available the resources and capabilities to provide assistance to Oklahomans in need of business related technical assistance. Businesses seeking assistance in acquiring financing will now be able to get help from the newly created Capital Resources Division. This division will manage the loan programs now available through the department and will provide information on alternative financing options. New regional offices will work in coordination with the existing Small Business Development Centers and vo-tech offices to provide one-stop technical assistance throughout the state.

Tourism Promotion

Realizing the importance of the tourism industry to the state, the Legislature provided the Tourism and Recreation Department with \$875,000 in additional funds for promotion and advertising. These funds will be used in conjunction with the \$425,000 that was already in the agency's budget for advertising. Of this \$1.3 million, \$1.1 million will be used for direct media costs with the remaining \$200,000 needed to print brochures. To provide additional funds for advertising the Legislature passed the Tourism Promotion Act. This act will provide a dedicated source of funds for tourism advertising. Revenue estimates for the current year are uncertain but it is felt that up to \$2 million could be generated for subsequent years. The increased advertising funds approved for this year will probably move Oklahoma from 6th place to 4th place in advertising expenditures in our eight-state region.

Assistance for Farmers and Ranchers

The 1985 federal farm bill placed additional responsibilities on the state's 89 Conservation Districts. Farmers are required to have conservation plans on file at the district offices in order to be eligible for federal assistance. This requirement has meant

an increased workload for the districts at a time when both state and federal funding has been reduced. The inability of the districts to comply with this federal law could jeopardize up to \$150 million in federal subsidy loan payments and a large portion of Farmers Home Administration loans. To respond to this situation, the Legislature appropriated an additional \$340,000 for the district field offices or additional help to handle the increased workload.

Additional assistance for rural areas comes as a result of additional funds appropriated for upstream flood control. These funds will be used for the repair and maintenance of flood control structures. The upkeep of these structures is critical in order to minimize property loss and damage during flooding, to maintain Oklahoma's eligibility for federal disaster relief funds, and to protect the possible liability of the state in the event a structure fails.

The Department of Agriculture was given a \$250,000 appropriation to start the Brucellosis Depopulation Program. These funds will be used to subsidize ranchers with infected cattle on a per head basis. This program, in conjunction with the increased enforcement powers granted in SB 32, is expected to reduce the number of infected cattle in the state and move Oklahoma from Class B to Class A status. If this occurs, the restrictions now placed on the sale of Oklahoma cattle would be removed. Additional funds were also given to this department for a mediation program that will assist farmers in bankruptcy proceedings and for the provisions of SB 283, the Agriculture Diversification Act.

Additional Recreation Area Added

The Federal Bureau of Reclamation is now completing its work on the McGee Creek Recreation Area. Sometime this summer or fall this area will be turned over to the state for the continued operation and maintenance of the site and facilities. Additional funds were given to the Department of Tourism and Recreation to hire the necessary personnel to operate the site and to make additional improvements. Also, additional funds were given to the Department of Agriculture to provide fire protection for the area.

Regulatory Changes

Many of the regulatory agencies in this subcommittee are affected by legislation passed this session. Several bills added new responsibilities to the Insurance Department. Most of these bills contained provisions that generate enough revenue to offset the costs of any additional duties placed on the department. Senate Bill 340 is a comprehensive revision of the state's laws relating to setting property and casualty insurance rates. This bill is a response to a recent state Supreme Court ruling that set new tests and standards for rate-making. Six new FTE were added to the agency for the provisions of this bill and eight FTE were added to carry out other legislation adopted during the last two sessions. No additional appropriated funds were needed for any of these positions.

In SB 140, the Consumer Credit Department was given the additional responsibility of regulating credit service organizations. To meet the workload demands of this responsibility, an additional \$55,000 in appropriated funding was given to the agency. Fees raised in the appropriation bill related to this agency more than offset this cost. In HB 1417 the Securities Department was given additional duties relating to capital formation in Oklahoma. These responsibilities were funded through the agency's revolving fund.

The Department of Labor was given an additional \$115,000 for the Asbestos Inspection Program. The demand for inspections has gone up from 245 actual inspections in FY'85 to an estimated demand for inspections in FY'88 of 2,100. These new funds will support two new FTE. The Labor Department was also given \$150,000 to maintain last year's funding level for the Job Safety Program. The prior year funding source won't be available for FY'88. The Job Safety Program offers businesses increased safety consultation in an attempt to lower injury incidence rates and ultimately lower workers' compensation insurance premiums.

The inspection of the state's manufactured grade dairies and soft-serve ice cream restaurants was transferred from the Department of Agriculture to the Department of Health. The Health Department already has similar inspection responsibilities and this transfer should eliminate any duplication in inspections. Funding for the Older American Volunteer Program was moved from the Department of Commerce to the Department of Human Services. This program will operate in the same manner under DHS, but will be funded through a more appropriate agency.

Corporation Commission Funding

A significant funding problem facing the committee involved the Corporation Commission. Over half of the commission's budget has historically been funded from the Conservation Fund. This fund receives its revenue from an excise tax on oil and gas production. As these revenues have dropped significantly in the last few years, the commission was in need of new revenues for FY'88 to avoid drastic cut backs in services. Several new revenue sources were suggested to meet this need. The Governor's budget included a recommendation for a utility assessment fee and an increase in the oil and gas excise tax. The Legislature rejected both of these proposals and provided additional General Revenue to the agency to help the funding problem. The 21.6% increase in appropriated funds for the agency will still leave the agency 9% below the FY'87 original budget in FY'88. This funding decrease will result in the elimination of 10 to 15 employees and the complete elimination of additional positions held vacant in the past.

Senator Roy Boatner, Subcommittee Chairman
Jerry Johnson, Natural Resources & Regulatory Services Fiscal Analyst

**SUBCOMMITTEE ON NATURAL RESOURCES AND REGULATORY SERVICES
STATUS OF SUBCOMMITTEE ACTION
FISCAL YEAR 1988**

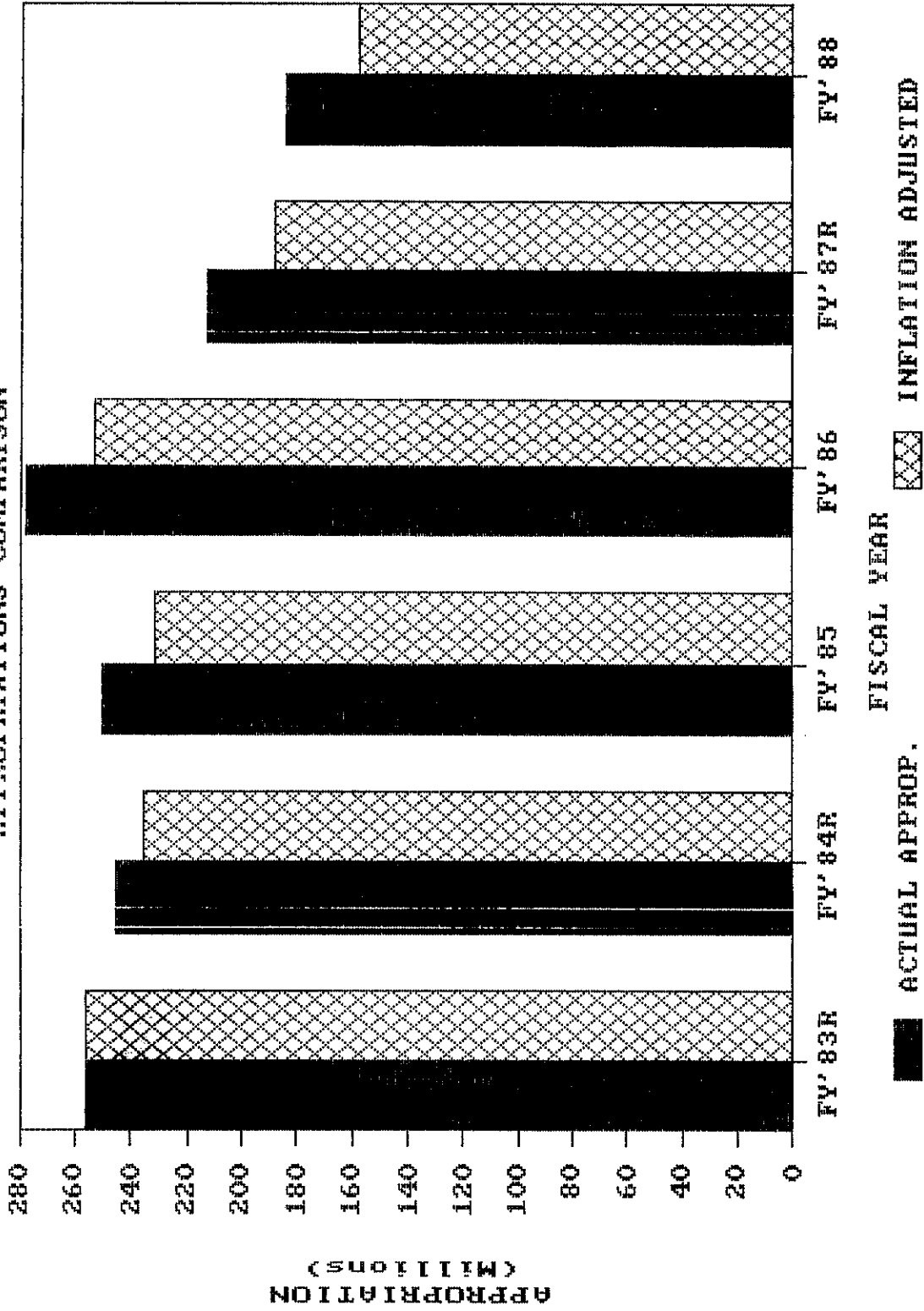
<u>Agencies</u>	FY'87 Initial <u>Approp. Base</u>	FY'88 <u>Appropriations</u>	Amount Change From FY'87 <u>Approp. Base</u>	Percent Change From FY'87 <u>Approp. Base</u>
Agriculture Department	\$11,506,537	\$12,424,545	\$918,008	7.98%
Banking Department	2,131,303	2,045,959	(85,344)	(4.00)%
Commerce Department	13,622,519	13,813,437	190,918	1.40%
Conservation Commission	3,137,512	3,489,550	352,038	11.22%
Consumer Credit	532,763	525,459	(7,304)	(1.37)%
Corporation Commission	3,727,439	4,533,645	806,206	21.63%
Horse Racing Commission	963,444	1,119,805	156,361	16.23%
Insurance Commission	2,361,388	2,199,095	(162,293)	(6.87)%
Labor Department	2,123,111	2,273,125	150,014	7.07%
Liquefied Petroleum Gas Board	240,405	242,478	2,073	0.86%
Mining Board	877,400	845,700	(31,700)	(3.61)%
Pollution Control	166,122	160,237	(5,885)	(3.54)%
Securities Commission	733,887	661,029	(72,858)	(9.93)%
Tourism & Recreation	20,742,611	21,164,178	421,567	2.03%
Water Resources Board	2,745,442	3,458,057	712,615	25.96%
TOTAL	<u><u>\$65,611,883</u></u>	<u><u>\$68,956,299</u></u>	<u><u>\$3,344,416</u></u>	<u><u>5.10%</u></u>

PUBLIC SAFETY AND TRANSPORTATION



PUBLIC SAFETY AND TRANSPORTATION

APPROPRIATIONS COMPARISON





PUBLIC SAFETY AND TRANSPORTATION HIGHLIGHTS

Historical Overview

With the FY'88 appropriations, the law enforcement and public safety agencies, General Revenue funding was 26.2% above FY'83. When the increase attributable to the transfer of the Department of Public Safety Revolving Fund to General Revenue is deducted, the increase is only 6.9%. Adjusting for inflation and reductions in revolving fund and federal support, law enforcement will be funded 1.4% less than in FY'83.

The shortfall in FY'86 General Revenue was known early enough in the fiscal year for agencies to apply spending controls by December or January. The Governor and legislative leaders agreed to allow agencies to carry any FY'86 savings into FY'87 to help offset reductions in FY'87. Excluding the Department of Transportation, public safety agencies reduced General Revenue expenditures by over \$5.6 million or an average of 3.8%. In addition, revolving fund expenditures were cut almost \$1.9 million, an average of 6.5%. Total spending was voluntarily reduced by \$7,558,018 or 15.0%. In addition, DOT reduced administrative expenses by another \$3.6 million or 5.5%.

<u>Fiscal Year</u>	<u>Appropriation</u>	<u>Inflation Adjusted Figure</u>	<u>FTE</u>
1983 Revised	\$255,793,437	\$255,778,409	8006.5
1984 Revised	245,037,957	235,161,187	8362.5
1985	250,190,406	231,443,484	8567.5
1986	277,806,821	252,781,457	8660.5
1987 Revised	213,008,110	187,837,836	8548.5
1988	184,042,108	157,300,947	8782.5

Corrections General Revenue funding increased 32.2% between FY'83 and FY'87, being driven by a systems inmate population increase of 31.8%. FY'88 funding was increased 10.7% over FY'87 levels, reflecting an unfunded increase of 700 inmates in FY'87. The increase in FY'87 population is a result of the Corrections Board's decision to reduce house arrest population and a net increase in new admissions over releases.

In order to absorb the projected net new admissions of 600 inmates in FY'88, plus the inflow reduction of house arrest from 1,000 down to about 300-400 inmates, the Governor and Pardon and Parole Board have agreed to greatly expand parole and commutations. Budgets, therefore, are based on the assumption that the commutation process and continued use of Emergency Release program (CAP) will maintain at-facility population at June '87 levels or even slightly below.

Funding increases in FY'88 provided an additional 200 corrections officers for increased security at institutions, 75 new parole and probation officers to reduce caseloads, and increased maintenance and repair funding.

Transportation funding from all sources increased only 2.5% between FY'83 and FY'87, in spite of a significant increase in federal allocations since FY'84/'85. General Revenue appropriations in FY'87 had actually declined to 58.7% less than in FY'83, as the

Legislature was forced to help balance a General Revenue shortfall with a 53.1% cut. In FY'88, the state was facing the loss of federal allocations if appropriations were not increased. (Each state dollar generates between \$7.50 and \$9.00 in federal dollars.) Therefore, as part of the total tax package (HB 1061) the largest motor fuel tax in the state's history was approved in April. With the added 5¢ on gasoline and 3¢ on diesel, \$93.7 million in dedicated highway user funds are budgeted for FY'88. However, this increase was offset by a cut of \$41.6 million in General Revenue appropriations, resulting in a total increase of \$52.1 million or 13.8% over FY'87. After adjusting for inflation this level of funding is 0.3 of 1% less than funding received by DOT in FY'83. The tax increase was essential to get back to a level that would prevent deterioration of the state highway system. By making most of DOT funding from dedicated sources, the costly and disruptive impact of fluctuations in General Revenue should be greatly reduced.

1987 Session

Budget Reconciliation Act

Additional cuts were made to the FY'87 budget, prior to addressing FY'88 needs. Cuts totaling over \$3.9 million or about 3.2% were made in all agencies except the Department of Public Safety and Department of Transportation.

A failure of fee revenues primarily from increases passed in FY'87 would have resulted in a \$3-\$3.5 million shortfall in DPS revenues by the end of FY'87. The Legislature acted decisively to correct the uncertainty in the department's annual expenditure program by transferring revolving fund revenues to General Revenue, effective March 1, and making a supplemental General Revenue appropriation of \$6.9 million. This action required the agency to absorb operating cuts of about \$1.6 million or 3.5%.

The Department of Transportation General Revenue appropriation was cut \$7.0 million or 10.6% by deferring contracted engineering work for May and June, paring down the May and June lettings and some administrative reductions. This cut was effectively reduced to \$5.0 million by the transfer of \$2.095 million from the Oklahoma Turnpike Authority. The critical factors were the preservation of federal highway allocations and the maximization economic stimulus of construction spending.

Major Policy and Program Issues

Prison Overcrowding

As it has every year in recent history, the Legislature faced major policy and fiscal decisions stemming from Oklahoma's "tough on crime and criminals" attitude and the resulting net growth of inmates in all phases of the correctional system. In FY'87, Governors Nigh and Bellmon, invoked the Emergency Release (CAP) a total of five times, reducing the sentences of about 3,000 eligible inmates by 300 days. Inmates serving time on house arrest status grew to near the maximum 15% of system population with a high of 1,417 in October FY'87. In February 1987, the Board of Corrections approved a more restrictive policy in an effort to reduce the perceived threat to the public from the high number of marginal risk inmates that had qualified for the program. The result of that policy has been a steady decline in the number of inmates on House Arrest to 761 by the beginning of FY'88, but has also contributed to the at-facility overcrowding problem.

Several alternatives were debated during the session. The major piece of legislation was the Offender and Inmate Rehabilitation Act (HB 1449). That bill, had it passed, would have created about 500 new beds for inmates by transferring those in need of drug and alcohol treatment to the Department of Mental Health. This proposal was an extension of the DUI rehabilitation program and was aimed at one of the proven causes of criminal activity. The bill was shelved due to lack of funding. However, an intent section in the appropriation bill directed DOC and DMH to prepare a contingency plan for such a program for gubernatorial approval and authorized the Governor to implement the plan upon declaration of an emergency.

Private prison operations were authorized by HB 1472; however, no new funds were provided. The bill directed the Department of Corrections and Office of Public Affairs to prepare a request-for-proposal (RFP) to be made available to prospective firms. The legislation also authorized counties to contract for jails and DHS juvenile facilities run by private operators.

After commitments from Governor Bellmon and the Pardon and Parole Board, DOC was funded on the assumption that inmate population would be held to no growth in FY'88, through continued use of Emergency Release (CAP) and a policy that substantially increases the number of inmates released by commutation of sentence. Policy makers hoped to buy time for further study before authorizing major increases in prison facilities. The inmate prison population projection model will provide a tool for analysis of the impact of various statutory and policy alternatives on various prison populations, and a Criminal Justice Task Force, created in HCR 1044, will address this area in its interim report.

Other Corrections issues acted on were: Inmate idleness - the appropriation bill included provisions which directed DOC to develop and implement by October 1, 1987, a plan to insure that every inmate not subject to certain confinement restrictions or in educational programs be afforded the opportunity of a minimum of 30 hours per week of work activity.

Also the construction of a prison industries building at Lilley C.C. will utilize inmate labor under DHS/OPA construction supervision. DOC was also authorized to enter into agreements with DHS for employment of inmates on any construction project, subject to controls to insure public safety and provided inmates would not replace DHS employees.

Legislative Oversight

The qualifications of the Director of Corrections were amended and appointment of future directors by the Board of Corrections will require Senate confirmation.

Pardon and Parole staffing was increased by 2 FTE to meet the increased requirements of a commutation docket which will approach 3,000 cases in FY'88, if the target of 1,500 releases is to be achieved.

Transportation Infrastructure Needs and Economic Development

Several issues connected with funding of the state's transportation needs were addressed by the Legislature. DOT's latest Highway Needs Study and Sufficiency Rating Report, the Oklahoma Infrastructure Study by the Governor's Infrastructure Advisory Task Force

and Department of Economic and Community Affairs and the report by the Oklahoma Academy for State Goals — all noted progress in the previous 10 years, but stressed greater funding efforts at state, county and municipal levels would be necessary if the system were to reach "adequate" ratings by the year 2000. These increases were calculated on base expenditures prior to the General Revenue cuts of 45.9% in FY'87.

Comparison of motor fuel taxes with those of surrounding states showed most states considering increases and only Missouri with a lower per-gallon tax rate. Review of highway funding showed a clear trend from FY'82 to FY'87 of declining state General Revenue appropriations (-66.8%) almost offset by increased dedicated state revenues (+43.0%) and federal allocations (+56.7%).

Fairly early in the session it became clear that levels of state funding in the range of \$200-\$225 million per year was necessary to preserve the system improvements that had been achieved and to make maximum use of increasing federal allocations. The initial tax hike proposal was for 6¢ per gallon on all fuels to generate about another \$120 million per year. The eventual compromise achieved in HB 1061 was for 6¢ (to 16¢) on gasoline and special fuels and 3¢ (to 13¢) on diesel fuel. Cities will receive the equivalent of about \$10 million in FY'88 by the state assuming construction maintenance of state highways within city limits. County road needs were addressed with the allocation (a formula of 40% millage, 30% population and 30% land area) of 1¢ of the gasoline tax worth about \$17.4 million in FY'88 to county road funds. The formula for apportionment of County Road Improvement funds was amended by HB 1243 to take into consideration the effect of terrain and traffic volume.

Other issues that supported such a tax increase were the fact that the economic impact of \$1,000,000 of construction expenditure equates to about 100 jobs; economic projections indicate that for each dollar of new construction spending almost \$2.50 of economic activity is generated. Construction spending has long been recognized as one of the quickest methods of stimulating the economy. Furthermore, gasoline prices had settled to five- or six-year lows at the beginning of the calendar year.

Another issue decided in the funding of transportation needs was to place the new fuel tax revenues directly into the Highway Construction and Maintenance Fund rather than directly into the General Revenue Fund where the monies would be subject to other competing needs. Oklahoma ranked second out of twelve comparable states in the percentage of highway funding provided by general funds. Transportation advocates urged the Legislature to place highway user generated revenues in special funds dedicated to specific highway purposes (as is done by constitution in 27 states). Advocates of constitutional dedication say such action is needed to prevent diversion of highway user revenues to general government purposes. Oklahoma's record in recent years of reducing DOT appropriations when General Revenue declines makes those concerns understandable. General Revenue appropriations were cut to \$9.3 million, about 2.0% of DOT's planned expenditures in FY'88. The Legislature declined to totally eliminate this flexible source of "emergency revenues" as a future option in uncertain economic times.

The "Trucking Industry Self-Funded Research and Development Act" of 1987 (TISRAD) was contained in HB 1142, as well as in other related measures — HB 1091, SB 180 and SB 280. The purpose of this package was to overhaul the state's truck registration statutes in order to encourage the location of the motor carrier transportation industry. The legislation funds various research programs to be conducted by the Motor Transportation

Safety, Education and Economic Development Research Foundation from portions of various truck registration fees. It is estimated that about \$713,000 will be generated for the foundation in FY'88. If the economic development objectives of the legislation are realized, an additional \$3 to \$5 million revenue dollars per year could be realized.

Law Enforcement

The primary issues addressed by the Legislature largely centered on the failure of driver license suspension and restitution fee increases passed in FY'86 to generate levels required to offset reduced General Revenue appropriations. Compounding the revolving fund shortfall was the Department of Public Safety's curtailment of replacement of highway patrol pursuit vehicles and an attrition of trooper manpower (expected to approach 10% by FY'87 in the absence of funding for a patrol academy). By FY'87, nonappropriated funds accounted for over 41% of the DPS budget. Fluctuations in these revenues made it difficult for administrators and legislators to be certain budget decisions would in fact be realized. Therefore, the new Commissioner of Public Safety and legislators recognized the need to stabilize funding by transferring fee income to General Revenue and increasing appropriated funding. Additional funds of \$872,000 for the purchase of 80 patrol vehicles in FY'87 was included in the HB 1196 adjustment.

Within the cut levels imposed for FY'88, legislators attempted to provide a continuing level of operations for the Department of Public Safety by funding replacement of 150 vehicles (\$1,500,000) and a patrol academy of at least 25 (\$383,600). To compensate for attrition of highway patrol troopers, legislation was approved to allow the department to reassign troopers in drivers license examiner positions to "road duties" on a voluntary basis. Attrition of civilian positions and in capital security will continue on a selected basis to achieve about \$648,000 in cuts from FY'87 levels.

Responsibility for the administration of the Security Guard and Private Investigator Act was transferred from DPS to the Law Enforcement Training Academy. The act, passed in the previous session of the Legislature, established standards, training requirements, qualifications, license fees and a misdemeanor penalty for failure to comply with the law. Businesses and individuals are subject to the statute. CLEET is required to establish the administrative procedures necessary to issue licenses, maintain a file of individuals and agencies in the business and investigate violations (enforcement date was moved to January 1, 1988). CLEET received a General Revenue appropriation of \$300,000 and six new FTE for that new responsibility. Also, CLEET Fund revenues in FY'88 were sufficient to establish a new program of management training for sheriff and municipal chiefs and their administrators.

Bureau of Narcotics revenues generated from sale of confiscated property will be used to help offset reduced General Revenue funding. Appropriated and revolving funding levels will bring agent manpower up to FY'86 levels.

Fee Increases

OBSI. Although there was no change in the \$35 fee for records checks, implementation of the Security Guard and Private Investigator Act by CLEET could generate as much as \$700,000 in new revenue for the OSBI Revolving Fund for records checks on applicants for licenses. The agency appropriation was reduced \$122,000, which is offset by increased fee income.

Fire Marshal. A new law was enacted in HB 1133 requiring the district court clerk to collect an expert witness fee and remit the fee to the General Revenue Fund in civil cases where employees of the State Fire Marshal are subpoenaed to testify. The State Fire Marshal is to establish a schedule of daily rates which would be available to court clerks and attorneys.

The Security Guard and Private Investigators Act revision (HB 1449) will generate about \$965,000 in FY'88. First-year cost of implementing the program is \$300,000.

Alcoholic Beverage fees were amended in HB 1133 to create a new \$100 fee when changes are made in officers and principal managers of corporate licensees and to reduce fees for transfer of ownership of mixed beverage establishment licenses from \$500 to \$100. The net increase to General Revenue is projected to be about \$32,000 per year.

Nonresident Violator Compact reinstatement fees were increased in HB 1133 from \$35 to \$75, which corresponds to in-state reinstatement fees, and will generate an estimated \$6,000,000 increase in General Revenue from about 80,000 suspensions. This agreement, now in force in 39 states, allows out-of-state drivers, arrested for certain traffic violations, to be released on a promise to appear or pay the fine at a later date upon the discretion of the arresting officer. This same privilege also applies now to Oklahoma drivers arrested in Oklahoma. Failure to pay the fine or to appear in court results in suspension of the motorist's drivers license.

The fee for a duplicate drivers license was increased in HB 1133 from \$2.00 to \$5.00. An additional \$225,000 (43.17%) to General Revenue, \$182,000 (35.0%) to the school district and the balance of about \$114,000 to nine other funds will result.

Notification of owners of abandoned vehicles will be accompanied by a new \$5.00 fee to be deposited in General Revenue. The fee is projected to produce about \$128,000 in new general fund revenues.

Aircraft registration fees heretofore were deposited by the Tax Commission to counties and allocated to counties in the same manner as ad valorem taxes. House Bill 1133 amended 3 O.S., Section 256, to have the fees deposited in the State Aeronautics Commission Revolving Fund for construction and maintenance of airports. Estimated income to the fund in FY'88 is about \$450,000 to \$500,000. The reduction to counties varies from \$26 in Adair County to \$138,410 in Tulsa County.

Senator Herb Rozell, Subcommittee Chairman
Mike Terry, Public Safety & Transportation Fiscal Analyst

**SUBCOMMITTEE ON PUBLIC SAFETY AND TRANSPORTATION
STATUS OF SUBCOMMITTEE ACTION
FISCAL YEAR 1988**

<u>Agencies</u>	<u>FY'87 Initial Approp. Base</u>	<u>FY'88 Appropriations</u>	<u>Amount Change From FY'87 Approp. Base</u>	<u>Percent Change From FY'87 Approp. Base</u>
A.B.L.E.	\$2,489,470	\$2,314,097	(\$175,373)	(7.04)%
Civil Defense	396,600	386,789	(9,811)	(2.47)%
C.L.E.E.T.	1,078,450	1,503,499	425,049	39.41%
Corrections Department	110,591,685	112,278,056	1,686,371	1.52%
Fire Marshal	631,827	601,766	(30,061)	(4.76)%
Military Department	3,644,600	3,377,993	(266,607)	(7.32)%
Narcotics & Dangerous Drugs	3,180,418	2,905,502	(274,916)	(8.64)%
O.S.B.I.	7,185,404	6,677,058	(508,346)	(7.07)%
Pardon & Parole	727,500	764,200	36,700	5.04%
Public Safety	43,464,250	43,917,839	453,589	1.04%
Transportation	69,364,047	9,315,309	(60,048,738)	(86.57)%
TOTAL	<u>\$242,754,251</u>	<u>\$184,042,108</u>	<u>(\$58,712,143)</u>	<u>(24.19)%</u>



PENSIONS AND RETIREMENT

PENSIONS AND RETIREMENT

Overview

All of the state retirement systems are fiscally sound. As shown on Table 1, investment income plus member contributions exceed benefits and member withdrawals for each system. Investment income for the Public Employees Retirement System exceeds benefit and member withdrawals (even without the use of employee contributions). A significant reason for this situation is the generous contributions made by the state over the past number of years. Tables 1 and 2 do not reflect FY'87 activity, however, the information does reflect the latest available figures which were the basis for FY'88 legislative action.

The state retirement systems were deemed to have the financial capacity to meet their obligations and maintain their actuarial soundness on a short-term basis with reduced or eliminated funding from appropriations and employee contributions.

Accordingly, no appropriations were made to Firefighters, Police and Law Enforcement Retirement Systems for Fiscal Year 1988. The Fiscal Year 1987 appropriation was \$17.7, \$12.7 and \$5.7 million, respectively. There were no reductions of dedicated revenue to the systems; i.e., the portion of the gross production tax on gas to the Teachers System, the Insurance Premium Tax to the Firefighters and Police Systems and the various motor vehicle fees to the Law Enforcement System remained unchanged. In fact, the Firefighters and Police Systems will have an infusion of over \$30 million due to the settlement reached by the Attorney General with the Insurance companies filing premium taxes under protest.

Because of the exceptional strength of the Public Employee Retirement System, employer contributions funded through General Revenue appropriations have been reduced for Fiscal Year 1988 from approximately \$65 million to \$37 million. This reduction was accomplished by reducing the employer contribution from 14% to 8%.

Specific Features

H.B. 1473 significantly improved the benefits to be enjoyed by the members of the various state retirement systems as follows:

- Teachers, Public Employees, Firefighters, Police, and Law Enforcement Retirement Systems will pay \$4,000 to the retirement beneficiary of any retired member who dies after July 20, 1987.
- All retirees of the Public Employees Retirement System as of June 30, 1988 will receive a 3% cost-of-living increase.
- The employee retirement contribution for members of the Public Employees Retirement System shall be 0% of the first \$25,000 of gross wages earned for the fiscal year ending June 30, 1988.
- The amount of credited service required for electing a vested benefit for members of the Public Employees Retirement System has been decreased from ten to eight years.

- Members of the Teachers and Public Employees Retirement Systems whose annual salaries exceed \$25,000 have the option to pay contributions on the incremental salary at a rate of 10%. The maximum annual salary on which an employee may choose to contribute is now \$40,000.
- An active member of Teachers or Public Employees Retirement System who retires between July 1, 1987 and January 1, 1988 will receive benefits computed on the average three-year annual compensation up to a maximum of \$40,000 if the member pays 30% of the amount between \$25,000 and his average annual compensation up to \$40,000. This benefit is being offered to state employees to encourage early retirement.
- Under certain situations members of the state retirement systems are allowed to transfer up to five years of service in other state retirement systems upon payment of an amount equal to a 5% contribution plus 5% interest for each year transferred.

H.B. 1473 made the following modifications to the retirement system:

- The boards of trustees of the Public Employees, Police and Law Enforcement Retirement Systems were made subject to the "prudent man rule."
- The Police and Law Enforcement Retirement Systems were removed from the sunset laws.
- The amortization rate was extended from 25 years to 40 years for the retirement of the accrued unfunded liability for the Teachers and Public Employees Retirement Systems.
- The employer contribution for the Public Employees Retirement System was reduced from 14% to 8% of the allowable annual compensation up to \$25,000 per employee for the fiscal year ending June 30, 1988.

Bob Jones, Fiscal Analyst

ANALYSIS OF SELECTED STATE RETIREMENT SYSTEMS
(Millions of Dollars)

	<u>Fiscal Year 1985</u>	<u>Teachers</u>	<u>Public Employees</u>	<u>Firefighters</u>	<u>Police</u>	<u>Law Enforcement</u>
Revenue Sources						
Appropriated and Dedicated State Revenues						
Investment Income	125.0		89.1	29.2	20.3	10.3
Member and Other Contributions	113.9		73.0	16.0	16.2	5.2
Federal Matching Funds	69.0 (1)		15.2	12.9	12.5	1.9
Realized Gains (Losses) on Investments	2.9		—	—	—	—
Total Revenue Sources	<u>323.6</u>		<u>183.7</u>	<u>61.5</u>	<u>54.8</u>	<u>(0.1)</u>
Benefits and Member Withdrawals	141.9		49.4	22.8	12.4	3.9
Agency Refunds	—		2.1	—	—	—
Administrative and Investment Costs	1.6		1.0	0.4	0.2	0.2
Total Increase at Cost	<u>179.5</u>		<u>131.2</u>	<u>38.3</u>	<u>42.2</u>	<u>13.2</u>
Unrealized Increase (Decrease) in Investment Assets	149.6		113.8	(3.2)	13.4	7.5
Total Increase in Value	<u>329.1</u>		<u>245.0</u>	<u>35.1</u>	<u>55.6</u>	<u>20.7</u>
Fiscal Year 1986						
Revenue Sources						
Appropriated and Dedicated State Revenue						
Investment Income	125.0		99.9	32.8	21.1	13.9
Member and Other Contributions	123.7		81.4	16.9	17.6	5.4
Federal Matching Funds	96.4 (1)		16.2	14.2	13.2	2.2
Realized Gains on Investments	3.2		—	—	—	—
Total Revenue Sources	<u>369.3</u>		<u>222.9</u>	<u>73.4</u>	<u>59.3</u>	<u>4.6</u>
Benefits and Member Withdrawals	164.4		62.0	26.1	13.2	5.5
Agency Refunds	—		0.6	—	—	—
Administrative and Investment Costs	1.8		1.3	0.3	0.2	0.1
Total Increase at Cost	<u>203.1</u>		<u>159.6</u>	<u>47.6</u>	<u>45.9</u>	<u>20.3</u>
Unrealized Increase (Decrease) in Investment Assets	115.6		113.8	15.2	(6.3)	8.6
Total Increase in Value	<u>318.7</u>		<u>272.8</u>	<u>62.2</u>	<u>39.6</u>	<u>29.1</u>

(1) Included teacher's tax-sheltered annuity deposits of \$9.8 million for fiscal year 1985, and \$13.3 million for fiscal year 1986.

ANALYSIS OF SELECTED STATE RETIREMENT SYSTEMS
(Millions of Dollars)

	<u>Teachers</u>	<u>Public Employees</u>	<u>Firefighters</u>	<u>Police</u>	<u>Law Enforcement</u>
Return on Investment for Year Ended June 30, 1986	8.36%	8.97%	7.05%	7.89%	7.56%
Cost Value of Assets at June 30, 1986	1,531.9	987.3	275.2	235.8	83.7
Market Value of Assets at June 30, 1986	1,626.2	1,116.3	301.4	267.9	94.0
Unfunded Accrued Liability	1,112.5 (1)	301.9 (1)	278.8 (2)	127.0 (2)	116.6 (2)
Approximate Value of Actuarial Assets Required	2,738.7	1,418.2	580.2	394.9	210.6
Percentage Funded	59.4%	78.7%	51.9%	67.8%	44.6%
Current Amortization Period of Unfunded Liability from July 1, 1986	15 yrs	7 yrs	16 yrs	16 yrs	34 yrs
Indicated Annual Amortization of Unfunded Liability	133.6 (1)	51.7 (1)	26.7 (2)	12.2 (2)	8.5 (2)
Annual Employer Normal Cost	20.1 (1)	53.1 (2)	19.0 (2)	18.6 (2)	3.9 (2)

(1) As of June 30, 1986.

(2) As of June 30, 1985.

GOVERNOR BELLMON'S BUDGET VETOS

<u>Area</u>	<u>Item</u>	<u>Amount</u>
EDUCATION		
Common Education ¹	County Superintendents' Salary Appropriation	\$ 180,500
Physician Manpower Training Commission ²	Appropriation	5,453,652
Education Subtotal		\$5,634,152
GENERAL GOVERNMENT AND JUDICIARY		
Courts	Medical Malpractice (intent)	
O. P. A.	Capitol Cafeteria (vendor to operate cafeteria)	\$ 235,000
Tax Commission ³	Appropriation	40,230,121
General Government Subtotal		\$40,465,121
NATURAL RESOURCES AND REGULATORY SERVICES		
Commerce ⁴	Community Action Agencies	\$777,855
	Tick Eradication	91,000
Water Resources Board	Weather Modification	10,000
Natural Resources Subtotal		\$878,855
TOTAL PROGRAM FUNDING VETOED		\$46,978,128

¹ The Governor ultimately agreed to fund County Superintendents in counties with three or more dependent districts.

² P. M. T. C. received an FY'88 appropriation with the understanding that they change their mission to more adequately address the need for services in rural areas.

³ Funding was provided after the Governor and Legislature agreed to the reform of the Tax Commission. However, the Tax Commission was forced to shut down for two days and exhaust most of its revenues while a compromise was being developed.

⁴ The Community Action Agencies received funding in HB 1473. However, the Governor contends that CAP Funding and the Community Services Block Grant (CSBG) should be transferred to DHS.

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