

FY-97 Tax Cut Proposals

Stimulating Economic Growth in Oklahoma

Summary

The FY-97 Executive Budget proposes that the State of Oklahoma implement significant tax cuts as a means of allowing taxpayers to retain a greater share of their hard earned dollars. The proposed FY-97 tax cuts will primarily be implemented mid-year; therefore, the impact of these proposals will be spread over more than one year.

The proposed tax cuts have a variety of goals or purposes ranging from promoting economic development activity to increasing equity and parity. Each is designed to assist in strengthening the Oklahoma economy. Oklahoma's citizens are dynamic individuals who care about their state and the quality of life.

Oklahoma businesses will be encouraged to hire our own college graduates thereby assuring that the education provided by our colleges and universities will be used to improve our standard of living. Businesses will be encouraged to start up and grow through the repeal of the franchise tax, corporate income tax breaks for new businesses and targeted investment tax credits for purchases of custom software and systems integration as well as investments in new agricultural value-added facilities. One of the backbones of our economy, the family operated farm or business, will receive income tax credits for the estate or inheritance tax paid when the farm or business is passed to

children who will continue to operate them. The elderly, non-government retiree will receive the same retirement income exemption as the government retiree thereby assuring equal treatment of all retirees. One of Oklahoma's major industries - petroleum - will benefit from the granting of tax refunds for payment of gross production tax for super-marginal wells, helping lengthen the economic viability of these diminishing resources.

There are many determinants of a state's well-being that cannot be controlled such as location or climate. However, a state does have control over its tax structure. Taxes matter a great deal to the economy and Oklahoma has room for improvement in this area. With the per capita income level at about 81% of the national average, a major effort is needed.

Studies of other state economies demonstrate that a state can improve its economic status, but not by increasing taxation and spending. Since states do have control over their tax structure, one of the first ways that a state can make a positive impact is to reduce the tax burden on its' own citizens and businesses. Oklahoma's government has reacted to previous economic crises by raising taxes. This type of fiscal action may solve the immediate problem but will ultimately lead to a lower growth rate for our economy.

Summary table of tax cuts

The following table is a summary showing annual and fiscal year

impact of each of the recommended tax changes with discussion to follow. Note that the annualized amount represents a fully phased in tax cut such

as the proposed retirement income exclusion which is to be phased in over a five year period.

Further, the revenue estimates listed here are purposely conservative. That is, they are "static" revenue estimates

which ignore the positive revenue feedback effects which would occur in a stimulated economy. Any actual revenue losses will likely be smaller since they will be recouped by increased economic activity.

Detailed Discussion of FY 97 Tax Reduction Proposals

REVENUE PROPOSALS

		Revenue Impact (\$ millions)		
		Annualized	FY-97 Estimate	FY-97 Appropriations
INCOME TAX				
1	Credits for hiring Oklahoma graduates	(4.5)	0.0	0.0
2	Credits for estate tax paid on family farms and businesses	(16.0)	0.0	0.0
3	Credits for custom softw are & systems integration	(16.0)	(4.0)	(4.0)
4	Income tax parity for Oklahoma's retirees over 65	(40.0)	(3.0)	(3.0)
5	Corporate tax exemption for emerging businesses	(7.1)	(3.6)	(3.4)
6	Credits for investment in agricultural processing facilities	(2.0)	(0.4)	(0.4)
FRANCHISE TAX				
7	Repeal	(37.5)	(5.3)	(5.0)
GROSS PRODUCTION				
8	Producers income tax credit for tax paid on supermarginal w ells	<u>(5.2)</u>	<u>(1.9)</u>	<u>(1.8)</u>
TOTAL		<u>(128.3)</u>	<u>(18.2)</u>	<u>(17.6)</u>

Income Tax Credits for Hiring Oklahoma Graduates

Oklahoma is experiencing a high "brain drain". Much of the state's education investment is lost with graduates seeking work out of state. Oklahoma colleges and universities prepare students for jobs and many of these students leave the state for that all important first job because they are not hired by an Oklahoma firm. Once individuals move to another state, especially for employment reasons, the probability is that they will not soon return. The Oklahoma per capita income is less than 81% of the national average. Yet we are exporting college graduates, whose education has been primarily at state expense.

Income tax credits for hiring Oklahoma's college and university graduates will provide an incentive to Oklahoma employers to hire Oklahoma graduates, thereby increasing job opportunities within the state for Oklahoma graduates. This income tax credit of up to \$500 for businesses that hire recent Oklahoma college and university graduates will encourage Oklahoma employers to think first about hiring our own graduates. The proposal is both pro-business and pro-education. It will enhance the opportunities for Oklahoma college graduates and provide businesses with well educated employees. This income tax credit will provide an incentive to convince employers that their future prosperity requires an investment in young Oklahoma talent.

The income tax credit will be equal to 5% of the first six months'

salary with the credit not to exceed \$500. The employer would have to keep the new hire on the payroll for at least one year and the graduate must be hired within one year after the graduation date. The credit would be available for the hiring of graduates of either public or private Oklahoma colleges and universities.

Income Tax Credit for Estate Tax Paid on Family Farms and Businesses

Family farms and businesses are the backbone of the American economy. However, in Oklahoma their continued operation is frequently jeopardized by the amount of estate or inheritance tax that must be paid when property passes to heirs. An income tax credit for lineal heirs who continue to run the family farm or business will help ensure these important enterprises are not destroyed by excessive taxation.

The individual income tax credit will be equal to the actual Oklahoma estate tax paid on the first \$425,000 of real or tangible property inherited by lineal heirs. When integrated with the current exemption of \$175,000 for lineal heirs, this individual income tax credit would effectively eliminate the effect of the state estate tax on the first \$600,000 for family farms and businesses.

This income tax credit is to be spread over a five year period for Oklahoma estate tax paid on the first \$425,000 for a family farm or business. The credit would be based on real property and equipment but not on the value of intangibles. Providing a credit exclusively to

lineal heirs accomplishes the purpose of providing relief for family farms and businesses that continue to be operated by family members. It is an uncomplicated proposal which should require minimal record keeping.

The heirs may qualify as farmers or family business operators by paying self-employment tax on earned income taxable in Oklahoma. This qualifier very effectively assures that Oklahoma heirs of Oklahoma family farms or businesses are both given the means and the assurance that Oklahoma considers the continuation of the family enterprise as important to the economy.

Income Tax Credit for Custom Software and Systems Integration

Oklahoma must encourage high tech industries and high paying occupations. The high tech industries will not only provide high paying jobs but their work will upgrade our businesses - both large and small, and make them more competitive. This can act as an incentive to industry moving to the state where integrated computer systems are an integral portion of their enterprise. Providing an incentive to attract this type of work can have a dynamic impact on the economy.

Under this proposal, Oklahoma will provide a 10% income tax credit for the purchase of customized software and computer systems integration when the work is performed in Oklahoma. This will be in the form of an investment tax credit of 10% for customized software development or systems integration for work performed in Oklahoma in

excess of \$1,000. The credit is limited to \$500,000 (i.e., 10% of a \$5 million expenditure). This investment tax credit of 10% is a higher percentage credit than is given by many states for research and development activities. Since the corporate tax rate is 6% and the effective individual income tax marginal tax is 7%, this can give Oklahoma a competitive edge over other states.

Income Tax Parity for Oklahoma's Retirees Over 65

Currently, there is disparate treatment of retirement income between government and non-government retirees when it comes to the payment of Oklahoma individual income tax. Government retirees - whether federal, state or local - may exclude up to \$5,500 of their pension retirement from Oklahoma income taxation. There is no comparable treatment of retirement income from other sources; therefore, the private sector retiree may pay higher state income taxes than the government retiree even when they have the same amount of retirement income.

This proposal will provide parity for private sector retirees, over the age of 65, with their counterparts who have retired from government employment. This will be achieved by excluding a portion of retirement income from taxation for all retirees over the age of 65 for income derived from Individual Retirement Accounts (IRAs), pension plans (both defined benefit and defined contribution types), and annuity income. This exclusion is to be phased in over a five year span at the rate of an

additional \$1,100 per year until the maximum exclusion reaches \$5,500.

This proposal will not affect the benefit currently enjoyed by government retirees. Their current benefit exclusion of \$5,500 will remain unchanged. Government retirees, over the age of 65, may receive some benefit from this proposal if their current exclusion is not \$5,500 and they have retirement income from other qualifying sources. Social security income is not taxed by Oklahoma and it will continue to be excluded from Oklahoma taxable income.

Corporate Income Tax Exemption for Emerging Businesses

Most businesses start out on a small scale and need all of the assistance and encouragement they can find to get started. New businesses often have difficulty competing with well established businesses that have had an opportunity to work out some of the initial startup problems and to refine their goals and product. This need for special treatment is withdrawn when the businesses are able to compete on an even basis.

This proposal is meant to help new businesses get on their feet and succeed though those first few critical years. These businesses will be exempt from the first \$25,000 of otherwise taxable income for their first five years of operation.

This is a very simple concept. A corporation computes its taxable income in the usual way and simply qualifies for the exclusion on the first

\$25,000 of taxable income as long as it is five or less years old.

However, this proposal denies this tax break to ongoing concerns which may re-incorporate merely to appear to be a new corporation. Income in excess of \$25,000 will be taxed at the normal corporate income tax rate of 6%. Correspondingly, after a firm's fifth year of operation all income will be taxed at the 6% rate.

Income Tax Credits for Investment in Agricultural Processing Facilities

Since much of Oklahoma's raw materials, especially agricultural products, are shipped out of state and refined or processed there, Oklahoma does not reap the full potential benefit of its agricultural expertise. Often there is more value added and profit to be gained from refining or processing than from growing the basic agricultural products.

Processing value-added agricultural products can play an important part in bringing more money into Oklahoma. This will benefit the state and its citizens as a whole. A strong value-added industry adds to the tax base and increases the demand for products.

Oklahoma can encourage investment in agricultural processing by providing income tax credits for investments in agricultural cooperatives which process agricultural products. Under this proposal, each individual investor will get a 12% investment tax credit, up to a maximum credit of \$10,000, for each investment in a value-added agricultural processing venture.

Repeal of the Corporate Franchise Tax

Public finance theory suggests that it is unwise for a government to assess a lot of little taxes. Such a practice complicates life for both its citizens and the government alike. It is generally costly for both to administer. The corporate franchise tax in Oklahoma is an excellent example of such a nuisance tax. Its' overall proceeds to the state are relatively small in comparison to the total tax collections of the state and the burden they impact on businesses - especially fragile new start-ups.

This budget proposes to abolish this nuisance tax and send a signal to the country that Oklahoma is serious about being small business friendly.

Twenty thousand Oklahoma corporations pay only the minimum \$10 franchise tax per year. Only 300 corporations pay the maximum tax of \$20,000. The cost of record keeping and tax return preparation exceeds the amount of tax paid for the majority of Oklahoma corporations. While this tax provides only a very small part of state revenue, the burden filers have is considerable.

CPA's who have prepared these returns agree that the return is more trouble than it is worth. Many of these preparers feel their time on the franchise tax returns could be better spent with their clients in other areas.

This tax is based on the corporation's "capital" or "equity" plus long-term indebtedness. (Long-term indebtedness is defined as maturing and payable in more than three years.) This penalizes growing and expanding firms who rely on

external financing to start and grow their business. The franchise tax burden can be an unexpected expense to these new businesses. Also, it is quite common for a corporation to pay no income tax and yet have accumulated equity subjected to the franchise tax. The opposite can also be true. That is corporations can be very profitable, but if they utilize short term financing, they may only owe the minimum franchise tax.

In addition to all of the work and costs involved in incorporating a business in Oklahoma, the franchise tax return annual reporting and payment of tax is often overlooked. Small business owners find this assessment and reporting requirement difficult to understand.

Producers Income Tax Credit for Gross Production Tax Paid on Super-marginal Wells

Removal of a portion of the gross production tax burden from the operating costs of sub-marginal oil wells will enhance the profitability of such wells and economic support to an industry segment which has seen significant decline in the past 15 years. A pro-active approach will help protect this sector of the economy in the event that oil prices become even more depressed or unstable.

While the seven percent gross production tax may produce \$1.05 on a barrel of oil that sells for \$15, the value of that same barrel of oil to the Oklahoma economy is far greater. As more of our production falls into the marginal category, collecting the seven percent gross production tax becomes a substantial barrier to the

Rainy Day Fund

continued work

A collapse in the oil industry has led to economic downturns in rural areas. These companies are attempting to survive in the economic downturn.

A D... conducted... Marginally... Wells said... existence, shut-in production day. Bec... producing

high operating

low net incomes. These are the wells that are most in danger of being lost.

By providing a credit against income tax of up to \$300 to a producer for a well that produced fewer than 3 barrels per day during the preceding year, Oklahoma can assist in keeping these lower producing wells viable and bolster an important segment of our economy.

It is rather interesting to see where the marginal wells are located. The following map of Oklahoma shows the location of the stripper wells which produce less than one barrel per day. These well producers will be eligible for up to a \$300 annual income tax credit per well.

Category	Benchmarked Standards
Management Layers	One to one reporting relationships are eliminated. A recommended number of management layers ranges between four or five, with a target maximum of six for unique organizations
Span of Control	Recommended span of control is one manager per ten staffers, and in some instances higher. For highly technical and policy sensitive positions, a one to five span of control is recommended.
Clerical to Total Staff	Recommended clerical staff level is 15% (or less) of total staff.
Vacancies	Non-shortage vacancies that have been open for more than six months should be eliminated. Generally, long-term vacancies demonstrate that the agency has successfully reengineered the processes associated with those vacancies.
Consolidation and Merging of Units	Consolidate units with small numbers of employees into larger more efficient units.
Central Office Staff	A reengineering of work processes should be at the central office rather than service delivery level.
Skill Levels of Management	Managers in a reengineered work setting must learn to accept more responsibility, be given more flexibility and eliminate unnecessary work.

Expenditure Recommendations

Oklahoma's economy should be full of opportunities for every citizen. Whenever the government takes money from its citizens to pay for services, it reduces prospects for the economic growth that creates those opportunities. That is why it is very important that every dollar we spend and especially every new dollar we spend offer significant benefits.

This budget recommends significant increases in expenditures in key areas. It does so on the basis that those additional dollars expended will be more valuable to our citizens than the value they would receive from reducing the size of government by the corresponding amount. Several major initiatives are summarized below.

Incentive Pay and Deficiency Plan

This budget proposes that state agency employees shall be eligible for raises of 12% per year based upon savings those agencies are able to make through more efficient operation. Separately, this budget provides funding for improved compensation for public health nurses and law enforcement personnel.

Teachers' Retirement System

The Governor has invited the leadership of the Legislature to join with him in creating a bipartisan committee to study and recommend a solution to the system's chronic underfunding. Until such a solution

is implemented additional funding should be provided to the fullest extent of the law to prevent erosion in the system's

condition. This budget provides for all of that funding on a continuing basis.

Excellence in Higher Education

This budget proposes very significant increases in funding for our colleges and universities. It does not merely increase spending, but empowers our institutions of higher learning to proceed on a path toward nationally-recognized excellence.

Mid-Term Adjustment Solution

This budget provides sufficient funding for a realistic, permanent fix to the problem of mid-term funding. Every student should be treated equally regardless of the size of the school which he or she attends.

Excellence in Common Schools

Consistent with the Governor's pledge to provide excellence in education at all levels, every new dollar recommended in this budget for common schools is a reform dollar designed to spur our schools toward greater achievement.

Quality Jobs and Vo-Tech

This budget contemplates the continuation of the Quality Jobs Program and provides for expansion of the successful Training for Industry

Program and provides funding for the Delaware County Area Vocational Technical School (AVTS) and Tahlequah AVTS.

Improved Highways and Infrastructure

This budget reverses a long-term decline in the emphasis upon highways and contemplates improving our transportation system through increased funding and more efficient operations.

Securing Violent Offenders

This budget provides for making Oklahoma safer by locking violent offenders in secure facilities. Oklahoma should not be a state where vicious predators make a mockery of our criminal justice system. Funding increases in this budget are 15%, the largest increase since FY-89.

Detaining Juvenile Offenders

Violent criminal acts committed by juveniles have become an unfortunate reality. This budget will insure that our system can provide consequences for each serious criminal act and arrest the growth in juvenile crime.

Supporting Our Highway Patrol

This budget provides funding to end the practice of our troopers having to drive unsafe vehicles while it preserves an adequate level of strength for law enforcement.

Reforming AFDC

This budget proposes that Oklahoma will move to end welfare and all of the sorry results the present system has produced. It contemplates that we will replace the present dole with a system that requires work of those who are able before benefits are received and provides real incentives to those desiring to end their dependency upon welfare and enter the productive mainstream of the economy.

Improving Medicaid Administration

This budget proposes streamlining the administration of the Medicaid program following upon the successful introduction of managed-care for large segments of our Medicaid-eligible population. This budget provides that all Medicaid expenditures will be administered through the Health Care Authority and contemplates substantial savings.

Trimming Educational Bureaucracy

This budget provides that dollars used to fund Regional Education Service Centers will be given directly to schools through increased formula-aid and other reforms allowing them to purchase services in the most advantageous manner.

Span - of - Control

Many state agencies have excessive layers of middle management. Too many "managers"

manage only one or two people. This budget has calculated the personnel costs associated with these excess positions and reduced each agency budget by 10% of that amount, an important first step toward streamlined management.

Computation of Funds Available, FY-97 Executive Budget

At its December 22, 1995, meeting, the State Equalization Board certified the amount of funds that would be available for the FY-97 Executive Budget. The Equalization Board certification and cash available are \$287 million more than the appropriations made by the 1995 Legislature for the operations of state government.

As indicated in previous sections, this budget includes tax cuts designed to encourage economic growth and help business prosper. Each of the tax cut proposals are detailed in the previous section.

The impact of these tax cuts on appropriations authority is a reduction of \$36.9 million, leaving net available funds of \$250.2 million. Recommended appropriations for FY-97 reflect priorities in safety and security, higher education, elementary and secondary education and highways. The charts presented in appendix B illustrate the appropriations adjustments for all agencies that receive annual appropriations from the Legislature.

<u>Recommended adjustments:</u>	<u>\$000's</u>
FY-97 increased funds available	\$287,091
Tax cut proposals - '97 impact	<u>(\$36,916)</u>
funds available after tax cuts	\$250,175
savings from reducing excess management costs	\$918
less '96 supplementals	(\$39,509)
less '96 one-times and supplemental costs in '97	1,535
Employee OPERS adjustment	(3,095)
FY-97 adjustments and carryover	(1,847)
Transfers between agencies	0
Increased Spending	(273,784)
Offsets	<u>67,673</u>
Funds available after adjustment for tax cuts and spending changes	<u>\$2,066</u>

Improving Oklahoma's Financial Management

In recent times, many governmental entities have been besieged by financial crises, the City of Philadelphia, Orange County and the State of Massachusetts to name just a few. Although Oklahoma is not now in the throes of such a crisis, there are significant issues that must be addressed in order to achieve sound financial management of state resources. By taking seven immediate steps to resolve these issues, we can improve our national ranking in financial management, improve fiscal accountability and insure that Oklahoma will not experience a financial crisis.

Pension plan finances must be brought under control:

Five of the state's six pension systems are underfunded. This is a significant financial issue which, if ignored, will result in severe consequences. The pension benefit obligation is an actuarially determined estimate of the present value of amounts to be paid to current and future retirees. The amount of the pension benefit obligation is compared to the net assets available for benefits to measure the soundness of a pension plan. When the obligation is greater than the net assets available for benefits, the result is an unfunded pension benefit obligation or unfunded liability.

The Teachers' Retirement System alone has an unfunded liability of \$4.2 billion, an amount exceeding all General Revenue Fund appropriations

for the entire year. The total unfunded

liability for all retirement systems exceeds \$4.9 billion, which represents 42% of the total pension benefit obligation and is an increase of 17% over the prior year. Stated conversely, adequate funding is in place to meet only 58% of the long term pension obligations already earned by employees.

Currently, only the Uniform Justices and Judges Retirement System is adequately funded. This means that without changes in the way these systems are financed, there may eventually be insufficient assets to pay all retiree benefits. Oklahoma must bring its pension plan finances under control in a manner that provides for current retirees without jeopardizing the needs of future generations.

Preserve the integrity of the rainy day fund:

The purpose of the rainy day fund is twofold: to provide a budget stabilization tool and resources for unforeseen emergencies. One half of the rainy day fund may be used for decreases in certified revenues that may occur from one year to the next, the other half may be used for emergencies. Appropriations from the rainy day fund have routinely occurred since its inception. Unfortunately, these were usually for purposes which were fully anticipated in the regular budget process. With the 1995 legislative

session, this irresponsible practice finally stopped. It should not resume.

Other revenue sources must be identified and difficult policy choices must be made to prioritize the funding of state needs. Should we continue to deplete the rainy day fund, we may find ourselves ill-equipped to deal with genuine unforeseen emergencies or revenue shortfalls. We were recently reminded of the need to maintain adequate resources when faced with the consequences of the Federal budget shutdown. Proper fiscal management dictates that use of this fund must be restricted to truly unforeseen emergencies or revenue shortfalls.

Agency management will be results oriented:

The Keating administration envisions an Oklahoma that will achieve parity in personal income with surrounding states and provide a safer environment and outstanding educational opportunities for its citizens. More Oklahoma families will achieve self sufficiency through work programs, not welfare, and the illegitimate birth rate will decrease. Oklahoma schools will afford excellence in education for their students as reflected by increasing test scores and graduation rates. Oklahoma's colleges and universities will achieve prominence in national rankings. Oklahoma will improve the condition of its infrastructure, more effectively meeting the needs of its citizens and fostering economic development.

In order to achieve these goals, state government must adopt results oriented agency management. We must quit measuring the effectiveness of government by how much money we spend, how big our caseloads are and how many employees we have. Instead we must focus on the *results* of our programs. Agencies whose goal is to spend more money impair our state's development.

Agencies must institute goals that support the vision of our people for excellence and that can be measured by the results they have achieved (increase in test scores for example) and not by the resources used (amount of money spent) or the service units produced (students enrolled). By instituting and regularly measuring progress against these goals, state government can provide greater accountability, and improve policymaking and resource allocation. We can also enhance performance and communicate the value of programs to Oklahomans.

Supplemental funding requests will be discouraged:

Prudent budgetary policy is a critical component of successful management. Financial observers view supplemental appropriations as an indication of poor management. Agency budgets should be predicated on viable revenue estimates and provide for reasonable and complete expenditure levels required to accomplish agency goals and mandates for the entire fiscal year.

As this budgetary responsibility is incumbent upon agency management, requests for supplemental funding shall be viewed less favorably in the future. Any agency experiencing a shortfall in legitimate revenue estimates or other unforeseen events should exhaust every effort to provide alternative solutions internally, without supplemental funding. Agencies should not submit supplemental funding requests for any item considered but not enacted during the legislative session. Supplemental funding requests will only be considered in cases of a severe funding shortfall or an emergency which could not reasonably have been foreseen and for which internal, alternative solutions are too severe to be acceptable.

Legislation must be accompanied by fiscal analysis:

Fiscal analysis should accompany all legislation to ensure informed debate and financially responsible decisions. To truly measure the costs of any legislative program or mandate, this analysis should include total state and local government costs for current and future fiscal years so that consideration will be given not only to start-up costs, but also to ongoing funding requirements and an achievable financing plan. The benefits of the legislation should be quantified in this analysis to enable both the costs and the benefits to be properly evaluated.

Accrued vacation liability must be funded:

Employees earn annual leave which they may accumulate to a maximum of twelve weeks. All accrued annual leave is payable upon termination, resignation, retirement or death. The related expenditure, however, is recognized and funded when employees are paid for the leave, not when the leave is actually earned. This has resulted in an unfunded liability of \$92 million for accrued leave earned by general state employees and \$37 million earned by employees of the higher education system. Since employees are not required to use all of the earned vacation time accrued during the fiscal year it is earned, the balance of this unfunded liability continues to grow.

This is a real liability to the state, since employees will ultimately be paid for their accrued leave balances, prudent financial management dictates that a plan be implemented to deal with this growing issue. Accrued leave should be funded concurrently within the time period it is earned to prevent growth in the amount already owed. By implementing procedures to accomplish this we will exercise improved control over costs and achieve better management of federal reimbursement. This budget provides a plan to begin funding this liability.

Achieve Timely, GAAP basis financial reporting:

Financial information is useful only if it is readily available and is

meaningful to the user. This means first that the information must be timely in relationship to the period which the information represents. For instance, the Oklahoma Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 1995, which contains the state's audited financial statements, was completed six months after the fiscal year end. This was a dramatic improvement over prior years, but represents an absolute maximum in terms of acceptable standards as established by the Government Finance Officers Association and by the disclosure requirements of state bond financings.

As a comparison, the Securities and Exchange Commission (SEC), the federal agency which regulates publicly traded corporations, requires audited financial statements to be filed within 90 days of a company's fiscal year end. Failure to comply with these regulations results in the inability of the corporation to trade its stock on the national exchanges and possible criminal charges. These large corporate entities provide financial information in a timely manner so that investors, bankers, economists and other users of their information can make intelligent business decisions.

Our state government exceeds the size of many, but not all, corporations which are subject to the SEC reporting requirements. Bond investors, rating agencies, taxpayers and many others rely upon timely financial reporting from the state to make business decisions just as do users of financial information from the private sector. Businesses

examining relocation and expansion opportunities are also interested in the financial condition of the state. Accordingly, timely financial reporting is a necessity for the state to enhance its credit rating and reputation for sound financial management. Oklahoma should issue its financial statements within 90 days of the close of the fiscal year end.

In addition, financial information must not only be timely, but must be presented in a format which is understandable to the user and is consistent and comparable with other like-kind entities. This is accomplished by presenting financial information in conformity with generally accepted accounting principles. Governmental entities should follow the financial reporting standards as determined by the Governmental Accounting Standards Board (GASB).

The GASB is the standard setting body for all governmental entities nationally, for financial reporting purposes. Consistency with these standards assures the users of financial information that the information is comparable with other governmental entities and meets appropriate levels of disclosure and accounting reliability.

The fiscal year 1995 CAFR was the first time in the history of the state where the audited financial statements received an unqualified audit opinion. This means that the State Auditor and Inspector attested to the conformity of the financial statements with generally accepted accounting principles without reservation. Although this was a significant milestone for financial reporting

Rainy Day Fund

purposes, it illustrates the fact that the state lags behind much of the rest of the country in its financial reporting.

In conclusion, careful consideration must be given to the immediate resolution of these seven critical financial issues if Oklahoma is to improve its standing in the national financial community. We must improve our 40th place ranking in financial management if we are to attain the respect befitting our state. We must provide a prudent, accountable, results-oriented government which is responsive to the needs of our citizens, not the wishes of bureaucrats.

amendment April 30, 1985, but sufficient funds did not accrue for the first deposit until July 1, 1988. The Constitution requires that collections greater than the General Revenue Fund certified itemized estimate shall be deposited in the Fund. The Fund balance has been as high as \$196.9 million at the beginning of FY-92 and currently stands at \$45.6 million.

The Constitution provides that up to one-half of the July 1 balance may be appropriated upon emergency declaration by the Governor with concurrence of two-thirds of the House and Senate or by a declaration of emergency by the Speaker of the House and President Pro Tempore of the Senate with concurrence by

The Constitutional Reserve Fund, better known as the Rainy Day Fund,

three-fourths of each House. The remaining half may be expended only

Constitutional Reserve Fund History										
	FY-88	FY-89	FY-90	FY-91	FY-92	FY-93	FY-94	FY-95	FY-96	FY-97 Est.
Deposits	0.0	78.0	100.8	73.9	75.1	0.0	0.0	0.0	0.0	32.9
Total Available	0.0	78.0	152.8	151.7	196.9	135.0	91.1	45.6	45.6	78.5
Avail Emerg App.	0.0	39.0	76.4	75.9	98.4	67.5	45.6	22.8	22.8	39.2
Session Appropriated		1988	1989	1990	1991	1992	1993	1994	1995	1996
Appropriated Amt.			26.0	75.0	30.0	61.9	43.9	45.6	0.0	0.0
\$ millions										

was created by constitutional if, and to the extent that, the revenue

General Items

certification for a succeeding fiscal year is less than that of the current year.

Since the establishment of the Fund there has never been a year in which the next year's revenue certification was below the current year's; so there has never been an appropriation of that half of the July 1 balance. Until last year, there had been a declaration of emergency during each legislative session since there has been revenue in the Fund. The largest emergency appropriation was during the 1989-90 special session when \$75 million was appropriated. There was no appropriation from the Fund during the 1995 session and should not be one during the 1996 session.

Incentive Program

Agency managers often express frustration at not being able to function efficiently and effectively under the existing state personnel system. Four problem areas have been:

Incentive Pay

Historically, it has been difficult to offer performance based pay raises to employees because current laws prohibit them. The only manner in which it is possible to give employees an increase in salary is through a promotion, reclassification or pay grade adjustment. Agency managers

should have the flexibility to reward an employee for meeting or exceeding required levels of job performance in their present jobs.

Training

Training is important to every employee's job enhancement. In the past, it has been left to each agency to decide how much training they will or will not provide. We should have provisions that allow agencies to invest more funds in training so that state employees develop skills to allow them to perform their jobs more effectively.

Retirement

It is important that our retirement systems be financially stable. Every employee deserves to receive the retirement benefits for which they are working today.

Annual Leave

Currently, agencies account for their annual leave on a cash or 'pay as you go' basis. This creates an unfunded liability for each agency which only continues to grow over time. Proof of the unfunded liability may be witnessed by just noting the statewide accrued annual leave balance as of June 30, 1995. According to the FY-95 Comprehensive Annual Financial Report, the annual leave balance was \$141,635,000 including higher education institutions. We should

eliminate the growth in agency liabilities for annual leave by requiring them to account for leave on an accrual basis.

To accomplish these objectives, agency managers and workers should be provided the incentive to reduce personnel expenditures and use the associated savings to fund the areas just discussed, the areas of pay raises, severance pay, training, retirement and annual leave. The *Incentive Program* is designed to do just that.

Under the *Incentive Program*, an agency may invest savings equal to 15% of its personal services budget in any one of the categories mentioned. The agency must invest the savings in the following manner:

1. No more than 80% to fund pay raises and severance pay.
2. At least 6 2/3% to fund accrued vacation pay.
3. At least 6 2/3% to fund training.
4. At least 6 2/3% to fund an additional contribution to the retirement system in which the agency's employees participate.

If an agency does not find it in its best interests to use its payroll savings for any of the permitted categories, it may use the savings for other miscellaneous expenditures.

Prior to the implementation of a personnel cost reduction strategy, an agency must submit a personnel cost reduction plan to their respective Cabinet Secretary and the Office of State Finance (OSF). The plan

should describe how agency managers will implement a personnel cost reduction program to achieve greater efficiency within the organization. The plan should include the amount of funds to be generated by each personnel cost reduction action such as not filling vacancies, reductions-in-force and other methods the agency selects.

The plan should also include a detailed explanation of how an agency plans to *achieve* its savings and how it intends to *use* its savings. A description of the impact that a personnel reduction will have on the services an agency provides should be part of the report. A revised organizational chart that illustrates the positions to be eliminated should be submitted with the report. Furloughs will not be considered an acceptable form of personnel cost reductions. An agency may use its savings immediately after it receives OSF and Cabinet Secretary concurrence.

Pay Raises

Pay raises are one category in which an agency may choose to invest its personnel savings. Pay raises must be completely funded from savings achieved in accordance with the personnel reduction plan submitted by the agency. Costs associated with funding the first year of the pay raise must be absorbed within the first year savings.

Pay raises may be granted to an individual employee only if their most

recent annual employee evaluation shows that the employee meets the standard or equivalent level of performance, or better. Agencies who do not perform annual evaluations in compliance with statutory requirements will not be eligible to grant pay raises in accordance with this program.

Pay raises may be granted as a percentage of base pay to all qualified employees or may be restricted to smaller units within the agency. Based on the type of job, different agency units and other considerations, varying percentages of pay raises may be awarded.

Pay raises may be provided to agency directors who do not serve a fixed term appointment or for whom pay raises are not otherwise prohibited by law. Raises provided to agency directors in accordance with this program may exceed salary caps provided in the statutes or annual budget laws. Pay increases to a director of an agency and anyone who reports directly to the director cannot be greater than the average percentage raise provided to other agency employees.

To be eligible for any increase in base pay in accordance with this program, classified employees must be in permanent status with the agency and unclassified employees must be in regular status with at least six months of continuous service.

Severance Package or Severance Bonus

For employees that are displaced due to payroll reductions, a severance

package must be offered. The severance payment made will be in the form of a lump-sum payment, and includes the following:

- An amount equivalent to one week of base pay for each year of eligible service with the state.
- An additional amount equal to 1% of the base pay for each year of service beyond five years.
- 25% percent of accumulated sick leave not used toward retirement credit.
- The equivalent of six months of the health, dental and disability allowance provided by the state.
- The option of continued participation in the state health insurance plans at the state employee rates for six months and the option to continue participation at the COBRA rate for an additional twelve months.
- Outplacement services provided through the Oklahoma Employment Security Commission or through contracts with private employment firms.
- Counseling services provided through contracts with private firms.

The provisions of the severance package outlined in this program shall apply to regular full-time employees and to permanent part-time employees.

Additionally, an agency may protect from displacement, or "bumping", up to fifteen percent of the total positions in the agency.

Training

A portion of the agency savings will be used to fund training for agencies employees. The funds for training will be used to further develop employee skills needed to perform work-related tasks or to develop skills for managerial jobs.

Accrued Annual Leave Fund

The Office of State Finance will establish an agency accrued annual leave revolving fund for each agency, including Higher Education institutions. The portion of the savings achieved by each agency designated for accrued annual leave will be placed in this fund. An agency must make monthly payments into the fund beginning the same month in which pay increases are awarded to agency employees.

Effective July 1, 1997, for all pay periods beginning on or after that date, agencies shall make deposits to the fund when the accrued leave balance for employees exceeds the accrued leave balance of the preceding month. For the fiscal year ending June 30, 1997, only deposits may be made into the fund. Agencies may not use the savings in the fund for any other purpose than to fund accrued annual leave.

When fully operational, agencies may use the savings in the fund only in certain situations such as when employees take leave in excess of the leave accrued during the year; when employees are paid for annual leave

balance because of termination of employment; when an employee transfers service to another agency.

Retirement

Additional funds will be deposited into the retirement system in which the employees of the agency participate. If agency employees are a member of more than one system, payments to all the systems will be made in a ratio equal to the salary ratio of the agency employees in accordance with guidelines published by the Office of State Finance. Payments to the retirement system(s) shall be made for a period of twelve months beginning with the implementation of an Incentive Plan.

Span - of - Control

The state should address how we define our work processes. The Governor's Commission on Government Performance identified between 5,700 and 6,900 excess positions using an organizational model developed in private industry with potential savings of \$200 to \$250 million per year. While issue can be taken with the number of personnel and dollar values identified as excess, the fact is that span of control has become a significant management problem due to many existing personnel practice weaknesses and system limitations. State agencies and institutions are directed to undertake restructuring and reengineering processes that focus on better service delivery

Category	Benchmarked Standards
Management Layers	One to one reporting relationships are eliminated. A recommended number of management layers ranges between four or five, with a target maximum of six for unique organizations
Span of Control	Recommended span of control is one manager per ten staffers, and in some instances higher. For highly technical and policy sensitive positions, a one to five span of control is recommended.
Clerical to Total Staff	Recommended clerical staff level is 15% (or less) of total staff.
Vacancies	Non-shortage vacancies that have been open for more than six months should be eliminated. Generally, long-term vacancies demonstrate that the agency has successfully reengineered the processes associated with those vacancies.
Consolidation and Merging of Units	Consolidate units with small numbers of employees into larger more efficient units.
Central Office Staff	A reengineering of work processes should be at the central office rather than service delivery level.
Skill Levels of Management	Managers in a reengineered work setting must learn to accept more responsibility, be given more flexibility and eliminate unnecessary work.

methods to meet future state needs. The guiding principle being the most competitive and economical approach to the service delivery equation. To guide this process the commission offered the model below for agencies and institutions to follow. This budget contemplates use of this reengineering model for service delivery and agency restructuring and reduces recommended agency budgets accordingly.

Agency Consolidations

In a true free market economy, the only valid reason for the creation of a regulatory agency is to protect the public from excesses and abuse by the licensed entity. This state has a great number of regulatory agencies that are under the control of various boards and commissions made up of citizens largely from within the industry. Unfortunately, because of the large number of independent commissions regulating relatively small segments of the economy, there are often insufficient dollars to build an effective agency. It is imperative that agencies be able to enforce the rules and regulations, take advantage of rapidly developing technology, adapt to changes in the business methods of the

regulated industry and remain unbiased and impartial to all sides in the regulatory process. It is the duty of the Chief Executive to recommend changes which guarantee a cohesive policy.

LPG Board to Corporation Commission

Changes in the energy marketplace with alternative fuels and multiple types of fuel delivered from a single station, has resulted in inspectors from both the Liquefied Petroleum Gas Board (LPG) and the Corporation Commission regulating the same service station. It is recommended that the LPG regulators and administrative staff be transferred to the Corporation Commission. The LPG employees will be absorbed by the Fuels Division of the Commission where the cost of duplication will be reduced.

Consolidation will save money through centralized functions and a reduction in redundant tasks. Cross training will reduce the duplication of effort and a one stop approach that allows one fuel inspector to handle a single site.

The Commission will receive an additional \$314,000 to accomplish these duties; this amount is \$77,000 less than the two entities received in FY-96. The FY-98 appropriation to the Corporation Commission will reflect the full savings amount of \$155,000. The Commission will receive funds to support the transferred regulators but not the absorbed administrative staff. There are projected long-term savings from the consolidation of the regulator efforts; these savings will remain with the Commission.

Consumer Credit to Banking Department

Public Safety

Another area of the market place that can benefit from a consolidated approach is in the area of financial services. To reduce cost and improve efficiency, it is recommended that the regulators and administrative staff of the Consumer Credit Commission be transferred to the State Banking Commissioner. One half of the estimated administrative savings (\$69,000) will be cut from the collective budget; the Banking Department will receive \$662,000 in additional funds for the 1997 fiscal year.

This proposal will save money through centralized functions and a reduction in redundant tasks. It will enhance the technical expertise of Consumer Credit personnel by providing support and access to technology previously not available to the agency due to their small size. There are projected long-term savings from the consolidation of regulatory efforts; these savings will remain with the Department. The industry must be impartially regulated to assure parties the protections included in the Consumer Credit Code.

OPERS Employee Contributions

Employee contributions for the Oklahoma Public Employees' Retirement System (OPERS) are scheduled to increase in FY-97. Contributions for employees earning up to \$25,000 thousand dollars per

year will increase by 1/2 percent. For employees earning over \$25,000, the cap in covered pay will rise from \$60,000 to \$70,000. Both changes will cause employees' take home pay to decrease. The Governor recommends an increased appropriation to OPERS participating state agencies of \$3.1 million for inclusion in employee salaries to offset this additional charge and negate any impact on the pay of state employees.

3% law enforcement pay raise

This budget includes a 3% salary increase for all "frontline" law enforcement personnel, specifically targeting those officers whose duties place them in direct exposure to harms way. These actions will serve to encourage the professionalism and dedication of these law officers throughout the state who personally respond to the needs of citizens and provide daily public service.

The projected cost of a 3% raise for "frontline" law enforcement and correctional officers is \$2,373,631 based on the December '95 state payroll.

Tax Credit for Law Enforcement Degrees

Our personal safety and reputation as a state greatly depend on a well-educated law enforcement community. This budget proposes that law enforcement officials seeking a law enforcement degree from an Oklahoma public or private college receive a tuition rebate equal to \$25 per credit hour for coursework begun after June 1, 1996.

Classes must be successfully completed in the field of criminal justice; study in the areas of law or administration will not qualify for this program. The use of the tuition rebate is to provide an equal benefit to all participants, regardless of their tax liability. The estimated cost of this program is \$570 thousand, the full extent of which will be realized beginning in FY-97.

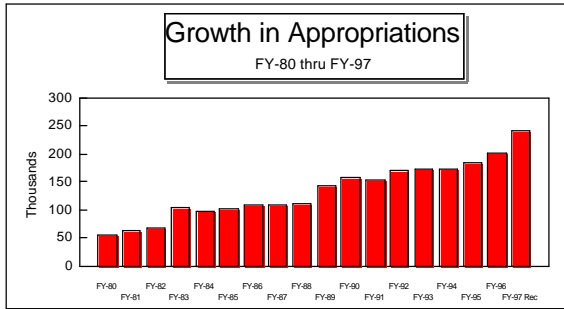
Corrections

The Department of Corrections (DOC) has experienced continuous overcrowding. To control facility capacity the agency relaxed classification and parole standards to permit transfer of inmates out of the system and consequently reduced the average time an inmate serves. Assessment of the current system revealed that the agency does not have enough medium security beds to manage the rapid growth of our prison population and keep violent offenders incarcerated in medium or higher security space.

The use of private prison medium security beds had previously been rejected by DOC on the basis that creating "excess" capacity serves to create a more conservative sentencing climate. DOC after review of practical options, agreed to contract for private

Place Inmates in Private/County Facilities	5,289,616
Additional County Jail Cost (increase all 442-beds to \$24)	<u>677,222</u>
<small>* based on 151 contract & 291 backup beds</small>	Subtotal
	5,966,838
Less: FY-95 available projected carryover	<u>(500,000)</u>
	Net funding required: \$5,466,838
Other items under consideration:	
Additional Correctional Prison Staff	1,544,560
Additional Food Service Officers	221,400
Additional Probation & Parole Officers	242,422
One-time equipment funding for Probation & Parole Operations	157,578
Total Cost	<u>\$7,632,798</u>
Place Inmates in Private/County Facilities	\$16,648,196
Additional County Jail Cost (increase all 442-beds to \$24)	<u>2,026,115</u>
<small>* based on 151 contract & 291 backup beds</small>	
Other items under consideration:	
Additional Correctional Prison Staff	\$2,952,000
Additional Food Service Officers	\$354,240
Additional Probation & Parole Officers	\$411,660
One-time equipment funding for Probation & Parole Operations	
Total Cost	<u>\$22,392,211</u>
Less: FY-96 Supplemental Adjustment	<u>(7,632,798)</u>
FY-97 Annualization of FY-96 Supplemental	\$14,759,413

prison beds to meet the state's need for medium security beds, after agreement was reached between the Governor, the legislative leadership and the agency. This budget proposes funding for the FY-96 costs of these additional beds, and annualizes that cost for FY-97. This budget also provides for the following adjustments to the Department of Corrections FY-97 budget.



Inmate Growth

DOC projects that net inmate growth will increase by 1,768 inmates in FY-96 and 1,519 inmates in FY-97. These projections reflect agency assumptions regarding possible truth-in-sentencing legislation and represent a significant increase over the September 1995 projected increase of 944 inmates in FY-96. Proposed funding for the FY-96 supplemental adjustment and FY-97 annualizations are based on resulting adjusted IGP.

FY-96 Supplemental Adjustment

This budget proposes funding partial year implementation of "Private Prison" contracting and the acquisition of 560 medium security beds. It also includes an increase in county jail reimbursement rates, 135 additional Correctional Officers, 12 Food Service Officers, and 15 Probation & Parole Officers including one-time equipment funding for the probation and parole operations as follows:

Additional Contract Prison Beds

The FY-97 recommendations include funding for 1,603 additional beds: 1,383 private prison beds, phased in during FY-97; 60 additional contract County Jail beds; and contracts for 160 beds with Mexico to house Mexican citizens currently in our prisons.

County Jail Reimbursements

It is recommended that reimbursements to county sheriffs for housing inmates in county jail facilities be funded at a uniform \$24 a day rate, effective March 1, 1996. DOC currently spends approximately \$1,845,805 based on 151 contract beds and 291 backup beds; this budget proposes to fund the total 442 beds at \$24 per inmate day for a total of \$3,871,920. This is an increase of \$2,026,115 for FY-97.

Increased participation is anticipated and funding for an additional 60 beds totaling approximately \$524,688 is included in the budget recommendations.

Alien Placement Program

This budget proposes funding to develop an Alien Offender Placement Program that will provide contract prison beds for foreign-born persons incarcerated in the state and allow those inmates to be placed in jail facilities in their own country. This budget includes funding for a \$20 per day rate to provide 160 contract beds in Mexico.

Additional Funding for Juvenile Justice

Juvenile crime is more violent today than in years past and offenders are younger. Assuming both population growth and continuing increases in arrest rates, the number of juvenile violent crime arrests will double by the year 2010. If current trends continue, by the year 2010, the number of juvenile arrests for murder is expected to increase 145% over the 1992 level.

The Legislature enacted HB 2640 (1994), the Oklahoma Juvenile Reform Act, to address the needs of Oklahoma's juvenile system including the implementation of new programs, expanded bed capacity and the creation of the Office of Juvenile Affairs (OJA) as a free-standing agency of state government.

Funding for the new Office of Juvenile Affairs began in FY-96; additional funding is required in FY-97 to provide full-year funding for programs initiated during FY-96 and to initiate new programs pursuant to HB 2640 and the agency's Strategic Action Plan.

This budget appropriates an additional \$15 million to the Office of Juvenile Affairs to aid the agency in accomplishing five major objectives:

- (1) unclogging of the juvenile system;
- (2) restoring accountability and ensuring consequences;
- (3) building a seamless state-wide system to ensure community-based reintegration placements and services;
- (4) increasing community involvement in creating and implementing solutions;
- (5) building

a wall of prevention by strengthening existing prevention and First Offender response programs.

This budget will increase juvenile offender capacity, reduce cost per juvenile offender served, provide effective rehabilitation of juveniles, and reduce juvenile delinquency rates.

The State of Oklahoma needs the capacity to hold violent juveniles after they are arrested. Adequate detention beds will ensure that juveniles committing serious violent crimes will be detained while awaiting adjudication and secure placement. In FY-96, the Legislature approved 77 additional beds which are presently under construction and are due to open by July 1, 1996. Funding for 30 additional beds (20 new beds and 10 beds from enhanced bed capacity through existing facilities which were established in FY-96 with one-time monies) is requested.

The Southwest Oklahoma Juvenile Center (SWOJC), a new 70-bed medium secure facility located in Manitou, Oklahoma, is scheduled to open on or about June 1, 1996. Partial year funding for the operation of this facility was provided to the OJA in FY-96. Funding for a full-year's operation is required in FY-97; however, it is recommended that the OJA strongly consider privatizing the operations of this facility prior to the employment of any new state employees. It is quite possible that savings in the range of 10 to 20% can be realized from the privatization of facility operations.

A state-of-the-art, 24-bed secure Diagnostic and Evaluation (D&E) Center will allow the Office of

Juvenile Affairs and the judiciary to send juveniles to the appropriate placement facility. This results in the most effective treatment for the juvenile in the least expensive operation congruent with safety, risk, and protection of the public. With the existing 16-bed non-secure D&E in Cleveland County and this new 24-bed secure facility, the OJA will have the capacity to assess and appropriately place 730 juveniles in FY-97.

New residential programs (including group homes, foster care, wilderness homes, independent living programs and specialized community homes) will provide lower-cost alternatives to the limited number of high-cost secure beds. New residential placement opportunities will be utilized by post-secure institution youth who need additional treatment and time before returning to their communities.

To protect and maximize the state's rehabilitation investment for juveniles in custody, the following low-cost alternatives for youth are recommended:

(1) a five or six month program, with up to twelve months intensive aftercare services;

(2) sanctions programs provide immediate court consequences for juveniles who break probation and parole. This increases the capacity of current sanctions

programs from 864 offenders to 1,944;

(3) Supervised Independent Living provides a transition for youths to become capable, young adults living on their own rather than returning full-time to dysfunctional

families and environments conducive to delinquent behavior;

(4) **Staff Secure (Unconditional) Shelters** holds juveniles accountable for their behavior and is a key part of the OJA Strategic Action Plan. The main idea is to allow for an immediate response to juveniles who engage in delinquent behavior. The configuration of current shelters does not allow for an unconditional, effective use of these shelters.

(5) Juveniles will not change into productive tax-paying citizens nor will they benefit from rehabilitation programs, funded by the state, if they continue the use of drugs. OJA has instituted the first state agency drug policy in Oklahoma. This policy will be sending a message of intolerance to drugs and significantly improves the state's rehabilitation efforts by maintaining a drug-free lifestyle.

The Office of Juvenile Affairs has the legal authority to request parental financial assistance with any state-supported program offering care and maintenance to youths in the custody of the OJA and those in out-of-home placement via an order of the court for payment (Title 10, Section 7303-7.6). Two actions needed to increase child support payments made to the OJA are encouraging courts to order payment of child support and developing an effective collection method. A concerted effort on the part of the OJA to expand this program is estimated to generate an increase in collections (the agency does collect a small amount of child support payments now) ranging from \$336,000 to \$588,000 per year. Savings projected in the Governor's

Budget are in the amount of \$425,350.

DPS vehicle replacement

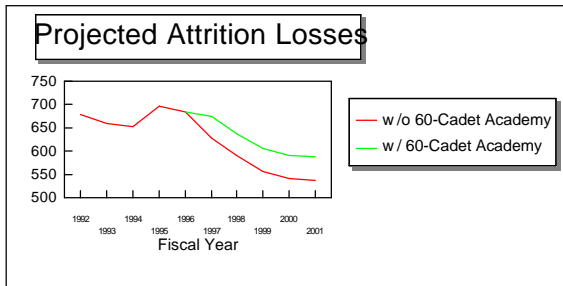
The agency has become increasingly concerned about the growing number of high mileage vehicles in its motor vehicle fleet and the need to replace trooper vehicles and assure that these vehicles are removed from patrol assignment when mileage reaches 70,000.

This budget includes \$4.5 million which would allow the agency to replace 162 vehicles each year. By increasing the extended warranty coverage on new acquisitions to 100,000 miles the need for the agency to incur maintenance cost will be offset by at least an additional 5 years. The agency's Fleet Management coordinator will need to assess the agency's need for retaining the remaining 560 out-of warranty vehicles and consider selling them as surplus/salvage inventory.

Trooper Replacement

The agency requested funding to conduct a training academy in an effort to offset anticipated attrition losses related to implementation of the Oklahoma Law Enforcement Retirement System's Deferred Retirement Option Program (DROP). The agency projects that 57 troopers will retire under this program during FY-97 and requests that a 60-man academy be funded @ \$40,000 per cadet. The agency anticipates a graduating class of 48 troopers and estimates the academy cost as follows:

Salaries	650,808
Travel	20,860
Misc	90,540
Equip	<u>130,31</u>
Total	\$1,292,518



The agency has also identified projected FY-97 savings related to salary differences between the 57 retiring troopers and the 48 replacement cadets totaling \$1.4 million. These savings were considered available to meet the \$245,000 annualization cost of FY-96 promotions and \$293,000 to offset the cost of the proposed academy. Half the remaining savings is used to offset the adjustments outlined earlier (additional vehicles and troopers).

Executive Airlift Support Services

The Executive Security Division of the Department of Public Safety (DPS) maintains a fleet of 8 aircraft to provide air lift support for state officials and meet the Department's public safety patrol needs. The principal aircraft deployed for airlift support missions has been the department's Cessna 421B; however; this aircraft has come under scrutiny

concerning its air worthiness, unreliability, demonstrated mechanical shortcomings and high maintenance expense. Recommendations in this budget are that the agency upgrade and salvage or sell the Jet Commander and Cessna 421B as appropriate and acquire by lease-purchase, a new or late model Beechcraft B200 or 350. Funding is also provided for the agency to provide aircraft specific, initial and recurring training programs to insure DPS pilots acquire and maintain the piloting skills necessary to safely execute designated airlift missions.

DPS - telecommunications

DPS has proposed the installation of a 800 Mhz antenna that will provide the state with the capability of unifying law enforcement communication statewide. Implementation would provide a central communication system and when linked to the Oklahoma Law Enforcement Telecommunication System (OLETS), will allow the various law enforcement agencies throughout the state to share information and communicate with one another statewide. The agency has requested \$500,000 each year since FY-80 to expend on expanding the 800 Mhz System, however, the FY-97 request represents a \$500,000 increase to the base line-item funding and will provide \$1 million for the expansion of the 800 Mhz system.

The agency anticipates cooperation with the Oklahoma Turnpike Authority to obtain funding for an additional \$2.4 million to complete phase III. The Oklahoma

Turnpike Authority has currently postponed considerations to fund the phase III expansion at this time, however, DPS intends to implement an independent \$1 million expansion of the 800 Mhz system which will ultimately be connected to the turnpike expansion. One major area of concern has focused on the cost of building antenna towers across the state, the DPS plan offers additional benefits in this area. The plan will not require the construction of additional towers since their plan utilizes existing towers which are being operated by local/community law enforcement agencies within the designated expansion areas.

DPS - Oklahoma Law Enforcement Retirement System (OLERS) funding

DPS was notified that OLERS was prepared to bill the agency an actuarially calculated arrearage to cover cost to the pension fund resulting from the agency's failure to increase it's share of retirement contribution at the time affected troopers elected to participate in the Deferred Plan. The agency's action has created an unfunded cost of \$675,000 in unpaid sick leave billings and \$619,000 in accrued annual leave based on 147 eligible participants. Agency reports however, that only 57 employees will retire during FY-97 and that the actual cost of their arrearages totaling \$252,119 in unpaid sick leave billings and \$404,655 in accrued annual leave will have to be paid in full at the time of their retirement. This budget funds these costs.

DPS - Salary step adjustments

DPS requested funds to adjust salaries of State Troopers to correlate to the step grade that would correspond to their number of years of service. There are 275 troopers whose salaries do not currently correlate to their years of service and this budget provides \$80,000 to fund the salary step adjustment.

Chief Medical Examiner - funding adjustments

The Board of Medicolegal Investigations will use \$14,000 of appropriated funds and \$20,000 of revolving funds to replace the federal funding that will no longer be available to fund a Forensic Chemist I. Continued funding of this position is critical to the agency so that it may perform comprehensive toxicological studies to properly investigate the cause and manner of certain types of deaths that occur, such as homicides and traffic fatalities. These type of cases require extensive toxicological analysis.

The agency will also receive \$117,000 in appropriations to hire a pathologist for its Eastern office in Tulsa. The additional position will allow the agency to achieve increased productivity and an increased turn around time for its cases.

Agency wide salary adjustments may be provided to select agency personnel through a \$154,000 appropriation. This appropriation will allow the agency to bring its professional salaries to levels competitive to those of other states.

For FY-96, the agency received funding for an additional pathologist and has not been able to do so. They have plans to fill the position at the end of this year

Attorney General funding - duties and computer network

Funding is provided to the Attorney General for operations of the Workers' Compensation Fraud Unit, and Medicaid Fraud in Criminal Appeals Division.

Funding is also provided to upgrade the computer network and develop an inter-office system linking the three remote facilities. \$171,000 a year for 3-years has been recommended to assist the agency in completing this project over a three year period; or earlier through an appropriate lease-purchase arrangement.

Replacement of State Emergency funds

The State Emergency Fund has been depleted as a result of disaster assistance awarded during FY-96. Consequently, the fund balance of the State Emergency Fund #424, will require replenishing for FY-97. The fund normally maintains a \$1,000,000 beginning balance and will require an appropriation in this amount to start FY-97 pursuant to O.S.62 Sec.134.42

DA's offices - increased evidence fund appropriation

The recommended \$100,000 would provide sufficient funds for paying expert witnesses. Current funding levels are providing only \$25,000 each year in appropriations. This is proving to be inadequate to meet the increasing need for expert witnesses, the increased cost of forensic sciences, including DNA, and the increased use of expert witnesses by the defense bar. The inability to use experts when needed can lead to ineffective prosecution of state matters. This funding will allow DA's to utilize expert witnesses as necessary to counter those experts now being used in greater numbers by the defense.

DA's offices - District Attorney Salary Increase

Title 19 O.S.Supp. 1991 Sec. 215.30 mandates that effective January 1, 1997, each district attorney shall receive a salary of \$71,663. This budget provides increased funding of \$46,076 for salaries and \$20,918 for related benefits totaling \$66,994.

DA's offices - Apportionment of Fees

This budget recommends that the FY-97 apportionment of probation and deferred sentence fees be modified to send a substantial percent of collections to the DA's offices to provide additional funds for operations of their offices.

Indigent Defense System - Funding for Capital Trial Activities

This budget includes funding to provide competent and effective

representation in capital cases, especially at the trial level. 1995 was a year to be remembered for the failure by congress to timely approve a federal budget. As a result, many states witnessed severe reduction in services that were funded through federal appropriation, some agencies were forced to close and furlough federal employees. OIDS elected to cancel post-capital and death case appeals activities which were budgeted heavily with federal dollars. This budget provides \$648,000 in additional funding for Capital Trials cases.

Military Department - additional maintenance for armories

The Oklahoma Military Department, as a continuation of its OMD 2000 plan executed in FY-93, has requested that \$400,000 be made available for facility maintenance and repair. OMD 2000 was undertaken to arrest the continued deterioration and obsolescence of Department facilities. Funding is required to provide a safe and positive working environment and ensure the mission of the agency is supported to its highest standard. This budget provides those funds.

Military Department - Adjutant General Conference

The State of Oklahoma has been selected to host the 1996 Adjutant General Association of United States Conference. The agency has requested funds to assist in planning the event and will be provided \$15,000 in this budget to offset the cost of coordinating the conference.

This funding will allow the agency to help generate revenue for the state during this conference, and share the excellence of Oklahoma by promoting tourism & recreation within the State of Oklahoma.

OSBI - 2 additional Criminalists

The agency proposes to increase its agent and support staffing level to enhance it's ability to work criminal investigations and provide better support to the law enforcement community. Currently, local agencies refrain from making requests on some cases due to the OSBI's limited investigative resources, and in some instances, the OSBI is forced to turn down requests due to limited manpower.

The OSBI was created to assist local law enforcement, such as sheriffs and police departments, most of which have very limited resources in the area of manpower, training, and equipment. The OSBI has limited original jurisdiction to open a criminal investigation, relying instead on local law enforcement to request our assistance when they need assistance. In recent years the internal resources available to many of these agencies have continued to dwindle. This situation has resulted in these agencies becoming more dependent on the OSBI for investigative assistance. This budget will fund (2) criminalists at a cost of \$100,000. to fund cost associated with the staff increase.

ABLE Commission - data processing funding

The Oklahoma Alcoholic Beverage Law Enforcement Commission requested and will be provided \$54,423 to maintain current data processing (DP) services provided by the Office of State Finance (OSF). Funding was required due to changes in the way the commission is billed for OSF services. OSF data processing services are utilized to process liquor and charity game licenses. Currently, over 30,000 active licenses will be affected if data processing services cannot be continued. Untimely delays would adversely impact this function without this purchased support.