

FY-2005

Executive Budget

Governor Brad Henry

February 2, 2004

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February 2, 2004

To the citizens of the Great State of Oklahoma and to the Oklahoma State Legislature:

I am pleased to submit for your consideration my second executive budget. As required by state law, I have presented a balanced budget.

I have spoken often of the challenges we face and the opportunities that lie ahead. We successfully met many challenges, yet much remains to be done. As a result of such tests, we have emerged a stronger state.

We Oklahomans are a great people. Our spirit, hard work and determination have prevailed in the past and will again. It is my belief that the changes proposed in this budget and the agenda I have set will help us secure a future of opportunity, strength and prosperity.

I ask the Legislature and the citizens of Oklahoma to give serious consideration to these recommendations. We can accomplish tremendous things working together toward the same goal. After all, we want the same thing: A better Oklahoma.

Sincerely,

Brad Henry
Governor

February 2, 2004

Governor Henry:

Please accept this as your FY-05 Executive Budget. The budget is balanced as required by law.

The budgets of all state agencies, boards and commissions were reviewed extensively in the preparation of this budget. Office of State Finance Budget Division staff members and I met with directors of major state agencies asking them to explain and justify their programs and expenditures. This was a time-consuming task. However, state agency leaders and their staffs were accommodating and supportive and provided information necessary for a thorough examination of their programs. They also offered suggestions to improve efficiency and effectiveness. Tax policies, expenditures and revenue enhancement ideas also were examined with the assistance of the Office's Fiscal and Research Division.

The budget development process was inclusive of many interested parties, including you and representatives of your staff and House and Senate fiscal staffs who joined in some of the meetings with agency and offered ideas and suggestions.

To those involved in this process, I extend my thanks and appreciation for their hard work and input. I especially want to thank Rollo Redburn, Claudia San Pedro and James Wilbanks of my staff for their dedication. Additionally, I would like to thank Amanda Paliotta, Senate Fiscal Staff Director, and Greg Sawyer, House Fiscal Division Director, for all of their support.

Respectfully,

Scott Meacham
Director, Office of State Finance

This budget document was prepared for

Governor Brad Henry

by the Office of State Finance, Budget Division, the
Fiscal and Research Division
and the State Comptroller

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You may access the FY-2005 Executive Budget via the Internet on the Oklahoma Home Page at <http://www.youoklahoma.com>.

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How to Use the Executive Budget Book

In this book, you will find valuable information about the State of Oklahoma, Governor Henry's budget proposals, and the various state agencies. This book is divided into eight main sections. At the end is an index you can use to find all the references to specific agencies or issues.

Organizational Chart -- Here is where you should go if you want to see the statewide organization chart and a list of the state agencies by cabinet.



Governor's Budget Message -- This section contains Governor Henry's fiscal year 2005 budget message.

Revenues -- This section contains information on the State's revenue performance from FY-2003 to FY-2005, a discussion of proposed tax law changes and descriptions of current taxes.



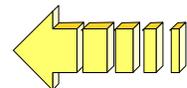
Budget Summary -- Here is where you can locate information on the current budget situation, a summary of funds available, a summary of the budget proposals and major issues, and capital outlay recommendations.

Budget Recommendations -- This section includes descriptions of the proposed budget changes in each Cabinet Department, including a summary of adjustments affecting all agencies, and information on the changes to each agency and cabinet.



Summary Information -- Here is where you can find appropriation recommendations for each state agency, as well as a summary of FTE and information on the Constitutional Reserve Fund.

Appendix -- In this section you can see how Oklahoma compares to other states on fiscal and economic measures as well as learn about the budget process and find definitions of terms used throughout the book.



How to Use the Executive Budget Book

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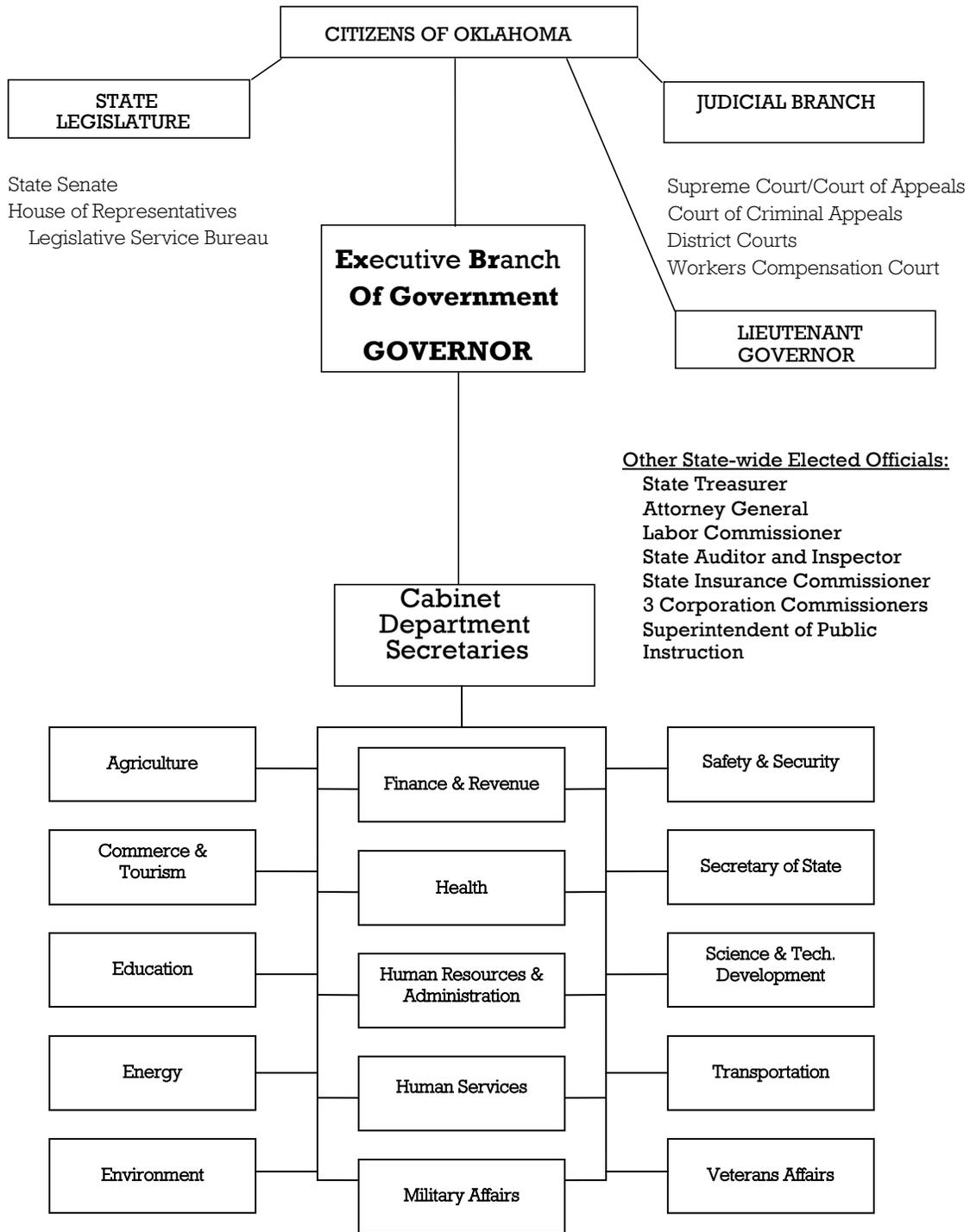
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Transportation.....	<i>Jesse Chapel</i>
Veterans Affairs.....	<i>Jauna Head</i>
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The Budget Process.....	<i>Claudia San Pedro</i>

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The Cabinet Secretaries are appointed by the Governor with the approval of the Senate. Many of the secretaries are also heads of Executive Branch agencies. Most state agencies have a controlling board or commission which appoints a chief operating officer. Most board and commission members are appointed by the Governor, some requiring Senate approval. Some agencies do not have a controlling board, and most of those agency heads are appointed by the Governor with Senate approval. More information on the appointment process is included in the Executive-Historical document. State agencies are assigned to a cabinet department by the Governor. The specific agency assignments to each cabinet are shown on the next page.

FY-2005 Executive Budget

305	Office of the Governor	618	Student Loan Authority	630	Securities Commission
440	Office of the Lieutenant Governor	750	Tulsa Community College	622	Social Workers Board, Bd. of Lic.
	<u>Agriculture</u>	120	University of Central Oklahoma	632	Speech-Lang. Pathology & Aud. Bd.
40	Agriculture, Department of	760	University of Oklahoma	516	State and Ed. Empl. Group Ins. Bd.
39	Boll Weevil Eradication Org.	150	Univ. of Science and Arts of Okla.	755	Used Motor Vehicle & Parts
645	Conservation Commission	41	Western Oklahoma State College	790	Veterinary Medical Examiners Board
615	Foresters, Board of Registered				
535	Peanut Commission	185	<u>Energy</u>	127	<u>Human Services</u>
875	Wheat Commission	359	Corporation Commission *	783	Children & Youth, Commission
	<u>Commerce and Tourism</u>	980	Energy Resources Board	326	Community Hospitals Authority
981	Capital Investment Board	307	Grand River Dam Authority	830	Handicapped Concerns, Office of
007	Centennial Commission	445	Interstate Oil Comp. Com.	360	Human Services, Department of
160	Commerce, Department of	444	LPG Board	670	Indian Affairs Commission
900	Development Finance Authority	446	LPG Research, Marketing and Safety	400	J.D. McCarty Center
350	Historical Society	125	Marg. Prod. O&G Wells, Comm. on	619	Juvenile Affairs, Office of
922	Housing Finance Authority		Mines, Department of	619	Physicians Manpower Trng. Comm.
370	Industrial Finance Authority	292	<u>Environment</u>	805	Rehabilitative Services
204	J.M. Davis Memorial Commission	920	Dept. of Environmental Quality	825	University Hospitals Authority
405	Labor, Department of *	835	Environmental Finance Authority		
981	Municipal Power Authority	320	Water Resources Board	25	<u>Military Affairs</u>
361	Native American Cultural/Ed. Auth		Wildlife Conservation, Dept. of		Military Department
568	Scenic Rivers Comm.				
566	Tourism & Recreation, Dept. of	300	<u>Finance and Revenue</u>	30	<u>Safety and Security</u>
880	Will Rogers Memorial Commission	65	Auditor & Inspector *	49	ABLE Commission
	<u>Education</u>	91	Banking Department	772	Attorney General *
44	Anatomical Board	90	Building Bonds Commission	309	Chem. Tests for Alc/Drug Infl., Bd. of
55	Arts Council	315	Finance, Office of State	131	Civil Emergency Mgmt, Dept. of
800	Career & Technology Education	385	Firefighters Pension & Retirement	220	Corrections Department
266	Educational TV Authority	410	Insurance Department *	310	District Attorney's Council
265	Education, Department of *	416	Land Office, Commissioners of the	47	Fire Marshal, State
430	Library Department	557	Law Enforcement Retirement	308	Indigent Defense System
563	Private Vocational School, Board of	515	Police Pension & Retirement System	415	Investigation, Bureau of
629	School of Science & Mathematics	390	Public Employees' Retirement System	342	Law Enf. Educ. & Trng., Council on
269	Teacher Preparation, Comm. for	695	CompSource Oklahoma	477	Medicolegal Investigations, Bd. of
	<u>Colleges and Universities:</u>	715	Tax Commission	306	Narcotics & Dang. Drugs, Bureau of
100	Cameron University	740	Teachers' Retirement System	585	Pardon and Parole Board
108	Carl Albert State College		Treasurer *		Public Safety, Department of
165	Connors State College	807	<u>Health</u>	628	<u>Science and Technology Dev.</u>
230	East Central University	340	Health Care Authority		Center f/t Adv. of Sci. & Technology
240	Eastern Oklahoma State College	452	Health, Department of		
420	Langston University	509	Mental Health and Sub. Abuse Svc.	270	<u>Secretary of State</u>
470	Murray State College	092	Nursing Homes, Board of Exam. for	296	Election Board
480	Northeastern Okla. A & M College		Tobacco Settle. End. Trust Bd. of Dir.	678	Ethics Commission
485	Northeastern State University	20	<u>Human Resources and Admin.</u>	625	Judicial Complaints, Council on
490	Northern Oklahoma College	45	Accountancy Board		Secretary of State
505	Northwestern Oklahoma State Univ.	105	Architects, Board of Gov. of Licensed	978	<u>Transportation</u>
530	Oklahoma Panhandle State Univ.	580	Capitol Improvement Authority	346	Okla. Transportation Authority
10	Oklahoma State University	145	Central Services, Dept. of	345	Space Industry Development Auth.
761	Oklahoma University Law Center	635	Chiropractic Examiners Board	060	Transportation, Department of
633	Oklahoma City Community College	190	Consumer Credit, Comm. for		Aeronautics Commission
770	Okla. University Health Science Ctr.	215	Cosmetology Board		
773	OSU -College of Osteopathic Medicine	815	Dentistry, Board of	650	<u>Veterans Affairs</u>
14	OSU -College of Veterinary Medicine	290	Employees Benefits Council		Veterans Affairs, Department of
11	OSU -Experiment Station	285	Employment Security Commission		
12	OSU -Extension Division	353	Funeral Board		
13	OSU -School of Tech. Training	355	Horse Racing Commission		
15	OSU -Technical Institute of OKC	450	Human Rights Commission		
16	OSU -Tulsa	298	Medical Licensure & Supv., Bd. of		
771	OU Health Sci. Ctr. Prof. Prac. Plan	475	Merit Protection Commission		
620	Qtz Mtn. Arts/Conf. Cntr/Nat. Pk.	510	Motor Vehicle Commission		
241	Redlands Community College	520	Nursing Board		
600	Regents for A&M Colleges	525	Optometry Board		
605	Regents for Higher Education	343	Osteopathic Examiners Board		
610	Regents for Oklahoma Colleges	548	Perfusionists, State Bd. of Examiners		
461	Rogers State University	560	Personnel Management		
531	Rose State College	140	Pharmacy Board		
623	Seminole State College	570	Podiatric Medical Examiners, Bd. of		
660	Southeastern Oklahoma State Univ.	575	Prof. Engin. & Land Surveyors Bd.		
665	Southwestern Oklahoma State Univ.	588	Psychologists, Bd. of Examiners		
			Real Estate Commission		

* Agency is headed by a statewide elected official or their controlling board is made up of elected officials. They are assigned to a cabinet department for purposes of coordinating services and programs only.

ORGANIZATIONAL CHART

Executive Summary

Oklahoma faces a choice. In the shadow of the national and economic downturn of recent years and its impact on state resources, state leaders can either choose to bog down in petty partisan bickering and hope things improve on their own or they can work together for the good of the state and take bold, aggressive steps to move Oklahoma forward. They can sit on their hands or they can take decisive steps to make Oklahoma greater. The proposals in this budget are bold aggressive steps that transcend party boundaries. They are in keeping with the idea expressed by President Franklin D. Roosevelt in a 1934 fireside chat when he cautioned Americans that there always will be those “frightened by boldness and cowed by the necessity for making decisions.”

The revenue failures of the prior two fiscal years had an undeniable impact on state services. With revenue on the rebound, it is time to examine state government and target state spending in ways that address those areas that have suffered. It is also a time to invest in ourselves, to identify those areas of state government that will produce rewards in the future. Oklahoma and its elected leaders should not be frightened by boldness. Its leaders must make difficult decisions. This budget is the product of bold and sometimes difficult decisions that focus on making Oklahoma an even greater state.

Governor Henry’s FY- 2005 Executive Budget proposes three major initiatives to improve the quality of life and economic development in Oklahoma:

- **Common Education:** increase teacher compensation levels over a five year period;
- **Health Care:** expand health insurance to the uninsured poor, decrease youth tobacco usage, increase funding for trauma care and establish a nationally designated Cancer Research Center; and
- **Economic Growth:** exempt Oklahoma sourced capital gains from individual income taxes, reduces taxes on retirement income and permanently implements a maximum individual income tax rate of 6.65%.

This executive summary provides an overview of these major initiatives and a summary of the FY- 2005 Executive Budget.

Education

A foundation for economic growth in Oklahoma is imperative for the future. Businesses do not exist without high quality employees and innovative founders and owners. The first step in the development of a well trained and highly qualified workforce is a quality education that begins the first day a student steps into an Oklahoma classroom. Research studies such as one conducted by William L. Sanders in Tennessee concluded that quality teaching makes a significant difference in student achievement. Effective teachers increase student performance among low-achieving students by 53% versus 14% for low-effective teachers.

To attract and retain the best teachers, Oklahoma must do more. Oklahoma teachers' salaries consistently rank among the lowest nationally. Within its border state region, Oklahoma's teachers receive the lowest average pay. Low pay means border states can easily hire away Oklahoma's best teachers. Oklahoma needs to bring its teachers' salaries to at least the regional average. The Governor's budget proposes a five-year, \$244 million plan to increase Oklahoma teachers' salaries to do just that.

This budget proposes taking the first step by increasing the state share of teachers' health insurance premiums to 100 %. This amounts to a significant, tax free pay raise for Oklahoma's teachers. Additionally, health benefits are exempt from state and federal taxes, further boosting the value of the increase. This first of five steps will cost the state \$62.4 million.

In years two through five of the plan, FY-06 to FY-09, teachers will receive yearly pay raises, ranging from \$300 for starting teachers with a bachelor's degree in the plan's first year to \$1,400 for teachers with master's degrees and 15 years or more experience in the plan's fifth year. Until Oklahoma's compensation becomes more competitive within the region, particularly for veteran teachers, Oklahoma has and will continue to lose its most experienced teachers to neighboring states.

In order to pay for this initiative, this budget proposes the enactment of the "State-Tribal Gaming Act." This legislation authorizes the State to enter into compacts with Indian tribes to offer specific electronic gaming opportunities. In return for awarding the tribes a substantially exclusive right to offer electronic games in Oklahoma, the State will receive fees from the tribes and be able to regulate their gaming activities.

In addition, the language in the "State-Tribal Gaming Act" provides for three privately owned horse racing tracks in Oklahoma to offer a limited number of the same type of electronic game terminals at these facilities. In return for the ability to offer these games, the tracks will remit a share of the proceeds from the games to the state in the form of a fee. The horse owners and breeders of Oklahoma will receive a portion of the revenue generated by the electronic games at the tracks for purses.

Combined together, the estimated amount of money the state will receive from the tribes and the horse racing tracks is \$71 million in FY-2005. Of this amount, 88% will go directly to the Education Reform Revolving Fund to fund 100% of the health insurance costs for teachers. The remaining 12% (\$8.5M) of this revenue will go to the Oklahoma Higher Learning Access Trust Fund to provide 1,200 student scholarships under the Oklahoma Higher Learning Access Program (OHLAP).

Created in 1992, OHLAP provides academically prepared students in low to moderate-income households five years of tuition at any public education institution in Oklahoma or a portion of tuition at any private college in Oklahoma. Six years of data has shown that OHLAP students' academic performance exceeds the state average. This program has the potential to increase the number of Oklahoma students pursuing higher education and ultimately earning college degrees.

Healthcare

Oklahomans' health is key to the state's overall well being. Healthy children miss fewer days of school and do better in class. Healthy adults are more productive, both at work and at home. Thus, a healthier Oklahoma leads to positive economic and social benefits.

Unfortunately, too many Oklahomans lack access to basic health care. According to the U.S. Census Bureau Current Population Survey, nearly 20% of Oklahomans, including many children, are uninsured, imposing a financial toll on all Oklahoma. When the uninsured get sick or injured, they access the health care system primarily through hospital emergency rooms where the cost of care is much higher. Hospitals pass the cost of uninsured care they provide on to insurance companies who, in turn, pass this cost on to businesses and consumers. According to the Oklahoma Health Academy, treating the uninsured accounts for approximately 30% of the increase in health insurance premiums annually.

The Governor's budget proposes to expand health insurance coverage to Oklahoma's uninsured poor. The plan covers those who cannot afford health insurance. Such a plan is costly. However, the costs of doing nothing may be even greater.

Cigarette smoking is another health problem in Oklahoma that leads to a number of additional health problems. According to the Campaign for Tobacco Free Kids, each year in Oklahoma 5,700 adults die as a result of their own smoking. In addition, an estimated 750 adults, children and babies die from the effects of secondhand smoke and pregnancy smoking. Smoking is the leading cause of lung disease and heart disease. If current smoking trends in Oklahoma continue, 77,000 children alive right now will die prematurely from smoking. Smoking kills more people than alcohol, AIDS, car crashes, illegal drugs, murders and suicides combined.

Increasing tobacco taxes is an effective way to prevent and reduce smoking, especially among children. All states which have increased their tobacco taxes have also experienced increased revenue. These revenues can be directed to health care, trauma care, youth smoking prevention and cancer research.

The governor's budget proposes increasing the cigarette stamp tax from 23 cents per pack to one dollar per pack. As part of the proposal, cigarettes and tobacco products will not be subject to state and local sales tax. A portion of the increased revenue from the cigarette stamp tax will be set aside to compensate cities and counties for lost sales tax revenue. This proposal also raises the excise tax on other tobacco products to offset the loss of revenue from the sales tax exemption. The final piece of the cigarette and tobacco tax proposal is to lower the discount rate distributors receive in exchange for acting as tax collection agents. This rate will decrease from 4% to 1%. Distributors will not lose any money since the discount rate decrease and the tax increase offset each other.

Oklahoma must deal with its high uninsured population for the good of all Oklahomans and the economic health of the state. The Governor's budget proposes that \$100 million of the projected \$130 million raised by the proposed tax increase be devoted to providing basic health insurance coverage for the uninsured poor in Oklahoma. These funds can be matched with federal funds and other funds to produce up to \$500 million to address this problem. The Governor's budget proposes that a basic insurance plan be provided by the Health Care Authority for individuals and employees. Alternately, employers with existing group coverage or health coverage through other providers will receive premium assistance for their qualifying employees.

Another use of the proposed tobacco tax is construction of a comprehensive cancer research center. Oklahoma is in the top 16 states in the nation for cancer death rates, yet there is no comprehensive cancer research center in the state. A cancer research center will develop new cancer diagnostic and treatment protocols. The Governor's budget proposes a bond issue to build a \$75 million cancer center with the tobacco tax revenue used to pay the debt service.

Oklahoma also must be prepared to heal its citizens when they face catastrophic injuries. That is why a level one trauma facility is important to the state. Earlier this year, policymakers developed a plan that enables Oklahoma's only level one trauma facility at the OU Medical Center to continue operating. Additional steps are necessary to fund the changes that will bring about a statewide trauma network. This budget funds that effort with a portion of the tobacco tax increase as well as with increases in certain fines, such as fines associated with driving under the influence, drug crimes, failure to use safety belts and drivers' license reinstatement fees.

State government cannot choose to ignore Oklahomans' health. Providing adequate healthcare to the uninsured poor and their children, insuring continued healthcare for those in poverty, constructing a state-of-the-art cancer research center and maintaining a top flight trauma center are all critical to the overall well being of the state.

Taxes

Also proposed in this budget are a series of tax cuts aimed at boosting economic development. The aim of these cuts is to encourage investment in and by Oklahoma companies and to encourage the relocation of out-of-state corporate headquarters to Oklahoma. Additionally, the cuts will allow Oklahomans to keep and invest in Oklahoma more of their hard-earned money.

A key to economic growth, and especially wage and income growth, is investment. Accordingly, any practice, policy or law that discourages investment in Oklahoma is not in the state's best interest and should be changed. One such policy is the taxation of gains on investment in Oklahoma. This budget recommends a full exemption from the individual income tax for all capital gains resulting from Oklahoma business interests or property held for five years or more.

Stock options are an important part of employee compensation at corporate headquarters. Under this proposal, the increase in the stock's value would no longer be subject to state income taxation if held five years, providing an incentive for companies to locate in Oklahoma to give their employees the best tax environment in which to work. New business formation and investment will also be encouraged since future capital gains on the sale or recapitalization of successful business ventures will be free from taxation.

Legislation passed in 1999 cut the maximum marginal tax rate on the individual income tax to 6.65% and increased the Sales Tax Relief Act income qualifications to \$20,000 for households without children or seniors and \$50,000 for households with children or seniors. Current law contains a "trigger" provision that increases the individual income tax rate to 7% and reduces the maximum income limit for sales tax relief if certified revenue for the prospective fiscal year is less than certified revenue for the current fiscal year. Unfortunately, as a result of the revenue shortfalls in FY-2002 and FY-2003, the trigger provision was implemented, increasing the income tax rate to 7% and reducing the income eligibility of the Sales Tax Relief Act for the 2001 and 2002 tax years.

In December 2003, the equalization board certified a revenue estimate for FY-2005 that was greater than the estimate for FY-2004. As a result, the individual income tax rate decreased from 7 % to 6.65 % effective January 1, 2004, and the qualifications for the Sales Tax Relief Act increased.

While the intent of the trigger is to help ensure sufficient revenue for the provision of vital state services, it is counterintuitive economically. The effect of the trigger is to increase taxes in a bad economy, a contractionary policy that further harms the economy. In this case, sound economic principles require the elimination of the trigger provision of Oklahoma's individual income tax code and the Governor's budget advances such a proposal. The effect will be a permanent reduction of the top income tax rate to 6.65%.

As the state begins to experience economic recovery and rebounding state revenues, an opportunity exists to provide retirees much needed tax relief. This will provide a much-needed boost to Oklahoma seniors and improve the state's reputation as a retiree-friendly state. The plan expands the current state income tax exemption on retirement income from pensions and IRAs. The first \$7,500 of retirement income will be tax free, under the plan. Additionally, the income caps will increase from \$25,000 for single retirees to \$37,500 and from \$50,000 to \$75,000 for married couples. The proposal also recommends elimination of certain age requirements that private sector employees must meet to qualify for the exemption.

Additional Certified Revenues

In the event the February Board of Equalization increases the amount of revenues available for appropriation, the Governor's budget proposes serious consideration of the following items:

- \$33 million to provide \$1,000 for each state employee as a salary bonus;
- \$ 23 million to reimburse school districts for the FY-2004 deficit in the Ad Valorem Reimbursement Fund;
- \$3.8 million to restore state matching funds for the Graduate Medical Education Program; and
- \$10 million to the Department of Transportation for state highway and bridge maintenance needs.

Summary of FY 2005 Executive Budget

Revenue

1. Amount available for appropriation	\$ 5,147,952,602
2. Less: CLO certified funds	\$ (1,377,814)

Revenue Proposals

3. Agency Funds Available for transfer to Special Cash Fd.	2,400,000
4. Judicial Fund: Cost Collection Program	750,000
5. Excess Education Gross Production - Oil Funds in FY - 2004	17,700,000
6. Cash Flow Reserve Fund	100,000,000
7. Tobacco Enforcement Initiative	5,049,290
8. Increase Vending Machine Decal Fee from \$50 to \$100 per year	3,800,000
9. Assess insurance premium tax on Compsource	3,762,000
10. Enhanced Tax Collection Initiative	17,872,799
11. Quality Jobs	181,809
12. Unclaimed property sweep for tax delinquencies	166,250

Revenue Proposals Directed for Specific Purposes

13. Tribal Gaming Initiative (100% deposited in revolving funds)	71,000,000
14. Tobacco Stamp Tax Increase from \$.23 to \$1.00	130,674,357
15. Lobbyist Fees	680,000
16. Special Trauma Care Fee of \$80 for seat belt violations	6,220,000
17. Special Trauma Care Fee of \$100 on DUI and Drug Crimes.	938,960
18. Special Trauma Care fee of \$200 for reinstatement of Drivers License.	11,656,260

Total Impact of Revenue Proposals for FY 2005: 372,851,725

Total Revenue Available for FY 2005: \$ 5,519,426,513

Tax Cuts

19. Exempt Oklahoma sourced capital gains	(4,537,956)
20. Increase Pension exemption from \$5,500 to \$7,500	(12,506,641)
21. Implement permanent Marginal Income Tax Rate at 6.65%	

Total FY 2005 Impact of Tax Cuts: \$ (17,044,597)

Total Revenue Available Less Fiscal Impact of Tax Cuts for FY 2005: \$ 5,502,381,916

Expenditures:

22. FY'2004 Appropriations	\$ 5,158,822,881
23. Less: FY-2003 Supplementals	(50,233,911)
24. Less: FY-2004 One-time Expenditures	(5,686,000)
25. Deposit for Rainy Day Fund	10,400,000
26. Deposit for Health Care Fund	12,674,357
27. FY-2004 Supplementals	14,720,000
28. Health Care	194,649,851
29. Education	114,920,123
30. Safety and Security	8,711,305
31. Transportation	6,200,000
32. Human Services	18,031,000
33. Agriculture /Commerce/Energy/Environment/Tourism	7,161,300
34. Other	10,728,535
35. Dome and Higher Education Bond Issue for \$70 million	1,280,000

Total: \$ 5,502,379,441

36. Balance / (shortage) of funds available \$ 2,475

Overview

This budget summary is prepared using the December Equalization Board numbers as the starting point. The certification provides what is commonly referred to as “new money” when the new certification is more than the previous one. In this case, the amount of funds available for appropriation in FY-2005 is \$5.3 million less than the amount appropriated in FY-2004. Since additional funds in the Commissioners of the Land Office (CLO) may only be used for agency operations and not general purposes, this amount of funds is subtracted from this number.

Revenue adjustments

Special Cash Fund Transfers

One component of the FY-2005 budget involved identifying agency revolving funds that exceed the amount needed to balance FY-2004 expenditures. Using these funds for a purpose other than that originally intended does not mean that the original program is unimportant. However, use of these cash funds will prevent more reductions in critical service areas. This proposal transfers a total of \$2.4 million to the special cash fund:

- \$1 million from the Department of Environmental Quality Revolving Fund;
- \$1 million from the Securities Commission Revolving Fund;
- \$250,000 from the Bail Bondsmen Revolving Fund in the Insurance Commission; and
- \$150,000 from the Anti-Fraud Fund in the Insurance Commission.

This proposed transfer of funds is based on a careful analysis of budgeted versus actual receipts and disbursements and minimum fund value over the past three fiscal years.

Judicial Fund: Cost Collection Program

The Governor’s budget includes appropriating \$147,000 in additional funds to the Supreme Court to establish a cost collection program. This program will focus efforts to collect delinquent court fees and fines. These efforts will yield an estimated increase of \$750,000 to the State Judicial Fund. These additional funds will be directed to District Court Operations.

Excess Gross Production – Oil Funds

Current estimates indicate that gross production tax on oil deposits to the three education revolving funds will exceed the FY- 2004 original projection of \$26.2 million by \$5.9 million per fund. This budget utilizes this additional revenue for FY- 2005 budget expenditures.

Cash Flow Reserve Fund

This budget proposes a transfer of \$100 million from the FY-2004 Cash Flow Reserve Fund (CFRF) to the Special Cash fund for the FY-2005 budget. Currently, the balance in the CFRF is nearly \$139 million. Through December, actual collections for FY-04 exceed estimated collections by \$73 million with a balance in the FY-04 General Revenue

fund of \$130 million after allocations to agencies in January. Current projections by the Office of State Finance indicate that the \$139 million balance in CFRF far exceeds the amount necessary for cash flow purposes for the remainder of FY-04. A transfer of funds from the CFRF, as this budget proposed, is a prudent measure to help fund vital state services that have been cut in recent years.

Other Revenue adjustments

For more complete details of items 7 through 21 please review the "Revenue Proposals" section of the budget book.

Expenditure Proposals

The first step in developing this budget involved reviewing individual agency budgets. Office of State Finance Director Scott Meacham and the State Finance Budget division utilized performance based budgeting techniques to evaluate programs and services. This FY-2005 Executive Budget identifies and incorporates both funding investments and efficiencies. Funding investments that yield both short-term and long-term economic and social benefits for Oklahoma are included. Funding efficiency recommendations target programs and services where the same productivity level is possible with less funding.

A more detailed explanation of each of these items is in the appropriate pages for the agency listed. Note that a summary of these funding adjustments by Cabinet Department and agency is located in the “Summary Information” section of this document. The starting point for expenditure proposals is FY-2004 appropriations. Subtracting one time expenditures for FY-2003 supplementals and FY-2004 activities from this amount produces a base level of expenditures. Adding proposed changes in expenditures yields the total Executive budget.

FY-2003 Supplementals

The following table lists FY’03 supplemental appropriations subtracted from the FY - 2004 base appropriation:

FY-2003 Supplementals

1. Corrections, Department of - Duties	\$ (9,800,000)
2. Education, Board of - State Aid	\$ (25,486,165)
3. Juvenile Affairs, Office of - Prevent Reduction in Force	\$ (100,000)
4. Finance, Office of State - CORE	\$ (1,000,000)
5. Corrections, Department of - Prevent Furloughs	\$ (9,000,000)
6. Tax Commission - Filing processing of returns	\$ (477,000)
7. Indigent Defense System - Conflict counsel contracts	\$ (600,000)
8. State Emergency Fund	\$ (3,770,746)
Total FY-2003 Supplementals:	\$ (50,233,911)

One-Time Expenditures

Over \$5.6 million was appropriated for one-time FY- 2004 expenditure items:

- \$2 million to the Election Board to match federal funds;
- \$1.5 million to the Office of State Finance for the Military Planning Commission;
- \$1.5 million to the Department of Public Safety for Capitol security;
- \$500,000 to the Tax Commission to evaluate the state revenue process;
- \$150,000 to the Spaceport Authority to conduct a safety study of Burns Flat; and
- \$36,000 to the Ethics Commission for attorney costs.

Subtracting these one-time expenditure items from the FY-2004 base appropriation yields the baseline budget for FY-2005.

Deposit for Rainy Day Fund

The Governor’s budget proposes setting aside over \$10 million to deposit in the Rainy Day Fund. Revenue declines of recent years utilized all available funds in the Rainy Day Fund. This leaves nothing available in the event a future revenue downturn occurs. Replenishing the fund is fiscally responsible and prudent.

Deposit for Health Care Fund

The Governor’s budget proposes directing \$10 million from the tobacco stamp tax increase to a special health care fund. Impending growth in health care costs necessitates setting aside some funds to cover increasing needs in the future.

FY-2004 Supplementals

The following list includes supplemental appropriations proposed in the FY- 2005 budget:

FY-2004 Supplementals

1. Corrections: Contract Beds	\$ 5,300,000
2. University Hospitals Authority: Indigent Trauma Care	\$ 2,100,000
3. Department of Education - \$5,000 stipends for National Board Certification	\$ 600,000
4. Mental Health: Expand Oklahoma County Drug Court	\$ 270,000
5. Oklahoma Tax Commission	\$ 6,450,000
Total FY-2004 Supplementals	\$ 14,720,000

The Governor’s budget proposes a supplemental appropriation for the Department of Corrections to fund a portion of the agency’s contract bed deficit and medical services deficit. The Governor’s budget recommends DOC offset the remaining deficit with revolving fund revenue, carryover budgeted for equipment and repairs and operating reductions.

An additional \$2.1 million is recommended to the University Hospitals Authority to offset the increased cost of indigent trauma care. This additional funding increases the state’s share of indigent medical costs and offsets total funding needed for FY- 2005.

The Governor’s budget includes an additional \$600,000 to ensure every teacher attaining National Board Certification during FY- 2004 receives a \$5,000 annual stipend. The state must fulfill its commitment and reward teachers for participating in this initiative.

The Governor’s budget proposes funding to establish a special pilot drug court program in Oklahoma County. This provides sufficient funding to expand substance abuse treatment alternatives to eligible non-violent drug and alcohol offenders for both short-term and long-term cost savings to the correctional system.

The Governor’s budget proposes appropriating funds to the Oklahoma Tax Commission to upgrade obsolete computer equipment and increase tax collection efficiency. These efforts will result in \$17.9 million in additional revenue for the FY-2005 budget.

FY-2005 Key Funding Issues

Health Care

Of the \$201 million increase directed to health care, over \$100 million is targeted to expand health insurance for the uninsured poor, \$7 million for debt service obligations for a cancer center, \$ million for the trauma care fund and \$3 million for tobacco youth prevention and cessation programs. The implementation of these proposals requires the passage of the tobacco tax increase. Another \$18.5 million from special assessment fees is specifically directed for the trauma care fund, making the total funding proposed for the trauma care fund over \$26.5 million.

The remaining funds are directed as follows:

- Over \$43.2 million for maintenance and annualizations in the Oklahoma Health Care Authority;
- \$3.8 million for programs in the Department of Mental Health and Substance Abuse Services;
- \$2.8 million to restore specific program cuts in the Department of Health;
- \$2.2 million to annualize operation costs at the new Veterans center in Lawton; and
- \$3.6 million to meet indigent care requirements with the University Hospitals Authority.

Education

The Governor's budget proposes an increase over \$85.5 million to common education of which \$62.4 million is to provide 100% of teachers' health insurance, \$11.4 million for increased premium costs for FY-2005 and the remainder to restore cuts in specific programs. Higher education receives over \$27 million for scholarship expenses, endowed chairs and institutional allocations. The remaining \$1.8 million is directed for the Oklahoma Commission for Teacher Preparation, the Oklahoma Center for the Advancement of Science and Technology, the Oklahoma Educational Television Authority and other education entities.

Safety and Security

The FY-2005 recommendation of a \$6 million increase for the Department of Corrections annualizes the supplemental appropriation and partially replaces one-time funds the agency used to offset its deficit. The Governor's budget proposes expanding the Oklahoma County Drug Court, which will divert offenders from prison and lead to immediate savings for the Department of Corrections. Recommendations also include additional funding for a 72 cadet academy in the Department of Public Safety and reductions to other safety and security agencies to improve efficiencies. An additional \$800,000 is also included to expand the Thunderbird Youth Academy in the Military Department.

Transportation

The Governor's budget includes \$6.2 million to the Department of Transportation for increased FY- 2005 debt service payments.

Human Services

The Governor's budget proposes a \$15 million increase for the Department of Human Services' Child Care program and \$2 million for the Partnership for School Readiness. Both programs are essential to preparing young children for school. The Child Care program encourages day care facilities to provide quality child care that will help ready young children for school while the Partnership supports and encourages public-private collaborations that focus on school readiness. The budget also includes \$570,000 to replace one-time revenue sources for the Office of Juvenile Affairs.

Commerce, Tourism, Energy, Environment

The Governor's budget proposes a \$5 million appropriation to the Tar Creek "Trust Authority" to implement the Governor's voluntary relocation plan. Another \$1.3 million is directed to the Historical Society for increased FY-2005 debt service payments and \$1.2 million to the Department of Commerce for the duties associated with transferring the Center for Manufacturing Excellence from the Oklahoma Center on the Advancement of Science and Technology. Temporary and permanent budget reductions are also recommended in a number of agencies to improve cost efficiencies.

Other

The Governor proposes replacing a portion of the Judiciary's one-time revenues, appropriating funds to the State Emergency Fund and increased costs for the CORE project. The Governor also recommends issuing a capital bond issue to fulfill the \$5 million obligation for the capitol dome and to provide \$65 million for higher education capital improvements. This figure assumes Oklahoma will make one interest payment in FY-2005.

Notes:

Historical Perspective

Over the past two years, Oklahoma state government experienced dramatic revenue shortfalls. Oklahoma was not unique. The National Association of State Budget Officers 2003 Annual Fiscal Survey reported 42 states in the country faced serious revenue shortfalls in FY-2002 and FY-2003. Never in the 23 year history of the NASBO annual survey had more states experienced severe revenue shortfalls.

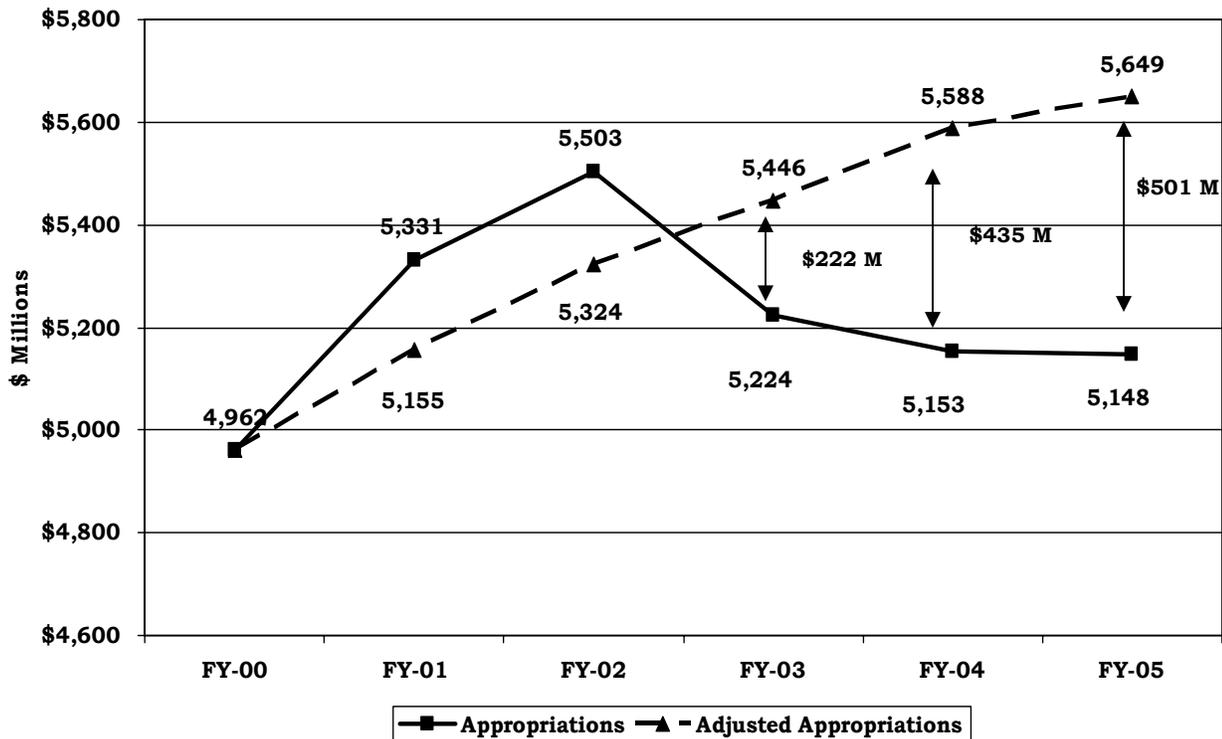
Some analysts suggest that state government spending should grow no faster than the inflation rate. While appropriations for the first three fiscal years of this decade (FY-00 to FY-02) outpaced that rate, the same cannot be said of the past two fiscal years (FY-03 and FY-04) and for this proposed budget (FY-05). In fact, spending since FY-02 has declined to a level well below

the level of appropriations adjusted for inflation. Were Oklahoma's spending to match the inflation adjusted level for FY-05, it would be \$5.65 billion.

While this funding crisis adversely impacted many government programs and services, it also provided the opportunity to re-evaluate priorities and improve efficiencies. Policy makers identified vital core government services and consolidated or eliminated targeted programs that were inefficient or duplicative.

As Oklahoma's economy continues to improve it is worth noting the positive and negative effects the economic recession had on Oklahoma State Government. The following sections provide a brief history of Oklahoma's revenue shortfalls and its effects on programs and services.

**Appropriations Adjusted for Inflation and Population Growth
FY-00 through FY-05**



Fiscal Year 2002

Oklahoma experienced the first of its most recent revenue shortfalls in FY-02, the period beginning July 1, 2001, and ending June 30, 2002. The Office of State Finance declared a revenue shortfall in December, 2001, and announced that agency budgets would be reduced 2.1%. The action came after the Oklahoma Tax Commission projected General Revenue Fund collections for the year would be \$290.6 or 1.0% below the estimate.

During the first six months of the fiscal year, gross production tax on natural gas collections remained well below the estimate. That was the result of lower-than-expected natural gas prices. By the end of the first half of the fiscal year, receipts from that revenue source were \$95.3 million or 44.3 percent below the estimate.

Additionally, motor vehicle tax collections had been below the estimate in each of the fiscal year's first six months, although not by as large a margin as gross production tax collections. Total general fund collections at that time were \$126.3 million or 5.5 percent below the estimate, one-half of one percentage point below the five percent cushion built-in the estimating process.

The energy sector was not the only part of the economy in turmoil. The economic impact of the September 11 terrorist attack was taking hold nationally, combined with realignment in the technology sector and the beginnings of several corporate scandals. State revenue collections began to decline across the country, including Oklahoma.

In response to this situation, the Office of State Finance implemented a series of agency budget cuts. The severity of the revenue failure was not readily apparent in December, when budget cuts began. Lower-than-estimated revenues occurred in each of the four

major taxes – income tax, sales tax, motor vehicle taxes and the gross production tax on natural gas the remainder of the fiscal year.

From January of 2002 through June of 2003, the Office of State Finance implemented more agency budget reductions as required by the Constitution. By the fiscal year's end, General Revenue Fund collections for the state fell \$420.9 million or 8.7 percent below the estimate. This resulted in a 3.7% cut to state agencies.

To manage these cuts, agencies implemented a number of different temporary measures to maintain services and programs at current levels. Many agencies left vacant positions unfilled or used one-time revenue sources to fill the budget gap.

Fiscal Year 2003

It was against the backdrop of a depressed energy market that the Board of Equalization made its FY-03 revenue estimate. At the time the board met in February, 2002, it was not yet apparent that a broad based revenue decline was developing. Most agencies saw appropriations reduced by 5 percent FY 2003. Key program areas such as Education, Health Care and Safety and Security were not only exempted from FY-2003 budget cuts but received slight increases to maintain FY-2002 operating levels.

The same factors that depressed revenue collections in the second half of FY-2002, however, remained in place as FY-2003 began. Revenue collections for the first month of the new fiscal year, July, 2002, were \$43.1 million or 13 percent below the estimate, well outside the five percent cushion built in the estimating process. Revenue from sources such as individual income tax, corporate income tax, sales tax and motor vehicle were below the estimate again. As a result, the Office of State Finance implemented the first

of four budget reductions for the fiscal year. By the fiscal year's end, the budget reduction level had ratcheted up to 6.7 percent and cuts totaled \$301.0 million.

While the average agency experienced a 6.7 percent cut in FY-2003, basic health care, human services and public safety programs experienced only minimal reductions. Common education suffered through an especially painful year. Common education receives state appropriations from the General Revenue Fund and the 1017 education reform revolving fund. Since the majority of revenue in the education reform revolving fund is from individual income and sales tax, the fund's revenue shortfall totaled 14.4%.

After a second year of revenue shortfalls, agencies could no longer rely on one-time revenue sources to maintain their budgets. Many agencies implemented furloughs and reduced or eliminated services like congregate meals for seniors and the medically needy health care program under the Medicaid program.

Fiscal Year 2004

State revenues have fared substantially better in the current fiscal year (FY-04) than during the prior two years. Over the fiscal year's first six months, the most recent period for which data is available, General Revenue Fund collections are ahead of both the prior year and estimated collections. The individual income tax collections, sales tax collections, motor vehicle tax collections and the gross production tax on natural gas continue to perform well. The growth of individual income and sales tax collections is a good indicator that the underlying state economy is regaining some strength. Additionally, the likelihood of budget cuts during the current fiscal year is remote unless the current trends reverse.

The Impact

State government is a service provider, and like most service providers it must have the personnel on-hand to serve the public. In response to the budget reductions, a number of state agencies implemented a reduction in force (RIF) and reduced the number of employees within their agencies. Others reduced the number of part-time employees and temporary workers.

For FY 2004, the executive and legislative branch reviewed every agency program and service to make the most cost-effective reductions and investments. As a result of this effort agencies implemented a number of permanent personnel reductions, program consolidations and program service reductions. Additional targeted cuts re-directed resources to priority services in health care, education and safety.

Common education, health care, corrections and mental health received targeted increases for programs that were cost-effective or integral to our state's social and economic vitality. Despite these increases, these agencies still had to reduce services.

The Department of Commerce cut over \$1 million in state funds through voluntary separation offers to 23 employees.

Tourism cut over \$2.1 million through division consolidation and elimination of 59 positions. Prior to this action, the agency had three separate divisions: parks, resorts and golf courses. Merging these three divisions into one eliminated duplicative functions and increased operating efficiencies.

In all, 17 agencies implemented a reduction in force for 89 employees and another 291 employees accepted voluntary separation offers from FY-2002 to FY-2004. Today, there are 2,000 fewer state employees than in FY-2000.

Education: For education, the impact of the budget cuts has meant a minimum of 2,000 fewer teachers in the classroom, larger class sizes, the elimination of extracurricular activities and elective classes. On average, state aid funding per student experienced decreased by \$273 from \$2,654 in FY-2002 to \$2,522 in FY-2003. Over the long run these reductions are unsustainable if Oklahoma wishes to continue to build a quality educational system.

Many specific programs in education were cut to avoid more serious reductions to core program categories like state aid, teachers' health insurance, teachers' salaries, and national board certification. Professional Development funds, Advanced Placement grants and the Parents as Teachers program experienced reductions of over 50 percent, while funding for the Mentor Teacher program and Special Education Assistance were eliminated entirely. Funding for the Regional Education Service Program, \$4.9 million, was reduced to zero, resulting in the loss of 91 jobs. These centers provided psychometric assessment services to parents and districts across the state. Reductions in these areas allowed funds to be re-directed to restore a portion of the FY-2003 cut to state aid.

Health Care: The Medicaid Medically Needy program was discontinued. This program provided health insurance coverage to low-income women, children and people with disabilities with catastrophic medical expenses. As a result of this \$2.6 million cut, 8,300 people with chronic conditions are no longer eligible for medical treatment and medicine. In the long run this has a detrimental effect for both clients and Hospitals. Over time, medical conditions will worsen affecting the person's quality of life and work productivity. At some point, people will require emergency room care. This increases the amount of

uncompensated care a hospital must absorb, diminishing their financial viability.

Health: For FY-2004, the Department of Health's Eldercare program, a non means-tested case management program for seniors, was eliminated. A total of \$5.8 million was cut and 124 people lost their jobs from discontinuing this program and redirecting it to other Health and Human Services programs. To leverage all available federal funds a portion of the funding was transferred to the Department of Human Services Medicaid ADvantage program. This home health care program garners \$2.40 in federal funds for every \$1 in state funds invested. This decision was painful but necessary. Transferring the funding to other Health Services agencies avoided more drastic cuts in other vital areas such as mental health services, substance abuse services and health care services.

Mental Health: Despite additional funding for FY-2003 and FY-2004, clients of the Department of Mental Health and Substance Abuse Services still experienced the impact of the revenue shortfall. Additional appropriated funds were targeted to community based treatment for persons with severe mental illness or substance abuse disorders. However, local public and nonprofit community mental health centers which serve the majority of indigent clients with mental illnesses were cut by 11%. These reductions required the agency to focus their resources on clients with the most severe illnesses and discontinue services to 3,000 people with less severe, but still devastating illnesses such as manic depression or anxiety disorder. In most cases, these clients have no other treatment alternatives.

The cost of untreated mental illness in Oklahoma through increased utilization of hospital emergency rooms, psychiatric hospitals, and jails

far exceeds the short-term savings from reducing community services.

The Future

Budget cuts have created a pent-up demand for funding within state government. Programs which needed additional or expanded funding have been held stagnant. Regularly scheduled agency purchases, such as computers, and maintenance have been postponed.

Additionally, agencies have been forced to absorb an increase in employee benefits costs resulting from rising insurance premiums. As premiums rose, so to did employee benefit allowances. However, no additional

funding was available to the agencies. Employees, too, were denied a statewide pay raise during this period. The last statewide pay raise took effect October 1, 2000. Without proper compensation, Oklahoma risks the loss of its best employees to the private sector.

These factors, as well as increases in the costs of providing state government services, have led agencies to request more and more funds from state coffers. That means proposals for increased spending must be considered with caution, yet with a recognition that real needs exist within certain state agencies. This budget takes that approach.

The Revenue Process

Oklahoma is constitutionally required to maintain a balanced budget where expenditures do not exceed revenues. As part of this process, the State certifies revenue estimates for the coming fiscal year to give the Legislature an idea of how much it can appropriate to state agencies. To prevent overspending, the Legislature can only appropriate 95% of the certified estimate. Once session is over and the new fiscal year has begun, revenue collections are monitored closely to insure revenue collections stay above appropriations.

The Constitution assigns the Board of Equalization with the responsibility of certifying revenue estimates to the General Revenue Fund and other appropriated funds. Members of the Board include the Governor, Lieutenant Governor, Treasurer, State Auditor and Inspector, Attorney General, State Superintendent of Education, and Secretary of Agriculture. The Board meets three times a year to certify revenue.

The first meeting is in late December. During this meeting, revenue estimates for the upcoming fiscal year are presented to the Board for certification. These estimates give the Board a preliminary look at revenue to the appropriated funds. Estimates are calculated using economic forecasts, federal tax law changes and other foreseen factors. Once certified, this revenue estimate is used in developing the Governor's budget.

Shortly after the start of the legislative session, the Board of Equalization meets again. The revenue estimate certified in this meeting is the official estimate for the coming fiscal year and is used in the appropriations process.

Once certified, the official estimate can only be changed to reflect state law changes that affect expected revenue collections for the coming fiscal year.

Accordingly, once the legislative session is over, the Board certifies the final estimate that includes legislated revenue changes. Based on this final certification, the Office of State Finance then calculates monthly estimated collections.

During the fiscal year, actual collections are monitored on a monthly basis and compared to estimated monthly collections. The critical level of collections is 95% of the estimate since appropriations are limited to 95% of estimated collections. When monthly collections come in at 95% or more of estimated collections, full agency allocations are made. As the fiscal year progresses, the Office of State Finance updates projected total collections for the fiscal year. If those projected collections are less than the amount appropriated to agencies, then the Office of State Finance must implement budget cuts to all state agencies.

At the end of a fiscal year without budget cuts, any revenue collected over 95% of the total estimate but not in excess of the full estimate is carried forward to the next fiscal year as cash. Revenue collected in excess of the full estimate is deposited in the Constitutional Reserve Fund.

Taxes: Major Sources

The Oklahoma tax system is the primary source of funds used to finance state government. Tax revenue provides the means for state government support and provision of services to the citizens of Oklahoma.

Taxes comprised 52 percent of total treasury funds in FY-2001 and are the primary source of appropriations for the functions of government. The other 48 percent of total treasury funds is composed of dedicated revenues such as federal funds and fees for services provided.

There is a difference between taxes and fees. Generally, taxes are compulsory payments whereas fees are discretionary or voluntary. Avoiding the payment of fees often simply requires not using a service financed by the fees.

Not all tax revenues collected are available for general appropriation. Some taxes are dedicated to specific purposes, such as motor fuels taxes that are dedicated to highway and bridge construction and maintenance.

Many tax sources are partially dedicated for specific uses and partially available for annual appropriation. For example, portions of income tax revenue are dedicated to education, the Teachers

Retirement Fund, and the Ad Valorem Reimbursement Fund. The remainder is available for general appropriations.

State taxes also provide a portion of the funding for local governments. The best example of this is the public school system. Public schools receive more of their funding from state revenue than through local revenue sources. Schools not only receive state funding through direct appropriations,

but they receive dedicated funding from income, sales and use, gross production, rural electric cooperative and motor vehicle taxes.

Oklahoma's tax system has changed over time to meet changing economic conditions and changing demands for revenue. When Oklahoma first became a state, state and local tax systems were based on gross production taxes on oil and natural gas and property taxes.

The first major change occurred in 1933 when the Oklahoma economy was under stress from both the Great Depression and the dust bowl. The hardships brought about as a direct result of the dust bowl days prevented many taxpayers from being able to pay property taxes.

**Summary of Certified Revenues
FY-2002 to FY-2005**

	FY- 2002 Actual	FY- 2003 Actual	FY-2004 Estimate	FY-2004 Projection	FY-2005 Estimate
	\$ millions				
General Revenue Fund					
Income Tax-Individual	1,987.7	1,832.9	1,991.5	1,928.8	1,970.3
Income Tax-Corporate	137.2	49.9	87.3	105.7	101.1
Sales Tax	1,241.9	1,203.4	1,238.9	1,266.7	1,327.3
Gross Production Tax-Gas Motor Vehicle Tax	226.3	365.7	358.7	383.6	361.2
Interests & Investments	232.3	196.4	214.2	217.3	217.4
Other Sources	81.0	40.6	36.7	22.2	33.3
	<u>507.1</u>	<u>497.4</u>	<u>468.5</u>	<u>458.7</u>	<u>486.2</u>
Total General Revenue	4,413.5	4,186.3	4,395.8	4,383.0	4,496.8
State Transportation Fund	201.6	191.8	202.3	200.3	202.2
All Other Certified Funds	<u>37.3</u>	<u>39.4</u>	<u>44.2</u>	<u>45.1</u>	<u>164.1</u>
Total	<u>4,652.4</u>	<u>4,417.5</u>	<u>4,642.3</u>	<u>4,628.4</u>	<u>4,863.1</u>

In response voters passed a constitutional amendment prohibiting a state levy on property taxes. However, property taxes remained a major source of local revenue.

Revenues

The table above provides a recent history of total collections and certified revenues.

Income Taxes

Oklahoma's income tax laws date back almost to the beginning of statehood. In 1915 an income tax was imposed upon the net income of individuals residing in Oklahoma and upon the Oklahoma portion of nonresidents' income. It was not until 1931 that the income tax was extended to corporations and banks.

Income tax increased in importance with the 1933 constitutional amendment that prohibited state taxation of property. While there have been numerous changes to income tax law since its beginning, today it is the single most important source of state revenue.

A unique feature of the Oklahoma individual income tax calculation is that two different methods are utilized. Method I employs rates ranging from 0.5% to 6.65% and does not permit deduction of federal income tax paid from net income. Method II employs rates ranging from 0.5% to 10% and permits the deduction of federal income tax paid from net income. In order to calculate individual income tax owed, a taxpayer calculates tax liability by both methods and pays the lesser amount.

Corporate income tax rates were also progressive when initiated in 1931. They remained progressive until 1935 when a flat rate of 6% was established. Although the rate was

decreased to 4% in 1947, it was raised in two stages back up to its present level of 6% by 1990.

Individual Income Tax: The individual income tax reaches the top marginal rate at \$21,000 and \$24,000 taxable income for those married filing jointly under Method I and Method II respectively. For single taxpayers, the top rate is reached at \$10,000 for Method I and at \$24,000 for Method II.

Oklahoma's individual income tax uses federal adjusted gross income as its beginning point, adjusts for out-of-state income or losses, and then makes adjustments to arrive at the point that Oklahoma taxable income can be calculated. Oklahoma income tax is not levied on any social security income, the first \$1,500 of military compensation, the first \$5,500 of federal or state retirement and certain categories of private sector retirement of up to \$5,500.

Taxpayers have the option of itemizing deductions or taking a standard deduction just as they have on their federal income tax. However, if they take the standard deduction on their federal return, they must do so on their state return. The standard deduction is either \$1,000 for joint or individual returns or 15% of Oklahoma adjusted gross income but may not exceed \$2,000 for either individual or joint filers.

If the taxpayers have itemized deductions on their federal return, they use the same value on the state return. The individual and dependent exemptions are \$1,000 per person. Those who are blind and some low income elderly receive an additional exemption.

Credits or rebates to low and moderate income individuals began in 1990. The "Sales Tax Relief Act" provided an annual payment of \$40

per person as a form of tax relief to low income families for the state sales tax paid on food. Originally, only families with income of less than \$12,000, recipients of TANF or Medicaid recipients in nursing homes were entitled to the refund.

When the Sales Tax Relief Act was expanded in 1999, the maximum qualifying income was increased to \$20,000 for an individual with no dependents and \$50,000 for an individual claiming one or more personal exemption other than the individual or spouse, or an individual 65 years of age or older.

Also, in 1999, the individual income tax rate was cut from 7% to 6.75%. Then, in 2001, the rate was cut further to 6.65%. This tax relief, along with the expansion of the Sales Tax Relief Act, contained a provision that growth revenue must exist to maintain all tax relief levels. The Board of Equalization was delegated the responsibility for making the growth finding each year in Title 68 O.S. Supp 2000 Section 4001.B.

The Board must compare the revenue estimates for the coming fiscal year to the estimates for the current fiscal year. If there is no growth, then the tax relief is temporarily suspended. If growth exists, then the tax rate reductions remain in place.

At the December 2001 meeting, the Board of Equalization found that growth revenue did not exist. The tax cuts were suspended, and the income tax rate increased to 7%. The Sales Tax Relief qualifications were lowered from \$50,000 to \$30,000. A year later, the Board of Equalization again found no growth revenue. Accordingly, the tax rate remained at 7%. The income qualifications for the Sales Tax Relief Act were further tightened to \$12,000.

At its December 2003 meeting, the Board of Equalization found growth revenue between the FY-2004 and FY-2005 estimates. As a result, the tax cuts took effect and the tax rate decreased to 6.65% effective January 1, 2004. The qualifications for the Sales Tax Relief Act increased to \$30,000. These provisions will continue until the Board makes a further finding that growth revenue does not exist.

The Quality Jobs program, an economic development incentive, is placing an increasing demand on state tax revenues. New and expanding firms qualifying for the Quality Jobs programs are refunded up to 5% of their total payroll amount from individual income tax withholding payments. The Quality Jobs program is estimated to decrease net state income tax collections by \$50 million in FY-2005.

The apportionment of individual income tax changed during the 2002 session. The table below shows the change in apportionment:

Individual Income Tax				
	Education			Ad Valorem
	General Revenue	Reform Revolving	Teacher's Retirement	Reimburse.
	<u>Fund</u>	<u>Fund</u>	<u>Fund</u>	<u>Fund</u>
FY-2004	87.12%	8.34%	3.54%	1.00%
FY-2005	86.91%	8.34%	3.75%	1.00%
FY-2006	86.66%	8.34%	4.00%	1.00%

Corporate Income Tax: While corporate income tax is important to the overall revenue picture, it provides only about 2.1% of total tax revenue. Over time, corporations subject to corporate income tax have become a smaller part of the overall economy. This is due, in part, to the fact that many businesses now organize as subchapter S

corporations or limited liability organizations.

Under these two classifications, all income immediately goes to the partners or shareholders, and as a result, the corporations pay no income tax. The partners or shareholders, rather than the business, are taxed on that income

investment. To minimize the negative influences on revenues, the State enacted legislation decoupling depreciation from the federal return.

For the first year, companies can only deduct 20% of the bonus depreciation allowed under the federal act. The remaining 80% of depreciation must be added back into taxable income. For the following four tax years, companies can only deduct 25% of the 80% depreciation added back from the first year.

Legislation in 2002 changed the apportionment of corporate income tax revenue. The table below shows the change in apportionment.

Corporate Income Tax

	General Revenue Fund	Education Reform Revolving Fund	Teacher's Retirement Fund	Ad Valorem Reimburse. Fund
FY-2004	78.96%	16.50%	3.54%	1.00%
FY-2005	78.75%	16.50%	3.75%	1.00%
FY-2006	78.50%	16.50%	4.00%	1.00%

as well as income from other sources under the individual income tax. In addition, some corporate businesses may be subject to some other forms of taxation such as the bank privilege tax or the insurance premium tax.

The corporate income tax rate is a flat 6% that is applied to all taxable income. Manufacturers' exemptions and some targeted credits and incentive payments are frequently used as economic development tools and reduce a company's income tax liability.

The largest of these targeted incentive programs are the Quality Jobs programs. Estimated refunds are \$50 million in FY-2005. While the refund is made to businesses, it is made from individual income tax withholding receipts.

In 2002, Congress enacted the "Job Creation and Worker Assistance Act of 2002" as part of an economic stimulus package. One major provision allowed companies to deduct from corporate income tax liability an additional 30% of depreciation for certain business

State Sales and Use Taxes

The State's sales tax has varied considerably in both rate and purpose since its initial imposition in 1933, when a temporary 1% tax was dedicated to public schools. Two years later, the tax was renewed, but the revenue was apportioned to the General Revenue Fund. In 1939, the rate was increased to 2% with 97% of the revenue being apportioned to the State Assistance Fund (i.e. welfare) administered by what is now the Department of Human Services.

This sales tax dedication continued until the 1980s when all collections were apportioned to the General Revenue Fund. Since then, the General Revenue Fund has been the primary source of state funds for the Department of Human Services.

During the state funding crisis brought on by the decline of the petroleum industry in the 1980s, the tax rate was incrementally increased to 4%. In 1990, the Education Reform Act (HB 1017) was passed which increased the sales and use taxes to their current level of 4.5%.

The state sales and use taxes are imposed on sales of tangible personal property and on the furnishing of some services such as transportation, meals, and lodging as well as on some telecommunications services.

However, most services are not subject to the sales and use taxes. Beyond those exemptions allowed when the product or service is subject to another tax such as the motor fuels tax, there are specific exemptions made to governmental and nonprofit entities, agriculture, and to certain areas targeted to encourage economic development.

The values of some of the large remaining exemptions to sales and use tax for FY-2002 are:

- sale of natural or artificial gas and electricity for residential use, \$82.2 million
- sale of prescription drugs, \$50.3 million;
- Sale of advertising space, \$38.6 million.

During the 2002 session, the apportionment for sales and use tax revenue changed. The tables below shows the change in apportionment:

Motor Vehicle Taxes

Motor vehicle taxes and fees have a long history in Oklahoma. Oklahoma City was the birthplace of the parking meter in 1913 and, in fact, Oklahoma City tagged “horseless carriages” before the state.

Motor vehicle taxes are comprised of a broad category of taxes and fees imposed on the purchase and use of motor vehicles. The motor vehicle taxes include an excise tax levied on the purchase of cars, trucks, buses, boats, and motors as well as annual registration fees.

The apportionment of motor vehicle registration or tag fees changed when State Question 691 (SQ-691), in 2000, made registration fees based on the age of the vehicle:

Years 1 - 4	\$85 annually
Years 5 - 8	\$75 annually
Years 9 - 12	\$55 annually
Years 13 - 16	\$35 annually
Years 17 +	\$15 annually

The registration fees are in lieu of ad valorem or personal property taxes.

The motor vehicle excise tax was also changed. Previously the tax was charged at 3.5% of value which was determined by the factory delivered price depreciated at 35% annually. The new law leaves the rate at 3.5% but changes the base to the actual cost of the vehicle. This tax is in lieu of state and local sales taxes.

While other taxes and fees are collected directly by state and local governments, motor vehicle taxes are collected by independent businesses operating as motor license agents or tag agents. The only exception to this is the taxes and fees imposed on trucks and trailers used in interstate commerce, which are collected by the Oklahoma Tax Commission.

Prior to FY-1986, there was a different apportionment for virtually every motor vehicle tax and fee

Sales Tax

	Education		
	General	Reform	Teacher's
	Revenue	Revolving	Retirement
	<u>Fund</u>	<u>Fund</u>	<u>Fund</u>
FY-2004	86.04%	10.42%	3.54%
FY-2005	85.83%	10.42%	3.75%
FY-2006	85.58%	10.42%	4.00%

Use Tax

	Education		
	General	Reform	Teacher's
	Revenue	Revolving	Retirement
	<u>Fund</u>	<u>Fund</u>	<u>Fund</u>
FY-2004	85.35%	11.11%	3.54%
FY-2005	85.14%	11.11%	3.75%
FY-2006	84.89%	11.11%	4.00%

collected. This was remedied by combining all motor vehicle tax collections into one category and then apportioning revenue from that category.

SQ-691 changed the apportionment of motor vehicle taxes as well. Monies apportioned to school districts from this source are “held harmless” under this law. Effectively, no district will receive less from this source than it did in the corresponding month of the preceding year.

Many people are surprised to learn that so small a percentage of motor vehicle taxes are used for roads. However, the tax has traditionally been considered in lieu of a property tax rather than a road user tax. In Oklahoma, automobiles are exempt from property taxes.

There are reductions in annual fees for vehicles used primarily for commercial or business purposes. Farm vehicles and pickups used primarily for agricultural use have a reduced fee of \$30. License fees for large commercial trucks and trailers are based on the combined weight of the loaded vehicle. Commercial truck tractors and commercial trailers operating in interstate commerce pay fees in proportion to their use of Oklahoma highways. Prorated licenses are issued only by the Oklahoma Tax Commission rather than through local tag agents.

In the 2002 session, lawmakers passed a bill that gives insurance companies flexibility when dealing with the ownership of a stolen vehicle. Under prior law, the insurance company had to visually inspect a stolen vehicle before ownership could be transferred to the company. However, many times, the vehicle is never found making a visual inspection impossible. Therefore, the new law does not require an insurance company to do

a visual inspection. The title of the stolen vehicle can be transferred to the company by a salvage title if the vehicle is declared a total loss.

The chart below shows how Motor Vehicle Tax is apportioned.

Motor Vehicle Tax	
General Revenue Fund	44.84%
State Transportation Fund	0.31%
Counties for Highways	7.24%
Cities and Towns	3.10%
School Districts	36.2%

Motor Fuels Taxes

The first gasoline tax became effective in 1923 and was used for the construction and maintenance of roads and bridges. Prior to 1923, local governments were responsible for roads and bridges which were supported through ad valorem tax revenue. In 1910 local roadways were maintained by requiring able bodied males to provide four days of labor per year -- less if they brought their own horse. Those so inclined could pay three dollars per day in lieu of work. By 1916, a two mill tax was levied in townships to supplement the work requirement but both were abolished in 1933.

The motor fuels taxes in Oklahoma are a form of selective sales tax and include the gasoline and diesel excise tax, the motor fuel importer use tax, and the special fuel use tax. The taxes are levied on the quantity or volume of fuel sold, not the price. The state tax on gasoline and special fuels is 16 cents per gallon, plus a 1 cent per gallon assessment. The state tax on diesel fuel is 13 cents per gallon, plus a 1 cent per gallon assessment.

The chart below shows the FY-2005 apportionment of the diesel and gasoline tax and motor fuel revenue.

Motor Fuels Tax Apportionment

	<u>Gasoline Tax</u>	<u>Diesel Tax</u>
General Revenue Fund	1.625%	1.39%
State Transportation Fund	63.75%	64.34%
Counties for Highways	30.125%	30.43%
Cities and Towns	1.875%	-
County Bridges and Roads	2.625%	3.84%

Source: Oklahoma Tax Commission

receive a portion of the motor fuel tax collections and must agree not to challenge the constitutionality of the motor fuel tax code. This law permitting the sharing of motor fuel tax revenue went into effect in 1996.

The motor fuels tax revenue supports roads and bridge building plus maintenance for both state and local governments. A 1 cent per gallon special assessment provides for environmental cleanup of leaking petroleum storage tanks. Almost one third of the total motor fuel revenue is apportioned for local uses with the remainder used for state purposes.

The incidence of the motor fuel taxes falls on the consumer just as sales taxes do. This incidence was defined by statute during the 1996 legislative session as the result of a court ruling that whoever actually paid the tax should be specified in the statutes. Although the statutes specify that the consumer is to pay the tax, in actuality its collection and remittance takes place at the terminal rack or refinery level.

There are some major exemptions to the payment of motor fuels taxes. All government entities are exempt and fuel used by all recognized Indian tribes for tribal government purposes may be exempt. The tax paid on diesel fuel used off road and for agricultural purposes may be refunded upon application to the Oklahoma Tax Commission.

Oklahoma is in a unique position with its large number of Indian tribes. The tribes may request a refund for tax paid on motor fuel used for tribal purposes.

Alternatively, the tribes may enter into a contract with the State to

Gross Production Taxes

Gross production, or severance, taxes are imposed on the removal of natural products, such as oil and gas, from land or water and are determined by the value and quantity of the products removed.

Gross production taxes placed on the extraction of oil and gas were separated from the ad valorem property tax in 1910. For the first 20 years of statehood, oil and gas gross production and the ad valorem property tax were the major sources of revenue. While the ad valorem property tax became strictly a local tax in the 1930s, the oil and gas gross production taxes have continued to be an important source of revenue for state government, schools, and roads.

The energy industry has been an important component of the Oklahoma economy for many years. Other sectors such as manufacturing and services have become a larger portion of the Oklahoma economy, but the health of the oil and gas industry remains a major influence on the state's economy. The continued downward trend in Oklahoma's oil production reflects basic geologic and economic fundamentals.

Oil is a world commodity whose price is beyond the control of Oklahoma and the nation. Other nations have oil in abundance at low production prices, therefore the oil industry is

expected to continue to slowly decline in Oklahoma.

Gross Production Tax - Natural Gas:

In 2002, the Legislature passed a three-tiered tax rate structure based on price per thousand cubic feet (MCF), replacing the flat tax of 7%. When the price of gas is greater than \$2.10, the tax rate stays at its current level of 7%. If the price falls between \$2.10 and \$1.75 per mcf, then the tax rate decreases to 4%. Any price below \$1.75 results in a tax rate of 1%. This is similar to the tax on oil.

The Gross Production Tax on Natural Gas is apportioned into the following funds: General Revenue Fund, County Highways, and School Districts. The table below shows the change in apportionment to the various funds when the tax rate changes.

Gross Production Tax-Natural Gas Change in Apportionment			
Tax Rate	General Revenue Fund	County Highway Fund	School Districts
7%	85.72%	7.14%	7.14%
4%	75%	12.50%	12.50%
1%	0%	50%	50%

Prior to FY-2000 schools, roads, the General Revenue Fund and the Teachers Retirement Fund received revenue from gas gross production.

In FY-2000 the revenue formerly apportioned to the Teachers Retirement Fund was redirected to the General Revenue Fund. In exchange, the Teachers Retirement Fund is apportioned 3.54 percent of individual income tax, corporate income tax, state sales tax and state use tax.

Gross Production Tax - Oil:

Legislators met in special session in 1999 to provide relief to the oil industry which was adversely

impacted by low oil prices. Prices were below \$14 per barrel and were estimated to remain there for the near future.

Lawmakers instituted a three tiered rate structure for the gross production tax on oil. The price of oil determines the applicable tax rate which is 7% when the price is greater than \$17 per barrel, 4% when the price ranges from \$14 to \$17 per barrel and only 1% when the price is less than \$14 per barrel.

Revenue apportionment also underwent major changes. Revenue formerly apportioned to the General Revenue Fund was redirected to 5 different funds. However, no changes impacted that portion of revenue dedicated to county highways and school districts. Two existing revolving funds, the County Bridge and Road Improvement Fund and the Water Resources Board REAP Fund, received a portion of the revenues for their stated functions. Three new funds, which dedicated the revenue to specific education uses, also were created. Later legislation changed the three education funds to revolving funds.

The maximum total apportionment of revenue to these five funds from this source is capped at \$150 million. Revenue exceeding \$150 million is apportioned to the General Revenue Fund. The chart below shows the apportionment to each of the 7 funds.

Estate Tax

The estate tax is a tax on the transfer of assets from one generation to the next. Oklahoma's estate tax is separate from any federal estate tax. The Oklahoma estate tax has some similarities to an inheritance tax since the tax rate depends on the relationship of the heir to the deceased individual.

The Oklahoma estate tax starts at the first dollar for non-lineal heirs but allows an exemption for inheritance by lineal heirs. This exemption is \$850,000 in calendar year 2004 and will gradually increase for lineal heirs until it \$1 million in 2006.

A modern version of an inheritance tax was first enacted in 1915 and remained basically unchanged through 1935. In 1935, the law was changed from an inheritance tax to what was defined as an estate tax with a graduated tax rate applied to the estate of the deceased.

Beverage Taxes

Oklahoma first permitted the sale of non-intoxicating alcoholic beverages (beer with no more than 3.2% alcoholic content by weight) in 1933. It was not until 1959 that the prohibition era ordinance on intoxicating alcoholic beverages was repealed; however, intoxicating beverages could not be sold by the drink to the general public. In 1984, a constitutional amendment first permitted mixed beverages to be sold to the general public on a county option basis.

The alcoholic beverage tax is primarily levied on package store sales of wine and alcoholic beverages. Alcoholic beverages include spirits, wine and beer that measures more than 3.2% alcohol by weight. Beer with an alcohol content of 3.2% or less is considered to be a non alcoholic beverage and is frequently called low point beer.

For the alcoholic beverage tax (package store sales), 32% is apportioned to cities and towns, 65% is apportioned to the General Revenue Fund and 3% is apportioned to the Oklahoma Tax Commission Fund. All of the mixed beverage tax and alcoholic beverage stamp tax are apportioned to the General Revenue Fund.

The tax rates vary depending on the type of beverage and the alcohol content as shown in the table below.

Alcoholic Beverage Tax Rates	
Light Wine	0.19/liter
Wine (greater than 14% alcohol)	0.37/liter
Sparkling Wine	0.55/liter
Spirits	1.47/liter
Beer (greater than 3.2% alcohol)	12.50/31 gal. barrel
Beer (3.2% or less alcohol)	11.25/31 gal. barrel
Mixed Beverages	13.5% of price
Source: Alcoholic Beverage Law Enforcement and Oklahoma Tax Commission	

Cigarette Tax

The legislature first enacted a cigarette stamp tax in 1933. The initial tax was three cents per package of 20 cigarettes and has gradually increased to \$0.23 per package.

For many years the major apportionment of this revenue has been for support of debt service on state bonds. The debt service payment for FY-2004 is \$5.8 million due to the debt refinancing done during the 2003 legislative session. The General Revenue Fund is apportioned any cigarette tax revenue not used for debt service.

The Master Settlement Agreement between tobacco companies and the

states is not a tax; rather it is payment to the states for costs resulting from tobacco use incurred by the states in previous years. The Agreement apportions 1.036137% of the adjusted settlement payments to Oklahoma.

Continuous adjustments to settlement payments will affect the amount received by Oklahoma. Major adjustments are calculated for inflation, volume and a subtraction

MASTER SETTLEMENT AGREEMENT	
Oklahoma's Estimated Share	
Share of total	1.036137%
2000	61.0
2001	65.2
2002	78.2
2003	79.0
2004	69.1
\$ millions	
Source: FFIS "Issues Brief 99-16, Estimating Tobacco Payments", 8/20/99	

from the annual total for the four states that settled prior to the Agreement (Florida, Texas, Mississippi and Minnesota).

Corporate Franchise Tax

The corporate franchise tax is imposed on all domestic and foreign corporations doing business in Oklahoma. It is based on the corporation's capital or equity plus long-term indebtedness at the rate of \$1.25 per thousand dollars invested or employed within Oklahoma but has a minimum of ten dollars and a maximum of \$20,000.

Forty-two thousand Oklahoma corporations paid only the minimum \$10 franchise tax in FY-2001, 31,000 paid between \$10 and \$499, while only 582 corporations paid the maximum \$20,000. Therefore, 88%

of the corporations paid less than \$500.

All corporate franchise tax revenue is apportioned to the General Revenue Fund.

Workers' Compensation Insurance Premium Tax

Workers' compensation insurance tax has two major components. First, self insured employers pay 2% of total compensation for permanent total disability awards, permanent partial disability awards and death benefits. Second, all other insurance carriers pay 1% of all gross direct premiums. The revenue is directed to the General Revenue Fund.

Insurance Premium Tax

Since 1957, the State has levied a tax on all health, life, home, and automobile insurance premiums. The tax rate is 2.25% of the written premium. Originally, the revenue generated by the tax was apportioned to the General Revenue Fund, the police and law enforcement pension funds, and the firefighter's pension fund. However, during the 2003 session, the Legislature apportioned all of the premium tax revenue to the Education Reform Revolving Fund for fiscal year 2004. Then, for fiscal years 2005 and 2006, the Legislature changed the apportionment as indicated in the following table.

Insurance Premium Tax					
	General	Police	Law Enforce.	Firefighter's	Education
	Revenue	Pension	Pension	Pension	Reform Rev.
	<u>Fund</u>	<u>Fund</u>	<u>Fund</u>	<u>Fund</u>	<u>Fund</u>
FY-2003	47.0%	14.0%	5.0%	34.0%	-
FY-2004	-	-	-	-	100.0%
FY-2005	35.2%	17.0%	6.1%	41.7%	-

Oklahoma's Budgeting Process

Budget Cycle: A budget is a plan of how to utilize the available funds to procure services or materials to accomplish assigned responsibilities and programs.

The budget cycle for state operations starts with state agencies developing a strategic plan and a detailed outline of financial needs for the next five fiscal years. These documents are then reviewed and analyzed by the Budget Division of the Office of State Finance (OSF) in light of overall state responsibilities, goals, objectives and total funds available. The Governor's recommended budget is then developed. The Governor's recommended budget is considered by the State Legislature which makes the final appropriation of funds to the agencies.

Each state agency, based upon funds appropriated by the Legislature and other funds available to the agency, then develops a Budget Work Program which outlines in detail planned expenditures for the ensuing fiscal year. Work programs are reviewed by the Budget Division of the OSF and the approved work program will serve as a basis for the subsequent allotment of funds. Budget Work Programs can be revised at any time during the fiscal year if justified and if the revision can be accomplished within various expenditure, full-time-equivalent employee and program expenditure limits.

The final phase of the budget cycle is the continuing review by the agency of actual expenditures against the Budget Work Program to ensure that economy, efficiency, and goals and objectives are being attained. The continuing review of the agency budget includes reporting of appropriate measures or indicators of the agency's progress towards achieving stated goals.

Strategic Planning Process: Across the country, government officials are reviewing how services are being provided in order to reduce costs and increase productivity. It is important for us to strengthen accountability and improve performance.

Strategic planning is the process by which members of an organization envision its future and develop the action plans necessary to achieve the future. HB 1622, passed by the 1999 Legislature, now requires each agency to prepare a Strategic Plan covering a 5-year period. The first Strategic Plan was due on October 1, 2001.

The Office of State Finance and the Office of Personnel Management (OPM) developed uniform criteria and outlined a strategic planning process which enabled agency managers to meet this requirement.

OSF committed to an intensive effort to monitor agency progress ensuring that all agencies met the target date. Strategic planning meetings were conducted in the spring of 2000 to inform all agencies of the HB 1622 requirements. Eighteen separate meetings were scheduled and representatives from OSF and OPM discussed the new requirements with each agency. Most agency directors attended the meetings as did the individuals who would become the agency contact for strategic planning efforts.

A few Oklahoma agencies have been preparing long-range plans; however, most of the agencies do not. Now, all Executive Branch state agencies, excluding the Governor's Office and the Lieutenant Governor's Office are required to submit a 5-year strategic plan. The Legislative and Judicial Branches are not required to submit strategic plans. HB 1622 also authorizes the Governor and the Legislature to develop a statewide strategic plan.

Basis of Budgeting: The State's budget is prepared on a cash basis utilizing encumbrance accounting. Encumbrances represent executed but unperformed purchase orders. In the State's Comprehensive Annual Financial Report (CAFR) encumbrances are recorded as: (1) expenditures for budgetary purposes if expected to be presented for payment by November 15, following the end of the fiscal year and, (2) reservations of fund balance for GAAP purposes.

Budget Request Process: On October 1 each year state agencies are required by law to submit a "Budget Request" detailing their funding needs for the ensuing fiscal year. The budget request is the financial plan related to the agency's strategic plan. Budget Requests are also reviewed by the Budget Division of the Office of State Finance and legislative staff.

Both the budget request and the strategic plan are submitted by the various agencies using a web-based application developed by OSF. The request may be revised after initial submission.

Development of the Executive Budget: The Governor prepares and submits to the Legislature at the beginning of each annual legislative session a balanced budget based on OSF review of budget requests prepared by state agencies and subsequent recommendations by OSF, cabinet members and policy advisors. Budgeted expenditures can not exceed the amount available for appropriation as certified by the State Equalization Board unless revenue raising measures are proposed to balance the spending recommendations.

The State Equalization Board / Certification of Revenues: This body consists of the Governor, the Lieutenant Governor, the Attorney General, the State Treasurer, the Auditor and Inspector, the Superintendent of Public Instruction,

and the President of the Board of Agriculture.

Not more than 45 days or less than 35 days prior to the convening of each regular session of the Legislature, the State Board of Equalization certifies amounts available for appropriation. A second meeting of the Board is held within five days of the monthly apportionment in February.

At these two constitutionally-mandated meetings estimates of revenue to each annually appropriated fund are based on the laws in effect at the time such determination is made. These estimates are based on predictable changes in the economy as well as current law.

Should the Legislature enact laws that provide additional revenues or a reduction in revenues to these certified funds, the Board meets to determine the changes in revenue. Only those changes in revenue resulting from changes in law can be considered at the third meeting.

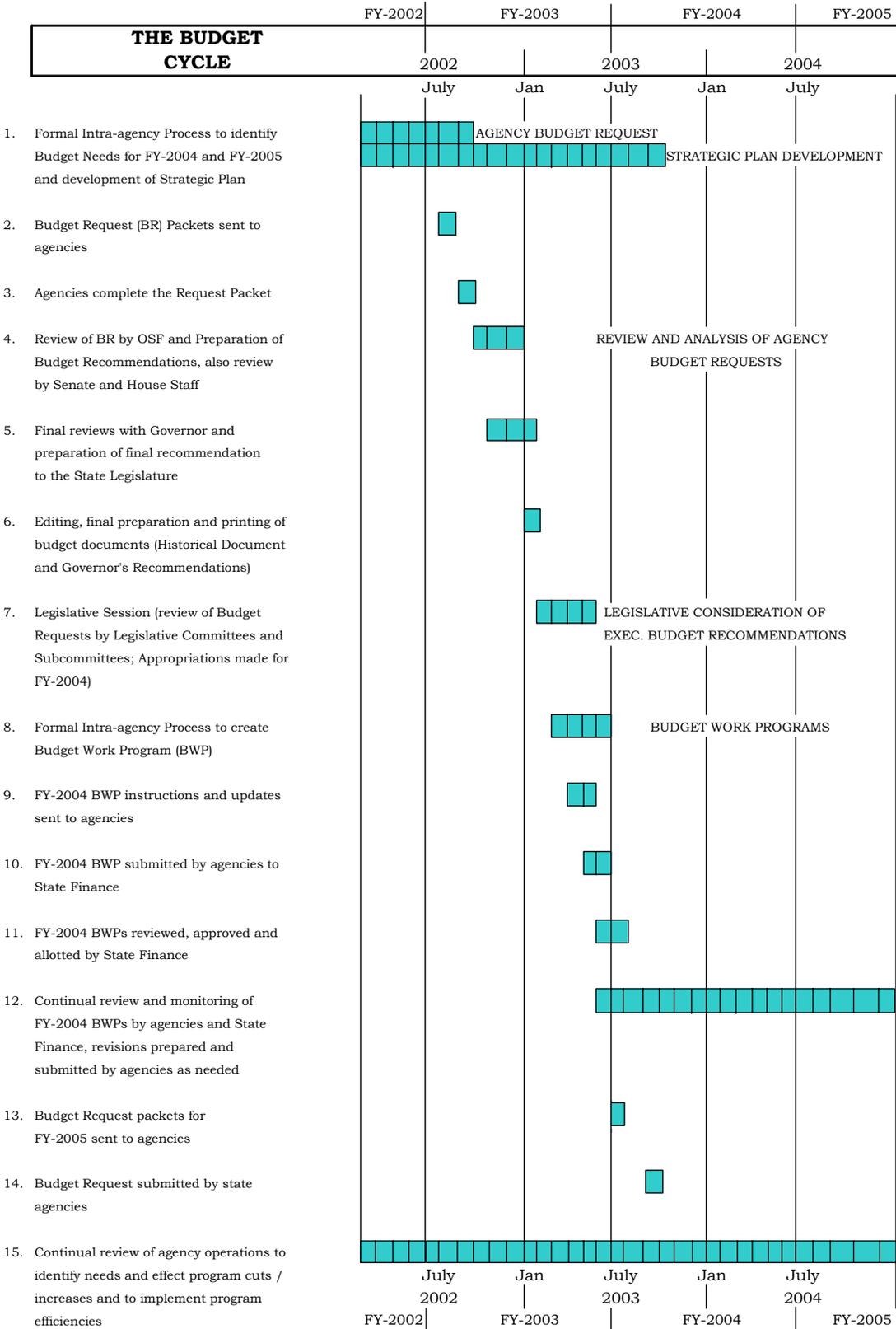
Funds subject to appropriation by the Legislature are those funds which are certified for appropriation by the Board: the General Revenue Fund, the Council on Law Enforcement Education and Training Fund, the Commissioners of the Land Office Fund, the State Judicial Fund, the Mineral Leasing Fund, the Special Occupational Health and Safety Fund, the Public Building Fund, and the State Transportation Fund. The Legislature also may appropriate the cash balances residing in certain non certified funds including the Constitutional Reserve Fund, the General Revenue Cash-flow Reserve Fund, and the Special Cash Fund, as well as any other funds.

Budgetary Controls: The legal level of budgetary control is maintained at the line-item level (General Operations, Duties, etc.) identified in appropriation acts. Agency budgets may be modified

subject to statutory limits on transfers using the Budget Work Program. The Director of State Finance can approve transfers between line-items up to 25 percent. The Contingency Review Board (a three-member board comprised of the Governor, the President Pro Tempore of the Senate and the Speaker of the House of Representatives) can approve transfers between line-items up to 40 percent. All transfers are subject to review by the Joint Legislative Committee on Budget and Program Oversight to determine if the transfer tends to effectuate or subvert the intention and objectives of the Legislature.

Revenue Shortfalls: During the fiscal year, it is possible that actual revenues are less than the estimates made when agency budgets are prepared. If revenues are not sufficient to cover appropriations, Article 10, Section 23 of the Oklahoma Constitution provides that agency appropriations be reduced to bring them within revenues actually collected.

In the event of a failure of revenue, the Director of State Finance is required by law, Title 62, Section 41.9, to reduce agency appropriations in the ratio that an agency's total appropriation bears to the total of all appropriations made from the fund or funds experiencing a revenue shortfall.



Funds Subject to Appropriation

The State Board of Equalization, in accordance with Section 23, Article X of the Oklahoma Constitution, annually certifies the following funds as available for appropriation. Each of these funds is identified in the accounting structure with a three-digit code. The first two digits uniquely identify the fund. The last digit represents the year the funds were collected (e.g. "190" would be the

General Revenue Fund collected in FY-2000).

General Revenue Fund (Fund 19X):

Income to this fund is from state taxes, fees, regulatory functions, and income on money and property. Approximately one-half of all state revenue is deposited to this fund. Funds are appropriated for the operation of state government and other purposes specified by the Legislature. (Article 10, Section 2)

Council on Law Enforcement Education and Training (CLEET) Fund (Fund 58X):

Income is derived from a penalty assessment fee. Any person penalized for violating Oklahoma law pays a penalty assessment. Income is dedicated to peace officer training. (Title 20, Section 1313.2; effective November 1, 1988)

Commissioners of the Land Office Fund (Fund 51X):

This fund was created to receive revenue collected from surface leasing of lands managed by the Commissioners of the Land Office and 6 percent of the revenue generated from the Common School Fund, the Education Institutions Fund, the University of Oklahoma Fund, the University Preparatory School Fund, the Oklahoma State University Fund, the Public Building Fund, and the Greer 33 Fund. Funds are used for administrative costs of the Commissioners of the Land Office.

Funds not used for administrative costs of the Commissioners of the Land Office are allocated to public schools. (Title 64, Section 15; effective July 1, 1992)

State Judicial Fund (Fund 53X):

Income is derived from fines and fees collected by the local courts. The Supreme Court may transfer moneys without legislative authority from the State Judicial Fund to the Court Fund of a county when the county funds are exhausted and when the county must hold jury trials and/or if a change of venue is needed. The rest of the funds are annually appropriated by the legislature and funds are used for the operations of the Supreme Court and the state's district courts. (Title 20, Section 1310; effective November 15, 1994)

Mineral Leasing Fund (Fund 55X):

Income to this fund is from a share of lease sales and royalty payments on oil and gas production on federal lands within the state. Funds are used for the financial support of public schools. (Title 62, Section 41.8; effective 1920)

Special Occupational Health and Safety Fund (Fund 54X):

Each insurance carrier writing Workers' Compensation Insurance in this state, the State Insurance Fund, and each self-insured employer authorized to make workers compensation payments directly to employees pays a sum equal to three-fourths of 1 percent of the total workers compensation losses, excluding medical payments and temporary total disability compensation. Funds are used exclusively for the operation and administration of the Occupational Health and Safety Standards Act of 1970 and other necessary expenses of the Department of Labor. (Title 40, Section 417.1; effective July 1, 1986)

Public Building Fund (Fund 11X):

Income to the fund is from portions of leases, sales, rentals and royalties of lands set aside for public building

purposes by the state's Enabling Act (Section 33) and lands granted in lieu thereof, under the management of the Commissioners of the Land Office. Funds are appropriated for major maintenance and capital improvements of public facilities. (Title 64, Section 371; effective 1910)

State Transportation Fund (Fund 12X): Revenue consists primarily of a portion of motor fuel taxes plus 0.3 percent of motor vehicle fees. Funds are appropriated for the construction, repair and maintenance of state highways, for other transportation systems, and for such other transportation purposes as the Legislature may authorize. (Title 69, Section 1501.1; effective July 1, 1990)

Common Education Technology Fund (Fund 15X): This fund was created to receive a portion of revenue collected from gross production tax on

oil. These revenues were previously apportioned to the General Revenue Fund. Funds are subject to legislative appropriation. (Title 62, Section 41.29c; effective February 5, 1999)

Oklahoma Tuition Scholarship Fund (Fund 16X): This fund was created to receive a portion of revenue collected from gross production tax on oil. These revenues were previously apportioned to the General Revenue Fund. Funds are subject to legislative appropriation. (Title 62, Section 41.29e; effective February 5, 1999)

Higher Education Capital Fund (Fund 17X): This fund was created to receive a portion of revenue collected from gross production tax on oil. These revenues were previously apportioned to the General Revenue Fund. Funds are subject to legislative appropriation. (Title 62, Section 41.29d; effective February 5, 1999)

State Budget Expenditures

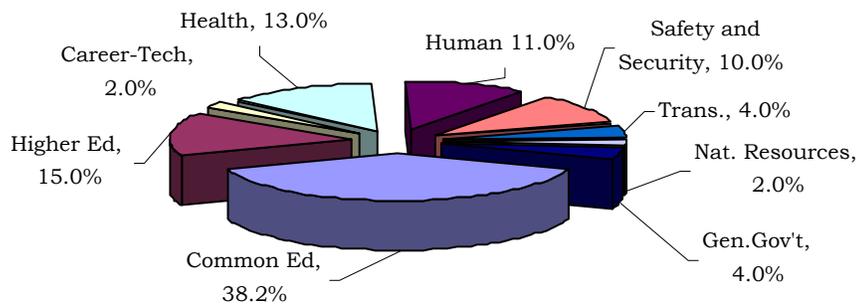
To understand a state's priorities, one must only look at state budget expenditures. In Oklahoma, there are 84 state appropriated agencies with a total appropriated budget of \$5.1 billion for FY-2004. Oklahoma has the 32nd largest state budget in the country; California has the largest at \$68.8 billion and Wyoming the smallest at \$1.4 billion.

occur however. To exempt these eleven agencies from the \$376 million FY-2003 revenue shortfall would have required reducing this amount from the remaining \$560 million in the budget. For FY-2004, policymakers imposed the most dramatic budget cuts ranging from 10 to 20% to agencies in the remaining 10% of the state budget but the total amount of funding cut only represents \$30 million to these agencies. Education, health care, human services and safety and

security agencies received increases but still had to reduce personnel and services.

With one exception the composition of these expenditures has not changed significantly

Oklahoma's FY-2004 State Appropriated Budget



Over 55% of the Oklahoma's total state appropriated budget is directed to education: common education (38%), higher education (15%) and career-technology education (2.3%). Another 23% is earmarked for health and human services such as health care, substance abuse treatment, congregate meals for seniors and public assistance for women and children. Safety and Security functions comprise 10% of the total state appropriated budget.

Of the 84 state appropriated agencies, 11 comprise nearly 90% of the state appropriated budget:

These eleven agencies provide core government services: education, health and human services, safety and security and transportation. Since many citizens consider these government services vital, advocates support exempting these areas from budget cuts. This is extremely difficult to accomplish when revenue shortfalls

since FY-1994. In FY-1994 Department of Corrections represented 4.8% of the total state appropriated budget under the Safety and Security Cabinet. In FY-2004, the Department of Corrections represented 7.5% of the total state appropriations.

Appropriations for this time period increased by over 117%. The agency was among the top five fastest growing state budget areas. The other four fastest growing agencies for this time period are small agencies representing less than 1% of the total state appropriated budget.

Based on recent state and national data Health Care will be the fastest growing state budget expenditure in the future. Over the past two years, health care costs have represented the fastest and largest area of state expenditure growth nationally. In Oklahoma, health care costs for state employees and the indigent have been

the fastest growing for this time period. An increasing senior population coupled with a projected health cost inflation rate of 8.3% over the next ten years will put additional pressure on state budgets.

Another factor affecting state health care expenditures is cost-shifting. Since 1984, the federal share of health care costs for the Medicaid and Medicare population has been decreasing. In 1984 the federal government covered 70% of all Medicaid and Medicare health costs. In 1998, this share had dropped to 60%. This percentage is expected to decrease to 55% by 2012, increasing the burden that states must bear.

Non-appropriated Agencies

There are another 48 non-appropriated agencies that generate over \$11.6 million in fee revenue. Non-appropriated agencies primarily provide regulatory oversight over a number of different professions. Revenue is comprised of licensing fees and certification fees for professions such as medical licensure, plumbing, cosmetology or nursing. These agencies are still subject to the same financial and accountability requirements that state appropriated agencies must follow.

Total Budget

Oklahoma's total budget which includes fees, appropriations, federal

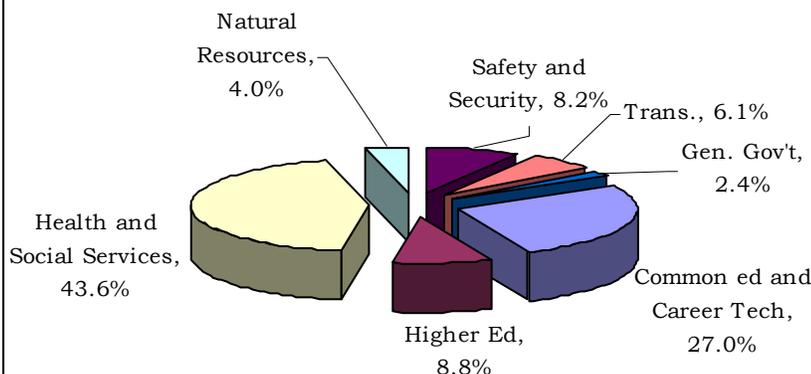
Appropriated State Budget by Agency, FY-2004

<u>Agency</u>	<u>Amount</u>	<u>Percentage</u>
Common Education	\$1,951	38%
Higher Education	768	15%
Oklahoma Health Care Authority	439	9%
Department of Human Services	387	8%
Department of Corrections	374	7%
Department of Transportation	192	4%
Mental Health and Substance Abuse	145	3%
Career Tech Education	118	2%
Office of Juvenile Affairs	90	2%
Department of Public Safety	62	1%
Department of Health	54	1%
Total	\$4,580	

funds and transfers was over \$9.8 billion in FY-2002. Once these revenue sources the state budget picture varies slightly.

The increase in funding for health and human services is primarily attributable to the Medicaid health care program which provides \$2.40 in federal funds for every \$1 the state expends. Unlike Medicaid, federal revenue for education only comprises 10% of the total expenditures for common education.

Total Budget for Oklahoma, FY-2002



Notes:

Education Initiative

Children are the most important resource Oklahoma has. The success or failure of the younger generation will significantly impact the state's future. There are a number of areas that positively affect a child's future but none more than a quality education. Children spend one-third of their day in school. A quality teacher ensures each child not only has the opportunity but the tools to excel. If school districts are to attract and retain quality teachers, Oklahoma's compensation levels must be competitive. For this reason, the Governor's budget proposes an ambitious five-year teacher salary increase plan.

Teacher Pay

The first step of this plan increases the state share of teachers' health insurance premiums to 100 %. This amounts to a pay raise and in many cases a significant one for Oklahoma's teachers. This cost is currently divided among teachers, school districts and the state. Health benefits are exempt from state and federal taxes, further boosting the value of the increase. This first of five steps will cost the state \$62.4 million.

In years 2 through 5, teacher pay will be increased annually until it reaches the regional average. All teachers are included in the pay plan, but those with more years of experience will receive larger increases. The state's starting salary for new teachers is competitive with regional averages. However, Oklahoma's veteran teacher salaries are not.

The following information outlines the increases in the Governor's budget proposal for teacher pay raises in FY-2006 through FY-2009. The following two tables show the level of pay for each year indicated as well as the percentage increase and what the annualized salary would be.

Additional salary increase for teachers with a Bachelor's degree:

- 0-4 years of experience - \$300
- 5-9 years of experience - \$600
- 10-14 years of experience - \$1,000
- 15-19 years of experience - \$1,100
- 20-24 years of experience - \$1,200
- 25 or more years of experience - \$1,400

Additional salary increase for teachers with a Masters or PhD:

- 0-4 years of experience - \$600
- 5-9 years of experience - \$1,000
- 10-14 years of experience - \$1,200
- 15-19 years of experience - \$1,400
- 20-24 years of experience - \$1,600
- 25 or more years of experience - \$1,800

Currently when receiving an advanced degree, the step increase is \$1,106. Under the Governor's budget proposal, teachers achieving an advanced degree will receive \$1,200. For more information please see the chart at the end of this section.

Of the revenue generated under the State-Tribal Gaming Act, 88% is directed to the 1017 education reform revolving fund for common education for the cost of teacher health insurance in FY-2005 and for teachers salaries in the plan's subsequent years.

Higher Education

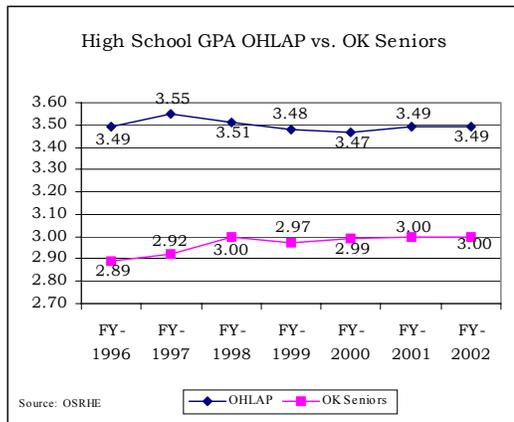
A 2001 study (Postsecondary Education Opportunity, September 2003) indicated that only 4.5% of dependents in households with family incomes between \$35,000-\$65,000 per year attain a bachelor's degree by age 24 nationally. Recognizing the need to establish a program focused on this population, the Legislature created the Oklahoma Higher Learning Access Program (OHLAP).

Created in 1992, OHLAP provides academically prepared students in low to moderate income households five years of tuition at any public education

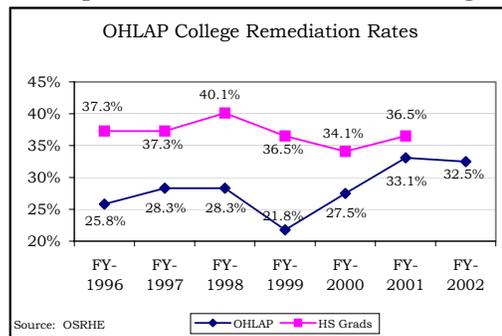
institution in Oklahoma or a portion of tuition at any private college in Oklahoma.

Six years of data show that OHLAP has the potential to increase the number of Oklahoma students attending and completing higher education. Compared to Oklahoma's current student population, data has shown that OHLAP students:

- Earn higher-than-average high school GPA's;



- Earn higher than average ACT scores;
- Have higher college-going rates;
- Require less remediation in college;



- Enroll full-time in college at higher-than-average rates;
- Persist in college at high rates; and

- Are initially completing college degrees at a higher-than-average rate.

Tribal Gaming Compacts

During 2003 the Oklahoma State Legislature considered Senate Bill 553, a measure providing for limited electronic gaming at Oklahoma's horse racing facilities and a statutory compact between the State and Tribes concerning gaming. The State Senate approved the measure, but the House of Representatives did not consider it before the legislative session ended. Since that time, representatives of a number of tribes, the State, horsemen groups, and representatives of Oklahoma horse racing tracks have continued to work on the proposed legislation in order to ensure that it is of the utmost benefit to all affected parties.

The result of this work is a new bill, entitled the "State-Tribal Gaming Act," which is structurally similar to Senate Bill 553 from last year. The new legislation authorizes electronic gaming operations at the three privately owned racetracks in Oklahoma for parity with the electronic gaming at the tribal casinos, subject to conditions and limitations stated in the bill. It also provides a special in lieu of gaming payment to be made by the Tulsa area tribes to Tulsa County which owns and operates Fair Meadows, and the horsemen's purse pool.

The new bill offers a model tribal-state gaming compact for the conduct of the same types of electronic games at the tracks and the Indian tribes whose governing bodies choose to ratify the model compact. The gaming compact provides for state regulation of tribal gaming activities and exclusivity payments from the tribes to the state.

Under the terms of the proposed legislation, the State will receive revenue from both tribes and racetracks that offer gaming. The

model compact specifies that the State shall receive from tribes entering such a compact three fees: an exclusivity fee, reimbursement for cost of state monitoring, and a one time regulatory start up fee. The reimbursement for costs is set at \$35,000 annually and the start up fee is \$50,000.

The exclusivity fee is a fee paid to the State by the tribe in return for substantial exclusivity with regard to the games covered by the compact. That is, the State is assuring the tribe that no non-tribal entities in Oklahoma, other than those agreed to, will offer the covered games. Additionally, the State is agreeing to limit the number of games and hours of operation at the race tracks. The exclusivity fee is comprised of two components: an escalating share of the adjusted gross revenues (AGR) of electronic games and a flat share of the net proceeds from common pools in non-house banked card games. The table below shows the full details of the fees to the State.

Type of Fee	Structure
Exclusivity Fee	<ul style="list-style-type: none"> • 4% of first \$10 million of AGR on covered electronic games • 5% of next \$10 million of AGR on covered electronic games • 6% of remaining AGR on covered electronic games • 10% of monthly net win of common pools or pots from non-house banked card games
Annual Reimbursement for Costs of Monitoring	\$35,000
One time start-up fee	\$50,000

In addition to the model compact language, the legislation also contains provisions for three privately owned horse racing tracks in Oklahoma to offer electronic games to patrons. The three tracks are Remington Park, Will Rogers, and Blue Ribbon Downs. The revenue generated by the electronic games at horse racing tracks is distributed according to a varying schedule. The table below outlines the average distribution.

Entities	Share of Adjusted Gross Revenues
State of Oklahoma (primarily for funding of education, teacher retirement, and health insurance needs)	10%
Kept by Horse racing track	60%
For benefit of horsemen (medical benefits, purses, etc.)	30%

An additional provision of the new legislation prohibits Tulsa County from offering electronic gaming at Fair Meadows. In order to compensate Tulsa County for being unable to offer the electronic games at its track, tribes that operate gaming facilities in the Tulsa area will contribute the adjusted gross revenues from a specified number of electronic gaming machines to be divided between Tulsa county and a purse committee for the benefit of horsemen.

This proposal represents many months of work on the part of numerous individuals representing interested parties to the agreement. The result is a proposal that represents a win-win outcome where all parties get something that is beneficial. The

FY-2005 Executive Budget

estimate of revenue the State will receive from this agreement and the compacts, when signed, is \$71 million for fiscal year 2005.

FY -2005 Teacher Salary Proposal

	Current	FY-2006	FY-2007	FY-2008	FY-2009	\$ Change	% Change	Current Annualized (10 months)	Future Annualized (10 months)
Bachelors 0 Years	27,060	27,360	27,660	27,960	28,260	1,200	4.43%	32,472	33,912
Bachelors 5 Years	29,549	30,149	30,749	31,349	31,949	2,400	8.12%	35,459	38,339
Bachelors 10 Years	31,209	32,209	33,209	34,209	35,209	4,000	12.82%	37,451	42,251
Bachelors 15 Years	32,869	33,969	35,069	36,169	37,269	4,400	13.39%	39,443	44,723
Masters 0 Years	28,166	28,860	29,460	30,060	30,660	2,494	8.85%	33,799	36,792
Masters 5 Years	30,655	31,749	32,749	33,749	34,749	4,094	13.36%	36,786	41,699
Masters 10 Years	32,315	33,609	34,809	36,009	37,209	4,894	15.14%	38,778	44,651
Masters 15 Years	33,975	35,469	36,869	38,269	39,669	5,694	16.76%	40,770	47,603
PhD 0 Years	29,272	29,966	30,566	31,166	31,766	2,494	8.52%	35,126	38,119
PhD 5 Years	31,761	32,855	33,855	34,855	35,855	4,094	12.89%	38,113	43,026
PhD 10 Years	33,421	34,715	35,915	37,115	38,315	4,894	14.64%	40,105	45,978
PhD 15 Years	35,081	36,575	37,975	39,375	40,775	5,694	16.23%	42,097	48,930

Health Care Initiative

Every single Oklahoman receives health care. The question is who pays for it? Too many Oklahomans do not have health insurance. According to the U.S. Census Bureau Current Population Survey, nearly 20 % of Oklahomans, including many children, are uninsured. When the uninsured get sick or injured and access the health care system, the cost of their care gets shifted through the system from providers to insurance companies to business and individual consumers in the form of higher health care premiums. That imposes a financial toll on all Oklahoma according to the Oklahoma Health Academy, which estimates that the cost of providing health care for the uninsured accounts for approximately 30% of the increase in overall health insurance premiums annually.

Proposed in this budget is a plan to expand health insurance coverage to Oklahoma's uninsured poor. The plan covers those who are employed but cannot afford health insurance as well as those who are unemployed and lack insurance. The cost of doing nothing is too great.

One of the greatest detriments to health is cigarette smoking. Smoking is a choice. It is a choice that imposes \$908 million per year in health care costs related to tobacco use on Oklahoma according to the Campaign for Tobacco Free Kids. It seems only reasonable to expect the consumers who generate these costs to help pay for them through a tobacco tax increase. That is why this budget funds health insurance for low income Oklahomans with additional revenue from an increase in the cigarette tax.

The cigarette tax directly impacts the major health status factors which contribute to our poor health in these ways:

- It will provide funding to expand health insurance coverage for those who are currently uninsured;
- It will provide funding for uncompensated trauma care;
- It will provide funding to build a Comprehensive Cancer Center;
- It reduces the prevalence of smoking, especially among young people;
- It will provide funding for support of public health programs including smoking cessation;
- As fewer people start smoking and the prevalence of smoking decreases, smoking related diseases such as heart disease and lung disease will also decrease; and
- Improvement in these factors will lead to an improved total mortality rate.

This means we will have more people living longer and healthier lives.

Health Insurance

Premium Assistance for Families

The Governor's budget proposes to use \$100 million from the tobacco tax in combination with federal matching funds, employer and employee funds to offer eligible citizens health care coverage. The coverage is offered through premium assistance to employers and direct purchases of basic health insurance. By providing premium assistance to employers, the program will encourage businesses to offer or continue health insurance coverage for their employee groups.

By taking advantage of matching federal funds and other resources, state health officials estimate that an initial state investment of \$100 million will result in a \$400 million increase in health care funding. These funds will allow thousands of uninsured

Oklahomans to obtain basic health coverage and reduce the cost shifting that takes money out of the pockets of consumers and businesses.

"This is an innovative attempt to leverage available federal funding, put it to work in the Oklahoma health care system and improve the overall quality of life in our state. Everyone is a winner in this program. Oklahomans who currently have no coverage get access to affordable insurance and better health care opportunities. Businesses and consumers, meanwhile, would see their health care costs decline as the number of insured Oklahomans grows."

Governor Brad Henry

A Comprehensive Cancer Center for Oklahoma

The Need for a Comprehensive Cancer Center According to the United Health Foundation's 2003 Edition of State Health Rankings, the age-adjusted death rate for cancer in Oklahoma was 214.1 per 100,000 people in our population while the death rate in the United States as a whole was 205.3 per 100,000 people. Oklahoma has the unpleasant distinction of being one of the top 16 states in the nation in cancer death rate.

Since 1990, the health of Oklahomans has declined relative to most other states and the cancer death rate is one of the reasons for this decline. Oklahoma's cancer death rate has increased from 197.8 cancer deaths per 100,000 in 1990 to 214.1 in 2003.

What is a "Comprehensive" Cancer Center? A Comprehensive Cancer Center is located only in an Academic Health Center made up of a medical

school, other health related programs and a major teaching hospital. The National Cancer Institute of the National Institutes of Health designates an institution as a Comprehensive Cancer Center.

Research is a key component of a Center and this research provides the foundation for developing new diagnostic and treatment protocols. Research findings translate into clinical trials with National Cancer Institute approved experimental protocols. State of the art treatment protocols are developed as a result of advances in research.

Public education and continuing education opportunities for cancer care professionals are also part of a Comprehensive Cancer Center. Another component of the Comprehensive Cancer Center is partnering with physicians across the state to provide resources for cancer prevention, early detection and quality treatment.

Complementing Current Cancer Treatment A Comprehensive Cancer Center would complement current cancer treatment and facilities in Oklahoma, not compete with them. Oklahoma is fortunate to have several cancer care facilities and hospitals that currently provide quality care and treatment for cancer. The medical schools in Tulsa and Oklahoma City and their clinical partners offer an array of preventive, diagnostic, therapeutic and rehabilitative services for a variety of cancers. However, winning the fight against cancer requires a more extensive and robust program which takes cancer research discoveries from the laboratory to the bedside.

Experimental or alternative treatment protocols are developed as part of the research function and made available to cancer patients only at Comprehensive Cancer Centers.

There are only 39 Comprehensive Cancer Centers in the United States with the nearest one to Oklahoma located 450 miles from Oklahoma City in Texas. Because new cancer treatment protocols routinely require weekly and monthly treatment visits for years, the proximity of the Center will provide access for Oklahoma citizens to new state of the art treatment without the need to travel to another state.

Cost of Comprehensive Cancer Center Development The leadership of the OU Health Sciences Center (OUHSC) estimates the need for a Bond Issue of \$75 million to pay for building the new Cancer Center. The Office of State Finance estimates debt service for the bond will be approximately \$7 million per year for the twenty year life of the bond. The following table shows the proposed uses for the bond proceeds which include a Cancer Care Facility located at the medical school in Tulsa as well as the main Cancer Center located at OUHSC in Oklahoma City.

<u>Bond Proceeds Proposed Uses</u>	(000s)
Cancer Center Facility - OKC	\$ 47,500
Completion of Shelled Space	\$ 10,000
Cancer Center Facility - Tulsa	\$ 5,000
Equipment and Infrastructure	\$ 12,500
Total	\$ 75,000

Trauma Care Assistance Fund

The state's trauma care problems were underscored in November when OU Medical Center officials announced plans to close their level one trauma facility. Governor Henry was instrumental in persuading officials at the OU Medical Center to keep the doors open as he worked to craft a comprehensive solution to the state's trauma care challenges.

Additional Revenue for the Trauma Care Fund Currently, about \$3.4 million per year goes into the Trauma Care Assistance Fund from driver's

license fees and boat/motor registration fees. This fund was created to help pay for uncompensated trauma care in hospitals. However, the cost of uncompensated trauma care in FY-2003 was over \$16.6 million while the Trauma Care Assistance Fund received only \$3.4 million. In addition, because of the limited funding available for disbursement to hospitals for uncompensated trauma care, many hospitals do not apply for reimbursement from the fund. Based on the estimated amount of unreimbursed trauma care increase additional funds are needed to address this shortage.

Funding from an additional assessment of \$200 for each driver's license reinstatement is earmarked for the Trauma Care Assistance Fund to help offset the cost of uncompensated trauma care. This will increase the fund by about \$11.6 million per year if a 90% collection rate on this new assessment is assumed.

An additional assessment of \$100 for each conviction of DUI and/or Controlled Dangerous Substance crimes will raise almost \$939,000 also earmarked for the Trauma Care Assistance Fund.

In addition to these two sources of revenue the Governor's budget includes funding from the proposed tobacco tax of \$8 million for the Trauma Care Assistance Fund.

Health Care Fund

The Governor's budget proposes directing \$12.7 million from the tobacco stamp tax increase to a special health care fund. Impending growth in health care costs necessitates setting aside some funds to cover increasing needs in the future.

Youth Tobacco Prevention and Cessation

Above Average Tobacco Use In Oklahoma, both middle school and high school students report using tobacco at higher rates than the national average for their age groups. According to the 2002 National Youth Tobacco Survey, 16% of middle school students in Oklahoma used tobacco in the last 30 days compared to a national average of 13.3%. The same survey reported 32% of high school students in Oklahoma used tobacco in the last 30 days compared to 28.4% nationally.

New Smokers and Premature Deaths

The Campaign for Tobacco Free Kids estimates that over 9,000 children under 18 in Oklahoma become newly addicted daily smokers each year. The Campaign also reports that in Oklahoma 77,000 children alive today will ultimately die prematurely from smoking related illnesses if the current trends continue.

For these reasons, the Governor’s budget proposes to use \$3 million from the tobacco tax on a prevention and cessation program specifically targeted at young people.

Spending Proposal

Tobacco Tax Spending Proposal <i>(amounts in thousands)</i>	
Estimated Yearly Revenue	\$130,674
Funding Adjustments:	
Premium Assistance for Families	\$100,000
Comprehensive Cancer Center - Debt Service	7,000
Trauma Care Assistance Fund	8,000
Health Care Fund	12,674
Youth Prevention & Cessation	3,000
Total Recommended Uses	\$130,674
<small>Source: Office of State Finance</small>	

Revenue Proposal

Cigarette and Tobacco Products Tax

Oklahoma’s cigarette tax is 23 cents per pack. Cigarette wholesalers pay the tax by purchasing a stamp that they must affix to each pack distributed. Wholesalers receive a 4% discount off of the price of the stamps purchased. Once a stamp is placed on each pack, wholesalers sell the cigarettes to the retailer. At the retail level, the consumer pays state and local sales taxes on cigarette purchases.

The state also levies a tax on all other tobacco products. The tax rates are as follows:

- Little cigars: \$0.009 each
- Large Cigars: \$0.03 each
- Smoking Tobacco: 40% of factory listed price
- Chewing Tobacco: 30% of factory listed price

Wholesalers receive a 2% discount on tobacco tax owed if it is paid on time. Tobacco products bought at a retail store are subject to state and local sales tax.

At the end of 2003, Oklahoma signed new compacts with 8 Indian tribes. Under these compacts, the tax on cigarettes and tobacco products sold in stores located on tribal trust land is 25% of the state rate. If the State raises the tax rates, then cigarettes and tobacco products sold in stores located on tribal trust land are taxed at 25% of the rate before the increase plus 100% of the increase in the rate. The State retains 50% of the revenue resulting from the rate increase and returns the other 50% to the tribes. Tribal stores located within 20 miles of the border and tribal stores located within 10 miles of another tribal store that have not signed a new compact pay a smaller portion of the increase to help these stores remain competitive.

Previous compact provisions are still in effect for tribes whose compacts have not expired. Tobacco sold by these tribes is taxed at 25% of the state rate. All Indian tribes are exempt from paying state and local sales tax. Wholesalers remitting tax on sales to tribal retailers receive same discount of 4% on cigarette tax and 2% on tobacco products tax.

Collecting cigarette and tobacco taxes at the wholesale level is more efficient than at the retail level. There are only 126 tobacco products distributors and tax compliance is virtually guaranteed since distributors must be bonded. This is in contrast to the numerous retailers that sell cigarettes, where the probability of compliance is not as high. This budget proposes to increase the tax on cigarettes and tobacco products as indicated in the following table.

Also, the sale of cigarettes and tobacco will no longer be subject to sales and use tax. Cities and counties will

receive a portion of the increase in cigarette and tobacco taxes to offset the revenue lost.

The proposal also includes a decrease in discount rates. Cigarette and tobacco wholesalers will receive a 1% discount on taxes owed. The discount rate on cigarette and tobacco products sold to tribes who have signed new compacts will be further reduced to 0.5%. The purpose of this decrease is to prevent wholesalers from profiting from the increase in tax rates. The proposed discount rate limits the wholesalers from receiving more of a discount than they currently receive.

The total impact to State revenues of this proposal is \$130 million with a budgetary impact of \$125 million. The table below details the fiscal impact of each component of the proposal.

FY-2005 Executive Budget

Fiscal Impact of Cigarette Tax and Tobacco Products Tax Proposal FY-2005 (\$ in000's)					
Components:	General Revenue Fund	Education Reform Revolving Fund	Teacher's Retirement Fund	City and County Collections	Total Impact to Collections
Eliminate Sales Tax on Cigarettes	(\$24,535)	(\$2,979)	(\$1,072)	(\$20,446)	(\$49,032)
Eliminate Sales Tax on Tobacco Products	(2,312)	(281)	(101)	(1,927)	(4,621)
Increase Cigarette Tax to \$1.00/pack	169,974	-	-	-	169,974
Increase in Tobacco Products Tax	5,830	-	-	-	5,830
Decrease in Discount Rate (Cigarette)	8,276	-	-	-	8,276
Decrease in Discount Rate (Tobacco)	247	-	-	-	247
Refund to Cities and Counties	<u>(22,373)</u>	<u>-</u>	<u>-</u>	<u>22,373</u>	<u>-</u>
Net Impact to Funds for FY-2005	\$135,107	(\$3,259)	(\$1,173)	\$0	\$130,674
Source: Oklahoma Tax Commission					

Revenue Proposals

Oklahoma is recovering from a period of declining revenues. Since the State's revenue situation is now improving, the Governor's Budget can now focus on economic development and tax relief. The revenue proposals featured in this budget were developed with these two goals in mind.

Tribal Gaming Compacts

During 2003 the Oklahoma State Legislature considered Senate Bill 553, a measure providing for limited electronic gaming at Oklahoma's horse racing facilities and a statutory compact between the State and Tribes concerning gaming. The State Senate approved the measure, but the House of Representatives did not consider it before the legislative session ended. Since that time, representatives of a number of tribes, the State, horsemen groups, and representatives of Oklahoma horse racing tracks have continued to work on the proposed legislation in order to ensure that it is of the utmost benefit to all affected parties.

The result of this work is a new bill, entitled the "State-Tribal Gaming Act," which is structurally similar to Senate Bill 553 from last year. The new legislation authorizes electronic gaming operations at the three privately owned racetracks in Oklahoma for parity with the electronic gaming at the tribal casinos, subject to conditions and limitations stated in the bill. It also provides a special in lieu of gaming payment to be made by the Tulsa area tribes to Tulsa County and the horsemen's purse pool.

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Under the terms of the language in the proposed legislation, the State will receive revenue from both tribes and racetracks that offer gaming. The model compact specifies that the State shall receive from tribes entering such a compact three fees: an exclusivity fee, reimbursement for cost of state monitoring, and a one time regulatory start up fee. The reimbursement for costs is set at \$35,000 annually and the start up fee is \$50,000.

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Annual Reimbursement for Costs of Monitoring	\$35,000
One time start-up fee	\$50,000

In addition to the model compact language, the legislation also contains provisions for three privately owned horse racing tracks in Oklahoma to offer electronic games to patrons. The three tracks are Remington Park, Will Rogers, and Blue Ribbon Downs. The revenue generated by the electronic games at horse racing tracks is distributed according a varying schedule. The table below outlines the average distribution.

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Kept by Horse racing track	60%
For benefit of horsemen (medical benefits, purses, etc.)	30%

An additional provision of the new legislation prohibits Tulsa County from offering electronic gaming. In order to compensate Tulsa County for being unable to offer the electronic games at its track, tribes that operate gaming facilities in the Tulsa area will contribute the adjusted gross revenues from a specified number of electronic gaming machines to be divided between Tulsa county) and a purse committee for the benefit of horsemen.

This proposal represents many months of work on the part of numerous individuals representing all interested parties to the agreement. The result of this hard work is a proposal that represents a win-win outcome where all parties get something that is beneficial. The estimate of revenue the State will receive from this agreement and the compacts, when signed, is \$71 million for fiscal year 2005.

Cigarette Stamp Tax and Tobacco Products Tax

Oklahoma’s cigarette stamp tax is 23 cents per pack. Cigarette wholesalers pay the tax by purchasing a stamp that they must affix to each pack distributed. Wholesalers receive a 4% discount off of the price of the stamps purchased. Once a stamp is placed on each pack, wholesalers sell the cigarettes to the retailer. At the retail level, the consumer pays state and local sales taxes on cigarette purchases.

The state also levies an excise tax on all other tobacco products. The tax rates are as follows:

- Little cigars: \$0.009 each
- Large Cigars: \$0.03 each
- Smoking Tobacco: 40% of factory listed price
- Chewing Tobacco: 30% of factory listed price

Wholesalers receive a 2% discount on tobacco tax owed if it is paid on time. Tobacco products bought at a retail store are subject to state and local sales tax.

At the end of 2003, Oklahoma signed new tobacco compacts with 9 Indian tribes representing a large percentage of Oklahoma’s tribal tobacco sales. Under these compacts, the tax on cigarettes and tobacco products sold in stores located on tribal trust land is 25% of the current stamp tax rate. If the State raises the tax rates, then cigarettes and tobacco products sold in stores located on tribal trust land are taxed at 25% of the rate before the increase plus 100% of the increase in the rate. The State retains 50% of the revenue resulting from the rate increase and returns the other 50% to the tribes for general tribal purposes but not to purchase tobacco products or undermine the tax. Tribal stores located within 20 miles of the state border and tribal stores located within 10 miles of another tribal store that have not signed a new compact pay tax increases based upon the tax rate in

the neighboring state or paid by the neighboring tribe.

Previous compact provisions are still in effect for tribes whose compacts have not expired. Tobacco sold by these tribes is taxed at 25% of the state rate. All Indian tribes are exempt from paying state and local sales tax. Wholesalers remitting tax on sales to tribal retailers receive the same discount of 4% on cigarette tax and 2% on tobacco products tax.

Also, the sale of cigarettes and tobacco will no longer be subject to sales and use tax. Cities and counties will receive a portion of the increase in cigarette and tobacco taxes to offset the revenue loss.

The proposal also includes a decrease in discount rates. Cigarette and tobacco wholesalers will receive a 1% discount on taxes owed. The discount rate on cigarette and tobacco products sold to tribes who have signed new compacts will be further reduced to 0.5%. The purpose of this decrease is to prevent wholesalers from profiting from the increase in tax rates. The proposed discount rate limits the wholesalers from receiving more of a discount than they currently receive.

The total impact to State revenues of this proposal is \$130 million. The table below details the fiscal impact of each component of the proposal.

Fiscal Impact of Cigarette Tax and Tobacco Products Tax Proposal FY-2005 (\$ in000's)

Components:	General Revenue Fund	Education Reform Revolving Fund	Teacher's Retirement Fund	City and County Collections	Total Impact to Collections
Eliminate Sales Tax on Cigarettes	(\$24,535)	(\$2,979)	(\$1,072)	(\$20,446)	(\$49,032)
Eliminate Sales Tax on Tobacco Products	(2,312)	(281)	(101)	(1,927)	(4,621)
Increase Cigarette Tax to \$1.00/pack	169,974	-	-	-	169,974
Increase in Tobacco Products Tax	5,830	-	-	-	5,830
Decrease in Discount Rate (Cigarette)	8,276	-	-	-	8,276
Decrease in Discount Rate (Tobacco)	247	-	-	-	247
Refund to Cities and Counties	<u>(22,373)</u>	<u>-</u>	<u>-</u>	<u>22,373</u>	<u>-</u>
Net Impact to Funds for FY-2005	\$135,107	(\$3,259)	(\$1,173)	\$0	\$130,674

Source: Oklahoma Tax Commission

Expansion of Retirement Exemption

Currently, retired Oklahomans can exempt from the Oklahoma individual income tax up to \$5,500 of certain retirement income if their income does not exceed \$25,000 for single filers or \$50,000 for married filers. This exemption is in addition to the exemption of all social security income taxed by the federal individual income tax.

While these exemptions are admirable, they do not go far enough, especially for Oklahoma's seniors with relatively little income. The current retirement income exemption allows qualifying

seniors to exempt just over \$450 of retirement income each month, which equates to as much as \$30 less tax these seniors are required to pay each month than without the exemption. For many lower income seniors, this money is critical.

Oklahoma citizens have shown a clear desire to further these individual income tax exemptions to senior citizens. In response, the Governor's Budget proposes an expansion of the retirement income tax exemption by increasing the dollar amount of the exemption from \$5,500 to \$7,500. Also included in this proposal is expansion

of the income qualifications for the exemption from \$25,000 to \$37,500 for single filers and from \$50,000 to \$75,000 for married filers.

The final component of this proposal is to remove the age criterion for qualification for the exemption on private retirement income. Currently, to qualify for the exemption on private retirement income, individuals must be at least 65 years of age. The budgetary impact of this proposal is a loss of \$12.5 million in FY-05.

Oklahoma Source Capital Gains Exemption

One of the major problems in Oklahoma is that our income lags the surrounding states and the nation as a whole. A significant cause of this problem is a lack of capital investment in our state. Therefore, anything that encourages the inflow and retention of capital in Oklahoma would be beneficial. To address this issue, the Governor's Budget proposes a modification of the Oklahoma state individual income tax code to eliminate the income tax on longer term capital gains earned on Oklahoma property.

Specifically, this proposal will exempt from the state individual income tax all capital gains from the sale of either property located in the state or ownership or interest in a business headquartered in Oklahoma. Additionally, to qualify for the exemption, the same legal entity must have held the asset for the last five consecutive calendar years.

Some examples of gains that qualify for the proposed exemption include:

- A small business owner who has built their business over the past 15 years and sells it to another entity would realize a capital gain on that sale. This gain would not be subject to the Oklahoma individual income tax.

- A person working for a publicly traded corporation with its headquarters in Oklahoma receives stock options as part of their compensation. That individual holds those equities for 7 years before selling them. The capital gain on this transaction would be exempt from Oklahoma income tax.
- A real estate investor purchases property in Oklahoma and makes significant improvements in the property while leasing the property over the course of 5 years. The capital gain that is realized when the property is sold would not be subject to tax in Oklahoma.
- An average Oklahoman purchases equity shares in a publicly traded, Oklahoma headquartered company and holds the shares for 5 years before selling them at a gain. The gain would be exempt from state income tax in Oklahoma.

From these examples it is clear that this exemption reduces the cost of investing in Oklahoma's future. This, in turn, will lead to more savings, investment and economic growth for all Oklahomans. The cost of this proposal is \$5.0 million for FY-05 with a budgetary impact of \$4.5 million.

Income Tax Trigger Elimination

Legislation passed in 1999 cut the maximum marginal individual income tax rate to 6.65% and increased the Sales Tax Relief Act income qualifications to \$20,000 for households without children and \$50,000 for senior citizens and households with children. Previously enacted law contained a provision that growth revenue must exist to maintain the tax relief levels. The Legislature delegated the responsibility for making the growth finding to the Board of Equalization.

Each year at its December meeting, the Board compares revenue estimates for the coming fiscal year to existing estimates for the current fiscal year. If there is growth revenue between the estimates, then the tax relief takes effect. If growth does not exist, then the tax rate increases and the Sales Tax Relief Act qualifications decrease.

At the December meetings in 2001 and 2002, the Board of Equalization found that growth revenue did not exist. Because of this, the individual income tax rate increased to 7% for 2002 and remained there for 2003. The Sales Tax Relief Act qualifications dropped from \$20,000/\$50,000 to \$15,000/\$30,000 in 2002 and decreased further to \$12,000 in 2003.

Recently, Oklahoma's economy began to once again experience an increase in activity. At its December 2003 meeting, the Board of Equalization found growth revenue between the estimates for FY-2004 and FY-2005. Accordingly, the tax rate decreased to 6.65% effective January 1, 2004, and the qualifications for the Sales Tax Relief Act increased to \$15,000/\$30,000.

This budget proposes to eliminate the trigger. With the elimination, the individual income tax rate will stay at 6.65% permanently and qualifications for the Sales Tax Relief Act will increase to \$20,000 for households without children or seniors and \$50,000 with either children or seniors. The effective date of the proposal is January 1, 2005. There is no fiscal impact to State funds for FY-2005.

Affidavit for Pass Through Entities

The 2003 Legislature passed House Bill 1356 which requires pass through entities such as limited liability companies and partnerships to withhold and remit to the Tax Commission 5% of the distributions to non-Oklahoma resident owners. This is a significant change from prior law which required the non-resident owner

to file a non-resident Oklahoma income tax return and remit the proper tax due. The motivation behind the change in HB1356 was that many non-residents with an Oklahoma individual income tax liability were failing to file and pay the tax on their Oklahoma source income. Consequently, the Tax Commission had great difficulty in identifying these individuals and actually collecting the taxes owed.

While the withholding requirement in HB 1356 does improve the likelihood that non-residents who have tax liability in Oklahoma file and pay their taxes, it also places a substantial administrative burden on pass through entities. State government does not wish to be overly burdensome to small business. Accordingly, this budget proposes to adopt an additional alternative to the withholding for non-resident owners that gives more flexibility to the pass through entities.

The proposed approach is to allow the pass through entities to not withhold income tax on distributions if they append signed affidavits from any non-resident shareholder to the income tax return for the entity. These affidavits will identify and require a signature by the non-resident and that signature will serve as a binding obligation to file and pay any taxes due under the Oklahoma individual income tax. The non-resident shareholder's social security number can be matched to the non-resident income tax return to ensure that the individual does indeed file and pay tax.

If a non-resident shareholder signs such an affidavit and then fails to file and pay taxes, the pass through entity would then be assessed the tax due from the non-paying shareholder in the following year with the appropriate penalties and interest applied. If a pass through entity does not append the signed affidavits from its non-resident shareholders, then it would be required to withhold the 5% from the distributions to those shareholders.

This proposal has no fiscal impact and is part of this budget because it improves the business friendly environment in Oklahoma.

CompSource Oklahoma

The Oklahoma Legislature created CompSource Oklahoma in 1933 with an original investment of \$250,000 by the State. The purpose of CompSource is to furnish Oklahoma employers with a financially stable workers' compensation insurance program at the lowest possible price while providing maximum service and assistance. In that function, they have operated as the 'carrier of last resort' for businesses unable to obtain coverage in the insurance market.

Currently, CompSource Oklahoma is exempt from paying an insurance premium tax on all premiums sold. This creates an unfair advantage for private insurance companies who are required to pay the tax. As a result, the Governor's Budget proposes a 2.25% insurance premium tax on all CompSource premiums sold increasing state funds by \$3.9 million. The budgetary impact is \$3.7 million.

Quality Jobs Program Enhancements

Oklahoma's Quality Jobs Program (QJP) has brought thousands of jobs to the state. When the program started in 1993, Oklahoma faced a much different economic climate than today. QJP began as a program designed to attract manufacturing jobs. In the years since QJP first began, Oklahoma grew from an economy in need of new jobs to one where the unemployment rate is consistently below the nation.

The focus in this environment must turn from simply attracting jobs regardless of the wage to attracting jobs of true quality that pay our citizens a healthy, living wage. QJP currently considers only three main criteria to determine whether any applicant qualifies for the incentive payments:

- Minimum new payroll,

- Health insurance coverage provided to employees, and
- Industry of applicant.

In general, the minimum new payroll requirement of an applicant is \$2.5 million and the business must be in a basic industry, in addition to offering health insurance to employees.

Once an applicant has met these qualifications, the Department of Commerce conducts a cost-benefit analysis. This analysis determines the benefit to the State of the new jobs, expressed by a net benefit rate (NBR). The components included in the calculation of the net benefit rate are income tax and sales tax paid by the new employees and any additional costs to the state from in-migration. Incentive payments for an eligible company equal the net benefit rate multiplied by projected payroll over a ten year period. Total payments cannot exceed 5% of projected payroll over a ten year period.

As stated above, one concern with QJP is the lack any specific wage criteria. A company can create a large number of new minimum wage jobs and still qualify to receive incentive payments. A second concern with the program is that the State may be giving incentive payments for activity that would have occurred regardless of the payments.

Changes to QJP are needed to address these issues and turn its focus from attracting any job to attracting quality well paying jobs. This proposal suggests four changes to begin this transformation. The savings from this proposal are \$200,000 in FY-2005. The budgetary impact is \$165,000.

The first change proposed is the definition of qualifying payroll. An individual's salary will only be included as qualifying payroll if it exceeds the average county wage capped at \$25,000. This provides an incentive for firms to create well paying jobs and does not reward them for creating low

paying jobs. Currently, firms are required to create new jobs with a total minimum payroll of \$2.5 million with no regard to the salary of each job.

Second, firms applying for QJP on the basis of an expansion of current operations will be required to make a capital investment equal to or greater than the qualifying payroll in order to qualify. Offering incentive payments to a company for expansion purposes could be a case of giving away money for an activity that would have occurred anyway. The purpose of this proposal is to require expanding firms to show that new jobs could be created elsewhere before the State provides financial incentives to create the jobs.

Third, companies receiving incentive payments are required to reach 60% of their minimum payroll by the 7th quarter. If this requirement is not met, the incentive payments will be suspended. A company will only receive the suspended payments when it reaches 60% of the minimum payroll prior to contract termination. The proposal provides some accountability for companies who are not actively fulfilling the contracts. Currently, firms can continue to receive payments for 3 years before the contract is terminated.

Fourth, the definition of opportunity zones will be limited to a single census tract with 30% of the residents having an average income below the poverty level. Currently, census tracts can be combined to make an opportunity zone if the average income of one of the combined tracts is less than the poverty level. Firms that locate in an opportunity zone receive an automatic NBR of 5% and bypass QJP income qualifications. This part of the proposal prevents the combining of the census tracts and the possibility of manipulating the system.

Tobacco Tax Enforcement Initiative

In these times of tight budgets, before looking to increasing taxes in order to

better fund vital state government services, revenue collecting agencies have a duty to ensure the State is collecting all of the taxes due under current law. To this end, this budget proposes embarking on a program to address one particular area where there is the potential for significant tax evasion: tobacco taxes.

Although the current method of cigarette and tobacco taxation is efficient, it also faces problems in tax evasion that are common to other states such as counterfeit cigarettes, counterfeit stamps for cigarettes, unstamped cigarettes improperly stamped cigarettes, and improperly taxed and untaxed non-cigarette tobacco products. However, Oklahoma faces some challenges that are relatively unique, especially the prevalence of the stores selling cigarettes and tobacco products on Indian tribal trust land.

Most of the tribes in Oklahoma have signed compacts with the State and utilize state tax stamps on cigarettes sold through these stores. The tax rate on these products is one-fourth of the tax rate to retailers in Oklahoma. Also, the tribal stores use a different stamp than other stores since the tax rate is lower. Unfortunately, where there are differential tax rates, there exists the opportunity for tax evasion.

Combined together, Oklahoma foregoes an estimated \$6.6 million dollars annually in cigarette and tobacco tax revenues due to tax evasion. This proposal intends to close that gap and enforce the tax law in a more even handed and consistent manner. In order to do this, the Oklahoma Tax Commission (OTC) will need additional resources directed toward this area.

There are three specific areas addressed by this proposal to better enforce Oklahoma's tobacco taxes. First, there currently exists a significant back-log in the review and audit of records submitted by cigarette

and tobacco distributors to OTC. Second, presently there is relatively little focused oversight of tobacco distributors. Third, the current enforcement efforts of OTC in retail establishments focus very little effort on tobacco taxes.

In order to fully address each of these areas of concern, the Oklahoma Tax Commission requires the addition of 7 full time employees. The additional appropriation to the OTC budget required to fund these positions is \$300,000 annually.

Of the estimated \$6.6 million of foregone annual revenue, this initiative will result in an estimated \$5.3 million in additional collections. This results in a budgetary gain of \$5.0 million in fiscal year 2005.

Vending Machine Decal Fees

Businesses involved in vending machine sales are not required to collect and remit a sales tax. In lieu of a sales tax these businesses purchase a vending decal for \$50 a year. The vending machine decal fees have not kept pace with changes in the sales tax. The current \$50 fee equates to only \$1,100 per year in sales. The State has not changed this fee since 1988.

This budget proposes to increase this fee to keep vending machine retailers on an even footing with the traditional retailers. Effective July 1, 2005, the fee will increase to \$100 resulting in an increase of \$4 million to FY-2005 revenue. The budgetary impact is \$3.8 million. Decals must be purchased at the new rate and placed on the machines prior to the effective date.

Unclaimed Property Capture for Tax Delinquencies

This budget proposes using unclaimed property to satisfy unpaid tax delinquencies. Unclaimed property is held in the Treasurer's Office. It consists of bank accounts that have gone unused for several years, royalty

checks to individuals who cannot be located or items within safety deposit boxes that have been abandoned.

Under this proposal, the Tax Commission will match its list of delinquent taxpayers to the list of individual's with unclaimed property. If there is a match, then the unclaimed property is used to pay off any outstanding tax liability. This proposal results in a savings to state funds of \$175,000 with a budgetary impact of \$166,250 for FY-2005.

Fee Increases for Trauma Care

Current funding for uncompensated trauma care is available, but inadequate to cover the documented cost. The Trauma Care Assistance Fund was created in 1999 and was funded with a \$4 increase to the driver's license renewal fee. The renewal fee was increased in 2003 to \$5.50. A \$1 increase in boat and motor fees is also directed to this fund. In FY-2003 fee revenue generated \$3.4 million for the fund; however, the total amount that ambulances and hospitals qualified for was \$16.6 million.

Due to the low funding level of the trauma care fund, hospitals must absorb medical costs for uninsured trauma patients. This puts a financial burden on hospitals providing emergency and trauma care. The Governor's Budget recommends increasing fees for violations that increase the frequency of multiple injury traumas.

A significant cause of multiple injury traumas is motor vehicle collisions. Many serious collisions are a result of speeding and reckless driving when people are driving under the influence of alcohol or illegal substances. This budget recommends implementing a \$100 "trauma care fee" for all misdemeanor and felony crime convictions associated with drugs or alcohol. This fee will generate a minimum of \$900,000 for the trauma care fund.

This budget also recommends implementing a \$200 “trauma care fee” on the reinstatement of all drivers’ licenses. Reinstatements are required when a person’s license is suspended or revoked for lack of insurance, driving under the influence or excessive driving points. In FY-2003, the Department of Public Safety reinstated over 64,000 licenses. This increase will provide \$11.6 million to the trauma care fund assuming a 90% collection rate.

People not wearing seatbelts while in automobiles is a factor that commonly leads to more severe injuries. Currently, individuals convicted for failure to wear a seat belt are assessed a \$20 fee. Following in the vein of imposing costs for trauma care on those whose actions generate greater need for trauma care, this budget proposes to increase the fee for this infraction to \$100. This proposal generates \$6.2 million in additional revenue for the trauma care fund.

Finally, the Governor’s Budget also recommends directing \$18 million of the revenue generated from the tobacco stamp tax increase to the trauma care fund. This will increase the amount of reimbursement funds to hospitals and physicians to over \$30 million.

Recommendations for additional trauma care funds contained in the final report of the Task Force on Hospital Emergency Services and Trauma Care will also be considered as the Governor and Legislature work through this session.

Lobbyist Fees

Oklahoma is one of 12 states that does not charge a registration fee for lobbyists. The Governor’s Budget proposes implementing an annual fee of \$100 per lobbyist and a one-time fee of \$1,000 per principal organization. These new fees will generate \$680,000 and will be used to help support the Ethics Commission.

Fiscal Impact Summary for Proposed Tax Changes FY-2005 (\$ in 000’s)

Proposal:	Budgetary Impact	General Revenue Fund	Education Reform Revolving Fund	Other Funds	Total Impact to Collections
Cigarette Tax/Tobacco Tax Proposal	\$125,092	\$135,107	(\$3,259)	(\$1,173)	\$130,764
Tribal Gaming Compacts	62,480	-	62,480	8,520	71,000
Retirement Income Exemption	(12,507)	(11,957)	(1,147)	(654)	(13,758)
OK Source Capital Gains	(4,538)	(4,339)	(416)	(237)	(4,992)
Income Tax Trigger Elimination	-	-	-	-	-
Affidavit for Pass Through Entities	-	-	-	-	-
CompSource Premium Tax	3,762	3,960	-	-	3,960
Quality Jobs Program	182	174	17	10	200
Tobacco Tax Enforcement Initiative	5,049	5,315	-	-	5,315
OTC Integrated Computer System	17,873	16,544	2,156	800	19,500
Vending Machine Decal Fees	3,800	4,000	-	-	4,000
Unclaimed Property for Tax Delinquencies	166	175	-	-	175
Fee Increases for OU Trauma Center	18,795	-	-	18,795	18,795
Lobbyist Fee	<u>680</u>	<u>-</u>	<u>-</u>	<u>680</u>	<u>680</u>
Total Impact for FY-2005	\$220,835	\$148,979	\$59,829	\$26,741	\$235,550

Source: Oklahoma Tax Commission

Notes:

Governor

As Chief Magistrate of the State, the Governor is vested by the Oklahoma Constitution with “the Supreme Executive power.”

At the beginning of each session of the Legislature, the Governor presents the budget recommendations for the various state agencies and reports on the condition of the State. Every bill passed by the Legislature during regular session and prior to adjournment, before it becomes a law, is presented to the Governor. If the Governor approves the bill, he signs it, if not, he vetoes it and returns it with his objections to the Legislature, which can override his objections by a two-thirds vote.

When any State office becomes vacant, the Governor, unless otherwise provided by law, appoints a person to fill such vacancy, in certain instances by and with advice and consent of the Senate. The Governor is Commander in Chief of the state militia.

Additional duties of the Governor include:

- Conduct the business of Oklahoma with other states;
- Grant commutations, pardons and paroles;
- Approve agency rules;
- Negotiate tribal compacts;
- Sign or veto legislation; and
- Conserve the peace throughout the state.

FY-2005 Recommendation

<i>FY-2005 Appropriation</i>	
<i>(amounts in thousands)</i>	
FY-2004 Appropriation	\$2,478
FY-2004 Bud. FTE Level	34.8
Actual Avg. YTD FTE	34.2
Funding Adjustments:	
None	0
FY-2005 Recommendation	\$2,478
% Change for FY-2004	0.00%
<small>Source: Office of State Finance</small>	

The FY-2005 appropriation for the Office of the Governor is the same as provided for FY-2004.

Lieutenant Governor

Oklahoma's Lieutenant Governor serves in place of the Governor when the Governor leaves the state. Also, the Lieutenant Governor serves as the President of the Oklahoma State Senate, casting a vote in the event of a tie and presiding over joint sessions of the State Legislature. In addition, the Lieutenant Governor presides over or is a member of the following 10 state boards and commissions:

- State Insurance Fund (member)
- Tourism and Recreation Commission (chairman)
- State Board of Equalization (vice chairman)
- School Land Commission (vice chairman)
- Film Office Advisory Commission (chairman)
- Archives and Records (member)
- Oklahoma Linked Deposit Board (vice chairman)
- Capital Improvement Authority (member)
- Native American Cultural and Education Authority (member)
- Oklahoma Capitol Complex Centennial Commission (member)

FY-2005 Recommendation

FY-2005 Appropriation	
<i>(amounts in thousands)</i>	
FY-2004 Appropriation	\$467
FY-2004 Bud. FTE Level	8.0
Actual Avg. YTD FTE	6.7
Funding Adjustments:	
None	0
FY-2005 Recommendation	\$467
% Change for FY-2004	0.00%
<small>Source: Office of State Finance</small>	

The FY-2005 appropriation for the Office of the Lieutenant Governor is the same as provided for FY-2004.

Agriculture

Summary of FY-2005 Budget Recommendations

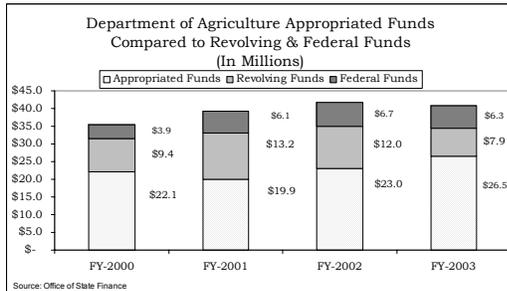
(amounts are in \$000's)

Agency Name	FY-2004 Adj. Approp.	FY-2005 Base	FY-2005 Adj.	Final FY- 2005 Approp.	% Diff. From FY- 2004
Agriculture	\$22,611	\$22,611	(\$319)	\$22,292	-1.4%
Conservation Commission	6,221	6,221	0	6,221	0.0%
Total Agriculture:	\$28,832	\$28,832	(\$319)	\$28,513	-1.1%

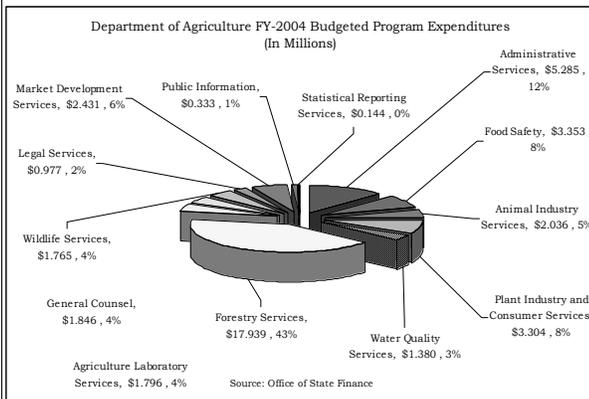
Department of Agriculture, Food and Forestry (ODAFF)

The Department of Agriculture is the lead agency in the state for improvement and regulation of the agricultural industry in Oklahoma.

The Department of Agriculture's budget consists of state, federal and revolving funds. For FY-2003, state appropriated dollars were 65% of the Department's total budget funding. Below is a chart that displays the comparison of state appropriated funds to total funds expended by the Department for the past 4 years.



Below is a chart which displays the budgeted program expenditures for the Department for FY-2004.



Notable Achievements

- *Oklahoma has remained in a Brucellosis free status since April 2001.*

- *Oklahoma has remained in a Bovine Tuberculosis free status since December of 1998.*
- *The Department helped 19 Oklahoma companies establish business and export relations with major supermarket chains and hotel and restaurant institutions in Brazil, Mexico, Costa Rica, Columbia, Hong Kong, Israel, and Germany.*
- *No major foodborne outbreak has occurred in the state of Oklahoma during the past 2 years.*

Animal Industry Services

One of the agency's most important functions is to ensure the quality and safety of the state's agricultural products. This division is responsible for the detection, eradication and control of livestock, poultry and aquaculture diseases and parasites. Specific responsibilities include:

- detecting, controlling and eradicating livestock diseases in farms and ranches, in auction markets and slaughter plants, feedlots and other concentration points throughout the state;
- monitoring the movement of animals and poultry into, through and out of Oklahoma to verify compliance with state and federal laws and regulations;
- controlling the use of vaccines and biologics;
- preventing the spread of diseases transmissible to man;
- facilitating, inspecting and licensing aquaculture operations; and
- preparing to respond quickly and appropriately in the event of a foreign animal disease emergency.

Forestry Services

There are more than 10 million acres of forests in Oklahoma. This natural system includes cedar, oak, hickory, pine, juniper and bottomland hardwoods and other species that provide wood products, protect watersheds, control erosion, support wildlife, protect crops and livestock and encourage outdoor recreation.

More than 6.2 million acres of commercial forests (largely owned by private landowners) support sawmills, a plywood plant, a fiberboard plant, paper mills and numerous manufacturing plants across the state.

The Department of Agriculture’s Forestry Services provides:

- firefighters and specialized equipment for wildfire suppression (primarily in the state’s eastern district); and
- financial and technical support for local fire departments.

Forestry Services provides assistance in forest protection, forest management and regeneration, community forestry, water quality, law enforcement and education to protect and develop state forests.

State/Local/Federal Partnership for Fire Protection

The Rural Fire Defense program works with the Forestry Division to administer the following programs for fire protection:

- 50/50 (federal/local matching grant) Volunteer Fire Assistance (VFA),
- operational grants for local fire departments,
- 80/20 (state/local matching grant) Capital Grants,

- operational funding for rural-fire coordinators (substate planning districts),
- federal excess equipment program,
- dry/wet hydrant program,
- equipment funding for local fire departments, and the
- surplus State equipment program.

50/50 Volunteer Fire Assistance (VFA) Grants

There are 870 certified volunteer fire departments in Oklahoma. The 50/50 (federal/local) VFA grants provide funding to local associations for purchasing fire-related equipment or training. The grant is limited to \$2,500 per applicant. This table shows the history of the program since FY-1994.

History of VFA Grants		
<u>Year</u>	<u>No.</u>	<u>Funding</u>
FY-1994	76	65,966
FY-1995	78	64,476
FY-1996	78	64,633
FY-1997	42	34,615
FY-1998	43	22,800
FY-1999	49	35,375
FY-2000	45	35,000
FY-2001	68	58,517
FY-2002	132	250,530
FY-2003	128	235,682
FY-2004		<u>175,088</u>
Total	739	\$1,042,682

Source: ODAFF

Operational Grants

The operational grants, first funded in FY-1990, provide funds for expenses of local fire-fighting associations. The grants help cities, towns, fire districts and rural fire departments pay for insurance, protective clothing, and equipment. The grants are 100% state funded.

This chart shows the funding history of operational grants since FY-1994.

<u>Year</u>	<u>No.</u>	<u>Per Entity</u>	<u>Funding</u>
FY-1994	773	259	200,000
FY-1995	787	254	200,000
FY-1996	800	2,875	2,300,000
FY-1997	816	1,225	1,000,000
FY-1998	835	2,275	1,900,000
FY-1999	840	2,262	1,900,000
FY-2000	847	2,243	1,900,000
FY-2001	852	2,347	2,000,000
FY-2002	860	2,326	2,000,000
FY-2003	860	2,326	2,000,000
FY-2004	<u>869</u>	<u>2,301</u>	<u>2,000,000</u>
Total	9,139	\$ 20,693	\$17,400,000

Source: ODAFF

80/20 Grant Funding

First funded in FY-1992, the 80/20 grants (state/local funding) provide equipment and building needs for rural fire departments. Approximately 80 fire departments received grants this fiscal year.

<u>Year</u>	<u>Funding</u>
FY-1994	200,000
FY-1995	350,000
FY-1996	450,000
FY-1997	926,500
FY-1998	1,142,223
FY-1999	2,045,500
FY-2000	2,687,445
FY-2001	3,209,000
FY-2002	3,766,219
FY-2003	5,321,097
FY-2004	<u>\$ 2,000,000</u>
Total	\$22,097,984

Source: ODAFF

Operational Funding for Rural-Fire Coordinators

Rural-fire coordinators in 11 substate-planning districts assist rural fire departments.

Coordinators:

- provide technical assistance;
- place the federal excess property;
- ensure audit compliance;

- evaluate grant applications;
- monitor progress of grant projects;
- assist with training and testing equipment; and
- administer the hydrant program.

The following chart shows the total contract costs for these coordinators since FY-1994.

<u>Year</u>	<u>Total Cost</u>
FY-1994	494,000
FY-1995	494,000
FY-1996	594,000
FY-1997	594,000
FY-1998	655,000
FY-1999	750,000
FY-2000	750,000
FY-2001	960,000
FY-2002	860,000
FY-2003	785,000
FY-2004	<u>785,000</u>
Total	\$7,721,000

Source: ODAFF

Equipment and Vehicles for Firefighters and Other Agency Divisions

Wildfire containment depends on firefighters and equipment arriving in a timely manner. Reliable equipment is imperative for protecting lives, natural resources and property.

About 60% of current vehicles (including transport trucks and pumper-trucks) and 35% of the heavy equipment are rated in poor to fair condition.

Excess Equipment Program

The forestry division secures federal-excess property from military bases in a 20-state area for the state's wildfire firefighters and the rural fire departments. The United States Department of Agriculture (USDA) Forest Service loans the used equipment to rural fire departments. The forestry division funds 100% of the

administration and operational costs of the program.

This table shows and the estimated value of property placed with departments, from FY-1994 to FY-2004.

History of Federal Excess Prop.		
<u>Year</u>	<u>No.</u>	<u>Est. Value</u>
FY-1994	250	6,492,700
FY-1995	310	4,284,404
FY-1996	300	10,141,226
FY-1997	316	9,676,916
FY-1998	320	4,093,129
FY-1999	320	8,011,678
FY-2000	300	5,718,254
FY-2001	207	5,452,395
FY-2002	230	5,500,000
FY-2003	230	5,500,000
FY-2004	<u>230</u>	<u>4,133,614</u>
Total	3,013	\$69,004,316

Source: ODAFF

Equipment Funding for Local Fire Departments

Since FY-1990, Forestry Services purchases items in bulk for resale, at cost, to local fire departments. This revolving fund was created with \$100,000 in FY-1990.

Equipment Funding for Local Fire Departments	
<u>Year</u>	<u>Funding</u>
FY-1994	100,000
FY-1995	100,000
FY-1996	100,000
FY-1997	100,000
FY-1998	100,000
FY-1999	100,000
FY-2000	175,000
FY-2001	200,000
FY-2002	200,000
FY-2003	200,000
FY-2004	<u>5000</u>
Total	\$1,380,000

Source: ODAFF

Surplus State Equipment

State wildfire fire-fighting units may loan surplus property to local fire departments. This equipment typically

includes radios, tanks, pumps, backpack blowers, hose reels, etc.

Two other equipment programs are of benefit to rural fire departments. First, Forestry can sell surplus vehicles and equipment to fire departments at their appraised value. Second, beginning in FY-1998, the Oklahoma Department of Transportation was appropriated \$50,000 to purchase surplus vehicles and equipment to loan to fire departments. This fund increased to \$150,000 in FY-2001. After two years, title to these vehicles transfers to the fire departments.

Plant Industry & Consumer Services (PICS)

This division provides services to citizens, consumers and industry in the following major areas:

A. Consumer protection laws concerned with apiary inspection, ag-lime, animal feed, and fertilizers;

B. Environmental quality programs protecting surface and ground water, pollution prevention programs through Best Management Practices, endangered species and worker protection. Complaints of improper pesticide use are investigated and compliance action taken where appropriate. Commercial pesticide applicators are trained, certified and companies licensed;

C. Inspecting and testing the accuracy of scales and measuring devices used commercially; anhydrous ammonia equipment safety;

D. In addition, the Division has:

- cooperative agreements with the U.S. Food and Drug Administration to enforce the Fair Labeling and Packaging Act and medicated feed manufacturing;
- the U.S. Environmental Protection Agency for pesticide enforcement,

pollution prevention programs and surface and ground water protection programs;

- the U.S. Department of Agriculture for insect control programs, pest surveys, private applicator record checks; and
- Oklahoma State University for education and research on pollution prevention programs, pesticide applicators and pest survey.

ODAFF Water Quality Services Division (WQS)

Over the past several years the number of Concentrated Animal Feeding Operations (CAFOs) and poultry operations were increasing. In 1994 the number of licensed CAFOs was 184. By 1998 the number of licensed CAFOs had reached 326 with an animal and bird capacity of 5,275,633. The ODAFF Water Quality Services Division (WQS) was created in 1997 to help develop, coordinate and oversee environmental policies and programs. Their mission is to work with producers and concerned citizens to protect the environment of Oklahoma from animals, poultry and their wastes.

The WQS is responsible for implementing the Oklahoma Concentrated Animal Feeding Operations Act and Oklahoma Registered Poultry Feeding Operations Act. Duties include the licensing, regulation and inspection of beef, swine and poultry breeding, growing and feeding facilities and licensed managed feeding operations, registrations of poultry feeding operations and licensing of poultry waste applicators.

Another task the WQS performs is complaint resolution. The Oklahoma State Legislature places strong statutory requirements on investigations or environmental complaints and each agency must develop rules for the resolution of complaints. In response to

the legislature, the WQS implemented a complaint response system.

The ODAFF places complaint response and resolution among its highest priorities. Complaints help identify problems that the WQS can direct resources where necessary to correct the pollution through its enforcement program.

	FY-1999	FY-2000	FY-2001	FY-2002	FY-2003
Complaint/Compliance Follow-ups	199	362	348	549	693
Complains Received	129	171	218	175	165
Complaints Closed	171	197	234	224	197
Pre-Licensing Inspections	65	12	3	9	2
Inspections During Construction	351	37	86	32	19
Routine Inspections	2029	1713	1105	1234	1036
Carcass Disposal Inspections	872	353	344	369	465
Water Samples Collected	373	1019	2302	1595	561
Soil Samples Collected					438
Technical Assistance Contacts	878	519	1444	671	757
Licenses or Building Permits Issued	14	14	7	6	2

Source: ODAFF

The following chart shows the actual FY-2003 funding sources and expenditures and FY-2004 budgeted funding sources and expenses for WQS:

Water Quality Division		Funding	
FY-2004 Budget	Expen.	Gen. Rev.	Fees
Swine	\$813,023	\$312,823	\$500,200
Poultry	366,271	357,331	8,940
Cattle	69,204	61,204	8,000
Administration	108,565	103,565	5,000
Total	\$1,357,063	\$834,923	\$522,140
FY-2003 Actual			
Swine	\$865,200	\$547,072	\$318,128
Poultry	348,035	186,668	161,367
Cattle	74,990	56,648	18,343
Administration	69,594	52,474	17,120
Total	\$1,357,819	\$842,862	\$514,958
\$ Change FY-03 to FY-04			
Swine	-\$52,177	-\$234,249	\$182,072
Poultry	18,236	170,663	-152,427
Cattle	-5,786	4,556	-10,343
Administration	38,971	51,091	-12,120
Total	-\$756	-\$7,939	\$7,182

Source: ODAFF

Wildlife Services

Wildlife Services is a cooperative program between the ODAFF and the Animal and Plant Health Inspection Service of the USDA. This service is responsible for helping citizens and communities control wildlife damage to agriculture, safeguard human health and safety, and protect natural resources.

FY-2005 Recommendation

FY-2005 Appropriation <i>(amounts in thousands)</i>	
FY-2004 Appropriation	\$22,611
FY-2004 Bud. FTE Level	463.5
Actual Avg. YTD FTE	426.1
Funding Adjustments:	
Debt Service Decrease	(319)
FY-2005 Recommendation	\$22,292
% Change for FY-2004	-1.41%
<small>Source: Office of State Finance</small>	

The FY-2005 appropriation for the Department of Agriculture is the same as provided for FY-2004 with the following adjustment.

Debt Service Decrease

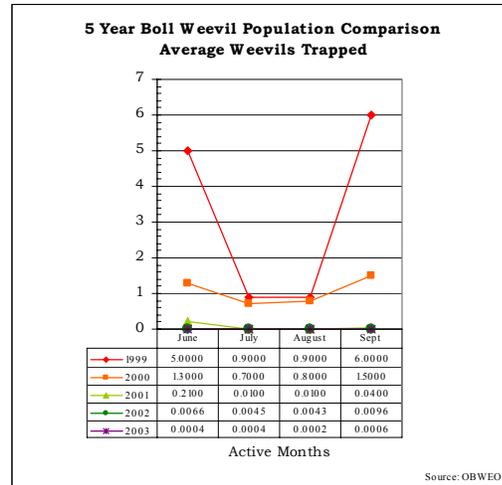
The Governor's budget includes reducing the agency's appropriation by \$318,600 for an anticipated reduction in FY-2005 debt service obligations.

Boll Weevil Eradication Organization

Yearly income from cotton for 2000, 2001, and 2002 was \$35.2 million (152,000 bales), \$52 million (197,000 bales), and \$42 million (209,000 bales), respectively. The decrease in yearly income from the 1984-1999 average of \$58.9 million dollars is attributable primarily to lower market prices during a period when cotton production dramatically increased. Increased production reflects an increase in yield rather than in acres and this increase is a direct result of the ongoing, aggressive boll weevil eradication effort throughout the state. Eliminating the boll weevil will improve land values while providing economic benefits through better yields as well as through larger beneficial insect populations, which reduce insecticide use and expense.

Total estimated cost to eradicate the boll weevil, should the program remain in place until 2008, is \$25.2 million dollars. The industry will pay \$13.45 million, the State provided approximately \$3.75 million, and federal funding will provide the balance of \$8 million. To provide industry funding, cotton producers passed a referendum by a positive 88% vote to start the program in 1998. Producers will pay an assessment of \$7.50 per acre and 1 cent per pound of cotton harvested and ginned each season.

By the end of calendar year 2003 the Oklahoma Boll Weevil Eradication Organization (OBWEO) reduced the boll weevil populations by more than 99.99%. Farmers continue to make a top crop, further improving yields because of reduced weevil pressure. The following chart shows baseline data (1999) for the boll weevil compared to data for 2000-2003.

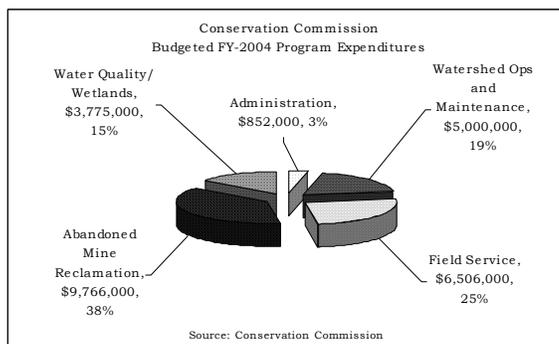
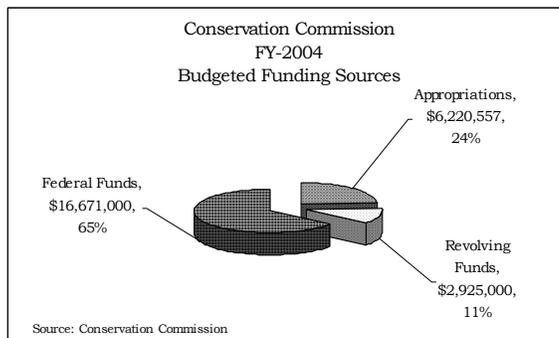


Conservation Commission

The Conservation Commission provides technical assistance, financial incentives and educational information through Oklahoma's 88 conservation districts to promote and sustain private land conservation. The state conservation cost share program is an integral and valuable component of this unique delivery system.

FY-2004 Budget Funding and Expenditures

The Conservation Commission's largest funding source is federal funds. Federal funds total 64% of the Commission's total budgeted FY-2004 funding. Below are two charts, one displaying FY-2004 budgeted funding and one showing FY-2004 budgeted program expenditures.



Notable Achievements

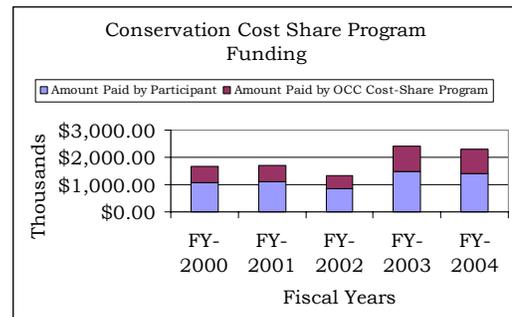
- Completed work reclaiming a 52 acre mine site in the Tar Creek Superfund area. The project eliminated hazards in two large subsidence areas and open mine

shafts and restored vegetation to 52 acres of land previously covered by chat from mining operations.

- The Commission completed eight projects that reclaimed 270 acres of abandoned coal mine land.
- The Commission's Blue Thumb water quality education program expanded to include active programs in 36 conservation districts in the state. The Blue Thumb program has approximately 325 volunteers and maintains 83 active water quality monitoring sites. Because of the Commission's efforts, the State Department of Libraries gave the Commission an award for the Commission's Water Quality Primer.

Cost-Share Program

The Conservation Cost-Share Program is a public-private partnership between the State and private land users. The program encourages implementation of conservation practices on Oklahoma lands. This aids in the prevention of soil erosion and the improvement of water quality. Since the program's inception in FY-1999, the program has received \$7.53 million in state appropriations. Of this amount, the Conservation Commission has allocated \$5.98 million to Oklahoma's 88 conservation districts for locally determined conservation priorities. Land users must match a portion of the cost share received from the State. The program has generated a \$6.15 million dollar investment in private sector dollars as well.



The Conservation Commission used the balance of the cost-share, \$1.54 million in appropriations, as state match to obtain federal “EPA 319 funds” in the Lake Eucha, Illinois River, Lake Wister, Ft. Cobb, and Stillwater Creek priority watersheds. In these watersheds, cost share funds are used to reduce nonpoint source pollution to surface waters. In FY-2004, the funds will also match EPA 319 funded work in the Spavinaw Creek portion of the Lake Eucha watershed.

	<u>Appropriation</u>	Amount to <u>Each District (88)</u>
FY-1999	\$1,320,000	\$15,000
FY-2000	500,000	7,500
FY-2001	1,165,000	15,500
FY-2002	1,500,000	18,100
FY-2003	1,000,000	10,227
FY-2004	500,000	5,682
<i>Total</i>	\$5,985,000	\$72,009

Watershed Rehabilitation

Since 1948 the federal government, through USDA’s Natural Resources Conservation Service (NRCS) has constructed 2,094 upstream flood control dams in the State of Oklahoma (20% of the nation’s total). The dams were designed and built with federal funds. Local sponsors (68 of Oklahoma’s 88 conservation districts) were responsible for obtaining the necessary land rights and have continuing responsibility for the operation and maintenance of these dams. The federal government estimates public investments in these dams of \$1.8 billion in present value.

The primary purpose of the dams is to capture floodwater and release it in a controlled fashion to minimize damage to agricultural land, homes, towns and transportation infrastructure. The dams also capture sediment and provide other benefits such as water sources for agriculture, domestic use, fire protection and significant wildlife habitat.

There are a number of issues that arise as the structures age. For example, concrete and metal draw-down structures deteriorate and must be replaced; earthen dams may need to be raised to restore flood storage capacity; and development downstream of the dam can occur which changes the safety classification of a structure.

Federal legislation in 2000 authorized the Natural Resources Conservation Service (NRCS) to rehabilitate the nation’s upstream flood control dams. Congress appropriated \$10 million to NRCS in FY-2002. The FY-2003 national appropriation for watershed rehabilitation was \$30 million.

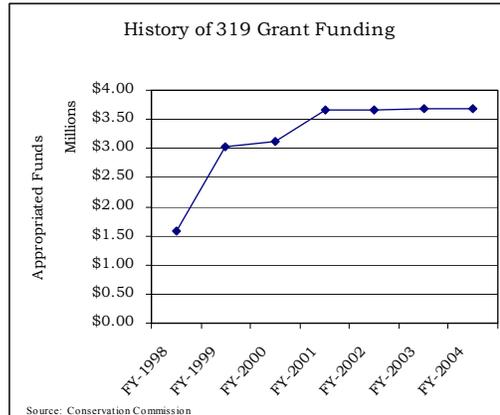
To be eligible for rehabilitation the state and/or local sponsors must provide a 35% match to federal dollars. Since FY-2002, the Oklahoma Legislature has appropriated \$500,000 each fiscal year to the Conservation Commission for use in matching federal rehabilitation dollars. Because of the state’s commitment to rehabilitation, the Oklahoma NRCS received an allocation of \$2.7 million for rehabilitation in the 2002 federal fiscal year and \$3.4 million in the 2003 federal fiscal year. This was the maximum amount that was available to Oklahoma.

The NRCS, Conservation Commission and local district sponsors have completed one rehabilitation project. As of October 1, 2003, two other projects were under construction and one was in contracting. It is anticipated that an additional three to five projects will be contracted during the remainder of FY-2004.

Federal 319 Grant for Nonpoint Source Pollution

FY-2004 funding from the Clean Water Act Section 319 for Oklahoma’s Nonpoint Source management program has remained level with FY-2003 funding. The funds are used to implement targeted programs to abate water quality impacts from nonpoint

source pollution. Federal funds must be matched with 40% state and local funds, much of which comes from the commission's conservation cost share program. The table below shows the funding history of the program over the past seven years.



The programs target sources of nonpoint source pollution including agriculture, silviculture, rural unpaved roads, rural wastes systems, construction activities, and stream bank destabilization. Ongoing Priority Watershed Nonpoint Source Projects include:

- Beatty Creek Watershed (\$1.6 million) within the Lake Eucha Watershed,
- Illinois River Watershed (\$1.7 million),
- Lake Wister Watershed (\$1.9 million)
- Fort Cobb Watershed (\$2.2 million), and Stillwater Creek Watershed (\$1 million)
- Spavinaw Creek Watershed (\$2.7 million)

These Priority Watershed Projects include implementation and demonstration of best management practices. The projects also include education programs to encourage watershed residents to help reduce nonpoint source pollution. Other grant tasks include:

- Technical support of the Nonpoint Source Management Program;
- Funding for a Rotating Basin Monitoring Program;
- Nonpoint Source TMDL (Total Maximum Daily Load);
- Development of a watershed restoration action strategy for the Grand Lake Watershed;
- Continuation of Statewide and Oklahoma City Blue Thumb Educational Programs; and
- Task coordination and management by the Office of the Secretary of Environment.

FY-2005 Recommendation

FY-2005 Appropriation <i>(amounts in thousands)</i>	
FY-2004 Appropriation	\$6,221
FY-2004 Bud. FTE Level	57.7
Actual Avg. YTD FTE	57.2
Funding Adjustments:	
None	<u>0</u>
FY-2005 Recommendation	\$6,221
% Change for FY-2004	0.00%
REAP (Gross Production Tax)	\$2,420

Source: Office of State Finance

The FY-2005 appropriation for the Conservation Commission is the same as provided for FY-2004.

FY-2005 Recommendation for REAP

Cost Share Funding

The Governor's budget proposes \$500,000 be appropriated for the cost-share program from the REAP Fund.

Federal 319 Grant Match

The Governor's budget proposes \$420,000 be appropriated for the Federal 319 Grant program from the REAP Fund.

Watershed Rehabilitation Program

The Governor's budget proposes \$1.5 million be appropriated for the Watershed Rehabilitation Program from the REAP Fund.

Commerce and Tourism

Summary of FY-2005 Budget Recommendations

(amounts are in \$000's)

Agency Name	FY-2004 Adj. Approp.	FY-2005 Base	FY-2005 Adj.	Final FY- 2005 Approp.	% Diff. From FY- 2004
Centennial Commission	\$527	\$527	\$0	\$527	0.0%
Commerce, Department of	21,490	21,490	1,336	22,826	6.2%
Historical Society, Oklahoma	8,537	8,537	1,601	10,138	18.8%
J.M. Davis Memorial Commission	300	300	0	300	0.0%
Labor Department	2,959	2,959	50	3,009	1.7%
Native American Cultural & Ed. Authority	518	518	0	518	0.0%
REAP - local gov'ts thru A&I	6,000	6,000	0	6,000	0.0%
Scenic Rivers Commission	259	259	0	259	0.0%
Tourism & Recreation, Dept. of	22,616	22,616	267	22,883	1.2%
Will Rogers Memorial Commission	793	793	0	793	0.0%
Total Commerce and Tourism:	\$63,999	\$63,999	\$3,254	\$67,253	5.1%

Oklahoma Capitol Complex and Centennial Commemoration Commission

On November 16, 1907, Oklahoma became the 46th state in the United States of America. On November 16, 2007, Oklahoma will celebrate the state's centennial birthday. The Commission was formed to coordinate centennial celebrations throughout the state. The Commission encourages and supports participation in the centennial celebration in all geographical areas of the state and by all ethnic groups within the state.

Notable Achievements

- *The dome for the State Capitol building was completed and dedicated on November 16, 2002.*
- *Work on the Oklahoma Land Run Monument, which will have 45 pieces that are 1 ½ times life size, has begun. The first five completed pieces were dedicated April 21, 2003.*
- *Over 30 projects have been completed statewide since the Centennial Commission was established.*

State Capitol Dome

Undertaken and completed as a centennial project, the State capitol dome was dedicated on Statehood Day, November 16, 2002. Although original plans for the State capitol building called for a dome, a number of circumstances deferred construction for more than 80 years. Costs to construct the dome were \$20 million. Private contributions paid for more than three-fourths of building costs and also helped fund the June 2002 dedication of The Guardian, the statue for the top of the dome. The state will pay the remaining \$5 million for the construction costs of the dome.

Projects Master Plan

A master plan of statewide centennial projects, completed in December of 2000, details over 100 other proposals including the following:

- reconstruction of trail sites and museum expansions creating a historical corridor along the Chisholm Trail that spans the state from the northern to the southern borders;
- bronze sculpture, more than 200 feet in length, depicting the State Land Rush to be displayed on the canal in Oklahoma City's Bricktown;
- Oklahoma Centennial International Expositions in Tulsa and Oklahoma City in 2007;
- National Army Museum of the Southwest in Fort Sill providing access to existing historical military artifacts and aircraft and American Indian artifacts;
- Native American Cultural Center in Oklahoma City reflecting Oklahoma's diverse heritage, background and values and showcasing Native American arts.

FY-2005 Recommendation

FY-2005 Appropriation	
<i>(amounts in thousands)</i>	
FY-2004 Appropriation	\$527
FY-2004 Bud. FTE Level	7.0
Actual Avg. YTD FTE	6.7
Funding Adjustments:	
None	0
FY-2005 Recommendation	\$527
% Change for FY-2004	0.00%
<small>Source: Office of State Finance</small>	

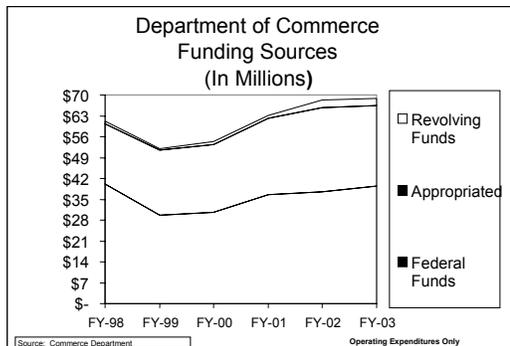
The FY-2005 appropriation for the Centennial Commission is the same as provided for FY-2004.

Department of Commerce

The Oklahoma Department of Commerce (ODOC) is the lead agency for economic development in the state of Oklahoma. ODOC provides a one-stop shop for private sector location and expansion in Oklahoma. The Department of Commerce is organized in the following program structure:

- Oklahoma Business
- Oklahoma Communities
- Export Solutions
- Business Location
- Marketing
- Research and Policy
- Business Incentive Analysis Group

The Commerce Department's primary sources of funding are federal funds. In FY-2003, federal funds were 57% of the Department's revenue sources. The chart below displays the Department's revenue sources for FY-1998 to FY-2003.



Notable Achievements

- *As reported in the "Top 10 Pro-Business States for 2004" study published by Pollina Corporate Real Estate, Oklahoma ranked third in the nation as one of America's most pro-business states. The report stated that "Oklahoma offers one of the most competitive and aggressive business incentive packages in the country, which allows it to take full advantage of its central United States Location".*

- *Economy.com ranked Tulsa # 1 and Oklahoma City #3 in lowest cost of doing business among 150 metro areas nationwide.*
- *In FY-2003, the Oklahoma Department of Commerce assisted in the creation, expansion and retention of almost 12,906 jobs.*
- *69% of these new jobs have an average wage of at least 110% of the average wage of the county in which the job was created.*
- *Oklahoma made the top three in the Boeing 7E7 site selection process. Oklahoma's participation in this effort led to an additional 500 Boeing jobs in Tulsa.*
- *During fiscal year 2003, ODOC worked on projects that generated \$1.6 billion in new investment in Oklahoma.*

Programs

Oklahoma Business: The Business Solutions division focuses on supporting Oklahoma businesses.

Oklahoma Communities: The Office of Community Development invests federal and state resources in communities and community-based, non-profit organizations in an effort to build local capacity and encourage sustainability.

Through a variety of programs, Community Development offers technical assistance and planning to communities. Currently, over 400 cities, towns or counties are completing capital improvement plans through which an inventory of civic assets can be maintained and prioritized for repair or replacement.

Community Development helps communities address such vital areas as water and sewer infrastructure improvements, economic development infrastructure enhancement, multipurpose senior citizen center

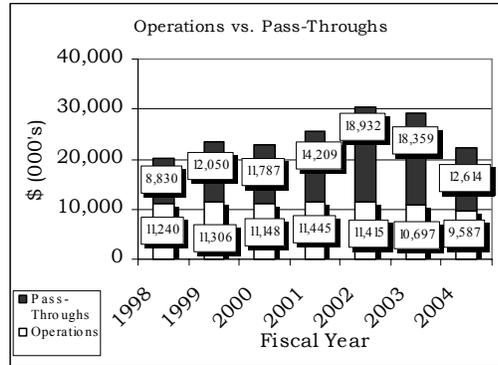
development, upgrading fire protection equipment and street and drainage repairs. The Community Development Block Grant is the main source of funds utilized to address these needs; however, funding is also available through the state energy plan and state appropriations.

Export Solutions: This division focuses on assisting Oklahoma businesses to develop a source of revenue that is resilient to state economic downturns. The division accomplishes this by finding Oklahoma companies with export capabilities and preparing those companies through education, training, business plan reviews and research. This preparation allows the company to maximize the company’s potential in a global market. The division also oversees all Commerce International Trade Offices.

Business Location: The Office of Business Location markets the state of Oklahoma as a profitable location for investment in manufacturing, processing and service businesses. Business Location staff aggressively recruits new domestic investments, encourages and assists Oklahoma companies seeking expansion to invest in Oklahoma and assists local communities and economic development organizations in their efforts to attract new businesses.

Pass-Throughs

Commerce’s budget consists of two parts – operations and “pass-throughs.” The chart below depicts the breakdown of these two parts over the past seven years.



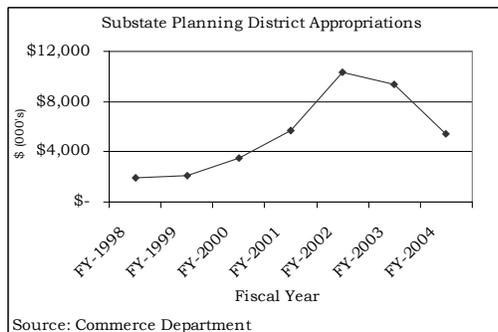
Source: Oklahoma Department of Commerce

In FY-2004 “pass-through” appropriations amounted to \$12.6 million. Over 42% of these funds, or \$5.4 million went to the substate planning districts. Substate planning districts, community action agencies, and many other entities receive “pass-throughs”. (See table on next page for detail.)

Substate Planning Districts:

Oklahoma has 11 substate planning districts, also known as council of governments or COGS. The Legislature established these organizations to provide economic development leadership in their assigned areas. The COGS operate independently, and state appropriations, membership dues from member towns and grants from state and federal sources fund the COGS.

Money appropriated to the substate planning districts has increased by 186% over the past seven years.



Source: Commerce Department

FY-2005 Recommendations

FY-2005 Appropriation <i>(amounts in thousands)</i>	
FY-2004 Appropriation	\$22,009
FY-2004 Bud. FTE Level	124.5
Actual Avg. YTD FTE	118.9
Funding Adjustments:	
Debt Service	<u>86</u>
Transfer from OCAST	<u>750</u>
Additional Funding	<u>500</u>
Transfer NACEA	<u>(518)</u>
FY-2005 Recommendation	\$22,827
% Change for FY-2004	3.72%

Source: Office of State Finance

The FY-2005 appropriation for the Department of Commerce is the same as provided for FY-2004 with the following adjustments.

Operations Recommendation:

The Governor’s budget proposes reducing the number of International Trade Offices to only those in Mexico and Europe. This will be a savings of \$162,761 that will be redirected internally for the Department’s operations.

Pass-Through Recommendations:

- 1. Debt Service:** The Governor’s budget includes \$86,100 for an anticipated increase in FY-2005 debt service obligation
- 2. Center for Manufacturing Excellence:** The Governor’s budget proposes the Center for Manufacturing Excellence be transferred to the Department of Commerce. This proposal transfers \$750,000 from The Oklahoma Center for the Advancement of Science and Technology (OCAST) to the Commerce Department and

gives an additional \$500,000 for operation of the program.

3. Native American Cultural Education Authority Transfer:

The Governor’s budget proposes the Native American Cultural and Education Authority (NACEA) be moved to the Historical Society. The NACEA’s appropriation will pass through the Historical Society in the same manner as NACEA passes through the Commerce’s appropriation currently. The NACEA will have the same structure and relationship with the Historical Society as the NACEA has with Commerce. The Historical Society will assume the duties regarding the NACEA as currently fulfilled by Commerce. This transfer reduces Commerce’s FY-2005 appropriation \$517,796, and increases the Historical Society’s FY-2005 appropriation the same amount.

- 4. Other Pass-Throughs:** The Governor’s budget proposal leaves funding to the Head Start Program at the FY-2004 level and reduces the remaining “pass-throughs” to \$8.7 million. The savings of \$250,000 would be redirected internally. This savings will be used for a Website Functionality Applications Upgrade. This new interactive system will be used by agency customers and potential businesses considering locating in Oklahoma. Several states including Texas have systems such as this and have experienced excellent results.

Oklahoma Employment Security Commission

The Oklahoma Employment Security Commission (OESC) strives to provide employment security and promote the economic well-being of the state of Oklahoma. OESC's local offices match needs of employers and job-seeking individuals. The OESC operates under the guidelines of Federal-State grant agreements.

The OESC maintains four major divisions:

- Economic Research and Analysis;
- Unemployment Insurance;
- Employment Service; and
- Job Training Partnership Act.

Economic Research and Analysis

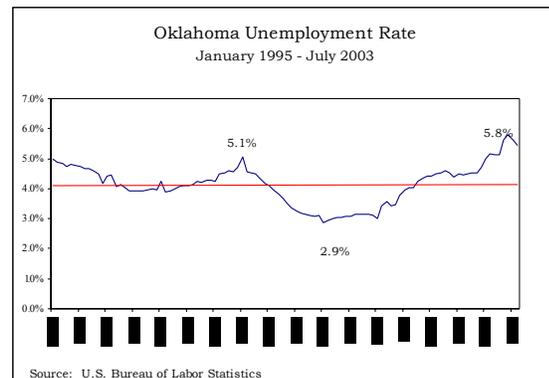
This division is responsible for collecting, analyzing and disseminating statistical and labor market information regarding employment, unemployment, labor force, average wages, industry and occupational projections, labor supply and demand. The goal of this program is to provide quality information that will improve the functioning of labor markets by serving the needs of workers, employers, economic developers, planners and policy makers.

Unemployment Insurance Program

The unemployment insurance system is designed to provide workers with insurance against involuntary unemployment by partial replacement of lost wages and to facilitate the reemployment of such workers. Qualified unemployed wage earners receive weekly unemployment benefits.

The unemployment tax rate is based on an experience factor per employer. For example, a business that has a 100% turnover rate in a year would pay a higher tax rate than a business that only has a 2% turnover rate even if the two businesses were in the same industry.

The ratio of the balance in the unemployment trust fund to the five year average of net benefit payments is another condition affecting the unemployment tax rate. The Oklahoma unemployment rate has fluctuated dramatically in the past few years.



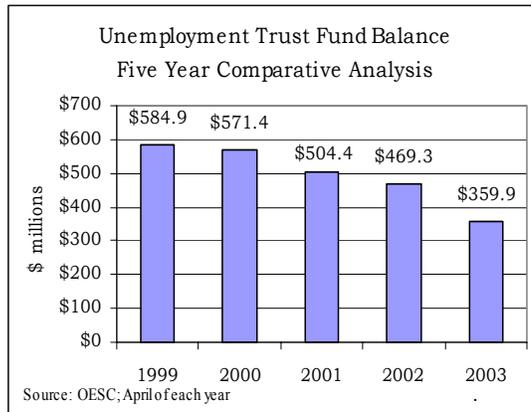
While Oklahoma's unemployment rate was higher in November, 2003 than 2002, it is lower than other southwest states.

State	Unemployment Rate Nov. 2002	Unemployment Rate Nov. 2003 ^p
Arkansas	5.4%	6.0%
Louisiana	6.2%	5.5%
New Mexico	5.4%	6.0%
Oklahoma	4.5%	5.3%
Texas	6.5%	6.3%

p = preliminary
Source: Bureau of Labor Statistics 12/19/03

While the Oklahoma unemployment rate was low, the balance in the trust fund rapidly built up to \$609 million in 1997. In order to decrease the fund balance, rates were lowered below the annual maintenance level; however, the

longer than expected economic slump has reduced the unemployment trust fund balance below desirable levels. Even though Oklahoma's unemployment rate is lower than the regional average, it continues to be high enough to lower the trust fund balance below a desirable level.



While the trust fund balance was \$359.9 million in April, 2003, the OESC estimate for December is \$344.4 million. The estimated ratio of trust fund balance to five year average of net benefit payments of less than two will invoke "condition D" which is the highest tax rate. Since the conditions are based on a five year average, it may require multiple years before rates decrease to "condition A".

Description	Average Benefit Payment	Ratio of Trust Balance to Five Year Average BP
Estimated Trust Fund Balance at 12/31/2003		\$344,370,749
Estimated 2003 Benefit Payment	\$275,664,308	
Estimated 2002 Benefit Payment	\$245,872,319	
Estimated 2001 Benefit Payment	\$175,506,709	
Estimated 2000 Benefit Payment	\$105,097,567	
Estimated 1999 Benefit Payment	\$119,823,045	
Total Benefit Payment of Last Five Years	\$921,963,948	
Average Benefit Payment	\$184,392,790	\$184,392,790
Estimated Ratio of Trust Fund Balance to Five Year Average of Net Benefit Payment		1.867593

Source: OESC 12/28/03

The following table illustrates the inverse relationship of tax rates and benefits. The trust fund balance must be adequate to pay benefits even when unemployment is high. When the ratio of trust fund balance to average benefit

payment decreases, tax rates increase and the maximum benefits decrease. As the trust fund balance increases the reverse is true. This relationship is categorized as tax schedule conditions.

	none	A	B	C	D
Min. Rate	0.10%	0.20%	0.20%	0.20%	0.30%
Min. \$/employee	\$12	\$24	\$26	\$27	\$43
Max Rate	5.50%	5.80%	7.40%	8.30%	9.20%
Max \$/employee	\$632	\$708	\$955	\$1,129	\$1,316
Taxable base	\$11,500	\$12,200	\$12,900	\$13,600	\$14,300
Max. weekly benefit	\$331	\$317	\$303	\$289	\$275
Max annual benefit	\$7,200	\$6,800	\$6,400	\$6,100	\$5,700
Max. # of weeks of benefits	26	26	26	26	26
Trust Fund ratio to 5 year average benefits	3.50+	3.00 - 3.49	2.50 - 2.99	2.00 - 2.49	<2.00

Source: OESC, 12/8/03

Employment Service

This division maintains a statewide labor exchange between employers and job-seeking individuals through the selection and referral of qualified workers. Local offices are located throughout the state for the convenience of employers and potential employees. There are 51 employment offices located throughout the state including multiple sites in Tulsa and Oklahoma City.

The Internet can also be used to access Oklahomajoblink.com, a free job match and workplace information service for employers and job seekers. Oklahomajoblink.com is a portal to services offered through the Workforce Oklahoma System. Job seekers can access a variety of services through this web site. A job seeker can establish a self-service Internet account to manage a job search or receive assistance from the professional staff in finding a job that matches an individual's experience, interest and education. Job seekers may even create a complete job resume on-line by which approved access employers may view the job seeker resume information.

Employment and Training

This division is responsible for administering workforce programs for adults, dislocated workers and youth. These federally funded programs provide employment and training services to individuals who, for various reasons, have been unable to obtain meaningful employment. This includes responsibility for administering programs that prepare youth and unskilled adults for entry into the labor force. The program also provides training opportunities to economically disadvantaged individuals and those dislocated due to business closings and layoffs.

Another requirement of the Workforce Investment Act is the development of a comprehensive workforce system throughout the state. These 12 workforce investment areas establish geographic boundaries within which program service providers can work in cooperation with each other to more effectively and efficiently meet the workforce development related needs of employers and job-seekers. To accomplish this goal, the employment and training division serves as administrative staff to the state investment workforce board. This board makes recommendations regarding the development of this comprehensive system.

The division also administers the Title V older worker programs, the Welfare to Work program and a contract to assist in serving TANF clients. All of these programs assist the individual job seeking client and business in their specific workforce related needs.

FY-2005 Recommendation

FY-2005 FTE Authorization	
FY-2004 FTE Authorization	1,150.0
FY-2004 Bud. FTE Level	834.6
Actual Avg. YTD FTE	734.1
FTE Adjustments:	
Reduce FTE authorization	(400)
FY-2005 Recommendation	
FTE Authorization	750.0
% Change from FY-2004 Authorized	34.78%

Source: Office of State Finance

The Governor's budget proposes decreasing the FTE authorization.

The existing FTE authorization is excessive and does not reflect historical data. FTE authorization should accurately reflect agency activity.

Employment Security Commission				
FTE				
	FY-01	FY-02	FY-03	FY-04
Authorized	1,150	1,150	1,150	1,150
Actual	709	712	725	734

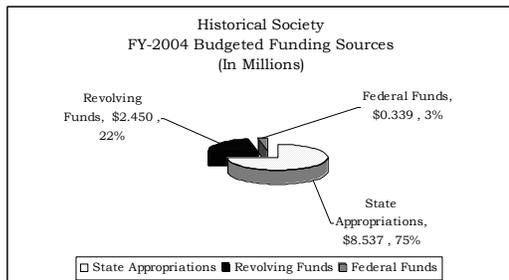
Source: Office of State Finance

Oklahoma Historical Society

The mission of the Oklahoma Historical Society (OHS) is to preserve and perpetuate the history of Oklahoma and its people by collecting, interpreting and disseminating knowledge of Oklahoma and the Southwest.

Each of the State's 32 museums and sites operated by the OHS has an individual mission statement pertinent to the history it interprets.

The agency's primary source of funding is state appropriations. Appropriations funded 87.9% of the agency's budget for FY-2003. Below is a chart displaying FY-2004 budgeted funding sources.



Notable Achievements

- *The Oklahoma Museum of History became the first Smithsonian Affiliate in Oklahoma, with special access to collections, programs, and traveling exhibits.*
- *An in-house microfilm processing unit was established that will improve quality control, speed up turnaround time, and reinvest more than \$40,000 a year into conservation of historic newspapers.*
- *The OHS recovered cargo, tools and the rudder from an 1838 river boat wreck in the Red River. The objects will be displayed in the History Center.*

- *The Oklahoma Museum of History acquired the Gemini 6 space capsule, flown around the earth in 1966 by Oklahoman, General Tom Stafford. The priceless object, the only flown space craft displayed in Oklahoma, will be a featured exhibit in the new Oklahoma History Center.*
- *After the State of Oklahoma agreed to fully fund the grounds, building, and equipment for the Oklahoma History Center, the OHS initiated a fund raising drive for the museum exhibits. As of January 1, 2004, donations and pledges amounted to \$7.1 million.*

The Oklahoma History Center

The Oklahoma Historical Society will open a \$57.6 million history center in 2004. All exhibits will be in place for the Oklahoma centennial in 2007. The 195,000 square-foot facility will preserve the rich and colorful heritage of the state.

Currently, funding of \$48 million has been provided for the center. The OHS will raise an additional \$9 million for the museum exhibits. The facility includes:

- a state-of-the-art museum
- research center
- education programs
- historic preservation programs and
- publications

Plans provide for a research library and archives featuring a large reading room and 60 microfilm or digital readers. It also includes storage for more than 5 million archival records, 2 million photographs, 6,000 manuscript collections, 8 million feet of film footage and other historical documents.

Display criteria required by the Smithsonian Institution in Washington D.C. will be met, allowing OHS to display Oklahoma treasures currently exhibited or stored by the Smithsonian Institution.

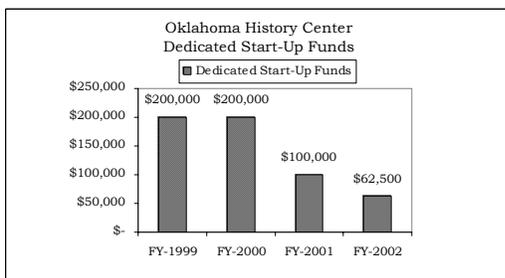
The new museum will present galleries, classrooms and a gift shop. The collections displayed will range from a bison-hide teepee to a 3,000-item collection of historical Oklahoma fashions.

Following is a chart displaying the construction costs of the Oklahoma Historical Center.

State History Center Estimated Costs:	
Phase I & II Expenses:	\$(000s)
Building Construction Contract	\$32,600
Exhibit fabrication/installation	10,450
Site acquisition and clearance	4,100
Architectural fees	3,074
Furnishings	2,836
Landscape/parking	1,390
Exhibit design consultant fee	950
Red River Journey	736
Graphics	600
Warehousing expense	504
Moving expenses	200
Construction management	<u>170</u>
Total Expenses	<u>\$57,610</u>

Source: Oklahoma Historical Society

The following displays the funds the agency has received to prepare for start-up operational costs of the new Historical Center. The costs include building operation costs, exhibit construction, landscaping and staffing costs.



FY-2005 Recommendation

FY-2005 Appropriation	
<i>(amounts in thousands)</i>	
FY-2004 Appropriation	\$8,537
FY-2004 Bud. FTE Level	126.9
Actual Avg. YTD FTE	141.4
Funding Adjustments:	
History Center Operations	<u>300</u>
Increase in Debt Service	<u>1,302</u>
NACEA Transfer	<u>518</u>
FY-2005 Recommendation	\$10,657
% Change for FY-2004	24.83%

Source: Office of State Finance

The FY-2005 appropriation for the Historical Society is the same as provided for FY-2004 with the following adjustments.

History Center Operational Costs:

The Governor's budget proposes an increase in the FY-2005 appropriation in the amount of \$300,000. The new Oklahoma History Center is 195,000 square-feet and will require more funds to operate than the former museum of 50,000 square-feet.

Debt Service Payments:

The Governor's budget includes \$1.3 million for an anticipated increase in FY-2005 debt service obligations.

Transfer to Historical Society:

The Governor's budget proposes the Native American Cultural and Education Authority (NACEA) be moved to the Historical Society. The NACEA's appropriation will be passed through the Historical Society in the same manner as Commerce passes through the NACEA's appropriation currently. The NACEA will have the same structure and relationship with the Historical Society as the NACEA had with Commerce. The Historical Society will assume the duties regarding the

FY-2005 Executive Budget

NACEA as fulfilled by Commerce. This transfer reduces Commerce's FY-2005 appropriation \$517,796, and increases the Historical Society's FY-2005 appropriation the same amount.

J. M. Davis Memorial Commission

Notable Achievement

The J.M. Davis is one of the largest fire arms museums in the United States.

The J.M. Davis Memorial Commission is the governing body that oversees the operations of the J.M. Davis Arms & Historical Museum located in Claremore. In FY-2003 approximately 34,000 people visited the museum including individuals and tour groups from all over the world.

The museum houses an extensive collection of firearms, knives, swords, steins, saddles, Indian artifacts, music boxes, World War I posters and more. John Monroe Davis, former owner and operator of the Mason Hotel in Claremore, originally amassed the collection. J.M Davis' collection became so large that he no longer could keep it at the Mason Hotel.

In 1965, Davis transferred his collection to the J.M. Davis Foundation, Inc. The Foundation in turn entered into an agreement with the State for preservation and display of the collection. The collection is housed today in a 40,000 sq. ft. facility. In 1995, the name of the museum was changed from J. M. Davis Gun Museum to J. M. Davis Arms & Historical Museum.

A receptionist greets visitors as they enter the museum and provides a fact sheet with information about the life of Mr. Davis, history of the museum and the location of firearms and artifacts. A computer is provided whereby visitors can check information pertaining to any firearm in the collection. Visitors have access to one of the largest firearms research libraries in the country. An upcoming attraction for 2004 is a children's museum including a NRA "Eddie Eagle" firearm safety program for children.

The new children's area will be fashioned like a western era military fort.

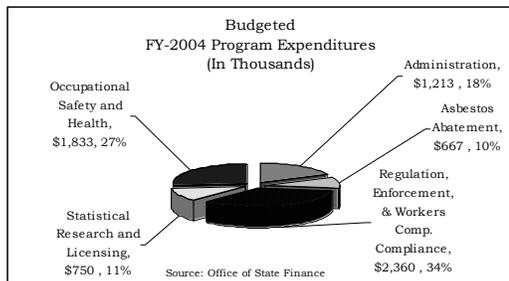
FY-2005 Recommendation

FY-2005 Appropriation	
<i>(amounts in thousands)</i>	
FY-2004 Appropriation	\$299
FY-2004 Bud. FTE Level	9.0
Actual Avg. YTD FTE	7.8
Funding Adjustments:	
None	<u>0</u>
FY-2005 Recommendation	\$299
% Change for FY-2004	0.00%
<small>Source: Office of State Finance</small>	

The FY-2005 appropriation for the J.M. Davis Memorial Commission is the same as provided for FY-2004.

Department of Labor

The Oklahoma Department of Labor (ODOL) administers state and federal labor laws, such as child labor and wage and hour laws. ODOL also provides free, confidential, voluntary and non-punitive safety and health consultation services to private sector employers in Oklahoma. This service helps companies lower their worker's compensation costs. Below is a chart displaying the budget program expenditures for the Department for FY-2004.



Notable Achievements

- *The OSHA Consultation program identified 4,429 serious workplace hazards in FY-2003 which saved Oklahoma businesses \$7.5 million in potential federal OSHA fines.*
- *The Department's Safety Pays program has contributed to a 30% decrease in the injury rate per 100 workers in the state of Oklahoma since 1996. The injury rate has reached a 20 year low of 6.1 per 100 workers.*

Occupational Safety and Health Act Consultation (OSHA):

The U.S. Department of Labor generates a site specific targeting list identifying those employers who have high lost workday injury and illness rates. The Department contacts each employer to ensure they are aware they are on OSHA's targeted inspection list and offers ODOL consultation services. The most recent list included 335 Oklahoma employers.

This free, voluntary, non-punitive and confidential program helps small (250 or less), high-hazard employers prevent injuries and illnesses. Federal funds cover 90% of the department's funding sources for this program. The OSHA consultant first identifies hazardous conditions and practices without the costly, adversarial impact often associated with federal OSHA rulings. In addition to providing compliance assistance, the consultation visit also includes safety and health program assessments and recommendations and industrial hygiene sampling. Employers who utilize the consultation services experience lower worker's compensations costs.

OSHA Consultation Activities					
Description	FY1999	FY2000	FY 2001	FY 2002	FY 2003
Initial Visits	663	625	632	544	667
Training & Assistance	15	46	65	62	68
Follow-up Visits	70	78	108	117	128
Totals	748	749	805	723	863
Identified Hazards					
Serious	3526	3935	3859	3722	4429
Other Than Serious	757	449	241	58	87
Totals	4283	4384	4100	3780	4516

Boiler Inspections: State statutes require ODOL to inspect boilers and pressure vessels on an annual basis.

Boilers and pressure vessels must be inspected because of the extremely volatile potential of faulty boilers and pressure vessels. Many boilers and pressure vessels are in highly trafficked places such as schools, churches and hospitals.

Last year, legislation moved inspection responsibility of pressure vessels on oil and gas lease sites from the Department of Labor to the Corporation Commission. Currently, 11,840 boilers and pressure vessels are registered in the state.

Overdue inspections: Insurance companies are certified as Authorized Inspection Agencies (AIA) and assume responsibility for conducting

inspections on those boilers and pressure vessels the company insures. If the AIA fails to perform a required inspection, the ODOL assumes the responsibility for conducting these inspections if over 90 days past due.

As of November 15, 2003, ODOL had 535 insured boilers and pressure vessels in 90-day overdue status.

FY-2003 Boiler and Pressure Vessel Information	
	FY 2003
Number of Boilers/Pressure Vessels Inspected by ODOL	4,436
Number of Insured Boilers/Pressure Vessels 90 days overdue	333
Source: Department of Labor	

FY-2005 Recommendation

FY-2005 Appropriation <i>(amounts in thousands)</i>	
FY-2004 Appropriation	\$2,959
FY-2004 Bud. FTE Level	111.1
Actual Avg. YTD FTE	97.3
Funding Adjustments:	
Operations Funding	<u>50</u>
FY-2005 Recommendation	\$3,009
% Change for FY-2004	1.69%
<small>Source: Office of State Finance</small>	

The FY-2005 appropriation for the Department of Labor is the same as provided for FY-2004 with the following adjustment.

Operations Funding Increase: The Governor’s budget proposes an increase in the FY-2004 appropriation for operation funding in the amount of \$50,000.

Native American Cultural and Educational Authority

Senate Bill 746 created the Native American Cultural and Educational Authority (NACEA) on September 1, 1994. The bill sought to establish a world-class facility to include a museum, interpretive center, native languages institute and resource center.

This project is underway. The selected site is located on the south bank of the North Canadian River at the junction of Interstate 35 and Interstate 40. Architects have completed the master plan and content development. The center will include a 125,000 square foot museum and a 75,000 square foot marketplace where visitors can learn about Native American culture and history.

Oklahoma City committed to donating land, dirt and a portion of their Community Development Block Grant once the NACEA has \$25 million dollars in other funds.

Congress passed federal legislation last year that provides \$33 million over four years for the Center. Oklahoma must provide \$2 for every \$1 of federal funds. The tables below show projected funding and projected cost for completion of the Center.

Projected Capital Funding	July 2003	FY-2004	FY-2005	FY-2006 - FY-2008	Totals
Federal	8.25	8.25	8.25	8.25	33.0
NACEA Bond Issue	3.0	0.0	0.0	0.0	3.0
OKC - CDBG	5.0	0.0	0.0	0.0	5.0
State-Centennial Bond	19.5	0.0	0.0	0.0	19.5
OKC - Land (est.)	10.0	0.0	0.0	0.0	10.0
Corps of Engineers Wetlands Grant	0.0	0.0	5.0	0.0	5.0
Private, Tribal and Other Funding	0.0	5.0	8.5	16.5	30.0
Total	45.75	13.25	21.75	24.75	105.5

Source: Native American Cultural and Educational Authority

Project Costs	July 2003	FY-2004	FY-2005	FY-2006 - FY-2008	Totals
Equipment	0.0	9.0	6.0	14.0	29.0
Construction	31.0	0.0	0.5	0.0	31.5
Other	14.75	4.25	15.25	10.75	45.0
Total Costs	45.75	13.25	21.75	24.75	105.5

Source: Native American Cultural and Educational Authority

The cultural center and museum will document the history of American Indians, including the forced relocation of tribes to Oklahoma. The center will highlight the numerous cultural contributions of the Oklahoma Native American tribes.

FY-2005 Recommendation

FY-2004 Appropriation	\$518
FY-2004 Bud. FTE Level	5.0
Actual Avg. YTD FTE	5.0
Funding Adjustments:	
None	<u>0</u>
FY-2005 Recommendation	\$518
% Change for FY-2004	0.00%

Source: Office of State Finance

The FY-2005 appropriation for the Native American Cultural and Educational Authority is the same as provided for FY-2004.

Transfer to Historical Society: The Governor's budget proposes the NACEA be moved to the Historical Society. The NACEA's appropriation will be passed through the Historical Society in the same manner as NACEA passes through Commerce currently. The NACEA will have the same structure and relationship with the Historical Society as the NACEA had with Commerce. The Historical Society will assume the duties regarding the NACEA as fulfilled by Commerce.

Native American Cultural Center Bond Issue: The Governor's budget recommends the Native American Cultural Educational Authority issue bonds in the amount of \$33 million structured so that no debt service payments are due until FY-2007. This will allow construction to begin on the Center immediately and allow the bond to be secured at historically low interest rates.

Rural Economic Action Plan

The Rural Economic Action Plan (REAP) is a grant program. REAP dollars pass through two separate agencies – the Auditor and Inspector’s Office and the Oklahoma Water Resources Board. The table below shows the funding history of the amounts appropriated through each agency.

History of REAP Appropriations (000's)			
Fiscal Year	ODOT	A&I	OWRB
FY-1997	\$ 7,500	\$ 5,000	\$ 4,500
FY-1998	-	12,500	4,500
FY-1999	-	15,500	4,500
FY-2000	-	15,500	4,500
FY-2001	-	15,500	4,500
FY-2002	-	14,913	4,330
FY-2003	-	14,268	3,955
FY-2004		6,000	2,200

Source: Office of State Finance

COGS administer the REAP grants. The table below shows the total funding to each COG since FY-1997. Communities build and repair infrastructure with these loans. The premise behind this program is that small communities lose a portion of their tax base to larger cities. So, to qualify for a REAP grant, a community must have a population of less than 7,500. Priority is given to communities with a population of less than 1,500.

Summary of Cumulative REAP Program Awards - by COG FY-1997 to FY-2004				
	Programs			Planning Funds Total
	A&I	WRBd	ODOT	
Approp. (000's)	\$99,448	\$33,059	\$7,500	
COGS	Grand Total			\$140,007
ASCOG	\$9,945	\$3,306	\$750	\$467
COEDD	\$9,945	\$3,306	750	\$467
EOEDD	\$9,945	\$3,306	750	\$467
GGEDA	\$9,945	\$3,306	750	\$467
KEDDO	\$9,945	\$3,306	750	\$467
NODA	\$9,945	\$3,306	750	\$467
OEDA	\$9,945	\$3,306	750	\$467
SODA	\$9,945	\$3,306	750	\$467
SWODA	\$9,945	\$3,306	750	\$467
ACOG	\$4,972	\$1,653	375	\$234
INCOG	\$4,972	\$1,653	375	\$234
Total	<u>99,448</u>	<u>33,059</u>	<u>7,500</u>	<u>\$4,672</u>

Source: Office of State Finance

Dedicated Funding: In January, 1999 the Legislature met in special session to address concerns over falling oil prices. At that time they passed legislation which lowered gross production tax rates on oil production. The legislation also established several funds to receive revenues from oil production in future years when the rates are in excess of the amounts appropriated to schools and counties. One of the new funds created was the Oklahoma Water Resources Board (OWRB) REAP Water Projects Fund.

The following chart shows the amount of money deposited in the fund since 1999 and estimated revenues for FY-2004 and FY-2005:

FY-2005 Executive Budget

REAP Water Projects Fund Deposits	
FY-1999	\$282,824
FY-2000	4,231,552
FY-2001	5,677,728
FY-2002	4,175,661
FY-2003	4,809,926
FY-2004 Est.	5,544,352
FY-2005 Est.	4,626,305
Total	\$29,348,349

Source: Office of State Finance Records

The Legislature directed the following use of the REAP water project funds in FY-2004:

	Amount
Conservation Commission	
Conservation Cost Share	\$500,000
State Match for Federal 319 Nonpoint Source Pollution	160,000
Conservation Equipment and District Programs	100,000
State Match for Small Watershed Rehabilitation Program	500,000
Total	\$1,260,000
Oklahoma Water Resources Board	
Rural Water Association	118,000
Water Studies and Matching Funds	535,000
Reauthorized BUMP Carryover from FY-2003	-100,000
Reauthorized Arbuckle Simpson Carryover from FY-2003	-270,000
Total	\$283,000
Corporation Commission	
Duties	\$3,260,854
Total Spending from REAP Water Projects Fund:	\$4,803,854

Source: Office of State Finance Records

FY-2005 Recommendation

FY-2005 Rural Economic Action Plan	
<i>(amounts in thousands)</i>	
<i>General Revenue REAP</i>	
FY-2004 REAP Appropriation	\$8,200
FY-2005 Recommendation	
Auditor and Inspector	\$6,000
Water Resources Board	\$2,200
FY-2005 Recommendation	\$8,200
% Change for FY-2004	0.00%
<i>Gross Production Tax REAP</i>	
FY-2004 Gross Production Tax REAP	\$4,804
FY-2005 Recommendation	
Water Resources Board	\$2,206
Conservation Commission	\$2,420
FY-2005 Recommendation	\$4,626
% Change for FY-2004	-3.71%

Source: Office of State Finance

Gross Production Tax REAP:

The Governor's budget proposes the following expenditures from the estimated portion of the FY-2005 gross production tax that is dedicated for REAP.

	Amount
Conservation Commission	
Conservation Cost Share	\$500,000
State Match for Federal 319 Nonpoint Source Pollution	420,000
State Match for Small Watershed Rehabilitation Program	1,500,000
Total	\$2,420,000
Oklahoma Water Resources Board	
Arbuckle Simpson Aquifer Analysis	500,000
Rural Community Drinking Water Compliance	1,706,305
Total	\$2,206,305
Total Spending from REAP Water Projects Fund:	\$4,626,305

Source: Office of State Finance Records

The Oklahoma Scenic Rivers Commission (OSRC)

The Oklahoma Scenic Rivers Commission (OSRC) is a state commission established in 1977 in accordance with the Scenic Rivers Act (1970). The OSRC became an agency in the 2002 legislative session.

The Commission is vested with the power to establish minimum standards for planning and other ordinances necessary to carry out the provisions of the Scenic Rivers Act. The primary emphasis of the Commission is to preserve and protect the aesthetic, scenic, historic, archaeological and scientific features of the Illinois River and its tributaries (Lee Creek, Little Lee Creek, Barren (Baron) Fork Creek, Flint Creek and (Upper) Mountain Fork).

FY-2005 Recommendation

FY-2005 Appropriation <i>(amounts in thousands)</i>	
FY-2004 Appropriation	\$258
FY-2004 Bud. FTE Level	10.9
Actual Avg. YTD FTE	10.9
Funding Adjustments:	
None	<u>0</u>
FY-2005 Recommendation	\$258
% Change for FY-2004	0.00%
<small>Source: Office of State Finance</small>	

The FY-2005 appropriation for the Scenic Rivers Commission is the same as provided for FY-2004.

Oklahoma Department of Tourism & Recreation

The Department of Tourism and Recreation has a twofold mission. As the steward of the state parks, it is a caretaker to the beautiful natural resources to which Oklahoma is entrusted. It also advances economic development through the promotion of travel and tourism to and within the state of Oklahoma.

Notable Achievements

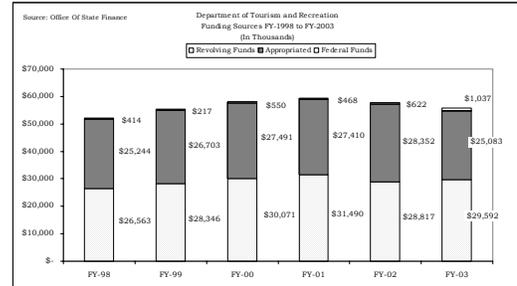
- *Tourism is the third largest industry in Oklahoma. The "Travel Industry Association of America" reported tourism provides an estimated economic impact of about \$4.0 billion per year in travel and tourism-related spending.*
- *Travel spending supports over 65,000 jobs throughout the state. Domestic travel spending brought almost \$300 million in tax revenue.*
- *The park system provides quality outdoor recreation opportunities and services to over 10 million visitors each year.*
- *The 12 tourism information centers provide contact to 1.6 million travelers annually. Research shows that for every three visitors entering a state center, one will be convinced to extend their stay or return.*

Programs and Operations

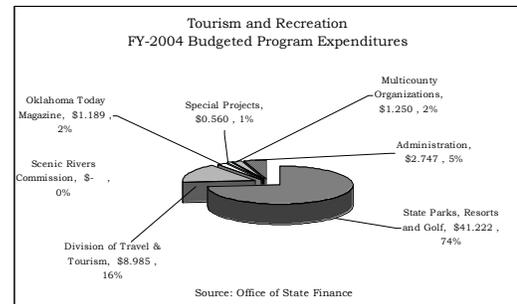
This last year, as a result of management changes and acute budget reductions, the Department took steps to increase its operational efficiency and effectiveness. The Department consolidated seven divisions into three functional areas of operation, resulting in enhanced internal communication and improved visitor experiences.

The Department is primarily funded by state general revenue appropriations and revolving funds. In FY-2003

appropriations and revolving funds were 45% and 53% respectively of the Department's funding sources. The following is a chart displaying the six year funding history of the Department.



The majority of the Department's expenditures are devoted to parks, resorts and golf courses which are 73% of the FY-2004 budgeted expenditures.



State Parks, Resorts and Golf

This division maintains public recreation facilities throughout the state. A network of 50 state parks provides visitors incomparable examples of our state's natural resources. The land features contained in the state parks range from the lush, tree covered hills of the southeast to the mesas and sand dunes of the northwest; and from the tall grass prairies of the north to the rugged mountainsides of the southwest.

The division is responsible for the operation of 50 state parks, 4 resorts, 2 lodges, 10 golf courses, 455 cabins and cottages, as well as numerous campsites, scenic trails, boating, bathing and other recreation facilities

statewide. The division also administers the federal Land and Water Conservation Fund (LWCF) and Recreation Trails Program (RTP) grants. These programs are an essential component in the development of socially and economically healthy communities.

State Parks: Overall attendance at the parks has declined as has park revenue.

	Park Attendance	Park Revenue	State Appropriation	Total Park Expenditures	% of Self-Sufficiency
FY-2001	15.1	\$11.0	\$9.7	\$25.0	44.1%
FY-2002	14.1	\$11.1	\$9.1	\$25.3	43.8%
FY-2003	14.1	\$11.5	\$10.2	\$25.3	45.5%
FY-2004	14.4	\$10.8	\$11.9	\$22.8	47.6%

Source: Dept. of Tourism and Recreation

This aggregate information masks the individual viability of each park. While Lake Murray is 81% self sufficient, revenue at smaller parks with low attendance is generally considerably lower. (Detail by park is at the end of the Department write-up.)

State Resorts: The four state resorts gradually increased the self-sufficiency rate even though the occupancy rate has declined.

	Occupancy Rate	Resort Revenue	State Appropriation	Total Resort Expenditures	% of Self-Sufficiency
FY-2001	42.7%	\$8.1	\$3.2	\$11.2	71.7%
FY-2002	42.7%	\$8.0	\$3.0	\$11.0	72.9%
FY-2003	35.7%	\$7.0	\$1.1	\$8.1	86.6%
FY-2004	41.0%	\$7.7	\$2.2	\$9.8	78.0%

Source: Department of Tourism and Recreation

Golf Courses: Use of the golf courses has declined as have revenues and expenditures. Declining revenues results in lower maintenance and declining course quality.

	Golf Rounds (thousands)	Golf Revenue	State Appropriation	Total Golf Expenditures	% of Self-Sufficiency
FY-2001	174.6	\$4.8	\$1.0	\$5.8	47.6%
FY-2002	182.7	\$4.9	\$0.1	\$6.0	82.0%
FY-2003	161.6	\$4.5	\$1.3	\$5.7	77.5%
FY-2004	165.6	\$4.7	\$0.8	\$5.5	85.2%

Source: Department of Tourism and Recreation

When most of the state golf courses were constructed there was minimal competition. Formerly, state courses were well attended and generally had the ability to be self-supporting. This was a result of the state courses ability to charge a much lower rate than private or city and county golf courses. As competitors drastically reduced rates, the state golf courses were hindered in remaining proportionately competitive. This problem is compounded by the fact that competitors are able to constantly improve assets, while state golf courses have deteriorated. Many state golf courses sell 30% to 38% fewer rounds than competitors.

Total rounds of golf at state courses in FY-2003 were the lowest in the last four years with a decrease of over 15,000. Below is a chart which shows a history of golf rounds at selected state golf courses

Golf Course	FY - 1999	FY - 2001	FY - 2003
Arrowhead	21.4	17.0	20.2
Ft. Cobb	17.8	14.9	14.2
Fountainhead	21.3	21.2	20.6
Cedar Creek	12.8	9.7	9.9
Grand Cherokee	2.0	11.2	12.6

Source: Department of Tourism and Recreation

Travel and Tourism

This division develops information and marketing plans and programs designed to attract tourists to the state. It disseminates information related to the state's public and private attractions, lodges, parks and recreational facilities to support increased economic development and awareness of Oklahoma as a travel destination. As a part of this effort, the division produces the successful television weekly program *Discover Oklahoma*.

The division operates 12 tourism information centers located at various points of entry into the state. These

centers are designed to provide travel information to visitors traveling through and to our state.

The Traveler Response Information Program (TRIP) operates a toll-free call center and information fulfillment and website. TRIP also maintains the destination database for more than 9,000 attractions, events, restaurants, accommodations and other tourism-related businesses around the state. The web site, www.travelok.com, is the official state site for Oklahoma travel and tourism information.

Oklahoma Today Magazine

This division has produced the state’s official magazine since 1956. This award-winning, bi-monthly regional magazine educates Oklahomans and non-Oklahomans alike about the culture, heritage, history, people, environment and attractions in Oklahoma. *Oklahoma Today* is one of the best tools showcasing the outstanding quality of life in the state. The magazine has a paid circulation of about 40,000 and an estimated readership of 150,000.

FY-2005 Recommendation

FY-2005 Appropriation <i>(amounts in thousands)</i>	
FY-2004 Appropriation	\$22,616
FY-2004 Bud. FTE Level	978.0
Actual Avg. YTD FTE	825.4
Funding Adjustments:	
Increase Debt Service	267
FY-2005 Recommendation	\$22,883
% Change for FY-2004	1.18%

Source: Office of State Finance

The FY-2005 appropriation for the Tourism and Recreation Department is the same as provided for FY-2004 with the following adjustments.

Debt Service Payments

The Governor's budget includes \$267,000 for an anticipated increase in FY-2005 debt service obligations.

Golf Course Reduction

The Governor's Budget proposes a reduction in the number of golf course properties operated or owned by the state of Oklahoma. This proposal affects all non-resort/lodge courses operated by the Tourism Department. The following courses will be sold or leased:

- Fountainhead Golf Course
- Arrowhead Golf Course
- Fort Cobb Golf Course
- Cedar Creek Golf Course
- Grand Cherokee Golf Course

The state will reinvest the revenue in much needed maintenance and capital improvements at state parks.

Park Classification Tier Plan

The Governor’s Budget proposes a system-wide, tiered Oklahoma State Park Classification Plan. This serves to prioritize the Department's assets to better focus resources.

The level of usage, relative size, facilities and scope of services available to the public determines the classification of each park. The proposal classifies the parks into premier parks, regional parks and natural parks.

Premier parks, located in every geographic region of the state, consist of those parks that maintain the greatest number of facilities and services. These parks serve the greatest number of citizens and guests.

Regional parks serve the needs of local communities on a limited basis to stimulate economic development in the different regions of the state. For some

facilities, the Department will convert the parks to operate seasonally.

Natural parks represent the facilities where services are eliminated, reduced or operated by local governments or private partners. Various parks will be converted from overnight use, such as camping and cabin facility operations, to day-use recreational facilities.

Savings from these proposals will either be slight or not realized in the first year after sale or leasing. First year expenses include costs of selling or leasing as well as reduction in force payments to employees currently working in the facilities.

The reduction in state assets will be offset by investment in much needed maintenance and capital improvements at state parks.

Oklahoma State Park System
FY04 (Budgeted)

	A	B	C=B-D	D	E=B/D
Facility	Projected Attendance 2004	Projected Revenue FY'04	Projected State Appropriation FY'04	Projected Expenditures FY'04	Level of Self-Sufficiency
Tier 1: Premier Parks					
Little Sahara	107,158	866,550	(296,341)	570,209	152%
Robbers Cave	965,929	1,072,180	58,675	1,130,855	95%
Beavers Bend/Hochatown	1,103,382	2,214,636	133,407	2,348,043	94%
Keystone	306,738	611,444	100,615	712,059	86%
Lake Murray	1,781,351	983,245	236,460	1,219,705	81%
Texoma	1,399,118	446,492	249,702	696,194	64%
Tenkiller	327,047	580,752	345,425	926,177	63%
Alabaster	27,825	184,050	122,718	306,768	60%
Fort Cobb	919,818	300,670	208,381	509,051	59%
Greenleaf	298,128	396,816	285,788	682,604	58%
McGee Creek	137,768	234,778	198,616	433,394	54%
Tier 2: Regional Parks					
Lake Thunderbird	1,048,565	457,385	542,503	999,888	46%
Black Mesa	51,057	42,390	50,828	93,218	45%
Great Plains	162,561	78,060	98,333	176,393	44%
Okmulgee/Dripping Springs	335,246	159,530	205,869	365,399	44%
Honey Creek/Bernice	316,752	105,382	153,826	259,208	41%
Sequoyah/ Sequoyah Bay	486,033	352,033	517,638	869,671	40%
Great Salt Plains	213,815	115,190	181,823	297,013	39%
Foss	298,791	122,999	199,365	322,364	38%
Roman Nose	205,554	143,645	254,275	397,920	36%
Boiling Springs	308,614	120,121	218,049	338,170	36%
Natural Falls/Lake Eucha	60,842	108,731	199,879	308,610	35%
Fountainhead (Lake Eufaula)	243,820	173,655	329,614	503,269	35%
Red Rock	248,251	89,000	174,713	263,713	34%
Osage Hills/Wah-Sha-She	421,931	204,178	416,130	620,308	33%
Wister/Talimena	575,060	219,312	478,130	697,442	31%
Tier 3: Natural Parks					
Beaver	39,284	25,755	63,079	88,834	29%
Walnut Creek	196,962	63,500	164,036	227,536	28%
Arrowhead	230,960	93,539	263,805	357,344	26%
Twin Bridges/Spring River	435,608	77,748	254,548	332,296	23%
Cherokee/Snowdale/Spavinaw	412,521	88,458	305,829	394,287	22%
Heavner-Runestone	99,558	23,880	89,583	113,463	21%
Boggy Depot	80,656	19,425	88,465	107,890	18%
Sallisaw/Brushy Creek	141,459	26,000	152,901	178,901	15%
Cherokee Landing/Adair	411,838	0	310,610	310,610	0%
Hugo/Raymond/Clayton*	NA	0	213,512	213,512	0%

Note: Park facilities have been combined for reporting purposes.

*These park facilities are managed privately by Little Dixie Community Action Agency.

Will Rogers Memorial Commission

The Will Rogers Memorial Commission was established in 1938 to honor the life and works of Will Rogers through the maintenance of the Will Rogers Memorial Museum in Claremore and the Will Rogers Childhood Home in Oologah. The Rogers family is responsible for donating the Rogers Ranch Home as well as many of the items on exhibit in the Museum. The museum and ranch host over 198,000 visitors annually. Admission is free and both facilities are open 365 days a year.

Over 98% of the Commission's budget is comprised of state appropriated funds. The remaining funding is derived from donations and federal funding. The Commission expends one-third of its budget for educational outreach.

Notable Achievements

- *The Commission serves as the leading repository for Will Rogers' professional items.*
- *On September 10, 2001, C-SPAN televised a 1 ½ hour broadcast of the "American Writers" series at the Will Rogers Memorial Museum in Claremore.*
- *The Commission hosted an art show at Fox Theatre in Atlanta Georgia. The art show contained 40 rare antique movie posters of Will Rogers. The art show partnered with "The Will Rogers Follies" that was being held at Fox Theatre August 12-17, 2003.*
- *On September 7, 2003, the Will Rogers Childhood Home in Oologah was featured in HGTV's "Homes On The Range".*

The museum collection boasts an extensive array of Will Rogers memorabilia including 4,000

newspaper columns, radio broadcast tapes, 18,000 photographs, extant copies of the 71 movies Will Rogers starred in and personal text writings of Will Rogers' six books.

Special exhibits have been installed at the international airports in Oklahoma City and Tulsa as well as four McDonald's restaurants that line the Turner and Will Rogers Turnpikes. Commission staff gives key support for the ever-popular Broadway musical, "The Will Rogers Follies: A Life in Revue". During the past dozen years, \$3 million in private funds have been matched by the State to publish "The Papers of Will Rogers" and to expand, modernize and maintain the ranch, museum and bolster the award-winning Broadway show.

FY-2005 Recommendation

FY-2005 Appropriation	
<i>(amounts in thousands)</i>	
FY-2004 Appropriation	\$793
FY-2004 Bud. FTE Level	10.7
Actual Avg. YTD FTE	10.6
Funding Adjustments:	
None	<u>0</u>
FY-2005 Recommendation	\$793
% Change for FY-2004	0.00%
<small>Source: Office of State Finance</small>	

The FY-2005 appropriation for the Will Roger Memorial Commission is the same as provided for FY-2004.

Education

Summary of FY-2005 Budget Recommendations

(amounts are in \$000's)

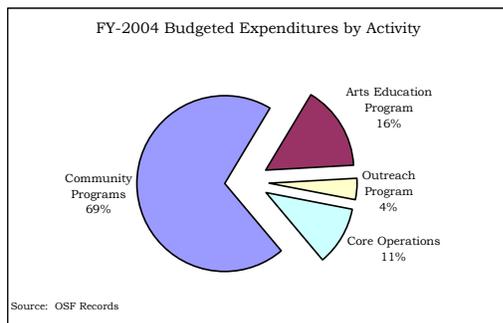
Agency Name	FY-2004 Adj. Approp.	FY-2005 Base	FY-2005 Adj.	Final FY- 2005 Approp.	% Diff. From FY- 2004
Arts Council	\$3,864	\$3,864	\$25	\$3,889	0.6%
Education, Dept. of	1,951,225 ¹	1,950,625	85,444	2,036,069	4.3%
Educational TV Authority	3,448	3,448	695	4,143	20.2%
Higher Educ., Regents for	768,131	768,131	27,605	795,736	3.6%
Library Department	6,166	6,166	0	6,166	0.0%
Private Vo-Tech Schools Board	153	153	0	153	0.0%
School of Science & Math	6,205	6,205	287	6,492	4.6%
Teacher Preparation Commission	1,986	1,986	2,000	3,986	100.7%
Career and Technology Education	117,823	117,823	-786	117,037	-0.7%
Total Education:	\$2,859,001	\$2,858,401	\$115,270	\$2,973,671	4.0%

¹ FY-2004 Adjusted Appropriation includes supplemental of \$600,000 for National Board Certified Teachers.

Arts Council

The Oklahoma Arts Council was established in 1965 by the Oklahoma Legislature following the creation of the National Endowment for the Arts at the federal level. Each of the 50 states has created a state arts agency funded with state appropriations to support excellence in and access to the arts.

Supporting the arts is essential to quality of life, education and economic vitality for all Oklahomans. The Oklahoma Arts Council's (OAC) mission is to nurture and support a thriving arts environment through grants and technical assistance. The agency provides assistance for arts activities statewide. The National Endowment for the Arts and the State of Oklahoma are the primary sources of funding.



Notable Achievements

- *The OAC provides grants to more than 150 annual community festivals including the Hard Times Festival (Hartshorne), the Bluegrass Festival (Guthrie), the Gene Autry Film Festival and the Woody Guthrie Folk Festival (Okemah).*
- *Oklahoma became the first state in the nation to legislatively require arts as part of the core curriculum in public schools.*

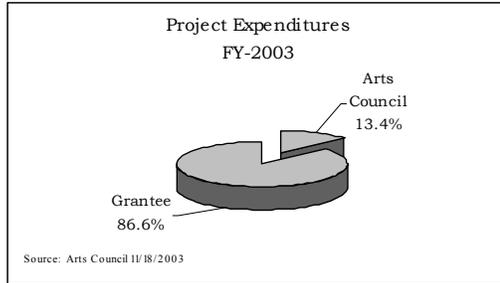
- *The OAC became one of five state agencies invited to participate in a pilot project to establish some of the first Web sites in state government. They were the first state agency in Oklahoma to offer online services through its E-grants system.*
- *The State Capitol Building is recognized nationwide among art experts and art historians as not only a seat of government, but a virtual museum in terms of its world-class art thanks to OAC's showcase of exhibits.*
- *The OAC works on behalf of underserved and minority populations to provide them with rare access to the arts. OAC manages one of the nation's only Circuit Rider programs, placing experts in remote locations across the state.*

The OAC is primarily a grant making entity.

	FY-2003		FY-2004	
Direct grants costs	3,097,777	74.2%	3,479,173	74.9%
Indirect grants costs	427,805	10.3%	661,704	14.2%
Administration	512,200	12.3%	505,104	10.9%
Total	4,037,782		4,645,981	

Source: Arts Council 11/18/2003

The OAC awards matching grants to nonreligious, nonprofit, tax exempt 501(c)(3) organizations, agencies of government, sovereign Indian nations, public libraries, colleges and universities. All grants awarded must be matched by the grantee. Last year, the average match was \$6.25 to every dollar granted. During FY-2003, the Arts Council administered 1,107 grants to 428 organizations in 138 communities across Oklahoma.

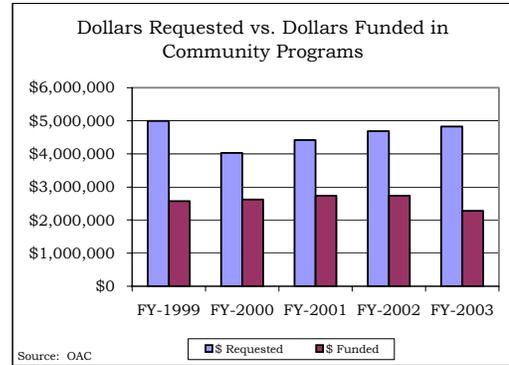


Financial assistance for art programs is granted through 15 categories concentrated in three program areas: Community Programs, Arts Education and Outreach. Following is a summary of each program and examples from grant categories.

Community Programs

Community Programs provide support for community arts activities to advance the cultural and economic development of Oklahoma. This program provides support for community arts projects, cultural celebrations and festivals and partnerships with local governments.

The Local Government Challenge Grant program initiated in FY-2000 has granted a total of \$502,000 to 38 communities from Buffalo and Idabel to Miami and Sulphur. Local governments receiving these grants are committed to using the arts to improve their communities by allocating up to \$5,000 in local tax revenues to meet this challenge. In the five years since the inception of this program, over \$1 million in state and local public arts funding has helped spur economic growth in Oklahoma communities underscoring the fact the arts are a viable component for economic development.



Arts Education Program

The Arts Education Program provides support for quality instructional services, resources and experiences in the arts to schools, communities, institutions and non-profit organizations that enable learning about and through the arts. Projects involve arts instruction, are participant centered and provide active engagement in the creative arts process.

Direct classroom arts instruction is provided through the Arts in Alternative Education program, serving students considered “at risk” of not completing their education. These programs provide hands-on arts learning experiences that increases knowledge in the arts and develop skills important to students’ future workforce potential.

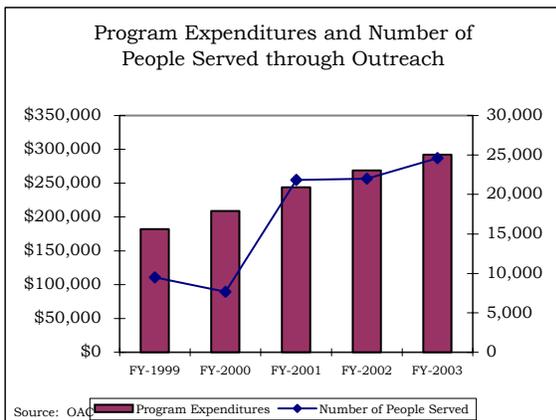
The Artist-in-Residence program places teaching artists in classroom settings to provide direct instruction in creative writing, dance, music, theatre, traditional or visual arts. The ArtsPower program supports collaborative partnerships between a community arts organization and a school to bring interactive learning to students that involve arts resources not otherwise available.

In FY-2003, education programs served 691 school sites, 1,261 teachers and 120,365 students. Over 10,000 hours of arts instruction was provided.

Outreach Program

The Outreach Program provides technical assistance and funding to rural and urban underserved communities with limited or no access to arts resources and funding. This program is designed to increase the community's ability to develop cultural leadership and improve administrative and programming expertise.

In partnership with Eastern Oklahoma State College and the City of Guymon the Oklahoma Arts Council initiated the Circuit Rider Program in FY-2003. This program helps communities identify and develop their artistic and cultural resources within their regions of the state to enable communities and local and county governments to successfully integrate the arts and culture into their plans for community development and economic growth. In addition to on-site technical assistance, Circuit Riders help underserved communities better access the Oklahoma Arts Council's services and grants. In the first year of the program, there have been 110 community site visits, four workshops, two regional conferences and increased grant funding to 11 underserved communities.



FY-2005 Recommendation

FY-2005 Appropriation	
<i>(amounts in thousands)</i>	
FY-2004 Appropriation	\$3,864
FY-2004 Bud. FTE Level	16.0
Actual Avg. YTD FTE	16.0
Funding Adjustments:	
Community Arts Program	<u>25</u>
FY-2005 Recommendation	\$3,889
% Change for FY-2004	0.65%
Source: Office of State Finance	

Community Arts Program:

The Governor's budget proposes funding for Community Arts for grants in the amount of \$25,000.

Career and Technology Education

Providing customized business training for industries and preparing secondary students for postsecondary educational opportunities are just two ways the career-technology system contributes to Oklahoma's economy.

Oklahoma's career and technology education system offers a wide variety of educational opportunities to a diverse client base including youth in high school to senior citizens and incarcerated youth. The system received 2.3% of appropriations made by the legislature for FY-2004 making it the 8th largest agency in state government.

CareerTech focuses on career-technology and economic development through several programs.

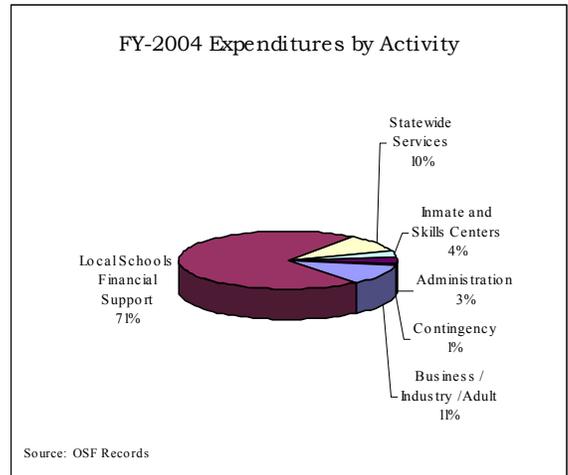
Comprehensive School programs which help students develop the technical, academic and employability skills needed to become financially independent citizens.

Technology Center programs provide Oklahoma businesses with skilled, competent employees.

Business and Industry Training programs include training customized for specific employers, open enrollment classes for adults that want to enhance their job skills on a part-time basis and bid assistance services.

Skills Centers programs help incarcerated individuals realize their potential by creating opportunities for them to experience and apply a quality education. Skills center training helps prepare inmates and juveniles for life outside the confines of prison and detention.

Funding for these programs is as follows:



Notable Achievements

- *CareerTech has had a 10% increase in secondary enrollments at the comprehensive high schools over the last three years.*
- *CareerTech offers 867 cooperative agreements through higher education allowing students to get college credit for classes taken at the comprehensive high school and technology center.*
- *94% of full-time technology center program graduates attended college, were employed or enlisted in the military within 6 months of program completion.*
- *In October of 2002, Expansion Management Magazine ranked Oklahoma's workforce preparation program in Career-Tech the 4th best in the nation.*
- *CareerTech has trained a total of 343,642 adults for 5,358 companies.*
- *Over 1,900 clients were served and \$221 million in contracts were awarded to Oklahoma companies in FY-2003 through the Oklahoma Bid Assistance Network.*
- *Data shows only a 22% recidivism rate for students who graduate from Skills Centers programs and a 90.8%*

completion rate for Skills Centers students in FY-2003.

The State Board of *Career* Technology Education supervises career and technology schools. They also administer the Carl Perkins program of the United State Department of Education in matters relating to career and technology education, youth apprenticeship programs, and manpower training.

The Department is responsible for formulating and adopting curricula, courses of study and other instructional aids necessary for the adequate instruction of students in the career and technology centers.

Student Demographics

The *Career*Tech system offers programs and services in 29 technology center districts operating through 54 campuses, 400 comprehensive school districts, 25 skill centers and 3 juvenile facilities. This allows citizens in 72 counties easy access to career-technology programs.

Total enrollment for FY-2003 including all programs is 475,883. From FY-1999 to FY-2003 student population has done the following:

- Full-time, state-wide programs- increased 9.14% from 145,198 to 158,462;
- Secondary students in comprehensive schools - increased 9.88% from 119,448 to 131,246;
- Business and Industry- increased 10.2% from 329,875 to 362,927 and
- Skills Centers have seen the largest increase- increased 72% from 1,206 to 2,080.

Technology Center Funding Formula

HB 1239 approved in 1991 mandated the development of a new funding formula for technology centers. It equalized variances in local funding sources, incentivized maximum local support, provided for allowable general fund balances and incentivized having ad valorem ratios above the required minimum.

The basic concept is starting with a target quality program cost and subtracting available local general fund income to come up with the state's contribution to the Technology Center.

Quality Program costs include:

- Direct Cost
 - Instruction and Classroom Activity
- Indirect Cost
 - Instructional Support
 - General Administration
 - General Support
 - Guidance and Counseling
 - Operation of Plant
- Transportation Services

Local General Fund Income:

- Maximum General Fund Valuation Millage
- Unencumbered General Fund Balance
- Tuition
 - Adults in Full-time programs
 - Business and Industry Training Programs
 - Client-based programs

Comprehensive Schools

Comprehensive school programs offered in high schools include agricultural education, technology education and family and consumer science. Classes provide students hands on learning environments.

While school districts utilize state and local funding provided to common education school districts to fund a large portion of these programs, state funds appropriated through *CareerTech* supplement them.

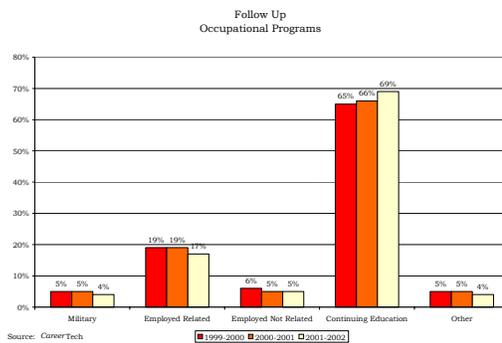
The detail in the following chart shows program and student costs. Note that these enrollment figures are based on enrollment through January 24, 2003.

Comprehensive High Schools
Program Information Estimate FY-2004

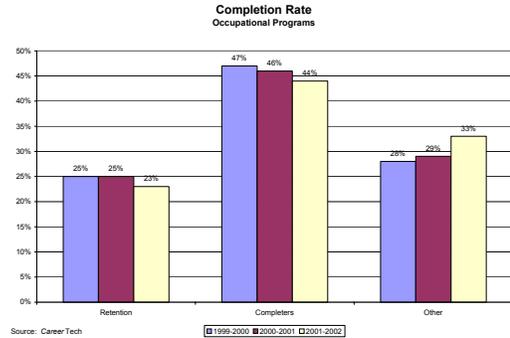
	Total Students	Student FTE*	Total Cost	Avg. Cost per Student	Avg. Cost per FTE
Agricultural Education	25,808	26,525	\$ 6,003,866	\$ 233	\$ 226
Technology	16,104	15,708	1,456,620	90	93
Family and Consumer Sciences	48,600	37,469	2,713,260	56	72
Health Occupations Education	791	681	74,130	94	109
Marketing Education	4,771	5,279	338,880	71	64
Technology Education	29,889	18,770	1,711,160	57	91
Trade & Industry Education	6,595	7,567	464,120	70	61
Total	132,558	111,998	\$ 12,762,036	\$ 96	\$ 114

*One student FTE is equivalent to one student for a single class for a full academic year (175 hours).
Source: CareerTech 11/19/2003

This chart shows the placement rates for occupational programs in the comprehensive schools.



This chart shows the retention and completion rates for comprehensive schools.



Technology Centers

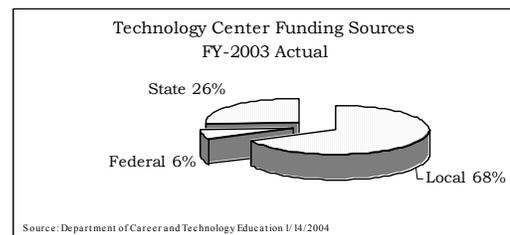
The technology centers provide training for both high school students and adults. Technology centers serve 72 counties throughout the state reaching virtually all citizens.

Technology centers receive state appropriations and local ad valorem funds, as do other public schools. Unlike schools, however, technology centers charge fees for training adult students. The ability to charge fees accounts for the large percentage of local funding.

Funding Sources for Technology Centers

Funding for the technology centers comes from three sources:

- State Appropriated Revenue (26%)
- Local Taxes, Tuition and Other (68%)
- Federal Funds (6%)



Business and Industry Training

Business and industry specific training attracts new industry and helps existing businesses expand and prosper. Training programs designed for specific employers are delivered at the area technology centers or at worksites.

For TIP and Existing Industry Training the following programs are some of the most popular: any quality-related training, including Lean Manufacturing, ISO, Six Sigma, process improvement and kanban; management and supervisory training; team skills, including effective communications, problem-solving, time management and teamwork; customer service skills; and industrial maintenance skills.

For Industry Specific Training the following program areas are some of the most popular: software and computer skills; quality-related training, management and supervisory skills; and team skills.

Safety training runs the gamut from Forklift Driver Certifications and Blood Bourne Pathogens to Lock Out/Tag Out, Confined Space Entry and HAZMAT.

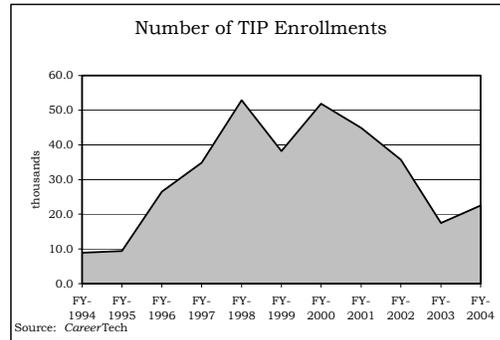
For Adult and Career Development some of the most popular programs are any software or computer class and continuing education for industries such as real estate and accounting.

Training for Industry Program (TIP)

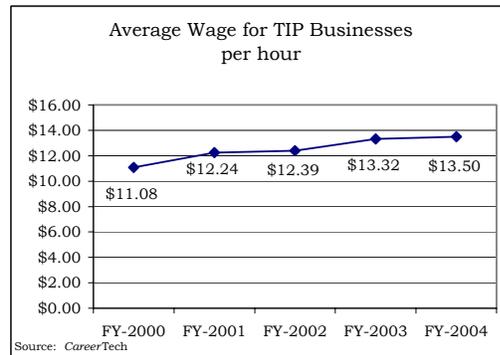
In existence since 1968, TIP is an economic development incentive available to qualifying companies that create new jobs in Oklahoma. TIP provides customized start-up training for "wealth generating" companies, i.e. companies that are generally exporters of goods and services out of the state and, therefore, importers of new dollars into the state. Eligible businesses are

ones that are exporters of goods and services and are creating new full-time jobs in:

- Manufacturing;
- Processing;
- Business services; and
- Warehouse and distribution.

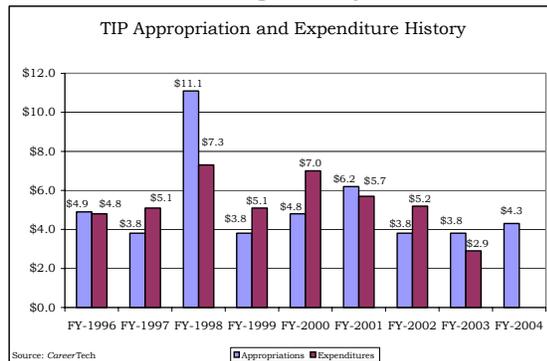


This program has been a successful business recruiting tool; however, the current economic slowdown has affected the demand for training by businesses.



People who use TIP for training are earning more per hour.

Below is the funding history for TIP.



Existing Industry Training

Oklahoma companies can make sure existing employees are up-to-date with the latest skills and knowledge by taking advantage of programs like Customized Business and Industry Training, Existing Industry Training, Management and Organization Development, Career Development for Adults and the award-winning Safety Training.

CareerTech and existing industries frequently partner when specific training is required. An existing business not only pays tuition and fees but frequently provides classroom space or unique materials. Approximately 28% of total training costs are covered by tuition and fees.

Skills Centers

The Skills Centers School System provides comprehensive educational services to incarcerated individuals. Skills Center training is designed to help students become successful in the workplace and in their community. The skills centers operate industry focused academies and registered apprenticeship programs for offenders.

Some of the programs offered include:

- Electricity Technology
- Plumbing Technology
- US Department of Labor Apprenticeship Training
- Commercial Building Maintenance
- Equine Management
- Construction Trades
- Basic Computer Technology
- Horticulture/Landscape Management
- Family and Consumer Sciences
- Hospitality/Food Services
- Metal Manufacturing

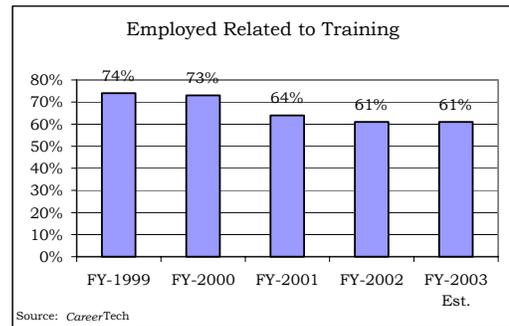
The school system operates 25 sites. Over the past five years, the skills centers have produced 3,454 graduates with a training related job placement rate of 67.3%. The following table

provides information on the number of students and where they are served.

**CareerTech Skills Centers
Students Served**

	FY-2003	FY-2004 Estimated
State prisons	1,294	1,445
Private prisons	241	100
Juvenile centers	106	110
Community corrections	384	445
Total	2,025	2,100

Source: CareerTech 11/19/2003



Oklahoma Bid Assistance Network

The Oklahoma Bid Assistance Network (OBAN) is part of a nationwide effort of Procurement Technical Assistant Centers (PTACs). OBAN was established in 1986 through the Oklahoma Department of Career and Technology Education. The PTAC program was initiated by members of Congress to help companies across the nation participate in the defense market.

Oklahoma Bid Assistance Centers are located in 14 local Technology Centers across the state. Bid Assistance personnel assist businesses in locating and bidding on federal, state and local government contracts as well as subcontracting opportunities. Local bid assistance personnel also help companies develop company profiles so that the contracting opportunities can be matched to specific goods and service capabilities.

The primary purpose of OBAN is to create jobs and increase the economy in Oklahoma by assisting Oklahoma

businesses in obtaining and performing in federal, state, and local government contracts.

Some examples of types of Oklahoma businesses OBAN have helped in the last year are mower repair companies, utilities contractors, automotive dealers and automotive parts, maintenance companies including janitorial services, fence builders, gate keepers, aircraft maintenance, equipment maintenance, road maintenance, audio and video services, office supplies, flight simulators, welding, all types of construction, advertising, embroidery work and engravers.

OBAN works closely with the MAPS for Kids project in Oklahoma City to help promote and broadcast bidding opportunities to Oklahoma companies. OBAN also offers the construction community a unique biweekly construction summary to all construction clients within the bid assistance network.

FY-2005 Recommendation

FY-2005 Appropriation	
<i>(amounts in thousands)</i>	
FY-2004 Appropriation	\$117,823
FY-2004 Bud. FTE Level	336.0
Actual Avg. YTD FTE	327.3
Funding Adjustments:	
Debt Service	<u>(786)</u>
FY-2005 Recommendation	\$117,037
% Change for FY-2004	-0.67%
Source: Office of State Finance	

Debt Service: The Governor's budget includes reducing the agency appropriation by \$785,800 for an anticipated reduction in FY-2005 debt service obligations.

For FY-2005, the Governor's budget recommends that *CareerTech* use their carryover funds for Comprehensive School programs rather than the technology centers. Unlike common schools, technology centers charge fees for training adult students. The ability to charge fees accounts for the large percentage of local funding for technology centers. Because Comprehensive School programs can not charge tuition and fees, more funding is needed for support.

Oklahoma Educational Television Authority (OETA)

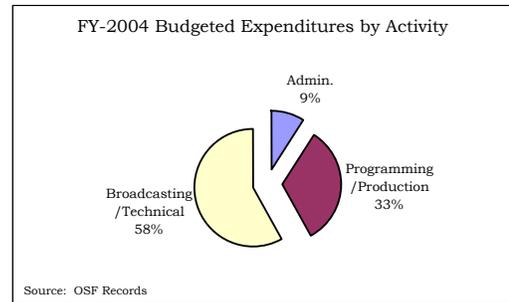
OETA is a federally licensed and regulated agency which operates non-commercial educational television, associated microwave and channels assigned by the Federal Communications Commission (FCC). Full-powered analog television stations operate in Oklahoma City, Tulsa, Eufaula and Cheyenne with translators extending service to the remainder of the state. Only 13 other states have a state operated public television network.

Notable Achievements

- *OETA is the only station in Oklahoma serving the entire state.*
- *Last November, according to Nielsen audience estimates, OETA was the highest rated Public Television station in the nation achieving a 56% cumulative audience level which is 1.8 million viewers.*
- *OETA celebrated its 50th Anniversary in 2003 and debuted its first High Definition local production.*
- *OETA provides the only statewide daily television news report which offers legislative news events to all Oklahomans from Beaver to Broken Bow. The Oklahoma News Report doubled its nightly audience from 21,000 in 2001 to over 42,000 in 2003.*
- *OETA was awarded three Heartland Emmy Awards for Gallery, Stateline and the Dome Dedication event, which is more than any other Oklahoma television station statewide.*

- *OETA, through its public/private partnership, has successfully launched digital public television service in Oklahoma City, Tulsa, Eufaula and Cheyenne with state, federal and private funds.*

OETA has two main activities within the agency.



Broadcasting/Technical Division

The Oklahoma Network is a complex technical installation in 39 sites around the state, with 15 translator stations and four full-power analog and four digital transmitters reaching from Boise City, and Altus to Ponca City and Idabel, and all points in between. All are serviced and managed from the network headquarters in the state's capitol with one maintenance person. The system broadcasts over 6,600 hours of programming annually.

Programming/Production

This division is charged with the design, development, production and delivery of the large local production output of OETA. A needs assessment of the audience is supported by the annual member survey and this instrument joins other research data in supporting the design of the program service. This leads to opportunities for cooperative initiatives with other state agencies, offices, and organizations.

The ten most popular shows on OETA are:

- Antiques Roadshow
- NOVA
- Nature
- Frontline
- News Hour
- This Old House
- National Geographic's Specials
- American Experience
- Sesame Street
- Oklahoma Gardening

Conversion to Digital Transmission

The four major broadcast service areas now have digital coverage serving a population of 2.6 million. Initial digital operations now include four hours of primetime programming (7-11pm). By May 2004, OETA will broadcast eight hours daily in digital. As of this date, the FCC has not mandated how digital service will be transmitted to the areas currently served by analog translators.

Analog service will continue for the entire state for the foreseeable future. The FCC requires continued analog service until 85% of the households in a coverage area are able to receive a digital signal. OETA estimates that this transition may take up to 10 years. During this time, signals must be transmitted by both analog and digital means and equipment must be maintained for both.

The conversion of analog to digital involves three phases. To date, OETA has expended or will have encumbered \$10.8 million for Phase One of the conversion. This includes \$5.4 million in State funds that was appropriated in the FY-2002 budget. The remainder of the funding has come from private and federal sources.

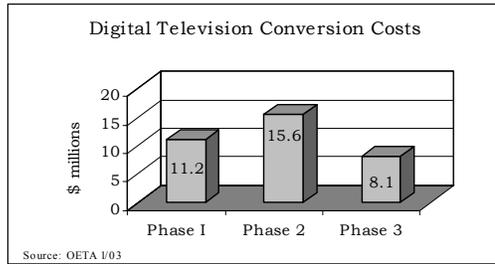
This first phase has been substantially accomplished with the construction of four new digital television broadcast facilities. New transmitters, antennae and transmission lines have been installed and are now in "test" mode in Oklahoma City, Tulsa, Eufaula and Cheyenne. Three new transmitter buildings and infrastructures of H/VAC, electricity and other utilities have been constructed in Tulsa, Eufaula and Cheyenne. The Oklahoma City digital transmission equipment has been installed on a leased tower with necessary housing and infrastructure included in the 10-year lease. Approximately \$1.5 million will be needed to finish Phase One.

This second phase will require the completion of the master control operations to remotely program and monitor the four sites. This will streamline the system and will save considerable expenses in operation.

In this next phase, OETA will add the necessary studio and editing equipment to efficiently produce programs in the digital and high-definition formats. This conversion will cost approximately \$9.4 million and \$2.6 million. This second phase can be finished as early as May 2006 or within approximately 18 months of funding.

This third and final phase of the conversion will allow for replacement of the state's 15 translator (low power television) stations. Because the Federal Communications Commission has not yet ruled on the availability of low power digital transmitter channels, this final step may be six to 10 years in the future. The approximate cost to replace the coverage of the analog signals is \$6.5 million.

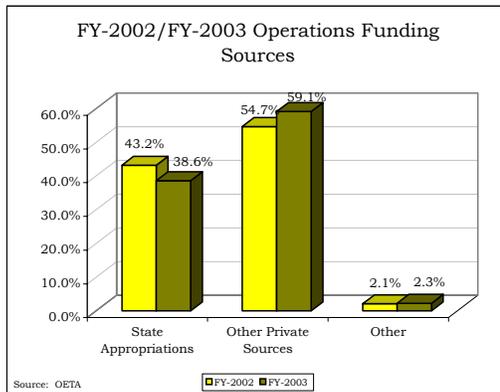
The following chart shows costs of converting to digital.



Operations Funding

Operations funding comes from several sources. State appropriations provide the largest percentage while funds from the OETA Foundation provide funding for programming nearly equal to that provided by state funds.

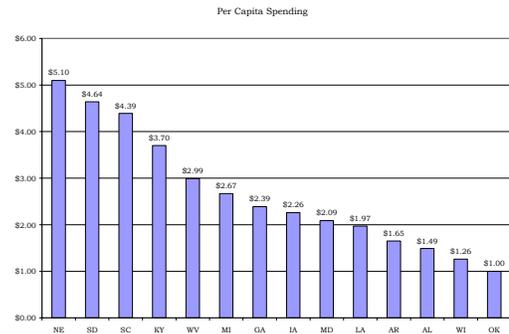
The current budget shortfall places operational pressure on OETA since it must continue to maintain the current analog system, is constructing a new digital system, and has begun digital broadcasting.



OETA Foundation

The Oklahoma Educational Television Authority Foundation, Inc. is a non-profit organization operating for the purpose of receiving, investing and expending privately donated funds which support public broadcasting. The Foundation provides a portion of the operating budget for the network. The Foundation matched the earlier state appropriation of \$5.6 million for

the first phase of the conversion to DTV.



Compared to the other 13 states that operate similar statewide public television stations, Oklahoma spends \$1.00 per capita as compared to \$5.10 in Nebraska.

FY-2005 Recommendation

FY-2005 Appropriation	
<i>(amounts in thousands)</i>	
FY-2004 Appropriation	\$3,448
FY-2004 Bud. FTE Level	74.0
Actual Avg. YTD FTE	65.6
Funding Adjustments:	
DTV Operating Costs	<u>695</u>
FY-2005 Recommendation	\$4,143
% Change for FY-2004	20.16%
Source: Office of State Finance	

DTV Operating Costs: The Governor's budget proposes funding in the amount of \$695,000 for DTV operating costs. This will provide:

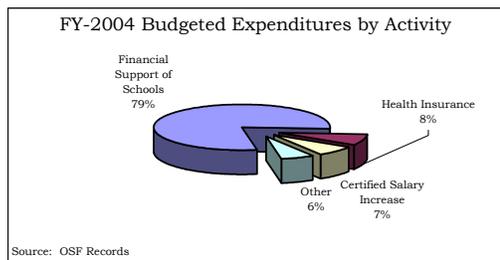
- Additional FTE to operate the dual traffic and master control operations;
- Electric utility charges associated with the four new UHF transmitters;
- Tower rentals for both the digital as well as analog transmitters and translators;
- Fiber Interconnection to deliver the digital signal to the four full-power transmitter sites; and
- Funds for increased insurance costs through Risk Management.

Elementary and Secondary Education

A quality educational system is vital to economic growth and positive social outcomes for children and families. Studies consistently show that academically prepared children are more likely to attend and complete college, earn more income and lead healthier lifestyles. Oklahoma's common education system promotes rigorous academic standards and a comprehensive array of programs to ensure every child from birth to age 18 has the opportunity to succeed.

Early childhood programs such as SoonerStart Early Intervention, Parents as Teachers and the Four-Year-Old program provide parents and children the necessary developmental building blocks to improve school readiness and success. The statewide Alternative Education program and Advanced Placement grants give educators the flexibility to meet individual student needs at the middle and secondary levels. Both of these programs serve distinct populations but strive to help students succeed in school.

The state's commitment to common education is reflected in the state's appropriated budget. Common education received more than \$1.95 billion, 38% of all state appropriations in FY-2004; it is the single largest expenditure in Oklahoma's state budget.



Of the amount appropriated, 79% flows through the general state aid formula to individual school districts. The

formula incorporates districts' student demographics and local education revenue to equalize funding differences between property rich and property poor districts. The remaining 21% is divided between the 2000-2001 salary increase (7%), health insurance costs (8%) and other areas like textbooks, teachers' retirement and alternative education.

Notable Achievements

- *The number of high schools with AP programs has quadrupled from 81 in 1997 to 335 in 2003. Today, more than 71% of Oklahoma's public high schools offer AP courses.*
- *Three of Oklahoma's alternative education programs have received The National Dropout Prevention Network's Crystal Star Awards of Excellence in Dropout Recovery, Intervention and Prevention: Lincoln Alternative Education High School, Enid, 1997; Attucks Alternative Academy, Vinita, 2000; and Broken Bow Alternative Academy, Broken Bow, 2001. Only 18 schools in the nation have received this designation.*
- *Sixty percent of four-year olds in Oklahoma are in quality educational programs; this is second only to Minnesota. When the number of children in Head Start is included, nearly 75% of four-year-old Oklahomans are enrolled in educational programs.*
- *A 2003 research study from Georgetown University cites the Tulsa Public Schools pre-kindergarten program as a premier national model for early childhood education. They found that minority students especially showed gains in social/emotion and language skills. The African-American children showed a 17.1% improvement over their non-participant counterparts. The Hispanic children improved their scores by 53.6%.*

- *The state has 858 National Board Certified Teachers (NBCTs), the eighth highest nationally.*
- *According to Education Week, Oklahoma has always been in the top half of states in “Standards and Accountability” (tied for 8th in 2004) and in the top 10 states in “Improving Teacher Quality” (10th in 2004).*
- *According to the Southern Regional Education Board (SREB), Oklahoma has seen the largest increase in average ACT composite scores of any SREB state in which the ACT is the primary college entrance exam over the past 10 years.*
- *The Thomas B. Fordham Foundation recently ranked Oklahoma’s U.S. History standards 7th in the nation.*
- *On the 2001 Manhattan Institute’s “Education Freedom Index,” Oklahoma ranked second nationally in public school choice. The Index cites Oklahoma’s progress in providing more choices for parents through its Open Transfer and Public Charter Schools laws.*

The State Department of Education is responsible for administering and managing state and federal education programs. State duties include the establishment of teacher and administrator certification requirements, formulation and adoption of curriculum standards and accreditation of both private and public schools across the state. The agency also manages the federal school nutrition program and the adult education program. Appropriations to the State Department of Education represent 1.5% of all state appropriations to common education.

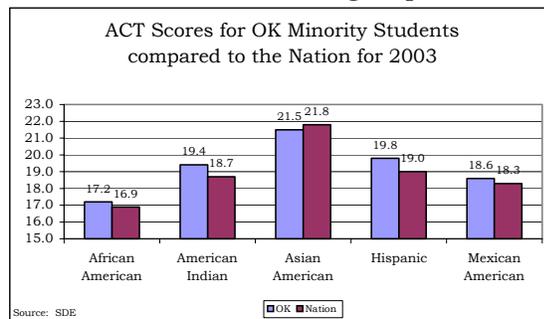
Student Demographics

Student population from FY-1994 to FY-2003 has increased from 604,155 to 624,176. While the total number of students enrolling in school has only

increased by 3%, the number of children enrolled in four-year-old programs has increased significantly. Four-year-old enrollment has grown from 5,456 in FY-1994 to 28,043 in FY-2003, an increase of 414%. The increase in this population has prevented a decline in Oklahoma’s overall elementary population.

There have also been some changes in student enrollment by race and ethnicity. The number of Hispanic children enrolled in Oklahoma schools has increased by 118% from 20,093 in FY-1994 to 43,787 in FY-2003.

Closing the achievement gap among minorities is a priority for Oklahoma. When compared nationally, Oklahoma’s graduation rates and ACT scores are above the national average for most racial and ethnic groups.



Funding Sources for Local School Districts

Oklahoma has 541 school districts with 1,023 elementary schools, 299 middle schools and 469 high schools.

Public funding for Oklahoma’s public schools comes from four sources:

- Local and county revenue (22%),
- State dedicated revenue (9%),
- Federal funds (10%) and
- State appropriated revenue (58%).

Local governments assess ad valorem taxes on property owners to support schools. The Oklahoma Constitution

provides parameters for local millage assessments. Schools also receive the following state dedicated revenue:

- Gross Production Tax
- Motor Vehicle Collections
- Rural Electrification Association Cooperative Tax
- State School Land Earnings
- Vehicle Tax Stamp
- Farm Implement Tax Stamp
- Other Dedicated Revenue

All federal funds for school districts are dedicated to specific programs for target populations. Examples are school lunch programs, special education programs, low income programs and technology grants.

The Department of Common Education is responsible for disbursing funds to school districts through the State Aid Funding Formula. It rests upon two concepts, fiscal neutrality and vertical equity. The State Aid Funding Formula is set in statute and distributes funds through three categories: Foundation Aid, Incentive Aid and Transportation Aid.

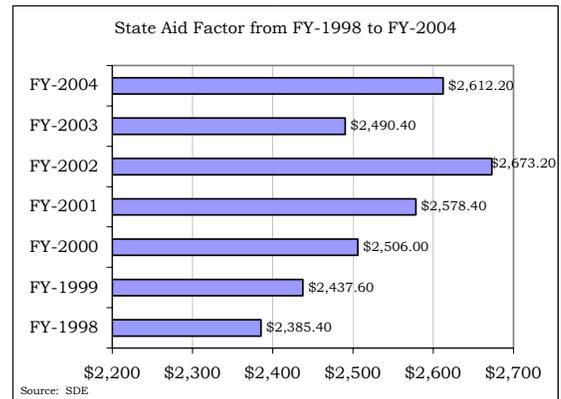
Foundation Aid is calculated on the basis of the highest average daily membership (ADM) of students in each district for the preceding two years or the first nine weeks of the current school year. Weights are added to the number to determine the weighted ADM. The weighted ADM for a district is then multiplied by the Statutory Foundation Support Level. A portion of a district's local revenues and all of its state-dedicated revenues are subtracted to arrive at the Foundation Aid amount (\$1,334 per weighted ADM for the 2003-2004 school year.)

Incentive Aid guarantees each district a minimum amount of funding per weighted student for each mill up to 20 mills. For the 2003-2004 school year the amount is \$62.73. To calculate, the weighted ADM is multiplied by the

Incentive Aid guarantee. A factored amount of local support is then subtracted. The number of mills the district levies over 15 is then multiplied by the resulting number.

Transportation Aid is provided for all districts transporting students who live more than 1.5 miles from school. The students, or the average daily haul, are multiplied by the per capita transportation allowance and the transportation factor (\$1.39 for school year 2003-2004.) Greater weight is applied for sparsely populated areas.

The State Aid Factor (SAF) is calculated by adding Foundation Aid, Incentive Aid and Transportation Aid per weighted ADM. The average weight per pupil is 1.5. Due to budget cuts, from FY-2002 to FY-2003, the SAF went down \$270 per student. Due to an increase in funding in FY-2004, the SAF was increased by \$183.

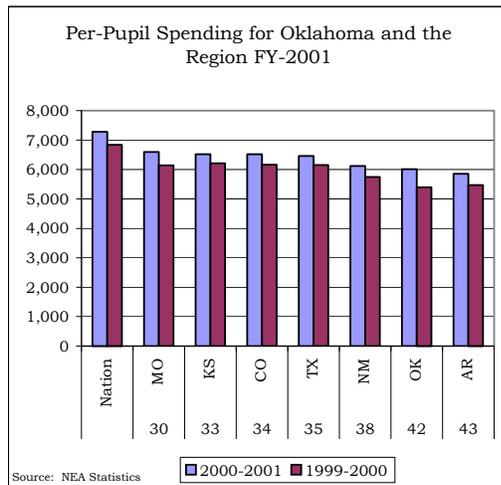


Per-Pupil Expenditures

To accurately compare student funding between states, one must look at per-pupil expenditures. Per-pupil expenditures are calculated by dividing the total amount of federal, state and local funds expended for education by the average daily attendance of public school students in the state.

Oklahoma's per-pupil expenditure is \$6,012 for FY-2001 or 42nd in the nation. Oklahoma is 6th in the region out of 7 states; Arkansas is the only state with lower per-pupil expenditures

than Oklahoma. The regional average is \$6,295.



Common Education Programs

Improving student achievement requires flexible programs for specific populations. Of the appropriations the State Department of Education receives, 2% is directed for the following programs:

- Early Intervention
- Oklahoma Parents as Teachers
- Alternative Education
- Staff Development
- School Lunch Matching
- Education Leadership Oklahoma
- Adult Education and Literacy
- Advanced Placement
- Mentor Teacher
- Oklahoma Arts Institute
- Arts in Education

Early Intervention (EI)

SoonerStart is Oklahoma's voluntary early intervention program serving infants and toddlers with developmental delays from birth to 36 months. SoonerStart is a collaborative interagency project. The State Department of Education, as the lead agency, coordinates with the Departments of Health, Human Services, Mental Health and Substance Abuse Services, Oklahoma Health Care Authority and the Oklahoma Commission on Children and Youth to

plan and implement the statewide system of early intervention. These services are designed to complement the medical care a child may receive from a physician.

The program staff provides caregivers the skills and support they need to help them work with their child to attain essential developmental skills and accomplish the goals developed on the Individualized Family Service Plan (IFSP). An IFSP is designed for each child.

Depending on a child's and family's individual needs, SoonerStart offers one or a combination of services, some of which include, counseling, nutrition and physical therapy to name a few. The SoonerStart program will work with approximately 9,849 children in FY-2004.

Oklahoma Parents as Teachers

Parents are children's most important and effective teacher. Childrens' academic success is in most instances dependent on parents' active involvement in their child's early years. Recognizing the importance of this relationship, Parents as Teachers (OPAT) is a free and voluntary program which provides parents of children ages zero to three the skills to maximize their child's potential. Services are based on early childhood development research.

School districts apply for grants to fund OPAT programs. Qualifications to receive an OPAT program grant are based on enrollment history (if applicable), district Average Daily Membership (ADM) and new or expanded programs. As with other service programs, multiple districts can join to create an OPAT program. For FY-2003, the number of children served is 8,470 which equates to 6,676 families served.

Four-Year Old Program

Oklahoma is one of only three states that require four-year-old teachers to

have a degree in early childhood education. Georgia and New York are the only other states requiring quality indicators. Requiring this certification improves the quality of teaching and learning in the classroom and increases the probability children will be prepared for school in later years. Over 60% of the four-year-old population in Oklahoma participates in this voluntary program.

The basis for Oklahoma’s high participation rate lies in the unique partnerships schools are promoting with private child care providers. The State Department of Education encourages schools to provide certified teachers to private child care facilities to expand access. Lawton, Norman and Putnam City School districts are just a few of the districts involved in this initiative. Over the past year the State Department of Education has been working with Kim Henry, the First Lady of Oklahoma, and the Partnership for School Readiness to promote the advantages and successes of these partnerships.

Alternative Education

The purpose of this program is to provide alternative education choices to prevent dropouts and increase the number of high school graduates.

The Juvenile Justice Reform Act of 1994 established the Statewide Academy System that began with eight pilot programs in three counties. Subsequently, beginning with the first semester of the 1996-97 school year, the statute was amended to mandate alternative education in Grades 6-12 in all districts reporting dropouts and juvenile justice referrals. Currently, the Statewide Academy System provides funding to 467 school districts to serve at-risk youth.

At-risk youth are individuals who might fail to successfully complete their secondary education because of economic, socio-cultural or academic reasons.

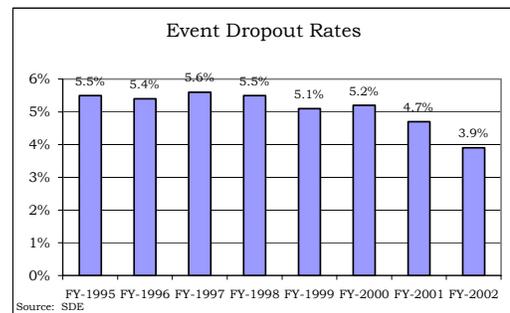
The following chart demonstrates performance outcomes for children enrolled in alternative education programs versus those for children who were eligible but on waiting lists.

Variable	Group				
		Alternative	% Change	Comparison	%Change
Days Absent	Pre	15.14	-38%	12.55	19%
	Post	11.01		15.49	
GPA	Pre	1.53	40%	1.67	-19%
	Post	2.55		1.4	
Days Suspended	Pre	3.23	-389%	1.89	26%
	Post	0.66		2.55	
Courses Failed	Pre	2.49	-632%	2.01	13%
	Post	0.34		2.32	

Source: DOE

On each variable measured, students in alternative education programs showed improvement, while students in the comparison group showed a decline.

The Oklahoma Technical Assistance Center (OTAC) provides an individual, in-depth annual evaluation report for each state funded alternative education program. Each report addresses the respective program’s implementation of the 17 Criteria and the program’s effectiveness in terms of student outcomes. In addition, the annual report includes an evaluation of the Statewide Alternative Education Programs as a whole.



Since FY-1997, Oklahoma’s event drop-out rate has decreased by 1.6% from 5.5% in FY-1995 to 3.9% in FY-2002.

Competitive grants are awarded to school districts that design programs to serve high challenge children and youth in counties with a high number of dropouts and a high number of

referrals to the juvenile justice system. The two kinds of grants available are High Challenge Grants and Comprehensive Based Grants.

Staff Development

Professional development programs strive to improve teachers' subject matter knowledge, teaching methodology and classroom management skills. There are several types of statewide Staff Development programs included in this line-item such as the Great Expectations program, the Neuro-developmental Learning Differences program and the Literacy First reading program. This line-item also provides funds for reading remediation in grades one through three. Approximately \$2.5 million is disbursed to districts for general professional development activities at the school level.

Great Expectations The program's fundamental philosophy is, "All children can learn," when teachers have the attitude, knowledge and skill to set high expectations, build self-esteem and create a climate of mutual respect.

Funds appropriated provide scholarships to teachers for summer institutes. To qualify for scholarships, each qualifying school must be willing to send six teachers to the summer institute.

Neuro-developmental Learning Differences

The Oklahoma Schools Attuned program funded through this line-item recognizes that children process information differently from one another. Some children form images, others form words and others form sentences. Educating teachers on children's different learning styles and how to effectively teach to these styles is the primary goal of this professional development institute. Funds provide \$1,200 scholarships for teachers to attend a 39 hour course and participate in a year-long practicum. Since the program's inception in FY-

2001, 998 teachers have participated from 62 school districts and 162 sites.

Literacy First The Reading Sufficiency Act, funded by the Legislature in 1997, provides reading and literacy training for all elementary teachers using "Literacy First" as its training base. The Literacy Professional Development Institute (PDI) provides a balanced approach to teaching reading by incorporating the latest phonics and literature based strategies. Since its implementation in 1997, approximately 13,000 teachers have been trained.

School Lunch Matching Programs

Students must have proper nutrition in order to maximize learning potential. The National School Lunch Act was passed by Congress in 1946 to safeguard the health and well being of the nation's children and to encourage the domestic consumption of nutritious foods. The goal of the State Department of Education is to provide nutritious meals to children enrolled in Oklahoma's public schools. For the almost \$4 million the State appropriated for School Lunch Matching in FY-2003, the Federal government provided \$86 million. In FY-2003, 51.79% of Oklahoma school children qualified for the free or reduced-price lunch program.

Education Leadership Oklahoma

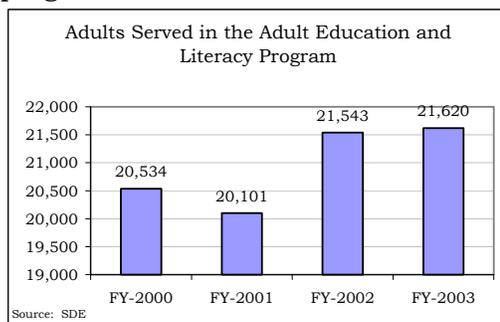
National Board Certification is rooted in the belief that the single most important action this country can take to improve schools and student learning is to improve teaching. The process requires teachers to undergo an extensive series of performance-based assessments that includes teaching portfolios, student work samples, videotapes and thorough analyses of the candidates' classroom teaching and student learning. Teachers also complete a series of written exercises that probe the depth of their subject-matter knowledge, as well as their teaching methodology.

The purpose of Education Leadership Oklahoma (ELO) is to improve the quality of teaching and reward teachers who have attained national certification. The program provides technical assistance and a \$2,500 scholarship to 200 teachers applying for National Board Certification. A \$5,000 annual bonus is given to teachers who attain National Board Certification.

There are 858 National Board certified teachers in Oklahoma which places it eighth in the nation. The State Department of Education estimates there will be an additional 213 teachers attaining national certification in FY-2005.

Adult Education and Literacy

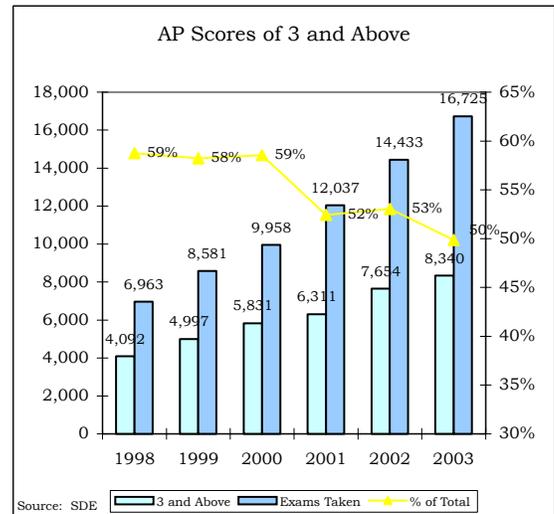
There are several types of adult education programs provided through state and federal funds. Adult Literacy Instruction classes are provided for adults who need basic skills instruction in reading, writing, mathematics, life skills and job readiness. GED Preparation Instruction is provided for adults who want to prepare to take the GED Tests in order to earn a high school equivalency diploma. English as a Second Language (ESL) classes are provided for limited English speaking adults to learn both spoken and written communication skills, survival skills, and citizenship skills. Federal and state funds also provide Workplace Education and Family Literacy programs.



Advanced Placement

The College Board's Advanced Placement Program trains middle and secondary educators to provide college level academic courses to high school students. Upon completion, high school students may take a College Board Advanced Placement exam. Exams receive a score of 1 to 5; a score of 5 reflects superior knowledge of the subject. Students who complete AP courses are better prepared academically for college, more likely to choose challenging majors and twice as likely to go into advanced study.

The Oklahoma Advanced Placement Incentives program provides funding support for AP and Pre-AP teacher training. Funding goes for training, student exam fee assistance, score incentives to schools for AP program development and AP course grants.



Mentor Teacher

Teachers who have quality mentors during their first years of teaching are more likely to be better teachers and remain in the profession. Since 1981, Oklahoma has required all first year teachers to participate in a residency program. Every first-year teacher is assigned to a committee comprised of a mentor teacher, a higher education professor and the principal. At the end of the school year, the committee recommends whether the first year teacher should receive state

certification. The mentor teacher plays the most active role in a teacher's residency year, providing 72 hours of consultation time.

State law provides that teacher consultants may receive an annual stipend of not more than \$500. As a result of the FY-2003 revenue shortfall, funds for this program were not appropriated for FY-2004. Since this is an important component of a quality teacher preparation program, Oklahoma's national ranking in the January 2004 issue of Education Week's annual Quality Counts report, decreased from 7th to 15th nationally.

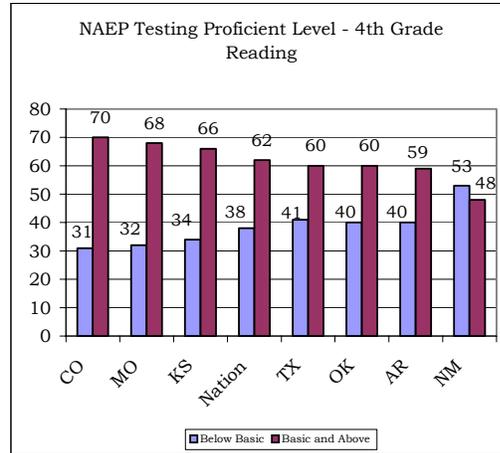
Statewide Assessments and Outcomes

There are a number of ways to measure student assessment.

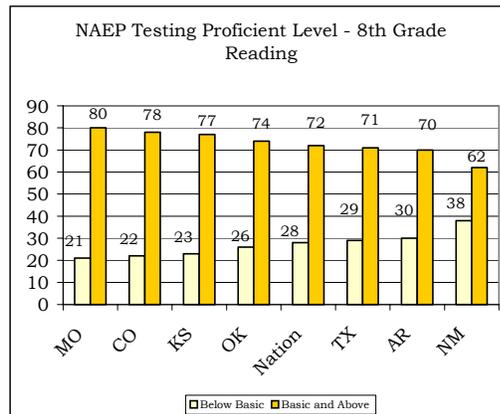
The National Assessment of Educational Progress (NAEP) is the only measure of student achievement in the United States that compares the performance of students in one state with the performance of students across other states. NAEP, sponsored by the U.S. Department of Education, has been conducted for over 30 years. The test is not administered to every student in the country. Instead, a sample size of students representing different socioeconomic, racial and ethnic backgrounds is tested in each state. Results are then extrapolated for aggregate state scores.

Prior to passage of the Federal "No Child Left Behind Act", subjects were tested every other year. As of 2004, every subject is tested annually in grades four and eight.

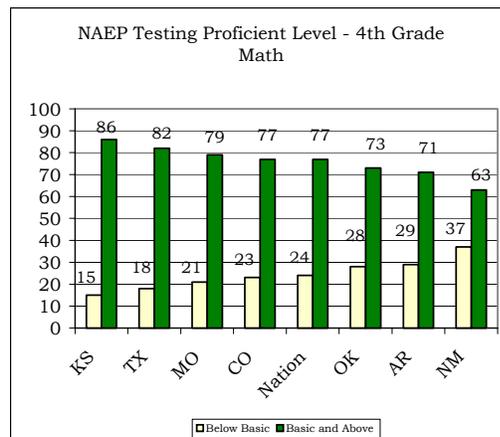
The following charts are from the National Assessment of Education Progress Report for 2003.



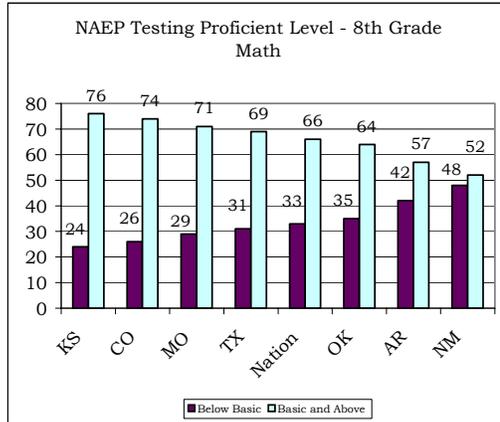
In the 4th grade reading category, Oklahoma finished 4th in the region and 2% below the national average.



In the 8th grade reading category, Oklahoma finished 4th in the region and 2% above the national average.

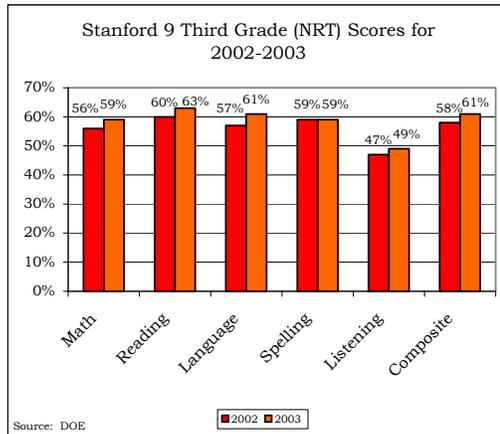


In the 4th grade Math category, Oklahoma finished 5th in the region and 4% below the national average.



In the 8th grade Math category, Oklahoma finished 5th in the region and 7% below the national average.

Norm-referenced tests (NRTs) compare students' performance to that of a national norming sample and the results are provided in percentile ranks. For example, scoring at the 60th percentile would mean that a student scored equal to or better than 60% of the students tested in the norming sample.



Oklahoma requires a state norm-reference test in grade three. In 2002-03, Oklahoma 3rd grade students scored at the 59% rank on the math section of the Stanford 9 and, therefore, scored equal to or higher than 59% of third graders in the national norm group taking the test.

Criterion-referenced tests measure student performance as compared to the state's own curriculum standards.

In Oklahoma, the two state CRT tests required are the Oklahoma Core Curriculum test administered to children in grades five and eight and the High School End of Instruction test. All subject areas are tested in grades five and eight, including art. The High School End of Instruction Test is administered to students as they complete English II, Writing, US History, Biology I and Algebra I.

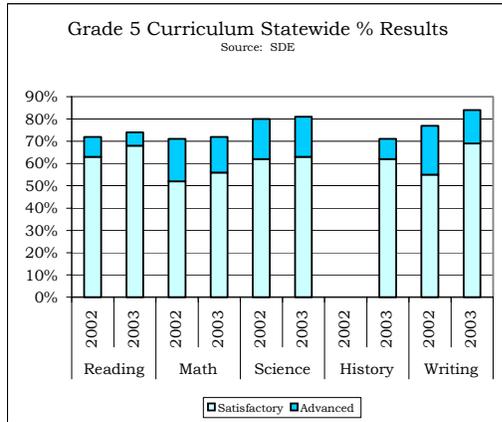
Individual student scores allow educators and parents to track educational achievement over time. These tests are not nationally normed and do not provide a basis for comparing students to their national counterparts.

Oklahoma's curriculum standards are defined in the Priority Academic Student Skills (PASS). PASS represents the basic skills and knowledge all Oklahoma students are expected to learn in the elementary and secondary grades. State law requires PASS to be re-evaluated every three years.

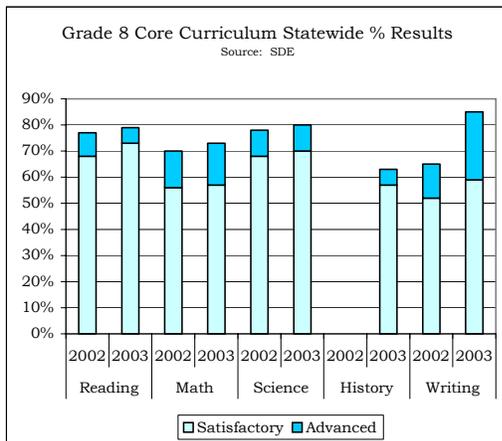
In FY-2002, at the request of the Oklahoma State Department of Education, the Oklahoma State Regents for Higher Education, the Oklahoma Business and Education Coalition (OBEC) and the Governor's office, a national organization called Achieve reviewed Oklahoma's policies and practices related to school improvement efforts. In conjunction with nationally respected experts, Achieve produced a two-part study.

Achieve focused on overall progress made in the areas of standards, assessment, and accountability and found that Oklahoma has consistently maintained efforts to raise achievement for over ten years, establishing a firm foundation for standards-based reform. The Priority Academic Student Skills (PASS) standards are comprehensive, measurable and in some cases rigorous. Achieve found that Oklahoma's English and math

standards are comprehensive, clear and measurable; the math standards in grades K-5 are particularly well-developed.

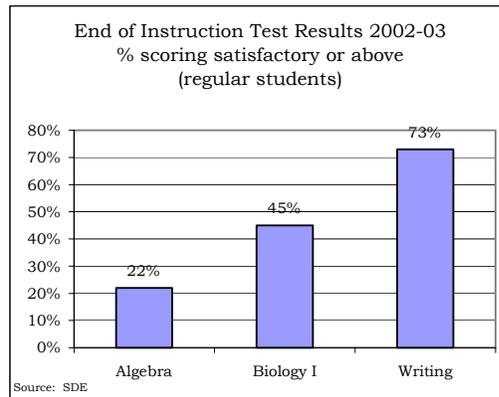
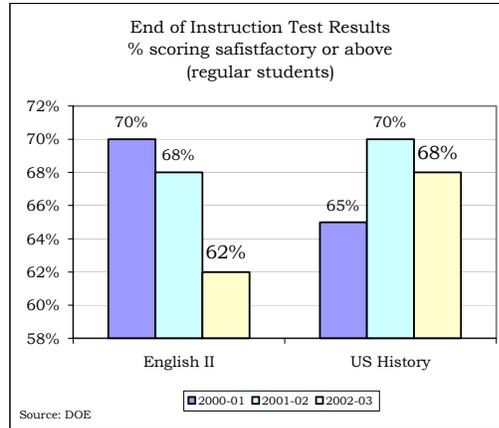


Between the 2002 and 2003 school year, Oklahoma students in fifth grade increased their scores in all categories. History was not tested in 2002.

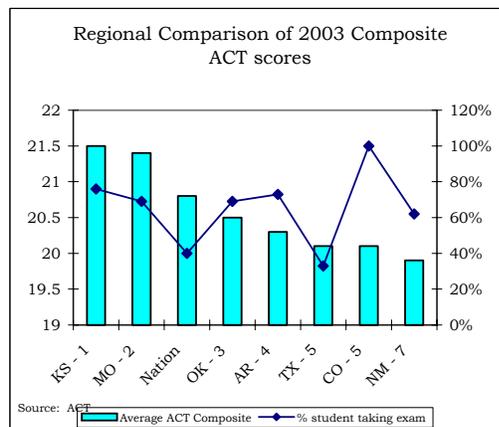


Between the 2002 and 2003 school year, Oklahoma students in eighth grade increased their scores in all categories. History was not tested in 2002.

High School End of Instruction Tests were administered for the first time during the 2000-01 school year. Subject areas are being phased in, so only English II and US History were tested in both 2000-01 and 2001-02.

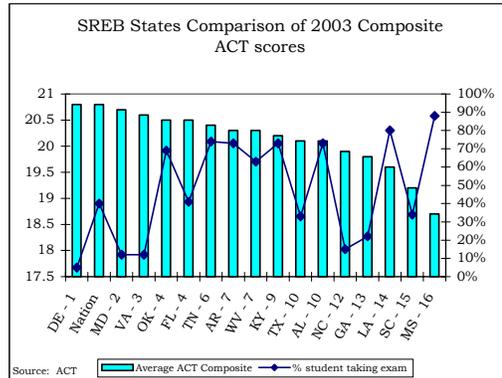


The ACT Assessment is a national college admission and placement examination. The exam tests students' subject knowledge of Reading, English, Mathematics and Science. ACT results are accepted by virtually all U.S. colleges and universities and are the test most often used for admission to Oklahoma public colleges and universities.



Oklahoma ranks third in the region with an average ACT score of 20.5;

Kansas ranks first with a score of 21.5. The national average is 20.8.



Oklahoma ties for fourth among Southern Regional Education Board (SREB) states with an average ACT score of 20.5; Delaware ranks first with a score of 20.8.

No Child Left Behind Act (NCLB)

NCLB was signed into law January 8, 2002. It is the latest revision of the 1965 Elementary and Secondary Education Act (ESEA) and is regarded as the most significant federal education policy initiative in a generation.

The overall purpose of the law is to ensure that each child in America is able to meet the high learning standards of the state where he or she lives. The specific goals of the law, as spelled out in the *Federal Register* issued on March 6, 2002, are:

- All students will reach high standards, at a minimum attaining proficiency or better in reading and mathematics by 2013-2014;
- By 2013-2014, all students will be proficient in reading by the end of the third grade;
- All limited English proficient students will become proficient in English;
- By 2005-2006, all students will be taught by highly qualified teachers;

- All students will be educated in learning environments that are safe, drug free and conducive to learning; and
- All students will graduate from high school.

To help schools and districts meet these goals, the law provides a number of different mandates, incentives and resources. Mandates include:

- Annual testing of all students against state standards in reading, mathematics and science in grades three through eight or at least three times in a student's school career (including once in high school);
- Required participation in "Verification" of each state's assessment system (every other year) by selected districts in the NAEP test;
- Aggregate and disaggregate analysis and reporting of student achievement results by race, ethnicity, special education status and limited English proficiency;
- A state definition and timeline for determining whether a school, district and the state are making "adequate yearly progress" (AYP) toward the goal of 100% of students meeting state standards by the 2013-2014 school year;
- Technical assistance and then sanctions for schools, districts and the state for failure to make AYP;
- Highly qualified teachers in core academic subjects by 2005-2006;
- Highly qualified aides or paraprofessionals;
- Support for students not meeting standards and/or for those who have special needs (e.g., homeless, limited-English-proficiency); and
- The use of "scientifically-based" programs and strategies.

NCLB will provide nearly \$1 billion annually in additional funding over the next five years to help states and districts strengthen K-3 reading programs, before and after-school programs, charter schools, reading readiness for preschool children, teacher professional development and education technology.

State Student Information System

With the passage of NCLB, additional accountability and reporting requirements were added to an already growing demand for more and better education data. During the 2003 Legislative Session, HB 1646 passed requiring the State Department of Education to start a state student information system (SSIS). The bill required that all schools in Oklahoma comply with extensible markup language (XML) standards and the latest version of Schools Interoperability Framework (SIF) specifications by 2005-06.

The use of the new system will reduce the reporting burden placed on school sites and districts. This will revolutionize the manner in which student data is collected, managed and analyzed by the State Department of Education and local school districts.

The SSIS will create a centralized database of secure individual student records, as well as district and site level records that will be collected from each school district using standard data elements, definitions and reporting formats.

As this system is developed, the Governor and the Legislature will work with the State Department of Education to maximize and leverage all state and federal resources.

FY-2005 Recommendation

FY-2005 Appropriation	
<i>(amounts in thousands)</i>	
FY-2004 Appropriation	\$1,950,625
FY-2004 Bud. FTE Level	375.0
Actual Avg. YTD FTE	336.8
Funding Adjustments:	
Health Insurance 100%	62,480
2001 Teacher Pay Raise	6,800
National Board Cert.	1,400
National Board Supp.	600
Advanced Placement	950
School Lunch Matching	568
Mentor Teacher	493
OPAT	250
Alternative Education	250
Adult Education	184
Total Adjustments	73,975
FY-2005 Recommendation	\$2,024,600
% Change for FY-2004	3.79%
<small>Source: Office of State Finance</small>	

Five year plan to increase teacher's salaries – To attract and retain quality teachers, Oklahoma must have competitive compensation levels. The Governor's budget proposes to raise teacher compensation incrementally over a five-year period. In the first year, the state would increase health benefits for teachers, paying 100% of their health insurance premium. This cost is currently divided among teachers, school districts and the state. Providing fully-funded health insurance will make Oklahoma's compensation package more competitive with surrounding states.

In years 2 through 5, teacher pay would be increased until it reaches the regional average. All teachers are included in the pay plan, but those with more years of experience will receive larger increases. The state is competitive with regional averages

when it comes to starting salary, but there is great disparity with our veteran teachers. As a result, the salaries for the most experienced teachers are not competitive with those in neighboring states.

Average Regional Salaries

	2001-2002	2002-2003
32 Texas	\$39,232	\$40,001
24 Colorado	40,659	42,679
34 Missouri	37,996	39,292
42 Kansas	37,093	38,123
46 New Mexico	36,440	36,965
44 Arkansas	36,962	37,753
48 Oklahoma	\$34,744	\$34,877
Regional Avg	\$37,589	\$38,527
National Avg	\$44,714	\$45,930

*NEA Statistics Rankings and Estimates Fall 2003

For example, teachers with five to nine years experience will receive annual raises of \$600 over the life of the four year program while instructors with 20 to 24 years of experience will receive annual increases of \$1,200.

The plan will be financed with the help of growth revenue created by the state's economic recovery and other available funds. See the end of this section for more details.

Maintenance for Certified Personnel pay increase

The Governor's budget includes \$6.8 million to maintain the \$3,000 FY-2001 salary increase. The district's portion of Teachers' Retirement and FICA costs are included in this number.

National Board Certification – The Governor's budget provides sufficient funding to annualize the supplemental for 120 board certified teachers provided in FY-2004 and for an additional 250 teachers anticipated to attain board certification in FY-2005.

Advanced Placement – The Governor's budget proposes \$1 million to partially restore cuts to the program. Training and material costs increase approximately 10% each year. With

the FY-2004 level of funding, fewer grants were awarded in the first round and no second round grants were awarded. This funding will increase the number of grants awarded, increasing the number of AP classes offered to Oklahoma high school students.

Mentor Teacher – The Governor's budget includes \$493,000 to partially restore cuts to the Mentor Teacher program. This funding will provide a \$250 stipend to 1,972 mentor teachers for providing 72 hours of mentoring to a first year teacher.

School Lunch Matching Program

The Governor's budget includes \$568,000 for the School Lunch Matching Program. Federal regulations require that state revenues appropriated for the school lunch program shall not be less than 30% of the federal funds expended specifically for total lunches served. The proposed increase in state funds (3%) is being requested to meet the anticipated rise in total lunch participation.

OPAT – The Governor's budget proposes \$250,000 for FY-2004 to partially restore cuts to the OPAT program. Because of a decrease in funding, the DOE funded fewer OPAT programs this year.

Alternative Education – The Governor's budget includes \$250,000 to partially restore cuts to the Statewide Alternative Education program. Funds will be used to provide support for the districts that serve approximately 15,000 students. Resources will be used to provide materials to at-risk students and teachers.

Adult Education and Literacy - Federal law requires a 25% match to receive Adult Basic Education federal funds of approximately \$6 million. To access the maximum available funds in FY-2005, Oklahoma's maintenance of effort will increase by \$184,000.

Middle School Math Institute:

Information on this quality teaching initiative is contained in the section on the Oklahoma Commission for Teacher Preparation.

FY-2005 Executive Budget

The following information outlines the increases in the Governor's budget proposal for teacher pay raises in FY-2006 through FY-2009. The chart shows the level of pay for each year indicated as well as the percentage increase and what the annualized salary would be.

Additional salary increase for teachers with a Bachelor's degree:

- 0-4 years of experience - \$300
- 5-9 years of experience - \$600
- 10-14 years of experience - \$1,000
- 15-19 years of experience - \$1,100
- 20-24 years of experience - \$1,200
- 25 or more years of experience - \$1,400

Additional salary increase for teachers with a Masters or PhD:

- 0-4 years of experience - \$600
- 5-9 years of experience - \$1,000
- 10-14 years of experience - \$1,200
- 15-19 years of experience - \$1,400
- 20-24 years of experience - \$1,600
- 25 or more years of experience - \$1,800

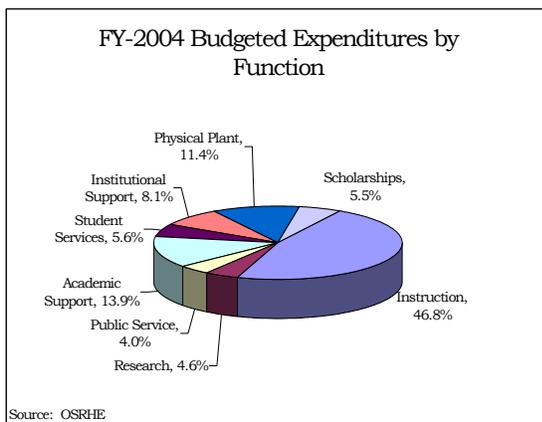
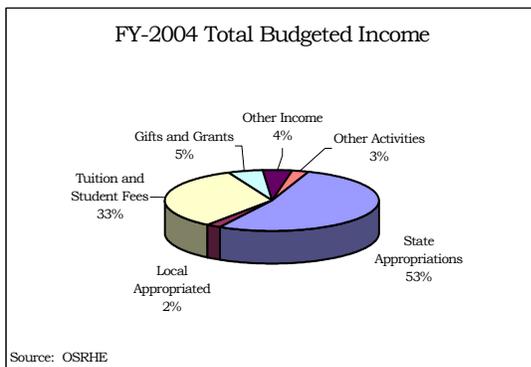
Currently when receiving an advanced degree, the step increase is \$1,106. Under the Governor's budget proposal, teachers achieving an advanced degree will receive \$1,200.

Degree and Years of Experience	Current	FY-2006	FY-2007	FY-2008	FY-2009	\$ Change	% Change	Current Annualized (10 months)	Future Annualized (10 months)
Bachelors 0 Years	27,060	27,360	27,660	27,960	28,260	1,200	4.43%	32,472	33,912
Bachelors 5 Years	29,549	30,149	30,749	31,349	31,949	2,400	8.12%	35,459	38,339
Bachelors 10 Years	31,209	32,209	33,209	34,209	35,209	4,000	12.82%	37,451	42,251
Bachelors 15 Years	32,869	33,969	35,069	36,169	37,269	4,400	13.39%	39,443	44,723
Masters 0 Years	28,166	28,860	29,460	30,060	30,660	2,494	8.85%	33,799	36,792
Masters 5 Years	30,655	31,749	32,749	33,749	34,749	4,094	13.36%	36,786	41,699
Masters 10 Years	32,315	33,609	34,809	36,009	37,209	4,894	15.14%	38,778	44,651
Masters 15 Years	33,975	35,469	36,869	38,269	39,669	5,694	16.76%	40,770	47,603
PhD 0 Years	29,272	29,966	30,566	31,166	31,766	2,494	8.52%	35,126	38,119
PhD 5 Years	31,761	32,855	33,855	34,855	35,855	4,094	12.89%	38,113	43,026
PhD 10 Years	33,421	34,715	35,915	37,115	38,315	4,894	14.64%	40,105	45,978
PhD 15 Years	35,081	36,575	37,975	39,375	40,775	5,694	16.23%	42,097	48,930

Higher Education

Higher Education continues to play a pivotal role in Oklahoma's economic development by graduating college educated students that help the state attract and retain businesses. Higher education institutions partner with companies to provide their employees with instructional programs and degrees that meet their needs. Higher Education institutions research and development efforts also work to diversify and improve Oklahoma's economy.

For FY-2004, the Oklahoma State Regents for Higher Education (OSRHE) received 15% of all appropriations made by the legislature making it the second largest agency in state government.



Notable Achievements

- *Students enrolled in OHLAP tend to outperform other high school students. The 2003 OHLAP graduating class' GPA was 3.49 compared to the state average of 3.0. Average ACT scores for this class were 21.1 compared to the state average of 20.5.*
- *The remediation rate for Oklahoma high school students declined by 15% from 40.1% in FY-1999 to 34.1% in FY 2003. This represents a decline of 15%.*
- *In 2002, OneNet received an award from Polycom, a leader in the telecommunications and videoconferencing industry, as the most outstanding IP-based network in the world – both for its statewide reach as well as the vast amount of two-way videoconferencing taking place on its infrastructure. OneNet was also the first state network to receive approval under the Internet2 Sponsored Education Group Participant program to pass traffic over the Abilene network.*
- *Enrollment in higher education institutions increased 4% this fall compared with fall 2002. A total of 179,333 students enrolled in classes this fall, the highest enrollment ever for the state system. The number of new freshmen has increased 8% over the past year.*
- *Higher education partnered with the Oklahoma Department of Human Services to develop the, "Scholars for Excellence in Child Care Program," to improve the quality of child care. The only initiative of its kind in the country, the program works to provide child care professionals scholarships to earn a two-year degree while working.*
- *Oklahoma retains a large percentage of Oklahoma residents who receive*

bachelor degrees – about 85% one year after graduating and about 70% after five years.

- *According to the 2000 Census, Oklahoma, with 38% of its population holding associate degrees or above, now ranks in the top 10 of all states for its educational and economic performance.*
- *For the third year in a row, a jury of its peers has named the Oklahoma State University College of Osteopathic Medicine one of the best medical schools in the nation for primary care and rural medicine. The exclusive top rankings are from the recently released U.S. News & World Report 2004 Best Graduate Schools guide. OSU placed in the top 30 out of 144 medical schools in America for primary care and 14th in the nation for its growing rural medicine program.*
- *For the third year in a row, the University of Science and Arts of Oklahoma has been named the No. 1 public undergraduate college in the Western United States by U.S. News and World Report. The magazine also calls USAO the "No. 1 Best Value" in the West among schools in the "Comprehensive-Bachelor's" category -- for the second year in a row.*
- *Ground-breaking sensing technology that will improve forecasts and warnings of such weather hazards as tornadoes and flash floods will be the focus of a new \$40 million research center in which the University of Oklahoma is a primary partner, the National Science Foundation announced recently. Funded in part with a five-year, \$17 million grant from the National Science Foundation, the Engineering Research Center for Collaborative Adaptive Sensing of the Atmosphere - one of only four new ERCs - is expected to increase the warning time for tornadoes, flash floods and*

other severe weather disturbances as well as improving forecast accuracy. The center will be based at the University of Massachusetts-Amherst.

Higher Education Initiatives

Brain Gain 2010

The OSRHE are moving aggressively to increase educational attainment in Oklahoma by doubling the expected growth rate of degree holders by 2010. Brain Gain 2010 calls for 28% of Oklahoma's population age 25 and older to hold a bachelor's degree or higher by 2010 and 10% of Oklahoma's population to hold an associates degree. In 1996, 20.1% held a bachelor's degree or higher and 5% held an associate degree.

	OK	U.S. Avg.	US 2010 Est	OK Goal
Associate	5.8%	6.5%	6.5%	7.0%
Bachelors or higher	20.4%	25.1%	27.5%	28.0%

Source: Regents

The regents' have undertaken a number of initiatives to help students better prepare for college and complete college such as increasing the high school core curricular requirements for college admission from 11 courses to 15 and implementing the Educational Planning and Assessment System (EPAS), which provides 8th and 10th grade students with information about how they are progressing academically in core content areas. Other Programs such as the Oklahoma Higher Learning Access Program (OHLAP) target students who might not otherwise attend or complete college.

College attendance and completion depend on several factors: the high school to college-going rate, college remediation rates and college retention

rates. Studies show the more students need remediation, the less likely they are to complete college. Once people go to college, they need to be retained in order for the number of college graduates to increase in Oklahoma.

College-going Rate

The percentage of high school students going to college varies considerably across the state. Note that the two largest counties are slightly above the state average while the lesser populated counties vary considerably.

Oklahoma High School to College-Going Rate Directly from High School to College				
	FY-1999	FY-2000	FY-2001	FY-2002
Oklahoma County	56.9%	57.8%	57.8%	60.6%
Tulsa County	58.1%	55.7%	56.0%	60.9%
Highest county	70.2%	79.7%	63.3%	73.7%
Lowest county	25.0%	18.7%	26.7%	33.2%
State avg.	56.8%	55.1%	54.8%	57.7%

Source: State Regents "High School Indicators Project: High School to College-Going Rates" February 2002 and 2003

The 2002 college going rate for OHLAP students was 79% compared to 58% for the state. As enrollment in this program grows, OHLAP students will have a positive statewide impact on Oklahoma's state college-going rate.

Ninety percent of the first-time freshmen at state institutions were from Oklahoma.

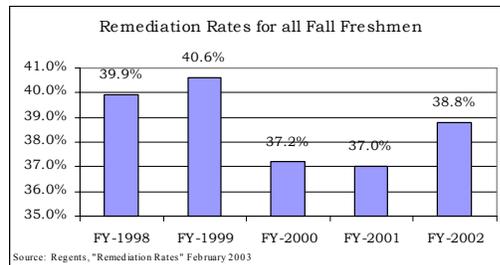
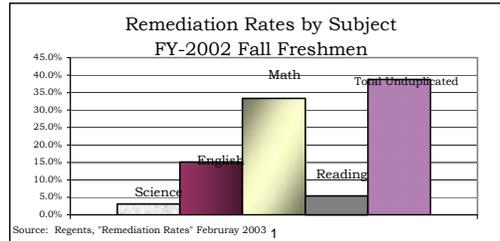
According to the 2000 Census, Oklahoma outpaces the nation in adult learners, ages 25 to 49, enrolled in part time higher education at 3.9% compared to the national average of 2.7%. The economic downturn may contribute to non-traditional students returning to college to increase job skills.

Remediation rate

College graduation rates are also a function of college remediation. A study conducted by the Education Commission of the States concluded students who require more than one remediation class are two times less likely to complete college than those

students requiring fewer than one remediation course.

In the fall of 2001, 33.1% of first-time freshmen were enrolled in at least one remedial mathematics course, 15.1% in a remedial English course and 3.1% in a remedial Science course.

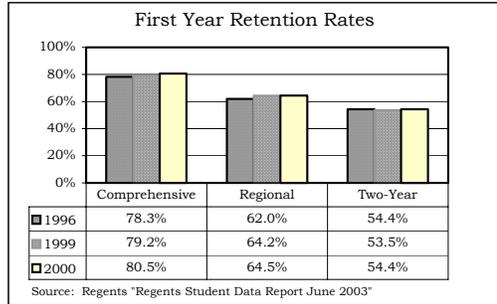


In 2001, first-time freshmen direct from Oklahoma high schools had a remediation rate of 36.5%, a decrease of 1.8% since fall 1996 but an increase of 2.4% from last year.

Retention and Graduation rate

College retention rates also play a critical role in college completion. Students need to return for their sophomore year after successful completion of their freshman year.

Six-year graduation rates of entering freshmen at the colleges and universities continue to improve; however, Oklahoma lags behind the nation.



Oklahoma graduation rates at the regional and two-year institutions are especially low.

	Oklahoma	Nation
Comprehensive Universities (6-years)	54.6%	55.4%
Regional Universitis (6-years)	30.3%	35.0%
Two-Year Colleges (3-years)	18.5%	31.6%

Note: 3 & 6 years are length of time within which students graduate

Source: State Regents' Unitized Data System (UDS)

Keeping Oklahoma graduates in Oklahoma and attracting others goes beyond the realm of higher education. It involves complex interactions between quality of life issues as well as income levels and job opportunities. A higher percentage of graduates who were Oklahoma residents remain in the state one year after graduation: approximately 85% of bachelor degree holders, 90% of associates and 80% of doctorates. Of the graduates who were non residents, about 20% are still in Oklahoma five years after graduation.

Scholarships and Grants

Oklahoma Higher Learning Access Program (OHLAP)

A 2001 study (Postsecondary Education Opportunity, September 2003) indicated that nationally only 4.5% of dependents in households with family incomes between \$35,000-\$65,000 per year attain a bachelor's degree by age 24. Recognizing the need to establish a program focused on this population, the Legislature created the Oklahoma Higher Learning Access Program (OHLAP).

Created in 1992, OHLAP provides academically prepared students in low to moderate income households five years of tuition at any public education institution in Oklahoma or a portion of tuition at any private college in Oklahoma.

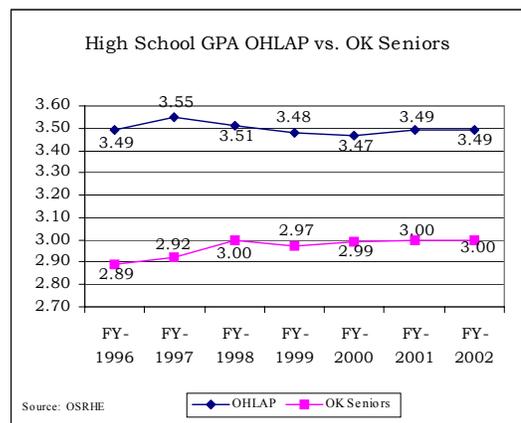
The above average college-going rates of OHLAP students indicate that OHLAP is expanding college access to more Oklahoma students

To qualify students must:

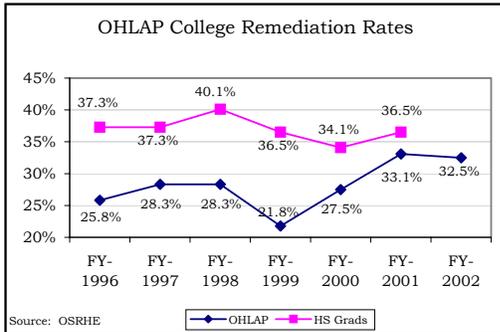
- enroll in the 8th, 9th or 10th grade and have a family income below \$50,000/year;
- earn a minimum 2.5 grade point average and take a college preparatory curriculum which includes two years of a foreign language or two years of computer science;
- remain drug and alcohol free; and
- not be adjudicated for any criminal offense.

Six years of data show that OHLAP has the potential to increase the number of Oklahoma students attending and completing higher education. Compared to Oklahoma's current student population, data has shown that OHLAP students:

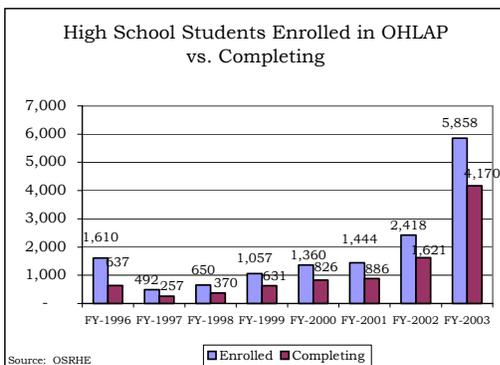
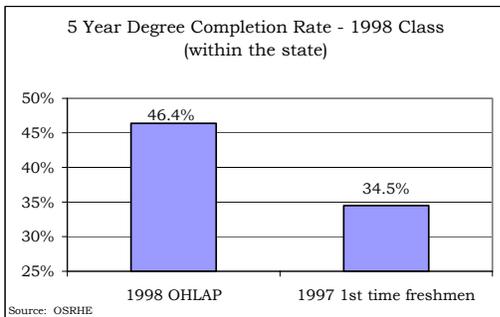
- Earn higher-than-average high school GPA's;



- Earn higher than average ACT scores;
- Have higher college-going rates;
- Require less remediation in college;



- Enroll full-time in college at higher-than-average rates;
- Persist in college at high rates; and
- Are initially completing college degrees at a higher-than-average rate.



Academic Scholars

Begun in 1988 to encourage the state's and the nation's best students to attend higher education institutions in Oklahoma, this program provides scholarships to students meeting criteria established by the Oklahoma Legislature and the OSRHE.

Students qualify by receiving an official national designation, achieving outstanding ACT or SAT scores or receiving a nomination by a college or university. The amount of the award ranges from \$3,500 per year to \$5,500, according to the type of institution, and includes a tuition waiver. For FY-2004, scholarships in the amount of approximately \$10.1 million will be awarded to 2,070 students.

Oklahoma Tuition Aid Grant (OTAG)

This need-based program provides a maximum annual award of 75% of enrollment costs or \$1,000, whichever is less, to low-income students residing in Oklahoma enrolled full- or part-time in a public higher education institution or career tech school. For students enrolled in private institutions, the maximum award is \$1,300. For FY-2004, funding is sufficient for an estimated 20,763 awards.

GEAR UP

Gaining Early Awareness and Readiness for Undergraduate Programs (GEAR UP) is a federal program designed to better prepare middle and high school students for college through mentoring programs and scholarships as well as new academic preparations and awareness programs for students and parents.

This national initiative began in 1998 to encourage more American youth to have high expectations, stay in school, study hard and take the right courses to prepare for college. More than 670 partnerships applied nationwide and Oklahoma GEAR UP was one of 164 successful applicants.

Since its inception, Oklahoma GEAR UP has helped 119 districts deliver services to more than 65,000 students. An additional 25 school districts have been selected for year five and will begin delivering services to approximately 6,900 students in the 2003-04 school year. Districts improve academically through staff development, mentoring and tutoring programs.

Resources and services are provided through partnerships between the Oklahoma State Regents for Higher Education, Oklahoma colleges and universities, middle schools, community-based organizations and businesses.

College Savings Plan

The Oklahoma College Savings Plan offers families the opportunity to plan and save early for higher education expenses. There are several advantages:

- Oklahoma residents are eligible for up to a \$2,500 state income tax deduction annually;
- Earnings are tax free if used for educational purposes; and
- Students may go to the post-secondary institution of their choice in Oklahoma or in other states.

Since its inception in April 2000, nearly 19,000 Oklahoman's have opened College Savings Plan accounts totaling \$72 million in assets. Twenty six other states offer a state income tax deduction annually.

Tuition

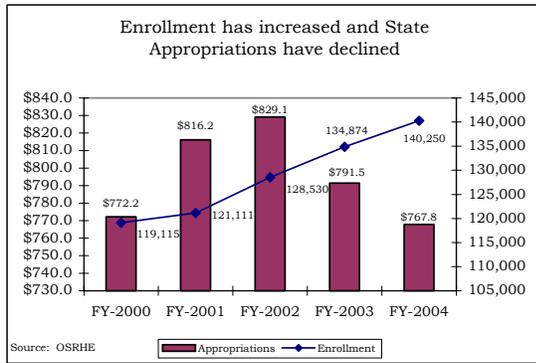
Higher education tuition fees in Oklahoma are among the lowest in the nation. Fees at all levels have increased for the current academic year.

House Bill 1748, passed during the 2003 Legislative session, authorized the State Regents to establish tuition and mandatory fees at the following levels:

- Undergraduate tuition and mandatory fees for resident students at comprehensive universities will be at a rate less than the average rate charged at public institutions in the Big Twelve Conference.
- Undergraduate tuition and mandatory fees for resident students at regional and two-year institutions will be at a rate less than the average rate charged at peer institutions that include, but are not limited to, those adjacent to Oklahoma.
- Undergraduate tuition and mandatory fees for nonresident students may not exceed 105% of the nonresident tuition and fees at peer institutions.
- Graduate and professional programs' tuition and mandatory fees for resident and nonresident students will be at a rate less than the average rate charged for like-type programs of comparable quality and standing at public institutions of higher education as determined by the State Regents.

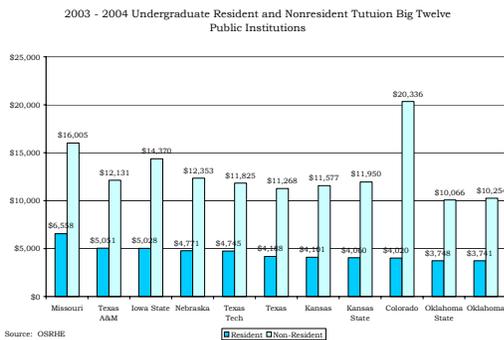
In addition to submitting annual tuition reports, Regents are also required to make a reasonable effort to increase the need-based financial aid available to students proportionate to any increase in tuition.

The following is a chart showing system funding and FTE enrollment history and projections.



While enrollment has increased, state appropriations have declined causing the institutions to raise tuition.

The following is a table that compares resident and nonresident tuition in the Big Twelve Conference. While higher education institutions across the United States increased tuition last year, Oklahoma's tuition still remains the lowest in the region.



Endowed Chairs

University chairs were introduced to the United States more than 200 years ago by Thomas Hollis, a London merchant, who endowed the renowned Hollis professorships in Divinity and in Mathematics and Philosophy at Harvard University. Thomas Hollis' gift continued the European tradition from the Elizabethan Era of establishing faculty chairs.

The practice of endowing professorships spread through the colonies and then the new nation. It grew during the Industrial Revolution

when new wealth and greater civic responsibility encouraged it. In Oklahoma some endowed positions pre-date the creation of the Regents' Endowment Program in 1988 and 1989, but the practice of creating chairs and professorships at the state's universities has grown since that time.

The Regents' Endowment Program was established by the State Regents in 1988 and codified by the Oklahoma Legislature in 1989 to "improve the overall quality of education and research". The Legislature further directed that endowed chairs and distinguished professorships should be established in academic areas which contribute to the enhancement of the overall cultural, business, scientific, and/or economic development of Oklahoma.

Endowed chairs and professorships must be established in areas for which the institution has ongoing, approved academic programs. Since 1989, appropriations for endowments have totaled over \$140 million. To date, 195 chairs, 150 professorships and 106 lectureships have been established at 22 universities and colleges.

Annual budgeted allocations decreased in FY-2004 from the previous years' \$9.5 million budget to \$7.5 million due to the state's revenue shortfall.

Fiscal Year Allocated	\$ millions
FY-2000	\$11.0
FY-2001 (including supp.)	20.0
FY-2002	11.0
FY-2003	9.5
FY-2004	7.5
	<hr/>
	\$59.0

Source: Regents & OSF appropriations summaries

Endowed Chairs	
	\$millions
Private contribution	\$ 184.3
State matched	\$ 140.3
Total funded	\$ 324.6
Balance of unmatched private contributions	\$ 44.0
Source: Regents	

Currently, private donations are matched with state appropriations on a one to one basis. This program is doing so well that it is generating private donations faster than available state funds can match them. Regents' data indicates that more than \$44 million of private donations are unmatched. In the current budget situation, alternative sources of funding will have to be identified to fund the State's share of the match in this important program.

OneNet

OneNet is the official information and telecommunications network for education and government and is Oklahoma's primary means of distance learning. It became operational in 1996 and was built on the statewide talkback television system established and operated by the State Regents since 1971.

The system currently provides a border-to-border system which includes all public colleges and universities, Career Technology Centers and about 70% of the public schools.

State appropriations cover 15.6% of OneNet's costs. User fees and other revenue make up 84.4% of their costs.

OneNet Funding FY-2003

State Appropriations	\$ 3,949,895
Higher Ed. Institutions User Fees	2,067,440
Federal (E-rate) Reimbursements	1,790,114
OK Universal Service Funds	868,154
Customer Revenue (non-E-rate)	5,553,166
Investment Income	50,000
Grants (OUSF, ODL, VISION)	1,271,190
Tower Lease Revenue	53,000
Gig-E Circuit Revenue	250,000
Administrative Overhead/other	333,850
Research Match Internet II Grant	329,250
	\$ 16,516,059

This is after budget shortfall reduction. Original was \$4,221,280.

Source: OneNet

Office of Accountability

During the 2003 Legislative Session, the Office of Accountability was transferred from the State Department of Education to the Regents for Higher Education.

The Office of Accountability provides narrative and statistical reports regarding the performance of the state's public schools to the people of Oklahoma, as required by the Oklahoma Educational Reform Act and the Oklahoma School Testing Program Act. Reports present yearly and historical comparisons of public school and school district graduation rates, dropout rates, pupil-teacher ratios, enrollment gain and loss rates, school district finances and test results by grade and subject/section in a socioeconomic context. These results are also available as school report cards.

School Performance Review

Legislation passed in 2001 authorized the Office of Accountability to administer a school performance review program.

A school performance review evaluates the management and fiscal performance of local school districts statewide. The bottom line is to identify specific ways to reduce costs,

enhance efficiency and reallocate savings into the classroom. The law requires that all realized savings to school districts as a result of this program be directed into additional funding of classroom services. At the end of FY-2003 the Office completed its first review of Billings Public Schools.

For FY-2004, the Office is reviewing Ponca City Public Schools. If funds are available, Hennessy Public Schools and Frontier Public Schools will be reviewed next.

Quartz Mountain

Transferred to the State Regents in 2002, the Quartz Mountain State Park and Lodge operates fine arts institutes for high school students and continuing education programs for high school and university faculty and commercial artists.

Quartz Mountain Arts and Conference center offers a variety of recreational options for the park visitor. Water-skiing, fishing and jet-skiing are popular summer sports. The park includes a system of hiking and biking trails, an 18-hole golf course and paddle boats. It is a favorite spot for rock-climbers, photographers and bird-watchers. The north fork of the Red River runs through the park.

The Oklahoma Summer Arts Institute is a two-week residential school providing pre-professional training to Oklahoma's artistically talented students, ages 14-18. This year 286 students participated. Students are chosen through a competitive audition process.

The Oklahoma Fall Arts Institutes are an annual series of four-day workshop retreats for amateur and professional artists, public school teachers and college and university instructors. Anyone age 21 or over is welcome to attend these intensive, hands-on workshops. Class sizes are limited to

ensure close working relationships between participants and artists. This year 334 participants who included teachers, professors and artists attended the Fall Arts Institutes.

FY-2005 Recommendations

FY-2005 Appropriation	
<i>(amounts in thousands)</i>	
FY-2004 Appropriation	\$768,130
FY-2004 Bud. FTE Level	174.2
Actual Avg. YTD FTE	305.7
Funding Adjustments:	
Restore Cuts to Institutions	15,000
OHLAP Scholarships	8,520
Endowed Chairs	2,000
Tuition Equalization Grant	1,500
Fire Service Training	(502)
County Extension Services	500
School Perf. Reviews	450
Debt Service	87
Office of Account. Oper.	<u>50</u>
Total Adjustments	<u>27,605</u>
FY-2005 Recommendation	\$795,735
% Change for FY-2004	3.59%

Source: Office of State Finance

Restore Cuts to Institutions: The Governor's budget proposes \$15 million to replace the FY-2003 one-time revenue disbursed at the start of FY-2004 and partially restore FY-2004 cuts.

OHLAP Scholarships: The Governor's budget proposes \$8.520 million in increased appropriations to support the growth in enrollment for OHLAP. This would provide funds for the more than 1,200 student increase anticipated for this scholarship program.

Endowed Chairs: The Governor's budget proposes issuing a bond to

fulfill the state's fiscal commitment for the current Endowed Chairs program. An additional \$2 million is recommended for six months of debt service obligations for FY-2005.

At the present time, Oklahoma has far too few research-active faculty to achieve or sustain critical mass in areas of rising technological significance. The Governor recommends the OSRHE refocus existing resources for the Endowed Chairs program toward the recruitment and retention of faculty conducting research and development in targeted technology areas. This will be Phase II of the Endowed Chairs program.

Tuition Equalization Grant: The Governor's budget provides \$1.5 million for Tuition Equalization Grants. SB 520, which passed in the 2003 Legislative Session, created the fund for the purpose of awarding grants to Oklahoma residents enrolled as undergraduate students in a private or independent institution of higher education. To be eligible:

- the student must be a resident of Oklahoma;
- be enrolled full-time;
- income from taxable and nontaxable sources not more than \$50,000;
- pay more tuition than required at a comparable public institution and no less than the regular tuition required by all students enrolled; and
- maintain minimum standards of academic performance.

The student can receive no more than \$2,000 a year. There are 11 institutions that are eligible for grants.

County Extension Offices: The Governor's budget includes \$500,000 for County Extension Offices to partially restore cuts taken in FY-2004.

Fire Service Training Center: The Fire Service Training Center has \$502,272 as a baseline budget for FY-2004. The Governor's budget proposes moving this program to the State Fire Marshall's budget and adding \$465,000 to the base for a total of \$967,272.

Debt Service: The Governor's budget includes \$87,400 for an anticipated increase in FY-2005 debt service obligations for Quartz Mountain.

Capital Bond Issue: The Governor's budget proposes a \$65 million bond issue for capital improvements at Oklahoma's public higher education institutions.

Office of Accountability

Oklahoma Indicators Program:

The Governor's budget proposes \$50,000 for increased costs associated with publishing Profiles State Report.

School Performance Review:

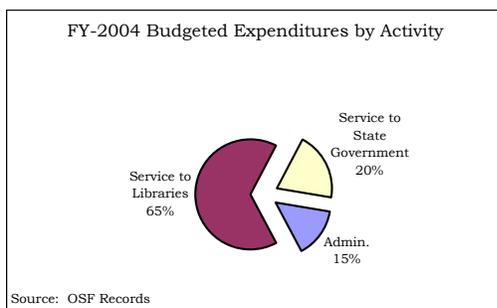
The Governor's budget proposes \$450,000 for the School Performance Review program. This will allow the Office of Accountability to hire consultants to perform the reviews, provide salary and benefits for the contracting coordinator to cover program operations.

Oklahoma Department of Libraries

The Oklahoma Department of Libraries (ODL) serves the citizens of Oklahoma by providing information services and preserving unique government information resources.

All states have a state library agency. Sometimes the state library agency is part of a larger agency such as a department of education or secretary of state. Oklahoma has had a state library since 1893 that serves state government customers. The ODL is considered a comprehensive state library agency because it provides archives and records management, a law and legislative reference branch and public library development as well.

Through a combination of traditional print and online web services, the ODL provides convenient public access to state publications and information. It also retains state records of temporary and permanent value. Information resources are preserved for future generations. The department also publishes Oklahoma's official bluebook of state government information, the *Oklahoma Almanac*.



Notable Achievements

- *Statewide access to full-text magazine and journal articles saves local public libraries millions of dollars. Clients served include 205 public libraries, 1,100 school*

libraries, 68 academic libraries and 110 special libraries.

- *The ODL developed the Oklahoma Reads Oklahoma program and established a web site for voting and promoting the project. The six books listed for consideration deal with significant aspects of Oklahoma history, heritage, are suitable for discussion and in print. The ODOL hopes this project will encourage all Oklahomans to read and discuss the same book.*
- *It is important for communities to support and maintain archives. The ODL offered four forums over the last year that have emphasized building organization support for libraries, historical societies, tribes, and other nonprofit organizations that maintain archives of historical documents or artifacts. Each forum had over 100 attendees.*
- *With the Hispanic population in Oklahoma almost doubling from 1990 to 2000, the state's libraries needed to enhance their Spanish language collections. With a federal and state grant, the ODL provided a \$2,000 grant per library to counties with 10% or more Hispanic population. Counties with a Hispanic population of 5-9.9% received \$1,000 per library. Counties with a Hispanic population below 5% received \$750 per library. Oklahoma and Tulsa Counties received \$1,000 per branch library. The ODL awarded \$157,000 in grants.*
- *The Ready to Learn First Book project increased the number of at-risk children the ODL was able to reach with increased funds from the PBS Foundation. This project supplies children with books, and also gives training materials to day care providers on reading to children. The workshops are held across the State and the evaluations have been excellent. The program reached 728 home daycare centers and daycare*

classes, resulting in indirect benefits to 22,093 children.

Legal and reference services

The ODL fulfills two of Oklahoma’s earliest government functions. In 1890, the First Legislature of the Territory of Oklahoma created a library to provide legal and legislative reference services. This mission continues today through the Jan Eric Cartwright Memorial Library in the State Capitol.

In 1893, the territorial library became an official depository for federal government publications. Today the Libraries’ U.S. Government Information division provides citizens access to federal information in both print and electronic formats. The licensing of electronic versions of magazines and journals that are available to all citizens of Oklahoma is the biggest success the ODL has achieved.

Services to local libraries

Local libraries are served through formulation of standards, consultant services and continuing education for public library staff and trustees. A formal librarian certification program keeps Oklahoma’s public librarians up to date with important trends and tools of their profession. Trained staff in public libraries means better service for library users and better management of taxpayers’ dollars. Quality library service is a basic community infrastructure need.

Literacy program

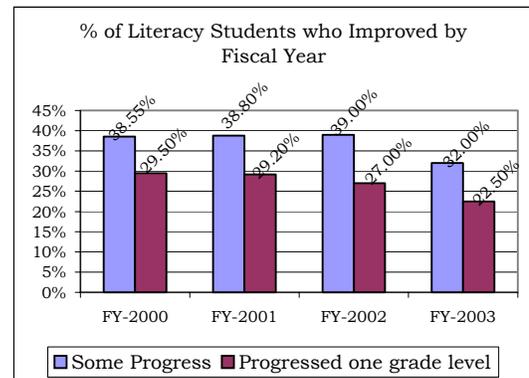
The Libraries’ literacy program supports local community efforts to increase the basic literacy of Oklahomans through the work of public library and community-based literacy programs. The literacy program:

- Provides grants to local communities;
- Coordinates publicity, training and development efforts; and
- Cooperates with other agencies and the private sector in the development of literacy projects.

The literacy resource office works through local libraries using staff and volunteers to work with both children and adults.

Client	FY-2002	FY-2003	FY-2004 budgeted
Children in Libraries			
First Book Program	1,350	1,492	1,500
Children served by local programs	6,714	11,670	10,000
Active tutors	1,412	1,140	1,300
Adult literacy (not TANF)	3,200	2,694	2,894
TANF – hours of instruction	74,957	90,281	58,683

Source: Dept. of Libraries 11/20/2003



Source: Dept. of Libraries

Children’s summer reading program

The summer reading program is another major impetus which impacts the literacy rate. The program keeps multitudes of Oklahoma children reading during their vacation months. The centralized coordination of the program also saves local libraries tax dollars while providing quality

materials and programs that would not otherwise be available to many children.

The number of children participating in the summer reading program has dramatically increased in the last few years.

Summer Reading Program		
	# of children enrolled	% of eligible children enrolled
FY-2000	36,360	12%
FY-2001	65,550	20%
FY-2002	75,638	21%
FY-2003	86,868	25%
FY-2004 Bud.	90,000	26%

Source: Department of Libraries 11/20/2003

FY-2005 Recommendation

FY-2005 Appropriation	
<i>(amounts in thousands)</i>	
FY-2004 Appropriation	\$6,166
FY-2004 Bud. FTE Level	71.1
Actual Avg. YTD FTE	69.8
Funding Adjustments:	
None	0
FY-2005 Recommendation	\$6,166
% Change for FY-2004	0.00%
Source: Office of State Finance	

The FY-2005 appropriation for the Department of Libraries is the same as provided for FY-2004.

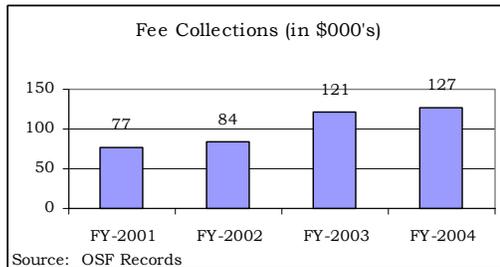
Board of Private Vocational Schools

The Board of Private Vocational Schools licenses, regulates, and sets standards for the operation of private schools that conduct occupational training. The Board licenses approximately 190 schools with a student enrollment exceeding 50,000 per year. Additionally, there are approximately 100 solicitors licensed to recruit students for the licensed schools.

Every state has a private vocational school licensing function. Some states include this function in the State Department of Education, some fall in the Regents of Higher Education and some are free-standing Boards.

Licensing fees were increased July 1, 2002, and resulted in additional fee collections of approximately \$35,000 over FY-2002 collections.

FY-2004 estimated collections are \$127,000 while appropriations are \$152,989.



FY-2005 Recommendation

FY-2005 Appropriation	
<i>(amounts in thousands)</i>	
FY-2004 Appropriation	\$153
FY-2004 Bud. FTE Level	2.9
Actual Avg. YTD FTE	2.8
Funding Adjustments:	
None	0
FY-2005 Recommendation	\$153
% Change for FY-2004	0.00%

Source: Office of State Finance

The FY-2005 appropriation for the Board of Private Vocational Schools is the same as provided for FY-2004.

Oklahoma School of Science and Mathematics (OSSM)

The mission of the Oklahoma School of Science and Mathematics is twofold:

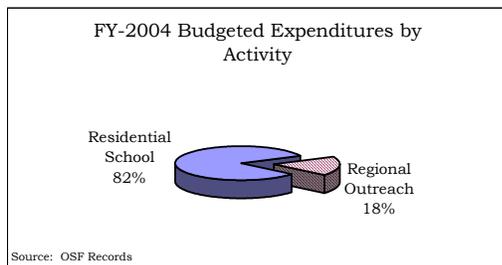
- To foster the educational development of Oklahoma high school students who are academically talented in science; and
- To assist in the improvement of science and mathematics education for the state.

Notable Achievements

The class of 2003 had many accomplishments. Some of which are:

- Increase in their ACT composite score from 28.15 to 31.66;
- 18 National Merit Finalists;
- Two semifinalists for the 2003 United States Physics Olympiad Team;
- Second place in the National Physics Bowl;
- One member of the United States Chemistry Olympiad Team and
- First place in the Oklahoma Mathematics League Competition.

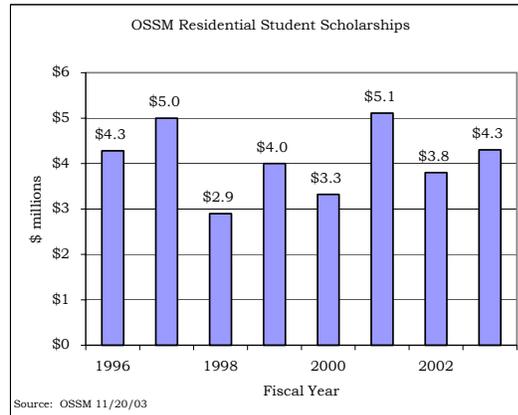
The OSSM has two main activities.



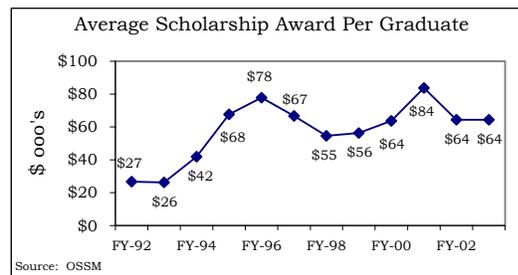
Residential High School

OSSM maintains a tuition-free residential high school for 144 students. Residential students

represent the entire state with over half of the enrollment from smaller communities. Students focus on biology, chemistry, physics, computer science, mathematics and the humanities. They excel as measured by college admissions, scholarships and awards each year. All graduating seniors are college bound. The amount of total annual scholarships received by OSSM students is significant.



The scholarship awards per graduate are also impressive.



Twenty six states have various forms of Math and Science residential programs, however, some are private schools, some are magnet schools, some schools include the Arts, some pay tuition and several of them are on university campuses and have concurrent enrollment situations where the students attend college courses. For example, students at the Texas school are on the North Texas State campus and may enroll in college courses.

Maintaining a tuition-free residential high school requires significant investment. The cost per OSSM student is higher than traditional public education for two reasons. First, class sizes are considerably smaller than those of other public schools thereby increasing the need for teachers and classrooms. Second, the students are not required to pay their educational or residential costs.

At OSSM, 15 of 25 instructors and two administrators have PhD's at the residential site. Two of 18 instructors at the regional center sites have their PhD's plus the administrator over the regional center program.

	FY-2000	FY-2001	FY-2002	FY-2003
Educational Cost	\$ 15,641.67	\$ 18,022.40	\$ 21,784.01	\$ 21,541.00
Residential Cost	5,065.78	6,232.30	6,640.57	5,450.00
	<u>\$ 20,707.45</u>	<u>\$ 24,254.70</u>	<u>\$ 28,424.58</u>	<u>\$ 26,991.00</u>

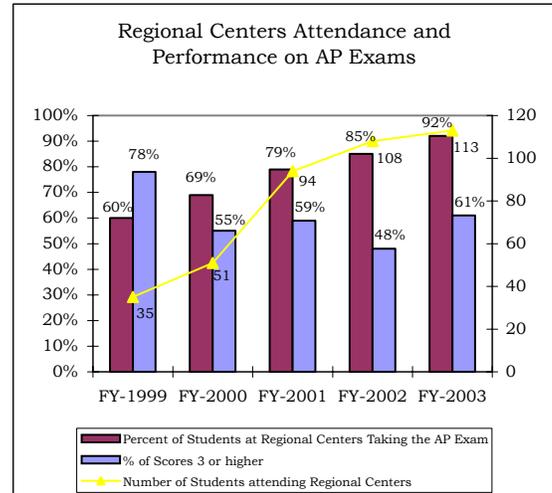
Source: OSSM, 11/19/2003

Of the 719 OSSM graduates since 1992, 427 have or are attending in-state higher education institutions.

Regional Centers

OSSM also operates regional centers for other students talented in science and mathematics. The regional centers serve students in their local areas. Currently, there are nine operational regional center sites located in Ardmore, Afton, Drumwright, Enid, Muskogee, Pryor, Okmulgee, Shawnee and Tahlequah.

These centers use existing facilities and existing transportation systems to serve student populations. The students attend the regional centers one half of the school day while continuing to attend their local high school for the remainder of the day. Each of the centers serves students from multiple feeder high schools.



Source: OSSM

For FY-2003, there were a total of 113 students in the regional centers. 92% took the AP exams and 61% of them scored a three or higher.

FY-2005 Recommendation

FY-2004 Appropriation	\$6,205
FY-2004 Bud. FTE Level	68.8
Actual Avg. YTD FTE	67.7
Funding Adjustments:	
Operations	150
Debt Service	<u>137</u>
FY-2005 Recommendation	\$6,355
% Change for FY-2004	2.42%

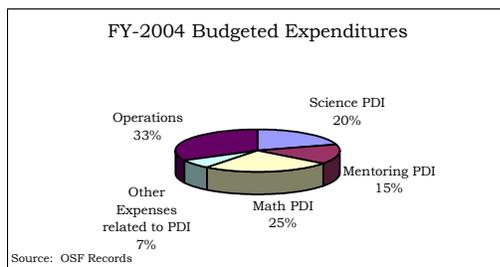
Source: Office of State Finance

OSSM Operations: The Governor's budget proposes funding in the amount of \$150,000 for increases in contracts and other operations increases.

Debt Service: The Governor's budget includes appropriations of \$136,800 for an anticipated increase in FY-2005 debt service obligations.

Oklahoma Commission for Teacher Preparation (OCTP)

The OCTP serves as an independent standards board for teacher education. This competency based system of teacher preparation includes an evaluation of teacher education programs, a teacher assessment system and professional development institutes. Fifteen other states have an independent standards board with four more considering it. All other standards boards are under the individual state's Department of Education.



Notable Achievements

- Over 270 programs at Oklahoma's 22 teacher education institutions have received national recognition from the Nation Council for the Accreditation of Teacher Education (NCATE) compared to five in 1998.
- Oklahoma remains in the top eight states in the nation in teacher preparation according to the "Quality Counts" report issued by Education Week in January of 2003.
- The 40 schools involved in Phase IV of the Literacy First professional development institute have increased the 3rd grade SAT9 (norm reference test) scores by 9% since 1999.
- Of the 2,100 K-8 science students whose teachers were trained in the Science Professional Development Institute, they had an average gain of 9.25% on their pre- and post-tests.

- Oklahoma ranks 8th in the nation in the number of teachers attaining National Board Certification with 632 having reached that milestone.

Accreditation of Teacher Education Programs

The Commission is responsible for ensuring that the state's 22 teacher education programs meet state and national standards. The three phases of the accreditation process are:

- Evaluation of each program at an institution to ensure that standards are met;
- Assessment of teacher candidate portfolios; and
- Site visits to institutions to ensure compliance with standards.

Teacher Assessment

Competency-based teacher assessment programs ensure that students have access to competent, qualified teachers. During 2003, candidates from teacher education programs at 22 public and private schools completed 13,077 exams with an 83.4% pass rate. Those seeking alternative certification, administrator or additional certification along with out-of-state candidates completed 2,267 additional exams with an 81.4% pass rate.

Professional Development Institutes

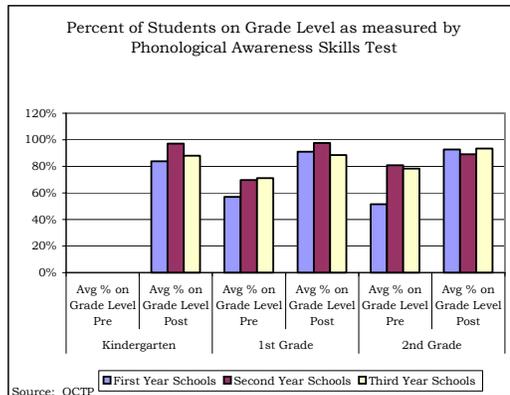
The Commission sponsors professional development institutes in literacy, science, middle school math and mentoring of teachers.

Literacy PDI

The Reading Sufficiency Act, funded by the Legislature in 1997, provides reading and literacy training for all elementary teachers using "Literacy First" as its training base. The literacy

PDI provides a balanced approach to teaching reading which incorporates the latest phonics and literature based strategies. Since its implementation in 1997, approximately 13,000 teachers have been trained.

The literacy training occurs in four phases. Phase I and II provide training for teachers. Phase III focuses on literacy training for administrators. Phase IV implements a systemic, school-wide reading model whereby the school's faculty creates a strategic plan. This model includes coaching and mentoring for support and follow up.



A study evaluated the effectiveness of the Literacy First process by examining pre and post tests on phonological awareness. The state's goal is to have at least 90% of third graders on grade level by May 2007.

Science PDI

Since 1997, the Legislature has appropriated funds for PDIs in science instruction. Each year 230 teachers participate in 45 hours of hands-on professional development that facilitates an integrated approach to teaching math and science. The program uses a train-the-trainer model, identifying teachers who will serve as peer trainers across the state. The vendor is Oklahoma State University Stillwater Consortium.

Middle School Math PDI

House Bill 2728, passed during the 2000 Legislative Session, directed the OCTP to provide Professional Development to 7th and 8th grade math teachers who were certified prior to September 1999. The objective of this legislation and the resulting PDI is to provide math teachers with the knowledge and skills to teach higher-level mathematics, thereby improving student learning at the middle level. During the 2002 Legislative Session, HB 2625 directed them to expand coverage to 6th grade math teachers. Competitive bids were awarded to OSU and OEA to serve as vendors for the middle level math PDI.

Mentoring PDI

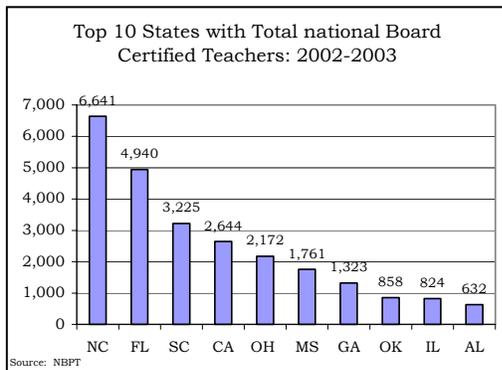
Oklahoma has had a nationally recognized induction program in place for over 20 years. Since 1998, the Oklahoma Commission for Teacher Preparation has provided two mentoring PDIs to enhance the induction process by providing consistent mentor training in the essential skills necessary to support beginning teachers. The contractors for the mentoring PDIs are the Oklahoma Education Association, using the Pathwise Induction model, and Oklahoma State University using the Performance Learning System Coaching model. Last year, 225 teachers went through the Mentoring PDI.

OCTP has contracted with Southwestern Education Development Laboratory for independent and on-going evaluation of each of the Professional Development Institutes. Results of the evaluation indicate that quality professional development is making a difference in Oklahoma classrooms.

Education Leadership Oklahoma

Education Leadership Oklahoma provides information to teachers about National Board of Professional Teachers certification. The state program provides technical assistance and a scholarship of \$2,500 to candidates to pay for the testing program and preparation costs.

Upon successful completion, classroom teachers receive \$5,000 for the life of the certificate, which is currently ten years.



For FY-2004 there are 858 National Board certified teachers in Oklahoma.

FY-2005 Recommendation

FY-2005 Appropriation	
<i>(amounts in thousands)</i>	
FY-2004 Appropriation	\$1,986
FY-2004 Bud. FTE Level	9.0
Actual Avg. YTD FTE	9.1
Funding Adjustments:	
Math Prof. Dev.	<u>2,000</u>
FY-2005 Recommendation	\$3,986
% Change for FY-2004	100.70%

Source: Office of State Finance

Math Professional Development:

This budget includes funding in the amount of \$2 million for a Math Professional Development Institute. This provides sufficient funds for training 500 teachers.

The Governor's proposal implements a middle school math professional development institute for all teachers at the 6th, 7th and 8th grade level. The institute will focus on improving both subject area knowledge and instructional methodology. The institute will consist of two phases to be completed over two years. Each institute shall provide 10 days of instruction with five days for follow-up classroom interventions. The state will provide funding for the institute, the cost of substitute teachers in the classroom if necessary and a teacher stipend. Teachers completing the program and intermediate math test shall receive a \$1,000 stipend.

There are currently over 1,600 math teachers at the 6th, 7th and 8th grade levels. At a cost of \$3,000 per teacher, the cost of the institute will be \$4.8 million. The cost of the \$1,000 stipend will be \$1.6 million for a total cost of \$6.4 million. This will be given to the OCTP over the next three years to provide adequate time to develop and implement the PDI and send out the

proposal for bid. Preference for attending the PDI should be given to certified personnel teaching math in schools not meeting Average Yearly Progress.

Energy

Summary of FY-2005 Budget Recommendations
 (amounts are in \$000's)

Agency Name	FY-2004 Adj. Approp.	FY-2005 Base	FY-2005 Adj.	Final FY- 2005 Approp.	% Diff. From FY- 2004
Corporation Commission	\$7,998	\$7,998	\$0	\$7,998	0.0%
Mines, Department of	722	722	0	722	0.0%
Total Energy:	\$8,720	\$8,720	\$0	\$8,720	0.0%

Oklahoma Corporation Commission

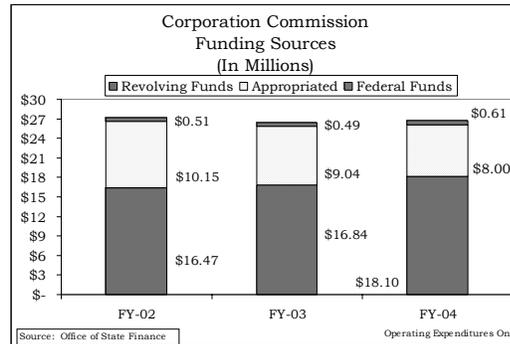
The mission of the Oklahoma Corporation Commission is to regulate and enforce laws and activities associated with the exploration and production of oil and gas, public utilities, the safety aspects of motor carrier, rail and pipeline transportation, and the storage and dispensing of petroleum-based fuels.

The Commission oversees the conservation of natural resources to avoid waste and protect the environment. The Commission has 3 elected Commissioners.

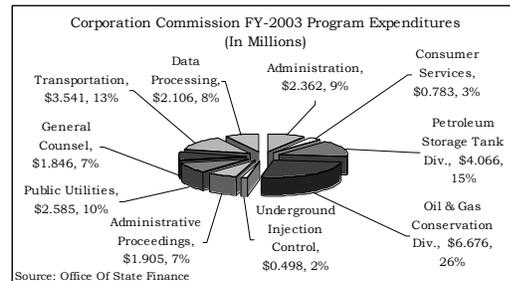
Notable Achievements

- *In spite of a sharp increase in industry activity and staff cuts, the Oil and Gas Division has improved FY-2003 productivity levels. The Division's 36 field inspectors investigated 1,372 pollution-related citizen complaints and 846 non-pollution complaints, conducted 79,529 inspections and found 595 violations.*
- *In FY-2003, OCC field inspectors located and turned in to the OERB 837 abandoned sites that were remediated, accounting for most of OERB's cleanup budget.*
- *During FY-2003, the 4-member Public Utilities Complaints Department had 15,357 consumer contacts and arbitrated disputes which resulted in a savings of \$214,650 to Oklahoma consumers.*
- *In FY-2003, the Petroleum Storage Tank Division's 22 fuel specialists performed 7,391 service station inspections. They checked 73,868 pump calibrations, found 1,982 pumps out of calibration, and checked 18,239 for water and other contaminants.*

Budget Funding Sources The Corporation Commission is primarily funded with revolving funds. Of the Commission's FY-2004 budgeted revenue sources, revolving funds are 67% of budgeted revenue. Below is a chart displaying the funding history of the Commission since FY-2002.



Below is a chart displaying the FY-2003 program expenditures for the Corporation Commission.



Consumer Services Division

The Consumer Services Division of the Corporation Commission investigates and resolves consumer complaints. The Division also maintains accounts for mineral owners who cannot be located.

Oil and Gas Conservation Program

The Oil and Gas Conservation Program provides regulatory oversight for all activities associated with the exploration, production and pipeline transportation of oil and gas in Oklahoma. The program is organized into three departments: Technical Services, Pollution Abatement, and Field Operations.

In addition to issuing regulatory permits, the technical services department is also the official repository and point of access for all information on all oil and gas wells and related activity in Oklahoma.

The pollution abatement department protects the surface, surface waters, and ground waters of the state from pollution attributed to oil and gas activities. If pollution occurs, this department oversees the remediation efforts.

The department also administers the Federal Underground Injection Control Class II program mandated under the Federal Safe Drinking Water Act and the Commission's portion of the federally mandated Clean Water Act.

The field operations department investigates complaints from the public, witnesses all field tests and operations and provides instructions for well plugging operations. Field operations personnel investigate and initiate enforcement procedures when appropriate.

	FY-2002	FY-2003
Oil and Gas Conservation Division		
Intent to Drill Applications Filed	3,889	4,730
Well Plugging Reports	1,862	1,565
Well Completions	4,899	4,326
Gas Well Tests Filed	3,615	3,128
Tax Incentives Filed	1,239	661
OG Total Applications Filed	15,504	14,410
Well Site Inspections	84,855	79,529
NonPollution/Pollution Complaints	2,441	2,218
Reported Incidents/Inspection Discoveries	1,300	1,278
Plugging/Well Test/MIT Field Witnesses	6,573	8,954
OG Total Field Activity	95,169	91,979

Source: Corporation Commission

Petroleum Storage Tank Division

The Petroleum Storage Tank Division is responsible for state and federal regulations regarding the storage, quality and delivery of refined petroleum products.

The Division administers the Oklahoma Storage Tank Release Indemnity Fund. Monies from this fund are matched with private dollars. The funds are used to remediate contaminated sites

and seal leaking tanks. For every gallon of gasoline sold in the state, a 1 cent fee is assessed to support this fund. The fund received deposits of \$17 million in FY-2003.

The Division works in conjunction with the national Brownfields program to clean up abandoned polluted industrial sites and return the sites to productive use. The Division also works with municipal governments to assess, and if necessary, clean up abandoned tank sites. The city of Sayre served as a pilot project and was a complete success. Twelve other community projects are underway and potential projects have been discussed with several other communities in the state.

Public Utility Division

The public utility division provides technical support and policy analysis to:

- Assure reliable public utility services at the lowest reasonable cost;
- Administer and enforce Commission Orders concerning public utilities (electric, gas, water, cotton gin, and telecommunications service providers); and
- Fulfill constitutional and statutory obligations.

Staff is responsible for developing and presenting objective, independently researched, fact-based findings and recommendations to the Commission.

In FY-2003 the Division was responsible for regulating 920 public utilities.

Transportation Division

The Transportation Division administers licensing and certification of private and for-hire motor carriers that operate within and through Oklahoma. It also enforces motor carrier licensing requirements, federal

motor carrier safety standards, some federal and state railroad regulations and pipeline safety regulations.

Oklahoma has more than 5,200 for-hire and private motor carriers licensed to operate in intrastate commerce, 22 railroads that operate in Oklahoma and almost 40,000 miles of natural gas and hazardous liquid pipeline within the state.

Transportation Division	FY-2002	FY-2003
Motor Carrier Licenses/Permits Issued	4,867	5,500
Certificates Issued	170	201
Single State Registrations Issued	3,344	2,926
Insurance Filings Received	18,867	17,960
Identification Devices Issued	44,338	48,611
Letters of notification to Motor Carriers	18,757	0
Citations Filed	7,312	10,055
Warnings Filed	748	738
DOT Numbers Issued	483	396
Hazardous Waste Credentials Issued	41	278
TR Total Applications Filed	<u>98,927</u>	<u>86,665</u>
Vehicle Checks	48,015	54,019
Vehicle Inspections	1,300	1,150
Educational Contacts	1,081	627
Railroad Complaints Investigated	129	129
Pipeline Gas/Liquid Units Inspected	195	234
Pipeline Gas/Liquid Operators Inspected	148	143
TR Total Field Activity	<u>50,868</u>	<u>56,302</u>

Source: Corporation Commission

Office of Administrative Proceedings

The Office of Administrative Proceedings is the court division of the Corporation Commission. It includes administrative law judges, legal secretaries, court reporters, and the Court Clerk's Office. Filings are made and hearings are conducted in the Western Regional Office, Oklahoma City and in the Eastern Regional Office, Tulsa. Testimony and evidence may be presented by phone instead of appearing in person before an administrative law judge.

In FY-2003, 9 administrative law judges and 1 referee conducted 18,191 hearings.

Office of Administrative Proceedings	FY-2002	FY-2003
Oil and Gas Applications Filed	6,714	7,536
Transportation Applications Filed	54	95
Consumer Services Applications Filed	23	26
Public Utility Applications Filed	662	844
Enforcement Applications Filed	185	316
Other Applications Filed	<u>13,477</u>	<u>17,643</u>
Total Applications Filed	<u>21,115</u>	<u>26,460</u>
Orders Issued	11,447	12,494

Source: Corporation Commission

Data Processing Division-Web Application Project

The Corporation Commission received an appropriation for FY-2002 to begin making information and data available to the general public and industry groups via the Internet. This project allows the public and industry to conduct research and query various databases and imaged documents from the Commission's regulatory divisions.

The first phase of the new Web Application was implemented on November 15, 2002. This phase implemented the Case Processing System and the Oil and Gas Regulatory System, with new capabilities to research monthly reported production by well or lease.

Companies that perform routine business at the Commission look at this application as a tool to save costs, which can be rerouted to expand other areas of their business in an effort to improve the states economy.

FY-2005 Recommendation

<i>FY-2005 Appropriation</i>	
<i>(amounts in thousands)</i>	
FY-2004 Appropriation	\$7,998
FY-2004 Bud. FTE Level	390.1
Actual Avg. FTE Level	369.8
Funding Adjustments:	
None	<u>0</u>
FY-2005 Recommendation	\$7,998
% Change for FY-2004	0.00%

Source: Office of State Finance

The FY-2005 appropriation for the Corporation Commission is the same as provided for FY-2004.

Operations Funding Changes

The Governor’s budget proposes Title 17 Section 353 of the Oklahoma Statutes be amended to allow the Corporation Commission to use the Petroleum Storage Tank Release Environmental Cleanup Indemnity Fund for inspections and administration of the Petroleum Storage Tank Division.

Consolidation

The Governor’s budget proposes the Motor Vehicle Enforcement Divisions of the Oklahoma Tax Commission be moved to the Oklahoma Corporation Commission and combined with the motor carrier functions of the Transportation Division of the Oklahoma Corporation Commission.

Liquefied Petroleum Gas Board

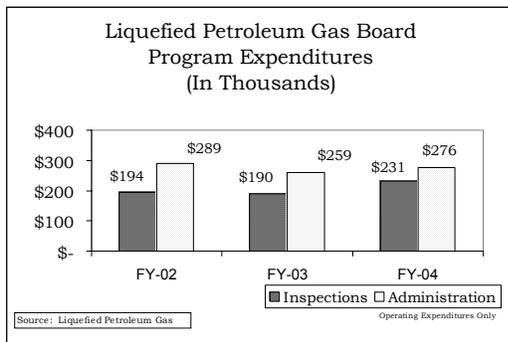
This agency is responsible for regulating the liquefied petroleum gas (LPG) industry in Oklahoma. Because of the volatile nature of liquefied petroleum gas, regulation is necessary for the safety and protection of citizens. Safety standards are set regarding gas storage, distribution, transporting and utilization. State regulations are based on the National Fire Protection Association safety codes.

FY-2004 Budget Actions

HB 1214 made the Liquefied Petroleum Gas Board a non-appropriated agency beginning in FY-2004. The Board's primary revenue sources are fees for inspection and certification services that the Board performs.

The Board has a total budget of \$507,000 for FY-2004. Of this amount \$231,000 will be spent on administration in the agency and \$276,000 will be spent on inspections.

The chart below shows a 3 year history of program expenditures for the Board.



Notable Achievement

- Florida, Kansas, Nevada, New Jersey, New Mexico, New York, and Texas have all consulted the Oklahoma Liquefied Petroleum Gas Board because Oklahoma is known for having the highest inspection standards.

Inspectors for the LPG Board check and certify the compliance of LPG transportation and piping systems, storage containers, dispensing stations, apparatus or appliances. Agency inspectors also conduct safety seminars for permit holders. The LPG Administrator issues all permits, administrative penalties and collects all fees. Other responsibilities include investigating fires, explosions and possible violations of safety rules and standards.

	FY-2004	FY-2005
LP Gas Trucks Inspected	1,200	1,200
LP Gas Permit Holders	4,500	4,500
Inspect LP Gas Dealers Storage	2,000	2,000
Cylinder Exchange Stores Inspected	900	900
Investigate Accidents - Vehicle, Home, and Fires	80	80

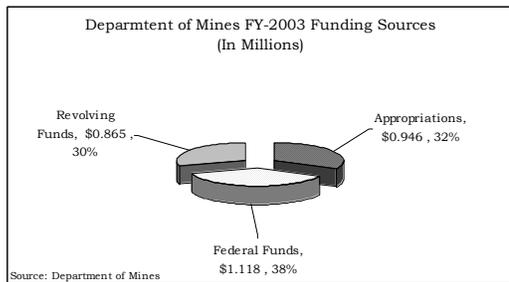
Source: LP Gas

Department of Mines

The Oklahoma Department of Mines is the regulatory authority for surface and sub-surface mining in Oklahoma. The Department is empowered to implement and enforce state and federally mandated programs in health, safety, mining and land reclamation practices.

The agency issues mining permits and performs inspections of all mining and mining-related land reclamation activities in the state.

The Department of Mines relies on state appropriations, federal funds, and revolving funds to fund the Department's budgetary expenditures. Below is a chart which shows FY-2003 funding for the Department.



Oklahoma Miner Training Institute

The Oklahoma Miner Training Institute (OMTI) located in Wilburton, provides classroom and on-site training for mine operators. Miners are required to have training in using explosives and in health and safety.

The Department of Mines has several divisions: Coal, Legal, Non Coal (Ash and Dust Disposal, Reclamation and Reutilization), and the Non Coal Blasting Program.

Coal Program

The Coal Program is essential for the implementation of state and federal laws regarding coal mining. Coal mining operations are conducted to

protect the environment, adjacent landowners, and the public from adverse effects caused by mining operations. The Coal Program contains three basic subdivisions comprised of Technical Services, Permitting, and Inspection and Enforcement.

Type of Mineral	# of Non-Coal Mine Sites
Bentonite	2
Building Stone & Rock	69
Caliche	3
Clay & Shale	74
Granite	8
Gypsum	18
Limestone	114
Sand & Gravel	276
Salt	2
Select Material	30
Tripoli	1
Volcanic Ash	2
Total	599

Source: Department of Mines

Minerals Division	FY-2000	FY-2001	FY-2002	FY-2003
Inspections Conducted	4,799	5,210	5,663	5,969
Violations Issued	793	792	1,094	1,134
Number of Applications Submitted	87	50	75	64
Non-Coal Mining Permits Issued	61	60	71	64
Number of Revisions Submitted	28	43	63	69
Non-Coal Mining Revisions Issued	33	34	62	66
Annual Permit Reviews	334	453	394	424
Total Processing Amount	543	640	665	677
Number of Bond Releases Processed	57	65	92	64
Non-Mining Blasting Permits Processed	16	22	22	28
Non-Mining Blasting Exemptions Processed	110	141	126	125
Blasting Inspections	18	20	28	21
Complaints Investigated and Processed	56	80	55	100

Source: Department of Mines

Fly ash disposal is an environmental necessity. The program assists in the reclamation of abandoned mine sites left by previous operations. Oklahoma Statutes provide such ash or dust be constructively reutilized or disposed of in any active or inactive coal or non coal mining. Since this is required the Department requests all operators to file a permit request which includes a disposal plan for the ash or dust. Once the permit is issued, the Department monitors with the approved permit plan and statutory law.

Non Coal Program

The Non Coal program is responsible for protecting the environment of the state, the health and safety of miners, and the life, health and property of the citizens who are affected by mining activities.

FY-2005 Recommendation

<i>FY-2005 Appropriation</i>	
<i>(amounts in thousands)</i>	
FY-2004 Appropriation	\$722
FY-2004 Bud. FTE Level	36.2
Actual Avg. YTD FTE	35.8
Funding Adjustments:	
None	<u>0</u>
FY-2005 Recommendation	\$722
% Change for FY-2004	0.00%

Source: Office of State Finance

The FY-2005 appropriation for the Department of Mines is the same as provided for FY-2004.

Environment

Summary of FY-2005 Budget Recommendations

(amounts are in \$000's)

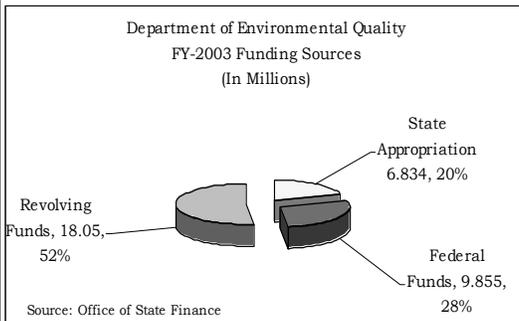
Agency Name	FY-2004 Adj. Approp.	FY-2005 Base	FY-2005 Adj.	Final FY- 2005 Approp.	% Diff. From FY- 2004
Environmental Quality, Dept. of	\$5,929	\$5,929	\$5,000	\$10,929	84.3%
Water Resources Board	4,028	4,028	0	4,028	0.0%
Water Resources - REAP	2,200	2,200	0	2,200	0.0%
Total Environment:	\$12,157	\$12,157	\$5,000	\$17,157	41.1%

Department of Environmental Quality

The Department of Environmental Quality (DEQ) is responsible for the regulation of industrial and municipal environmental programs. The mission of the DEQ focuses its program efforts on three major areas of responsibility:

- Air Quality
- Water Quality
- Land Protection

The Department of Environmental Quality has three sources of funding, state appropriations, federal funds, and revolving funds. Revolving funds are a significant source of funding for the DEQ, representing 52% of the agency's total funding sources for FY-2003.



Notable Achievements

- All of Oklahoma is currently in attainment with the National Air Quality Standards.
- DEQ has worked with EPA to clean up lead contaminated soil from 1647 properties in Ottawa County and in the towns of North Miami, Picher, Cardin, Quapaw and Commerce. Recent studies have shown that the soil removal-replacement project has resulted in the decrease of the number of children with elevated blood lead levels from 35% to 40% to 12%.
- Compliance rates for Public Water Supply (PWS) systems in Oklahoma

have remained consistently at or above 96% for many years.

The Air Quality, Water Quality and Land Protection Divisions, Environmental Complaints Local Services (ECLS) Division and the Customer Services Division (CSD) support DEQ's efforts to improve the quality of Oklahoma's environment. ECLS provides the staffing for 30 local offices across the state and is primarily responsible for complaint response, media specific inspections and/or enforcement and response to citizen requests for local services.

Within CSD, the Customer Assistance Program offers non-regulatory approaches to compliance through technical assistance to industries seeking permits to locate or operate in Oklahoma. This program also works with existing Oklahoma companies to prevent pollution, encourage recycling and meet compliance. In addition, the CSD houses the State Environmental Laboratory, which provides analytical support for the agency's regulatory programs as well as those of other environmental agencies.

The DEQ prefers to use non-regulatory options to encourage facilities to come into compliance. However, the agency is first and foremost a regulatory agency and will use its statutory and regulatory authority to fairly and consistently enforce the state's environmental laws.

	FY-2001	FY-2002	FY-2003	FY-2004 est.
Fines Collected	\$1,029,900	\$2,521,252	\$933,183	\$750,000
Supplemental Environmental Projects	643,800	6,085,913	636,032	650,000
Totals	\$1,673,700	\$8,607,165	\$1,569,215	\$1,400,000

Source: Department of Environmental Quality

A Supplemental Environmental Project is an environmentally beneficial project that is agreed to and completed as a

part of a settlement of an enforcement action.

The increase in fines collected in FY-2002 is the result of a single enforcement event against a regulated facility where a \$1.5 million fine was levied and collected.

Air Quality

Air quality attainment is determined by whether the National Ambient Air Quality Standards (NAAQS) are met. The Environmental Protection Agency (EPA) has implemented new standards for ozone and particulate matter. Several areas of Oklahoma have already exceeded or are in jeopardy of exceeding the federally mandated 8-hour standard for ozone.

Areas Exceeding or in Danger of Exceeding Federal Standards	
Already Exceeded	In Danger of Exceeding
Tulsa (1)	Oklahoma City Lawton Talequah Tulsa

Source: Department of Environmental Quality

(1) Tulsa exceeded the previous 1-hour standard for Ozone

In addition, the Tulsa area has experienced ozone concentrations that exceed the 1-hour standard. Designations of non-attainment by EPA, based on exceedance data for the 8-hour standard, may occur in the Tulsa area as early as mid-year 2004. Even though the Tulsa area had a good ozone summer in 2003, the metropolitan area is still just barely in compliance. This makes the Early Action Compact commitment and ongoing work extremely important to the Tulsa area. This commitment will require the Division to continue the evaluation of modeling results and begin finalization of local control

strategies that must be implemented in a State Implementation Plan by December 31, 2004. The need for continued refinement of emissions inventories, additional modeling and analysis will continue.

Until the 8-hour standard is fully implemented and the 1-hour standard is revoked, all areas of the State must comply with both standards. If any area of the state is declared non-attainment for either standard, the Clean Air Act requires the DEQ to implement plans that include enforceable measures to bring such areas back into attainment.

Last year, the EPA released guidelines which allows states that voluntarily submit early emission reduction plans for their areas to escape some of the onerous consequences of non-attainment of the 1-hour standard. This program is known as Ozone Flex. To continue participation and benefit from deferrals, communities must develop updated emission inventories, air dispersion modeling and design and implementation measures.

The DEQ has also entered into Early Action Compacts with Oklahoma City and Tulsa and continues to actively work with its private and public sector partners. Early Action Compacts are, in reality, mini-non-attainment demonstrations that include enhanced emission inventory and modeling work. Early Action Compacts contain critical milestones that, if met, will allow Oklahoma to defer non-attainment designations for the 8-hour standard. Failure to meet the milestones will result in an ozone non-attainment designation, the result of which is the requirement of a full non-attainment analysis.

Water Quality

The regulation of Oklahoma’s water quality is divided into two separate but related areas:

- the regulatory control of municipal and industrial discharges to receiving streams and
- the monitoring and regulatory management of public water supplies.

Discharge permits are issued to limit pollutants discharging into streams. This protects the designated beneficial uses identified by Oklahoma’s Water Quality Standards (WQS).

A Total Maximum Daily Load (TMDL) is a calculation of the maximum allowable quantity of a particular contaminant that a specific water body can receive and still maintain the Oklahoma Water Quality Standards (WQS).

Historically, the states and EPA have used the 303(d) list of impaired water bodies to secure TMDL federal funding and to prioritize the use of those funds. The EPA has authorized DEQ to use a revised 303(d) list which reduces the number of TMDL studies required by one-third. Based on the most recent 303(d) list and the current federal regulations, DEQ has developed a schedule to complete all required TMDLs within 15 years.

Once maximum allowable pollutant loading has been determined through the TMDL process, appropriate permit limits are calculated and a modified discharge permit is reissued. The DEQ continues to perform operational inspections and to review effluent monitoring data to identify discharging facilities with significant violations.

The Public Water Supply Program monitors more than 2,300 public water supplies serving over 3 million citizens. The DEQ continues to see a downward trend in violations of the Safe Drinking Water Act with over 99% of all public water supplies meeting chemical compliance standards. Compliance with bacteriological standards also remains at a high level.

The DEQ has the responsibility of monitoring over 90 contaminants related to public water supplies. In addition to the 90 plus contaminants currently monitored by and for public water supplies, the EPA will be implementing additional requirements. New requirements will include increasingly smaller systems in the mandatory monitoring effort. New parameters were added through the federal Safe Drinking Water Act Disinfection By-Product rules and the Radionuclide rule. These rules also expand monitoring to include all public water supply systems and points of entry into these systems.

	FY-2001	FY-2002	FY-2003	FY-2004 est.
Private Citizens	663	596	503	550
Public Water Supply-Chemical	8,521	9,945	10,047	15,400
Public Water Supply-Bacteriological	30,494	27,562	26,583	27,000
Hazardous Waste	458	499	493	500
Oklahoma Water Resources Board	2,913	4,088	4,752	4,500
Other Contractual	471	390	290	350
Totals	43,510	43,080	42,668	48,300

Source: Department of Environmental Quality

The certification of additional municipal and private laboratories has resulted in a decrease in bacteriological samples from public water supplies from FY-2002 to FY-2004. As the Beneficial Use Monitoring Program (BUMP) has matured, the Oklahoma Water Resources Board has been and will continue to collect additional samples for analysis in the State Environmental laboratory.

The agency’s Source Water Protection Program was designed and implemented to assist public water supply owners/operators to determine the location of new water supply sources and the establishment of safety zones around existing sources. As a refinement of that program, the DEQ is establishing a ground water monitoring program to detect trends that might indicate future contamination potential. Public groundwater supply

owners will have better information to help locate new wells, protect established wells and assist with the regulation of potential contamination sources.

Land Protection

The activities of the Land Protection Division are focused principally on three areas:

- hazardous waste management,
- clean-up programs, and
- solid waste management.

Hazardous waste management is operated under delegation of the federal Resource Conservation Recovery Act (RCRA) and is directed toward the permitting, monitoring and inspections of regulated hazardous waste facilities, including disposal sites and treatment, storage and disposal sites. Activity in the agency’s hazardous waste program has leveled as recycling, chemical substitution and material reuse have slowed the number and volume of regulated hazardous materials.

Environmental Clean-up programs are managed under the Superfund program and under the agency’s Voluntary Clean-Up/Brownfields effort. Several high visibility sites, chief among which is the Tar Creek project, continue to dominate the Superfund program.

Tar Creek is the historic consequence of past mining activity, which has resulted in pollution to land and water resources in the northeaster corner of the state. A graver consequence of the land pollution, in the form of tailings (chat) piles, is the elevated blood lead levels in children living in the area. While resources have been dedicated to this site for many years, the most recent and most successful effort has

been directed toward reducing these blood lead levels.

The agency’s Voluntary Clean-Up/Brownfields program was established to enhance the economic value of sites that formerly went unused due to the enforcement stigma and expense of remediation under the Superfund program. Under the voluntary program, owners or developers can voluntarily enter into agreements that realize efficiencies not possible under federal and/or state mandates.

For example, a commercial property in the OKC metro area targeted for redevelopment was found to be contaminated with hydraulic oil. By entering the voluntary program, the developer was able to remediate the site and is now in the process of constructing a new commercial venture.

Site	Location	Size (Acres)	Redevelopment Use
National Institute of Petroleum Research	Bartlesville	15.7	City and Tribal Facility
Federated Metal	Sand Springs	31	Wal-Mart and Eye Mart
Rapid Muffler	Oklahoma City	2	Eckerd Drug
Flintco Warehouse	Tulsa	5.4	Flintco Corporate Office
Muskogee City Tract	Muskogee	2	Bank
Bryan Property	Stillwater	2	Walgreen’s
Levrett Property	Altus	1	Kentucky Fried Chicken
City of Enid Property	Enid	5	Ball Park
Oklahoma Steel Castings	Tulsa	11.2	Brainerd Chemical
UNR/Duralast	Tulsa	1	Habitat for Humanity
COPTA Mass Transit Property	Oklahoma City	15	Ford Center Arena and Hotel
Apartment Complex	Fredrick	5	Soccer Field
Commercial Buildings	Clinton	20	City Equipment Parking Area
School Buildings	Wetumka	15	Pasture for FFA
Houses Demolition	Drumright	1	Steakhouse Parking Extension
Dormitory	OSU-Okmulgee	7	Training Facility
School and Gym	Moss	15	Pasture for FFA
Emerson Electric	Tulsa	11.5	Home Depot
Murphy Manufacturing	Tulsa	6.2	Doctor’s Office Park
Bricktown Industrial	Oklahoma City	21.4	Sonic Corporate Office
Blackwell Industrial	Blackwell	4.75	Industrial/Commercial reuse

Source: Department of Environmental Quality

DEQ’s solid waste program establishes and regulates traditional solid waste management systems and improves and strengthens local solid waste infrastructure. Local needs vary from cleaning up illegal dumps and developing convenience centers for bulky waste to equipment for managing disaster debris and increasing recycling. These enhancements, where implemented, have allowed local

jurisdictions to take a more holistic approach to managing of wastes.

	FY-2002	FY-2003	FY-2004 (est.)	FY-2005 (est.)
Local Entities Assisted	16	35	61	61

Source: Department of Environmental Quality

Local governmental assistance includes clean up of trash dumps, recycling (including storm debris management) and land restoration projects. Funding for FY-2004 will enable doubling of local assistance outcomes.

FY-2005 Recommendation

FY-2005 Appropriation <i>(amounts in thousands)</i>	
FY-2004 Appropriation	\$5,929
FY-2004 Bud. FTE Level	569.3
Actual Avg. YTD FTE	536.9
Funding Adjustments:	
None	<u>0</u>
FY-2005 Recommendation	\$5,929
% Change for FY-2004	0.00%
Tar Creek Voluntary Relocation	\$5,000

Source: Office of State Finance

The FY-2005 appropriation for the Department of Environmental Quality is the same as provided for FY-2004 with the following adjustment(s).

Tar Creek Voluntary Relocation

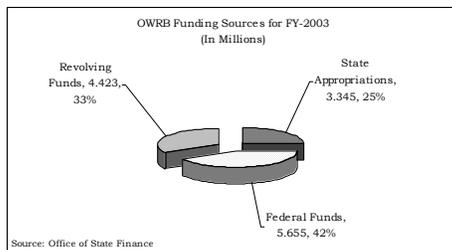
The Governor's budget proposes \$5 million be appropriated to the Picher Cardin Assistance Trust. The funds will be dispensed at the direction of the Secretary of Environment. The funds will be used for the Tar Creek Voluntary Relocation project. The Relocation Project will help families who have children six and under move from the Tar Creek Superfund site. Children under six are the most adversely affected by the high levels of lead from the abandoned chat piles. Funds will be used to help families, property owners and communities make the transition to healthier living environments.

Oklahoma Water Resources Board (OWRB)

The Oklahoma Water Resources Board is the lead agency in Oklahoma for water rights and water quality issues. Anyone who uses fresh water for anything other than domestic use is required to obtain a permit from the OWRB. Agency geologists and hydrologists conduct hydrologic investigations of each stream water basin and groundwater basin (aquifer) to determine the amount of water available for appropriation according to state statute and Board rules. The staff is responsible for updating every ten years the Oklahoma Comprehensive Water Plan to assure that Oklahomans have adequate quantities of good quality water for future use.

The Board sets water quality standards and classifies Oklahoma waters with respect to their best use. OWRB employees conduct scientific studies and surveys which analyze the physical, chemical and biological parameters of our water. They also work closely with the Oklahoma Attorney General, the United States Environmental Protection Agency and other environmental agencies regarding water management issues and litigation.

The OWRB has three funding sources: state appropriations, federal funds and revolving funds. State appropriations were 42% of the agency's total funding for FY-2003. Below is a chart which shows funding expended by the OWRB for FY-2003.



The OWRB also:

- Coordinates the Beneficial Use Monitoring Program to collect ambient water quality information on Oklahoma's surface water.
- Coordinates weather modification research activities in cooperation with federal, state and research institutions
- Guides water use through the issuance of stream water and groundwater permits
- Licenses water well drillers and pump installers to reduce potential contamination of the state's groundwater resources
- Works with Oklahoma's lakes to maintain and restore their water quality

Notable Achievements

- *In October, Standard & Poor's ratings services issued 'AAA' ratings to the OWRB's \$125 million series 2003 Drinking Water State Revolving Fund (DWSRF) revenue bonds. Previously, in June, the OWRB's Bond Loan Program bond issue received an 'AA+' rating from Standard & Poor's rating service. As a result of these exceptional bond issue ratings, the Water Resources Board became the highest rated, uninsured state bond issuer in Oklahoma. The high ratings allow the Board to make loans at extremely low interest rates to small communities.*
- *The Water Resources Board's Financial Assistance Plan is responsible for almost \$1.2 billion in financing for community water and sewer infrastructure projects in Oklahoma. None of the OWRB's three loan programs for water and sewer system improvements has ever experienced a default.*
- *On October 22, the OWRB closed on a \$7,195,000 Clean Water State Revolving Fund (SRF) loan to the State Department of Tourism and*

Recreation that will fund much-needed wastewater system improvements at Tenkiller, Texoma, and Sequoyah State Parks.

Infrastructure Funding for Municipalities and Local Districts

The OWRB administers programs to provide funding for infrastructure repairs, maintenance and capital improvements. The OWRB provides low interest loans to public entities including rural water districts, municipalities and public works authorities. The OWRB provides low-interest loans through these programs:

- SRF Clean Water (Wastewater) Loan Program
- SRF Drinking Water Loan Program
- OWRB’s Bond Issue Loan Program.

During 2003, the Board approved more than \$128 million in loans.

bond loan portfolio sustained 89.4 percent in ratable loans. Total loan amounts outstanding increased to over \$450 million and total assets increased to more than \$645.9 million during FY-2003.

OWRB also administers two grant programs:

- REAP Grant Program
- Emergency Grant Program.

During 2003, the Board approved 12 emergency grants for \$524,886 and 38 REAP grants for approximately \$3.8 million.

The following chart shows the number of applicants and amounts loaned or granted since FY-1993.

FY	Clean Water SRF		Drinking Water SRF		Bond Series	
	No.	Loans	No.	Loans	No.	Loans
Total through FY-1992	7	\$41,318,205	0	0	94	\$89,860,000
FY-1993	6	24,328,029	0	0	24	40,030,000
FY-1994	8	48,461,967	0	0	20	25,305,000
FY-1995	5	7,666,795	0	0	11	23,580,000
FY-1996	14	47,351,108	0	0	14	26,150,000
FY-1997	16	45,247,014	0	0	16	29,865,000
FY-1998	16	43,652,545	1	4,177,000	21	39,840,000
FY-1999	10	37,406,521	2	5,576,675	7	22,795,000
FY-2000	11	36,211,099	6	19,668,280	8	12,375,000
FY-2001	19	54,260,185	8	18,390,550	21	55,350,000
FY-2002	16	56,976,155	6	28,086,178	22	37,830,000
FY-2003	17	46,280,834	7	7,592,591	23	71,865,000
FY-2004 through 12/31/03	<u>6</u>	<u>12,668,261</u>	<u>4</u>	<u>5,843,172</u>	<u>9</u>	<u>17,345,000</u>
Total	151	\$501,828,717	34	\$89,334,446	290	\$492,190,000

FY	Emergency Grants		REAP Program		Totals	
	No.	Grants	No.	Grants	No.	Total Amount
Total through FY-1992	268	\$16,139,935	0	0	369	\$147,318,140
FY-1993	31	1,168,039	0	0	61	65,526,068
FY-1994	23	950,375	0	0	51	74,717,342
FY-1995	27	1,143,282	0	0	43	32,390,077
FY-1996	28	1,735,723	0	0	56	75,236,831
FY-1997	16	766,882	47	3,018,311	95	78,897,207
FY-1998	13	966,731	52	4,364,526	103	93,000,802
FY-1999	28	2,006,925	60	5,190,630	107	72,975,751
FY-2000	16	1,127,471	73	6,366,648	114	75,748,498
FY-2001	21	1,553,487	54	4,835,947	123	134,390,169
FY-2002	17	1,100,820	45	4,233,643	106	128,226,796
FY-2003	10	549,886	38	3,849,025	95	130,137,335
FY-2004 through 12/31/03	<u>5</u>	<u>229,146</u>	<u>17</u>	<u>1,586,550</u>	<u>41</u>	<u>37,672,128</u>
Total	503	\$29,438,702	386	\$33,445,279	1,364	\$1,146,237,144

Source: OWRB

The

Oklahoma Comprehensive Water Plan (OCWP): In 1992, the State Legislature directed the OWRB to update the OCWP every 10 years. The OWRB proposes that the 2005 Update be “regionally focused”, identifying specific projects and management strategies necessary to meet future water needs. All strategies to meet future water needs must be identified in their regional and state water plans to be eligible for funding.

Beneficial Use Monitoring Program (BUMP): This program is designed to monitor ambient water quality of surface and groundwaters.

The following is the funding history of the Beneficial Use Monitoring Program.

**Beneficial Use Monitoring Program (BUMP)
Funding History**

	Rainy Day Fund	REAP Water Projects Fd.	Total Funding
FY-1999	\$1,000,000		
FY-2000	1,000,000		
FY-2001		1,269,912	
FY-2002		1,122,389	
FY-2003		1,100,000	
FY-2004		1,200,000	
FY-2005		1,200,000	
Total	\$2,000,000	\$5,892,301	\$7,892,301

FY-2005 Recommendation

FY-2005 Appropriation	
<i>(amounts in thousands)</i>	
FY-2004 Appropriation	\$4,028
FY-2004 GR REAP Appropriation	\$2,200
FY-2004 Bud. FTE Level	100.9
Actual Avg. YTD FTE	95.8
Funding Adjustments:	
None	<u>0</u>
FY-2005 Recommendation	\$4,028
FY-2005 GR REAP Recommendation	\$2,200
% Change for FY-2004	0.00%
REAP (Gross Production Tax)	\$2,206

Source: Office of State Finance

The FY-2005 appropriation for the Oklahoma Water Resources Board is the same as provided for FY-2004.

FY-2005 Recommendation For REAP

Arbuckle Simpson Aquifer Analysis
The Governor’s budget proposes \$500,000 for continued analysis and testing of the Arbuckle Simpson Aquifer. It is anticipated that extensive drilling and sampling will need to be conducted in order to correctly assess the aquifer’s capabilities.

Rural Community Drinking Water Compliance

The Governor’s budget proposes \$1.7 million for testing, analysis and equipment to help rural communities meet Safe Drinking Water Act Amendments of 1996, (PL 104-182), of EPA rules contained in 40 CFR Parts 141-143. The rules require cities to meet stricter drinking water standards. The OWRB will partner with the Department of Environmental Quality to help qualified communities complete this project.

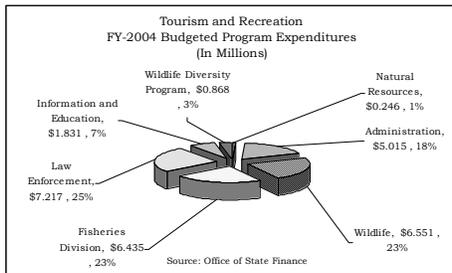
Department of Wildlife Conservation

In FY-2003, ODWC reported \$26 million total receipts, primarily from sales of licenses and federal payments. Annual lifetime license fees increased on July 1, 2003.

Federal payments are derived from federal excise taxes on guns and ammunition. States that provide all hunting license revenue for wildlife management receive allocations through a formula based on the state's land area, population and the number of hunting licenses.

More than 60 types of hunting and fishing licenses are sold by ODWC through 1,100 license dealers. All license revenue, except lifetime license revenue, is used for operations of ODWC.

The Department of Wildlife Conservation is a non-appropriated agency. The Department's two sources of funding are revolving funds and federal funds. The Department has several activities that are funded by these two funding sources. Below is a chart which shows the agency's FY-2004 budgeted activity expenditures.



Lifetime Hunting & Fishing Licenses

Revenues from the sale of lifetime licenses are placed in a trust fund and the earnings from that fund are used for operations. Over the last three

years, earnings on the lifetime fishing and hunting licenses have been about \$6.3 million, which has resulted in an approximate average return of 4.6 %.

	FY-2000	FY-2001	FY-2002	FY-2003
Lifetime Hunting	1,082	1,058	1,473	1,774
Lifetime Fishing	1,181	1,014	1,278	3,078
Lifetime Combination	2,891	2,988	3,958	6,468
Total	5,154	5,060	6,709	11,320

Source: Department of Wildlife Conservation

Wildlife Management

ODWC manages the wildlife and 1.6 million acres (3.6 % of total state acreage) of public wildlife preserves. Private landowners (including farmers and ranchers) own most of the wildlife habitat and often suffer decreased income from their crops and grasslands being foraged or used for habitat by wildlife. The opportunities for hunting wildlife on these habitats decline as landowners use the land for agricultural purposes or other revenue producing purposes.

Fee hunting on private lands has shown there is a demand for higher quality hunts. It is important to encourage private landowners to provide quality habitat for wildlife.

Finance and Revenue

Summary of FY-2005 Budget Recommendations

(amounts are in \$000's)

Agency Name	FY-2004 Adj. Approp.	FY-2005 Base	FY-2005 Adj.	Final FY- 2005 Approp.	% Diff. From FY- 2004
Auditor & Inspector	\$5,227	\$5,227	\$0	\$5,227	0.0%
Bond Advisor, State	164	164	0	164	0.0%
Finance, Office of State	20,081	18,581 ²	3,851	22,432	11.7%
Insurance Commissioner	2,072	2,072	-375	1,697	-18.1%
Commissioners of the Land Office	4,095	4,095	0	4,095	0.0%
Tax Commission	51,051 ¹	44,101 ³	300	44,401	-13.0%
Treasurer	4,378	4,378	0	4,378	0.0%
Total Finance and Revenue:	\$87,068	\$78,618	\$3,776	\$82,394	-5.4%

¹ FY-2004 Adjusted Appropriation includes supplemental of \$6.45 million for updating systems.

² FY-2005 Base Appropriation includes a reduction for one-time expenditures of \$1.5 million for the Military Planning Commission.

³ FY-2005 Base Appropriation includes a reduction for one-time expenditures of \$500,000 for changes to the revenue estimating process.

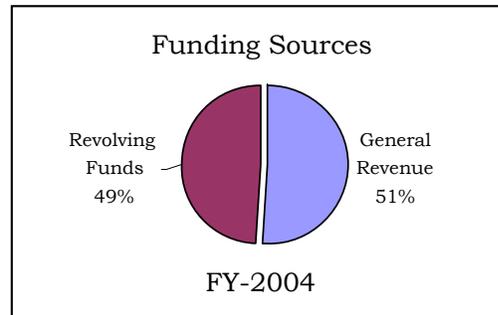
State Auditor and Inspector

Required Audits: The Constitution (Article VI, Section 19) and/or statutes require the Auditor and Inspector (A&I) to audit the following entities:

- State and County Treasurers twice each year;
- Each Emergency Medical Services District;
- County Solid Waste Management Operations;
- State Officers who Collect Money;
- District Attorney's and District Attorney's Council (continuous);
- Department of Corrections (continuous); and
- OSEEGIB (contracted out).

Unless an agency has specific legislative authority to contract its audit outside (e.g. Higher Ed., trust authorities and Commerce), the Auditor and Inspector's office is generally responsible for auditing all state agencies. However, the Auditor and Inspector's office does not have enough auditors to do detailed audits of every agency. In addition, most agencies do not have the funds to reimburse the A&I for the cost of the audit. Therefore, the A&I is not able to audit every state agency every year. The statewide Comprehensive Annual Financial Report (CAFR) and the Single Audit both include most agencies.

Funding Sources: The Auditor and Inspector's budget is funded in large part from revolving fund monies. These revolving funds include monies collected from Abstractor licensing, Auditor registration, and other payments made by counties and other public officers for services rendered in accordance with A&I lawful duties.



Source: Office of State Finance

Notable Achievements

- *Provided 417 annual audit reports for FY-2003, all in accordance with Government Auditing Standards.*
- *Provided Continuing Professional Education (CPE) seminars for over 400 participants from approximately 60 state agencies and educational institutions.*
- *The State Agency Audit Division successfully met all Federal audit requirements to ensure the continued flow of Federal funds to the State.*
- *Successfully reviewed the Comprehensive Annual Financial Report (CAFR), which is a financial report covering all State agencies.*

Financial Audits: The Comprehensive Annual Financial Report (CAFR) is prepared annually by the Office of State Finance. The financial operations of all State agencies are included within the scope of the CAFR. The State of Oklahoma has received the Certificate of Achievement for excellence in financial reporting given by the Governmental Finance Officers' Association every year since 1996.

The Single Audit is prepared by the Auditor & Inspector's Office to meet the requirements of the Single Audit Act. The federal funds expended by all State agencies (excluding higher education and civil emergency management) are

included within the scope of the Single Audit.

Performance Audits: A performance audit includes economy, efficiency and program audits. Economy and efficiency audits determine whether the entity is utilizing its resources economically and efficiently. Auditors also determine the causes of inefficiencies or uneconomical practices. Specifically, there is a performance audit that will determine the efficiency of State motor pool usage. A program audit determines if a program is achieving the desired results or benefits established by the Legislature, or other authorizing body. Program audits also ascertain the effectiveness of organizations, programs, activities or functions.

FY-2005 Recommendation

FY-2005 Appropriation	
<i>(amounts in thousands)</i>	
FY-2004 Appropriation	\$5,227
FY-2004 Bud. FTE Level	146.5
Actual Avg. YTD FTE	146.4
Funding Adjustments:	
None	0
FY-2005 Recommendation	\$5,227
% Change for FY-2004	0.00%
REAP - General Revenue	\$6,200
Source: Office of State Finance	

The FY-2005 appropriation for the Auditor & Inspector is the same as provided for FY-2004.

The Governor's budget proposes that FY-2005 REAP funding under the Auditor and Inspector is the same as provided for FY-2004.

Banking Department

The State Banking Department preserves and promotes sound, constructive competition among financial institutions and ensures the security of deposits. They regulate State-chartered/Licensed:

- Banks
- Savings and loan associations
- Credit unions
- Trust companies
- Perpetual care cemeteries
- Money Order Companies

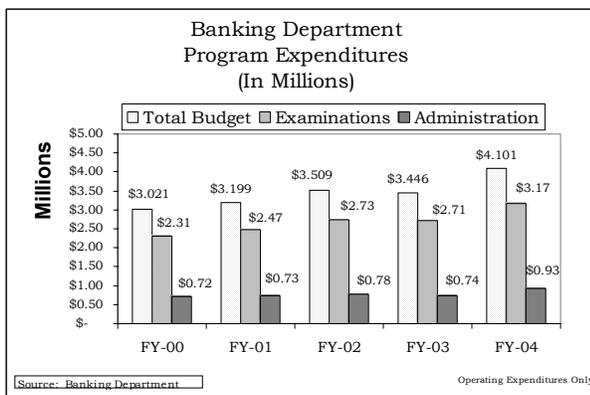
The Conference of State Bank Supervisors (CSBS) accredits the Department. The CSBS evaluates the Department in the areas of administration and finance, personnel, training, examination, supervision and legislation.

Notable Achievement

The Banking Department will be involved with a program for college students and adults called "Money Smart". The FDIC sponsors the program, which teaches students to successfully manage their personal finances.

Budget Program Expenditures:

The Banking Department has two activities, Administration and Examinations. The Departments primary budget expenditures are devoted to bank examinations. During FY-2003, examinations were 78% of the Department's total budget expenditures.



State Chartered Banks:

There are 184 state chartered banks in Oklahoma. The Banking Department views the growth of the state chartered banking system as a plus for Oklahoma because state charters better fit the economic needs of smaller banking institutions. For example, a state chartered bank can lend 30% of its capital assets, whereas a national chartered bank can only lend 15%. State chartered banks are also able to deal with in-state banking officials who are familiar with their local circumstances.

CY Ending	# of Banks
2000	188
2001	187
2002	183
2003	184

Source: Oklahoma Banking Department

Revenue from Banks and other Regulated Entities:

Banks must pay certain fees and assessments. The Department deposits some of these funds into the General Revenue Fund and some directly into agency revolving funds. Banks pay assessments based on a percentage rate of the bank's total assets.

In the 2003 Legislative Session, HB 1202 made the Banking Department non-appropriated. Starting January 1, 2005, 20% of all banking assessments will be deposited into the General Revenue Fund. HB 1202 allows the Banking Department to collect a special assessment.

Office of the State Bond Advisor

The State Bond Advisor was established as an independent position within the Department of Central Services in 1987. SB 722 (2003) established the Office of the State Bond Advisor as a separate and distinct state agency. This separate agency assures impartiality when dealing with the issuance of obligations by governmental entities.

The Office of the State Bond Advisor is funded by fees derived from proceeds of bond issues and appropriations. The FY-2004 budget of \$313,000 includes \$164,000 from the General Revenue Fund.

The Office of the State Bond Advisor serves as staff to the Council of Bond Oversight and provides advice and assistance to the Governor and Legislature on matters relating to capital planning, debt issuance, and debt management. The Office also serves as staff to the Long-Range Capital Planning Commission and administers the Private Activity Bond Allocation Act.

The Office of the State Bond Advisor is the central clearinghouse for information provided to bond rating agencies, credit enhancement providers, and credit markets with respect to Oklahoma's credit quality. This on-going effort to maintain positive relations with the credit markets is important. Despite declining revenues and weak economic conditions, Oklahoma was able to preserve its general obligation and lease-backed credit ratings in 2003.

In calendar year 2003, the Council of Bond Oversight reviewed 60 requests for financing. The dollar volume of these requests was \$2.04 billion. The 2003 approvals resulted in the issuance of 34 series of obligations in the total principal amount of \$1.17

billion by December 31, 2003. Another 11 series of obligations totaling \$248.7 million in par value were sold during the calendar year based on authorizations that were carried forward from calendar year 2002. The total bond volume in 2003 was \$202.2 million greater than the total for 2002.

The State Bond Advisor provides advice and support services to State agencies, authorities and trusts. These services include assistance with the selection of financing teams, structuring of proposed issues, and pricing of the obligations. Local governments also may request assistance.

The State of Oklahoma's annual debt service payment as a percent of total unrestricted appropriations is affected by the size of issuances, the rate of redemption, and the level of total appropriations. Debt service as a percent of appropriations of less than 5% is considered acceptable by the credit rating agencies.

State of Oklahoma Debt as Percent of General Appropriations

	G.O. Debt Service	Lease Payments	Total
FY-2003	0.57%	3.07%	3.65%
FY-2004	0.00%	2.01%	2.01%
FY-2005	0.26%	1.87%	2.13%
FY-2006	0.55%	2.77%	3.32%
FY-2007	0.53%	2.50%	3.04%
FY-2008	0.52%	2.28%	2.80%

Source: State Bond Advisor "2003 Annual Report", Appendix J

While Oklahoma's tax-backed obligations have increased in recent years, the time required to pay off the majority of the debt is relatively short.

Tax-Backed Obligations Rate of Redemption	
Redemption Period	% Redeemed
5 years	39.7%
10 years	79.8%
15 years	83.3%
20 years	99.2%

Source: State Bond Advisor, "2003 Annual Report"

Significant tax-backed borrowing during calendar year 2003 included \$261.21 million general obligation refunding bonds issued by the Oklahoma Building Bonds Commission and \$92.17 million lease revenue bonds to restructure outstanding highway bonds issued by the Oklahoma Capitol Improvement Authority.

The most active revenue bond issuer in 2003 was the Oklahoma Housing Finance Agency (OHFA), which sold six series of obligations totaling \$316.7 million in 2003. That total included \$200 million in draw-down bonds, sold in late 2003 for the OHFA's 2004 single-family mortgage loan program.

Also noteworthy were the three sales of revenue bonds by the Oklahoma Water Resources Board totaling \$238.3 million. In addition to the State Loan Program of \$115.3 million, it sold \$122.9 million Revolving Fund Revenue Bonds. The Revolving Fund Revenue Bonds received a "triple-A" rating from all three major bond rating agencies. This was the first ever stand-alone "triple-A" rating ever assigned to an Oklahoma revenue bond program. A stand alone "triple-A" rating does not require bond insurance which, if required, would have added 17 to 30 basis points to the cost.

The Long-Range Capital Planning Commission (LRCPC) is charged with compiling a comprehensive capital facilities inventory and developing and maintaining a state capital improvement plan. The State's most recent capital improvement plan

(covering fiscal years 2005-2009), was adopted by the LRCPC this past November.

As staff for the LRCPC, the Office of the State Bond Advisor reviewed 3,041 individual project requests. The result was a five-year spending plan totaling over \$4.26 billion, including \$300 million in spending from appropriations or new revenue sources.

By statute, the State Bond Advisor serves as a member of the Oklahoma Commission on School and County Funds Management. This commission is responsible for providing oversight of the cash-flow borrowings undertaken by common school districts, career tech districts, and counties. The borrowing in 2003 (for FY-2004) included three series of notes for twelve separate districts. The total principal amount issued in 2003 was \$12.86 million.

The Federal Tax Reform Act of 1986 established limits on the volume of private activity bonds that can be issued in a state during any calendar year. To ensure compliance with federal law, Oklahoma enacted the "Oklahoma Private Activity Bond Allocation Act." Under this statute, the State Bond Advisor was given responsibility to allocate and monitor the use of the State's private activity volume cap. In calendar year 2002, Oklahoma's private activity bond capacity was \$259.51 million.

Revenue obligations are repaid from funds generated by the activity of the projects themselves such as rents, higher education fees, and repayment of loans made by the Oklahoma Housing Finance Agency, the Oklahoma Development Finance Authority and the Oklahoma Water Resources Board.

Revenue bond activity for 2003 totaled \$951.1 million. The following table includes the outstanding debt of

Oklahoma's largest revenue bond issuers.

Outstanding Bonded Indebtness of Oklahoma's Largest Revenue Bond Issuers (as of December 31, 2003)	
Issuer	Outstanding Debt
Oklahoma Transportation Authority	\$ 1,254,871,153
Grand River Dam Authority	736,421,340
Oklahoma Housing Finance Agency	567,478,206
Oklahoma Water Resources Board	557,965,000
Oklahoma Student Loan Authority	550,085,000
Oklahoma Municipal Power Authority	421,980,000
Oklahoma Development Finance Authority	
Credit Enhancement Reserve Fund	116,077,508

Source: State Bond Advisor, "2003 Annual Report"

FY-2005 Recommendation

FY-2005 Appropriation (amounts in thousands)	
FY-2004 Appropriation	\$164
FY-2004 Bud. FTE Level	3.0
Actual Ave. YTD FTE	3.0
Funding Adjustments:	
None	<u>0</u>
FY-2005 Recommendation	\$164
% Change for FY-2004	0.00%

Source: Office of State Finance

The Governor's budget proposes no change in appropriations for FY-2005.

CompSource Oklahoma

The Oklahoma Legislature created CompSource Oklahoma in 1933 with an original investment of \$250,000 by the State. The purpose of the Fund is to furnish Oklahoma employers a financially stable workers' compensation insurance program at the lowest possible price while providing maximum service and assistance. In that function, they have operated as the 'carrier of last resort' for businesses unable to obtain coverage elsewhere in the insurance market.

The intent was for CompSource (then known as the State Insurance Fund) to be structured without liability on the part of the State beyond the amount of the Fund. CompSource has operated as an enterprise function of the State since inception.

The Board of Managers of CompSource Oklahoma is comprised of nine members. The Governor appoints one member, the Speaker of the House of Representatives appoints two members, and the President Pro Tempore of the Senate appoints two members. The following four members serve ex officio:

- Director of State Finance or a designee;
- Lieutenant Governor or a designee;
- State Auditor and Inspector or a designee; and
- Director of Central Purchasing of the Office of Public Affairs.

The Board of Managers of CompSource Oklahoma has full power and authority to fix and determine the rates for workers compensation insurance.

Currently, CompSource Oklahoma is the largest workers' compensation insurance carrier in the state, serving

more than 27,000 businesses and government agencies. CompSource Oklahoma carries almost all of the State agencies' workers compensation insurance and an increasing amount for private businesses around the state.

Total workers compensation premiums continue to increase and CompSource continues to write an increasing portion of those premiums. CompSource Oklahoma wrote 36% of the total workers compensation premiums written by all carriers in 2002 compared to 21% in 2000.

	2000	2001	2002	2000 to 2002 change
Total Oklahoma Workers' Compensation Written Premium - all firms (millions)	\$ 437	\$ 480	\$ 534	22.09%
CompSource Oklahoma Written Premium (millions)				
Private Sector	\$ 67	\$ 104	\$ 150	123.89%
Public Sector:				
State Agencies	\$ 17	\$ 19	\$ 23	34.55%
Other Public	\$ 7	\$ 10	\$ 18	156.70%
CompSource Total Written Premium	\$ 91	\$ 132	\$ 191	109.47%

Source: CompSource Oklahoma 12/03

The blend of written policies has changed slightly from state agencies to the private sector.

	2000	2001	2002
Private Sector	73%	78%	79%
Public Sector:			
State Agencies	19%	14%	12%
Other Public	8%	7%	9%
Total Written Premium	100%	100%	100%

Source: CompSource 12/03

FY-2005 Recommendation

As an insurer of last resort and an insurer of state agencies, CompSource has been exempt from paying the insurance premium tax of 2.25% of premiums sold. With 79% of CompSource's 2002 written premium for the private sector, that is no longer the case. CompSource is competing with private insurance companies who must pay the tax. This provides CompSource with an unfair advantage.

The Governor's budget proposes the removal of the insurance premium tax exemption for CompSource. This insurance premium tax on CompSource premiums will be known as the CompSource insurance premium tax. All of the CompSource insurance premium tax will be dedicated to the General Revenue Fund.

The CompSource insurance premium tax of 2.25% will raise \$3.96 million annually for the General Revenue Fund.

Office of State Finance

The Office of State Finance (OSF) is part of the Executive Branch. It is under the administrative control of the Director of State Finance who is appointed by the Governor, with the advice and consent of the Senate. The Oklahoma Budget Law of 1947 (Title 62, Section 41.3) created the Division of the Budget and the Division of Central Accounting and Reporting (Office of the State Comptroller). The other agency divisions are the Information Services Division and the Fiscal and Research Division.

Notable Achievements

- *OSF has established a website that serves as the entry point for government services. The current contract is with NIC. NIC maintains "YourOklahoma.com"; and develops websites and applications for state agencies. Go to YourOklahoma.com to check out this site.*
- *The Comprehensive Annual Financial Report (CAFR) is prepared annually by State Finance. The financial operations of all State agencies are included within the scope of the CAFR. The State of Oklahoma has received the Certificate of Achievement for excellence in financial reporting given by the Governmental Finance Officers' Association every year since 1996.*
- *OSF's DCAR unit implemented Governmental Accounting Standards Board (GASB) #34. This achievement made Oklahoma the first state to implement this new accounting rule. GASB #34 provides more accountability and comparability for governmental financial statements. This format will allow taxpayers to more completely understand the current economic status of their State.*

The Division of Central Accounting and Reporting (DCAR): DCAR reviews and processes claims for payrolls and payment to vendors from most state agencies. DCAR is also responsible for preparing statewide financial reports, reconciliation functions and managing the State accounting system.

The State Comptroller is the team lead for the development of financial portions of the CORE systems project described in this section. The new system includes a centralized financial package that allows user agencies to discard stand-alone systems and use a common operating environment. The new common system provides greater collaboration between agencies and a universal skill set for State accounting personnel.

Budget Division: The Budget Division prepares the Governor's budget and assists in drafting supporting legislation for the Governor's proposals. Budget Division staff manages the state's budget system and makes appropriate allotments and transfers as authorized by law. The division conducts fiscal policy research and analysis to improve the cost-efficiency and cost-effectiveness of current financial practices. Budget Division personnel prepare analyses of appropriation and substantive legislation and make recommendations based on their research. Beginning in February 2004, Budget Division staff will be the team lead for developing the Budget Preparation module for the CORE systems project.

Fiscal and Research Division: The Fiscal and Research Division of the Office of State Finance analyzes issues such as taxation, government expenditures, and economic growth. The division also monitors and reports various statistics and analyzes state economic indicators. This division identifies ways of improving the state's economic well being.

The division also prepares revenue certification information for the Board of Equalization, which sets the appropriations limit for the Legislature, and monitors General Revenue Fund collections.

Information Services Division (ISD):

The mission of ISD is to provide Oklahoma State agencies with quality, cost effective and secure information technology and telecommunications products and services. ISD manages the state's data processing and telecommunications infrastructures. ISD sets standards for these areas to ensure compatibility of voice and data communications. They manage the local area networks for OSF, the Governor and several other state agencies. They manage a communications infrastructure including a state backbone of fiber connecting the most populous areas of the state to high-speed internet capabilities. ISD also manages the State telephone system; negotiating for long-distance and local services for the majority of state agencies.

ISD is actively involved in the CORE project (described below). ISD is also evaluating the security of the State's communications infrastructures as well as disaster recovery capabilities, and will propose changes to improve them.

CORE: The Office of State Finance, the Office of Personnel Management and the Department of Central Services serve as the lead agencies in the CORE project. The CORE project is an enterprise-wide information system.

The purchasing and financial components of CORE/PeopleSoft went "live" November 3, 2003. These components of CORE/PeopleSoft, replaced antiquated systems with an integrated computer system that will permit user agencies to more easily access vital data. The project is multi-phased with various modules being

made available during the different phases.

Phase I of the project includes:

- General Ledger
- Accounts Payable
- Purchasing
- Human Resources
- Base Benefits
- Payroll
- Time and Labor

Phase II of the project includes:

- Budget Preparation
- Accounts Receivable
- Commitment Control
- Billing
- eBilling
- eProcurement
- Training
- Enterprise Scorecard
- Projects
- Grants
- Asset Management
- Inventory
- Strategic Sourcing
- Management
- Contracts

FY-2005 Recommendation

FY-2005 Appropriation	
<i>(amounts in thousands)</i>	
FY-2004 Appropriation	\$20,081
One-time Adjustments	(\$1,500)
FY-2004 Base	\$18,581
FY-2004 Bud. FTE Level	123.4
Actual Avg. YTD FTE	111.8
Funding Adjustments:	
CORE lease payments	\$874
CORE maint./operations	\$2,835
Transfer of 5 FTE from OPM	\$299
Reduced FY-05 debt service	(\$157)
Total Adjustments	\$3,851
FY-2005 Recommendation	\$22,432
% Change for FY-2004	11.7%

Source: Office of State Finance

The FY-2005 appropriation for the Office of State Finance is the same as provided for FY-2004 with the following adjustments.

- The \$1.5 million appropriated to OSF for the Military Strategic Planning efforts is not needed again in '05.
- OCIA bond payments: the required funding for these payments will be \$157,170 less in '05.
- Loss of carryover / replacement: OSF budgeted \$802,125 of appropriated carryover for '04. \$489,390 of this amount needs to be replaced with recurring appropriations for '05.
- CORE lease payments: the 2003 legislature appropriated \$7 million for this in '04. OSF absorbed \$645,232 of the total costs in '04 in addition to the appropriation reduction of \$614,000. The full

appropriation of \$7,874,498 is needed in '05 (\$874,498 more than the '04 appropriation).

- CORE operations: the operations of this project have been paid partly from agency contributions and mostly from appropriations. These appropriations will run out in '04 and the operations costs will need to be appropriated in '05 (+\$1.273 million).
- Other operations adjustments: as various modules in the CORE project are being completed, the ongoing operations personnel and funds related to the new functionalities are being transferred to operations units of OSF. The increased cost of these functions needs to be appropriated in '05. In addition, there are other costs associated with annualizing the costs of FTE, providing additional training funds, and other operations costs. The total of these costs is \$1.371 million.
- Repayment to the federal government for disallowances: the \$4 million appropriated to OSF in '04 to repay the federal government needs to be repeated in subsequent years until the entire obligation of \$13.2 million plus interest at 11.65% is repaid.

Insurance Department

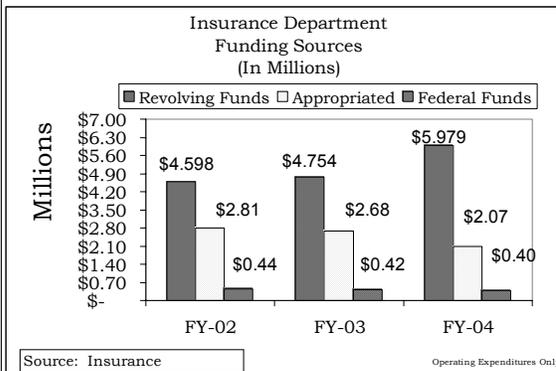
The Insurance Department regulates the insurance industry. Regulation protects the public by assuring a solvent insurance market and well-educated insurance agents.

The Department also regulates Real Estate Appraisers and Bail Bondsmen.

	2002	2003	2004 est.
Insurance Agents	63,970	72,116	73,000
Real Estate Appraisers	1,550	1,650	1,700
Bail Bondsmen	442	494	544

Source: Oklahoma Insurance Department

The Department's major source of funding is revolving funds. Of the Department's FY-2004 budget, 70% is funded by revolving funds. The following chart shows a three year history of the Department's revenue sources. For FY-2004, the Department received a federal grant to aid in the investigation of Medicaid and Medicare fraud.



The National Association of Insurance Commissioners (NAIC) accredits the Department. To receive this accreditation, the Department must comply with NAIC standards as they relate to financial statement examinations, financial analysis and legislation.

Financial Statement Examinations: Insurance companies operating in Oklahoma must file financial statements and other documents with

the Department, as required by Legislation. Insurance Departments in each state examine documents of companies chartered in their states. NAIC accreditation assures that documents of all companies in every state are examined by applying uniform standards.

Notable Achievements

- *The EAGLE Program (Ending Arguments, Gently, Legally and Economically) is the first-of-its-kind program to mediate instead of litigate disputes between policyholders and insurance companies. This program was copied by other states and even cited in Congressional hearings as a positive initiative from Oklahoma's insurance department.*
- *The National Association of Insurance Commissioners ranked the Department at 3.97 on a scale of 4 points for excellence in financial regulation of the insurance industry.*
- *The Complaint and Claims Division successfully recovered \$6,515,331 for Oklahoma consumers during 2002.*

Medicare Fraud Prevention: The Department received a federal grant from the U.S. Department of Health and Human Services Administration on Aging to help seniors and advocates prevent Medicare fraud. Training provided through the grant teaches senior citizens and others working in the aging services field how to properly review Medicare summary notices to make sure the consumer is paying the correct amount. This program helps prevent fraud and waste and protects citizens from paying for services that are otherwise covered or are not provided.

HMO Regulation: The Insurance Department is responsible for regulating all HMOs that operate in the state of Oklahoma. The Department received these additional duties as a

result of SB 635, effective November 1, 2003. HMOs are required to file all registration and regulatory documents with the Department.

FY-2005 Recommendation

<i>FY-2005 Appropriation</i>	
<i>(amounts in thousands)</i>	
FY-2004 Appropriation	\$2,072
FY-2004 Bud. FTE Level	143.0
Actual Avg. YTD FTE	125.2
Funding Adjustments:	
Reduce FY-2004 Appr.	(375)
FY-2005 Recommendation	\$1,697
% Change for FY-2004	-18.10%
<small>Source: Office of State Finance</small>	

The FY-2005 appropriation for the Insurance Department is the same as provided for FY-2004 with the following adjustment.

Reduction: The Governor’s budget proposes a reduction in the FY-2005 appropriation of \$375,000. Analysis of the Bail Bondsmen Revolving Fund and the Insurance Commissioner Revolving Fund show the funds have sufficient balances to absorb this cut. This funding will be replaced in FY-2006.

The Governor’s budget also includes transferring \$400,000 from the Bail Bonds Revenue Fund and Anti-Fraud Fund to the Special Cash Fund.

Commissioners of the Land Office

In 1890, the United States Congress passed the Organic Act allowing for the creation of Oklahoma Territory. Along with many other important functions, this was the start of the School Land Trust.

The Organic Act reserved Sections 16 and 36 of each township in what is now the western half of the state for the use and benefit of the Public Schools. The Federal Government had no title to land in Indian Territory, now the eastern half of the state, so it compensated the Trust Fund with a grant of \$5 million.

The Federal Government deemed that over 3 million acres would be set aside in the initial land grant to ensure that public education would always have a financial base. The State Constitution includes in Article 2, Section 11 that the “principal shall be deemed a trust fund held by the State, and shall ever remain inviolate. It may be increased, but shall never be diminished.”

The mission of the Commissioners of the Land Office (CLO) is to generate maximum earnings for the various Trust beneficiaries through management of Trust lands, minerals and permanent funds and to protect the assets of the Trusts. The Trust beneficiaries are all common education institutions and the following colleges and universities:

- University of Oklahoma;
- Oklahoma State University;
- Langston University;
- Northern Oklahoma College;
- Southeastern OSU;
- University of Central Oklahoma;
- East Central OSU;
- Northeastern OSU;
- Northwestern OSU;
- Southwestern OSU;
- Cameron University;

- Oklahoma Panhandle State University; and
- University of Science and Arts of Oklahoma.

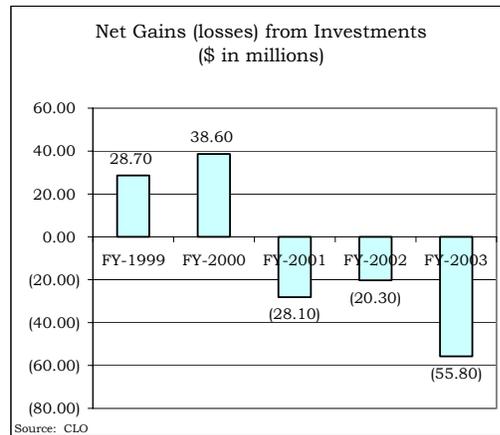
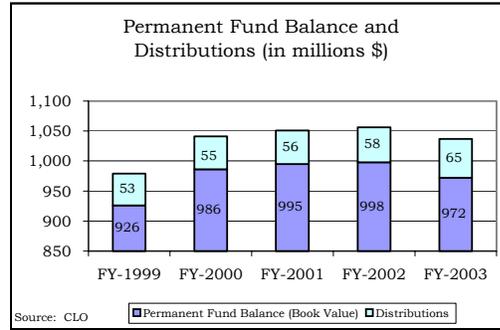
Five ex officio members constitute the CLO board: the Governor, Lieutenant Governor, State Auditor and Inspector, Superintendent of Public Instruction, and the President of the Board of Agriculture.

Notable Achievements

- *The Rose Creek land development project is an innovative way the CLO have began to utilize urban lands held by the Trust. Rose Creek is a 580-acre master planned residential development in Northwest Oklahoma City. The CLO leases 320 acres of this land to the Melrose Company of Hilton Head, South Carolina. A large portion of the land is now being operated as an 18-hole championship golf course designed by the world-renowned Arthur Hill. The remainder of the lease land is held for commercial and residential development. The Trust will be paid in excess of \$35 million dollars over the life of the lease for these lands. This lease income will be distributed to Oklahoma’s public schools. In addition, as the residential land is sold, the Trust will receive a portion of those proceeds, which will become a part of the Permanent Trust Fund. At the end of the lease term, the land and improvements revert to the CLO so that this project can become a perpetual source of income to the Trust.*
- *The increased prices and activity in the energy sector resulted in a significant increase in the contribution to the permanent trust fund. Income from the mineral estate increased from approximately \$21 million dollars in 2002 to approximately \$31 million dollars in 2003.*

- *The CLO purchases natural gas on behalf of 43 participating State institutions, facilities and universities. Over the past two years this program has saved participating institutions over \$1.2 million on their cost of natural gas.*
- *The CLO continues its red cedar eradication program and plans to increase this effort in the future as funding permits. The CLO estimates the return on additional soil conservation funds used for red cedar eradication to be 12.5%. This is based on the average spending per acre per year to control cedars and the estimated decrease in rental income if the cedars are not controlled.*
- *Over the last fifteen years, the audits completed by the Audit Division have resulted in additional royalties to the trusts of \$11.5 million and direct interest disbursements to the Trust beneficiaries of \$8.3 million.*
- *In addition to these quantifiable results, the efforts of the Audit Division have also resulted in a price basis for continuing royalties that is greater than the average posted price in Oklahoma. This increase results from enforcement of the lease terms and rules and through voluntary compliance with these regulations by CLO lessees due to the potential for audit.*

The following chart depicts the balance and distribution amounts in the Permanent Trust Fund over the last five years.



The Trusts managed by the CLO are: the Common School Fund, the Education Institutions Fund, the University of Oklahoma Fund, the University Preparatory School Fund, the Oklahoma State University Fund, the Normal Schools Fund, the Langston University Fund, the Public Building Fund and the Greer 33 Fund.

The CLO is also charged with the sale, rental, disposal and management of School Trust lands and assets, and of the funds and proceeds derived from these assets. The principle functions of the agency consist of the following:

- Leasing lands for agricultural, commercial and grazing purposes;
- Leasing lands for oil, gas and other minerals including water rights;
- Investing permanent funds as authorized by law;
- Sale of lands as prescribed by law;

- Improving, protecting and preserving lands owned by the Trusts; and
- Distributing the revenues of the various Trusts to the institutions to which the funds belong.

Real Estate Management

The real estate management division is responsible for the lease, sale and management of approximately 750,000 acres of Trust Lands along with the maintenance and care of all of the agency's current and historical records.

Annual incomes in excess of \$9 million along with another \$602,400 attained from the sale of lands are derived from management activities in FY-2004. The majority of this income is derived from the agricultural leasing program.

School Land Trust
Acreage Inventory
State Owned School Lands
Year Ended June 30, 2003
(Unaudited)

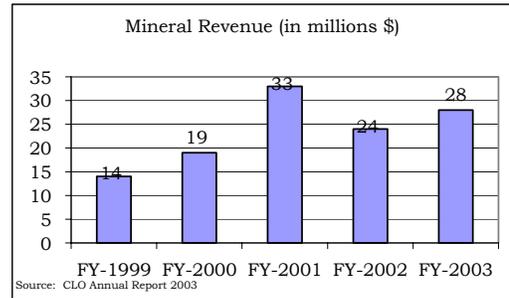
TRUST/FUND	ORIGINAL	LAND ACQUIRED	TOTAL ACRES
	GRANT LAND	BY FORECLOSURE	OWNED
Common School	326,295.68	41,192.52	367,488.20
State Education Institutions	75,690.72	6,797.76	82,488.48
University of Oklahoma	62,456.96	1,147.16	63,604.12
University Preparatory	21,080.75	400.00	21,480.75
Oklahoma State University	75,572.92	1,112.96	76,685.88
Normal Schools	74,152.38	478.50	74,630.88
Langston University	18,678.10	316.99	18,995.09
Public Buildings	36,266.34	0.00	36,266.34
Greer	3,239.30	0.00	3,239.30
Total Acres Owned	693,433.15	51,445.89	744,879.04

Source: CLO

Minerals Management

The various trusts under the direction of the CLO own about 1.35 million gross and 1.1 million net mineral acres throughout 74 of Oklahoma's 77 counties. The division is responsible for oversight of approximately 5,500 oil and gas wells and administration of approximately 5,000 leases. Income from the mineral estate in FY-2003 was approximately \$28 million. Income from the fund is deposited in the Permanent Trust. In FY-2003, 189

wells were drilled on CLO acreage with an 82% success rate.



FY-2005 Recommendations

FY-2005 Appropriation	
<i>(amounts in thousands)</i>	
FY-2004 Appropriation	\$4,095
FY-2004 Bud. FTE Level	57.0
Actual Avg. YTD FTE	52.6
Funding Adjustments:	
None	0
FY-2005 Recommendation	\$4,095
% Change for FY-2004	0.00%

Source: Office of State Finance

The FY-2005 appropriation for the Commissioners of the Land Office is the same as provided for FY-2004.

The Retirement Systems

The Systems: The State retirement systems consist of the following seven defined benefit pension plans:

- Oklahoma Public Employees Retirement System (OPERS);
- Uniform Retirement System for Justices and Judges (URSJJ);
- Oklahoma Teachers Retirement System (OTRS);
- Oklahoma Police Pension and Retirement System (OPPRS);
- Oklahoma Firefighters Pension and Retirement System (OFPRS);
- Oklahoma Law Enforcement Retirement System (OLERS); and
- Retirement Plan for Full-time Employees of the Department of Wildlife (DWR).

Systems are funded with employee contributions, employer contributions, return on investments, and in some cases dedicated revenue streams. Recently, the return on investments has been below actuarial assumptions due to the sluggish economy. These lower returns have affected the long run soundness of the retirement systems.

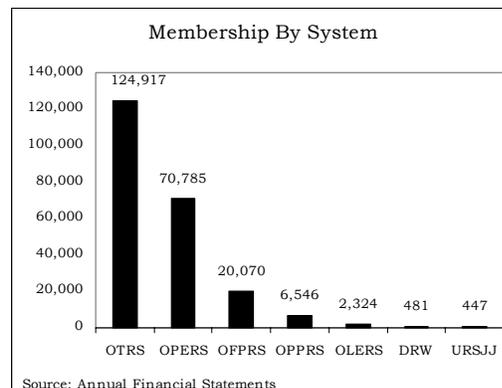
There are two main types of plans in the system. OPPRS, OFPRS, and OLERS are referred to as 'twenty and out' plans. Additionally, within the structure of OPERS a 'twenty and out' plan is maintained for correctional officers in the Department of Corrections.

OPERS, URSJJ, OTRS, and DWR are defined benefit plans. These plans have a guaranteed benefit that is a function of years of service and salary. In order to be entitled to these benefits there is a requirement for a certain

number of years of service before a member becomes vested.

The twenty and out plans are aimed at public services where it is in the interest of the public to have the active members made up of young, healthy individuals. These individuals often serve in areas that are defined as hazardous duty. Members of the various law enforcement, firefighting entities as well as guards employed by the Department of Corrections make up the majority of the members of these systems. These plans are extremely generous in their benefits and are designed to allow retired members to go on to other careers.

The size of the systems can best be understood by looking at their membership numbers.



The overwhelming size of OTRS compared to the other systems becomes readily apparent when viewed in this context. An Unfunded Accrued Actuarial Liability (UAAL) reflects the excess amount of liability to provide benefits that has been accrued over the amount of assets available to pay those benefits. This accrual reflects an actuarial's best estimate of costs that will be incurred for future benefits promised as of a certain date.

OTRS's large relative size is a concern because the system carries an UAAL of approximately \$5,488 million; however, this is an improvement of \$477 million since June 30, 2002. It must be noted

that this improvement was due in large part to elimination of assumed 1% annual cost of living allowance (COLA) rather than increased revenue or earnings.

Financial health or soundness of retirement systems is measured by a ratio of projected benefit payments to funds available for benefit payments. Calculations of projected benefit payments are based on a number of factors including age of employees, estimated retirement age, number of years credited in system, marital status, mortality rate tables and COLA increases.

The simplest way to understand the health of any retirement system is to view its funded ratio. This is a ratio of debt to assets and in any healthy system should not fall far below an 80% funded ratio.

System	Funded Ratios				
	7/1/1999	7/1/2000	7/1/2001	7/1/2002	7/1/2003
OTRS	49.8%	53.7%	51.4%	51.4%	54.0%
OPERS	82.3%	84.0%	82.6%	79.8%	76.8%
OFPRS	79.4%	81.4%	82.9%	78.4%	76.9%
OPPRS	94.3%	90.2%	91.4%	88.1%	84.5%
OLERS	104.0%	108.0%	106.0%	90.0%	88.0%
DRW	96.1%	101.5%	100.5%	94.0%	90.7%
URSJJ	*	132.6%	132.9%	148.2%	139.9%

* Change in calculation of funded ratio which is not comparable to other data.
Source: Annual Reports, Actuarial Reports, Individual Agencies

OTRS's funding ratio is one of the lowest in the nation. This gap in funding of OTRS liabilities is an absolute obligation of the State according to Attorney General's Opinion No. 96-21. Ultimately, therefore, the responsibility for this debt falls on the shoulders of all Oklahomans.

A sensible combination of asset classes is another determinant of soundness of retirement funds. The allocation by asset class of the Oklahoma retirement funds are within prudent guidelines. The only unusual allocation is in the alternative assets of OPPRS with investment in venture capital; however, the investment in alternative assets is within prudent guidelines. OPPRS is

the only state retirement fund that invests in venture capital.

System	Domestic Equity	Domestic Fixed	International Equity	International Fixed	Real Estate	Alt Assets	Cash
OTRS	54.3%	26.9%	15.9%	0.0%	0.0%	0.0%	2.9%
OFPRS	49.1%	37.5%	8.6%	0.0%	0.0%	0.0%	4.8%
OPERS	44.0%	38.4%	13.2%	0.0%	0.0%	0.0%	4.4%
OPPRS	32.8%	24.0%	12.1%	6.0%	0.2%	24.3%	0.6%
OLERS	47.7%	31.8%	9.1%	0.0%	7.0%	0.3%	4.1%
URSJJ	38.4%	48.6%	11.2%	0.0%	0.0%	0.0%	1.8%
Public Funds Avg	46.2%	36.3%	8.8%	1.1%	1.8%	2.2%	3.6%

Source: Oklahoma Pension Commission, "Public Fund Universe Analysis Report", November 2003

Dedicated Revenues: The State systems differ from many other defined benefit retirement plans since several of the systems receive contributions other than employer and employee contributions. OTRS, OFPRS, OLERS, and OPPRS are all recipients of dedicated revenue streams.

The insurance premium tax provides all the dedicated revenue for OFPRS and OPPRS and approximately half of the dedicated revenue to OLERS. These state revenues flow to OPPRS and OFPRS although the members are employed primarily by cities and counties rather than the state.

The insurance premium tax payments to these funds, estimated at \$82 million, were redirected to the Education Reform Revolving Fund (HB 1017 Fund) for FY-2004 only. Beginning in FY-2005 this insurance premium tax revenue will again be dedicated to the retirement funds and to the General Revenue Fund (GRF).

The amount dedicated to the retirement plans through FY-2009 will increase above previous levels to reimburse the retirement systems the amount of the redirected FY-2004 revenue plus interest. The GRF revenue will decrease to provide for the increase to the retirement funds.

Insurance Premium Tax Apportionment							
	FY-2003		FY-2004 est.		FY-2005 thru FY-2009		FY-2010 and later
	%	\$ millions	%	\$ millions	%	FY-05 est. \$ millions	%
OFPRS	34%	50.5	0%	0.0	41.7%	67.6	34%
OPPRS	14%	20.8	0%	0.0	17.0%	27.5	14%
OLERS	5%	7.4	0%	0.0	6.1%	9.9	5%
GRF	47%	70	0%	0	35.2%	57.024	47%
1017	0%	0	100%	155	0.0%	0	0%
Total		148.7		155.0		162.0	

Apportionment change per SB 206 (2003).
Values per revenue certification documents 12/03.

The retirement systems exist for the benefit of employees and their beneficiaries. All of the systems provide a benefit for their members with varying provisions for their beneficiaries in the event of the death of the member.

Spouse beneficiaries generally receive a lifetime benefit which varies from being the same amount as the employee to half. Minor children beneficiaries receive a benefit as long as they are minors or, in some cases, while enrolled in higher education. The table below shows the average regular benefit of retirees and their beneficiaries. This table does not include any amounts that may be received from Deferred Retirement Option Plans (DROP) programs or disability programs.

Retirees & Beneficiaries	
System	Avg benefit* 6/30/2003
OTRS	15,648
OPERS	12,757
OFPRS	
Paid	22,795
Volunteer	1,599
OPPRS	24,034
OLERS	26,992
DRW	18,893
URSJJ	36,656

*Avg benefit includes both retirees and their surviving beneficiaries.
Source: FY-2003 annual financial statements and actuarial reports

Oklahoma State Pension Commission

The Oklahoma State Pension Commission provides guidance to public officials, legislators and administrators in developing public retirement objectives and principles, identifying problems and areas of abuse, projecting costs of existing systems and modifications to those systems, and recommending pension reform programs.

The Commission publishes a quarterly performance report analyzing the performance of each of the state retirement systems on an individual and consolidated basis. The reports contain:

- Combined and individual rates of return of the investment managers by category of investment, over periods of time;
- Comparisons of data with similar data for a larger population of investment managers by asset class as well as by style of management;
- Analyses of the performance of the custodian bank or trust company of the System including a specific review of the adequacy of the collateralization of the short-term interest-bearing investment vehicles placed by the custodian; and
- Any other information the Commission may have requested.

The Commission also publishes an annual comparative performance report containing:

- An analysis of the written investment plans developed by

each retirement system as required by law on an individual and consolidated basis;

- A qualitative and quantitative analysis of the performance of the custodian employed by each governing body of the retirement systems; and
- Comparison of the above analyses with similar data for a larger population.

As directed by Statute, the Commission publishes a report of the most recent actuarial valuation including total assets, total liabilities, unfunded liability or over funded status, contributions and any other information deemed relevant by the Commission.

Oklahoma Public Employees Retirement System (OPERS)

The mission of OPERS is to provide and promote accountable and financially sound retirement plans for its members. OPERS administers a defined benefit retirement plan for public employees as well as for judges and justices (URSJJ). OPERS' clients are composed of:

- State and county employees, except for Oklahoma and Tulsa counties, and
- Local governments that choose to participate.

The URSJJ provides retirement benefits and service to all elected judges.

OPERS Retirement Benefit

Calculation: SB 643 (2003) provides an elective change in benefit calculations. Effective January 1, 2004 members may elect to increase the benefit computation factor for all future service from 2% to 2 1/2%. Generally

this election is available only for the category of state, county and local agency employees.

The election is irrevocable, binding for all future employment under OPERS and applies only to full years of service. Employees making the election will pay the standard contribution rate plus an additional actuarially determined contribution rate. Currently the additional rate is 2.91%.

Effective July 1, 2006, the state, county and local agency employer contribution rates increase as follows:

- State agency employer contribution rate will increase by 1% each year until it reaches 16% in FY-2012 and
- The combined employee and employer contribution rate for county and local agencies will increase by 1% each year until it is 19 1/2% for FY-2012. The maximum employee rate will remain unchanged at 8 1/2%.

Deferred Compensation: OPERS also administers SoonerSave which is a deferred compensation plan and a deferred savings incentive plan available to state employees, as well as any elected officials receiving a salary from the state.

Participants may direct the investment of their contributions in available investment options offered by the plan. Members making current contributions to the deferred compensation plan are also participants in the deferred savings incentive plan.

The deferred compensation plan is funded through payroll deductions of a minimum of \$25 per month. As of December 31, 2003, almost two-thirds of eligible employees contributed to SoonerSave.

The net assets available for plan benefits totaled \$282.3 million with

30,678 active, retired or inactive participants as of June 30, 2003. Deferred compensation benefits are paid to participants or beneficiaries upon termination, retirement, death or unforeseeable emergency. Such benefits are based on a participant's account balance and are disbursed in a lump sum or periodic payments at the option of the participant or beneficiaries.

Deferred Savings: The deferred savings incentive plan of \$25 per month is contributed by the employee's agency for those employees contributing at least \$25 per month to the deferred compensation plan. The net assets available for plan benefits totaled \$64.5 million with 29,996 members as of June 30, 2003.

Uniform Retirement System for Justices and Judges (URSJJ)

URSJJ covers all justices and judges of the Oklahoma Supreme Court, Court of Criminal Appeals, Workers' Compensation Court, Court of Appeals, and District Courts. The plan is administered by OPERS.

Investment losses have affected URSJJ in much the same manner as the other retirement system. These investment losses contributed to a decrease in the funded ratio; however, the system remains financially sound.

Condensed Schedules of Changes in Plan Net Assets			
\$ millions			
	2003	2002	2001
Member contributions	1.8	1.8	1.7
Court employer contributions	0.5	0.5	1.9
Net investment income (loss)	<u>10.8</u>	<u>(6.2)</u>	<u>(7.4)</u>
Total Additions	13.1	(3.9)	(3.8)
Benefits	6.0	5.1	5.0
Refunds and withdrawals	0.1	0.2	--
Administrative expenses	<u>0.1</u>	<u>0.1</u>	<u>0.1</u>
Total Deductions	6.2	5.4	5.1
Total Changes in Plan Net Assets	<u>6.9</u>	<u>(9.3)</u>	<u>(8.9)</u>

Source: URSJJ, "Financial Statements, June 30, 2003 and 2002"

Even with a decrease in funded ratio from 148.2% (July 1, 2002) to 139.9% (July 1, 2003), the required employer contribution (from an actuarial perspective) remains at 0% of covered payroll. However, the statutory contribution rate for employers is 2% of salary. URSJJ is the best funded of the state's retirement systems. As of July 1, 2003, the average annual retirement benefit for retired members was \$45,881. The combined average benefit for retirees and their beneficiaries (surviving spouses and children) is less since the beneficiaries receive a fractional part of the retirees benefit.

Oklahoma Teachers Retirement System (OTRS)

OTRS was established in 1943 for the purpose of providing retirement allowances and other specified benefits for qualified persons employed by state-supported educational institutions. The category of education employees includes local school district employees and higher education employees, as well as a few others engaged in education.

OTRS is the largest state retirement system with almost 125,000 members

and net assets of \$5,863 million as of June 30, 2003.

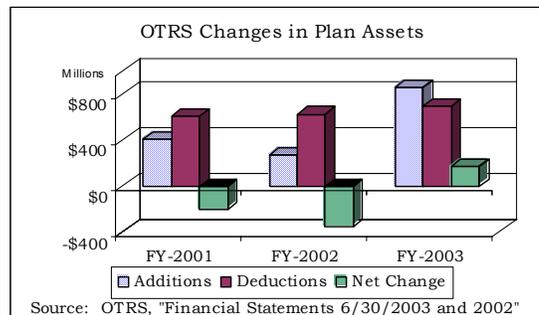
As of June 30, 2003 only 54% of OTRS actuarial liabilities were covered by the actuarial value of its assets. According to Gabriel, Roeder, Smith, and Company, Consultants and Actuaries, TRS continues to be one of the worst funded state-operated pension plans in the nation.

The increase in the dedicated revenue and an improved economy are expected to improve the funded position of the system in the future. OTRS receives dedicated revenue from a portion of the state's sales, use, individual income tax, and corporate income tax receipts. The actuarial assumption is that these receipts will increase at 3.5% annually. Additionally, the percentage of these sources is scheduled to increase.

OTRS Dedicated Revenue Sales, Use, Income Tax	
FY-03	3.54%
FY-04	3.75%
FY-05	4.00%
FY-06	4.50%
FY-07	5.00%

Source: SB 1376 (2002)

The following graph shows the effect of the economic slow down which led to lower earnings. Combining lower earnings with increasing numbers of retirees led to a decline in net plan assets. However, there was some economic recovery in FY-2003.



Retiring members with at least 30 years of credited service have a new benefit option per HB 1440 (2003). Effective July 1, 2003, they may choose to retire under the Partial Lump Sum Option (PLSO). Retiring members electing the PLSO will receive a portion of their monthly benefits in a one-time, lump-sum payment equaling 12, 24, or 36 months of expected retirement benefits, and then will receive reduced monthly retirement checks for life. The reduction in monthly benefits is the actuarial equivalent of the amount the member would receive had he or she not chosen the lump sum option.

In HB 1362 (2003) the vesting period was reduced from ten years to five years with an effective date of July, 2003. The vesting period of ten years was frequently cited as a recruiting deterrent for higher education faculty. The new legislation also permits new employees of a comprehensive university (OU and OSU) who are forty five or older to have an option to join the system upon employment.

Tax-Sheltered Annuity Plan: OTRS also administers an optional tax-sheltered annuity program under section 403(b) of the Internal Revenue Code. TRS members may deposit funds into this plan if the local school board adopts a resolution making the plan available to its employees. This Teachers' Deposit Fund had \$249 million at the end of FY-2003 compared to \$279 million in FY-2002.

Oklahoma Police Pension and Retirement System (OPPRS)

OPPRS became effective January 1, 1981. All persons employed as officers or any person training to become a permanent police officer with a police department of a participating municipality with ages not less than 21 nor more than 45 when accepted for membership are eligible.

OPPRS's members with 20 or more years of continuous service may elect to participate in the Deferred Retirement Option Plan (DROP). This plan allows employees eligible for a normal retirement benefit to defer the receipt of retirement benefits while continuing employment. Participation shall not exceed five years. During this period employee contributions cease while employer contributions are divided equally between the retirement system and DROP. The monthly retirement benefits that the employee is eligible to receive are also paid into the DROP account.

SB 668 (2003) instituted a back-drop-date plan. A member may retroactively elect to join this DROP as of a back-drop-date which is no earlier than the member's normal retirement date or five years before his termination date. The monthly retirement benefits and employee contributions that would have been payable had the member elected to join the DROP are credited to the member's account with interest. The addition of this plan added \$5.9 million or 0.4% to the actuarial accrued liability.

When the member actually terminates employment, the DROP account balance may be paid in a lump sum or to an annuity provider. Monthly retirement benefits are then paid directly to the retired member.

Oklahoma Firefighters Pension and Retirement System (OFPRS)

OFPRS was created as a state agency in 1981. The system receives funding from employer and member contributions, insurance premium taxes, and returns on investments. Over 65% of the members are volunteers. While these volunteers are not paid for their service, they receive \$127.40 per month of retirement after 20 years of service.

OFPRS Membership	
Active Paid	3,400
Active Volunteer	6,934
Retired Paid	3,896
Retired Volunteer	4,535
Terminated Vested Paid	39
Terminated Vested Volunteer	969

Source: OFPRS 11/2003

Both volunteer and paid firefighters OFPRS members may participate in a deferred retirement option plan (DROP) just as other systems whose members perform hazardous duty.

Local Firefighter Retirement Boards:

Counties, cities and towns, and fire districts with local firefighters have locally controlled boards. The local board is required to review applications for retirement benefits. The local board recommends the approval, disapproval or modification of each application to the state board. Deliberations by the local board are pursuant to state statute and the administrative rules of the pension system. The local board forwards such recommendations to the state board within ten days following the local board's decision. The System furnishes all required forms necessary so as to allow the local board to carry out its responsibilities.

Oklahoma Law Enforcement Retirement System (OLERS)

The plan was established July 1, 1947. Qualified law enforcement officers of various state agencies and departments are members. The normal retirement date for retirement benefits eligibility is 20 years of service or age 62 with 10 years of service. OLERS also has a deferred option retirement plan.

OLERS DROP Program			
DROP Statistics	July 1, 2002	July 1, 2003	Change
Number of members	132	140	8
Account balances	\$8.5 million	\$6.2 million	\$2.3 million
Retirement annual benefits of active members	\$4.7 million	\$4.3 million	\$0.4 million

Source: OLERS, "Actuarial Valuation Report as of July 1, 2003"

Department of Wildlife Retirement Plan (DWR)

The DWR is a single-employer defined benefit plan. All permanent, full-time employees of the Department of Wildlife are eligible to participate on the date of their employment. Since a single

agency manages the retirement system for its own employees, this retirement system is unique.

The retirement system has 309 active participants and 172 retired and inactive participants. It has a funded ratio of 90.7% which makes it the second best funded state retirement system.

The revenue source for the retirement fund is the Department's contribution and the employee's contributions. The funds are held and invested through a trust account. The employer contribution is based on the annual valuation report and is currently set on a 15 year amortization schedule to fund the liability. Currently there are seven years remaining. For last two to three years the contribution has been \$1.2 million. This year the recommended department contribution is \$1.5 million. Employees contribute 3% of salary. The vesting period is 10 years.

Retirement Systems Plan Year Ending 6/30/2003							
	OPERS	URSJJ	OTRS	OPPRS	OPFRS	OLERS	DWR
Active members	43,350	268	83,127	3,880	10,623	1,148	309
Retired members*	22,147	169	38,059	2,290	7,979	1,015	156
Vested members	5,288	10	3,731	52	994	21	16
Deferred Option Plan (DROP)	-	-	-	324	474	140	-
Employee contribution %:							
State-not elected	3.0% to 3.5%	5% to 8%	7.0%	-	-	8%	3%
State - elected	4.5% to 10.0%	-	-	-	-	-	-
Hazardous Duty	8.0%	-	-	-	-	-	-
County and Local	3.5% to 8.5%	5% to 8%	7.0%	8%	paid - 8% volunteer - 0%	-	-
Employee contribution \$	\$50,101,133	\$1,791,825	\$220,503,413	\$12,879,000	\$22,306,819	\$3,858,698	\$347,426
Actuarial Value of Assets	\$5,354,795,771	\$196,989,778	\$6,436,852,137	\$1,392,043,000	\$1,496,885,848	\$585,823,000	\$55,615,324
Actuarial Accrued Liability	\$6,974,583,356	\$140,856,203	\$11,925,161,689	\$1,659,219,952	\$1,946,753,099	\$667,698,840	\$61,317,625

* Includes regular retirees and disabled retirees as well as beneficiaries and spouses
Source: Actuarial Reports and Annual Financial Reports as of July 1, 2003

FY-2005 Recommendation

The Governor's budget proposes to issue \$2 billion in pension obligation bonds to reduce the unfunded liability of the Teachers Retirement System.

Pension obligation bonds (POB) are a method of funding a system's unfunded actuarial liability. They fund all or part of a system's unfunded liability. They do not introduce any additional liabilities to the system itself.

During times of low interest rates, they allow the contingent, unfunded obligation of the retirement system to be locked in at interest rates below what can be earned on funds over the life of the bond issue.

The actuarial assumption for the investment return to the retirement fund is 8% per annum, compounded annually. The difference between the interest paid on the bonds and the investment return on the bond proceeds will improve the soundness of the retirement system.

Oklahoma Tax Commission

The primary responsibilities of the Tax Commission include the collection and distribution of approximately 75 different taxes, fees and licenses. The Commission allocates revenues to state funds and local government units, and collects and distributes local sales taxes levied by cities and towns in Oklahoma.

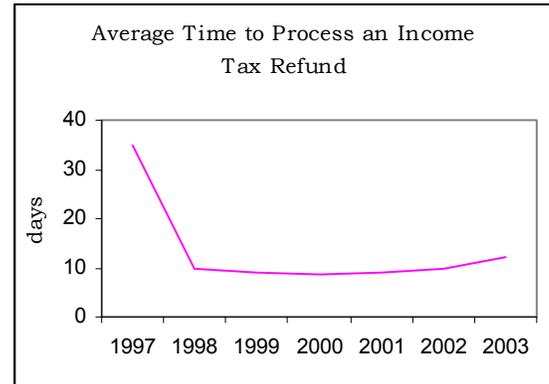
The Oklahoma Tax Commission consists of three distinct departments: Taxpayer Services, Revenue Administration and Support Services.

Notable Achievements

- *Implemented use of an outsourcing firm to process income tax returns, which provided \$200,000 savings in document processing costs.*
- *Implemented use of an outsourcing firm to collect income and business tax, which provided for a 71% increase (\$19 million to \$31 million) in collections from FY-1999 to FY-2003.*
- *Introduced an on-line business tax filing system that has grown from May 2001 with 260 monthly filers to December 2003 with 29,943 filers resulting in decreased costs and increased efficiency for the Commission.*
- *The Commission has seen a 129% increase (226,000 to 517,000) in on-line income tax return filers from FY-2000 to FY-2003. The results are decreased costs and increased efficiency for the Commission.*
- *Introduced an automated call answering system for taxpayer questions that decreased the number of taxpayer calls receiving busy signals by 26%.*

Income Tax Return Processing:

Since 1997, the Tax Commission has greatly reduced the amount of time required to process income tax refunds. The Commission utilizes temporary seasonal employees from February through June to process returns.



Source: OTC

Professional License Compliance:

Effective July 1, 2000, legislation required OTC to review professional license applicants for income tax compliance. This tax review is conducted before a state license is issued. The Commission established a section, the Professional Licensing Compliance Unit, to assist taxpayers with this new law.

OTC reviews the following professions through this program:

- Doctors
- Nurses
- Attorneys
- Insurance agents
- Teachers
- Architects
- Accountants
- All medical related licenses
- Engineers
- Abstractors
- Cosmetologists
- Process servers
- All Health Department licenses such as plumbers, electricians, etc.
- Abstractors
- Funeral directors
- Securities brokers

This program has significantly increased compliance. OTC has collected \$39.7 million since inception in FY-2000 from delinquent license holders through December 2003. Legislation passed in the 2003 session added Oklahoma state employees to this compliance effort.

OTC should be given the flexibility to add other professions to this process as time and resources permit.

FY-2004 Supplemental Request

The Tax Commission has requested additional funds for an integrated collections system. This system will replace technology that is currently being utilized. These funds will update the system and reduce risk of failure or interruption while enhancing collection efficiency. The project is expected to produce \$13.2 million in additional revenue collections in FY-2005.

Supplemental Appropriation	
<i>(amounts in thousands)</i>	
FY-2004 Appropriation	\$44,601
Integrated Collections System	\$6,450
Total FY-2004 Appropriation	\$51,051

Source: Office of State Finance

FY-2005 Recommendation

FY-2005 Appropriation	
<i>(amounts in thousands)</i>	
FY-2004 Appropriation	\$51,051
One-time Adjustments	(\$6,950)
FY-2004 Base	\$44,101
FY-2004 Bud. FTE Level	962.0
Actual Avg. YTD FTE	954.7
Funding Adjustments:	
Tobacco Tax Enforcement	\$300
FY-2005 Recommendation	\$44,401
% Change for FY-2004	-0.4%

Source: Office of State Finance

The FY-2005 appropriation for the Oklahoma Tax Commission is the same as provided for FY-2004 with the following adjustment.

Tobacco Tax Enforcement Initiative:

The Governor’s budget proposes embarking on a program to address one particular area where there is the potential for significant tax evasion: tobacco taxes.

Oklahoma faces problems in cigarette and tobacco tax evasion that are common to other states such as counterfeit cigarettes, counterfeit stamps for cigarettes, unstamped cigarettes, improperly stamped cigarettes, and improperly and untaxed other tobacco products. However, Oklahoma faces some challenges that are relatively unique, especially the prevalence of the Indian Tribal stores selling cigarettes and tobacco products.

Most of the tribes in Oklahoma have signed compacts with the State and utilize state tax stamps on cigarettes sold through these stores. The tax rate on these products is one-fourth of the tax rate to retailers in Oklahoma. The tribal stores use a different stamp than other stores since the tax rate is lower. Unfortunately, where there are

differential tax rates, there exists the opportunity for abuse and tax evasion.

Combined together, Oklahoma foregoes an estimated \$6.6 million dollars annually in cigarette and tobacco tax revenues due to tax evasion. This proposal intends to close that gap and enforce the tax law in a more evenhanded and consistent manner. In order to do this, the Oklahoma Tax Commission (OTC) will need additional resources directed toward this specific area.

There are three specific areas that are addressed by this proposal to better enforce Oklahoma's tobacco taxes. First, there currently exists a significant backlog in the review and audit of records submitted by cigarette and tobacco distributors to OTC. Second, there is very little focused oversight of tobacco distributors. Third, the current enforcement activities by OTC on retail establishments focus very little effort on tobacco taxes.

In order to fully address each of these areas of concern, the Oklahoma Tax Commission requires the addition of seven additional full time employees. The additional appropriation to the OTC budget required to fund these positions is \$300,000 annually. In order to fully implement this tobacco enforcement initiative in FY-2005, the Tax Commission will need to have these positions filled and the new personnel fully trained at the beginning of the fiscal year. Elsewhere in this budget, a FY-2004 supplemental funding request for OTC is recommended. The seven additional positions contained in this proposal will be hired and trained as part of that funding recommendation for the remainder of the current fiscal year.

State Treasurer

The mission of the State Treasurer's Office is to provide sound financial services (banking, investing and cash management), reunite citizens with their unclaimed property, and promote economic development opportunities in a fiscally responsible and efficient manner.

The Treasurer continues to look for ways to streamline financial operations and improve financial returns through improved technology, cooperation with state agencies and legislative initiatives.

Notable Achievements

- *Implemented Warrant Imaging Clearing/ Archival System providing \$300,000 savings in microfilm costs.*
- *Implemented Cash Management System which will improve interest earnings \$2 million annually for state agencies.*
- *Introduced Unclaimed Property Web Search/ Claim System which allows owners to search on-line and initiate a claim.*
- *Implemented competitive bidding for bank services which provided \$500,000 in budget savings.*
- *Introduced an on-line system for agencies to report deposits in outlying banks achieving nearly \$2 million in improved interest earnings.*

Warrant Imaging Project: The Treasurer's Office implemented its Warrant Imaging Project in January 2003. After a rigorous RFP process, OST selected the Federal Reserve Bank of Kansas City to clear the State's warrants and provide electronic images of all of these warrants. This selection will reduce OST's per item cost to clear warrants and will be a significant

savings to the Treasurer's Office and other agencies. OST realizes a savings in bank charges of \$300,000 annually. These savings were utilized to offset the FY-2004 budget cuts.

Cash Management Enhancement:

This initiative provides a comprehensive sub-accounting system for all agencies and city/county sales tax receipts held until apportionment. Participant agencies will no longer provide investment direction, but instead will have their accounts automatically invested with interest paid on an average daily balance basis. Paperwork will be reduced while earnings increase.

Unclaimed Property Website:

The Treasurer's Office assumed responsibility of the Unclaimed Property Program in 2000. The Treasurer's Office has made great strides to improve the way that unclaimed property is reunited with its owner. YourOklahoma.com developed an unclaimed property website for OST in November 2002. The website allows members of the public to search OST's database for unclaimed property and initiate a claim online. Since the website's inception, people have initiated over 12,000 claims and 120,000 searches online. There have been over 2,000 paid claims initiated via the Internet.

Unclaimed Property Statistics

	FY-2002	FY-2003 (1)	FY-2004 est.
Net Collections	\$21,228,046	\$18,385,504	\$20,000,000
# Claims Paid	8,913	13,502	10,000
\$ Claims Paid	\$4,022,451	\$11,875,159	\$6,675,000
Total Claims Initiated	16,851	25,760	21,200
Internet Claims Initiated	N/A	7,290	12,500
# New Names Published	41,359	52,841	50,600

Note (1): FY 2003 included three years of reciprocal payments to other states as well as a major "catch up effort" to reduce outstanding claims. These factors skew the numbers for FY-2003.

Rural and Affordable Housing Linked Deposit Program: This program provides incentives to housing developers and contractors to build in rural and underserved communities by providing them with low interest rates on borrowed money when developing in rural areas. Essentially, the Treasurer's office places Certificates of Deposit with lending institutions at a 3% lower interest rate. The lending institution passes these interest savings on to the contractor/developer. The Treasurer's Office will be asking to extend the start date of this program for one year. Program guidelines, forms and rules will be in place by July 1, 2004. It is anticipated that low interest rates will preclude initial widespread usage of the program.

Other Linked Deposit Programs: The Treasurer's Office also administers two other Linked Deposit Programs – the Agriculture Linked Deposit Program and the Small Business Linked Deposit Program.

The Small Business Linked Deposit Program provides lower interest rate loans to qualifying small businesses. The loan is made to the borrower's lending institution. The lending institution loans the funds to the borrower at a reduced rate.

Small Business Linked Deposit

	FY-2002	FY-2003	FY-2004 est.
Funded Participants	104	47	175
Amount Funded	\$31,257,821	\$14,540,375	\$58,000,000
Jobs Saved	773	659	950
Jobs Created	1,147	1,223	2,000

The Agricultural Linked Deposit Loan Program provides low interest rate loans to qualifying at-risk agricultural enterprises or to qualifying enterprises that are involved in the production of alternative agricultural products. The loan is made to the borrower's lending institution. The lending institution

loans the funds to the borrower at a reduced interest rate.

Agriculture Linked Deposit Program

	FY-2002	FY-2003	FY-2004 est.
Funded Participants	510	357	620
At-Risk Participants	486	333	587
Amount Funded	\$44,984,146	\$67,584,719	\$78,500,000
Ave. \$ Per Participant	\$246,329	\$208,399	\$224,194

Securities Lending Revolving Fund:

Legislation passed in 2002 (SB 1450) allowed the Treasurer's Office to get separate bids on custodial banking services and securities lending services. Previously, OST had to use the same bank for custodial services and securities lending services. With the passage of this legislation, the Treasurer's Office was able to bid these two services separately. As a result, OST has realized over \$500,000 to date in budget savings.

These savings helped absorb the budget reductions. Also, there was a change in statutes allowing OST to use 4% of the unclaimed property funds for operational purposes related to the unclaimed property division. Prior to this legislation, the Treasurer was only authorized to use 1%. This does not cause any loss of funds for unclaimed property claimants.

FY-2005 Recommendation

<i>FY-2005 Appropriation</i>	
<i>(amounts in thousands)</i>	
FY-2004 Appropriation	\$4,378
FY-2004 Bud. FTE Level	79.0
Actual Avg. YTD FTE	77.6
Funding Adjustments:	
None	0
FY-2005 Recommendation	\$4,378
% Change for FY-2004	0.00%

Source: Office of State Finance

The FY-2005 appropriation for the State Treasurer is the same as provided for FY-2004.

Health

Summary of FY-2005 Budget Recommendations

(amounts are in \$000's)

Agency Name	FY-2004 Adj. Approp.	FY-2005 Base	FY-2005 Adj.	Final FY- 2005 Approp.	% Diff. From FY- 2004
Health Department	\$53,650	\$53,650	\$2,800	\$56,450	5.2%
Trauma Care Fund	0	0	26,835	26,835	
Health Care Authority	439,000	439,000	43,200	482,200	9.8%
Health Initiative	0	0	122,674	122,674	
Mental Health Department	145,288 ¹	145,018	5,937	150,955	3.9%
Total Health:	\$637,938	\$637,668	\$201,446	\$839,114	31.5%

¹ FY-2004 Adjusted Appropriation includes supplemental of \$270,000 to expand Oklahoma County Drug Court.

Community Hospitals Authority

Brief History Created in May of 2002, the Community Hospitals Authority is responsible for supporting the missions of the OSU College of Osteopathic Medicine and the OU College of Medicine in Tulsa. It will further the teaching and training of medical students, support medical and biomedical research and help provide medical care for indigent and nonindigent populations. In addition, they will act as a vehicle for securing additional funds outside existing state appropriations for graduate medical education and indigent care.

The legislation creating the Authority also charges them with coordinating the efficient delivery of medical care across Northeast Oklahoma. This includes contracting for the delivery of indigent care with participating health care systems.

During the 2003 Legislative Session, SB 686 amended the statute creating the Authority with the following changes:

- Expanded the definition of "Medically indigent" to include persons with insufficient insurance, in addition to no insurance;
- Specified that additional funding secured by the Authority will not be used to offset current Medicaid appropriated funding for indigent care and graduate medical education;
- Deleted the specific exclusion of OU Medical Center from a statewide program the Legislature may create to reimburse hospitals for the cost, or a portion of the cost, for providing indigent care;
- Removed the prohibition on the appropriation of state funds to the Community Hospital Authority;

- Added three members to the Authority, one each from each of the three major hospital systems in Tulsa, Hillcrest, St. John and St. Frances;

- Removed language which required a representative of one of these three hospital systems to be appointed as the chief executive officer of the Authority. This CEO slot is an unpaid position since the original Act prohibited the Authority from hiring a staff; and

- Removed language prohibiting the Authority from employing any personnel.

Membership of the Authority The Authority is currently composed of nine members as follows: The presidents of OU and OSU or their designees; one member appointed by the Governor; one member appointed by the Speaker of the House of Representatives; and one member appointed by the President Pro-tempore of the Senate. The Director of the Oklahoma Health Care Authority and one representative from each of the three major Tulsa hospital systems are the remaining members.

FY-2005 Recommendation

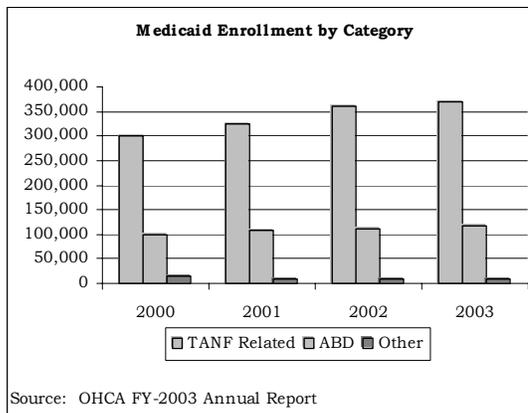
No appropriated funding is recommended for the Community Hospitals Authority at this time.

The Oklahoma Health Care Authority

Medicaid is a federal and state entitlement program providing medical benefits to lower income individuals who have no health insurance. Coverage for basic health and long term care services is guaranteed based on income levels and/or resources. Created in Title XIX of the Social Security Act of 1965, Medicaid is administered at the federal level by the Centers of Medicare and Medicaid Services (CMS) within the United States Department of Health and Human Services.

The Oklahoma Health Care Authority (OHCA) is the state agency responsible for all Medicaid services to five groups of categorically related recipients: those related to Temporary Assistance to Needy Families, the Aged, the Blind, the Disabled and the institutionalized. The number of individuals who received services during FY-2003 approached 650,000. On average, there were about 485,000 individuals enrolled per month during the year.

The following chart from OHCA's 2003 Annual Report shows Medicaid enrollment as of June 30 of each fiscal year by the legal category which designates them as eligible. Note that *TANF Related* refers to pregnant women and children up to 185% of the federal poverty income guidelines. This group represents the major eligibility expansion which was enacted in Oklahoma in 1997. This expansion and its related outreach programs resulted in 125,000 more children enrolled in Medicaid as of June 30, 2003, than in November, 1997.



Notable Achievements

Electronic Data Systems Becomes New Fiscal Agent EDS constructed Oklahoma's new Medicaid Management Information System (MMIS). The new system is designed to save providers money and time by offering them services which make it more efficient for them to obtain eligibility and prior authorization information.

Collaborative Project Focuses on Native American Health Issues OHCA, the Indian Health Services (IHS) and the Oklahoma City Area Inter-Tribal Health Board joined together to place a contract employee at OHCA to work specifically with Indian health issues. The project will help coordinate health care available to American Indians and assist Indian health care systems to navigate through complex regulations.

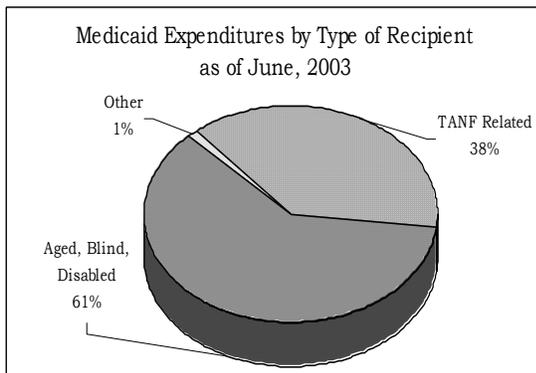
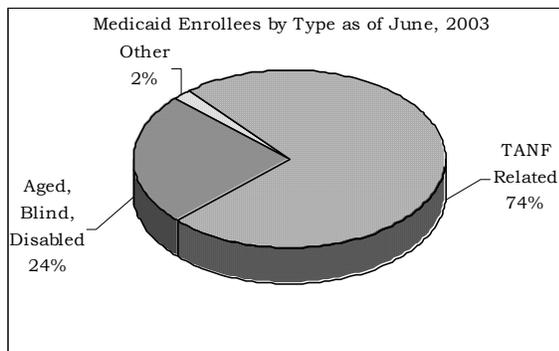
"Medicaid on the Web" Becomes Fully Functional in FY-2003 On January 1, 2003, OHCA brought up the fully functional secure site – Medicaid on the Web. This secure multilevel website allows providers to receive communications directly from OHCA, check beneficiary eligibility, submit claims and request and check the status of prior authorizations.

OHCA Wins Grant to Study Payment Accuracy The Centers for Medicare and Medicaid Services (CMS) awarded Oklahoma one of 15 Payment Accuracy Measurement grants for \$309,000.

Results of the study so far indicate that Oklahoma's provider payment system pays providers accurately 97% of the time.

Expenditures vs. Enrollment Categories

A minority of Medicaid recipients account for the majority of expenditures. The aged blind and disabled category comprising 24% of total recipients accounted for 61% of total expenditures in FY-2003. The TANF Related category consisting of pregnant women and children were 74% of the recipients in FY-2003 but accounted for 38% of total expenditures. The following charts based on data from the OHCA FY-2003 Annual Report illustrate this relationship.



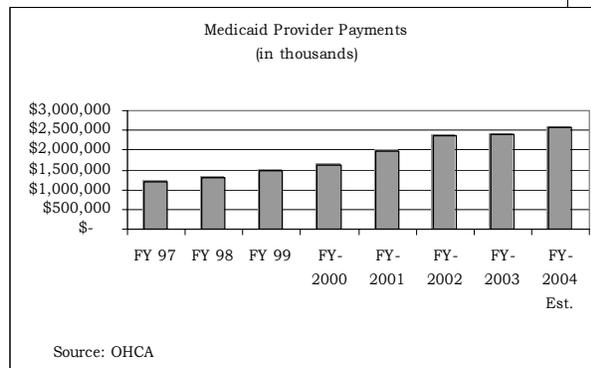
Service Delivery Systems Medicaid services were delivered through three delivery systems in FY-2003. One

delivery system is the traditional fee-for-service system. Another is the SoonerCare Plus program which is part of the Medicaid Options Act (56 Oklahoma Statute Section 1010.1(B)).

The SoonerCare Plus program comprises the fully capitated managed care program required under 56 Oklahoma Statute Section 1010.1(B). One other delivery system is the SoonerCare Choice program. This program is the partially capitated managed care program required under 56 Oklahoma Statute Section 1010.1(B).

With each one of these programs, the agency is responsible for setting compensation levels, specifying what services are covered and contracting with providers to deliver the services.

Eligibility Determination The Oklahoma Department of Human Services conducts eligibility determinations for Medicaid.



Medicaid Spending and State Revenue Issues

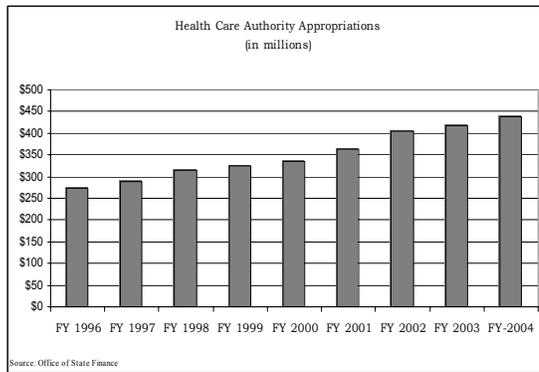
Since Medicaid qualification is based upon income levels, more people qualify for Medicaid when incomes fall. The General Accounting Office estimates for every 1% increase in unemployment, total Medicaid costs increase 6.7%.

Revenue shortfalls during FY-2002 and 2003 created stress for the Medicaid

budget as more people became eligible during a time when services had to be reduced. A supplemental appropriation of \$7.2 million which was transferred from the Department of Human Services to the Oklahoma Health Care Authority along with a one-time transfer of \$4.5 million from the OU Health Sciences Center helped to avert the most serious of these cuts during FY-2003.

Health Care Spending as a Priority

Facing the worst state budget crisis in history, health care was a high priority for the Governor and the Legislature. In a budget year when many areas of Government had to be significantly reduced, the need for adequate medical services resulted in over \$25 million additional funding appropriated to OHCA to cover critical areas. This additional funding was directed to three primary areas, the increased cost of prescription drugs, increased utilization of medical services by recipients and growth in enrollment.

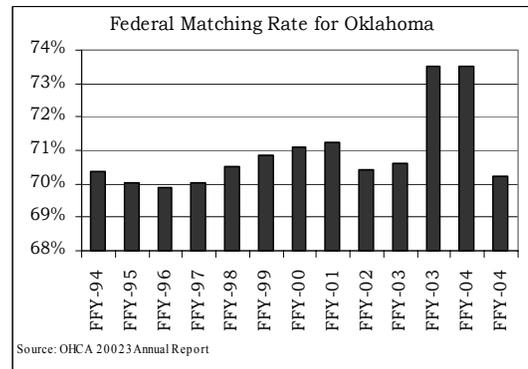


Current Fiscal Year Issues

Increased Federal Assistance In response to the fiscal crisis facing all state governments during FY-2003 and 2004, Congress passed legislation which increased the federal share, or matching rate, it would pay to states for services provided under Medicaid. For a period of five fiscal quarters beginning in the fourth quarter of SFY-2003 and extending through all of SFY-2004, the federal matching percentage

for Oklahoma was raised from 70.59% to 73.54%. This increase of 2.95% was part of the Jobs and Growth Tax Relief Reconciliation Act of 2003. This increase translated into approximately \$100 million in additional state funding available for Medicaid on a one-time basis. Of this additional state funding, approximately \$71.6 million was available to OHCA with the rest in other state agencies which provide state matching funds for Medicaid.

The following graph shows, by federal fiscal year, the federal medical assistance percentage (FMAP) from federal fiscal year (FFY) 1995 to 2004. The “spike” is the five quarter increase of the matching percentage in parts of FFY 2003 and FFY 2004.



Spending Plan for Increased Medicaid Funds

Benefits which were reduced due to revenue shortfalls in FY-2003 included elimination of the Medically Needy program, elimination of adult dental services, reduction in the number of covered hospital days and reduction in the number of paid prescriptions per month. Payment rates for doctors, hospitals and nursing homes could not be increased with the funds available to the Governor and Legislature as of May, 2003.

In response to a looming crisis in healthcare funding and accessibility, the Governor and Legislative leaders initiated a plan to spend the savings created by additional federal Medicaid funding to restore benefits and

increase provider rates. The plan spends the additional \$71 million during FY-2004 and FY-2005 to restore benefit levels, enhance pharmacy benefits and increase provider rates. Physician payment rates increased to 90% of Medicare, hospitals to the statewide median payment plus 2% and nursing home payment rates increased by 7%.

These increases were effective January 1, 2004 and are, therefore, effective for the second half of FY-2004. The plan was intentionally designed to support the increases for all of FY-2005.

Three Prescription Limit Eliminated

A notable accomplishment of the increased benefit and spending plan was the elimination of the three prescriptions per month limit. This limit, which applied to adult Medicaid recipients in the fee for service program was originally put in place in the early 1990s as a result of budget cuts. The elimination of this arbitrarily low prescription limit in favor of a more reasonably structured enhanced drug benefit for all recipients is an important and historic accomplishment.

Transition to Partially Capitated Managed Care Model Since 1995, Oklahoma's Medicaid system has been operating under a waiver which provides health care services through Managed Care Organizations (MCOs). Under this waiver, approximately 189,000 Medicaid clients in the 16 urban counties around Oklahoma City, Tulsa and Lawton were enrolled in MCOs through a program known as SoonerCare Plus. Federal Medicaid regulations require state programs with MCOs to offer a choice between a minimum of two MCO providers to clients.

There were also 160,000 Medicaid clients, primarily in rural counties, enrolled in a managed care program called SoonerCare Choice. The Choice program is a partially capitated managed care program in which clients

are enrolled with a Primary Care Physician who serves as their primary care case manager and is paid in advance for providing a certain scope of services. Services not defined within that capitated rate, such as hospitalization, pharmacy or specialty care, are paid for through the fee for service system.

In October of 2003, one of the three remaining MCOs notified OHCA that they were withdrawing from the Oklahoma SoonerCare Plus program effective December 31, 2003. Since the two remaining MCOs provide coverage in only some of the 16 urban counties, Oklahoma no longer met the federal requirement to offer a minimum of two MCO's provider choices to clients, placing the viability of the waiver in jeopardy.

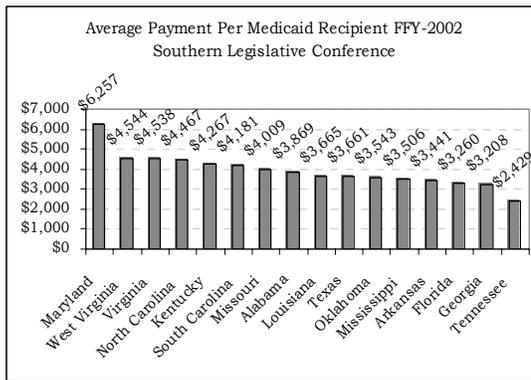
The OHCA Board voted at an emergency meeting on November 7, 2003 to transition clients for three months beginning in January, 2004 to a fee for service payment system while moving all 189,000 clients into the SoonerCare Choice system by April, 2004. This change required OHCA to hire additional staff to perform client outreach and enrollment, provider recruitment and contracting and client case management services for high risk clients.

Economic Impact and Cost Drivers

Direct and Indirect Impact of Medicaid Spending Health care services are a substantial economic presence in Oklahoma. The health care sector affects the economy in much the same way a manufacturing plant does by bringing in money, providing jobs and wages to residents. Health care businesses, in turn, have an additional impact through the purchases of technology, and services. The \$2.45 billion in Medicaid expenditures for FY-2003 is estimated to have supported 93,003 direct and indirect jobs within the health care industry and

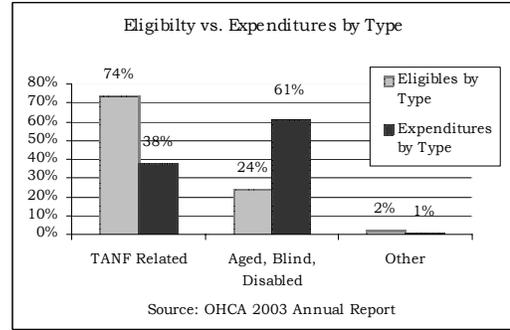
\$2 billion in income. Increased business activity and increased tax collections are also a significant part of the economic impact of Medicaid spending.

Expenditures per Recipient While health care costs across the board continue to increase, Oklahoma is one of the most effective states in the region in controlling per recipient costs according to the Southern Legislative Conference's (SLC) most recent data.



Expenditure Per Type of Recipient

Recipients who are aged, blind or disabled (ABD) comprised 24% of the Oklahoma Medicaid population and 61% of Medicaid expenditures in FY-2003. This group includes persons with chronic medical conditions and those in long term care facilities. Services for these recipients drive a large portion of total Medicaid costs and a small percentage change in the size of the population or the services offered can result in a significant change in total expenditures. The following chart provides a side by side comparison of the two main Medicaid populations and their relative expenditures.



Enrollment, Utilization and Covered Services

Other cost drivers are the enrollment volume, utilization and covered services. As the total volume of enrollment increases and more people have access to medical care, expenditures go up. In addition, an increase in the average number of services or prescriptions per recipient also drives costs. The total array of covered services is the third cost driver of Medicaid costs. When making funding decisions for the state Medicaid budget, all these factors must be taken into account.

FY-2005 Recommendation

The Governor's Budget proposes to fund the FY-2005 Medicaid program costs in the categories of annualization, maintenance and mandate-compliance. Annualization is for the cost of full year funding, maintenance is primarily growth in enrollment and utilization in services and pharmacy and mandate-compliance is the cost of complying with federal or state law.

FY-2005 Appropriation (amounts in thousands)	
FY-2004 Appropriation	\$439,000
FY-2004 Bud. FTE Level	344.2
Actual Ave. YTD FTE	273.5
Funding Adjustments:	
Annualizations	
FFP matching rate change	2,434
Medicare part A& B premiums (9 mos)	1,181
Enhance Eligibility for Working Poor	1,896
Plus to Choice Transition	11,534
Maintenance	
Remove one-time cost for 5 new FTE	(14)
Remove one-time cost for Plus to Choice Transition	(451)
Restore one-time carryover used in FY-2004	2,200
FY-2005 Enrollment growth and Utilization increases	9,606
FY-2005 Pharmacy increases	14,578
Family Planning Waiver (1 FTE)	32
Family Planning Waiver System Changes for Enrollment	195
OU College of Pharmacy Contract Increase	547
Transfer State Share to Dept. of Mental Health & Substance Abuse Services	(2,099)
Additional Supplemental Rebate Revenue	(1,192)
Mandate and Compliance Issues	
Payment Error Rate Measurement	175
HIPAA Security Compliance	78
Breast/Cervical Cancer (6 mos)	<u>2,500</u>
Total Adjustments	<u>43,200</u>
FY-2005 Recommendation	\$482,200
% Change for FY-2004	9.84%

Source: Office of State Finance

Annualizations

Federal Financial Participation (FFP) Matching Rate Change

Each year, the Centers for Medicare and Medicaid Services (CMS) adjusts the federal financial participation percentage based on changes in the per capita personal income of each state. Oklahoma's federal match rate will decline slightly in FY-2005 resulting in a corresponding increase in the state percentage. The result is the need for \$2.4 million additional state dollars to keep the Medicaid program at the current level.

Medicare Part A & B Premiums State Medicaid programs are required by federal law to pay Medicare Part A & B premiums for Medicaid clients who are also eligible for Medicaid. The estimated state dollar cost of the increase in premiums for FY-2005 is nearly \$1.2 million.

Enhance Eligibility for Working Poor

Federal law requires states to provide transitional Medicaid services to Temporary Assistance for Needy Families (TANF) clients and their family members when they leave TANF.

The law also requires Medicaid assistance to be available for poor non-TANF families who would meet the income criteria if income disregard were applied to their income in the same method it applies to TANF families. Another category of families who qualify for Medicaid are two parent families who meet the TANF income criteria but who do not meet the absent parent criteria. This enhanced eligibility actually equals a Medicaid coverage expansion and will provide health insurance coverage to very low income families who otherwise would not have access.

Plus to Choice Transition The transition from the fully capitated managed care plans in SoonerCare Plus to the partially capitated SoonerCare Choice is \$11.5 million. If

the Oklahoma Medicaid program had retained the MCOs, the cost of federally required actuarially sound rates in FY-2004 and FY-2005 would have been almost \$17 million. The FY-2005 cost of the transition is less than the cost of retaining the fully capitated managed care organizations.

Maintenance

Remove One-time Costs Equipment and other one-time costs for five new employees in FY-2004 and for the Plus to Choice transition are removed.

Restore One-time Carryover The agency used \$2.2 million in one-time carryover funding from FY-2003 to fund the Medicaid program in FY-2004. The adjustment restores this funding to the agency's base.

FY-2005 Enrollment Growth and Utilization Increase The Governor's budget includes \$9.6 million to meet expenses associated with increased Medicaid enrollees and the services which they are expected to access during FY-2005. The growth rate for this item has been set at 5.1%, the average growth over the last three consecutive years.

FY-2005 Pharmacy Growth The Governor's budget includes \$14.6 million for growth of prescription drug usage and prices.

Family Planning Waiver FTE and Enrollment System Modifications This adjustment provides funding for one FTE at \$32,000 and for enrollment system modifications at a cost of \$194,621 for a Medicaid waiver program providing family planning services for women up to 185% of the federal poverty level. Currently, Medicaid pays for care during and immediately following pregnancy only. Under this waiver, family planning services will be provided to eligible women at a federal matching rate of 90%.

OU College of Pharmacy Increase OHCA contracts with the OU College of Pharmacy for services such as prior authorization reviews for some prescription drugs. This increase provides additional services for case management of Medicaid clients who are identified as very high users of prescription drugs.

Transfer to the Department of Mental Health And Substance Abuse Services Care These funds were previously transferred out of the ODMHSAS base and into the Medicaid state dollar funding base to pay for the portion of fully capitated managed care rates for persons with mental illness being served through Medicaid MCOs. During the current fiscal year, fully capitated managed care plans were phased out and mental health services provided under the fee for service payment system. These funds are transferred back to ODMHSAS to cover the state match for Medicaid services purchased under fee for service in FY-2005.

Supplemental Rebate Revenue All pharmaceutical manufacturers pay a percentage of Medicaid funds spent on prescription drugs back to states via a federally required rebate program. Revenue from drug rebates equaled over \$56 million during FY-2003. During FY-2004, the Governor approved Medicaid rules which allow pharmaceutical companies to negotiate with OHCA for additional rebates in exchange for having a product removed from the prior authorization process. Additional revenue expected from supplemental rebates in FY-2005 is \$1.9 million.

Mandate and Compliance Issues

Payment Error Rate Measurement This adjustment is for the cost of additional monitoring of claims payment in order to maintain provider

payment accuracy. It is a federal requirement.

Breast and Cervical Cancer

Treatment The Governor's budget includes \$2.5 million for six months of implementation of breast and cervical cancer treatments for women whose incomes are at or below 185% of the federal poverty level. This important expansion in eligibility provides treatment to women with a positive diagnosis of breast or cervical cancer but who do not have health insurance.

Health Care Initiative

Every single Oklahoman receives health care. The question is who pays for it? Too many Oklahomans do not have health insurance. According to the U.S. Census Bureau Current Population Survey, nearly 20 % of Oklahomans, including many children, are uninsured. When the uninsured get sick or injured and access the health care system, the cost of their care gets shifted through the system from providers to insurance companies to business and individual consumers in the form of higher health care premiums. That imposes a financial toll on all Oklahoma according to the Oklahoma Health Academy, which estimates that the cost of providing health care for the uninsured accounts for approximately 30% of the increase in overall health insurance premiums annually.

Proposed in this budget is a plan to expand health insurance coverage to Oklahoma's uninsured poor. The plan covers those who are employed but cannot afford health insurance as well as those who are unemployed and lack insurance. The cost of doing nothing is too great.

One of the greatest detriments to health is cigarette smoking. Smoking is a choice. It is a choice that imposes \$908 million per year in health care costs related to tobacco use on Oklahoma according to the Campaign for Tobacco Free Kids. It seems only reasonable to expect the consumers who generate these costs to help pay for them through a tobacco tax increase. That is why this budget funds health insurance for low income Oklahomans with additional revenue from an increase in the cigarette tax.

The cigarette tax directly impacts the major health status factors which contribute to our poor health in these ways:

- It will provide funding to expand health insurance coverage for those who are currently uninsured;
- It will provide funding for uncompensated trauma care;
- It will provide funding to build a Comprehensive Cancer Center;
- It reduces the prevalence of smoking, especially among young people;
- It will provide funding for support of public health programs including smoking cessation;
- As fewer people start smoking and the prevalence of smoking decreases, smoking related diseases such as heart disease and lung disease will also decrease; and
- Improvement in these factors will lead to an improved total mortality rate.

This means we will have more people living longer and healthier lives.

Health Insurance

Premium Assistance for Families

The Governor's budget proposes to use \$100 million from the tobacco tax in combination with federal matching funds, employer and employee funds to offer eligible citizens health care coverage. The coverage is offered through premium assistance to employers and direct purchases of basic health insurance. By providing premium assistance to employers, the program will encourage businesses to offer or continue health insurance coverage for their employee groups.

By taking advantage of matching federal funds and other resources, state health officials estimate that an initial state investment of \$100 million will result in a \$400 million increase in health care funding. These funds will allow thousands of uninsured

Oklahomans to obtain basic health coverage and reduce the cost shifting that takes money out of the pockets of consumers and businesses.

"This is an innovative attempt to leverage available federal funding, put it to work in the Oklahoma health care system and improve the overall quality of life in our state. Everyone is a winner in this program. Oklahomans who currently have no coverage get access to affordable insurance and better health care opportunities. Businesses and consumers, meanwhile, would see their health care costs decline as the number of insured Oklahomans grows."

Governor Brad Henry

A Comprehensive Cancer Center for Oklahoma

The Need for a Comprehensive Cancer Center According to the United Health Foundation's 2003 Edition of State Health Rankings, the age-adjusted death rate for cancer in Oklahoma was 214.1 per 100,000 people in our population while the death rate in the United States as a whole was 205.3 per 100,000 people. Oklahoma has the unpleasant distinction of being one of the top 16 states in the nation in cancer death rate.

Since 1990, the health of Oklahomans has declined relative to most other states and the cancer death rate is one of the reasons for this decline. Oklahoma's cancer death rate has increased from 197.8 cancer deaths per 100,000 in 1990 to 214.1 in 2003.

What is a "Comprehensive" Cancer Center? A Comprehensive Cancer Center is located only in an Academic Health Center made up of a medical

school, other health related programs and a major teaching hospital. The National Cancer Institute of the National Institutes of Health designates an institution as a Comprehensive Cancer Center.

Research is a key component of a Center and this research provides the foundation for developing new diagnostic and treatment protocols. Research findings translate into clinical trials with National Cancer Institute approved experimental protocols. State of the art treatment protocols are developed as a result of advances in research.

Public education and continuing education opportunities for cancer care professionals are also part of a Comprehensive Cancer Center. Another component of the Comprehensive Cancer Center is partnering with physicians across the state to provide resources for cancer prevention, early detection and quality treatment.

Complementing Current Cancer Treatment A Comprehensive Cancer Center would complement current cancer treatment and facilities in Oklahoma, not compete with them. Oklahoma is fortunate to have several cancer care facilities and hospitals that currently provide quality care and treatment for cancer. The medical schools in Tulsa and Oklahoma City and their clinical partners offer an array of preventive, diagnostic, therapeutic and rehabilitative services for a variety of cancers. However, winning the fight against cancer requires a more extensive and robust program which takes cancer research discoveries from the laboratory to the bedside.

Experimental or alternative treatment protocols are developed as part of the research function and made available to cancer patients only at Comprehensive Cancer Centers.

There are only 39 Comprehensive Cancer Centers in the United States with the nearest one to Oklahoma located 450 miles from Oklahoma City in Texas. Because new cancer treatment protocols routinely require weekly and monthly treatment visits for years, the proximity of the Center will provide access for Oklahoma citizens to new state of the art treatment without the need to travel to another state.

Cost of Comprehensive Cancer Center Development The leadership of the OU Health Sciences Center (OUHSC) estimates the need for a Bond Issue of \$75 million to pay for building the new Cancer Center. The Office of State Finance estimates debt service for the bond will be approximately \$7 million per year for the twenty year life of the bond. The following table shows the proposed uses for the bond proceeds which include a Cancer Care Facility located at the medical school in Tulsa as well as the main Cancer Center located at OUHSC in Oklahoma City.

<u>Bond Proceeds Proposed Uses</u>	(000s)
Cancer Center Facility - OKC	\$ 47,500
Completion of Shelled Space	\$ 10,000
Cancer Center Facility - Tulsa	\$ 5,000
Equipment and Infrastructure	\$ 12,500
Total	\$ 75,000

Trauma Care Assistance Fund

The state's trauma care problems were underscored in November when OU Medical Center officials announced plans to close their level one trauma facility. Governor Henry was instrumental in persuading officials at the OU Medical Center to keep the doors open as he worked to craft a comprehensive solution to the state's trauma care challenges.

Additional Revenue for the Trauma Care Fund Currently, about \$3.4 million per year goes into the Trauma Care Assistance Fund from driver's

license fees and boat/motor registration fees. This fund was created to help pay for uncompensated trauma care in hospitals. However, the cost of uncompensated trauma care in FY-2003 was over \$16.6 million while the Trauma Care Assistance Fund received only \$3.4 million. In addition, because of the limited funding available for disbursement to hospitals for uncompensated trauma care, many hospitals do not apply for reimbursement from the fund. Based on the estimated amount of unreimbursed trauma care increase additional funds are needed to address this shortage.

Funding from an additional assessment of \$200 for each driver's license reinstatement is earmarked for the Trauma Care Assistance Fund to help offset the cost of uncompensated trauma care. This will increase the fund by about \$11.6 million per year if a 90% collection rate on this new assessment is assumed.

An additional assessment of \$100 for each conviction of DUI and/or Controlled Dangerous Substance crimes will raise almost \$939,000 also earmarked for the Trauma Care Assistance Fund.

In addition to these two sources of revenue the Governor's budget includes funding from the proposed tobacco tax of \$8 million for the Trauma Care Assistance Fund.

Health Care Fund

The Governor's budget proposes directing \$12.7 million from the tobacco stamp tax increase to a special health care fund. Impending growth in health care costs necessitates setting aside some funds to cover increasing needs in the future.

Youth Tobacco Prevention and Cessation

Above Average Tobacco Use In Oklahoma, both middle school and high school students report using tobacco at higher rates than the national average for their age groups. According to the 2002 National Youth Tobacco Survey, 16% of middle school students in Oklahoma used tobacco in the last 30 days compared to a national average of 13.3%. The same survey reported 32% of high school students in Oklahoma used tobacco in the last 30 days compared to 28.4% nationally.

New Smokers and Premature Deaths

The Campaign for Tobacco Free Kids estimates that over 9,000 children under 18 in Oklahoma become newly addicted daily smokers each year. The Campaign also reports that in Oklahoma 77,000 children alive today will ultimately die prematurely from smoking related illnesses if the current trends continue.

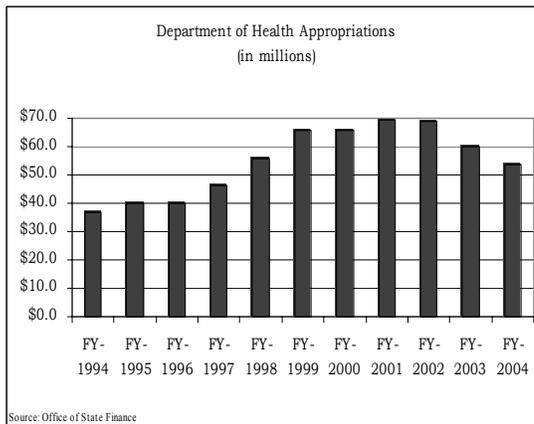
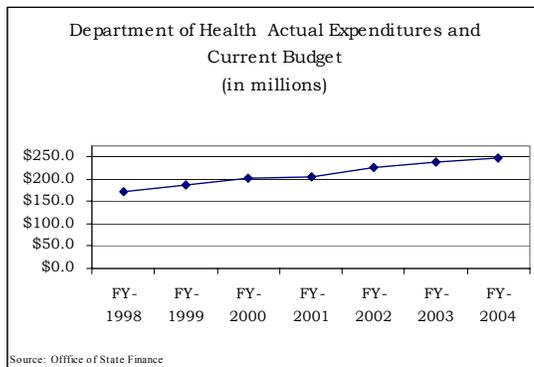
For these reasons, the Governor’s budget proposes to use \$3 million from the tobacco tax on a prevention and cessation program specifically targeted at young people.

Spending Proposal

Tobacco Tax Spending Proposal	
<i>(amounts in thousands)</i>	
Estimated Yearly Revenue	\$130,674
Funding Adjustments:	
Premium Assistance for Families	\$100,000
Comprehensive Cancer Center - Debt Service	7,000
Trauma Care Assistance Fund	8,000
Health Care Fund	12,674
Youth Prevention & Cessation	<u>3,000</u>
Total Recommended Uses	\$130,674
<small>Source: Office of State Finance</small>	

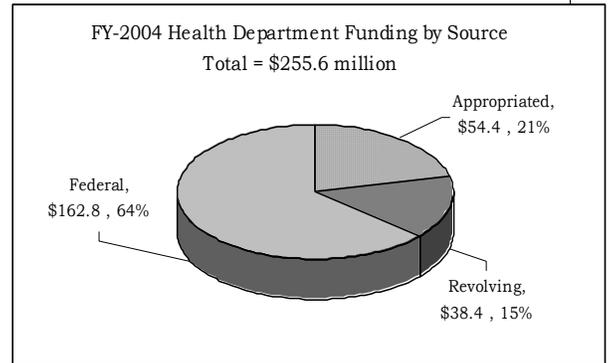
The Department of Health

The mission of the Department of Health is to promote, protect and improve the health of all Oklahomans through strategies that focus on preventing disease and injuries. Local health service delivery is accomplished by approximately 2,223 employees located at 69 county health departments throughout the state. The Department faces significant challenges to improving the public's health because as a state, we have poor health outcomes.



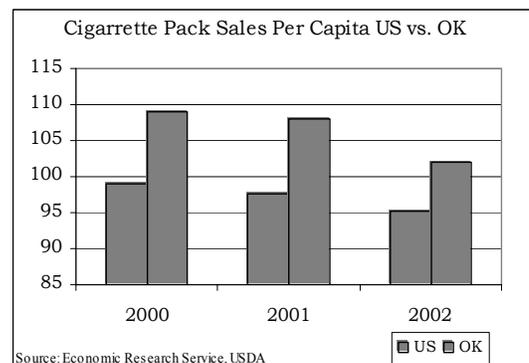
Funding The three sources of funding for public health programs are appropriations, revolving funds and federal funds. One of the ten largest appropriated agencies the Health Department has experienced reductions via revenue shortfalls and appropriations cuts of nearly 25% since the beginning of FY-2002. The

following pie chart shows the FY-2004 budget by funding source. Note that approximately 40% of the federal funding portion is for the Women, Infants and Children (WIC) nutritional program which is funded entirely with federal dollars.



Notable Achievements

Smoking in Public Places and Indoor Workplaces The public debate around the issue of the harmfulness of second hand tobacco smoke brought about the Smoking in Public Places and Indoor Workplaces Act which became effective on September 1, 2003. This act prohibits smoking in public places and indoor workplaces and phases in smoke free restaurant compliance by 2006.



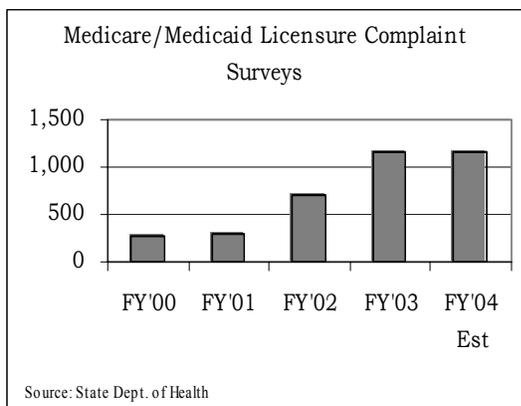
Early Detection of Breast and Cervical Cancer Women in need of breast and cervical cancer screening are served in a program called "Take Charge". Women in the appropriate age groups whose income falls below 185% of the federal poverty level and who

have no health insurance are targeted. In FY-2002, the most recent year for which statistics are available, 29.6% of women in need of breast cancer screening were served, an increase of 2.2% from the previous year. Also in FY-2002, 20.9% of women in need of cervical cancer screenings were served, an increase of 6.2% from the previous year.

Immunizations for Seniors Oklahoma continues to rank above average in the immunizations of persons 65 and older for influenza and pneumonia. This reduces the number of seniors who die from these two causes each year. In 2002, Oklahoma ranked 11th nationally for influenza vaccination and 13th nationally for pneumonia vaccination for this age group.

Expansion of Turning Point Initiatives During FY-2003, the Turning Point initiatives expanded to over 34 counties. Local organizations banded together to promote healthy lifestyles, reduce obesity, reduce use of tobacco, reduce substance abuse and prevent injuries.

Long Term Care Inspection and Regulation The Long Term Care Division investigated a total of 1,153 nursing home complaints in FY-2003 this was an increase of 451 investigations over FY-2002.



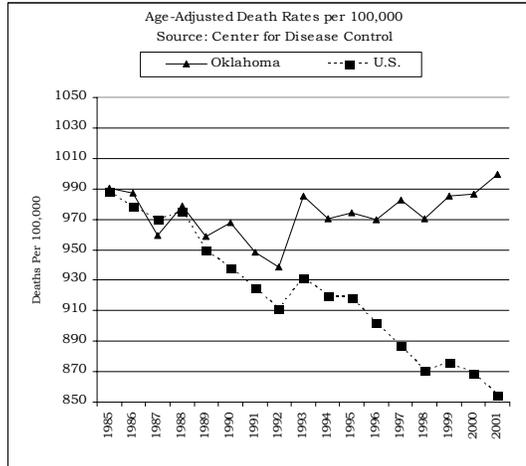
Construction Industries Removed from Department of Health Licensing and regulation of building trades such as electricians, plumbers and carpenters moved to a new regulatory body called the Construction Industries Board.

HMO Regulation Moved to Insurance Commissioner SB 635 moved the financial regulation and licensing of Health Maintenance Organizations to the State Insurance Commissioner.

Health Status in Oklahoma

The 2002 Department of Health State of the State's Health Report concluded that the 'State of the State's Health' is unacceptable and that remains the case. The 2002 report further emphasized that Oklahomans die of heart disease, cancer, stroke, and chronic obstructive pulmonary disease at a greater rate than the rest of the United States.

The following chart, compiled from Center for Disease Control (CDC) data, shows that the age adjusted death rate (total mortality rate) in Oklahoma became greater than the national average in the early nineties and has continued to climb while the national average has dropped. In 2001, the most recent year for which data is available, there were 1,000 deaths per 100,000 people in Oklahoma, but the average for the U.S. was 855 people for every 100,000 people. Oklahoma ranks 47 on this outcome measure meaning that there are only three states with worse outcomes on this measure.



According to the United Health Foundation’s State Health Rankings, Oklahoma improved its rating by one place moving from 46th in the 2002 report to 45th in overall health of its citizens in the 2003 report. In 1990, Oklahoma ranked 31st in overall health compared to other states so in the intervening years Oklahoma has lost ground in terms of relative health status compared to other states. Five major indicators of this status are:

United Health Foundation Health Status Factor	Rank 2002	Rank 2003
1. Prevalence of Smoking	49	42
2. Support for Public Health	46	45
3. Lack of Health Insurance	46	41
4. Rate of Heart Disease	39	31
5. High Total Mortality Rate	46	47

The Governor’s proposed tax increase on cigarettes is earmarked to improve the overall health of Oklahomans. The cigarette tax directly impacts the major health status factors which contribute to our poor health in these ways:

- It reduces the prevalence of smoking, especially among young people;
- It will provide funding for support of public health programs including smoking cessation;

- It will provide funding to expand health insurance coverage for those who are currently uninsured;
- As fewer people start smoking and the prevalence of smoking decreases, smoking related diseases such as heart disease and lung disease will also decrease; and
- Improvement in these factors will lead to an improved total mortality rate. This means we will have more people living longer and healthier lives.

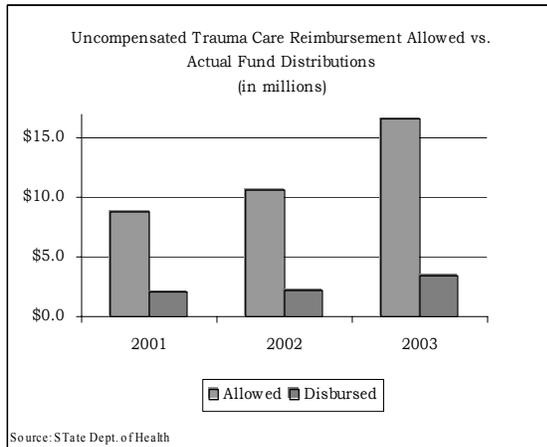
Crisis in Trauma Care

In late November, 2003, OU Medical Center announced that as of December 31, it was closing the state’s only remaining Level I Trauma Center because the hospital was losing too much money to continue its operation. This announcement was greeted with serious concern by the Governor, the Board of Health, the Legislature, other hospitals in the state and the business community.

In mid-December, the combined efforts of the Governor, legislative leaders, the State Health Department, the OU Medical Center and the OU College of Medicine led to an announcement that the facility would remain open through June, 2004 to allow a comprehensive solution to be derived. Work toward the solution includes an acknowledgment that current funding for uncompensated trauma care is inadequate. Discussions are currently continuing toward crafting a comprehensive initiative which allows Oklahoma to sustain a high-quality, statewide trauma care system that includes a Level I Trauma Center.

As the following chart depicts, current funding for uncompensated trauma care is available but inadequate to cover the documented cost. The Trauma Care Assistance Fund was created in 1999 and was funded with a \$4 increase to the driver’s license

renewal fee. That amount was increased to \$5.50 per renewal beginning in 2003. A \$1 increase in boat and motor fees is also directed to this fund. In FY-2003 there was \$3.4 million available to distribute from this fund, but the total amount which ambulances and hospitals qualified for was \$16.6 million.



The first steps in comprehensive trauma system development include hospital and ambulance licensing regulations promulgated by the Board of Health. The first set of these regulations were approved by Governor Henry on January 12, 2004.

The comprehensive trauma care system design contains the following components:

- Pre-hospital transfer protocols which clarify that patients are transported to the nearest hospital specified to handle their level of injury;
- Regional plans for community or regional on-call systems which ensure physician coverage is maintained and 24-hour emergency care is available;
- Hospitals have reciprocal patient transfer agreements with hospitals capable of providing major trauma care;

- Agreements will include provisions for transferring patients back to the originating hospital when it is medically appropriate to do so;
- Trauma referral centers which coordinate trauma care for all ambulance services and first response agencies within regions and facilitate trauma patient transfers into the region; and
- Adequate funding for uncompensated trauma care.

Divisions of the State Department of Health

Family Health Services

Family Planning Services County health departments and non-profit clinics provide family planning services to low-income women at risk for unwanted and mistimed pregnancies. Services include physical exams, contraceptive supplies, education and counseling and voluntary sterilization.

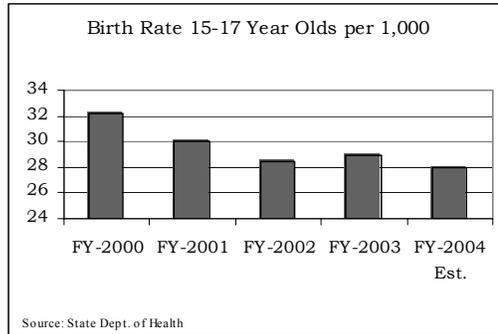
Child Abuse Prevention Home visitation programs for low-resource mothers improve health indicators and parenting skills in an effort to avert child abuse, unwanted repeat pregnancies and other adverse outcomes.

Child Guidance Services Diagnostic and short term treatment services for developmental, psychological, speech, language and hearing problems for children are provided through county health departments.

Women, Infants and Children (WIC) A federally funded program that provides nutritional education and coupons for selected items to pregnant women and children less than 5 years old. This program is totally federally funded with a budget of almost \$66 million in FY-2004.

Dental Health Oral health screening and small scale treatment for children and nursing home residents is provided through contracts with dentists and dental hygienists.

Teen Pregnancy Prevention Programs are aimed at lowering the state's teen birth rate.



Disease Prevention Services

Newborn Metabolic Screening

All Oklahoma newborns are screened for various metabolic disorders.

Chronic Diseases Screening, tracking, education and referrals for persons at risk for chronic diseases like cancer, diabetes, heart disease and high blood pressure is provided.

Communicable Diseases Three primary areas of services are as follows:

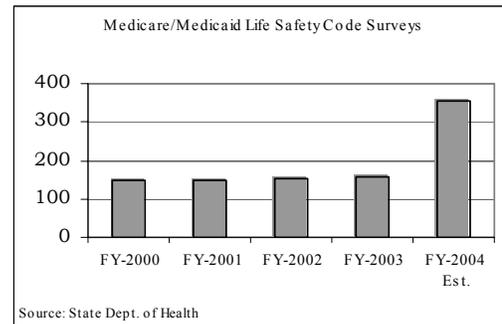
- Immunizations - inoculates children for all state-mandated vaccines and coordinates the distribution of vaccines to private health facilities;
- Tuberculosis - screening, diagnosis and treatment for persons with TB; and
- HIV/STD - surveillance and prevention of HIV/STD's and helps eligible participants pay for prescriptions under the AIDS Drug Assistance Program.

Community Health Services

County Health Departments Provides an array of services at the local level through 69 county health departments. Services include oversight for public health nurses, and community health workers, as well as, local finance, budgeting and record keeping administration.

Protective Health Services

Long Term Care Services Provides licensing and inspection of nursing facilities, assisted living centers, group homes and intermediate care facilities for the mentally handicapped and residential care centers.



Medical Facilities Licensing and regulation of hospitals, ambulatory surgical centers, community health centers, home health agencies, hospices, etc. is provided by this division.

Consumer Health Barbers, cosmetologists, licensed counselors, hearing aid fitters and the alarm industry are regulated.

Restaurant and Motel Inspections Sanitarians working for the state/county health departments inspect these facilities.

County Jail Inspections These inspections ensure compliance with minimum safety and inmate welfare standards.

Support Services Administration and data processing services for various functions of OSDH are provided through the support services section. This includes the Commissioner and his staff.

public health functions at County Health Departments. Examples of these personnel are sanitarians, registered nurses and advance practice nurses.

FY-2005 Recommendation

FY-2005 Appropriation <i>(amounts in thousands)</i>	
FY-2004 Appropriation	\$53,650
FY-2004 Bud. FTE Level	2,222.8
Actual Ave. YTD FTE	2,126.1
Funding Adjustments:	
Funding Shortfall Long Term Care	700
County Health Departments	1,500
Trauma System Infrastructure	600
Total Adjustments	2,800
FY-2005 Recommendation	\$56,450
% Change for FY-2004	5.22%
Additional Revenue to Trauma Care Fund	
Additional Drivers License Reinstatement Assessment	11,656
Additional Assessment DUI & Drug Crimes	939
Failure to Use Seatbelt Additional Assessment	6,220
Earmarked from Tobacco Tax	8,000
Total Adjustments	\$26,815

Source: Office of State Finance

Long Term Care Funding Shortfall

The Governor's budget includes increased funding of \$700,000 to pay for the increased workload in the long term care licensing and complaint investigation function of the Department.

County Health Departments

The Governor's budget provides \$1.5 million to replace one time funding used for personnel who perform core

Trauma System Infrastructure

The Governor's budget includes funding for start-up and staffing of a Trauma Transfer and Referral Center, Regional Trauma Advisory Boards and support staff to monitor patient transfers and provide quality control.

Additional Revenue for the Trauma Care Fund

Currently, about \$3.24 million per year goes into the Trauma Care Assistance Fund from driver's license fees and boat/motor registration fees. This fund was created to help pay for uncompensated trauma care in hospitals. However, the cost of uncompensated trauma care in FY-2003 was over \$16.6 million while the Trauma Care fund received only \$3.4 million. In addition, because of the limited funding available for disbursement to hospitals for uncompensated trauma care, many hospitals do not apply for reimbursement from the fund. Based on the estimated amount of unreimbursed trauma care increase additional funds are needed to address this shortage.

An estimated 64,757 people per year in Oklahoma have their driver's license revoked and get it reinstated. Funding from an additional assessment of \$200 for each driver's license reinstatement is earmarked for the Trauma Care Assistance Fund to help offset the cost of uncompensated trauma care. This will increase the fund by about \$11.6 million per year if a 90% collection rate on this new assessment is assumed.

An additional assessment of \$100 for each conviction of DUI and/or Controlled Dangerous Substance crimes will raise almost \$939,000 for the Trauma Care Assistance Fund.

This estimate is based on 8,889 projected filings for felony and misdemeanor DUI and DWI with an 80% expected collection rate of the increased assessment. An 80% collection rate is also assumed for the additional assessment on 2,848 projected filings for felony drug crimes. Failure to use seatbelts to properly restrain passengers contributes to a significant portion of trauma injuries. In calendar year 2002 there were 74,000 convictions for failure to use seatbelts and 4,000 for failure to use child restraints. Increasing the fine on failure to use seatbelts from \$20 to \$100 and for failure to use child restraints from \$25 to \$100 will result in an additional \$6.2 million for the Trauma Care Assistance Fund.

In addition to these sources of revenue the Governor's budget includes funding from the proposed tobacco tax of \$8 million for the Trauma Care Assistance Fund.

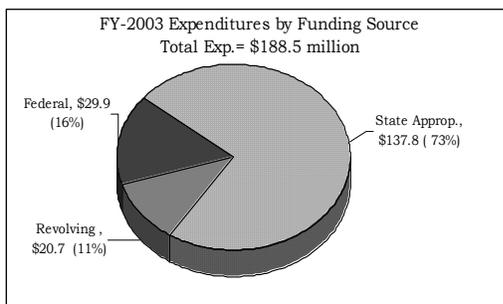
Pass Through Funds and Revolving Funds In FY-2004, the Legislature segregated about \$4.8 million of the total \$53.6 million appropriated to the Department of Health into line items which direct the funds to specific programs or contracts with designated providers. A reduction of this "pass through" funding of approximately 33% would free up about \$1.6 million which could remain in the agency's appropriation base and be used by the Commissioner and Board of Health to fund identified priorities in core public health services.

Department of Mental Health and Substance Abuse Services

The Mental Health Law of 1953 established the Oklahoma Department of Mental Health and Substance Abuse Services (ODMHSAS), although publicly supported services to Oklahomans with mental illness date back to early statehood.

The agency's mission is to promote healthy communities and provide the highest quality care to enhance the well being of all Oklahomans. Today, the three principal realms of ODMHSAS activity are mental health, substance abuse and domestic violence/sexual assault support services.

State appropriations are the largest single source of revenue for ODMHSAS services. In fiscal year 2003, this source accounted for 73% of the department's \$188.5 million in expenditures. Federal funds in the form of block grants and categorical funds represented 16% of the expenditures. Collections from Medicaid, Medicare and other third party sources made up 20.7% of expenditures.



Notable Achievements

- **Systems of Care (SOC).** Outcomes for the seven pilot programs currently in existence reveal dramatic drops in hospital inpatient care and school suspension.

Following are results for 91 children in this program during FY-2003:

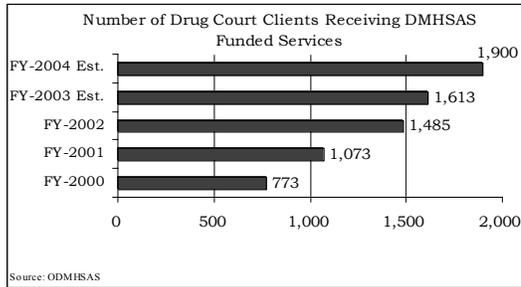
System of Care Client Outcomes
Three Months Pre and Post Data for 91 Clients

	Pre SOC	Post SOC
Hospital Inpatient Days	377	87
Crisis Stabilization Days	21	0
School Suspension Days	281	51
Law Enforcement Contacts	56	38

Source: ODMHSAS

This program is designed for children who exhibit serious behavioral and emotional problems at home, school and in the community. The objective is to fully integrate and expand the variety of services and support systems across agency lines in the most effective way to address a family's needs.

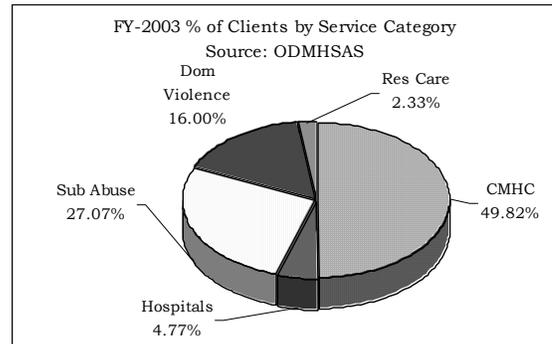
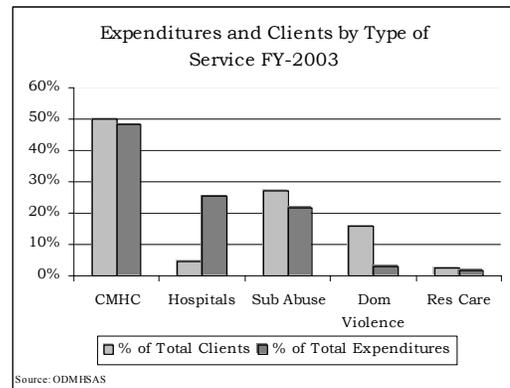
- **Program for Assertive Community Treatment (PACT).** An initial group of 100 PACT clients experienced an 87% decrease in the number of inpatient hospital days from 4,729 to 614 days. The number of days spent in jail also declined by 75% from 1,249 days to 301 days.
- **National Child Trauma Stress Initiative.** Oklahoma is one of 12 entities across the United States to receive a \$1.6 million federal grant to provide a trauma specialist for children experiencing violence. This initiative is the result of collaboration between domestic violence, mental health and substance abuse providers.
- **Drug Courts.** Oklahoma has 40 operational drug court programs located within 30 counties and 12 programs in the planning stage. Drug courts offer non-violent felony offenders with substance abuse problems an opportunity to enter into a district court supervised substance abuse treatment program instead of being incarcerated.



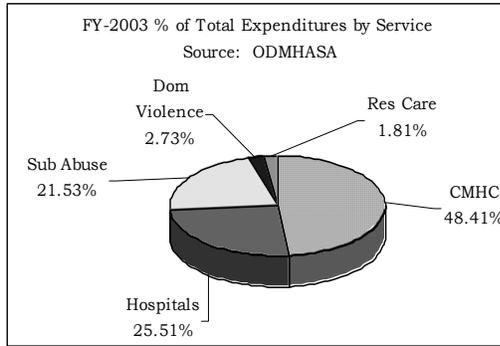
- Substance Abuse Treatment for Adolescents and Women with Children.** Among the top events of FY-2003 was the opening of the Tulsa Women and Children's Center in January 2003. This 52 bed facility provides a structured environment for pregnant women and women with dependent children who are overcoming substance abuse.
- Substance Abuse Prevention.** Working through a network of Area Prevention Resource Centers and cooperative agreements, ODMHSAS provided 450,000 people prevention education and over 5,600 hours of drug free activities for 38,500 children and youth in FY-2003.
- Training for Law Enforcement Personnel.** During FY-2003, approximately 160 law enforcement personnel were trained in a nationally recognized crisis intervention program.
- Domestic Violence Survivor Assessment.** This project, initiated during FY-2003, is designed to assist providers of services in identifying the "stage of change" of a survivor of domestic violence. When a victim of domestic violence seeks shelter in a state funded facility, this assessment tool helps the counselors know what type of intervention may be most helpful for that person at that time.

Comparison of Clients and Expenditures

In FY-1999, 33.5% of the agency's total expenditures were for state-operated inpatient psychiatric hospitals which served 3.9% of the clients. Illustrative of the shift in service delivery to community based services, the hospital portion of total expenditures for FY-2003 has dropped to 25.51% of the total. About 50% of all clients served and 50% of all expenditures were for community based mental health services during FY-2003.



The next chart provides a similar breakdown of the FY-2002 expenditures by the same service categories. As shown, the percentage of ODMHSAS's expenditures spent for the inpatient hospitals has dropped from 33.5% in FY-1999 to 25.5% in FY-2003. This is a result of the transfer and increase of \$12.1 million in community-based contract funding.



Services Provided

In FY-2003, the Department provided services to:

- 32,888 persons through community mental health services
- 3,152 persons through psychiatric hospitalization
- 17,871 persons through substance abuse treatment
- 10,561 persons through domestic violence and sexual assault services
- 1,539 persons through residential care services

Community mental health services include:

- Community-based treatment,
- Case management and
- Acute inpatient care.

Programs for individuals dependent on alcohol or other drugs include:

- Outpatient counseling and
- Extended residential treatment.

Community-based programs for victims of domestic violence or sexual assault provide:

- Safe shelter,
- Advocacy and
- Counseling services.

ODMHSAS also actively supports prevention programs to reduce the occurrence of substance abuse,

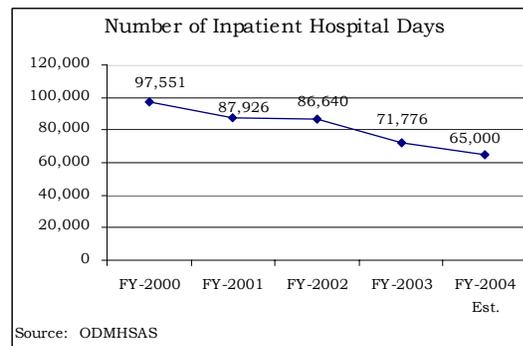
violence and other harmful behaviors among young people.

Continued Implementation of Best Practices

Service approaches designed on best practices ensure that Oklahomans who need these services will receive them in a timely, culturally competent manner that promotes prevention, recovery and an increased quality of life.

Clients who receive best practice services have:

- Fewer inpatient hospital days
- Fewer days in jail
- More days in school or at work engaged in productive activities
- Fewer crisis episodes
- Less contact with law enforcement



Community-Based Mental Health Services

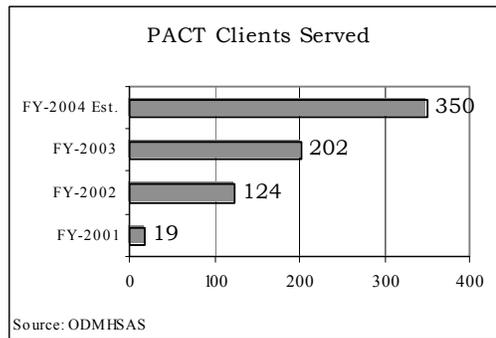
Public policy now focuses on placing persons with mental illness in the most appropriate environment possible for ongoing care and treatment. Service providers, advocates and family members agree that placement in the "community" where persons with mental illness are closer to family and friends provides the best atmosphere for success.

Today, due to the advent of psychotropic medications, improved therapeutic methods and an increase

in non-hospital resources, this public policy is a reality.

Program for Assertive Community Treatment (PACT) Oklahoma is a leader in the development and implementation of this service delivery model. It is outreach-oriented and designed for adults with severe and persistent mental illnesses. Using a 24-hour a day, 7 days a week approach, PACT teams deliver comprehensive community treatment, rehabilitation and support services to consumers in their homes, at work and in community settings. The result of this service delivery system is a dramatic drop in inpatient hospital days and jail days for these clients.

The following chart shows the growth in the number of adults with severe and persistent mental illness which are served in this program.



Drug Courts Drug court graduates are less likely to be rearrested than those on traditional probation or those who have gone to prison and are on parole. According to ODMHSAS:

- The rearrest rate for drug court graduates is 18.9%
- The rearrest rate for traditional probationers is 35.1%
- The rearrest rate for prison parolees is 67.5%

The cost of drug courts is also dramatically less expensive than incarceration at \$5,000 per year per

person vs. \$16,000 per year per person in the prison system.

New Generation Medications

Remarkably effective medications are now available for the treatment of mental illness. These newer generation medications are considered an essential treatment for mental illnesses such as schizophrenia, bi-polar and major depressive disorders. When a person with severe mental illness is successfully stabilized with appropriate medication and community supports, it leads to a decrease in inpatient hospital days. The savings created by this decrease constitutes part of the funding the agency has shifted to the purchase of these medications.

The Governor and the Legislature support ODMHSAS in its commitment to funding specifically earmarked for purchase of these drugs. For FY-2004, a total of \$6.2 million was appropriated for this purpose. In addition to appropriated funding, pharmaceutical firms donate almost \$20 million worth of new generation medications for use in treatment of mentally ill patients.

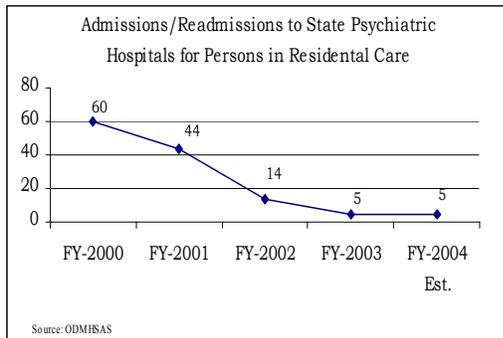
Community Mental Health Centers

Oklahoma has 20 mental health service areas covering the state. In each area, a publicly supported community mental health center (CMHC) serves as the primary access point for the non-Medicaid, publicly funded mental health services. Most CMHCs have satellite offices or other specialized programs within their service areas. These centers provide the following services to assist adult mental health clients in the community:

- Emergency intervention
- Assessment
- Counseling
- Psychosocial rehabilitation
- Case management
- Community support services

CMHCs also provide therapeutic services for children who are demonstrating symptoms of emotional disturbance. Five CMHCs are state operated by, while the others are private non-profit organizations contracting with ODMHSAS.

The Department funds social and recreational services for individuals with mental illness who live in residential care facilities. Support for certain other community-based services, such as assistance for mentally ill individuals who are homeless is also provided. An important outcome for persons with mental illness who live in residential care facilities is their ability to sustain themselves within a community based setting and avoid costly inpatient treatment. Over time the number of admissions/readmissions into state psychiatric hospitals has dropped indicating better stabilization and fewer crisis episodes.



FY-2004 Supplemental

FY-2004 Supplemental <i>(amounts in thousands)</i>	
FY-2004 Appropriation	\$145,018
FY-2004 Bud. FTE Level	1,930.0
Actual Ave. YTD FTE	1,802.5
Funding Adjustments:	
Expand OK County Drug Ct.	270
Total Adjustments	270
FY-2004 w/Supplemental	\$145,288
% Change for FY-2004 orig.	0.19%

Source: Office of State Finance

Oklahoma County Drug Court Pilot Program:

The Governor's budget includes a supplemental appropriation recommendation of \$270,000 and \$1.7 million in FY-2005 to expand the Oklahoma County Drug Court program. In order to divert offenders away from full time incarceration and into supervised treatment programs, this funding will expand the current 100 bed program by 400 beds over 18 months.

This program has the effect of saving money in the budget of the Department of Corrections because it targets offenders who would otherwise be sentenced to prison. In Oklahoma County in the four years from 1999 through 2002, the percentage of non-violent offenders sent to the Department of Corrections for incarceration decreased by 16.7%. This is a larger percentage decrease than any other county. Intensive community supervision and drug treatment is more cost effective than incarceration. Therefore, expansion of this program will lead to more offenders diverted from full time incarceration and bigger savings in the cost of state prisons.

FY-2005 Recommendation

FY-2005 Appropriation <i>(amounts in thousands)</i>	
FY-2004 Appropriation	\$145,018
FY-2004 Bud. FTE Level	1,930.0
Actual Ave. YTD FTE	1,802.5
Funding Adjustments:	
Expand OK County Drug Ct.	1,700
Newer Generation Meds	250
10 Addl. Drug Courts	1,000
Expand Systems of Care	750
Increased Debt Service	138
Transfer from OHCA	<u>2,099</u>
Total Adjustments	<u>5,937</u>
FY-2005 Recommendation	\$150,955
% Change for FY-2004	4.09%

Source: Office of State Finance

Newer Generation Medications: The Governor's budget includes funding for an additional \$250,000 for the purchase of newer generation medications. This amount will be added to the \$6.25 million which the state has already dedicated to this purpose.

Ten Additional Drug Courts Across the State: Also included in this budget is \$1 million to add 10 new drug courts in other parts of the state.

Additional funding for Systems of Care: The Governor's budget includes additional funding of \$750,000 to expand the systems of care program which is designed to provide integrated supportive services to children with serious emotional disturbances and their families. There are currently seven Systems of Care demonstration sites in Oklahoma. Two new programs will be started with this funding.

Expansion of the PACT Program with Additional Medicaid Revenue: Several years of program development, research and negotiations with the state and federal Medicaid program

have recently resulted in an approved Medicaid payment rate for services provided to PACT clients who are Medicaid eligible. The ODMHSAS will provide the state match for this payment which will yield enough additional revenue to the agency to expand this program. Based on the estimated number of PACT clients served in FY-2004 and new clients brought into the program in FY-2005, about \$2.7 million in additional revenue will be available for this program. This funding will annualize the cost of PACT programs which are phased it during FY-2004, fund the creation of three new PACT teams in rural Oklahoma and expand the current PACT team operating in Cleveland County.

Transfer from Oklahoma Health Care Authority:

These funds were previously transferred out of the ODMHSAS base and into the Medicaid state dollar funding base to pay for the portion of fully capitated managed care rates for persons with mental illness being served through Medicaid HMOs. During the current fiscal year, FY-2004, fully capitated managed care plans were phased out and mental health services will be provided under the fee for service payment system. These funds are being transferred back to ODMHSAS to cover the state match for Medicaid services purchased under fee for service in FY-2005.

Use of savings for Priority Funding in Domestic Violence Services:

Additional Medicaid revenue in the PACT program creates a savings in General Revenue which the agency could use to fund its highest priority needs in the area of Domestic Violence Services. Approximately \$400,000 in net FY-2004 and FY-2005 savings could be redirected toward counseling services for children who have witnessed domestic violence.

Human Resources and Administration

Summary of FY-2005 Budget Recommendations

(amounts are in \$000's)

Agency Name	FY-2004 Adj. Approp.	FY-2005 Base	FY-2005 Adj.	Final FY- 2005 Approp.	% Diff. From FY- 2004
Central Services, Dept. of	\$12,047	\$12,047	(\$650)	\$11,397	-5.4%
Consumer Credit Commission	603	603	0	603	0.0%
Horse Racing Commission	1,762	1,762	0	1,762	0.0%
Human Rights Commission	650	650	0	650	0.0%
Merit Protection Comm.	505	505	0	505	0.0%
Personnel Management	4,603	4,603	(299)	4,304	-6.5%
Securities Commission	501	501	(400)	101	-79.8%
Total Human Resources/Administration:	\$20,671	\$20,671	(\$1,349)	\$19,322	-6.5%

Capitol Improvement Authority

The Oklahoma Capitol Improvement Authority (OCIA) is primarily responsible for acquiring and maintaining buildings for other state agencies. OCIA also issues bonds to secure facilities when authorized by the Legislature.

The OCIA receives debt service payments from agencies receiving bond proceeds. The OCIA then makes payments on behalf of the recipient agencies.

FY-1999 Bond Issue – Phase I: In the spring of 1998, the Legislature passed HB 3066, codified as Title 73, Section 301, which authorized the OCIA to acquire, construct, repair, refurbish improve and provide funding for a set of capital projects totaling \$158.1 million. The Authority issued negotiable obligations (bonds) in an amount sufficient to cover the costs of the enumerated projects, professional fees and project development and financing.

Project	Amount
Higher Education Infrastructure	\$45,000,000
Oklahoma History Center	\$32,000,000
Lincoln Boulevard Renaissance Land	\$13,800,000
Lawton Veterans' Center	\$12,000,000
J.D. McCarty Center - New Facility	\$10,300,000
Wiley Post Building Renovation	\$10,000,000
School for the Blind	\$6,750,000
School for the Deaf	\$6,750,000
Native American Cultural Center	\$5,000,000
Vo-Tech Systemwide Equipment	\$5,000,000
Quartz Mountain Lodge	\$3,500,000
Boll Weevil Eradication	\$3,000,000
Finance & Purchasing MIS System (CORE)	\$3,000,000
Technology Incubator Program	\$2,000,000
Phase I Total	\$158,100,000

Also in HB 3066, the Legislature stated their intent to authorize a second group of specific capital projects totaling \$156.9 million when they returned in the spring of 2000. The legality of the second phase was

challenged on June 3, 2003. The Supreme Court said the legislation did not properly identify the projects as required by the Oklahoma Constitution. Consequently, this second phase was not implemented. Together, the two groups of projects totaled \$315 million.

General Obligation Bonds

There are two types of general obligation bonds issued by the State. The first are government-purpose issues to fund legislatively identified capital projects. All of these bonds are secured by cigarette tax revenue initially and, ultimately, by the full faith and credit of the State. The second are issued by the Oklahoma Industrial Finance Authority (OIFA) to fund industrial loans, and are secured initially by loan repayments from the private-sector industrial borrowers and then by OIFA reserves.

General Obligation Bonds Government Purpose Issues (in 000's)

	Amount	Outstanding
Series 1992A	\$250,000	\$ -
Series 1992B	\$100,000	\$ -
Series 2003A Refund	\$254,135	\$ 254,135
Series 2003B Refund	\$ 7,075	\$ 7,075

General Obligation Bonds Industrial Development (in 000's)

	Amount
1996 Series S	\$ 10,000
1997 Series T1	\$ 2,048
1997 Series T2	\$ 7,150
1999 Series U1	\$ 5,375
2000 Series U2	\$ 1,045
2001 Series N, P, Q, R	\$ 40,000

The OCIA approved a bond issue on Jan. 23, 2002, for \$5 million dollars in lease revenue bonds for the Capitol Dome. The money for the dome was part of the original \$157.5 million in Phase II projects. Private donors have

pledged \$17.5 million for the dome. The presiding Governor, chairman of the Authority, sought to expedite the bonds to keep the project on schedule. The dome dedication took place November 2002. Since phase II of the bond projects were declared invalid, a bond was not issued to cover the cost of the dome.

The Governor's budget includes \$1.28 million for debt service payments for a \$70 million bond. Of this amount, \$65 million will be directed for higher education and \$5 million will cover the remainder of the dome costs.

Department of Central Services

Main Duties/Responsibilities

The Department of Central Services provides a wide variety of support services to state agencies and other governmental entities.

Fleet Management regulates the acquisition, lease, operation, maintenance, repair, and disposal of the vehicles required for state agencies. State Leasing administers the leasing and space management of property for all state agencies and institutions. Facilities Services operates and maintains seventeen buildings; the total space managed is approximately two million square feet.

Notable Achievements

- *Purchasing reform has allowed for lower prices and overall savings.*
- *The purchase card has increased efficiency of government transactions.*

Multi-State Cooperative Purchasing

Agreements: The Western States Contracting Alliance (WSCA), created under the umbrella of the National Association of Procurement Officials, spearheaded a National Computer Equipment Contract for Education, State and Local Government. The Association will strengthen buying power for the states involved, and therefore, prices will be reduced.

Oklahoma joined the cooperative agreement in February 2000, by signing participating addendums with four of the five vendors: Dell; Gateway; Compaq and IBM. In January 2002, Compaq, Dell and Gateway have all announced permanent price reductions to their customers in the cooperative.

Pharmaceutical purchases for the Department of Corrections, Health Department, Department of Mental Health and Substance Abuse as well as

other state and county agencies are through the Minnesota Multi-state Contracting Alliance for Pharmacy (MMCAP). This Alliance, like the WSCA, strengthens the buying power of participating organizations and reduces costs. Contracts for pharmaceuticals incorporate "just in time delivery" which eliminates the need to maintain inventories of drugs that could expire prior to use.

The combined purchasing volume for contract year 2002/2003 was \$533 million. MMCAP distributed \$3 million in drug credits to participating state facilities. The credit reflects an overall return of approximately .55% of contract purchases for facilities purchasing over \$7,400 annually. The credit issued is an additional savings on top of the savings facilities receive by participation in MMCAP. Eligible sales and potential credits for the state of Oklahoma for the previous four contract years are as follows:

Contract Year	Eligible Sales	Potential Credit
1997-98	\$6,875,499	\$24,611
1998-99	\$9,224,873	\$35,963
1999-00	\$11,034,834	\$69,072
2000-01	\$13,267,868	\$89,486
2001-02	\$14,573,391	\$98,250

SOURCE: Dept. of Central Services

Statewide contracts: The continued expansion of statewide contracts has simplified the acquisition of basic supplies in more than 100 areas. The contracts have provided greater convenience, simplified procedures and significantly reduced costs to the State. This results in greater convenience, smoother operations and less need to maintain large inventories.

Some examples of widely used statewide contracts are:

- Prime Vendor-Food Distribution Contract

Actual Savings	
FY-2000	\$973,000
FY-2001	\$1,167,600
FY-2002	\$1,401,120
FY-2003	\$1,751,400
FY-2004	\$2,189,250

SOURCE: Dept. of Central Services

- Fuelman Fleet Management Contract

Oct. 2001-Sept. 2003:

Actual Savings	+\$100,000
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- Vehicle Contract

Contract Year	St Agcy Usage	All Entity Usage
1998	\$14,947,038	Not Available
1999	\$14,888,773	Not Available
2000	\$21,022,469	Not Available
2001	\$17,419,685	\$37,677,177*
2002	\$12,343,544	\$22,650,563*
2003	Not Available	\$23,804,395**

SOURCE: Dept. of Central Services

*Total usage as reported by the vendors to DCS Central Purchasing.

**Total usage as reported by the vendors to DCS Central Purchasing for the first, second and third quarters of contract year 2003.

State Use Program: The program assists in providing meaningful and gainful employment to people with disabilities through state contracts for products and services. Products and services include office supplies, trophies and plaques, janitorial services, temporary services, security guards, recycling, vehicle detailing, laundry services, silk screening, sewing, and woodworking. Currently 62 sheltered workshops employing approximately 2,000 persons with disabilities hold state contracts.

CORE Oklahoma Project: The Department of Central Services and the Office of State Finance signed a contract with PeopleSoft as the

Enterprise Vendor for designing, developing and installing a new integrated system to replace the current systems for Financials, Purchasing, Personnel and Human Resources.

The Office of State Finance, Office of Personnel Management, DCS, and employees from several other agencies staff the project, named "Core Application System" (CORE).

State Capitol Park: In 2001, effective for FY-2002, the Legislature transferred responsibility for maintenance and operation of the State Capitol Park from the Oklahoma Tourism and Recreation Department to the Department of Central Services.

The State Capitol Park consists of the following:

- State Capitol building and grounds;
- Governor's Mansion and grounds;
- Over 25 buildings, including office buildings, museums, etc.; and
- Roadside areas along Lincoln Boulevard and other primary streets.

Environmental Abatement: Formerly known as Asbestos Abatement, 1986 Federal regulations required school districts to remove and/or control asbestos contamination in their public school buildings. Its primary function today is to remove asbestos from public schools, state owned buildings and city and county buildings. Funding comes from appropriations and fees for service.

Dome utilities: This budget also recognizes the increased utility costs from the new dome at the State Capitol building. DCS can fund this small increase through agency revolving funds.

FY-2005 Recommendation

<i>FY-2005 Appropriation</i>	
<i>(amounts in thousands)</i>	
FY-2004 Appropriation	\$12,047
FY-2004 Bud. FTE Level	242.3
Actual Avg. YTD FTE	208.3
Funding Adjustments:	
Environmental Abatement	(\$650)
FY-2005 Recommendation	\$11,397
% Change for FY-2004	-5.4%
Source: Office of State Finance	

The FY-2005 appropriation for the Department of Central Services is the same as provided for FY-2004 with the following adjustment.

Environmental Abatement

Privatization: A recommended \$650,000 appropriation reduction privatizes the environmental abatement program currently within DCS. DCS Asbestos does subcontract many jobs to private contractors as dictated by demand and the need for “emergency” abatement services. Reducing the environmental abatement program from two to one crew or purely acting as an administrator to private crews will more than offset this reduction.

Current law, 74 O.S. 61.6, mandates DCS to provide asbestos service. Upon legislative change, DCS shall act merely as a contract administrator for abatement duties.

Consumer Credit Commission

The Commission on Consumer Credit administers the Uniform Consumer Credit code and regulates the following entities:

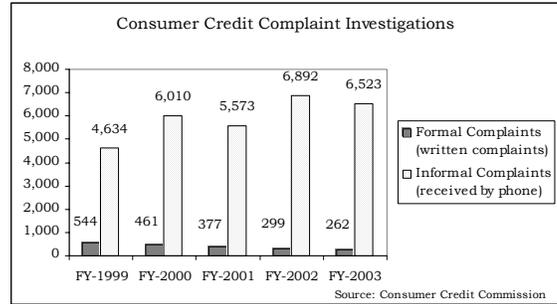
- Lending institutions other than banks or credit unions (AKA: Supervised Lenders)
- Deferred Deposit Lenders
- Pawnbrokers
- Credit service organizations charging a fee to provide assistance in repairing credit problems
- Rent-to-own stores
- Health Spas
- Precious Metal And Gem Dealers
- Mortgage Brokers
- Mortgage Loan Originators

The Commission actively protects consumers against unfair credit practices of lenders. The Commission determines if lending institutions are assessing excessive interest, late fees, penalties or service fees. The Commission also monitors advertising and works with lenders to resolve consumer complaints. Through these efforts, the Commission returns \$1.5 to \$2 million to consumers each year.

Notable Achievement

As a result of an investigation [initiated by the Attorney General's Office with the help of the Consumer Credit Commission] 4,255 Oklahoma consumers received rebates of \$6.1 million on December 15, 2003 from the Household Finance settlement.

The following chart displays the number of complaints received by the Commission during the last six fiscal years.



FY-2005 Recommendation

FY-2005 Appropriation <i>(amounts in thousands)</i>	
FY-2004 Appropriation	\$603
FY-2004 Bud. FTE Level	16.0
Actual Avg. FTE Level	13.4
Funding Adjustments:	
None	<u>0</u>
FY-2005 Recommendation	\$603
% Change for FY-2004	0.00%

Source: Office of State Finance

The FY-2005 appropriation for the Consumer Credit Commission is the same as provided for FY-2004.

Employees Benefits Council

The Employees Benefits Council (EBC) purpose is to furnish state employees with choices among various employee benefits including health, life, dental and vision plans. It also provides disability insurance and flexible spending accounts. EBC also provides for the coordination, design, preparation, communication, and administration of all plans offered to state employees. Thirty five thousand active state employees and their eligible dependents are served by EBC.

One of the primary functions of EBC is to contract with Health Maintenance Organizations (HMOs) for purposes of providing health coverage to state employees. Oklahoma currently offers employees a choice of health insurance between two HMOs providers and OSEEGIB's state indemnity plan – Health Choice.

Healthcare Providers			
	PY02	PY03	PY04
HealthChoice	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
AmCare	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
CommunityCare	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
PacifiCare	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>

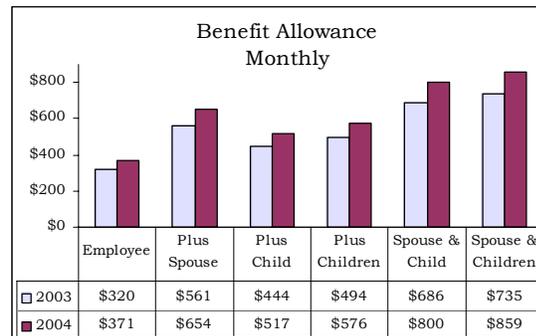
Notable Achievement

During a Quality Oklahoma Team Day awards ceremony held on May 8, 2003, EBC earned the Quality Oklahoma Red Tape Reduction Award for the new on-line benefits system.

Employee Benefit Allowance

The employee benefit allowance provides funding for health, dental, life and disability insurance for state agency employees. EBC is responsible for the design, development and administration of flexible benefits. For those state agency employees with dependents an additional benefit allowance of three-fourths of the average cost of health insurance is

provided. This partial payment of dependent coverage is a major fringe benefit for employees with dependents.



Source: Employees Benefits Council

While the employee benefit allowance is a major fringe benefit allowance for employees, it continues to be an increasing cost for the State. While the Consumer Price Index (CPI) has increased by less than 3% annually for the last four years, the employee benefit allowance has increased as much as 19.15% (2003).

5 Year Average Benefit Allowance		
Year	Monthly Avg. per Employee	Increase
2000	\$288.88	
2001	\$295.87	2.42%
2002	\$370.00	25.05%
2003	\$440.86	19.15%
2004	\$517.01	17.27%

Source: EBC 12/31/03

There are several forces affecting the employee benefit allowances:

- Number of employees
- Insurance costs
- Number of dependents covered

Benefit Allowance % of Total by Category					
	2000	2001	2002	2003	2004
Employees only	51.68%	50.76%	41.09%	38.85%	37.79%
Employee & spouse	13.22%	13.97%	16.86%	17.72%	18.25%
Employee & child	8.42%	8.39%	9.11%	9.22%	10.59%
Employee & children	7.70%	7.55%	8.44%	8.02%	7.90%
Employee, spouse & child	7.42%	7.64%	9.53%	10.28%	9.33%
Employee, spouse & children	11.57%	11.69%	14.98%	15.90%	16.13%
# of elections	37,018	36,514	36,868	35,213	35,074

Source: EBC 12/31/03

While the number of employees covered by the benefit allowance has actually decreased by over two thousand since 2000, the percentage of employees receiving health insurance coverage for their dependents has increased. Since the benefit allowance includes provision for payment of three-fourths of dependents medical insurance costs, the total amount continues to increase.

Benefits Administration

In November 2002, EBC implemented the Benefits Administration System (BAS) to replace the existing OPM Benefit mainframe system. The new system is fully customized with built-in eligibility rules and IRS regulations pertinent to the plans offered in the flexible benefits plan. Employees used the new system to enroll on-line for the 2004 plan year.

Beginning in 2005, retired military state employees may opt out of their employee benefits package. If they do so, they must waive all dependent coverage except vision and waive their own health, dental, basic and supplemental life, and disability coverage. If they do opt out, they are still eligible to participate in a vision plan and the flexible spending accounts for health care reimbursement and for dependent care. Those electing not to participate in state coverage are not eligible for or credited with any amount of the employee or dependent flexible benefit allowances.

FY-2005 Recommendation

The Governor's budget proposes permitting employees covered by a spouse's health insurance to refuse the health insurance options offered by the state. In lieu of this, the employee would receive an allowance of \$150 per month.

Allowing these state employees to be covered by their spouses' health insurance would save state funds. The allowance of \$150 per month could be used for health care reimbursement, dependent care accounts or even received as taxable income. However, this choice would not be available if the spouse is also a state employee. Currently, school teachers and support staff have such a choice while state employees do not.

Horse Racing Commission

The Horse Racing Commission (HRC) encourages state horse production and regulates horse racing activities at three racetracks:

- Remington Park in Oklahoma City
- Fair Meadows In Tulsa; and
- Backstretch, LLC d/b/a Blue Ribbon Downs

Notable Achievement

In CY-2002, the Oklahoma-bred program paid bonuses of \$1.7 million to accredited Oklahoma-bred horses.

Race Track Regulations: The Commission employs three stewards at each track to oversee racing activities. The stewards determine the winners of each race and conduct hearings concerning rule violations.

For example, the Official State veterinarian collects urine and blood samples for drug tests in winning horses. Certain medications are allowed for horses, but trainers are responsible for excessive drug levels in the horse. If cited for a violation, trainers are notified to appear at a hearing before the stewards.

The Commission also provides the following services at racetracks:

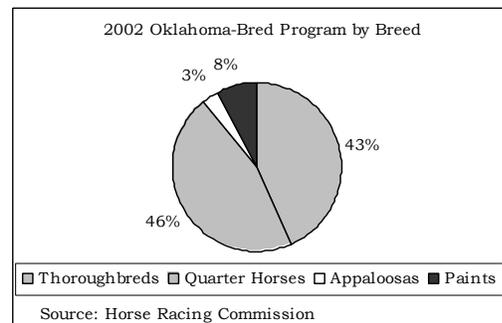
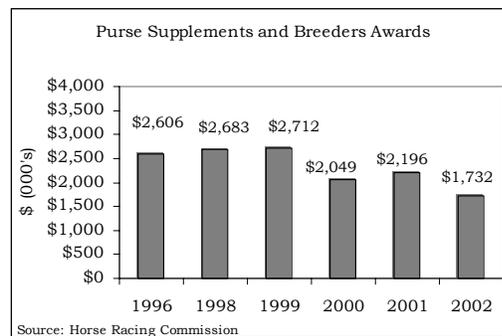
- Law enforcement agents who conduct investigations and present evidence at hearings;
- Employees who license participants; and
- Employees who verify horses in the paddocks are actually the horses registered to race.

Oklahoma-Bred Horse Program

Since 1983, the Commission has registered 65,358 horses as accredited

Oklahoma-bred horses. The program promotes agriculture with horse owners investing in horse facilities, feed and grain.

The program provides incentives for breeders and owners to produce State-bred horses. Other states such as Kentucky have been able to increase the quality and competition of racing by emphasizing locally bred horses. High quality bred horses increase the quality and competition of racing which attracts more participants and breeders to the state.



Funding for the Oklahoma-Bred Program comes from:

- Race track Breakage (odd cents after calculations on wagers are made)
- Unclaimed cash from wagering tickets
- A percentage of pari-mutuel tax
- Program registration fees

The following chart shows overall days allotted for racing and shows the number of Oklahoma-Bred Horses registered during CY-2000 through CY-2002.

Horse Racing Data			
	CY-2000	CY-2001	CY-2002
Race Days Allotted	283	298	274
Oklahoma-Bred Horses Registered	2,714	2,907	2,306
Oklahoma-Bred Claims Checks Issued	8,071	7,291	5,883
Source: Oklahoma Horse Racing Commission			

FY-2005 Recommendation

FY-2005 Appropriation <i>(amounts in thousands)</i>	
FY-2004 Appropriation	\$1,762
FY-2004 Bud. FTE Level	36.0
Actual Avg. YTD FTE Level	32.7
Funding Adjustments:	
None	<u>0</u>
FY-2005 Recommendation	\$1,762
% Change for FY-2004	0.00%
Source: Office of State Finance	

The FY-2005 appropriation for the Horse Racing Commission is the same as provided for FY-2004.

Human Rights Commission

The Oklahoma Human Rights Commission works to eliminate discrimination and promote unity and understanding among Oklahomans. The Commission consists of a nine-person board. The Commission establishes policy, sets goals, approves programs and projects and conducts public hearings on human rights complaints.

The Commission consists of two distinct functional divisions - Enforcement and Compliance, and Community Relations. The Enforcement and Compliance Division receives, processes, and investigates complaints of discrimination in the areas of employment, housing and public accommodation.

The Community Relations Division provides outreach and educational services. The Commission is responsible for these services at both a state and a federal level.

FY-2005 Recommendation

FY-2005 Appropriation	
<i>(amounts in thousands)</i>	
FY-2004 Appropriation	\$650
FY-2004 Bud. FTE Level	20.0
Actual Avg. YTD FTE	16.2
Funding Adjustments:	
None	0
FY-2005 Recommendation	\$650
% Change for FY-2004	0.00%
<small>Source: Office of State Finance</small>	

The FY-2005 appropriation for the Human Rights Commission is the same as provided for FY-2004.

Merit Protection Commission

The agency's mission is to design, implement, and enforce a dispute resolution system for state employees. Over the past two years the agency has implemented strategic technology tools to reduce costs and improve effectiveness.

Notable Achievement

Introduction of the Merit Protection Commission website has allowed for further public access into the agency's services; specifically in the area of dispute resolution.

During FY-2002, the agency developed a website, which has allowed participants to resolve disputes in days rather than months. The Merit Protection Commission has been able to resolve 60 percent of their disputes through online resolution.

The Commission continues to expand the use of the Alternative Dispute Resolution Program (ADRP) as a means of resolving employee disputes. ADRP provides both employees and agencies an opportunity to resolve disputes at the lowest possible level. Agencies and employees have taken advantage of ADRP, resulting in reduced disruption of programs for the agencies and employees.

	FY-2002	FY-2003	FY-2004 Q1-Q2
Appeals of Discharge	55	54	9
Appeals of Suspension without Pay	46	48	15
Appeals of Involuntary Demotion	5	10	1

SOURCE: Merit Protection Commission

Negotiation Conference

Appeal settlements at Negotiation Conferences have steadily increased since FY-2001. The Negotiation

Conference is the first step before an Administrative Law Judge or Alternative Dispute Resolution Program Facilitator hears an appeal. It is at this point that parties have an opportunity to discuss the issue and reach a mutual resolution.

	Average Days FY- 2002	Average Days FY- 2003	Average Days FY- 2004 Q1- Q2
Appeals of Discharge	72.3	77.4	34.9
Appeals of Suspension without Pay	55.4	62.7	26.1
Appeals of Involuntary Demotion	130.6	83.7	44

SOURCE: Merit Protection Commission

FY-2005 Recommendation

FY-2005 Appropriation	
<i>(amounts in thousands)</i>	
FY-2004 Appropriation	\$505
FY-2004 Bud. FTE Level	7.0
Actual Avg. YTD FTE	6.0
Funding Adjustments:	
None	0
FY-2005 Recommendation	\$505
% Change for FY-2004	0.00%

Source: Office of State Finance

The FY-2005 appropriation for the Merit Protection Commission is the same as provided for FY-2004.

Office of Personnel Management

The Office of Personnel Management (OPM) has evolved from a primarily regulatory role into a service and consultative role within state government.

OPM maintains a classified system of employment and a fair and equitable compensation system for state employees. OPM recommends a flexible state employee pay system based on relevant market data, provides recruitment and referral services for state agencies, and assists with affirmative action program needs. OPM provides many different management training and development opportunities, including the Carl Albert Public Internship Program, a Certified Public Manager Program, the Quality Oklahoma Program, the State Mentor Program, and the State Personnel Interchange Program.

Notable Achievements

- *Introduced an Electronic testing system that has improved convenience and efficiency of the testing process. The system allows applicants to receive scores immediately, and will reduce time required to place the individual into the Merit System.*
- *Completed the first audit of the Performance Management Process (PMP) employee appraisal system. The pay for performance mechanism authorizes Appointing Authorities to award a salary increase or lump sum payment to deserving employees.*

Internal reductions: Budget reductions required OPM to implement a reduction-in-force and voluntary out for FY-2004 affecting 3 positions and employees. Two employees were separated in July 2003 and one was separated in December 2003. From a

historical perspective, OPM's workforce has decreased by 28.9 FTE or 26.3% since FY-2002 as a result of revenue shortfalls.

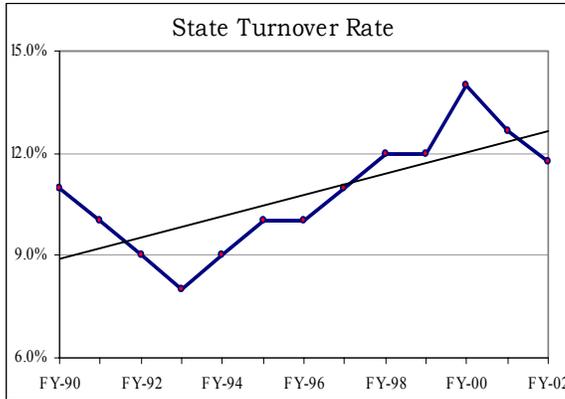
Other state agency actions: OPM is also responsible for approving and reviewing agency RIF proposals. OPM has reviewed and approved furlough plans for two agencies for FY-2004. Reduction-in-Force Plans were approved to be effective in FY-2004 for seven agencies (including OPM) involving a total of 119 positions, and four agencies implemented voluntary out plans for FY-2003 affecting 39 employees. Although OPM has no statutory role in voluntary buyouts, staff advised Human Resource departments of all four agencies on procedural issues.

Current Studies

Title 74, Section 840-1.6A of the Oklahoma Statutes requires the Office of Personnel Management to conduct a study on certain job families experiencing high turnover rates. The overall turnover rate for FY-2003 for classified state employees was 11.1%, which includes all retirements, resignations and discharges during the fiscal year. The voluntary turnover rate of 9.5% for FY-2003 includes only retirements and resignations during the fiscal year.

State Classified Employees			
	FY-01	FY-02	FY-03
Employees	28,066	27,812	27,103
Resignations	2,488	2,139	2,000
Retirements	703	715	641
Discharges	358	415	458
Overall Turnover Rate	12.6%	11.8%	11.1%
Voluntary Turnover Rate	11.4%	10.3%	9.5%

SOURCE: Office of Personnel Management



SOURCE: Office of Personnel Management

Classification and Compensation Reform Update

Pay movement mechanisms, included in *The Classification and Compensation Reform Act of 1999* (Senate Bill 464), have continued to be viable options for state agencies. The *Classification and Compensation Reform Act of 1999* provided state agency directors the flexibility to hire, retain, and appropriately reward quality state employees to more effectively and efficiently fulfill their individual agency missions.

Prior to the passage of Senate Bill 464, state law prohibited the granting of “pay raises” unless specifically permitted by state law. Senate Bill 464 authorized such pay movement mechanisms as market adjustments, skill-based adjustments, equity-based adjustments and career progression increases.

According to OPM’s 2002 Pay Movement Mechanism Usage Report, overall usage of the delegated pay authorities declined approximately 39 percent from the previous year. However, skill-based pay adjustments and performance-based pay adjustments increased significantly from their 2001 usage. Pay Movement Mechanisms, affecting 3,774 employees, cost \$3.8 million in FY-2002 compared to FY 2001, which

affected 5,616 employees and cost \$6.3 million.

Although state salaries continue to trail market pay by 11.3%, OPM’s FY-2004 Annual Compensation Report indicates that pay movement mechanisms played a role in enabling the state average classified salary to keep pace with market pay growth over the previous five year period, as shown in the table below:

Year	State	Market	Difference
2004	\$29,969	\$33,361	-11.3%
2003	29,318	32,621	-11.3%
2002	30,001	31,344	-4.5%
2001	28,738	32,513	-13.1%
2000	27,614	31,093	-12.6%

SOURCE: Office of Personnel Management

Pay For Performance Implementation

In October 2001, OPM implemented a pay for performance mechanism, which authorizes Appointing Authorities to award a salary increase or lump sum payment to employees who have achieved an overall rating of “meets standards” or better on their most recent performance evaluation.

Performance-based adjustments may not exceed 5% of an employee’s annual salary for “meets standards” or 10% of an employee’s annual salary for “exceeds standards.”

The Office of Personnel Management completed its first audit of the Performance Management Process (PMP) employee appraisal system during FY-2003. Thirty-one state agencies were audited for compliance with the provisions of 74 O.S. Section 840-4.17. OPM staff conducted audits, and provided post-audit consultations and, in some instances, corrective action plans as well.

State Information System Project

OPM is a member of the CORE PeopleSoft Project Team along with the Office of State Finance, The Department of Central Services and the Department of Commerce. The purchasing and financial components of CORE/PeopleSoft went “live” November 3, 2003.

OPM has lead responsibility for the human resources and payroll components, which will replace two legacy systems with a user-friendly integrated computer system that will permit agencies to more easily access vital employment data. OPM has six staff assigned full-time to the project. This component of CORE is scheduled to “go live” on July 1, 2004. Five of these OPM employees and their positions are to transfer to the Office of State Finance effective July 1, 2004.

Electronic Testing: OPM made Merit System tests available online in January 2003 and, by June 30, 2003, 85% of tests administered at OPM were delivered through the Integrated Computerized Examination (ICE) System. Using the ICE System, applicants for state employment who test in the OPM office may elect to take examinations electronically rather than with pencil and paper. Through electronic testing, applicants may immediately receive examination results and, if they have successfully passed the examination, be placed on the Merit System register of eligible applicants.

OPM is making this examination system available to 22 Career Technology Centers located throughout the state as well as at the Oklahoma Employment Security Commission. When fully implemented, applicants statewide will have improved access to Merit System tests.

FY-2005 Recommendation

FY-2005 Appropriation	
<i>(amounts in thousands)</i>	
FY-2004 Appropriation	\$4,603
FY-2004 Bud. FTE Level	82.4
Actual Avg. YTD FTE	82.2
Funding Adjustments:	
Transfer of 5 FTE to OSF	(\$298)
FY-2005 Recommendation	\$4,304
% Change for FY-2004	-6.5%
Source: Office of State Finance	

The FY-2005 appropriation for the Office of Personnel Management is the same as provided for FY-2004 with the following adjustment.

Transfer FTE to OSF: A transfer of 5 FTE to OSF for the CORE project will transfer \$298,000 from OPM to OSF.

Securities Commission

The Securities Commission deters and remedies securities fraud on behalf of Oklahoma's citizens. To accomplish this mission, the agency:

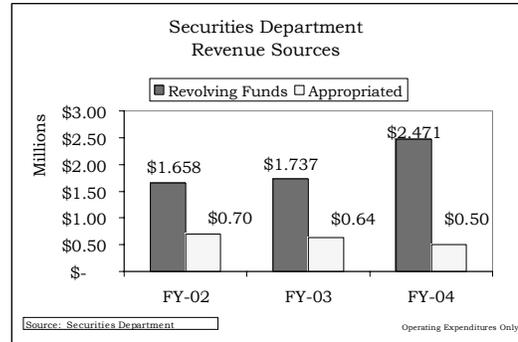
- Enforces the Securities, Business Opportunity Sales, Subdivided Land Sales and Take-Over Disclosure Acts;
- Registers offerings and sales of securities, business opportunities and subdivided land;
- Registers securities sales and adviser professionals;
- Performs on-site examinations of securities professionals and issuers; and
- Provides investor education.

Licensed Securities Professionals			
Firms	FY-2001	FY-2002	FY-2003
Broker-Dealers	1,734	1,707	1,649
Adviser	659	718	788
Individuals			
Broker-Dealer Agents	74,022	69,366	65,243
Adviser Representatives	5,427	5,856	7,409
Securities Issuer Agents	118	107	107

Source: Securities Commission

For FY- 2004, 68% of the Department's budgeted revenue is from fee assessments.

The following is a chart displaying funding sources for the Department for the last 3 years.



FY-2005 Recommendation

FY-2005 Appropriation (amounts in thousands)	
FY-2004 Appropriation	\$501
FY-2004 Bud. FTE Level	27.2
Actual Avg. YTD FTE	25.7
Funding Adjustments:	
Reduce Appropriation	(400)
FY-2005 Recommendation	\$101
% Change for FY-2004	-79.84%

Source: Office of State Finance

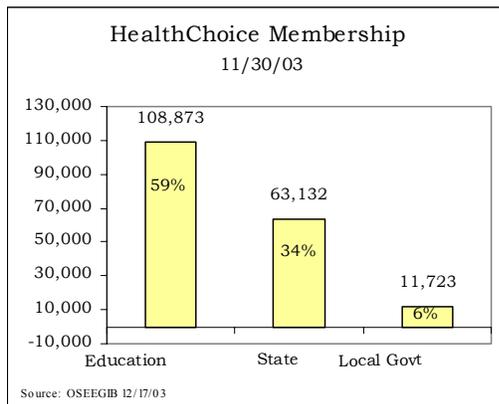
The FY-2005 appropriation for the Securities Department is the same as provided for FY-2004 with the following adjustment.

Reduction: The Governor's Budget proposes a reduction in the FY-2004 appropriation of \$400,000 to arrive at the FY-2005 appropriation. An analysis of the Oklahoma Securities Department Revolving Fund shows that the Department can utilize revolving fund revenue to absorb these operating costs.

State & Education Employees Group Insurance Board

The Oklahoma State & Education Employees Group Insurance Board (OSEEGIB) provides self-funded insurance plans to state, education, and local government employees. The plan is a self-insured health, dental, life and disability program, which is actuarially rated to provide premiums adequate to meet the payment of all claims, administrative expenses, and any change in reserve estimates.

HealthChoice is the state sponsored health insurance plan which is open to state, education, and local governments. This insurance is also available to retirees provided the choice was made prior to retirement. The general opinion is that the primary beneficiaries are state agency employees; however, the following graph shows that the primary beneficiaries are education employees and their dependents.



Currently, OSEEGIB has excess funds available in its life and disability funds. Available fund equity is greater than required expenditures resulting in excess unrestricted fund equity in these two funds. The board utilized \$10 million dollars of this excess to reduce calendar year 2004 monthly health insurance rates by \$4.92 per billing unit for all employees who

choose the state's HealthChoice plan in plan year 2004 (January through December 2004). These employees include school districts and higher education in addition to other state and local employees.

Human Services

Summary of FY-2005 Budget Recommendations

(amounts are in \$000's)

Agency Name	FY-2004 Adj. Approp.	FY-2005 Base	FY-2005 Adj.	Final FY- 2005 Approp.	% Diff. From FY- 2004
Children & Youth Commission	\$1,550	\$1,550	(\$100)	\$1,450	-6.5%
Handicapped Concerns	356	356	0	356	0.0%
Human Services Department	387,456	387,456	17,000	404,456	4.4%
Indian Affairs	244	244	0	244	0.0%
J.D. McCarty Center	2,458	2,458	288	2,746	11.7%
Juvenile Affairs, Office of	90,000	90,000	570	90,570	0.6%
Physician Manpower Training	5,018	5,018	0	5,018	0.0%
Rehabilitation Services, OK Dept. of	24,750	24,750	273	25,023	1.1%
University Hospitals Authority	36,699 ¹	34,599	3,656	38,255	4.2%
Total for Human Services:	\$548,531	\$546,431	\$18,031	\$568,118	3.6%

¹ FY-2004 Adjusted Appropriation includes supplemental of \$2.1 million for Indigent Trauma Care.

Oklahoma Commission on Children & Youth

The Oklahoma Commission on Children and Youth (OCCY) helps state systems and communities work together to more effectively improve conditions for children, youth and families in Oklahoma by:

- facilitating joint planning and coordination among public and private agencies;
- overseeing children's services provided by public and private entities; and
- promoting innovative programs

Notable Achievements

- *OCCY assisted and consulted with the Kingfisher Collaborative, an OCCY Community Partnership Board, to pool the resources of the community, local businesses, schools, state agencies and parent support to staff the "Families First Community Health Clinic." The clinic offers the following services: a school-based health nurse, a school-based social worker and contracted services for individual and family counseling. All services are also available to the local private school children.*
- *In FY-2003 the OCCY's Office of Juvenile System Oversight (OJSO) increased the number of inspections of state operated facilities by 30% and to privately-operated facilities by 100%. The number of complaints received concerning children's services increased by 76%. OJSO's increased efforts improved the likelihood that children are safe and receive proper care.*

Children's Coordinated Database

In 1997, the Legislature passed HB 1391 - The Coordinated Database System for Children Act. HB 1391 directed OCCY to develop a system to allow sharing of case information and data collection used in planning, research, outcome evaluation and service coordination.

The intent is to enable participating agency workers to:

- compare certain client information;
- determine where and what types of services a client is receiving;
- determine what other services clients are eligible for;
- allow reporting for different populations to determine how services are being used; and
- optimize resource utilization where services are being delivered

The database will be a central data repository populated and updated with client and service data by participating agencies.

To date, twelve agencies have participated and signed an interagency agreement that will allow the sharing of data across agency boundaries for:

- information and referral;
- single point of entry; and
- policy analysis and research.

OCCY expects that the online eligibility determination and comprehensive resource directory will be ready in April 2004.

FY-2005 Recommendation

<i>FY-2005 Appropriation</i>	
<i>(amounts in thousands)</i>	
FY-2004 Appropriation	\$1,550
FY-2004 Bud. FTE Level	21.8
Actual Ave. YTD FTE	19.7
Funding Adjustments:	
Increase Use of Revolving Funds	(100)
FY-2005 Recommendation	\$1,450
% Change for FY-2004	-6.45%
<small>Source: Office of State Finance</small>	

The FY-2005 appropriation for the Oklahoma Commission on Children and Youth is the same as provided for FY-2004 with the following adjustment.

Increase Use of Revolving Funds:

The Governor's budget replaces \$100,000 of OCCY's appropriation with revolving funds. This use of one-time funds will need to be replaced in FY-2006.

Office of Handicapped Concerns

The Office of Handicapped Concerns (OHC) helps develop policies and services to meet the needs of Oklahomans with disabilities. The Governor's Advisory Committee on Employment of the Handicapped and the Governor's Advisory Committee to the Office of Handicapped Concerns assist the OHC in meeting this role.

Notable Achievements

- *Earned award for OHC's Disability Etiquette Handbook as one of 1999's best publications by the American Library Association's Government Documents Round Table*
- *Developed disability awareness classes for CLEET training of law enforcement personnel and state employees*
- *Works with Oklahoma Hi Tech Now to support and promote an after school program for training students with disabilities to help students prepare for careers in today's job market*

FY-2005 Recommendation

FY-2005 Appropriation	
<i>(amounts in thousands)</i>	
FY-2004 Appropriation	\$356
FY-2004 Bud. FTE Level	8.0
Actual AVE. YTD FTE	7.2
Funding Adjustments:	
None	<u>0</u>
FY-2005 Recommendation	\$356
% Change for FY-2004	0.00%
<small>Source: Office of State Finance</small>	

The FY-2005 appropriation for the Office of Handicapped Concerns is the same as provided for FY-2004.

Department of Human Services

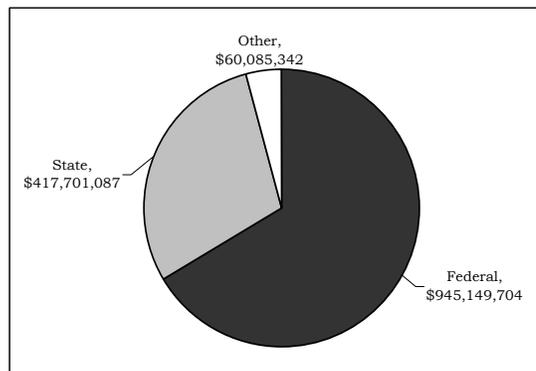
The mission of the Department of Human Services (DHS) is to help individuals and families in need help themselves lead safer, healthier, more independent and productive lives.

In pursuit of their mission, DHS administers the following programs:

- **Family Support Services**
 - TANF
 - Food Stamps
 - Adult Protective Services
- **Developmental Disabilities**
 - Institutional Facilities
 - Home and Community Based Waiver Programs
- **Children and Family Services**
 - Adoptive Services
 - Foster Care
 - Child Welfare
- **Child Care**
 - Child Care Subsidy
 - Child Care Facility Licensing
- **Aging Services**
 - ADvantage Program
 - Congregate and Home-delivered meals
 - Personal Care Program
- **Child Support Enforcement**

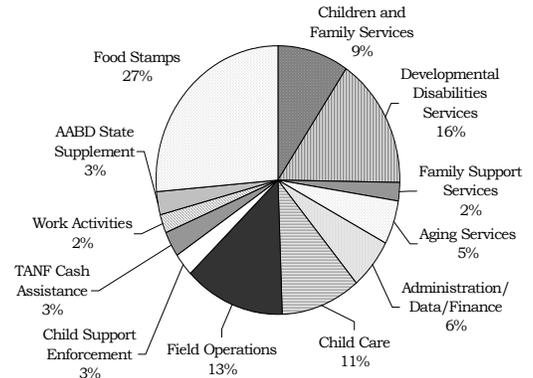
In FY-2004, DHS ranks as the fourth largest state agency, representing 7.6% of the state appropriated budget.

FY-2004 Budgeted Operational Revenues



Source: OKDHS

DHS Funding by Activity
FY-2004 Budgeted



Source: FY-2004 Budget Work Program

Notable Achievements

- **EBT Child Care System** *The first of its kind in the nation. The Benefits Transfer System allows immediate payment to child care vendors using a swipe card system. In FY-2002, Computerworld magazine gave it the 21st Century achievement award for visionary use of information technology*
- **Increased Adoptions** *DHS authorized 1,314 adoptions in FY-2003 – the largest number in DHS history. This is a 215% increase from FY-1996.*
- **ADvantage Program** *A record 14,298 Oklahomans were served through the ADvantage Waiver Home Health Care program in FY-2003.*
- **Quality Child Care** *More than 75% of children receiving the child care subsidy were served in facilities with a quality rating of one star plus or higher. This is a substantial increase from FY-1999, when only 9% were served in facilities with a quality rating above one star.*
- **Processing Child Care Applications** *Child care staff reduced eligibility determination processing time from a 30-day*

processing standard in FY-2002 to a 2-day processing standard in FY-2003.

- **Reuniting Children with Families** 81% of children reunified with their parents were returned to the home within 12 months of removal.
- **Shortening Children's Stay in Foster Care** The average length of stay in foster care has been reduced by 33% since 1999 from 36 months to 24.1 months in 2003.
- **Developmentally Disabled Served** Despite budget constraints in FY-2003, more than 7,000 individuals were served through waiver programs.
- **Child Support Enforcement** The Child Support Enforcement Division (CSED) collected over \$153 million in child support in FY-2003.
- **Paternities Established** CSED established 12,704 paternities in FY-2003 (more than 80% of out-of-wedlock births referred to DHS)

Family Support Services

Temporary Assistance for Needy Families (TANF)

As a result of state and federal reform initiatives, Oklahoma has reduced the number of children and families receiving public cash assistance by over 69% from 47,712 average monthly cases in FY-1993 to 14,755 average monthly cases in FY-2003.

While the state initiated a number of different welfare reforms prior to 1995, the federal Personal Responsibility and Work Opportunity Reconciliation Act (PRWORA), passed in the fall of 1996, fundamentally changed the way public cash assistance programs were delivered to children and families across the nation. The Temporary Assistance to Needy Families (TANF) block grant created in PRWORA replaced the traditional cash assistance

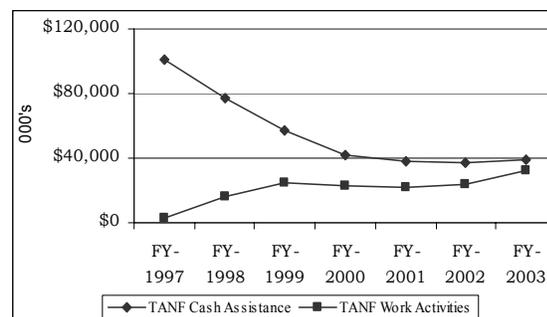
entitlement program, known as Aid to Families with Dependent Children (AFDC).

The four major goals of TANF are:

- Provide cash assistance to needy families so that children may be cared for in their own homes or in the homes of relatives;
- Promote job preparation, work and marriage to end the dependence of needy parents on government benefits;
- Prevent and reduce the incidence of out-of-wedlock pregnancies and establish annual numerical goals for preventing and reducing the incidence of these pregnancies; and
- Encourage the formation and maintenance of two-parent families.

TANF services fall into these categories:

- Cash Assistance
- Work Activities
- Marriage Initiative
- Family Formation/ Stabilization Services

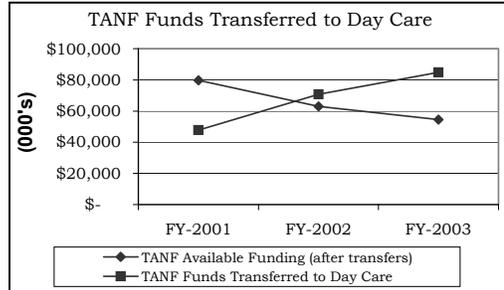


Source: OKDHS Annual Reports

TANF Funding: While the TANF block grant amount has remained relatively stable over the past fiscal years, the amount spent on TANF services has decreased.

Due to the importance of child care, more of the block grant is being transferred to child care. The amount transferred to child care has increased

from \$48 million in FY-2001 to \$85 million in FY-2003. Without child care services, many parents would not be able to leave TANF assistance for gainful employment.



Source: OKDHS

How TANF Cash Payments Work: A family of three is eligible for \$292 maximum cash benefits per month. The following example illustrates how the eligibility calculation works:

A family of three has earned monthly income of \$500. DHS adjusts earned income by subtracting \$120 from that amount; leaving \$380 adjusted earned income. Half of their adjusted earned income reduces the family's cash payment amount. Therefore, the family is eligible to receive \$102 per month (\$292-\$190).

Examples of Monthly Cash Payments for a Family of Three	
Adjusted Monthly Earned Income	Maximum Cash Assistance Payment
\$0	\$292
\$250	\$167
\$500	\$42
\$550	\$17
Formula: $\$292 - [(Earned\ Income - \$120)/2]$	

The average family receiving TANF benefits consists of one parent and two children. In FY-2003, the average cash payment per case per month was \$220.08.

Cash Benefits and Current Cases: Expenditures for cash assistance benefits have decreased by over 69%

from \$129 million in FY-1996 to \$39 million in FY-2003. Of the 14,755 average monthly TANF cases in FY-2003, 8,267 cases had an adult on work requirements. The remaining 6,488 monthly average cases are "child only" cases. In these cases, the cash benefit is for the child or children only. An example of this type of case is that in which the child's parents are deceased and the child lives with a grandparent.

Time-limited Benefits: One of the provisions of the TANF program limits cash assistance payments to five consecutive years in a lifetime. In FY-2002 and FY-2003, 451 families became ineligible for cash assistance benefits as a result of this provision. DHS policy allows caseworkers to arrange limited assistance to families facing specific hardships after exceeding TANF time limits.

Maintenance of Effort: There are several programs that require Maintenance of Effort, two of the biggest are TANF and state supplemental payments for the Aged, Blind and Disabled. The TANF program requires a state Maintenance of Effort expenditure of \$48 million. State supplemental payments for the aged, blind and disabled require \$39 million in state dollars.

Developmental Disabilities

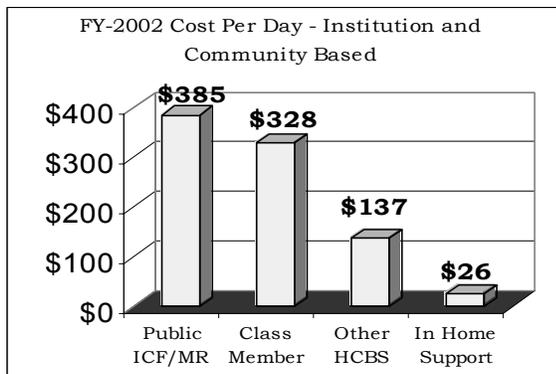
The Division of Developmental Disabilities (DDSD) in DHS provides institutional and community based services to people with a primary diagnosis of mental retardation (IQ of 70 or below). Clients may also have other developmental disabilities in addition to mental retardation such as autism, cerebral palsy and Down Syndrome. DDSD's primary goal is to enable children and adults to lead more independent and productive lives in the least restrictive environment.

DDSD currently serves approximately 7,800 people, ages 3 and up, in community based programs. At the end of FY-2003, three public institutions were serving 425 persons. There are at least four types of recipients receiving services for developmental disabilities:

- People who are in one of three public institutions;
- People who are members of the Homeward Bound Class and receive unlimited community based services;
- Non-class members who receive community based services through a Medicaid waiver; and
- People not on a Medicaid waiver receiving sheltered workshop or group home services.

Cost of Service by Type of Recipient

As the following graph illustrates, institutional care is the most expensive service delivery model. It cost \$385 per day in FY-2002 to serve an average of 405 residents. The next most expensive clients are the members of the Hissom class. The Court order in the Hissom case requires that the state spend additional unmatched state dollars for this protected class. In FY-2002, class members cost an average of \$328 per day.



While \$328 dollars per day is less than the cost of serving people in public

institutions, it is more than twice what is spent on community services for non-class members. The main reason for the disparity is the court-ordered 100% state dollar services provided only to members of the Hissom class.

The good news is that DHS has found ways to “federalize” some of these services, which makes them eligible for Medicaid matching funds. The decrease in services provided with 100% state dollars makes more funds available for persons currently on the waiting list.

Institutional Care

The state operates three public institutions for people with developmental disabilities: Southern Oklahoma Resource Center (SORC) near Pauls Valley, Northern Oklahoma Resource Center in Enid (NORCE) and the Greer Center, located on the NORCE campus. For Medicaid purposes, these public institutions are technically classified as Intermediate Care Facilities for the Mentally Retarded (ICF/MR).

While institutional care is no longer considered the most effective treatment alternative, a small number of children or adults do qualify for this level of service. Clients in these facilities range in age from 12 to 60, suffer from multiple developmental and physical disabilities and require 24 hour medical attention.

Community based services are considered the most preferred treatment alternative for children and adults and are the most cost efficient.

The Greer Center is designed for limited term treatment of persons with the dual diagnosis of mental retardation and mental illness. Since February of 2000, the Greer Center has been operated through a contract with Liberty Health Care Services of Oklahoma. This facility has an average daily count of 51.

Homeward Bound Class

Members of the Homeward Bound Class are former residents of the Hissom Center who filed a class action lawsuit in 1985 to compel the state to create community-based alternatives to institutional placements. The resulting court order required the closure of the Hissom Memorial Center in Sand Springs. There are approximately 858 surviving members of the original 1,059 in the Homeward Bound Class.

The Court Order closing Hissom was issued in 1987 and the last resident was moved into the community in April of 1994. The lawsuit is still not settled. Services for class members are mandated by the court while services are offered to other people as funds become available.

What state services are only provided to members of the Homeward Bound Class? Services mandated by the Federal Court for the 858 class members are:

- Room and board supplement payments along with single placement supplements make it possible for class members to live in their own house or apartment with no roommate if they wish.
- Special needs and other supported living payments go mostly for medical services that Medicaid does not cover, such as dental services for adults. Furniture and appliances are also in this category.
- Cost settlement payments allow providers to recover all of their costs for services to class members.

Lawsuit Expenditures: Although the Hissom lawsuit was initially filed in 1985, it is still not completely settled. The Department incurs expenses every year related to the lawsuit, the attorneys involved and representatives of the court called the Court Panel and the Guardian Ad Litem. DHS spends over \$1.3 million each year for

plaintiff's attorney fees, Court representatives and a contract with the Attorney General's office that is related solely to this litigation.

Home and Community Based Medicaid Services

The Department of Human Services administers three different home and community based waiver programs for children and adults. These are services provided to persons with developmental disabilities who are not in institutions. Over the past three decades, states have decreased institutional care services and increased home and community based services.

This move has occurred for two main reasons. First, the quality of life for children and adults with developmental disabilities is better in community placements versus institutional placements. Second, in FY-2003 institutional care costs an average of \$368 a day while community based care costs \$172 a day.

These services are paid for with state and federal dollars. Some Sheltered Workshops slots and some group home placements are entirely state funded while others are funded through Medicaid with almost 70% federal dollars.

In addition, DHS uses TANF funds for DDSD Family Support payments. Families with developmentally disabled children who do not qualify for waiver services and whose incomes are too high to receive SSI may receive a maximum monthly benefit of \$250. DHS provided \$3.5 million for these services in FY-2002 and \$4.0 million in FY-2003.

Description of waiver programs:

- The Community Waiver Program – These services are for developmentally disabled people who are independent of a family and usually live in a residential facility. Recipients must be Medicaid eligible.

- The In Home Supports Waiver – DHS established this waiver in 2000 in an effort to serve individuals on the waiver waiting list. These services are for children or adults living at home with families. The amount received is capitated at \$16,950 for adults and \$11,300 for children. Recipients must be eligible for Medicaid.
- All three waivers provide recipients with habilitation training specialists, respite care, adaptive equipment, architectural modifications, medical supplies and services, various therapies, family training and counseling, transportation and employment services.

	FY-2001		FY-2002		FY-2003	
	# Served	Total Exp.	# Served	Total Exp.	# Served	Total Exp.
HCBSW	3,010	\$178,782	3,065	\$212,553	3,012	\$204,057
IHSW-Adult	516	\$2,514	691	\$7,616	719	\$8,948
IHSW-Children	174	\$567	269	\$2,329	287	\$2,710

Expenditures are in thousands

As of FY-2003, approximately 3,359 people who were non-class members were served through some type of community-based waiver.

Waiting List for Community Based Services: As of December 2003, there were 3,787 people with developmental disabilities on the waiting list to receive services from one of the waivers administered through DDSD. Persons waiting for services are of all ages and many of them and their families face incredibly hard circumstances every day.

The state and DHS are entering into a budget year when new funds for providing services are not available. It is at this time and with the facts in mind that we must take a hard look at how our current dollars can be reconfigured so that more people can be served.

Finding as many legitimate ways to cover services with a mix of federal and state dollars makes the most of our scarce resources and allows us to serve more people who need services.

To ensure they were leveraging all available state and federal Medicaid resources in FY-2003, DHS reviewed over 3,000 plans of care.

We applaud DHS's efforts and encourage them to continue to make the most of available resources to serve their clients.

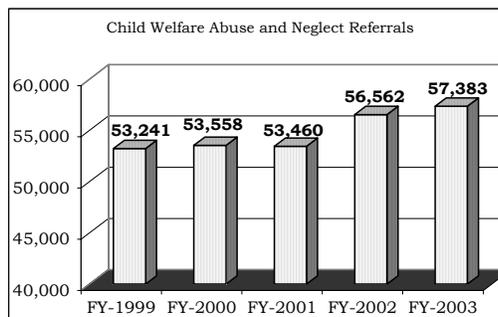
Children and Family Services

The Children and Family Services division in the Department of Human Services is responsible for three main programs:

- Investigating all allegations of child abuse and neglect;
- Providing foster care and kinship placements and family preservation programs to children from abusive homes; and
- Providing permanent adoptive placements for children in need of adoption.

Child Protective Services

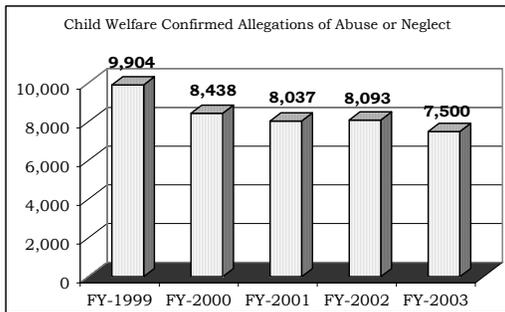
Child abuse and neglect referrals increased by over 800 referrals in FY-2003.



Source: OKDHS

Although more allegations of abuse and neglect were made and investigated,

the number of confirmed investigations decreased by almost 600 from FY-2002 to FY-2003.



Source: OKDHS

Both in absolute numbers and as a percentage of allegations, confirmations are decreasing. As the graph above shows, confirmed allegations of abuse or neglect have decreased by 24% since FY-1999.

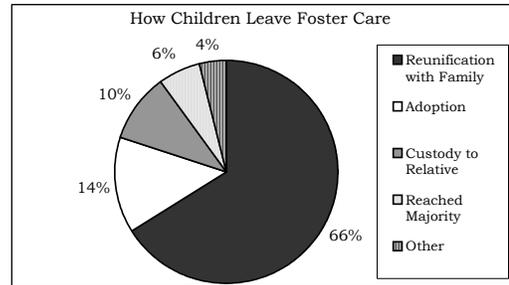
Confirmations of Neglect or Abuse as a Percentage of Allegations FY-1998 through FY-2002

FY-1998	20.58%
FY-1999	18.60%
FY-2000	15.75%
FY-2001	15.03%
FY-2002	14.31%
FY-2003	13.07%

DHS and the Health Department have implemented a number of different programs to prevent child abuse and provide parent education and support.

Foster Care

Children who must be removed from their homes for health and safety reasons are placed in foster care or kinship placements. Once children are in foster care, the primary goal is to reunite them with their parents. During FY-2003, there was an average of 6,641 children in foster care or kinship placements. The average length of stay for a child placed in out-of-home care has decreased from 31.3 in FY-2000 to 24.1 months in FY-2003.

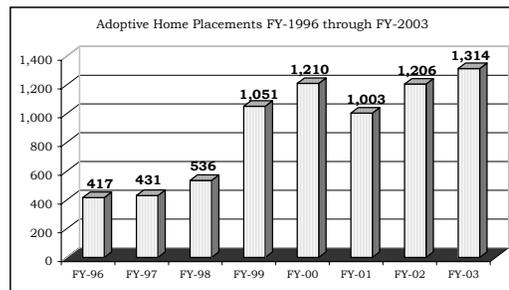


Source: OKDHS

The average length of stay in foster care for children who are re-united with their families is six months.

Growth in Adoptions

In recent years, adoptive home placements, the preliminary step to permanent adoptions, have sharply increased. From FY-1996 to FY-2003, DHS has increased the number of placements by over 200% from 417 placements in FY-1996 to 1,314 placements in FY-2003.



Source: OKDHS

DHS put together the program Swift Adoption to increase permanent adoptive home placements. This program was in response to a federal adoption initiative to increase the number of permanent home placements. Administratively, DHS placed all staff under the state office and contracted out certain services. As a result, adoption placements have tripled since 1996.

For DHS's improved performance in adoptions from FFY-1998 through FFY-2001, the federal government awarded DHS Adoption Incentive Bonuses totaling over \$3 million.

Currently, more than 6,434 children are supported by adoption assistance payments and services. DHS provides subsidies to people who adopt “special needs” children. Oklahoma includes the following in the definition of special needs:

- physically or mentally disabled
- children over 8 years old
- siblings
- emotionally disturbed
- ethnic/race
- high risk of mental disease

While the number will fluctuate during the year, approximately 1,500 children are awaiting adoption.

Child Care

Child Care Subsidies

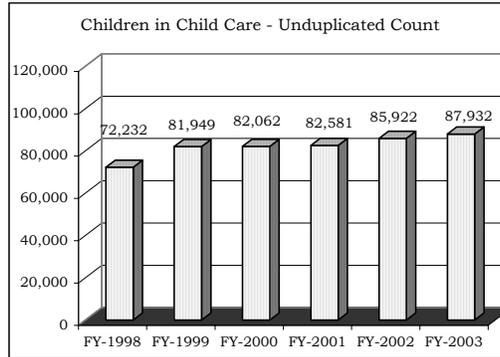
Child care activities in the Department can be divided into two main areas: the Child Care Subsidy Program and Child Care Licensing.

Subsidized child care pays part or all of the child care costs for qualifying families while parents or caretakers work, attend school, or receive training. Subsidized child care was provided for almost 88,000 children during FY-2003. Total payment increases are due to the number of children in care and increased payment rates.

Examples of Current Subsidy Co-pay Structure			
	Monthly Inc. (less 20%)	Co-pay	% of Income
Family 1			
Single parent 1 child	\$731	\$6.00	.82%
Family 2			
Single parent 2 children	\$731	\$12.00	1.64%
Family 3			
2 parents 1 child	\$1936	\$189	9.76%
Family 4			
2 parents 2 children	\$2377	\$263	11.06%

Over 40% of families in the child care subsidy program do not pay a co-pay at

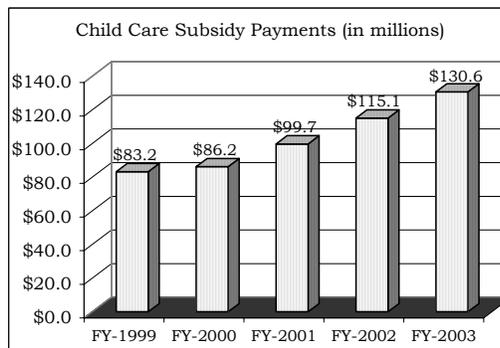
all because of their income level (less than \$900 per month).



Source: OKDHS

Quality Child Care Initiative: The Stars System pays different rates depending on the level of accreditation earned by the facility. These levels, referred to as Stars, are as follows:

- One Star – Basic Licensing Requirements
- One Star Plus – Transitioning to Higher Level
- Two Star – Seven Quality Criteria including Master Teachers
- Three Star – Two Star Criteria and Nationally Accredited



Source: OKDHS

Electronic Benefit Transfer: The Electronic Benefit Transfer system allows parents to check children in and out of a child care center using a swipe card system. This creates an electronic payment record for each child. Each swipe is recorded in real-time on a database. The database is accessible

for child care providers through the Web. Providers can know immediately whether the child has been approved for care in their facility and the amount of payment they will receive for that day's care, as well as any co-payment due from the parent.

Oklahoma Partnership for School Readiness: In April 2003, Governor Henry signed HB 1094, the Oklahoma Partnership for School Readiness Act. The legislation established a board to promote school readiness by supporting community-based efforts to increase the number of children who are ready to succeed by the time they enter school.

The board's responsibilities include:

- assessing existing public and private programs;
- implementing a public engagement campaign to facilitate communication between communities;
- providing leadership at the state level to encourage and empower communities to develop and improve school readiness;
- encouraging coordination between public and private programs;
- maximizing leverage of funding; and
- establishing standards of accountability in school readiness programs.

The legislation named DHS as the lead agency for monitoring programs and activities related to this act.

First Lady Kim Henry and the Board have been active this year traveling across the state and promoting successful early childhood community partnerships.

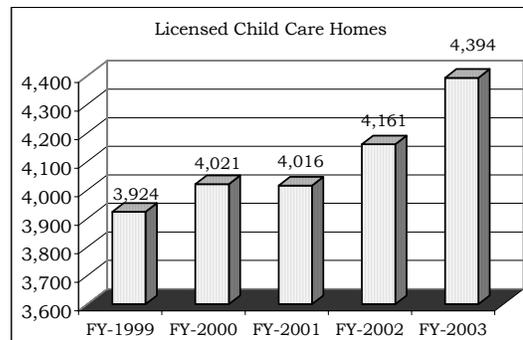
Successful public-private partnerships include the United Way's "Success by Six" early childhood program, Oklahoma's "Stars" child care program and common education's Four-Year-Old program. The "Success by Six"

program works to ensure all children, ages zero to six, are healthy, nurtured and ready to succeed.

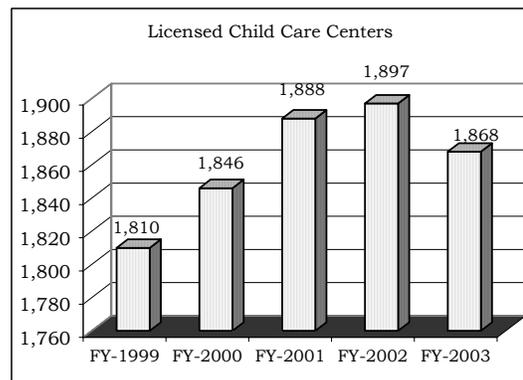
Another positive collaboration is taking place between school districts and private child care facilities. School districts such as Lawton, Putnam City and Norman are working to place certified early childhood teachers in child care facilities. This improves the quality of the learning environment, which ultimately improves every child's opportunity for future academic and social success.

Child Care Licensing

The Division of Child Care licenses and inspects more than 6,000 child care centers and family care homes in Oklahoma for children ages six weeks to 12 years. The division also licenses 119 residential and shelter facilities that provide care for children who are unable to live at home and 65 child placing agencies that place children in foster homes and adoptive homes.



Source: OKDHS



Source: OKDHS

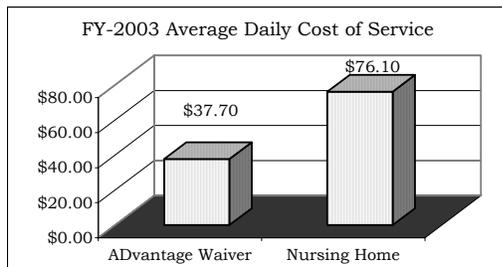
Aging Services

The Aging Services Division administers two Medicaid programs.

ADvantage Waiver

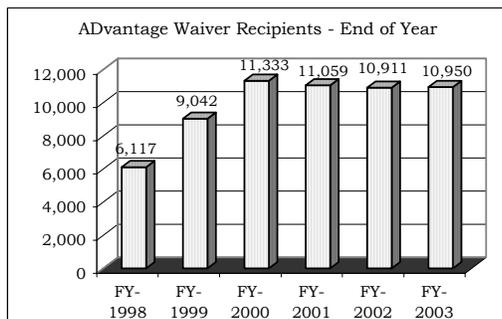
Operated through contracts with the Long Term Care Authorities of Tulsa and Enid, this home health care program provides an alternative to nursing home care for some people. In order to qualify for ADvantage services, a person must meet Medicaid income guidelines and require nursing home-level care.

These services divert people away from nursing homes by providing home health care services and/or some services in adult day centers. The ADvantage program provides a significant savings when compared to the cost of nursing home care.



Source: OKDHS

The number of persons served through this program has increased steadily over the last few years, and at the end of FY-2003, there were 10,950 persons being served through this waiver.



Source: OKDHS

Eldercare Program in Health Department and ADvantage Waiver

For FY-2004, \$1.7 million was transferred from the Health Department's Eldercare program to the ADvantage waiver program in DHS. The Department of Health acted as a provider of services for the ADvantage Medicaid waiver. None of the funds appropriated to the Eldercare Revolving Fund were matching funds for federal Medicaid dollars. As a result of this transfer, these funds can now be matched with federal dollars.

Personal Care

The second Medicaid program administered by the Aging Services Division is Personal Care. This service is available to those who meet the medical eligibility criteria as determined by an Aging Services long-term care nurse. Personal care aides, who generally work for home care agencies, provide non-medical assistance to people in their homes. At the end of FY-2003, this program was serving over 8,400 persons.

Other Programs Administered by Aging Services

Congregate Meals: Nutrition sites around the state provide meals to those age 60 and above.

Ombudsman Program: Protects the rights of residents in long term care facilities. Professional staff and certified ombudsman volunteers responded to over 3,000 complaints in FY-2002 and 75% reached a satisfactory resolution.

Advocacy: The Oklahoma Aging Advocacy Leadership Academy accepted its fourth class in September 2001. Members began a 10-month program designed to increase their knowledge of aging issues and concerns while developing or honing their skills in advocacy.

Volunteer Programs: Volunteers in Aging Services programs touch the lives of our older population in a number of positive ways. Volunteers work with mental health professionals and physicians to help older persons who may be suffering from depression. Other programs for volunteers include Retired Senior Volunteer Program, Foster Grandparent Program and Senior Companion Program.

Child Support Enforcement

This division is primarily responsible for locating non-custodial parents, establishing paternity and collecting and distributing support payments. In addition to restructuring the public welfare program, The Personal Responsibility and Work Opportunity Reconciliation Act of 1996 implemented a number of changes to Child Support Enforcement. Finding ways to encourage and require parents to be financially responsible for their children is central to the spirit and the letter of the law.

Oklahoma's Child Support Offices

There are 35 Child Support Offices in Oklahoma. Of these, DHS staffs and runs 10; District Attorneys who contract with DHS to perform child support services operate 23. A Community Action Program and the Indian Nations operate two additional contract offices.

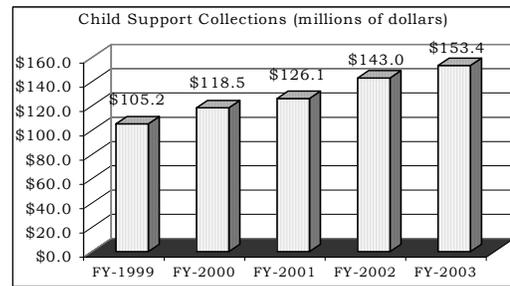
Effectiveness Measures

The system's effectiveness is measured along five guidelines:

- Paternities Established
- Support Orders Established
- Collections on Current Support
- Collections on Arrears
- Cost Effectiveness

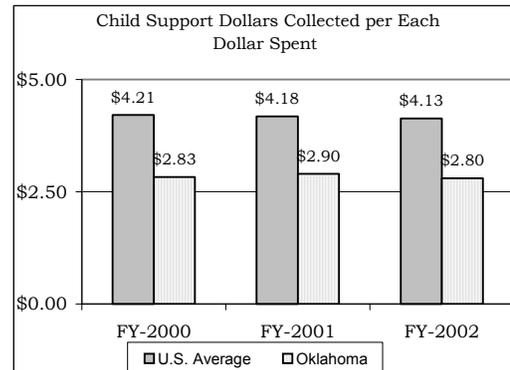
The federal Office of Child Support measures the performance of all states against these standards and uses that performance to distribute federal incentive funds.

Collections on current and past due support have been steadily increasing in Oklahoma over the past several years. This is partly due to new child support offices to work the cases and partly due to the Child Support Division contracting out the collection of some of it's harder to collect and older cases.



Source: OKDHS

Cost Effectiveness: The measure of cost effectiveness in this area is child support dollars collected and distributed vs. dollars spent to obtain those collections. Although Oklahoma's collections are steadily increasing, our system consistently ranks well below the national average on the cost effectiveness measure.



Source: ACF Child Support Enforcement

FFY-2002 is the most recent year for which comparable statistics are available. If Oklahoma had collected child support in FFY-2002 at the same rate as the national average, we would have collected \$213.5 million instead of \$143 million on behalf of the children to whom support is owed.

Our state's below average performance can be partly attributed to a formula setting child support amounts that were, on average, lower than most other states.

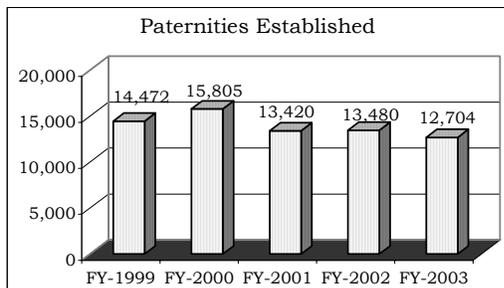
Another factor pulling our cost effectiveness ranking down (from 39 out of 54 states and territories in FFY-1998 to 47 out of 54 states and territories in FFY-2002) is the increased cost of developing a statewide child support data system. Even one-time expenditures count as administrative dollars in the cost effectiveness equation.

Of the states in our region, Oklahoma's cost effectiveness performance ranked higher than Arkansas, Kansas and New Mexico in FFY-2002. Colorado, Missouri, Louisiana and Texas had better cost effectiveness than Oklahoma in FFY-2002.

Emphasis on Fatherhood

Child support is not just about finding non-custodial parents and making sure they send a check each month to their children. Financial support is important, but finding more and better ways to foster positive and nurturing relationships between fathers and children is also important.

Tulsa now has a program called Parent Connections which is available as a resource to the Child Support program. Parent Connections provides on site mediation between parents if necessary. The program is voluntary and participation is free if either parent has an active case with CSED.



Source: OKDHS

Birthing Costs

Title 56 Section 238.6B of the Oklahoma Statutes requires payment of the cost of the birth to be part of child support orders. The Child Support Enforcement Division needs to start including birthing costs as a component of child support orders. Medicaid pays for almost half of all births in Oklahoma and including birthing costs in child support orders provides a way to reimburse Medicaid for these costs. Dollars collected for Medicaid paid births would be passed from Child Support Enforcement to the Health Care Authority and used as a funding source for Medicaid services. States such as Wisconsin, Michigan and Indiana all have successful programs for collecting birthing costs from non-custodial parents.

Savings Recommendations

- Settlement of the Hissom lawsuit and elimination of related legal costs would save approximately \$1.3 million, which was the FY-2003 actual expenditure.
- DHS projects savings of approximately \$900,000 from the creation of a second waiver in DDSD. These funds can be used to move DDSD clients off the HCBSW waiting list.
- Federal legislation resulted in an increased FMAP (Federal Medical Assistance Percentage). DHS will have partial FMAP in FY-2003 and all of FY-2004. DHS will be able to use these funds to offset reductions in carry-over used for operations from FY-2004 to FY-2005.
- The following table shows many of the most costly programs at DHS, which do not have federal matching dollars attached. The Governor encourages DHS to continue to find federal matching dollars for these programs.

FY-2005 Executive Budget

Significant Sources of 100% State Dollars	
Adoption Subsidies (Non Title IV-E)	\$ 13,583,504
Supported Living Services - Hissom Class Members	8,390,958
Nutrition and Social Services Overmatch	6,793,420
Foster Care (Non Title IV-E)	6,058,967
Sheltered Workshops	5,114,304
Group Homes	3,825,706
Community Integrated Employment	2,852,943
Adult Day Care	2,705,475
OCS Umbrella expenditures used to meet PSSF match	2,163,485
Commodity Warehouse / Distribution	2,005,464
Oklahoma Children's Services (Umbrella Contracts)	1,747,585
Non-Federal Medical - Dev. Disabilities	1,276,000
Non-Federal Medical - Child Welfare	1,013,078
Office Support Services - FMU Management A&E	729,004
Special Projects - Dev. Disabilities	647,922
Autism Residential	603,900
Assisted Living	598,410
Aging Services - Older American Volunteer Program	527,392
Homeless Program	343,929
Other	1,612,781
Total	\$ 62,594,227

FY-2005 Recommendation

FY-2005 Appropriation	
<i>(amounts in thousands)</i>	
FY-2004 Appropriation	\$387,456
FY-2004 Bud. FTE Level	7,438.7
Actual Ave. YTD FTE	7,463.1
Funding Adjustments:	
Child Care Subsidy Funding	15,000
Partnership for School Readiness	2,000
Total Adjustments	17,000
FY-2005 Recommendation	\$404,456
% Change for FY-2004	4.39%
Source: Office of State Finance	

The FY-2005 appropriation for the Department of Human Services is the same as provided for FY-2004 with the following adjustments.

Child Care Subsidy: A quality child care system is not only essential to a successful welfare-to-work program, the Abecedarian Project shows that quality child care in the first five years

of a child's life leads to improved academic performance and social skills.

Currently, state appropriated dollars comprise a very small part of the revenue source for this program. Of the total funding for this program in FY-02 and FY-03, state funds made up 8.5%.

A commitment of state funds to the child care program will not only benefit this program, but will prevent more drastic cuts in other DHS programs such as the ADvantage waiver, the Home and Community Based Services waiver and child welfare services.

DHS has been forced to use one-time TANF reserves to help fund the improved Child Care Subsidy program. However, these reserves are nearing depletion. TANF one-time reserves of \$28 million were used in FY-2003. In FY-2004, DHS is anticipating using approximately \$48 million in TANF reserves. The Governor's budget proposes \$15 million to help offset the use of TANF reserves.

DHS proposed increased co-pay rates and reduced eligibility in early FY-2004 as a way to fill the hole left by TANF reserve funding. At the urging of executive and legislative leadership, the Commission postponed this action until May 2004.

This budget also proposes redirecting \$5 million of TANF funds currently budgeted in FY-2005 for the following programs to the Child Care Subsidy Program:

Program	Recommended Reduction
Apprenticeship Program	\$3,000,000
Community Service	\$1,260,000
Individual Development Accounts	\$50,000
Fatherhood Initiatives	\$50,000
Assessment Services	\$200,000
TANF Energy Assistance Administration	\$290,000
Marriage Initiative	\$150,000
Total	\$5,000,000

With a total of \$20 million, (\$15 million state funding and \$5 million TANF redirected funds), DHS will still have to increase co-pay rates, but there will be no reduction in income eligibility through FY-2005. At this level of increased state funds co-pay rates for current and future participants can be held to manageable levels.

Examples of Current vs. Increased Co-Pay Rates			
	Monthly Inc.	Current Co-pay	Increased Co-pay (Eff. 5-1-04)
Family 1			
Single parent 1 child	\$851	\$6.00	\$25.00
Family 2			
Single parent 2 children	\$851	\$12.00	\$35.00
Family 3			
2 parents 1 child	\$1,726	\$146	\$209
Family 4			
2 parents 2 children	\$1,726	\$176	\$244

Source: OKDHS

Partnership for School Readiness:

The Governor's budget provides \$2 million for the Partnership for School Readiness. These funds will be matched dollar for dollar by private sector entities. The funds will be used for community grants, community training, public engagement and operating expenses.

Oklahoma Indian Affairs Commission

The Legislature created the Oklahoma Indian Affairs Commission (OIAC) in May 1967 to serve as the liaison between the tribal governments and Oklahoma government agencies. The Commission develops several publications and has a website that contains information regarding tribal government in Oklahoma.

Notable Achievements

- *One of three state Indian affairs offices in the nation spotlighted as a model agency for two consecutive years in the Models of Cooperation Between States and Tribes, a joint publication by the National Congress of American Indians and the National Conference of State Legislatures.*
- *The Oklahoma Indian Affairs Commission is the only state agency that annually surveys tribal governments for statistical and demographic information, including tribal population, jurisdiction, employment, services and economic impact with an average response rate of 95%.*

FY-2005 Recommendation

FY-2005 Appropriation	
<i>(amounts in thousands)</i>	
FY-2004 Appropriation	\$244
FY-2004 Bud. FTE Level	5.0
Actual Ave. YTD FTE	5.0
Funding Adjustments:	
None	<u>0</u>
FY-2005 Recommendation	\$244
% Change for FY-2004	0.00%
<small>Source: Office of State Finance</small>	

The FY-2005 appropriation for the Indian Affairs Commission is the same as provided for FY-2004.

J.D. McCarty Center for Children with Developmental Disabilities

The J.D. McCarty Center (JDMC) is a pediatric rehabilitation and habilitation facility that evaluates and treats Oklahoma's developmentally disabled children to enable them to reach their maximum potential.

The JDMC aims to become a nationally recognized provider of habilitation and rehabilitation services by utilizing new applications. JDMC's emphasis on telecommunications will enable the agency to reach a more general population, such as doctors' offices, clinics, kiosks in frequently traveled locations and the rapidly expanding population of web surfers.

Notable Achievements

- *With a change in contractors and an additional bond issue, the center's new facility was able to resume construction with an expected completion date of the end of FY-2004.*
- *Received a one-time settlement from Medicaid for successfully arguing a higher inpatient daily reimbursement rate for FFY-2002 and FFY-2003.*
- *While facing shortfalls in appropriation, the center was able to maintain full patient services without a reduction in force, furloughs of personnel or requests for supplemental appropriations.*

New Facility

In 1998, the Legislature authorized a \$10.3 million bond issue for the JD McCarty Center to replace the original facility built in 1950.

1998	\$10.3 million
2000	\$485,000
2003	\$3.5 million
Total	\$14.285 million

The new facility will be located in Norman next to the new Veterans' Center. A ground-breaking ceremony was held on January 22, 2001, with an original completion date of July, 2002. Due to construction issues and litigation, the new center is expected to open at the end of FY-2004.

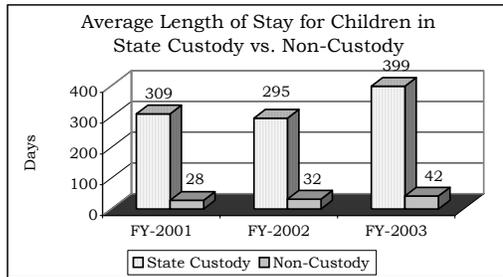
	Beds Budgeted	Beds Filled
FY-2001	20	22.44
FY-2002	20	19.13
FY-2003	20	20.26
New Facility	36	NA

SOURCE: J.D. McCarty Center

The larger facility, which will include group homes and independent living beds, will increase services for respite care, autistic and dually diagnosed clients. This new layout will also provide the JDMC the opportunity to reduce its waiting list and become self-sufficient and more cost effective, potentially saving the state appropriated funds and reducing the state match required for Medicaid funding.

Originally, the new facility included 5 group home settings. Due to more severe patient disabilities and increased staffing requirements, J.D. McCarty Center requested funds late in calendar year 2003 for an additional group home. Since an unusually large percent of JD McCarty's patients are eligible for Medicaid, the Center was able to get an increased Medicaid reimbursement rate for FY-2002 and FY-2003. They are utilizing these funds to build a sixth group home.

In recent years, the JDMC has seen an increase in the number of children that come to their facility in the custody of the state. JDMC is also seeing an increase in children with behavioral problems and more severe diagnoses. This has led to an increase in the average length of stay for children in the hospital.



Source: JD McCarty Center

\$000's	FY-01	FY-02	FY-03
Total Exp.s	\$6,670	\$7,602	\$7,483
Appropriation	\$2,070	\$2,984	\$2,755
Medicaid	\$3,655	\$4,194	\$3,721

SOURCE: J.D. McCarty Center and OSF

FY-2005 Recommendation

FY-2005 Appropriation	
<i>(amounts in thousands)</i>	
FY-2004 Appropriation	\$2,458
FY-2004 Bud. FTE Level	144.3
Actual Ave. YTD FTE	136.0
Funding Adjustments:	
Change in Debt Service	<u>288</u>
FY-2005 Recommendation	\$2,746
% Change for FY-2004	11.72%

Source: Office of State Finance

The FY-2005 appropriation for the J.D. McCarty Center is the same as provided for FY-2004 with the following adjustment.

Change in Debt Service: The Governor's budget includes \$288,000 for an anticipated increase in FY-2005 debt service obligations.

Office of Juvenile Affairs

In 1994, the Oklahoma Juvenile Reform Act (HB 2640) created the Office of Juvenile Affairs (OJA) as the state juvenile justice agency effective July 1, 1995. Previously, the Department of Human Services (DHS) provided services for Oklahoma's youth adjudicated delinquent or youth in-need-of-supervision.

The mission of OJA is to promote public safety and reduce juvenile delinquency by providing professional prevention, education, and treatment services, as well as secure facilities for juveniles.

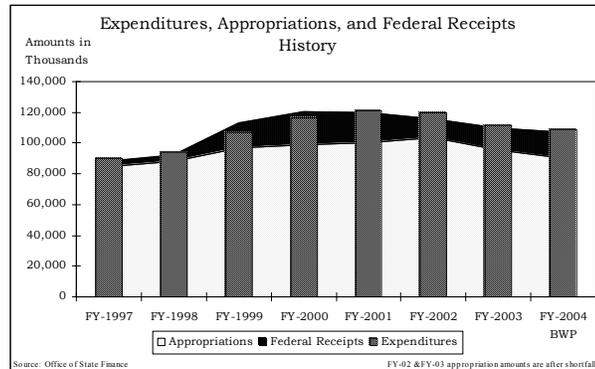
OJA manages these functions through five main programs: juvenile justice and delinquency prevention, residential, nonresidential, juvenile accountability incentive block grant and community based youth services.

The Office of Juvenile Affairs:

- serves as the state planning and coordinating agency for statewide juvenile justice and delinquency prevention services;
- preserves and strengthens family ties whenever possible, including improvement of the home environment;
- provides court intake, probation and parole for delinquent youth;
- removes a juvenile from the custody of parents if the safety of the juvenile or the protection of the public would otherwise be endangered;
- provides treatment, care, guidance and discipline to any adjudicated juvenile removed from the custody of parents to assist the juvenile in becoming a responsible and productive member of society; and

- provides a system for the rehabilitation and reintegration of juvenile delinquents into society.

OJA is one of the 11 largest state agencies. The agency's FY-2004 appropriation is 1.76% of the total state appropriated budget. The following chart provides a history of OJA's appropriations since FY-1997.



Notable Achievements

Below is a list of some of the major accomplishments OJA has achieved since its inception:

- *OJA initiated a graduated sanctions program that seeks to deter juveniles who have committed minor offenses by using local voluntary councils to hear the juveniles' cases and decide the most appropriate consequences. Only 12.5% of clients served in 2002 reoffended.*
- *OJA initiated the Rader Substance Abuse Treatment Program, a 12-bed federally funded substance abuse treatment program for adolescent males. The University of Cincinnati independently rated this program as being in the top 20% of such programs nationally.*
- *The Mental Health Stabilization Unit is a 14-bed crisis intervention unit for males located at the L.E. Rader Center. The unit can provide mental health stabilization for juveniles throughout OJA and fills a significant gap in the system for*

mental health facilities willing to admit delinquent youth.

- *The Casework Excellence Initiative is an effort to bring research-based and “state of the art” juvenile justice processes and programs to Oklahoma. This multi-year initiative has already contributed to the development of a strategic plan and the training for staff on the Youthful Level of Service Inventory, a research-based risk assessment that will better identify high-risk youth.*
- *Since 1994, OJA added a net total, after budget cuts, of 152 beds to the juvenile justice system.*
- *Overall recidivism rates for residential services declined from about 30% to about 25% between FY-1996 and FY-2002.*
- *While a majority (63.4%) of individuals sentenced to the Oklahoma Department of Corrections (DOC) have been juvenile offenders, only 4.9% were served by Oklahoma’s juvenile justice system.*
- *OJA reformed statutes to allow the waiving of violent offenders to the adult system and the bridging of youthful offenders from the juvenile system to the adult system upon reaching age 18, if judicially directed.*
- *OJA implemented one of the most comprehensive computerized juvenile information systems in the nation.*
- *OJA instituted the first Community Intervention Centers in the State to ensure consequences for early offenders.*

Terry D. v. Rader: In January 1978, the class-action lawsuit Terry D. v. Rader was filed in Federal Court, alleging abusive practices,

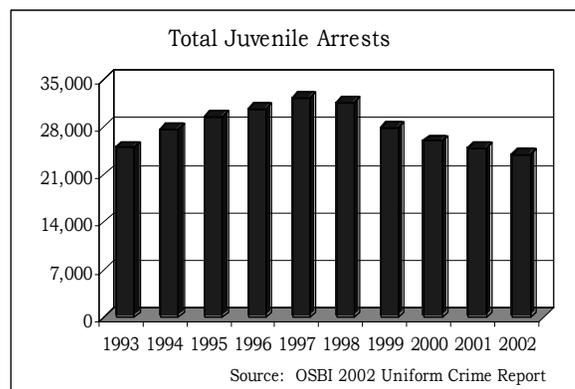
unconstitutional use of isolation and restraints, the absence of adequately trained staff, and the mixing of offenders with non-offenders. The suit was a successful challenge to the number of youth in State custody and resulted in DHS closing a number of public institutions and implementing a variety of community-based programs for children and youth.

Subsequent to the creation of OJA, an Amended Court Plan of Implementation was filed with the court that detailed OJA’s responsibilities in the operation of the juvenile justice system. In 1996, OJA was able to meet Federal Court requirements for the dismissal of the lawsuit. OJA has remained in substantial compliance during the six years since the lawsuit was dismissed.

System Placement

Placement Demand: Two key factors contribute to the overall juvenile justice system placement demand: the total juvenile arrest rate and the number of out-of-home placement admissions.

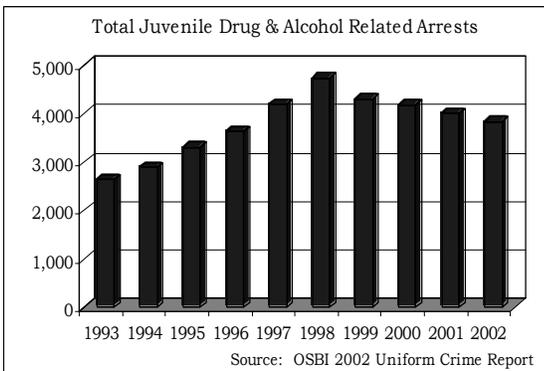
According to data from the Oklahoma State Bureau of Investigation (OSBI) 2002 Uniform Crime Report, total juvenile arrests dropped in 2002 by 3.7%. The following chart shows a ten-year history of juvenile arrests.



In this chart, the word “arrest” refers to the police handling of all juveniles who have been accused of committing a

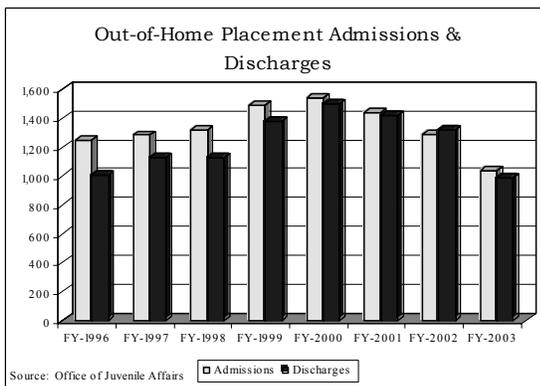
crime and are taken into custody when, under the same circumstances, the crime would warrant the arrest of an adult. Police “contacts” with juveniles do not count as arrests when no offense has been committed. Instances where juveniles are taken into custody for their own protection and not because the juvenile has committed a crime, such as neglect cases, are not listed as arrests.

The next chart provides a ten-year history of the total juvenile drug and alcohol related arrests:



These figures illustrate Oklahoma's demand for substance abuse services in the juvenile justice system.

The following chart provides a comparison of the out-of-home placement admissions and discharges since FY-1996. From FY-1996 to FY-2001, admissions were greater than discharges.

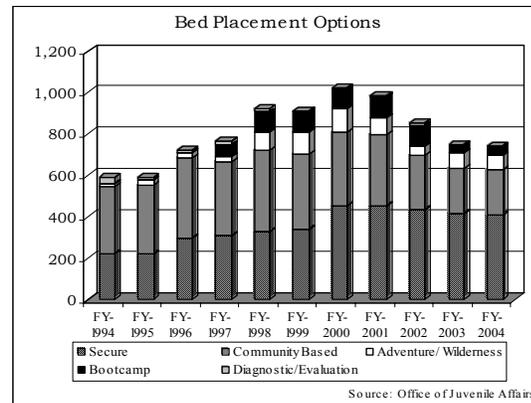


To address the placement demand each year, OJA determines the security level each juvenile requires and matches the juvenile with the next available bed placement option at that level.

Bed Placement Options: Since FY-1994, OJA has increased the number of beds in the juvenile system. These additional beds have allowed OJA to remove violent offenders from the street and reduce the number of juveniles awaiting placement. The number of beds peaked in FY-2000 and has since declined due to budget cuts. The following chart provides a breakdown of the available beds by type.

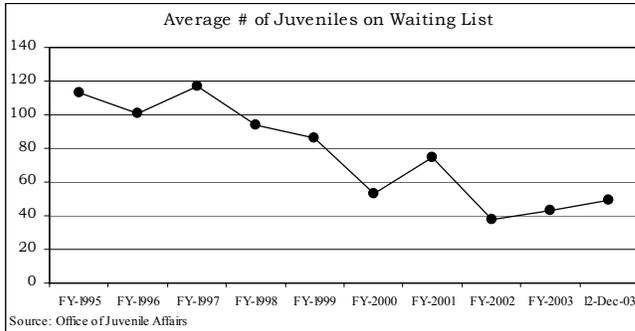
	Secure	Community Based	Adventure/Wilderness	Bootcamp	Diagnostic/Evaluation	Total
FY-1994	224	325	12	0	27	588
FY-1995	224	328	24	0	16	592
FY-1996	294	391	24	0	16	725
FY-1997	309	357	24	60	16	766
FY-1998	325	398	84	100	16	923
FY-1999	338	365	108	100	0	911
FY-2000	451	361	108	100	0	1,020
FY-2001	455	343	78	100	12	988
FY-2002	436	259	48	100	12	855
FY-2003	418	219	73	40	0	750
FY-2004	409	218	73	40	0	740

Source: Office of Juvenile Affairs



Placement Waiting List: The following graph illustrates the change in the average number of juveniles awaiting placement over the past eight years. As of December 12, 2003, the waiting list consisted of 49 youths.

FY-2005 Executive Budget



OJA has successfully reduced the number of juveniles awaiting placement over the last few years. With continued monitoring, OJA should maintain a reduced list since accountability follow-up programs are beginning to help reduce recidivism.

Secure Bed Costs: The FY-2003 average per diem bed cost at the state-operated facilities was \$195.73. During FY-2003, OJA made several reductions to reduce these high per diem costs at the state facilities. OJA canceled a contract for a medium secure facility in Union City and relocated 80 juveniles into OJA operated institutions. The annualized savings from canceling this contract is \$3.8 million. OJA also estimates annualized savings of \$1.8 million from the reduction-in-force of 56 employees from the three state-operated secure institutions. The table below provides the per diem bed cost at each facility.

Facility	FY-00	FY-01	FY-02	FY-03	FY-04 BWP
SOJC	\$177.90	\$188.65	\$216.28	\$218.52	\$216.12
COJC	208.91	225.08	240.97	199.72	185.71
LERC	191.81	196.81	216.60	184.36	176.85
UCJC (private)	117.03	128.04	129.78		

Source: Office of Juvenile Affairs

*The contract for operation of the medium secure facility expired on December 2, 2002.
 ** Daily cost per bed is based on the number of beds utilized and does not reflect any indirect costs.

Nonresidential Services: The Juvenile Services Unit (JSU) provides intake, probation and parole services to juveniles in all 77 counties, except those with Juvenile Bureaus. Juvenile Bureaus, located in Comanche,

Oklahoma, and Tulsa counties, perform intake and probation functions. In those counties, JSU staff provide parole services. Contracted service programs assist the local staff, or Juvenile Justice Specialists, in developing an individualized service plan for each juvenile and family. OJA provides a full continuum of services to encourage positive, law-abiding behavior and balances those services with public safety.

JSU staff also take an active role in their communities to develop a system of graduated sanctions to address juvenile problems at an early stage. The Graduated Sanctions Program is a community-based initiative that provides accountability and facilitates services for non-compliant youth. The goal is to prevent further penetration of lesser offending youth into the juvenile justice system. OJA permits flexibility in the decisions that local community residents make regarding youth within their community. Currently, 47 communities have a Graduated Sanctions Program.

OJA also contracts for special services developed for first time juvenile offenders and offenders' families, such as the First Offender Program. Other contracted services are available to youth before involvement with juvenile court as determined by the level of risk for offending and the availability of funding.

Youthful Offender

HB 2640 created the Youthful Offender Act to ensure public safety and hold adolescents ages 13 through 17 accountable for the commission of serious crimes. Implementation of this essential reform tool began on January 1, 1998.

The Act allows courts the discretion to place youthful offenders in the custody or under the supervision of OJA if the court determines that rehabilitation is appropriate. Upon good conduct and

successful completion of OJA’s program, the court can discharge the sentence and the youthful offender can avoid conviction for a crime

This Act also establishes a bridge between OJA and the Department of Corrections (DOC) for youthful offenders. Previously, when a youth in OJA’s custody reached 18 years of age, the court would have to discharge the youth. Now, if a youth is sentenced as a youthful offender and placed in the custody or under the supervision of OJA, the court can discharge the youth or transfer custody to DOC when the youthful offender reaches 18 years of age. The court can also hold periodic review hearings, at its discretion, to determine the status of a youthful offender prior to the youth reaching 18 years of age.

The following chart provides a breakdown of the youthful offenders processed during FY-2003. Of the 97 remanded to the custody of OJA, 86 (88.7%) were placed in secure institutions.

FY-2003 Youthful Offenders	
2	Sentenced as adults & transferred to DOC
10	Remanded to OJA supervision
<u>97</u>	Remanded to OJA custody
109	Total Youthful Offenders Processed

Source: Office of Juvenile Affairs

Federal Funds

Over the past few years, OJA has identified other revenue sources to enhance its state appropriations. This additional revenue has helped OJA expand the services used to meet the needs of its juvenile delinquent population and to reduce recidivism.

Several federal grants provide additional funding to support OJA's

services. Grants received include the Juvenile Accountability Incentive Block Grant, the Juvenile Justice and Delinquency Prevention Formula Grant, Title V, and Challenge Grants.

Through initiatives that began during the 1990's, OJA looked for ways to maximize Medicaid funding for the services provided to its juveniles. These funds come through reimbursement for targeted case management (TCM) and residential behavior management services (RBMS) to a portion of the agency's juveniles who are outside its secure facilities. For FY-2004, the agency budgeted \$16.9 million in federal revenue to fund a portion of its operating expenses.

Since OJA was one of the first juvenile justice agencies to pursue Medicaid funds for juvenile delinquents, both the Oklahoma Health Care Authority (OHCA) and the Centers for Medicare and Medicaid Services (CMS) monitored this process closely. As a result of an audit conducted in FY-2001, OJA adjusted its cost allocation formula and the rate used for TCM reimbursements, in addition to repaying \$2.05 million of Medicaid funds received. OJA’s Medicaid revenue was further impacted when the regional CMS office clarified which juveniles are eligible for Medicaid reimbursed services.

FY-2005 Recommendation

FY-2005 Appropriation	
<i>(amounts in thousands)</i>	
FY-2004 Appropriation	\$90,000
FY-2004 Bud. FTE Level	1,026.4
Actual Ave. YTD FTE	989.8
Funding Adjustments:	
Community Compliance Program	<u>570</u>
FY-2005 Recommendation	\$90,570
% Change for FY-2004	0.63%

Source: Office of State Finance

The FY-2005 recommended appropriation for OJA is the same as the reduced FY-2004 level, with the following adjustment.

Community Compliance Program

(CCP): Funding for STARS, the Tracking Program provided by the Oklahoma Military Department, was eliminated during the 2003 Legislative Session. OJA replaced the tracking services of juveniles supervised in the community by developing the CCP Program. The Governor's budget recommends replacing \$570,000 of one-time funds used for this program.

With this program, OJA tracks juveniles leaving institutions or on passes and, to a lesser extent, those leaving community-based placements such as Level E Group Homes. OJA contracts with individuals to verify the juvenile's pre-set schedule with daily face-to-face and phone contact. OJA currently has contracts with 63 individuals and the capacity to track about 80 youth at any one time. Since developing the program this year, the agency has served 185 youth with face-to-face tracking and another 23 youth using Global Positioning Systems (GPS).

There are three levels of tracking, provided for a total of no more than 90 days. Level 1 is used as a step-down from higher levels of tracking and involves one face-to-face and one phone contact daily. Level 2 is the most commonly used level and involves two face-to-face and two phone contacts daily. Level three is used on a limited basis for the most serious cases and involves three face-to-face and three phone contacts per day.

Physician Manpower Training Commission

The Legislature created the Physician Manpower Training Commission (PMTTC) in 1975 to enhance medical care in rural and underserved areas of the state through the following programs:

- Oklahoma Intern/Resident Cost-Sharing;
- Community Match Rural Scholarship Incentive Program;
 - Rural Medical Education Scholarship Loan
 - Family Practice Resident Rural Scholarship
 - Physician/Community Match Loan
 - Physician Placement
- State Loan Repayment Program; and
- Nursing Student Assistance Program.

There are no other programs like this one in any other state.

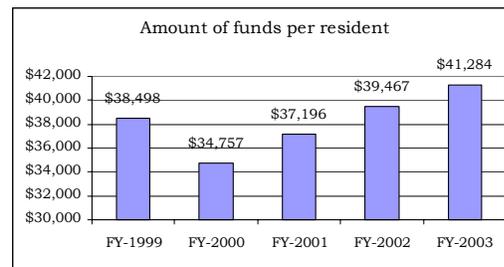
Notable Achievements

- *“The 25 Year History of the PMTTC” was a study released this year detailing how successful they have been over the past 25 years. The study charts the growth of physicians and nurses placed in rural Oklahoma and the positive impact to the economics of the rural communities.*
- *Most nursing students report that they could not have made it through nursing school without the assistance that the Nursing program provides. Approximately 250 nurses are successfully trained partially due to the program each year.*

- *Oklahoma will now have \$100,000 of federal funds each year for the next two years to help place providers. In exchange for funding, providers will work in designated Health Professional Shortage Areas.*
- *The PMTC, through the Family Practice Resident Rural Scholarship Program, placed a physician in Cheyenne, Oklahoma population 778. This allowed a long time public servant to retire.*

Oklahoma Intern/Resident Cost Sharing

The Physician Manpower Training Commission administers a cost-sharing program to fund Family Practice residents’ salaries at the University of Oklahoma Health Sciences Center and the Oklahoma State University College of Osteopathic Medicine.

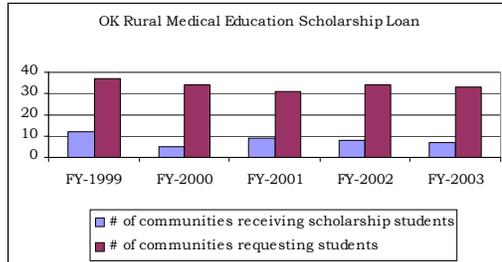


Training for Family Practice residents takes place in Oklahoma City, Tulsa, Enid, Ramona, Lawton and Durant. Statistics show that primary care residents trained in Oklahoma will more likely establish a medical practice in Oklahoma.

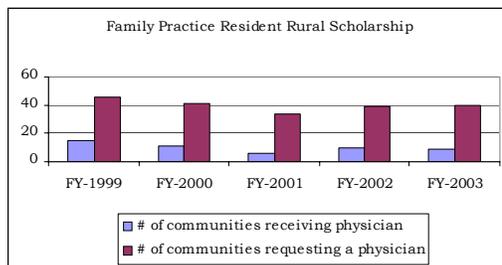
Community Match Rural Scholarship Incentive Programs

Rural Medical Education Scholarship Loan A loan program where medical or osteopathic students contract to practice in a rural community of 7,500 or less population when their training is completed. A student can receive up

to \$42,000 over a four year period with a payback of practicing in a rural community one year for each year of financial assistance. Since 1975, 359 students have participated in the program.



Family Practice Resident Rural Scholarship This scholarship program is for residents in Accredited Oklahoma Family Practice Programs. Each participating resident receives \$1,000 per month (up to 36 months) with a month for month practice obligation in an underserved community upon completion of residency training. Since 1992, 65 recipients have completed training and are fulfilling obligations.



Physician/Community Match Loan A rural Oklahoma community may provide loans matched by PMTC to any qualified primary care physician to assist in establishing a full-time medical practice. The physician repays the loan by practicing medicine in that community. Since 1989, 128 physicians have been placed.

Physician Placement The PMTC administers a professional placement service for physicians and communities. Three times a year, an updated list of community practice opportunities in Oklahoma is available for distribution. Approximately 62

communities were seeking physicians in 2003.

State Loan Repayment Program

The State Loan Repayment Program (SLRP) is a federal grant sponsored by the Department of Health and Human Services (DHHS). Funds from the grant are offered to qualified health and medical providers in order to pay off legitimate education debt. Funds from DHHS are matched with state (PMTC) and local funds. Individuals receiving the grant must work in a federally designated Health Professional Shortage Area (HPSA). Recipients must participate a minimum of two years, and can receive the funds for up to four years. Contracts are between the individual provider and the PMTC.

Nursing Student Assistance Program

A program established in 1982 to provide financial assistance to Oklahoma nursing students pursuing LPN, AND, BSN or MSN degrees. The scholarship Loan is repaid by working as a nurse in Oklahoma, with an emphasis on rural communities. There are two programs:

- Matching scholarship assistance provided by PMTC and matched by a community or institution which in return receives the services of the nurse upon graduation; and
- Non-matching scholarship assistance is provided solely by PMTC.

Since its inception in 1982 there have been 3,266 participants.

Summary

These programs provide approximately 30 physicians each year to Oklahoma communities with an estimated economic impact between \$8.75 million and \$10.5 million annually. A physician establishing practice in a

rural Oklahoma community generates 25 jobs and approx \$700,000 of income annually. Physicians are vital to the economic health of small Oklahoma communities.

FY-2005 Recommendation

<i>FY-2005 Appropriation</i>	
<i>(amounts in thousands)</i>	
FY-2004 Appropriation	\$5,018
FY-2004 Bud. FTE Level	6.0
Actual Avg. YTD FTE	6.0
Funding Adjustments:	
None	0
FY-2005 Recommendation	\$5,018
% Change for FY-2004	0.00%

Source: Office of State Finance

The FY-2005 appropriation for the Physician Manpower Training Commission is the same as provided for FY-2004.

Department of Rehabilitation Services

The Department of Rehabilitation Services (DRS) provides vocational, education and independent-living services to individuals with a wide range of disabilities. A Commission composed of three members governs the DRS. The Governor, Speaker of the House of Representatives and the President Pro Tempore of the Senate appoint one member each.

The agency administers four main programs:

- Vocational Rehabilitation and Visual Services Division
- Oklahoma School for the Blind
- Oklahoma School for the Deaf
- Disability Determination Division

Notable Achievements

- *DRS initiated the following cost-cutting measures in FY-2003 and FY-2004 in order to serve disabled clients: consolidated satellite offices, eliminated 80 positions and cancelled over \$3 million in contracts. Because of these efforts, DRS began serving 1,820 additional applicants in December 2003 with severe disabilities who had been on a waiting list for vocational rehabilitation services since June 30.*
- *The Chicago International Film Festival awarded the Oklahoma School for the Deaf a silver plaque in October 2003 for a videotape OSD designed to help parents with deaf children select an effective communication style.*
- *In June 2003, two Oklahoma students placed among the top ten finalists in the nation's most prestigious Braille skills competition, the Braille Institute's National Braille Challenge Invitational.*
- *DRS was selected as a national Exceptional Partner of the Year*

finalist at the U.S. Business Leadership Network's 2003 annual meeting in San Francisco.

- *The Social Security Administration recognized the Disability Determination Division as one of the highest producing disability determination agencies in the nation in FFY-2002. DDD raised its production rate to 304.5 cases per employee year, the highest in the region and eighth highest in the nation.*
- *In October 2003, Physical Education teacher Karen Allen from the Oklahoma School for the Blind became the first Oklahoman to earn national recognition as Outstanding Teacher of Students who are Blind and Multiply Disabled.*
- *Oklahoma School for the Blind graduate Cindy Coffin of Muskogee won first place awards in the 10,000 meter and 3.1 mile run at the 2003 Special Olympics World Summer Games in Dublin, Ireland. Cindy Coffin is legally blind and has cognitive disabilities.*

Vocational Rehabilitation and Visual Services Division

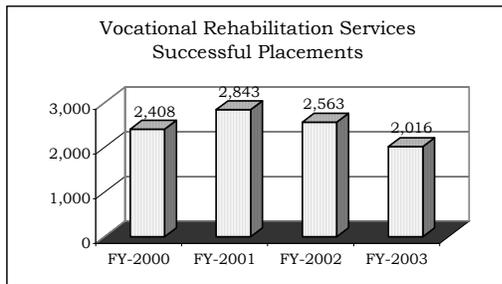
The Vocational Rehabilitation and Visual Services (RVS) division of DRS administers the federal vocation rehabilitation program for the agency and assists Oklahomans with disabilities through vocational rehabilitation, education, employment services and independent living programs. Once a client is determined eligible for RVS services, he or she is placed into one of four priority groups according to the severity of his or her disability and in accordance with guidelines in the federal Rehabilitation Act.

The priority groups are determined by the severity of the disability with priority group one being the most severe. During FY-2003, DRS closed

all priority groups to new clients due to funding shortfalls. DRS opened the most severe priority group in early FY-2004. They were also able to open the second most severe priority group in December 2003 allowing DRS to begin serving an additional 1,820 clients.



Source: OKDRS



Source: OKDRS

DRS counts a case as successful once the client has been involved in integrated employment for more than 90 days. At an average cost per client of \$4,088, successfully placed clients received the benefit of earning an average paycheck of \$16,752 per year in FY-2003.

Accessibility and Caseload The Vocational Rehabilitation and Visual Services Division operates satellite offices across the state. The various locations allow for better access to DRS services. To save money and improve cost-efficiency, DRS consolidated 9 offices across the state in FY-2003 while still maintaining services. DRS will continue to evaluate offices across the state for consolidation.

The total active caseload for RVS offices in FY-2003 was 33,483, which is down

slightly from the FY-2002 active case total of 33,925.

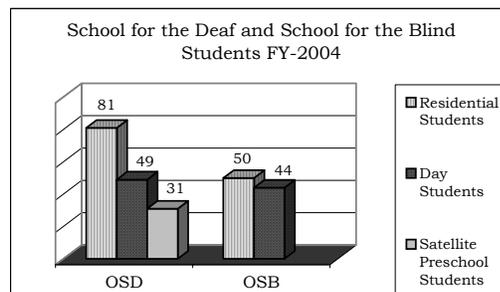
School for the Deaf and School for the Blind

The Oklahoma School for the Deaf and Oklahoma School for the Blind provide residential and day education programs for children who have a primary disability of either blindness or deafness. A comprehensive curriculum of reading, language arts, mathematics, social studies, science, physical education and computer-science serves children through the 12th grade.

The School for the Blind (OSB) in Muskogee provides special instruction in braille, orientation and mobility, low vision aids and adaptive technology.

The School for the Deaf (OSD) in Sulphur provides sign language classes and adaptive technology.

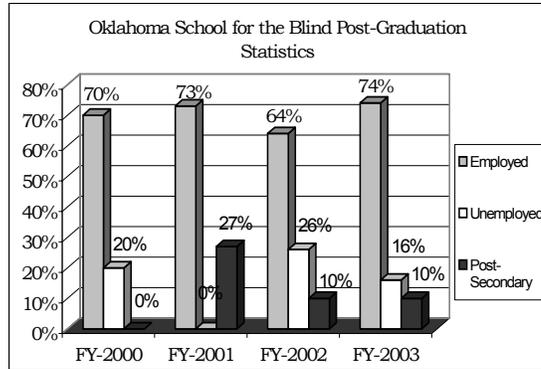
Nationwide, 47 states and the District of Columbia have schools for the deaf; 42 states and the District of Columbia have schools for the blind.



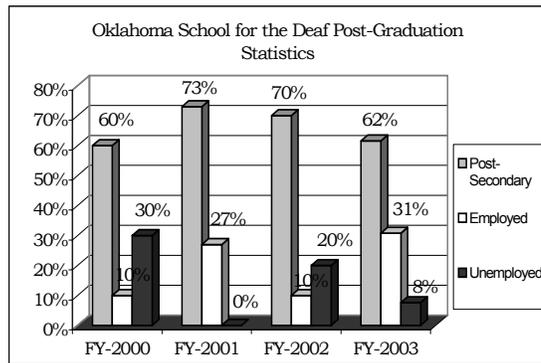
Source: OKDRS

Both schools are resource centers in the state for services to children who are blind, deaf, or hard of hearing. OSD and OSB offer outreach services to these students in other public schools throughout the state. Both schools also provide specialized training and summer programs for parents and special education teachers.

FY-2005 Executive Budget



Source: OKDRS



Source: OKDRS

	OSB	OSD
FY-2004 Budget (000's)	\$6,029	\$7,659
FTE	109.0	139.5
No. of Teachers	23	31
No. of Students	94	161
Cost per Student (000's)	\$64	\$48
Students per Teacher	4.1	5.2

Disability Determination Division

The Disability Determination Division makes medical eligibility determinations for Oklahomans applying for Supplemental Security Income disability or Social Security Disability benefits. Federal dollars fully fund this program.

FY-2005 Recommendation

FY-2005 Appropriation <i>(amounts in thousands)</i>	
FY-2004 Appropriation	\$24,750
FY-2004 Bud. FTE Level	923.5
Actual Ave. YTD FTE	832.1
Funding Adjustments:	
Change in Debt Service	<u>273</u>
FY-2005 Recommendation	\$25,023
% Change for FY-2004	1.10%
Source: Office of State Finance	

The FY-2005 appropriation for the Department of Rehabilitation Services is the same as provided for FY-2004 with the following adjustment.

Change in Debt Service: The Governor's budget includes \$273,000 for an anticipated increase in FY-2005 debt service obligations.

University Hospitals Authority and Trust

Brief History In early 1998, the University Hospitals Authority entered into a Joint Operating Agreement (JOA) with HCA Health Services of Oklahoma, Inc., a subsidiary of Columbia Corporation. The agreement completed the largest and most comprehensive privatization in Oklahoma, consisting of a long-term lease between the University Hospitals Trust and HCA Health Services of Oklahoma, Inc. to lease, manage and operate the University Hospitals.

This historic partnership combined University Hospital, Children's Hospital of Oklahoma, O'Donoghue Rehabilitation Institute and Presbyterian Hospital to form what is now called OU Medical Center. This name represents the association of the hospitals with the University of Oklahoma Health Sciences Center medical schools. The OU Medical Center hospitals serve as teaching hospitals for the medical schools.

Current Role of the Authority

The Authority, in conjunction with the University Hospital Trust, is responsible for monitoring the JOA and making yearly financial reports to the Governor and the Legislature. The mission of the Authority is to be a catalyst for medical excellence, to support medical education, clinical research and to assure the best care available to all Oklahoma citizens regardless of means, while growing essential alliances and maximizing utilization of State and Federal resources.

Notable Achievements

Pretax Earnings Distributions as per the Joint Operating Agreement
The terms of the Joint Operating Agreement specify that, each calendar

year, the University Hospital Trust receives the first \$9 million of pretax earnings of the hospitals encompassed in the agreement.

Over the course of the agreement, approximately \$54 million in pretax preference payments have been made to the University Hospital Trust. The Trust uses these funds to fulfill its mission to support medical education and clinical research.

Investment in medical technology, equipment and medical facilities
To date, the University Hospitals Authority and Trust and HCA Health Services of Oklahoma, Inc. have combined investments of over \$110 million on the Oklahoma Health Sciences Campus to ensure the latest in technology and facilities design for the citizens of Oklahoma.

Indigent Care Expenditures

The OU Medical Center Hospitals provide care to indigent persons equaling at least 120% of the state's appropriation for indigent care. In the event that audited costs of indigent care go above 150% of the appropriation, the Governing Board of the JOA can seek an increase in the appropriation from the Legislature and/or reduce services to indigents. Indigent care means medical care provided to individuals who do not have insurance and cannot pay for the cost of the care they receive.

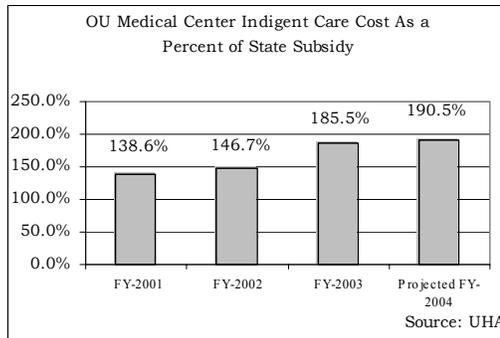
The base appropriation for Indigent Care was \$26.8 million at the beginning of the JOA. The appropriation is made to the University Hospitals Authority, which in turn contracts with OU Medical Center for provision of indigent care. In FY-2000, the calculated cost of indigent care incurred by the hospitals exceeded 150% of the state subsidy. In response, the Legislature increased the appropriation for indigent care by \$2 million to a total of \$28.6 million. The

formula for determining the cost of indigent care was also reviewed for possible changes.

During FY-2002, the Joint Governing Committee of the JOA adopted changes to the calculation of the total cost of indigent care. These revisions simplify the indigent care calculation and take into account Graduate Medical Education payments received by the hospitals as an offset to costs. Other cost offsets include Disproportionate Share Hospital (DSH) payments under the State Medicaid Plan and payments made by self-pay hospital patients.

FY-2003 and FY-2004 Indigent Care Percentage Rises Above 150%

Revenue shortfalls combined with increased uncompensated care resulted in indigent care costs again rising above 150% of the indigent care subsidy. Current projections for FY-2004 show that costs could rise above 190% of the state subsidy.



Trauma Care Crisis Related to Indigent Care

In November, 2003, OU Medical Center announced that as of December 31, it was closing the State's only remaining Level I Trauma Center because the hospital was losing too much money to continue its operations. This announcement was greeted with serious concern by the Governor, the Board of Health, the Legislature, other hospitals in the state and the business community.

In mid-December, the combined efforts of the Governor, legislative leaders, the

State Health Department, the OU Medical Center and the OU College of Medicine led to an announcement that the facility would remain open through June, 2004. Work toward the solution includes an acknowledgment that current funding for uncompensated trauma care is inadequate. Discussions are currently continuing toward crafting a comprehensive initiative which allows Oklahoma to sustain a high-quality, statewide trauma care system that includes a Level I Trauma Center.

Comprehensive trauma system development includes hospital and ambulance licensing regulations promulgated by the Board of Health. The first set of these regulations were approved by Governor Henry on January 12, 2004. Other system components including statutory changes, additional rules and provision of funding for uncompensated trauma care will unfold in the coming months.

The comprehensive trauma care system design will contain at least the following components:

- Pre-hospital transfer protocols which clarify that patients are transported to the nearest hospital specified to handle their level of injury;
- Regional plans for community or regional on-call systems which ensure that physician coverage is maintained and 24-hour emergency care is available;
- Reciprocal patient transfer agreements with hospitals capable of providing major trauma care;
- Agreements will include provisions for transferring patients back to the originating hospital when it is medically appropriate to do so;
- Trauma referral centers which coordinate trauma care for all

ambulance services and first response agencies within regions and facilitate trauma patient transfers into the region; and

- Adequate funding for uncompensated trauma care.

FY-2004 Supplemental

FY-2004 Supplemental <i>(amounts in thousands)</i>	
FY-2004 Appropriation	\$34,599
FY-2004 Bud. FTE Level	4.0
Actual Ave. YTD FTE	4.0
Funding Adjustments:	
Increase State Supplement for Indigent Care/Trauma Care	2,100
Total Adjustments	2,100
FY-2004 w/Supplemental	\$36,699
% Change for FY-2004 orig.	6.07%
<small>Source: Office of State Finance</small>	

Uncompensated Trauma Care as a part of Indigent Care: As part of the state’s effort to ensure the continued availability of a Level I Trauma Center, the Governor’s budget proposes this supplemental appropriation is to address the portion of the indigent care cost at OU Medical Center which can be attributed to uncompensated trauma care. Consequently, it also serves to lower the percentage by which indigent care costs are above 150% of the state supplement.

Due to the recent availability of hospital disproportionate share funds through Medicaid, UHA can transfer approximately \$758,000 of this \$2.1 million to the Health Care Authority to be used as the state match to capture an additional \$2 million in Medicaid payments prior to the end of FY-2004.

FY-2005 Appropriation

FY-2005 Appropriation <i>(amounts in thousands)</i>	
FY-2004 Appropriation	\$34,599
FY-2004 Bud. FTE Level	4.0
Actual Ave. YTD FTE	4.0
Funding Adjustments:	
Increased debt service	156
Increase State Supplement for Indigent Care	3,500
Total Adjustments	3,656
FY-2005 Recommendation	\$38,255
% Change for FY-2004	10.57%
<small>Source: Office of State Finance</small>	

Increased Debt Service: The Governor’s budget includes \$155,800 for an anticipated increase in FY-2005 debt service obligations.

Increase the State Supplement for Indigent Care: The Governor’s budget provides a total increase in the state subsidy of \$5.6 million when the FY-2004 supplemental appropriation for trauma care and the FY-2005 increase are combined. These additions to the state subsidy along with Medicaid revenue from the increased cap for disproportionate share hospitals will reduce the indigent care cost to OU Medical Center to within 150% of the state subsidy.

Adjust the Indigent Care Calculation: The Governor’s budget recommends that the Base Presbyterian Charity amount of \$6.8 million is automatically adjusted upwards by the same percentage increase as the state subsidy amount. Adjusting this amount when the state subsidy is adjusted keeps the relative proportions of indigent care contributions in line with the original intent of the Joint Operating Agreement.

Military Affairs

Summary of FY-2005 Budget Recommendations

(amounts are in \$000's)

Agency Name	FY-2004 Adj. Approp.	FY-2005 Base	FY-2005 Adj.	Final FY- 2005 Approp.	% Diff. From FY- 2004
Military Department	\$7,021	\$7,021	\$800	\$7,821	11.4%
Total Military Affairs:	\$7,021	\$7,021	\$800	\$7,821	11.4%

Oklahoma Military Department

The Oklahoma Military Department's (OMD) mission is to preserve the state and the nation through the organization and training of the Oklahoma National Guard. To that end, OMD is committed to providing adequate training facilities for the Oklahoma National Guard (OKNG)

OMD also continues to serve Oklahoma's at-risk youth with programs, which instill self-esteem and discipline in our young people.

Notable Achievements

- *Approximately 2,272 members of the OKNG are currently serving their country proudly on active duty.*
- *The National Guard Bureau (NGB) recognized the Thunderbird Youth Academy as the top Youth Challenge program in the nation. Furthermore, NGB rated the program's education curriculum as being the second best one in the country.*

Armory Maintenance

The State of Oklahoma is responsible for providing maintenance and repairs for the State's 80 armories. Lack of funding for maintenance has prevented OMD from making needed repairs to aged roofing, electrical wiring, plumbing and lighting. The Legislature partially addressed these infrastructure needs in the 2001 session with an appropriation of \$3.8 million, but much more maintenance is required.

Transfer Armories to Cities and Towns

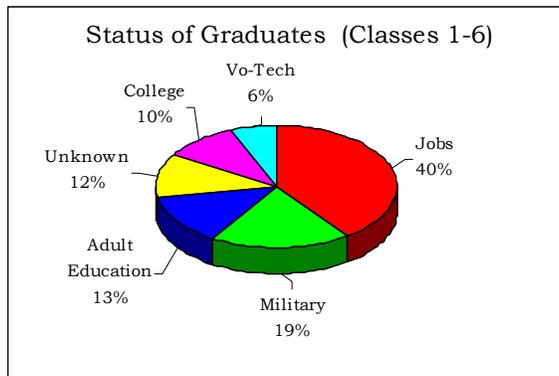
OMD has identified several armories that serve no strategic purpose and

their ongoing maintenance is a liability to the state. State leaders should allow OMD to transfer these armories to local communities. Communities could use the facilities for many purposes such as classrooms, government offices, special event facilities or community centers.

Allowing armory transfers will enable OMD to re-allocate more funds to protecting citizens or increasing youth programs.

Thunderbird Youth Academy

The agency seeks to meet the challenge of reforming at-risk youth in Oklahoma. Beginning in FY-1992, the Thunderbird Youth Academy (TYA) started holding two 22-week sessions per calendar year. The voluntary program utilizes a "quasi-military" approach to teach self-discipline, improve self-esteem and physical fitness of Oklahoma at-risk youths.



Budget/Cadet breakdown

(\$S IN THOUSANDS)

Year	Total Budget	Fed Share	State Share	Cost Per Cadet	State Cost Per Cadet	# of Grads
1998	\$2,481	\$1,780	\$701	\$12	\$4	199
1999	2,592	1,829	763	15	5	169
2000	2,800	1,820	980	15	5	191
2001	2,800	1,680	1,120	15	6	189
2002	2,800	1,680	1,120	14	6	200
2003	<u>2,800</u>	<u>1,680</u>	<u>1,120</u>	<u>14</u>	<u>6</u>	<u>200</u>
Totals/Avg.	\$16,273	\$10,469	\$5,804	\$14	\$5	191.3

Source: Military Department/OSF

Education is a key component of the TYA. The curriculum focuses on specific criteria, GED completion and basic life skills. GED preparation is intensive and directed toward improving each cadet academically.

Once cadets obtain their GED, they have the opportunity to complete college level studies before graduation. This voluntary program is the result of a cooperative effort between TYA and local colleges and universities. The credits are fully transferable and certified college instructors teach the classes.

FY-2005 Recommendation

<i>FY-2005 Appropriation</i>	
<i>(amounts in thousands)</i>	
FY-2004 Appropriation	\$7,021
FY-2004 BUD. FTE Level	383.8
Actual Ave. YTD FTE	336.0
Funding Adjustments:	
Thunderbird Youth Academy	800
FY-2005 Recommendation	\$7,821
% Change for FY-2004	11.39%

Source: Office of State Finance

The FY-2005 Budget appropriation for OMD is the same as provided for in FY-2004 with the following adjustment.

Expand Thunderbird Youth

Academy: The Governor’s Budget proposes an additional \$800,000 for TYA, which will allow TYA to double the amount of at-risk youths they train from 200 cadets to 400 cadets annually. The additional money will be supplemented with over \$2.5 million in federal aid.

Safety and Security

Summary of FY-2005 Budget Recommendations

(amounts are in \$000's)

Agency Name	FY-2004 Adj. Approp.	FY-2005 Base	FY-2005 Adj.	Final FY- 2005 Approp.	% Diff. From FY- 2004
A.B.L.E. Commission	\$3,432	\$3,432	(\$537)	\$2,895	-15.6%
Attorney General	5,795	5,795	298	6,093	5.1%
Corrections Department	379,232 ¹	373,932	6,000	379,932	0.2%
District Attorneys Council	25,972	25,972	0	25,972	0.0%
Emergency Management	666	666	0	666	0.0%
Fire Marshal	1,504	1,504	967	2,471	64.3%
Indigent Defense System	14,244	14,244	0	14,244	0.0%
Investigation, Bureau of	9,441	9,441	0	9,441	0.0%
Law Enf. Educ. & Training	2,649	2,649	0	2,649	0.0%
Medicolegal Investigatons Board	3,257	3,257	0	3,257	0.0%
Narc. & Dang. Drugs Control	4,860	4,860	(458)	4,402	-9.4%
Pardon & Parole Board	2,115	2,115	50	2,165	2.4%
Public Safety Department	62,430	60,930 ²	1,591	62,521	0.1%
Total Safety and Security:	\$515,597	\$508,797	\$7,911	\$516,708	0.22%

¹ FY-2004 Adjusted Appropriation includes supplemental of \$5.3 million for contract beds.

² FY-2005 Base Appropriation includes a reduction for one-time expenditures of \$1.5 million for the Capitol Security Improvements.

Alcohol Beverage Laws Enforcement Commission

The Alcohol Beverage Laws Enforcement Commission (ABLE) protects and enforces state laws pertaining to alcoholic beverages, youth access to tobacco, and charity games. Their priority enforcement is the minimization of alcohol and tobacco use by Oklahoma's youth.

alcohol transactions. ABLE also periodically contracts with the Department of Mental Health to supply agents for tobacco sales operation.

	FY 2000	FY 2001	FY 2002
Alcohol Inspections (Businesses)	5,963	6,144	4,090
Tobacco Investigations	263	1,564	1,265
Tobacco Buy Operations	262	1,584	533
Total Violations	305	433	298

Source: ABLE

Notable Achievement

The agency, despite revenue shortfalls, has been able to keep Oklahoma in compliance with federal tobacco laws. Without compliance, the state would lose over \$8 million dollars in federal grants.

FY-2005 Recommendation

FY-2005 Appropriation	
<i>(amounts in thousands)</i>	
FY-2004 Appropriation	\$3,432
FY-2004 Bud. FTE Level	50.6
Actual Ave. YTD FTE	48.8
Funding Adjustments:	
Consolidate into DPS	(537)
FY-2005 Recommendation	\$2,895
% Change for FY-2004	-15.65%

Source: Office of State Finance

Alcohol Education

Education and creating awareness are a large part of ABLE's strategy for reducing teenage alcohol use. Before attaining alcohol licenses, businesses must attend an orientation provided by ABLE.

The FY-2005 appropriation for ABLE is the same as provided for FY-2004 with the following adjustment.

ABLE recently began contracting with a private organization to train new employees of alcohol serving entities. In addition to educating all businesses and employees of pertinent state alcohol laws, ABLE wants them to have the ability to spot things such as fraudulent driver licenses.

Consolidation: This budget proposes consolidating ABLE into DPS. The consolidation will save approximately \$537,000 in administrative costs annually.

Cops-In-Shops (CIS)

The C-I-S program is a proactive program focused on deterring the purchase and consumption of alcoholic beverages by persons under 21 years of age. Undercover agents pose as employees or customers in retail package stores and mixed beverage establishments. Efforts are aimed at apprehending employees or customers who engage in illegal

Attorney General

The mission of the Office of Attorney General is to represent Oklahoma by serving and protecting citizens, government and the law. A few of the services they provide to accomplish their mission are:

- Representing the state in criminal appeals;
- Investigating criminal matters anywhere in the state through the Multi County Grand Jury;
- Providing advice and counsel to all State Officers, Boards and Commissions;
- Writing opinions, upon all questions of law submitted to the Attorney General by persons or bodies with proper statutory authority; and
- Appearing, as required by statute, and prosecuting or defending, before any court, board or commission, any cause or proceeding in which the state is an interested party.

Notable Achievements

- *Oklahomans received \$6.1 million from a settlement with Household Finance Corp. Oklahoma joined 43 other states in an agreement with the company that settled concerns about their lending practices.*
- *The Attorney General received the Justice Marian Opala First Amendment Award by Freedom of Information Oklahoma, Inc. The award is given annually to an Oklahoman who has promoted education about or protection of the individual rights guaranteed under the First Amendment.*

- *The Governor and Attorney General reached a water quality agreement that provided a framework for significant phosphorous reduction in Oklahoma Rivers.*

Tobacco Settlement: In August 1996, the Attorney General made Oklahoma the 14th state to file a lawsuit against the tobacco industry. As a result, Oklahoma was part of the November 1998 master settlement agreement between the states and the tobacco industry.

A statewide vote in 2000 created an Endowment Trust fund, Article 10 Section 40. Creation of this fund ensures that a large share of the Master Settlement payments are utilized for health related purposes. The only monies that may be spent out of the fund are the earnings the principle generates. This ensures the state will have a consistent amount of funds to spend on smoking cessation and health related efforts even after the settlement revenues cease.

The Trust Fund's board of directors has the authority to spend the fund's earnings for programs such as tobacco prevention, cancer research and health care programs for seniors and children.

In FY-2004, the Trust Fund's third year, the fund receives 60% of the tobacco payments, while the Legislature can appropriate the remaining 45% of the settlement money. In each ensuing fiscal year, the Trust Fund's share will increase by 5% until its total share reaches 75%

The AG's Office, by State law, can receive up to 3/16 of each payment for deposit to their evidence fund, as long as the balance in the evidence fund does not exceed \$1.5 million.

Contract Attorneys

Under state law various agencies contract with the AG's office for legal services. Contracting with the AG guarantees that an assistant AG will spend a certain amount of his or her time working for the agency. Contracts with the AG vary from 12.5% of an attorney's time to 100%.

FY-2005 Recommendation

<i>FY-2005 Appropriation</i>	
<i>(amounts in thousands)</i>	
FY-2004 Appropriation	\$5,795
FY-2004 Bud. FTE Level	153.0
Actual Ave. YTD FTE	156.0
Funding Adjustments:	
Debt Service	297
FY-2005 Recommendation	\$6,092
% Change for FY-2004	5.12%

Source: Office of State Finance

The FY-2005 appropriation for the Office of the Attorney General is the same as provided for FY-2004 with the following adjustment.

Debt Service: The Governor's budget includes \$297,500 for an anticipated increase in FY-2005 debt service obligations.

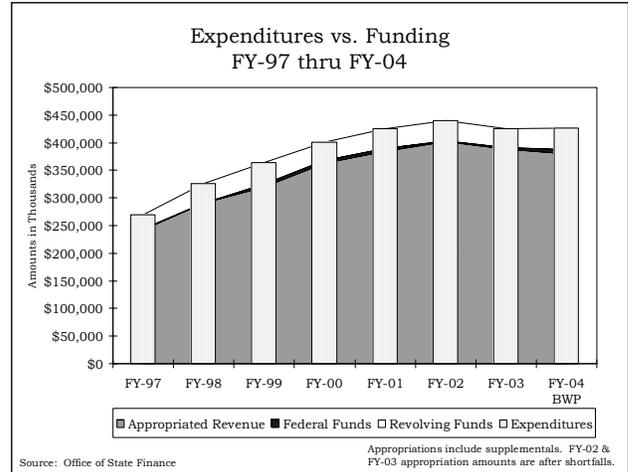
Department of Corrections

Public safety is a critical function of state government. The Department of Corrections' (DOC) mission reflects the importance of public safety by seeking to protect the public, its employees and the offenders under its supervision. The agency's responsibilities include:

- housing inmates safely and securely;
- providing opportunities for inmates to become rehabilitated;
- facilitating a successful transition for inmates back into society; and
- monitoring inmate behavior upon release.

In the spring of 2000, DOC reached a major milestone when it prevailed in a 27-year federal court case that addressed conditions of incarceration in this state. Because of that case, DOC implemented system changes to reduce overcrowding and improve inmate healthcare. The cost of those changes is still affecting the agency today.

While the Department uses revolving and federal funds, the majority of funding for DOC operations comes from state appropriations. As one of the state's largest agencies, DOC's FY-2004 appropriation makes up 7.32% of the state appropriated budget. DOC's appropriation, including supplementals, has grown by 117% from FY-1994 to FY-2004. The following chart provides a history of DOC's appropriated funding since FY-1997:



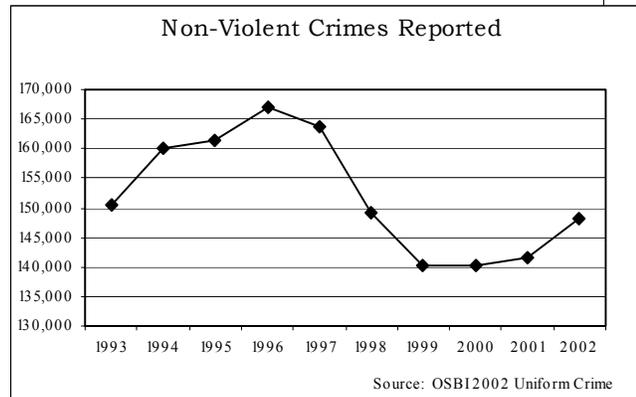
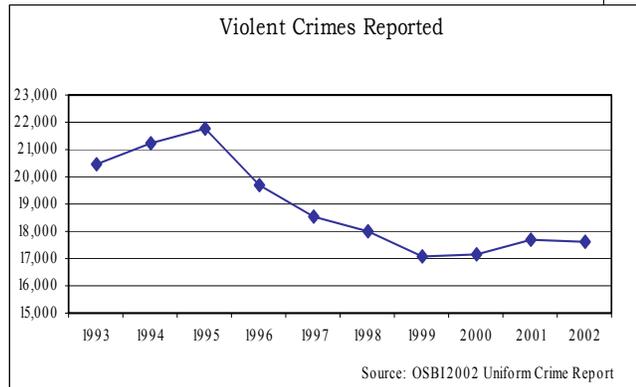
DOC generates revolving funds from the sale of products and services to inmates (canteen sales) and from the sale of inmate-produced products and services to internal and external purchasers. DOC typically receives federal grant funds for specific programs or services such as sex offender management or substance abuse treatment.

Notable Achievements

- *DOC expanded online telemedicine to prevent 491 medical trips during the year.*
- *DOC contracted with the Oklahoma State Education and Employees Group Insurance Board (OSEEGIB) for the review of outside medical bills saving DOC \$7.46 million last year.*
- *Oklahoma is the first state to forge an interagency agreement between DOC and the Department of Mental Health and Substance Abuse Services for immediate access to medical information at reception and discharge.*
- *Mabel Bassett Correctional Center was relocated to McLoud, Oklahoma after DOC purchased the Central Oklahoma Correctional Facility.*

- 13 facilities were re-accredited in American Correctional Association (ACA) Audits. All facilities scored 99.2% or above on the audits, with four meeting 100% of the criteria.
- Staff assaults were reduced by 50% at Oklahoma State Penitentiary and by 66% at Mack Alford Correctional Center. Dick Conner Correctional Center also had a reduction with only one staff assault in FY-2003.
- Four new state and federal grants were awarded to DOC in 2003. The grants will provide funds for reintegration efforts, the sex offender registry program, the Regimented Treatment Program, and 800 MHz radios.
- From 2002 to the end of 2003, the Community Corrections Division increased the collection of program support fees by 100% at Halfway Houses.
- The Community Corrections Division continued education and training toward the certification of all staff in alcohol and drug counseling.
- The Eastern Region Hostage Negotiation Team recently won first place in the prisons category at the National Hostage Negotiation Training and Competition. This is the third time the team has won this competition.
- Through changes in legislation and an aggressive handling of frivolous inmate cases, litigation against the Department dropped 23% in 2003.
- Implementation of "Cyberlink" has allowed field investigators and probation and parole officers access to criminal history checks and warrant information without having to submit a hardcopy request.

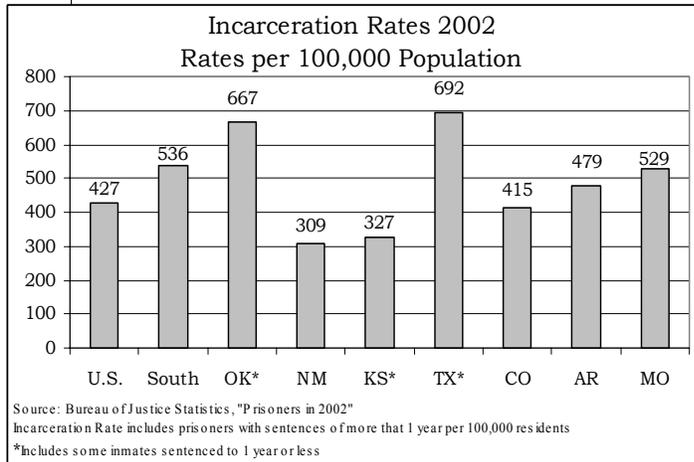
The Demand for Prison Beds



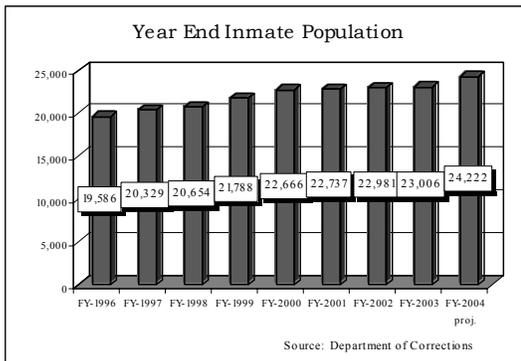
As illustrated in the graphs, between 1993 and 1995, the number of violent crimes reported increased by 6% and nonviolent crimes increased 7%. From 1995 to 2002, violent crime rates decreased more than 19%, and reports of nonviolent crimes decreased more than 8%.

Despite the decrease in violent and nonviolent crimes since 1995, the number of offenders incarcerated in Oklahoma has increased. Oklahoma's incarceration rate is consistently higher than the national average. Oklahoma imprisons 667 inmates for each 100,000 residents. This is 156% of the national average of 427 prisoners per 100,000 residents. Only Louisiana, Mississippi and Texas have higher incarceration rates.

FY-2005 Executive Budget

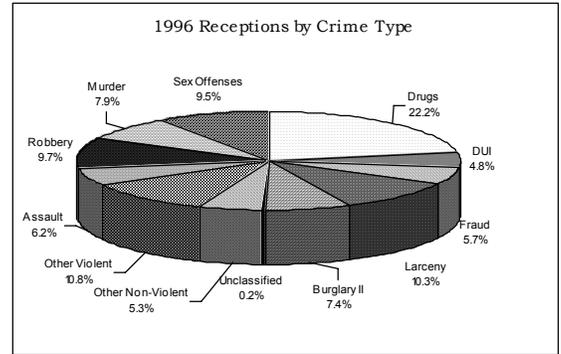


Part of this increase can be traced back to the early 1990s when crime rates were growing. Offenders began to serve more time for their offenses and special laws designed to release prisoners early were rarely invoked. Since then, the demand for prison beds has been increasing.

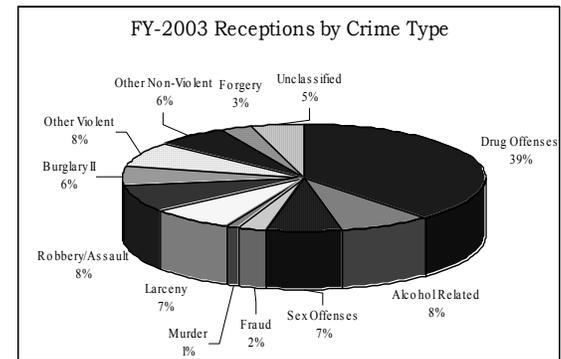


For FY-2004, the Criminal Justice Resource Center projects 5% growth in the incarcerated inmate population.

Receptions, releases and the average time served are three critical factors in the demand for more bed space. A review of DOC receptions by crime type provides an understanding of the current issues facing the correctional system. The following charts compare receptions by crime type for FY-1996 and FY-2002:



Source: Department of Corrections



Source: Department of Corrections

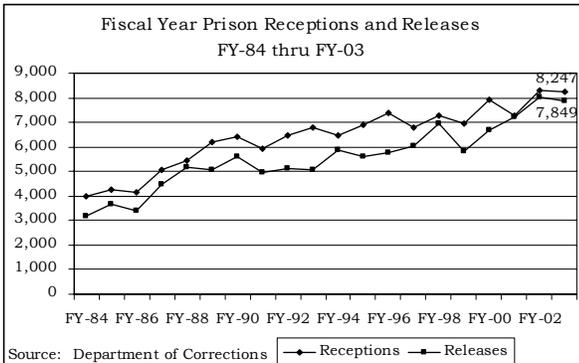
As shown, in 1996, drug and alcohol related receptions accounted for 27% of total receptions. In 2003, drug and alcohol related receptions increased to 47% of total receptions. The state has implemented a number of initiatives to deal with this issue, such as drug courts and community sentencing.

For 2003, DOC processed 8,247 new inmates at the Lexington Assessment & Reception Center (LARC). The next table provides a demographical breakdown of these inmates:

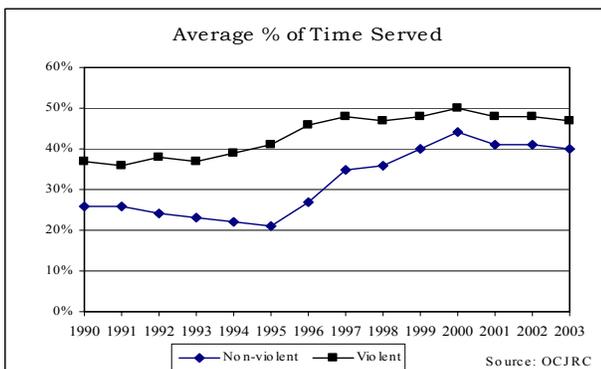
Total Receptions	8,247
Average Age	32.8
% Males	85.0%
% Females	15.0%
% Non-Violent	80.2%
% White	60.6%
% Black	24.1%
% Native American	9.7%
% Hispanic	5.0%

Source: Department of Corrections

Another component to consider in assessing the demand on the state's correctional system is the number of inmates released each year. In 2001 and 2002, DOC experienced significant growth in releases as the Pardon and Parole Board addressed its backlog and increased recommendations. Receptions, however, continue to outpace releases.



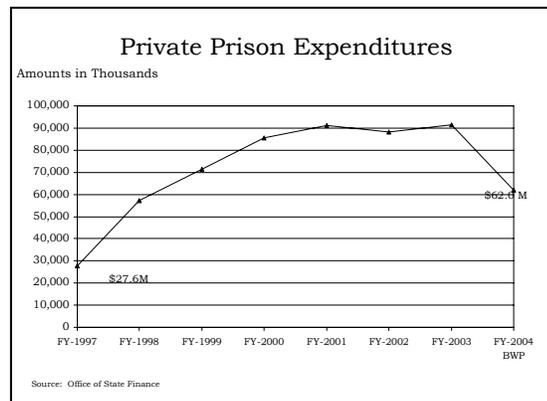
The average time served is another important component that influences the overall correctional system volume. Because the mandatory amount of time-served to be eligible for parole increased in the late 1990s, DOC inmates are serving more time in DOC custody. The following chart provides a history of the average percent time served for prison sentences:



The Prison System

DOC operates eight secure public facilities for maximum and medium-security inmates. State-operated minimum-security facilities and community centers provide additional capacity for a total state-operated capacity of 17,235 beds. In 1996, policy makers decided to use private prisons, rather than build new facilities to accommodate the increased bed demand. Today, DOC is using 4,574 private prison beds.

In FY-2004, DOC's budget was designed to fully fund all of the Department's operations and take the agency's entire deficit in Contracted Services. This is reflected in the following chart by the decrease in the Private Prison budget for FY-2004.



The state also contracts with county jails and halfway houses for additional beds. The following tables provide a breakdown of the total system capacity and the varying per diem rates:

Total System Capacity	
State Medium & Maximum	7,751
St Minimum & Community Centers	9,484
State-Operated Capacity	17,235
Private Prisons	4,992
County Jails	452
Halfway Houses	1,171
Contract Bed Capacity	6,615
Total Bed Capacity	23,850

Source: Department of Corrections

State Facilities	Operating Cost per Inmate
Minimum Security	\$43.61
Medium Security	45.34
Maximum Security	52.95
Community Corrections	39.14
Work Centers	32.72
Contracted Services	Per Diem Rate
Private Prisons (Med.):	
Davis	\$42.95
Great Plains	42.10
Cimarron	43.57
Lawton	40.42
Diamondback	42.00
Contract Jails	31.00
Halfway Houses	32.00
Jail Back-up	24.00
Source: Department of Corrections	

Officer Staffing Levels: Correctional officers (COs) are the backbone of any state prison system. Without adequate staffing, the ability to retain quality employees is diminished. Officer staffing levels today have reached a critical level with a budgeted vacancy rate of 17%.

This staffing level results in existing COs working longer and harder, and DOC paying sizeable overtime costs. The following table provides the Correctional Officer to Inmate ratio in the state facilities on October 1, 2002.

Security	Staffing			Inmates	Ratios		
	Day Shift	Evening Shift	Night Shift		Day Shift	Evening Shift	Night Shift
Maximum	96	90	82	3,177	1/33	1/35	1/39
Medium	132	104	76	4,953	2/75	2/95	1/65
Minimum	118	102	92	5,896	1/50	1/58	1/64
Community	45	36	28	1,597	2/71	2/89	1/57
TOTALS/RATIOS	391	332	278	15,623	1/40	1/47	1/56

Source: Department of Corrections

Mabel Bassett Transition: On January 7, 2003, the Council of Bond Oversight authorized the Oklahoma Development Finance Authority to issue a \$45 million lease revenue bond for the lease/purchase and renovation of the Central Oklahoma Correctional Facility (COCF) in McLoud, OK. DOC purchased the facility in March 2003 for \$35.9 million. On May 5, 2003,

DOC moved Mabel Bassett Correctional Center operations and female offenders to COCF.

Combining all medium and maximum security female inmates centralizes female offender operations, reduces inmate transportation costs, centralizes medical resources, reduces female jail back-up inmate populations, and provides female inmates greater access to programs and services equivalent to male inmate facilities. DOC has saved approximately \$500,000 in operational costs since moving into the Mabel Bassett Correctional Center.

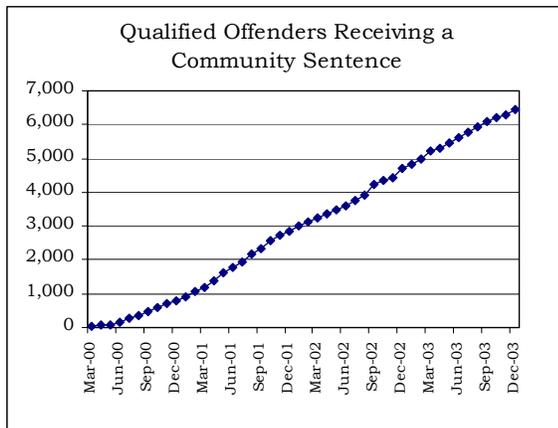
DOC still needs to make renovations to the facility before they can transfer female inmate processing from LARC to Mabel Bassett. DOC has asked the Bond Oversight Committee for \$4 million in proceeds from the sale of the bonds to fund renovations of the facility. Projects will include the Assessment and Reception area, renovating the existing medical area, and constructing a new education building.

Community Sentencing

The Community Sentencing Act provides incarceration alternatives for certain nonviolent criminal acts. The Act established a community sentencing system that improves public safety and punishes felony offenders under a court-ordered community sentence. This marks an important shift in public policy by providing cost-effective alternatives to prison incarceration while still protecting the public. Currently, there are 37 community sentencing systems representing 61 counties receiving funding. DOC's FY-2004 budget for the program is \$11.66 million.

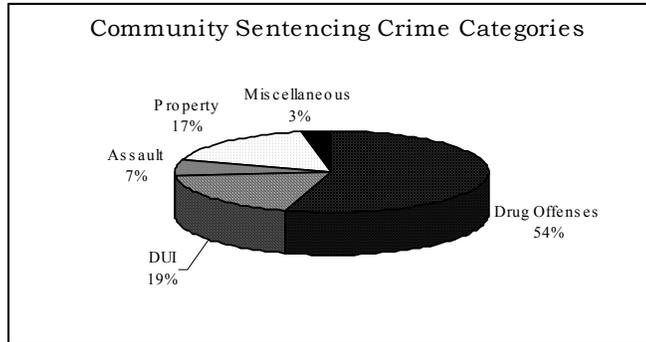
The local community sentencing system provides a continuum of sanctions that gives the court a variety of measures to change offender behavior. The array of options allows the court to match offenders with the most appropriate sanctions and establishes degrees of increased control for individuals who fail to conform to the rules and conditions of their sentence. While in the community, the offender is employed, receives treatment and pays restitution and court fees. Among others, sanctions may include community service, special needs programs, supervision, community or education programs. Each local sentencing system supervises its offenders with state probation and parole officers or with another qualified source of the council's choosing.

As of January 1, 2004, there were 3,817 active participants in the program. The sentencing of 1,751 additional offenders in FY-2003 brought the total number of offenders ordered to the program to 6,431. The following chart reflects the steady growth in the number of qualified offenders receiving a community sentence:



Source: Department of Corrections

Offenders receive a community sentence for a wide range of offenses. The next chart shows by percent the crime categories for the offenders sentenced during FY-2003:



Source: Department of Corrections

As shown, offenses related to drugs and alcohol comprised 74% of community sentences. As a result, DOC concentrated 63% of the expenditures for this program on substance abuse services. This includes detoxification, in-patient and outpatient treatment, group and individual counseling, and urinalysis.

Inmate Health Care

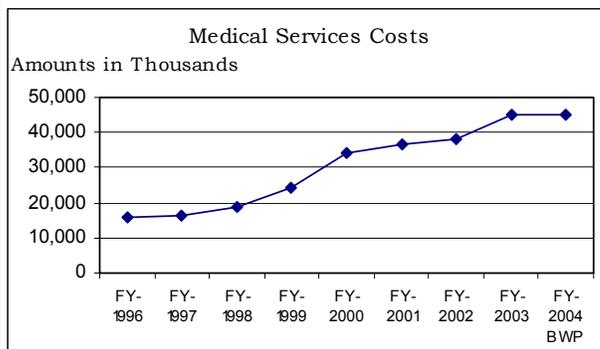
The state has both a moral and legal obligation to provide adequate health care for those confined under state custody. However, providing health care in a prison setting is more costly and complicated than in other settings. The nature of the prison population makes injuries and wounds more common, and inmates generally do not lead healthy lifestyles. Consequently, instances of hepatitis and other communicable diseases are much more prevalent.

The cost of health care nationwide is continuing to escalate faster than the inflation rate. This cost growth is compounded by the special, and usually costly, precautions that must be taken to protect other citizens when an inmate needs treatment outside the prison facility.

DOC's health care is provided by two main entities, OU Medical Center and Lindsay Hospital. Over the past two to three years, changes have occurred in the organizational structure and administration at the University Hospitals. As a result, a great deal of

the specialty care, which the Department had previously obtained at no cost, was no longer available. It became necessary to purchase specialty care from both the University Physicians Medical Group and local community specialists. Additionally, in 2002, inpatient mental health services previously required by the Department of Mental Health and Substance Abuse Services were eliminated. With these reductions in services available, DOC needed to pursue other options to obtain some of the medical services previously provided at these facilities.

In the 2001 session, the Legislature passed HB 1570, which allowed DOC to contract for medical and hospital services with the Lindsay Municipal Hospital.



Source: Office of State Finance
 *Note: Medical Services Costs do not include University Hospital or Griffin.

Cost Savings Initiatives: DOC has been actively seeking to control the spiraling cost of health care for inmates. The agency has taken several important steps and is considering additional steps that will mitigate some of the growing pressure on budgetary resources. Some of these actions include:

- increasing the use of telemedicine and online consultations for specialty visits conducted with the University Physicians Medical Group;
- using a vendor to directly distribute pharmaceuticals to the correctional facilities;

- establishing a physician referral review process prior to inmates being sent out for specialized and/or inpatient medical care;
- contracting with the Oklahoma Education and Employees Group Insurance Board to assist in procuring negotiated rates with local hospitals;
- developing a consistent pharmaceutical formulary to reduce the cost of drugs;
- developing consistent standards of care to ensure adequate care is rendered in a fiscally responsible manner;
- physically aggregating prisoners with similar medical conditions - DOC now considers the medical needs of inmates when assigning them to facilities;
- compiling a list of aged and medically needy inmates who no longer pose a threat to public safety for possible parole; and
- contracting for medical and hospital services with Lindsay Municipal Hospital.

FY-2004 Supplemental

As previously described, the costs of Oklahoma's correctional system have significantly increased over the last several years.

The Governor's budget includes a \$5.3 million supplemental appropriation to address the agency's most critical and immediate needs. This amount is also built into the base for FY-2005. Including the use of other funding sources, the total additional funding provided in FY-2004 is \$18.9 million. The following chart provides a

summary of the supplemental appropriation:

Supplemental Appropriation <i>(amounts in thousands)</i>	
Deficit:	
Contract beds	\$17,946
Medical Services	995
Total Deficit	18,941
Available Funds:	
Payroll Surplus	(10,150)
Revolving Funds	(1,700)
Additional Carryover Funds	(957)
Operating Reduction	(834)
Total Adjustments	(13,641)
Total Supplemental	\$5,300

Source: Office of State Finance

The supplemental recommendation provides funding to secure the necessary prison beds to protect public safety. With DOC's facilities near capacity, DOC must lease additional private beds to meet the remaining need.

Medical Services: As described earlier, DOC is currently facing growing inmate health care costs. The supplemental recommendation includes funding to cover the FY-2004 medical services deficit.

Supplemental Offset: To absorb a portion of the agency's deficit, DOC used \$5.0 million in carryover funds and estimated a payroll surplus in its budget. The Governor's budget recommends DOC further offset its deficit with \$1.7 million of revolving fund revenue and \$957,423 of additional carryover budgeted for equipment and repairs. This proposal also reduces the agency's operating budget by \$833,758.

FY-2005 Recommendation

FY-2005 Appropriation <i>(amounts in millions)</i>	
FY-2004 Appropriation	\$373,932
FY-2004 Bud. FTE Level	4,996.2
Ave. Actual YTD FTE	4,681.9
Funding Adjustments:	
Annualize FY-04 Supplemental	5,300
Replace One-Time Funds	3,200
Savings from OK Co. Drug Court Expansion	(2,500)
Total Adjustments	6,000
FY-2005 Recommendation	\$379,932
% Change from FY-2004	1.60%

Source: Office of State Finance

Annualization Needs: The Governor's budget provides \$5.3 million for annualization of the FY-2004 supplemental. This includes funding for contract beds and medical services.

Replace One-Time Funds: The Governor's budget includes an additional \$3.2 million to replace a portion of the one-time funds DOC used to offset the agency's FY-2004 budget deficit.

Expansion of the Oklahoma County Drug Court: Oklahoma County accounts for 22% of all prison receptions statewide for drug possession, according to the Criminal Justice Resource Center. The Governor's budget recommends expanding the Oklahoma County Drug Court by 400 beds over an 18-month period. Because the Oklahoma County Drug Court specifically targets offenders with two or more prior felony convictions, expanding the drug court will save prison costs immediately. The Governor's budget estimates that diverting 400 offenders to drug court will save DOC more than \$2.5 million in contract bed costs in FY-2005. DOC will be able to use additional savings to hire two probation officers to work with the drug court, as needed. The estimate assumes implementation in

March 2004 and allows for a phase-in of 10 months. The estimate also allows for a certain percentage of the offenders entering drug court to not complete the program and to be sentenced to DOC.

For successful drug court participants in Oklahoma County, 86% have their cases dismissed and 9 out of 10 do not reoffend. These statistics demonstrate the positive social and economic outcomes of drug courts.

Reduced Bed Needs: This budget assumes no inmate population growth for FY-2005. The following initiatives should be reviewed to enable inmate population growth to remain flat and reduce the funding required for private prisons in the future. In some cases, policy changes or legislative action will be required.

- Enhance community sentence options for certain offenders.
- Reduce recidivism through reintegration services.
- Transition outgoing inmates to the community with proper supervision and appropriate use of the lowest level beds.
- Expand the use of drug and mental health courts.

The initiatives included in this budget will keep violent and habitual offenders in prison and provide flexibility to the criminal justice system in the treatment of the nonviolent offenders. These changes will also maintain fiscal responsibility. By accomplishing this, the State will be able to redirect its resources towards activities that enhance education, growth and prosperity. This will eventually lead to further reductions in criminal activity.

Reintegration Services: With limited funding, DOC has been unable to fully provide transitional services for inmates returning to the community. The lack of services can often result in

a revolving door effect where inmates released one day recidivate and quickly return to the correctional system. To help reduce recidivism, the Governor's budget recommends DOC shift future savings from reduced bed demand into funding for reintegration services.

Opportunities for Cost Efficiencies

DOC has several opportunities to reduce the cost of its operations without increasing the risk to the public. In some cases, reforms that would realize savings may even improve public safety. This budget requires all agencies, including DOC, to improve operations and identify efficiencies.

OCI Subsidy: The Oklahoma Correctional Industries (OCI) provides training and work experience for inmates. The manufacturing division of OCI produces a variety of products including furniture, modular panel systems, furniture renovation, metal fabrication, license plates, signs, clothing and footwear, bedding, chemicals and janitorial cleaning supplies, corrugated boxes, binders, printing services and a variety of record conversion services. There are currently 25 manufacturing and service operations located within nine correctional facilities statewide. OCI also operates an agri-services division that provides DOC's meat, milk and eggs. FY-2004 OCI sales are budgeted at \$19 million.

OCI was originally intended to be self-supporting, with all sales revenues returned to the program to finance its operations. The Governor's budget recommends that the program become fully self-supporting and direct the current operating subsidy into other areas of the Department.

DOC should also consider the following list of cost saving opportunities:

- Eliminate budgeted vacancies among non-uniformed personnel.
 - Streamline management reporting by eliminating unnecessary supervisory positions.
 - Utilize the most cost-effective methods of providing work for inmates.
 - Continue efficiency and management improvements in inmate health services, including greater use of telemedicine.
 - Expand the use of technology to help reduce inmate transportation costs.
-

District Attorneys’ Council (DAC)

One of the District Attorneys’ Council (DAC) main duties is to develop a formula to distribute state appropriated funds to local District Attorney Offices. Other services provided include:

- Administrative support for local District Attorneys;
- Educate state leaders on the District Attorneys’ positions on criminal justice issues; and
- Provide assistance to the state’s multi-jurisdictional drug task forces.

District Attorneys

The 27 District Attorneys in the state are locally elected officials. They are responsible for prosecuting state criminal cases on behalf of the public. Their prosecution practices and the level of crime in the state have significant impacts on the Department of Correction’s inmate population.

Multi-jurisdictional Task forces

DAC oversees and provides assistance to the state’s multi-jurisdictional task forces. The 24 various task forces are a primary weapon in the state’s “war on drugs”. Seizure and forfeiture proceeds supplement federal grants to fund these task forces.

Federal grants that fund these task forces are from the Department of Justice’s (DOJ) Byrne Grant program. The program’s general purpose is to improve the criminal justice process. DOJ allocates a certain amount of dollars to all states, and each state’s chief executive officer designates a certain agency to oversee and distribute the grants. Currently, the

District Attorneys Council is the designated agency for this purpose.

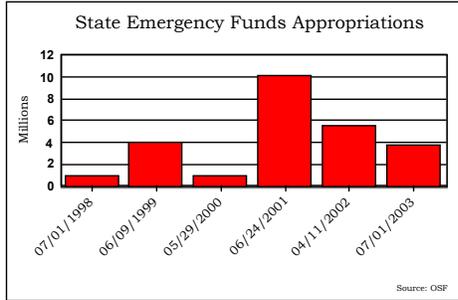
FY-2005 Recommendation

<i>FY-2005 Appropriation</i>	
<i>(amounts in thousands)</i>	
FY-2004 Appropriation	\$25,972
FY-2004 Bud. FTE Level	1,111.0
Actual Ave. YTD FTE	1,098.7
Funding Adjustments:	
None	<u>0</u>
FY-2005 Recommendation	\$25,972
% Change for FY-2004	0.00%

Source: Office of State Finance

The FY-2005 appropriation for the District Attorneys Council is the same as provided for FY-2004.

State Emergency Fund



Of these disasters, ice storms have resulted in the most expensive damages in state history. To address these damages the Legislature appropriated \$10.1 million to the State Emergency Fund in FY-2002, \$5.5 million for FY-2003 and \$3.7 million for FY-2004. However, these appropriations will not fund all reconstruction and relief needs from these disasters.

FY-2005 Recommendation

This budget provides \$2 million for payments on disaster in FY-2005.

The State Emergency Fund provides relief after a disaster. The Governor can allocate and authorize expenditures from this fund in certain cases, and the Contingency Review Board can allocate funds for other specified needs.

In recent years, the state has experienced several disasters, which include:

- May 1999 tornados
- October 2000 floods
- December 2000 ice storms
- May 2001 storms
- October 2001 Cordell tornados
- January 2002 Ice Storms
- December 2002 Ice Storms
- May 2003 Tornados

Disaster	Total Estimated Cost	State Share	State Share		FY-2005 Request	Balance in FY-05
			Already Funded	Remaining After FY-2003		
December 00 Ice Storms	208,739	17,788	12,203	5,585	5,000	585
January 02 Ice Storms	182,739	21,552	8,321	13,231	7,000	6,231
December 02 Icen Storms	7,256	806	170	636	300	336
May 2003 Tornados	9,974	1,508	600	908	500	408
Total	\$408,708	\$41,654	\$21,294	\$20,360	\$12,800	\$7,560

Source: Civil Emergency Management\OSF

Oklahoma Department of Emergency Management

The mission of the Oklahoma Department of Emergency Management (ODEM) is to minimize the effects of natural and man-made disasters. The agency accomplishes this by preparing and implementing preparedness plans, assisting local government subdivisions with training for and mitigation of disasters and coordinating actual disaster response/recovery operations.

Notable Achievements

- ODEM aided the state's Office of Homeland Security in preparing the Homeland Security strategic plan.
- ODEM assisted the state of Maryland during Hurricane Isabel.
- ODEM played a major role in the response and recovery operations following the May 2003 tornados in central Oklahoma.

The Department is divided into four main areas:

Hazard Mitigation: The Mitigation Program is available to communities across Oklahoma to assist with identifying and implementing long-term hazard mitigation measures before, during and after major disaster declaration.

Community Preparedness: This program provides a forum for local and state agencies to provide coordination with other state and federal agencies in developing their capability to respond to a catastrophic disaster.

Emergency Response: In time of emergency, the departmental staff is responsible for coordinating state emergency operations including but not limited to active disaster reservists, voluntary organization staff and other state agency personnel. The staff also

monitors events and evaluates the potential for a State-declared emergency and the need for federal emergency and disaster assistance.

Disaster Recovery: Following a state or federal emergency or disaster declaration, departmental staff is responsible for implementing procedures to provide for the quick and efficient delivery of state and federal aid to persons affected by the emergency or disaster.

FY-2005 Recommendation

FY-2005 Appropriation	
<i>(amounts in thousands)</i>	
FY-2004 Appropriation	\$666
One-time Adjustments	0
FY-2004 Base	\$666
FY-2004 Bud FTE Level	26.8
FY-2004 YTD FTE	27.2
Funding Adjustments:	
None	0
FY-2005 Recommendation	\$666
% Change for FY-2004	0.00%
<small>Source: Office of State Finance</small>	

The FY-2005 appropriation for Department of Emergency Management is the same as provided for FY-2004.

State Fire Marshal (SFM)

The State Fire Marshal (SFM) is responsible for actively pursuing programs to minimize outbreaks of fires for the preservation of life and property. Programs include:

- Investigating and documenting the cause or origins of fires;
- Enforcing Life Safety Codes and fire/crime prevention; and
- Developing fire safety campaigns.

The State Fire Marshal positions investigators around the state for fast response to all investigative needs. This increases the probability of detecting any possible attempt of arson. The SFM has the legal authority to arrest suspects if probable cause exists in an arson investigation.

Notable Achievement

In appreciation of SFM's and the Oklahoma Fire Council's vision on Homeland Security, the Federal Government awarded over \$100,000 worth of computers and software to SFM. The computers are being distributed across the state, and the software will provide real time information during an emergency for local emergency response teams. The software can show evacuation routes and shelters, and outline the affected area.

FY-2005 Recommendation

FY-2005 Appropriation	
<i>(amounts in thousands)</i>	
FY-2004 Appropriation	\$1,505
FY-2004 Bud. FTE Level	30.0
Actual Ave. YTD FTE	29.0
Funding Adjustments:	
Fire Training Center	<u>967</u>
FY-2005 Recommendation	\$2,472
% Change for FY-2004	64.25%
Source: Office of State Finance	

The FY-2005 appropriation for the State Fire Marshal is the same as provided for in FY-2004 with the following adjustment.

Fire Service Training Center: The Governor's budget proposes moving the Fire Service Training Center from the Oklahoma State Regents for Higher Education to the State Fire Marshal. In addition, \$465,000 is added to the Fire Service Training Center's base budget.

Oklahoma Indigent Defense System (OIDS)

The Oklahoma Indigent Defense System (OIDS) provides representation for indigent Oklahomans charged with committing criminal acts. This agency preserves the rights of accused persons to have competent legal representation.

OIDS provides services in three ways:

- OIDS enters into legal services contracts with local firms for non-capital trials. OIDS contracts on a county-by-county basis and firms receive payment in a lump sum each year to cover all cases in that particular year;
- OIDS staff attorneys handle capital trial cases and all cases that have reached the appellate level. They also represent indigents in non-capital trial cases in 16 counties where they are unable to contract with local firms at a reasonable rate; and
- OIDS appoints conflict counsel in cases when there is not a contract in the appropriate county and OIDS has a conflict of interest. According to state statute, OIDS must compensate attorneys in these cases at \$60 per hour while in court, and \$40 per hour for any out of court work.

Representation Costs

Current law requires judges to assess fees on convicted offenders for representation costs. OIDS has been stepping up their efforts to convince judges to assess these fees. During this effort, OIDS has proposed to Judges that they assess minimum fees on cases. Under OIDS proposal,

factors surrounding the case determine the level of the minimum fee such as, whether the charge is a misdemeanor or felony, and whether the case goes to trial or not.

This budget proposes that judges assess convicted offenders the following fees at a minimum:

- \$150 for a misdemeanor
- \$250 for a felony

The following chart details how much the state would generate depending on how many judges assess the fees. The chart assumes 50% of all assessments will be collected. The column labeled appointments, in the following chart, shows how many times a judge has ordered OIDS to defend an individual on a charge. Note: Defendants usually have more than one charge, thus number of appointments is more than the actual number of defendants that OIDS has represented.

Potential Minimum Fee Revenue			
		Minimum	Possible
	Appointments	Fee	Revenue
Felony	16,270	\$250.00	\$4,067,500
Misdemeanor	6,776	\$150.00	\$1,016,400
Total	23,046	N/A	\$5,083,900
Assuming 50% of it is collected:			\$2,541,950.0
Assuming 50% Judges assess fees:			\$1,270,975
Assuming 75% Judges assess fees			\$1,906,463
Assuming 100% Judges assess fees			\$2,541,950.0

FY-2005 Recommendation

<i>FY-2005 Appropriation</i>	
<i>(amounts in thousands)</i>	
FY-2004 Appropriation	\$14,244
FY-2004 Bud. FTE Level	125.9
Actual Ave. YTD FTE	121.7
Funding Adjustments:	
None	
FY-2005 Recommendation	\$14,244
% Change for FY-2004	0.00%

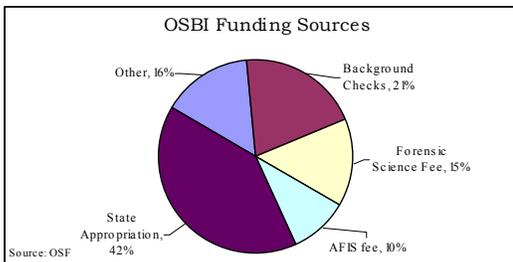
Source: Office of State Finance

The FY-2005 appropriation for OIDS is the same as provided for FY-2004.

Oklahoma State Bureau of Investigation

The mission of the Oklahoma State Bureau of Investigation (OSBI) is to provide exceptional investigative, laboratory and information services to the criminal justice community, while providing outstanding customer service to the public.

OSBI clients include other state law enforcement agencies, local law enforcement agencies and federal agencies.



Notable Achievements

- *OSBI's laboratory has decreased case turnaround time from 102 days in FY-2001 to 41 days in FY-2003.*
- *OSBI sent out a customer satisfaction survey to over 300 law enforcement agencies in FY-2003. The survey reveals a 96.8% approval rating of OSBI services.*
- *OSBI has trained 300 local law enforcement officers on how to safely dismantle and destroy methamphetamine labs.*
- *OSBI and the City of Edmond purchased land for the soon to be built new state of the art Forensic Science Center.*
- *OSBI now has six agents certified in computer forensics to fight child pornography within the state.*

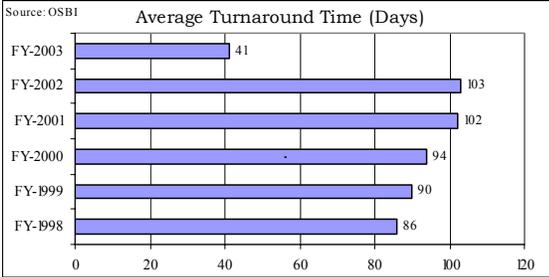
Forensic Science Improvement Plan

The 2001 legislative session created a funding plan to ensure that OSBI will be able to provide timely and exceptional service to its clients. Since July 1, 2001, legislation added an additional five-dollar penalty on most criminal fines. OSBI will use the proceeds exclusively for forensic services. This additional revenue generates \$3 million annually.

The Forensic Science Improvement plan includes:

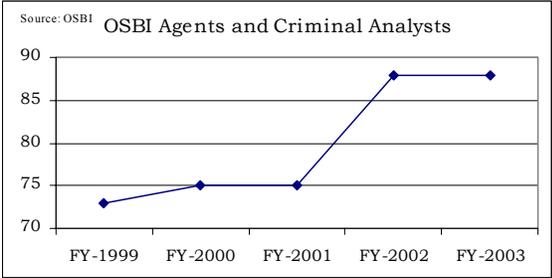
- Additional forensic scientists, methamphetamine clan lab responders and modern equipment for quicker turnaround time on cases submitted;
- A state-of-the-art Forensic Center which will be built in Edmond; and
- Construction of a new \$21 million laboratory and investigative office in Southeastern Oklahoma in FY-2006.

The clan lab responders hired in FY-2002 are already having a positive impact. From FY-2002 to FY-2003 average turnaround time, which represents the average amount of days it takes OSBI to return the forensic results to requesting law enforcement agencies, dropped significantly from 102 days to 41. Turnaround time reached an alarming rate in FY-2001, which resulted in the dismissal of criminal cases. The OSBI believes that the days of courts dismissing cases because of slow turnaround time are over.



OSBI Agents

The number of OSBI investigative agents has increased over recent fiscal years. These additional agents enhance the ability of local law enforcement to catch serious crime offenders.



FY-2005 Recommendation

The FY-2005 appropriation for the OSBI is the same as provided for FY-2004.

FY-2005 Appropriation	
<i>(amounts in thousands)</i>	
FY-2004 Appropriation	\$9,441
FY-2004 Bud. FTE Level	293.8
Actual Ave. YTD FTE	290.0
Funding Adjustments:	
None	<u>0</u>
FY-2005 Recommendation	\$9,441
% Change for FY-2004	0.00%

Source: Office of State Finance

Council on Law Enforcement Education and Training (CLEET)

The mission of CLEET is to:

- Establish standards for peace officer certification;
- Provide quality education and training programs to peace officers statewide; and
- Establish licensing and training standards for private security officers.

The majority of CLEET'S budget is provided through the CLEET certified fund. This fund is comprised of \$4 criminal penalties that are added on to any criminal fine.

Notable Achievements

- *472 recruits graduated from the Oklahoma Basic Law Enforcement Academy in FY-2003.*
- *Despite budget cuts, CLEET actually increased the number of peace officers trained in FY-2003 through the reallocation of funds.*
- *Research and development for E-learning began in FY-2003. The agency now handles continuing education enrollments and confirmations on line.*
- *CLEET has begun to play a role in Homeland Security. CLEET provides reports to the Oklahoma Department of Homeland Security on the number of law enforcement officials by county and how many have received training for Weapons of Mass Destruction.*

Training

In the 2000 Session, Senate Bill 1121 authorized CLEET to enter into a lease purchase agreement with the Oklahoma Development Finance Authority or local public trust for a new state-of-the-art law enforcement training facility. To pay for the construction of the facility, CLEET issued \$26 million in bonds in May of 2002. Construction begins in January 2004. The building will be complete in FY-2006. CLEET pays \$1.8 million in debt service per year

To fund the debt service for the facility, the Legislature increased the CLEET fee from four to seven dollars. This will allow CLEET to retire the bonds over a 25-year period.

The new headquarters will include features that the current facility does not have. Absence of these features hinders CLEET's ability to train their officers and leads to delays in training. Delays force many local law enforcement agencies to send first year officers out patrolling the streets with only partial CLEET instruction.

Plans for the new headquarters include:

- 1.) **Firearms Training:** CLEET currently does not have a firearm range, forcing them to rent other entities' ranges for basic academy and continuing education. Scheduling problems lead to delays in the certification of officers.
- 2.) **Physical Custody/Control Training:** The current facility lacks the space for this type of training. CLEET must also rent facilities for control instruction. Scheduling problems exist here too.
- 3.) **Driver Training:** Without a driver training track, CLEET is unable to train their students in a timely

manner in this most basic job function.

In FY-2001, the city of Ada was the selected site for the facility. Ada's contributions for the Academy will make for a good partnership with the state. Their commitments total \$2,581,790 and include providing land, waiving permit fees, extending water and sewer lines at no cost, and providing an additional supplemental site located on the campus of East Central University.

Continuing Education

CLEET offered or accredited approximately 12 continuing education courses for peace officers in FY-2003. To ensure courses address the most current and pressing public safety issues, CLEET evaluates the quality and relevance of current programs and develops new ones on an annual basis. Recently developed classes deal with new issues and realities confronting Oklahoma's law enforcement community.

Recently developed classes include:

- **International Terrorism/Weapons of Mass Destruction:** Designed to take a broad based approach to international terrorism and weapons of mass destruction. The class provides basic knowledge of international terrorism and discusses the role of local, state and federal law enforcement.
- **Drivers License ID Fraud:** Oklahoma has more cases of fraudulent driver licenses than most other states. This class helps officers recognize counterfeit licenses, passports, birth certificates, military I.D cards and credit cards.
- **Aircraft Accidents:** This course educates first responders on the

unique hazards associated with an aircraft crash. Further instruction includes federal regulations regarding the investigation of aircraft accidents, evidence collection and preservation requirements, interagency relations and the investigative process.

FY-2005 Recommendation

FY-2005 Appropriation	
<i>(amounts in thousands)</i>	
FY-2004 Appropriation	\$2,650
FY-2004 Bud. FTE Level	35.5
Actual Ave. YTD FTE	\$34
Funding Adjustments:	
None	<u>0</u>
FY-2005 Recommendation	\$2,650
% Change for FY-2004	0.00%

Source: Office of State Finance

The FY-2005 appropriation for CLEET is the same as provided for FY-2004.

Board of Medicolegal Investigations

Another important public safety agency, the Board of Medicolegal Investigations, investigates deaths in Oklahoma that are sudden, violent or suspicious. The primary goal is to determine with medical and legal certainty the cause of death. In order to achieve this goal, the agency conducts scene investigations, autopsies and external examinations, histological examinations and toxicological analysis.

Medicolegal has two laboratories within the state: the Central Laboratory, located in Oklahoma City, and the Eastern Laboratory, located in Tulsa.

Notable Achievements

- *Passed the National Association of Medical Examiners accreditation standards.*
- *The amount of autopsies per pathologist increased from 219 in FY-2002 to 240 in FY-2003.*

Source: Medicolegal	FY <u>2000</u>	FY <u>2001</u>	FY <u>2002</u>	FY <u>2003</u>
Autopsies	1,580	1,530	1,615	1,769
Crime Scene Investigations	1,396	1,431	1,291	1,821
Drug Screens	19,278	20,879	20,878	22,708
Autopsies in Calendar Years, 2003 projected				

FY-2005 Recommendation

FY-2005 Appropriation <i>(amounts in thousands)</i>	
FY-2004 Appropriation	\$3,257
FY-2004 Bud. FTE Level	64.0
Actual Ave. YTD FTE	64.6
Funding Adjustments:	
None	<u>0</u>
FY-2005 Recommendation	\$3,257
% Change for FY-2004	0.00%
<small>Source: Office of State Finance</small>	

The FY-2005 appropriation for Medicolgal is the same as provided for FY-2004.

Oklahoma Bureau of Narcotics and Dangerous Drugs Control

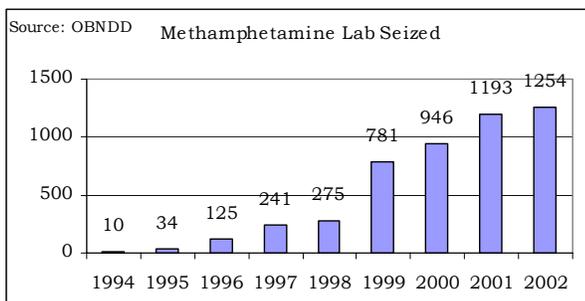
The Oklahoma Bureau of Narcotics and Dangerous Drugs Control's (OBNDD) primary objective is to minimize the availability of illegal drugs throughout Oklahoma. Current efforts to reduce availability include:

- Enforcing drug laws;
- Providing educational programs for demand reduction purposes; and
- Monitoring individuals licensed to prescribe drugs, and eradicating domestically grown marijuana.

Notable Achievements

- *In November 2003, OBNDD had a large role in an investigation that resulted in the seizure of over 1000 marijuana plants. The seizure prevented \$1.6 million worth of marijuana from being put on the streets.*
- *OBNDD has raised Congressional and state leaders' awareness of the state's Methamphetamine epidemic.*
- *OBNDD has helped state leaders write legislation that will curb the production and use of Methamphetamine.*

Methamphetamine Seizures



Since FY-1999, the Legislature has provided \$711,000 to hire eight additional investigative agents and criminal analysts. However, due to revenue shortfalls OBNDD has only increased their number of agents by five.

These five additional positions and several recent significant federal grants to various state and local law enforcement agencies have strengthened Oklahoma's ability to combat our Methamphetamine outbreak.

FY-2005 Recommendation

The FY-2005 appropriation for the Bureau of Narcotics is the same as provided for FY-2004 with the following adjustment.

FY-2005 Appropriation	
<i>(amounts in thousands)</i>	
FY-2004 Appropriation	\$4,860
FY-2004 Bud. FTE Level	101.0
Actual Ave. YTD FTE	95.4
Funding Adjustments:	
Consolidate into OSBI	(458)
FY-2005 Recommendation	\$4,402
% Change for FY-2004	-9.42%
Source: Office of State Finance	

Consolidate: The Governor's budget proposes consolidating OBNDD into the Oklahoma State Bureau of Investigation. Consolidating will save the state approximately \$458,000 in administrative costs.

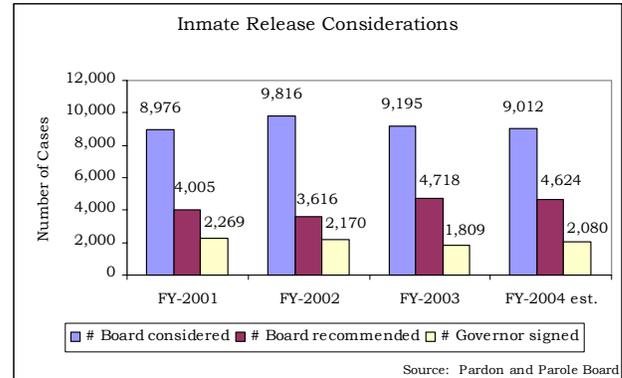
Pardon and Parole Board

The Pardon and Parole Board determines the best possible recommendations for the supervised release of adult felons, through a case-by-case investigative process. The Board strives to protect the public during this process and to maintain a low revocation and recidivism rate for the State of Oklahoma. With timely recommendations and appropriate community-level programs, the Board can contribute to the appropriate management and control of the State's inmate population.

Explanations of the Key Terms

- **Parole** is the release of a prisoner whose sentence has not expired, on condition of future good behavior.
- **Pardon** is the exemption of a convicted person from the penalties of an offense or a crime.
- **Clemency** is the act of leniency or mercy on an individual for a crime committed.

Governor makes the final decision on the clemency, with the restrictions and stipulations recommended by the Board.



	# Reports Completed	Parole/Commutations Considered	Revocations	Annual Victim Notifications
FY-2001	10,488	8,976	110	2,492
FY-2002	10,848	9,816	188	3,156
FY-2003	10,452	9,192	238	2,957
FY-2004 est.	10,248	9,012	233	2,850

Source: Pardon and Parole Board

The Board: The Pardon and Parole Board is a constitutional, 5 member, part-time body charged with making clemency recommendations to the Governor concerning convicted adult felons. Members of the Board are appointed: three by the Governor, 1 by the Chief Justice of the State Supreme Court, and 1 by the presiding Judge of the Court of Criminal Appeals. The members hold office coterminous with the Governor and meet several days each month at one of the State penal institutions. The following table shows a history of the monthly board member compensation:

Date	Board Member Mthly Pay	Board Chair Mthly Pay
pre 07/01/1988	\$300	\$300
07/01/1988	\$600	\$600
07/01/1997	\$800	\$800
07/01/2000	\$1,400	\$1,400
07/01/2001	\$1,900	\$2,067

Source: Pardon and Parole Board

The Board's staff determines parole eligibility for persons in the Department of Corrections' custody, prepares an extensive investigative report which includes a recommendation to the Board, and notifies the victims and other related entities. The Board reviews this information and makes recommendations for clemency on the various parole programs, commutations and pardons, as prescribed by law. Upon recommendation by the Board, the

FY-2005 Recommendation

<i>FY-2005 Appropriation</i>	
<i>(amounts in thousands)</i>	
FY-2004 Appropriation	\$2,115
FY-2004 Bud. FTE Level	37.0
Actual Ave. FTE Level	36.4
Funding Adjustments:	
Parole Investigator	<u>50</u>
FY-2005 Recommendation	\$2,165
% Change for FY-2004	2.36%
<small>Source: Office of State Finance</small>	

The FY-2005 recommended appropriation for the Pardon and Parole Board is the same as provided for FY-2004, with the following adjustment.

Parole Investigator: The Pardon and Parole Board currently has three Investigative positions vacant. The Governor’s budget recommends an additional \$50,000 in salary and benefits to fill one of those vacancies. The additional Investigator will help the agency maintain its current caseload. For FY-2004, the estimated caseload for an Investigator is 42.7 cases per month. The agency estimates this caseload will increase in FY-2005 with no changes. However, an additional Investigator will reduce the FY-2005 Investigator caseload to an estimated 42.3 cases per month. This will help to ensure that Investigative reports are on time and accurate.

Department of Public Safety

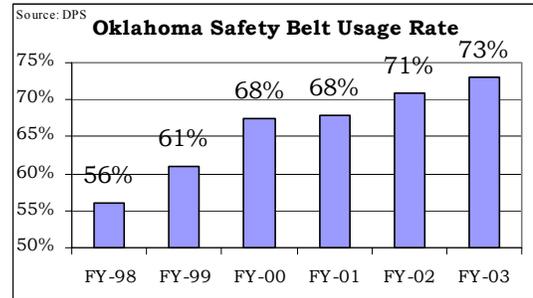
The Department of Public Safety (DPS) provides the following services to ensure a safe and secure environment for the citizens of this state:

- Coordinate the state's Homeland Security;
- Law Enforcement Services;
- Driver License Services;
- Motor Vehicle Operations; and
- Telecommunication Services.

The Department of Public Safety receives 1.2 % of the state's appropriated budget. Almost half of DPS's budget is funded by appropriations. Federal funds, largely due to Homeland Security grants, funds 33% of the agency's budget.

Notable Achievements

- *Nationally recognized Office of Homeland Security;*
- *More than 100 fewer traffic fatalities in 2003 than 2002;*
- *Implementation of a Digital Driver License System;*
- *Improved Oklahoma Highway Patrol vehicle fleet;*
- *Modernized OHP equipment and weapons;*
- *Improved Bomb Squad facilities;*
- *Improved Tactical Team equipment, weapons and facilities;*
- *All-time high statewide safety belt use rate.*



Office of Homeland Security

Title 74, Section 10.6 created the Office of Homeland Security within DPS. Duties prescribed by law include coordinating with Federal agencies to implement a National Homeland Security Plan, as well as coordinating and preparing applications for federal funds.

The Federal Office of Domestic Preparedness (ODP) has awarded over \$37 million to the Office of Homeland Security in several grants. The ODP grants have generally mandated that 80% of the funds be passed through to local governments and be used to equip and train first responders. The federal dollars have also been used for training exercises related to Weapons of Mass Destruction, equipping and preparing state agencies for attacks, and statewide planning.

In 2003, the Office of Homeland Security awarded \$25 million in federal funds to local agencies throughout the state. Almost all of the funds went to the First Responder Equipment Program (FREP).

Law Enforcement Services

- **The Oklahoma Highway Patrol (OHP)** patrols over 96,000 miles of road, investigates collisions and enforces size and weight laws. OHP also assists local and federal agencies following a federal disaster.

- **Lake Patrol** enforces laws on state lakes.
- **Executive Security** provides security and transportation for the Governor and Lt. Governor.

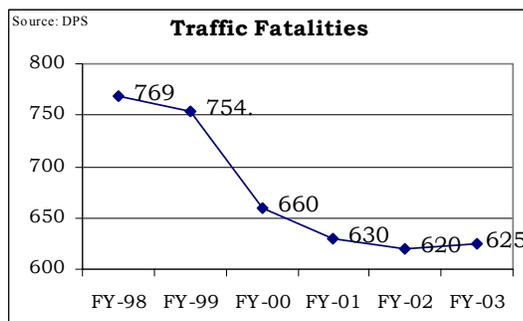
Trooper Strength

The chart below compares the level of trooper strength in Oklahoma relative to surrounding states. Per trooper, our state has less registered vehicles, crashes, square miles and population than the regional average. This verifies Oklahoma has made a commitment to making travel safe for our citizens.

Trooper Strength (Calendar Year 2003)						
Source: OSP	Register	Highway	Crashes	Square	Population	Total
	Vehicles Per	Miles Per	Per	Miles Per	Per	Number of
	Trooper	Trooper	Trooper	Trooper	Trooper	Troopers
Arkansas	5,244	45	47	144	7,507	361
Kansas	5,390	24	21	185	6,145	442
Missouri	6,675	161	65	108	8,863	640
New Mexico	2,464	135	16	205	3,139	591
Texas	7,745	114	41	139	11,579	1881
Regional Avg.	5,504	96	38	156	7,447	N/A
Oklahoma	4,662	138	30	101	5,161	677

Traffic Fatalities

Enforcement of seat belt laws by OHP Troopers has significantly increased Oklahoma’s safety belt usage rate. As a result, the number of traffic fatalities has drastically declined. Below is a chart that illustrates the decline.



Driver License Services

DPS significantly enhanced the protection of our state by starting the Digital License Program. In August of 2003, DPS began issuing digital licenses in the Tulsa and Oklahoma

City areas. DPS hopes to have the program fully implemented statewide by the end of FY-2004.

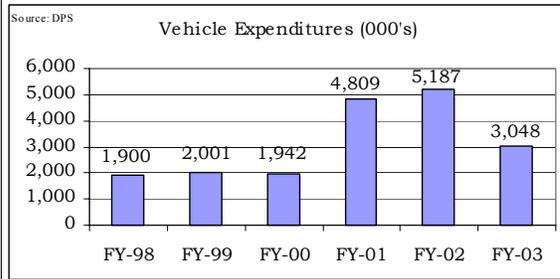
The Digital License program presents these advantages:

- A more effective tool in locating lost, missing or wanted persons; and
- A secure form of identification for Oklahoma Citizens; and an accurate and reliable way to capture and store a digitized signature and fingerprint.

Vehicle Replacement

DPS owns and maintains over 1,200 vehicles. In the 2000 legislature, state leaders created a new dedicated revenue source for vehicle replacement. HB1920 raised fines assessed on persons convicted of a variety of traffic offenses on a state highway, turnpike or county road. The law directed DPS to deposit all revenues in the new Vehicle Replacement Revolving Fund. DPS officials estimate that this new revenue source generates \$3 million a year of vehicle revenue. Prior to the new funding, the agency primarily used state appropriated dollars to replace vehicles with 100,000 to 125,000 miles. With the new revenue, DPS is able to replace vehicles usually before the vehicles travel 100,000 miles.

However, due to budget cuts DPS has not been able to reach the agency’s original goal of replacing vehicles before they reach 75,000 miles. In 2002, the law changed to allow DPS to use the Patrol Vehicle Revolving Fund to “equip vehicles”. For FY-2003, DPS used \$83,000 to pay the salaries of positions who equip vehicles. Since FY-2003, DPS has redirected over \$2 million dollars annually of state appropriations that was previously allocated for vehicle purchases to address other operating needs.



800 Megahertz Communication System

Over the past 20 years, DPS has been working to implement a statewide telecommunication system.

As of FY- 2004, The State of Oklahoma has invested \$28.1 million in the 800-megahertz communication system. The system has 11 operating sites, 2 dispatch locations and approximately 500 subscriber radios. It provides wireless communication to state troopers in East-Central Oklahoma. However, resources have not been available to make this a statewide communication system.

DPS’s plan for a statewide system separates construction into six different phases. DPS has completed the first two phases covering over 1.8 million of the population and 12 counties. Those 12 counties include Tulsa, Oklahoma and Cleveland counties.

DPS is requesting \$79.7 million to complete the remaining four phases.

- Phase III: will complete the northeast quadrant of the state and the H.E Bailey Turnpike at a cost of \$11.1 million;
- Phase IV: will complete the southeast quadrant of the state at a cost of \$9.9 million. After completion of this phase, the system will cover 70% of the state;
- Phase V: will complete the northwest quadrant, at a cost of \$11.1 million; and

- Phase VI: will complete the Southwest quadrant and mark completion of the statewide system. Phase VI will require a \$5.6 million investment.

FY-2005 Recommendation

FY-2005 Appropriation	
<i>(amounts in thousands)</i>	
FY-2004 Appropriation	\$62,430
One-time Adjustments	(1,500)
FY-2004 Base	\$60,930
FY-2004 Bud. FTE Level	1,477.2
Actual Ave. YTD FTE	1,421.9
Funding Adjustments:	
Highway Patrol Academy	2,300
Homeland Security	400
Mandatory Step Increases	341
Unanticipated Savings Digital Driver License. System	(1,450)
Total Adjustments	1,591
FY-2005 Recommendation	\$62,521
\$ Change from FY-2004	\$91
% Change for FY-2004	0.15%

Source: Office of State Finance

The FY-2005 appropriation for the Department of Public Safety is the same as provided for FY-2004 with the following adjustments.

Remove One-Time: The Governor’s budget removes a FY-2004 one-time appropriation of \$1.5 million for Capitol security.

Highway Patrol Academy: Due to the significant number of trooper retirements anticipated in ensuing fiscal years, the Governor’s budget proposes \$2.3 million for a 72 cadet Academy.

Homeland Security: An additional \$400,000 is proposed for the Office of Homeland Security. These dollars will partially replace federal dollars as well

as enable the Office of Homeland Security to hire additional staff.

Mandatory Step Increases: These dollars will help DPS meet mandated step increases for Troopers and Dispatchers.

Lower than expected digital costs: The actual costs of operating the digital Driver License System are lower than what was projected. For example, the cost per license issued is approximately \$2 compared to the projected amount of \$3.25. Considering DPS will issue around a million licenses in FY-04, the lower actual cost will save over \$1 million. Furthermore, the actual costs for telecommunication circuits for the digital system are also under original projections.

The Governor's budget reduces DPS' appropriation by \$1.4 million to account for the lower than anticipated costs.

Science and Technology

Summary of FY-2005 Budget Recommendations

(amounts are in \$000's)

Agency Name	FY-2004 Adj. Approp.	FY-2005 Base	FY-2005 Adj.	Final FY- 2005 Approp.	% Diff. From FY- 2004
Center for Adv. /Sc. & Tech.	\$11,015	\$11,015	(\$350)	\$10,665	-3.2%
Total Science and Technology:	\$11,015	\$11,015	(\$350)	\$10,665	-3.2%

Oklahoma Center for the Advancement of Science and Technology (OCAST)

The Oklahoma Center for the Advancement of Science and Technology (OCAST) seeks to expand and diversify Oklahoma's economy and provide new and higher quality jobs for Oklahomans by encouraging the development of products, processes, and industries. To achieve these goals, OCAST's charge is to:

- Support research and development;
- Facilitate technology transfer and commercialization;
- Stimulate seed-capital investment; and
- Encourage manufacturing competitiveness.

The Oklahoma Center for the Advancement of Science and Technology is the state's only agency focusing solely on technology - its development, transfer, commercialization and impact on our state's economy. Since inception, OCAST has administered \$118 million in state-appropriated money and leveraged \$5.68 for every dollar spent. That leverage represents more than one half billion dollars invested in Oklahoma research.

Notable Achievements

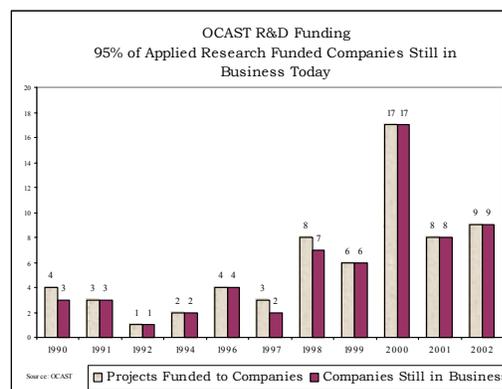
- OCAST awarded \$185,000 to *Production Specialties* who funded a project to mitigate the impact of chicken litter on the environment. This leveraged \$800,000 in federal funds. The project uses a patented process that converts the poultry waste into liquid fertilizer and electricity.
- *InterGenetics, Inc.* is a cancer-risk and cancer treatment company spun out of the Oklahoma Medical

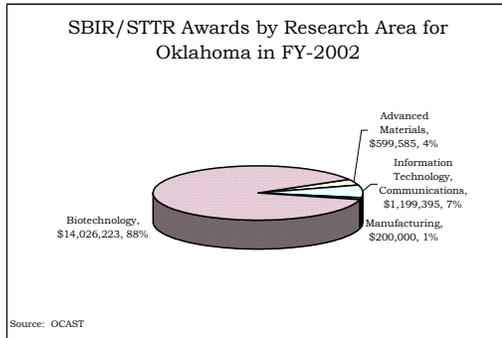
Research Foundation. With an OCAST award of \$300,000, the OMRF developed the *OncoVue-BR* test which examines a woman's DNA to determine the risk of developing breast cancer.

- *Novazyme Pharmaceuticals, Inc.* is a nationally recognized Oklahoma City based bio-therapeutics firm involved in research and development in the field of lysosomal storage diseases who received two awards from OCAST in the amount of \$250,000 and \$150,000. This rare but fatal muscle disease is responsible for breaking down glycogen into glucose within the cells.
- A retired optometrist developed *PC Peekers*. He came to the Oklahoma Inventors Assistance Service with the concept for computer reading glasses that he and his partner developed. Due to the Oklahoma Inventors Assistance Service who helped them receive their patents; they marketed the products and have sold over 50,000 pairs.

Research and Development

OCAST strives to select businesses with solid futures for research and development grants. Many startup businesses fail in the first few years. The following graph compares the number of OCAST grants each year with the number of companies still in business.

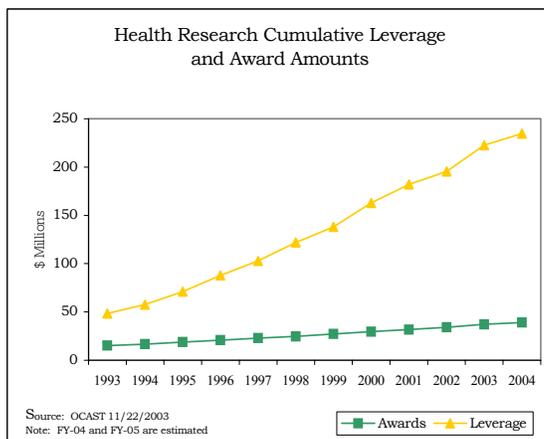




Health Research

The Oklahoma Health Research Program awards seed funds for research projects related to human health. The program funds projects for up to 3 years at a maximum level of \$45,000 per year. Eligible applicants are Oklahoma universities and colleges, non-profit research organizations and commercial enterprises.

Health Research awards enable researchers to gain expertise and produce data needed to obtain larger grants from federal agencies and other funding organizations. Awards permit research centers to recruit and retain health scientists, researchers and technicians. They contribute to improved health care while permitting expansion in biotechnology, biomedical and commercial enterprises in Oklahoma.



For every state dollar awarded in Health Research grants, it leverages almost five dollars in private and federal funds.

One test of successful research is the number of patents issued. The following chart shows varying results; however, the prospects for the future appear promising.

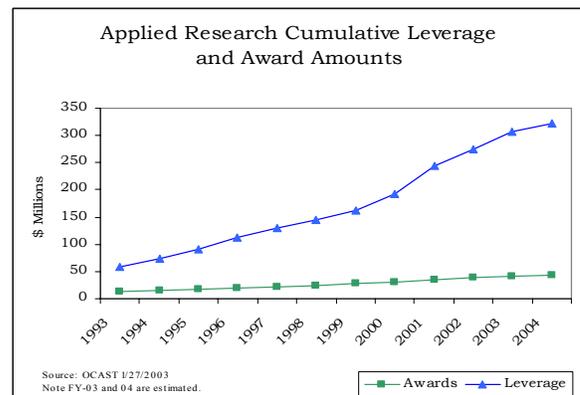
Health Research Patents

	FY-2000	FY-2001	FY-2002	FY-2003	FY-2004	FY-2005
Applications	10	16	10	26	28	29
Awards	3	10	2	10	12	13

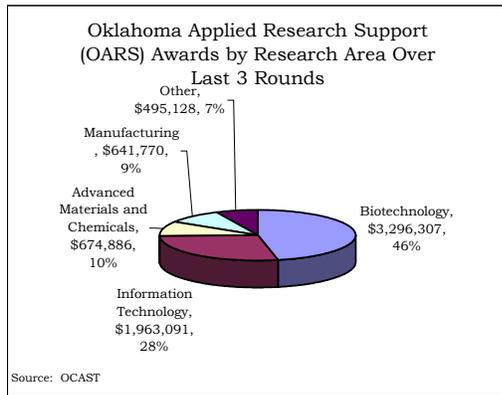
Source: OCAST
Note: FY-2004 and FY-2005 are estimated

Applied Research

The Oklahoma Applied Research Support (OARS) program was initiated to accelerate the development of technology with potential for producing a commercially successful product, process or service beneficial to Oklahoma's economy. OCAST, through the OARS program, provides incentive funding to applied research projects under terms which increase industrial research and development (R&D) investment and reward collaborative efforts. State incentive funding helps recipients leverage the capital required to develop and market technology.



For every state dollar awarded to Applied Research it leverages six dollars in private and federal funds.



Small Business Research Assistance (SBRA)

The SBRA program motivates and assists qualifying Oklahoma firms to compete for research funding under the federal Small Business Innovation Research and Small Business Technology Transfer Programs to develop commercially viable products.

These OCAST programs defray a portion of a qualifying firm’s federal Small Business Phase I proposal preparation costs and provide bridge funding between Phase I and Phase II federal grants. The programs also provide information and assistance to improve the quality of proposals.

The purpose of the R&D Faculty and Student Intern Partnerships program is to improve the state’s R&D base. This is accomplished by student and faculty internships in Oklahoma R&D facilities to encourage students to pursue careers at scientific and technical firms.

Oklahoma Applied Research Support R&D Faculty and Student Intern Partnerships acknowledge that the principal resource of institutions of higher education are the students and faculty. OARS internships provide student and faculty increased experience with R&D in a workplace environment. OARS funding for R&D Faculty and Student Intern

Partnerships support both one and two-year projects.

The Alliance for Manufacturing Excellence uses state, federal and local funding to provide hands-on assistance to help small-and medium-sized Oklahoma manufacturers become progressively more successful in their marketplace.

The Alliance establishes valuable partnerships among small and large manufacturers, business leaders, education institutions and government to share ideas, explore resources and work together to advance manufacturing.

OCAST sponsors the Oklahoma Technology Commercialization Center through a contract with the private, not-for-profit Oklahoma Technology Development Corporation. The Center works with Oklahoma companies, inventors, researchers and entrepreneurs to turn technological innovations into exceptional business opportunities for Oklahoma.

Services provided through the Center include:

- Technology assessments and technical concept analysis;
- Engineering, testing and prototype development;
- Market research and analysis;
- Economic feasibility studies;
- Development of strategic marketing plans;
- Development of strategic business plans; and
- Access to early stage risk capital.

The Center is the program manager for the Technology Business Finance Program designed to provide Oklahoma high-tech start-up companies with preliminary financing and early stage

risk capital to stimulate additional investment from private sources.

The Oklahoma Inventors Assistance Program is designed to help Oklahoma inventors navigate the invention process from idea to marketplace. Located on the Oklahoma State University campus in Stillwater, the program provides information, education, and referrals to service providers who have expertise in the invention process. Workshops and seminars are held on topics of direct concern to inventors. The website provides "A Showcase of Oklahoma Inventors" featuring a variety of products from Oklahoma individuals and firms.

FY-2005 Recommendations

FY-2005 Appropriation	
<i>(amounts in thousands)</i>	
FY-2004 Appropriation	\$11,015
FY-2004 Bud. FTE Level	24.0
FY-2004 Avg. YTD FTE	20.3
Funding Adjustments:	
Alliance for Mftg Excell.	(750)
OMRF	250
Health Research	<u>150</u>
Total Adjustments	(350)
FY-2005 Recommendation	\$10,665
% Change for FY-2004	-3.18%

Source: Office of State Finance

Alliance for Manufacturing

Excellence: The Governor's budget proposes moving the Alliance for Manufacturing Excellence from the Oklahoma Center for the Advancement of Science and Technology's budget to the Department of Commerce. The state's portion of the funding is over \$750,000.

Oklahoma Medical Research Foundation:

The Governor's budget provides funding (\$250,000 a year for four years) to support the development of fMRI, Functional Magnetic Resonance Imaging. fMRI is an imaging technique used to map the function of the various regions of the human brain. The instrument will allow researchers to assess cancer development and the progression of anatomical and skeletal changes in experimental live animal models.

Health Research:

The Governor's budget provides funding for Health Research grants in the amount of \$150,000. OCAST's increased Health Research award outlays provide additional opportunities for OCAST funded researchers to secure private and federal funding. This increase in awards along with increases in the National Institutes of Health budget provides the framework for increases in leveraged private and federal funds.

Secretary of State

Summary of FY-2005 Budget Recommendations

(amounts are in \$000's)

Agency Name	FY-2004 Adj. Approp.	FY-2005 Base	FY-2005 Adj.	Final FY- 2005 Approp.	% Diff. From FY- 2004
Election Board	\$8,195	\$6,195 ¹	\$795	\$6,990	-14.7%
Ethics Commission, Okla.	447	411 ²	189	600	34.2%
Judicial Complaints, Council	268	268	7	275	2.6%
Secretary of State	429	429	(429)	0	-100.0%
Total Secretary of State:	\$9,339	\$7,303	\$562	\$7,865	-15.8%

¹ FY-2005 Base Appropriation includes a reduction for one-time expenditures of \$2 million for HAVA matching funds.

² FY-2005 Base Appropriation includes a reduction for one-time expenditures of \$36,000 for attorney fees.

Election Board

The State Election Board coordinates all statewide elections for over 2,000 precincts in the State's 77 counties. Unlike Florida and many other states whose election system problems became evident in the 2000 national elections, Oklahoma's unified system serves as a model. In place for more than a decade, the uniform system provides:

- One voting system;
- One kind of ballot;
- One way of voting;
- One way of counting ballots; and
- One way of recounting ballots.

The election system used in Oklahoma provides fair treatment as well as quick, reliable results for voters, candidates, media, taxpayers and the public. Therefore, it is with pride that the Secretary of the State Election Board takes a position of leadership in the national debate around the establishment of statewide voting systems in other states.

Notable Achievements

- *One voting system;*
- *One kind of ballot;*
- *Overall uniformity and excellence.*

Help America Vote Act of 2002

(HAVA): This federal act was passed in light of the events of the Presidential Election of 2000. The legislation calls for a wide variety of improvements and also establishes a set of national standards that states must meet. For FY-2004, the Election Board was appropriated an additional \$2 million, which is set aside as federal matching money for HAVA. It is estimated that the largest expenditures necessary in Oklahoma will be in the areas of polling

place technology and disabled voter accessibility.

Presidential Preferential Primary

(PPP): During the FY-2003 legislative session, legislation was passed that moved the PPP from March to the first Tuesday in February. This move brings more national attention to the Oklahoma primary.

FY-2005 Recommendation

<i>FY-2005 Appropriation</i>	
<i>(amounts in thousands)</i>	
FY-2004 Appropriation	\$8,195
One-time Adjustments	(\$2,000)
FY-2004 Bud. FTE Level	25.0
Actual Avg. YTD FTE	21.9
Funding Adjustments:	
Presidential Primary (PPP)	\$795
FY-2005 Recommendation	\$6,990
% Change for FY-2004	-14.7%
<small>Source: Office of State Finance</small>	

The FY-2005 appropriation for the Election Board is the same as provided for FY-2004 with the following adjustment.

Presidential Primary Election: The Governor's budget includes \$795,000 to assist with funding the Presidential Preferential Primary (PPP).

Ethics Commission

The Ethics Commission was created by a vote of the people of the state per an initiative effort adding Article XXIX to the Oklahoma Constitution. The statewide vote on the amendment (State Question No. 627, Initiative Petition No.341) was held September 18, 1990. Commissioners were sworn in and began meeting in July, 1991. The Ethics Commission:

- administers ethics rules and state law regarding compliance and disclosure of campaign financing of state and county candidates;
- registers and regulates the compliance and disclosure of political and financial information of lobbyists;
- promulgates rules on official conduct, political activity, and disclosure of personal financial interest by state officers and employees; and
- investigates and prosecutes violations of state ethics rules and law.

Notable Achievements

- *Director Marilyn Hughes was President of the international organization COGEL (Council on Governmental Ethics Laws)*
- *Introduced OkCIDS (Oklahoma Campaign Information Disclosure System), which is available via the Internet.*

Fee Proposal: Research by the Ethics Commission staff confirms Oklahoma is one of 12 states that do not currently charge a fee for lobbyist registration. The proposed fee is an annual \$100 per lobbyist and a one-time \$1,000 fee per principal organization.

Description	Proposed Fee	Number	Revenue Impact
Principals	\$1,000	640	\$640,000
Lobbyists	\$100 annually	400	\$40,000
Total Revenue Estimate			\$680,000

The table above illustrates how much the fees will raise in support of agency functions.

Legislation is necessary to set the fees and require yearly filing by lobbyists and principal organizations.

FY-2005 Recommendation

FY-2005 Appropriation	
<i>(amounts in thousands)</i>	
FY-2004 Appropriation	\$447
One-time Adjustments	(\$36)
FY-2004 Base	\$411
FY-2004 Bud. FTE Level	6.1
Actual Avg. YTD FTE	7.0
Funding Adjustments:	
Lobbyist Fee	\$189
FY-2005 Recommendation	\$600
% Change for FY-2004	25.5%
Source: Office of State Finance	

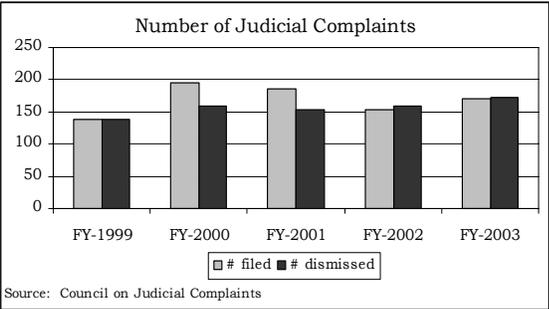
The FY-2005 appropriation for the Ethics Commission is the same as provided for FY-2004 with the following adjustments.

Lobbyist Fee: The Ethics Commission will receive additional funding that will be provided by the creation of the lobbyist fee.

Council on Judicial Complaints

Created in Title 20 of the Oklahoma Statutes, the Council on Judicial Complaints accepts and investigates complaints received from the public on judicial officers and their conduct, including 652 state municipal judges. The Council determines whether complaints are dismissed, warrant a reprimand or admonition or go before the Court on the Judiciary.

The Council consists of three members, each serving a five-year term, two of whom must be members of the Oklahoma Bar Association. The appointing authorities are the Speaker of the House of Representatives, the President Pro Tempore of the Senate, and the President of the Oklahoma Bar Association. Duties and responsibilities of the Council include holding hearings, administering oaths and receiving testimony and other evidence. The Council may also issue and serve subpoenas. Proceedings before the Council are confidential.



FY-2005 Recommendation

FY-2005 Appropriation	
<i>(amounts in thousands)</i>	
FY-2004 Appropriation	\$268
FY-2004 Bud. FTE Level	2.0
Actual Ave. YTD FTE	2.0
Funding Adjustments:	
Replace One-Time Funding	<u>7</u>
FY-2005 Recommendation	\$275
% Change for FY-2004	2.61%

Source: Office of State Finance

The FY-2005 recommended appropriation for the Council on Judicial Complaints maintains the FY-2004 appropriation level, with the following adjustment.

Replace One-Time Funding: The Governor’s budget provides \$7,000 to replace one-time sources of funds used for operations this year.

Secretary of State

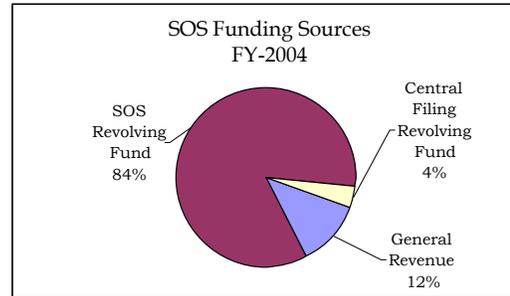
The Secretary of State (SOS), created in Article VI of the Oklahoma Constitution, has a number of constitutional and statutorily established duties. These include:

- Serving as the official repository of executive orders and official acts of the Governor;
- Filing and distributing copies of all laws enacted by the Legislature;
- Serving as the repository of inter local and cooperative agreements, including tribal agreements.
- Maintaining information about all meetings held under the Open Meeting Act;
- Maintaining a central registry for filing business documents on corporations and partnerships of all types;
- Maintaining official registration of charitable organizations and professional fund raisers and solicitors;
- Maintaining original certificates of all pardons and paroles.

Notable Achievements

- *Implementation of SoonerAccess allows for 24-hour public access to the Secretary of State's services;*
- *Business Entity, Notary and Trademark filings can be done on-line, therefore reducing costs.*

Funding Sources: The Secretary of State is funded in majority by revenue derived from several fees. Fees are collected for such things as Business Entity, Notary and Trademark filings.



Source: Office of State Finance

The Oklahoma Administrative Code and the Oklahoma Register:

Rulemaking authority, delegated to agencies by law, eliminates the need for excessive legislation. The Administrative Procedures Act provides the process for rulemaking and executive orders in *The Oklahoma Administrative Code* and *The Oklahoma Register*.

The Oklahoma Administrative Code is the official compilation of agency rules and executive orders for the State of Oklahoma. Cumulative supplements revise the *Code* annually.

The Oklahoma Register is a semi-monthly publication documenting administrative code changes between publications of the annual supplements. *The Oklahoma Register* includes new rules, amendments, revisions and revocations of existing rules, emergency rules, notices of proposed rules and the rulemaking process, executive orders, and local project funding contract announcements.

A text database, available via the internet, provides on-line search capabilities for the information compiled in the *Oklahoma Register* and *Oklahoma Administrative Code*.

Address Confidentiality Program:

The Address Confidentiality Program (ACP) provides services to residents who are victims of domestic violence, sexual assault and stalking. First, the program provides victims with a

substitute address for use in interacting with state and local agencies. The substitute address is not related to the victim's actual address and may be used as his or her residential, school and work address. Second, victims are provided with a cost-free mail forwarding service. The Secretary of State is the victim's agent for service of process and receipt of mail. Participant mail is forwarded.

Business Registration Services on the Internet: The Secretary of State is utilizing the Internet in an effort to cut costs and increase efficiency. Also, information available online is both customer service oriented and user friendly. In FY-2001, the agency contracted with NIC Conquest, Inc. to develop this new business registration system, *SoonerAccess*. *SoonerAccess* allows customers to submit the majority of business entity documents, trademarks/renewals, and Notary Public applications/renewals on-line. In addition, *SoonerAccess* provides customers access to their database to search business entity, trademark, and notary public information. These services provided are available 24 hours a day, 7 days a week.

FY-2005 Recommendation

FY-2005 Appropriation	
<i>(amounts in thousands)</i>	
FY-2004 Appropriation	\$429
FY-2004 Bud. FTE Level	47.2
Actual Avg. YTD FTE	37.2
Funding Adjustments:	
Add'l Revolving Funds	(\$429)
FY-2005 Recommendation	\$0
% Change for FY-2004	-100%
Source: Office of State Finance	

The FY-2005 appropriation for the Secretary of State is the same as provided for FY-2004 with the following adjustment.

Fee Increase: This increased revenue from fees will allow the Secretary of State to become non-appropriated.

Transportation

Summary of FY-2005 Budget Recommendations

(amounts are in \$000's)

Agency Name	FY-2004 Adj. Approp.	FY-2005 Base	FY-2005 Adj.	Final FY- 2005 Approp.	% Diff. From FY- 2004
Space Industry Development	\$516	\$366 ¹	\$0	\$366	-29.1%
Transportation Department	192,185	192,185	6,200	198,385	3.2%
Total Transportation:	\$192,701	\$192,551	\$6,200	\$198,751	3.1%

¹ FY-2005 Base Appropriation includes a reduction for one-time expenditures of \$150,000 for a safety study.

Oklahoma Aeronautics Commission (OAC)

The Oklahoma Aeronautics Commission OAC works closely with municipalities and the federal government to preserve and improve our state's 123 airports.

Oklahoma has the fourth largest number of airports per capita in the country. The airports are an asset for citizens, communities, and business interests. However, maintenance and airport improvement expenses accompany the benefits of having this airport infrastructure. To help pay these costs Aeronautics has the following dedicated revenues (\$ figures from FY-2002 actual).

- Aircraft excise taxes collected on sales of aircrafts - \$1.7 million
- Fees for registering aircraft with the Tax Commission -\$354,984
- Aviation Fuel Tax - \$110,000

Regional Business Airports Innovative Financing

In 2003, OAC adopted a new Oklahoma Airports System Plan. The plan's goal is to enhance economic development by increasing the number of regional airports that can accommodate business jets. Presently, the state has 49 regional airports, and 36 of them are business jet capable. Four of the thirteen that do not have such capable runways now have ongoing projects to make their runways jet capable.

FY-2005 Recommendation

The Oklahoma Aeronautics Commission is a non-appropriated agency.

Oklahoma Space Industry Development Authority (OSIDA)

OSIDA aspires to aid economic development in Oklahoma by stimulating the creation of space commerce, education and space related industries.

With assistance from the Southwest Oklahoma Development authority, OSIDA acquired the Clinton Sherman Airpark. This acquisition was ideal for development of space industry because of the airpark's advantages.

- Infrastructure in place
- Favorable weather conditions
- Community support
- Local business incentives
- Over 13,500 feet of runway and ramp space

RocketPlane LTD.

In January 2003, Rocketplane Limited Inc. announced they will begin development of a sub-orbital aircraft in Oklahoma. RocketPlane cited OSIDA, state leaders and the advantages of the Clinton-Sherman Airpark as the reasons for why they chose Oklahoma for this huge project.

Rocketplane will initially hire 68 employees and invest \$30 million for the project. The company plans to build the parts needed in Oklahoma City and then assemble the aircraft at the airpark.

FY-2005 Recommendation

FY-2005 Appropriation	
<i>(amounts in thousands)</i>	
FY-2004 Appropriation	\$516
One-time Adjustments	(150)
FY-2004 Base	\$366
FY-2004 Bud. FTE Level	4.0
Actual Ave. YTD FTE	3.5
Funding Adjustments:	
None	0
FY-2005 Recommendation	\$366
\$ Change from FY-2004	(\$150)
% Change for FY-2004	-29.07%

Source: Office of State Finance

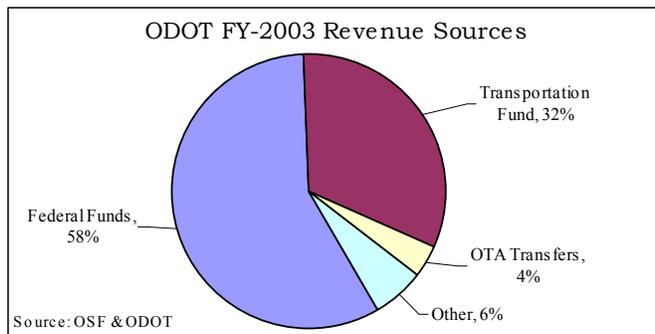
One-Time Adjustment: OSIDA is to complete a safety study at Burns Flat in FY-2004.

D

Department of Transportation

The Oklahoma State Department of Transportation (ODOT) is charged with the planning, construction, operation and maintenance of Oklahoma's state and federal transportation infrastructure. This includes highways, interstates, public transit, railroads and waterways.

The Department of Transportation is appropriated 3.8% of the state budget. The agency's primary revenue sources in FY-2003 were:



- Federal Funds: Largest source of revenue for ODOT – 58%
- Certified Transportation Fund: The main source of revenue is state fuel taxes – 32%
- Oklahoma Transportation Authority (OTA) Transfers: OTA transfers state fuel taxes collected on turnpikes if toll revenue is sufficient to meet its debt service obligations – 4%

Notable Achievements

- ODOT began construction on 328 projects totaling \$398.5 million during the fiscal year. Because of the agency's dedication to their construction plan, all of the projects were delivered on time.

- ODOT continued to receive awards of excellence for the project to restore service to I-40 near Webbers Falls.
- ODOT completed the upgrade of all "at grade" railroad crossings on the Burlington Northern Santa Fe railroad between Oklahoma City and the Red River. These upgrades allow for a safer and faster trip for passengers on AMTRAK's Heartland Flyer, which travels daily between Oklahoma City and Fort Worth.

GARVEE Bonds

The Grant Anticipation Revenue Vehicles program, or "GARVEE," allows the state to address immediate highway needs by issuing bonds and using future federal highway funds to retire them. Governor Henry directed ODOT to pursue a first phase of GARVEE projects valued at \$500 million.

The Governor has identified 12 "economic development" corridors for the GARVEE program where roads will be improved to help enhance the state's business climate. More than \$500 million will be spent on the first phase of the following corridor projects over the next four years.

GARVEE Projects

- Oklahoma City: US-77 (Broadway Extension) bridges and roadway with interchange at I-44, from one-fourth mile north of NW 63rd Street to NW 36th Street. COST: \$75 million
- Oklahoma City: US-77 (Broadway Extension) I-44 to Memorial Road. COST: \$28 million
- Tulsa: I-44 from Arkansas River bridge to Yale Ave. COST: \$75 million

- Tulsa: US-169 from I-244 to 21st Street.
COST: \$18 million
- Idabel: US-70 from Idabel to Hugo.
COST: \$60.5 million
- Durant: US-70 from I-35 to Durant.
COST: \$66 million
- Ada: Highway 99 from I-40 to Ada.
COST: \$26 million
- Sequoyah County: US-59 from US-271 to I-40 near Sallisaw.
COST: \$38 million
- SW Oklahoma: US-183 from US-70 to I-40.
COST: \$33 million
- Woodward: SH-3 from SH-34 in Woodward to SH-33 in Watonga.
COST: \$46 million
- Rogers County: SH-88 from US-412 in Inola to I-44 and SH-20/88 beginning at Claremore and ending at south bypass.
COST: \$46.5 million

\$150 million of the funding for phase II.

Phase I Capital funding:

- \$165 million appropriations
- \$300 million bond funds
- \$245 million Rainy Day Fund appropriations over a 4 year period

Phase II Capital Funding:

- \$150 million bonds
- \$150 million appropriations (not yet funded)

Bonds: In June 1998, the Oklahoma Capitol Improvement Authority (OCIA) issued \$300 million in ten year revenue bonds for Phase I. Two years later, OCIA issued \$150 million in bonds for phase II. OCIA owns the roads built with these bond proceeds, and leases them to the ODOT. OCIA covers debt service through the lease payments made by ODOT.

Road Program

In recent years, the state has invested a substantial amount in transportation. The Capital Improvement Program (CIP) was the largest investment in infrastructure in state history.

The Road Program enacted in 1997 planned on providing \$1 billion for infrastructure needs in two phases. The first phase provided \$710 million of highway system funding for five years beginning in FY-1998 from several sources. The second phase called for an additional \$300 million in investments as approved in 1999 by the Contingency Review Board (CRB) However, the state budget situation that developed in FY-2002 has delayed

Funding Provided for Road program							
\$ IN MILLIONS							
Fiscal Year	Road Program Phase I				Road Program Phase II		Totals
	Approps	Debt Service	Rainy Day	Bonds	Debt Service	Bonds	
FY-1998	\$34.9			\$50	\$300		\$384.9
FY-1999	40	28.4		60			128.4
FY-2000	40	39.4		52.6			132
FY-2001	33.1	39.4		52.6		150	275.1
FY-2002	40.8	39.4				19.9	100.1
FY-2003		39.4				18.9	58.3
Totals	\$188.8	\$186.0	\$215.2	\$300.0	\$38.8	\$150.0	\$1,078.8

Source: OSF

Project Funding: The Legislature authorized giving 10% of funding for CIP to each of ODOT's eight field divisions. Also, Divisions containing the high traffic and higher cost urban centers of Oklahoma City and Tulsa received an additional 10%.

Debt Service: In calendar year 2003, state officials refinanced the debt on CIP bonds and combined Phase I and 2 into one bond issue. The refinancing resulted in significant savings in fiscal

years 2004 and 2005. However, in FY-2006 ODOT will see a substantial increase of approximately \$50 million in their debt service requirements. Below is a chart that shows debt service requirements for FY-2004 and following fiscal years.

Maintenance

The pressure to build new roads in Oklahoma has diverted limited resources from maintenance. This has played a large role in why our roads and bridges have received poor condition ratings from the Federal Highway Administration. According to ODOT, Oklahoma has 3,350 miles of highways rated in inadequate or critical condition. Also, 1,156 bridges are structurally deficient and functionally obsolete.

	Count	Deficient	%
1 OKLAHOMA	22,989	7,684	33%
2 RHODE ISLAND	749	187	25%
3 PENNSYLVANIA	22,153	5,484	25%
4 MISSOURI	23,495	5,479	23%
5 MISSISSIPPI	16,809	3,652	22%
6 IOWA	24,955	5,069	20%
7 NORTH DAKOTA	4,517	859	19%
8 SOUTH DAKOTA	5,979	1,106	18%
9 MICHIGAN	10,799	1,990	18%
10 LOUISIANA	13,399	2,321	17%
11 VERMONT	2,716	461	17%
12 ALABAMA	15,697	2,611	17%
13 NEBRASKA	15,462	2,570	17%
14 WEST VIRGINIA	6,821	1,125	16%
15 NEW HAMPSHIRE	2,355	374	16%
State Highway System	6,700	1,600	24%

Federal Funds

ODOT has worked with congressional leaders to increase the state's share of federal transportation dollars. Currently, the state is guaranteed to receive back 90.5% of the road dollars sent to Washington. Congress is writing a new Transportation Authorization bill, and ODOT expects that Oklahoma's guaranteed percentage received back will be raised to 95%.

ODOT believes the increase in federal dollars may be as high as \$40-\$50

million dollars. These additional funds will go a long way in helping improve the condition of the state's highway infrastructure.

FY-2005 Recommendation

FY-2005 Appropriation	
<i>(amounts in thousands)</i>	
FY-2004 Appropriation	\$192,186
FY-2004 Bud. FTE Level	2,455.0
Actual Ave. YTD FTE	2,395.9
Funding Adjustments:	
CIP Debt Service	<u>6,200</u>
FY-2005 Recommendation	\$198,385
% Change for FY-2004	3.27%

Source: Office of State Finance

CIP Debt Service: The Governor's budget includes over \$6.2 million for an anticipated increase in FY-2005 debt service obligations.

Veterans

Summary of FY-2005 Budget Recommendations

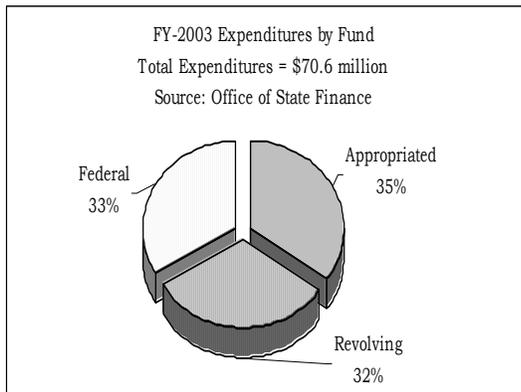
(amounts are in \$000's)

Agency Name	FY-2004 Adj. Approp.	FY-2005 Base	FY-2005 Adj.	Final FY- 2005 Approp.	% Diff. From FY- 2004
Veterans Affairs Department	\$26,943	\$26,943	\$2,242	\$29,185	8.3%
Total Veterans Affairs:	\$26,943	\$26,943	\$2,242	\$29,185	8.3%

Oklahoma Department of Veterans Affairs

The Oklahoma Department of Veterans Affairs provides medical and rehabilitative services for veterans and their families. The Department operates seven centers located in Norman, Clinton, Ardmore, Sulphur, Claremore, Talihina, and Lawton. The Centers provide intermediate to skilled nursing care and domiciliary care for war time veterans. In FY-2003, the average daily population in the Oklahoma Centers was approximately 1,227. The Department estimates that at any given time during FY-2004, over 1,200 honorably discharged veterans are on a waiting list for admission to one of the veterans centers.

The Department's funding comes from three primary sources. These sources are patient revenue, state appropriations and a federal per diem payment per veteran in each center. Each of the three funding sources makes up roughly one-third of the total.



Notable Achievements

Claremore Facility Alzheimer's Unit

A new wing of 52 beds at the Claremore Center was fully occupied in June 2003. This new wing is specially equipped and provides additional training for staff in dealing with Alzheimer's and related illnesses.

New Lawton Facility Opens

Construction was completed on the new 200 bed Lawton Center in late summer 2003. A dedication ceremony officially opening the new facility was held on September 5, 2003 and attended by Governor Henry and a host of other dignitaries and representatives of veterans' organizations. As of the end of December, 2003, there were 45 patients in residence at the facility and the Department's goal is to have 150 beds full by the end of June, 2004.

Almost 3,000 Veterans Received

Long Term Care *An unduplicated count of 2,879 honorably discharged veterans were served in Oklahoma's six fully operating Veterans Centers during FY-2003. This number represents the total number of veterans served during the year as opposed to the average daily population of the centers.*

Over 18,000 Benefit Claims

Submitted *The Claims and Benefit Division assisted veterans and their families in completing and submitting 18,034 claims in FY-2003. This was an increase of over 3,000 submittals since FY-2001. According to the agency, federal benefits such as compensation, pensions and medical assistance brought over \$7 million into Oklahoma during the same period.*

Bed Costs and Occupancy

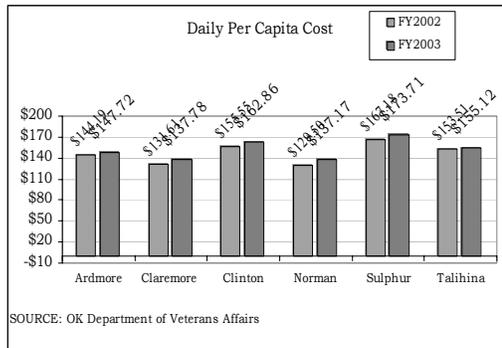
The following table shows the available beds for FY-2003 and FY-2004. The newly opened Lawton Center is not reflected on this chart. The agency estimates that 150 of the 200 Lawton beds will be occupied by the end of FY-2004.

FY-2005 Executive Budget

	Available Beds FY-2003	Occupancy Rate FY-2003
Ardmore	175	98.00%
Claremore	302	95.30%
Clinton	145	98.09%
Norman	301	96.93%
Sulphur	132	99.66%
Talihina	<u>184</u>	<u>82.36%</u>
Total	1,239	94.62%

SOURCE: ODVA

The following chart shows the average daily per capital cost by facility in FY-2002 and FY-2003. The overall average daily cost per capita for all facilities in FY-2003 was \$152.39.

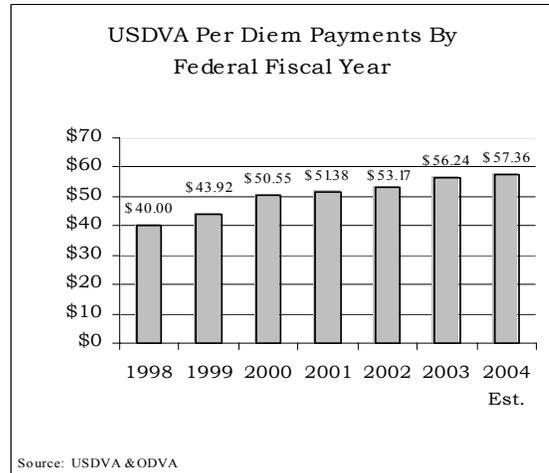


Construction projects Funding for construction is shared between the state and federal government. The state portion of 35% is provided through bond revenue and debt service payments are built into the agency's appropriated budget. The United States Department of Veterans Affairs pays 65% of the cost of construction or renovation of a state nursing facility once the project is put on the federally approved construction priority list. The state is required to certify that 35% of the cost has been provided prior to final approval of the federal match.

Federal Funds

The U.S. Department of Veterans Affairs (USDVA) pays for a portion of the care provided in our Veterans Centers. Payment is made for each day and each bed that is occupied. Such

payments are often referred to as "per diem." Federal per diem payments usually increase each year, but by varying amounts.



The overlap of the two fiscal years in addition to the payment lag built into the system results in the federal per diem payments affecting more than one state fiscal year. During the first five months of each state fiscal year, July through November, the state receives payment based on the previous year's rate from the USDVA. For the last seven months of the state fiscal year, December through July, the state receives the rate based on the current federal fiscal year. The payment system works like this:

- The federal per diem rate increase becomes effective on October 1.
- In early November, the ODVA reports to the USDVA the number of veterans in their centers during October.
- Payment based on October's increased payment is received by the ODVA in December.

FY-2005 Recommendation

<i>FY-2005 Appropriation</i> <i>(amounts in thousands)</i>	
FY-2004 Appropriation	\$26,943
FY-2004 Bud. FTE Level	1,701.7
Actual Ave. YTD FTE	1,551.0
Funding Adjustments:	
Increased Debt Service	242
Annualize Operations - Lawton Veterans Center	<u>2,000</u>
Total Adjustments	2,242
FY-2005 Recommendation	\$29,185
% Change for FY-2004	8.32%

Source: Office of State Finance

Increased Debt Service: The Governor's budget includes \$242,000 for an anticipated increase in FY-2005 debt service obligations.

Annualize operations of the Lawton Veterans Center: The Governor's budget includes funding for a full year of operations for the Lawton Veterans Center in FY-2005.

Legislature

Summary of FY-2005 Budget Recommendations

(amounts are in \$000's)

Agency Name	FY-2004 Adj. Approp.	FY-2005 Base	FY-2005 Adj.	Final FY- 2005 Approp.	% Diff. From FY- 2004
House of Representatives	\$17,438	\$17,438	\$0	\$17,438	0.0%
Legislative Service Bureau	2,061	2,061	0	2,061	0.0%
Senate	12,148	12,148	0	12,148	0.0%
Total Legislature:	\$31,647	\$31,647	\$0	\$31,647	0.0%

House of Representatives, Legislative Service Bureau and State Senate

The House of Representatives, Legislative Service Bureau (LSB) and State Senate represent the legislative branch.

The Oklahoma Legislature consists of 101 members in the House of Representatives and 48 members in the State Senate. They convene annually beginning on the first Monday in February, and adjourn on the last Friday in May. Normally, the Legislature is in session Monday through Thursday, but extra sessions may be called by the Governor or by the Legislature.

State Senators serve staggered four-year terms, and members of the House of Representatives serve two-year terms.

Each house of the Legislature considers four different types of legislation. Bills will become law when passed by both houses and signed by the Governor. Joint Resolutions will have the effect of law if passed by both houses, but may not become part of the statutes. Concurrent resolutions express the will of both of the houses. Lastly, they can pass simple resolutions, which express the will of the house of origin.

In 1990, voters in Oklahoma decided to adopt term limits for legislators. Therefore, legislators have a 12-year limit on service in the House of Representatives, the Senate, or both.

Oklahoma Criminal Justice Resource Center (OCJRC)

The Oklahoma Criminal Justice Resource Center provides a clearinghouse for local, state and federal criminal justice information.

Offender Data Information System (ODIS): ODIS is a comprehensive data processing service, operated by OCJRC. Using Federal grants, OCJRC has installed ODIS in 82 local law enforcement agencies across the state. ODIS is a tool that allows local officers in the field to interface with law enforcement agencies in other cities, counties and at the state level. This assists local law enforcement agencies track offenders across the state.

Judiciary

Summary of FY-2005 Budget Recommendations

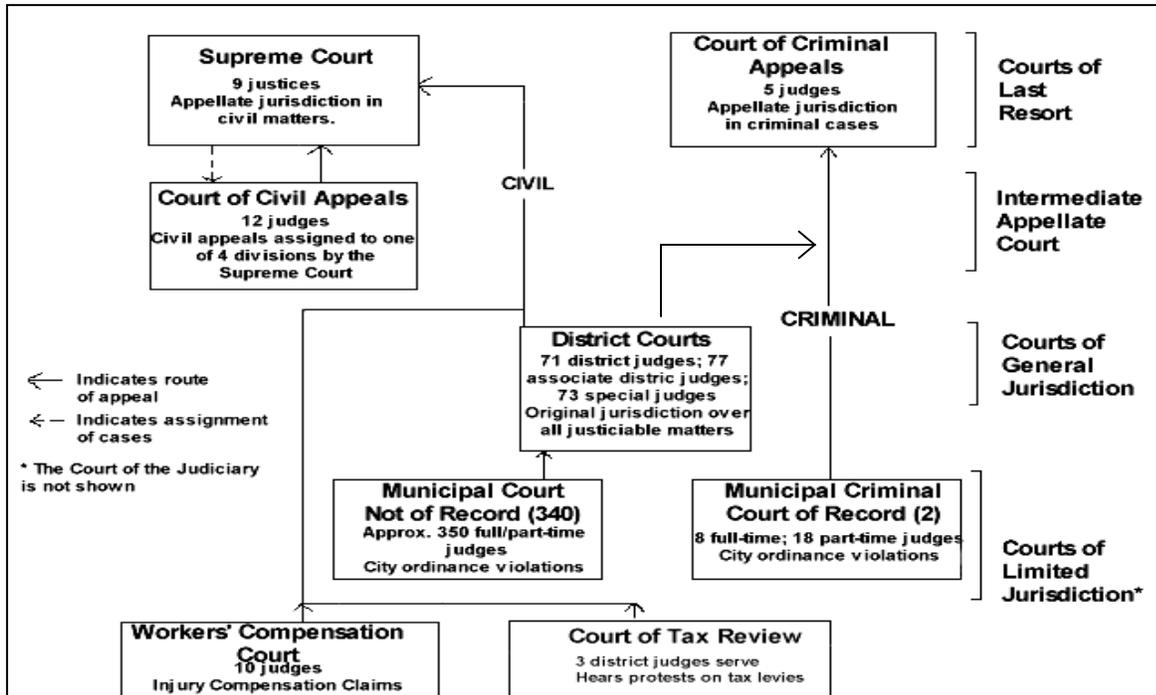
(amounts are in \$000's)

Agency Name	FY-2004 Adj. Approp.	FY-2005 Base	FY-2005 Adj.	Final FY- 2005 Approp.	% Diff. From FY- 2004
Court of Criminal Appeals	\$2,634	\$2,634	\$63	\$2,697	2.4%
District Courts	40,897	40,897	2,100	42,997	5.1%
Supreme Court/Appeals	11,962	11,962	1,802	13,764	15.1%
Workers' Comp. Court	3,692	3,692	0	3,692	0.0%
Total Judiciary:	\$59,185	\$59,185	\$3,965	\$63,150	6.7%

The Judiciary

Court Organization: The Supreme Court, the Court of Criminal Appeals, the Court of Civil Appeals and 77 District Courts make up the Oklahoma Court System. The Administrative Office of the Courts provides administrative services for the Court System.

Public Safety, Oklahoma Corporation Commission and the Department of Human Services. The Supreme Court has total discretion in deciding which cases it will hear and directs many of these appeals to the Court of Civil Appeals.



Unlike most states, Oklahoma has two courts of last resort. The Supreme Court determines all issues of a civil nature, and the Oklahoma Court of Criminal Appeals decides all criminal matters. The Governor appoints members of these courts, and of the Court of Civil Appeals, from a list of three names submitted by the Oklahoma Judicial Nominating Commission.

In Oklahoma, all litigants are entitled to one appeal as a matter of right. Appeals to the Court of Criminal Appeals come directly from the District Court. All appeals in civil cases are made to the Oklahoma Supreme Court. Appeals may be made to the Supreme Court from the District Court, Workers' Compensation Court, Court of Tax Review and state agencies such as the Department of

The State Judicial Fund

The State Judicial Fund (SJF) is an important source of funding for the judiciary. The SJF is a certified fund, with funds available for the next fiscal year "certified" by the State Board of Equalization. The Administrative Office of the Courts (AOC) develops the projection of revenues that the Equalization Board certifies. The Legislature can then appropriate 95% of the certified estimate for state judiciary needs.

The ability to estimate SJF revenues depends on local court collections, local court expenditures and reserve requirements. Revenues for the court fund are based on local collections of fees, fines, costs and forfeitures; but

the SJF receives revenues only after the local courts have met their expense and cash flow reserve needs.

Title 20, Section 1301, et seq. states: “All fees, fines, costs and forfeitures shall, when collected by the court clerk, be deposited in a fund in the county treasury designated ‘The Court Fund’, and shall be used, from year to year, in defraying the expenses of holding court in said county.”

County court clerks deposit in the SJF the amount by which local court receipts exceed expenses for the reporting period. The statute also allows court clerks to retain 20% of their expenses for the reporting period from the excess amount. Title 20, Section 1308 requires court fund transfers to be either quarterly or monthly, depending on county population.

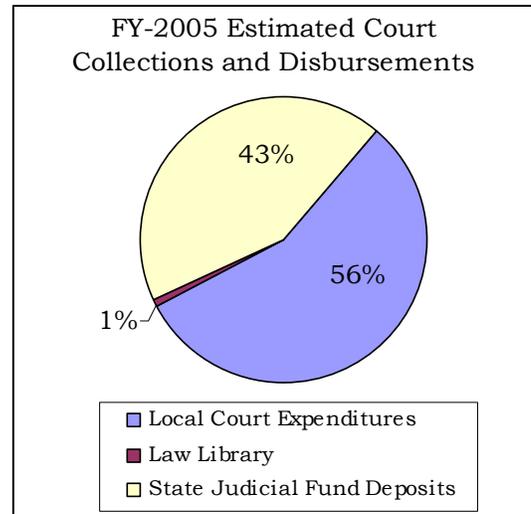
Over the last ten years, court fund collections have experienced solid growth. Local court expenditures, however, have grown at a slightly higher rate.

Local court obligations fall into three basic categories:

1. Lump sum expenses: Jurors and witnesses, guardianship evaluations, publications, supplies, telephones, etc.;
2. Restricted expenses: Renovation, remodeling, maintenance, furniture and fixtures, part-time bailiffs, part-time court clerks (which are generally full-time employees), per diem court reporters, etc.; and
3. Mandated expenses: Law library assessments and contributions to the SJF.

Lump sum expenditures are closely related to court caseloads and case complexities. These costs vary from year to year. Restricted expenditures relate to work force and facility needs and tend to be predictable. Statute establishes the mandated expenditures.

Over the last ten years, certain local court expenses have shifted from the local court budget to the state budget. Expenses now paid at the state level include the cost of providing indigent criminal defense for 75 counties and the elimination of the requirement to place or apportion 10% of court fund collections to the State Judicial Retirement Fund. This cost-shift has offset even greater growth in local court expenditures and allowed court fund collections continued growth.



SOURCE: The Administrative Office of the Courts

\$000's	Actual	Actual	Actual	Actual	Est.	Est.
	FY-2000	FY-2001	FY-2002	FY-2003	FY-2004	FY-2005
Total Collections	\$53,017	\$57,604	\$63,006	\$65,010	\$73,670	\$77,530
Local Court Expenditures	32,876	36,228	37,807	39,398	41,500	43,500
Law Library	344	567	562	531	570	570
St. Judicial Fd Deposits	20,614	20,665	24,470	25,827	31,600	33,460

SOURCE: The Administrative Office of the Courts

Court of Criminal Appeals

The Court of Criminal Appeals is the highest court in the State of Oklahoma with appellate jurisdiction in criminal cases. It is the court of last resort in criminal matters, with appeals coming directly from the District Courts and Municipal Courts of Record. The Court also promulgates rules, procedures and uniform jury instructions in criminal cases.

In recent years, the Court of Criminal Appeals has extinguished its backlog, guaranteeing that both the State and individual litigants have a speedy resolution of appellate issues relating to crimes committed in Oklahoma. Currently, the Court decides between 1,450 and 1,800 cases a year. Judge Charles Johnson is presiding judge.

FY-2005 Recommendation

FY-2005 Appropriation	
<i>(amounts in thousands)</i>	
FY-2004 Appropriation	\$2,634
FY-2004 Bud. FTE Level	30.0
Actual Ave. YTD FTE	27.5
Funding Adjustments:	
Replace One-time Funding	<u>63</u>
FY-2005 Recommendation	\$2,697
% Change for FY-2004	2.38%
<small>Source: Office of State Finance</small>	

The FY-2005 appropriation for the Court of Criminal Appeals is the same as provided for FY-2004 with the following adjustment.

Replace One-time Funding: The Governor's budget provides \$62,600 to replace one-time sources of funds. These funds will be used for salaries in FY-2005 and will allow the Court to restore some of the staffing lost in prior year's budget cuts.

District Courts

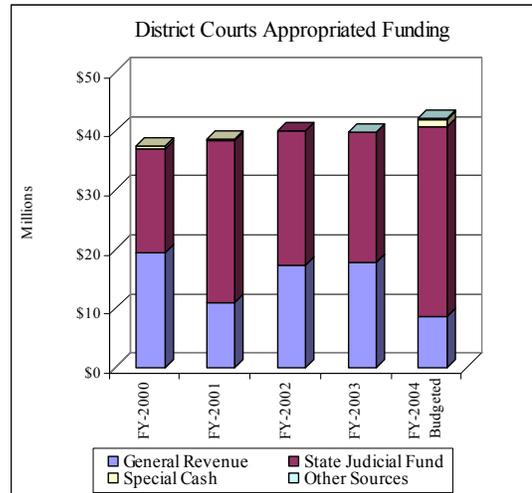
In Oklahoma, the court of general jurisdiction is the District Court. Seventy-seven district courts hear both criminal and civil cases and form the backbone of the court system. Currently, there are nine judicial administrative districts managing 26 judicial districts in the State of Oklahoma. Presiding judges are elected by their peers to assist in the administration of Oklahoma's trial courts. District judges, associate district judges, and special judges often serve as the first contact a person may have with the judicial system.

SB 81: SB 81, passed in the 2003 Legislative session, increased fees for filing civil actions and small claims, certain marriage licenses, actions for divorce or probate, and for requesting jury trials. Fines for speeding, miscellaneous traffic violations, and DUI were also increased. The increases are estimated to raise \$10 million in FY-2004 to replace \$9.5 million in General Revenue. This will raise the amount of the court's funding that comes from fines, fees and forfeitures to 75% of the court's total budget for FY-2004.

Under the current system, the District Courts collect fines, fees and bond forfeitures. Local courts deposit a portion in the Law Library Fund, cover local operating expenditures and deposit the remaining amount in the State Judicial Fund.

District Court Funding Resources:			
\$000's	FY-2002	FY-2003	FY-2004
General Revenue	\$16,656	\$16,847	\$8,240
State Judicial Fund	22,534	21,834	31,658
Special Cash	0	0	1,000
443 Fund	0	110	240
Gen Rev Carryover	579	854	401
SJF Carryover	334	236	506
TOTAL	40,103	39,880	42,045

SOURCE: Office of State Finance



SOURCE: Office of State Finance

FY-2005 Recommendation

FY-2005 Appropriation	
<i>(amounts in thousands)</i>	
FY-2004 Appropriation	\$40,897
FY-2004 Bud. FTE Level	614.0
Actual Ave. YTD FTE	603.3
Funding Adjustments:	
Replace One-Time Funding	2,100
FY-2005 Recommendation	\$42,997
% Change for FY-2004	5.13%

Source: Office of State Finance

The FY-2005 appropriation for the District Courts is the same as provided for FY-2004, with the following adjustment.

Replace One-time Funding: The Governor's budget provides \$2.1 million to replace one-time sources of funds used for operations this year. The recommendation includes funds to replace the Court's programmed vacancy rate.

Supreme Court

The Oklahoma Supreme Court is the highest court in Oklahoma for civil matters. The Court consists of nine Justices. Each Justice is selected from one of nine judicial districts. The Justices stand for retention on a six-year rotating schedule. The retention ballot appears on general election ballots and is a non-partisan, non-competitive election process. Chief Justice Joseph M. Watt is presiding judge.

Over the last ten years, the Court has reduced its backlog of cases from 3,331 in 1998 to 1,476 in January 2003. Besides deciding cases, this court is also responsible for administering the State's entire judicial system.

Wiley Post Building Renovation: The Supreme Court is currently in the process of renovating the Wiley Post Historical Building for adaptive use as a Judicial Center to house the Oklahoma State Supreme Court, the Court of Criminal Appeals, the Court of Civil Appeals, Administrative Offices of the Courts and the Court Clerk.

The total cost of the project is estimated at \$24.8 million. HB 3065 and HB 3066, passed into law during the 1998 Legislative session, allowed lease revenue obligations to be issued in 1999 to provide funds to begin the project. Currently, the capital outlay bond issue authorized by SB 973 in the 2000 Legislative session has provided \$10 million. The Court needs additional funding of \$17.1 million to complete the project.

FY-2005 Recommendation

FY-2005 Appropriation	
<i>(amounts in thousands)</i>	
FY-2004 Appropriation	\$11,962
FY-2004 Bud. FTE Level	155.9
Actual Ave. YTD FTE	142.5
Funding Adjustments:	
Cost Collection Program	147
Increased Debt Service	202
Replace One-Time Funding	1,394
General Operating Increase	59
Total Adjustments	1,802
FY-2005 Recommendation	\$13,764
% Change for FY-2004	15.06%

Source: Office of State Finance

The FY-2005 appropriation is the same as provided for FY-2004, with the following adjustments.

Cost Collection Program: The Governor's budget provides \$147,003 for the Cost Collection Program. This will allow funding for a Cost Collection Director and should increase the amount of delinquent fines or fees collected and deposited in the State Judicial Fund by \$750,000 in FY-2005.

Debt Service: The Governor's budget includes \$202,000 for an anticipated increase in FY-2005 debt service obligations.

Replace One-Time Funding: The Governor's budget provides \$1.4 million to replace one-time sources of funds used for operations this year. The recommendation includes funds to replace the Court's programmed vacancy rate.

General Operating Increase: The recommendation also provides \$58,976 for general operating increases.

Workers' Compensation Court

The Workers' Compensation Court is comprised of ten Judges. This limited tribunal considers cases involving on-the-job injuries occurring while an employee is in the scope of employment.

FY-2005 Recommendation

<i>FY-2005 Appropriation</i>	
<i>(amounts in thousands)</i>	
FY-2004 Appropriation	\$3,692
FY-2004 Bud. FTE Level	90.4
Actual Ave. YTD FTE	90.7
Funding Adjustments:	
None	<u>0</u>
FY-2005 Recommendation	\$3,692
% Change for FY-2004	0.00%

Source: Office of State Finance

The FY-2005 appropriation for the Workers' Compensation Court is the same as provided for FY-2004.

FY-2005 Executive Budget

December Equalization Board Revenue			
Funds Available:	FY-2004	FY-2005	Difference
1. General Revenue Fund			
Certified	\$ 4,174,895,398	\$ 4,271,982,513	\$ 97,087,115
Prior Year Certified	-	23,741	23,741
Cash	9,800,000	34,392,644	24,592,644
Total General Revenue:	\$ 4,184,695,398	\$ 4,306,398,898	\$ 121,703,500
2. C.L.E.E.T.			
Certified	\$ 2,446,493	\$ 2,493,824	\$ 47,331
Cash	489,662	354,142	(135,520)
Total C.L.E.E.T.	\$ 2,936,155	\$ 2,847,966	\$ (88,189)
3. Judicial Fund			
Certified	\$ 29,887,027	\$ 31,787,027	\$ 1,900,000
Cash	2,370,519	3,484,612	1,114,093
Total Judicial Fund	\$ 32,257,546	\$ 35,271,639	\$ 3,014,093
4. Mineral Leasing Fund			
Certified	\$ 1,330,000	\$ 1,710,000	\$ 380,000
Cash	0	220,057	\$ 220,057
Total Mineral Leasing Fund	\$ 1,330,000	\$ 1,930,057	\$ 600,057
5. OHSa Fund			
Certified	1,503,660	1,587,165	\$ 83,505
Cash	99,446	268,102	168,656
Total OHSa Fund	1,603,106	1,855,267	\$ 252,161
6. Public Building Fund			
Certified	\$ 1,158,145	\$ 1,291,145	\$ 133,000
Cash	-	285,488	285,488
Total Public Building Fund	\$ 1,158,145	\$ 1,576,633	\$ 418,488
7. Special Cash Fund	\$ 30,260,137	\$ 373	\$ (30,259,764)
Bond Fund - Series A	11,484	45,900	\$ 34,416
Bond Fund - Series B	30,182	1,290	\$ (28,892)
Total Bond Fund	\$ 41,666	\$ 47,190	\$ 5,524
8. Federal Funds available for appropriation	\$ -	\$ 117,340,221	\$ 117,340,221
Subtotal General Use	\$ 4,254,282,153	\$ 4,467,268,244	\$ 212,986,091
			\$ -
Restricted Funds			
9. Commission of the Land Office			
Certified	\$ 4,095,100	\$ 5,472,903	\$ 1,377,803
Prior Year Certified	0	0	
Cash	-	11	11
Total Commission of the Land Office Fund	\$ 4,095,100	\$ 5,472,914	\$ 1,377,814
10. State Transportation Fund			
Certified	\$ 192,185,387	\$ 192,126,011	\$ (59,376)
Prior Year Certified	-	-	-
Cash	-	-	-
Total State Transportation Fund	\$ 192,185,387	\$ 192,126,011	\$ (59,376)
Total Restricted and Non-Restricted:	\$ 4,450,562,640	\$ 4,664,867,169	\$ 214,304,529
11. Common Ed Technology Fund	\$ 26,292,114	\$ 27,430,025	\$ 1,137,911
12. Oklahoma Student Aid Revolving Fund	\$ 26,292,114	\$ 27,430,025	\$ 1,137,911
13. Oklahoma Higher Education Capital Fund	\$ 26,292,114	\$ 27,430,025	\$ 1,137,911
14. 1017 Education Reform Fund	\$ 524,248,646	\$ 381,829,699	\$ (142,418,947)
15. Tobacco Settlement Fund	\$ 27,340,990	\$ 18,897,492	\$ (8,443,498)
Total	\$ 5,081,028,618	\$ 5,147,884,435	\$ 66,855,817
16. Rainy Day Fund-Budget Stabilization	\$ 36,199,498	\$ -	\$ (36,199,498)
17. Rainy Day Fund-Emergency	\$ 36,063,165	\$ 68,166	\$ (35,994,999)
Total Rainy Day Fund	\$ 72,262,663	\$ 68,166	\$ (72,194,497)
Grand Total	\$ 5,153,291,281	\$ 5,147,952,601	\$ (5,338,680)

FY-2005 Executive Budget

Appropriations by Cabinet and Agency

Agency/Cabinet Name	FY-2004 Appropriation	FY'04 Supps	FY'04 Final App.	Less One-Time Exp./Supp.	FY'05 Base	FY'05 Funding Adj.	Final FY'05 Appr.	% Diff. from FY'04
SUMMARY BY CABINET								
1. Governor	\$2,477,659	\$0	\$2,477,659	\$0	\$2,477,659	\$0	\$2,477,659	0.0%
2. Lieutenant Governor	\$467,494	\$0	\$467,494	\$0	\$467,494	\$0	\$467,494	0.0%
3. Agriculture	\$28,831,333	\$0	\$28,831,333	\$0	\$28,831,333	(\$318,600)	\$28,512,733	-1.1%
4. Commerce & Tourism	\$63,998,113	\$0	\$63,998,113	\$0	\$63,998,113	\$3,254,900	\$67,253,013	5.1%
5. Education	\$2,858,400,494	\$600,000	\$2,859,000,494	(\$600,000)	\$2,858,400,494	\$114,920,123	\$2,973,670,617	4.0%
6. Energy	\$8,719,937	\$0	\$8,719,937	\$0	\$8,719,937	\$0	\$8,719,937	0.0%
7. Environment	\$12,157,415	\$0	\$12,157,415	\$0	\$12,157,415	\$5,000,000	\$17,157,415	41.1%
8. Finance & Revenue	\$80,617,620	\$6,450,000	\$87,067,620	(\$8,450,000)	\$78,617,620	\$3,776,072	\$82,393,692	2.2%
9. Health	\$637,667,639	\$270,000	\$637,937,639	(\$270,000)	\$637,667,639	\$201,426,408	\$839,094,047	31.6%
10. Human Resources & Administration	\$20,670,529	\$0	\$20,670,529	\$0	\$20,670,529	(\$1,348,519)	\$19,322,010	-6.5%
11. Human Services	\$546,429,638	\$2,100,000	\$548,529,638	(\$2,100,000)	\$546,429,638	\$21,686,800	\$568,116,438	4.0%
12. Military	\$7,021,379	\$0	\$7,021,379	\$0	\$7,021,379	\$800,000	\$7,821,379	11.4%
13. Safety & Security	\$510,297,813	\$5,300,000	\$515,597,813	(\$6,800,000)	\$508,797,813	\$7,911,305	\$516,709,118	1.3%
13. Science and Technology Dev.	\$11,014,880	\$0	\$11,014,880	\$0	\$11,014,880	(\$350,000)	\$10,664,880	-3.2%
14. Secretary of State	\$9,340,012	\$0	\$9,340,012	(\$2,036,000)	\$7,304,012	\$561,382	\$7,865,394	-15.8%
15. Transportation	\$192,701,238	\$0	\$192,701,238	(\$150,000)	\$192,551,238	\$6,200,000	\$198,751,238	3.1%
16. Veterans	\$26,943,202	\$0	\$26,943,202	\$0	\$26,943,202	\$2,242,000	\$29,185,202	8.3%
17. State Emergency Fund	\$0	\$0	\$0	\$0	\$0	\$3,000,000	\$3,000,000	
18. Debt Service for Dome, Higher Ed. Nat. Am.					\$0	\$1,280,000	\$1,280,000	
19. Deposit for Rainy Day Fund					\$0	\$10,400,000	\$10,400,000	
Total Executive Branch	\$5,017,756,395	\$14,720,000	\$5,032,476,395	(\$20,406,000)	\$5,012,070,395	\$380,441,871	\$5,392,862,266	7.5%
20. The Legislature	\$31,646,832		\$31,646,832		\$31,646,832	\$0	\$31,646,832	0.0%
21. The Judiciary	\$59,185,743		\$59,185,743		\$59,185,743	\$3,964,600	\$63,150,343	6.7%
Total Legis. & Judic.	\$90,832,575	\$0	\$90,832,575		\$90,832,575	\$3,964,600	\$94,797,175	4.4%
State Total:	\$5,108,588,970	\$14,720,000	\$5,123,308,970	(\$20,406,000)	\$5,102,902,970	\$384,406,471	\$5,487,659,441	7.4%

FY-2005 Executive Budget

Governor

Agency Name	FY-2004 Appropriation	FY-2004 Supp.	FY-2004 Adj. App.	Less One- Time and Supps.	FY-2005 Base	FY-2005 Adj.	Recom. FY- 2005 Appr.	% Diff. from FY- 2004
Governor	\$2,477,659	\$0	\$2,477,659	\$0	\$2,477,659	\$0	\$2,477,659	0.0%
Total Governor	\$2,477,659	\$0	\$2,477,659	\$0	\$2,477,659	\$0	\$2,477,659	0.0%

Lieutenant Governor

Agency Name	FY-2004 Appropriation	FY-2004 Supp.	FY-2004 Adj. App.	Less One-Time and Supps.	FY-2005 Base	FY-2005 Adj.	Recom. FY- 2005 Appr.	% Diff. from FY- 2004
Lieutenant Governor	\$467,494	\$0	\$467,494	\$0	\$467,494	\$0	\$467,494	0.0%
Total Lieutenant Governor	\$467,494	\$0	\$467,494	\$0	\$467,494	\$0	\$467,494	0.0%

Agriculture

Agency Name	FY-2004 Appropriation	FY-2004 Supp.	FY-2004 Adj. App.	Less One- Time and Supps.	FY-2005 Base	FY-2005 Adj.	Recom. FY- 2005 Appr.	% Diff. from FY- 2004
1 Agriculture	\$22,610,776	\$0	\$22,610,776	\$0	\$22,610,776	(\$318,600)	\$22,292,176	-1.4%
2 Conservation Comm	6,220,557	0	6,220,557	0	6,220,557	0	6,220,557	0.0%
Total Agriculture	\$28,831,333	\$0	\$28,831,333	\$0	\$28,831,333	(\$318,600)	\$28,512,733	-1.1%

Notes:

- 1 This adjustment includes an anticipated reduction in debt service payments \$318,600.

Commerce and Tourism

Agency Name	FY-2004 Appropriation	FY-2004 Supp.	FY-2004 Adj. App.	Less One- Time and Supps.	FY-2005 Base	FY-2005 Adj.	Recom. FY- 2005 Appr.	% Diff. from FY- 2004
1 Centennial Commission	\$526,503	\$0	\$526,503	\$0	\$526,503	\$0	\$526,503	0.0%
2 Commerce, Department of	22,008,606	0	22,008,606	0	22,008,606	1,336,100	23,344,706	6.1%
3 Historical Society, Oklahoma	8,537,394	0	8,537,394	0	8,537,394	1,601,800	10,139,194	18.8%
4 J.M. Davis Memorial Comm	299,604	0	299,604	0	299,604	0	299,604	0.0%
5 Labor Department	2,958,570	0	2,958,570	0	2,958,570	50,000	3,008,570	1.7%
6 REAP	6,000,000	0	6,000,000	0	6,000,000	0	6,000,000	0.0%
7 Scenic Rivers Commission	258,156	0	258,156	0	258,156	0	258,156	0.0%
8 Tourism & Recreation	22,616,482	0	22,616,482	0	22,616,482	267,000	22,883,482	1.2%
9 Will Rogers Memorial Comm	792,798	0	792,798	0	792,798	0	792,798	0.0%
Total Commerce and Tourism	\$63,998,113	\$0	\$63,998,113	\$0	\$63,998,113	\$3,254,900	\$67,253,013	5.1%

Notes:

- 2 This adjustment includes a transfer of \$517,796 to Historical Society, Debt Service increase of \$86,100, and a transfer from OCAST of \$1,250,000.
- 3 This adjustment includes a transfer of \$517,796 from Commerce, Debt Service increase of \$1,301,800, and an appropriation increase of \$300,000.
- 5 This adjustment includes an appropriation increase of \$50,000 for operations.
- 8 This adjustment includes a Debt Service increase of \$267,000.

FY-2005 Executive Budget

Education

Agency Name	FY-2004 Appropriation	FY-2004 Supp.	FY-2004 Adj. App.	Less One- Time and Supps.	FY-2005 Base	FY-2005 Adj.	Recom. FY-2005 Appr.	% Diff. from FY- 2004
1 Arts Council	\$3,864,077	\$0	\$3,864,077	\$0	\$3,864,077	\$25,000	\$3,889,077	0.6%
2 CareerTech	117,822,607	0	117,822,607	0	117,822,607	(785,800)	117,036,807	-0.7%
3 Oklahoma Educational TV Auth.	3,448,064	0	3,448,064	0	3,448,064	695,000	4,143,064	20.2%
4 Education, Dept. of	1,950,625,265	600,000	1,951,225,265	(600,000)	1,950,625,265	85,443,995	2,036,069,260	4.4%
5 Higher Educ., Regents for	768,130,523	0	768,130,523	0	768,130,523	27,605,128	795,735,651	3.6%
6 Department of Libraries	6,166,270	0	6,166,270	0	6,166,270	0	6,166,270	0.0%
7 Board of Private Vo-Tech Schools	152,989	0	152,989	0	152,989	0	152,989	0.0%
8 School of Science & Math	6,204,693	0	6,204,693	0	6,204,693	286,800	6,491,493	4.6%
9 Comm. For Teacher Prep.	1,986,006	0	1,986,006	0	1,986,006	2,000,000	3,986,006	100.7%
Total Education	\$2,858,400,494	\$600,000	\$2,859,000,494	(\$600,000)	\$2,858,400,494	\$115,270,123	\$2,973,670,617	4.0%

Notes:

- This adjustment includes \$25,000 for Community Arts Grants.
 - This adjustment includes a reduction of \$785,800 for anticipated reductions in debt service obligations.
 - This adjustment includes \$695,000 for Digital Television operating costs.
- This includes a \$600,000 supplemental for National Board Certification, \$62 million for teacher's health insurance 100% coverage, \$6.8 million for maintenance of certified teacher salary increase, \$1.4 million for Nation Board Certification, \$600,000 annualized supplemental for National Board Certification, \$950,000 to partially restore cuts to AP, \$250,000 to partially restore cuts to OPAT, \$250,000 to partially restore cuts to Alternative Education, \$568,000 to restore cuts to School Lunch Matching Program, \$184,000 to restore cuts to Adult Education and \$493,000 to restore cuts to the Mentor Teacher Program.
- This includes \$15 million to partially restore cuts to the institutions, \$8.5 million for OHLAP Scholarships, \$2 million for Endowed Chairs debt service, \$1.5 million for the Tuition Equalization Grants, a reduction of \$502,000 for the Fire Service Training Center (moving to the Fire Marshall's budget), and Other adjustments totaling \$1,087,000.
 - This includes \$150,000 for OSSM operations and \$136,800 for anticipated increase in debt service obligations.
 - This includes \$2 million for Middle School Math PDI.

Energy

Agency Name	FY-2004 Appropriation	FY-2004 Supp.	FY-2004 Adj. App.	Less One- Time and Supps.	FY-2005 Base	FY-2005 Adj.	Recom. FY- 2005 Appr.	% Diff. from FY- 2004
1 Corporation Commission	\$7,997,813	\$0	\$7,997,813	\$0	\$7,997,813	\$0	\$7,997,813	0.0%
2 Mines, Department of	722,124	0	722,124	0	722,124	0	722,124	0.0%
Total Energy	\$8,719,937	\$0	\$8,719,937	\$0	\$8,719,937	\$0	\$8,719,937	0.0%

Environment

Agency Name	FY-2004 Appropriation	FY-2004 Supp.	FY-2004 Adj. App.	Less One- Time and Supps.	FY-2005 Base	FY-2005 Adj.	Recom. FY- 2005 Appr.	% Diff. from FY- 2004
1 Environmental Quality	\$5,928,921	\$0	\$5,928,921	\$0	\$5,928,921	\$5,000,000	\$10,928,921	84.3%
2 Water Resources Board	4,028,476	0	4,028,476	0	4,028,476	0	4,028,476	0.0%
3 Water Resources - REAP	2,200,018	0	2,200,018	0	2,200,018	0	2,200,018	0.0%
Total Environment	\$12,157,415	\$0	\$12,157,415	\$0	\$12,157,415	\$5,000,000	\$17,157,415	41.1%

Notes:

- This adjustment includes \$5,000,000 for the Tar Creek Relocation Project.

FY-2005 Executive Budget

Finance and Revenue

Agency Name	FY-2004 Appropriation	FY-2004 Supp.	FY-2004 Adj. App.	Less One- Time and Supps.	FY-2005 Base	FY-2005 Adj.	Recom. FY- 2005 Appr.	% Diff. from FY- 2004
1 Auditor & Inspector	\$5,226,966	\$0	\$5,226,966	\$0	\$5,226,966	\$0	5,226,966	0.0%
2 State Bond Advisor	163,527	0	163,527	0	163,527	0	163,527	0.0%
3 Finance, Office of State	20,080,825	0	20,080,825	(1,500,000)	18,580,825	3,851,072	22,431,897	11.7%
4 Insurance Commissioner	2,072,157	0	2,072,157	0	2,072,157	(375,000)	1,697,157	-18.1%
5 School Land Commission	4,095,100	0	4,095,100	0	4,095,100	0	4,095,100	0.0%
6 Tax Commission	44,601,406	6,450,000	51,051,406	(6,950,000)	44,101,406	300,000	44,401,406	-0.4%
7 Treasurer	4,377,639	0	4,377,639	0	4,377,639	0	4,377,639	0.0%
Total Finance and Revenue	\$80,617,620	\$6,450,000	\$87,067,620	(\$8,450,000)	\$78,617,620	\$3,776,072	\$82,393,692	2.2%

Notes:

- 1 FY-2005 adjustments include \$874,000 for CORE lease payments, \$2,835,000 for CORE maintenance and operations, \$299,000 for the 5 FTE transfer from OPM to OSF and \$157,000 reduced appropriation due to decreased debt service.
- 2 This adjustment includes a \$375,000 appropriation reduction.
- 3 The additional \$300,000 will fund the Tobacco Tax Enforcement Initiative.

Health

Agency Name	FY-2004 Appropriation	FY-2004 Supp.	FY-2004 Adj. App.	Less One- Time and Supps.	FY-2005 Base	FY-2005 Adj.	Recom. FY- 2005 Appr.	% Diff. from FY- 2004
1 Health Care Authority	\$439,000,000	\$0	\$439,000,000	\$0	\$439,000,000	\$43,200,274	\$482,200,274	9.8%
1a. Health Care Reserve Fund	0	0	0	0	0	12,674,357	12,674,357	0.0%
1b. Health Care Initiative	0	0	0	0	0	110,000,000	110,000,000	0.0%
2 Health Department	53,649,633	0	53,649,633	0	53,649,633	2,800,000	56,449,633	5.2%
2a. Trauma Care Assistance Fund	0	0	0	0	0	26,835,220	26,835,220	0.0%
3 Mental Health Department	145,018,006	270,000	145,288,006	-270,000	145,018,006	5,936,557	150,954,563	3.9%
Total Health	\$637,667,639	\$270,000	\$637,937,639	-\$270,000	\$637,667,639	\$201,446,408	\$839,114,047	31.5%

Notes:

- 1 Represents \$17 million in annualizations and \$26.1 million in utilization growth, pharmacy growth and other program maintenance costs.
- 1a. Represents a reserve fund for growing health care needs and is part of the estimated proceeds from the tobacco tax.
- 1b. Represents \$100 million for the health care expansion initiative, \$7 million for debt service on the Comprehensive Cancer Center and \$3 million for youth prevention and cessation.
- 2 Represents \$700,000 for a shortfall in expected Medicare funding for long term care licensing and inspection, \$1.5 million in funding for critical staff at County Health Departments and \$600,000 for trauma care infrastructure and operations.
- 2a. Represents increased fee/fine income of \$11,656,260 from an additional assessment of \$200 per each drivers license reinstatement, \$6,220,000 from increased fines for failure to use seatbelts and/or child restraints, \$938,960 from increased DUI and Drug Crime convictions assessment of \$100 and \$8,000,000 from the Tobacco Tax. (This fund currently receives \$3,378,852 from drivers license and boat/motor fees.
- 3 Includes a supplemental appropriation for a pilot expansion of the Oklahoma County Drug Court program. This funding is not built into the base. FY-2005 adjustments include \$1,700,000 for OK County Drug Court Pilot Expansion, \$250,000 for Newer Generation Medications, \$1,000,000 for Drug Courts in the balance of the state, \$750,000 for Systems of Care Expansion, \$138,000 for increased debt service in 05 and \$2,098,557 transfer from OHCA for FFS Medicaid state match.

FY-2005 Executive Budget

Human Resources and Administration

Agency Name	FY-2004 Appropriation	FY-2004 Supp.	FY-2004 Adj. App.	Less One- Time and Supps.	FY-2005 Base	FY-2005 Adj.	Recom. FY- 2005 Appr.	% Diff. from FY- 2004
1 Dept. of Central Services	12,047,361	0	12,047,361	0	12,047,361	(650,000)	11,397,361	-5.4%
2 Consumer Credit Comm	602,747	0	602,747	0	602,747	0	602,747	0.0%
3 Horse Racing Commission	1,761,748	0	1,761,748	0	1,761,748	0	1,761,748	0.0%
4 Human Rights Comm	650,000	0	650,000	0	650,000	0	650,000	0.0%
5 Merit Protection	504,885	0	504,885	0	504,885	0	504,885	0.0%
6 Personnel Management	4,602,700	0	4,602,700	0	4,602,700	(298,519)	4,304,181	-6.5%
7 Securities Commission	501,088	0	501,088	0	501,088	(400,000)	101,088	-79.8%
Total Human Resources and Administration	\$20,670,529	\$0	\$20,670,529	\$0	\$20,670,529	-\$1,348,519	\$19,322,010	-6.5%

Notes:

- 1 Adjustments include a \$650,000 appropriation reduction that privatizes Environmental Abatement currently under DCS.
- 6 Adjustments include a \$298,519 appropriation reduction due to 5 FTE shifted from OPM to OSF.
- 7 This adjustments includes a \$400,000 appropriation reduction.

Human Services

Agency Name	FY-2004 Appropriation	FY-2004 Supp.	FY-2004 Adj. App.	Less One-Time and Supps.	FY-2005 Base	FY-2005 Adj.	Recom. FY- 2005 Appr.	% Diff. from FY- 2004
1 Children & Youth Comm	\$1,550,000	\$0	\$1,550,000	\$0	\$1,550,000	(\$100,000)	\$1,450,000	-6.5%
2 Handicapped Concerns	356,000	0	356,000	0	356,000	0	356,000	0.0%
3 Human Services Dept	387,455,619	0	387,455,619	0	387,455,619	17,000,000	404,455,619	4.4%
4 Indian Affairs	244,000	0	244,000	0	244,000	0	244,000	0.0%
5 J.D. McCarty Center	2,457,898	0	2,457,898	0	2,457,898	288,000	2,745,898	11.7%
6 Juvenile Affairs, Office of	90,000,000	0	90,000,000	0	90,000,000	570,000	90,570,000	0.6%
7 Physician Manpower Training	5,017,536	0	5,017,536	0	5,017,536	0	5,017,536	0.0%
8 Rehabilitation Services	24,750,000	0	24,750,000	0	24,750,000	273,000	25,023,000	1.1%
9 University Hospitals Authority	34,598,585	2,100,000	36,698,585	-2,100,000	34,598,585	3,655,800	38,254,385	4.2%
Total Human Services	\$546,429,638	\$2,100,000	\$548,529,638	(\$2,100,000)	\$546,429,638	\$21,686,800	\$568,116,438	4.0%

Notes:

- 1 Increase use of revolving funds by \$100,000.
- 3 Adjustments include \$15 million for Child Care and \$2 million for the Partnership for School Readiness.
- 5 Increased debt service obligations in FY-2005 of \$288,000
- 6 OJA is provided \$570,000 to replace one-time funds used in the Community Compliance Program (tracking).
- 8 Increased debt service obligations in FY-2005 of \$273,000
- 9 Represents \$2,100,000 supplemental approp for trauma care/indigent care (not built into base), \$3,500,000 for indigent care state supplement in FY05 and \$155,800 for increased debt service in FY05.

FY-2005 Executive Budget

Military Affairs

Agency Name	FY-2004 Appropriation	FY-2004 Supp.	FY-2004 Adj. App.	Less One- Time and Supps.	FY-2005 Base	FY-2005 Adj.	Recom. FY- 2005 Appr.	% Diff. from FY- 2004
Military Department	\$7,021,379	\$0	\$7,021,379	\$0	\$7,021,379	\$800,000	\$7,821,379	11.4%
Total Military	\$7,021,379	\$0	\$7,021,379	\$0	\$7,021,379	\$800,000	\$7,821,379	11.4%

Notes:

An additional \$800,000 is proposed to double the size of the Thunderbird Youth Academy.

Safety and Security

Agency Name	FY-2004 Appropriation	FY-2004 Supp.	FY-2004 Adj. App.	Less One-Time and Supps.	FY-2005 Base	FY-2005 Adj.	Recom. FY-2005 Appr.	% Diff. from FY- 2004
1 A.B.L.E. Commission	\$3,431,691	\$0	\$3,431,691	\$0	\$3,431,691	(\$536,648)	\$2,895,043	-15.6%
2 Attorney General	5,794,927	0	5,794,927	0	5,794,927	297,500	6,092,427	5.1%
3 Corrections Department	373,931,566	5,300,000	379,231,566	(5,300,000)	373,931,566	6,000,000	379,931,566	1.6%
4 District Attorneys Council	25,972,055	0	25,972,055	0	25,972,055	0	25,972,055	0.0%
5 Emergency Mgmt	666,226	0	666,226	0	666,226	0	666,226	0.0%
6 Fire Marshal	1,504,323	0	1,504,323	0	1,504,323	967,272	2,471,595	64.3%
7 Indigent Defense System	14,243,912	0	14,243,912	0	14,243,912	0	14,243,912	0.0%
8 Investigation, Bureau of	9,441,383	0	9,441,383	0	9,441,383	0	9,441,383	0.0%
9 Law Enf. Educ. & Training	2,649,441	0	2,649,441	0	2,649,441	0	2,649,441	0.0%
10 Medicolegal Investigatons Board	3,257,458	0	3,257,458	0	3,257,458	0	3,257,458	0.0%
11 Narc. & Dang. Drugs Control	4,859,814	0	4,859,814	0	4,859,814	(457,819)	4,401,995	-9.4%
12 Pardon & Parole Board	2,115,485	0	2,115,485	0	2,115,485	50,000	2,165,485	2.4%
13 Public Safety Department	62,429,532	0	62,429,532	(1,500,000)	60,929,532	1,591,000	62,520,532	0.1%
Total Safety and Security	\$510,297,813	\$5,300,000	\$515,597,813	(\$6,800,000)	\$508,797,813	\$7,911,305	\$516,709,118	1.3%

Notes:

- 1 Adjustment is the savings from the proposal of consolidating ABLE into the Department of Public Safety.
- 2 Attorney General is provided \$297,500 for the increase in their FY-2005 debt service.
- 3 FY-2004 supplemental of \$5.3 million for contract beds and medical services. FY-2005 Adjustments include \$5.3 million to annualize the FY-2004 supplemental, \$3.2 million to replace one-time funds and \$2.5 million of savings from expanding the Oklahoma County Drug Court.
- 6 Adjustment includes \$502,272 for the Transfer of the Fire Service Training Center. Also an additional for \$465,000 is added to the Fire Service training budget.
- 11 Adjustment is the savings from the proposal of consolidating OBND into the OSBI.
- 12 Pardon and Parole Board is provided \$50,000 for an additional Parole Investigator.
- 13 The FY-2004 base is adjusted by removing the one-time Capitol Security funding of \$1.5 million. FY-2005 adjustments includes \$2.3 million for a Trooper Academy, \$341,000 for step increases, \$400,000 for Homeland Security and \$1.45 million of savings from Digital Driver Licenses.

FY-2005 Executive Budget

Science and Technology

Agency Name	FY-2004 Appropriation	FY-2004 Supp.	FY-2004 Adj. App.	Less One- Time and Supps.	FY-2005 Base	FY-2005 Adj.	Recom. FY- 2005 Appr.	% Diff. from FY- 2004
Center for Adv. /Sc. & Tech.	\$11,014,880	\$0	\$11,014,880	\$0	\$11,014,880	-\$350,000	\$10,664,880	-3.2%
Total Science and Technology	\$11,014,880	\$0	\$11,014,880	\$0	\$11,014,880	-\$350,000	\$10,664,880	-3.2%

Notes:

This includes \$250,000 for OMRF and \$150,000 for Health Research and Applied Research. Also, the Center for Manufacturing Excellence is being transferred to the Department of Commerce along with \$750,000.

Secretary of State

Agency Name	FY-2004 Appropriation	FY-2004 Supp.	FY-2004 Adj. App.	Less One-Time and Supps.	FY-2005 Base	FY-2005 Adj.	Recom. FY- 2005 Appr.	% Diff. from FY- 2004
1 Election Board	\$8,195,395	\$0	\$8,195,395	(\$2,000,000)	\$6,195,395	\$795,000	\$6,990,395	-14.7%
2 Ethics Commission, Okla.	447,124	0	447,124	(36,000)	411,124	188,876	600,000	34.2%
3 Judicial Complaints, Council on	267,999	0	267,999	0	267,999	7,000	274,999	2.6%
4 Secretary of State	429,494	0	429,494	0	429,494	(429,494)	0	-100.0%
Total Secretary of State	\$9,340,012	\$0	\$9,340,012	(\$2,036,000)	\$7,304,012	\$561,382	\$7,865,394	-15.8%

Notes:

- 1 An additional \$795,000 will assist the Election Board in funding the Presidential Preferential Primary (PPP).
- 2 An additional \$188,876 will increase the operating budget for the Ethics Commission to \$600,000.
- 3 Council on Judicial Complaints is provided \$7,000 to replace one-time funds.
- 4 Adjustments include a \$429,494 appropriation reduction. Increased revenue from fees will allow the Secretary of State to become non-appropriated.

Transportation

Agency Name	FY-2004 Appropriation	FY-2004 Supp.	FY-2004 Adj. App.	Less One- Time and Supps.	FY-2005 Base	FY-2005 Adj.	Recom. FY- 2005 Appr.	% Diff. from FY- 2004
1 Space Industry Dev	\$515,851	\$0	\$515,851	-\$150,000	\$365,851	\$0	\$365,851	-29.1%
2 Transportation Dept	192,185,387	0	192,185,387	0	192,185,387	6,200,000	198,385,387	3.2%
Total Transportation	\$192,701,238	\$0	\$192,701,238	-\$150,000	\$192,551,238	\$6,200,000	\$198,751,238	3.1%

Notes:

- 1 \$150,000 is removed from the base for a Safety study in FY-2004.
- 2 The Transportation Dept. was provided \$6.2 million for the increase in their FY-2005 debt service.

FY-2005 Executive Budget

Veterans Affairs

Agency Name	FY-2004 Appropriation	FY-2004 Supp.	FY-2004 Adj. App.	Less One- Time and Supps.	FY-2005 Base	FY-2005 Adj.	Recom. FY- 2005 Appr.	% Diff. from FY- 2004
Veterans Affairs Department	\$26,943,202	\$0	\$26,943,202	\$0	\$26,943,202	\$2,242,000	\$29,185,202	8.3%
Total Veterans	\$26,943,202	\$0	\$26,943,202	\$0	\$26,943,202	\$2,242,000	\$29,185,202	8.3%

Notes:

Represents annualization of operational cost at the Lawton Veterans Center and \$242,000 for increased debt service in FY05.

Legislature

Agency Name	FY-2004 Appropriation	FY-2004 Supp.	FY-2004 Adj. App.	Less One- Time and Supps.	FY-2005 Base	FY-2005 Adj.	Recom. FY- 2005 Appr.	% Diff. from FY- 2004
1 House of Representatives	\$17,437,944	\$0	\$17,437,944	\$0	\$17,437,944	\$0	\$17,437,944	0.0%
2 Legislative Service Bureau	2,060,968	0	2,060,968	0	2,060,968	0	2,060,968	0.0%
3 Senate	12,147,920	0	12,147,920	0	12,147,920	0	12,147,920	0.0%
Total Legislature	\$31,646,832	\$0	\$31,646,832	\$0	\$31,646,832	\$0	\$31,646,832	0.0%

Judiciary

Agency Name	FY-2004 Appropriation	FY-2004 Supp.	FY-2004 Adj. App.	Less One- Time and Supps.	FY-2005 Base	FY-2005 Adj.	Recom. FY- 2005 Appr.	% Diff. from FY- 2004
1 Court of Criminal Appeals	\$2,634,378	\$0	\$2,634,378	\$0	\$2,634,378	\$62,600	\$2,696,978	2.4%
2 District Courts	40,897,067	0	40,897,067	0	40,897,067	2,100,000	42,997,067	5.1%
3 Supreme Court/Appeals	11,962,341	0	11,962,341	0	11,962,341	1,802,000	13,764,341	15.1%
4 Workers' Comp. Court	3,691,957	0	3,691,957	0	3,691,957	0	3,691,957	0.0%
Total Judiciary	\$59,185,743	\$0	\$59,185,743	\$0	\$59,185,743	\$3,964,600	\$63,150,343	6.7%

Notes:

- 1 Court of Criminal Appeals is provided \$62,600 to replace one-time funds.
- 2 District Courts are provided \$2.1 million to replace one-time funds used for operations. This includes funds to replace the Courts' currently budgeted vacancy rate.
- 3 FY-2005 Adjustments include \$147,003 for the Cost Collection Program, \$202,000 for increased debt service, \$1.4 million to replace one-time funds and \$58,976 for general operating expenses.

FY-2005 Executive Budget

Education

Agency Name	FY-2004 Appropriation	FY-2004 Supp.	FY-2004 Adj. App.	Less One- Time and Supps.	FY-2005 Base	FY-2005 Adj.	Recom. FY-2005 Appr.	% Diff. from FY- 2004
1 Arts Council	\$3,864,077	\$0	\$3,864,077	\$0	\$3,864,077	\$25,000	\$3,889,077	0.6%
2 CareerTech	117,822,607	0	117,822,607	0	117,822,607	(785,800)	117,036,807	-0.7%
3 Education, Dept. of	1,950,625,265	600,000	1,951,225,265	(600,000)	1,950,625,265	85,443,995	2,036,069,260	4.4%
4 Oklahoma Educational TV Auth.	3,448,064	0	3,448,064	0	3,448,064	695,000	4,143,064	20.2%
5 Higher Educ., Regents for	768,130,523	0	768,130,523	0	768,130,523	27,605,128	795,735,651	3.6%
6 School Land Commission	4,095,100	0	4,095,100	0	4,095,100	0	4,095,100	0.0%
7 Department of Libraries	6,166,270	0	6,166,270	0	6,166,270	0	6,166,270	0.0%
8 Physician Manpower Training	5,017,536	0	5,017,536	0	5,017,536	0	5,017,536	0.0%
9 Board of Private Vo-Tech Schools	152,989	0	152,989	0	152,989	0	152,989	0.0%
10 School of Science & Math	6,204,693	0	6,204,693	0	6,204,693	286,800	6,491,493	4.6%
11 Center for Adv. /Sc. & Tech.	11,014,880	0	11,014,880	0	11,014,880	(350,000)	10,664,880	-3.2%
12 Comm. For Teacher Prep.	1,986,006	0	1,986,006	0	1,986,006	2,000,000	3,986,006	100.7%
Total Education:	\$2,878,528,010	\$600,000	\$2,879,128,010	(\$600,000)	\$2,878,528,010	\$114,920,123	\$2,993,448,133	4.0%

Notes:

- 1 This adjustment includes \$25,000 for Community Arts Grants.
- 2 This adjustment includes a reduction of \$785,800 for anticipated reductions in debt service obligations.
- 3 This includes a supplemental for National Board Certification, \$62 million for teacher's health insurance 100% coverage, \$6.8 million for maintenance of certified teacher salary increase, \$1.4 million for Nation Board Certification, \$600,000 annualized supplemental for National Board Certification, \$950,000 to partially restore cuts to AP, \$250,000 to partially restore cuts to OPAT, \$250,000 to partially restore cuts to Alternative Education, \$568,000 to restore cuts to School Lunch Matching Program, \$184,000 to restore cuts to Adult Education and \$493,000 to restore cuts to the Mentor Teacher Program.
- 4 This adjustment includes \$695,000 for Digital Television operating costs.
- 5 This includes \$15 million to partially restore cuts to the institutions, \$8.5 million for OHLAP Scholarships, \$2 million for Endowed Chairs debt service, \$1.5 million for the Tuition Equalization Grants, a reduction of \$502,000 for the Fire Service Training Center (moving to the Fire Marshall's budget), and Other adjustments totaling \$1,087,000.
- 10 This includes \$150,000 for OSSM operations and \$136,800 for anticipated increase in debt service obligations.
- 11 This includes \$250,000 for OMRF and \$150,000 for Health Research and Applied Research.
- 12 This includes \$2 million for Middle School Math PDI.

General Government and Transportation

Agency Name	FY-2004 Appropriation	FY-2004 Supp.	FY-2004 Adj. App.	Less One- Time and Supps.	FY-2005 Base	FY-2005 Adj.	Recom. FY- 2005 Appr.	% Diff. from FY- 2004
1 Auditor & Inspector	\$5,226,966	\$0	\$5,226,966	\$0	\$5,226,966	\$0	5,226,966	0.0%
2 State Bond Advisor	163,527	0	163,527	0	163,527	0	163,527	0.0%
3 Dept. of Central Services	12,047,361	0	12,047,361	0	12,047,361	(650,000)	11,397,361	-5.4%
4 Emergency Mgmt	666,226	0	666,226	0	666,226	0	666,226	0.0%
5 Commerce, Department of	22,008,606	0	22,008,606	0	22,008,606	1,336,100	23,344,706	6.1%
6 Election Board	8,195,395	0	8,195,395	(2,000,000)	6,195,395	795,000	6,990,395	-14.7%
7 Ethics Commission, Okla.	447,124	0	447,124	(36,000)	411,124	188,876	600,000	34.2%
8 Finance, Office of State	20,080,825	0	20,080,825	(1,500,000)	18,580,825	3,851,072	22,431,897	11.7%
9 Governor	2,477,659	0	2,477,659	0	2,477,659	0	2,477,659	0.0%
10 House of Representatives	17,437,944	0	17,437,944	0	17,437,944	0	17,437,944	0.0%
11 Legislative Service Bureau	2,060,968	0	2,060,968	0	2,060,968	0	2,060,968	0.0%
12 Lieutenant Governor	467,494	0	467,494	0	467,494	0	467,494	0.0%
13 Merit Protection	504,885	0	504,885	0	504,885	0	504,885	0.0%
14 Military Department	7,021,379	0	7,021,379	0	7,021,379	800,000	7,821,379	11.4%
15 Personnel Management	4,602,700	0	4,602,700	0	4,602,700	(298,519)	4,304,181	-6.5%
16 REAP	6,000,000	0	6,000,000	0	6,000,000	0	6,000,000	0.0%
17 Secretary of State	429,494	0	429,494	0	429,494	(429,494)	0	-100.0%
18 Senate	12,147,920	0	12,147,920	0	12,147,920	0	12,147,920	0.0%
19 Space Industry Dev	515,851	0	515,851	(150,000)	365,851	0	365,851	-29.1%
20 Tax Commission	44,601,406	6,450,000	51,051,406	(6,950,000)	44,101,406	300,000	44,401,406	-0.4%
21 Transportation Dept	192,185,387	0	192,185,387	0	192,185,387	6,200,000	198,385,387	3.2%
22 Treasurer	4,377,639	0	4,377,639	0	4,377,639	0	4,377,639	0.0%
Total General Government and Transportation	\$363,666,756	\$6,450,000	\$370,116,756	(\$10,636,000)	\$359,480,756	\$12,093,035	\$371,573,791	2.2%

Notes:

- 3 Adjustments include a \$650,000 appropriation reduction that privatizes Environmental Abatement currently under DCS.
- 5 This adjustment includes a transfer of \$517,796 to Historical Society, Debt Service increase of \$86,100, and a transfer from OCAST of \$1,250,000.
- 6 An additional \$795,000 will assist the Election Board in funding the Presidential Preferential Primary (PPP).
- 7 An additional \$188,876 will increase the operating budget for the Ethics Commission to \$600,000.
- 8 FY-2005 adjustments include \$874,000 for CORE lease payments, \$2,835,000 for CORE maintenance and operations, \$299,000 for the 5 FTE transfer from OPM to OSF and \$157,000 reduced appropriation due to decreased debt service.
- 14 An additional \$800,000 is proposed to double the size of the Thunderbird Youth Academy.
- 15 Adjustments include a \$298,519 appropriation reduction due to 5 FTE shifted from OPM to OSF.
- 17 Adjustments include a \$429,494 appropriation reduction. Increased revenue from fees will allow the Secretary of State to become non-appropriated.
- 19 \$150,000 is removed from the base for a Safety study in FY-2004.
- 20 The additional \$300,000 will fund the Tobacco Tax Enforcement Initiative.
- 21 The Transportation Dept. was provided \$6.2 million for the increase in their FY-2005 debt service.

FY-2005 Executive Budget

Health and Social Services

Agency Name	FY-2004 Appropriation	FY-2004 Supp.	FY-2004 Adj. App.	Less One-Time and Supps.	FY-2005 Base	FY-2005 Adj.	Recom. FY-2005 Appr.	% Diff. from FY- 2004
1 Health Department	\$53,649,633	\$0	\$53,649,633	\$0	\$53,649,633	\$2,800,000	\$56,449,633	5.2%
1a. Trauma Care Fund	0	0	0	0	0	\$26,815,220	26,815,220	0.0%
2 Health Care Authority	439,000,000	0	439,000,000	0	439,000,000	43,200,274	482,200,274	9.8%
2a. Health Care Reserve Fund	0	0	0	0	0	12,674,357	12,674,357	0.0%
2b. Health Care Initiative	0	0	0	0	0	110,000,000	110,000,000	
3 J.D. McCarty Center	2,457,898	0	2,457,898	0	2,457,898	288,000	2,745,898	11.7%
4 Mental Health Department	145,018,006	270,000	145,288,006	-270,000	145,018,006	5,936,557	150,954,563	3.9%
5 University Hospitals Authority	34,598,585	2,100,000	36,698,585	-2,100,000	34,598,585	3,655,800	38,254,385	4.2%
6 Veterans Affairs Department	26,943,202	0	26,943,202	0	26,943,202	2,242,000	29,185,202	8.3%
Total Health and Social Services:	\$701,667,324	\$2,370,000	\$704,037,324	(\$2,370,000)	\$701,667,324	\$207,612,208	\$909,279,532	29.2%

Notes:

- 1 Represents \$700,000 for a shortfall in expected Medicare funding for long term care licensing and inspection, \$1.5 million in funding for critical staff at County Health Departments and \$600,000 for trauma care infrastructure and operations.
- 1a. failure to use seatbelts and/or child restraints, \$938,960 from increased DUI and Drug Crime convictions assessment of \$100 and \$8,000,000 from the Tobacco Tax. (This fund currently receives \$3,378,852 from drivers license and boat/motor fees.
- 2 Represents \$17 million in annualizations and \$26.1 million in utilization growth, pharmacy growth and other program maintenance costs.
- 2a. Represents a reserve fund for growing health care needs and is part of the estimated proceeds from the tobacco tax.
- 2b. Represents \$100 million for the health care expansion initiative, \$7 million for debt service on the Comprehensive Cancer Center and \$3 million for youth prevention and cessation.
- 3 Increased debt service obligations in FY-2005 of \$288,000
- Includes a supplemental appropriation for a pilot expansion of the Oklahoma County Drug Court program. This funding is not built into the base. FY-2005
- 4 adjustments include \$1,700,000 for OK County Drug Court Pilot Expansion, \$250,000 for Newer Generation Medications, \$1,000,000 for Drug Courts in the balance of the state, \$750,000 for Systems of Care Expansion, \$138,000 for increased debt service in 05 and \$2,098,557 transfer from OHCA for FFS Medicaid state match.
- 5 Represents \$2,100,000 supplemental approp for trauma care/indigent care (not built into base), \$3,500,000 for indigent care state supplement in FY05 and \$155,800 for increased debt service in FY05.
- 6 Represents annualization of operational cost at the Lawton Veterans Center and \$242,000 for increased debt service in FY05.

Human Services

Agency Name	FY-2004 Appropriation	FY-2004 Supp.	FY-2004 Adj. App.	Less One- Time and Supps.	FY-2005 Base	FY-2005 Adj.	Recom. FY-2005 Appr.	% Diff. from FY- 2004
1 Children & Youth Comm	\$1,550,000	\$0	\$1,550,000	\$0	\$1,550,000	(\$100,000)	\$1,450,000	-6.5%
2 Handicapped Concerns	356,000	0	356,000	0	356,000	0	356,000	0.0%
3 Human Rights Comm	650,000	0	650,000	0	650,000	0	650,000	0.0%
4 Human Services Dept	387,455,619	0	387,455,619	0	387,455,619	17,000,000	404,455,619	4.4%
5 Indian Affairs	244,000	0	244,000	0	244,000	0	244,000	0.0%
6 Juvenile Affairs	90,000,000	0	90,000,000	0	90,000,000	570,000	90,570,000	0.6%
7 Rehabilitation Services	24,750,000	0	24,750,000	0	24,750,000	273,000	25,023,000	1.1%
Total Human Services:	\$505,005,619	\$0	\$505,005,619	\$0	\$505,005,619	\$17,743,000	\$522,748,619	3.5%

Notes:

- 1 Increase use of revolving funds by \$100,000.
- 4 Adjustments include \$15 million for Child Care and \$2 million for the Partnership for School Readiness.
- 6 OJA is provided \$570,000 to replace one-time funds used in the Community Compliance Program (tracking).
- 7 Increased debt service obligations in FY-2005 of \$273,000

FY-2005 Executive Budget

Public Safety and Judiciary

Agency Name	FY-2004 Appropriation	FY-2004 Supp.	FY-2004 Adj. App.	Less One-Time and Supps.	FY-2005 Base	FY-2005 Adj.	Recom. FY-2005 Appr.	% Diff. from FY- 2004
1 A.B.L.E. Commission	\$3,431,691	\$0	\$3,431,691	\$0	\$3,431,691	(\$536,648)	\$2,895,043	-15.6%
2 Attorney General	5,794,927	0	5,794,927	0	5,794,927	297,500	6,092,427	5.1%
3 Corrections Department	373,931,566	5,300,000	379,231,566	(5,300,000)	373,931,566	6,000,000	379,931,566	1.6%
4 Court of Criminal Appeals	2,634,378	0	2,634,378	0	2,634,378	62,600	2,696,978	2.4%
5 District Attorneys Council	25,972,055	0	25,972,055	0	25,972,055	0	25,972,055	0.0%
6 District Courts	40,897,067	0	40,897,067	0	40,897,067	2,100,000	42,997,067	5.1%
7 Fire Marshal	1,504,323	0	1,504,323	0	1,504,323	967,272	2,471,595	64.3%
8 Indigent Defense System	14,243,912	0	14,243,912	0	14,243,912	0	14,243,912	0.0%
9 Investigation, Bureau of	9,441,383	0	9,441,383	0	9,441,383	0	9,441,383	0.0%
10 Judicial Complaints, Council	267,999	0	267,999	0	267,999	7,000	274,999	2.6%
11 Law Enf. Educ. & Training	2,649,441	0	2,649,441	0	2,649,441	0	2,649,441	0.0%
12 Medicolegal Investigations Board	3,257,458	0	3,257,458	0	3,257,458	0	3,257,458	0.0%
13 Narc. & Dang. Drugs Control	4,859,814	0	4,859,814	0	4,859,814	(457,819)	4,401,995	-9.4%
14 Pardon & Parole Board	2,115,485	0	2,115,485	0	2,115,485	50,000	2,165,485	2.4%
15 Public Safety Department	62,429,532	0	62,429,532	(1,500,000)	60,929,532	1,591,000	62,520,532	0.1%
16 Supreme Court/Appeals	11,962,341	0	11,962,341	0	11,962,341	1,802,000	13,764,341	15.1%
17 Workers' Comp. Court	3,691,957	0	3,691,957	0	3,691,957	0	3,691,957	0.0%
Total Public Safety and Judiciary	\$569,085,329	\$5,300,000	\$574,385,329	(\$6,800,000)	\$567,585,329	\$11,882,905	\$579,468,234	1.8%

Notes:

- Adjustment is the savings from the proposal of consolidating ABLE into the Department of Public Safety.
- Attorney General is provided \$297,500 for the increase in their FY-2005 debt service.
- FY-2004 supplemental of \$5.3 million for contract beds and medical services. FY-2005 Adjustments include \$5.3 million to annualize the FY-2004 supplemental, \$3.2 million to replace one-time funds and \$2.5 million of savings from expanding the Oklahoma County Drug Court.
- Court of Criminal Appeals is provided \$62,600 to replace one-time funds.
- District Courts are provided \$2.1 million to replace one-time funds used for operations. This includes funds to replace the Courts' currently budgeted vacancy rate.
- Adjustment includes \$502,272 for the Transfer of the Fire Service Training Center. Also an additional for \$465,000 is added to the Fire Service training budget.
- Council on Judicial Complaints is provided \$7,000 to replace one-time funds.
- Adjustment is the savings from the proposal of consolidating OBNDD into the OSBI.
- The Pardon and Parole Board is provided \$50,000 for an additional Parole Investigator.
- The FY-2004 base is adjusted by removing the one-time Capitol Security funding of \$1.5 million. FY-2005 adjustments includes \$2.3 million for a Trooper Academy, \$341,000 for step increases, \$400,000 for Homeland Security and \$1.45 million of savings from Digital Driver Licenses.
- FY-2005 Adjustments include \$147,003 for the Cost Collection Program, \$202,000 for increased debt service, \$1.4 million to replace one-time funds and \$58,976 for general operating expenses.

Natural Resources

Agency Name	FY-2004 Appropriation	FY-2004 Supp.	FY-2004 Adj. App.	Less One-Time and Supps.	FY-2005 Base	FY-2005 Adj.	Recom. FY- 2005 Appr.	% Diff. from FY- 2004
1 Agriculture	\$22,610,776	\$0	\$22,610,776	\$0	\$22,610,776	(\$318,600)	\$22,292,176	-1.4%
2 Centennial Commission	526,503	0	526,503	0	526,503	0	526,503	0.0%
3 Conservation Commission	6,220,557	0	6,220,557	0	6,220,557	0	6,220,557	0.0%
4 Consumer Credit Commission	602,747	0	602,747	0	602,747	0	602,747	0.0%
5 Corporation Commission	7,997,813	0	7,997,813	0	7,997,813	0	7,997,813	0.0%
6 Environmental Quality	5,928,921	0	5,928,921	0	5,928,921	5,000,000	10,928,921	84.3%
7 Historical Society, Oklahoma	8,537,394	0	8,537,394	0	8,537,394	1,601,800	10,139,194	18.8%
8 Horse Racing Commission	1,761,748	0	1,761,748	0	1,761,748	0	1,761,748	0.0%
9 Insurance Commissioner	2,072,157	0	2,072,157	0	2,072,157	(375,000)	1,697,157	-18.1%
10 J.M. Davis Memorial Comm	299,604	0	299,604	0	299,604	0	299,604	0.0%
11 Labor Department	2,958,570	0	2,958,570	0	2,958,570	50,000	3,008,570	1.7%
12 Mines, Department of	722,124	0	722,124	0	722,124	0	722,124	0.0%
13 Scenic Rivers Commission	258,156	0	258,156	0	258,156	0	258,156	0.0%
14 Securities Commission	501,088	0	501,088	0	501,088	(400,000)	101,088	-79.8%
15 Tourism & Recreation	22,616,482	0	22,616,482	0	22,616,482	267,000	22,883,482	1.2%
16 Water Resources Board	4,028,476	0	4,028,476	0	4,028,476	0	4,028,476	0.0%
17 Water Resources - REAP	2,200,018	0	2,200,018	0	2,200,018	0	2,200,018	0.0%
18 Will Rogers Memorial Comm	792,798	0	792,798	0	792,798	0	792,798	0.0%
Total Natural Resources:	\$90,635,932	\$0	\$90,635,932	\$0	\$90,635,932	\$5,825,200	\$96,461,132	6.4%

Notes:

- This adjustment includes an anticipated reduction in debt service payments \$318,600.
- This adjustment includes \$5,000,000 for the Tar Creek Relocation Project.
- This adjustment includes a transfer of \$517,796 from Commerce, Debt Service increase of \$1,301,800, and an appropriation increase of \$300,000.
- This adjustment includes a \$375,000 appropriation reduction.
- This adjustment includes \$50,000 appropriation increase.
- This adjustments includes a \$400,000 appropriation reduction.
- This adjustment includes a Debt Service increase of \$267,000.

FY-2005 Executive Budget

Average FTE FY-1999 through FY-2004 Year-to-Date

Cabinet/Agency	FY-1999	FY-2000	FY-2001	FY-2002	FY-2003	FY-2004
	Actual	Actual	Actual	Actual	Actual	Avg Yr to date
Governor	41.0	39.7	38.4	36.6	31.2	34.2
Lieutenant Governor	8.6	8.3	8.1	8.1	7.0	6.7
Agriculture	542.2	528.6	567.4	571.3	537.2	546.1
Commerce and Tourism	2,253.1	2,170.6	2,187.2	2,155.9	2,181.9	2,117.5
Education (excluding Higher Education)	1,101.4	1,098.8	1,153.6	1,171.0	1,115.2	953.9
Energy	514.2	508.4	502.8	501.7	926.5	794.9
Environment	967.0	963.5	935.7	943.8	950.6	971.2
Finance and Revenue	2,156.2	2,101.7	2,105.4	2,131.7	2,039.9	2,004.2
Health	4,681.7	4,542.1	4,345.3	4,457.5	4,409.6	4,207.1
Human Resources and Administration	793.6	781.5	791.2	791.7	778.5	732.5
Human Services	9,975.0	9,665.9	9,650.9	9,932.4	9,793.5	9,462.9
Military	301.4	343.0	408.2	413.7	392.9	336.0
Safety and Security	8,372.1	8,571.2	8,551.3	8,639.9	8,246.2	8,106.0
Science & Technology	18.6	18.9	19.3	19.9	20.2	20.3
Secretary of State	68.8	69.6	69.1	67.6	67.8	68.1
Transportation	2,653.8	2,636.0	2,535.5	2,433.3	2,958.4	2,955.2
Veterans Affairs	1,470.4	1,549.8	1,528.9	1,452.1	1,484.2	1,551.0
Sub-total	35,919.1	35,597.6	35,398.3	35,728.1	35,940.8	34,867.8
Regents	289.3	294.8	306.7	304.2	324.1	327.4
Higher Education	27,042.9	26,983.9	27,637.3	28,409.0	28,462.1	28,788.6
Sub-total	27,332.2	27,278.7	27,944.0	28,713.2	28,786.2	29,116.0
Total Executive Branch	63,251.3	62,876.3	63,342.3	64,441.3	64,727.0	63,983.8
Legislature	508.2	521.6	539.4	540.1	532.7	476.7
Judiciary	859.0	865.9	881.0	898.8	878.2	864.0
Sub-total	1,367.2	1,387.5	1,420.4	1,439.0	1,410.9	1,340.7
GRAND TOTAL	64,618.5	64,263.8	64,762.7	65,880.3	66,137.9	65,324.5
Total Excluding Higher Ed	37,575.6	37,279.9	37,125.4	37,471.3	37,675.8	36,535.9
305 Governor	41.0	39.7	38.4	36.6	31.2	34.2
440 Lieutenant Governor	8.6	8.3	8.1	8.1	7.0	6.7
Agriculture						
40 Agriculture, Department of	497.7	483.7	487.9	492.2	471.7	426.1
39 Boll Weevil Eradication	23.2	22.0	57.2	57.3	44.5	57.8
645 Conservation Commission	16.5	16.9	16.5	15.8	15.9	57.2
535 Peanut Commission	1.0	1.0	1.0	1.0	0.0	0.0
631 Sheep & Wool Commission	0.0	0.1	0.0	0.0	1.0	1.0
875 Wheat Commission	3.8	4.9	4.8	5.0	4.1	4.0
Total	542.2	528.6	567.4	571.3	537.2	546.1

FY-2005 Executive Budget

Cabinet/Agency	FY-1999 Actual	FY-2000 Actual	FY-2001 Actual	FY-2002 Actual	FY-2003 Actual	FY-2004 Avg
Commerce and Tourism						
7 Centennial Commission	N/A	N/A	6.6	8.6	8.0	6.6
160 Commerce, Department of	149.5	146.2	147.1	144.4	136.5	118.9
290 Employment Security Commission, OK	761.2	715.8	708.6	712.4	725.1	734.1
350 Historical Society, Oklahoma	139.2	153.4	150.6	154.2	144.6	141.4
922 Housing Finance Authority					109.8	111.5
370 Industrial Finance Authority	8.8	8.8	7.8	7.1	7.1	7.8
204 J.M. Davis Memorial Commission	8.7	8.1	8.9	9.3	9.0	7.8
405 Labor Department	116.2	103.0	103.2	104.2	109.8	97.3
981 Municipal Power Authority					46.3	45.2
568 Scenic Rivers Commission	N/A	N/A	N/A	N/A	10.3	10.9
566 Tourism & Recreation, Department of	1,057.7	1,023.0	1,046.6	1,010.4	871.5	825.4
880 Will Rogers Memorial Commission	11.8	12.3	14.4	13.9	11.9	10.6
Total	2,253.1	2,170.6	2,187.2	2,155.9	2,181.9	2,117.5
Education (Excl. Higher Education)						
44 Anatomical Board	0.0	0.0	0.0	0.0	0.0	0.0
55 Arts Council, State	16.1	16.3	16.9	16.8	16.6	16.0
800 Career & Technology Education	391.6	392.1	387.2	390.2	365.7	327.3
265 Education, State Department of	490.4	478.5	481.4	479.9	453.0	336.8
266 Educational Television Authority	60.3	66.9	72.0	72.1	67.1	65.6
430 Libraries, Department of	79.9	77.9	74.3	74.8	72.6	69.8
563 Private Vocational Schools Board	3.0	3.0	3.0	2.8	2.9	2.8
629 School of Science & Mathematics	52.4	55.9	61.3	69.1	70.5	67.7
618 Student Loan Authority	0.0	0.0	49.7	56.5	57.7	58.8
269 Teacher Preparation, OK Commission	7.7	8.2	7.8	8.9	9.1	9.1
Total	1,101.4	1,098.8	1,153.6	1,171.0	1,115.2	953.9
Energy						
185 Corporation Commission	457.2	450.3	445.3	445.1	425.5	369.8
980 Grand River Dam Authority (GRDA)					445.4	376.1
307 Interstate Oil Compact Commission	2.0	2.0	2.0	1.7	1.0	0.0
445 Liquefied Petroleum Gas Board	9.4	9.5	9.8	10.0	9.3	9.8
446 Marginally Producing Oil & Gas Wells	3.6	4.0	3.1	3.1	4.1	3.4
125 Mines, Department of	42.0	42.6	42.6	41.8	41.2	35.8
Total	514.2	508.4	502.8	501.7	926.5	794.9
Environment						
292 Dept. of Environmental Quality (DEQ)	539.4	532.3	516.0	517.6	526.9	536.9
835 Water Resources Board	87.9	93.8	90.0	98.3	96.4	95.8
320 Wildlife Conservation Commission	339.7	337.4	329.7	327.8	327.3	338.5
Total	967.0	963.5	935.7	943.8	950.6	971.2

FY-2005 Executive Budget

Cabinet/Agency	FY-1999 Actual	FY-2000 Actual	FY-2001 Actual	FY-2002 Actual	FY-2003 Actual	FY-2004 Avg
Finance and Revenue						
300 Auditor & Inspector	152.8	150.5	159.6	160.2	148.5	146.4
65 Banking Department, State	41.0	42.4	42.8	42.5	41.4	39.4
390 CompSource	356.5	328.5	316.6	331.4	359.8	376.3
90 Finance, Office of State	129.0	126.0	120.3	118.0	111.9	111.8
315 Firefighters Pension & Retirement	10.3	9.7	9.2	9.6	10.2	10.6
385 Insurance Commissioner	116.8	127.3	131.7	132.4	127.5	125.2
410 Land Office, Commissioners of the	54.8	56.0	53.9	53.5	53.7	52.6
416 Law Enforcement Retirement	4.6	5.3	4.5	4.0	4.0	3.7
557 Police Pension & Retirement Board	6.6	7.6	8.0	9.2	9.6	10.0
515 Public Employees Retirement System	39.4	39.7	45.4	48.9	48.8	47.6
695 Tax Commission	1,148.6	1,108.3	1,099.9	1,098.3	999.2	954.7
715 Teachers Retirement System	38.7	40.6	45.1	49.2	49.1	48.3
740 Treasurer	57.1	59.8	68.4	74.6	76.2	77.6
Total	2,156.2	2,101.7	2,105.4	2,131.7	2,039.9	2,004.2
Health						
807 Health Care Authority	247.1	255.9	263.8	281.3	271.3	273.5
340 Health, Department of	2,280.4	2,356.4	2,285.2	2,320.1	2,338.3	2,126.1
452 Mental Health & Substance Abuse, Dept. of	2,151.2	1,926.8	1,793.3	1,853.1	1,795.7	1,802.5
509 Nursing Homes, State Board of	3.0	3.0	3.0	3.0	3.0	3.0
92 Tobacco Settlement Trust Board	0.0	0.0	0.0	0.0	1.3	2.0
Total	4,681.7	4,542.1	4,345.3	4,457.5	4,409.6	4,207.1
Human Resources and Administration						
582 Bond Advisor, State	0.0	0.0	0.0	0.0	0.0	3.0
105 Capitol Improvement Authority	0.0	0.0	0.0	0.0	0.0	0.0
580 Central Services, Dept. of	265.6	258.8	262.0	259.5	242.6	208.3
635 Consumer Credit Commission	15.1	14.8	14.7	13.7	12.9	13.4
353 Horse Racing Commission	38.6	38.6	37.6	35.8	33.5	32.7
355 Human Rights Commission	19.5	18.8	18.2	19.2	18.4	16.2
298 Merit Protection Commission	8.9	8.5	9.7	9.7	8.2	6.0
548 Personnel Management, Office of	104.5	97.9	97.6	98.4	94.6	82.2
630 Securities Commission	29.1	29.4	26.7	27.6	26.5	27.2
Sub-total	481.3	466.8	466.5	463.9	436.7	389.0
Human Resources and Administration - Non-Appropriated						
20 Accountancy, OK State Board of	5.8	6.9	6.7	6.0	6.5	7.1
95 Burial Board, State	0.0	0.0	0.0	0.0	0.0	0.0
145 Chiropractic Examiners Board	1.7	1.4	3.0	2.0	2.0	2.0
190 Cosmetology, State Board of	13.9	13.9	13.7	12.7	13.5	14.0
215 Dentists, Bd. of Governors of Registered	4.2	4.2	4.0	4.0	4.0	4.0
285 Embalmers and Funeral Directors, Board of	3.0	3.2	3.2	3.4	3.5	3.1
815 Employees Benefit Council	25.0	27.5	30.5	30.7	30.2	30.2
45 Licensed & Landscape Architects, Bd. of Gov.	2.0	2.7	3.0	2.9	2.8	3.0
622 Licensed Social Workers, State Board	1.0	1.2	1.2	0.4	0.0	0.0
450 Medical Licensure & Supervision, Board of	24.4	21.0	20.0	19.9	20.5	22.2
475 Motor Vehicle Commission, Oklahoma	3.7	3.7	3.7	4.0	4.0	4.0
510 Nurse Registration & Education Board	19.6	19.2	20.8	21.0	20.3	20.7
516 OK State & Education Employees Grp.Ins.Bd.	159.6	160.9	165.1	170.7	177.6	176.7
520 Optometry, Board of Examiners in	1.2	1.2	1.2	1.2	1.3	1.4
525 Osteopathic Examiners Board	4.5	4.5	4.6	4.5	4.5	4.5
560 Pharmacy, Board of	7.8	8.2	8.2	7.8	8.2	8.3
570 Professional Engineers & Land Surveyors	6.4	6.1	7.5	6.4	6.2	6.0
575 Psychologist Examiners Board	1.7	1.7	1.7	1.9	2.0	2.0
588 Real Estate Commission, Oklahoma	19.7	20.1	18.9	18.4	18.9	18.0
632 Speech Pathology & Audiology Board	1.0	1.1	1.5	1.8	1.9	1.8
755 Used Motor Vehicle & Parts Commission	8.4	8.8	8.8	10.0	9.9	10.5
790 Veterinary Medical Examiners, Board of	3.5	4.1	4.1	4.0	4	4.0
Sub-total	312.3	314.7	324.7	327.8	341.8	343.5
Total	793.6	781.5	791.2	791.7	778.5	732.5

FY-2005 Executive Budget

Cabinet/Agency	FY-1999 Actual	FY-2000 Actual	FY-2001 Actual	FY-2002 Actual	FY-2003 Actual	FY-2004 Avg
Human Services						
127 Children & Youth, Commission on	19.0	20.2	20.4	20.2	20.9	19.7
326 Handicapped Concerns, Office of	8.5	7.5	8.2	8.0	7.4	7.2
830 Human Services Department	7,792.5	7,556.8	7,531.2	7,762.1	7,681.9	7,463.1
360 Indian Affairs Commission	3.6	4.6	4.4	4.1	3.8	5.0
670 J.D. McCarty Ctr. for Handicapped Concerns	128.7	127.4	126.9	134.5	139.0	136.0
400 Juvenile Affairs, Office of	1,116.4	1,058.7	1,078.7	1,096.3	1,057.2	989.8
619 Physician Manpower Training Commission	6.0	6.0	6.0	6.0	6.0	6.0
805 Rehabilitative Services, OK Dept. of	874.6	871.1	871.1	897.3	873.3	832.1
825 University Hospitals Authority	25.7	13.6	4.0	4.0	4.0	4.0
Total	9,975.0	9,665.9	9,650.9	9,932.4	9,793.5	9,462.9
Military						
25 Military Department	301.4	343.0	408.2	413.7	392.9	336.0
Safety and Security						
30 A.B.L.E. Commission	62.5	62.0	62.2	61.2	56.2	48.8
49 Attorney General	151.6	158.6	158.6	158.8	158.9	156.0
772 Chem. Tests for Alcohol & Drug Infl.	0.0	0.0	0.0	0.0	0	0.0
131 Corrections Department	5,078.8	5,150.0	5,095.5	5,123.6	4,732.1	4,681.9
415 Council on Law Enforcement Educ.&Trng.	36.5	37.6	37.8	38.6	35.4	34.4
220 District Attorney's Council	1,107.8	1,152.1	1,150.1	1,157.1	1,135.9	1,098.7
309 Emergency Mgt., Dept. of	28.6	29.3	29.0	29.1	27.6	27.2
47 Indigent Defense System	113.0	124.5	134.7	141.1	127.0	121.7
308 Investigation, Okla. State Bureau of (OSBI)	241.0	253.5	256.2	264.6	285.2	290.0
342 Medicolegal Invest. Bd.	59.8	60.4	60.1	66.1	67.6	64.6
477 Narcotics & Dangerous Drugs Control	90.6	98.2	97.8	102.5	97.1	95.4
306 Pardon and Parole Board	39.3	39.4	39.7	41.9	39.7	36.4
585 Public Safety, Department of	1,332.8	1,376.6	1,399.4	1,424.7	1,453.2	1,421.9
310 State Fire Marshal, Office of	29.8	29.0	30.2	30.5	30.3	29.0
Total	8,372.1	8,571.2	8,551.3	8,639.9	8,246.2	8,106.0
Science and Technology						
628 Cent.f/t Adv.of Science & Technology	18.6	18.9	19.3	19.9	20.2	20.3
Secretary of State						
678 Council on Judicial Complaints	1.6	1.9	2.0	2.0	2.0	2.0
270 Election Board, State	25.1	24.6	23.7	22.8	22.7	21.9
296 Ethics Commission	7.0	7.0	6.8	7.0	6.9	7.0
625 Secretary of State	35.1	36.1	36.6	35.8	36.2	37.2
Sub-total	68.8	69.6	69.1	67.6	67.8	68.1
Transportation						
60 Aeronautics Commission, OK	0.0	0.0	0.0	0.0	9.0	10
346 Space Industry Development Authority	0.0	0.0	0.0	0.0	4.0	3.5
345 Transportation	2,653.8	2,636.0	2,535.5	2,433.3	2,421.4	2,395.9
978 Turnpike Authority	484.8	493.5	489.4	508.9	524.0	545.8
Total	3,138.6	3,129.5	3,024.9	2,942.2	2,958.4	2,955.2
Veterans Affairs						
650 Veterans Affairs	1,470.4	1,549.8	1,528.9	1,452.1	1,484.2	1,551.0
Legislature						
422 House of Representatives	287.1	294.0	300.5	297.5	291.2	249.3
423 Legislative Service Bureau	26.8	27.2	32.9	34.5	34.1	33.8
421 Senate	194.3	200.4	206.0	208.1	207.4	193.6
Total	508.2	521.6	539.4	540.1	532.7	476.7

FY-2005 Executive Budget

Cabinet/Agency	FY-1999 Actual	FY-2000 Actual	FY-2001 Actual	FY-2002 Actual	FY-2003 Actual	FY-2004 Avg
Judiciary						
199 Criminal Appeals, Court of	35.2	35.1	34.7	33.9	29.7	27.5
219 District Courts	580.8	588.9	595.3	611.0	605.3	603.3
369 Workers' Compensation Court	95.3	94.3	94.7	96.5	91.2	90.7
677 Supreme Court/Court of Appeals	147.7	147.6	156.3	157.5	152.0	142.5
Total	859.0	865.9	881.0	898.8	878.2	864.0
State Regents						
600 A & M Regents	0.0	0.0	0.0	0.0	0.0	0.0
620 Quartz Mountain Conference Center	0.0	0.0	0.0	0.0	15.0	15.1
605 Regents For Higher Education	281.8	286.8	299.3	296.7	301.8	305.7
610 Regents For Oklahoma Colleges	7.5	8.0	7.4	7.5	7.3	6.6
Total	289.3	294.8	306.7	304.2	324.1	327.4
Colleges and Universities						
10 Oklahoma State University	7,043.3	7,159.4	7,279.6	7,486.4	7,350.6	7,521.4
Colleges and Universities (cont.)						
100 Cameron University	557.0	568.2	573.8	588.1	566.3	554.3
108 Carl Albert J.C.	193.9	193.6	206.2	217.5	240.4	242.9
165 Conners State College	231.0	211.6	236.7	252.9	231.4	220.5
230 East Central Oklahoma State Univ.	535.6	546.7	533.3	541.0	549.2	523.4
240 Eastern Oklahoma State College	220.3	220.3	214.0	209.3	212.5	206.0
420 Langston University	489.6	457.7	457.2	478.2	466.9	459.3
470 Murray State College	161.2	161.3	162.2	164.7	162.5	154.4
480 Northeastern A & M College	320.6	310.7	303.1	319.5	297.1	282.0
485 Northeastern Oklahoma State Univ.	1,029.2	988.2	996.5	1,045.5	1,016.4	971.8
490 Northern Oklahoma College	193.7	221.5	241.2	247.6	248.3	224.0
505 Northwestern Oklahoma State Univ.	247.8	251.6	266.6	276.2	288.6	262.4
530 Oklahoma Panhandle State University	189.3	193.9	187.9	188.8	172.4	172.6
241 Redland Community College	136.8	135.9	142.7	150.2	143.3	131.5
461 Rogers State Univ.(Claremore J.C.)	321.3	265.0	285.1	325.2	331.3	331.9
531 Rose State College	534.5	540.3	540.6	545.4	538.8	500.4
623 Seminole J.C.	155.1	154.6	161.1	161.4	157.5	156.6
633 South Oklahoma City J.C.	518.8	528.3	547.6	507.8	472.8	434.6
660 Southeastern Oklahoma State Univ.	529.7	529.7	534.7	563.1	562.4	536.5
665 Southwestern Oklahoma State Univ.	620.2	633.7	633.0	632.0	681.8	649.4
750 Tulsa J.C.	1,148.7	1,179.7	1,189.4	1,189.1	1,172.0	1,142.9
120 University of Central Oklahoma	1,171.1	1,207.0	1,215.1	1,091.5	1,176.2	1,189.8
150 Univ. of Science and Arts of Okla	173.3	171.6	174.3	175.6	170.5	163.4
41 Western Oklahoma State College	135.7	137.8	144.2	143.6	143.5	128.8
Sub-total	9,814.4	9,808.9	9,946.5	10,014.0	10,002.1	9,639.4
Colleges and Universities (cont.)						
325 OU Geological Survey	0.0	0.0	0.0	0.0	0.0	0.0
760 University of Oklahoma	5,732.9	5,735.6	5,954.4	6,225.5	6,232.0	6,632.9
761 Oklahoma University Law Center	0.0	0.0	0.0	0.0	0.0	0.0
770 Okla. University Health Science Ctr.	3,895.0	3,993.1	4,149.1	4,407.1	4,578.5	4,673.1
771 OU Health Science Ctr.Prof.Prac.Plan	502.4	229.9	257.9	276.1	298.9	321.8
845 Medical Research & Technology Auth.	54.9	57.0	49.8	0.0	0.0	0.0
Sub-total	10,185.2	10,015.6	10,411.2	10,908.6	11,109.4	11,627.8
Total	27,042.9	26,983.9	27,637.3	28,409.0	28,462.1	28,788.6

Agency Reduction in Force (RIF)/Voluntary Out Notices

Ag. No.	Agency / program:	Date of Notice	Type of plan	Proposed Positions	Health ins. 18 mos.	Outplacement asstce.	Longevity	Sick Leave	Separation agreement	Annual Leave	1-week pay for each yr. svc.	\$5,000 Lump Sum	\$2,500 Lump Sum	Other Lump Sum	Education voucher plan	Cost estimate	Implemented	Number of employees accepting VOBO	Number of People RIF'd	Number of Vacant Positions RIF'd	Actual Annualized Savings	Actual Cost	
800	VoTech	09/17/2000	RIF	4	x	x	n/a	x									no						
830	DHS	04/23/1999	VOBO	184	x	x	x	x	x						x	yes	108				\$3,413,946	\$1,504,131	
566	Tourism	05/12/1999	RIF	10	x		x	x		x					x	yes		8			\$197,267	\$80,999	
450	Board of Medical Lic.	07/12/1999	RIF	5	x		x							x	x	yes		4	1		\$245,877	\$39,470	
825	Un. Hosp. Auth.	10/29/1999	RIF	18	x	x	x	x	x						x	yes		18			\$1,060,000	\$209,485	
770	Medical Tech. & Research Authority	12/01/1999	RIF	14	x	x	x								x	yes		14	10		-\$93,150	\$47,178	
452	Mental Health	12/22/1999	RIF		x	x	x							x	x	yes		108	152		\$9,517,935	\$1,591,768	
830	DHS	11/30/1999	RIF	130	x	x	x	x	x						x	yes		98	32		\$668,459	\$668,459	
566	Tourism	03/15/2000	RIF	4	x		x							x	x	yes		4			\$64,787	\$15,378	
548	OPM	06/16/2000	VOBO	2	x		x	x	x	x	x				x	yes	1				\$38,000	\$27,000	
830	DHS	06/07/2000	VOBO	37	x		x	x	x	x					x	yes	31				\$1,538,226	\$1,104,884	
548	OPM	08/30/2000	VOBO	1	x		x	x	x	x	x				x	yes	1				\$41,000	\$31,000	
566	Tourism	02/07/2001	RIF	7	x		x								x	yes		7			\$139,733	\$23,436	
670	J.D.McCarty Center	07/27/2001	RIF	11	x	x	x	x							x	yes		4			\$126,386	\$29,323	
670	J.D.McCarty Center	12/20/2001	RIF	1	x	x	x	x							x	no							
670	J.D.McCarty Center	01/28/2002	RIF	4	x	x	x	x							x	yes		2			\$43,019	\$18,248	
452	Mental Health	02/26/2002	VOBO	4	x	x	x	x	x		x				x	yes	4				\$204,923	\$86,184	
548	OPM	04/08/2002	VOBO	1	x		x	x	x	x	x				x	yes	1		8		\$53,000	\$44,000	
566	Tourism	06/28/2002	RIF	3	x		x	x						x	x	yes		2			\$98,726	\$32,674	
830	DHS	07/22/2002	VOBO	23	x		x	x	x	x						no							
350	Historical Society	07/31/2002	RIF	3	x		x	x							x	yes		1			\$33,300	\$6,600	
47	Indigent Defense	10/29/2002	RIF	11	x	x	x	x							x	yes		11	16		\$1,399,956	\$64,930	
90	State Finance	10/21/2002	VOBO	2	x		x	x	x	x					x								
90	State Finance	11/01/2002	RIF	6	x	x	x	x						x	x	yes							
548	OPM	01/10/2003	VOBO	1	x		x		x	x					x	yes	1				\$70,000	\$23,000	
400	OJA	01/07/2003	RIF	56	x	x	x	x	x						x	yes		17	37		\$1,826,705	\$160,366	
566	Tourism	01/24/2003	RIF	2	x		x	x								yes		2			\$103,631	\$28,398	
880	Will Rogers Memorial Commission*	02/05/2003	RIF	1	x		x		x														
400	OJA	2/27/2003	VOBO	3	x		x	x	x	x					x	yes	2				\$74,317	\$27,642	
830	DHS	3/14/2003	VOBO	63	x		x							x		yes	63				\$2,920,745	\$1,148,459	
340	Health Dept.	4/7/2003	VOBO	124	x		x	x	x	x		x	X			yes	90	17	0		\$5,837,000	\$1,321,000	
340	Health Dept.	4/24/2003	VOBO	2	x		x	x	x	x				x	x	yes	2	0	0		\$135,000	\$26,000	
125	Mines	4/30/2003	VOBO	5	x		x	x	x	x	x			x		yes		5			\$213,602	\$131,322	
566	Tourism	4/30/2003	VOBO	18	x		x		x					x		yes		7			\$317,325	\$83,029	
340	Health Dept.	5/2/2003	VOBO	1	x		x	x	x	x				x	x	yes	1	0	0		\$36,000	\$15,000	
800	Career Tech	5/12/2003	VOBO	33	x		x		x		x						30.5				\$1,587,904	\$553,374	
306	Pardon & Parole*	5/19/2003	VOBO	4	x		x		x	x						yes							
160	Commerce*	5/19/2003	VOBO	26	x		x		x														
340	Health Department	5/22/2003	RIF	17	x		x	x	x							yes		10	0	above		\$103,000	
548	OPM	5/27/2003	VOBO	5	x		x	x	x	x	x				x	yes	5				\$200,000	\$149,000	
566	Tourism	5/28/2003	RIF	22	x		x	x	x									7			\$283,467	\$52,501	
548	OPM	5/28/2003	RIF	2	x		x	x	x						x	yes	2	3.5			\$90,000	\$14,000	
7	Commission*	5/28/2003	VOBO	2	x		x		x					x									
185	Corporation Comm.*	6/3/2003	VOBO	46	x		x		x														
40	Agriculture	6/13/2003	VOBO	67	x		x	x	x	x	x					yes	27				\$444,086	\$810,378	
185	Corporation Comm.	6/17/2003	RIF	1	x		x		x					x	x	no							
30	ABLE	6/18/2003	RIF	7	x		x		x									7			\$277,404	\$55,907	
265	Education	6/18/2003	VOBO	91	x		x		x					x				91			\$0	\$1,218,048	
160	Commerce	6/19/2003	VOBO	23	x		x		x							yes	23				\$1,070,808	\$582,136	
298	Merit Protection	6/21/2003	VOBO	1	x		x		x					x		yes	1				\$33,000	\$7,828	
405	Labor	6/23/2003	VOBO	11	x		x	x	x					x		yes	1				\$37,700	\$12,000	
580	DCS	6/27/2003	VOBO	18	x		x		x		x			x		yes	18				\$415,856	\$417,784	
566	Tourism	7/1/2003	VOBO	37	x		x		x							yes	18				\$593,090	\$195,162	
580	DCS*	7/9/2003	RIF	4	x		x									yes							
350	Historical Society*	7/15/2003	VOBO	4	x		x		x														
630	Securities	7/18/2003	VOBO	2	x		x		x	x	x					yes	2				\$72,014	\$86,036	
566	Tourism	7/22/2003	RIF	24	x		x		x							yes		23			\$734,765	\$217,468	
620	Quartz Mountain	7/23/2003	VOBO	2	x		x		x							yes	1	0	0		\$27,785	\$13,062	
548	OPM	9/29/2003	RIF	1	x		x	x	x						x	yes	1				\$61,000	\$9,000	
548	OPM	3/7/2003	RIF	4	x		x	x	x							yes	4				\$143,000	\$12,000	
807	Health Care Authority	10/21/2003	VOBO	1	x		x	x	x	x	x				x	yes	1				\$60,234	\$31,922	

* Actual information not available. Information displayed reflects the agency's RIF/VOBO plan as submitted to OSF.

FY-2005 Executive Budget

Constitutional Reserve 'Rainy Day' Fund History						
Description	FY-88	FY-89	FY-90	FY-91	FY-92	FY-93
Certified 100 pct.	2,319,840,831	2,499,838,709	2,661,169,752	3,034,375,978	3,213,893,237	3,365,177,687
Cert. Approp 95 pct.	2,203,848,789	2,374,846,774	2,528,111,264	2,882,657,179	3,053,198,575	3,196,918,803
Max. Fund Limit	0	220,384,879	237,484,677	252,811,126	288,265,718	305,319,858
Deposits	0	77,994,351	100,810,258	73,929,614	75,117,212	0
Re-Deposits	0	0	0	0	10,464	25,176
Fund Balance	0	77,994,351	178,804,609	252,734,223	327,861,899	327,887,075
Avail for Budget Stabilization	0	0	0	0	0	0
Avail Emerg app.	0	38,997,176	89,402,305	126,367,112	163,925,718	163,930,950
Appropriated	0	26,000,000	75,000,000	30,000,000	61,878,177	43,867,903
Description	FY-94	FY-95	FY-96	FY-97	FY-98	FY-99
Certified 100 pct.	3,398,476,001	3,515,271,803	3,613,566,660	3,531,051,107	3,866,388,947	4,185,608,918
Cert. Approp 95 pct.	3,228,552,201	3,339,508,212	3,432,888,327	3,354,498,552	3,673,069,497	3,976,328,472
Max. Fund Limit	319,691,880	322,855,220	333,950,821	343,288,833	335,449,855	367,306,950
Deposits	0	0	0	91,402,205	247,042,462	142,898,076
Re-Deposits	0	3,555	0	12,909	388,745	1,119,324
Fund Balance	91,140,995	45,574,052	45,574,052	114,300,821	308,906,533	298,479,933
Available for Budget Stabilization	0	0	0	0	0	0
Available for Emergency	45,570,498	22,785,249	22,787,026	57,143,956	154,453,266	148,680,304
Appropriated	45,570,498	22,785,249	22,688,345	52,825,496	154,444,000	148,621,410
Description	FY-00	FY-01	FY-02	FY-03	FY-04*	FY'05
Certified 100 pct.	4,271,447,504	4,456,033,491	4,828,695,956	4,725,288,154	4,395,800,772	4,496,823,698
Cert. Approp 95 pct.	4,057,875,129	4,233,231,816	4,587,261,158	4,489,023,746	4,176,010,733	4,271,982,513
Max. Fund Limit	397,632,847	405,787,513	423,323,182	458,726,116	448,902,375	417,601,073
Deposits	0	82,584,612	261,904,617	0	0	
Re-Deposits	28,700	9,826	299,087	0	0	
Fund Balance	149,887,223	157,552,400	340,984,817	72,398,995	136,332	
Available for Budget Stabilization	0	0	98,242,957	36,199,497	68,166	
Available for Emergency	74,929,261	78,771,287	170,342,865	36,199,497	68,166	
Appropriated	74,929,261	78,771,287	268,585,822	72,262,663	N/A	

Explanation of Design of Tables and Figures

The tables and figures in this section are intended to provide the reader with a broad array of information about the Oklahoma economy and its government. This information is presented in two different, but complementary formats.

The first of these formats is the ranking of all fifty states in the various measures presented. This comparison helps the reader understand where Oklahoma ranks nationally, and how we compare to other states. The second format is a comparison of Oklahoma to the United States over a history of varying length depending upon the data series. This comparison shows how our state has been performing compared to the nation as a whole over time.

By combining these two views of comparing Oklahoma against some benchmark, we get a great deal more information than if we look at either view separately. For example, knowing that Oklahoma ranks 40th on some measure may seem to be bad news, but if our standing compared to the United States has improved over time, this is less concerning. Conversely, Oklahoma ranking 10th in some comparison may not be strictly good news if our trend compared to the nation as a whole has been declining.

In order to maximize the value of these two comparisons of Oklahoma's performance on the various measures included here, a general format is followed. First, the fifty state ranking is presented followed by the comparison of Oklahoma and the United States over time. The former comparison is depicted in a table and Oklahoma will be highlighted to aid readers. The latter comparison is depicted with a line graph and also includes a table so that the underlying information is available to anyone interested.

The measures presented in the following tables include population, per capita personal income, average earnings, median household income, unemployment rate, and per pupil education spending. Median household income is a relatively good means of comparing states at a point in time, but is not appropriate as a time series so the historical comparison of Oklahoma to the United States is omitted. All of the remaining comparisons are presented in the format described above.

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Table 1. Population Growth Fifty State Rankings, 1992 to 2002

Rank	State	1992 Population	2002 Population	Population Growth 1992 to 2002
1	Nevada	1,351,367	2,173,491	60.84%
2	Arizona	3,915,740	5,456,453	39.35%
3	Colorado	3,495,939	4,506,542	28.91%
4	Utah	1,836,799	2,316,256	26.10%
5	Georgia	6,817,203	8,560,310	25.57%
6	Idaho	1,071,685	1,341,131	25.14%
7	Texas	17,759,738	21,779,893	22.64%
8	Florida	13,650,553	16,713,149	22.44%
9	North Carolina	6,897,214	8,320,146	20.63%
10	Oregon	2,991,755	3,521,515	17.71%
11	Washington	5,160,757	6,068,996	17.60%
12	New Mexico	1,595,442	1,855,059	16.27%
13	Delaware	694,925	807,385	16.18%
14	Tennessee	5,049,742	5,797,289	14.80%
15	New Hampshire	1,117,784	1,275,056	14.07%
16	Virginia	6,414,307	7,293,542	13.71%
17	South Carolina	3,620,464	4,107,183	13.44%
18	California	30,974,659	35,116,033	13.37%
19	Arkansas	2,415,984	2,710,079	12.17%
20	Minnesota	4,495,572	5,019,720	11.66%
21	Maryland	4,923,368	5,458,137	10.86%
22	Montana	825,770	909,453	10.13%
23	Mississippi	2,623,734	2,871,782	9.45%
24	Alaska	588,736	643,786	9.35%
25	New Jersey	7,880,508	8,590,300	9.01%
26	Missouri	5,217,101	5,672,579	8.73%
27	Kentucky	3,765,469	4,092,891	8.70%
28	Indiana	5,674,547	6,159,068	8.54%
29	Oklahoma	3,220,517	3,493,714	8.48%
30	Wisconsin	5,025,398	5,441,196	8.27%
31	Alabama	4,154,014	4,486,508	8.00%
32	Illinois	11,694,184	12,600,620	7.75%
33	Vermont	572,751	616,592	7.65%
34	Hawaii	1,158,613	1,244,898	7.45%
35	Nebraska	1,611,687	1,729,180	7.29%
36	Kansas	2,532,394	2,715,884	7.25%
37	Wyoming	466,251	498,703	6.96%
38	South Dakota	712,801	761,063	6.77%
39	Massachusetts	6,028,709	6,427,801	6.62%
40	Michigan	9,479,065	10,050,446	6.03%
41	Rhode Island	1,012,581	1,069,725	5.64%
42	New York	18,246,653	19,157,532	4.99%
43	Connecticut	3,300,712	3,460,503	4.84%
44	Maine	1,238,508	1,294,464	4.52%
45	Louisiana	4,293,003	4,482,646	4.42%
46	Iowa	2,818,401	2,936,760	4.20%
47	Ohio	11,029,431	11,421,267	3.55%
48	Pennsylvania	12,049,450	12,335,091	2.37%
49	West Virginia	1,806,451	1,801,873	-0.25%
50	North Dakota	638,223	634,110	-0.64%
	United States	256,514,224	288,368,698	12.42%

Source: United States Census Bureau

Figure 1. Oklahoma Population as a Percent of United States, 1970-2002

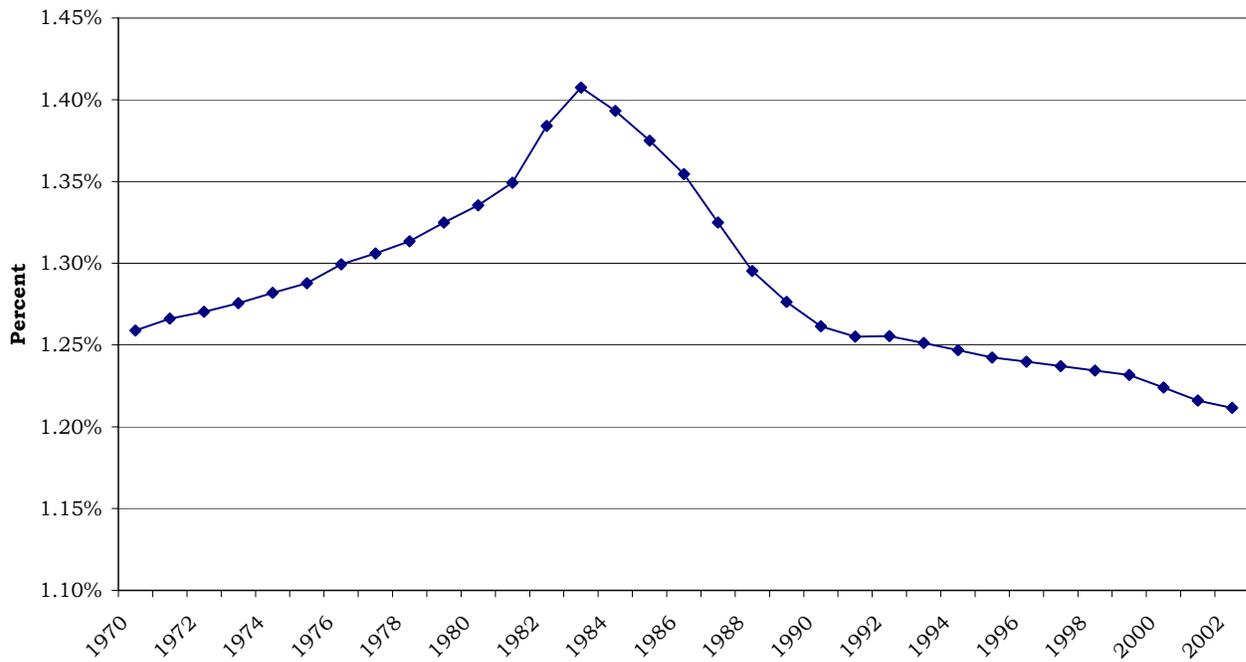


Table 2. Oklahoma Population as a Percent of United States, 1970-2002

Year	Oklahoma Population	United States Population	Oklahoma as a Percent of United States	Year	Oklahoma Population	United States Population	Oklahoma as a Percent of United States
1970	2,559,463	203,302,031	1.26%	1987	3,210,122	242,288,918	1.32%
1971	2,618,601	206,827,026	1.27%	1988	3,167,057	244,498,982	1.30%
1972	2,658,646	209,283,905	1.27%	1989	3,150,307	246,819,230	1.28%
1973	2,695,931	211,357,481	1.28%	1990	3,148,825	249,622,814	1.26%
1974	2,734,768	213,341,554	1.28%	1991	3,175,440	252,980,941	1.26%
1975	2,774,683	215,465,255	1.29%	1992	3,220,517	256,514,224	1.26%
1976	2,826,815	217,562,735	1.30%	1993	3,252,285	259,918,588	1.25%
1977	2,870,014	219,759,869	1.31%	1994	3,280,940	263,125,821	1.25%
1978	2,917,336	222,095,080	1.31%	1995	3,308,208	266,278,393	1.24%
1979	2,975,310	224,567,241	1.32%	1996	3,340,129	269,394,284	1.24%
1980	3,025,290	226,545,805	1.34%	1997	3,372,917	272,646,925	1.24%
1981	3,096,164	229,465,714	1.35%	1998	3,405,194	275,854,104	1.23%
1982	3,206,123	231,664,458	1.38%	1999	3,437,147	279,040,168	1.23%
1983	3,290,402	233,791,994	1.41%	2000	3,454,408	282,224,348	1.22%
1984	3,285,533	235,824,902	1.39%	2001	3,469,577	285,317,559	1.22%
1985	3,271,332	237,923,795	1.37%	2002	3,493,714	288,368,698	1.21%
1986	3,252,735	240,132,887	1.35%				

Source: United States Census Bureau

Table 3. State Per Capita Personal Income as a Percent of United States Fifty State Rankings, 1991 and 2001

Rank	State	1991 Per Capita Personal Income	1991 Per Capita Personal Income as a Percent of United States	Rank	State	2001 Per Capita Personal Income	2001 Per Capita Personal Income as a Percent of United States
1	Connecticut	\$26,747	133.58%	1	Connecticut	\$42,435	139.26%
2	New Jersey	25,055	125.13%	2	Massachusetts	38,907	127.68%
3	New York	23,820	118.96%	3	New Jersey	38,509	126.38%
4	Massachusetts	23,671	118.22%	4	New York	36,019	118.20%
5	Maryland	23,516	117.44%	5	Maryland	35,188	115.48%
6	Alaska	23,226	116.00%	6	New Hampshire	34,138	112.03%
7	Hawaii	23,046	115.10%	7	Colorado	33,470	109.84%
8	Delaware	22,257	111.16%	8	Minnesota	33,101	108.63%
9	California	21,983	109.79%	9	Illinois	33,023	108.37%
10	New Hampshire	21,270	106.23%	10	California	32,702	107.32%
11	Illinois	21,260	106.18%	11	Delaware	32,472	106.56%
12	Nevada	21,100	105.38%	12	Virginia	32,431	106.43%
13	Virginia	21,033	105.04%	13	Washington	32,025	105.10%
14	Washington	20,850	104.13%	14	Alaska	30,936	101.52%
15	Pennsylvania	20,438	102.07%	15	Pennsylvania	30,720	100.81%
16	Minnesota	20,427	102.02%	16	Rhode Island	30,215	99.16%
17	Colorado	20,369	101.73%	17	Nevada	29,897	98.11%
18	Rhode Island	20,228	101.02%	18	Michigan	29,788	97.76%
19	Florida	20,068	100.22%	19	Wyoming	29,416	96.53%
20	Michigan	19,307	96.42%	20	Wisconsin	29,270	96.06%
21	Ohio	19,196	95.87%	21	Hawaii	29,002	95.18%
22	Kansas	18,806	93.92%	22	Florida	28,947	95.00%
23	Wyoming	18,805	93.92%	23	Nebraska	28,886	94.80%
24	Oregon	18,744	93.61%	24	Ohio	28,816	94.57%
25	Nebraska	18,706	93.42%	25	Georgia	28,733	94.29%
26	Wisconsin	18,667	93.23%	26	Vermont	28,594	93.84%
27	Missouri	18,514	92.46%	27	Texas	28,581	93.79%
28	Georgia	18,201	90.90%	28	Kansas	28,565	93.74%
29	Vermont	18,171	90.75%	29	Missouri	28,226	92.63%
30	Texas	18,090	90.35%	30	Oregon	28,165	92.43%
31	Indiana	18,009	89.94%	31	Indiana	27,783	91.18%
32	Iowa	17,818	88.99%	32	North Carolina	27,514	90.29%
33	North Carolina	17,784	88.82%	33	Iowa	27,331	89.69%
34	Maine	17,638	88.09%	34	Tennessee	26,988	88.57%
35	Arizona	17,441	87.10%	35	Maine	26,723	87.70%
36	Tennessee	17,433	87.06%	36	South Dakota	26,664	87.50%
37	South Dakota	16,907	84.44%	37	North Dakota	25,902	85.00%
38	Oklahoma	16,674	83.27%	38	Arizona	25,872	84.90%
39	Alabama	16,503	82.42%	39	Oklahoma	25,071	82.28%
40	Montana	16,471	82.26%	40	Kentucky	24,923	81.79%
41	South Carolina	16,358	81.70%	41	South Carolina	24,886	81.67%
42	North Dakota	16,230	81.06%	42	Idaho	24,621	80.80%
43	Kentucky	16,207	80.94%	43	Alabama	24,589	80.69%
44	Idaho	16,158	80.70%	44	Louisiana	24,535	80.52%
45	Louisiana	16,030	80.06%	45	Utah	24,180	79.35%
46	New Mexico	15,661	78.22%	46	Montana	23,963	78.64%
47	Utah	15,592	77.87%	47	New Mexico	23,155	75.99%
48	West Virginia	15,214	75.98%	48	Arkansas	22,887	75.11%
49	Arkansas	15,175	75.79%	49	West Virginia	22,881	75.09%
50	Mississippi	13,766	68.75%	50	Mississippi	21,750	71.38%

Figure 2. Oklahoma Per Capita Personal Income as a Percent of United States, 1958-2001

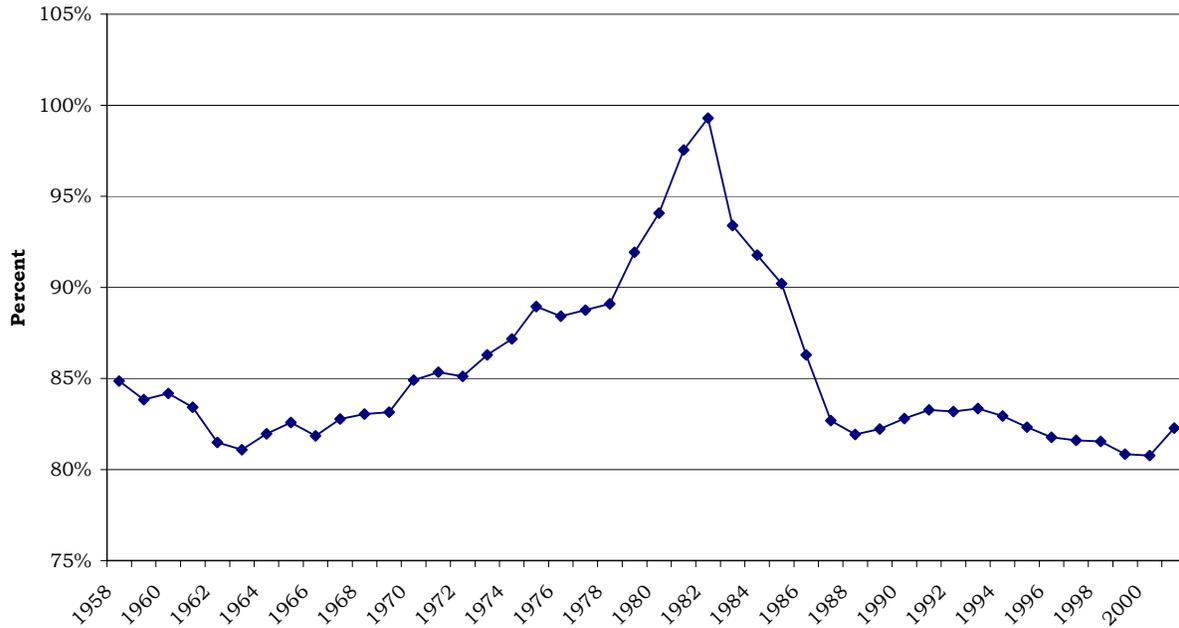


Table 4. Oklahoma Per Capita Personal Income as a Percent of United States, 1958-2001

Year	Oklahoma Per Capita Personal Income	United States Per Capita Personal Income	Oklahoma as a Percent of United States	Year	Oklahoma Per Capita Personal Income	United States Per Capita Personal Income	Oklahoma as a Percent of United States
1958	\$1,794	\$2,114	84.86%	1980	\$9,580	\$10,183	94.08%
1959	1,857	2,215	83.84%	1981	11,003	11,280	97.54%
1960	1,916	2,276	84.18%	1982	11,817	11,901	99.29%
1961	1,947	2,334	83.42%	1983	11,725	12,554	93.40%
1962	1,994	2,447	81.49%	1984	12,687	13,824	91.78%
1963	2,055	2,534	81.10%	1985	13,265	14,705	90.21%
1964	2,196	2,679	81.97%	1986	13,288	15,397	86.30%
1965	2,361	2,859	82.58%	1987	13,464	16,284	82.68%
1966	2,517	3,075	81.85%	1988	14,257	17,403	81.92%
1967	2,702	3,264	82.78%	1989	15,265	18,566	82.22%
1968	2,948	3,550	83.04%	1990	16,205	19,572	82.80%
1969	3,198	3,846	83.15%	1991	16,674	20,023	83.27%
1970	3,477	4,095	84.91%	1992	17,437	20,960	83.19%
1971	3,711	4,348	85.35%	1993	17,955	21,539	83.36%
1972	4,020	4,723	85.12%	1994	18,531	22,340	82.95%
1973	4,524	5,242	86.30%	1995	19,144	23,255	82.32%
1974	4,986	5,720	87.17%	1996	19,846	24,270	81.77%
1975	5,475	6,155	88.95%	1997	20,739	25,412	81.61%
1976	5,974	6,756	88.43%	1998	21,930	26,893	81.55%
1977	6,586	7,421	88.75%	1999	22,540	27,880	80.85%
1978	7,387	8,291	89.10%	2000	24,046	29,770	80.77%
1979	8,485	9,230	91.93%	2001	25,071	30,472	82.28%

Source: Bureau of Economic Analysis

Figure 3. Per Capita Personal Income Gap, Oklahoma and United States, 1958-2001

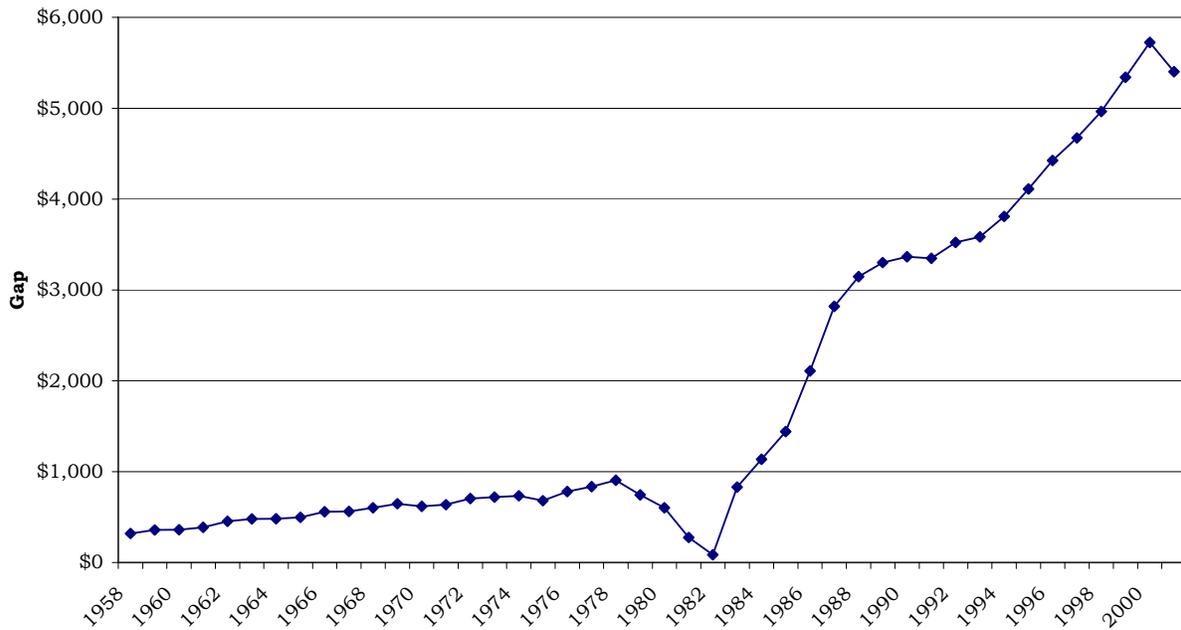


Table 5. Per Capita Personal Income Gap, Oklahoma and United States, 1958-2001

Year	Oklahoma Per Capita Personal Income	United States Per Capita Personal Income	Gap, United States - Oklahoma	Year	Oklahoma Per Capita Personal Income	United States Per Capita Personal Income	Gap, United States - Oklahoma
1958	\$1,794	\$2,114	\$320	1980	\$9,580	\$10,183	\$603
1959	1,857	2,215	358	1981	11,003	11,280	277
1960	1,916	2,276	360	1982	11,817	11,901	84
1961	1,947	2,334	387	1983	11,725	12,554	829
1962	1,994	2,447	453	1984	12,687	13,824	1,137
1963	2,055	2,534	479	1985	13,265	14,705	1,440
1964	2,196	2,679	483	1986	13,288	15,397	2,109
1965	2,361	2,859	498	1987	13,464	16,284	2,820
1966	2,517	3,075	558	1988	14,257	17,403	3,146
1967	2,702	3,264	562	1989	15,265	18,566	3,301
1968	2,948	3,550	602	1990	16,205	19,572	3,367
1969	3,198	3,846	648	1991	16,674	20,023	3,349
1970	3,477	4,095	618	1992	17,437	20,960	3,523
1971	3,711	4,348	637	1993	17,955	21,539	3,584
1972	4,020	4,723	703	1994	18,531	22,340	3,809
1973	4,524	5,242	718	1995	19,144	23,255	4,111
1974	4,986	5,720	734	1996	19,846	24,270	4,424
1975	5,475	6,155	680	1997	20,739	25,412	4,673
1976	5,974	6,756	782	1998	21,930	26,893	4,963
1977	6,586	7,421	835	1999	22,540	27,880	5,340
1978	7,387	8,291	904	2000	24,046	29,770	5,724
1979	8,485	9,230	745	2001	25,071	30,472	5,401

Source: Bureau of Economic Analysis

Table 6. State Median Household Income as Percent of United States Fifty State Ranking, Three Year Average Median, 1999-2001

Rank	State	1999-2001 Three Year Average State Median Household Income	1999-2001 Three Year Average State Median Household Income as a Percent of United States
1	Alaska	\$55,426	129.28%
2	Maryland	55,013	128.32%
3	Connecticut	52,887	123.36%
4	Minnesota	52,804	123.16%
5	New Jersey	52,137	121.61%
6	New Hampshire	50,866	118.64%
7	Delaware	50,301	117.33%
8	Colorado	50,053	116.75%
9	Hawaii	49,232	114.83%
10	Virginia	49,085	114.49%
11	Massachusetts	49,018	114.33%
12	Utah	48,378	112.84%
13	Illinois	47,578	110.97%
14	California	47,243	110.19%
15	Michigan	46,929	109.46%
16	Wisconsin	46,734	109.01%
17	Nevada	45,493	106.11%
18	Washington	44,835	104.58%
19	Rhode Island	44,825	104.55%
20	Missouri	43,884	102.36%
21	Oregon	42,701	99.60%
22	Ohio	42,631	99.44%
23	Nebraska	42,518	99.17%
24	Georgia	42,508	99.15%
25	Pennsylvania	42,320	98.71%
26	Iowa	42,255	98.56%
27	New York	42,157	98.33%
28	Indiana	41,921	97.78%
29	Vermont	41,888	97.70%
30	Kansas	41,097	95.86%
31	Arizona	40,965	95.55%
32	Texas	40,547	94.57%
33	Wyoming	40,007	93.32%
34	North Carolina	39,040	91.06%
35	Maine	38,733	90.34%
36	South Dakota	38,407	89.58%
37	South Carolina	38,362	89.48%
38	Idaho	38,310	89.36%
39	Florida	38,141	88.96%
40	Kentucky	37,184	86.73%
41	Alabama	36,693	85.59%
42	Tennessee	36,542	85.23%
43	North Dakota	35,830	83.57%
44	New Mexico	34,599	80.70%
45	Oklahoma	34,554	80.60%
46	Mississippi	33,305	77.68%
47	Louisiana	33,194	77.42%
48	Montana	32,929	76.81%
49	Arkansas	31,798	74.17%
50	West Virginia	30,342	70.77%
	United States	\$42,873	

Table 7. State Average Earnings Per Job as a Percent of United States Fifty State Rankings, 1991 and 2001

Rank	State	1991 State Average Earnings Per Job	1991 State Average Earnings Per Job as a Percent of United States	Rank	States	2001 State Average Earnings Per Job	2001 State Average Earnings Per Job as a Percent of United States
1	New York	\$32,629	125.50%	1	New York	\$49,072	131.71%
2	Connecticut	31,903	122.71%	2	Connecticut	48,147	129.23%
3	New Jersey	31,729	122.04%	3	New Jersey	46,490	124.78%
4	Alaska	31,519	121.23%	4	Massachusetts	45,586	122.36%
5	Massachusetts	29,705	114.25%	5	California	41,919	112.51%
6	California	29,074	111.82%	6	Illinois	40,522	108.76%
7	Delaware	28,242	108.62%	7	Delaware	39,166	105.12%
8	Illinois	27,758	106.76%	8	Maryland	39,080	104.89%
9	Maryland	27,279	104.92%	9	Washington	38,631	103.69%
10	Michigan	27,104	104.25%	10	Colorado	38,371	102.99%
11	Hawaii	26,952	103.66%	11	Texas	38,261	102.69%
12	Pennsylvania	26,500	101.92%	12	Michigan	38,176	102.46%
13	Washington	25,864	99.48%	13	Virginia	38,064	102.16%
14	Virginia	25,830	99.35%	14	Georgia	37,193	99.83%
15	Nevada	25,506	98.10%	15	Pennsylvania	36,951	99.18%
16	Texas	25,085	96.48%	16	Alaska	36,853	98.92%
17	Georgia	25,007	96.18%	17	Minnesota	35,952	96.50%
18	Ohio	24,991	96.12%	18	New Hampshire	35,693	95.80%
19	Rhode Island	24,735	95.14%	19	Nevada	35,652	95.69%
20	Colorado	24,374	93.75%	20	Rhode Island	35,019	93.99%
21	Minnesota	24,192	93.05%	21	Arizona	33,946	91.11%
22	New Hampshire	24,089	92.65%	22	Ohio	33,931	91.07%
23	Florida	23,681	91.08%	23	Hawaii	33,306	89.39%
24	Louisiana	23,383	89.94%	24	North Carolina	32,965	88.48%
25	Arizona	23,207	89.26%	25	Oregon	32,739	87.87%
26	Indiana	23,198	89.22%	26	Florida	32,629	87.58%
27	Oregon	23,081	88.78%	27	Missouri	32,528	87.31%
28	Alabama	23,019	88.54%	28	Tennessee	32,410	86.99%
29	Missouri	22,978	88.38%	29	Indiana	32,385	86.92%
30	North Carolina	22,721	87.39%	30	Wisconsin	31,880	85.57%
31	Tennessee	22,655	87.14%	31	Alabama	30,921	82.99%
32	Wisconsin	22,417	86.22%	32	Louisiana	30,721	82.46%
33	West Virginia	22,281	85.70%	33	South Carolina	30,504	81.87%
34	South Carolina	22,079	84.92%	34	Kentucky	30,391	81.57%
35	Oklahoma	21,946	84.41%	35	Kansas	30,179	81.00%
36	Maine	21,875	84.14%	36	Utah	30,110	80.82%
37	Kentucky	21,822	83.93%	37	New Mexico	29,694	79.70%
38	New Mexico	21,649	83.27%	38	Nebraska	29,560	79.34%
39	Nebraska	21,615	83.13%	39	Vermont	29,451	79.05%
40	Wyoming	21,604	83.09%	40	Oklahoma	29,362	78.81%
41	Utah	21,532	82.82%	41	West Virginia	28,781	77.25%
42	Kansas	21,381	82.24%	42	Maine	28,748	77.16%
43	Vermont	21,155	81.37%	43	Wyoming	28,667	76.94%
44	Idaho	20,888	80.34%	44	Idaho	28,527	76.57%
45	Iowa	20,252	77.89%	45	Iowa	28,479	76.44%
46	Arkansas	20,094	77.29%	46	Arkansas	27,674	74.28%
47	Mississippi	19,614	75.44%	47	Mississippi	27,172	72.93%
48	Montana	19,433	74.75%	48	South Dakota	26,266	70.50%
49	South Dakota	19,268	74.11%	49	North Dakota	25,256	67.79%
50	North Dakota	18,338	70.53%	50	Montana	24,819	66.62%
	United States	\$26,000			United States	\$37,257	

Figure 4. Oklahoma Average Earnings Per Job as a Percent of United States, 1969-2001

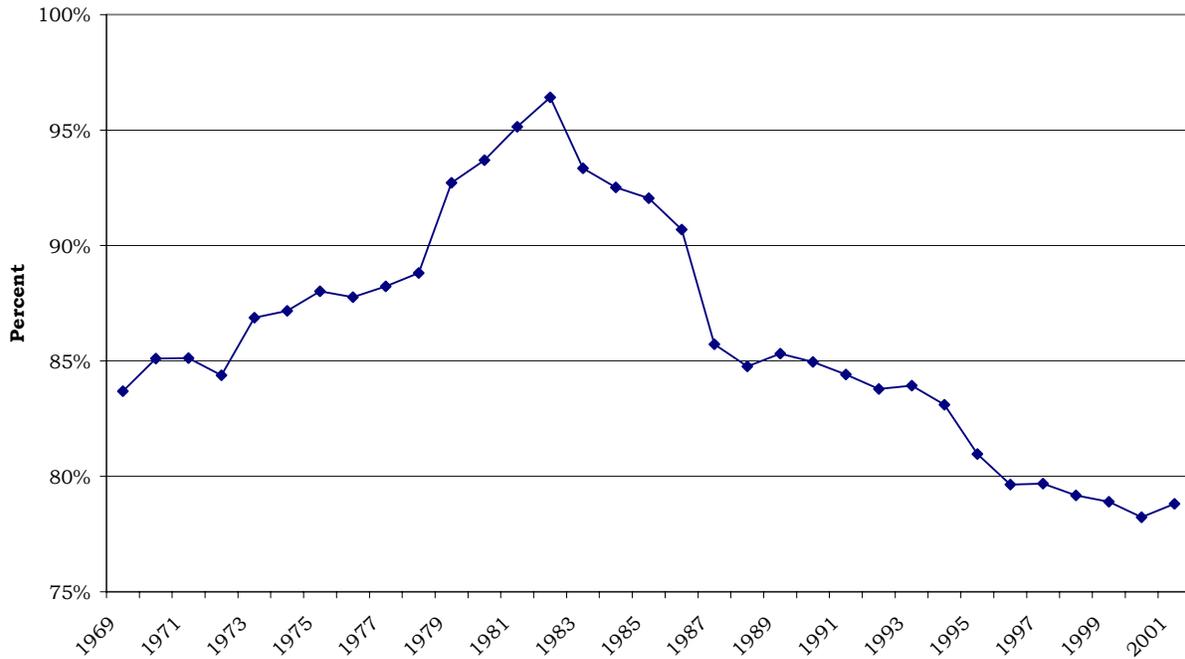


Table 8. Oklahoma Average Earnings Per Job as a Percent of United States, 1969-2001

Year	Oklahoma Average Earnings Per Job	United States Average Earnings Per Job	Oklahoma as a Percent of United States	Year	Oklahoma Average Earnings Per Job	United States Average Earnings Per Job	Oklahoma as a Percent of United States
1969	\$5,763	\$6,887	83.68%	1986	\$19,117	\$21,079	90.69%
1970	6,214	7,301	85.10%	1987	18,908	22,059	85.72%
1971	6,618	7,774	85.12%	1988	19,607	23,131	84.76%
1972	7,029	8,330	84.38%	1989	20,530	24,064	85.31%
1973	7,776	8,951	86.87%	1990	21,378	25,163	84.96%
1974	8,322	9,547	87.17%	1991	21,946	26,000	84.41%
1975	9,059	10,293	88.01%	1992	23,180	27,665	83.79%
1976	9,787	11,153	87.76%	1993	23,757	28,307	83.93%
1977	10,590	12,004	88.23%	1994	24,049	28,937	83.11%
1978	11,552	13,009	88.81%	1995	23,918	29,540	80.97%
1979	13,036	14,059	92.72%	1996	24,284	30,493	79.64%
1980	14,189	15,144	93.70%	1997	25,189	31,610	79.69%
1981	15,650	16,449	95.14%	1998	26,188	33,077	79.17%
1982	16,701	17,322	96.42%	1999	27,308	34,611	78.90%
1983	16,942	18,151	93.34%	2000	28,474	36,398	78.23%
1984	17,948	19,400	92.52%	2001	29,362	37,257	78.81%
1985	18,692	20,307	92.05%				

Source: Bureau of Economic Analysis

Table 9. Unemployment Rate Fifty State Rankings, 2001 and 2002

Rank	State	2001 Unemployment Rate	Rank	State	2002 Unemployment Rate
1	North Dakota	2.8%	1	South Dakota	3.0%
2	Nebraska	3.1%	2	North Dakota	3.3%
3	Connecticut	3.3%	3	Nebraska	3.5%
3	Iowa	3.3%	4	Iowa	3.7%
3	South Dakota	3.3%	5	Connecticut	3.9%
6	Delaware	3.5%	5	Delaware	3.9%
6	New Hampshire	3.5%	5	Vermont	3.9%
6	Virginia	3.5%	8	Wyoming	4.0%
9	Vermont	3.6%	9	Maine	4.1%
10	Colorado	3.7%	9	Virginia	4.1%
10	Massachusetts	3.7%	11	Minnesota	4.2%
10	Minnesota	3.7%	12	Hawaii	4.3%
13	Oklahoma	3.8%	12	Montana	4.3%
14	Wyoming	3.9%	12	Oklahoma	4.3%
15	Georgia	4.0%	15	Maryland	4.4%
15	Maine	4.0%	15	New Hampshire	4.4%
17	Maryland	4.1%	17	Kansas	4.5%
18	New Jersey	4.2%	18	Georgia	4.6%
19	Kansas	4.3%	19	Rhode Island	4.7%
19	Ohio	4.3%	20	Massachusetts	4.8%
21	Indiana	4.4%	21	Tennessee	4.9%
21	Utah	4.4%	22	Indiana	5.0%
23	Tennessee	4.5%	22	Missouri	5.0%
24	Hawaii	4.6%	24	Arkansas	5.1%
24	Montana	4.6%	24	Wisconsin	5.1%
24	Wisconsin	4.6%	26	Utah	5.2%
27	Arizona	4.7%	27	Colorado	5.3%
27	Missouri	4.7%	27	Kentucky	5.3%
27	Pennsylvania	4.7%	29	Florida	5.4%
27	Rhode Island	4.7%	29	Idaho	5.4%
31	Florida	4.8%	29	Nevada	5.4%
31	New Mexico	4.8%	29	New Jersey	5.4%
33	New York	4.9%	33	Pennsylvania	5.5%
33	Texas	4.9%	34	Ohio	5.6%
33	West Virginia	4.9%	35	Alabama	5.7%
36	Idaho	5.0%	35	South Carolina	5.7%
37	Arkansas	5.1%	37	Arizona	5.8%
38	Alabama	5.3%	38	West Virginia	5.9%
38	California	5.3%	39	Louisiana	6.0%
38	Michigan	5.3%	39	New Mexico	6.0%
38	Nevada	5.3%	39	New York	6.0%
42	Illinois	5.4%	42	Michigan	6.1%
42	South Carolina	5.4%	42	Texas	6.1%
44	Kentucky	5.5%	44	Illinois	6.3%
44	Mississippi	5.5%	45	California	6.4%
44	North Carolina	5.5%	46	North Carolina	6.5%
47	Louisiana	6.0%	47	Alaska	6.6%
48	Alaska	6.3%	47	Mississippi	6.6%
48	Oregon	6.3%	49	Washington	7.0%
50	Washington	6.4%	50	Oregon	7.4%
	United States	4.8%		United States	5.8%

Figure 5. Oklahoma and United States Unemployment Rates, 1978-2002

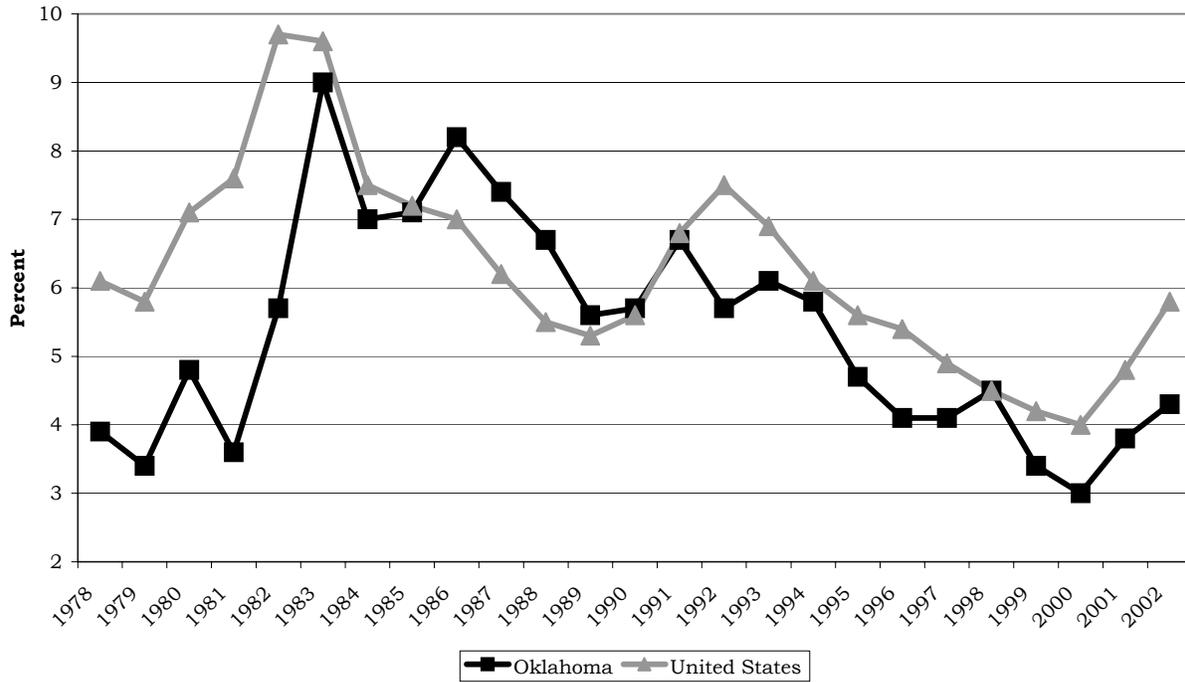


Table 10. Oklahoma and United States Unemployment Rates, 1978-2002

Year	Oklahoma Unemployment Rate	United States Unemployment Rate	Year	Oklahoma Unemployment Rate	United States Unemployment Rate
1978	3.9%	6.1%	1991	6.7%	6.8%
1979	3.4%	5.8%	1992	5.7%	7.5%
1980	4.8%	7.1%	1993	6.1%	6.9%
1981	3.6%	7.6%	1994	5.8%	6.1%
1982	5.7%	9.7%	1995	4.7%	5.6%
1983	9.0%	9.6%	1996	4.1%	5.4%
1984	7.0%	7.5%	1997	4.1%	4.9%
1985	7.1%	7.2%	1998	4.5%	4.5%
1986	8.2%	7.0%	1999	3.4%	4.2%
1987	7.4%	6.2%	2000	3.0%	4.0%
1988	6.7%	5.5%	2001	3.8%	4.8%
1989	5.6%	5.3%	2002	4.3%	5.8%
1990	5.7%	5.6%			

Source: Bureau of Labor Statistics and Office of State Finance Calculations for 2002 Unemployment Rate based on average of monthly unemployment rates for states.

Table 11. Elementary and Secondary Education Expenditures Per Pupil Fifty State Rankings, FY-2000

Rank	State	FY-2000 Elementary and Secondary Education Expenditures Per Pupil (\$000's)	Fall 1999 Enrollment	Elementary and Secondary Education Expenditures per Pupil in Fall Enrollment
1	New Jersey	\$13,327,645	1,289,256	\$10,337
2	New York	28,433,240	2,887,776	9,846
3	Connecticut	5,402,868	553,993	9,753
4	Rhode Island	1,393,143	156,454	8,904
5	Alaska	1,183,499	134,391	8,806
6	Massachusetts	8,511,065	971,425	8,761
7	Vermont	870,198	104,559	8,323
8	Delaware	937,630	112,836	8,310
9	Michigan	13,994,294	1,725,617	8,110
10	Wisconsin	6,852,178	877,753	7,806
11	Pennsylvania	14,120,112	1,816,716	7,772
12	Maryland	6,545,135	846,582	7,731
13	Maine	1,604,438	209,253	7,667
14	Wyoming	683,918	92,105	7,425
15	Indiana	7,110,930	988,702	7,192
16	Minnesota	6,140,442	854,034	7,190
17	West Virginia	2,086,937	291,811	7,152
18	Oregon	3,896,287	545,033	7,149
19	Illinois	14,462,773	2,027,600	7,133
20	Ohio	12,974,575	1,836,554	7,065
21	New Hampshire	1,418,503	206,783	6,860
22	Virginia	7,757,598	1,133,994	6,841
23	Nebraska	1,926,500	288,261	6,683
24	Iowa	3,264,336	497,301	6,564
25	Hawaii	1,213,695	185,860	6,530
26	Georgia	9,158,624	1,422,762	6,437
27	Washington	6,399,883	1,003,714	6,376
28	California	38,129,479	6,038,589	6,314
29	Montana	994,770	157,556	6,314
30	Kansas	2,971,814	472,188	6,294
31	Texas	25,098,703	3,991,783	6,288
32	Colorado	4,400,888	708,109	6,215
33	Missouri	5,655,531	914,110	6,187
34	South Carolina	4,087,355	666,780	6,130
35	North Carolina	7,713,293	1,275,925	6,045
36	Kentucky	3,837,794	648,180	5,921
37	Florida	13,885,988	2,381,396	5,831
38	New Mexico	1,890,274	324,495	5,825
39	Louisiana	4,391,214	756,579	5,804
40	Nevada	1,875,467	325,610	5,760
41	North Dakota	638,946	112,751	5,667
42	Alabama	4,176,082	740,732	5,638
43	South Dakota	737,998	131,037	5,632
44	Oklahoma	3,382,581	627,032	5,395
45	Tennessee	4,931,734	916,202	5,383
46	Idaho	1,302,817	245,331	5,310
47	Arkansas	2,380,331	451,034	5,277
48	Mississippi	2,510,376	500,716	5,014
49	Arizona	4,262,182	852,612	4,999
50	Utah	2,102,655	480,255	4,378
	United States	\$323,808,909	46,857,321	\$6,911

Figure 6. Oklahoma Elementary and Secondary Education Expenditures Per Pupil as a Percent of United States, FY-86 to FY-2000

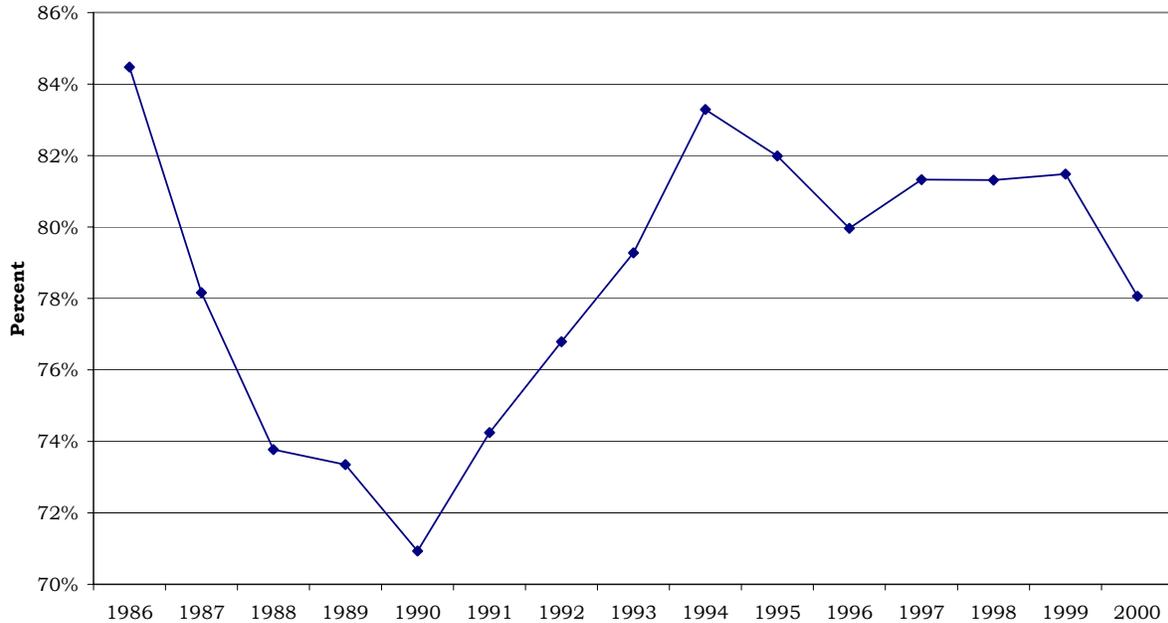


Table 12. Oklahoma Elementary and Secondary Education Expenditures Per Pupil as a Percent of United States, FY-86 to FY-2000

Fiscal Year	Oklahoma Elementary and Secondary Education Expenditures Per Pupil	United States Elementary and Secondary Education Expenditures Per Pupil	Oklahoma as a Percent of United States	Fiscal Year	Oklahoma Elementary and Secondary Education Expenditures Per Pupil	United States Elementary and Secondary Education Expenditures Per Pupil	Oklahoma as a Percent of United States
1986	\$2,939	\$3,479	84.47%	1994	\$4,437	\$5,327	83.29%
1987	2,878	3,682	78.16%	1995	4,533	5,529	81.99%
1988	2,897	3,927	73.77%	1996	4,549	5,689	79.96%
1989	3,159	4,307	73.35%	1997	4,817	5,923	81.33%
1990	3,293	4,643	70.93%	1998	5,033	6,189	81.31%
1991	3,639	4,902	74.24%	1999	5,303	6,508	81.48%
1992	3,857	5,023	76.78%	2000	5,395	6,911	78.06%
1993	4,090	5,160	79.28%				

Source: National Center for Education Statistics and Bureau of Economic Analysis

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