

STATE OF
OKLAHOMA



Submitted By
BRAD HENRY, Governor

To the
SECOND SESSION of the
50th OKLAHOMA LEGISLATURE

EXECUTIVE BUDGET
FOR THE FISCAL YEAR ENDING JUNE 30, 2007

FY-2007

Executive Budget

Governor
Brad Henry

February 6, 2006

Brad Henry
Governor

February 6, 2006

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

I am pleased to submit for your consideration the FY-2007 executive budget. As required by state law, I have presented a balanced budget.

This budget represents the first phase of investments in the second century of our great state. The future of Oklahoma looks bright as we approach our Centennial celebration in 2007. Our first century began with a land run and great opportunity for all. We must make sure that the next century continues our legacy of allowing all Oklahomans the opportunity to succeed.

The recommendations in this budget are part of a vision of opportunity and success. Strategic investments in Education, Research and Economic Development as well as access to quality health are key pieces to my budget plan. These recommendations will assure a strong and prosperous Oklahoma for years to come.

I ask the Legislature and the Citizens of Oklahoma to give deep consideration to these recommendations. I am confident that by working toward these common goals Oklahoma will achieve excellence that will carry our state forward.

Sincerely,

Brad Henry
Governor

Governor Henry:

It is an honor to present you with your executive budget for the FY-2007 budget year. 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 to evaluate and justify agency programs and expenditures. The Office of State Finance employed performance based budgeting techniques to appraise financial and program performance. State agency leaders and staff were accommodating and provided information necessary for a thorough examination. They also offered suggestions to improve efficiency and effectiveness. Tax policies, expenditures and revenue enhancement ideas were also examined.

I would like to thank you for all of your time and attention in the development of the budget. To others involved in this process, I extend my appreciation for their hard work and input. I also want to thank analysts with the Budget Division for their diligence, effort and dedication.

Respectfully,

Claudia San Pedro
Director, Office of State Finance

OKLAHOMA OFFICE OF STATE FINANCE

February 6, 2006

Citizens of the State of Oklahoma Members of the Second Regular Session of the Fiftieth Legislature

Governor Brad Henry's FY-2007 budget consists of the following two documents. Both are available on the Internet. You can view them by accessing the Oklahoma Home Page, the Home Page of the Office of the Governor, or the Home Page of the Office of State Finance. The Oklahoma Home Page address is: <http://www.ok.gov>.

These documents are distributed to the State Legislature, the media and the State Publications Clearinghouse.

"FY-2007 EXECUTIVE BUDGET, Volume I"

This document contains Governor Henry's budget recommendations to the 2006 Legislature. It includes a discussion of state revenues, a summary of his proposed budget and explanations of budget recommendations for state agencies.

"FY-2007 EXECUTIVE BUDGET, Volume II- HISTORICAL DATA"

This document is the larger of the two and includes detailed historical financial information about each agency of state government. The information is arranged by Cabinet Department and Branch of Government.

The individual display for each agency/entity of government includes the following:

- Mission of the Agency
- Description of the Board/Commission that governs the agency
- Description of agency Duties/Responsibilities
- Constitutional and Statutory References related to the entity
- Information regarding agency workload or performance criteria
- Expenditure and personnel data for FY-2004, FY-2005 and FY-2006

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FY-2007 Executive Budget

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Executive Summary

Executive Summary

Since first taking office in January of 2002, Governor Henry has focused on proposing meaningful investments to improve Oklahoma's infrastructure as the foundation for a prosperous economic future. The Governor's fiscal philosophy and goals reflect his commitment to fiscal efficiency and effectiveness:

- *Oklahoma will be a model of cost-effective and accountable government delivered for the benefit of satisfied taxpayers.*

Positive economic development depends on an efficient and effective government with a strong infrastructure in the following areas:

- Education – Improved Student Achievement and Attainment
- Health – Improved Health Outcomes and Access
- Jobs – Readily available quality jobs
- Safety and Security – Ensure Public Safety
- Transportation – Improved Safety of Highways and Bridges

Oklahoma continues to be ranked as one of the most pro-business and family-friendly states. The North American Business Cost review has identified Oklahoma as having one of the 5 best business cost structures in the country. Oklahoma was also rated one of the "Top 10 Pro-Business States for 2005" by Pollina Corporate Real Estate. The national study recognized Oklahoma for its business incentives and economic development efforts.

Here are just a few highlights of Oklahoma's economy:

- Oklahoma's economy has added 26,700 new jobs over the past year.
- In 2005, state job growth outpaced the nation with growth of 1.8% compared to 1.4% for the U.S.
- Oklahoma's unemployment rate also outpaced the nation with a 9% decline in unemployment from 4.7% in October of 2004 to 4.3% in October of 2005. For the same periods of time, the U.S. unemployment rate decreased by 9% from 5.5% to 5.0%.

Some of the most notable employment announcements taking place in Oklahoma include: 363 jobs being added in Oklahoma City by Walgreens, 500 in Bartlesville by ConocoPhillips, 400 in Tulsa by Lenders Services Direct and 840 in Muskogee by Cherokee ConneX LLC.

Building on these successes, the Governor proposes the following major initiatives:

- **Education:** improving student achievement, enhancing teacher pay, investing in the classroom and providing operational funds to Oklahoma's colleges and universities to avoid the necessity for large tuition increases;
- **Health Care:** ensuring access to quality health care and affordable prescription drugs, expansion of drug court programs, the development of specialized treatment programs for

methamphetamine addicts, increasing pay of state nurses to decrease turnover and expanding the Insure Oklahoma Program;

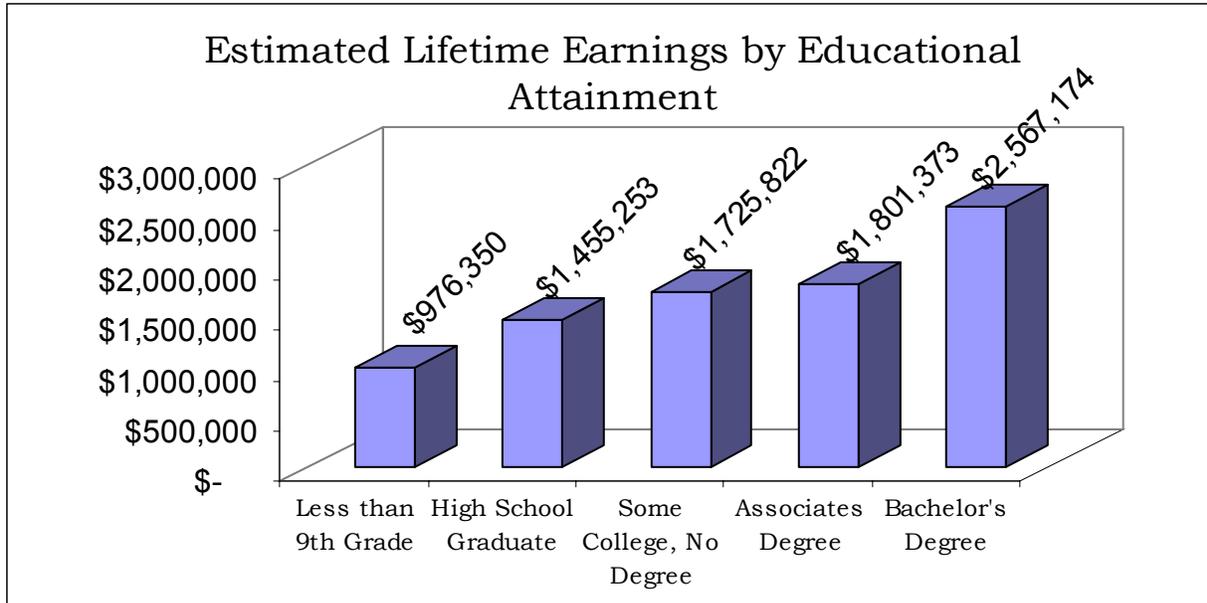
- Public Safety: Increased funding to protect children from internet predators and sex offenders, increased funding to combat the growing methamphetamine epidemic and funding for a statewide first responder communication system;
- Transportation: One-time funding to improve roads and bridges and implementation of a consistent and stable source of increased revenue to ensure adequate maintenance funds for roads and bridges; and
- Economic Growth: Exempting from state income tax all retirement income for low to moderate income seniors, increasing the estate tax exemption for collateral heirs to 50% of the exemption for lineal heirs, establishing the EDGE Research Initiatives Fund and the Governor's Economic Opportunity Fund to encourage further economic development investment in Oklahoma and investing in research infrastructure at Oklahoma's colleges and universities and not-for-profit research institutions.

This executive summary provides an overview of these major initiatives and a summary of the FY- 2007 Executive Budget.

Education

A quality educational system from early childhood through college and career training is essential for positive economic development in Oklahoma. Helping Oklahoma schools attract and retain high quality teachers is a key factor in strong schools and students.

This budget funds the second year cost of the four year teacher salary increase proposed by the Governor to move Oklahoma teachers to the regional average in pay. The amount of salary increases will vary by the educational level of each teacher and the number of years a teacher has been in the classroom. The average increase will be over \$1,200 per teacher this year. Securing this investment for Oklahoma's teachers is a significant step towards attracting and retaining quality teachers. The salary difference between a first-year teacher and one with 25 or more years of experience will have increased 64% by the end of the Governor's plan, from just over \$9,000 to just over \$14,000, to ensure that Oklahoma remains competitive in retaining its most experienced teachers.



Source: Federal Reserve Bank of Dallas

People completing a postsecondary education earn significantly more in a lifetime than someone with a high school diploma. In order to ensure economic independence and success, today's students must strive to obtain the knowledge and skills accompanying a postsecondary degree. The Governor continues a commitment to programs and policies encouraging increased enrollment and graduation of students in the postsecondary system which includes both career-technology and higher education. Additional funding for OHLAP, concurrent enrollment and a continued commitment to the college/career ready high school curriculum is included in the FY-2007 budget.

The Governor's budget also includes funding that will go directly to the classroom at every level of public education in Oklahoma. This includes an additional \$50 million to go through the State Aid Formula for Elementary and Secondary Education, \$50 million for colleges and universities to avoid tuition increases, and \$5 million for CareerTech's comprehensive school programs and technology centers.

Health Care

Prescription Drugs

“To get a handle on skyrocketing drug prices, we have to challenge the status quo and put pressure on the big pharmaceutical companies and the federal government. If we just sit meekly on the sidelines, nothing will change. Reimportation alone won’t address all of our health care needs, but it will deliver lower cost medications to Oklahomans almost overnight. That in and of itself is worth pursuing.”

Governor Brad Henry

The pharmaceutical industry lobbied heavily against Gov. Henry’s proposal last year, just as it has in other states that pursued reimportation ventures. The governor said he would not be deterred by the opposition, noting that drug companies began offering a number of new discount programs to consumers after Democratic and Republican governors around the country began pursuing reimportation initiatives. As a result the Governor will once again pursue his “Prescription for Savings” initiative and push for allowing Oklahoma citizens the choice to buy safe, FDA approved medications from Canada and other industrialized countries.

- Establishment of a program that allows Oklahoma pharmacies to purchase US-made prescription drugs from Canada and other industrialized countries for resale to Oklahoma citizens.
- Creation of a state Website that allows Oklahoma citizens to order cheaper prescription drugs from Canada and other industrialized countries that rely on US pharmaceutical companies for their supplies.

Targeted Salary Increases for Nurses

Some of the most critical positions in the health care industry are held by nurses. As the nurse shortage continues, the need to compete with the private sector in order to attract and retain nurses into state agency positions such as the Health Department, Department of Human Services and Veterans Affairs has become more intense. In order to address this need, the Governor is proposing a \$4.7 million targeted investment in nurse salaries which represents an average salary increase of 10%. With this funding, agencies will have the ability to target the nursing positions within their agencies which are most critical to meeting their missions and address those positions which lag behind the private sector the most.

Governor’s Insure Oklahoma Program Begins

With the federal government’s approval, Phase I of the Governor’s Insure Oklahoma Premium Assistance Program began taking employer applications on November 1 and employee applications on December 1, 2005. Insure Oklahoma is funded with a portion of the revenue from the tobacco tax increase proposed by Governor Henry and passed by the people of Oklahoma as State Question 713 in November 2004. This phase is specifically known as premium assistance for Employer Sponsored Insurance (ESI). The Premium Assistance Program will pay part of the health plan premiums for eligible employees working for qualified Oklahoma small businesses.

Substance Abuse Treatment

With recent Department of Corrections figures showing over 38% of the incarcerated population actively serving a drug crime related sentence, expanding treatment alternatives to incarceration for drug crimes continues as a critical priority. The Governor recommends completion of the

Drug Court expansion he initiated in FY-2006. This \$16 million commitment to expand drug courts to serve an additional 2,400 treatment slots for nonviolent, felony offenders provides treatment in a controlled environment at a reduced cost to incarceration. Among drug court graduates, there is a 75% decrease in unemployment and significant increases in earned income. In addition, drug court graduates are two times less likely to recidivate than successful probationers and four times less likely to recidivate than drug offenders released from prison. As a result of this initiative, 53 counties will offer drug court programs.

Governor's Henry's FY-2007 budget also includes \$1 million for specialized treatment of methamphetamine addiction. Research shows that recovering methamphetamine addicts require a longer and more intense outpatient treatment program than is the case for many drugs. The best practice treatment model for methamphetamine addiction is currently known as the Matrix Model. A recent clinical trial found that with this model, persons addicted to methamphetamine stay in treatment longer, stay off methamphetamine longer and have restored cognitive abilities. Longer lengths of treatment and cognitive re-training are key elements in successfully treating methamphetamine addiction.

Economic Development

Economic Development Research Endowment Fund

Governor Henry's Economic Development Generating Excellence (EDGE) Committee recommended the creation of a \$1 billion endowment fund to promote research and economic development in Oklahoma. The goal was to make Oklahoma the "Research Capital of the Plains." The interest earned by the endowment will be used to fund basic and applied research and commercialization of technology with the primary focus being on commercialization of technology. These funds will focus efforts in seven areas: aerospace, biotechnology, weather, sensor technology, agriculture, energy and advanced materials.

In FY-2006 the Governor proposed and the Legislature passed legislation to capture 50% of excess revenues for this initiative. Over \$92 million was deposited in the fund. The Governor's FY-2007 Budget proposes to direct \$100 million of the surplus general revenue collections at the end of the FY-2006 fiscal year toward this endowment fund, increasing the total to \$192 million. These surplus monies would only accrue to the endowment fund after the limit on the Rainy Day Fund has been met. Currently, the projection is that the FY-2006 general revenue fund will exceed the estimate and the Rainy Day Fund cap by \$400 million.

Economic Opportunity Fund

The Governor also proposes directing \$100 million of the excess surplus funds to create the Economic Opportunity Fund. These funds would capitalize an Economic Opportunity Fund that could be used to close economic development deals that would attract or retain large employers. Such an economic development fund would make Oklahoma very competitive for national "mega projects". In addition to gaining equal footing with other competitor states for such large development projects, the Economic Opportunity Fund could be used to invest in longer term strategic economic development opportunities with businesses and communities to create new jobs and investments.

Invest in Oklahoma

This budget will bolster the Oklahoma Center for the Advancement of Science and Technology (OCAST) with \$5 million in new state appropriated funds for applied research programs, technology innovation and commercialization. The Governor's budget also adds an additional \$5 million to OCAST's Seed Capital program to stimulate new viable technology businesses. This budget proposal will also realign the Oklahoma Capital Investment Board (OCIB) to direct more venture capital investment within the state's borders and align its mission more closely with the new EDGE Initiative.

Invest For the Future

\$180 million in capital projects is recommended to provide for much needed research facilities around the state. \$60 million in bond proceeds will be allocated to each of the state's comprehensive research universities. The University of Oklahoma will receive \$60 million to enhance plans for a new cancer center and to establish a diabetes research center. Additionally capital funds will be made available for the OU Health Sciences Center in Tulsa. Oklahoma State University will also receive \$60 million for capital projects including construction and equipment for sensor research facilities at the National Sensor Test and Integration Complex located in Stillwater and Ponca City. Additionally capital funds can be made available to support the long term viability of the OSU School of Osteopathic Medicine in Tulsa. Finally \$60 million of bonding authority will be given to a new "credit facility" to allow private research entities, such as foundations, to borrow at a lower cost to build new research and development facilities.

| Summary of FY-2007 Balanced Budget | | Final |
|--|-----------|----------------------|
| Revenue | | |
| 1. Appropriations Authorized in December Equalization Board Meeting | \$ | 6,485,500,806 |
| 2. Lottery Estimate - 117,733,501 | | |
| 2. Gaming Revenue for Higher Education Tuition Aid Grant | \$ | 4,927,800 |
| 3. Excess CLO Funds | \$ | 3,915,171 |
| Total Amount Available from Certification Packet | \$ | 6,490,428,606 |
| Revenue Changes | | |
| Other Revenue | | |
| 5. Excess Gross Production Oil Funds | | |
| 6. Convert State Transportation certified fund into a rev. fund | \$ | 10,498,391 |
| 7. Lapsed Funds-Other | \$ | 6,907,097 |
| 8. Allow counties to collect interest on County Bridges and Roads Fund | \$ | (600,000) |
| 9. Cash Flow Reserve Fund | \$ | 145,521,920 |
| Total General Revenue Changes: | \$ | 162,327,408 |
| Changes to Revolving Funds/Special Cash Fund | | |
| Special Cash | | |
| 10. Agency Transfers to Special Cash | \$ | 3,500,000 |
| Total Special Cash: | \$ | 3,500,000 |
| Total Changes to Certification: | \$ | 165,827,408 |
| Total Revenue Available for FY-2007 Budget: | \$ | 6,656,256,014 |
| Tax Cuts | | |
| 1. Full Retirement Exemption to incomes of \$25K/\$50K | \$ | (13,900,000) |
| 2. Back to School Tax Holiday | \$ | (3,500,000) |
| 3. Implement exemption for collateral heirs of 50% of lineal | | |
| Total for Tax Cuts: | \$ | (17,400,000) |
| Expenditures: | | |
| 1. FY'2006 Appropriations | \$ | 6,184,390,756 |
| 2. Less: FY-2005 Supplementals | \$ | (155,841,940) |
| 3. Less: One-Times | \$ | (5,564,000) |
| 4. Less: One-time REAP funds | \$ | (5,100,000) |
| 5. Excess CLO Funds | \$ | 3,915,171 |
| 6. Governor | \$ | - |
| 7. Lieutenant Governor | \$ | - |
| 8. Agriculture Cabinet | \$ | 10,851,000 |
| 9. Commerce/Tourism Cabinet | \$ | 4,190,000 |
| 10. Education Cabinet | \$ | 257,305,901 |
| 11. Energy/Environment Cabinet | \$ | - |
| 12. Finance and Revenue Cabinet | \$ | 2,300,000 |
| 13. Health Cabinet | \$ | 78,216,950 |
| 14. Human Resources and Administration Cabinet | \$ | 325,000 |
| 15. Human Services Cabinet | \$ | 37,281,342 |
| 16. Military Cabinet | \$ | 350,000 |
| 17. Safety and Security Cabinet | \$ | 54,275,777 |
| 18. Science and Technology | \$ | 10,000,000 |
| 19. Secretary of State Cabinet | \$ | 1,901,000 |
| 20. Transportation Cabinet | \$ | 12,906,659 |
| 21. Veterans' Cabinet | \$ | 1,788,229 |
| 22. Legislature | \$ | - |
| 23. Judiciary | \$ | 5,089,129 |
| 24. FY-2006 Supplementals | \$ | 111,243,085 |
| 25. State Pay Increase | \$ | 29,031,955 |
| Total Additional Expenditures | \$ | 617,056,027 |
| Total Recommended Expenditures | \$ | 6,638,856,014 |
| Balance / (shortage) of funds available | \$ | 0 |

Overview

Under the Oklahoma Constitution, the Governor must utilize the expenditure authority approved by the Equalization Board in the December meeting. Appropriated and authorized funds in this packet that exceed the amount of revenue appropriated and authorized for the prior year are considered additional growth revenue for the prospective fiscal year. Based on the most current equalization board meeting, the amount of funds available for appropriation and authorization for FY-2007 are \$6.489 billion. This represents an increase in growth revenue of \$314.2 million, 5.1%, over funds appropriated and authorized for FY-2006.

Revenue adjustments

Convert State Transportation Fund to Revolving Fund

The primary revenue source for the Department of Transportation is the State Transportation Fund. This fund receives the bulk of all fuel tax revenue and totals over \$200 million on an annual basis. This fund is currently certified which restricts appropriations to 95% of the fund. This budget recommends converting this fund to a revolving fund which allows the department to access 100% of all revenues collected. This would provide an additional \$10 million to the Department of Transportation for maintenance of roads and bridges.

Interest to the County Bridge and Road Improvement Fund

Currently interest accruing from the County Bridge and Road Improvement Fund is deposited in the General Revenue Fund. The Governor's budget proposes the fund to retain all interest earned for the benefit of the counties. Annual interest earnings approximate \$600,000 a year.

Lapsed Funds

Every year, funds not encumbered or expended by November 15 lapse to the original fund they were appropriated from. For FY-2007, these lapsed funds will total an additional \$3.7 million more in special cash for appropriation and expenditure authority.

Cash Flow Reserve Fund

This budget proposes a transfer of \$145.5 million from the FY-2006 Cash Flow Reserve Fund (CFRF) to the Special Cash fund for the FY-2007 budget. Currently, the balance in the CFRF is over \$145.5 million. Through December, actual collections for FY-2006 exceed estimated collections by \$108 million with a balance in the FY-2006 General Revenue fund of \$216 million after allocations to agencies in January. Current projections by the Office of State Finance indicate that the balance in the General Revenue Fund far exceeds the amount necessary for cash flow purposes for the remainder of FY-2006. A transfer of funds from the CFRF, as this budget proposes, is a prudent measure to help fund vital state services.

Special Cash Fund Transfers

One component of the FY-2007 budget involved identifying agency revolving funds that exceed the amount needed to balance FY-2006 expenditures. These funds can be re-directed to cover agency operating costs for FY-2007. This proposal transfers a total of \$6.6 million to the special cash fund:

- \$2 million from the Secretary of State Revolving Fund;
- \$400,000 from the Department of Environmental Quality Revolving Fund;
- \$600,000 from the Insurance Commission's Bail Bondsmen Fund; and
- \$500,000 from the Well Plugging Revolving Fund in the Corporation 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.

Tax Cuts

Encouraging economic development is one of the Governor's top priorities. The state must continue to develop, attract and grow quality jobs to ensure a brighter future for all Oklahomans. Governor Henry has been instrumental in reforming Oklahoma's tax system and managing state revenues to encourage growth. The FY-2007 Executive Budget builds on a successful history of progress that includes elimination of capital gains taxes on Oklahoma based capital, reducing taxes on retirees, reducing income taxes and direct taxpayer relief, as well as strengthening the state Rainy Day Fund. The FY-2007 proposals include a number of tax reform provisions focused on spurring investment and removing antiquated and onerous policies that impede economic growth in Oklahoma. These include reforms of the estate tax to keep more capital in the state, further income tax breaks for retirees, a back to school sales tax holiday and further reforms to the state's Rainy Day Fund to help Oklahoma deal efficiently with any economic downturn that may occur.

Retirement Income Exemption

The Governor remains committed to exempting retirement income from individual income tax. Since becoming Governor, the retirement income exemption has increased from \$5,500 to \$10,000 and the qualifying income limit has increased from \$25,000 per single household to \$37,500 and from \$50,000 for a joint household to \$75,000. The FY-2007 Executive Budget proposes to build upon this success and exempt all retirement income for single households with an adjusted gross income of \$25,000 or less and joint households with an adjusted gross income of \$50,000. This tax relief will help low- to moderate-income seniors on fixed incomes enjoy a sound quality of life without sacrificing such necessities as medicines and utilities. There will be an estimated \$13.9 million fiscal impact of this exemption in FY-2007.

Back to School Sales Tax Holiday

Oklahoma businesses have always competed with those in Texas. Each year, the competition gets a little tougher for one weekend. Texas authorizes a sales tax holiday which exempts certain clothing items and accessories from state and local sales tax during the busy back-to-school shopping weekend. Many Oklahomans travel across the border to do their shopping during this weekend.

The Governor is committed to Oklahoma's established businesses and providing tax relief to all Oklahomans. This budget includes a sales tax holiday similar to the Texas holiday. It is scheduled for the first weekend in August, a traditional back-to-school weekend. The holiday begins at midnight on Friday and ends at midnight on Sunday. Clothing items and footwear under \$100 are exempt from state and local sales tax. Items such as athletic wear, jewelry, luggage and handbags are not exempted. This proposal results in a loss of \$3.5 million in state revenue in FY-2007.

Estate Tax

The state's estate tax provides an exemption on the transfer of assets to lineal heirs that is scheduled to increase to \$1,000,000 for deaths occurring on or after January 1, 2006. Lineal heirs include parents, children, or other direct descendants. Any part of an estate that is transferred to a non-lineal, or collateral, heir receives no exemption at all.

The Governor's budget proposes to address this inequity in the estate tax code. Specifically, the proposal is to create an estate tax exemption for collateral heirs for deaths that occur on or after January 1, 2006 of 50% of that of lineal heirs.

There will no fiscal impact in FY-2007 resulting from this proposal. The proposal will result in a loss of \$23.5 million in FY-2008 and \$29.3 million in FY-2009.

Excess GR Funds

For the second year in the state's recent history, revenues collected in the general revenue fund are projected to exceed the estimate by \$426 million. The current balance in the Rainy Day Fund is \$461 million and the new cap for FY-2007 will be \$496 million. After \$35 million is deposited to attain the new maximum in the Rainy Day Fund, another \$392 million will be available as excess revenue. These funds are one-time funds and should only be used for one-time purposes. To maximize the impact of these funds, the Governor recommends the following investments with the \$392 million in excess funds:

- ✓ \$100 million to the Economic Development Generating Excellence (EDGE) Endowment Fund to be matched with private funds for research investments in target areas, commercialization of technology and creation of economic growth and jobs;
- ✓ \$100 million to create the Economic Opportunity Fund to provide the state more flexibility to attract and retain businesses to Oklahoma;
- ✓ \$100 million for the repair of structurally deficient bridges in Oklahoma. Of the total funds, \$50 million will be directed to counties and \$50 million to the state Department of Transportation; and
- ✓ \$92 million to the Teachers Retirement System. This system is ranked as the worst funded retirement system with a 49.5% funded ratio.

Expenditure Proposals

The first step in developing this budget involved reviewing individual agency budgets. Office of State Finance staff utilized performance based budgeting techniques to evaluate programs and services. The Governor places a strong emphasis on performance and efficiency measures for agencies. Agencies have been and will continue to be challenged to improve services and outcomes. Citizens must have confidence that tax dollars are being spent efficiently and effectively.

This FY-2007 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 is located later in this section. The starting point for expenditure proposals is FY-2006 appropriations. Subtracting one time expenditures for FY-2005 supplementals and activities from this amount produces a base level of expenditures. Adding proposed changes in expenditures yields the total Executive Budget.

As always federal legislation may impact the state budget. For example, Congress passed and has sent to the President for his signature, S. 1932, the Budget Reconciliation Act. Upon the President's signature, this legislation will have a significant fiscal impact for a number of state agencies. The Governor and Legislature will need to review the impact of this bill over the next couple of months and adjust recommendations accordingly.

FY-2005 Supplementals

The following table lists FY-2005 supplemental appropriations subtracted from the FY-2006 state expenditure base:

FY'05 Supplementals

| | |
|--|-------------------------|
| 1. Career and Technology Education - TIPS | \$ (1,500,000) |
| 2. Corrections | \$ (17,924,000) |
| 3. District Attorneys Council | \$ (2,250,000) |
| 4. Common Education - Ad Valorem | \$ (25,000,000) |
| 5. Common Education - NBC, \$3,000 teacher salary increase, health | \$ (26,618,940) |
| 6. Health Care Authority | \$ (50,000,000) |
| 7. Higher Ed - OHLAP | \$ (4,000,000) |
| 8. Historical Society | \$ (904,000) |
| 9. Human Services - replace carryover | \$ (20,000,000) |
| 10. Indigent Defense System | \$ (1,000,000) |
| 11. Juvenile Affairs | \$ (645,000) |
| 12. Lottery Commission | \$ (500,000) |
| 13. Tax Commission: | \$ (500,000) |
| 14. Tourism: National Memorial Endowment | \$ (5,000,000) |
| Total FY'05 Supplementals: | \$ (155,841,940) |

One-Time Expenditures

Over \$5.5 million was appropriated for one-time FY- 2006 expenditure items:

- \$2.85 million to the Centennial Commission for projects;
- \$1 million to the Department of Commerce for the Military Strategic Planning Commission;
- \$425,000 to the Office of Juvenile Affairs for capital projects at LERC ;
- \$310,000 to the Department of Tourism and Recreation for various projects;
- \$250,000 to the Military Department for protective equipment;
- \$654,000 to the Civil Emergency Management System for operations center;
- \$21,000 to the Bureau of Narcotics and Dangerous Drugs for bulletproof vests;
- \$4,000 to the Office of Handicapped Concerns for a merit protection case; and
- \$50,000 to the Legislative Service Bureau for digitization of state documents.

Subtracting these one-time expenditure items from the FY-2006 expenditure base yields the baseline budget for FY-2007.

REAP

A number of different state agencies were appropriated one-time REAP funds for general operating budget. This budget reduces this one-time revenue source and proposes replacing a portion of the agency's budgets with general revenue funds.

FY-2006 Supplementals

The following list includes supplemental appropriations proposed in the FY- 2007 Executive Budget:

FY-2007 Executive Budget

FY'06 Supplementals

| | | |
|---|-----------|--------------------|
| 1. Capitol Complex and Centennial Commission - Cent. Celebration | \$ | 16,000,000 |
| 2. Commerce (Centennial) | \$ | 1,000,000 |
| 3. Corrections | \$ | 21,000,000 |
| 4. Retraining/Reemployment Program | \$ | 1,000,000 |
| 5. Agriculture-replace firefighting expenses | \$ | 5,500,000 |
| 6. Oklahoma State Bureau of Investigations | \$ | 455,500 |
| 7. Department of Public Safety | \$ | 2,000,000 |
| 8. District Courts | \$ | 3,871,585 |
| 9. Disaster Relief Fund (\$17 million) | \$ | 12,000,000 |
| 10. Education: Ad Valorem Reimbursement Fund | \$ | 19,500,000 |
| 11. Counties: Ad Valorem Reimbursement Fund | \$ | 18,500,000 |
| 12. Attorney General | \$ | 350,000 |
| 13. Department of Human Services - LIHEAP | \$ | 5,391,000 |
| 14. Higher Ed: Increase Gross Prod. Limit on Scholarship fund for OHLAP | \$ | 4,600,000 |
| 15. Board of Nursing Home Administrators | \$ | 75,000 |
| Total FY'06 Supplementals | \$ | 111,243,085 |

The Governor's budget proposes a supplemental appropriation to the Capitol Complex and Centennial Commission for projects in Oklahoma City, Tulsa and across the state of Oklahoma. In November of 2007, Oklahoma will celebrate its centennial. This important event provides an opportunity to invest in projects that highlight Oklahoma's past, present and future. Of the funds recommended, \$4 million is for Oklahoma City, \$4 million for Tulsa and the remaining funds are for projects and events across the state of Oklahoma. Another \$1 million supplemental is recommended for the Department of Commerce which entered into a contract to assist the Capitol Complex and Centennial Commission with projects in FY-2006.

The Governor's budget includes a supplemental appropriation for the Department of Corrections to secure necessary private prison beds to protect public safety. The supplemental also provides funding to provide a \$3,200 salary increase to all correctional officers, probation and parole officers and classified facility personnel.

An additional \$1 million is recommended for the Department of Commerce to establish a retraining and reemployment program for employees displaced from plant closings. These funds can assist employees who may be affected if the General Motors plant decides to close.

Another \$5.5 million is recommended to provide much needed relief for rural fire fighters across the state and the Department of Agriculture. Of this amount, \$2 million is for the Extraordinary Fire Cost Recovery program that supplies rural fire departments with grants for qualified expenses, \$2 million for the rural fire operational grants which will provide an additional \$2,288 for each of the 874 rural departments and \$1.5 million to the Department of Agriculture for the firefighting expenses that the Department has incurred which include tanker water drops, cost of out of state firefighters and fuel expenses.

An additional \$455,500 is recommended to manage the increase in the number of DNA samples the Oklahoma State Bureau of Investigation must process under Section 1313.2 of Title 20, O.S. 2001. This new law requires the agency take DNA samples for all felony convictions.

For the Department of Public Safety, the Governor's budget recommends a \$2 million supplemental based on information at this time. The situation will be monitored on a monthly basis and reevaluated to determine if this amount will be sufficient to meet the department's needs.

To replace a shortfall in the State Judicial Fund, this budget recommends a special cash appropriation of over \$3.8 million to ensure all judicial operating expenses are covered in FY-2006.

The Disaster Relief Fund which provides state funds to counties, cities and rural electric coops has not received any funds in three years. This budget recommends a supplemental appropriation of \$12 million to ensure all counties and cities are reimbursed for disaster repairs associated with the 2000 and 2002 Ice Storms and the May 3rd tornado. This amount will leave a small amount of funds to cover the costs associated with this year's wildfires.

The Governor's budget includes an additional \$38 million to the Tax Commission to reimburse both school districts and counties for lost ad valorem revenue from the five year manufacturer's exemption. School districts are estimated to need \$19.5 million and counties are estimated to need \$18.5 million in reimbursement.

The Governor recommends \$350,000 for the Attorney General's office for costs associated with tobacco Master Settlement Agreement enforcement and litigation.

Energy costs rose this year by as much as 35%. The result is higher heating bills for some of Oklahoma's poorest citizens. The Governor's budget recommends a \$5.4 million supplemental for the Low Income Home Energy Assistance Program (LIHEAP). Through this program, DHS assists low income Oklahoma households in the payment of their energy bills. Program participants receive a one-time payment to help offset their heating bills. LIHEAP is historically funded with 100% federal dollars. However, due to rising energy costs, low target population penetration and inadequate federal funding, the Governor, President Pro Tempore and the Speaker of the House have agreed to support additional state funding for this program.

The Governor recommends a supplemental appropriation of \$4.6 million from the special cash fund to cover the cost of all OHLAP scholarships for FY-2006.

An additional \$75,000 is recommended for the newly recreated Board of Nursing Home Administrators. This funding will provide additional investigators to address the backlog of complaints against nursing home administrators as well as additional funding for contracted services with the Office of the Attorney General.

FY-2007 Key Funding Issues

Annualizations

The Legislature and Governor enacted a number of measures in prior legislative sessions which require state appropriations in FY-2007. These include over \$59 million for the second year of the teacher salary increase, \$8.9 million for the 2001 teacher salary increase, \$69.7 million for debt service for the ROADS improvement bond, \$8 million for drug courts and \$8.6 million for the federal reduction in the Medicaid FMAP match rate. Funding for all of these items is included for the appropriate agencies in the FY-2007 Executive Budget Book.

Employee Salary Initiative

Oklahoma Statute Title 74, Section 840:1.6A requires that the Office of Personnel Management conduct a cross-sector pay analysis for comparable jobs and present it to the Governor, Senate Pro Tempore, and Speaker of the House by December 1. On December 1, 2005, the Office of Personnel Management (OPM) presented its annual compensation report analyzing over 259 benchmark jobs in the surrounding states.

Of the 259 jobs, the data suggested the average state employee's salary fell 8.20% below that of market. This number improved from the 11.4% disparity one year ago. Eight positions suffered severe disparity in-comparison to the market. The data is listed below:

| Benchmark Jobs and Market Pay Disparity | | |
|--|-----------------------------|----------------|
| Job Family | | Average Pay |
| Descriptor | Title | % Below Market |
| Z51A | Juvenile Specialist II | 48.40% |
| Y13B | Nursing Manager II | 40.97% |
| Z51D | Juvenile Specialist IV | 24.64% |
| Y12B | Registered Nurse II | 19.65% |
| Y14B | Advanced Practice Nurse II | 16.76% |
| Y13A | Nursing manager I | 16.10% |
| Y12C | Registered Nurse III | 14.69% |
| H23D | Child Welfare Specialist IV | 10.12% |

Source: OPM FY-2006 Annual Compensation Report

The Governor proposes a 3.0% universal increase in employee salaries with the exception of the positions listed above. All Nursing positions are recommended to receive a 10% salary increase, while high turnover positions, such as Child Welfare and Juvenile Specialist will receive an 8% increase in salary. Overall, the proposed target market adjustment shifts the nurses more than 50% closer to equity with the market.

Agriculture

The Governor’s budget proposes an increase of \$16.5 million to the Department of Agriculture to provide relief for the agency and rural fire departments in response to wildfires that have torn through the state. The fires have scarred several hundred thousand acres of land, destroyed well over 200 homes and businesses and financially drained the Department of Agriculture and rural fire departments across the state. The Governor’s relief package includes:

- \$5.5 million in a supplemental to help rural fire departments and replace extraordinary costs of the Department of Agriculture related to the fires;
- \$110,000 for rural fire coordinators;
- \$141,000 for aerial fire detection;
- \$125,000 for aerial fire suppression;
- \$2.125 million for rural fire operational grants;
- \$4.5 million for the rural fire 80/20 grant program;
- \$1 million for fire equipment replacement for the Department of Agriculture; and
- \$3 million for rural firefighter training.

Commerce, Tourism, Energy, Environment

The Governor’s budget proposes a \$1 million appropriation to the Department of Commerce for a branding initiative that will ensure that the state capitalizes on tourism and economic

development opportunities, \$500,000 is directed to the Native American Educational Authority for the operations of the American Indian Cultural Center, \$1.823 million to the Department of Environmental Quality to assist small communities across the state in ensuring they meet new federal regulations on public drinking water systems and \$2.25 million to the Water Resources Board to update Oklahoma's Comprehensive Water Plan.

Education

The Governor's budget proposes an increase of over \$156 million to common education of which \$68 million is to cover the second year cost of the teacher salary increase and other teacher compensation issues, \$50 million is for the state aid funding formula, \$10 million for remediation-intervention, \$5 million for national board certification, \$3.1 million for early intervention, \$1.5 million for alternative education and \$1.2 million for mentor teachers. Higher education receives over \$85.4 million of which \$50 million is for institutional budgets, \$18 million for debt service for higher ed bond projects, \$10 million for OHLAP, \$3.3 million for financial aid and \$2 million for endowed chairs. Another \$14 million is directed for the Department of Career and Technology for comprehensive school and technology center programs, dropout recovery and expansion of business industry programs.

Health Care

For FY-2007, the Governor's Budget proposes annualization of the drug court expansion, annualization of the increase hospital provider and physician rates and targeted salary increases averaging 10% to all nurses in nursing positions.

The remaining funds are directed as follows:

- \$59 million for maintenance and annualizations in the Oklahoma Health Care Authority to maintain current program service levels for all recipients and an increase in the provider rates for nursing homes;
- \$1.5 million for child abuse prevention programs;
- \$13.6 million for programs in the Department of Mental Health and Substance Abuse Services;
- \$4.7 million to increase nurses salaries across all agencies by an average of 10%; and
- \$1 million to reduce the vacancy rate of all Veterans centers and improve the nurse-patient ratio.

Human Services

The Governor's budget proposes a \$28.1 million increase to increase salaries for child welfare workers, hire additional child welfare workers and replace one-time revenue sources used for critical services such as child care subsidies. Child Welfare Specialists are the front line defense for some of Oklahoma's most vulnerable children. They currently carry case loads that are as much as twice that recommended by the Child Welfare League of America. Of the \$28.1 million, \$2 million is to hire an additional 50 child welfare workers and another \$3.4 million for 9% salary increases for child welfare workers. The Governor recommends the agency hire another 62 child welfare workers in FY-2008. An additional \$1.3 million is recommended to increase the rate for Therapeutic Foster Care.

The budget also includes \$8.4 million to the Office of Juvenile Affairs. Of this amount, \$4.5 million is for targeted salary increases to juvenile justice specialists and juvenile specialists, \$2.7 million for county juvenile detention center rates and \$351,000 to replace a reduction in federal funds. The Governor also proposes \$1.7 million for the Department of Rehabilitation Services for

teacher salary increases, a deaf education satellite program and capital funds for the Oklahoma School for the Deaf and the Oklahoma School for the Blind.

Safety and Security

The FY-2007 recommendation of a \$39 million increase for the Department of Corrections annualizes the supplemental appropriation, annualizes salary increases of \$3,200 for correctional officers, probation and parole officers and classified facility personnel. An additional \$2.4 million is recommended for the proposed per diem increase in county back up beds from \$24 a day to \$30 a day.

The Governor’s budget includes increased funding of \$1 million to expand law enforcement efforts on the fight against methamphetamine and another \$790,000 to protect children from internet predators.

Transportation

The Governor’s budget includes a recommendation to secure CIP debt service funding for future years for maintenance of roads and bridges, a constitutional lockbox to protect fuel taxes deposited in the State Transportation Fund and a one-time appropriation of \$100 million, \$50 million for the counties and \$50 million to the state, of excess general revenue funds for bridge repairs. Additional general revenue funds are recommended to cover the cost of the employee salary increase.

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 additional appropriations to the Department of Corrections to convert certain double space to single cell space, cover the state agency cost of the increase in the Oklahoma Public Employees Retirement System contributions, state agency cost of the increase in the flexible benefit allowance and the cost of the Wear Away plan for the Teachers’ Retirement System.

Capital Budget Proposal

When state funding is limited, one of the first items to be reduced is the capital or maintenance budget. Accordingly, from FY-2002 through FY-2004, little to no funding was dedicated to maintaining or improving the state’s capital infrastructure. While deferring maintenance expenditures can yield savings in the short run, it will actually cost the state more money in the long run.

The Governor’s budget proposes issuing a \$312.5 million bond for new construction, expansion or renovation of state facilities and investment in health research activities.

General Government Capital Issues

| | |
|---|-----------------------|
| 1. Tourism/Recreation - Critical Environmental | \$ 5,000,000 |
| 2. Tourism/Recreation - Major Maintenance | \$ 4,000,000 |
| 3. Public Safety Statewide Communications System (DPS) | \$ 60,000,000 |
| 4. Residential/Education Facility for Autistic Children | \$ 8,500,000 |
| 5. Increase Bond Issue for OSBI | \$ 5,000,000 |
| 6. Cities and counties roads loan program | \$ 25,000,000 |
| 7. Capitalization of Statewide Drinking Water Fund | \$ 25,000,000 |
| 8. Invest for the Future of Oklahoma | <u>\$ 180,000,000</u> |

Total Capital **\$ 312,500,000**

The Governor’s budget recommends \$9 million for the Tourism and Recreation Department. This will provide \$5 million for critical environmental remediation needs and \$4 million for major

maintenance repairs. The Department needs to address critical environmental issues such as sewage lagoon repair, erosion control and remediation, water plant repair, connecting to rural water systems and comfort station repair. The Department also needs to perform major maintenance repairs on the parks, resorts and golf system that includes work on playgrounds, buildings renovation, roof repair, campsite renovation, boat ramp repair, road repair and pavilion maintenance.

The Governor recommends DPS undertake the capital project of creating a statewide communications system for all first responders in the State of Oklahoma. It is estimated that this project will cost approximately \$60.0 million.

The Governor's recommends \$8.5 million for a capital project to establish a residential educational facility for children with autism. There are several location options for this project. One option is to renovate a facility or build a new facility near the University of Science and Arts of Oklahoma in Chickasha. This lab school would be a collaboration with the OSD satellite program and USAO, providing USAO an opportunity to establish a special education curriculum. However, the discussion is ongoing to make sure that this facility is located in the most appropriate place. The Governor is committed to funding this project whether it be a renovation project or a new facility.

The Governor's budget recommends the quick approval, early in session, of a \$5.0 million bond issue for increased construction costs on the new OSBI Forensic Center in Edmond.

Current funding levels from the state and municipalities have fallen short of meeting the maintenance and repair needs of local infrastructure. To complete local road and bridge work, the Governor's budget proposes a low interest loan program for cities and counties. Loans will be granted at the state level and at a lower interest rate than cities or counties could get elsewhere.

The FY-2007 Executive Budget recommends \$25 million for the Water Resources Board Financial Assistance Programs. This will allow the Water Board to receive EPA matching grants and by leveraging this funding, provides the potential for several hundred million dollars worth of financing for Oklahoma's water and wastewater project needs for the future.

FY-2007 Major Initiatives

**Economic Development
Education
Health Care
Public Safety
Tax Reform
Transportation**

Economic Growth and Fiscal Management

Economic Development

Create an EDGE Research Initiatives Fund

Last session \$92 million in excess of the requirement for the Constitutional Reserve Fund (CRF) was set aside in a separate fund, the Oklahoma Dynamic Economy and Budget Security Fund (ODEBS). The ODEBS fund is subject to Legislative appropriation. The bill specifies that monies in the fund are to be used for the purposes of "promoting research and development of critical sectors of the state's economy, commercialization of technology, health care, promotion of endowments to nonprofit entities, including private foundations, unmet infrastructure needs and to provide a source of funds for any needed stabilization of the budget for the fiscal year ending June 30, 2006."

The Governor recommends this statutory language be amended to specify funds can only be used to support applied research and related efforts in innovation and commercialization of technology as well as other strategic economic investments in key areas identified by the EDGE report such as:

- Aerospace/aviation;
- Weather science and technology;
- Biotechnology;
- Agriculture research;
- Sensor research;
- Advanced materials; and
- Energy

The fund will be renamed the "EDGE Research Initiatives Fund". The EDGE action plan states that the funds shall be used to support activities that will create high paying science and technology jobs, attract new businesses and retain existing businesses. The EDGE Research Initiatives Fund will be a powerful driver of such activities. To be successful Oklahoma must also take the new ideas that are generated from this research and convert those ideas into new and expanding businesses.

During the December 2005 meeting of the State Board of Equalization it was projected that nearly \$400 million in revenue beyond the 10% CRF cap would accrue during the 2006 fiscal year. The first \$100 million should flow into the new EDGE Research Initiatives Fund giving the fund a \$192 million balance.

The Governor proposes this fund be administered under the OCAST administrative umbrella with a separate board and Executive Director, advised by scientific and technology experts. The Board will be charged with investing in projects that have the greatest potential for creating new economic opportunity for Oklahoma. The Board will also be asked to look for opportunities to creatively co-invest and coordinate activities with existing sources of state funds such as OCAST, OCIB, and private research dollars such as those of the Oklahoma Medical Research Foundation, the Warren Foundation and the Noble foundation to further maximize the impact of the fund.

Create Governor's Economic Opportunity Fund

The Governor proposes the investment of another \$100 million in surplus funds in the Governor's Economic Opportunity Fund that could be used to secure economic development projects that would attract or retain large employers. Such an economic development fund would make Oklahoma a strong contender for national "mega projects". In addition to gaining equal footing with other competitor states for such large development projects, the Economic Opportunity Fund could be used to invest in longer term strategic economic development opportunities with businesses and communities to create new jobs and investments.

The Governor's Economic Opportunity fund would build on a proven concept and record of past successes, such as the retention and retooling of the Goodyear Plant in Lawton. Such funds in other states, like Texas, have been used effectively for a variety of development projects including infrastructure, community development, job training and business incentives.

The fund would serve to leverage other state, local and private resources for development projects. Such Projects would need to meet criteria for return on investment including jobs, wages, capital investment, financial viability of the applicant, industry profile and public and private sector support. A protocol to access the fund would be established. The fund would also have access to another \$200 million of capital via issuance authority for taxable or tax-exempt bonds. This level of capitalization would make this fund one the largest in the nation and greater on a per capita basis than prominent funds in the region.

Invest in Oklahoma

This budget will bolster the Oklahoma Center for the Advancement of Science and Technology (OCAST) with \$5 million in new state appropriated funds for applied research programs, technology innovation and commercialization. The Governor's budget also adds an additional \$5 million to OCAST's Seed Capital program to stimulate new viable technology businesses like the 11,000 square foot laboratory completed in 2005 by Intergenetics Incorporated. Without OCAST's support, this company could not have raised more than \$8 million in private sector dollars and become the national hub for processing OncoVue®, the next-generation breast cancer risk test.

OCAST's successes have been noted in Thomas Friedman's New York Times best seller The World is Flat as a model for fostering innovation in the global economy. Since its inception OCAST has leveraged \$15 of outside funding for every dollar provided by the state. The additional \$10 million recommended by the Governor recognizes the OCAST success formula.

This budget proposal will also realign the Oklahoma Capital Investment Board (OCIB) to direct more venture capital investment within the state's borders and align its mission more closely with the new EDGE Initiative. OCIB recently reached a 13 year milestone in December of 2005 supporting business investments of \$100 million. The milestone was capped by investment in Inoveon a company that develops commercial technology to detect and monitor eye diseases located near the OU Health Sciences Complex.

When it was originally created, OCIB submitted their business plan for approval and reported accordingly to the now defunct Oklahoma Futures Board. The Governor's recommendation is to restore OCIB's place as a part of Oklahoma's web of innovation by linking it to the new EDGE initiatives.

Invest For the Future

\$180 million in capital projects is recommended to provide for much needed research infrastructure around the state. \$60 million in bond proceeds will be allocated to the state's two comprehensive research universities. The capital projects will fund facilities necessary to improve the state's health status and provide cutting edge research to improve the quality of

life for all citizens. The University of Oklahoma will receive \$60 million to fund projects such as expanding the capabilities of the new cancer center and establishing a diabetes research center.

Oklahoma State University will also receive \$60 million for capital projects including construction and equipment for sensor research facilities at the National Sensor Test and Integration Complex located in Stillwater and Ponca City. The laboratory facilities will be used to research, test and develop chemical, radiological and explosive sensors. Capital funds for a bio-fuels/bio-processing and bio-production facility in Ardmore are also included in this recommendation. Additionally, capital funds can be made available to support the long term viability of the OSU School of Osteopathic Medicine in Tulsa.

Finally \$60 million of bonding authority will be given to a new “credit facility” to allow private research entities, such as foundations, to borrow at a lower cost to build new research and development facilities.

Fiscal Responsibility

Currently, deposits to the state’s Constitutional Reserve Fund (CRF), commonly know as the ‘Rainy Day Fund’, are capped at 10% of the prior year’s certified general revenue fund collections. The Governor’s FY 2007 proposal is to increase the cap in the CRF to 15% to provide more savings for the state during revenue downturns. Recent history shows that the CRF is integral to maintaining acceptable levels of education, health, safety and transportation services during economic downturns. General revenues fell more than 11% in FY 2003 and 2004 resulting in deep and widespread cuts to government services for all Oklahomans.

Governor Henry has been a leader in fiscal management, pushing for reforms in the CRF. Recognizing the need to address revenue shortfalls, Governor Henry recommended and Oklahoma voters approved State Question 704 during the November 2004 elections. That measure reformed the CRF by reducing the amount that could be appropriated for an emergency from 50% to 25%. The referendum also reduced the amount that could be accessed during a revenue shortfall from 50% to 37.5%.

The next logical step in improving fiscal responsibility for state finances is to increase the cap on the CRF to 15% of the prior year’s certified general revenue fund collections. Such a reform will better ensure that the state can weather the next economic downturn it faces.

Oklahoma’s Constitutional Reserve Fund is an important part of the state’s overall fiscal policy; serving to smooth budgetary problems during inevitable economic cycles. The fund is also a vital part of the state’s overall fiscal policy by conveying to financial markets and bond rating agencies that the state takes fiscal responsibility seriously. The changes recommended here will not only help Oklahoma deal with tough economic times more effectively but will improve Oklahoma’s standing in the eyes of the financial markets.

Education Initiative

Oklahoma's economic vitality and future growth is dependent on a competitive, well-educated, highly skilled workforce. Research done by the Federal Reserve Bank of Dallas indicates a person with a bachelor's degree will earn on average \$1.2 million more over a lifetime than students with only a high school diploma. Students who do not obtain a college degree must be prepared to engage in other postsecondary education in order to compete in an increasingly technologically advanced workplace. As one of education's most vigorous advocates, the Governor has created new revenue sources and implemented reforms to improve teacher salaries, student performance, accountability and education quality throughout the state's education systems. Every year, fostering student excellence from pre-kindergarten to high school to postsecondary education is a key component of Governor Henry's growth agenda.

Teacher Compensation

During the 2004 Legislative Session, Governor Henry announced a 5 year plan to increase teacher pay to the regional average and pay 100% of teacher health insurance premiums. In FY-2005, the state covered the health insurance premiums. FY-2006 was the first step of the four step pay plan to move Oklahoma teachers to the regional average in compensation; the state spent over \$57 million in FY-2006, giving teachers an average pay increase of \$1,300. In FY-2007, the second year of the four step increase in teacher pay, the Governor's budget includes over \$59 million for this initiative, which would result in an average increase of \$1,288.

The Governor's pay plan is a continuing commitment that honors career teachers for their continued service to Oklahoma's children. The plan recognizes the value of experience and rewards teachers more appropriately for years of service than previous pay schedules. This new emphasis will encourage teachers to stay in the profession. The table below outlines the progression of the minimum salary schedule from the 2000-2001 academic year, which was prior to the Governor's plan, the 2005-2006 minimum salary schedule, after only one step in the Governor's plan, and the 2008-2009 minimum salary schedule, when teachers will have reached the regional salary average.

| Minimum Salary Schedules: Teachers with a Bachelor's Degree* | | | | |
|---|----------|----------|----------|---|
| Years of Experience | 2000-01 | 2005-06 | 2008-09 | Difference between '08-'09 and '00-01 |
| 0 | \$27,060 | \$28,425 | \$29,425 | \$2,365 |
| 5 | 29,549 | 30,575 | 32,075 | \$2,526 |
| 10 | 31,209 | 32,850 | 34,850 | \$3,641 |
| 15 | 32,869 | 35,225 | 37,725 | \$4,856 |
| 20 | 34,529 | 37,600 | 40,600 | \$6,071 |
| 25+ | 36,189 | 39,975 | 43,475 | \$7,286 |

*Teachers with a higher degree of education have a different salary schedule that is not shown.

Source: Oklahoma Statutes: 70-18-114.7, 70-18-114.12

It is significant to note the difference between this and previous minimum salary schedules. The salary difference between a first-year teacher and one with 25 or more years of experience

will have increased 64% by the end of the Governor’s plan, from just over \$9,000 to just over \$14,000 to ensure that Oklahoma remains competitive in retaining its most experienced teachers.

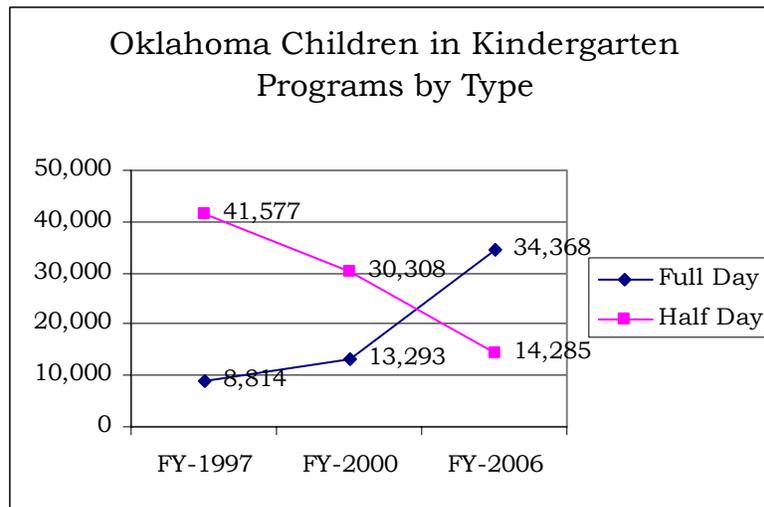
Early Childhood Programs

Pre-Kindergarten

Over the past two years, Oklahoma’s 4 year old program has been nationally recognized as the top program in the country. A Georgetown University study, cited in the journal Developmental Psychology and referenced on National Public Radio, concluded that Oklahoma’s universal pre-Kindergarten program improved the school readiness of all children. The most significant increases occurred for black, native American and Hispanic children and those qualifying for free or reduced lunches. Approximately 70% of the four year old population participates in this voluntary program.

Full-Day Kindergarten

Research studies also indicate that full day kindergarten attendance results in academic and social benefits. For example, the National Center for Education Statistics commissioned a study on full-day and half-day kindergarten in the United States. The study concluded that children in full-day classes learned more during the year in both reading and mathematics compared to those in half-day classes. The Governor’s Achieving Classroom Excellence (ACE) initiative last year provided sufficient funding for all districts to offer full day kindergarten. The 2005-2006 school year saw 70% of kindergarten aged children, 34,368 students, taking advantage of that option. That represents a 21% increase from the previous academic year



Source: State Department of Education, OSF Records

Achieving Classroom Excellence (ACE)

Under Governor Henry’s leadership, SB 982, passed during the 2005 Legislative Session and created the Achieving Classroom Excellence Act of 2005. The main goals of this initiative were:

- To increase access to full day kindergarten;
- To improve student achievement in elementary and secondary classrooms; and
- To increase participation and completion in quality postsecondary education programs.

To accomplish these goals, ACE:

- Provided sufficient funding for all districts to offer full day kindergarten;
- Provided funding for a middle school math lab pilot program for the ten middle schools with the most demonstrated need for math improvement;
- Required all eighth grade students to demonstrate mastery in Criterion Referenced Tests (CRT);
- Required all high school students enroll in a college/careers preparatory default curriculum that parents may opt out of;
- Required students to demonstrate mastery on at least four of seven End of Instruction (EOI) exams in order to receive a high school diploma; and
- Waived up to six hours of tuition per semester for high school seniors concurrently enrolled in college courses.

ACE also created a Task Force whose charges were to make recommendations on the additional EOI exams to be developed, intervention and remediation strategies, and necessary funding. After much effort, the ACE Task Force made a series of recommendations the Governor supports.

End Of Instruction Exams

The Task Force recommended the State Department of Education develop an End Of Instruction (EOI) exam for Algebra II, Geometry and English III with a writing component. The Task Force also recommended the state allocate dollars for the development, administration and scoring of the tests and that all three tests be developed simultaneously and administered by the 2007-2008 academic year.

To ensure that all students have a minimum skill set needed for postsecondary success, the Governor wants to require all students to demonstrate mastery in Algebra I and English II. Students will be able to select which two of the remaining five they will use for graduation purposes. The Task Force recommended that students with special needs and English Language Learners be subject to the pre-existing state and federal policies relating to testing.

In order to begin implementing the recommendations of the Task Force, the Governor's FY-2007 budget includes \$5 million for the development, administration and scoring of the new EOIs.

Intervention and Remediation

Regarding intervention and remediation, the Task Force recommended that CareerTech Centers provide intervention and remediation in Algebra I and Biology I to students currently enrolled in CareerTech programs. Further, the Task Force recommended that the Legislature provide intervention and remediation funds to be focused on current 6th graders, the first class to be required to pass the ACE exit exams in order to graduate. The Task Force also recommended that the State Department of Education provide information on best practices, with school districts monitoring the results of their programs and reporting those to the State Department.

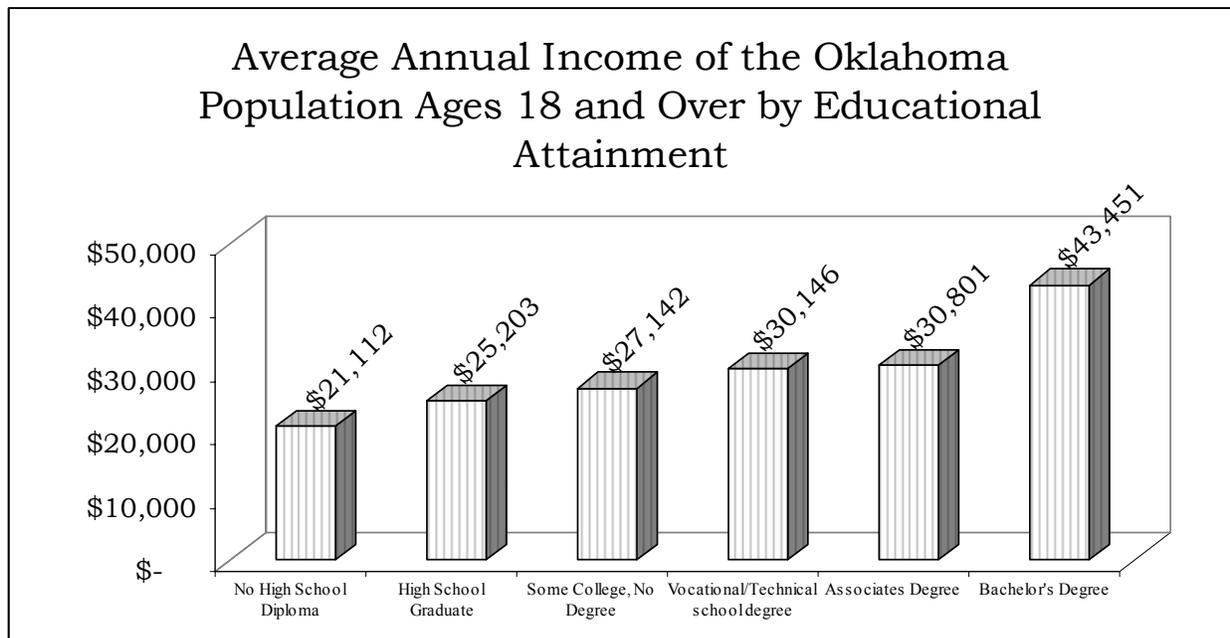
The Governor's FY-2007 budget includes \$10 million for intervention and remediation.

Concurrent Enrollment

Another component of SB 982 was a tuition waiver for high school seniors concurrently enrolled in college of up to six hours per semester. The Governor recommended \$1.4 million be allocated for this initiative last year to cover the cost of the nearly 2,800 seniors concurrently enrolled. As the program has gained the interest of more high school seniors, this year the Governor recommends \$2.5 million to pay for the more than 30,000 hours of college credit expected to be taken by high school seniors. The clear result of this highly successful program is that more Oklahoma high school seniors are attending college which should dramatically impact long term college attendance and graduation rates.

Postsecondary Education

National figures consistently show that states with the greatest economic success have the highest percentages of postsecondary educated citizens. A better educated populous helps recruit businesses looking for a well educated, technologically savvy work force. The lifetime earnings of a Bachelor’s degree holder and a high school graduate reveal the personal benefits of the continued pursuit of education. There is a correlation between the economic attainment of a state’s population and a high percentage of college graduates. For this reason, the Governor and state education leaders have been working to encourage Oklahomans to continue education beyond high school.



Source: Census 2001 Supplemental Survey Public Use Microdata Samples

Cooperative Alliances

In April 2005, the State Regents for Higher Education and the Department of CareerTech entered into a new partnership of Cooperative Alliances. These Alliances are voluntary partnerships between a higher education institution and a technology center that align academic, business and administrative practices for postsecondary educational purposes. These partnerships increase access to technical college-level programs for high school and adult students and utilize the resources of two state educational agencies in ways that will efficiently and effectively strengthen both systems while improving services and opportunities for students. Three pairs of pilot sites were selected: Autry Tech Center and Northern

Oklahoma College, Francis Tuttle Tech Center and Oklahoma City Community College, and Southwest Technology Center and Western Oklahoma State College.

OHLAP

The Oklahoma Higher Learning Access Plan, OHLAP, is another indicator of successfully attracting students to postsecondary education. OHLAP is geared towards low-income students. It requires them to make good grades in a college preparatory curriculum and stay out of trouble with the law in exchange for an annual scholarship to attend an Oklahoma postsecondary education institution. The Governor's budget includes \$10 million for OHLAP scholarships. This money will fund tuition for the current 12,000 recipients and for an additional 3,000 student scholarships. The average scholarship in FY-2007 is estimated to be \$2,475.

Lottery Revenue for Capital Purposes

The statewide vote to approve the Oklahoma Education Lottery allowed for a portion of the revenue to be used for capital purposes for the Department of CareerTech. The Governor recommends that CareerTech use over \$7 million of lottery revenue in FY-2007 to expand their health programs in conjunction with recommendations of the Health Care Workforce Task Force. This will help Oklahoma start filling some identified shortages in our healthcare workforce, improving the quality of life for all Oklahomans.

Higher Education Bond Issue

In the 2005 Legislative Session, the largest higher education bond program in the state's history was signed into law. The \$475 million Capital Improvement Bond Program will support 140 capital infrastructure projects in 36 communities across the state. In November 2005, the state system institutions received access to the bond proceeds of the first two series.

Health Care Initiative

Specialized Treatment for Methamphetamine Addiction

Governor Henry's FY 2007 Executive Budget includes a proposal to invest \$1 million in up to five intensive treatment programs for methamphetamine addiction. Communities across Oklahoma are struggling to cope with the growing problems of methamphetamine use and dependence. Although significant progress has been made in the area of methamphetamine lab seizures, there has not been a corresponding decrease in the demand for treatment. In addition, research shows that recovering meth addicts require a longer and more intense outpatient treatment program than is the case for most drugs.

The best practice treatment model for methamphetamine addiction is currently known as the Matrix Model. This model involves intensive outpatient supervision and has been proven to be effective. It is the only methamphetamine specific treatment model endorsed by the National Institute of Drug Abuse (NIDA) as a scientifically based approach. A recent clinical trial found that with this model, persons addicted to methamphetamine stay in treatment longer, stay off methamphetamine longer and have restored cognitive abilities. Longer lengths of treatment and cognitive re-training are key elements in successfully treating methamphetamine addiction.

Health Care Workforce Initiative

In the fall of 2005, Governor Henry signed Executive Order 2005-20 which established the Governor's Health Care Workforce Resources Task Force. This Task Force is based on bipartisan legislation co-authored by Senator Susan Paddock and Representative Doug Cox in SB 1010 from the 2005 Legislative Session. Although this legislation was not passed during the 2005 session, Senator Paddock, Representative Cox and Governor Henry worked in collaboration with health care professionals to ensure this important public health issue remained a priority.

The purpose of the Task Force is to provide a comprehensive assessment of government and private sector efforts to meet supply and demand needs for Oklahoma's health care workforce. The focus of the Task Force is an assessment on health care professionals in short supply. In addition, the Task Force will evaluate current health care worker supply and demand, future supply and demand and gap analysis. It will also consider resources and support available for the education and training of health care workers in both the short and long term.

In order to address some of the infrastructure improvements needed to produce more health care workers, Governor Henry proposes to invest \$6 million of lottery revenue to expand CareerTech's facilities to offer more Health Care programs. The new facilities and programs will be selected in collaboration with the Health Care Workforce Task Force and their recommendations.

Nursing Student Assistance Program in the Physician Manpower Training Commission

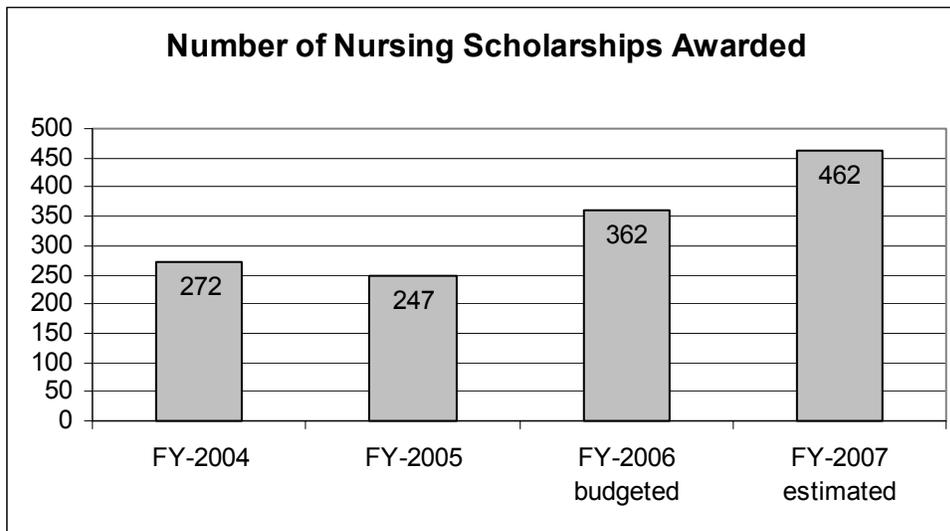
According to the "Workforce OK employment Outlook 2010" published by the Oklahoma Employment Security Commission, Oklahoma will have a need for 40,000 nurses in the workforce by 2010. Oklahoma State Board of Nursing statistics show a net gain of 300 nurses per year at the current rate. With a nursing workforce of 35,700 in 2003, that rate will leave the state with a shortage of 2,200 nurses by 2010 unless immediate action is undertaken to make up the difference.

As one step in making that difference, Governor Henry proposes additional spending of \$140,000 in the Nursing Student Assistance Program which will provide an additional 100 scholarships. Providing these additional nursing scholarships through the Nursing Student Assistance Program is part of the Governor's initiative designed to address the nursing shortage.

Established in 1982, this program provides financial assistance to Oklahoma nursing students pursuing LPN, ADN, BSN or MSN degrees. Program recipients repay their loans by working as nurses in Oklahoma communities which are experiencing a nurse shortage. Nurses work in these communities for an amount of time which equals their scholarship time. In other words, a two year scholarship would involve a two year work obligation. 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.

Governor Henry proposes additional spending of \$140,000 in this program which provides an additional 100 scholarships to those currently estimated for FY-2007.



Source: Physician Manpower Training Commission

Targeted Salary Increases for Nurses

Some of the most critical positions in the health care industry are held by nurses. As the nurse shortage continues, the need to compete with the private sector in order to attract and retain nurses into state agency positions such as the Health Department, Department of Human Services and Veterans Affairs has become more intense. In order to address this need, the Governor is proposing a \$4.7 million targeted investment in nurse salaries which represents an average salary increase of 10%. With this funding, agencies will have the ability to target the nursing positions within their agencies which are most critical to meeting their missions and address those positions which lag behind the private sector the most.

Nursing Facility Rate Increase

Nursing homes are an important part of a health care system which provides a continuum of care for the citizens of Oklahoma. As more people live longer have more active lives and supports that enable them to remain in their homes longer, nursing homes have been faced

with the challenge of receiving and caring for people who are ever more fragile by the time they arrive there for care. In addition, as the Baby Boom ages and begins to put pressure on all systems of care for the aging, the need for quality nursing homes care will become greater. In the face of this challenge, Governor Henry will invest an additional \$15 million in nursing home reimbursement rates through the Oklahoma Health Care Authority. The proposal is that this increase will be effective for the final 9 months of FY-2007 and will bring the nursing home rate of care from the current level of 90% of cost up to 100% of cost. The annualized impact of this investment is \$20 million.

Oklahoma State University Center for Health Sciences and the Teaching Hospital/Indigent Care System in the Tulsa Metropolitan Service Area

Governor Henry supports the continued efforts of the OSU College of Osteopathic Medicine to examine long term solutions which will assure the provision of medical education, research and indigent care in the Tulsa area.

Governor's Insure Oklahoma Program Begins

With the federal government's approval, Phase I of the Governor's Insure Oklahoma Premium Assistance Program began taking employer applications on November 1 and employee applications on December 1, 2005. Insure Oklahoma is funded with a portion of the revenue from the tobacco tax increase proposed by Governor Henry and passed by the people of Oklahoma as State Question 713 in November 2004. This phase is specifically known as premium assistance for Employer Sponsored Insurance (ESI). The Premium Assistance Program will pay part of the health plan premiums for eligible employees working for qualified Oklahoma small businesses.

Small businesses will purchase a private market health plan that is qualified for participation. Participating employers, as well as employees, will be required to pay a portion of the premiums. Employees will also be responsible for any applicable deductibles and co-payments. Employers will be required to contribute 25 percent of the premium amounts. Individuals will pay up to 15 percent of the monthly premium, with the state and federal government paying the remaining share.

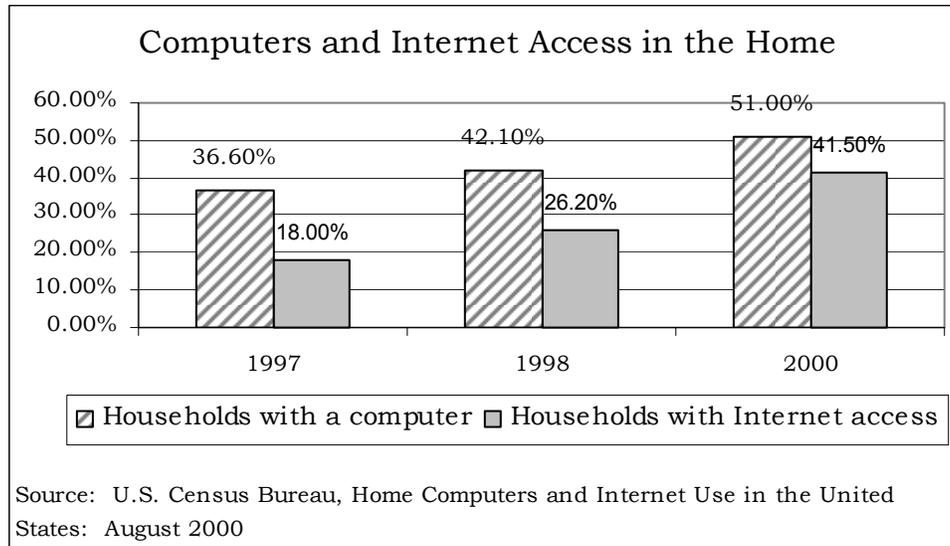
Insure Oklahoma is designed to target working people who have incomes at or below 185% of the federal poverty level and work for Oklahoma businesses of 25 employees or less. Because it works with Employer Sponsored Insurance, it supports the expansion of the private insurance market. Premium assistance for workers and spouses with household incomes at or below 185 percent of the federal poverty level means, for example, a family of four must have a total income at or below \$35,797 to qualify. Also known as "Insure Oklahoma with O-EPIC", information on the program as well as applications are available from either the O-EPIC website www.oepic.ok.gov or by calling the O-EPIC helpline at 1-888-3-OK-EPIC.

Since November 1st, many small businesses in Oklahoma have applied for the premium assistance program. When a business is approved the employees are invited to apply using a Personal Identification Number (PIN) to access the secure website. On December 30th, 2005 the first premium subsidy payment cycle ran. The Governor has called for an expansion of the program to allow employers of up to 50 employees to participate in this innovative national model for providing low income working Oklahomans with critical health insurance coverage.

Public Safety Initiatives

Safe Net

One in five children (aged 10 – 17 years) are approached online by a sexual predator (U.S. Department of Justice). It is also estimated that there are 50,000 child predators online at any given time. With the advent of the Internet, information is at the fingertips of everyone who has access – including children and those who wish to do harm to children – and the number of households with internet access is expected to be 77 million this year.



Background

In 1998, the United States Office of Juvenile Justice and Delinquency Prevention (OJJDP) was directed to create a national network of task forces to investigate cyber crimes against and the sexual exploitation of children. Currently, there are 47 states that have a unit dedicated to this type of investigation.

ICAC (Internet Crimes Against Children) Task Forces not only investigate cases of child pornography, but they also perform operations to catch people soliciting minors. The task force investigates tips that are filtered from a national Cyber Tipline that can be accessed through the National Center for Missing & Exploited Children (www.cybertipline.com). The OJJDP states that ICAC helps law enforcement agencies develop an effective response to cyber enticement and child pornography cases by encompassing forensic and investigative components, training and technical assistance, victim services, and community education.

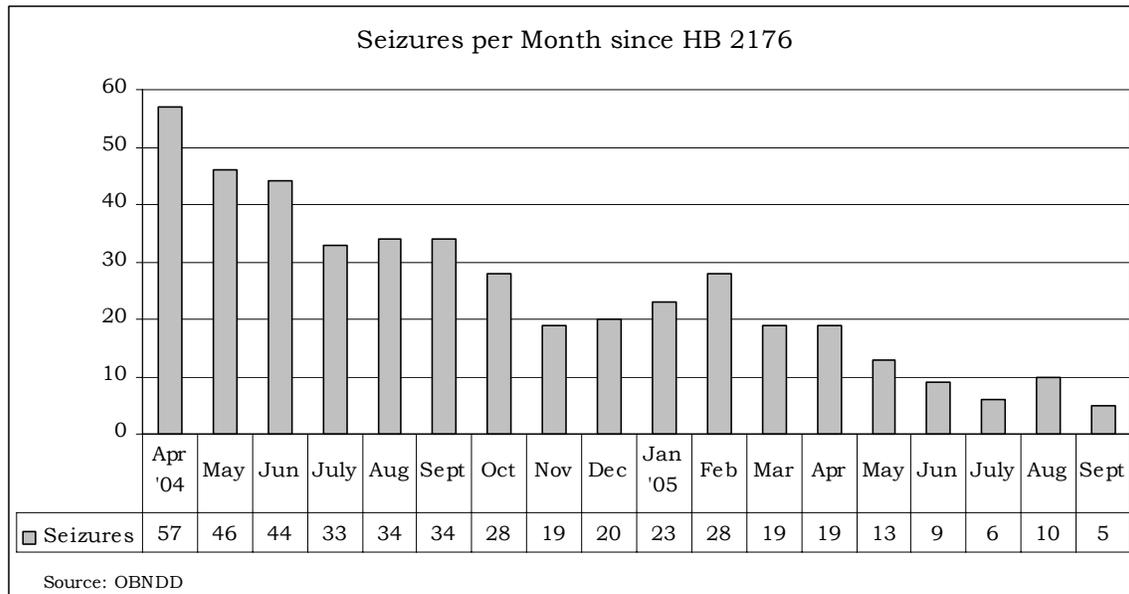
Protecting Oklahoma's Children

In order to help strengthen existing child protection laws, the Governor and the OSBI have developed the Safe Net Initiative. This initiative will appropriate funds of \$790,000 to establish an ICAC division within OSBI. Included in this initiative is a public awareness campaign to educate parents and their children about the dangers on the Internet. Because of the commonplace use of computers and the Internet in households, the Governor and OSBI are dedicated to protecting the children through education and investigation.

Anti-Methamphetamine Initiative

Background

Major legislation has been signed into law by Governor Henry in both FY-2005 and FY-2006 restricting the sale of pseudo-ephedrine. Pseudo-ephedrine is the main ingredient in home-labs producing methamphetamine. The amount of methamphetamine manufactured in Oklahoma has been greatly reduced. This is evidenced by the dramatic decline in the number of clandestine labs seized since the pass of HB 2176 in April of 2004.



Though this first initiative to limit the manufacture of methamphetamine in Oklahoma was extremely successful and has become model legislation for other states, drug dealers are resourceful and have switched to imported methamphetamine. It is estimated by the United States Drug Enforcement Agency that Mexican super-labs currently account for as much as 80% of the nation's methamphetamine supply. These super-labs, run by Mexican criminal organizations, are capable of producing large quantities of methamphetamine with high purity.

Leading the Way

Oklahoma became a leader for other states when HB 2176 passed. States looked to Oklahoma's bill as a model for their own restrictions. More than 20 states have passed legislation patterned after Oklahoma's and another 10 have similar legislation in progress. Many of the remaining states have expressed an interest in Oklahoma's law. Even foreign countries are making plans to restrict pseudo-ephedrine after seeing the success of Oklahoma's law.

Now Oklahoma wants to become a model once again by aggressively attacking the importation of methamphetamine. This high-purity methamphetamine has a higher street value, thus causing the Oklahoma Bureau of Narcotics and Dangerous Drugs to use larger amounts of money to run "stings". Additionally, with large criminal organizations to be investigated, OBND needs more agents. The Governor recommends an increase of \$1,150,000 in appropriations to fund additional agents dedicated to the reduction of the methamphetamine supply in Oklahoma, as well as an increase in OBND's evidence fund to allow for expanded investigations.

Registered Sex Offender Initiative

The FY-2007 Governor's budget will direct the Department of Corrections (DOC) to notify Oklahomans of the presence of registered sex offenders in their neighborhood. DOC will be required to mail letters to everyone within a sex offender's community located within a one-mile radius in non-sub-divided areas and a three-block radius in sub-divided areas in addition to public notification via local newspapers and websites. The purpose of these changes is to keep the public safe by quantifying the risk of an offender and making sure that Oklahoma citizens have the benefit of public information via mailed notification.

The Governor recommends additional funding (\$541,000) to DOC in order to expand the Sex Offenders Registration Act. This expansion will include the establishment of a risk assessment committee, as outlined in House Bill 2569. Department of Corrections is responsible for developing a "multi-discipline board to select, implement, monitor, and maintain quality assurance measures related to the use of a 'sex offender screening tool' utilized to determine the risk level of sex offenders released to the community, and providing a numeric risk level for every sex offender required to register".

Under the current language of the Sex Offenders Registration Act, DOC must send address verification letters to aggravated and habitual sex offenders every 90 days and all other sex offenders on an annual basis. It is this letter that the offender takes to local law enforcement authorities who then return the letter to DOC. This process updates both local law enforcement registries and the DOC registry.

In November 1999, the Sex Offender Registry became a public record. This registry is currently available at the Department of Corrections (DOC) website at www.doc.state.ok.us. The Sex Offenders Registration Act, in its current form, provides that sex offender registries be kept by each local law enforcement entity in the State of Oklahoma, as well as the Department of Corrections, though these registries are not currently linked together.

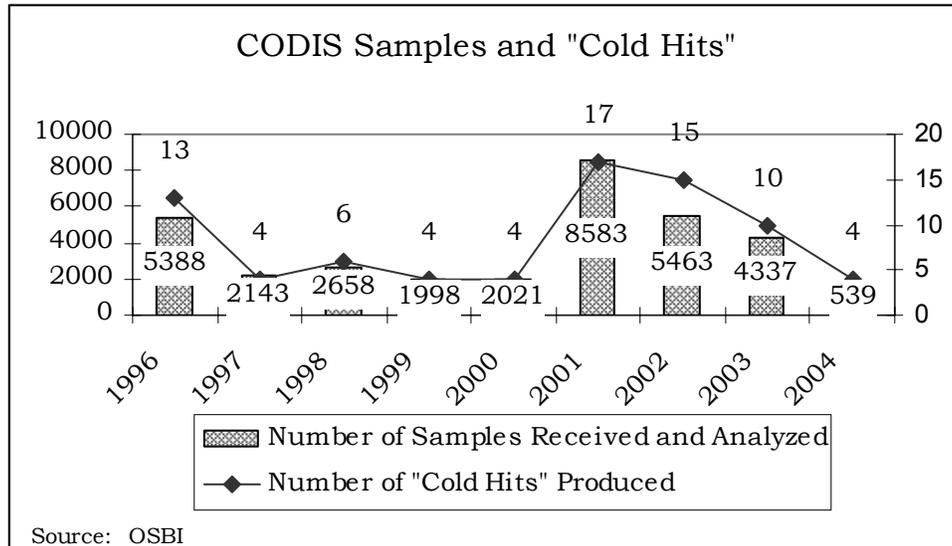
All-Felon Combined DNA Index System (CODIS)

Realizing the importance of hard scientific evidence in identifying suspects and closing cases, as well as understanding the added responsibility for OSBI to collect numerous DNA samples, the Governor recommends additional funding (\$455,500 supplemental and \$530,000 for FY-2007) for the cost of collecting additional DNA samples and the necessary biologist to analyze the samples.

Deoxyribonucleic acid, better known as DNA, has become an important factor in identifying the perpetrators of crimes by placing a person at the scene of a crime. DNA is many times called the "genetic blueprint" since no two people share the same DNA (except identical twins) and, thus, is an important identifier which led to the creation of a national DNA index.

On July 1, 1996, Oklahoma followed the FBI and several other states by creating the Combined Offender DNA Index System (CODIS). In the context of this database, OSBI collected DNA samples from convicted persons, analyzed them, and placed the analysis markers into the database. At that time, only persons convicted of violent felonies such as murder and rape were included in the database. In 2001, felons convicted of burglaries were added to the list of samples to be collected. As shown in the following chart, this addition greatly increased the number of samples collected and analyzed by OSBI, although it also increased the number of "cold hits" produced. ("Cold hits" are when the database matches a known sample with an unknown sample from a cold case.) It is estimated that another great increase will occur with the January 1, 2006 effective date of including all convicted felons in the database. The

downward trend from 2002 indicates that there is a backlog of about two years of getting samples placed into the database.



Statewide Public Safety Communications System

The Governor recommends a capital project for the Department of Public Safety (DPS) to spearhead the installation of a statewide communications system utilizing an 800 MHz radio communications protocol designed in conjunction with existing infrastructure and other emerging technologies. This new communications system will allow law enforcement and emergency responders to be able to communicate with each other.

Since 1987, states have been developing plans to implement a statewide system built upon the guidelines recommended by the Federal Communications Commission (FCC). Oklahoma estimates that it will cost approximately \$60 million to install the infrastructure needed to handle a statewide system. This infrastructure includes the towers needed for the radios.

The system proposed is more powerful than the radio system that is currently in use, but more importantly, the system would be consistent statewide. A statewide communications system would allow all public safety and emergency responders to communicate with each other. This ability would decrease the time it takes for certain emergency personnel to respond to a call by eliminating the necessity to call in to a dispatcher who then transfers to a landline communication system to request help from a different jurisdiction or a different entity. It is this decrease in time-to-respond that exemplifies the importance of the statewide system.

Drug Court Expansion

In his FY-2006 budget proposals, Governor Henry recommended an unprecedented \$16 million expansion of the drug courts. This initiative, when complete, will give Oklahoma the most comprehensive version of this innovative program in the nation. The funding for this program started in FY-2006 with \$8 million and the expansion will be completed in FY-2007 with the second major funding installment of \$8 million. The drug court program offers nonviolent, felony offenders with substance abuse problems the opportunity to enter into a district court supervised substance abuse treatment program in lieu of incarceration. Among drug court graduates, there is a 75% decrease in unemployment and significant increases in earned income. In addition, drug court graduates are two times less likely to recidivate than drug

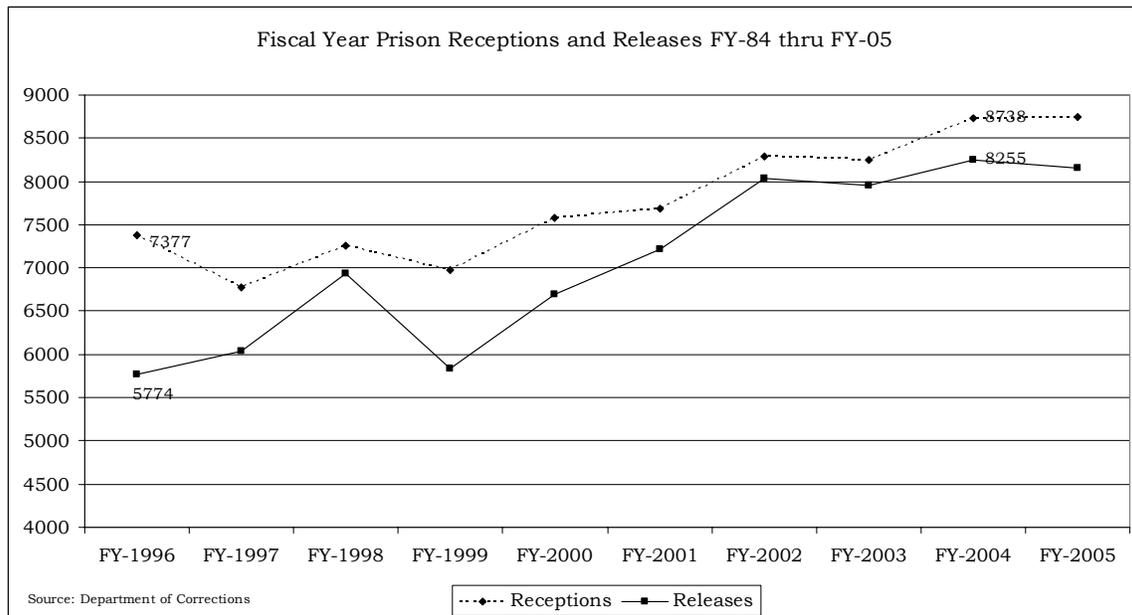
offenders on regular probation and four times less likely to recidivate than drug offenders released directly from prison.

By the end of FY-2006, the program expansion will include an increase of over 2,400 treatment slots statewide with the expansion being fully operational in FY-2007. Depending on where the most cases occur, counties will expand their current drug court programs or new programs will be established. The Department of Mental Health and Substance Abuse estimates savings to the State from these additional 2,400 drug court slots to be \$28 million when the cost of incarceration at the Department of Corrections is compared to the cost of drug court.

Department of Corrections

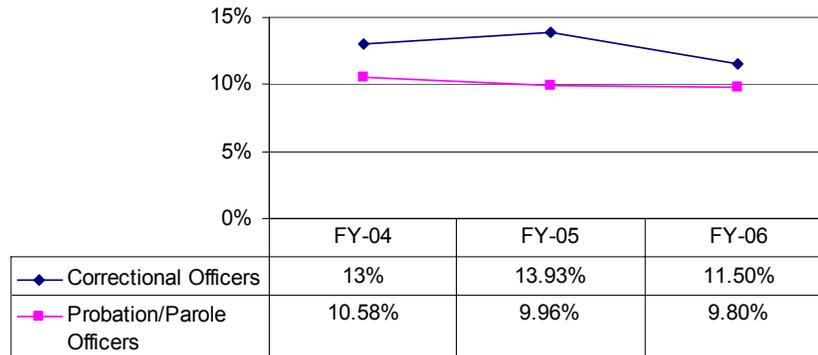
Public safety is a critical function of state government and the Department of Corrections' (DOC) mission reflects this. However, DOC continues to struggle with funding issues.

- One such problem is the prison population. Receptions continue to outpace releases each year, as seen in the chart below, which causes additional state funds be appropriated to house the increasing inmate population.



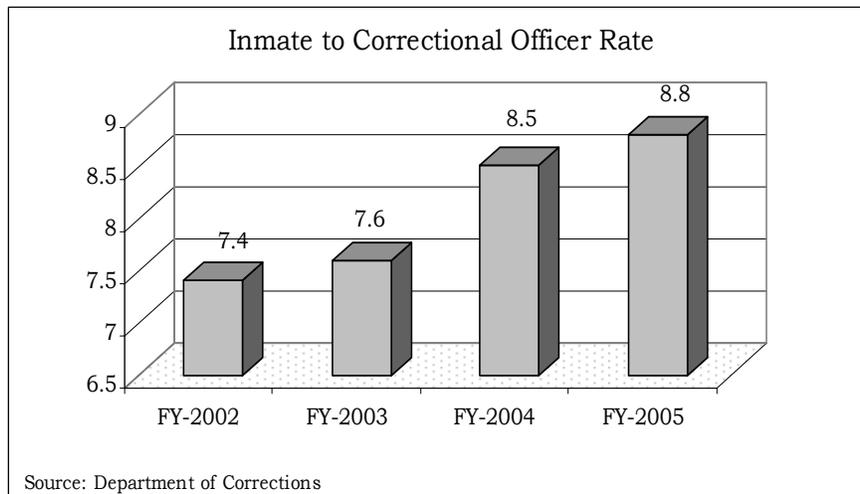
- Another budget concern of the department's is the population of inmates held within private prisons. DOC contracts with private prisons at an average per diem rate of more than \$43.00.
- Other issues that DOC is facing are a high vacancy rate of correctional officers (23.5%) and the turnover rates of correctional officers and probation officers are high. These create public safety concerns in the prison system and impose undue risk on prison personnel. The high vacancy rate appears to be a function of pay and budgeting constraints on overall staffing levels.

Turnover Rate



Source: Department of Corrections

Inmate to Correctional Officer Rate



Source: Department of Corrections

In FY-2007, the Governor's budget includes funding to address the concerns.

- The Governor recommends annualizing a \$21.0 million supplemental to address the growing prison population and the cost of the private prison contracts.
- The Governor recommends \$11.14 million to fund a pay plan to address the retention and recruitment of correctional and probation officers, plus an additional \$3.025 million to increase the beginning pay of correctional officers and probation officers to \$24,000/year and \$31,000/year, respectively.
- The Governor includes \$750,000 to fund reintegration programs for mentally ill inmates on their re-entry into the community. Three case managers can be hired to help connect mentally ill inmates with appropriate services in the community, and there are funds to provide treatment to 90 parolees each year.
- The Governor includes \$541,000 to fund the increased responsibilities of tracking sex offenders. As introduced, House Bill 2569 requires DOC to develop a risk assessment team and tool to assess sex offenders prior to their release.
- The Governor also includes \$2.433 million to increase the per diem rate at county jails for back-up beds from \$24/day to \$30/day. See Senate Bill 1938.

Tax Reform

Move Toward Estate Tax Exemption Equalization for Collateral Heirs

The Governor's Budget proposes a first step to equalize tax exemptions for lineal heirs and collateral or non-lineal heirs. This proposal will result in more small businesses and farms continuing operation after transfer from an heir. Greater equalization will also reduce the number of wealthy Oklahomans from relocating outside the state when they retire.

The Oklahoma estate tax is currently levied on the transfer of assets from the estate of a deceased person to other persons. Like much of our tax code, estate tax inherits many exemptions and various other special treatments. For example, any assets donated from an estate to a qualified non-profit entity are totally exempted from the estate tax. This occurs because the non-profit entity receives the full benefit of the donation not the estate.

Another estate tax special benefit lies in assets left to lineal heirs. Lineal heirs are defined as the father, mother, or direct descendants for the deceased, including grandchildren. Any assets that are transferred from an estate to a surviving spouse are totally exempt from Oklahoma's estate tax.

For deaths occurring after January 1, 2006, Oklahoma exempts the first one million dollars of assets transferred to lineal heirs. This exemption allows a significant portion of many estates to be passed to children or other lineal heirs, in tact. This exemption can be important when the assets consist of a business or farm as it allows the heir to the business operation whole, rather than having to sell to pay taxes.

The lineal heir preference is a targeted tax preference that prevents the destruction of many family owned businesses. The Governor's FY-2007 proposal is to provide ½ of that special preference to transfers of estates to other heirs including siblings, cousins, and other relatives.

Expansion of Retirement Exemption

In 2004, State Question 713 passed by a vote of the people expanding the provisions of the retirement income exemption from the state individual income tax from \$25,000 to \$37,500 for single filers and from \$50,000 to \$75,000 for married filers and removed the age qualification for the exemption on private retirement income. Additionally, the bill increased the amount of the exemption from \$5,500 to \$7,500.

This year, The Governor feels confident that full retirement exemption to incomes of \$25,000 for single filers and \$50,000 for married filers will relieve the burden of taxes on low-income citizens. Too often, retirees with lower income pay higher tax penalties than their wealthier counterparts. The budgetary impact of this proposal is a loss of \$13.9 million in income tax revenue for FY-2007 and \$20.85 million in FY-2008.

Back to School Sales Tax Holiday

Oklahoma businesses have always competed with those in Texas. Each year, the competition gets a little tougher for one weekend. Texas authorizes a sales tax holiday which exempts certain clothing items and accessories from state and local sales tax during the busy back-to-school shopping weekend. Many Oklahomans travel across the border to do their shopping during this weekend.

The Governor is committed to Oklahoma's established businesses and providing tax relief to all Oklahomans. This budget includes a sales tax holiday similar to the Texas holiday. It is scheduled for the first weekend in August, a traditional back-to-school weekend. The three-day holiday begins at midnight on Friday and ends at midnight on Monday. Clothing items and footwear under \$100 are exempt from state and local sales tax. Items such as athletic

wear, jewelry, luggage and handbags are not exempted. This proposal results in a loss of \$3.487 million in tax revenue for FY-2007

| Fiscal Impact Summary for Proposed Tax Changes FY-2007 (\$ in 000's) | | | | | |
|---|--------------------------------|------------------------------------|---|---------------------------|---|
| Proposal: | <u>Budgetary Impact</u> | <u>General Revenue Fund</u> | <u>Education Reform Revolving Fund</u> | <u>Other Funds</u> | <u>Total Impact to Collections</u> |
| Estate Tax Exemption | - | - | - | - | - |
| Retirement Income Exemption | (12,537) | (11,976) | (1,159) | (765) | (13,900) |
| Sales Tax Holiday | <u>(4,979)</u> | <u>(4,641)</u> | <u>(571)</u> | <u>(246)</u> | <u>(5,457)</u> |
| Total Impact for FY-2007 | (17,516) | (16,617) | (1,730) | (1,010) | (19,357) |

Source: Oklahoma Tax Commission

Transportation Initiative

Of over 6,700 bridges on the state highway system, 1,600 are either too narrow to support today's traffic, have structural deficiencies, or both. Of those bridges, approximately 137 have restricted load limits. The State's highway system is in need of repair and rehabilitation also. Studies that focus on safety features such as passing opportunities, adequate sight distances, the existence of paved shoulders, recovery areas for errant vehicles, and the severity of hill and curves rate more than 3,000 miles, or approximately 25%, of Oklahoma's highway system as critical or inadequate. Historical funding levels have done little to make a dent in the backlog of road and bridge maintenance projects. For this reason, Governor Henry recommends the following proposals to provide additional short term and long term support for Oklahoma's infrastructure.

- State and local bridge repair;
- A low interest loan program to counties and cities for local road and bridge repair;
- Changing the certified State Transportation Fund (STF) to a revolving fund;
- Annualizing the appropriation for the Capital Improvement Program (CIP) debt service;
- Creating a lockbox for fuel tax and motor vehicle tax; and
- Allowing counties to receive the interest earned from the County Bridge and Road Improvement Fund.

As a result of Governor Henry's transportation plan, ODOT can accelerate bridge replacement efforts of over 75 bridges a year. Over the next 10 years, this increase will result in the replacement of over 780 of the State's worst bridges, 400 of which are not in program today. In addition, over 4,000 miles or roughly one-third of the States' highways will be resurfaced and repaired.

State and Local Bridge Repair

The Governor recommends using \$100 million in excess certified funds for the repair needs of the state's worst structurally deficient bridges. The State will get \$50 million to quickly address bridge deficiencies and estimates that 20 to 25 state bridges can be repaired or replaced with this funding. The other half will go to counties and municipalities. Local projects will be selected with direction from city and county road planners. The \$100 million comes from surplus funds that accrue after the Rainy Day Fund is filled.

Loan Program

Current funding levels from the state and municipalities have fallen short of meeting the maintenance and repair needs of local infrastructure. To help leverage the completion of local road and bridge work and allow communities to readily invest in transportation infrastructure for economic development projects, the Governor proposes a low interest loan program for cities and counties. Loans will be granted at the state level at a lower interest rate than cities or counties could get elsewhere.

State Transportation Fund

The State Transportation Fund is the primary state funding source for ODOT. Under current law, total collections to the fund for the coming fiscal year are estimated and certified by the State Board of Equalization in accordance with Section 23 Article X of the Oklahoma Constitution. Once certified, the Legislature can only appropriate 95% of the total estimate. Due to the nature of a certified fund, ODOT does not receive revenue that is collected during

the current fiscal year that could otherwise be spent on road and bridge maintenance. This proposal changes the STF from a certified fund to a revolving fund and allows ODOT to receive an additional \$10.5 million in FY-07. The additional funding represents the difference between 100% of estimated collections and the 95% appropriations authority.

Annualization of the CIP Debt Service

Currently, ODOT estimates that roughly 21 bridges are too structurally deficient for a school bus to cross. There are also over 4,000 miles or approximately one-third of the State’s highways that have a poor surface condition that require immediate repair. To address these problems, long term investment is needed to ensure that all bridges and roads are repaired or rehabilitated and deemed structurally safe and sound. Governor Henry proposes to annualize the FY-2006 appropriation of \$69.7 million for the CIP debt service. As the debt service decreases, additional funding is generated. The chart below shows the additional funding that is realized from annualizing the debt service.

| Additional Funding from the Annualization of the CIP Debt Service | | | |
|--|--------------|---------------------|-----------------------|
| Year | Debt Service | FY-06 Annualized | Additional Funding |
| FY-07 | (\$69,700) | \$69,700 | \$0 |
| FY-08 | (66,900) | 69,700 | 2,800 |
| FY-09 | (30,500) | 69,700 | 39,200 |
| FY-10 | (30,100) | 69,700 | 39,600 |
| FY-11 | (32,200) | 69,700 | 37,500 |
| FY-12 | (27,400) | 69,700 | 42,300 |
| FY-13 | (11,900) | 69,700 | 57,800 |
| FY-14 | (11,000) | 69,700 | 58,700 |
| FY-15 | (7,800) | 69,700 | 61,900 |
| FY-16 | | <u>69,700</u> | <u>69,700</u> |
| Total | (\$287,500) | \$697,000 | \$409,500 |

Source: ODOT

This proposal provides an additional \$409.5 million for road and bridge maintenance over the next 10 years. With the additional funding, ODOT estimates that in 6 years all 21 structurally deficient bridges will be repaired or rehabilitated making it safe for all school buses to cross. The additional investment also allows ODOT to develop a true preventative maintenance program and be pro-active in extending the life of roads and bridges.

Lockbox of Transportation Funding

Currently, motor fuel and motor vehicle tax are the source of revenue to the State Transportation Fund (STF), ODOT’s source of state funding. To ensure that future Legislatures and Governors do not divert these sources to other areas, Governor Henry proposes a constitutional lockbox to be approved by a vote of the people. Providing a stable and consistent funding source guarantees an improvement of Oklahoma’s transportation infrastructure.

Interest to the County Bridge and Road Improvement Fund

Each year, revenue in the County Bridge and Road Improvement Fund earns interest that is deposited into the General Revenue Fund. Governor Henry recommends that interest earned

annually from this fund be deposited into the fund. This interest totals around \$600,000 annually and will provide additional funding to counties and municipalities to spend on local infrastructure.

Summary of FY-2007 Recommendations

Summary by Cabinet

| Agency/Cabinet Name | FY-2006 Appropriation | FY-2006 Supps. | FY-2006 Adj. Approp. | Less One-Time and Supps. | FY-2007 Base | FY-2007 Adj. | Recom. FY-2007 Approp. | % Diff. from FY- 2006 |
|----------------------------------|--------------------------|----------------------|-------------------------|-----------------------------|------------------------|----------------------|---------------------------|-----------------------------|
| 1 Governor | \$2,578,710 | \$0 | \$2,578,710 | \$0 | \$2,578,710 | \$50,490 | \$2,629,200 | 2.0% |
| 2 Lieutenant Governor | 592,436 | 0 | 592,436 | 0 | 592,436 | 11,712 | 604,148 | 2.0% |
| 3 Agriculture | 36,999,997 | 5,500,000 | 42,499,997 | (8,800,000) | 33,699,997 | 11,566,396 | 45,266,393 | 22.3% |
| 4 Commerce and Tourism | 71,867,534 | 18,000,000 | 89,867,534 | (23,360,000) | 66,507,534 | 5,579,044 | 72,086,578 | 0.3% |
| 5 Education | 3,208,748,707 | 4,600,000 | 3,213,348,707 | (4,600,000) | 3,208,748,707 | 258,642,223 | 3,467,390,930 | 8.1% |
| 6 Energy | 13,203,355 | 0 | 13,203,355 | 0 | 13,203,355 | 321,637 | 13,524,992 | 2.4% |
| 7 Environment | 15,340,476 | 0 | 15,340,476 | (600,000) | 14,740,476 | 614,362 | 15,354,838 | 0.1% |
| 8 Finance and Revenue | 102,166,319 | 38,000,000 | 140,166,319 | (38,000,000) | 102,166,319 | 4,259,186 | 106,425,505 | 4.2% |
| 9 Health | 869,387,821 | 75,000 | 869,462,821 | (75,000) | 869,387,821 | 82,049,819 | 951,437,640 | 9.4% |
| 10 Human Resources & Admin. | 20,509,420 | 0 | 20,509,420 | 0 | 20,509,420 | 878,118 | 21,387,538 | 4.3% |
| 11 Human Services | 659,741,057 | 5,391,000 | 665,132,057 | (5,820,000) | 659,312,057 | 42,964,331 | 702,276,388 | 6.4% |
| 12 Military | 12,546,432 | 0 | 12,546,432 | (250,000) | 12,296,432 | 550,134 | 12,846,566 | 2.4% |
| 13 Safety and Security | 578,165,197 | 35,805,500 | 613,970,697 | (36,480,500) | 577,490,197 | 59,269,603 | 636,759,800 | 10.1% |
| 14 Science and Technology | 12,400,942 | 0 | 12,400,942 | 0 | 12,400,942 | 10,035,824 | 22,436,766 | 80.9% |
| 15 Secretary of State | 7,903,126 | 0 | 7,903,126 | 0 | 7,903,126 | 2,280,074 | 10,183,200 | 28.9% |
| 16 Transportation | 275,671,401 | 0 | 275,671,401 | 0 | 275,671,401 | 16,204,632 | 291,876,033 | 5.9% |
| 17 Veterans Affairs | 36,040,332 | 0 | 36,040,332 | 0 | 36,040,332 | 3,130,817 | 39,171,149 | 8.7% |
| Total Executive Branch | \$5,923,863,262 | \$107,371,500 | \$6,031,234,762 | (\$117,985,500) | \$5,913,249,262 | \$498,408,401 | \$6,411,657,663 | 8.2% |
| 21 Legislature | \$34,191,830 | \$0 | \$34,191,830 | (\$50,000) | \$34,141,830 | \$1,340,437 | \$35,482,267 | 3.8% |
| 22 Judiciary | 70,493,724 | 3,871,585 | 74,365,309 | (3,871,585) | 70,493,724 | 6,064,104 | 76,557,828 | 8.6% |
| Total Legis. & Judic. | \$104,685,554 | \$3,871,585 | \$108,557,139 | -\$3,921,585 | \$104,635,554 | \$7,404,541 | \$112,040,095 | 7.0% |
| State Total | \$6,028,548,816 | \$111,243,085 | \$6,139,791,901 | (\$121,907,085) | \$6,017,884,816 | \$505,812,942 | \$6,523,697,758 | 8.2% |

Governor

| Agency Name | FY-2006 Appropriation | FY-2006 Supps. | FY-2006 Adj. Approp. | Less One-Time and Supps. | FY-2007 Base | FY-2007 Adj. | Recom. FY-2007 Approp. | % Diff. from FY- 2006 |
|-----------------------|--------------------------|----------------|-------------------------|-----------------------------|--------------------|-----------------|---------------------------|-----------------------------|
| 1 Governor | \$2,578,710 | \$0 | \$2,578,710 | \$0 | \$2,578,710 | \$50,490 | \$2,629,200 | 2.0% |
| Total Governor | \$2,578,710 | \$0 | \$2,578,710 | \$0 | \$2,578,710 | \$50,490 | \$2,629,200 | 2.0% |

Lieutenant Governor

| Agency Name | FY-2006 Appropriation | FY-2006 Supps. | FY-2006 Adj. Approp. | Less One-Time and Supps. | FY-2007 Base | FY-2007 Adj. | Recom. FY-2007 Approp. | % Diff. from FY- 2006 |
|------------------------------|--------------------------|----------------|-------------------------|-----------------------------|------------------|-----------------|---------------------------|-----------------------------|
| 1 Lieutenant Governor | \$592,436 | \$0 | \$592,436 | \$0 | \$592,436 | \$11,712 | \$604,148 | 2.0% |
| Total Lieutenant Gov. | \$592,436 | \$0 | \$592,436 | \$0 | \$592,436 | \$11,712 | \$604,148 | 2.0% |

Agriculture

| Agency Name | FY-2006 Appropriation | FY-2006 Supps. | FY-2006 Adj. Approp. | Less One-Time and Supps. | FY-2007 Base | FY-2007 Adj. | Recom. FY-2007 Approp. | % Diff. from FY- 2006 |
|--------------------------|--------------------------|--------------------|-------------------------|-----------------------------|---------------------|---------------------|---------------------------|-----------------------------|
| 1 Agriculture | \$27,196,069 | \$5,500,000 | \$32,696,069 | (\$6,400,000) | \$26,296,069 | \$10,963,516 | \$37,259,585 | 37.0% |
| 2 Conservation Comm | 9,803,928 | 0 | 9,803,928 | (2,400,000) | 7,403,928 | 602,880 | 8,006,808 | -18.3% |
| Total Agriculture | \$36,999,997 | \$5,500,000 | \$42,499,997 | (\$8,800,000) | \$33,699,997 | \$11,566,396 | \$45,266,393 | 22.3% |

FY-2007 Executive Budget

Commerce and Tourism

| Agency Name | FY-2006 Appropriation | FY-2006 Supps. | FY-2006 Adj. Approp. | Less One-Time and Supps. | FY-2007 Base | FY-2007 Adj. | Recom. FY-2007 Approp. | % Diff. from FY- 2006 |
|-------------------------------------|--------------------------|---------------------|-------------------------|-----------------------------|---------------------|--------------------|---------------------------|-----------------------------|
| 1 Centennial Commission | \$3,899,630 | \$16,000,000 | \$19,899,630 | (\$18,850,000) | \$1,049,630 | \$10,044 | \$1,059,674 | -72.8% |
| 2 Commerce, Department of | 24,179,663 | 2,000,000 | 26,179,663 | (4,000,000) | 22,179,663 | 3,043,202 | 25,222,865 | 4.3% |
| 3 Historical Society, Oklahoma | 13,106,387 | 0 | 13,106,387 | (200,000) | 12,906,387 | 832,672 | 13,739,059 | 4.8% |
| 4 J.M. Davis Memorial Comm | 347,454 | 0 | 347,454 | 0 | 347,454 | 10,104 | 357,558 | 2.9% |
| 5 Labor Department | 3,224,721 | 0 | 3,224,721 | 0 | 3,224,721 | 145,226 | 3,369,947 | 4.5% |
| 6 Scenic Rivers Commission | 323,041 | 0 | 323,041 | 0 | 323,041 | 14,651 | 337,692 | 4.5% |
| 7 Tourism & Recreation | 25,955,959 | 0 | 25,955,959 | (310,000) | 25,645,959 | 1,259,902 | 26,905,861 | 3.7% |
| 8 Will Rogers Memorial Comm | 830,679 | 0 | 830,679 | 0 | 830,679 | 263,243 | 1,093,922 | 31.7% |
| Total Commerce & Tourism | \$71,867,534 | \$18,000,000 | \$89,867,534 | (\$23,360,000) | \$66,507,534 | \$5,579,044 | \$72,086,578 | 0.3% |

Notes:

2. NACEA's appropriation included

Education

| Agency Name | FY-2006 Appropriation | FY-2006 Supps. | FY-2006 Adj. Approp. | Less One-Time and Supps. | FY-2007 Base | FY-2007 Adj. | Recom. FY-2007 Approp. | % Diff. from FY- 2006 |
|----------------------------------|--------------------------|--------------------|-------------------------|-----------------------------|------------------------|----------------------|---------------------------|-----------------------------|
| 1 Arts Council | \$4,243,338 | \$0 | \$4,243,338 | \$0 | \$4,243,338 | \$269,015 | \$4,512,353 | 6.3% |
| 2 CareerTech | 130,287,358 | 0 | 130,287,358 | 0 | 130,287,358 | 14,411,232 | 144,698,590 | 11.1% |
| 3 Educational TV Auth., Oklahoma | 4,624,059 | 0 | 4,624,059 | 0 | 4,624,059 | 514,408 | 5,138,467 | 11.1% |
| 4 Education, Dept. of | 2,164,263,450 | 0 | 2,164,263,450 | 0 | 2,164,263,450 | 157,398,010 | 2,321,661,460 | 7.3% |
| 5 Higher Educ., Regents for | 889,433,880 | 4,600,000 | 894,033,880 | (4,600,000) | 889,433,880 | 85,496,218 | 974,930,098 | 9.6% |
| 6 Libraries, Dept. of | 6,681,355 | 0 | 6,681,355 | 0 | 6,681,355 | 303,743 | 6,985,098 | 4.5% |
| 7 Private Vo-Tech Schools, Bd of | 171,879 | 0 | 171,879 | 0 | 171,879 | (171,879) | 0 | -100.0% |
| 8 School of Science & Math | 7,020,513 | 0 | 7,020,513 | 0 | 7,020,513 | 406,576 | 7,427,089 | 5.8% |
| 9 Teacher Prep, Commission for | 2,022,875 | 0 | 2,022,875 | 0 | 2,022,875 | 14,899 | 2,037,774 | 0.7% |
| Total Education | \$3,208,748,707 | \$4,600,000 | \$3,213,348,707 | (\$4,600,000) | \$3,208,748,707 | \$258,642,223 | \$3,467,390,930 | 8.1% |

Energy

| Agency Name | FY-2006 Appropriation | FY-2006 Supps. | FY-2006 Adj. Approp. | Less One-Time and Supps. | FY-2007 Base | FY-2007 Adj. | Recom. FY-2007 Approp. | % Diff. from FY- 2006 |
|--------------------------|--------------------------|----------------|-------------------------|-----------------------------|---------------------|------------------|---------------------------|-----------------------------|
| 1 Corporation Commission | \$12,354,190 | \$0 | \$12,354,190 | \$0 | \$12,354,190 | \$283,664 | \$12,637,854 | 2.3% |
| 2 Mines, Department of | 849,165 | 0 | 849,165 | 0 | 849,165 | 37,974 | 887,139 | 4.5% |
| Total Energy | \$13,203,355 | \$0 | \$13,203,355 | \$0 | \$13,203,355 | \$321,637 | \$13,524,992 | 2.4% |

Environment

| Agency Name | FY-2006 Appropriation | FY-2006 Supps. | FY-2006 Adj. Approp. | Less One-Time and Supps. | FY-2007 Base | FY-2007 Adj. | Recom. FY-2007 Approp. | % Diff. from FY- 2006 |
|-----------------------------------|--------------------------|----------------|-------------------------|-----------------------------|---------------------|------------------|---------------------------|-----------------------------|
| 1 Environmental Quality, Dept. of | \$8,166,580 | \$0 | \$8,166,580 | \$0 | \$8,166,580 | \$491,748 | \$8,658,328 | 6.0% |
| 2 Water Resources Board | 4,973,896 | 0 | 4,973,896 | (\$600,000) | 4,373,896 | 122,615 | 4,496,511 | -9.6% |
| 3 Water Resources - REAP | 2,200,000 | 0 | 2,200,000 | 0 | 2,200,000 | 0 | 2,200,000 | 0.0% |
| Total Environment | \$15,340,476 | \$0 | \$15,340,476 | (\$600,000) | \$14,740,476 | \$614,362 | \$15,354,838 | 0.1% |

Finance and Revenue

| Agency Name | FY-2006 Appropriation | FY-2006 Supps. | FY-2006 Adj. Approp. | Less One-Time and Supps. | FY-2007 Base | FY-2007 Adj. | Recom. FY-2007 Approp. | % Diff. from FY- 2006 |
|----------------------------------|--------------------------|---------------------|-------------------------|-----------------------------|----------------------|--------------------|---------------------------|-----------------------------|
| 1 Auditor & Inspector | \$5,988,786 | \$0 | \$5,988,786 | \$0 | \$5,988,786 | \$244,738 | \$6,233,524 | 4.1% |
| 2 Auditor & Inspector - REAP | \$15,500,000 | 0 | 15,500,000 | 0 | 15,500,000 | 0 | 15,500,000 | 0.0% |
| 3 Bond Advisor, State | 181,212 | 0 | 181,212 | 0 | 181,212 | 7,278 | 188,490 | 4.0% |
| 4 Consumer Credit Commission | 637,925 | 0 | 637,925 | 0 | 637,925 | 20,603 | 658,528 | 3.2% |
| 5 Finance, Office of State | 22,756,515 | 0 | 22,756,515 | 0 | 22,756,515 | 490,146 | 23,246,661 | 2.2% |
| 6 Insurance Department | 2,231,595 | 0 | 2,231,595 | 0 | 2,231,595 | 169,204 | 2,400,799 | 7.6% |
| 7 Land Office, Commissioners | 4,719,497 | 0 | 4,719,497 | 0 | 4,719,497 | 88,762 | 4,808,259 | 1.9% |
| 8 Lottery Commission | 0 | 0 | 0 | 0 | 0 | 0 | 0 | |
| 9 Tax Commission | 45,626,291 | 38,000,000 | 83,626,291 | (38,000,000) | 45,626,291 | 3,156,551 | 48,782,842 | 6.9% |
| 10 Treasurer | 4,524,498 | 0 | 4,524,498 | 0 | 4,524,498 | 81,903 | 4,606,401 | 1.8% |
| Total Finance and Revenue | \$102,166,319 | \$38,000,000 | \$140,166,319 | (\$38,000,000) | \$102,166,319 | \$4,259,186 | \$106,425,505 | 4.2% |

Health

| Agency Name | FY-2006 Appropriation | FY-2006 Supps. | FY-2006 Adj. Approp. | Less One-Time and Supps. | FY-2007 Base | FY-2007 Adj. | Recom. FY-2007 Approp. | % Diff. from FY- 2006 |
|-------------------------------|--------------------------|-----------------|-------------------------|-----------------------------|----------------------|---------------------|---------------------------|-----------------------------|
| 1 Health Care Authority | \$634,786,355 | \$0 | \$634,786,355 | \$0 | \$634,786,355 | \$59,445,454 | \$694,231,809 | 9.4% |
| 2 Health Department | 62,790,819 | 0 | 62,790,819 | 0 | 62,790,819 | 6,638,545 | 69,429,364 | 10.6% |
| 3 Mental Health Department | 171,810,647 | 0 | 171,810,647 | 0 | 171,810,647 | 15,865,820 | 187,676,467 | 9.2% |
| 4 Nursing Home Admin.'s Board | 0 | 75,000 | 75,000 | (75,000) | 0 | 100,000 | 100,000 | |
| Total Health | \$869,387,821 | \$75,000 | \$869,462,821 | (\$75,000) | \$869,387,821 | \$82,049,819 | \$951,437,640 | 9.4% |

Human Resources and Administration

| Agency Name | FY-2006 Appropriation | FY-2006 Supps. | FY-2006 Adj. Approp. | Less One-Time and Supps. | FY-2007 Base | FY-2007 Adj. | Recom. FY-2007 Approp. | % Diff. from FY- 2006 |
|---|--------------------------|----------------|-------------------------|-----------------------------|---------------------|------------------|---------------------------|-----------------------------|
| 1 Central Services, Dept. of | \$12,263,035 | \$0 | \$12,263,035 | \$0 | \$12,263,035 | \$557,463 | \$12,820,498 | 4.5% |
| 2 Horse Racing Commission | 2,360,889 | 0 | 2,360,889 | 0 | 2,360,889 | 170,592 | 2,531,481 | 7.2% |
| 3 Human Rights Commission | 686,563 | 0 | 686,563 | 0 | 686,563 | 14,078 | 700,641 | 2.1% |
| 4 Merit Protection Commission | 565,684 | 0 | 565,684 | 0 | 565,684 | 6,678 | 572,362 | 1.2% |
| 5 Personnel Management, Office of | 4,633,249 | 0 | 4,633,249 | 0 | 4,633,249 | 129,307 | 4,762,556 | 2.8% |
| Total Human Resources and Administration | \$20,509,420 | \$0 | \$20,509,420 | \$0 | \$20,509,420 | \$878,118 | \$21,387,538 | 4.3% |

Human Services

| Agency Name | FY-2006 Appropriation | FY-2006 Supps. | FY-2006 Adj. Approp. | Less One-Time and Supps. | FY-2007 Base | FY-2007 Adj. | Recom. FY-2007 Approp. | % Diff. from FY- 2006 |
|-------------------------------------|--------------------------|--------------------|-------------------------|-----------------------------|----------------------|---------------------|---------------------------|-----------------------------|
| 1 Children & Youth, Commission | \$1,725,018 | \$0 | \$1,725,018 | \$0 | \$1,725,018 | \$326,001 | \$2,051,019 | 18.9% |
| 2 Handicapped Concerns, Office of | 376,944 | 0 | 376,944 | (4,000) | 372,944 | 19,368 | 392,312 | 4.1% |
| 3 Human Services, Department of | 481,991,177 | 5,391,000 | 487,382,177 | (5,391,000) | 481,991,177 | 32,214,679 | 514,205,856 | 6.7% |
| 4 Indian Affairs Commission | 255,530 | 0 | 255,530 | 0 | 255,530 | 1,750 | 257,280 | 0.7% |
| 5 J.D. McCarty Center | 3,792,283 | 0 | 3,792,283 | 0 | 3,792,283 | 292,549 | 4,084,832 | 7.7% |
| 6 Juvenile Affairs, Office of | 98,323,348 | 0 | 98,323,348 | (425,000) | 97,898,348 | 7,542,193 | 105,440,541 | 7.2% |
| 7 Physician Manpower Training | 5,361,490 | 0 | 5,361,490 | 0 | 5,361,490 | 147,148 | 5,508,638 | 2.7% |
| 8 Rehabilitation Services, Dept. of | 27,365,925 | 0 | 27,365,925 | 0 | 27,365,925 | 2,295,645 | 29,661,570 | 8.4% |
| 9 University Hospitals Authority | 40,549,342 | 0 | 40,549,342 | 0 | 40,549,342 | 125,000 | 40,674,342 | 0.3% |
| Total Human Services | \$659,741,057 | \$5,391,000 | \$665,132,057 | (\$5,820,000) | \$659,312,057 | \$42,964,331 | \$702,276,388 | 6.4% |

FY-2007 Executive Budget

Military Affairs

| Agency Name | FY-2006 Appropriation | FY-2006 Supps. | FY-2006 Adj. Approp. | Less One-Time and Supps. | FY-2007 Base | FY-2007 Adj. | Recom. FY-2007 Approp. | % Diff. from FY- 2006 |
|-----------------------|--------------------------|----------------|-------------------------|-----------------------------|---------------------|------------------|---------------------------|-----------------------------|
| 1 Military Department | \$12,546,432 | \$0 | \$12,546,432 | (\$250,000) | \$12,296,432 | \$550,134 | \$12,846,566 | 2.4% |
| Total Military | \$12,546,432 | \$0 | \$12,546,432 | (\$250,000) | \$12,296,432 | \$550,134 | \$12,846,566 | 2.4% |

Safety and Security

| Agency Name | FY-2006 Appropriation | FY-2006 Supps. | FY-2006 Adj. Approp. | Less One-Time and Supps. | FY-2007 Base | FY-2007 Adj. | Recom. FY-2007 Approp. | % Diff. from FY- 2006 |
|-------------------------------------|--------------------------|---------------------|-------------------------|-----------------------------|----------------------|---------------------|---------------------------|-----------------------------|
| 1 A.B.L.E. Commission | \$3,738,839 | \$0 | \$3,738,839 | \$0 | \$3,738,839 | \$69,712 | \$3,808,551 | 1.9% |
| 2 Attorney General | 11,286,462 | 350,000 | 11,636,462 | (350,000) | 11,286,462 | 917,434 | 12,203,896 | 8.1% |
| 3 Corrections, Department of | 409,443,403 | 21,000,000 | 430,443,403 | (21,000,000) | 409,443,403 | 41,618,391 | 451,061,794 | 10.2% |
| 4 District Attorneys Council | 30,592,742 | 0 | 30,592,742 | 0 | 30,592,742 | 1,032,565 | 31,625,307 | 3.4% |
| 5 State Emergency Fund | 0 | 12,000,000 | 12,000,000 | (12,000,000) | 0 | 0 | 0 | n/a |
| 6 Emergency Mgmt | 1,355,561 | 0 | 1,355,561 | (654,000) | 701,561 | 15,993 | 717,554 | -47.1% |
| 7 Fire Marshal | 1,685,180 | 0 | 1,685,180 | 0 | 1,685,180 | 4,184,397 | 5,869,577 | 248.3% |
| 8 Indigent Defense System | 15,633,001 | 0 | 15,633,001 | 0 | 15,633,001 | 237,142 | 15,870,143 | 1.5% |
| 9 Investigation, Bureau of | 11,154,628 | 455,500 | 11,610,128 | (455,500) | 11,154,628 | 2,307,234 | 13,461,862 | 20.7% |
| 10 Law Enf. Educ. & Training | 2,758,783 | 0 | 2,758,783 | 0 | 2,758,783 | 1,264,227 | 4,023,010 | 45.8% |
| 11 Medicolegal Investigations Board | 3,922,904 | 0 | 3,922,904 | 0 | 3,922,904 | 597,668 | 4,520,572 | 15.2% |
| 12 Narc. & Dang. Drugs Control | 5,389,595 | 0 | 5,389,595 | (21,000) | 5,368,595 | 1,280,207 | 6,648,802 | 23.4% |
| 13 Pardon & Parole Board | 2,316,329 | 0 | 2,316,329 | 0 | 2,316,329 | 53,692 | 2,370,021 | 2.3% |
| 14 Public Safety Department | 78,887,770 | 2,000,000 | 80,887,770 | (2,000,000) | 78,887,770 | 5,690,942 | 84,578,712 | 7.2% |
| Total Safety and Security | \$578,165,197 | \$35,805,500 | \$613,970,697 | (\$36,480,500) | \$577,490,197 | \$59,269,603 | \$636,759,800 | 10.1% |

Science and Technology

| Agency Name | FY-2006 Appropriation | FY-2006 Supps. | FY-2006 Adj. Approp. | Less One-Time and Supps. | FY-2007 Base | FY-2007 Adj. | Recom. FY-2007 Approp. | % Diff. from FY- 2006 |
|--------------------------------|--------------------------|----------------|-------------------------|-----------------------------|---------------------|---------------------|---------------------------|-----------------------------|
| 1 Center for Adv. /Sc. & Tech. | \$12,400,942 | \$0 | \$12,400,942 | \$0 | \$12,400,942 | \$10,035,824 | \$22,436,766 | 80.9% |
| Total Science and Tech. | \$12,400,942 | \$0 | \$12,400,942 | \$0 | \$12,400,942 | \$10,035,824 | \$22,436,766 | 80.9% |

Secretary of State

| Agency Name | FY-2006 Appropriation | FY-2006 Supps. | FY-2006 Adj. Approp. | Less One-Time and Supps. | FY-2007 Base | FY-2007 Adj. | Recom. FY-2007 Approp. | % Diff. from FY- 2006 |
|-----------------------------------|--------------------------|----------------|-------------------------|-----------------------------|--------------------|--------------------|---------------------------|-----------------------------|
| 1 Election Board | \$6,621,839 | \$0 | \$6,621,839 | \$0 | \$6,621,839 | \$2,256,653 | \$8,878,492 | 34.1% |
| 2 Ethics Commission, Okla. | 492,277 | 0 | 492,277 | 0 | 492,277 | 9,332 | 501,609 | 1.9% |
| 3 Judicial Complaints, Council on | 278,826 | 0 | 278,826 | 0 | 278,826 | 1,185 | 280,011 | 0.4% |
| 4 Secretary of State | 510,184 | 0 | 510,184 | 0 | 510,184 | 12,905 | 523,089 | 2.5% |
| Total Secretary of State | \$7,903,126 | \$0 | \$7,903,126 | \$0 | \$7,903,126 | \$2,280,074 | \$10,183,200 | 28.9% |

Transportation

| Agency Name | FY-2006 Appropriation | FY-2006 Supps. | FY-2006 Adj. Approp. | Less One-Time and Supps. | FY-2007 Base | FY-2007 Adj. | Recom. FY-2007 Approp. | % Diff. from FY- 2006 |
|---------------------------------|--------------------------|----------------|-------------------------|-----------------------------|----------------------|---------------------|---------------------------|-----------------------------|
| 1 Space Industry Development | \$523,264 | \$0 | \$523,264 | \$0 | \$523,264 | \$3,138 | \$526,402 | 0.6% |
| 2 Transportation, Department of | 275,148,137 | 0 | 275,148,137 | 0 | 275,148,137 | 16,201,494 | 291,349,631 | 5.9% |
| Total Transportation | \$275,671,401 | \$0 | \$275,671,401 | \$0 | \$275,671,401 | \$16,204,632 | \$291,876,033 | 5.9% |

Veterans Affairs

| Agency Name | FY-2006 Appropriation | FY-2006 Supps. | FY-2006 Adj. Approp. | Less One-Time and Supps. | FY-2007 Base | FY-2007 Adj. | Recom. FY-2007 Approp. | % Diff. from FY- 2006 |
|-----------------------------------|--------------------------|----------------|-------------------------|-----------------------------|---------------------|--------------------|---------------------------|-----------------------------|
| 1 Veterans Affairs, Department of | \$36,040,332 | \$0 | \$36,040,332 | \$0 | \$36,040,332 | \$3,130,817 | \$39,171,149 | 8.7% |
| Total Veterans | \$36,040,332 | \$0 | \$36,040,332 | \$0 | \$36,040,332 | \$3,130,817 | \$39,171,149 | 8.7% |

Legislature

| Agency Name | FY-2006 Appropriation | FY-2006 Supps. | FY-2006 Adj. Approp. | Less One-Time and Supps. | FY-2007 Base | FY-2007 Adj. | Recom. FY-2007 Approp. | % Diff. from FY- 2006 |
|------------------------------|--------------------------|----------------|-------------------------|-----------------------------|---------------------|--------------------|---------------------------|-----------------------------|
| 1 House of Representatives | \$18,629,154 | \$0 | \$18,629,154 | \$0 | \$18,629,154 | \$901,413 | \$19,530,567 | 4.8% |
| 2 Legislative Service Bureau | 2,415,783 | 0 | 2,415,783 | (50,000) | 2,365,783 | 38,680 | 2,404,463 | -0.5% |
| 3 Senate | 13,146,893 | 0 | 13,146,893 | 0 | 13,146,893 | 400,344 | 13,547,237 | 3.0% |
| Total Legislature | \$34,191,830 | \$0 | \$34,191,830 | (\$50,000) | \$34,141,830 | \$1,340,437 | \$35,482,267 | 3.8% |

Judiciary

| Agency Name | FY-2006 Appropriation | FY-2006 Supps. | FY-2006 Adj. Approp. | Less One-Time and Supps. | FY-2007 Base | FY-2007 Adj. | Recom. FY-2007 Approp. | % Diff. from FY- 2006 |
|-------------------------------|--------------------------|--------------------|-------------------------|-----------------------------|---------------------|--------------------|---------------------------|-----------------------------|
| 1 Court of Criminal Appeals | \$2,828,160 | \$0 | \$2,828,160 | \$0 | \$2,828,160 | \$154,616 | \$2,982,776 | 5.5% |
| 2 District Courts | 47,300,000 | 3,871,585 | 51,171,585 | (3,871,585) | 47,300,000 | 4,912,316 | 52,212,316 | 10.4% |
| 3 Supreme Court | 16,000,000 | 0 | 16,000,000 | 0 | 16,000,000 | 700,277 | 16,700,277 | 4.4% |
| 4 Workers' Compensation Court | 4,365,564 | 0 | 4,365,564 | 0 | 4,365,564 | 296,895 | 4,662,459 | 6.8% |
| Total Judiciary | \$70,493,724 | \$3,871,585 | \$74,365,309 | (\$3,871,585) | \$70,493,724 | \$6,064,104 | \$76,557,828 | 8.6% |

Notes:

2 The District Courts' appropriation includes income to the State Judicial Revolving Fund.

FY-2007 Budget Recommendations

Expenditure Proposals

Governor
Lieutenant Governor
Agriculture
Commerce and Tourism
Education
Energy
Environment
Finance and Revenue
Health
Human Resources and Administration
Human Services
Military Affairs
Safety and Security
Science and Technology Development
Secretary of State
Transportation
Veterans Affairs
Legislature
Judiciary

Governor

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.

The Governor presides over or is a member of the following state boards and commissions:

- State Board of Equalization (Article 10, Section 21)
- Interstate Oil Compact (52 O.S. 201)
- Oklahoma Historical Society (53 O.S. 1.6)
- School Land Commission (64 O.S. 156)
- Capital Improvement Authority (73 O.S. 98.2)

- Oklahoma Capitol Complex Centennial Commission (73 O.S. 98.2)
- Transportation Commission (69 O.S. 302)
- Educational Commission (70 O.S. 506.1)
- Commissioners of the Land Office (70 O.S. 611)
- Southern Regional Educational Compact (70 O.S. 2127)
- Oklahoma Transportation Authority (69 O.S. 1703)
- Indian Affairs Commission (74 O.S. 1201)
- Southern Growth Policy Board (74 O.S. 3501)
- Contingency Review Board (74 O.S. 1201)

FY-2007 Recommendation

| FY-2007 Appropriation | |
|--|----------------|
| <i>(amounts in thousands)</i> | |
| FY-2006 Appropriation | \$2,579 |
| FY-2006 Bud. FTE Level | 35.4 |
| Actual Ave. YTD FTE | 34.6 |
| Funding Adjustments: | |
| State Employee Pay Increase | 50 |
| FY-2007 Recommendation | \$2,629 |
| % Change from FY-2006 | 1.96% |
| <small>Source: Office of State Finance</small> | |

State Employee Pay Increase

The Governor’s budget includes \$50,490 for a 3% state employee pay increase for Governor’s Office. This funding is based on December 2005 salary information.

Lieutenant Governor

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 8 state boards and commissions:

- State Insurance Fund (CompSource)
85 O.S. 131(A)(2)
- Tourism and Recreation Commission
74 O.S. 1804)
- State Board of Equalization
68 O.S. 2864 (A)
- School Land Commission
64 O.S. 1
- Oklahoma Linked Deposit Board
62 O.S. 88.3 (A)(2)
- Capital Improvement Authority
- Native American Cultural and Education Authority (ex-officio member)
74 O.S. 1226.2 (B)(2)
- Oklahoma Capitol Complex Centennial Commission 73 O.S. 98.2 (A)

FY-2007 Recommendation

| FY-2007 Appropriation | |
|--|--------------|
| <i>(amounts in thousands)</i> | |
| FY-2006 Appropriation | \$592 |
| FY-2006 Bud. FTE Level | 9.0 |
| Actual Ave. YTD FTE | 8.4 |
| Funding Adjustments: | |
| State Employee Pay Increase | <u>12</u> |
| FY-2007 Recommendation | \$604 |
| % Change from FY-2006 | 1.98% |
| <small>Source: Office of State Finance</small> | |

State Employee Pay Increase

The Governor's budget includes \$11,712 for a 3% state employee pay increase for Lieutenant Governor's office. This funding is based on December 2005 salary information.

Agriculture

**Agriculture, Food and Forestry Department
Boll Weevil Eradication Organization
Conservation Commission**

Agriculture

Summary of FY-2007 Budget Recommendations

| Agency Name | FY-2006 Adj. Approp. | FY-2007 Base | FY-2007 Adj. | Final FY-2007 Appr. | % Diff. from FY- 2006 |
|--------------------------|---------------------------------|---------------------|---------------------|--------------------------------|--------------------------------------|
| Agriculture | \$32,696,069 | \$26,296,069 | \$10,963,516 | \$37,259,585 | 14.0% |
| Conservation Commission | 9,803,928 | 7,403,928 | 602,880 | 8,006,808 | -18.3% |
| Total Agriculture | \$42,499,997 | \$33,699,997 | \$11,566,396 | \$45,266,393 | 6.5% |

Department of Agriculture, Food and Forestry (ODAFF)

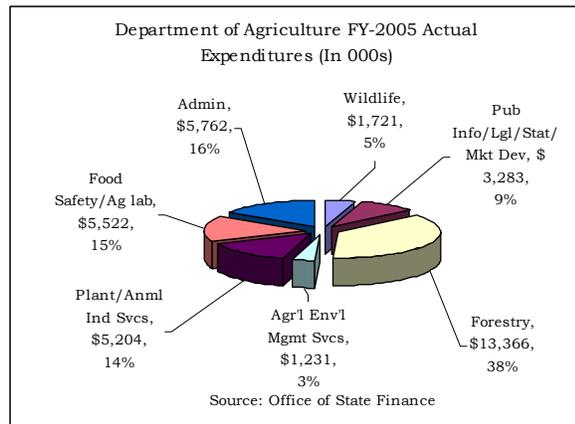
Notable Achievements

- Oklahoma has remained in a Brucellosis free status since April 2001.
- Oklahoma has remained in a Bovine Tuberculosis free status since December of 1998.
- No major food borne outbreak has occurred in the state of Oklahoma during the past 2 years.

Mission

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-2005, state appropriated dollars were 67% of the Department's total funding. Forestry Services uses the biggest part of the funds with \$13.37 million for FY-2005.



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

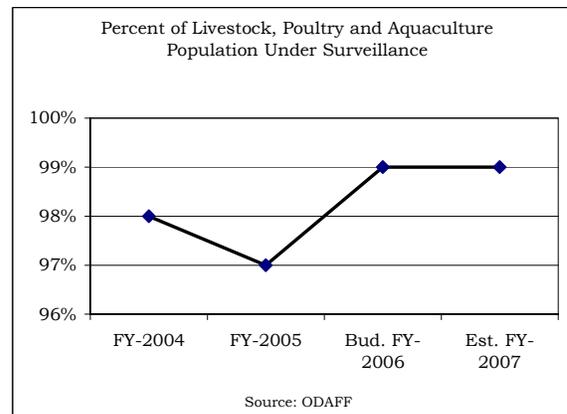
and aquaculture diseases such as mad cow disease and avian influenza, which can be deadly to humans. The Oklahoma Animal Disease Diagnostic Lab in Stillwater plays a big part in this responsibility by conducting various testing for the Department to determine if specimens are infected with diseases. Specific responsibilities of the Animal Industry Services Division include:

- detecting, controlling and eradicating livestock diseases in farms, ranches, auction markets, 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; and
- preventing the spread of diseases transmissible to man.

The following chart shows the Department's commitment to the control and prevention of diseases.

Key Performance Measure

Goal is to survey 100% to prevent the spread of livestock diseases



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

Wildfires

Wildfires have ravaged land in Oklahoma since late fall and winter, proving this to be a very dangerous time for the state. Since November 2005, over 1,600 fires have been reported across the state and are responsible for burning over 425,000 acres and more than 230 homes and businesses. Conditions escalated in late December and have led to extreme fire danger alerts, a statewide burn ban and a disaster declaration from the federal government.

The fire danger is directly related to the unusual shortfall of rain that the state experienced for 2005. The state's average rainfall was ten inches below normal for 2005. Parts of southeastern Oklahoma were struck even harder by drought, falling below their usual average by more than 20 inches. This exacerbated conditions and has made it difficult for firefighters across the state to keep the fires under control.

The intense, seemingly nonstop fires have left fire departments and the Department of

Agriculture scrambling to manage and extinguish the fires. Several states, including Texas, New Mexico, Arkansas, Florida and others, have sent firefighters and equipment to assist Oklahoma with battling this disaster. Many of the state's rural fire departments are relying heavily on the state's operational grants to supplement their own resources to battle the blazes. The Governor is making it a top priority to secure adequate funding to continue to fight the fires and be better prepared for this kind of event in the future through Operation Firewall.

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 874 certified rural 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-2001.

| History of VFA Grants | | |
|-----------------------|------------|----------------|
| <u>Year</u> | <u>No.</u> | <u>Funding</u> |
| FY-2001 | 68 | 58,517 |
| FY-2002 | 132 | 250,530 |
| FY-2003 | 128 | 235,682 |
| FY-2004 | 90 | 175,088 |
| FY-2005 | 63 | 123,394 |
| Bud. FY-2006 | <u>98</u> | <u>249,793</u> |
| Total | 579 | \$1,093,004 |

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. Since FY-2001, at least \$2 million has been provided to fund these grants each year, with 850-875 grants being awarded per year.

| History of Operational Grants | | | |
|-------------------------------|------------|-------------------|------------------|
| <u>Year</u> | <u>No.</u> | <u>Per Entity</u> | <u>Funding</u> |
| 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 | 869 | 2,301 | 2,000,000 |
| FY-2005 | 874 | 2,288 | 2,000,000 |
| Bud. FY-2006 | <u>874</u> | <u>2,780</u> | <u>2,430,000</u> |
| Total | 5,189 | \$ 14,368 | \$12,430,000 |

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.

| History of 80/20 Grants | |
|-------------------------|-------------------|
| <u>Year</u> | <u>Funding</u> |
| FY-2001 | 3,209,000 |
| FY-2002 | 3,766,219 |
| FY-2003 | 5,321,097 |
| FY-2004 | \$ - |
| FY-2005 | \$ 800,000 |
| Bud. FY-2006 | <u>\$ 870,000</u> |
| Total | \$13,966,316 |

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-2001.

| Rural Fire Coord. Contracts | |
|-----------------------------|-------------------|
| <u>Year</u> | <u>Total Cost</u> |
| FY-2001 | 860,000 |
| FY-2002 | 860,000 |
| FY-2003 | 860,000 |
| FY-2004 | 860,000 |
| FY-2005 | 860,000 |
| Bud. FY-2006 | <u>860,000</u> |
| Total | \$5,160,000 |

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.

Forestry Services 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 Services funds 100% of the administration and operational costs of the program. During FY-2005, \$4.98 million worth of equipment was placed with departments.

| Year | No. | Est. Value |
|--------------|------------|------------------|
| FY-2001 | 438 | 6,386,568 |
| FY-2002 | 547 | 7,735,437 |
| FY-2003 | 145 | 2,899,028 |
| FY-2004 | 214 | 5,823,083 |
| FY-2005 | 186 | 4,977,314 |
| Bud. FY-2006 | <u>150</u> | <u>2,500,000</u> |
| Total | 1,680 | \$30,321,430 |

Source: ODAFF

Equipment Funding for Local Fire Departments

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

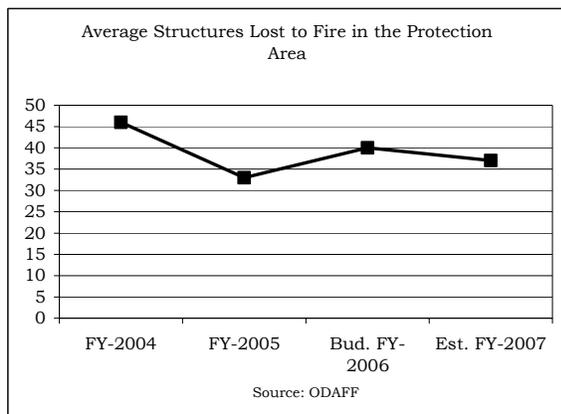
Surplus State Equipment

State wildfire fire-fighting units can loan surplus property to local fire departments. This equipment typically includes radios, tanks, pumps, backpack blowers, hose reels, etc.

The following graph shows the reduction in the ten-year average for structures lost to fire in the protection area.

Key Performance Measure

Goal is to reduce structures lost to fire



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 is taken where appropriate. Commercial pesticide applicators are trained, certified and companies are licensed;

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

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;
- Oklahoma State University for education and research on pollution prevention programs, pesticide applicators and pest survey.

ODAFF Agricultural Environmental Management Services (AEMS)

Over the past several years the number of Concentrated Animal Feeding Operations (CAFOs) and poultry operations has increased. In 1994 the number of licensed CAFOs was 184. By 2005 the number of

licensed CAFOs had reached 306 with an animal and bird capacity of 5,858,693. In 2001, there were 51 million chickens in Oklahoma and in 2005 there are 61.5 million.

The ODAFF AEMS 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 ODAFF Lab in Oklahoma City helps to accomplish this mission through its water quality and food safety testing.

The AEMS is responsible for implementing the Oklahoma Concentrated Animal Feeding Operations Act and the 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 AEMS performs is complaint resolution. The Oklahoma State Legislature places strong statutory requirements on investigations of environmental complaints and each agency must develop rules for the resolution of complaints. In response to the legislature, the AEMS implemented a complaint response system.

The ODAFF places complaint response and resolution among its highest priorities. Complaints help identify problems allowing the AEMS to direct resources to correct the pollution through its enforcement program.

The following table shows a recent history of the activities of the AEMS.

| CAFO and LMFO Activities | | | | |
|--------------------------|---------|---------|---------|---------|
| | FY-2002 | FY-2003 | FY-2004 | FY-2005 |
| Complaints Received | 175 | 165 | 255 | 224 |
| Complaints Closed | 224 | 197 | 270 | 247 |
| Routine Inspections | 1234 | 1036 | 2482 | 1974 |
| Complaint Follow-ups | 549 | 693 | 697 | 498 |
| Water Samples Collected | 1595 | 561 | 410 | 986 |
| Soil Samples Collected | | 438 | 190 | 40 |

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-2006 Supplemental

| FY-2006 Supplemental | |
|-------------------------------|-----------------|
| <i>(amounts in thousands)</i> | |
| FY-2006 Appropriation | \$27,196 |
| Supplemental: | |
| Supplemental Grants | 2,000 |
| Additional Operational Grants | 2,000 |
| Dept. of Ag. Fire Funds | <u>1,500</u> |
| Total Supplemental | 5,500 |
| Total FY-2006 App. | \$32,696 |
| % Change from orig. FY-2006 | 20.22% |

Source: Office of State Finance

FY-2006 Supplemental Funding

The Governor's budget proposes a FY-2006 supplemental appropriation to help the struggle with wildfires. The Department of Agriculture has announced that special grants are available for rural fire departments under the Extraordinary Fire Cost Recovery Program and the Governor's budget recommends \$2 million be appropriated for this use. These grants are up to \$2,500 and are available to the 874 qualifying rural fire departments to cover the increase in general operating expenditures incurred from July to December of 2005 when compared with the same time span in 2004.

The Governor's budget also includes appropriating an additional \$2 million for the rural fire operational grants which will provide an additional \$2,288 for each rural department. This amount is on top of the \$2,780 already received by each department for the fiscal year, for a total of \$5,068.

The Governor's budget proposes an additional supplemental appropriation of \$1.5 million to the Department of Agriculture for the firefighting expenses that the Department has incurred which include tanker water drops, cost of the out of state firefighters and fuel expenses. Additionally, the Department has an estimated \$1 million left from an appropriation for debt service payments that is not needed for FY-2006 that will provide coverage for more expenses. This will give the Department a total of \$2.5 million for its needs.

The FY-2007 appropriation for the Department of Agriculture is the same as provided for FY-2006 with the following adjustments.

Remove REAP Funding

The Governor's budget includes removing \$900,000 that was supplied from the REAP Water Projects Fund. This is a one-time funding source and included funds for livestock shows, housing improvement, animal control and rural fire operations. The Governor's budget provides funding for rural fire operations and animal control as described below.

Health and Safety FTE

The Governor's budget includes an increase in the amount of \$300,000 to provide funds to hire 7-9 FTEs that are directly related to the health and safety of Oklahoma's citizens. Wildland firefighters, food inspectors and feeding operation inspectors are a few examples of the positions that are needed. The food and feeding operation inspectors provide an invaluable health and safety function for the state. These positions provide additional help with monitoring the livestock operations around the state and detecting diseases such as mad cow in the animal population and food supply. Wildland firefighters are proving to be an extremely important asset at this particular time and will continue to be in the future.

Aerial Fire Suppression and Detection

The Governor's budget includes an increase of \$125,000 for aerial fire suppression and \$141,000 for aerial fire detection. These funds will be used to find fires before they have a chance to get too large and then combat them from the air where it is much safer.

Replace REAP Funding

The Governor's budget recommends replacing the \$150,000 that was supplied from the Gross Production REAP Water Projects Fund for predatory animal control for FY-2006 with general revenue. This is an ongoing operation of the Department.

FY-2007 Recommendation

| FY-2007 Appropriation | |
|-------------------------------|-----------------|
| <i>(amounts in thousands)</i> | |
| FY-2006 Total Approp. | \$27,196 |
| Remove REAP Funding | (900) |
| FY-2006 Base | \$26,296 |
| FY-2006 Bud. FTE Level | 483.5 |
| Actual Ave. YTD FTE | 444.7 |
| Funding Adjustments: | |
| Health and Safety FTE | 300 |
| Aerial Fire Suppress./Det. | 266 |
| Replace REAP Funds w/ GR | 150 |
| Rural Fire Oper.and 80/20 Gr. | 6,625 |
| Fire Eqmt. And Veh. Replmnt | 1,000 |
| Rural Fire Coordinators | 110 |
| USDA Ag. Grant to Langston | 2,000 |
| State Employee Pay Raise | 513 |
| Total Adjustments | \$10,964 |
| FY-2007 Recommendation | \$37,260 |
| \$ Change from FY-2006 | \$10,064 |
| % Change from FY-2006 | 37.01% |

Source: Office of State Finance

Rural Fire Operational and 80/20 Grants

The Governor's budget includes increasing the funding for the rural fire operational grants by \$2.125 million and the 80/20 (state/local) grants by \$4.5 million. The operational grants are disbursed equally to the state's rural fire departments and are used for basic operating expenses such as fuel costs, while the 80/20 grant funds are matched in part by local dollars and provide departments money to improve their equipment and stations. The rural fire operational grant increase will provide \$4,720 for each department for FY-2007, a substantial increase from the \$2,780 provided for FY-2006. The 80/20 grants will help rural departments purchase new equipment. Many of their vehicles are Federal Excess Equipment and date back to the 1980s and even 1970s.

Fire Equipment and Vehicle Replacement

The Governor's budget includes increasing the agency's funding by \$1 million for the purchase of fire equipment and vehicles. Having adequate, reliable equipment and vehicles is very important in responding to emergency situations. Fire tractors, fire engines, transport trucks and 4x4 pickup trucks are needed to effectively fight fires across the state. This new equipment will replace old worn out equipment that is up to 15 years old and has over 100,000 miles. While the mileage is not exceptionally high, many of the miles are logged off-road which creates substantially more wear and tear on vehicles.

Rural Fire Coordinators

The Governor's budget includes \$110,000 for rural fire coordinators. This money is needed so that the coordinators can continue providing adequate assistance to communities that need help with grants, equipment and training.

USDA Grant to Langston University

The Governor's budget includes \$2 million for Langston University to match federal funds to use for research and outreach programs. For 2007, the USDA will require a 100% state match for funds that the agency supplies to land grant universities. This money is needed for Langston to

continue receiving federal funds for research and cooperative extensions for programs such as animal production efficiency, agriculture, human nutrition, small farm programs and biotechnology.

State Employee Pay Raise

The Governor's budget includes \$512,516 for a 3% state employee pay increase for the Department of Agriculture, Food and Forestry. This funding is based on December 2005 salary information.

Boll Weevil Eradication Organization

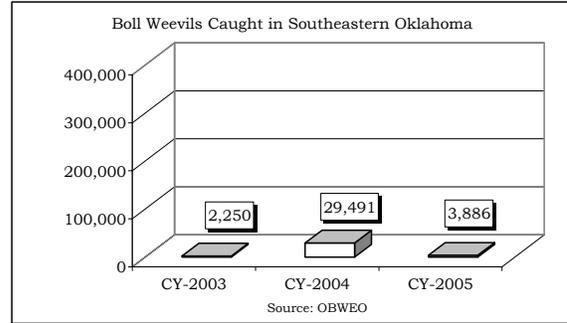
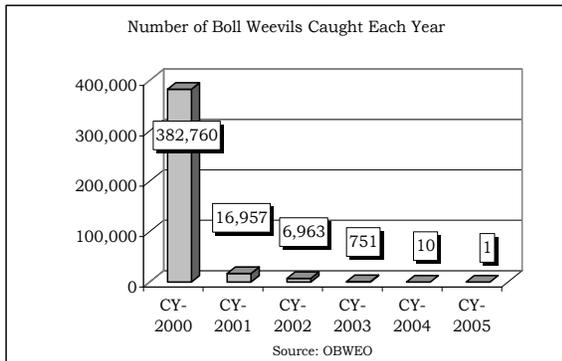
Notable Achievement

The Oklahoma Boll Weevil Eradication Organization (OBWEO) has reduced the boll weevil population by more than 99.99%.

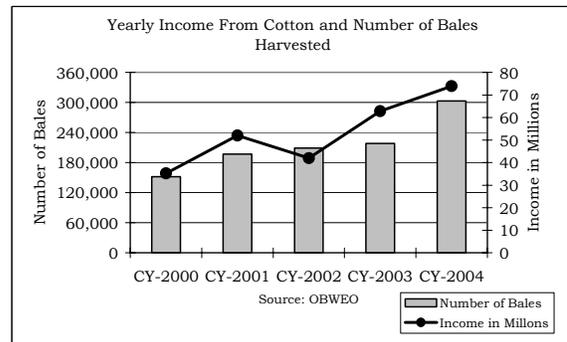
The total estimated cost to eradicate the boll weevil through 2008 is \$37.5 million dollars which includes payoff of all program debt. The industry will pay \$25.7 million, the State provided approximately \$4.2 million and federal funding will provide the balance of \$7.6 million. This equates to a cost of approximately \$18.63 per acre through the life of the active eradication program.

Cotton producers passed a referendum by a positive 88% vote to provide the industry funding in 1998. Producers pay an assessment of \$7.50 per acre and 1 cent per pound of cotton harvested and ginned each season. A post eradication maintenance and control program with a greatly reduced cost to producers is expected to begin being phased in during the 2007 growing season.

With the exception of two southeastern counties impacted by weevil migration from northeastern Texas, only one boll weevil was caught in all of Oklahoma during the 2005 growing season. Farmers continue to make a top crop, further improving yields because of reduced weevil pressure. The following chart shows boll weevil trapping data for the Oklahoma growing season, not including the two southeastern counties that sustained weevil migration from Texas.



Yearly income from cotton for 2000, 2001, 2002, 2003 and 2004 was \$35.2 million (152,000 bales), \$52 million (197,000 bales), \$42 million (209,000 bales), \$62.8 million (218,000 bales) and \$73.9 million (303,000 bales), respectively. The USDA estimates that 350,000 bales will be harvested for 2005.



For 2000-2002, the decrease in yearly income from the 1984-1999 average of \$58.9 million dollars was attributable primarily to lower market prices during a period when cotton production increased dramatically nationwide.

Increased production from 2000-2003 reflects an increase in yield rather than in acres. However, Oklahoma experienced an increase of 20% in acres planted for 2004 and 18.5% for 2005. The increase in bales produced compared to prior years can be attributed to an increase in acres planted, generally favorable rainfall and an aggressive boll weevil eradication effort throughout the state.

Conservation Commission

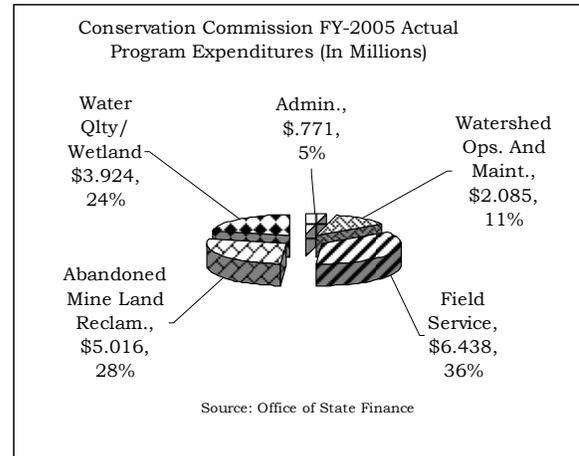
Notable Achievements

- *In cooperation with the USDA's Natural Resources Conservation Service (NRCS) and local conservation districts, obligated \$33.6 million in farm bill conservation program financial assistance funding to Oklahoma's land users.*
- *The rehabilitation of two upstream flood control dams was completed at cost of \$1.02 million in cooperation with NRCS and local conservation district sponsors. Construction contracts are in place to rehabilitate one other dam.*
- *Work was completed on the five year Beatty Creek water quality implementation project in the Lake Eucha watershed. The project was designed to reduce the amount of phosphorus entering the water. Ongoing monitoring has determined an initial 14 percent reduction in phosphorus.*
- *Work was completed on five projects that reclaimed 111 acres of abandoned coal mine land and five emergencies related to openings from collapsed underground mines were responded to and closed..*
- *Completed work on a \$7 million Emergency Watershed Program agreement from NRCS. The program allowed for the removal of debris from under county bridges and from creeks in 13 counties of west central and north central Oklahoma impacted by the 2002 ice storm.*

Mission

The Conservation Commission provides technical assistance, financial incentives and educational information through Oklahoma's 88 conservation districts to promote and sustain private land conservation, prevent flooding and protect the state's water resources. The state conservation cost share program, flood control dam operation, maintenance and rehabilitation and scarred land reclamation are integral and valuable components of this unique delivery system.

The Conservation Commission's largest funding source is federal funds. Federal funds totaled 56% of the Commission's FY-2005 funding. The chart below shows the total expenditures for FY-2005.



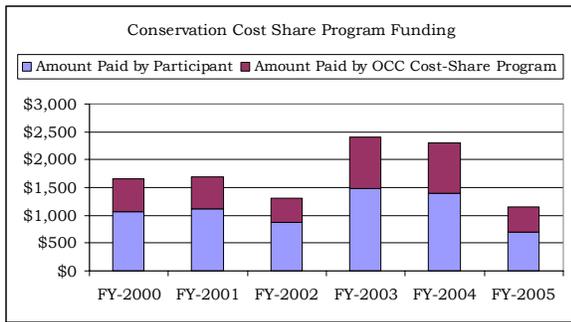
Cost-Share Program

The Conservation Cost-Share Program is a public-private partnership between the State and private land users. The program encourages implementation of best management conservation practices on Oklahoma lands. This aids in the reduction of soil erosion and the improvement of water quality. Since the program's inception in FY-1999, the program has received \$7.1 million in state appropriations. Of this amount, the Conservation Commission has allocated \$6.8 million to Oklahoma's 88 conservation districts for locally determined conservation priorities. The program has generated a \$6.63 million dollar investment by private landowners as well.

| | Amount to | |
|--------------|--------------------|--------------------|
| | Appropriation | Each District (88) |
| 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 |
| FY-2005 | 750,000 | 8,523 |
| FY-2006 | 400,000 | 4,545 |
| Total | \$7,135,000 | \$85,077 |

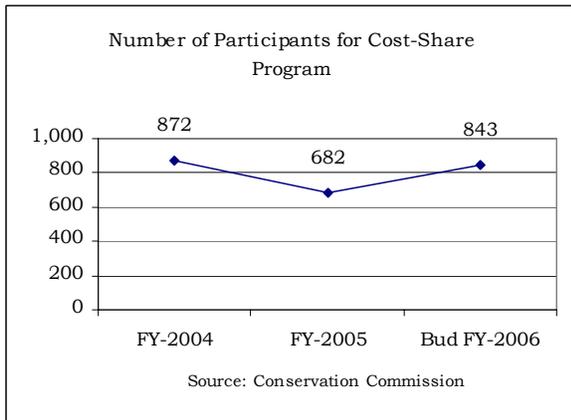
The Cost-Share Program's funding is shown in the following graph. The program

experiences ups and downs because it is a matching program that relies on state appropriations that vary from year to year.



Key Performance Measure

Goal is to improve and sustain soil quality through participation in Cost-Share Program



Conservation Reserve Enhancement Program

The Conservation Reserve Enhancement Program (CREP) is a joint buffer establishment conservation program between the state and federal government (20/80). This program targets addressing state and nationally significant agriculture-related environmental effects. Growing out of the USDA’s Conservation Reserve Program (CRP), CREP is a voluntary program that provides financial incentives to farmers and ranchers in order to protect streams. Producers enter into contracts (10 to 15 years in length) to set aside portions of their land to provide protective stream buffers. Participants in the program receive incentive payments and cost-share assistance for installing specific

conservation practices and establishing nutrient reducing stream buffers.

Watershed Rehabilitation

Since 1948 the federal government, through USDA’s Natural Resources Conservation Service (NRCS) has constructed 2,102 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 \$2.1 billion in present value and they provide \$71 million in flood protection benefits annually.

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 provide water resources for drinking water, recreation, agriculture, 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 NRCS to rehabilitate the nation’s upstream flood control dams. Congress appropriated \$10 million in 2002, \$30 million in 2003 and \$29.6 million in FY-2004. In FY-2005, the national appropriation for watershed rehabilitation was \$27.5 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 \$3 million 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.

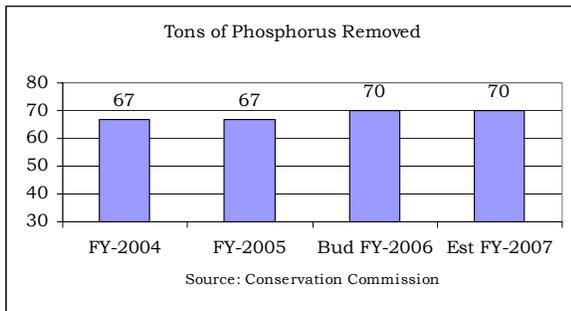
The NRCS, Conservation Commission and local district sponsors have completed eight rehabilitation projects. As of October 1, 2005, one other project is under construction. It is anticipated that one to three additional projects will be contracted during the remainder of FY-2006.

Federal 319 Grant for Nonpoint Source Pollution

FY-2005 federal funding from the Clean Water Act Section 319 for Oklahoma’s Nonpoint Source management program has declined compared to FY-2004 funding. The funds are used to implement targeted programs to abate water quality impacts from nonpoint source pollution.

Key Performance Measure

Goal is to reduce nonpoint source pollution

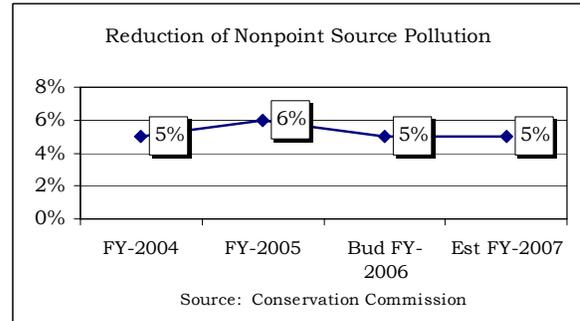


Federal funds must be matched with 40% state and local funds, much of which comes from the Commission’s Conservation Cost-Share Program. The Conservation Commission received an additional \$2.3 million in appropriations, as state match for federal “EPA 319 funds” to reduce nutrient impacts in the Beaty Creek, Illinois River, Lake Wister, Ft. Cobb, Stillwater Creek and Spavinaw Creek (except Beaty Creek) priority watersheds.

The table below shows the progress of the program in reducing the nonpoint source pollution in the top ten priority watersheds.

Key Performance Measure

Reduce nonpoint source pollution



The programs target sources of nonpoint source pollution include nutrients, agriculture, silviculture, rural unpaved roads, rural waste systems, non-regulated construction activities and stream bank destabilization. Ongoing and completed Priority Watershed Nonpoint Source Projects and the totals for best management practice implementation include:

- Beaty Creek Watershed (\$1.6 million) within the Lake Eucha Watershed completed in FY-2005;
- Illinois River Watershed (\$1.5 million) completed in FY-2005;
- Lake Wister Watershed (\$1.9 million) scheduled to be completed FY-2006;
- Fort Cobb Watershed (\$1.4 million);
- Stillwater Creek Watershed (\$.5 million);
- Spavinaw Creek Watershed (\$1.9 million) except for Beaty Creek; and
- Grand Lake Watershed – Phase I (\$.5 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;
- Development of a watershed restoration action strategy for the Grand Lake Watershed;
- Continuation of Statewide Blue Thumb Educational Programs; and
- Task coordination and management by the Office of the Secretary of Environment.

million for projects that were funded by the GP REAP Water Projects Fund.

Replace REAP Funds with GR

The Governor’s budget recommends replacing \$400,000 that was supplied by the GP REAP Water Projects Fund with general revenue. These funds were used for conservation district’s ongoing operations.

State Employee Pay Raise

The Governor’s budget includes \$79,298 for a 3% state employee pay increase for the Conservation Commission and \$123,581 for the 181 district employees. This funding is based on December 2005 salary information.

FY-2007 Recommendation for Gross Production REAP Water Projects Funds

CREP, Flood Control and Invasive Species

The Governor’s budget recommends that \$2.5 million be expended from the REAP Water Projects Fund for debt payments to finance \$28 million over fifteen years for conservation programs. The Conservation Commission will receive the funding for the following projects: \$10 million to establish the Conservation Reserve Enhancement Program in the Eucha Spavinaw, Illinois River, Cobb Creek and Sugar Creek watersheds, \$10 million for rehabilitation of flood control structures and \$8 million to eradicate invasive species such as red cedar.

Cost-Share Program

The Governor’s budget recommends that \$500,000 be expended from the REAP Water Projects Fund for the Cost-Share program. The program is a partnership between the state and private land owners aimed at encouraging implementation of conservation practices to aid in the prevention of soil erosion and improve water quality.

Federal 319 Grant Program

The Governor’s budget recommends that \$750,000 be expended from the REAP Water Projects Fund for the Federal 319 Grant for nonpoint source pollution. The program is a state/federal partnership and

FY-2007 Recommendation

| FY-2007 Appropriation | |
|--------------------------------------|----------------|
| <i>(amounts in thousands)</i> | |
| FY-2006 Appropriation | \$9,804 |
| Remove One Time GP REAP | (2,400) |
| FY-2006 Base | \$7,404 |
| FY-2006 Bud. FTE Level | 57.9 |
| Actual Ave. YTD FTE | 58.3 |
| Funding Adjustments: | |
| Replace REAP Funds w/ GR | 400 |
| State Employee Pay Raise | 203 |
| Total Adjustments | 603 |
| FY-2007 Recommendation | \$8,007 |
| \$ Change from FY-2006 | (\$1,797) |
| % Change from FY-2006 | -18.33% |
| FY-2007 Water Proj. Fund Rec. | \$3,750 |

Source: Office of State Finance

The FY-2007 appropriation for the Conservation Commission is the same as provided for FY-2006 with the following adjustments.

Remove One-Time GP REAP

The Governor’s budget recommends reducing the agency’s appropriation by \$2.4

funding will help abate water quality problems in Oklahoma's watersheds stemming from nonpoint sources such as agriculture and rural waste systems.

Commerce and Tourism

**Capitol Complex and Centennial Commemoration
Commission
Commerce Department
Oklahoma Historical Society
J. M. Davis Memorial Commission
Labor Department
Native American Cultural and Educational Authority
REAP Program
Oklahoma Employment Security Commission
Oklahoma Scenic Rivers Commission
Oklahoma Department of Tourism and Recreation
Will Rogers Memorial Commission**

Commerce and Tourism

Summary of FY-2007 Budget Recommendations

| Agency Name | FY-2006 Adj. Approp. | FY-2007 Base | FY-2007 Adj. | Final FY-2007 Appr. | % Diff. from FY- 2006 |
|-----------------------------------|-------------------------|---------------------|--------------------|------------------------|-----------------------------|
| Centennial Commission | \$19,899,630 | \$1,049,630 | \$10,044 | \$1,059,674 | -94.7% |
| Commerce, Department of | 26,179,663 | 22,179,663 | 3,043,202 | 25,222,865 | -3.7% |
| Historical Society, Oklahoma | 13,106,387 | 12,906,387 | 832,672 | 13,739,059 | 4.8% |
| J.M. Davis Memorial Comm | 347,454 | 347,454 | 10,104 | 357,558 | 2.9% |
| Labor Department | 3,224,721 | 3,224,721 | 145,226 | 3,369,947 | 4.5% |
| Scenic Rivers Commission | 323,041 | 323,041 | 14,651 | 337,692 | 4.5% |
| Tourism & Recreation | 25,955,959 | 25,645,959 | 1,259,902 | 26,905,861 | 3.7% |
| Will Rogers Memorial Comm | 830,679 | 830,679 | 263,243 | 1,093,922 | 31.7% |
| Total Commerce and Tourism | \$89,867,534 | \$66,507,534 | \$5,579,044 | \$72,086,578 | -19.8% |

Oklahoma Capitol Complex and Centennial Commemoration Commission

Notable Achievements

- In 2005, Oklahoma became the first state to be represented in the Macy's Thanksgiving Day Parade. The float will appear again in the 2006 and 2007 parade. The state will also have two floats at the Tournament of Roses Parade on Jan. 1, 2007.
- The nation's post offices will offer a commemorative stamp for 2007 in celebration of Oklahoma's centennial.
- Work on the Oklahoma Land Run Monument continues. At completion, it will be comprised of 46 heroic size bronze pieces and will form one of the longest bronze monuments in the world. Twelve pieces are complete thus far.
- Over 50 centennial projects have been completed statewide.

Mission

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

FY-2006 Supplemental

| FY-2006 Supplemental | |
|-------------------------------|-----------------|
| <i>(amounts in thousands)</i> | |
| FY-2006 Appropriation | \$3,900 |
| Supplemental: | |
| Centennial Projects | <u>16,000</u> |
| Total FY-2006 App. | \$19,900 |
| % Change from orig. FY-2006 | 410.26% |

Source: Office of State Finance

The Governor's budget includes providing a supplemental appropriation of \$16 million for FY-2006 for Centennial projects. The funds shall be allocated with \$4 million to Tulsa projects (including \$1 million to the Tulsa Historical Society), \$4 million to Oklahoma City projects and \$8 million for the four quadrants of the state.

FY-2007 Recommendation

| FY-2007 Appropriation | |
|-------------------------------|----------------|
| <i>(amounts in thousands)</i> | |
| FY-2006 Total Approp. | \$3,900 |
| Remove One Time Funds | <u>(2,850)</u> |
| FY-2006 Base | \$1,050 |
| FY-2006 Bud. FTE Level | 7.0 |
| Actual Ave. YTD FTE | 6.9 |
| Funding Adjustments: | |
| State Employee Pay Raise | <u>10</u> |
| FY-2007 Recommendation | \$1,060 |
| % Change from FY-2006 | -72.82% |

Source: Office of State Finance

The FY-2007 appropriation for the Capitol Complex and Centennial Commemoration Commission is the same as provided for FY-2006 with the following adjustments.

Remove One-Time Funds

The Governor's budget recommends removing the \$1 million that was supplied for the Land Run Monument, the \$1 million that was supplied to the Tulsa Historical Society and the \$850,000 that was provided for interest payments on the loan for the dome.

State Employee Pay Raise

The Governor's budget includes \$10,044 for a 3% state employee pay increase for Capitol Complex and Centennial Commemoration Commission. This funding is based on December 2005 salary information.

Department of Commerce

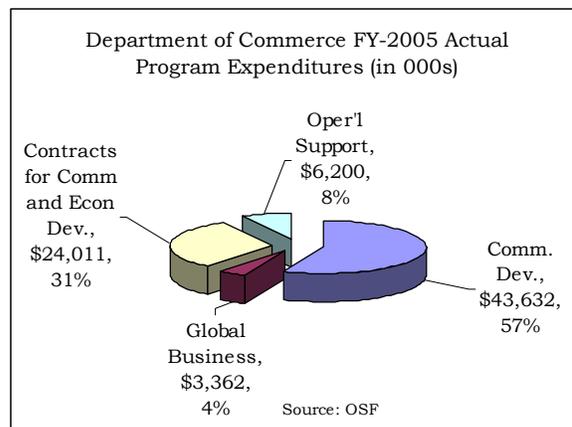
Notable Achievements

- *\$22.6 million in Community Development Block Grant funds were distributed throughout rural Oklahoma benefiting more than 300,000 people. The Main Street Program generated \$25.9 million in private sector reinvestment from 40 participating communities and more than \$20 million supported programs to move Oklahoma's neediest families toward self-sufficiency.*
- *Commerce assisted 54 companies with business start-ups and expansions resulting in more than 9,000 new jobs with fifty-six percent in rural areas. The agency also helped 35 companies relocate operations to Oklahoma with a projected return of more than 6,000 new jobs created and a total investment of \$385 million. Forty-nine percent of these projects, including 31 percent of the new jobs, were in rural areas.*
- *Commerce expanded, redesigned and developed a new website to compete more effectively with other states in recruiting businesses and providing in-depth tools and information for existing Oklahoma businesses and communities.*

Mission

The Oklahoma Department of Commerce leads the state's economic and workforce development efforts. The mission is to improve the quality of life for Oklahomans by supporting communities, supporting the growth of exiting businesses, attracting new businesses and facilitating the development of a prepared workforce.

The Department's primary funding sources are federal and state appropriations.



Programs

Community Development

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

Community Development offers technical assistance and planning to communities through a variety of programs. One such program has assisted over 400 cities, towns and counties in the completion of capital improvement plans designed to inventory and prioritize community assets needing repair and replacement.

Program applications submitted by communities are evaluated and awarded based on a series of programmatic formulas. Examples of successful projects include but are not limited to water, sewer, economic development infrastructure, multipurpose senior citizen centers, the modernization of fire protection equipment and street and drainage repairs. Federal Community Development Block Grant funds are the main source of funds utilized to support projects; however, funding is also available through the state energy plan and through state appropriations. Private sector funds have also been secured to support Oklahoma's weatherization initiatives.

Rural Action Partnership

The Rural Action Partnership Program connects economic development resources with the needs of rural Oklahoma. Rural

development specialists service communities to encourage regional alliances and increase economic development opportunities. The program helps rural communities obtain funds to use for community development, helps grow and recruit businesses and finds ways for communities to effectively market their products and services.

Business Solutions Team

The Business Solutions Team supports the start up, growth and expansion of Oklahoma’s businesses. The Team focuses on the delivery of support programs and the development of partnerships to service the needs of small business across the state.

Business Location Team

The Business Location Team markets the State of Oklahoma as a profitable location for investment. The Team works to encourage and assist Oklahoma companies looking to expand in state and works closely with local communities and economic development organizations to attract new businesses.

Global Business Team

Commerce serves as the first responder for small and medium size companies seeking to explore international business opportunities. Team members positioned in Oklahoma and in four international trade offices strategically located in China, Israel, Mexico and Vietnam deliver programs assisting businesses in areas including trade counseling, market research, trade show assistance, protocol and etiquette counseling and other related services.

Workforce Development

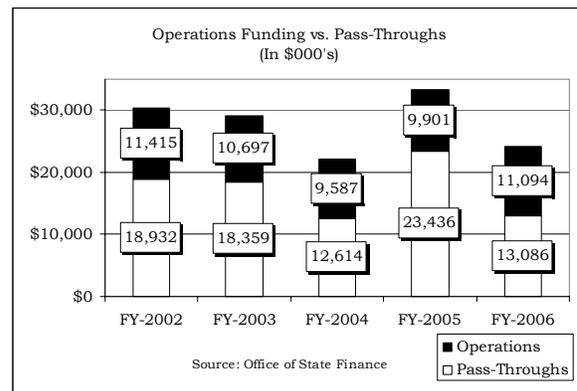
The agency’s programs facilitate the development of a prepared workforce to support the state’s economic development goals. Programs are aligned with the Governor’s Council for Workforce and Economic Development and the state Workforce Solutions Staff Team. Key stakeholders include state workforce and education agencies, local workforce investment boards, workforce program service providers, public/private and faith based workforce program operators,

business leaders and economic development entities.

The Department is involved with developing industry clusters in fields such as information technology, aerospace and business services to assist with workforce development. These clusters will enhance the state’s economic development efforts by providing processes and data to ensure Oklahoma will be able to produce a skilled workforce suited to the industries in the state when they are needed. This is a key to aligning workforce and economic development strategies.

Pass-Through Funding

The Department’s budget consists of funds dedicated to operations and those passed through the agency to support other entities, as directed by the state legislature. The chart below provides a summary of the fluctuating funding levels over a five year period.



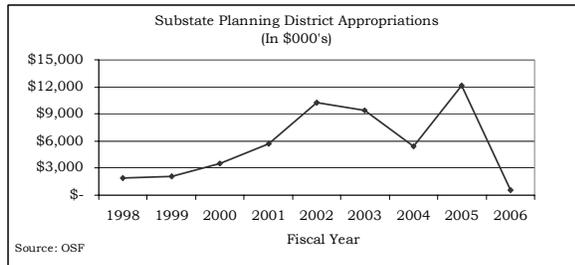
In FY-2006, pass-through funds amounted to \$13.1 million. Of that amount only 4.2%, or \$550,000, went to support substate planning districts and community action agencies.

Substate Planning Districts

Oklahoma has 11 substate planning districts, also known as Council of Governments, or COGs. These organizations were established by the state legislature to provide economic development leadership in their assigned areas. COGs operate independently and are funded by state appropriations,

membership dues from member towns and grants from state and federal sources.

State funds directed to substate planning districts are exempt from the Oklahoma Central Purchasing Act which limits Commerce's oversight function. Funds appropriated to the substate planning districts were reduced by 95% from the FY-2005 level.



FY-2006 Supplemental

| FY-2006 Supplemental <i>(amounts in thousands)</i> | |
|--|-----------------|
| FY-2006 Appropriation | \$24,180 |
| Supplemental: | |
| Centennial Projects | 1,000 |
| Retraining/Reemployment | 1,000 |
| Total FY-2006 App. | \$26,180 |
| % Change from orig. FY-2006 | 8.27% |

Source: Office of State Finance

The Governor's budget includes providing a supplemental appropriation of \$1 million for FY-2006 to replace funds spent on Centennial expenditures of benefit to the mission of the Department.

The Governor's budget includes providing a \$1 million supplemental appropriation for a retraining and reemployment program for Oklahoma workers that are displaced from their jobs. This funding will provide an outreach center, individual assessment and training for displaced workers. The goal of the program is to assess the skill base of the workers and to provide individual training to increase the skills and preparedness of the workers for positions in

new industry clusters such as the medical and aerospace fields. This program will be of assistance to the workers that will be displaced if the GM plant closes.

FY-2007 Recommendation

| FY-2007 Appropriation <i>(amounts in thousands)</i> | |
|---|-----------------|
| FY-2006 Total Approp. | \$24,180 |
| Remove REAP Funding | (1,000) |
| Military Base Closure | (1,000) |
| FY-2006 Base | \$22,180 |
| FY-2006 Bud. FTE Level | 151.0 |
| Actual Ave. YTD FTE | 147.6 |
| Funding Adjustments: | |
| Replace REAP Funds w/ GR | 1,000 |
| Military Base Closure Fund | 300 |
| Branding Initiative | 1,000 |
| State Employee Pay Raise | 243 |
| Total Adjustments | \$2,543 |
| FY-2007 Recommendation | \$24,723 |
| % Change from FY-2006 | 2.25% |

Source: Office of State Finance

The FY-2007 appropriation for the Department of Commerce is the same provided for FY-2006 with the following adjustments.

Strategic Military Planning Fund

The Governor's budget includes \$300,000 for the Military Strategic Planning Commission Fund to ensure that the state's five military bases remain intact and avoid being recommended for shut down by the Base Realignment and Closure (BRAC) Commission. These funds are matched by the local communities and used for projects that enhance the bases, helping to ensure they remain off of BRAC's closure list.

Replace GP REAP Funds

The Governor's budget includes replacing \$1 million that was supplied from the GP REAP Water Projects Fund with general revenue. This money was used for operating expenditures by the Department.

Branding Initiative

The Governor's budget includes increasing the agency's appropriation by \$1 million for a branding initiative. This initiative will ensure that the state is being promoted and advertised in the most efficient and effective manner by the Department of Commerce and the Tourism and Recreation Department. This will help to establish the image of Oklahoma and allow it to be easily managed and leveraged to allow the state to fully capitalize on tourism and economic development opportunities. Funding will be used to develop and implement a plan to successfully accomplish the branding initiative and will include interviews, brand audits, research on other state and business approaches, strategy development, vendor selection and implementation.

State Employee Pay Raise

The Governor's budget includes \$243,202 for a 3% state employee pay increase for the Department of Commerce. This funding is based on December 2005 salary information.

Oklahoma Historical Society

Notable Achievements

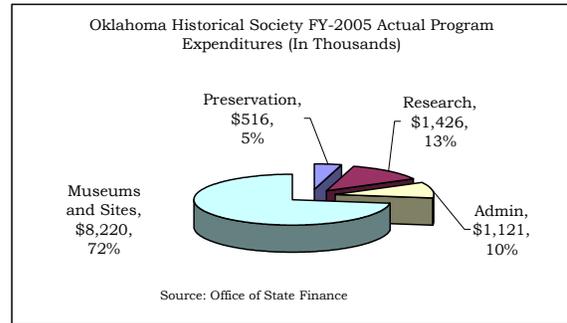
- *The Oklahoma History Center opened to the public with great fanfare during Statehood Week in November of 2005. The opening ceremonies capped a seven-year effort of planning, design, construction and fundraising. More than 8,000 visitors toured the museum exhibits and grounds over five days. The Center received a 30-minute feature on OETA's "Stateline."*
- *The Society completed a reorganization plan that started in 2002. Several departments and divisions were consolidated, creating more efficient utilization of space, a more flexible staff structure prepared to assume new responsibilities in the Oklahoma History Center and better institutional communication and sharing of resources.*
- *After five years of underwater archeology on the Red River, work to recover artifacts and document the 1838 river boat wreck of the Heroine is nearing completion. Scholars from the Institute of Nautical Archeology, who believe the ship is one of the ten most significant discoveries ever found in American waters, have worked with the Society's staff to investigate the ship and recover artifacts. With a recently announced grant from the National Park Service, the collections will be on display at the Oklahoma History Center and at a new museum currently being planned for nearby Fort Towson.*

Mission

The Oklahoma Historical Society (OHS) preserves and perpetuates the history of Oklahoma and its people by collecting, interpreting and disseminating knowledge of Oklahoma and the Southwest.

The agency's primary source of funding is state appropriations. State appropriations totaled 87% of total funding for

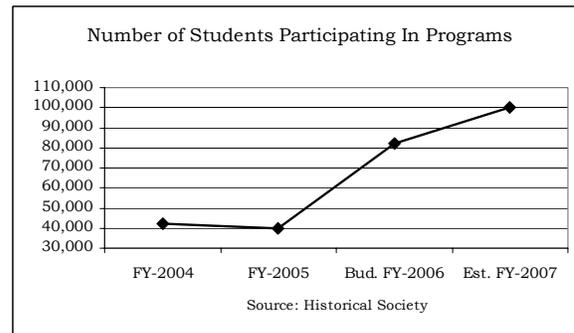
expenditures of OHS in FY-2005. Below is a chart which shows program expenditures for OHS for FY-2005.



Each of the State's 32 museums and sites operated by the OHS has an individual mission statement pertinent to the history it interprets. There are various educational programs within the Historical Society targeting students.

Key Performance Measure

Goal is to increase student contact



The Oklahoma History Center

The Oklahoma History Center is a 215,000-square foot museum and research facility located across the street from the State Capitol. Sitting on an 18-acre site, the facility will serve more than 200,000 visitors a year and offer a unique learning experience to more than 100,000 school students from across the state. The institution is affiliated with both the Smithsonian Institution and the National Archives. Admission for the Center is \$5 for adults, \$4 for seniors, \$3 for students and children five and under are free.

Built at a cost of \$59 million, the Oklahoma History Center offers a range of features:

- Four permanent museum galleries with more than 40 topics, 52 films, 200 interactive exhibits and 2,500 artifacts;
- A research library with more than 30 million pages of newspapers published in the state and twin territories since 1844, more than four million document pages of Indian history, more than five million photographs and one of the best genealogical collections in the region for both beginning and serious family historians;
- Special event opportunities for receptions up to 1,000 guests, formal banquets for up to 250 people and meeting space for families, class reunions and business groups;
- The Winnie Mae Café, offering full food service seven days a week;
- An outdoor interpretive park that includes four-acres dedicated to oil and gas in Oklahoma, a bronze statue by Allen Houser and the “Red River Journey”, a scaled reproduction of the landscape along Oklahoma’s southern border with mountain ranges, plant life and historic markers; and
- A special museum gallery for temporary exhibits that can travel statewide at venues such as libraries, community centers and local museums.

FY-2007 Recommendation

| FY-2007 Appropriation | |
|-------------------------------|-----------------|
| <i>(amounts in thousands)</i> | |
| FY-2006 Total Approp. | \$13,106 |
| Remove REAP Funds | (\$200) |
| FY-2006 Base | \$12,906 |
| FY-2006 Bud. FTE Level | 160.0 |
| Actual Ave. YTD FTE | 154.8 |
| Funding Adjustments: | |
| Replace REAP Funds w/ GR | 200 |
| Debt Service | 83 |
| Humanities Council | 100 |
| Janitorial, Maint., Security | 264 |
| State Employee Pay Raise | 186 |
| Total Adjustments | \$833 |
| FY-2007 Recommendation | \$13,739 |
| % Change from FY-2006 | 4.83% |

Source: Office of State Finance

The FY-2007 appropriation for the Historical Society is the same as provided for FY-2006 with the following adjustments.

Replace REAP Funds

The Governor’s budget includes replacing the \$200,000 that was supplied from the GP REAP Water Projects Fund with general revenue. This money was used for ongoing operations of the Society.

Debt Service

The Governor’s budget includes increasing the agency’s appropriation by \$83,000 for increased debt service payments related to the History Center.

Humanities Council

The Governor’s budget includes increasing the agency’s appropriation by \$100,000 for the Humanities Council. The Council was typically funded through the Department of Commerce until FY-2006, when the funding was inadvertently cut. The Council’s purpose is providing access and education in the humanities through public programs. This funding will allow the Council to continue many programs including:

presenting historical figures in Oklahoma classrooms, traveling museum exhibits that bring cultural resources to rural areas, numerous lectures from scholars, a state-wide tour that brings award-winning Oklahoma authors to libraries and Chautauqua-a week long event featuring performances by historical characters, workshops and lectures.

Janitorial, Maintenance and Security

The Governor's budget includes increasing the agency's appropriation by \$264,000 to cover the increases being charged to the Society for the janitorial, maintenance and security contracts for the new History Center.

State Employee Pay Raise

The Governor's budget includes \$185,672 for a 3% state employee pay increase for the Historical Society. This funding is based on December 2005 salary information.

J. M. Davis Memorial Commission

Notable Achievement

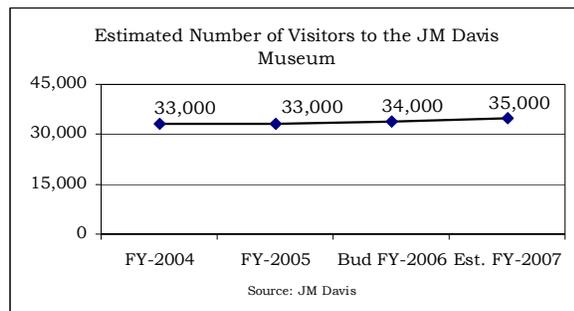
The J.M. Davis Museum is one of the largest fire arms museums in the United States.

Mission

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. For FY-2005, state appropriated dollars were 82% of the Commission's total budget funding. In the same fiscal year, approximately 33,000 people visited the free museum including individuals and tour groups from all over the world.

Key Performance Measure

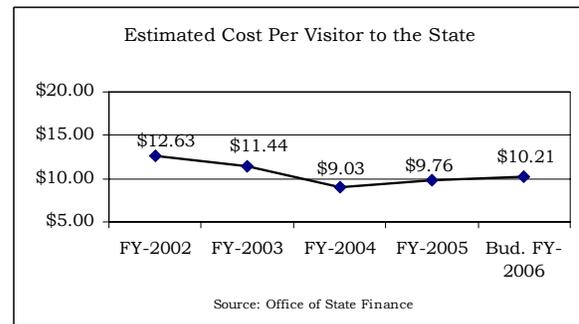
Increase number of visitors



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.

The following graph shows the correlation between the funding that the State provides and the estimated number of visitors.



FY-2007 Recommendation

| FY-2007 Appropriation | |
|-------------------------------|--------------|
| <i>(amounts in thousands)</i> | |
| FY-2006 Appropriation | \$347 |
| FY-2006 Bud. FTE Level | 7.5 |
| Actual Ave. YTD FTE | 7.0 |
| Funding Adjustments: | |
| State Employee Pay Raise | <u>10</u> |
| FY-2007 Recommendation | \$357 |
| % Change from FY-2006 | 2.88% |

Source: Office of State Finance

The FY-2007 appropriation for the J.M. Davis Memorial Commission is the same as provided for FY-2006 with the following adjustments.

State Employee Pay Raise

The Governor's budget includes \$10,104 for a 3% state employee pay increase for the J.M. Davis Memorial Commission. This funding is based on December 2005 salary information.

Department of Labor

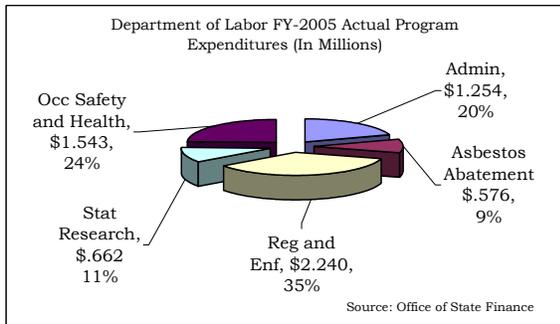
Notable Achievements

- The OSHA Consultation program identified 3,200 serious workplace hazards in FY-2005 which saved Oklahoma businesses \$7.5 million in potential federal OSHA fines.
- The Department's Safety Pays[®] program has contributed substantially in lowering the injury rate in the manufacturing industry — plummeting 50% since 1994.

Mission

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.

The Department of Labor's budget consists of state, federal and revolving funds. For FY-2005, state appropriated dollars were 48.3% of the Department's total budget funding.



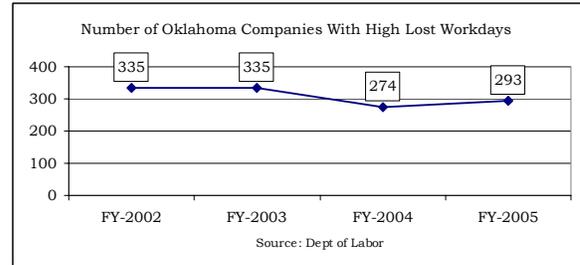
Occupational Safety and Health Administration Consultation Program (OSHA)

The U.S. Department of Labor generates a site specific targeting list identifying those employers who have high lost workday injury and illness rates. Through the Department's Safety Pays[®] program, each employer is contacted to ensure they are

aware they are on OSHA's targeted inspection list and offers ODOL consultation services. The most recent list included 293 Oklahoma employers as shown by the following table.

Key Performance Measure

Goal is to reduce the number of companies with high lost workdays

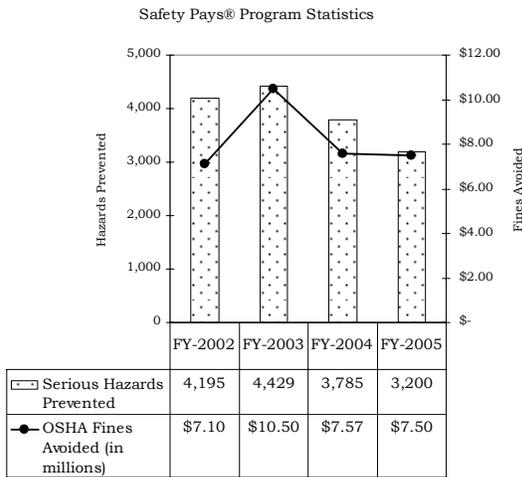


This free, voluntary, non-punitive and confidential program helps small (250 or less) high-hazard employers prevent injuries and illnesses. Federal funds cover 90% of the department's funding sources for this program. The OSHA consultant first identifies hazardous conditions and practices without the 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.

The following chart shows how ODOL's Safety Pays[®] program has identified hazards and prevented fines for Oklahoma businesses.

Key Performance Measure

Prevent hazards and help Oklahoma businesses avoid fines



Boiler Inspections

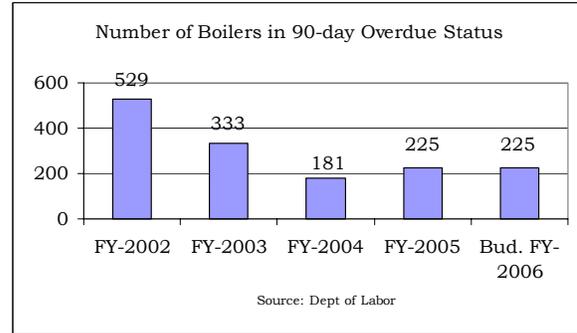
State statutes require ODOL to inspect boilers and pressure vessels on an annual basis. Boilers and pressure vessels must be inspected because of the extremely volatile potential for explosions and fires. Many boilers and pressure vessels are in highly trafficked places such as schools, churches and hospitals.

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.

Key Performance Measure

Goal is to reduce the number of insured boilers and pressure vessels in 90-day overdue status



FY-2007 Recommendation

| FY-2007 Appropriation | |
|-------------------------------|----------------|
| <i>(amounts in thousands)</i> | |
| FY-2006 Appropriation | \$3,225 |
| FY-2006 Bud. FTE Level | 110.0 |
| Actual Ave. YTD FTE | 92.9 |
| Funding Adjustments: | |
| State Employee Pay Raise | 145 |
| FY-2007 Recommendation | \$3,370 |
| % Change from FY-2006 | 4.50% |

Source: Office of State Finance

The FY-2007 appropriation for the Department of Labor is the same as provided for FY-2006 with the following adjustments.

State Employee Pay Raise

The Governor's budget includes \$145,226 for a 3% state employee pay increase for the Department of Labor. This funding is based on December 2005 salary information.

Native American Cultural and Educational Authority

Senate Bill 746 created the Native American Cultural and Educational Authority (NACEA) on September 1, 1994. The Bill authorized the establishment of the American Indian Cultural Center which will include an interpretive center, resource center, a native languages institute and museum.

The Cultural Center site is located at the junction of Interstate 35 and Interstate 40, considered by many to be the crossroads of America. Architectural design development for the project is nearing completion. Phase I of the Cultural Center will include an 86,000 square foot building that will have permanent and traveling exhibits that tell the story of Oklahoma's 39 Indian tribes, an outdoor symbolic exhibitory and park improvements. An application has been submitted for the Cultural Center to become a Smithsonian affiliate, and through this affiliation, the Center will have access to over one million exhibits from the National Museum of the American Indian in Washington, D.C.

In 2003, the US Congress passed legislation that authorized \$33 Million in funding for the Cultural Center. In addition, the Oklahoma Capital Improvement Authority has issued \$33 Million of state bonds for construction of the project. In partnership with the State of Oklahoma, a number of Oklahoma Indian tribes have contributed the first two years of debt service for the state bond issue.

The City of Oklahoma City has transferred approximately 250 acres of land to the NACEA, and has also agreed to provide the Authority \$5 Million in CDBG (Community Development Block Grant) funds.

The Cultural Center will trace and document the history of American Indian tribes from the forced relocation of their original homes to Oklahoma to their successful stories today. The Center will also highlight the numerous cultural

contributions of Oklahoma's American Indians.

Construction for the project is expected to begin in 2006.

| American Indian Cultural Center Projected Capital Funding & Costs (In Millions) | | | | | |
|---|---------------|---------------|---------------|---------------|----------------|
| Project Capital Funding | FY-06 | FY-07 | FY-08 | FY-09 | Future Totals |
| Federal | \$6.8 | \$12.0 | \$10.6 | \$2.7 | \$32.1 |
| OKC CDBG | | \$5.0 | | | \$5.0 |
| Corps of Eng. Wetland Grant | | | | \$5.0 | \$5.0 |
| Private, Tribal & Other | \$3.0 | \$10.0 | \$15.0 | \$5.0 | \$33.0 |
| State | \$33.0 | | | | \$33.0 |
| Future Project Funding | | | | \$37.6 | \$37.6 |
| Total | \$42.8 | \$27.0 | \$25.6 | \$12.7 | \$145.7 |
| Project Costs | | | | | |
| Const, Design, Exhibit Exp | \$18.0 | \$34.6 | \$42.7 | \$12.8 | \$108.1 |

Source: NACEA

FY-2007 Recommendation

| FY-2007 Appropriation | |
|-------------------------------|----------------|
| <i>(amounts in thousands)</i> | |
| FY-2006 Appropriation | \$803 |
| FY-2006 Bud. FTE Level | 3.0 |
| Actual Ave. YTD FTE | 3.0 |
| Funding Adjustments: | |
| AICC | 500 |
| FY-2007 Recommendation | \$1,309 |
| % Change from FY-2006 | 63.01% |

Source: Office of State Finance

The FY-2007 appropriation for the Native American Cultural and Educational Authority is the same as provided for FY-2006 with the following adjustments.

American Indian Cultural Center

The Governor's budget includes increasing the agency's appropriation by \$500,000 for the operations of the American Indian Cultural Center. The project is moving from the design phase to implementation and requires funding to ensure a successful opening. The Center's programs and operations must be fully developed and ready when the doors are opened to the public. This funding will be used to provide a minimal staff that will be dedicated to the vision of the Center and making sure it is equipped and prepared for opening.

temporary space for the staff to work from, marketing for the Center to ensure public awareness and for research and collections that will be exhibited at the Center.

State Employee Pay Raise

Funding for the 3% state employee pay increase for Native American Cultural and Educational Authority is provided within the Department of Commerce.

Rural Economic Action Plan

Mission

The Rural Economic Action Plan (REAP) is a grant program. REAP provides grants to build and repair infrastructure in communities with a population of less than 7,000. According to statute these grants can be used for things such as sewer and water line construction or repair, water treatment, water acquisition, distribution and related projects.

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 for the past five fiscal years.

| History of REAP Appropriations (000's) | | |
|--|----------|---------|
| Fiscal Year | A&I | OWRB |
| FY-2002 | \$14,913 | \$4,330 |
| FY-2003 | 14,268 | 3,955 |
| FY-2004 | 6,000 | 2,200 |
| FY-2005 | 15,500 | 2,200 |
| FY-2006 | 15,500 | 2,200 |
| Source: Office of State Finance | | |

Since FY-1997, over \$175 million has been appropriated for REAP grants. The past two years the appropriations passing through the two agencies have remained steady. COGs administer the REAP grants and provide the funds to communities that use it to build and repair infrastructure.

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.

FY-2005 marked the first year that the fund met the cap placed on it by the Legislature. It is estimated that the fund will again meet the current cap for FY-2006 and 2007. The following chart shows the amount of money deposited in the fund since 1999 and estimated deposits for FY-2006 and FY-2007.

| REAP Water Projects Fund | |
|--------------------------|-------------|
| Fiscal Year | Deposit |
| 2000 | \$4,231,552 |
| 2001 | \$5,677,728 |
| 2002 | \$4,029,464 |
| 2003 | \$4,809,926 |
| 2004 | \$5,428,214 |
| 2005 | \$7,489,501 |
| est. 2006 | \$7,489,501 |
| est. 2007 | \$7,489,501 |

The Legislature directed the following use of the REAP Water Projects Fund in FY-2006:

| | |
|----------------------------------|--------------------|
| <u>Water Resources Board</u> | |
| Saltwater Lake Irrigation | \$100,000 |
| Arbuckle Simpson Aquifer Study | \$500,000 |
| <u>Conservation Commission</u> | |
| Flood Prevention | \$1,000,000 |
| Cost-Share Conservation Program | \$1,000,000 |
| Duties/Operations | \$400,000 |
| <u>Department of Agriculture</u> | |
| Rural Fire Operational Grants | \$430,000 |
| REI Housing Improvement Program | \$150,000 |
| Predatory Animal Control | \$150,000 |
| Rural Fire 80/20 Grants | \$70,000 |
| Tulsa Expo | \$50,000 |
| Youth Expo | \$50,000 |
| <u>Historical Society</u> | |
| Duties/Operations | \$200,000 |
| <u>Department of Commerce</u> | |
| Duties/Operations | <u>\$1,000,000</u> |
| Total | <u>\$5,100,000</u> |

The Governor's budget recommends all projects involving REAP funds be audited

and monitored using appropriate performance measures. Oversight and accountability will ensure that all projects meet the purposes for which the funds were designed.

FY-2007 Recommendation

| FY-2007 Rural Economic Action Plan | |
|---|-----------------|
| <i>(amounts in thousands)</i> | |
| <i>General Revenue for REAP Grants</i> | |
| FY-2006 Appropriation for REAP | \$17,700 |
| FY-2007 Recommendation | |
| Water Resources Board | \$2,200 |
| Auditor & Inspector | \$15,500 |
| FY-2007 Recommendation | \$17,700 |
| % Change for FY-2006 | 0.00% |
| <i>Gross Production REAP Water Projects Fund</i> | |
| FY-2006 REAP Water Projects Fund Appropriations | \$5,100 |
| FY-2006 REAP Water Projects Fund Surplus Available for FY-2007 | \$2,390 |
| FY-2007 Recommendation | |
| Water Resources Board | \$3,750 |
| Conservation Comm. | \$3,750 |
| Total | \$7,500 |
| % Change for FY-2006 | 47.06% |
| Surplus Funds to DEQ | \$1,823 |
| <small>Source: Office of State Finance</small> | |

GP REAP Water Projects Fund:

The Governor's budget proposes the following expenditures from the REAP Water Projects Fund from the gross production tax.

| <u>Water Resources Board</u> | |
|---------------------------------|--------------------|
| Comprehensive Water Plan | \$2,250,000 |
| Arbuckle Simpson Aquifer Study | \$1,500,000 |
| <u>Conservation Commission</u> | |
| Debt Payment for \$28 million | \$2,500,000 |
| Cost-Share Conservation Program | \$500,000 |
| Federal 319 Grant Program | <u>\$750,000</u> |
| Total | \$7,500,000 |

Arbuckle-Simpson Aquifer Study

The Governor's budget recommends \$1.5 million be expended from the REAP Water Projects Fund for the ongoing Arbuckle-Simpson study. The purpose of the study is to ascertain how much water is contained in the aquifer to determine if it can be used for a water source and if so how much water can be diverted from it without disrupting the ecosystem of streams and rivers that relies on it.

Comprehensive Water Plan

The Governor's budget recommends that \$2.25 million be expended from the REAP Water Projects Fund to begin the update of the Oklahoma Comprehensive Water Plan. This plan's purpose is to identify projects and management strategies to ensure that Oklahoma will be able to meet future water needs.

CREP, Flood Control and Invasive Species

The Governor's budget recommends that \$2.5 million be expended from the REAP Water Projects Fund for debt payments to finance \$28 million over fifteen years for conservation programs. The Conservation Commission will receive the funding for the following projects: \$10 million to establish the Conservation Reserve Enhancement Program in the Eucha Spavinaw, Illinois River, Cobb Creek and Sugar Creek watersheds, \$10 million for rehabilitation of flood control structures and \$8 million to eradicate invasive species such as red cedar.

Cost-Share Program

The Governor's budget recommends that \$500,000 be expended from the REAP Water Projects Fund for the Cost-Share program. The program is a partnership

between the state and private land owners aimed at encouraging implementation of conservation practices to aid in the prevention of soil erosion and improve water quality.

Federal 319 Grant Program

The Governor's budget recommends that \$750,000 be expended from the REAP Water Projects Fund for the Federal 319 Grant for nonpoint source pollution. The program is a state/federal partnership and funding will help abate water quality problems in Oklahoma's watersheds stemming from nonpoint sources such as agriculture and rural waste systems.

GP REAP Water Projects Fund Surplus

The Governor's budget proposes the following use for the surplus that is available for appropriation in FY-2007.

| Available Surplus for FY-2007 | |
|--|-------------|
| <u>Department of Environmental Quality</u> | |
| Small Comm. Drinking Water | \$1,823,000 |

Small Community Drinking Water

The Governor's budget includes \$1.823 million of the surplus available from the GP REAP Water Projects Fund for small community environmental compliance assistance. These funds will be used to assist small communities in complying with the stricter public water supply regulations that the federal government has imposed which require more extensive testing. This funding will allow the Department to provide help with compliance, technical, analytical, operational and laboratory services to the estimated 1,468 small public water supply systems supplying approximately 725,000 citizens. These small communities lack the financial and technical resources to remain compliant on their own.

Oklahoma Employment Security Commission

Notable Achievements

- *Redesign of call center processes and leveraging technology enabled OESC to reduce the wait time in the call center from two hours to less than two minutes.*
- *Redesign of garnishment system improved collections substantially and reduced cost by eliminating redundancies and manual manipulation of data, which was tedious and time consuming.*
- *OESC maintains a statewide labor exchange between employers and job-seeking individuals through the selection and referral of qualified workers.*

The Oklahoma Employment Security Commission (OESC) strives to provide employment security and promote the economic well-being of the state of Oklahoma. The OESC operates under the guidelines of federal-state grant agreements.

OESC serves Oklahoma by providing labor market information, employment services, unemployment insurance and veterans' service.

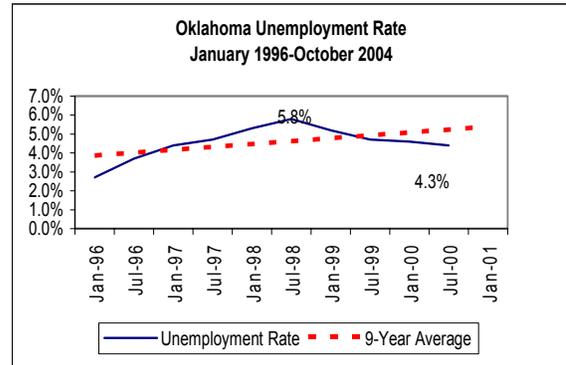
Agency Services

Finding jobs for people and people for jobs is the purpose of each office of OESC. Since 1933, the public employment service has matched job seekers with job openings.

The unemployment insurance system is designed to provide workers with insurance against involuntary unemployment by partial replacement of lost wages. Also, the system is designed 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 over the past few years.

| RATIO OF TRUST FUND BALANCE TO THE FIVE YEAR AVERAGE OF NET BENEFIT PAYMENT | | |
|---|----------------------|---|
| DESCRIPTION | NET BENEFIT PAYMENTS | RATIO OF TRUST BALANCE TO FIVE YEAR AVERAGE |
| NET UI TRUST FUND BALANCE | | \$594,146,517 |
| ESTIMATED CALENDAR YEAR 2005 NET BENEFIT PAYMENTS | \$149,500,328 | |
| CALENDAR YEAR 2004 BENEFIT PAYMENT | \$193,283,992 | |
| CALENDAR YEAR 2003 BENEFIT PAYMENT | \$272,960,511 | |
| CALENDAR YEAR 2002 BENEFIT PAYMENT | \$245,872,319 | |
| CALENDAR YEAR 2001 BENEFIT PAYMENT | \$175,506,709 | |
| TOTAL NET BENEFIT PAYMENTS THE LAST FIVE YEARS | \$1,037,123,860 | |
| AVERAGE BENEFIT PAYMENT | \$207,424,772 | \$207,424,772 |
| RATIO OF TRUST FUND BALANCE TO FIVE YEAR AVERAGE OF NET BENEFIT PAYMENT | | 2.864395 |

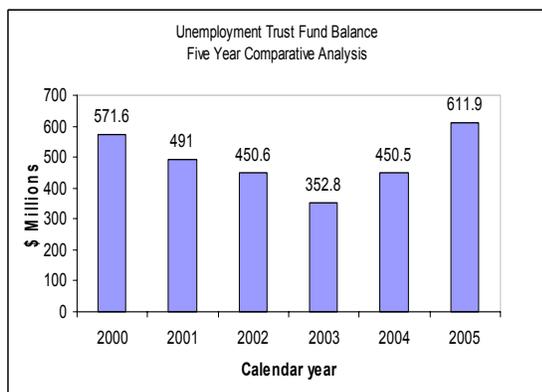
Even though Oklahoma's unemployment rate has been above its long run average, it remains the lowest in the region.

| State | Oct. 2003 | Oct. 2004 | Oct. 2005 |
|-----------|-----------|-----------|-----------|
| Arkansas | 6.7% | 5.7% | 4.2% |
| Louisiana | 6.2% | 5.6% | 11.7% |
| New Mexic | 6.5% | 5.2% | 5.1% |
| Oklahoma | 5.7% | 4.4% | 4.1% |
| Texas | 6.7% | 5.6% | 5.1% |

Source: Bureau of Labor Statistics 01/01/2006

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.

Oklahoma's November Unemployment rate of 3.9% is the lowest it's been since 2001. This partially attributed to \$611.9 million Trust Fund balance available in 2005.



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.

| Condition | Ratio of Fund Balance to average benefit payments | | | | |
|--------------------------------------|---|----------|----------|----------|----------|
| | NONE | A | B | C | D |
| Minimum Rate | 0.1% | 0.2% | 0.2% | 0.2% | 0.3% |
| Maximum Rate | 5.5% | 5.8% | 7.3% | 8.3% | 9.2% |
| Taxable Wage Base | \$12,000 | \$12,000 | \$13,500 | \$14,300 | \$15,000 |
| Minimum UI Contribution Per Employee | \$12 | \$24 | \$27 | \$29 | \$45 |
| Average UI Contribution Per Employee | \$124 | \$156 | \$203 | \$243 | \$330 |
| Maximum UI Contribution Per Employee | \$660 | \$696 | \$986 | \$1,187 | \$1,380 |
| Maximum Weekly Benefit Per Claimant | \$0 | \$0 | \$0 | \$0 | \$0 |
| Maximum Total Benefit Per Claimant | \$0 | \$0 | \$0 | \$0 | \$0 |

Source: OESC 01/05/2006

Other Programs

The veterans' services division addresses the specific employment and training needs of veterans through special programs. Through its various programs, veterans are assisted in their efforts to find employment opportunities. This programs is all inclusive for veterans of any of the U.S. military services and not only for those who are disabled

Economic Research and Analysis which affects employment and employees is core to OESC. Labor market information is gathered and reported on the state and national level. 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.

OESC in conjunction with the Department of Commerce provides administrative support to the Governor's Council. The Governor's Council is a council of statewide decision-makers who work collaboratively toward a common workforce development system to ensure that workforce development is supporting economic development and growth of the Oklahoma economy.

The Oklahoma Scenic Rivers Commission (OSRC)

Mission

The Oklahoma Scenic Rivers 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).

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 independent agency, separated from the Tourism and Recreation Department, in the 2002 legislative session.

OSRC hopes to add Little Lee Creek and Big Lee Creek in Adair and Sequoyah Counties under its jurisdiction for FY-2007.

FY-2007 Recommendation

| FY-2007 Appropriation | |
|-------------------------------|--------------|
| <i>(amounts in thousands)</i> | |
| FY-2006 Appropriation | \$323 |
| FY-2006 Bud. FTE Level | 12.6 |
| Actual Ave. YTD FTE | 13.1 |
| Funding Adjustments: | |
| State Employee Pay Raise | <u>15</u> |
| FY-2007 Recommendation | \$338 |
| % Change from FY-2006 | 4.64% |

Source: Office of State Finance

The FY-2007 appropriation for the Scenic Rivers Commission is the same as provided for FY-2006 with the following adjustment.

State Employee Pay Raise

The Governor's budget includes \$14,651 for a 3% state employee pay increase for the Scenic Rivers Commission. This funding is based on December 2005 salary information.

Oklahoma Tourism and Recreation Department

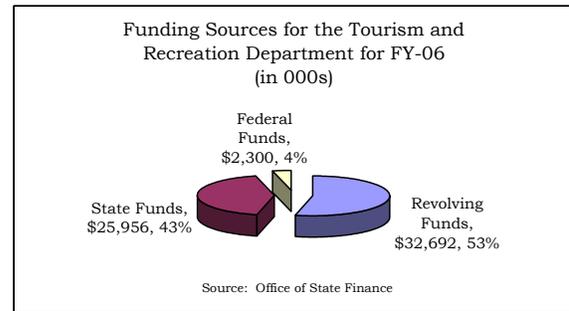
Notable Achievements

- *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 about 70,000 jobs throughout the state. Domestic travel spending brought over \$700 million in local, state and federal tax revenue.*
- *For the fourth time since 1994, Oklahoma's tourism marketing efforts have been recognized as the best in the nation by the Travel Industry Association of America (TIA) for the OklaModern campaign.*
- *The National License Plate Collectors Association named the Oklahoma State Parks plate as the #1 collectible plate in the nation.*
- *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 compelled to extend their stay or return.*
- *Oklahoma Today magazine is the official State magazine and is celebrating its 50th anniversary in January 2006. It also won the 2005 International Regional Magazine Association's Magazine of the Year award.*

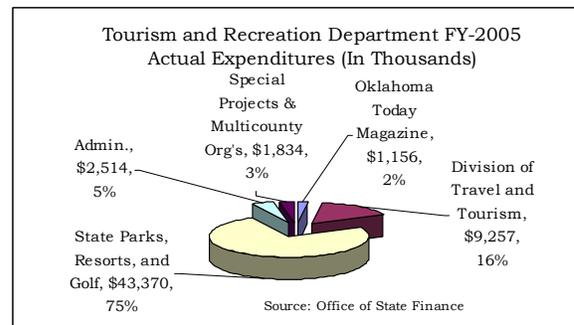
Mission

The Tourism and Recreation Department is the steward of the state's park system. The Department also advances economic development through the promotion of travel and tourism in Oklahoma.

The Department is primarily funded by state general revenue appropriations and revolving funds. In FY-2006, state funds and revolving funds were 43% and 53% respectively of the Department's funding sources.



The majority of the Department's expenditures are devoted to parks, resorts and golf courses which are 75% of the FY-2006 budgeted expenditures.



Programs

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 Oklahoma'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, 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. This information masks the individual uniqueness of each park. While Lake Murray is 92% self sufficient, revenue is considerably less at smaller parks with lower attendance. However, many of these smaller parks are resources of great natural and cultural significance.

| | Park Attendance | Park Revenue | State Approp. | Total Park Exp. | % of Self-Sufficiency |
|---------|-----------------|--------------|---------------|-----------------|-----------------------|
| FY-2001 | 15.1 | \$11.0 | \$9.7 | \$25.0 | 44.0% |
| FY-2002 | 14.1 | \$11.1 | \$9.1 | \$25.3 | 43.9% |
| FY-2003 | 14.1 | \$11.5 | \$10.2 | \$25.3 | 45.5% |
| FY-2004 | 13.8 | \$10.8 | \$11.9 | \$22.8 | 47.4% |
| FY-2005 | 12.7 | \$11.6 | \$12.8 | \$28.5 | 40.7% |

Source: Tourism and Recreation Dept.

State Resorts

The four state resorts have been gradually increasing their self-sufficiency rate through more efficient management. However, as the facilities continue to age and deteriorate from a lack of capital investment, the occupancy rate has declined.

| | Occupancy Rate | Resort Revenue | State Approp. | Total Resort Exp. | % of Self-Sufficiency |
|---------|----------------|----------------|---------------|-------------------|-----------------------|
| FY-2001 | 43% | \$8.1 | \$3.2 | \$11.2 | 72.3% |
| FY-2002 | 43% | \$8.0 | \$3.0 | \$11.0 | 72.7% |
| FY-2003 | 36% | \$7.0 | \$1.1 | \$8.1 | 86.4% |
| FY-2004 | 36% | \$7.7 | \$2.2 | \$9.8 | 78.6% |
| FY-2005 | 36% | \$7.6 | \$2.0 | \$9.4 | 80.9% |

Source: Tourism and Recreation Dept.

Golf Courses

Use of the golf courses has increased as have revenues and expenditures.

| | Golf Rounds (thousands) | Golf Revenue | State Approp. | Total Golf Exp. | % of Self-Sufficiency |
|---------|-------------------------|--------------|---------------|-----------------|-----------------------|
| FY-2001 | 174.6 | \$4.8 | \$1.0 | \$5.8 | 82.8% |
| FY-2002 | 182.7 | \$4.9 | \$0.1 | \$6.0 | 81.7% |
| FY-2003 | 161.6 | \$4.5 | \$1.3 | \$5.7 | 78.9% |
| FY-2004 | 158.0 | \$4.7 | \$0.8 | \$4.9 | 95.9% |
| FY-2005 | 158.1 | \$4.6 | \$0.9 | \$5.5 | 83.6% |

Source: Tourism and Recreation Dept.

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, city and county golf courses. As competitors drastically reduced rates, the state golf courses began to lose their competitive edge. 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-2005 saw a slight increase after several years of decline. Due to improved weather conditions and marketing efforts in FY-2006, the courses are likely to see an increase in rounds played.

Travel and Tourism

This division develops information, marketing plans and programs designed to attract tourists to the state.

The division disseminates information related to the state's public and private attractions, facilities and events 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*. This award winning television program reaches over 150,000 viewers weekly.

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.

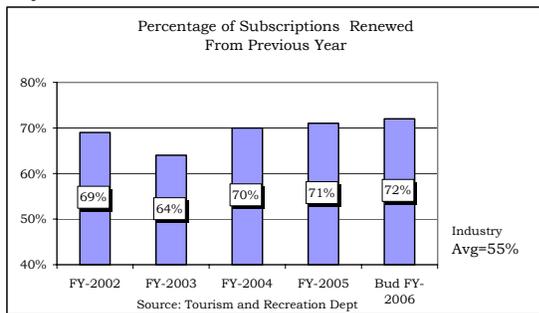
The Traveler Response Information Program (TRIP) operates a toll-free call center for information fulfillment and a website. TRIP also maintains the destination database for more than 9,000 attractions, events, restaurants, accommodations and other tourism-related businesses around the state. The web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

With each issue, the magazine readers learn more about this amazing state. Subscription renewals for the publication exceed the industry average of 55% as shown in the following chart.

Key Performance Measure



FY-2007 Recommendation

| FY-2007 Appropriation | |
|-------------------------------|-----------------|
| <i>(amounts in thousands)</i> | |
| FY-2006 Total Approp. | \$25,956 |
| Remove One-time Funds | (310) |
| FY-2006 Base | \$25,646 |
| FY-2006 Bud. FTE Level | 913.6 |
| Actual Ave. YTD FTE | 833.7 |
| Funding Adjustments: | |
| Ongoing Maintenance | 500 |
| State Employee Pay Raise | 760 |
| Total Adjustments | \$1,260 |
| FY-2007 Recommendation | \$26,906 |
| % Change from FY-2006 | 3.66% |

Source: Office of State Finance

The FY-2007 appropriation for the Tourism and Recreation Department is the same as provided for FY-2006 with the following adjustments.

Capital Recommendation

The Governor’s budget recommends including \$9 million for the Department in a bond issue. This will provide \$5 million for critical environmental remediation needs and \$4 million for major maintenance repairs. A few of the critical environmental issues that need to be addressed include: sewage lagoon repair, erosion control and remediation, water plant repair, connecting to rural water systems and comfort station repair. The Department also needs to perform major maintenance repairs on the parks, resorts and golf system that includes work on playgrounds, buildings renovation, roof repair, campsite renovation, boat ramp repair, road repair and pavilion maintenance.

Ongoing Maintenance

The Governor’s budget includes increasing the agency’s appropriation by \$500,000 to address ongoing and preventative maintenance needs of the Department that includes work on HVAC systems, electrical systems, service equipment upgrades and picnic table replacement.

State Employee Pay Raise

The Governor’s budget includes \$759,902 for a 3% state employee pay increase for the Tourism and Recreation Department. This funding is based on December 2005 salary information.

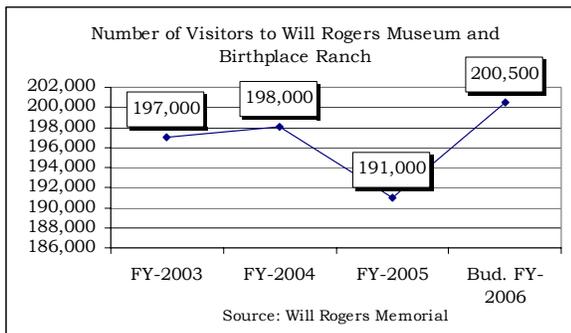
Will Rogers Memorial Commission

Notable Achievements

- The Commission serves as the leading repository for Will Rogers' professional items.
- 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 Oolagah was featured in HGTV's "Homes On The Range".

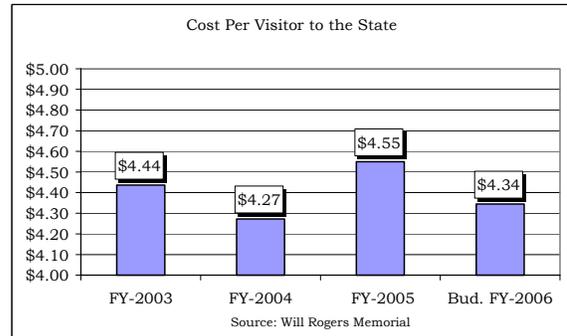
Mission

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 Oolagah. 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 200,000 visitors annually. Admission is free and both facilities are open 365 days a year.



Over 96% 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.

The following graph shows the correlation between the funding that the State provides and the estimated number of visitors.



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.

FY-2007 Recommendation

| FY-2007 Appropriation | |
|-------------------------------|----------------|
| <i>(amounts in thousands)</i> | |
| FY-2006 Appropriation | \$831 |
| FY-2006 Bud. FTE Level | 13.0 |
| Actual Ave. YTD FTE | 11.3 |
| Funding Adjustments: | |
| State Employee Pay Raise | 20 |
| Ren. of Museum and Ranch | 133 |
| CD-ROM for Libraries | 17 |
| Will Rogers for Schools | 50 |
| Museum Exhibits | 43 |
| Total Adjustments | 263 |
| FY-2007 Recommendation | \$1,094 |
| % Change from FY-2006 | 31.65% |

Source: Office of State Finance

The FY-2007 appropriation for the Will Rogers Memorial Commission is the same as provided for FY-2006 with the following adjustments.

State Employee Pay Raise

The Governor's budget includes \$20,243 for a 3% state employee pay increase for the Will Rogers Memorial Commission. This funding is based on December 2005 salary information.

Renovation of Museum and Ranch

The Governor's budget includes a one-time appropriation of \$133,000 for renovation of the Will Rogers Museum and the Birthplace Ranch. The carpet in the museum is 15-20 years old, very worn and stained in places and needs to be replaced. The museum's stone exterior walls need to be waterproofed to prevent water damage that is costly to repair. The Birthplace Ranch is experiencing major deterioration in various areas and needs to repair windows, baseboards, the roof, plate glass windows and needs to be painted.

CD-ROM for Libraries

The Governor's budget includes a one-time appropriation of \$17,000 to create a new version of a CD-ROM that will include a collection of Will Roger's writings, transcribed audio broadcasts, photographs and audio and video of Will Rogers. Copies of the CD-ROM will then be presented to libraries across the state.

Will Rogers for Schools

The Governor's budget includes \$50,000 to revive the in-school program, "The Story of Will Rogers". The one-man show would travel around to Oklahoma schools and present the biography of Will Rogers and distribute Will Rogers' literature to the school children.

Museum Exhibits

The Governor's budget includes a one-time appropriation increase of \$43,000 to create new exhibits for objects that have been donated to the museum and to display recent awards and honors bestowed upon Will Rogers posthumously.

Education

Arts Council
Career and Technology Education
Oklahoma Educational Television Authority
Elementary and Secondary Education
Higher Education
Oklahoma Department of Libraries
Board of Private Vocational Schools
Oklahoma School of Science and Mathematics
Oklahoma Commission for Teacher Preparation

Education

Summary of FY-2007 Budget Recommendations

| Agency Name | FY-2006 Adj. Approp. | FY-2007 Base | FY-2007 Adj. | Final FY-2007 Appr. | % Diff. from FY- 2006 |
|--------------------------------|-------------------------|------------------------|----------------------|------------------------|-----------------------------|
| Arts Council | \$4,243,338 | \$4,243,338 | \$269,015 | \$4,512,353 | 6.3% |
| CareerTech | 130,287,358 | 130,287,358 | 14,411,232 | 144,698,590 | 11.1% |
| Educational TV Auth., Oklahoma | 4,624,059 | 4,624,059 | 514,408 | 5,138,467 | 11.1% |
| Education, Dept. of | 2,164,263,450 | 2,164,263,450 | 157,398,010 | 2,321,661,460 | 7.3% |
| Higher Educ., Regents for | 894,033,880 | 889,433,880 | 85,496,218 | 974,930,098 | 9.0% |
| Libraries, Dept. of | 6,681,355 | 6,681,355 | 303,743 | 6,985,098 | 4.5% |
| Private Vo-Tech Schools, Bd of | 171,879 | 171,879 | (171,879) | 0 | -100.0% |
| School of Science & Math | 7,020,513 | 7,020,513 | 406,576 | 7,427,089 | 5.8% |
| Teacher Prep, Commission for | 2,022,875 | 2,022,875 | 14,899 | 2,037,774 | 0.7% |
| Total Education | \$3,213,348,707 | \$3,208,748,707 | \$258,642,223 | \$3,467,390,930 | 7.9% |

Oklahoma Arts Council

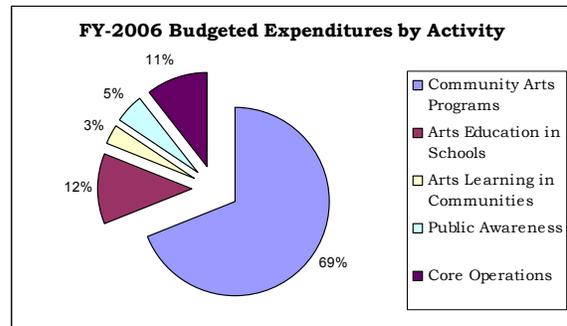
Notable Achievements

- 2005 marks the Oklahoma Arts Council's 40th anniversary of service to the citizens of our state. Created by the Oklahoma Legislature to encourage and stimulate all forms of artistic endeavors, the Oklahoma Arts Council has increased the access Oklahomans have to the arts through matching grants to more than 1,000 organizations producing arts and arts education programs throughout the state.
- The Council's grants have an average match of \$8 to every \$1 granted. A 2005 study done by Southwestern Oklahoma State University's Center for Economic and Business development indicated that economic activity from this public funding generates an average of \$270.2 million each year for the State of Oklahoma.
- The Oklahoma Arts Council is host and manager of the most comprehensive arts and cultural web calendar in Oklahoma, located at www.okartscal.com and linked to the Council's website. The Arts Calendar is consistently in the top five most visited pages out of the more than 10,000 pages on the state portal.
- The Oklahoma Arts Council curates three galleries at the State Capitol that showcase Oklahoma artists' exhibitions. These exhibitions, along with more than 100 works of permanent art, have created beauty and interest for the thousands of tourists and school children who come to the Capitol each year.

Mission

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 and access to the arts.

The Council's mission is to lead, cultivate and support a thriving arts environment, which is essential to quality of life, education and economic vitality for all Oklahomans. The Oklahoma Arts Council meets this mission by providing grants and technical assistance for arts activities statewide. The National Endowment for the Arts and the State of Oklahoma are the sources of funding. The following graph illustrates how those funds are expended.



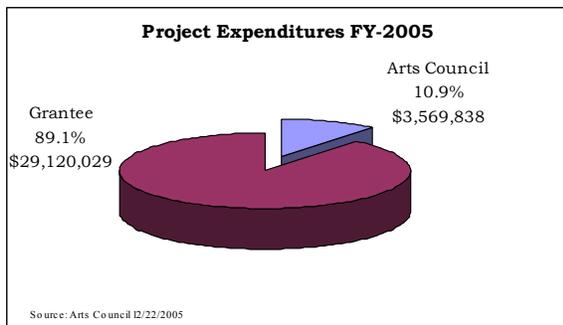
The Oklahoma Arts Council is primarily a grant making entity, as evidenced by the following table.

Key Performance Measure

| | in 000's | | | |
|-----------------------|----------|--------|-------------|-------|
| | FY-2005 | Actual | FY-2006 Bud | |
| Direct grants costs | \$ 3,660 | 76.1% | \$ 3,774 | 75.8% |
| Indirect grants costs | \$ 622 | 12.9% | \$ 670 | 13.5% |
| Administration | \$ 526 | 10.9% | \$ 533 | 10.7% |
| Total | \$ 4,808 | | \$ 4,977 | |

Source: Arts Council 12/22/2005

The Council awards matching grants to nonreligious, nonprofit, tax exempt 501(c)(3) organizations, agencies of government, sovereign Indian tribes, public libraries, public schools, colleges and universities. All grants must be matched by the grantee. Last year the average match was \$8.16 to every dollar granted, as represented in the chart below. During FY-2005, the Arts Council administrated 1,135 grants to 518 organizations in 115 communities across Oklahoma.



Financial assistance for art programs is granted through three program areas: Community Arts Programs, Arts Education in Schools and Arts Learning in Communities. Following is a summary of each program.

Community Arts Programs

Community Arts Programs provide support for community arts activities to advance the cultural and economic development of Oklahoma. More than 300 organizations receive support annually through Community Arts Programs and include support of Oklahoma’s major symphonies, ballets and museums. In addition, festivals, community theatres, performing arts and local museums throughout rural Oklahoma receive funding that contributes to the enrichment and vitality of each community.

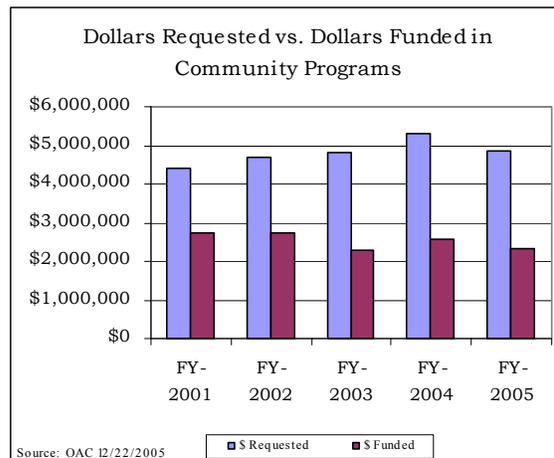
Community Arts Programs also supports cultural development outreach through funding and technical assistance to rural and urban underserved communities. This assistance is designed to assist communities in development of cultural leadership and improve administrative and programming expertise. Two Circuit Riders facilitate cultural and economic development in two underserved regions of the state: 15 counties in the southeast region and 16 counties in the northwest/panhandle region.

In addition to direct support to non-profit organizations, Community Arts Programs support local city and county governments through a Local Government Challenge Grant. This unique program provides matching funds of up to \$5,000 to local

governments to support local community cultural programs.

In FY-2002 the Arts Council met 58% of the requests in Community Arts Programs; 48% of requests were met in FY-2005.

Key Performance Measure



Arts Education in Schools

Arts Education in Schools program supports the efforts of schools and school districts, including alternative education programs, in providing quality and meaningful arts education to their students. Projects must introduce and develop skills, knowledge and understanding in dance, drama, music, visual art, traditional arts or creative writing. Instruction must be delivered by qualified arts instructors, including community artists who are trained and experienced in their art form and knowledgeable in sharing this art form with students.

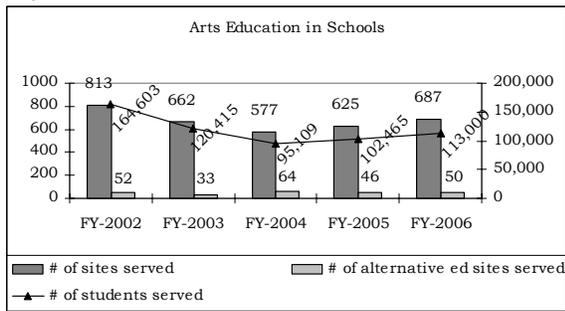
Arts Education in Schools is designed to:

- Help school districts develop an arts education plan;
- Support student learning in the arts and invigorate learning in other subject areas;
- Provide resources for classroom instruction, demonstrations and performances that insure student

understanding of the arts in real-world application;

- Introduce the arts in a broader context including practical application in design, advertising, media, entertainment and related industries; and
- Enable teachers to develop skills to introduce and incorporate the arts in the curriculum.

Key Performance Measure



As shown above, Arts Education in Schools also serves alternative education school sites. 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. 98% of the alternative education sites reported increased performance from students who had the arts as part of their curriculum.

Arts Learning in Communities

Arts Learning in Communities program provides the opportunity for every Oklahoman to have access to quality arts learning that is most appropriate to their current life circumstance and need. This program supports arts instruction workshops and classes in diverse community settings for populations with a variety of social, cognitive, emotional and physical needs in order to enhance their quality of life. The extent and manner of each project’s design varies with

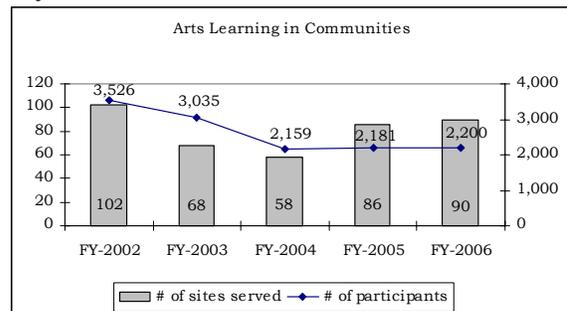
community need and demand, as well as expertise of the local service provider.

Arts Learning in Communities is designed to:

- Design arts experiences for the specific life circumstance of the learners and are age, ability and developmentally appropriate;
- Involve the participants in direct and meaningful engagement in the creative arts process;
- Provide arts instructors that are knowledgeable and experienced in both the arts discipline and instructional methods that are appropriate for the participants; and
- Incorporate an evaluation that measures program impact on participants.

Learning about and through the arts to meet the unique needs of the participants in their community is the central aim for the program and includes projects such as: early childhood programs; after-school and summer programs for youth; prevention and intervention programs for youth at risk; adult workshops for community enhancement and social development; adult programs for life-long learning; programs for seniors in healthcare facilities, as well as arts learning projects in hospitals, social services agencies and other public settings. The chart below depicts historical participation in this program.

Key Performance Measure



FY-2007 Recommendation

| FY-2007 Appropriation | |
|-------------------------------|----------------|
| <i>(amounts in thousands)</i> | |
| FY-2006 Appropriation | \$3,692 |
| FY-2006 Bud. FTE Level | 16.0 |
| Actual Ave. YTD FTE | 16.2 |
| Funding Adjustments: | |
| State Employee Pay Increase | 19 |
| Community Arts Program | 200 |
| Arts Learning in Communities | <u>50</u> |
| Total Adjustments | 269 |
| FY-2007 Recommendation | \$3,961 |
| % Change from FY-2006 | 7.29% |

Source: Office of State Finance

State Employee Pay Increase

The Governor's budget includes \$19,015 for a 3% state employee pay increase for the Arts Council. This funding is based on December 2005 salary information.

Community Arts Program

The Governor's budget proposes additional funding for the Community Arts Program in the amount of \$200,000. This amount will enable the Arts Council to fund 55% of the requests, compared to 51% in FY-2005.

Arts Learning in Communities

The Governor recommends an additional \$50,000 for this program, which will serve 10 – 12 sites not currently being served.

Career and Technology Education

Notable Achievements

- *The CareerTech system is pioneering pre-engineering academies at seven technology centers that integrate engineering into math and science curriculum to prepare students to succeed in university engineering programs, where the dropout rate in the first two years exceeds 50%.*
- *The National Science Foundation awarded \$3 million to a consortium of schools that includes six technology centers and designated the consortium as an Advanced Technology Education Center. This is only the second center for cyber security in the country and the nation's first in the area of digital forensics, making Oklahoma a national model for cyber security and forensics education.*
- *The Alliance Project with the Oklahoma State Regents will provide flexible college degree and certificate opportunities for students completing technical coursework at technology centers. Twenty-two technology center and college partnerships will begin Fall 2006 in addition to the three that began Fall 2005. Students meeting eligibility requirements can earn as many as 30 hours of college credit while in high school.*
- *The Training for Industry Program (TIP) was instrumental in bringing several employers to Oklahoma, including Dell Computer in the OKC area, and companies locating to smaller communities such as: Wal-Mart Distribution Center-Bartlesville, American Woodmark Corp-Muskogee, Simonton Windows Inc-McAlester, American Casting LLC-Afton, Eagle Picher-Horizon-Afton, Flex-N-Gate Oklahoma-Ada.*
- *Technology center enrollments increased by 6.3% in FY 2005.*

- *In FY-2005, fulltime program enrollment increased 1.11% and industry-specific enrollment increased 5%.*

Mission

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 individuals. The system received 2.16% of appropriations made by the legislature for FY-2006, making it the 8th largest agency in state government.

CareerTech provides career-guidance and economic development through the following programs:

Comprehensive Schools

These programs help students in high school develop the technical, academic and employability skills needed to become financially independent citizens.

Technology Centers

These 29 centers provide Oklahoma businesses with skilled, competent employees.

Business and Industry Training

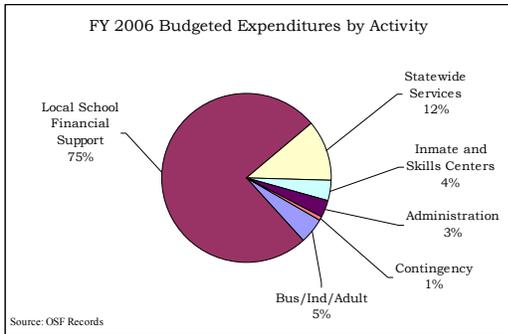
This area includes customized training for specific employers, open enrollment classes for adults that want to enhance their job skills on a part-time basis, consulting services for entrepreneurs and small businesses, management development training and bid assistance services.

Skills Centers

Programs at these centers help incarcerated individuals realize their potential by creating opportunities for them to experience and apply a quality education. Skills center training helps prepare over 2,000 inmates and juveniles per year for life

outside the confines of prison and detention.

Funding for these programs is as follows:



The State Board of Career and Technology Education supervises career and technology education programs in comprehensive schools, technology centers and skills centers. They also administer the Carl Perkins program of the United State Department of Education in matters relating to career and technology education, and Tech Prep.

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

Student Demographics

The *CareerTech* system offers programs and services in 29 technology center districts across 56 campuses, 398 comprehensive school districts and 22 skill centers including 3 juvenile facilities. This allows citizens in 72 counties easy access to career-technology programs.

Total enrollment for FY-2005 including all programs is 527,493. From FY-2000 to FY-2005 student population has done the following:

- Adult enrollment in technology center full-time and statewide programs increased 9.0% from 14,995 to 16,344.

- Students in comprehensive schools increased 13.2% from 119,570 to 135,359;
- Business and Industry increased 4.3% from 345,965 to 360,781; and
- Skills Centers have seen the largest increase, 79.4% from 1,295 to 2,323.

Comprehensive Schools

Comprehensive school programs offered in high schools include agricultural education, business and information technology, family and consumer science, health careers education, marketing education, technology education, and trade and industrial education. These programs provide students with hands-on experiences and opportunities to apply academic concepts in context.

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.

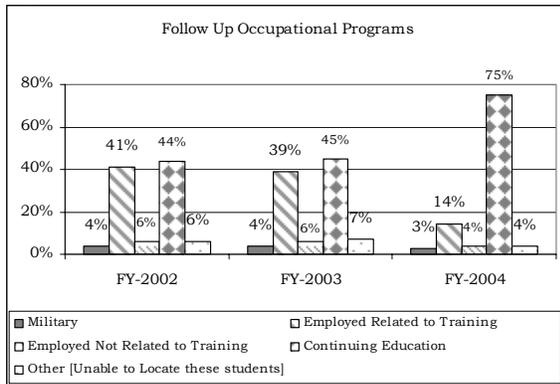
Comprehensive High Schools
Program Information
FY-2005 Final

| | Total Students | Student FTE* | Total Cost | Avg. Cost per Student | Avg. Cost per FTE |
|-------------------------------------|----------------|----------------|----------------------|-----------------------|-------------------|
| Agricultural Education | 26,090 | 26,337 | \$ 6,502,843 | \$ 249.25 | \$ 246.91 |
| Business and Information Technology | 17,396 | 17,136 | 1,649,886 | 94.84 | 96.28 |
| Family and Consumer Sciences | 50,960 | 38,115 | 3,068,524 | 60.21 | 80.51 |
| Technology Education | 34,596 | 22,170 | 2,352,550 | 68.00 | 106.11 |
| Total** | 135,359 | 114,502 | \$ 14,178,292 | 101.36 | 123.83 |

*One student FTE is equivalent to one student for a single class for a full academic year.
**Total number includes enrollment in all programs, chart highlights enrollment in top 4
Source: CareerTech 12/20/2005

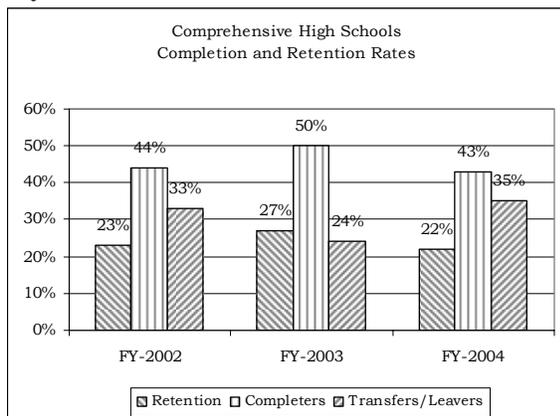
The following chart shows the placement rates for occupational programs in comprehensive schools.

Key Performance Measure



The chart below shows the completion and retention rates for occupational programs in comprehensive schools.

Key Performance Measure



Technology Centers

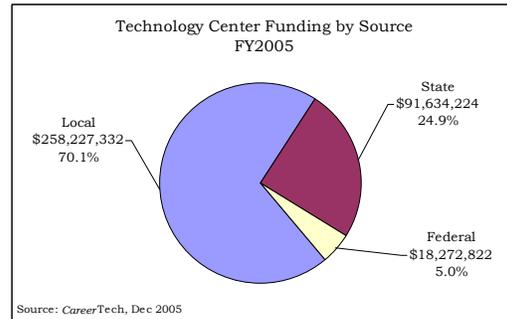
The technology centers provide training for both high school students and adults. Technology centers serve 72 counties throughout the state reaching virtually all citizens.

Technology centers receive state and federal appropriations, and local ad valorem funds, as do other public schools. Technology centers may charge fees for training adult students. Ad valorem revenues make up the majority of local funds; tuition and fee revenue accounts for about 10% of local funding.

Funding Sources

Funding for the technology centers comes from three sources:

- State Appropriated Revenue 24.9%, up from FY-2004 (24.4%).
- Local Taxes, Tuition and Other 70.1%, unchanged from FY-2004.
- Federal Funds 5.0% down from FY-2004 (5.5%).



Funding Formula (State Funds)

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

The formula initially considers a target quality program cost, then subtracts available local general fund income to come up with the state's contribution to each 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
- Student Transportation Services

Local General Fund Income:

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

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.

The most popular training offerings for clients of the TIP and Existing Industry Training programs are: quality-related training such as Lean Manufacturing, ISO, Six Sigma, process improvement and kanban; team skills including effective communications, problem-solving, and time management; management and supervisory training; customer service skills; and industrial maintenance skills.

Training offerings such as: software and computer skills, quality-related training, management and supervisory skills, and team skills are very popular for Industry Specific Training clients.

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

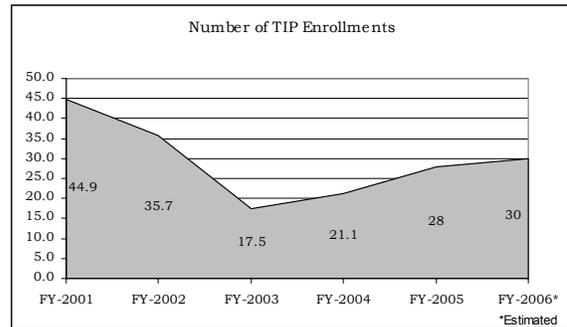
Popular Adult and Career Development programs include: software or computer classes, and continuing education for industries such as real estate and accounting.

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:

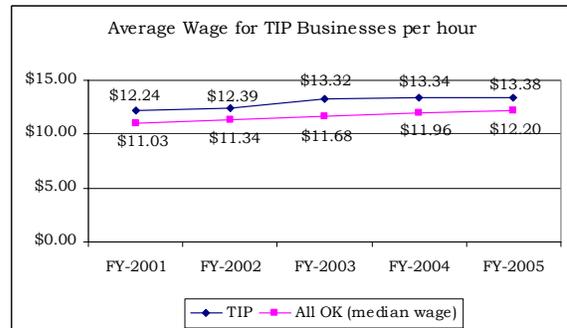
- Manufacturing;
- Processing;
- Business services; and
- Warehouse and distribution.

Key Performance Measure

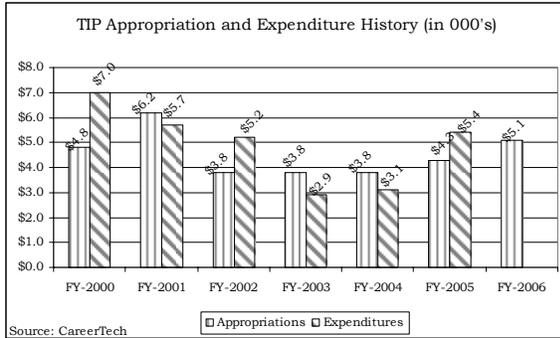


This program has been a successful tool for recruiting business. Demand for training by businesses is cyclical. CareerTech has experienced a strong growth in the past two years and expects to have another busy year in FY-2006.

Key Performance Measure



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 the Existing Industry Training Program. This program is intended to serve businesses that need to retrain incumbent workers in order to retool existing processes or expand a product line.

CareerTech and existing industries frequently partner when specific training is required. The participating business pays no tuition but frequently provides classroom space or unique materials.

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. Congress initiated the PTAC program to help companies across the nation participate in the defense market.

OBAN centers are located in 15 Technology Centers across the state. Bid assistance personnel help businesses locate and bid on federal, state and local government contacts as well as subcontracting opportunities. OBAN coordinators also help clients identify business improvements needed for more successful marketing to government agencies, and provide a daily list of targeted bidding opportunities.

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.

OBAN helps a broad range of businesses. Some recent examples include aircraft maintenance and parts machining, equipment maintenance, mower repair companies, utilities contractors, automotive dealers and automotive parts, facilities maintenance companies including janitorial services, fence builders, gate keepers, road maintenance, audio and video services, office supplies, flight simulators, welding, all types of construction, advertising, embroidery work and engravers.

OBAN works closely with Tinker Air Force Base, other military and commercial organizations, as well as industry associations in support of Oklahoma's aeronautics and aerospace industries. OBAN also offers the construction community a unique biweekly construction summary of business opportunities that helps keep small and rural construction firms competitive.

During FY-2005, 514 new clients were introduced to the training and services available through OBAN, and a total of 1,965 clients were served. 919 government contracts were awarded for a total of just under \$236 million.

Safety Training

Safety and Health training programs are intended to help organizations plan and implement safety processes and procedures to assure a safe work environment. Through the technology centers these programs are available statewide.

The additional Safety allocation provided to the CareerTech system in FY-2006 was utilized to add 10 new Centers of Excellence for safety. These centers provide customized safety training, serving business and industry across the state. This training has helped reduce and prevent work related injuries, and has helped reduce worker's compensation costs for the participating industries.

Skills Centers

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

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, Hospitality/Food Services and Metal Manufacturing.

The school system operates 22 sites. Over the past five years, the skills centers have produced 4,372 graduates with a training related job placement rate of 61.1%. The following table provides information on the number of students and where they are served.

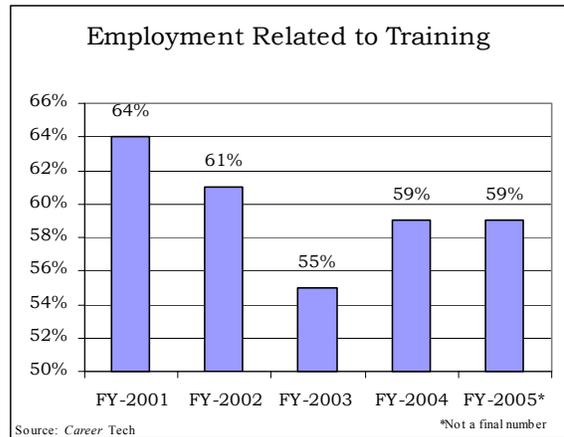
CareerTech Skills Centers Students Enrolled

| | FY2004 | FY2005 |
|-----------------------|--------------|--------------|
| State prisons | 1,370 | 1,402 |
| Private prisons | 250 | 482 |
| Juvenile centers | 119 | 110 |
| Community corrections | 403 | 329 |
| | <u>2,142</u> | <u>2,323</u> |

Source: CareerTech, Dec 2005

- Inmates who are trained in CareerTech Skills Centers are 11% less likely to reoffend.

Key Performance Measure



FY-2007 Recommendations

| FY-2007 Appropriation <i>(amounts in thousands)</i> | |
|---|------------------|
| FY-2006 Appropriation | \$130,287 |
| TIP | (1,500) |
| FY-2006 Base | \$128,787 |
| FY-2006 Bud. FTE Level | 362.0 |
| Actual Ave. YTD FTE | 352.0 |
| Funding Adjustments: | |
| State Employee Pay Increase | 383 |
| Teacher Minimum Salary / Health Care Benefits | 1,250 |
| Comprehensive School Programs | 2,500 |
| Technology Centers | 2,500 |
| Existing Industry Training | 250 |
| Dropout Recovery Program | 500 |
| Lottery Revenue for Capital | 7,028 |
| Total Adjustments | 14,411 |
| FY-2007 Recommendation | \$143,198 |
| \$ Change from FY-2006 | \$12,911 |
| % Change from FY-2006 | 9.91% |

Source: Office of State Finance

State Employee Pay Increase

The Governor's budget includes \$382,732 for a 3% state employee pay increase for CareerTech. This funding is based on December 2005 salary information.

Teacher Minimum Salary Schedule / Health Care Benefits

The Governor's budget proposes funding to provide an increase in the minimum

teachers' salary for FY-2007 from \$28,000 to \$28,425 and to fund 100% the cost of health care.

Comprehensive School Programs

The Governor's budget includes \$2.5 million for Comprehensive School Programs. This money will enable Comprehensive Schools to better serve the nearly 40,000 students enrolled annually and potentially add new programs based on identified needs.

Technology Centers

The Governor proposes an additional \$2.5 million for Technology Centers. \$500,000 will be used to fund new and innovative program initiatives in the technology centers. Twenty \$25,000 grants will be awarded through a competitive grant basis allowing the technology centers to both expand services through existing programs as well as start new initiatives to serve additional Oklahomans.

\$2,000,000 will be used for operational costs, including transportation fuel for 4.6 million annual bus miles as well as increases in heating & cooling bills.

Exiting Industry Training

The Governor's budget includes \$250,000 for this program, which served 6,676 company employees in FY-2005. The increase will allow the CareerTech System to expand the existing industry program in Oklahoma to serve an estimated 1,000 additional employees across the state in FY07.

Dropout Recovery Program

The Governor's budget proposes an additional \$500,000 for this program. CareerTech has identified the Moore-Norman area as a high-need site for serving students from the south portion of the Greater Oklahoma City area. This additional site will be funded through this allocation and will serve approximately 100 students.

In addition, the increased funding will be used to increase the capacity of existing programs to move the Careertech System

closer to achieving the goal of reaching 40% of Oklahoma's dropouts.

Lottery Revenue for Capital Improvements

The Governor's budget allocates \$7 million of lottery revenue for CareerTech's capital purposes.

\$6 million of this money will be used to expand CareerTech's facilities in order to offer more Healthcare Programs. The new facilities and programs will be selected in collaboration with recommendations from the Healthcare Workforce Task Force.

\$1 million will be used at the Gordon Cooper Technology Center for an Aviation Center Expansion. Aviation is one of the Governor's seven identified areas of economic development. Current enrollment at the program is 169% of the recommended capacity, with 50 adults on the waiting list and 49 high school students turned away due to lack of space.

Oklahoma Educational Television Authority (OETA)

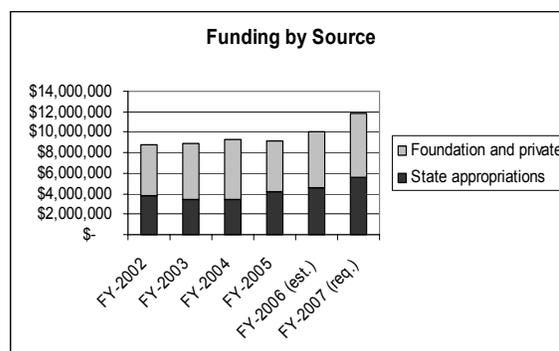
Notable Achievements

- *Completion of Phase One of the federally mandated digital conversion now allows OETA to provide digital and high-definition programming to 75 percent of the state's population.*
- *OETA is the only television operation (either commercial or non-commercial) serving the entire state of Oklahoma.*
- *For many rural Oklahomans, OETA continues to be the only broadcast television signal received at their home.*
- *OETA provides the only in-depth weeknight television coverage of legislative events to all Oklahomans from Beaver to Broken Bow.*
- *OETA's website, via ONENET, provides gavel-to-gavel "open mic" audio coverage of both the Oklahoma Senate and the House of Representatives during the legislative session.*
- *"The Oklahoma News Report" has continued to gain audience numbers while other television news outlets have seen a decrease in their viewership.*
- *Nationally, OETA consistently ranks among the top 10 public television operations in terms of cumulative audience rankings. More than 1.8 million Oklahomans tune in weekly to OETA.*
- *Prime time television viewership this past year has consistently placed OETA in the top three most-viewed public television markets in the U.S.*
- *OETA's documentary production on the opening of the Smithsonian National Museum of the American Indian has been broadcast by more than 100 other public television stations across the United States.*

Mission

OETA is a federally licensed and regulated agency that operates non-commercial educational television channels assigned by the Federal Communications Commission (FCC). The mission of OETA is to provide educational and public television programming to the people of Oklahoma on a coordinated statewide basis. Branded as "The Oklahoma Network", OETA operates full-powered analog and digital television stations in Oklahoma City, Tulsa, Eufaula and Cheyenne. An additional 15 translators extend service to the remainder of the state. Only 13 other states have a state operated public television network.

Oklahoma state government consistently spends less per capita than any of the 13 other states that operate such networks. OETA has been able to offset the declining state portion of its operating budget through on-air membership drives, corporate, grant and foundation solicitations. However, as Oklahoma's infrastructure is being replaced with more costly digital equipment, operating costs are rising more drastically.



OETA has two main activities within the agency, broadcasting/technical and programming/production.

Broadcasting/Technical Division

The Oklahoma Network is a complex technical installation in more than 30 locations around the state, reaching from Boise City and Altus to Ponca City and

Idabel and all points in between. All sites are serviced and managed from the network headquarters in the state's capitol. The system broadcasts over 6,600 hours of programming annually.

For the first time, in 2006, this division also has implemented digital broadcasting and now transmits an additional 20,000 plus hours of digital and high definition programming.

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 programs viewed on OETA are:

- Antiques Roadshow
- NOVA
- Oklahoma News Report
- Nature
- Frontline
- This Old House
- Stateline
- Gallery
- American Experience
- Sesame Street

Conversion to Digital Transmission

The four major broadcast service areas now have digital coverage serving a population of 2.6 million. As mandated by the FCC, this programming is on the air 18 hours per day, alternating between one high definition channel and four different digital signals when high definition is not available. The FCC has yet to release 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. Current

federal legislation has set the cutoff date for February 17, 2009. During the next four years, signals must be transmitted in both analog and digital which entails upkeep and maintenance for both systems.

The conversion of analog to digital involves three phases. To date, OETA has expended over \$13.1 million for Phase One of the conversion. This includes \$5.4 million in State appropriations made in the 2001 Legislative Session. 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 are now 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 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. Costing approximately \$9 million, OETA will add the necessary studio and editing equipment to efficiently produce programs in the digital and high-definition formats. The conversion can be finished within approximately 18 months of funding.

The 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 ten years in the future. The approximate cost to replace the coverage of the analog signals is \$12 million.

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, and will raise private funds to match state appropriated money for Phase Two and Phase Three of the digital conversion.

FY-2007 Recommendation

| FY-2007 Appropriation | |
|-------------------------------|----------------|
| <i>(amounts in thousands)</i> | |
| FY-2006 Appropriation | \$4,624 |
| FY-2006 Bud. FTE Level | 66.8 |
| Actual Ave. YTD FTE | 65.2 |
| Funding Adjustments: | |
| State Employee Pay Increase | 64 |
| DTV Operations Expansion | 450 |
| Total Adjustments | 514 |
| FY-2007 Recommendation | \$5,138 |
| % Change from FY-2006 | 11.12% |

Source: Office of State Finance

State Employee Pay Increase

The Governor's budget includes \$64,216 for a 3% state employee pay increase for OETA. This funding is based on December 2005 salary information.

DTV Operations Expansion

The Governor's budget includes \$450,000 for additional support for this ongoing initiative. This level of funding represents 24-hour broadcasting electric utility charges associated with the four new UHF transmitters, escalation of tower rentals for both the digital transmitters and additional FTE and maintenance costs for digital operations.

Elementary and Secondary Education

Notable Achievements

- According to the Education Commission of the States (ECS), Oklahoma is among the top five states in implementation of President Bush's "No Child Left Behind Act" (NCLB). Only 3 states have met more requirements than Oklahoma: Kentucky, Colorado and Maryland. Currently Oklahoma has met 35 of the 38 NCLB requirements.
- The number of high schools with Advanced Placement programs has quadrupled from 81 in 1997 to 350 in 2005.
- Last year, Oklahoma's alternative education programs received two of the seven National Dropout Preventions Network's Crystal Star Awards of Excellence in Dropout Recovery, Intervention and Prevention: *The Street School in Tulsa* and *the Union Alternative School*. Oklahoma has won more Crystal Star program awards than any other state since the award's inception in 1997.
- Oklahoma's early childhood education program for four-year-old children has been named number one in access by the National Institute for Early Education Research (NIEER) for the past two years. In the 2004-05 school year, 60.3% of Kindergarten age children attend full-day Kindergarten classes — a historic high of 28,409 students.
- A 2004 research study from Georgetown University cites the Tulsa Public Schools pre-kindergarten program as a premier national model for early childhood education. Hispanic and black students experience statistically significant gains for all three tests (Letter-Word Identification, Spelling and Applied Problems). Hispanic students experience a 79 percent gain in Letter-Word Identification and 54 percent gain in Applied Problems.

- The state has 1,306 National Board Certified Teachers (NBCTs), which places Oklahoma ninth in the nation for number of teachers certified and fifth in the nation for percent (3.3%) of teachers certified. Missouri has 287, Arkansas has 377, Colorado has 223, Texas has 232 and New Mexico has 178.
- According to Education Week, Oklahoma has always been in the top half of states in "Standards and Accountability" (twelfth in 2006) and in the top 10 states in "Improving Teacher Quality" (seventh in 2006).
- Based on "Technology Counts 2005" data from Education Week; Oklahoma ranks 9th nationally on Internet connectivity of public school classrooms. Ninety-nine percent of Oklahoma schools have Internet access.

The Governor has been working to strengthen Oklahoma's school system since elected into office. For the past few years, the Governor's initiatives have included working for fair compensation for teachers and support personnel. This included a pay increase plan for teachers to reach the regional average over four years and funding 100% of teacher and support personnel health insurance. The Governor has also focused on creating a new funding source for education – the Education Lottery and Gaming Regulation Act.

Last year's concentration included improving educational quality to ensure that every child has strong academic skills necessary for success, as well. This was accomplished through the Achieving Classroom Excellence (ACE) Act of 2005, which passed the Legislature in May of 2005 and took effect immediately thereafter.

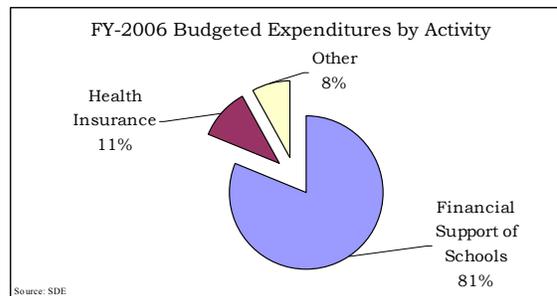
ACE is a multi-faceted approach to improving the state's education system, with a focus on every student succeeding. The provisions span the entire public school system and include requiring districts to offer full day kindergarten, strengthening professional development for middle school math teachers, providing the ten lowest-performing middle schools in

math with math labs, a default college preparatory curriculum that parents may opt out of, requiring the demonstration of mastery on end of instruction exams in order to earn a diploma, a tuition waiver at any state higher education institution for up to six credit hours per semester for eligible high school seniors and much more.

In FY-2007, the Governor continues his commitment to making Oklahoma's education system the best in the country. 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, the Four-Year-Old program and Full Day Kindergarten 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 \$2.15 billion, 36% of all state appropriations in FY-2006; it is the single largest expenditure in Oklahoma's state budget.



As expressed in the chart above, of the total amount appropriated to education, 81% 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 19% is divided between health insurance costs (11%) and other areas like textbooks, teachers' retirement and alternative education.

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.

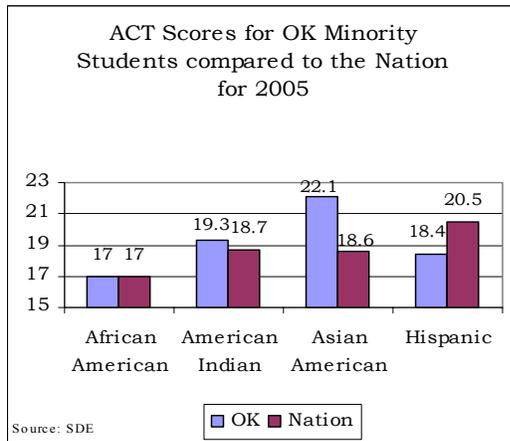
Student Demographics

Student population from FY-1995 to FY-2005 has increased from 609,740 to 634,469. 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 5,367 in FY-1995 to 33,402 in FY-2005, an increase of 522%.

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 153% from 22,263 in FY-1995 to 56,349 in

FY-2005, representing 8.8% of Oklahoma's total student population. 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, depicted in the graph below.

Key Performance Measure



Funding Sources for Local School Districts

Oklahoma has 540 school districts with 1,010 elementary schools, 205 middle schools, 89 junior high schools and 468 high schools.

Public funding for Oklahoma's public schools comes from four sources:

- Local and county revenue (23%);
- State dedicated revenue (10%);
- Federal funds (12%); and
- State appropriated revenue (55%).

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;
- Oklahoma Education Lottery Trust Fund; and
- 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.

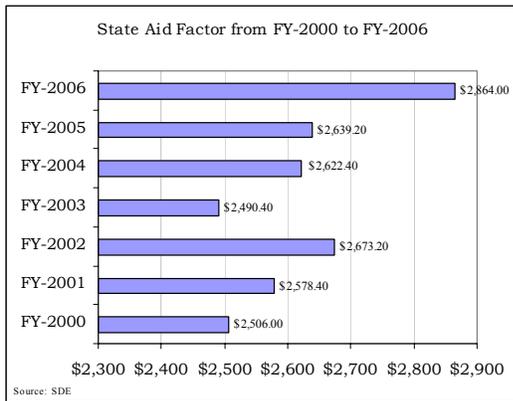
Foundation Aid is calculated on the basis of the highest weighted average daily membership (WADM) of students in each district for the preceding two years or the first nine weeks of the current school year. Weights are added based on certain characteristics (eg: Special Education, Bilingual, Gifted and Economically Disadvantaged) 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 (\$1,463 per weighted ADM for the 2005-2006 school year.)

Incentive Aid guarantees each district a minimum amount of funding per weighted student for each mill up to 20 mills. For the 2005-2006 school year the amount is

\$70.05. To calculate, the weighted ADM is multiplied by the Incentive Aid guarantee. A factored amount of local support is then subtracted. The remaining number 20 mills 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 2005-2006.) 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. For FY-2006, the SAF was \$2,864.00, as seen in the chart below.

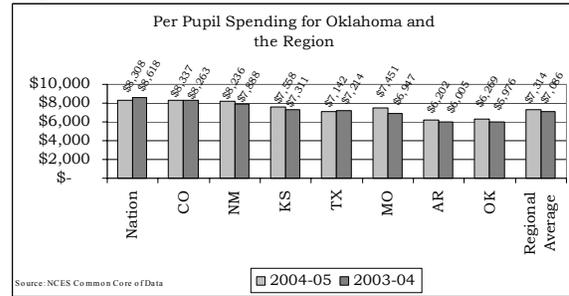


- The increase in state aid from FY-2005 to FY-2006 is \$225 per child.

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 \$6,092 for FY-2003 or tied for 46th in the nation with Nevada. Oklahoma was 7th in the region out of 7 states in FY-2003. The

regional average was \$7,024 that year, as depicted in the chart below.



Common Education Programs

Improving student achievement requires flexible programs for specific populations. Of the appropriations the State Department of Education receives, 2.5% is directed for the following programs:

- Early Intervention;
- Oklahoma Parents as Teachers;
- Alternative Education;
- Education Leadership Oklahoma;
- Adult Education and Literacy;
- Advanced Placement;
- Mentor Teacher;
- Oklahoma Arts Institute; and
- 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 four most common diagnoses of infants and toddlers served by SoonerStart are Down Syndrome, Failure to Thrive, Hydrocephalus and Cerebral Palsy. The SoonerStart program will work with approximately 11,782 children in FY-2007.

Oklahoma Parents as Teachers

Parents are children's most important and effective teachers. Children's 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-2005, the number of children served is 4,501 which equates to 4,235 families served, as seen below.

| Year | Appropriation | # of Districts | # of families served |
|---------|---------------|----------------|----------------------|
| 1991-92 | 650,000 | 13 | 377 |
| 1998-99 | 2,959,144 | 219 | 6,800 |
| 2002-03 | 2,591,418 | 168 | 6,676 |
| 2003-04 | 1,295,709 | 55 | 2,835 |
| 2004-05 | 1,295,000 | 68 | 4,235 |

Source: SDE

Four-Year Old Program

Oklahoma is one of only three states that require teachers of four-year-olds 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. Approximately 70% 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.

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. State law now requires all districts reporting dropouts and juvenile justice referrals to offer alternative education in Grades 6-12. More than 12,800 students from 466 school districts were served in 253 Statewide Alternative Education Academies in 2004-05.

At-risk youth are individuals who might fail to successfully complete their secondary education because of economic, socio-cultural, academic or disciplinary 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.

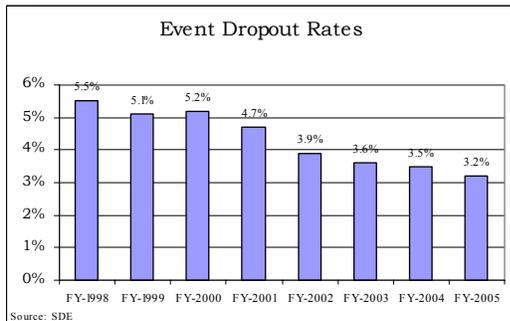
Key Performance Measure

| Pre-post means by group: | | Oklahoma Alternative Education Programs, 2004-05. | | | |
|--------------------------|------|--|---------|--|---------|
| Variable | | Group | | | |
| | | Alternative | Change | Students on Alternative Ed. Waiting List | Change |
| Days absent per week | Pre | 0.81 | | 0.75 | |
| | Post | 0.66 | -18.50% | 0.84 | 12% |
| GPA | Pre | 1.39 | | 2.02 | |
| | Post | 2.31 | 66.20% | 1.4 | -30.70% |
| Days suspended per week | Pre | 0.22 | | 0.15 | |
| | Post | 0.09 | -59.10% | 0.18 | 20% |
| Courses failed | Pre | 2.63 | | 2.05 | |
| | Post | 0.79 | -70% | 2.56 | 24.9 |

On each variable measured, students in alternative education programs showed more improvement than students in the comparison group.

Since FY-1997, Oklahoma’s event drop-out rate has decreased by almost 2.5% from 5.6% in FY-1997 to 3.2% in FY-2005, as shown below. Event drop out rate is the proportion of students from grades 7 to 12 who leave school each year without completing.

Key Performance Measure



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 \$2.3 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 \$1,000 scholarships to teachers and principals for summer institutes and follow-up training. To qualify for scholarships, each qualifying school must be willing to send up to five teachers and a principal to the summer institute. To date, approximately 14,000 teachers have had this training. Great Expectations has begun an initiative to broaden the focus of training to middle and high school faculty.

Neuro-developmental Learning Differences

This program 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 \$1,500 scholarships for teachers to attend a 39 hour course and participate in a year-long practicum. Since the program’s inception in FY-2001, 2,336 teachers have participated from 131 school districts and 12 agencies.

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 16,000 teachers have been trained. Student improvement indicates the success of this program.

| 2004 - 2005 Academic Year Outcomes: Phonics | | | | |
|--|---|------------------|-------------|--|
| | Students who received Instruction and Assessment | % On Grade Level | | |
| | | Year Begin | Year End | |
| Grade K | 2,757 | 0% | 78% | |
| Grade 1 | 2,486 | 38% | 66% | |
| Grade 2 | 1,858 | 35% | 64% | |
| Grade 3 | 700 | 47% | 66% | |

Source: OCTP

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-2005, the Federal government provided \$91 million. In FY-2005, 54.11% of Oklahoma school children qualified for the free or reduced-price lunch program.

Education Leadership Oklahoma

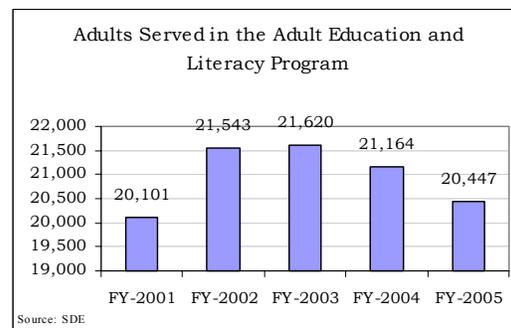
National Board Certification is rooted in the belief that the single most important action this country can take to improve schools and student learning is to improve the quality of teaching. The process requires teachers to undergo an extensive series of performance-based assessments that includes teaching 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 1,306 National Board Certified teachers in Oklahoma, which places it ninth in the nation for the number of teachers certified and fifth in the nation for percent of teachers certified. The State Department of Education estimates there will be an additional 275 teachers attaining national certification in FY-2007.

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. The graph below shows the number of adults utilizing such services.



Advanced Placement

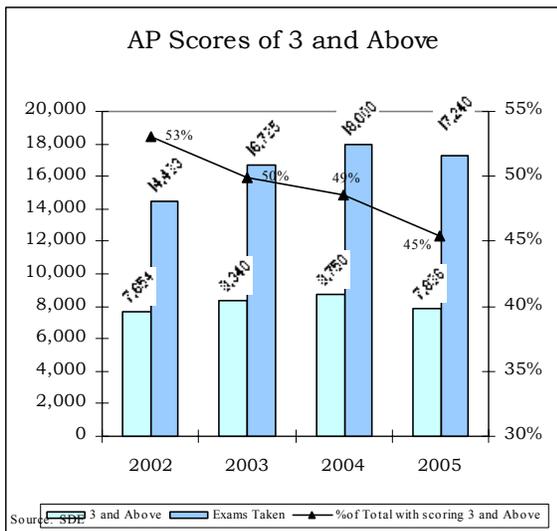
The College Board's Advanced Placement Program trains middle and secondary educators to provide college level academic courses to high school students. Upon completion, high school students may take a College Board Advanced Placement exam. Exams receive a score of 1 to 5; a score of 5 reflects superior 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.

Data from the College Board's AP program shows 10,323 Oklahoma public school students took 17,240 exams last school year. The number of exams taken is more than four times the number of exams taken in 1996-97, the year Oklahoma's AP Incentives program began. Students score a grade of 3, 4 or 5 on almost half of the exams taken, or 7,836, as seen below.

Key Performance Measure



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.

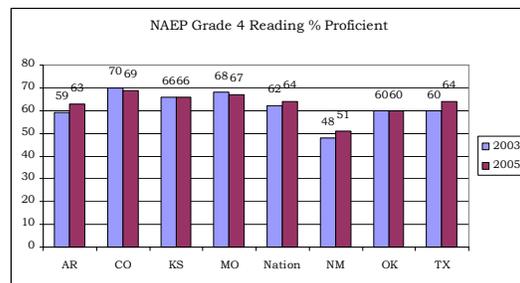
State law provides that teacher consultants may receive an annual stipend of not more than \$500. The FY-2006 budget included funding for the program in the amount of \$700,000.

Statewide Assessments and Outcomes

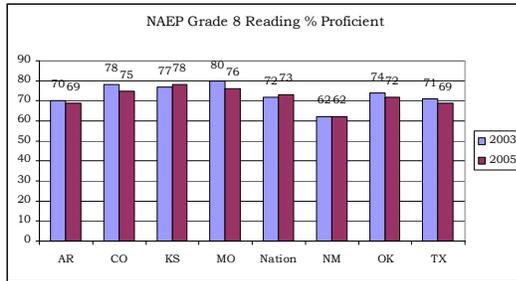
The National Assessment of Educational Progress (NAEP) is the only measure of student achievement in the United States that compares the performance of students in one state with the performance of students across other states. NAEP, sponsored by the U.S. Department of Education, has been conducted for 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.

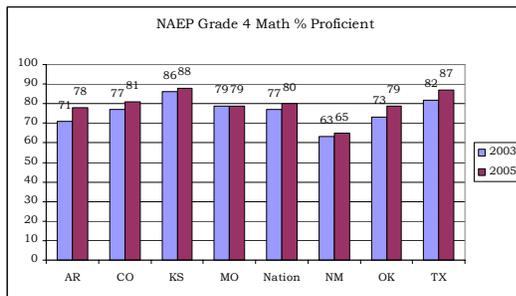
The following charts are from the National Assessment of Education Progress Report for 2005.



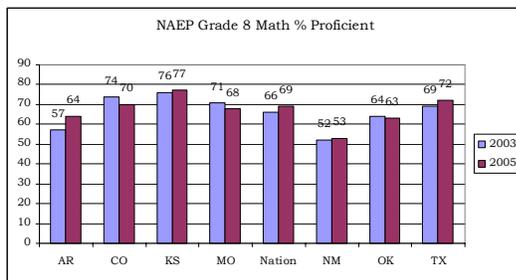
In the 4th grade reading category, Oklahoma finished 6th in the region and 4% below the national average.



In the 8th grade reading category, Oklahoma finished 4th in the region and 1% above the national average.



In the 4th grade Math category, Oklahoma finished 4th in the region and 1% below the national average.



In the 8th grade Math category, Oklahoma finished 6th in the region and 6% below the national average.

Criterion-Referenced Tests

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 tests. 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

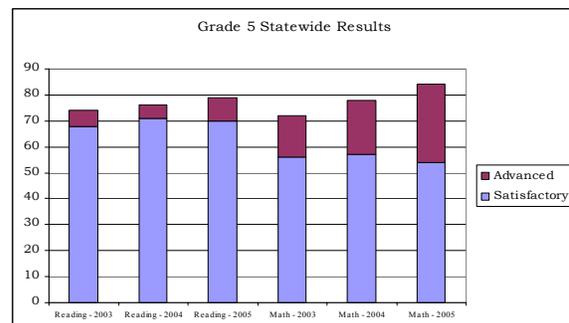
complete English II, Writing, US History, Biology I and Algebra I.

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.

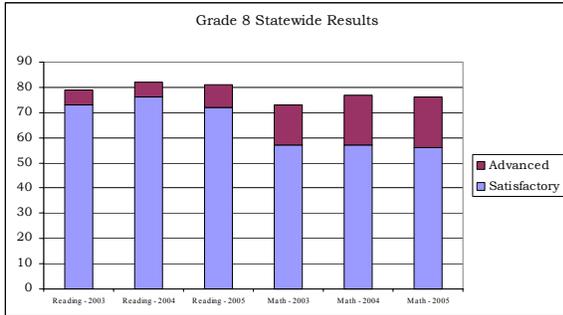
Oklahoma's curriculum standards are defined in the Priority Academic Student Skills (PASS). PASS represents the basic skills and knowledge all Oklahoma students are expected to learn in the elementary and secondary grades. State law requires PASS to be re-evaluated every three years.

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 PASS standards are comprehensive, measurable and 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.

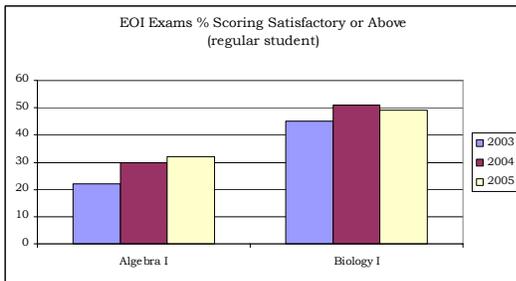
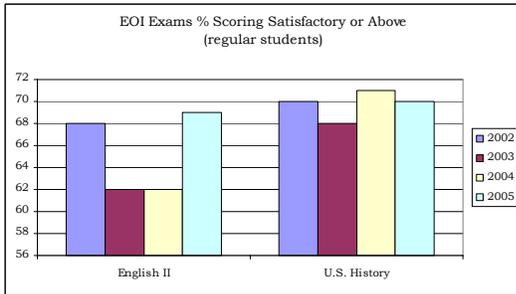


Between the 2003 and 2005 school year, Oklahoma students in fifth grade increased their scores in Reading, Math, Science and Social Studies, as seen above.



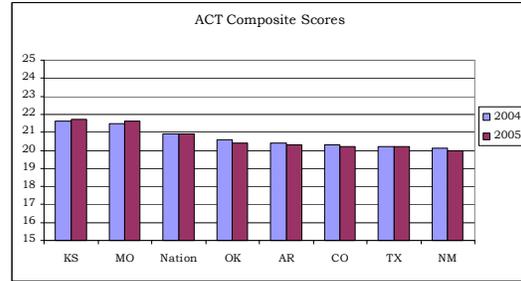
Between the 2003 and 2005 school year, Oklahoma students in eighth grade increased their scores in all categories.

High School End of Instruction Tests were administered for the first time during the 2000-01 school year. Subject areas were phased in, so only English II and US History were tested in 2000-01 and 2001-02. Results are shown in the charts below.



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 the ACT is 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 20.4; Kansas ranks first with a score of 21.7. The national average is 20.9, as seen above.

Oklahoma is third among Southern Regional Board (SREB) states. Virginia 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.

In March 2004, ECS released the ECS Report to the Nation: State Implementation of the No Child Left Behind Act. Only 3 states had met more requirements than Oklahoma – Kentucky, Colorado and Maryland. Currently, Oklahoma has met 35 of the 38 NCLB requirements.

State Student Information System ("The Wave")

With the passage of the federal "No Child Left Behind Act of 2001", additional accountability and reporting requirements were added to already growing state-level demands for more and better education data. During the 2003 legislative session, HB 1646 defined standards for the state student record system already being developed by the State Department of Education. The bill also required that all schools in Oklahoma comply with extensible markup language (XML) standards and the most current version of the Schools Interoperability Framework (SIF) specifications by 2005-06.

Implementation of the new secure electronic system will reduce the reporting burden place on school sites and districts while enabling more accurate information available for decision making purposes. This will revolutionize the manner in which student data is collected, managed and analyzed by local school districts and the State Department of Education.

For example, districts are required to report information to meet state and federal requirements in areas such as special education child count, accreditation and Title I. The WAVE will integrate these reporting requirements into a seamless exchange of information.

The WAVE will develop a centralized system of secure individual student information that will be maintained by 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. The first year (federally funded) of a five-year contract for design and implementation of The Wave was approved by Central Purchasing in June 2004.

FY-2006 Supplemental

| FY-2006 Supplemental <i>(amounts in thousands)</i> | |
|--|--------------------|
| FY-2006 Appropriation | \$2,152,863 |
| Ad Valorem Reimbursement Fund | 19,500 |
| FY-2006 Adj. Appropriation | \$2,172,363 |
| % Change from FY-2005 | 8.20% |
| % Change from Original FY-2006 | 0.91% |
| <small>Source: Office of State Finance</small> | |

Ad Valorem Reimbursement Fund

The Governor's budget includes \$19.5 million to reimburse school districts for a reduction in ad valorem local revenue as a result of companies receiving the five year manufacturer's exemption. This funding is directed for common education but will be appropriated to the Oklahoma Tax Commission.

FY-2007 Recommendations

| FY-2007 Appropriation <i>(amounts in thousands)</i> | |
|---|--------------------|
| FY-2006 Appropriation | \$2,152,863 |
| Ad Valorem | (\$25,000) |
| NBC, \$3,000 teacher salary increase, health | (26,618) |
| FY-2006 Base | \$2,101,245 |
| FY-2006 Bud. FTE Level | 400.0 |
| Actual Ave. YTD FTE | 351.8 |
| Funding Adjustments: | |
| State Employee Pay Increase | 688 |
| State Aid Funding Formula | 50,000 |
| Teacher Salary Increase | 26,106 |
| Lottery Revenue (for teacher salary increase) | 30,811 |
| Teacher Salary Increase | 3,000 |
| National Board Certification | 5,000 |
| 2001 Minimum Salary Schedule | 8,900 |
| Advanced Placement | 700 |
| Testing Costs | 5,000 |
| School Lunch Federal Match | 145 |
| Parents as Teachers | 1,000 |
| Alternative Education | 1,500 |
| Great Expectations | 1,000 |
| Intervention and Remediation | 10,000 |
| Teacher Consultant Stipend | 1,235 |
| Oklahoma Arts Institute | 53 |
| Neuro-Developmental Learning Differences | 250 |
| Early Intervention Services | 3,194 |
| Science Education | 750 |
| Early Childhood Initiative | 1,000 |
| Principal Leadership Development | 1,000 |
| VISION reduction in funding | (100) |
| Lottery Revenue for Consolidation | 3,083 |
| Lottery Revenue for Teachers' Retirement | 3,083 |
| Total Adjustments | 157,398 |
| FY-2007 Recommendation | \$2,258,643 |
| \$ Change from FY-2006 | \$105,780 |
| % Change from FY-2006 | 4.91% |
| <small>Source: Office of State Finance</small> | |

State Employee Pay Increase

The Governor’s budget includes \$688,140 for a 3% state employee pay increase for the State Department of Education. This funding is based on December 2005 salary information.

State Aid Funding Formula

The Governor’s budget provides an additional \$50 million to go through the state aid funding formula. This money will pass through the State Department via the state aid formula and go to the classroom.

Teacher Salary Increase

The Governor’s 5-year plan to increase teacher salaries to the regional average will amount to \$56 million in FY-2007. This budget proposes to pay for \$26.1 million of that \$56 million needed with FY-2007 GR money.

Lottery Revenue

The Board of Equalization certified a total of \$55.7 million of lottery money for common education, \$24.9 million of which is in the base from FY-2006. The \$30.8 million the Governor is recommending represents the difference. The Governor recommends this money be used to cover the remainder of the FY-2007 step on the 5-year plan for increasing teacher salaries to the regional average.

Teacher Salary Increase

The State Department of Education requested over \$56 million for the FY-2007 step in the Governor’s plan to increase teachers’ salaries to the regional average. While that money would be sufficient for all teachers to receive the raise if it followed the teacher, it will go through the funding formula and, therefore, follow the student. The Governor proposes to send \$3 million outside the formula to guarantee that all districts get sufficient funds to provide the pay raise to teachers.

National Board Certification

The Governor’s budget provides an additional \$5 million for the National Board Certification Program. This amount represents the ability to award an additional 275 teachers, to cover federal and state taxes for the estimated 1,740

certified teachers, and to increase the net check received by teachers by approximately \$900, from \$5,000 to \$5,900.

2001 Minimum Salary Schedule

Legislation passed in FY-2001 required all state certified personnel, other than superintendents, to follow the new minimum salary schedule. The Governor recommends \$8.9 million to annualize the supplemental request received during the last legislative session and ensure all teachers are paid at least the state minimum salary.

Advanced Placement

The Governor’s budget proposes an additional \$700,000 for Advanced Placement. Of that money, \$175,000 will be used for each of the following:

- Additional money to schools through course grants, which are \$5,000 each for first time materials and equipment grants;
- Increase vertical team grant program, which are up to \$25,000 each and put together teachers from grades 7 -12 in the same content area to align curriculum and better prepare students to take AP courses;
- Give more assistance to students in financial need to take the AP exams, which cost \$82 each; and
- Expand professional development for teachers, which is currently offer for both AP and pre-AP, but the number of teachers trained is limited.

Testing Costs

Adhering to the recommendation of the ACE Task Force, the Governor recommends an additional \$5 million for testing costs. This money will pay for the development, administration and scoring of the three new examinations to be developed – English III with a writing component, Algebra II and Geometry.

School Lunch Federal Match

Of the \$97 million paid for school lunch in FY-2005, \$14.5 million of Section 4 funds required a state match of 10% based on the per capita income of Oklahoma.

Parents As Teachers

The Governor's recommended increase in this program, \$1 million, represents the ability to serve an additional 145 districts and over 4,100 children.

Alternative Education

The Governor's budget includes an additional \$1.5 million to begin serving the more than 10,000 children currently on the waiting list to enter Alternative Education Programs.

Great Expectations

The Governor's budget proposes \$1 million be allocated for this program. The state awards \$1,000 for each team member participating in the program. Funding will provide the scholarships to an additional 1,000 teachers and administrators.

Intervention and Remediation

Adhering to the recommendation of the ACE Task Force, the Governor recommends an additional \$10 million for remediation and intervention to begin preparing students for the mastery examinations called for by the ACE Act of 2005. This money will be focused on current 6th graders, the first class to be required to pass the ACE exit exams in order to graduate. The Task Force recommended providing support and assistance prior to high school in efforts to reduce the necessary dollars required for remediation at the high school level.

Teacher Consultant Stipend

The Governor recommends an additional \$1.235 million for this program. State law allows the stipends to be up to \$500, therefore this money will provide stipends to mentor teachers for the estimated 3,865 new teachers and increase each mentor teacher's stipend from \$181 (FY-2005) to \$500.

Oklahoma Arts Institute

The Governor's budget includes \$53,000 for the Oklahoma Arts Institute. This will allow approximately 341 students and 318 teachers to participate in a two-week disciplinary institute in June where they study with professional artists of national reputation.

Neuro-Developmental Learning Differences

The Governor's budget proposes an additional \$250,000 for this program, which enables approximately 200 more teachers to participate in the program.

Early Intervention Services

The Governor proposes to spend an additional \$3.194 million for Early Intervention Services. Of this total, \$2.49 million replaces one time federal funds which were only available during FY-2006. The remainder, \$701,321, allows SoonerStart to contract for services and pay for other Health Department employees in communities without dedicated SoonerStart staff. SoonerStart expects to serve 11,782 eligible infants and toddlers and their families in FY-2007.

Science Education

The Governor's budget provides \$750,000 to support educational programs in science. This money will provide additional professional development for teachers, outreach to schools, summer discovery labs and interactive labs and exhibits, enriching the current services provided to over 86,000 Oklahoma children.

Early Childhood Initiative

The Governor's budget allocates \$1 million for new early childhood development projects. This money will provide two grants, both of which will be matched with \$2 of private funds for each \$1 in state funds. One grant will focus on early childhood programs in an urban area, one in a rural area.

Principal Leadership Development

The Governor's budget includes \$1 million for a Principal Leadership Development initiative. The Summer Academy, which will be outsourced through the State

Department of Education, will provide networking with school leaders across the state and provide an opportunity to hear about school leadership strategies from national experts. Training principals as effective instructional leaders focused on student achievement is a current need so that the charges of NCLB and ACE can be met to support students and provide continuous school improvement strategies.

- The State Department of Education work to identify qualifying districts to serve as models for the program; and
 - Significant interest is shown from potential pilot districts.
-

VISION Reduction in Funding

The Governor’s budget recommends that \$100,000 be reduced from the VISION program.

Lottery Revenue for Consolidation

When Oklahomans voted the lottery into effect in November 2004, 5% of that money was earmarked for Elementary and Secondary Education Consolidation for districts that voluntarily choose to consolidate. Therefore, the Governor’s budget includes an estimation of that percentage of lottery revenue, in the amount of \$3.083 million, with the total amount from the lottery earmarked for consolidation being over \$6.2 million.

Lottery Revenue for Teacher’s Retirement

The state vote on the lottery also mandated earmarking 5% of lottery revenues for teacher retirement. The Governor’s budget includes \$3.083 million for that purpose.

STAR Pilot Program Continued Funding

In FY-2006, the Legislature passed HB 1021. One component of that bill created the Student Tracking and Reporting Pilot Program, whose purpose was to develop and implement a horizontal school district and school site student data management and reporting system based on the Schools Interoperability Framework (SIF) that would vertically interoperate with the WAVE. This budget includes funding for the implementation of the Pilot Program for new pilot districts under the following conditions:

- An evaluation of the program, indicating its effectiveness, is obtained from the model and pilot districts;

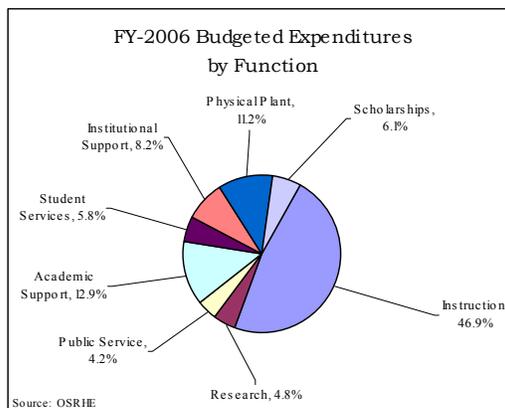
Oklahoma State Regents for Higher Education

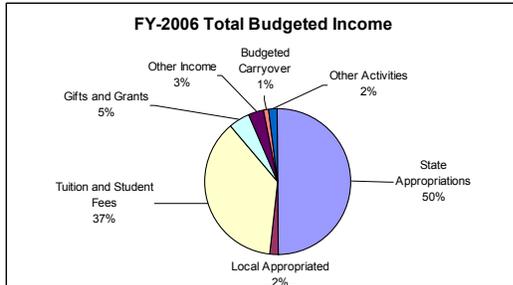
Notable Achievements

- The largest higher education capital bond program in the state's history was signed into law in March 2005. The \$475 million Capital Improvement Bond Program will support 140 capital infrastructure projects in 36 communities across the state. In November 2005, the state system institutions received access to the bond proceeds of the first two series.
- OneNet and the Lambda Rail partnership will provide private and public researchers exclusive access to the world's fastest data network. Further, the state network infrastructure, OneNet, was enhanced with new fiber paths and state-of-the-art optical equipment that will provide increased bandwidth and fault-tolerance for all the constituents served by the network.
- The Oklahoma State Regents have begun the implementation of The Student Information Portal to provide a single comprehensive web-based system for prospective and current students that will include online admission applications, student-developed academic portfolios, college information, career opportunities, financial aid, test preparation, and ACT student services.
- The Oklahoma State System institutions have entered into six Cooperative Alliance agreements with Career Technology Centers. Cooperative Alliances are voluntary partnerships between a higher education institution and a technology center that align academic, business and administrative practices for postsecondary educational purposes. These partnerships increase access to technical college-level programs for high school and adult students and utilize the resources of two state educational agencies in ways that will efficiently and effectively strengthen both

systems while improving services and opportunities for students.

- Oklahoma Money Matters (OKMM), the State Regents' financial literacy program, continues to support consumer education through targeted outreach and strategic partnerships, serving as a clearinghouse of information and resources to help youth and adults successfully manage personal finances, understand consumer credit issues and navigate the financial aid process. Through a federal AmeriCorps partnership, OKMM offers free workshops in communities across the state in cooperation with 13 field sites.
- Oklahoma's colleges and universities continue to expand access to higher education offerings through technology diffusion. Over 91,000 enrollments in distance education courses resulted in over 269,000 credit hours being delivered during the 2003-2004 academic year.
- The Oklahoma State Regents received validation from the Oklahoma Supreme Court to issue up to \$50 million in bonds to be used to fund the state matching obligation for private gifts donated to the Endowed Chairs program. The Endowed Chairs program helps to attract quality faculty members and enhances the educational experience of our students.





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 age 25 and older to hold an associates degree. In 2003, 21.9% held a bachelor’s degree or higher and 6.3% held an associate degree.

Key Performance Measures

| Percent of Population with College Degrees Age 25 or Older | | | | |
|--|-------|-----------|-------------|---------|
| | OK | U.S. Avg. | US 2010 Est | OK Goal |
| Associate | 6.3% | 7.0% | 6.5% | 7.0% |
| Bachelors or higher | 21.9% | 26.5% | 27.5% | 28.0% |

Source: Regents
Numbers based on 2003 US Census Data

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. The students that go to college need to be retained in order for the number of college graduates to increase in Oklahoma.

College-going Rate

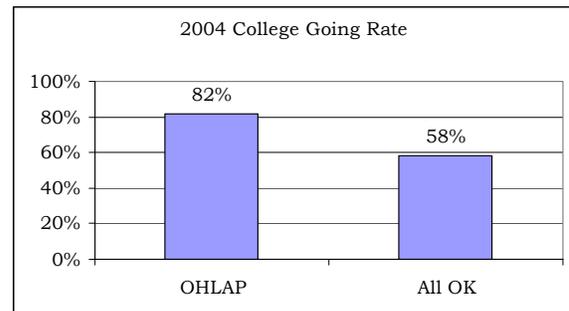
The percentage of high school students going to college varies considerably across the state. Note that the two largest counties are slightly above the state average while the lesser populated counties vary considerably.

Key Performance Measures

| Oklahoma High School to College-Going Rate Directly from High School to College | | | | | |
|---|---------|---------|---------|---------|---------|
| | FY-2000 | FY-2001 | FY-2002 | FY-2003 | FY-2004 |
| Oklahoma County | 57.8% | 57.8% | 60.6% | 56.9% | 60.2% |
| Tulsa County | 55.7% | 56.0% | 60.9% | 58.5% | 57.7% |
| Highest county | 79.7% | 63.3% | 73.7% | 78.2% | 75.0% |
| Lowest county | 18.7% | 26.7% | 33.2% | 28.6% | 26.7% |
| Nation* | 63.3% | 61.7% | 65.2% | 63.9% | 66.7% |
| State avg. | 55.1% | 54.8% | 57.7% | 56.4% | 57.9% |

Source: State Regents' High School Indicators Project: High School to College-Going Rates
*Source: Postsecondary Education Opportunity April 2005

The 2004 college going rate for OHLAP students was 82% compared to 57.9% for the state, as expressed in the graph below. As enrollment in this program grows, OHLAP students will have a positive statewide impact on Oklahoma’s state college-going rate.



Eighty-eight percent of the first-time freshmen at state institutions were from Oklahoma.

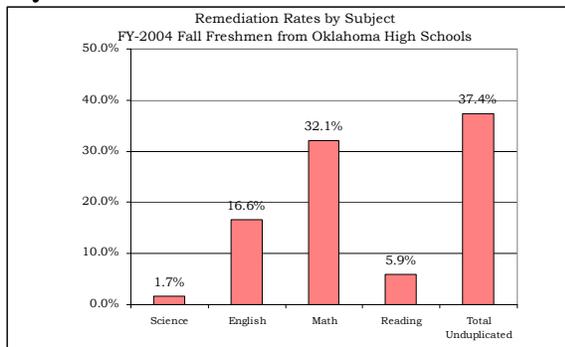
According to the 2000 Census, Oklahoma outpaces the nation in adult learners, ages 25 to 49, enrolled in part time higher education at 3.9% compared to the national average of 2.7%. The economic downturn may contribute to non-traditional students returning to college to increase job skills.

Remediation rate

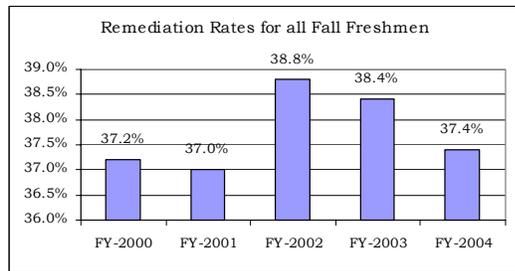
College graduation rates are also a function of college remediation. A study conducted by the Education Commission of the States concluded students who require more than one remediation class are two times less likely to complete college than those students requiring less than one remediation course.

In the fall of 2003, 32.1% of first-time freshmen were enrolled in at least one remedial mathematics course, 16.6% in a remedial English course and 5.9% in a remedial Reading course.

Key Performance Measure



In FY-2004, first-time freshmen direct from Oklahoma high schools had a remediation rate of 35.0%, compared to 37.4% for all first-time freshmen.

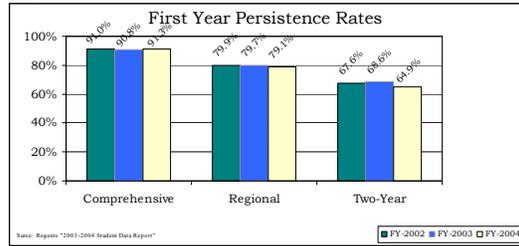


Retention and Graduation rate

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.

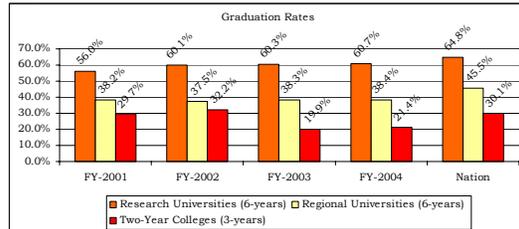
Six-year graduation rates of entering freshmen at the colleges and universities continue to improve; however, Oklahoma lags behind the nation.

Key Performance Measure



Oklahoma graduation rates at the regional and two-year institutions are especially low.

Key Performance Measure



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 86% of bachelor degree holders, 89% of associates and 71% 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

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

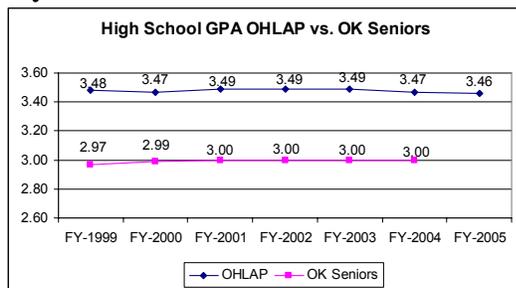
To qualify students must:

- 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.

Eight 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:

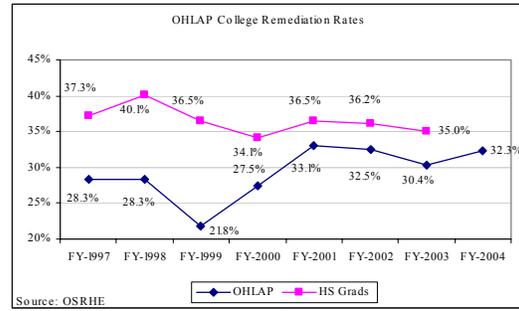
- Earn higher-than-average high school GPA's;

Key Performance Measure



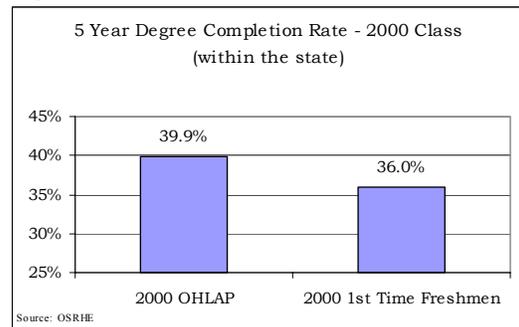
- Earn higher than average ACT scores;
- Have higher college-going rates;
- Require less remediation in college;

Key Performance Measure

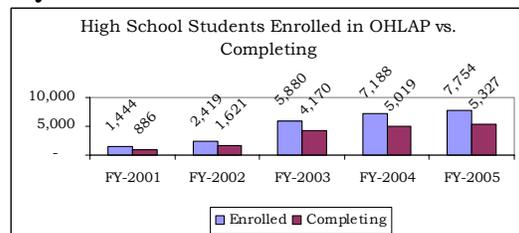


- Enroll full-time in college at higher-than-average rates;
- Persist in college at high rates; and
- Are initially completing college degrees at a higher-than-average rate.

Key Performance Measure



Key Performance Measure



- In FY-2005, 68% of students enrolled in OHLAP completed the program.

Academic Scholars

Created 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-2006, scholarships in the amount of approximately \$9.9 million will be awarded to 2,140 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. The criteria to be eligible for OTAG is Expected Family Contribution, as calculated by the Free Application for Federal Student Aid, of no more than \$1,500.

For students enrolled in private institutions, the maximum award is \$1,300. For FY-2006, funding is sufficient for an estimated 23,000 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 and was awarded a total of \$25.1 million for six years.

Since 1999, more than 150 school districts have revised their academic, counseling and student service supports for their students in middle and high school. The data-driven revisions have been implemented so that all students have real

options for their postsecondary education and all students take challenging, college and work preparatory high school courses.

Since its inception, Oklahoma GEAR UP has helped 144 districts deliver services to more than 75,000 students. In the 2005-2006 school year, GEAR UP has focused its efforts in 25 school districts to provide comprehensive training opportunities designed to improve student learning and retention across three strands: curriculum/instruction, guidance and educational leadership. In addition, GEAR UP funds also help provide statewide professional development, college access information and grants to community based organizations statewide.

Since the release of the February, 2000 remediation report, total state remediation rates have dropped from 40.1% to 35.0 percent in the February 2005 remediation report. Lower remediation rates are an indication that students are better prepared for college.

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.

Oklahoma received another six year GEAR UP award on September 1, 2005. The Phase II amounts to \$20.6 million over the next five years and will expand the number of districts and students served.

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 an annual state income tax deduction of up to \$10,000 per taxpayer, \$20,000 per joint filing taxpayers;
- 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 29,000 Oklahoman's have opened College Savings Plan accounts totaling \$163 million in assets. Every other state offers a similar state income tax deduction annually.

Tuition

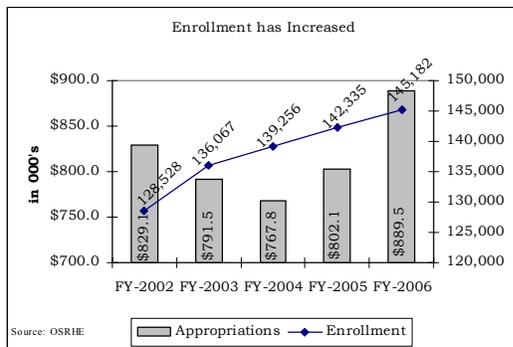
Higher education tuition fees in Oklahoma are among the lowest in the nation. Fees at all levels have increased for the current academic year.

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. Tuition and mandatory fees for residents and nonresidents for all degrees and at all other tiers are calculated in a similar manner.

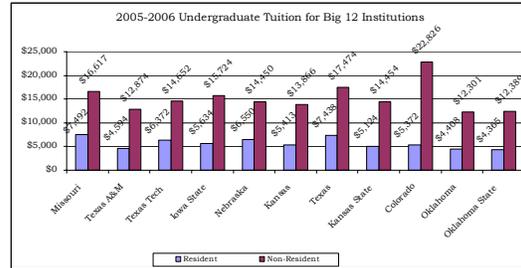
In addition to submitting annual tuition reports, Regents are also required to make a reasonable effort to increase the need-based financial aid available to students proportionate to any increase in tuition.

The following is a chart showing system funding and FTE enrollment history and projections.



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.



Concurrent Enrollment

In the 2003-2004 academic year, 3,994 high school students concurrently enrolled in courses at Oklahoma's higher education institutions for a total of 26,960 credit hours. State law provides that a twelfth-grade student enrolled in an accredited high school may be admitted provisionally to a college or university in the Oklahoma State System of Higher Education as a special student. Younger students may be eligible for concurrent enrollment, but there are more stringent provisions. To be eligible, high school seniors must meet the certain requirements for admission, which follow:

- University of Oklahoma - ACT 24 or SAT 1090 or GPA 3.0 and Class Rank in the Top 30%;
- Oklahoma State University - ACT 22 or SAT 1020 or GPA 3.0 and Class Rank in the Top 33.3%;
- Regional Universities - ACT 20 or SAT 940 or GPA 3.0 and Class Rank in the Top 50%; or
- Two-Year Colleges - ACT 19 or SAT 900 or GPA 3.0.

A provision of the Achieving Classroom Excellence (ACE) Act of 2005 addressed concurrent enrollment for high school seniors. ACE provided that a high school senior that meets the criteria for concurrent enrollment may receive a tuition waiver for up to six credit hours per semester. During

the first semester of this program, there was a 25% increase, 3,379 students up from 2,701 the previous semester.

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 \$162 million. To date, 207 chairs, 152 professorships and 110 lectureships have been established at 22 universities and colleges.

Annual budgeted allocations remained the same in FY-2006.

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. There are currently \$73 million in unmatched private donations.

The 2004 legislature passed a bill allowing the Regents to advance fund \$50 million of the backlog of over \$60 million. The Regents recently received validation from the Oklahoma Supreme Court judges. The bonds will be issued through OCIA, and will equate to \$7.5 million annual debt service.

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 20.95% of OneNet's costs. User fees and other revenue make up 79.05% of their costs.

| OneNet Funding FY-2005 | |
|-----------------------------------|---------------|
| State Appropriations | \$ 919,271 |
| Higher Ed. Institutions User Fees | 2,145,116 |
| Federal (E-rate) Reimbursements | 3,348,670 |
| OK Universal Service Funds | 2,040,141 |
| Customer Revenue (non-E-rate) | 5,007,085 |
| Investment Income | 75,000 |
| Grants (OUSF, ODL, VISION) | 150,150 |
| Tower Lease Revenue | 83,500 |
| Administrative Overhead/other | 862,714 |
| | \$ 14,631,647 |

Source: OneNet

Office of Accountability

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 and can be found at the following website:
<http://www.schoolreportcard.org/>.

Educational Indicators Program

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 nearly 100 data items that facilitate yearly and historical comparisons of public school and school districts. Included in the reports are graduation rates, dropout rates, pupil-teacher ratios, enrollment gain and loss rates, school district finances and test results by grade and subject, all presented in socioeconomic context. This information is also distributed to parents statewide in the form of school report cards.

School Performance Review Program

Legislation passed in 2001 authorized the Office of Accountability to administer a school performance review program. A school performance review evaluates every aspect of school district operation. Districts may request a review or a review may be triggered by a district overspending in the area of Administration, as determined by the State Department of Education. The program's goal 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 a review be directed into additional funding of classroom services.

From FY-2003 through FY-2005, the Office completed reviews of Billings Public Schools, Ponca City Public Schools, Hennessy Public Schools, Frontier Public Schools and Stillwater Public Schools. In FY-2006, reviews of the Clinton Public Schools, Little Axe Public Schools and Wewoka Public Schools will be completed. Since its inception, the School Performance

Review Program has identified over \$9.1 million of savings for the participating districts.

Quartz Mountain

The Quartz Mountain Arts and Conference Center is the chosen destination for various State and private business conferences in addition to being the home of the summer and fall fine arts institutes conducted by the Oklahoma Arts Institute. Quartz Mountain Arts and Conference Center and Nature Park offers a variety of recreational options for the resort and 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 paddleboats. 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 272 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 375 participants who included teachers, professors and artists attended the Fall Arts Institutes.

FY-2006 Supplemental

| FY-2006 Supplemental <i>(amounts in thousands)</i> | |
|--|------------------|
| FY-2006 Appropriation | \$889,432 |
| OHLAP Scholarship Fund | 4,600 |
| FY-2006 Adj. Appropriation | \$894,032 |
| % Change from FY-2005 | 11.46% |
| % Change from Original FY-2006 | 0.52% |
| Source: Office of State Finance | |

OHLAP Scholarship Fund

The Governor proposes to increase the appropriation to Oklahoma Higher Learning Access Program Trust Fund to cover FY-2006 OHLAP scholarship costs. The approximate 12,000 OHLAP recipients each received an average scholarship of \$2,250 in FY-2006.

FY-2007 Recommendations

| FY-2007 Appropriation <i>(amounts in thousands)</i> | |
|---|------------------|
| FY-2006 Appropriation | \$889,432 |
| OHLAP | (4,000) |
| FY-2006 Base | \$885,432 |
| FY-2006 Bud. FTE Level | 308.2 |
| Actual Ave. YTD FTE | 297.3 |
| Funding Adjustments: | |
| College and University Mandatory Costs | 50,000 |
| Adult Degree Completion Initiative | 500 |
| OHLAP | 10,000 |
| Concurrent Enrollment | 2,500 |
| OTAG | 1,800 |
| OTEG | 1,500 |
| Endowed Chairs | 2,000 |
| Bond Issue | 18,000 |
| Technology Economic Development for Historically Black Towns | 178 |
| Transfer funds from OSU Fire Training Funds to Fire Marshall | (982) |
| Total Adjustments | 85,496 |
| FY-2007 Recommendation | \$970,928 |
| \$ Change from FY-2006 | \$81,496 |
| % Change from FY-2006 | 9.16% |
| Source: Office of State Finance | |

College and University Mandatory Costs

The Governor's budget includes \$50 million for institutional budgets. This money will be distributed among institutions for mandatory costs (health and risk management insurance), annualization of salary increases, operating costs for new facilities, replacement of faculty positions, new faculty positions and other support staff positions.

Adult Degree Completion Initiative

The Governor's budget proposes \$500,000 to provide awareness of the Adult Degree Completion initiative, to hire staff to coordinate the program across all the

participating institutions and to cover other start up expenses. This initiative will provide a flexible and accelerated option for working adults who want to earn a bachelor's degree. Participants must have completed more than two years of college work to be eligible. The program takes into account the family, work and financial obligations that older students face.

OHLAP

The Governor's budget includes \$10 million for OHLAP scholarships. This money will fund tuition for the current 12,000 recipients and for an additional 3,000 student scholarships. The average scholarship in FY-2007 is estimated to be \$2,475.

Concurrent Enrollment

The Governor's budget allocates \$2.5 million for concurrent enrollment. A facet of the Achieving Classroom Excellence (ACE) Act of 2005 was a tuition waiver at state higher education institutions for eligible high school seniors of up to six hours per semester. Based on projections, this money will cover the over 30,000 credit hours high school seniors will take in FY-2007.

OTAG

The Governor proposes an additional \$1.8 million for this grant program. This will enable the Regents to increase the average award from a maximum of \$1,000 to over \$1,100. Roughly 50% of the eligible population is served through OTAG.

OTEG

The Governor's budget includes an additional \$1.5 million for this grant program. This money will move the Regents closer to fully funding the program to serve all eligible students, resulting in an additional 750 students being served. These scholarships are \$2,000 each.

Endowed Chairs

The Governor's budget proposes \$2 million for the Endowed Chairs Program. The current backlog of private donations available is \$73 million. As price levels vary based on the type of endowment made, this

money may provide anywhere from two to 80 additional endowments.

Bond Issue

The Governor's budget includes an additional \$18 million of lottery revenue to cover the debt service on the \$475 million bond issue approved by the 2005 Legislature.

Technology Development for Historically Black Towns

The Governor's budget recommends \$178,000 for this initiative. The purpose of this program is restoring Oklahoma's Black towns by providing economic opportunities through various state and federal agencies currently existing for rural development.

Each of these goals complements the Governor's State of the Workforce Investment Plan, which has the ultimate goal of providing quality access to quality services that will create a quality workforce.

A breakdown of the \$178,000 is below:

- \$101,100 for personnel to administer and coordinate the program efforts;
- \$60,000 to provide OneNet in four of the 13 Historically Black Towns
- \$10,000 for travel expenses; and
- \$6,000 for supplies.

Transfer funds from OSU Fire Training Funds to the State Fire Marshall

Currently, the funds from the OSU Fire Training program pass through the Regents. For FY-2007, the Governor's budget recommends passing those funds through the State Fire Marshall resulting in an appropriation reduction of \$971,872 for the Regents. This recommendation will enhance the coordination of statewide fire safety training efforts and will fund the training of rural and volunteer firefighters as well as provide additional training for firefighters.

Oklahoma Department of Libraries

Clients served include 205 public libraries; 1,500 school libraries; 68 academic libraries and 110 special libraries.

Notable Achievements

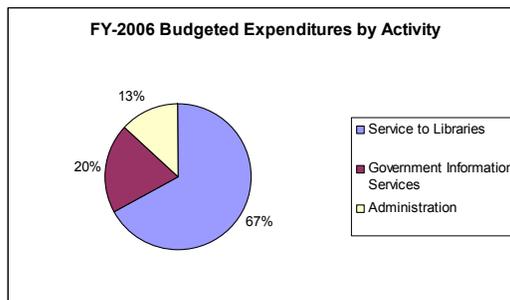
- *The Oklahoma Department of Libraries (ODL) partnered with the Office of State Finance and the vendor of the state government web portal, NIC, to improve ODL's search services for state government websites. ODL's SoonerSearch, the only service that indexes all state government agency websites, is now managed through NIC's Google service, which offers more powerful search capabilities. Since the partnership began, SoonerSearch use has doubled to more than one million searches annually.*
- *Oklahoma Reads Oklahoma, the state's official centennial reading and discussion project, launched its second statewide author tour during FY-2005. Tim Tingle, author of this year's selection, Walking the Choctaw Road, presented over fifty ODL sponsored programs that reached over 5,200 persons. Thirty additional programs at schools, conferences and festivals introduced the author and his work to thousands more Oklahomans. Governor Henry declared May 18 through November 30 "Walking the Choctaw Road Days."*
- *100 Years of Oklahoma Governors, an official centennial project, recognizes the importance of the Governors' Collection housed in the Oklahoma State Archives. This online collection presents biographies, histories and state of the state addresses of Oklahoma's governors. Online exhibit elements, such as photographs and images of pertinent documents, are also included.*
- *The licensing of electronic versions of magazines and journals continues to be an achievement that benefits all citizens of Oklahoma. Statewide access to full-text magazine and journal articles saves local public libraries millions of dollars.*

Mission

The Oklahoma Department of Libraries (ODL) serves the citizens of Oklahoma by providing information services and preserving unique government information resources.

As a comprehensive state library agency, the Oklahoma Department of Libraries provides public library development services to the library community, as well as archives and records management services to the public and state government. The agency also maintains law and legislative reference resources, as well as state and federal government information resources.

Through a combination of traditional print and online web services, the ODL provides convenient public access to state publications and information. The agency also provides access to and retention of 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*. The graph below shows a breakdown of the agency's expenditures for FY-2006.



Source: Oklahoma Department of Libraries

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 to legislators. 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 agency's U.S. Government Information division provides citizens access to federal information in both print and electronic formats.

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 agency's 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.

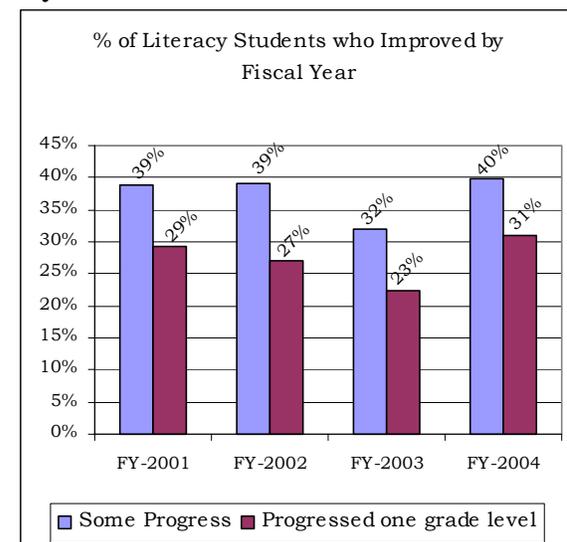
The literacy resource office works through local libraries using staff and volunteers to work with both children and adults. The following table (top) describes services offered by the Literary Resource Office, and the graph (below) shows student improvement by fiscal year.

Key Performance Measure

| Client | FY-2002 | FY-2003 | FY-2004 | FY-2005 | FY-2006 Budgeted |
|--|---------|---------|---------|---------|------------------|
| Children in Libraries First Book Program | 1,350 | 1,492 | 1,562 | 1,592 | 1,600 |
| Children served by local programs | 6,714 | 11,670 | 5,133 | 4,865 | 4,900 |
| Active Tutors | 1,412 | 1,140 | 1,472 | 1,123 | 1,200 |
| Adult literacy (not TANF) | 3,200 | 2,694 | 3,510 | 3,542 | 3,600 |
| TANF - hours of instruction | 74,957 | 90,281 | 120,842 | 106,425 | 100,000 |

Source: Department of Libraries 12/20/2005

Key Performance Measure



Source: Dept. of Libraries

Children's summer reading program

The summer reading program is another major impetus which impacts the literacy rate, keeping 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, as shown in the table below.

Key Performance Measure

| Summer Reading Program | | |
|------------------------|------------------------|---------------------------------|
| | # of children enrolled | % of eligible children enrolled |
| FY-2001 | 65,550 | 20% |
| FY-2002 | 75,638 | 21% |
| FY-2003 | 86,868 | 25% |
| FY-2004 | 97,820 | 28% |
| FY-2005 | 84,250 | 26% |
| FY-2006 Bud. | 88,000 | 27% |

Source: Department of Libraries 12/20/2005

FY-2007 Recommendations

| FY-2007 Appropriation <i>(amounts in thousands)</i> | |
|---|----------------|
| | |
| FY-2006 Appropriation | \$4,243 |
| FY-2006 Bud. FTE Level | 69.5 |
| Actual Ave. YTD FTE | 66.4 |
| | |
| Funding Adjustments: | |
| State Employee Pay Increase | 54 |
| State Aid to Public Libraries | <u>250</u> |
| Total Adjustments | 304 |
| FY-2007 Recommendation | \$4,547 |
| % Change from FY-2006 | 7.16% |

Source: Office of State Finance

State Employee Pay Increase

The Governor's budget includes \$53,743 for a 3% state employee pay increase for the Department of Libraries. This funding is based on December 2005 salary information.

State Aid to Public Libraries

The Governor's budget proposes \$250,000 for state aid to public libraries. The addition of this money to the 205 public libraries in the state will enable them to enhance the services offered to constituents.

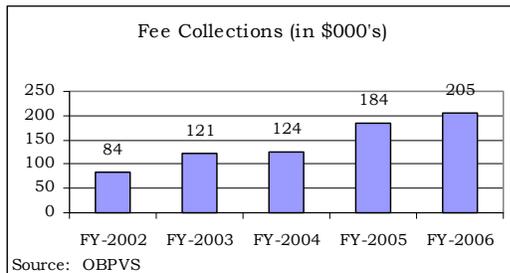
Board of Private Vocational Schools

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.

HB 2400 and SB 917 passed in the 2004 Legislative Session created an appropriated revolving fund where monies collected by the Board of Private Vocational Schools will be deposited. The law also increased the amount of the fines that can be levied by the Board and by District Court for non-compliance of the law and rules. These increases are estimated to result in additional fee collections of approximately \$194,345 in FY-2005 collections.

FY-2006 fee collections are estimated to be \$205,000, as illustrated in the graph below, while appropriations were \$155,456. In the FY-2007 budget request, the Board indicated the intention to utilize revenue generated by fee collections for operating purposes, in effect becoming a non-appropriated agency.



FY-2007 Recommendation

| FY-2007 Appropriation <i>(amounts in thousands)</i> | |
|---|--------------|
| FY-2006 Appropriation | \$172 |
| FY-2006 Bud. FTE Level | 3.0 |
| Actual Ave. YTD FTE | 2.9 |
| Funding Adjustments: | |
| Non-Appropriated | (172) |
| FY-2007 Recommendation | \$0 |
| % Change from FY-2006 | -100.00% |
| <small>Source: Office of State Finance</small> | |

Non-Appropriated

The Governor's budget mimics the request from the Board of Private Vocation Schools for non-appropriated status.

Oklahoma School of Science and Mathematics (OSSM)

Notable Achievements

The class of 2005 had many accomplishments, some of which are:

- Had an average ACT composite score of 31.3;
- 13 National Merit Finalists;
- Three students with perfect SAT scores;
- Three National Achievement Scholarship Finalists;
- Sixteen Robert C. Byrd Honors Scholars;
- Six candidates in the 2005 Presidential Scholars Program; and
- First place in the Oklahoma Mathematics League Competition.

Mission

The mission of the Oklahoma School of Science and Mathematics is twofold:

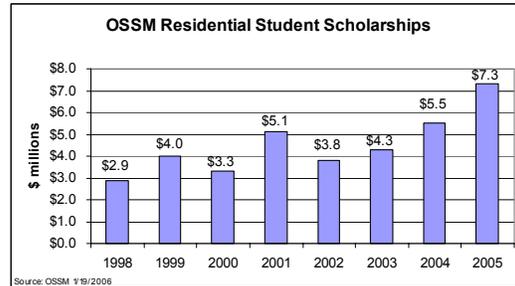
- To foster the educational development of Oklahoma high school students who are academically talented in science and math; and
- To assist in the improvement of science and mathematics education for the state.

The OSSM has two main activities, a residential school, to which 78% of FY-2006 budget expenditures will go, and regional outreach, comprising the remaining 22%.

Residential High School

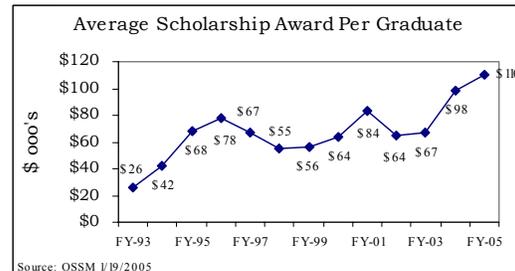
OSSM maintains a tuition-free residential high school for 144 students. Residential students represent the entire state with over half of the enrollment from smaller communities. Students focus on biology, chemistry, physics, computer science, mathematics and the humanities. They excel as measured by 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, as seen in the graph below.



The scholarship awards per graduate are also impressive, as the graph below indicates.

Key Performance Measure



Twenty six states have various forms of Math and Science residential programs. However, there are differences such as charging tuition, breadth of subject areas included or concurrent enrollment status with higher education universities. 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. The following table shows the cost breakdown for the past four fiscal years.

| Comparison Cost per OSSM Residential Student FY-2002 to FY-2005 | | | | |
|--|---------------------|---------------------|---------------------|---------------------|
| | FY-2002 | FY-2003 | FY-2004 | FY-2005 |
| Educational Cost | \$ 21,784.01 | \$ 21,541.00 | \$ 21,884.00 | \$ 22,174.00 |
| Residential Cost | 6,640.57 | 5,450.00 | 5,766.00 | 6,430.00 |
| | <u>\$ 28,424.58</u> | <u>\$ 26,991.00</u> | <u>\$ 27,650.00</u> | <u>\$ 28,604.00</u> |

Source: OSSM, 1/19/2005

At OSSM, 17 of 26 instructors and two administrators at the residential site have PhD's. Three of 21 instructors at the regional center sites have their PhD's, in addition to the regional center program administrator.

Of the 841 OSSM graduates since 1992, approximately 60% have or are attending in-state higher education institutions.

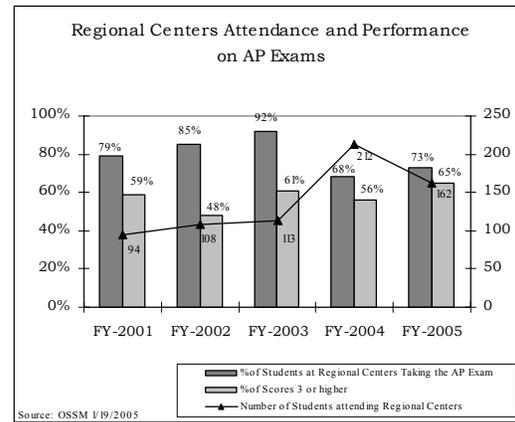
Regional Centers

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 ten operational regional center sites located in Ardmore, Afton, Drumright, Enid, Muskogee, Ponca City, Pryor, Okmulgee, Shawnee and Tahlequah, with one more set to be operational in FY-2007 in Poteau.

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.

As evidenced in the below graph, in FY-2005, there were 162 students in the regional centers. 73% took the AP exams and 65% of the scores were a three or higher.

Key Performance Measure



FY-2007 Recommendation

| FY-2007 Appropriation (amounts in thousands) | |
|--|----------------|
| FY-2006 Appropriation | \$7,020 |
| FY-2006 Bud. FTE Level | 74.0 |
| Actual Ave. YTD FTE | 70.8 |
| Funding Adjustments: | |
| State Employee Pay Increase | 114 |
| Increased Operating Costs | <u>293</u> |
| Total Adjustments | 407 |
| FY-2007 Recommendation | \$7,427 |
| % Change from FY-2006 | 5.80% |

Source: Office of State Finance

State Employee Pay Increase

The Governor's budget includes \$113,576 for a 3% state employee pay increase for the School of Science and Mathematics. This funding is based on December 2005 salary information.

Increased Operating Costs

The Governor recommends additional funds to annualize the Poteau regional center instructor positions, for service contract increases, for debt service and other operating costs in the amount of \$293,000.

Oklahoma Commission for Teacher Preparation (OCTP)

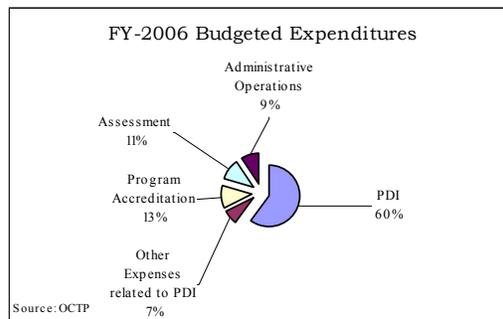
Notable Achievements

- Over 260 programs at Oklahoma's 22 teacher education institutions have received national recognition from the National Council for Accreditation of Teacher Education or have met strengthened state standards.
- Oklahoma remains in the top seven states in the nation in teacher preparation according to the "Quality Counts" report issued by Education Week in January of 2005.
- A sampling of the 44 Phase IV schools participating in the Literacy First Professional Development Institute gained an average of 120 points on their Reading API each year from 2002-2005.
- The middle schools participating in the middle level Math Professional Development Institute had an average gain of 8.85% on the 8th grade Oklahoma Core Curriculum Test as compared to the state average gain of 4.54%.
- Oklahoma ranks 5th in the nation in the percentage of teachers attaining National Board Certification, with 3.3% of teachers (1,289 teachers) having achieved that milestone.
- Oklahoma serves as a national model for other states in the developing of licensure and certification tests. Our re-developed elementary education test is recognized as one of the finest in the nation according to the Buros Center for Testing and National Evaluation Systems testing company.

Mission

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. Eighteen other states have an independent standards

board of some form. All other standards boards are under the individual state's Department of Education. The charts below illustrate OCTP's FY-2006 budgeted expenditures.



Accreditation of Teacher Education Programs

The Commission is responsible for accrediting the state's 22 teacher education programs. The three phases of the accreditation process are:

- Evaluation of each program at an institution to ensure that state and national standards are met;
- Assessment of teacher candidate portfolios; and
- Site visits by trained examiners to institutions to ensure compliance with the standards established by the National Council for Accreditation of Teacher Education.

Teacher Assessment

The OCTP developed and administers a competency-based assessment system for teacher candidates that tests knowledge in three areas: general education, professional teaching knowledge and subject area knowledge. Candidates for teacher licensure and certification must successfully complete all three components.

The Certification Examinations for Oklahoma Educators are reviewed annually and undergo redevelopment as changes occur in national and/or state standards. OCTP is committed to ensuring that the

tests are rigorous and fulfill their purpose — to ensure that individuals seeking an initial Oklahoma teaching license possess the subject matter knowledge and skills needed to teach effectively in Oklahoma public schools.

In 2004-2005, two new certification examinations were developed to meet the needs of the Oklahoma school population: English as a Second Language and Dance. Tests that underwent redevelopment due to changes in state and national standards included Physical Education/Health/Safety, Principal Common Core, Elementary Principal Specialty Test, Secondary Principal Specialty Test, Middle Level Principal Specialty Test and Superintendent. Over 20,000 certification exams were administered in 2004-2005.

Professional Development Institutes (PDI's)

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 professional development for all elementary teachers and administrators using Literacy First as the model. Student reading achievement is dependent on the knowledge and skills of both the teacher and principal. The scientifically researched based reading elements of phonemic awareness, phonics, vocabulary, fluency and comprehension are the frameworks for the skills and strategies taught. A key to the Literacy First process is assessment driven, systematic explicit instruction in each student's "zone of proximal development."

The Literacy First PDI occurs in four Phases. Phase I and II provide 7 days of professional development for teachers. Phase III focuses on literacy and leadership professional development for administrators. Phase IV three year reading reform is a process whereby the

school makes a total commitment by including coaching and mentoring for support and follow up. Literacy First has made a difference for many students, teachers, schools and districts across Oklahoma, as evidenced in the table below.

| 2004 - 2005 Academic Year Outcomes: Phonological Awareness | | | |
|---|---|------------------|-------------|
| | Students who received Instruction and Assessment | % On Grade Level | |
| | | Year Begin | Year End |
| Grade K | 2752 | 9% | 86% |
| Grade 1 | 2352 | 37% | 87% |
| Grade 2 | 1238 | 47% | 85% |
| Grade 3 | 357 | 66% | 76% |

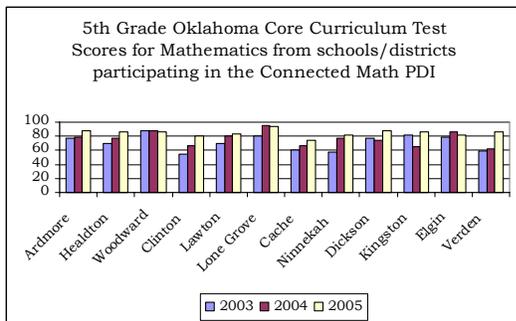
Source: OCTP

Science PDI

The Science PDI, "Improving Science Across Oklahoma" assists teachers in improving science instruction by providing intensive training in science content and inquiry processes with follow-up coaching and lesson study. Additionally, it helps teachers improve learning, as shown by increased student science scores. It includes 10 days of professional development for teachers and administrators. Interaction of technology into the teaching of science and inquiry will create new opportunities for student engagement.

Middle School Math PDI

The math PDI is founded on a three-year system's approach to teaching mathematical concepts, focusing on grades 5 to 8. Connected Math, one of five programs recently recognized by the United States Department of Education as being effective, is the vehicle used in this research-based teacher training. The National Council for the Teaching of Mathematics' (NCTM) mathematical strands is the core of the content used. The outcomes indicate that this professional development program does impact student learning, as indicated below.



As teaching mathematics requires a special set of skills, teachers are trained in the understanding of mathematics, as well as the application, based on the TIMSS research for successful academic achievement in mathematics.

Mentoring PDI

Oklahoma has had a nationally recognized induction program in place for over 20 years. Realizing that Oklahoma loses 50% of the State’s teachers during the first five years of the profession, OCTP has provided two mentoring PDIs to enhance the induction process by providing consistent mentor training in the essential skills necessary to support beginning teachers.

OCTP has contracted with the Oklahoma Technical Assistance Center for an 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 scholarships and training for teachers going through the National Board for Professional Teachers certification process. OCTP provides technical assistance, training and a scholarship of \$2,500 for candidates to pay for the application process, assessment and preparation costs.

Upon successful completion, classroom teachers receive \$5,000 annually for the life of the certificate. Teachers that earn certification, but do not receive the scholarship, qualify for reimbursement

equivalent to the amount of the scholarship.

"Top Ten States by NBCTs"
Ranked by National Board Certified Teachers as a Percentage of Total Teachers

| State | Total NBCTs | Total Teachers | NBCTs as percentage of total teachers |
|----------------|-------------|----------------|---------------------------------------|
| North Carolina | 9,817 | 89,988 | 10.9% |
| South Carolina | 4,443 | 45,830 | 9.7% |
| Mississippi | 2,379 | 32,591 | 7.3% |
| Florida | 7,732 | 144,955 | 5.3% |
| Oklahoma | 1,289 | 39,253 | 3.3% |
| Georgia | 2,119 | 97,150 | 2.2% |
| Ohio | 2,532 | 121,735 | 2.1% |
| Alabama | 927 | 58,070 | 1.6% |
| Illinois | 1,555 | 127,669 | 1.2% |
| California | 3,379 | 304,311 | 1.1% |

Source: OCTP, National Board for Professional Teaching Standards

As indicated above, for FY-2005, there are 1,289 National Board Certified Teachers in Oklahoma, making Oklahoma fifth in the nation in the percentage of teachers achieving this high honor. Even more important is the research that indicates that students taught by National Board Teachers are making significant gains in achievement test scores.

FY-2007 Recommendation

| FY-2007 Appropriation <i>(amounts in thousands)</i> | |
|---|----------------|
| FY-2006 Appropriation | \$2,022 |
| FY-2006 Bud. FTE Level | 9.0 |
| Actual Ave. YTD FTE | 9.3 |
| Funding Adjustments: | |
| State Employee Pay Increase | <u>15</u> |
| FY-2007 Recommendation | \$2,037 |
| % Change from FY-2006 | 0.74% |

Source: Office of State Finance

State Employee Pay Increase

The Governor’s budget includes \$14,899 for a 3% state employee pay increase for the Commission for Teacher Preparation. This funding is based on December 2005 salary information.

Energy

**Oklahoma Corporation Commission
Department of Mines**

Energy

Summary of FY-2007 Budget Recommendations

| Agency Name | FY-2006 Adj. Approp. | FY-2007 Base | FY-2007 Adj. | Final FY-2007 Appr. | % Diff. from FY- 2006 |
|------------------------|---------------------------------|---------------------|-------------------------|--------------------------------|--------------------------------------|
| Corporation Commission | \$12,354,190 | \$12,354,190 | \$283,664 | \$12,637,854 | 2.3% |
| Mines, Department of | 849,165 | 849,165 | 37,974 | 887,139 | 4.5% |
| Total Energy | \$13,203,355 | \$13,203,355 | \$321,637 | \$13,524,992 | 2.4% |

Oklahoma Corporation Commission

Notable Achievements

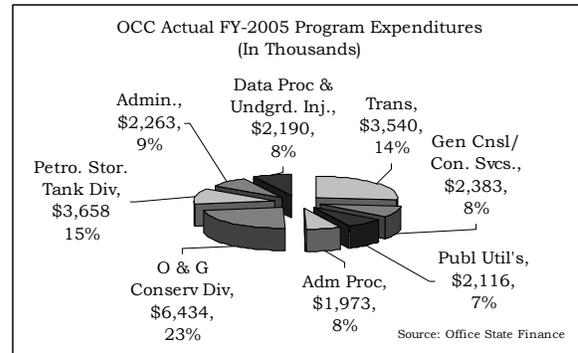
- *The Information Technology Division and its applications branch initiated two web based projects, one in partnership with the Secretary of Energy, to provide for the submission of oil and gas permits and motor carrier enforcement citations. The Computer Systems Management and Special Projects branches implemented communications at the transportation scale house sites which have enabled the enforcement officers to do real time checks and have increased their capabilities 100%.*
- *In FY-2005, OCC field inspectors located and turned in to the Oklahoma Energy Resources Board 578 abandoned oil and gas sites for remediation.*
- *The Consumer Services Division's four public utility complaints investigators and one department manager assisted 16,678 consumers with billing problems, complaints and concerns, resulting in \$544,895 in consumer savings.*

Mission

The Oklahoma Corporation Commission regulates and enforces 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.

The Corporation Commission is primarily funded with revolving funds. Of the Commission's FY-2006 budgeted revenue sources, revolving funds are 61% of budgeted revenue. The following is a chart displaying the actual program expenditures of the Commission for FY-2005.



Consumer Services Division

The Consumer Services Division investigates and resolves consumer complaints. The Division also maintains accounts for mineral owners who cannot be located.

Oil and Gas Conservation Division

The Oil and Gas Conservation Division provides regulatory oversight for all activities associated with the exploration, production and pipeline transportation of oil and gas in Oklahoma. The Division is organized into three departments: Technical Services, Pollution Abatement and Field Operations. The recent activities of the Division can be found in the following table.

| | FY-03 | FY-04 | FY-05 |
|------------------------------------|---------------|---------------|---------------|
| Intent to Drill Applications Filed | 4,730 | 5,171 | 5,474 |
| Well Plugging Reports | 1,565 | 1,738 | 2,090 |
| Well Completions | 4,326 | 6,313 | 5,629 |
| Gas Well Tests Filed | 3,128 | 2,814 | 3,087 |
| Tax Incentives Filed | 661 | 1,759 | 2,674 |
| OG Total Applications Filed | <u>14,410</u> | <u>17,795</u> | <u>18,954</u> |
| Well Site Inspections | 79,529 | 64,459 | 58,226 |
| NonPollution/Pollution Complaints | 2,218 | 2,374 | 2,403 |
| Incidents/Inspection Discoveries | 1,278 | 1,059 | 1,286 |
| Plugging/Well Test/MIT Fld Witness | 8,954 | 6,341 | 5,506 |
| OG Total Field Activity | <u>91,979</u> | <u>74,233</u> | <u>67,421</u> |

Source: Corporation Commission

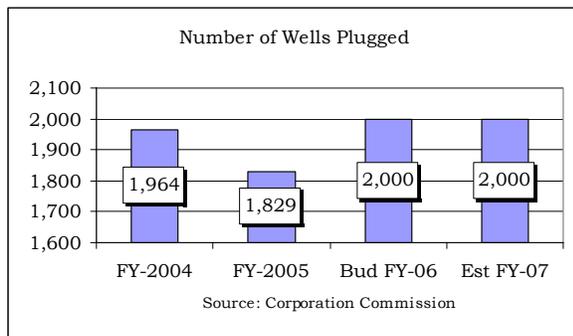
In addition to issuing regulatory permits, the Technical Services department is also the official repository and point of access for all information on oil and gas wells and related activity in Oklahoma.

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. The following chart shows the progress with plugging wells.

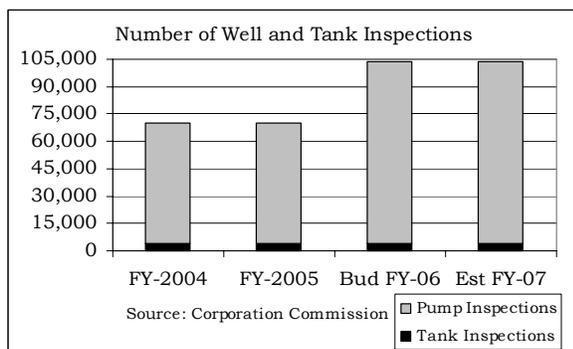
Key Performance Measure



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 following chart shows the number of pumps and tanks the Division has inspected.

Key Performance Measure



The Division administers the Oklahoma Storage Tank Release Indemnity Fund. 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 \$19.7 million in FY-2005.

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-2005 the Division was responsible for regulating 806 public utilities.

Transportation Division

The Transportation Division administers licensing and certification of private and for-hire trucks that operate within and through Oklahoma. The Division also enforces motor carrier licensing requirements, federal motor carrier safety

standards, some federal and state railroad regulations and pipeline safety regulations.

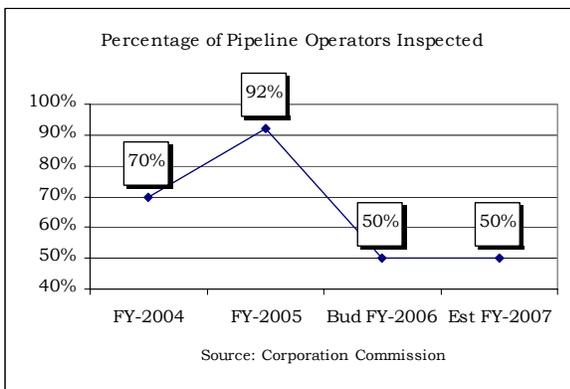
Oklahoma has more than 5,700 for-hire and private motor carriers licensed to operate in intrastate commerce, 20 railroads that operate in Oklahoma and almost 40,000 miles of natural gas and hazardous liquid pipeline within the state. The table that follows documents the recent fiscal year activities and progress made by the Division and the graph shows the percentage of pipeline operators inspected.

| Transportation Division | FY-2003 | FY-2004 | FY-2005 |
|---------------------------------------|---------|---------|---------|
| Motor Carrier Lic/Permits Issued | 5,500 | 4,985 | 5917 |
| Certificates Issued | 201 | 151 | 134 |
| Single State Registrations Issued | 2,926 | 2,988 | 3621 |
| Insurance Filings Received | 17,960 | 14,382 | 14801 |
| Identification Devices Issued | 48,611 | 46,351 | 80044 |
| Letters of notification to Motor Carr | 10,076 | 9,641 | 9517 |
| Citations Filed | 10,055 | 9,678 | 22863 |
| Warnings Filed | 738 | 814 | 1929 |
| DOT Numbers Issued | 396 | 366 | 353 |
| Haz Waste Credentials Issued | 278 | 51 | 45 |
| Total Applications Activity | 96,741 | 89,407 | 139,224 |
| Vehicle Checks | 54,019 | 59,463 | 123014 |
| Vehicle Inspections | 1,150 | 792 | 509 |
| Educational Contacts | 627 | 795 | 842 |
| Railroad Complaints Inv | 129 | 71 | 87 |
| Pipeline Gas/Liquid Units Inspectn | 234 | 240 | 281 |
| Pipeline Gas/Liquid Opers Inspectn | 143 | 187 | 228 |
| Total Field Activity | 56,302 | 61,548 | 124,961 |

Source: Corporation Commission

Key Performance Measure

The goal is to inspect at least 50% of operators a year ensuring they are following Federal Pipeline Safety Regulations



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 in Oklahoma City and in the Eastern Regional Office in Tulsa. Testimony and evidence may be presented by phone instead of appearing in person before an administrative law judge.

In FY-2005, 10 administrative law judges and 1 referee conducted 34,443 hearings.

FY-2007 Recommendation

| FY-2007 Appropriation | |
|-------------------------------|-----------------|
| <i>(amounts in thousands)</i> | |
| FY-2006 Appropriation | \$12,354 |
| FY-2006 Bud. FTE Level | 492.7 |
| Actual Ave. YTD FTE | 451.1 |
| Funding Adjustments: | |
| State Employee Pay Raise | 284 |
| FY-2007 Recommendation | \$12,638 |
| \$ Change from FY-2006 | \$284 |
| % Change from FY-2006 | 2.30% |

Source: Office of State Finance

The FY-2007 appropriation for the Corporation Commission is the same as provided for FY-2006 with the following adjustments.

State Employee Pay Raise

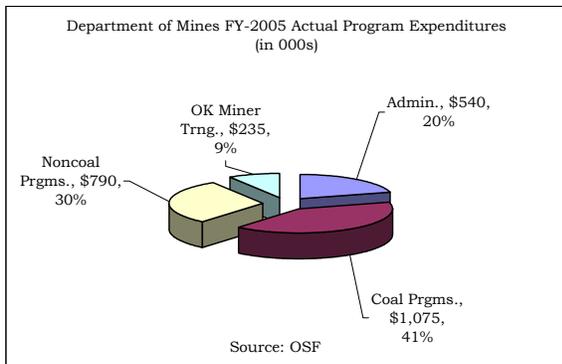
The Governor's budget includes \$283,664 for a 3% state employee pay increase for the Corporation Commission. This funding is based on December 2005 salary information.

Department of Mines

Mission

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.

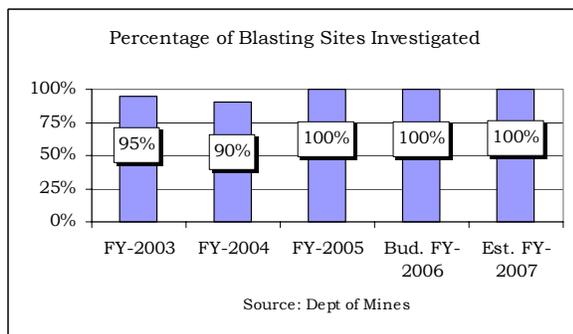
The Department of Mines relies on state appropriations, federal funds and revolving funds to fund the Department's expenditures. For FY-2005, federal dollars were 38.5% of the Department's total funding.



The table below shows the Department's focus on inspection of blasting sites to determine if they are in compliance with the approved blasting plan.

Key Performance Measure

To protect the public through enforcement of blasting statutes and regulations

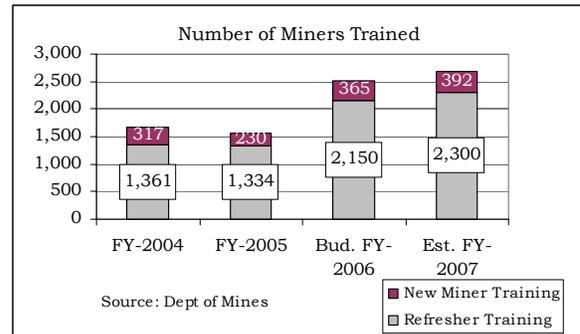


Programs

Oklahoma Miner Training

The Oklahoma Miner Training Institute (OMTI), located in Wilburton, provides free classroom and on-site training for mine operators. Courses delve into topics such as first-aid, mine safety and accident prevention. Miners are required to have training in using explosives and in health and safety. Existing miners receive refresher training here as well.

Key Performance Measure



Coal Division

The Coal Division is essential for the implementation of state and federal laws regarding coal mining. Coal mining inspections are conducted to protect the environment, adjacent landowners and the public from adverse effects caused by mining operations. The Coal Division contains three basic subdivisions comprised of Technical Services, Permitting and Inspection and Enforcement.

Minerals (Non-Coal) Division

The Minerals Division 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.

| Type of Mineral | # of Non-Coal Mine Sites |
|-----------------------|--------------------------|
| Bentonite | 2 |
| Building Stone & Rock | 43 |
| Caliche | 1 |
| Clay and Shale | 70 |
| Granite | 8 |
| Gypsum | 19 |
| Limestone | 121 |
| Sand & Gravel | 281 |
| Salt | 2 |
| Select Material | 44 |
| Tripoli | 1 |
| Volcanic Ash | 3 |
| Total | 595 |

Source: Dept. of Mines

FY-2007 Recommendation

| FY-2007 Appropriation | |
|-------------------------------|--------------|
| <i>(amounts in thousands)</i> | |
| FY-2006 Appropriation | \$849 |
| FY-2006 Bud. FTE Level | 37.0 |
| Actual Ave. YTD FTE | 35.8 |
| Funding Adjustments: | |
| State Employee Pay Raise | <u>38</u> |
| FY-2007 Recommendation | \$887 |
| % Change from FY-2006 | 4.48% |

Source: Office of State Finance

The FY-2007 appropriation for the Department of Mines is the same as provided for FY-2006 with the following adjustments.

State Employee Pay Raise

The Governor's budget includes \$37,974 for a 3% state employee pay increase for the Department of Mines. This funding is based on December 2005 salary information.

Environment

**Department of Environmental Quality
Oklahoma Water Resources Board
Department of Wildlife Conservation**

Environment

Summary of FY-2007 Budget Recommendations

| Agency Name | FY-2006 Adj. Approp. | FY-2007 Base | FY-2007 Adj. | Final FY-2007 Appr. | % Diff. from FY- 2006 |
|---------------------------------|---------------------------------|---------------------|---------------------|--------------------------------|--------------------------------------|
| Environmental Quality, Dept. of | \$8,166,580 | \$8,166,580 | \$491,748 | \$8,658,328 | 6.0% |
| Water Resources Board | 4,973,896 | 4,373,896 | 122,615 | 4,496,511 | -9.6% |
| Water Resources - REAP | 2,200,000 | 2,200,000 | 0 | 2,200,000 | 0.0% |
| Total Energy | \$15,340,476 | \$14,740,476 | \$614,362 | \$15,354,838 | 0.1% |

Department of Environmental Quality

Notable Achievements

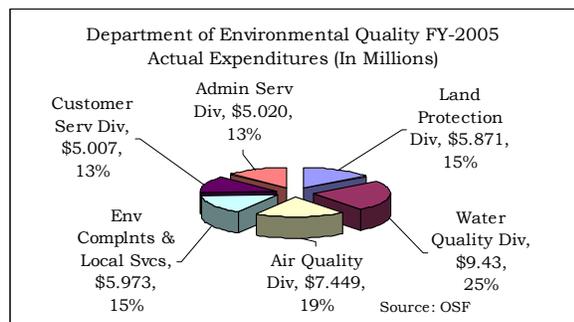
- *All of Oklahoma remains in attainment with the National Ambient Air Quality Standards.*
- *The relocation program in the Tar Creek area is now nearly complete. This important initiative of Gov. Henry provided for the relocation of over fifty families with approximately 90 children that lived in the affected area of the Superfund site.*

Mission

The Department of Environmental Quality (DEQ) is responsible for ensuring state and federal compliance with environmental program requirements. 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 budgeted funding sources for FY-2006. The following chart shows how the agency disbursed the funds for FY-2005.



The Environmental Complaints & Local Services (ECLS) Division and the Customer

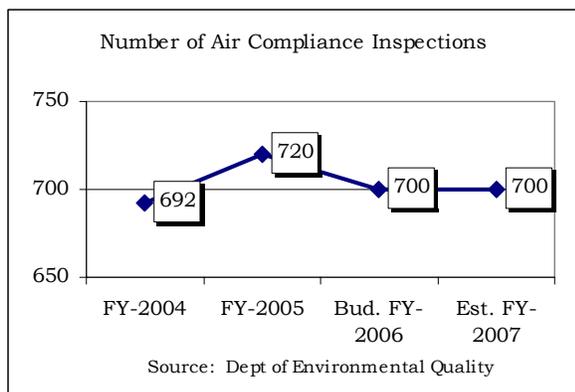
Services Division support DEQ's efforts to improve the quality of Oklahoma's environment. ECLS, which provides the staffing for 30 local offices across the state, is primarily responsible for complaint response, media specific inspections and/or enforcement and response to citizen requests for local services.

Within the Customer Services Division (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 achieve compliance. In addition, the CSD houses the State Environmental Laboratory, which provides analytical support for the agency's regulatory programs, as well as most public water supply systems and those of other environmental agencies.

Air Quality

Air quality attainment is determined by whether the National Ambient Air Quality Standards (NAAQS) as set by the Environmental Protection Agency (EPA) are met. In response to the revised ozone standard (the 1-hour standard became a more stringent 8-hour standard), the Oklahoma City and Tulsa areas voluntarily entered into an agreement with DEQ and EPA known as an Early Action Compact. This agreement, while allowing for flexible local control options, required a commitment by the DEQ for continued refinement of emissions inventories and analysis. State implementation plans reflecting these commitments were submitted in December 2004 and requires monitoring of the agreement until 2007.

Key Performance Measure



Although ozone levels recorded in 2005 kept Oklahoma City and Tulsa in attainment, the Tulsa area is especially vulnerable should we experience a return to more typical Oklahoma summertime patterns in 2006. Continued compliance with the milestones contained within the Early Action Compacts is absolutely critical in the event that Tulsa or Oklahoma City should record values next summer that cause either to fall out of attainment.

The DEQ initiated the implementation of its Air Toxics Program for FY-2006. This specific initiative is necessary because air toxics and their potential adverse health effects are far more localized than criteria pollutants and require site or area specific assessments. The Air Quality Division will be conducting toxics monitoring in areas of concern. Modeling and risk assessments will be performed to determine where monitoring should be conducted and the impact of proposed control strategies to reduce toxics emissions and the associated risk to the public.

Water Quality

The regulation of Oklahoma’s water quality is divided into three major areas:

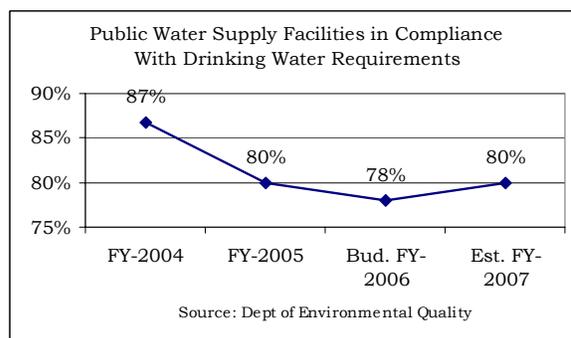
- The regulatory control of municipal and industrial wastewater;
- The evaluation of attainment of beneficial uses of Oklahoma’s water bodies; and

- The monitoring and regulatory management of public water supplies.

Wastewater permits are issued to limit the impact of pollutants to both ground water and surface water, which protects the beneficial uses identified in Oklahoma’s Water Quality Standards. Total Maximum Daily Load studies are conducted to determine the amount of pollutants that can enter a water body and still meet beneficial uses.

The Public Water Supply (PWS) program monitors more than 2,000 public water supplies, serving in excess of 3 million residents plus visitors to the state. Historically, PWS facilities have maintained a compliance level at or above 95 %. However, in 2004, the DEQ noted a decline to 87 % compliance and a continuing trend toward further reductions. This decline is due to significant increases in federal requirements, most notably, the new Arsenic rule and the Disinfection By-Product rule. The DEQ estimates that the 2005 compliance rate of 80 % will continue to decline in 2006 with the greatest level of non-compliance being associated with small systems.

Key Performance Measure



The DEQ laboratory monitors drinking water for about 90 contaminants. The new federal regulations are increasing the number of parameters and the number of systems that must be monitored. In addition to PWS samples, the DEQ laboratory also analyzes samples for multiple state agencies, private citizens and the ground water program.

Finally, with the January 2001 EPA issuance of a water quality criterion for mercury in fish tissue of 0.3 mg/kg, EPA will begin requiring states to incorporate this criterion into their water quality standards in 2006. This action has also prompted DEQ to reexamine the level at which consumption advisories are issued. In order to make decisions regarding the issuance of consumption advisories to protect human health and the status of unassessed waters, more fish tissue monitoring is required.

Land Protection

The activities of the Land Protection Division are focused principally on four broad areas:

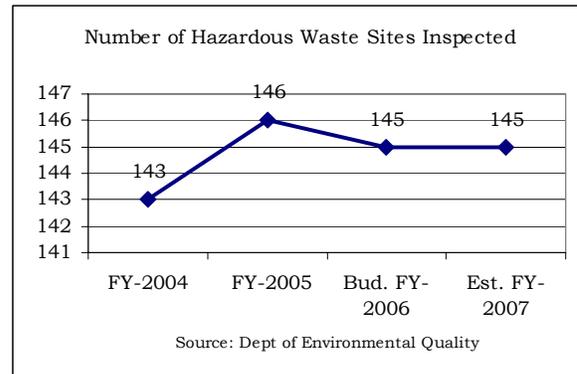
- Hazardous waste management;
- Site cleanup;
- Solid waste management; and
- Radiation protection

Hazardous Waste Management

Hazardous waste management is operated under delegation of the federal Resource Conservation Recovery Act (RCRA) and is directed toward the permitting and monitoring of regulated hazardous waste facilities. The primary funding comes from commercial disposal of hazardous waste at permitted facilities within the state at a rate of \$9 per ton, which is now set in state law.

The annual income has decreased over the past ten years. This has impacted the ability of the DEQ to meet its requirements in areas such as compliance monitoring, support to the State Environmental Laboratory, providing a monetary match to address Superfund sites and clean up of orphan hazardous waste sites. The following graph shows the number of hazardous waste inspections completed.

Key Performance Measure



Site Clean-up

Environmental cleanup programs (also termed site remediation) are managed under the Superfund program and under the agency’s Voluntary Clean-Up/Brownfields effort. Several high visibility sites, among which is the Tar Creek project, continue to dominate the Superfund program. Through this program, Oklahoma is able to leverage 90% federal funding by providing a 10% match.

The problems at Tar Creek are the result of past mining activity, which caused pollution to land and water resources in the northeast corner of Oklahoma. A graver consequence 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.

Tar Creek Voluntary Relocation Project

The Oklahoma Legislature passed SB 1490, an important initiative of Governor Henry, to assist families with children 6 years of age and younger that live in the Tar Creek area. The bill provided funds for the relocation of the affected families. Thanks to this funding fifty-one families with approximately 90 children have moved out of the contaminated area.

Voluntary Clean-Up/Brownfields

The agency’s Voluntary Clean-Up/Brownfields program was established to enhance the economic value of sites that formerly went unused due to the stigma and expense of long-term remediation.

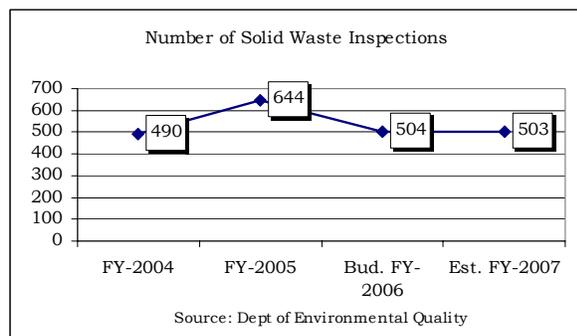
Under the voluntary program, owners or developers can enter into agreements that streamline the cleanup process without undergoing the lengthy federal process.

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 completing a new commercial venture. Currently, there are 120 sites involved in voluntary cleanup. Since the inception of the program in 1985, nearly 200 sites have participated in either the Voluntary Clean-up or Brownfield Programs. Those reaching completion receive a “no further action” letter or a Brownfield “certificate”, which officially signifies completion of the project.

Solid Waste Management

DEQ’s solid waste program establishes and regulates generation and disposal of solid waste and works in partnership with county and local governments to improve the local solid waste infrastructure. Local needs vary from cleaning up illegal dumps and developing convenience centers for bulky waste to obtaining 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. Local governmental assistance includes clean-up of trash dumps, recycling (including storm debris management) and land restoration projects.

Key Performance Measure



The Land Protection Division also oversees the implementation of the Waste Tire Recycling Act, handling collection and recycling of the roughly 3,000,000 discarded tires annually. The program also includes requirements for commercial tire processors and provisions for cleaning up abandoned tire dumps throughout the state.

Radiation Protection

The Radiation Management Section of the Land Protection Division is responsible for regulating the safe use of most sources of radioactivity in the state. It handles about 300 radioactive materials licenses and about 150 industrial, therapeutic and analytical X-ray systems facilities. Since receiving authorization in 2001, DEQ has assumed most of the duties of the Nuclear Regulatory Commission in Oklahoma.

Although Oklahoma is not generally thought of as a "nuclear state", Tulsa is one of the world's major centers of industrial radiography, the use of very powerful radioactive sources to look for hidden flaws in materials such as pipelines, boilers and aircraft parts. There are also numerous types of radioactive materials used in the state for research, medical diagnosis and treatment and to measure the properties of materials.

Radiation licenses stipulate the safety practices required by users of radioactive materials. Inspectors regularly visit radiation users to verify compliance with their licenses and with state and federal regulations. DEQ inspectors also investigate citizen complaints involving radiation issues. In emergencies and incidents involving radioactivity, DEQ is the state's technical expert and investigates such events as lost radiation sources or overexposures.

FY-2007 Recommendation

| FY-2007 Appropriation | |
|--|----------------|
| <i>(amounts in thousands)</i> | |
| FY-2006 Appropriation | \$8,167 |
| FY-2006 Bud. FTE Level | 574.0 |
| Actual Ave. YTD FTE | 546.7 |
| Funding Adjustments: | |
| State Employee Pay Raise | 492 |
| FY-2007 Recommendation | \$8,659 |
| % Change from FY-2006 | 6.02% |
| GP REAP Water Projects Fund | \$1,823 |
| <small>Source: Office of State Finance</small> | |

The FY-2007 appropriation for the Department of Environmental Quality is the same as provided for FY-2006 with the following adjustments.

State Employee Pay Raise

The Governor’s budget includes \$491,748 for a 3% state employee pay increase for the Department of Environmental Quality. This funding is based on December 2005 salary information.

Small Community Drinking Water

The Governor’s budget includes \$1.823 million of the surplus available from the GP REAP Water Projects Fund for small community environmental compliance assistance. These funds will be used to assist small communities in complying with the stricter public water supply regulations that the federal government has imposed which require more extensive testing. This funding will allow the Department to provide help with compliance, technical, analytical, operational and laboratory services to the estimated 1,468 small public water supply systems supplying approximately 725,000 citizens. These small communities lack the financial and technical resources to remain compliant on their own.

Oklahoma Water Resources Board (OWRB)

Notable Achievements

- *The Water Resources Board's Financial Assistance Plan is responsible for over \$1.5 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.*
- *The OWRB received EPA accolades and recognition as a national leader for our state water quality/quantity monitoring strategy document and monitoring programs. Oklahoma was the only state selected by the United States Geological Survey (USGS) to serve on a national workgroup to enhance the USGS Cooperative Monitoring Program.*

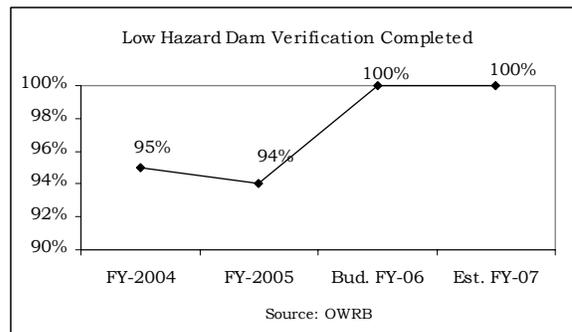
Mission

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.

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. An example of their duties is to complete low hazard dam verification on 425 dams to ensure that the hazard classification has not changed. This progress is exhibited in the following graph.

Key Performance Measure

Goal is to inspect 95% of the dams



The Board's employees 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 36% of the agency's total funding for FY-2006.

The OWRB also:

- Coordinates the Beneficial Use Monitoring Program (BUMP) to collect ambient water quality information on Oklahoma's surface water;
- 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; and
- Provides loans for infrastructure

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; and
- OWRB's Bond Issue Loan Program.

During 2005, the Board approved more than \$104 million in loans. The following chart shows the number of applicants and amounts loaned or granted since FY-2000.

| FY | Clean Water | | Drinking Water | | Bond Series | |
|----------|-------------|---------------|----------------|---------------|-------------|---------------|
| | No. | Loans | No. | Loans | No. | Loans |
| To FY-99 | 82 | 295,432,184 | 3 | 9,753,675 | 207 | 297,425,000 |
| FY-2000 | 11 | 36,211,099 | 6 | 19,668,280 | 8 | 12,375,000 |
| FY-2001 | 21 | 55,350,000 | 8 | 18,390,550 | 21 | 55,350,000 |
| FY-2002 | 16 | 56,976,155 | 6 | 28,878,178 | 22 | 37,805,000 |
| FY-2003 | 16 | 43,580,834 | 7 | 7,407,591 | 23 | 79,960,000 |
| FY-2004 | 12 | 31,182,156 | 9 | 74,466,431 | 22 | 45,870,000 |
| FY-2005 | 8 | 52,659,000 | 9 | 29,158,232 | 5 | 22,810,000 |
| Total | 166 | \$571,391,427 | 48 | \$187,722,938 | 308 | \$551,595,000 |

| FY | Emergency Grants | | REAP Program | | Totals | |
|----------|------------------|--------------|--------------|--------------|--------|-----------------|
| | No. | Grants | No. | Grants | No. | Total |
| To FY-99 | 434 | 24,877,892 | 159 | 12,573,467 | 885 | 640,062,218 |
| FY-2000 | 16 | 1,127,471 | 73 | 6,366,648 | 114 | 75,748,498 |
| FY-2001 | 21 | 1,553,487 | 54 | 4,835,947 | 125 | 135,479,984 |
| FY-2002 | 17 | 1,100,820 | 45 | 4,233,643 | 106 | 128,993,796 |
| FY-2003 | 10 | 549,886 | 38 | 3,849,025 | 94 | 135,347,335 |
| FY-2004 | 9 | 510,776 | 24 | 2,237,948 | 76 | 154,267,311 |
| FY-2005 | 6 | 382,849 | 30 | 2,698,562 | 58 | 107,708,643 |
| Total | 513 | \$30,103,181 | 423 | \$36,795,240 | 1,458 | \$1,377,607,786 |

Source: OWRB

OWRB also administers two grant programs:

- REAP Grant Program
- Emergency Grant Program.

During 2005, the Board approved 6 emergency grants for \$382,849 and 30 REAP grants for approximately \$2.7 million.

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 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 groundwater.

FY-2007 Recommendation

| FY-2007 Appropriation | |
|--------------------------------------|----------------|
| <i>(amounts in thousands)</i> | |
| FY-2006 Appropriation | \$4,974 |
| Remove One Time GP REAP | (600) |
| FY-2006 Base | \$4,374 |
| FY-2006 GR REAP Appr. | \$2,200 |
| FY-2006 Bud. FTE Level | 86.8 |
| Actual Ave. YTD FTE | 94.4 |
| Funding Adjustments: | |
| State Employee Pay Raise | 123 |
| FY-2007 Recommendation | \$4,497 |
| \$ Change from FY-2006 | (\$477) |
| % Change from FY-2006 | -9.59% |
| FY-2007 GR REAP Rec. | \$2,200 |
| FY-2007 Water Proj. Fund Rec. | \$3,750 |

Source: Office of State Finance

The FY-2007 appropriation for the Water Resources Board is the same as provided for FY-2006 with the following adjustments.

Remove GP REAP Funds

The Governor's budget recommends removing \$600,000 that was used for saltwater lake irrigation and the Arbuckle Simpson aquifer study.

Capital Recommendation

The Governor's budget recommends providing \$25 million to the Water Board for financial capitalization for water projects through a bond issue. This will allow the Water Board to receive EPA matching grants and by leveraging this funding, provides the potential for several hundred million dollars worth of financing for Oklahoma's water and wastewater project needs for the future.

State Employee Pay Raise

The Governor's budget includes \$122,615 for a 3% state employee pay increase for the

Water Resources Board. This funding is based on December 2005 salary information.

**FY-2007 Recommendation for GP
REAP Water Projects Funds**

Arbuckle-Simpson Aquifer Study

The Governor's budget recommends \$1.5 million be expended from the REAP Water Projects Fund for the ongoing Arbuckle-Simpson study. The purpose of the study is to ascertain how much water is contained in the aquifer to determine if it can be used for a water source and if so how much water can be diverted from it without disrupting the ecosystem of streams and rivers that relies on it.

Comprehensive Water Plan

The Governor's budget recommends that \$2.25 million be expended from the REAP Water Projects Fund to begin the update of the Oklahoma Comprehensive Water Plan. This plan's purpose is to identify projects and management strategies to ensure that Oklahoma will be able to meet future water needs.

Department of Wildlife Conservation

Mission

The Oklahoma Department of Wildlife Conservation is responsible for managing the wildlife and habitat of Oklahoma to provide scientific, educational, aesthetic, economic and recreational benefits for hunters, anglers and others who appreciate wildlife throughout the state.

In FY-2005, ODWC reported \$36 million in 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.

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. The current balance in the trust is approximately \$67 million, including principal and earnings. Over the last three years, revenues from the lifetime fishing and hunting licenses have averaged \$2.6 million annually.

| Number of Lifetime Licenses Sold | | | | | |
|----------------------------------|---------|---------|---------|---------|---------|
| | FY-2001 | FY-2002 | FY-2003 | FY-2004 | FY-2005 |
| Hunting | 1,058 | 1,473 | 1,774 | 974 | 594 |
| Fishing | 1,014 | 1,278 | 3,078 | 2,419 | 1,093 |
| Combination | 2,988 | 3,958 | 6,468 | 3,710 | 2,021 |
| Total | 5,060 | 6,709 | 11,320 | 7,103 | 3,708 |

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

**State Auditor and Inspector
Banking Department
Office of the State Bond Advisor
Capital Improvement Authority
CompSource Oklahoma
Consumer Credit Commission
Office of State Finance
Insurance Department
Commissioners of the Land Office
Retirement Systems
Securities Commission
Oklahoma Tax Commission
State Treasurer
Lottery Commission**

Finance and Revenue

Summary of FY-2007 Budget Recommendations

| Agency Name | FY-2006 Adj. Approp. | FY-2007 Base | FY-2007 Adj. | Final FY-2007 Appr. | % Diff. from FY- 2006 |
|----------------------------------|-------------------------|----------------------|--------------------|------------------------|-----------------------------|
| Auditor & Inspector | \$5,988,786 | \$5,988,786 | \$244,738 | \$6,233,524 | 4.1% |
| Auditor & Inspector - REAP | 15,500,000 | 15,500,000 | 0 | 15,500,000 | 0.0% |
| Bond Advisor, State | 181,212 | 181,212 | 7,278 | 188,490 | 4.0% |
| Consumer Credit Commission | 637,925 | 637,925 | 20,603 | 658,528 | 3.2% |
| Finance, Office of State | 22,756,515 | 22,756,515 | 490,146 | 23,246,661 | 2.2% |
| Insurance Department | 2,231,595 | 2,231,595 | 169,204 | 2,400,799 | 7.6% |
| Land Office, Commissioners | 4,719,497 | 4,719,497 | 88,762 | 4,808,259 | 1.9% |
| Lottery Commission | 0 | 0 | 0 | 0 | |
| Tax Commission | 83,626,291 | 45,626,291 | 3,156,551 | 48,782,842 | -41.7% |
| Treasurer | 4,524,498 | 4,524,498 | 81,903 | 4,606,401 | 1.8% |
| Total Finance and Revenue | \$140,166,319 | \$102,166,319 | \$4,259,186 | \$106,425,505 | -24.1% |

State Auditor and Inspector

Notable Achievements

- Received the 2005 “Excellence in Accountability” award presented by the National State Auditor’s Association.
- Received the 2005 “Outstanding Achievement in Government” award presented by the Association of Certified Fraud Examiners.
- Issued a total of 481 audit reports as public documents.

Required Audits

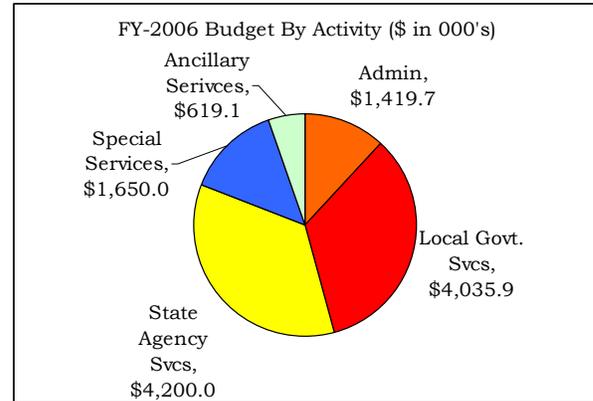
The Constitution (Article VI, Section 19) and/or statutes require the Auditor and Inspector (A&I) to audit the following entities:

- 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.

The table below shows the number of audits issued and the number of inquiries received and resolved. Inquiries are calls from Oklahoma citizens regarding questions or complaints about state and or local accounting issues.

The graph below shows the FY-2006 Budget for the State Auditor and Inspector. The total budget is \$11.9 million. This excludes REAP money of \$15.5 million which passes through the Auditor’s and Inspector’s office.



Source: State Auditor and Inspector

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 for services rendered.

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

Since FY-2002, the Office of the State Auditor and Inspector has been conducting performance audits as authorized by 74 O.S. Supp 2001, 213.2 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.

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. The performance audit division has averaged one audit per year for the past four years. The Auditor and Inspector have completed a performance audit on the following agencies:

- Alcoholic Beverage Laws Enforcement Commission;
- Department of Agriculture, Food, and Forestry;
- Department of Public Safety;
- Oklahoma Tourism and Recreation Department; and
- Department of Central Services – Motor Pool.

is based on December 2005 salary information.

FY-2007 Recommendation

| <i>FY-2007 Appropriation</i> | |
|-------------------------------------|----------------|
| <i>(amounts in thousands)</i> | |
| FY-2006 Appropriation | \$5,989 |
| FY-2006 Bud. FTE Level | 157.5 |
| Actual Ave. YTD FTE | 153.2 |
| Funding Adjustments: | |
| State Employee Pay Increase | 245 |
| FY-2007 Recommendation | \$6,234 |
| % Change from FY-2006 | 4.09% |

Source: Office of State Finance

State Employee Pay Raise

The Governor’s budget includes \$244,738 for a 3% state employee pay increase for the Auditor and Inspector’s office. This funding

Banking Department

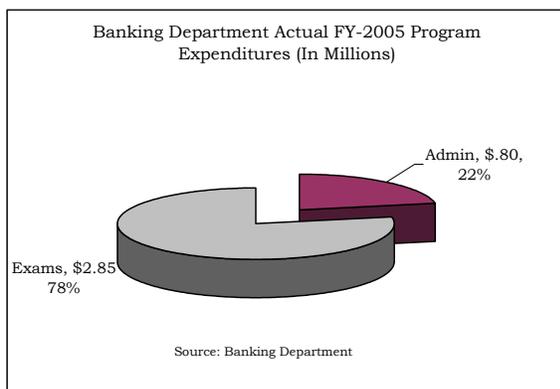
Mission

The State Banking Department preserves and promotes sound, constructive competition among financial institutions and ensures the security of deposits. It regulates 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.

The Banking Department has two activities, administration and examinations. The primary expenditures are devoted to bank examinations. During FY-2005, examinations were 78% of the Department's total expenditures.



State chartered banks

There are approximately 185 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.

| End of Calendar Year | Number of Banks |
|----------------------|-----------------|
| 2001 | 187 |
| 2002 | 183 |
| 2003 | 184 |
| 2004 | 185 |
| 2005 | 185 |

Source: Banking Department

Revenue from Banks and other Regulated Entities

Banks pay assessments based on a percentage rate of the bank's total assets. The Department deposits some of these funds into the General Revenue Fund and some directly into agency revolving funds. The Department deposited \$907,830 into the General Revenue Fund for FY-2005 and plans to deposit roughly the same for FY-2006.

In the 2003 Legislative Session, HB 1202 made the Banking Department non-appropriated and permitted the Department to collect a special assessment. Starting January 1, 2005, 20% of all banking assessments will be deposited into the General Revenue Fund.

Office of the State Bond Advisor

Notable Achievements

- *Saved the State \$29.7 million from refinancing the General Obligation Bonds in 2003.*
- *Completed the first phase of the Higher Education Capital Bond program, generating \$350 million for projects across the state system of higher education.*
- *Sale of \$33 million bond issue to fund the first phase of the Native American Center.*

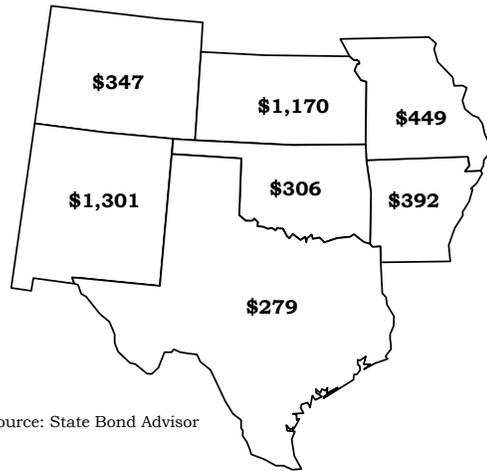
The Office of the State Bond Advisor serves as staff to the Council of Bond Oversight and provides advice and assistance to the Governor and Legislature on matters relating to capital planning, debt issuance and debt management. The Office also serves as staff to the Long-Range Capital Planning Commission (LRPCPC) and administers the Private Activity Bond Allocation Act.

Among the State Bond Advisor's other responsibilities are:

- Review of all request for proposals prior to their circulation;
- Maintenance of relations with the bond rating agencies and credit enhancers; and
- Approval of fees and expenses paid to professional service providers in connection with each State debt issuance.

Although the use of tax supported debt (appropriation-backed obligations) has increased in recent years, the State has a very modest debt burden when compared to other states. The map below shows the tax supported debt for Oklahoma the bordering states.

Net Tax-Supported Debt Per Capita as
of May 2005



Source: State Bond Advisor

Oklahoma ranks 41st in the nation with a tax-supported debt per capita of \$306. The national average is \$999. When comparing the net tax-supported debt as a percentage of personal income, Oklahoma is at 1.2%, exactly half of the national average, 2.4%.

The chart below shows the calculation of the State's tax-supported debt.

| Gross and Net Tax-Supported Debt as of December 31, 2005 (\$ in thousands) | |
|--|---------------------------|
| General Obligation Debt | \$314,460 |
| Contractual Obligation Debt | 935,559 |
| Lease Purchase Obligation - Public Sales | 207,195 |
| Lease Purchase Obligation - Private Sales | <u>10,484</u> |
| Total Gross Tax-Supported Debt | \$1,467,698 |
| Less: Self-Supporting Bonds | <u>177,789</u> |
| Total Net Tax-Supported Debt | <u>\$1,289,909</u> |

Source: State Bond Advisor, "2005 Annual Report"

The State continues to provide for the rapid repayment of its outstanding obligations. Virtually all of the lease purchase financings done by agencies and authorities are repaid in five to ten years. Of all tax backed debt, more than 90% is retired within 20 years and 100% is paid off in less than 25 years.

The following is a summary of key debt ratios as of May 1, 2005.

| Key Debt Ratios | |
|---|-------|
| Net tax-supported debt per capita | \$306 |
| Tax-supported debt service as percent of GRF appropriations | 1.74% |
| Per capita debt as percent of 2003 per capita personal income | 1.20% |

Source: State Bond Advisor

As staff for the LRCPC, the Office of the State Bond Advisor reviewed 3,205 capital project requests. The most recent plan (for fiscal years 2007-2011) recommended total capital spending of \$4.464 billion, of which \$4.126 billion is self funded. A total of \$60 million is recommended for funding from general appropriations.

Revenue bond activity for 2005 totaled \$526 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, 2005 (\$ in 000's) | |
|--|------------------|
| Issuer | Outstanding Debt |
| Oklahoma Turnpike Authority | \$1,201,341 |
| Grand River Dam Authority | 622,641 |
| Oklahoma Housing Finance Agency | 524,088 |
| Oklahoma Water Resources Board | 648,045 |
| Oklahoma Student Loan Authority | 829,497 |
| Oklahoma Municipal Power Authority | 398,085 |
| Oklahoma Development Finance Authority | 148,767 |
| Credit Enhancement Reserve Fund | \$4,372,465 |

Source: State Bond Advisor, "2005 Annual Report"

FY-2007 Recommendation

| FY-2007 Appropriation | |
|-------------------------------|--------------|
| <i>(amounts in thousands)</i> | |
| FY-2006 Appropriation | \$181 |
| FY-2006 Bud. FTE Level | 3.0 |
| Actual Ave. YTD FTE | 3.0 |
| Funding Adjustments: | |
| State Employee Pay Increase | 7 |
| FY-2007 Recommendation | \$188 |
| % Change from FY-2006 | 4.02% |

Source: Office of State Finance

State Employee Pay Raise

The Governor's budget includes \$7,278 for a 3% state employee pay increase for the office of the State Bond Advisor. This funding is based on December 2005 salary information.

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.

Participating agencies make lease payment from their appropriations to the OCIA. The OCIA then makes debt service payments through a Trustee/Paying Agent to the bondholders.

Outstanding Issues

As of December 31, 2005, the OCIA had 24 series of obligations outstanding. As of December 31, 2005, the total outstanding principal amount of these obligations was \$1.1 billion.

The following table lists OCIA obligations authorized and issued in FY-2005.

| Obligations Issued | FY-2007 | |
|--------------------------------|---------------|---------------------|
| | Amount | Annual Debt Service |
| | (\$ in 000's) | |
| Capitol Dome | \$5,000 | \$476 |
| Military | 6,130 | 549 |
| Attorney General | 4,000 | 305 |
| Native American Cultural Cntr. | 33,000 | 1,383 |
| OSBI | 21,355 | 1,150 |
| Attorney General | 3,000 | 226 |
| Higher Education | 333,610 | 18,096 |
| Higher Education | <u>6,040</u> | <u>6,329</u> |
| Total | \$412,135 | \$28,513 |

Source: OCIA

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 general obligation bonds are set to retire in 2018.

The table below shows the principal amount of the General Obligation Bond Series at the beginning and end of FY-2005. For Series A, the State paid \$3.15 million on the principal and \$1.4 million on the interest. For Series B, the state paid \$1.2 million on the principal and over \$500,000 on the interest.

| FY-2005 General Obligation Bond Payments Government Purpose Issues | | |
|---|-----------------------------------|-----------------------------------|
| | Principal Amount 07/01/2004 | Principal Amount 06/30/2005 |
| Series 2003A Refund | \$65,565,000 | \$62,420,000 |
| Series 2003B Refund | \$26,605,000 | \$25,375,000 |

Source: OCIA

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. As of December 31, 2005, there were 11 series of these bonds, with a total principal amount outstanding at that date of \$66,960,000.

CompSource Oklahoma

Notable Achievements

- *CompSource will lower its premiums by 5% in 2006 due in part, to new workers reforms passed in 2005.*
- *CompSource is the largest source of workers compensation insurance in the state., specializing in hard-to-insure entities such as small businesses, local governments and high risk businesses turned down elsewhere.*
- *83% of CompSource's policies are written to small businesses with less than \$10,000 dollars in annual premiums.*

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, CompSource Oklahoma has operated as the "carrier of last resort" for businesses unable to obtain coverage elsewhere in the insurance market.

The Legislature's intent in creating CompSource (then known as the State Insurance Fund) is for CompSource to be self sufficient without state financial assistance. CompSource has operated as an enterprise function of the State since inception.

Agency Services

CompSource Oklahoma offers expertise and services to small business operations as well as large companies. CompSource provides needed coverage to smaller businesses that may not be offered by other carriers.

Currently, CompSource Oklahoma is the largest workers' compensation insurance carrier in the state, serving more than 27,000 businesses and government agencies. It insures thousands of Oklahoma

companies and provides coverage benefits for tens of thousands of Oklahoma employees.

CompSource Oklahoma carries almost all of the State agencies' workers compensation insurance and a large portion of private policies.

Total workers compensation premiums in other public areas continue to increase and CompSource continues to write an increasing portion of those premiums.

| | 2001 | 2002 | 2003 | 2004 |
|-----------------------|------|------|------|------|
| Private Sector | 78% | 79% | 78% | 75% |
| Public Sector: | | | | |
| State | | | | |
| Agencies | 14% | 12% | 11% | 11% |
| Other Public | 7% | 9% | 11% | 14% |
| Total Written Premium | 100% | 100% | 100% | 100% |

Benefits of workers compensation insurance to injured employees and employers include:

- Injured employees receive compensation when unable to work.
- Medical bills from job related injuries are paid.
- Employers avoid general tort liability for workplace injuries.
- Programs in place to encourage injured workers to return to work as soon as possible.

Commission on Consumer Credit

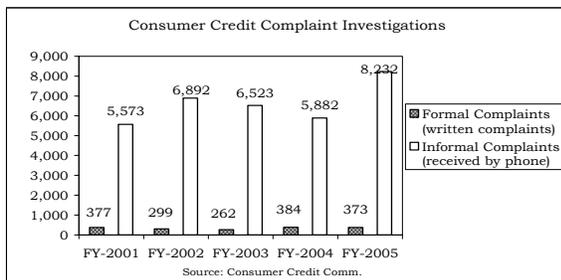
Mission

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; and
- Mortgage Loan Originators

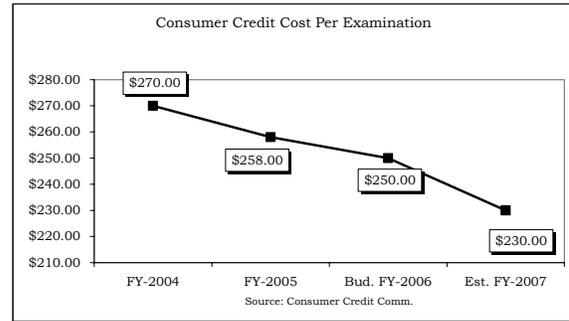
The Commission actively protects consumers against unfair credit practices of lenders and provides information to assist the regulated industries in understanding and complying with their respective laws and regulations. The Commission determines if lending institutions are assessing excessive interest, late fees, penalties or service fees. The Commission also monitors advertising and works with lenders to resolve consumer complaints.

Key Performance Measure



Key Performance Measure

Reduce the cost of license exams



FY-2007 Recommendation

| FY-2007 Appropriation | |
|-------------------------------|--------------|
| <i>(amounts in thousands)</i> | |
| FY-2006 Appropriation | \$638 |
| FY-2006 Bud. FTE Level | 16.0 |
| Actual Ave. YTD FTE | 14.8 |
| Funding Adjustments: | |
| State Employee Pay Raise | 21 |
| FY-2007 Recommendation | \$659 |
| % Change from FY-2006 | 3.29% |

Source: Office of State Finance

The FY-2007 appropriation for the Commission on Consumer Credit is the same as provided for FY-2006 with the following adjustment.

State Employee Pay Raise

The Governor's budget includes \$20,603 for a 3% state employee pay increase for the Commission on Consumer Credit. This funding is based on December 2005 salary information.

Office of State Finance

Notable Achievements

- *OSF has established a website that serves as the entry point for government services. The current contract is with NIC. NIC maintains "www.ok.gov" and develops websites and applications for state agencies.*
- *OSF has implemented the first ever central services Help Desk designed to handle problem calls dealing with all operations of OSF as well as many issues in procurement and personnel systems. The Help Desk handles the problems or coordinates the assistance of subject matter experts to resolve up to 100 cases a day.*
- *OSF's Information Services Division (ISD) worked with DCS to successfully implement a statewide PC contract that will save the State a minimum of \$7-8 million over the next 4 years, provide better service at a lower cost and allow all agencies to benefit from the buying power of the entire state government by paying the same price as large agencies. The next-day, on-site maintenance agreement will also allow most agencies to move to a 4-year replacement cycle rather than the 3-year cycle used by many; another savings in overall costs to the State.*
- *ISD recently contracted to audit past communications invoices, resulting in one-time refunds to state agencies of \$240,000. Recently renegotiated contracts for communications services should result in on-going savings of \$14 million over the next 4 years.*
- *OSF's Information Services Division contracted to review the current security level of the State's information infrastructure. As a result of the review OSF has corrected potential problems. ISD has successfully installed a back-up generator that will power our systems and those of the Treasurer in emergencies.*

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.

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, preparation of W-2's and 1099's reporting to the federal government, and managing the State accounting system.

DCAR recently implemented a new general ledger within the CORE project. The new general ledger is done on an accrual method of accounting which is generally the accepted accounting procedure. They are also actively involved in implementing the Payroll component and will take lead roles in phase 2 of the project.

State-Tribal Gaming Compliance

OSF is by law the State Compliance Agency (SCA) for the State-Tribal Gaming Compacts. As such, OSF is responsible for developing relationships with the tribes to ensure compliance with Compact provisions and ensure that the State is receiving revenues as required by the Compact. Since January 27, 2005, 29 Tribal Compacts have been approved by the Secretary of the Interior and published in the Federal Register.

Budget Division

The Budget Division prepares the Governor's budget and assists in drafting supporting legislation for the Governor's proposals. Budget Division staff manage the state's budget system and make 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. Developing and monitoring performance measures are another integral function of this division. Budget Division personnel also prepare analyses of appropriation and substantive legislation and make recommendations based on their research to the Governor.

In addition, the Budget Division prepares revenue certification information for the Board of Equalization, which sets the appropriations limit for the Legislature. To ensure the State is able to make 100% allocations based on legislative appropriations, division personnel monitors collections to the General Revenue Fund and other funds authorized for expenditure.

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. The communications infrastructure includes 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. Currently, ISD provides email support to 21 agencies and firewall support to 17 agencies.

Improving security for the network as well as implementing a disaster recovery plan is a priority for this division. ISD sets security guidelines and procedures for all agencies. OSF works with Homeland Security, the Federal Bureau of Investigation, and OSBI to continually evaluate the system and propose changes to improve IT security.

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, an enterprise-wide information system, is a 7 year project that began in 2002.

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 included the implementation of the financial and procurement module, the human resources and payrolls system, and the budget module. Phase II will be ready for all agencies by December of 2007 and includes asset management, contract management, an account receivable and bill module, the help desk module, and a module that will manage grants and projects. The total anticipated cost of CORE to the State is \$45.85 million.

FY-2007 Recommendation

| FY-2007 Appropriation | |
|-------------------------------|-----------------|
| <i>(amounts in thousands)</i> | |
| FY-2006 Appropriation | \$22,757 |
| FY-2006 Bud. FTE Level | 159.1 |
| Actual Ave. YTD FTE | 135.7 |
| Funding Adjustments: | |
| State Employee Pay Increase | 190 |
| CSG Annual Conference | <u>300</u> |
| Total Adjustments | 490 |
| FY-2007 Recommendation | \$23,247 |
| % Change from FY-2006 | 2.15% |

Source: Office of State Finance

State Employee Pay Raise

The Governor's budget includes \$190,146 for a 3% state employee pay increase for the Officer of State Finance. This funding is based on December 2005 salary information.

**Council of State Governments (CSG)
Annual Conference**

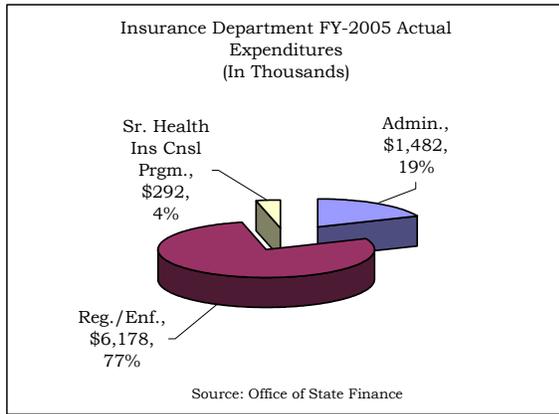
The Governor's Budget includes an appropriation of \$300,000 for costs associated with Oklahoma hosting the 2007 CSG annual conference. The Council of State Governments estimates over 1,200 attendees for the annual conference in Oklahoma.

Insurance Department

Mission

The Insurance Department provides service, protection, education and oversight in insurance and related industries in Oklahoma.

The Department's major source of funding is revolving funds which consist mostly of fees collected for various licenses. Of the Department's FY-2005 actual funding, 70% was by way of revolving funds. The following graph shows how the Department used its funds for FY-2005.



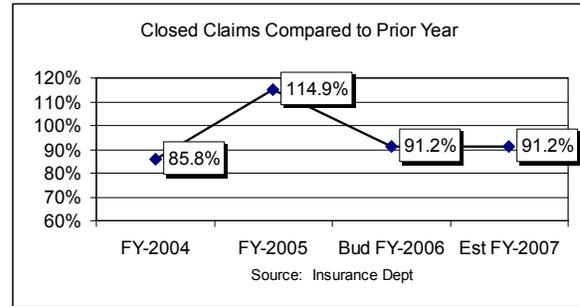
The Department regulates insurance agents, real estate appraisers and bail bondsmen.

| | FY-03 | FY-04 | FY-05 | Bud. FY-06 | Est. FY-07 |
|---------------------|--------|--------|--------|------------|------------|
| Insurance Agents | 63,970 | 73,000 | 64,000 | 70,000 | 76,000 |
| Real Est Appraisers | 1,650 | 1,739 | 1,685 | 1,542 | 1,416 |
| Bail Bondsmen | 494 | 544 | 542 | 550 | 550 |

Source: Oklahoma Insurance Department

The following graph shows the progress in closing consumer claims against entities that the Department regulates by comparing the number of cases closed with that of the prior year.

Key Performance Measure



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.

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.

HMO Regulation

The Insurance Department is responsible for regulating all HMOs that operate in the state of Oklahoma.

FY-2007 Recommendation

| FY-2007 Appropriation | |
|--|----------------|
| <i>(amounts in thousands)</i> | |
| FY-2006 Appropriation | \$2,232 |
| FY-2006 Bud. FTE Level | 133.0 |
| Actual Ave. YTD FTE | 123.2 |
| Funding Adjustments: | |
| State Employee Pay Raise | <u>169</u> |
| FY-2007 Recommendation | \$2,401 |
| % Change from FY-2006 | 7.57% |
| <small>Source: Office of State Finance</small> | |

The FY-2007 appropriation for the Insurance Department is the same as provided for FY-2006 with the following adjustment.

State Employee Pay Raise

The Governor's budget includes \$169,204 for a 3% state employee pay increase for the Insurance Department. This funding is based on December 2005 salary information.

Commissioners of the Land Office

Notable Achievements

- *The Rose Creek land development project highlights an innovative approach the CLO has employed to utilize urban lands held by the School Land Trust. The Trust will be paid in excess of \$35 million dollars over the life of the lease for these lands, which are being developed as a golf course and residential tracts.*
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. During FY-2006, approximately 68 acres were sold for total proceeds to the trust of over \$1.8 million dollars. 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.
- *Income from the mineral estate increased from approximately \$43 million dollars in 2004 to approximately \$49 million dollars in 2005 due to increased energy prices.*
- *The CLO purchases natural gas on behalf of 58 participating State institutions, facilities and universities. Over the past two years, this program has saved participating institutions over \$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 \$12.9 million and direct interest disbursements to the Trust beneficiaries of \$9.4 million.*

Mission

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 Commissioners of the Land Office's mission is two-fold:

- 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:

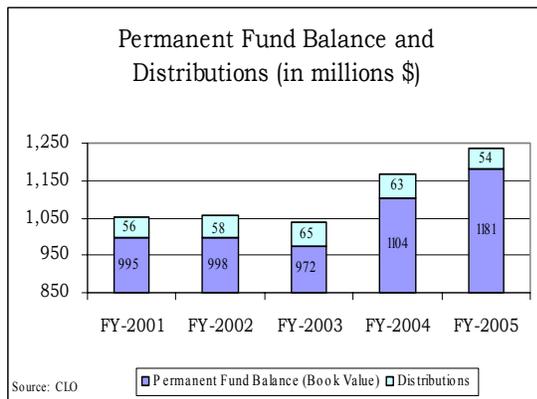
- University of Oklahoma
- Oklahoma State University
- Langston University
- Northern Oklahoma College
- Southeastern OSU
- University of Central Oklahoma
- East Central OSU
- Northeastern OSU
- Northwestern OSU
- Southwestern OSU
- Oklahoma Panhandle State University
- Cameron University

- University of Science and Arts of Oklahoma.

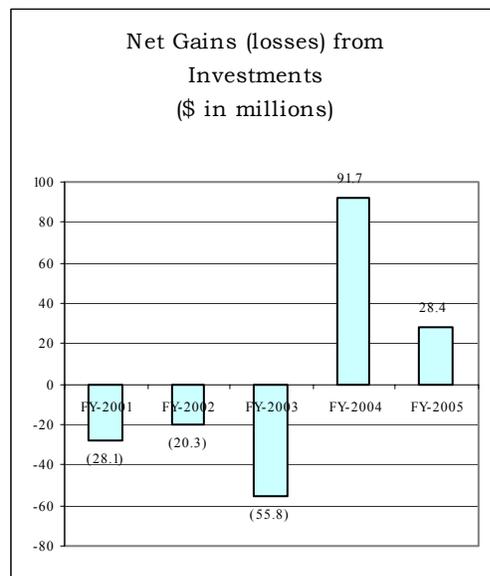
Five ex officio members constitute the CLO board: the Governor, Lieutenant Governor, State Auditor and Inspector, Superintendent of Public Instruction, and the President of the Board of Agriculture.

The following chart depicts the balance and distribution amounts in the Permanent Trust Fund over the last five years.

Key Performance Measure



Key Performance Measure



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 income is in excess of \$10 million. The majority of this income is derived from the agricultural leasing program. This does not include a \$700,000 increase in the permanent fund from other real estate activities. The table below provides a detailed inventory of Trust Lands.

FY-2007 Executive Budget

School Land Trust
Acreage Inventory
State Owned School Lands
Year Ended June 30, 2005
(Unaudited)

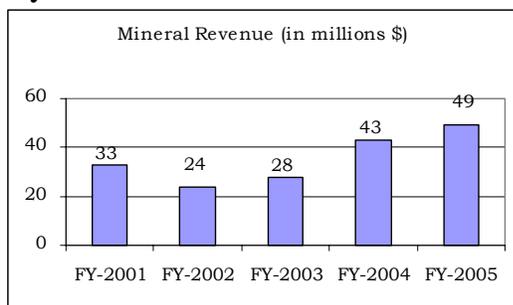
| TRUST FUND | ORIGINAL | LAND ACQUIRED | TOTAL ACRES | NUMBER |
|------------------------------|-------------------|------------------|-------------------|--------------|
| | GRANT LAND | BY FORECLOSURE | OWNED | LEASES |
| Common School | 329,931.52 | 37,688.86 | 367,620.38 | 1,924 |
| State Education Institutions | 76,871.23 | 5,519.79 | 82,391.02 | 426 |
| University of Oklahoma | 62,603.12 | 1,105.60 | 63,708.72 | 90 |
| University Preparatory | 21,163.80 | 320.00 | 21,483.80 | 61 |
| Oklahoma State University | 75,572.76 | 1,112.97 | 76,685.73 | 76 |
| Normal Schools | 73,085.82 | 1,198.50 | 74,284.32 | 84 |
| Langston University | 18,679.10 | 316.99 | 18,996.09 | 37 |
| Public Buildings | 36,400.63 | 4.49 | 36,405.12 | 194 |
| Greer | 3,239.30 | - | 3,239.30 | 17 |
| Total Acres Owned | 697,547.28 | 47,267.20 | 744,814.48 | 2,909 |

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-2005 was approximately \$49 million. Income from the fund is deposited in the Permanent Trust. In FY-2005, 263 wells were drilled on CLO acreage with a 78% success rate. The chart below depicts mineral revenue for the past five fiscal years.

Key Performance Measure



Gas Marketing Program

The CLO purchases natural gas on behalf of 58 state entities. Various strategies are employed to attempt to purchase natural gas at a cheaper rate than the local utility. This goal has been achieved with savings in excess of one million dollars in each of the past two fiscal years. The program tries to provide protection from pricing volatility.

The CLO evaluates agency needs and usage on a daily basis, then buys 75% -80% of that need and provides it to agency daily. Oklahoma Natural Gas provides the infrastructure for the delivery to the individual facilities, and the CLO uses major transmission lines from numerous other companies. The CLO contracts with a provider to purchase the gas, then transports it to each one of the facilities based on the daily estimated need. The Office of State Finance allows the CLO to operate with a credit account, making the CLO a billing agent for the agencies receiving the gas.

Investments

The Investment Division is responsible for overseeing the investment portfolio portion of the trust. This portfolio started with the \$5 million compensation from the Federal Government for Indian lands. Each year the realized and unrealized capital gains from the various bond and equity investments increase the portfolio.

As of June 30, 2005, the portfolio had a fair market value of \$1.27 billion. During fiscal year 2005, the portfolio had capital gains of \$48 million.

The trust is also increased by other income producing efforts of the Investment Division. Security lending produced approximately \$400,000.

The interest and dividends from the investment portfolio are distributed to the Trust beneficiaries each year. Distributions of dividends and interest of almost \$47 million were made during fiscal year 2005.

FY-2007 Recommendation

| FY-2007 Appropriation <i>(amounts in thousands)</i> | |
|---|----------------|
| FY-2006 Appropriation | \$4,719 |
| FY-2006 Bud. FTE Level | 62.0 |
| Actual Ave. YTD FTE | 56.6 |
| Funding Adjustments: | |
| State Employee Pay Increase | <u>89</u> |
| Total Adjustments | 89 |
| FY-2007 Recommendation | \$4,808 |
| % Change from FY-2006 | 1.89% |
| <small>Source: Office of State Finance</small> | |

State Employee Pay Increase

The Governor's budget includes \$88,762 for a 3% state employee pay increase for the Commissioners of the Land Office. This funding is based on December 2005 salary information.

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).

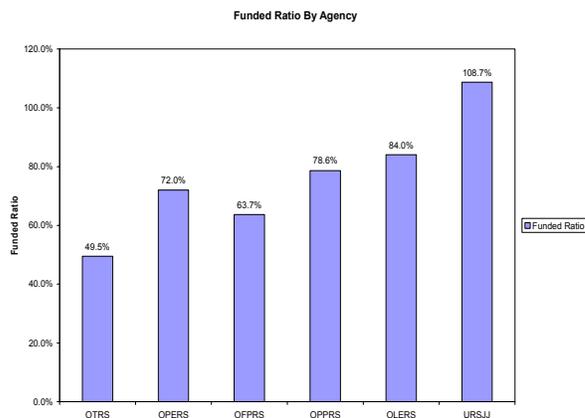
Systems are funded with employee contributions, employer contributions, return on investments and, in some cases, dedicated revenue streams. Recently, the return on investments has been below actuarial assumptions due to the sluggish economy. These lower returns have affected the long run financial condition 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, probation and parole officers and fugitive apprehension officers in the Department of Corrections as well as for firefighters in the Military Department.

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 younger, healthier individuals. These individuals often serve in areas that are defined as hazardous duty. Members of the various law enforcement and 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 relative 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.

OTRS’s large relative size is a concern because the system carries an UAAL of approximately \$7.4 billion. An Unfunded Actuarial Accrued 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.

Financial health 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.

| | 2001 | 2002 | 2003 | 2004 | 2005 |
|-------|--------|--------|--------|--------|--------|
| OTRS | 51.4% | 51.4% | 54.0% | 47.3% | 49.5% |
| OPERS | 82.6% | 79.8% | 76.8% | 76.1% | 72.0% |
| OFPRS | 82.9% | 78.4% | 76.9% | 66.0% | 63.7% |
| OPPRS | 91.0% | 88.1% | 84.5% | 81.1% | 78.6% |
| OLERS | 105.7% | 90.2% | 87.7% | 87.6% | 84.0% |
| URSJJ | 132.9% | 148.2% | 139.9% | 121.0% | 108.7% |

Source: Annual Financial Reports, Actuarial Reports

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.

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 were redirected to the Education Reform Revolving Fund (HB 1017 Fund) for FY-2004 only. The change in UAAL for OFPRS, OPPRS, and OLERS is primarily attributed to the loss of insurance premium tax in FY-2004. Beginning in FY-2005 this insurance premium tax revenue is again 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.

| | FY-2004 | | FY-2005 | | FY-2006 - FY-2009 | | FY-2010 and later | |
|--------|---------|-------------|---------|-------------|-------------------|-------------|-------------------|-------------|
| | % | \$ millions | % | \$ millions | % | \$ millions | % | \$ millions |
| OFPRS | 0.00% | 0 | 41.70% | \$58.21 | 41.70% | \$60.47 | 34.00% | \$49.30 |
| OPPRS | 0.00% | 0 | 17.00% | \$23.73 | 17.00% | \$24.65 | 14.00% | \$20.30 |
| OLERS | 0.00% | 0 | 6.10% | \$8.51 | 6.10% | \$8.85 | 5.00% | \$7.25 |
| GRS | 0.00% | 0 | 35.20% | \$49.14 | 35.20% | \$51.04 | 47.00% | \$68.15 |
| HB1017 | 100.00% | 137.9 | 0.00% | \$0.00 | 0.00% | \$0.00 | 0.00% | \$0.00 |
| Total | | \$137.90 | | \$139.59 | | \$145.00 | | \$145.00 |

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 only.

This table does not include any amounts that may be received from Deferred Retirement Option Plans (DROP) programs, disability programs or payments to beneficiaries.

| Retiree Annual Benefits | |
|-------------------------|--------------|
| System | Avg Benefit* |
| OTRS | 16,416 |
| OPERS | 13,684 |
| OFPRS | |
| Paid | 26,467 |
| Volunteer | 1,681 |
| OPPRS | 26,925 |
| OLERS | 28,400 |
| DRW | 25,286 |
| URSJJ | 52,280 |

*Avg benefit includes service retirees only
 Source: FY-2005 annual financial statements and actuarial reports

Oklahoma Public Employees Retirement System (OPERS)

Notable Achievements

- *Government Finance Officers Association (GFOA) has recognized OPERS for outstanding achievement in financial reporting for eight years in a row.*
- *Investment returns consistently exceed benchmarks.*
- *Improved customer service by distributing annual statements to vested members and enhanced information on annual statements to active members.*
- *Increased the number of pre-retirement seminars offered.*
- *Introduced a "Benefit Estimator" to the agency website.*

Mission

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.

| OPERS Participating Employers | | |
|-------------------------------|------|------|
| | 2004 | 2005 |
| State Agencies | 119 | 121 |
| County Governments | 75 | 75 |
| Local Towns and Cities | 28 | 28 |
| Other Local Gov. Units | 38 | 42 |
| Total | 260 | 266 |

Source: OPERS Financial Statements June 30, 2005 and 2004

Contribution Rates

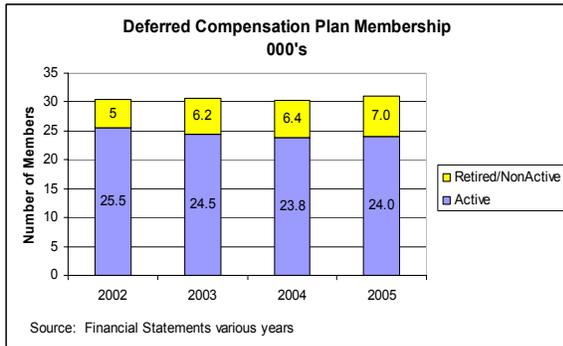
Effective July 1, 2005, the state, county and local agency employer contribution rates increase as follows:

- State agency employer contribution rates increased by 1.5% from 10.0% to 11.5% for FY-2006 and will increase 1.0% each year thereafter until it reaches 16.5% in FY-2011. The total cost of the increase for FY-2006 is \$14,987,732; and
- The combined employee and employer contribution rate for county and local agencies increased by 1.5% to 15% in FY-2006 and will increase 1.0% each year thereafter until it reaches 20% in FY-2011.

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. The 403(b) is a tax deferred retirement plan available to employees of educational institutions and certain non-profit organizations. Contributions and investment earnings grow tax deferred until withdrawal (assumed to be retirement), at which time they are taxed as ordinary income.

Membership changes seem to fluctuate with changes in stock market values. Of interest is the fact that the number of retirees remaining in SoonerSave continues to grow even when the number of active members decreases.



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 employee contributions that are payroll deducted. Members must contribute a minimum of \$25 per month. The net assets available for plan benefits totaled \$354.8 million, an increase of \$29.6 million over the previous year. Deferred compensation plan contributions increased by 1.2 million, primarily due to an increase in the number of active participants.

The participants' accounts are invested in accordance with the investment elections of the participants. Note that when participants are making their own investment decisions, the investments are very conservative.

| Deferred Compensation Investments June 30, 2005 | | |
|--|--------------|------|
| | \$ million | % |
| Large Cap equity | 88.0 | 24.8 |
| Stable Value | 85.8 | 24.2 |
| Bank Option | 37.3 | 10.5 |
| Small-Cap equity | 34.8 | 9.8 |
| Mid-Cap equity | 45.9 | 12.9 |
| Bond | 23.9 | 6.7 |
| Specialty | n/a | n/a |
| International equity | 24.1 | 6.8 |
| Balanced | 12.1 | 3.4 |
| Other | 2.4 | 0.7 |
| Total | 354.3 | |

Source: Deferred Compensation Plan Financial Statements June 30, 2005 and 2004

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

In the deferred savings incentive plan, agencies contribute \$25 per month for their employees who are contributing to the deferred compensation plan. The net assets available for plan benefits as of June 30, 2005 totaled \$85.4 million with 30,523 participants.

Individual members choose the types of investments. Investment choices employees make for the deferred savings incentive plan are not necessarily the same as the deferred compensation plan. The investment options are the same for each plan, with the exception of the self-directed brokerage option that is available in the deferred compensation plan only.

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.

The market value of assets was \$205.7 million as of June 30, 2005, an increase of \$13.9 million. This increase came exclusively from the appreciation in the value of investments. Benefit payments and administrative expenses were \$7.6 million with the System only collecting \$2.2 million in employee and employer contributions combined.

| Condensed Schedules of Changes in Plan Net Assets \$ millions | | | |
|--|-------------|-------------|-------------|
| | 2003 | 2004 | 2005 |
| Member contributions | 1.8 | 1.8 | 1.7 |
| Court employer contributions | 0.5 | 0.5 | 0.5 |
| Net investment income (loss) | <u>10.8</u> | <u>20.5</u> | <u>19.4</u> |
| Total Additions | 13.1 | 22.8 | 21.6 |
| Benefits | 6.0 | 6.5 | 7.4 |
| Refunds and withdrawals | 0.1 | 0.1 | 0.1 |
| Administrative expenses | <u>0.1</u> | <u>0.1</u> | <u>0.1</u> |
| Total Deductions | 6.2 | 6.7 | 7.6 |
| Total Changes in Plan Net Assets | <u>6.9</u> | <u>16.1</u> | <u>14.0</u> |

Source: URSJJ, "Financial Statements, June 30, 2005, 2004, and 2003"

The funded ratio of the URSJJ has fallen dramatically from 148.2% at the end of FY 2002 to 108.7% at the end of FY 2005. The total "required contribution" is now \$6.4 million while the System is only projected to take in \$2.7 million in the coming fiscal year. The employer contribution rate is only 3% of salary for FY 2006 and increases to only 4% in FY 2007. Without increasing contribution rates, the URSJJ is headed toward a funded ratio of below 100% in the very near future.

As of July 1, 2005, the average annual benefit paid to retirees and their surviving spouses was \$43,588. The average annual benefit for retired members was \$52,880. The combined average benefit for retirees and their beneficiaries (surviving spouses) is less since the beneficiaries receive a fractional part of the retiree's benefit.

Teachers Retirement System (OTRS)

Notable Achievements

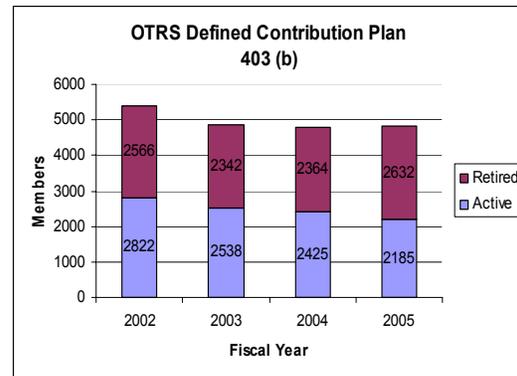
- Investment returns were 10.4% for year ending June 30, 2005. This ranks in top 21% in the universe of 90 public pension plans according to the Oklahoma State Pension Commission.
- Received Government Finance Officers Association's (GFOA) certificate for twelfth straight year.
- Internal cash management earned the System over \$3.5 million (over \$550 thousand over exclusively using the custodian). The System's securities lending and commission recapture programs netted \$3.3 million and \$988

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 138,245 members and net assets of \$7.2 billion as of June 30, 2005. As of June 30, 2005, only 49.5% of OTRS actuarial liabilities were covered by the actuarial value of its assets. The funding period decreased to 42.6 years.

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 tax receipts. The system will also receive 5% of the net proceeds of the education lottery. 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 “Alternative Retirement Plan for Eligible Employees of Participating State Institutions of Higher Education Act of 2004” provides new employees of the comprehensive universities (OU, OU Health Sciences, and OSU) the choice of joining OTRS or joining an alternative defined contribution plan.

The national trend in higher education institutions throughout the country is to make a defined contribution retirement option available. A defined contribution option provides portability and enables university faculty members to build their retirement funds over their entire working life.

Tax-Sheltered Annuity Plan

OTRS also administers an optional tax-sheltered annuity program under section 403(b) of the Internal Revenue Code. OTRS members may deposit funds into this plan if the local school board adopts a resolution making the plan available to its employees. This defined contribution plan is funded totally by employees and does not receive any employer match.

This plan is invested by OTRS just as is the regular retirement with no discretion on the type of investments by individual members. The Teachers’ Deposit Fund had \$303 million at the end of FY-2005 compared to \$285 million at the end of FY-2004.

Even though this 403(b) defined contribution plan is offered to local education employees, relatively few take advantage of the opportunity.

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 Membership | |
|------------------|--------------|
| Active | 4016 |
| Deferred | 79 |
| Retired | 1,866 |
| Beneficiaries | 433 |
| Disabled | 148 |
| DROP | 247 |
| Total | 6,789 |

Source: OPPRS 7/2005

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.

A back-drop-date plan is also available. 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.

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; however, all members are local government paid or volunteer employees. The system receives funding from employer and member contributions, insurance premium taxes and returns on investments. Over 64% of the members are volunteers. While these volunteers are not paid for their service, they receive \$139.20 per month of retirement after 20 years of service.

| OFPRS Membership | |
|-------------------------|----------------------|
| Paid | |
| Active | 3677 |
| DROP | 252 |
| Vested | 32 |
| Retired | 1,765 |
| Disabled | 1,218 |
| Beneficiaries | <u>672</u> |
| Paid total | 7,616 |
| Volunteer | |
| Active | 7,322 |
| DROP | 43 |
| Vested | 1,081 |
| Retired | 3,242 |
| Disabled | 333 |
| Beneficiaries | <u>1,117</u> |
| Vol. total | 13,138 |
| Total Membership | <u>20,754</u> |

Source: OFPRS Actuarial Report 7/1/2005

Both volunteer and paid firefighters OFPRS members may participate in a deferred retirement option plan (DROP) as with other

systems whose members perform hazardous duty plans.

Local Firefighter Retirement Boards

Counties, cities and towns and fire districts with local firefighters have locally controlled boards. The local boards review applications for retirement benefits. The local board recommends the approval, disapproval or modification of each application to the state board. The local board forwards the recommendations to the state board for its action.

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 Membership Data | | |
|-----------------------|--------------|--------------|
| Agency | Active | Retired |
| ABLE | 25 | 25 |
| OSBI | 147 | 59 |
| OSBN | 54 | 29 |
| Board of Pharmacy | 1 | 3 |
| Tourism | 48 | 44 |
| DPS | 918 | 905 |
| Quartz Mt. | 3 | 0 |
| OU | 34 | 0 |
| OSU | 19 | 0 |
| Grand River Dam | <u>6</u> | <u>0</u> |
| Total Members | 1,255 | 1,065 |

Source: OLERS 12/05

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. This retirement system is unique since a single agency manages the retirement system for its own employees.

The retirement system has 322 active participants and 179 retired and inactive participants. It has a funded ratio of

81.4%. 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.

on a 15 year amortization schedule to fund the liability. For last two to three years the contribution has been \$1.2 – 1.5 million. The Department has increased the annual contribution to 2.5 million based on the actuarial valuation report. Employees contribute 3% of salary. The vesting period is 10 years.

The employer contribution is based on the annual valuation report and is currently set

| Retirement Systems | | | | | | | |
|--|----------------|-----------|--------------|-------------|-------------|-----------|-----------|
| Plan Year Ending 6/30/2005 | | | | | | | |
| | OPERS | URSJJ | OTRS | OPPRS | OFPRS | OLERS | DWR |
| Active members | 69,800 | 266 | 84,286 | 4,016 | 10,780 | 1,201 | 322 |
| Retired Members* | 23679 | 175 | 40079 | 1066 | 8184 | 1024 | 158 |
| Vested Members | 5521 | 9 | 6008 | 73 | 1070 | 21 | 16 |
| Deferred Option Plan (DROP) | | | | 247 | 3090 | 152 | |
| Employee Contribution %: | | | | | | | |
| State-not elected | 3.0% to 6.4% | 6.70% | 7% | - | - | - | - |
| State-elected | 4.5% to 10% | 1.80% | 4.00% | - | - | - | - |
| Hazardous Duty | 8 | | | | | | |
| County & Local | 3.5% to 11.41% | 5.00% | 7% | 12.40% | paid - 8%** | - | - |
| Employee Contribution \$: | \$48.470 | \$1.717 | \$235.000 | \$13.412 | \$12.964 | \$3.752 | \$397,098 |
| Actuarial Value of Assets | \$5,412.167 | \$203.951 | \$6,952.688 | \$1,423.834 | \$1,473.397 | \$604.131 | \$59.111 |
| Actuarial Accrued Liability | \$7,114.778 | \$185.906 | \$14,052.434 | \$1,811.572 | \$2,233.520 | \$689.801 | \$72.603 |
| * Includes regular retirees and disabled retirees as well as beneficiaries and spouses | | | | | | | |
| ** Volunteers receive 0% | | | | | | | |
| Source: Annual Financial Reports, Actuarial Reports as of July 1, 2005 | | | | | | | |

Securities Commission

Mission

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 | FY-2004 | FY-2005 |
| Broker-Dealers | 1,734 | 1,707 | 1,649 | 1,633 | 1,655 |
| Adviser | 659 | 718 | 788 | 836 | 922 |
| Individuals | | | | | |
| Broker-Dealer Agents | 74,022 | 69,366 | 65,243 | 67,844 | 70,980 |
| Adviser Reps. | 5,427 | 5,856 | 7,409 | 7,600 | 6,784 |
| Securities Issuer Agents | 118 | 107 | 107 | 104 | 124 |

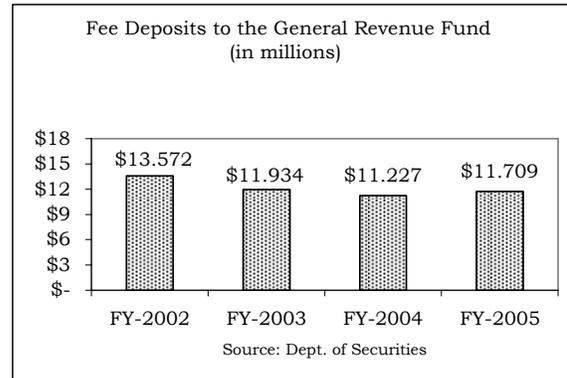
Source: Securities Commission

HB 2068 placed the Securities Commission into non-appropriated status. Beginning in FY-2005 all agency expenditures were funded by revolving fund revenue. The Securities Commission will still be required to transfer funds from fees that it collects to the General Revenue Fund as it has in the past.

Historically, the Securities Commission contributes 70% to 80% of fee assessments to the General Revenue Fund depending on the correlation between the filings and statute requirements. The Securities Commission transferred \$11.709 million to the General Revenue Fund in FY-2005. This amount was 76% of a total of \$15.530 million in fees collected by the Securities Commission for FY-2005. The Commission plans to deposit

\$11.708 million into the General Revenue Fund for FY-2006.

Below is a chart which shows total deposits made by the Securities Commission to the General Revenue Fund since FY-2001.



Oklahoma Tax Commission (OTC)

Notable Achievements

- Continued 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 59% increase (\$19 million to \$29.8 million) in collections from FY-1999 to FY-2005.
- Introduced an on-line business tax filing system that has grown from 81,824 annual filers in FY- 2003 to 403,001 annual filers in FY-2005 resulting in decreased costs and increased efficiency for the Commission.
- The Commission has seen a 212% increase (226,000 to 705,152) in on-line income tax return filers from FY-2000 to FY-2005. The results are decreased costs and increased efficiency for the Commission.
- Implemented a 2-D bar-coding system on computer-generated individual income tax forms, resulting in reducing costs of \$451,000.
- The Professional License Compliance program has significantly increased compliance. OTC has collected \$68 million since inception in FY-2000 from delinquent license holders through December 2005. Legislation passed in the 2003 session added Oklahoma state employees to this compliance effort.
- Began renovation on a one-stop customer service center in the Connor Building. Renovation is expected to be complete by May 2006.

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

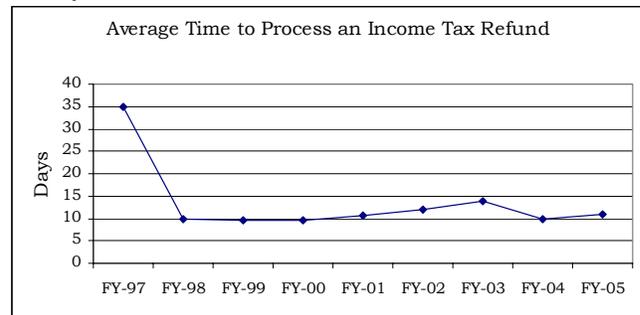
distributes local sales taxes levied by cities and towns in Oklahoma.

The Oklahoma Tax Commission consists of three distinct departments: Taxpayer Services, Revenue Administration and Support Services.

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.

Key Performance Measure



Source: Oklahoma Tax Commission

Integrated Collections System

In 2004, the State provided \$7.1 million for the development of an integrated collections system. With full implementation of the system, the Tax Commission will link an individual or company and all of its tax types within one system. This system will enhance the collection of state revenues and provide time savings and efficiencies for the Tax Commission. The project is ongoing through fiscal year 2007.

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.

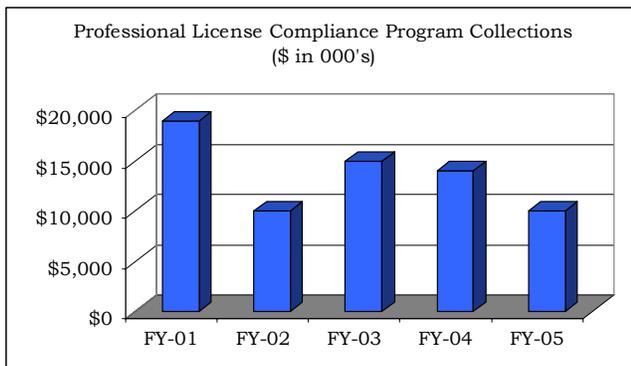
OTC reviews the following professions through this program:

- 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

The graph below shows the collections from the Professional License Compliance Program through FY-2005.

Key Performance Measure



Source: Oklahoma Tax Commission

Tobacco Enforcement

The Tax Commission has undertaken a variety of compliance and enforcement efforts in order to insure that all cigarette and tobacco taxes are being accurately reported and paid. These efforts include, but are not limited to:

- Conducting seven compliance sweeps of retail establishments across the state with a total of 2,541 visits resulting in 358 confiscations of cigarette and tobacco products (10.3% of all visits);
- Assessing approximately \$234,000 to over 1,200 Oklahomans who purchased

cigarette products over the Internet and did not pay the taxes owed;

- Issuing over \$1.1 million in assessments to wholesalers for discrepancies on their cigarette tax reports; and
- Establishing a phone hotline on which wholesalers may report instances of violations of the cigarette and tobacco laws.

Customer Service Center

Construction is currently underway to renovate the first floor of the Connors building for the Tax Commission's one-stop customer service center. The project will add 12 customer service stations and additional personnel to the first floor. Seating and private consultation areas have also been added to provide a more comfortable and discreet environment. Once the renovation is complete, taxpayers will no longer have to shuttle between different locations to do business with the Tax Commission.

The Tax Commission is working with the Secretary of State to determine if business services provided by the Secretary of State's offices can be co-located to Tax Commission's new service center.

FY-2006 Supplemental

| FY-2006 Supplemental | |
|-----------------------------------|-----------------|
| <i>(amounts in thousands)</i> | |
| FY-2006 Appropriation | \$45,626 |
| Supplemental | <u>38,000</u> |
| FY-2006 Adj. Appropriation | \$83,626 |
| % Change from FY-2005 | 5.51% |
| % Change from Original FY-2006 | 83.29% |

Source: Office of State Finance

The Governor's budget includes a \$35 million supplemental appropriation to the Ad Valorem Reimbursement Fund to address the fund's shortfall. The supplemental will allow the Tax

Commission to reimburse counties and school districts for the lost ad valorem revenue due to the Five Year Manufacturing Exemption.

FY-2007 Recommendation

| <i>FY-2007 Appropriation</i> | |
|-------------------------------------|-----------------|
| <i>(amounts in thousands)</i> | |
| FY-2006 Appropriation | \$45,626 |
| FY-2006 Bud. FTE Level | 905.0 |
| Actual Ave. YTD FTE | 903.2 |
| Funding Adjustments: | |
| State Employee Pay Increase | 1,157 |
| Tobacco Enforcement | <u>2,000</u> |
| Total Adjustments | 3,157 |
| FY-2007 Recommendation | \$48,783 |
| % Change from FY-2006 | 6.92% |

Source: Office of State Finance

State Employee Pay Raise

The Governor's budget includes \$1,156,551 for a 3% state employee pay increase for office of the Tax Commission. This funding is based on December 2005 salary information.

Tobacco Enforcement

The Governor's recommends \$2 million to increase cigarette tax enforcement. This funding will enhance enforcement technology and allow the Tax Commission to hire additional auditors to further enforcement efforts.

State Treasurer

Notable Achievements

- *Improved funds management procedures in the Treasurer's security portfolio that will net an increase in interest earnings in excess of \$20 million annually.*
- *A new master custody/securities lending contract will increase the state's revenue split from 75% to 85%, resulting in additional securities lending revenues to the state of \$1.25 million over the life of the contract.*
- *The new merchant credit card processing contract will save Oklahoma state agencies \$1.5 million in discount fees over the life of the contract.*
- *Implementing an on-line securities trading system that will allow all brokers registered with the Treasurer's Office to bid on every U.S. Treasury security the Treasurer buys or sells. This system replaces a telephone based system and insures the most competitive pricing available. Phase II of the new system will include a similar on-line process for U.S. Agency Securities.*
- *The Rural Housing Link program was implemented in 2005 to provide low-interest loans of up to \$2 million each to qualified housing developers to construct single family and multi-family housing in rural Oklahoma and qualifying urban areas. The first loan was funded in July 2005.*
- *OST is implementing a new PayCard service for state employees who do not have bank accounts or prefer to not use their own bank account for direct deposit of their pay. National figures show savings in excess of \$1.00 per paper paycheck converted to direct deposit. Once fully implemented, annual savings to the state will be approximately \$250,000.*
- *The Treasurer's Office will partner with Washington University in St. Louis to study the effectiveness of matching*

grants in encouraging low to moderate income households to save for a child's education. Two million dollars in grant funds will be deposited in state-owned accounts as seed money for the program.

- *A new custody contract negotiated for the Oklahoma Tobacco Settlement Endowment Trust Fund will save approximately \$200,000 during the first two years of the contract.*

Mission

The mission of the State Treasurer's Office is to provide sound financial services (banking, investing and cash management) and reunite citizens with their unclaimed property.

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.

Warrant Imaging Project

The Treasurer's Office replaced a labor intensive microfilming process for cancelled state warrants with a digital-imaging system. This system allows for online retrieval of warrants and saves the state more than \$600,000 each year.

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 25,305 claims and 1,350,000 searches online. There have been over 7,281 paid claims initiated via the Internet.

| | FY-2004 | FY-2005 | FY-2006 Est. |
|----------------------------|----------|----------|-----------------|
| Net Collections | \$25,717 | \$35,867 | \$31,000 |
| # of Claims Paid | 10,333 | 10,816 | 11,421 |
| \$ Claims Paid (in 000's) | \$9,192 | \$11,879 | \$12,473 |
| % claims initiated on-line | 59% | 61% | 70% |
| # of New Names Published | 45,016 | 70,511 | 50,000 |

Source: State Treasurer's Office

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 up to a 3% reduced interest rate. The lending institution passes these interest savings on to the contractor/developer.

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 up to a 3% reduced rate.

| | FY-2004 | FY-2005 | FY-2006 Est. |
|---------------------|---------|---------|-----------------|
| Funded Participants | 9 | 2 | 12 |
| Amount Funded | \$6,103 | \$199 | \$4,400 |
| Jobs Saved | 118 | 20.5 | 50 |

Source: State Treasurer's Office

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 up to a 3% reduced interest rate.

| | FY-2004 | FY-2005 | FY-2006 Est. |
|---------------------|----------|----------|-----------------|
| Funded Participants | 108 | 45 | 100 |
| Amount Funded | \$20,066 | \$10,188 | \$30,280 |

Source: State Treasurer's Office

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. As a result, OST has realized an improvement in earnings split from 70:30 to 75:25; therefore, the state is keeping more earnings.

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.

College Savings Plan

The Oklahoma College Savings Plan offers families the opportunity to plan and save for higher education expenses. There are several advantages:

- Oklahoma residents are eligible for an annual state income tax deduction of up to \$10,000 per taxpayer, \$20,000 per joint filing taxpayers;
- 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.

FY-2007 Executive Budget

Since its inception in April 2000, nearly 29,000 Oklahomans have opened College Savings Plan accounts totaling \$163 million in assets. Every other state offers a similar state income tax deduction annually.

FY-2007 Recommendation

| <i>FY-2007 Appropriation</i> | |
|-------------------------------------|----------------|
| <i>(amounts in thousands)</i> | |
| | |
| FY-2006 Appropriation | \$4,525 |
| FY-2006 Bud. FTE Level | 78.8 |
| Actual Ave. YTD FTE | 75.6 |
| | |
| Funding Adjustments: | |
| State Employee Pay Increase | <u>82</u> |
| FY-2007 Recommendation | \$4,607 |
| % Change from FY-2006 | 1.81% |
| Source: Office of State Finance | |

State Employee Pay Raise

The Governor's budget includes \$81,903 for a 3% state employee pay increase for the State Treasurer's Office. This funding is based on December 2005 salary information.

Oklahoma Lottery Commission

Passed by the Legislature in 2003, HB1278 created the Oklahoma Lottery Commission contingent upon approval by voters in 2004. When State Questions 705 and 706 were approved, the Commission became an official body responsible for operating and managing the Oklahoma Education Lottery. The Commission is governed by a seven member Board of Trustees appointed by the Governor.

The Lottery Commission does not receive any state funding. Proceeds from the lottery are used to fund the Commission's operating costs. However, in FY-05, the State did appropriate one-time funding of \$500,000 to cover costs associated with starting the lottery.

Health

**Community Hospitals Authority
Oklahoma Health Care Authority
Department of Health
Department of Mental Health & Substance Abuse Services
State Board of Examiners for Nursing Home
Administrators**

Health

Summary of FY-2007 Budget Recommendations

| Agency Name | FY-2006 Adj. Approp. | FY-2007 Base | FY-2007 Adj. | Final FY-2007 Appr. | % Diff. from FY- 2006 |
|----------------------------|---------------------------------|----------------------|---------------------|--------------------------------|--------------------------------------|
| Health Care Authority | \$634,786,355 | \$634,786,355 | \$59,445,454 | \$694,231,809 | 9.4% |
| Health Department | 62,790,819 | 62,790,819 | 6,638,545 | 69,429,364 | 10.6% |
| Mental Health Department | 171,810,647 | 171,810,647 | 15,865,820 | 187,676,467 | 9.2% |
| Nursing Home Admin's Board | 75,000 | 0 | 100,000 | 100,000 | 33.3% |
| Total Health | \$869,462,821 | \$869,387,821 | \$82,049,819 | \$951,437,640 | 9.4% |

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. Sections 3240.1 and following of the Oklahoma statutes state the purpose of the Authority to 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 statute also charges the Authority 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.

Since its original creation, the legislation creating the Authority has been amended to:

- Expand the definition of "Medically indigent" to include persons with insufficient insurance, in addition to no insurance;
- Specify that additional funding secured by the Authority will not be used to offset current Medicaid appropriated funding for indigent care and graduate medical education;
- Remove the prohibition on the appropriation of state funds to the Community Hospital Authority;
- Remove 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-2007 Recommendation

No appropriated funding is recommended for the Community Hospitals Authority at this time.

The Oklahoma Health Care Authority

Notable Achievements

- **Oklahoma Cares – Breast and Cervical Cancer Treatment goes into effect** On January 1, 2005, the Breast and Cervical Cancer Treatment Program went into effect. The state of Oklahoma is now providing Medicaid benefits to low-income, uninsured women under age 65 who are identified through the national Breast and Cervical Cancer Early Detection Program and are in need of treatment for breast or cervical cancer. Oklahoma Cares is a collaborative partnership with the Oklahoma Health Care Authority (OHCA), the Oklahoma State Department of Health, the Cherokee Nation, the Kaw Nation of Oklahoma and the Oklahoma Department of Human Services.
- **Family Planning Services covered by Medicaid as of April 1, 2005** Low income, uninsured women and men are now receiving family planning services under a new program, **SoonerPlan**. Eligibility requirements stipulate that applicants are residents of Oklahoma, age 19 or older and be U.S. citizens or qualified aliens. They must have no other health insurance coverage for family planning, not be eligible for regular Medicaid and must have income below 185% of the federal poverty level.
- **Governor Henry's Premium Assistance Program moves forward** OHCA sought approval from the Center for Medicaid and Medicare Services for premium assistance to Oklahoma's low income individuals and small businesses for health care coverage. The proposal was submitted under the Health Insurance Flexibility and Accountability (HIFA) Demonstration Initiative. The program will be open to small businesses with 25 or fewer workers. Premium assistance will be available for workers and spouses with household incomes at or below 185% of the federal poverty level that are not eligible for Medicaid.

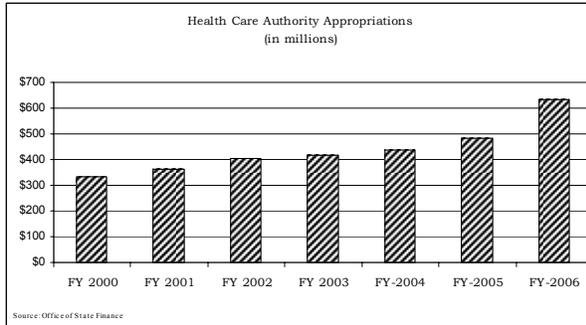
Participating employers, as well as employees, will be required to pay a portion of the premiums as well as deductibles and co-pays. Total out of pocket expenses for employees will be held at 5% of income.

- **OHCA and OSU-OKC launch Certified Nurse's Aide (CNA) Training** Various state agencies along with OHCA and OSU-OKC, partnered to develop a pilot program to certify nurse's aides to work at long term care facilities. The pilot program provides classes at no cost to Oklahoma and Logan county residents who earn certification and subsequently gain and hold employment at a Medicaid long term care facility. This program is designed to address the high turnover rate for Certified Nurse's Aides.

Mission

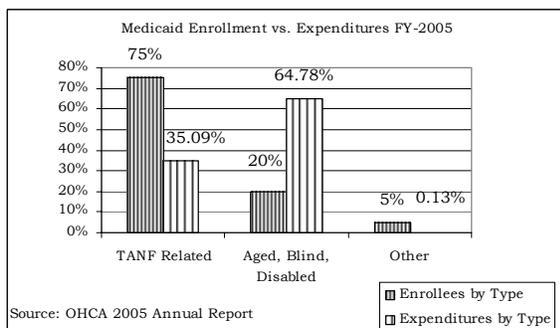
Medicaid is a federal and state entitlement program providing medical benefits to certain classes of lower income individuals who have no health insurance. Coverage for basic health and long term care services is guaranteed based on income levels and/or resources to individuals falling within such classes as aged, blind, disabled, pregnant women and children. 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 Medicaid program enrolled an unduplicated count of 696,743 individuals during FY-2005 and of those, 687,451 received services. On average, there were about 530,853 individuals enrolled per month during the year. In FY-2006, the appropriation to the Health Care Authority represents 11% of all appropriations by the Legislature.



The appropriation to the Health Care Authority has grown from 6.74% of total appropriations in FY-2000 to 10.53% of total appropriations in FY-2006.

The following chart from OHCA's 2005 Annual Report shows Medicaid enrollment by categorical type compared to Medicaid expenditures by categorical type. Note that the Aged, Blind and Disabled category comprises only 20% of Medicaid recipients by type but accounts for nearly 65% of total Medicaid expenditures. *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 212,000 more children enrolled in Medicaid as of June 30, 2005, than in November 1997.



As the chart above illustrates, a minority of Medicaid recipients account for the majority of expenditures. The TANF Related category consisting of pregnant women and children were 75% of the recipients in FY-2005 but accounted for 35% of total expenditures.

Key Performance Measures

The percentage of Oklahomans enrolled in Medicaid at some point during the year is a key measure because it indicates the percentage of an uninsured population receiving healthcare services. Otherwise, they would join the ranks of the uninsured or those whose uncompensated care costs must be absorbed by our state hospitals. In FY-2005, 19.8% of Oklahomans were enrolled at some point in the year and in FY-2006 it is estimated that 20.9% will be enrolled.

An important measure of access to preventive care is well child visits with primary care physicians for both young children and adolescents. The percentage of young children enrolled in Medicaid who saw their physician for a well child visit during the year increased from 48.6% in FY-2004 to 59.9% during FY-2005.

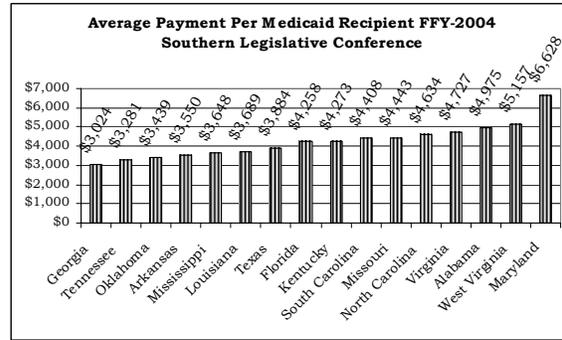
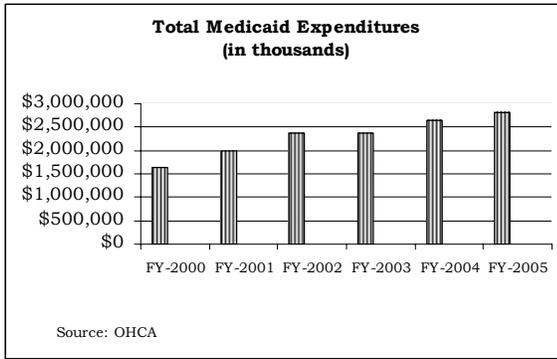
Among adolescents the percentage of Medicaid enrollees who attended a well child visit increased from 23.8% in FY-2004 to 37.6% in FY-2005. The percentage of Medicaid children ages 7 to 11 who had a visit with their primary care physician has risen to 80% in recent years.

The percentage of Medicaid enrolled children who have received up-to-date immunizations was 72% in FY-2004 and is estimated to be as high as 90% in FY-2005.

Service Delivery Systems

Medicaid services were delivered through two delivery systems in FY-2005. Both delivery systems pay private health care providers to deliver services to Medicaid recipients. One delivery system is the traditional fee-for-service system. The other is the SoonerCare Choice program which is the partially capitated managed care program required under 56 Oklahoma Statute Section 1010.1(B).

With each 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.

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. Based on the Federal Fiscal Year 2005 matching rate, Medicaid imported federal dollars into Oklahoma at a rate of 2.36:1. Health care businesses, in turn, have an additional impact through the purchases of technology, and services. The \$2.8 billion in Medicaid expenditures for FY-2005 is estimated to have supported 103,025 direct and indirect jobs within the health care industry and \$2.3 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, only Tennessee and Georgia had lower average per recipient payments in Federal Fiscal Year 2004 than Oklahoma.

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-2007 Recommendation

| FY-2007 Appropriation | |
|--|------------------|
| <i>(amounts in thousands)</i> | |
| FY-2006 Appropriation | \$634,786 |
| FY-2006 Bud. FTE Level | 397.5 |
| Actual Ave. YTD FTE | 360.6 |
| Funding Adjustments: | |
| Annualizations | |
| Change in FMAP | 8,683 |
| Medicare Part A& B Premiums | 4,846 |
| Medicare Rx Drug Phase-down state contribution | 6,599 |
| 12 Month Eligibility | 1,814 |
| Maintenance | |
| Enrollment/Utilization Growth (5%) | 40,077 |
| Cost Increases in Long Term Care | 4,606 |

| | |
|---|------------------|
| State Auditor and Inspector Contract Increase | 10 |
| Fiscal Agent Contract Increase | 445 |
| Medicare Part A & B Premiums FY-2007 | 3,144 |
| SoonerRide Cap Increases | 965 |
| Other Increases | |
| High Risk Obstetrics | 623 |
| Disease Management | 875 |
| 10% Targeted Nursing Salary Increase | 16 |
| Nursing Home& ICF/MR Facilities Increase (9 mos.) | 15,000 |
| Supplement Tobacco Tax for OHCA Programs | 1,479 |
| State Employee Pay Increase | 264 |
| Use of Carryover | (30,000) |
| Total Adjustments | 59,446 |
| FY-2007 Recommendation | \$694,232 |
| % Change from FY-2006 | 9.36% |
| <small>Source: Office of State Finance</small> | |

The Governor’s Budget proposes to fund the FY-2007 Medicaid program costs in the categories of annualization, maintenance and other increases. Annualization is for the cost of full year funding, maintenance is primarily growth in enrollment and utilization in services and pharmacy and other increases represent the cost of any other specific spending recommendations.

Annualizations

Federal Medical Assistance Percentage (FMAP) Change

The FMAP for each state is determined by a federally prescribed formula which compares the change in Per Capita Personal Income (PCPI) by state to the average PCPI for all states. For federal FY-2006, Oklahoma experienced the fourth largest drop in federal matching percentage of all states. Three months of this change affects state FY-2007 and will cost the state \$8,683,392 to keep the program levels the same as they are currently.

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 Medicare. The state dollar cost to annualize these premiums for FY-2007 is \$4,845,391.

Medicare Prescription Drug Phased-down State Contribution

Also known as the “clawback” provision of the Medicare Part D Prescription Drug program, this state payment to CMS is intended to help pay for the cost of prescription drugs for “dual eligibles”, those eligible for both Medicaid and Medicare. These payments help to offset the cost of prescription drugs for the dual eligible population because that cost has now moved from the Medicaid program to the Medicare program. The annualized cost of this state payment is \$6,598,816 for state FY-2007.

Twelve Month Eligibility

Funding was provided for a phase-in of twelve months of eligibility for services for Medicaid recipients during FY-2006. The Governor’s Budget provides \$1,814,488 to annualize this cost in FY-2007.

Maintenance

FY-2007 Enrollment Growth and Utilization Increase

The Governor’s budget includes \$40,076,726 to meet expenses associated with increased Medicaid enrollees and the services they are expected to access during FY-2006. The growth rate for increased enrollment and utilization is funded at 5%.

FY-2007 Coverage for Medicaid Recipients in Long Term Care

The Governor’s budget includes \$4,606,144 to cover cost increases in long term care which the Quality of Care nursing home provider fee does not collect enough to cover. In addition, Medicare Part A & B premiums for FY-2007 are funded at \$3,143,592.

Contracted Services Increases

The Governor’s budget covers a small increase in the contract with the Auditor

and Inspector's Office, \$444,866 to cover increases with EDS, the Medicaid program Fiscal Agent, and \$965,185 to cover increases in the cap rate for SoonerRide which covers mandatory transportation to medical appointments for Medicaid beneficiaries.

Other Proposed Increases

High Risk Obstetrics

Identifying women who have high risk pregnancies and providing enhanced prenatal care will lead to more healthy births among this population. This budget contains \$633,806 which will be used, along with matching federal funds, to provide enhanced prenatal care to 2,600 women with high risk pregnancies and 520 women with very high risk pregnancies (total 3,120 pregnancies).

When state and federal dollars are combined, this funding will equal total funding for high risk obstetrics of \$1.9 million. That results in an average cost of enhanced care of \$625 per pregnancy. Under the new DRG payment system the payment for one infant's stay in Neonatal Intensive Care is \$11,759 so the benefit of avoiding that cost is obvious in both quality of life and economic terms.

Disease Management

The Governor's budget recommends \$875,000 for increased disease management services and education. Primarily designed for assisting persons with diabetes, the disease management concept uses specialized healthcare staff to educate persons with chronic disease in proper monitoring and disease management techniques. Beneficiaries become more involved in their own health care and learn how and when they should be checking their blood sugar, blood pressure, cholesterol, etc. Self-monitoring and lifestyle changes help to increase the quality of life, delay the onset of complications and reduce the utilization of emergency and inpatient care.

One example of the cost of diabetes when not aggressively managed is the amputation of a lower extremity. Such an amputation,

including the cost of the hospital stay costs over \$18,000. This is just one example of a cost that for many people can be avoided with better disease management.

Targeted Nursing Salary Increase

In recognition of the need to keep nursing salaries competitive, the Governor's budget contains \$15,977 for a 10% targeted increase for these positions. Actual funding is based on December 2005 salary information. Using the Office of Personnel Management's most recent compensation comparison study, this increase will, on average, reduce the market disparity for state nursing salaries compared with private employers by 50%.

Nursing Home and ICF/MR Rate Increase

The Governor's budget provides \$15,000,000 to increase the reimbursement rate for nursing facilities such as nursing homes and intermediate care facilities for the mentally retarded (ICFs/MR). This increase, designed to begin in October and cover 9 months FY-2007 will provide a 13.5% increase in nursing home rates and will bring nursing facilities from 90% to 100% of cost.

Tobacco Tax for Medicaid Programs

This budget includes \$1,478,560 for programs operated by the Health Care Authority which are funded by the tobacco tax increase approved by the voters in November 2004. Those programs include:

- general Medicaid operations;
- reimbursements to County owned hospitals;
- the Katie Beckett Waiver which provides in home care for children with disabilities who would not otherwise qualify for services outside of an institution;
- increased ambulance provider rates;
- increased payment rates to emergency room physicians; and
- breast and cervical cancer treatment for women up to 185% of the Federal Poverty Level.

State Employee Pay Increase

The Governor's budget includes \$263,651 for a 3% state employee pay increase for the Health Care Authority. This funding is based on December 2005 salary information.

Use of Carryover

The Oklahoma Health Care Authority estimates they will generate approximately \$30 million in carryover funding which can be used to offset these funding increases for FY-2007.

The Department of Health

Notable Achievements

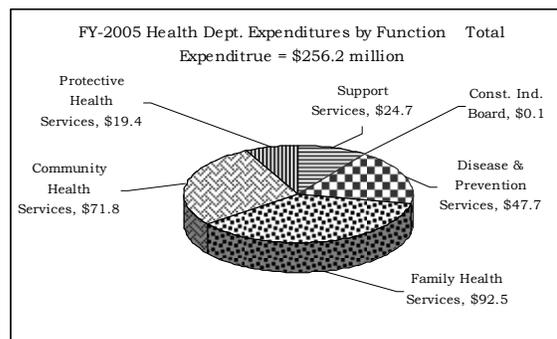
- Expansion of Breast and Cervical Cancer Screening for Women**
Additional funding of \$750,000 made available by the Governor and the Legislature allowed the Department to expand breast and cervical cancer screening for women aged 50-64 who are uninsured or underinsured. This is the highest risk group for both diseases and the goal is to reduce the mortality rate of both diseases by expanding screening services to eventually include all women who meet the risk group profile.
- Metabolic Newborn Screening**
Oklahoma continues to be a national leader in the number of metabolic disorders for which our infants are screened. Screening of all Oklahoma newborns for Congenital Adrenal Hyperplasia and Cystic Fibrosis was added to the screening panel in February, 2005. A total of 13 infants have benefited by early diagnosis of these two disorders so far. Further expansion of newborn screening with tandem mass spectrometry is targeted to come on line by July 2006.
- Cigarette sales down, 30,000 Fewer Smokers After Passage of Tobacco Tax Increase**
Increase Oklahoma Tax Commission data show that total cigarette sales – tribal and non-tribal combined – for the first three months of the current fiscal year are down by 16 percent, or about 15 million packs, from the same time period last year. Data previously released by the state health department show that at least 30,000 smokers have quit smoking since last year and thousands more have cut back or are trying to quit. Further, the number of calls to Oklahoma’s toll-free smoking cessation helpline (1-800-QUIT-NOW) increased five-fold after SQ713 was approved.
- Federally Qualified Health Centers**
Three new Federally Qualified Health Centers in Fairfax, Clayton, Tulsa and a

successful free clinic in Altus opened with the assistance of the Department’s Office of Primary Care. Four new centers are in the planning stages in various parts of the state as part of the Governor’s policy to undertake the largest expansion of primary care alternatives in Oklahoma’s history.

Mission

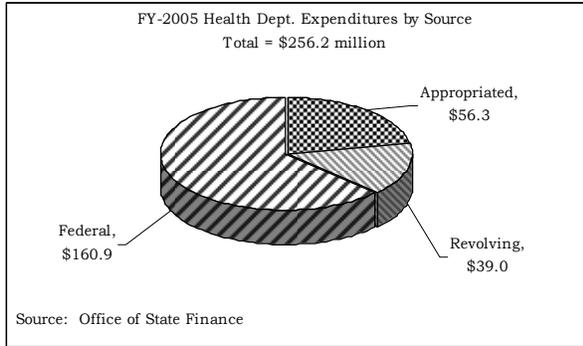
The mission of the Department of Health is to promote, protect and improve the health of all Oklahomans through strategies that focus on preventing disease and injuries. Local health service delivery is accomplished by approximately 2,223 employees located at 69 county health departments throughout the state.

Poor health behaviors and lifestyle choices by Oklahomans pose a significant challenge for the Department when seeking ways to improve the public’s health outcomes.



Funding

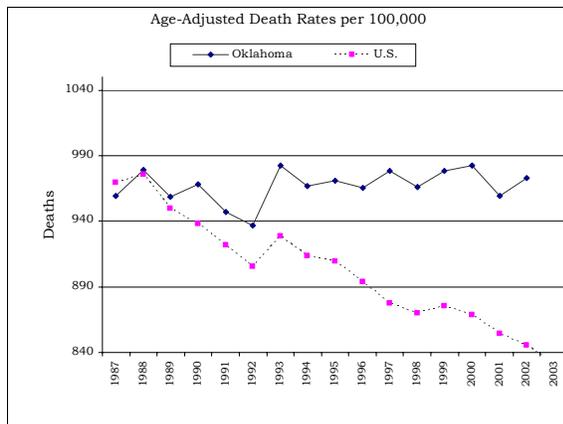
The three sources of funding for public health programs are appropriations, revolving funds and federal funds. The following pie chart shows FY-2005 expenditures by funding source. Note that approximately 40% of the federal funding portion is for the Women, Infants and Children (WIC) nutritional program funded entirely with federal dollars.



Health Status in Oklahoma

The Board of Health State of the State's Health Report has reached the conclusion for several years that the 'State of the State's Health' is unacceptable and that remains the case. Oklahomans continue to 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 2002 the most recent year for which data are available, there were 973.2 deaths per 100,000 people in Oklahoma, but the average for the U.S. was 845.3 people for every 100,000 people. Oklahoma ranks 47 on this outcome measure meaning that there are only three states with worse outcomes.



According to the United Health Foundation's State Health Rankings, 2005 edition, Oklahoma ranking among states fell by 4 places to 44th. We had been 40th in the 2004 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. Four major health risk factors contributing to this status are:

| United Health Foundation Health Risk Factors - Oklahoma Rankings | Measurement Data | | Rankings | |
|---|------------------|-------|----------|------|
| | 2005 | 2004 | 2005 | 2004 |
| Percent Smokers in Population | 26.0% | 25.1% | 47 | 36 |
| Motor Vehicle Deaths per 100,000 Miles Driven | 1.7 | 1.4 | 32 | 17 |
| Percent of Population which is Obese | 24.8% | 24.4% | 37 | 37 |
| Percent Ninth Graders Graduating High School | 73.2% | 73.2% | 22 | 22 |

Trauma Care Fund

New funding sources, including increased fines and fees and the earmarked funds from the increased tobacco tax have helped close the gap between the uncompensated trauma care claims by hospitals and the amount which was previously available to disburse from the fund. Increases in funds going into the Uncompensated Trauma Care Fund resulted in a December 2005 distribution of \$7.3 million in funds toward \$15.5 million in qualified claims. This payment included the first reimbursements from the fund for doctors who provide uncompensated treatment to trauma patients.

SB 1554 authorized the State Health Department to implement and regulate a statewide trauma care system and establish an advisory council to make recommendations for the development of the system. The bill allows monies in the Trauma Reimbursement fund to be used to reimburse physicians and ambulances in addition to hospitals. The system will help expand the types of trauma care services available across the state ensuring people receive high quality trauma care in the shortest possible time.

The comprehensive trauma care system components which are currently in place or in process include:

- Regional transfer protocols which clarify that patients are transported to the nearest hospital specified to handle their level of injury;
- Eight trauma regions have been established across the state;
- Two trauma triage transfers centers have been established, one in Tulsa and one in Oklahoma City to manage transfers to tertiary care;
- 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)

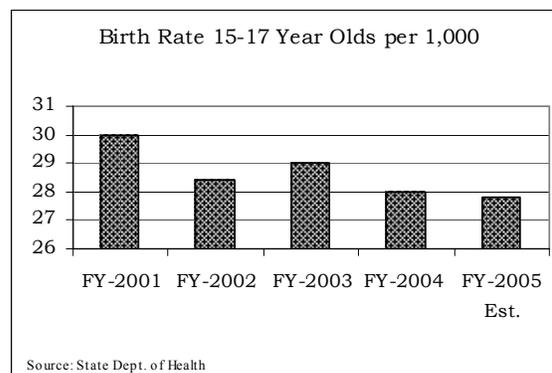
WIC is a federally funded program that provides nutritional education and coupons for selected items to pregnant women and children less than 5 years old.

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
- Tuberculosis
- HIV/STD - surveillance and prevention

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.

FY-2007 Recommendation

| FY-2007 Appropriation | |
|--|-----------------|
| <i>(amounts in thousands)</i> | |
| FY-2006 Appropriation | \$62,791 |
| FY-2006 Bud. FTE Level | 2,231.4 |
| Actual Ave. YTD FTE | 2,265.7 |
| Funding Adjustments: | |
| State Employee Pay Increase | 1,354 |
| 10% Targeted Nursing Salary Increase | 1,304 |
| Breast & Cervical Cancer Screening and Cancer Registry | 812 |
| Family Support and Prevention | 1,500 |
| Supplement Tobacco Tax for Trauma Care and Smoking Cessation | 469 |
| Federally Qualified Health Centers | <u>1,200</u> |
| Total Adjustments | 6,639 |
| FY-2007 Recommendation | \$69,430 |
| % Change from FY-2006 | 10.57% |
| <small>Source: Office of State Finance</small> | |

State Employee Pay Increase

The Governor's budget includes \$1,353,818 for a 3% state employee pay increase for the Health Department. This funding is based on December 2005 salary information.

Increase in Nursing Salaries

This budget provides \$1,303,596 for a 10% increase for these positions. Funding is based on December 2005 salary information. Using the Office of Personnel Management's most recent compensation comparison study, this increase will, on average, reduce the market disparity for

state nursing salaries compared with private employers by 50%.

Breast and Cervical Cancer Screening and Cancer Registry

The Governor's Executive Budget includes funding of \$812,000 to provide breast and cervical cancer screening to 100% of women aged 50-64 who meet the income criteria and are at risk for these diseases. Also funded is an increase in staffing assistants for the cancer registry function.

Family Support and Prevention

The Governor's budget includes \$1,500,000 for Family Support and Prevention which will support 10 additional home visitation nurses for the Children First Program for first time at risk mothers and serve approximately 1,000 additional families in the Oklahoma Child Abuse Prevention grant program.

Tobacco Tax for Trauma Care and Smoking Cessation

This budget includes \$469,131 for the support of Trauma Care and Smoking Cessation.

Federally Qualified Health Centers

The Governor's budget includes an additional \$1,200,000 for the expansion of Federally Qualified Health Centers which will allow the establishment of four additional centers.

Department of Mental Health and Substance Abuse Services

Children's Behavioral Health and the Integrated Services Initiative.

Mission

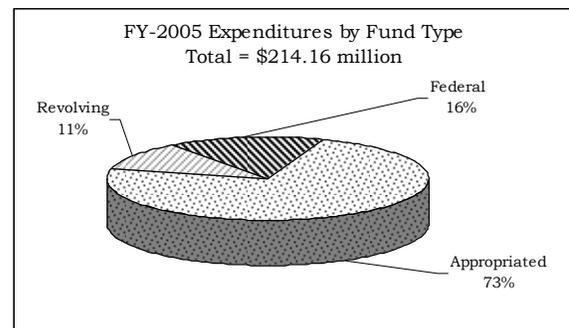
The Mental Health Law of 1953 established the Oklahoma Department of Mental Health and Substance Abuse Services (ODMHSAS), although publicly supported services to Oklahomans with mental illness date back to early statehood.

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 two principal realms of ODMHSAS activity are mental health and substance abuse.

State appropriations are the largest single source of revenue for ODMHSAS services. In fiscal year 2005, this appropriation of \$155 million equals 2.9% of total appropriated dollars and accounted for 69% of the department's \$227 million total budget.

Notable Achievements

- Systems of Care** *Child centered and family focused, the initiative features a coordinated network to meet the multiple and changing needs of children and adolescents with serious emotional disturbances and their families. Pre and post data for participants in the program consistently show decreases in arrests, out of home placements and attempts at self harm. Oklahoma received a \$9 million federal grant to implement and expand the Systems of Care program. This grant requires that the state increase its matching dollars each year. Currently there are 19 local System of Care communities covering 26 counties.*
- Drug Courts** *This program puts nonviolent, felony offenders with substance abuse problems into a district court supervised substance abuse treatment program in lieu of incarceration. As a result of positive outcomes, Governor Henry proposed in his FY-2006 budget, a historic investment in expanding the Drug Court program over two years with a \$16 million investment. The cost of drug court is approximately \$5,000 per individual versus a minimum of \$16,000 per individual for a year to incarcerate. The Department of Mental Health and Substance Abuse estimates savings to the State from these additional 2,400 drug court slots to be \$28 million when the cost of incarceration at the Department of Corrections is compared to the cost of drug court.*
- Transformation Grant** *Oklahoma was one of only seven states to be awarded a federal in an effort to accomplish broad based change in the delivery of mental health services across all systems. Three major initiatives within the transformation effort being led by the Department are the Adult Recovery Collaborative, The Partnership for*



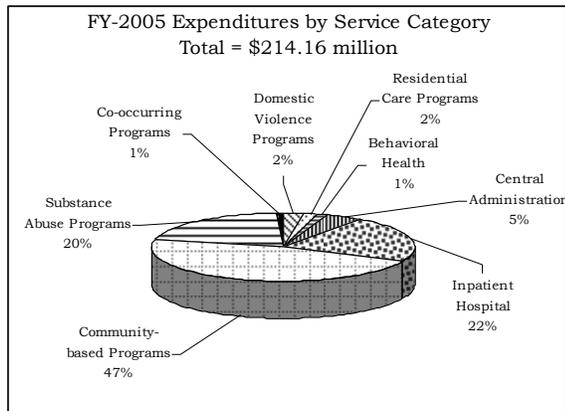
Source: Office of State Finance

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. Since that time, the agency has focused on shifting to community based services. Illustrative of the shift in service delivery to community based services, the hospital portion of total expenditures for FY-2005 dropped to 22% of the total. About 52% of all clients served and 47% of all expenditures were for community based mental health services

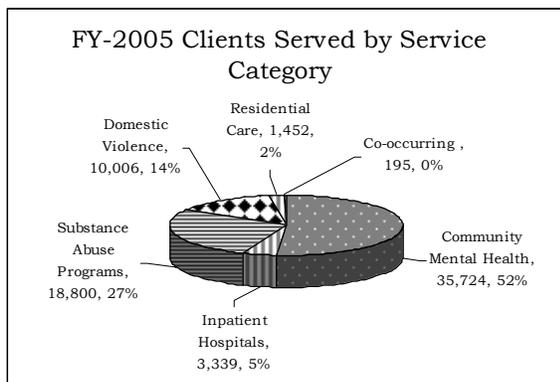
FY-2007 Executive Budget

during FY-2005. The chart below represents expenditures for all major service categories in FY-2005.



Source: Office of State Finance

The next chart provides a similar breakdown of the FY-2005 clients served by similar categories.



Services Provided

In FY-2005, the Department provided services to:

- 35,724 persons through community mental health services;
- 3,339 persons through psychiatric hospitalization;
- 18,800 persons through substance abuse treatment;
- 10,006 persons through domestic violence and sexual assault services;
- 1,452 persons through residential care services; and

- 195 persons with co-occurring disorders.

Community mental health services include:

- Community-based treatment
- Case management
- 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
- Counseling services.

ODMHSAS also actively supports prevention programs to reduce the occurrence of substance abuse, violence and other harmful behaviors among young people.

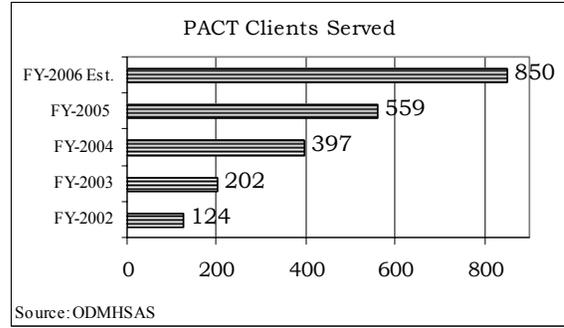
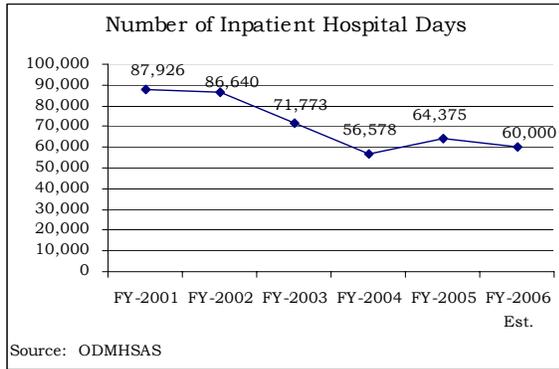
Continued Implementation of Best Practices

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; and
- Less contact with law enforcement.

Key Performance Measure



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%; and
- 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, bipolar 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 new generation medications by providing funding specifically earmarked for purchase of these drugs. For FY-2005, a total of \$6.4 million was appropriated for this purpose.

In addition to appropriated funding, pharmaceutical firms donate almost \$25 million worth of new generation medications for use in treatment of mentally ill patients.

Community Mental Health Centers

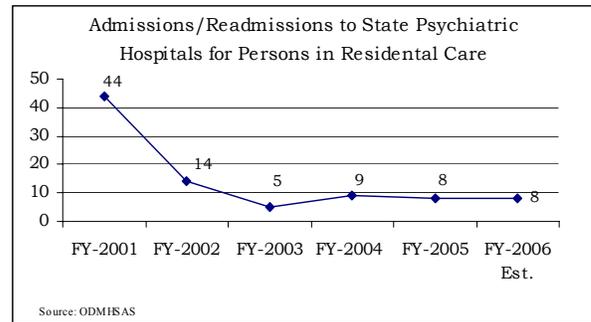
Oklahoma has 20 mental health service areas covering the state. In each area, a publicly supported community mental health center (CMHC) serves as the primary access point for the non-Medicaid, publicly funded mental health services. Most CMHCs have satellite offices or other specialized programs within 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, 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 avoids costly inpatient treatment. Over time the number of admissions/readmissions into state psychiatric hospitals has dropped indicating better stabilization and fewer crisis episodes.

Key Performance Measure



FY-2007 Recommendation

| FY-2007 Appropriation | |
|--|------------------|
| <i>(amounts in thousands)</i> | |
| FY-2006 Appropriation | \$171,811 |
| FY-2006 Bud. FTE Level | 2,112.7 |
| Actual Ave. YTD FTE | 1,986.1 |
| Funding Adjustments: | |
| State Employee Pay Increase | 2,215 |
| Annualize PACT teams | 650 |
| Annualize Drug Court Expansion | 8,000 |
| Substance Abuse and Mental Health Rate Adjustment | 600 |
| Mental Health Court/Jail Diversion | 1,400 |
| Systems of Care - replace decrease in federal funds | 900 |
| Systems of Care - expansion | 200 |
| Newer Generation Medications | 500 |
| Specialized Drug Treatment of Meth Addicts | 1,000 |
| 10% Targeted Nurse Salary Increase | 1,256 |
| Supplement Tobacco Tax for Adolescent Substance Abuse Programs | 144 |
| Use of Carryover | <u>(1,000)</u> |
| Total Adjustments | 15,865 |
| FY-2007 Recommendation | \$187,676 |
| % Change from FY-2006 | 9.23% |

Source: Office of State Finance

State Employee Pay Increase

The Governor's budget includes \$2,215,400 for a 3% state employee pay increase for the Department of Mental Health and Substance Abuse Services. This funding is based on December 2005 salary information.

Annualize three PACT Teams

This budget provides \$650,000 to annualize funding for three additional Program of Assertive Community Treatment teams which are funded for six months in the current fiscal year.

Drug Court Expansion

The Governor's Executive Budget recommends \$8,000,000 to annualize the statewide Drug Court expansion. This funding will allow the funding between existing and expansion drug court slots to be equalized while also adding a total of 2,400 slots to the program. The Department of Mental Health and Substance Abuse estimates savings to the State from these additional 2,400 drug court slots to be \$28 million when the cost of incarceration at the Department of Corrections is compared to the cost of drug court.

Substance Abuse and Mental Health Rate Adjustment

The Governor's budget provides funding of \$600,000 for rate increases within the contracted treatment programs for substance abuse and mental health.

Mental Health Court and Jail Diversion Initiatives

The Governor's budget provides \$1,400,000 in additional funding which will support 10 new Mental Health Courts.

Replace lost Federal funding for Systems of Care

This Executive Budget includes \$900,000 to replace the loss of Federal funding for Systems of Care. Also provided is an additional \$200,000 for the further expansion of Systems of Care. Note that the phase-down of Federal funds for this program is part of the original grant agreement with the state.

Newer Generation Medications

The Governor's budget includes funding for an additional \$500,000 for the purchase of new generation medications. This amount will be added to the \$6.4 million the state has already dedicated to this purpose.

Specialized Drug Treatment for Methamphetamine Addicts

The Governor's Executive Budget proposes funding of \$1,000,000 to provide up to five intensive treatment programs for methamphetamine addicts. In addition to inpatient treatment, the programs include very structured and long term outpatient care.

Increase in Nursing Salaries

This budget provides \$1,256,268 for a 10% increase for these positions. Funding is based on December 2005 salary information. Using the Office of Personnel Management's most recent compensation comparison study, this increase will, on average, reduce the market disparity for state nursing salaries compared with private employers by 50%.

Adolescent Substance Abuse Programs

This budget includes \$144,152 for Adolescent Substance Abuse Programs funded by the increased tobacco tax passed by the voters in November 2004.

Use of Carryover

The Department has estimated they will produce carryover of \$1,000,000 which can be used to offset increases in other programs. It is understood that this use of carryover funding will be reviewed in future years for possible replacement with new revenue.

Oklahoma State Board of Examiners for Nursing Home Administrators

Brief History

The Oklahoma State Board of Examiners for Nursing Home Administrators was originally established in 1968. The Board was recreated and restructured during the 2005 Legislative session by HB 1453 which instructed the Governor to appoint an entirely new Board effective July 1, 2005. Other significant provisions of HB 1453:

- Increases the amount of time a nursing home administrator must spend doing “on the job supervision of such facility”;
- Limits the members of the Board who can be nursing home owners to no more than five;
- Requires full investigation of all complaints filed against nursing home administrators;
- Directs the Board to develop a code of ethics for nursing home administrators; and
- Requires the Board to refer investigations to the proper law enforcement authorities.

In addition to the above requirements, new law was established which:

- Requires the Board to keep a registry of all complaints or other referrals complaining of acts or omissions of administrators;
- Requires any Board decision on a complaint to be voted on by a quorum of the Board in an open meeting;
- Provides that no Board subcommittees or staff shall make recommendations to the Board regarding complaints.

FY-2006 Supplemental

| <i>FY-2006 Supplemental</i> | |
|---|-------------|
| <i>(amounts in thousands)</i> | |
| FY-2006 Appropriation | \$0 |
| Investigator position and Attorney General contract | 75 |
| FY-2006 Adj. Appropriation | \$75 |
| % Change from FY-2005 | NA |
| % Change from Original FY-2006 | NA |
| <small>Source: Office of State Finance</small> | |

The Governor’s Executive Budget recommends a supplemental appropriation \$75,000 to cover the cost of one full-time investigator and an increase in their contracted services with the office of the Attorney General.

FY-2007 Recommendation

| <i>FY-2007 Appropriation</i> | |
|--|--------------|
| <i>(amounts in thousands)</i> | |
| FY-2006 Appropriation | \$0 |
| FY-2006 Bud. FTE Level | 3.0 |
| Actual Ave. YTD FTE | 3.3 |
| Funding Adjustments: | |
| Investigator Position | 50 |
| Attorney General Contract | 50 |
| Total Adjustments | 100 |
| FY-2007 Recommendation | \$100 |
| % Change from FY-2006 | NA |
| <small>Source: Office of State Finance</small> | |

The Governor’s budget includes a recommendation of \$50,000 for one full time investigator position and \$50,000 for contracted services with the Attorney General’s Office. The agency’s fee structure, currently at the statutory limit, should be examined for possible increase.

FY-2007 Executive Budget

As the Nursing Home Administrators Board and staff proceed through the implementation of their new duties, the need for additional FTE authorization and an increase in the Director's salary limit, as appropriate, should be considered.

Human Resources and Administration

**Department of Central Services
Employees Benefits Council
Horse Racing Commission
Human Rights Commission
Merit Protection Commission
Office of Personnel Management
State & Education Employees Group Insurance Board**

Human Resources and Administration

Summary of FY-2007 Budget Recommendations

| Agency Name | FY-2006 Adj. Approp. | FY-2007 Base | FY-2007 Adj. | Final FY-2007 Appr. | % Diff. from FY- 2006 |
|-------------------------------------|-------------------------|---------------------|------------------|------------------------|-----------------------------|
| Central Services, Dept. of | \$12,263,035 | \$12,263,035 | \$557,463 | \$12,820,498 | 4.5% |
| Horse Racing Commission | 2,360,889 | 2,360,889 | 170,592 | 2,531,481 | 7.2% |
| Human Rights Commission | 686,563 | 686,563 | 14,078 | 700,641 | 2.1% |
| Merit Protection Commission | 565,684 | 565,684 | 6,678 | 572,362 | 1.2% |
| Personnel Management, Office of | 4,633,249 | 4,633,249 | 129,307 | 4,762,556 | 2.8% |
| Total Human Resources/Admini | \$20,509,420 | \$20,509,420 | \$878,118 | \$21,387,538 | 4.3% |

Department of Central Services

Notable Achievement

Successfully integrated the Oklahoma Capitol Improvement Authority (OCIA) administrative functions from DCS to provide more accountability and visibility of OCIA operations.

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.

Multi-State Cooperative Purchasing Agreements

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). The combined purchasing volume for contract year 2002/2003 was \$533 million. MMCAP distributed \$3 million in drug credits to participating state facilities.

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.

An example of widely used statewide contracts is the 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 |
| FY-2005 | \$2,736,562 |
| FY-2006 | \$1,659,040 |

SOURCE: Dept. of Central Services

Fleet Management

Fleet Management can provide vehicles, repair services, and fuel to state agencies at a cost lower than the private sector. Fleet Management continues to assess the State's vehicular needs and requirements to identify savings to the State.

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 an integrated system to replace the Legacy system 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).

FY-2007 Recommendation

| FY-2007 Appropriation | |
|-------------------------------|-----------------|
| <i>(amounts in thousands)</i> | |
| FY-2006 Appropriation | \$12,263 |
| FY-2006 Bud. FTE Level | 108.0 |
| Actual Ave. YTD FTE | 248.2 |
| Funding Adjustments: | |
| State Employee Pay Increase | 307 |
| Construction and Prop. Div | <u>250</u> |
| Total Adjustments | 557 |
| FY-2007 Recommendation | \$12,820 |
| % Change from FY-2006 | 4.55% |

Source: Office of State Finance

while reducing future utility and maintenance costs and modernizing state facilities.

State Employee Pay Raise

The Governor’s budget includes \$307,463 for a 3% state employee pay increase for the Department of Central Services. This funding is based on December 2005 salary information.

Construction and Properties Division

The Governor’s budget recommends \$250,000 to fund 3 additional FTE for the Construction and Properties Division. All state funded construction projects must be approved by the Construction and Properties Division. Currently, there is a backlog of construction projects because DCS does not have the support staff to meet the demand. DCS estimates that the backlog will decrease by 21% with 3 additional FTE.

Performance Based Contracting

Energy prices continue to be a significant portion of the operating cost of state facilities. For this reason, the Governor’s budget recommends performance based contracting as a tool for financing and implementing infrastructure improvements and capital improvements. Projects are funded through a lease-purchase agreement and paid annually through the guaranteed cost savings that are realized in utility and operating budgets. With performance based contracting, substantial facility improvements can be accomplished

Employees Benefits Council

Notable Achievements

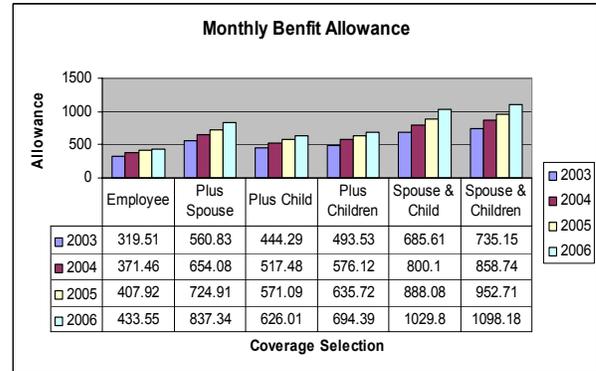
- The on-line benefits system is fully customized with built-in eligibility rules and IRS regulations pertinent to the numerous plans offered in the State's flexible benefits program known as SoonerChoice.
- Employee use of the on-line system increased from 13.5% for the 2004 plan year to 40% for the 2005 plan year.

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. EBC serves 35,000 active state employees and their eligible dependents.

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.

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. The Consumer Price Index (CPI) has increased by less than three percent annually, but the average benefit allowance cost per employee has increased an average of 14.9% since 2000 and as much as 25.05% (2002).

| 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% |
| 2005 | \$570.87 | 10.42% |

Source: EBC 1/19/05

There are several forces affecting the employee benefit allowances:

- Number of employees
- Insurance costs
- Number of dependents covered

While the number of employees covered by the benefit allowance has actually decreased by over 1500 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. For an employee with no dependents, the 2005 increase is 9.8% compared to an increase of 10.42% on average for all employees, including the benefit allowance for partial payment of dependents' health insurance costs.

Horse Racing Commission

Notable Achievements

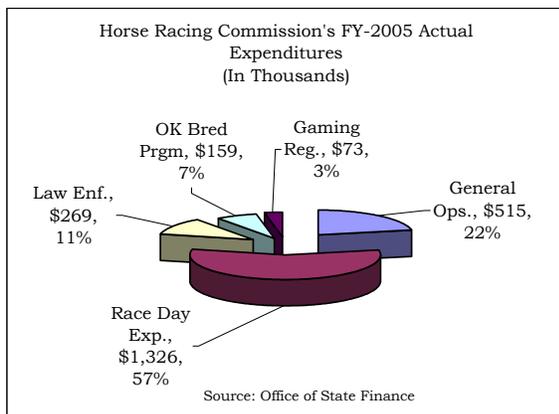
- In CY-2004, the Oklahoma-Bred program paid bonuses of \$1.55 million to owners of accredited Oklahoma-bred horses.
- In FY-2006, the Commission began regulation of gaming facilities at three racetracks.

Mission

The Oklahoma Horse Racing Commission (OHRC) encourages state horse production and regulates horse racing activities at the following four racetracks and gaming activities at the first three.

- Remington Park in Oklahoma City;
- Will Rogers Downs in Claremore;
- Backstretch, LLC doing business as Blue Ribbon Downs in Sallisaw; and
- Fair Meadows at Tulsa

The Commission's budget consists of state and revolving funds. For FY-2005, state appropriated dollars were 83% of the Commission's total budget funding. The following graph shows how the funding for FY-2005 was used.



Gaming Regulation

Beginning with FY-2006, the Commission began regulation of gaming at racetrack facilities. Adjusted gross revenue from gaming activities will go to fund education,

grow race purses and to organization licensees.

Gaming agents have been hired to regulate gaming activities at the racetracks. Their responsibilities include checking the backgrounds of all gaming employees, gaming laboratories, vendors, manufacturers, distributors and racing facilities that have gaming activities.

With the addition of gaming, racetracks are required to maintain a certain number of race days in order to continue operating a gaming facility. This requirement creates an increase in the number of race days.

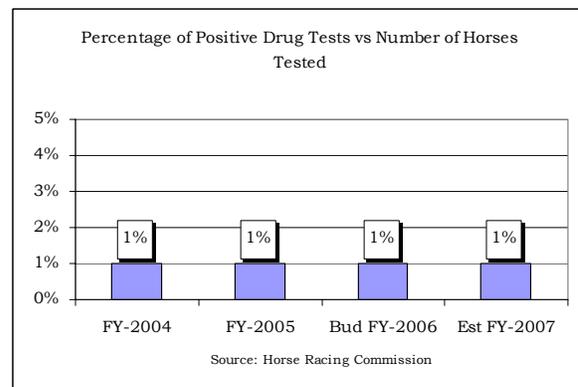
Racetrack Regulations

The Commission employs three stewards at each racetrack to oversee racing activities. The stewards determine the winners of each race and conduct hearings concerning rule violations.

Official veterinarians, also employed by the Commission, collect urine and blood samples for drug tests in winning horses. Furosemide and phenylebutazone medications are allowed in limited amounts for horses, but trainers are responsible for overages and positive tests for other drugs in the horse. Alleged violators are notified to appear at a hearing before the stewards and can be fined and/or receive license suspensions.

Key Performance Measure

Goal is to make sure horses are not being drugged



The Commission also provides the following services at racetracks:

- Law enforcement agents who conduct investigations and present evidence at hearings;
- Licensing personnel who issue occupation licenses to participants; and
- Horse identifiers who verify before the race that horses are actually the horses entered to race.

Oklahoma-Bred Horse Program

Since 1983, the Commission has registered 74,263 horses as accredited Oklahoma-bred horses. The Program provides incentives for horse owners to invest in farms, horse facilities, veterinary services, horse trailers, etc.

The program provides incentives for breeders and owners to produce accredited Oklahoma-bred horses. Other jurisdictions have increased the quality of racing by emphasizing locally bred horses. High quality bred horses increase the quality and competition of racing which attracts more race fans and breeders to the state.

Funding for the Oklahoma-Bred Program comes from:

- Racetrack Breakage (odd cents after calculations on wagers are made);
- Unclaimed tickets from wagering;
- A percentage of pari-mutuel tax;
- Program registration fees; and
- Funding from gaming activities.

The following chart shows overall days allotted for racing and shows the number of Oklahoma-Bred Horses registered during CY-2001 through CY-2005.

| Horse Racing Data | | | | |
|---------------------------------|---------|---------|---------|---------|
| | CY-2002 | CY-2003 | CY-2004 | CY-2005 |
| Race Days Allotted | 274 | 202 | 188 | 204 |
| Oklahoma-Bred Horses Registered | 2,306 | 2,636 | 2,779 | 2,500 |
| Oklahoma-Bred Claim Checks Issd | 5,883 | 5,443 | 5,975 | 5,500 |

Source: Oklahoma Horse Racing Commission

FY-2007 Recommendation

| FY-2007 Appropriation | |
|-------------------------------|----------------|
| <i>(amounts in thousands)</i> | |
| FY-2006 Appropriation | \$2,361 |
| FY-2006 Bud. FTE Level | 46.1 |
| Actual Ave. YTD FTE | 38.6 |
| Funding Adjustments: | |
| Attorney | 25 |
| Imaging | 25 |
| State Employee Pay Raise | 121 |
| Total Adjustments | 171 |
| FY-2007 Recommendation | \$2,532 |
| % Change from FY-2006 | 7.24% |

Source: Office of State Finance

The FY-2007 appropriation for the Horse Racing Commission is the same as provided for FY-2006 with the following adjustments.

Attorney

The Governor’s budget includes increasing the agency’s appropriation by \$25,000 to hire an attorney. The agency is finding that it needs legal representation present at meetings, hearings and for general day-to-day operations. Many legal issues come up within the agency and currently there isn’t an attorney to help with the matters.

Imaging

The Governor’s budget includes increasing the agency’s appropriation by \$25,000 for a records management system that would include digital archiving. Currently the agency destroys historical paper records as it runs out of physical storage room.

State Employee Pay Raise

The Governor’s budget includes \$120,592 for a 3% state employee pay increase for the Horse Racing Commission. This funding is based on December 2005 salary information.

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 Community Relations Division provides outreach and educational services. The Commission is responsible for these services at both a state and a federal level.

The Enforcement and Compliance Division receives, processes, and investigates complaints of discrimination in the areas of employment, housing, and public accommodation. To resolve complaints, the Commission contracts with the Equal Employment Opportunity Commission and Housing and Urban Development (HUD). Under these contracts, complaints of discrimination are resolved in compliance with the policies and procedures of EEOC and HUD. Through these contracts, the Human Rights Commission receives training on EEOC and HUD policies and procedures.

During FY-2005, the Commission received 412 employment discrimination complaints and 47 housing discrimination complaints.

FY-2007 Recommendation

| FY-2007 Appropriation | |
|--|--------------|
| <i>(amounts in thousands)</i> | |
| FY-2006 Appropriation | \$687 |
| FY-2006 Bud. FTE Level | 22.0 |
| Actual Ave. YTD FTE | 18.1 |
| Funding Adjustments: | |
| State Employee Pay Increase | <u>14</u> |
| FY-2007 Recommendation | \$701 |
| % Change from FY-2006 | 2.05% |
| <small>Source: Office of State Finance</small> | |

State Employee Pay Raise

The Governor's budget includes \$14,078 for a 3% state employee pay increase for office of the Human Rights Commission. This funding is based on December 2005 salary information.

Merit Protection Commission

Notable Achievement

Expansion of the Merit Protection Commission website has allowed for the addition of appeal summaries and on-line training courses.

Mission

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.

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.

As previously mentioned, the Commission's website expansion includes the addition of appeal summaries and training courses. These summaries offer readers a concise summary of the decisions rendered. The four on-line training courses include the following: The Appeals Process, Documenting for Discipline, Internal Agency Grievance Process, and Mediation.

The table below shows total appeals filed with the Merit Protection Commission.

| | Total Appeals | | | |
|---------------------------------|---------------|-----------|------------|---------------|
| | FY-2003 | FY-2004 | FY-2005 | Jul - Dec. 05 |
| Appeals of Discharge | 54 | 46 | 61 | 19 |
| Appeals of Suspension w/o Pay | 48 | 41 | 40 | 16 |
| Appeals of Involuntary Demotion | <u>10</u> | <u>2</u> | <u>4</u> | <u>3</u> |
| Total Appeals | 112 | 89 | 105 | 38 |

Source: Merit Protection Commission

Total appeals filed in FY-2006 have gone down by 34% when compared to this time last year.

Negotiation Conference

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 to Complete the Appeals Process | | | |
|-----------------------------------|--|---------|---------|---------------|
| | FY-2003 | FY-2004 | FY-2005 | Jul - Dec. 05 |
| Appeals of Discharge | 77 | 81 | 63 | 47 |
| Appeals of Suspension without Pay | 63 | 23 | 42 | 21 |
| Appeals of Involuntary Demotion | 84 | 26 | 62 | 41 |

Source: Merit Protection Commission

FY-2007 Recommendation

| FY-2007 Appropriation | |
|-------------------------------|--------------|
| <i>(amounts in thousands)</i> | |
| FY-2006 Appropriation | \$566 |
| FY-2006 Bud. FTE Level | 8.0 |
| Actual Ave. YTD FTE | 6.5 |
| Funding Adjustments: | |
| State Employee Pay Increase | <u>7</u> |
| FY-2007 Recommendation | \$573 |
| % Change from FY-2006 | 1.18% |

Source: Office of State Finance

State Employee Pay Raise

The Governor's budget includes \$6,678 for a 3% state employee pay increase for office of the Merit Protection Commission. This funding is based on December 2005 salary information.

Office of Personnel Management (OPM)

Notable Achievements

- In FY-2005, OPM successfully assisted 45 state agencies, each with fewer than 25 employees, in transitioning from the OPM legacy system for human resources and payroll to the new PeopleSoft HRMS.
- During FY-2005, OPM approved 4 new supplemental insurance companies and 30 new supplemental insurance policies for voluntary payroll deduction status.
- Amended rules to provide for Oklahoma Today magazine subscription fees and educational organizational dues to be paid by automatic payroll deduction, to provide reasonable access to product vendors and provide for the annual distribution of employee organization materials to state employees.

The Office of Personnel Management (OPM) continues its evolution from a primarily regulatory role into a human resources service provider.

OPM provides recruitment and referral services for state agencies, maintains a classified system of employment, approves and reviews agency RIF proposals, 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.

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-2004 for classified state employees was 12.5%, which includes all retirements, resignations and discharges during the fiscal year. The voluntary turnover rate of 10.9% for FY-

2004 includes only retirements and resignations during the fiscal year.

| State Classified Employees | | | |
|----------------------------|--------|--------|--------|
| | FY-03 | FY-04 | FY-05 |
| Employees | 27,103 | 26,711 | 26,102 |
| Resignations | 2,000 | 2,281 | 2,349 |
| Retirements | 641 | 646 | 616 |
| Discharges | 458 | 444 | 511 |
| Overall Turnover Rate | 11.1% | 12.5% | 13.3% |
| Voluntary Turnover Rate | 9.5% | 10.9% | 11.1% |

Source: Office of Personnel Management

Nearly 22% of the state workforce is eligible to retire in 3 years. To assist agencies in planning their current and future workforce needs, OPM also established the Office of Workforce Planning. The chart below shows the average age of state employee by group and the number of state employees that are eligible to retire.

| Group | Average Age | Eligible to Retire in FY-2006 |
|------------------------|-------------|-------------------------------|
| Professionals | 46.7 | 1,601 |
| Administrative Support | 48.0 | 603 |
| Officials and Admin. | 50.9 | 416 |
| Technicians | 45.9 | 312 |
| Paraprofessionals | 42.7 | 195 |
| Protective Services | 41.6 | 190 |
| Service Maintenance | 44.9 | 180 |
| Skilled Craft | 48.1 | 64 |
| Total | 46.0 | 3,561 |

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.

FY-2007 Executive Budget

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.

During 2004, state agencies used statutorily authorized pay movement mechanisms to increase salaries by \$6.9 million affecting 6,302 state employees. Of these amounts, 35.6% of the dollars were spent on career progressions, 34.3% on market-based adjustments, and 10.9% on performance-based adjustments.

FY-2006 Annual Compensation Report

Although state salaries continue to trail market pay by 8.2%, OPM’s FY-2006 Annual Compensation Report indicates that pay movement mechanisms and legislative pay increases 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:

| State of Oklahoma vs. Market | | | |
|------------------------------|----------|----------|------------|
| Year | State | Market | Difference |
| 2006 | \$31,518 | \$34,102 | -8.20% |
| 2005 | 29,968 | 33,393 | -11.43% |
| 2004 | 29,969 | 33,361 | -11.30% |
| 2003 | 29,318 | 32,621 | 11.30% |
| 2002 | 30,001 | 31,344 | -4.50% |

SOURCE: Office of Personnel Management

There are job areas within the State that continually stay below the market salary rate. Those jobs are listed below:

- Dept. of Corrections - Correctional Officers, Nurses; and Correctional Teachers;
- Dept. of Human Services – Child Welfare Specialists and Adult Protective Specialists and Nurses;

- Office of Juvenile Affairs – Juvenile Justice Specialists and Juvenile Specialists;
- J.D. McCarty Center – Nurses; and
- Department of Health, Department of Rehabilitative Services, and Veterans Affairs – Nurses.

The State of Oklahoma offers extensive fringe benefit packages to state employees. When compared to market value, Oklahoma contributes more toward health care for its employees than the private sector. The table below shows the FY-2006 health benefit contribution for that State of Oklahoma and the market.

| Average Employee Health Care Contribution | | |
|---|--------------------------------|---------------------|
| | State of Oklahoma Contribution | Market Contribution |
| Health Care Benefit | 21.80% | 11.32% |

Source: FY-2006 Annual Compensation Report

The contribution rate is based on an average base salary for Oklahoma of \$31,518 and \$34,102 as the market base salary.

Within the fringe benefits package, state employees also receive more vacation days when compared to the market value. The table below shows the vacation days based on years of employment for the State of Oklahoma and the private sector.

| Comparison of Vacation Days Oklahoma vs. Market | | |
|--|-------------------|--------|
| Annual Leave/Vacation | State of Oklahoma | Market |
| Number of days after 1 year | 15 | 10 |
| Number of days after 5 years | 18 | 14 |
| Number of days after 10 years | 20 | 18 |
| Number of days after 15 years | 20 | 19 |
| Number of days after 20 years | 25 | 21 |

Source: FY-2006 Annual Compensation Survey

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.”

In FY-2004, the Office of Personnel Management audited 16 state agencies 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. One hundred and five agencies are required to submit an annual report certifying compliance with the statute.

CORE Oklahoma 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. For analysis and management purposes, CORE enables OPM to integrate its information into a streamlined electronic system.

Electronic Testing

OPM made Merit System tests available online in January 2003. Overall, there were 70,697 applications processed and 31,972 tests (both electronic and paper) administered in FY-2005. By using the Integrated Computerized Examination (ICE) System, applicants for state employment who test in the OPM office may elect to take examinations electronically. OPM is making this examination system available to 21 Career Technology Centers located throughout the state as well as at the Oklahoma Employment Security Commission.

FY-2007 Recommendation

| FY-2007 Appropriation | |
|-------------------------------|----------------|
| <i>(amounts in thousands)</i> | |
| FY-2006 Appropriation | \$4,633 |
| FY-2006 Bud. FTE Level | 79.1 |
| Actual Ave. YTD FTE | 73.1 |
| Funding Adjustments: | |
| State Employee Pay Increase | 104 |
| EAP Shortfall | 25 |
| Total Adjustments | 129 |
| FY-2007 Recommendation | \$4,762 |
| % Change from FY-2006 | 2.79% |

Source: Office of State Finance

State Employee Pay Raise

The Governor’s budget includes \$104,307 for a 3% state employee pay increase for the Office of Personnel Management. This funding is based on December 2005 salary information.

Employee Assistance Program

In FY-2005, the OPM Employee Assistance Program (EAP) received a one-time grant through the Oklahoma Department of Commerce to fund operations. In FY-2006, the grant was not renewed, but operating costs continued to increase hindering EAP’s ability to provide services to state employees. The Governor’s budget recommends a \$25,000 appropriation to EAP to continue vital services.

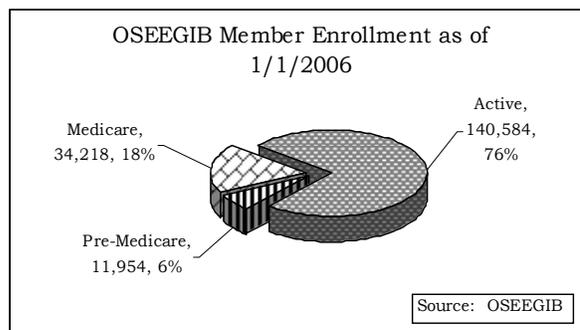
State & Education Employees Group Insurance Board

Notable Achievements

- *Implemented new Internet based customer service software developed by RightNow Technologies. Using the new online customer service knowledge base, members may access basic plan information 24 hours a day, search the extensive knowledge base for plan information and submit questions directly to the Member Services Division.*
- *In September 2005, HealthChoice was awarded a contract with the Centers for Medicare and Medicaid Services to provide Medicare Part D benefits as an Employer Prescription Drug Plan beginning January 1, 2006. HealthChoice is one of only four public sector plans in the country to offer such a plan and it is estimated to bring \$25 million in premium subsidy to the Medicare population covered under HealthChoice.*
- *In response to member concerns about the increasing danger of identity theft, new ID cards were issued in July 2005 containing unique member ID numbers that replace the member's Social Security numbers previously used on HealthChoice ID cards.*

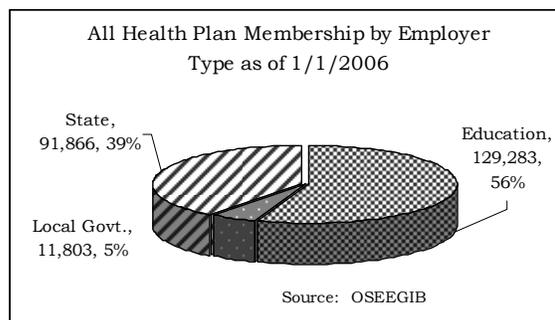
The Oklahoma State & Education Employees Group Insurance Board (OSEEGIB) provides self-funded insurance plans to state, education, and local government employees as well as their dependents and survivors. The plan is a self-insured health, dental, life and disability program, which is actuarially rated to provide premiums adequate to meet the payment of all claims, administrative expenses and any change in reserve estimates.

OSEEGIB health insurance plans are open to state, education, and local governments. These plans are also available to retirees provided the retiree elects to participate prior to retirement.



Each of these enrollment categories faces a different cost structure. For example, pre-Medicare retirees are generally in their mid-50s through 64 years of age and experience greater medical costs. Medicare retirees have greater total medical costs; however, Medicare covers a part of the cost.

The general opinion is that the members are state agency employees; however, the following graph shows that the primary beneficiaries are education employees and their dependents.



Members have a choice of health insurance plans. All members may enroll in HealthChoice, which is the state offered preferred provider option (PPO). Currently, 128,431 are enrolled in HealthChoice and 26,638 are enrolled in health maintenance organizations (HMO) across the state.

Human Services

**Oklahoma Commission on Children and Youth
Office of Handicapped Concerns
Oklahoma Indian Affairs Commission
Department of Human Services
J. D. McCarty Ctr. for Children w/Developmental
Disabilities
Office of Juvenile Affairs
Physician Manpower Training Commission
Department of Rehabilitation Services
University Hospitals Authority and Trust**

Human Services

Summary of FY-2007 Budget Recommendations

| Agency Name | FY-2006 Adj. Approp. | FY-2007 Base | FY-2007 Adj. | Final FY-2007 Appr. | % Diff. from FY- 2006 |
|-----------------------------------|-------------------------|----------------------|---------------------|------------------------|-----------------------------|
| Children & Youth, Commission | \$1,725,018 | \$1,725,018 | \$326,001 | \$2,051,019 | 18.9% |
| Handicapped Concerns, Office of | 376,944 | 372,944 | 19,368 | 392,312 | 4.1% |
| Human Services, Department of | 487,382,177 | 481,991,177 | 32,214,679 | 514,205,856 | 5.5% |
| Indian Affairs Commission | 255,530 | 255,530 | 1,750 | 257,280 | 0.7% |
| J.D. McCarty Center | 3,792,283 | 3,792,283 | 292,549 | 4,084,832 | 7.7% |
| Juvenile Affairs, Office of | 98,323,348 | 97,898,348 | 7,542,193 | 105,440,541 | 7.2% |
| Physician Manpower Training | 5,361,490 | 5,361,490 | 147,148 | 5,508,638 | 2.7% |
| Rehabilitation Services, Dept. of | 27,365,925 | 27,365,925 | 2,295,645 | 29,661,570 | 8.4% |
| University Hospitals Authority | 40,549,342 | 40,549,342 | 125,000 | 40,674,342 | 0.3% |
| Total Human Services | \$665,132,057 | \$659,312,057 | \$42,964,331 | \$702,276,388 | 5.6% |

Oklahoma Commission on Children & Youth

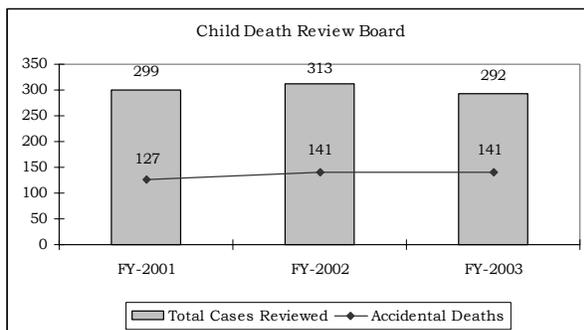
Notable Achievements

- In FY-2005, the Office of Juvenile System Oversight achieved a 97% compliance rate on recommendations made to facilities to correct violations. This was up from 90% in FY-2004 and 75% in FY-2003.
- OCCY Community Partnership Boards increased from 32 in FY-2004 to 39 in FY-2005. The Boards sponsored youth listening conferences, youth leadership development, community service projects, health and safety fairs and worked to add counselors and service workers to schools.

Mission

The mission of the Oklahoma Commission on Children and Youth (OCCY) is to improve services to children. In pursuit of their mission OCCY administers the following programs:

- Office of Juvenile System Oversight
- Joint Oklahoma Information Network (JOIN)
- Board of Child Abuse Examination
- Child Death Review Board



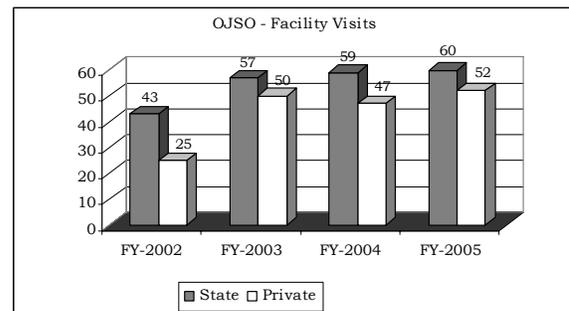
Source: Child Death Review Board Annual Reports

- Office of Planning and Coordination
- Interagency Coordinating Council
- Juvenile Personnel Training

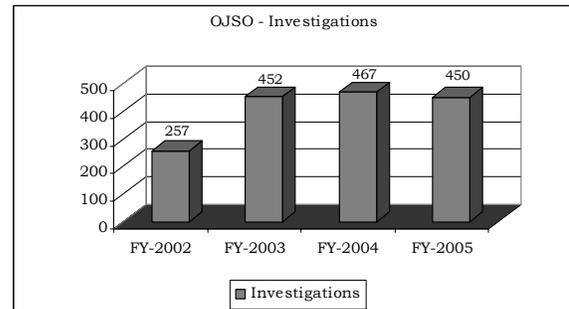
- Oklahoma Areawide Services Information System (OASIS)
- Post Adjudication Review Boards

Office of Juvenile System Oversight

OCCY provides oversight for children in public and private, residential and non-residential facilities across the state. OCCY's Office of Juvenile System Oversight Division (OJSO) monitors compliance of these facilities with their established responsibilities, which include state and federal laws, applicable accrediting and licensing standards, policies and procedures, and applicable court orders.



Source: OCCY



Source: OCCY

Joint Oklahoma Information Network (JOIN)

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 project is called

JOIN – Joint Oklahoma Information Network.

The JOIN resource directory and eligibility determination are now up and running. The database does three main things:

- Gives citizens and service providers easy access to services through a resource directory;
- Provides a better service delivery system to clients through agency collaboration; and
- Provides aggregate information from participating agencies

Oklahoma agencies who serve children and families, 11 total, have signed an interagency agreement to participate in the project.

The database can be accessed at <http://www.join.ok.gov>

portion of these funds for the Systems of Care project and is increasingly relying on them for operations. In addition, the amount of reimbursable Title IV-E federal funds OCCY receives decreased with the move of Court Appointed Special Advocates (CASA) to the Attorney General’s office in FY-2003. With the surplus dwindling, the Governor’s budget proposes this \$150,000 to replace a portion of federal funds used for agency operation.

Replace Medicaid Funds

In order to reduce duplication of resources, JOIN partnered with the 2-1-1 program to provide a statewide information and referral system. Since this collaboration, the JOIN project is no longer a child-only service. Therefore, the Medicaid matching percentage is significantly reduced from 30.125% to 9.525%. The Governor’s budget includes \$150,000 to replace these lost federal funds.

State Employee Pay Increase

The Governor’s budget includes \$26,000 for a 3% state employee pay increase for the Oklahoma Commission on Children and Youth. This funding is based on December 2005 salary information.

FY-2007 Recommendation

| FY-2007 Appropriation | |
|---------------------------------|----------------|
| <i>(amounts in thousands)</i> | |
| FY-2006 Appropriation | \$1,725 |
| FY-2006 Bud. FTE Level | 25.8 |
| Actual Ave. YTD FTE | 20.9 |
| Funding Adjustments: | |
| Replace Title IV-E Funds | 150 |
| Replace Medicaid Funds | 150 |
| State Employee Pay Increase | <u>26</u> |
| Total Adjustments | 326 |
| FY-2007 Recommendation | \$2,051 |
| % Change from FY-2006 | 18.90% |
| Source: Office of State Finance | |

Replace Title IV-E Funds

The Governor’s budget includes \$150,000 to replace Title IV-E funds in the Commission’s budget. OCCY built up a surplus of Title IV-E funds over the past eight years. The agency used a large

Office of Handicapped Concerns

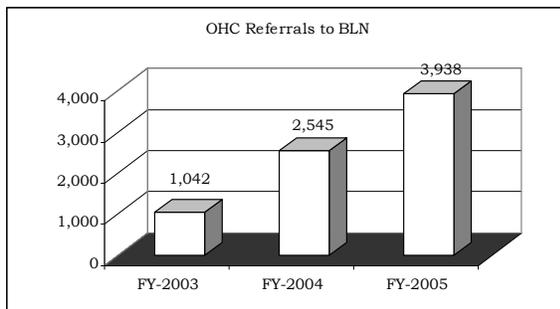
Notable Achievement

The American Library Associations Governmental Documents Roundtable recognized the following OHC publications: The Oklahoma Disability Handbook, Oklahoma Disability Resource Guide, and The Road to Employment for People with Disabilities.

Mission

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.

OHC assist citizens with disabilities in seeking and becoming employed. The staff at OHC provide information, attend job fairs, provide entrepreneurial education and support the Business Leadership Network (BLN). BLN is a coalition of employers that promote employment for people with disabilities.



Source: Oklahoma Office of Handicapped Concerns

OHC also administers the federally funded Client Assistance Program (CAP). CAP provides information, intervention, case management and, in some cases, assistance in the appeals and/or fair hearing process to individuals who are eligible for or receiving services funded by the Rehabilitation Act.

FY-2007 Recommendation

| FY-2007 Appropriation | |
|-------------------------------|--------------|
| <i>(amounts in thousands)</i> | |
| FY-2006 Appropriation | \$377 |
| One-time Adjustments | (4) |
| FY-2006 Base | \$373 |
| FY-2006 Bud. FTE Level | 8.0 |
| Actual Ave. YTD FTE | 8.0 |
| Funding Adjustments: | |
| Agency Maintenance | 11 |
| State Employee Pay Increase | 8 |
| Total Adjustments | 19 |
| FY-2007 Recommendation | \$392 |
| \$ Change from FY-2006 | \$15 |
| % Change from FY-2006 | 3.98% |

Source: Office of State Finance

Agency Maintenance

The Governor's budget includes \$11,000 for the increased cost of operations and maintenance of the agency.

State Employee Pay Increase

The Governor's budget includes \$8,368 for a 3% state employee pay increase for the Office of Handicapped Concerns. This funding is based on December 2005 salary information.

Oklahoma Indian Affairs Commission

Notable Achievement

The OIAC, in a joint project with the U.S. Bureau of Land Management and the Oklahoma Department of Transportation, finalized an unprecedented two-year project to map the jurisdictions of Oklahoma's tribal governments and how they relate to the U.S. Congressional, Oklahoma Senate, and Oklahoma House of Representatives districts

Mission

The Oklahoma Indian Affairs Commission (OIAC) is charged with the mission of serving as the liaison between Oklahoma's tribal population and governments and the Oklahoma State government. The Oklahoma Indian Affairs Commission accomplishes this mission by maintaining consistent involvement in the areas of legislation development and tracking, policy concerns, legal issues, economic development and education.

FY-2007 Recommendation

| FY-2007 Appropriation | |
|--|--------------|
| <i>(amounts in thousands)</i> | |
| FY-2006 Appropriation | \$256 |
| FY-2006 Bud. FTE Level | 4.5 |
| Actual Ave. YTD FTE | 3.0 |
| Funding Adjustments: | |
| State Employee Pay Increase | <u>2</u> |
| FY-2007 Recommendation | \$258 |
| % Change from FY-2006 | 0.78% |
| <small>Source: Office of State Finance</small> | |

State Employee Pay Increase

The Governor's budget includes \$1,750 for a 3% state employee pay increase for the Oklahoma Indian Affairs Commission. This funding is based on December 2005 salary information.

Department of Human Services

Notable Achievements

- **Increased Adoptions** DHS authorized 1,151 adoptions in FY-2004 – a record seven years in a row for over 1,000 authorized adoptions per year.
- **Quality Child Care** In November 2005, 90% of children receiving a 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.
- **Collaborating with Schools** Over 100 School Based Service Workers serve schools across the state.
- **Child Support Enforcement** The Child Support Enforcement Division (CSED) collected over \$187.5 million in child support in FY-2005, a 13% increase from FY-2004.
- **Paternities Established** CSED established 16,139 paternities in FY-2005, a 27% increase of the 12,704 paternities established in FY-2003.

Mission

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.

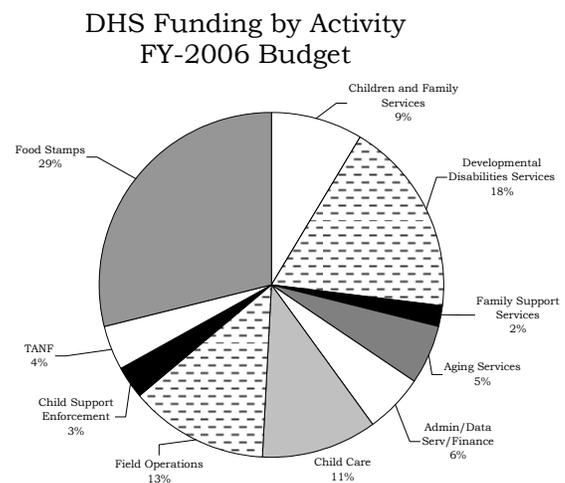
In pursuit of their mission, DHS administers the following programs:

- 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
 - Personal Care Program
- Child Support Enforcement

In FY-2006, DHS ranks as the fourth largest state agency, representing 8.0% of the state appropriated budget. DHS's FY-2006 operational budget revenues include:

| | |
|-----------------|---------------|
| Federal Grants: | \$953,422,819 |
| State Funding: | \$500,991,177 |
| Other Sources: | \$127,197,065 |



Source: FY-2006 Budget Work Program

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 72% from 47,712 average monthly cases in FY-1993 to 13,127 average monthly cases in FY-2005.

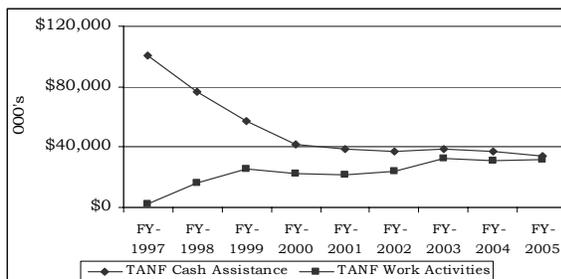
While the state initiated a number of different welfare reforms prior to 1995, the federal Personal Responsibility and Work Opportunity Reconciliation Act, passed in the fall of 1996, fundamentally changed the way public cash assistance programs were delivered to children and families across the nation. 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.

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.

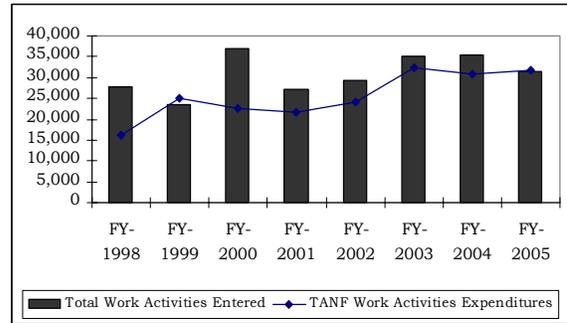
TANF services fall into three main categories:

- Cash Assistance
- Work Activities
- Family Formation/ Stabilization Services



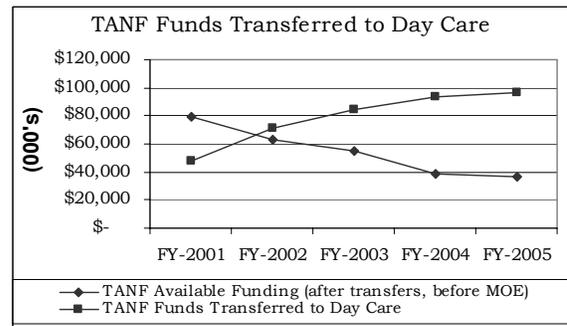
Source: OKDHS Annual Reports

Key Performance Measure



TANF Funding

While the TANF block grant amount has remained relatively stable over past fiscal years, the amount spent on TANF services has decreased.



Source: OKDHS

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 over \$96 million in FY-2005. Without child care services, many parents would not be able to leave TANF assistance for gainful employment.

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 | Max. Cash Assistance |
|-----------------------------------|-------------------------|
| \$0 | \$292 |
| \$250 | \$167 |
| \$500 | \$42 |
| \$550 | \$17 |

Formula: $\$292 - [(Earned\ Income - \$120)/2]$

Cash Benefits and Current Cases

Expenditures for cash assistance benefits have decreased by over 73% from \$129 million in FY-1996 to \$33.7 million in FY-2005. Of the 30,832 average monthly persons receiving TANF benefits in FY-2005, 6,590 cases had an adult on work requirements. The remaining 24,242 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

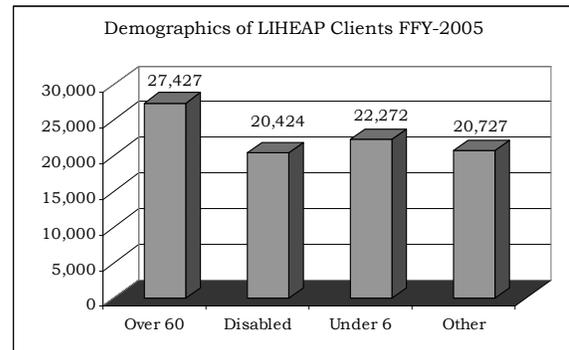
One of the provisions of the TANF program limits cash assistance payments to five consecutive years in a lifetime. In FY-2005, 89 families became ineligible for cash assistance benefits as a result of this provision. DHS policy allows caseworkers to arrange limited assistance to families facing specific hardships after exceeding TANF time limits.

Low Income Home Energy Assistance Program (LIHEAP)

Through a federal grant, DHS assists low income Oklahoma households with paying their energy bills. The majority of the grant is used for winter heating. The remainder is used for summer cooling bills and for weatherization services (through Oklahoma Department of Commerce).

DHS administers the program by taking applications and disbursing funds to the client’s energy provider. Eligible clients have incomes less than 110% of the federal poverty level, or \$1,774 per month for a family of four, and must be responsible for paying their utility bill. During FFY-2005, DHS served 90,850 households or 53% of

eligible households. Benefit payments are one-time; the average benefit payment in FY-2005 was \$85.



Source: OKDHS

Developmental Disabilities

The Developmental Disabilities Services Division (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.

In FY-2005, DDSD served approximately 4,428 people, ages 3 and up, in community based programs. This is an increase of 10.7% over last year. At the end of FY-2005, three public institutions were serving 407 persons.

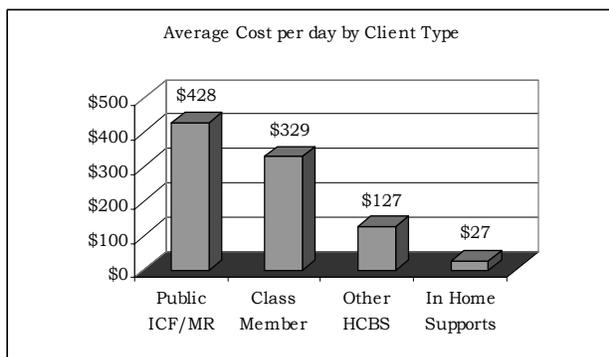
There are at least four types of recipients receiving services for developmental disabilities:

- Public ICF/MR: People who are in one of three public institutions;
- Class Member: People who are members of the Homeward Bound Class and receive unlimited community based services;
- Home & Community Based Services or In-Home Supports Waiver: 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 approximately \$428 per day in FY-2005 to serve these residents. The next most expensive clients are the members of the Hissom class. In FY-2005, class members cost an average of approximately \$329 per day.



Source: OKDHS

While \$329 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.

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. The Greer Center is operated through a contract with Liberty Health Care Services of Oklahoma. For Medicaid purposes, these public institutions are technically classified as Intermediate Care Facilities for the Mentally Retarded (ICF/MR).

While community based services are considered the most preferred and cost-effective treatment alternative for children

and adults, a small number qualify for institutional level services. Clients in these facilities range in age from 14 to over 70, suffer from multiple developmental and physical disabilities and require 24 hour medical attention.

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 805 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.

In FY-2004, a separate waiver was created for Hissom class members only. At the end of the year, 805 clients were being served through this waiver. Services for class members are mandated by the court while services are offered to other people as funds become available.

End of the Hissom Lawsuit

The judge presiding over the Hissom lawsuit issued an order in 2004 to end the mandated court supervision of the Department of Human Services Developmental Disabilities Services Division. This effectively ends the lawsuit that began almost 20 years ago. The case is currently on appeal to the 10th Circuit but has not been docketed.

Additional State Services Provided to Class Members

Services mandated by the Federal Court for the 805 class members are:

- room and board supplement payments and single placement supplements;
- special needs and other supported living payments go mostly for medical services that Medicaid does not cover, such as dental services for adults; and

- cost settlement payments allow providers to recover all of their costs for services to class members.

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-2005 institutional care costs an average of \$428 a day while community based care for non-class members costs an average of \$34 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.

Description of waiver programs:

- The Home and Community Based Services Waiver Program (HCBSW) – 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 of the above-mentioned 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.

- Homeward Bound Class Waiver – This waiver was created in FY-2004 for Hissom Class members.

| | FY-2003 | | FY-2004 | | FY-2005 | |
|-----------------------|----------|------------|----------|------------|----------|------------|
| | # Served | Total Exp. | # Served | Total Exp. | # Served | Total Exp. |
| HCBSW | 3,012 | \$204,057 | 2,282 | \$111,444 | 2,354 | \$109,017 |
| Homeward Bound Waiver | N/A | N/A | 822 | \$90,118 | 805 | \$89,109 |
| IHSW-Adult | 719 | \$8,948 | 775 | \$9,729 | 864 | \$9,908 |
| IHSW-Children | 287 | \$2,710 | 388 | \$2,936 | 405 | \$2,750 |

Expenditures are in thousands

Source: OKDHS

In FY-2005, approximately 3,623 people who were non-class members were served through some type of community-based waiver.

Waiting List for Community Based Services

As of November 2005, there were 3,312 people with developmental disabilities on the waiting list to receive services from one of the waivers administered through DDSD. This is a 22% decrease from December 2004. These Medicaid-eligible persons waiting for services are of all ages. Many of them and their families face financial hardships every day trying to provide costly services such as medical supplies, therapy and adaptive equipment on limited incomes with no access to health care.

Children and Family Services

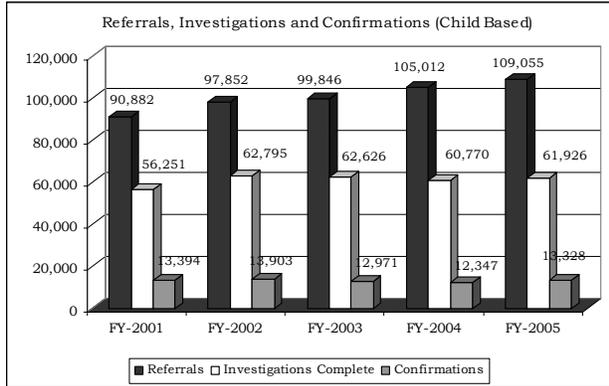
The Children and Family Services division in the Department of Human Services is responsible for three main programs:

- 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 2,284 referrals in FY-2005.

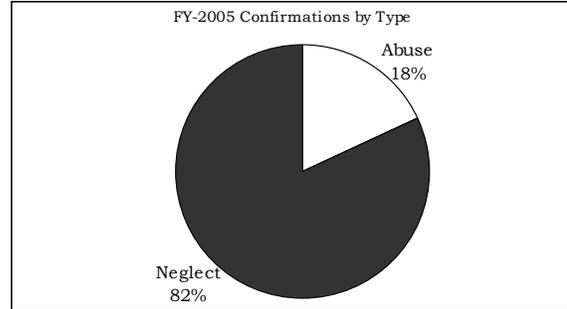


Source: OKDHS

In FY-2004, OKDHS hit a record low number of confirmations. In FY-2005, the number of confirmations increased slightly both as a whole number and as a percentage of referrals.

| Confirmations as a Percentage of Referrals | |
|--|--------|
| FY-1999 | 18.60% |
| FY-2000 | 15.75% |
| FY-2001 | 15.03% |
| FY-2002 | 14.31% |
| FY-2003 | 13.07% |
| FY-2004 | 11.97% |
| FY-2005 | 12.35% |

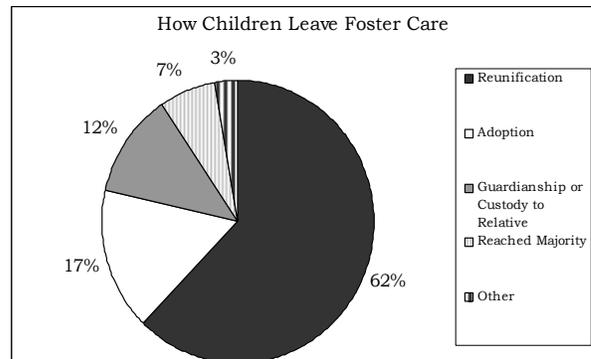
Neglect is historically the largest category of child mistreatment and in FY-2005 accounted for 82% of confirmations.



Source: OKDHS

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 place them in a safe, permanent environment, ideally with their parents. During FY-2005, there was an average of 6,976 children in foster care or kinship placements, an increase of 6.5% from FY-2004. The average length of stay for a child placed in out-of-home care has decreased from 23 months in FY-1999 to 19 months in FY-2005.



Source: OKDHS

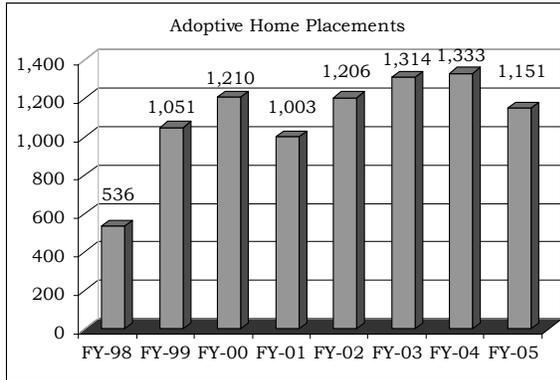
The average length of stay in foster care for children who are re-united with their families is ten months.

Growth in Adoptions

In recent years, adoptive home authorizations, the preliminary step to permanent adoptions, have sharply increased. From FY-1998 to FY-2005, DHS has increased the number of placements by almost 115% from 536 placements in FY-1998 to 1,151 placements in FY-2005. While there was a slight decrease in the number of

authorizations from FY-2004 to FY-2005, DHS put an emphasis on adopting older children in FY-2005. The adoption of older children generally takes longer than the adoption of infants and young children.

Key Performance Measure



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 almost tripled since 1996.

Currently, more than 8,302 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; and
- high risk of mental disease.

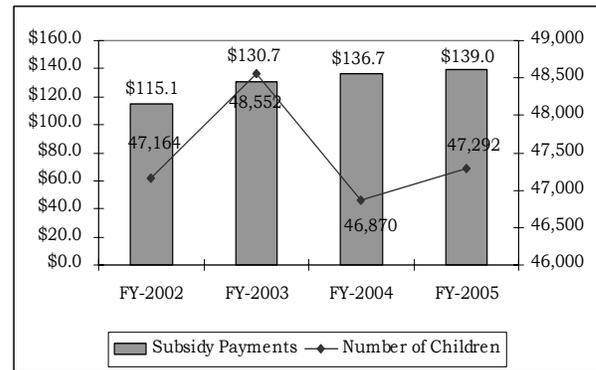
While the number will fluctuate during the year, approximately 1,200 children are awaiting adoption.

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 85,433 children during FY-2005. The monthly average of subsidy payments was 47,292 in FY-2005. Total payment increases are due to increased rates for the improved quality of child care facilities.



Source: OKDHS

In FY-2004, over 40% of families in the child care subsidy program did not pay a co-pay at all because of their income level (less than \$900 per month).

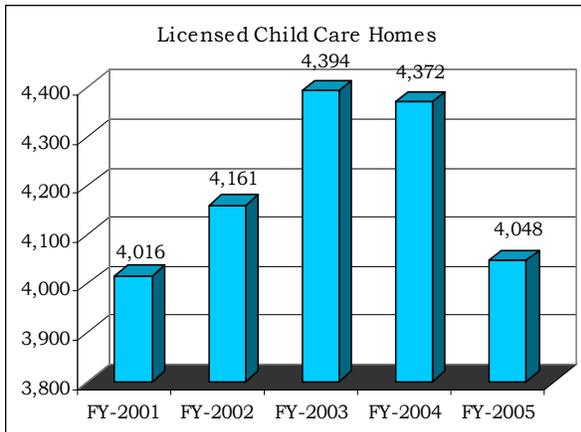
Quality Child Care Initiative

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:

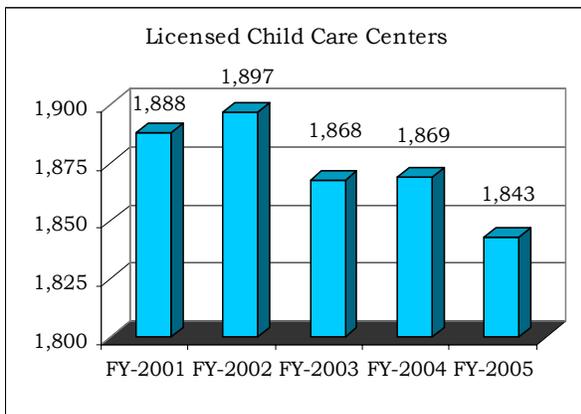
- One Star – Basic Licensing Requirements;
- One Star Plus – Transitioning to Higher Level;
- Two Star – Seven Quality Criteria including Master Teachers; and
- Three Star – Two Star Criteria and Nationally Accredited.

Child Care Licensing

The Division of Child Care licenses and inspects almost 5,900 child care centers and family care homes in Oklahoma for children ages six weeks to 12 years. The division also licenses 118 residential and shelter facilities that provide care for children who are unable to live at home and 62 child placing agencies that place children in foster homes and adoptive homes.

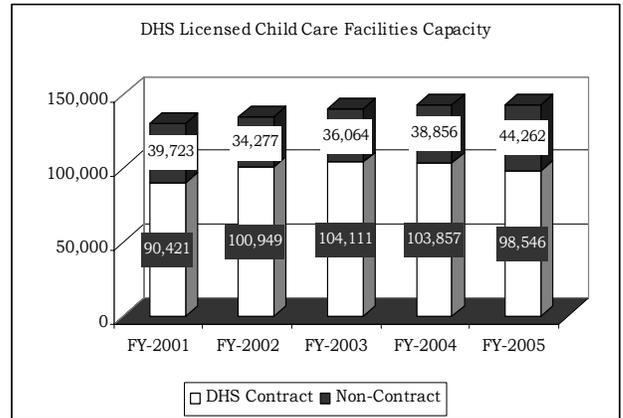


Source: OKDHS



Source: OKDHS

While the number of centers and homes is decreasing, the overall capacity is actually increasing due to homes and centers increasing their individual capacities. Total capacity in FY-2004 and FY-2005 is almost 143,000 slots. The following chart shows total capacity in number of slots available for the DHS Child Care Subsidy program versus those that are not.



Aging Services

Aging Services is responsible for the following programs:

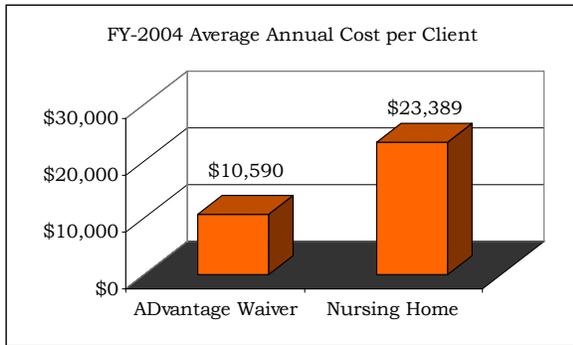
- Congregate Meals
- Ombudsman Program
- Advocacy
- Volunteer Programs

The Aging Services Division also administers the following two Medicaid programs.

ADvantage Waiver

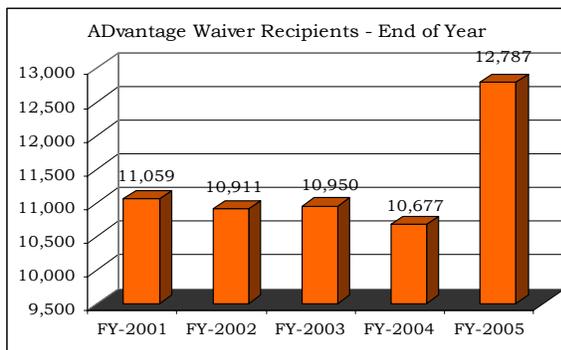
Operated through contracts with the Long Term Care Authorities of Tulsa and Enid, this home health care program provides an alternative to nursing home care for some people. In order to qualify for ADvantage services, a person must meet Medicaid income guidelines and require nursing home-level care.

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 remained relatively stable over the last few years. However, FY-2005 saw a sharp increase in the number of clients at the end of the year, 12,787 clients as compared to 10,677 clients in FY-2004. This is an increase of almost 20%.



Source: OKDHS

Personal Care

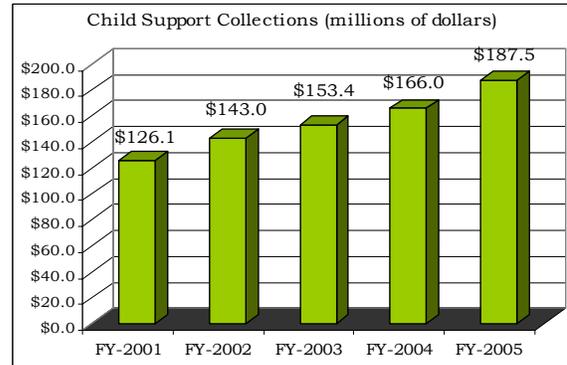
The second Medicaid program administered by the Aging Services Division is Personal Care. This service is available to those who meet the medical eligibility criteria as determined by an Aging Services long-term care nurse. Personal care aides, who generally work for home care agencies, provide non-medical assistance to people in their homes.

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 letter of the law.

Key Performance Measure

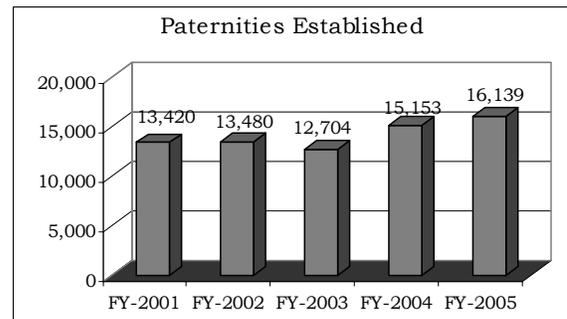


Source: OKDHS

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.

Key Performance Measure



Source: OKDHS

FY-2006 Supplemental

| FY-2006 Supplemental | |
|-----------------------------------|------------------|
| <i>(amounts in thousands)</i> | |
| FY-2006 Appropriation | \$481,991 |
| Supplemental | 5,391 |
| FY-2006 Adj. Appropriation | \$487,382 |
| % Change from FY-2005 | 5.51% |
| % Change from Original FY-2006 | 1.12% |

Source: Office of State Finance

Increased LIHEAP Funding

The Governor's budget includes \$5.391 million for additional state funding for the Low Income Home Energy Assistance Program (LIHEAP). LIHEAP is historically funded with 100% federal dollars. Due to rising energy costs and inadequate federal funding, the Governor, President Pro Tempore and the Speaker of the House have agreed to provide additional state funding for this program to increase the benefit received by participants.

FY-2007 Recommendation

| FY-2007 Appropriation | |
|--|------------------|
| <i>(amounts in thousands)</i> | |
| FY-2006 Appropriation | \$481,991 |
| FY-2006 Bud. FTE Level | 7,525.9 |
| Actual Ave. YTD FTE | 7,739.0 |
| Funding Adjustments: | |
| FMAP Deterioration | 5,299 |
| Child Care Subsidy | 10,000 |
| Rate Increases | 3,766 |
| Additional Child Welfare Specialists | 2,100 |
| Salary Increase for Child Welfare Spec. and Adult Protective Spec. | 3,771 |
| Pay Increase for Nurses | 528 |
| Child Support Enforcement FTE | 1,000 |
| Replace Lost Federal Funds for TFC Rate Increase | 1,365 |
| State Employee Pay Increase | 4,386 |
| Total Adjustments | 32,215 |
| FY-2007 Recommendation | \$514,206 |
| % Change from FY-2006 | 6.68% |

Source: Office of State Finance

FMAP Deterioration

The Governor's budget includes \$5.299 million to annualize the FFY-2006 decrease in FMAP and provide for the state fiscal year portion of the FFY-2007 FMAP decrease.

Child Care Subsidy

Child Care's FY-2005 budget consists of:

- \$124.0 million of federal funds;
- \$21.9 million of one-time TANF reserve funds; and
- \$36.3 million of state appropriations.

The Governor's budget recommends \$10 million to help replace one-time TANF reserve funds in the Child Care Subsidy program. Without an additional state appropriation, DHS will use \$23.9 million of TANF reserve dollars to fund the Child Care

Subsidy program in FY-2007, nearly depleting the fund and leaving the Child Care Subsidy budget with a funding deficit..

Rate Increases

This budget includes \$3.766 million for the following provider rate increases:

- \$3.5 million to raise Child Care Subsidy rates to the 75th percentile. The new rates would represent a price adequate to purchase 75% of day care slots and.
- \$266,000 to increase the DDS Foster Care rate 25%. The current range of rates is \$30-\$40 per day. The new range would be \$37.50-\$50 per day. The goal of DDS Foster Care is to establish a family setting for persons with developmental disabilities.

Additional Child Welfare Specialists

As part of a two-year initiative to increase Child Welfare staff by a total of 112 FTE, the Governor’s budget includes \$2.1 million to hire 54 additional Child Welfare Specialists in FY-2007.

For child protective services, Child Welfare Specialists (CWS) currently carry an average “point-in-time” caseload of 18. The Child Welfare League of America (CWLA) states the acceptable caseload for active investigations is 12.

For foster care services, CWLA recommends 12-15 children per worker. Each CWS currently has primary responsibility for an average of 25 children. Each staff person carries secondary responsibility for more than 25 additional children.

In addition, the voluntary turnover rate in FY-2005 for CWS I and II averaged over 19% according to the OPM Annual Compensation Report. Additional FTE will help bring consistency to the workforce that is the first line of defense for some of Oklahoma’s most vulnerable children by helping to reduce turnover and caseload.

Salary Increase for Child Welfare Specialists and Adult Protective Specialists

The current average salary for CWS across all pay bands is \$30,737. The average salary across all pay bands for Adult Protective Service Specialists is \$31,354. This puts CWS workers an average of \$2,800 under market and APS investigators \$3,734 under mid-point.

The Governor’s budget proposes \$3.771 million to raise the salary of all CWS and APS investigators by 9%, provide additional earnings for mobile phone service and provide digital cameras for use in investigations. A 9% increase results in an average increase per employee of \$2,800 per Child Welfare Specialist, which is the average increase necessary to raise CWS employees to OPM’s reported market rate, and raises APS investigators to within 76% of the mid-point.

Targeted Nursing Salary Increase

In recognition of the need to keep nursing salaries competitive, the Governor’s budget contains \$528,061 for a 10% targeted increase for these positions. Actual funding is based on December 2005 salary information. Using the Office of Personnel Management’s most recent compensation comparison study, this increase will, on average, reduce the market disparity for state nursing salaries compared with private employers by 50%.

Child Support Enforcement FTE

The Governor’s budget includes \$1 million for DHS to add 52 FTE to the Child Support Enforcement Division. These FTE will generate close to \$12 million in child support collections for Oklahoma children. These collections have the potential to reduce program participation in other areas of DHS, like Child Care and TANF, thereby reducing state costs.

Replace Lost Federal Funds for TFC Rate Increase

In 2004, the Legislature approved a rate increase for Therapeutic Foster Care. In June 2005, CMS denied the federal portion of this rate increase. The Governor’s

FY-2007 Executive Budget

budget includes \$1.365 million to cover the 70% federal match denied by CMS.

State Employee Pay Increase

The Governor's budget includes \$4.386 million for a 3% state employee pay increase for the Department of Human Services. This funding is based on December 2005 salary information

J.D. McCarty Center for Children with Developmental Disabilities

Notable Achievements

- *More of Oklahoma's children with developmental disabilities have been served and patient census has increased since JDMC relocated to their new facility.*
- *Four children who had been at JDMC for over 2 years were all successfully placed in foster homes.*
- *Three summer day camp programs were successfully initiated in July and August of 2005. The camps addressed important issues impacting children with developmental disabilities (e.g. sensory integration issues, socialization techniques, and use of computers for communication and education).*
- *Initiated a successful campaign to raise awareness of the center's services and garner private funds to build our first summer camp cabin which will enable JDMC to expand its summer camp program*

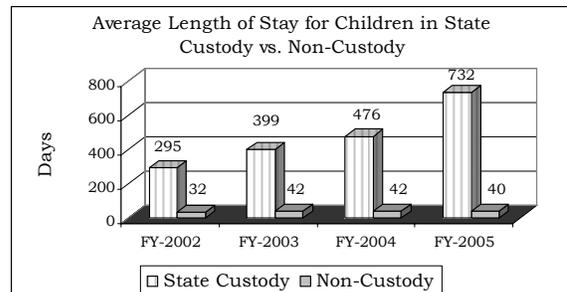
Mission

The mission of the J.D. McCarty Center (JDMC) for Children with Developmental Disabilities is to provide a comprehensive program of habilitative care to Oklahoma's citizens with disabilities.

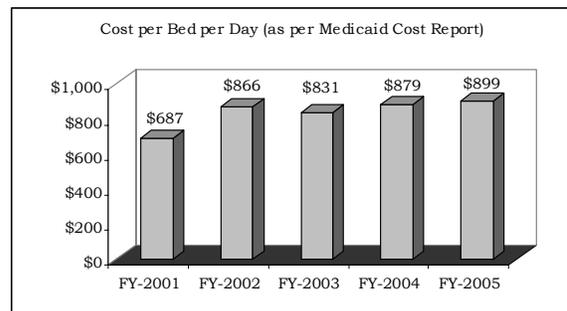
The J.D. McCarty Center habilitates, rehabilitates, evaluates, and treats Oklahoma's developmentally disabled children, enabling them to reach their maximum potential. The ultimate goal is to enable children to return to a family or community environment.

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.

In recent years, the JDMC has seen an increase in the number of children that come to the 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, especially for state custody children.



Source: JD McCarty Center



Source: JD McCarty Center

New Facility

The J.D. McCarty Center, located in Norman, opened its new facility in the fall of 2004. The new facility cost a total of \$14.285 million dollars and was financed through a bond issue.

| | Beds Budgeted | Beds Filled |
|---------|---------------|-------------|
| FY-2001 | 20 | 22.44 |
| FY-2002 | 20 | 19.13 |
| FY-2003 | 20 | 20.26 |
| FY-2004 | 21 | 20.17 |
| FY-2005 | 28 | 29.80 |
| FY-2006 | 30 | 31.50 |

SOURCE: J.D. McCarty Center

The larger facility, which includes 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.

FY-2007 Recommendation

| <i>FY-2007 Appropriation</i> | |
|-------------------------------------|----------------|
| <i>(amounts in thousands)</i> | |
| FY-2006 Appropriation | \$3,792 |
| FY-2006 Bud. FTE Level | 200.9 |
| Actual Ave. YTD FTE | 196.7 |
| Funding Adjustments: | |
| Pay Increase for Nurses | 99 |
| State Employee Pay Increase | <u>194</u> |
| Total Adjustments | 293 |
| FY-2007 Recommendation | \$4,085 |
| % Change from FY-2006 | 7.73% |

Source: Office of State Finance

Targeted Nursing Salary Increase

In recognition of the need to keep nursing salaries competitive, the Governor's budget contains \$98,993 for a 10% targeted increase for these positions. Actual funding is based on December 2005 salary information. Using the Office of Personnel Management's most recent compensation comparison study, this increase will, on average, reduce the market disparity for state nursing salaries compared with private employers by 50%.

State Employee Pay Increase

The Governor's budget includes \$193,556 for a 3% state employee pay increase for the J.D. McCarty Center. This funding is based on December 2005 salary information.

Office of Juvenile Affairs

Notable Achievements

- OJA received high scores from the American Correctional Association on routine audits at COJC and LERC.
- OJA and DHS are coordinating to run a new "Level-E Enhanced" group home that will serve developmentally disabled juveniles who otherwise would have to be placed at one of OJA's three secure institutions at a significantly higher cost.
- Evaluation results from the first outcomes report on a program contracted between OJA and the University of Oklahoma Health Sciences Center for Multisystemic Therapy (MST) indicated reductions in delinquency of 48% and in substance abuse of 76% six months after its juvenile clientele exited one of OJA's secure institutions. This program is being studied through a random assignment, true experimental design evaluation.

Mission

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.

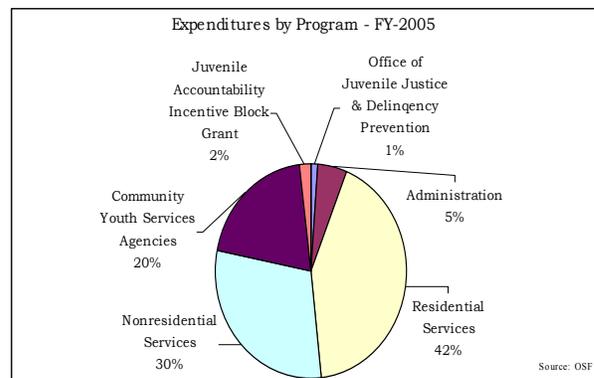
The Office of Juvenile Affairs:

- serves as the state planning and coordinating agency for statewide

juvenile justice and delinquency prevention services;

- preserves and strengthens family ties whenever possible;
- 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 adjudicated juveniles removed from the custody of parents to assist the juvenile in becoming a responsible, productive member of society; and
- provides a system for the rehabilitation and reintegration of juvenile delinquents into society.

OJA is one of the 10 largest state agencies. The agency's FY-2006 appropriation is 1.6% of the total state appropriated budget. The following chart shows OJA's FY-2005 expenditures by program.



While OJA receives funding from federal grants and revolving funds, 87% of operational funding in FY-2005 came from state appropriations. Approximately 11% of OJA's funding came from federal funds, and 2% from revolving funds. Grants received include the Juvenile Accountability Incentive Block Grant, the Juvenile Justice and Delinquency Prevention Formula Grant, Title V and Challenge Grants. For FY-2006, the agency budgeted \$14.1 million in federal revenue to fund a portion of its operating expenses.

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.

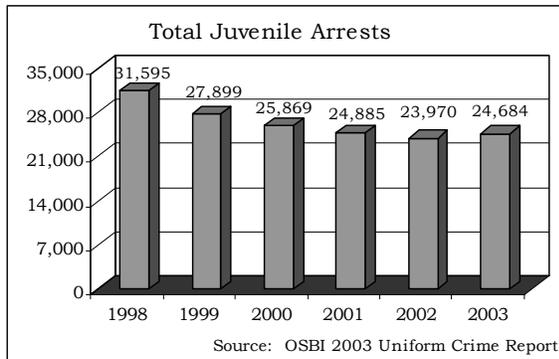
Subsequent to the creation of OJA, an Amended Court Plan of Implementation was filed with the court that detailed OJA’s responsibilities in the operation of the juvenile justice system. In 1996, OJA was able to meet Federal Court requirements for the dismissal of the lawsuit. OJA has remained in substantial 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.

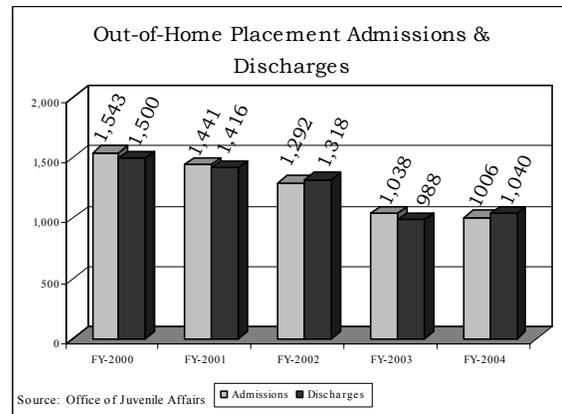
According to data from the Oklahoma State Bureau of Investigation (OSBI) 2003 Uniform Crime Report, total juvenile arrests increased in 2003 by 3%. The following chart shows a ten-year history of juvenile arrests.



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.

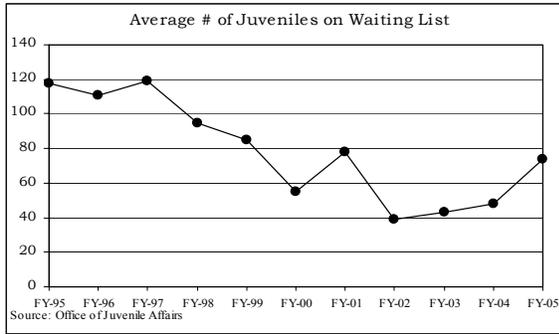
The following chart provides a comparison of the out-of-home placement admissions and discharges since FY-2000.



To address the placement demand each year, OJA determines the security level each adjudicated juvenile requires and matches the juvenile with the next available bed placement option at that level.

Placement Waiting List

The following graph illustrates the change in the average number of juveniles awaiting placement over the past 11 years. Juveniles on the waiting list are typically held in a lock-down county detention centers. These juveniles do not begin any treatment services at this point, however the detention centers have on-site teachers.



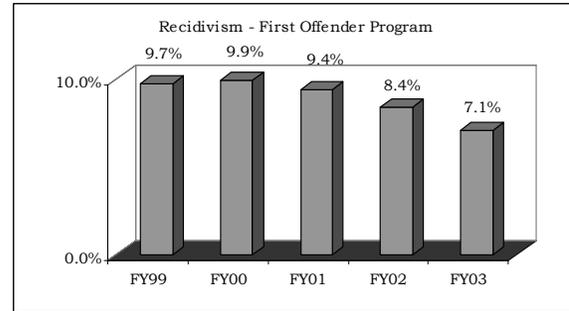
While the waiting list has dramatically decreased from FY-1995, the number of juveniles awaiting placement has been on the rise since FY-2002.

Community Based Youth Services

Forty-one designated Youth Service Agencies provide a statewide system of prevention, diversion, intervention and treatment programs to keep juveniles from entering or further penetrating into the juvenile justice system. Youth Service Agencies are not-for-profit and governed by local boards of directors made up of community volunteers. OJA contracts with Youth Service Agencies to provide First Offender programming, Community At-Risk Services (CARS), Emergency Shelter care and other services.

The First Offender Program is a statewide program for juveniles who have committed a first-time misdemeanor or non-violent felony. The program provides juveniles and their parents 12 hours or more of skill development classes emphasizing communication, anger management, problem solving and decision-making. Over 3,800 juveniles and almost 4,900 parents received First Offender services in FY-2005.

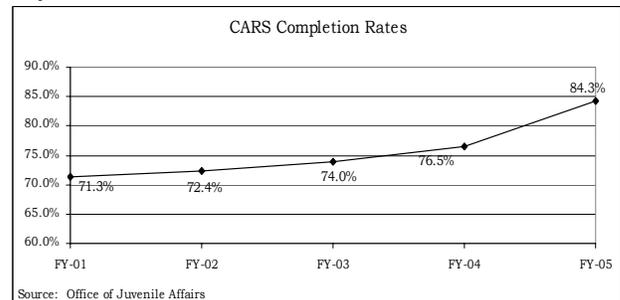
Youth Service Agencies also provide community-based treatment services such as CARS. The purpose of CARS is to provide services to juveniles in custody or under OJA supervision to prevent out of home placement and to reintegrate juveniles returning from out of home placements. Services include mentoring, tutoring, counseling, diagnostic and evaluation services and supervision of youth in independent living.



Source: Office of Juvenile Affairs 2004 Annual Report

Successful reintegration of juveniles back into the community is fundamental for both the juvenile and the community. Without effective reintegration programs, juveniles are more likely to re-offend and become incarcerated again. This is counter-productive for the youth and costly to the state.

Key Performance Measure



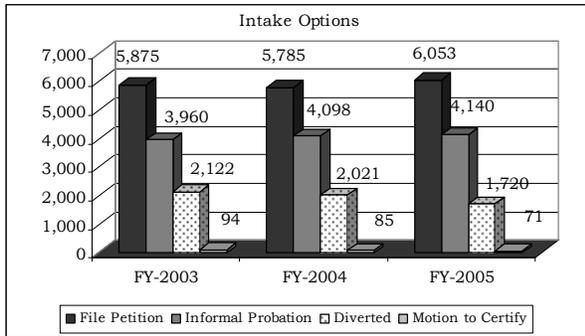
Emergency shelters provide short-term residential care to youth in need of temporary housing. Shelters are open 24 hours a day, seven days a week and served both Department of Human Services and OJA youth.

Some Youth Service Agencies also operate Community Intervention Centers (CICs), foster homes, therapeutic foster homes, group homes and detention centers.

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 provides parole services. The most common

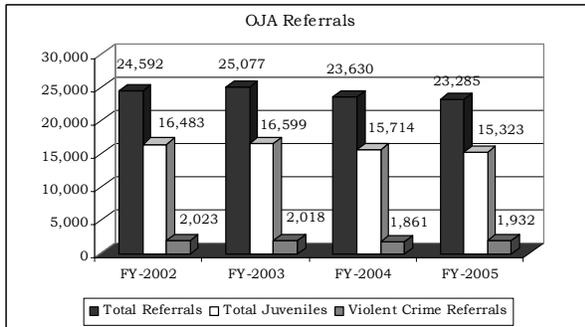
intake of district attorneys is to file a petition for court involvement. The total number of intakes has declined by 483 since FY-2003, from 17,268 to 16,785.



Source: Office of Juvenile Affairs

- In FY-2005, 4,801 of the total intakes were dismissed.

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.



Source: Office of Juvenile Affairs

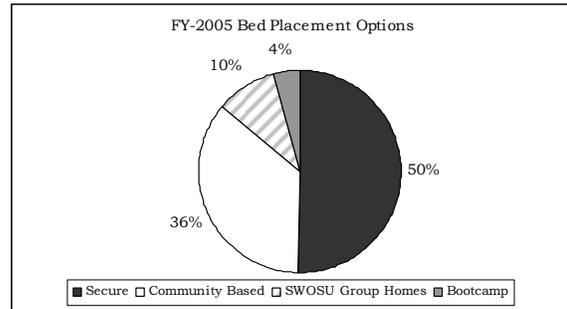
- In FY-2005, 9,443 referrals were first time referrals.

JSU staff also takes 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, 10 communities have a Graduated Sanctions Program.

Residential Services

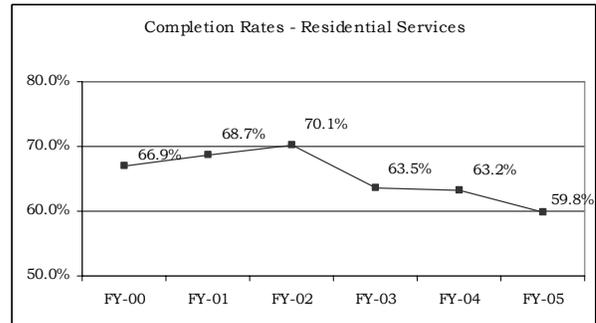
OJA provides rehabilitative facilities for treatment to OJA custody youth in out-of-home community based and institutional placements. Since FY-1994, OJA has increased the number of beds in the juvenile system. These additional beds have allowed OJA to remove violent offenders from the street and reduce 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.



Source: Office of Juvenile Affairs

OJA strives to intervene in the delinquent life style of adjudicated youth in custody. Facilities provide applicable treatment for specific problems to enable normal adolescent maturation and to prepare the youth for reintegration into the home and the community. Two key performance measures for this area are completion rates and recidivism rates.

Key Performance Measure

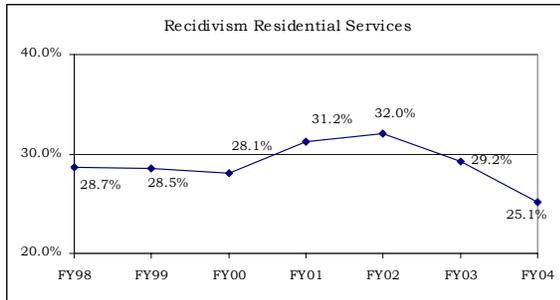


Source: Office of Juvenile Affairs

Completion of services is defined as a regularly scheduled discharge from out-of-home placement. Non-completion represents a disruption of services and may occur for a variety of reasons, including AWOL, hospitalization, re-arrest and placement in detention or early court dismissal of a case.

The completion rate for residential services has declined over the past three years, from 70.1% in FY-2002 to 59.8% in FY-2005. While there have been no studies identifying why this is happening, one theory is a more difficult clientele.

Key Performance Measure



Source: Office of Juvenile Affairs

Recidivism is defined as those juveniles who fail to remain crime-free within one year of discharge from a residential program.

Secure Bed Costs

The FY-2004 average per diem bed cost at the state-operated facilities was \$205. During FY-2003, OJA made several reductions to reduce 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 table below provides the per diem bed cost at each facility.

Key Performance Measure

| Per Diem Bed Costs | | | | | | |
|--------------------|----------|----------|----------|----------|----------|-----------|
| Facility | FY-01 | FY-02 | FY-03 | FY-04 | FY-05 | FY-06 BWP |
| SOJC | \$188.65 | \$216.28 | \$218.52 | \$206.32 | \$218.44 | \$239.59 |
| COJC | 225.08 | 240.97 | 199.72 | 181.79 | 187.36 | 206.05 |
| LERC | 196.81 | 216.60 | 184.36 | 186.46 | 207.88 | 226.36 |
| UCJC (private) | 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.

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.

In FY-2004, 69 youthful offenders were remanded to OJA custody and eight were remanded to OJA supervision. Of those remanded to OJA custody, 64 (92.8%) were placed in secure institutions.

FY-2007 Recommendation

| FY-2007 Appropriation | |
|---|------------------|
| <i>(amounts in thousands)</i> | |
| FY-2006 Appropriation | \$98,323 |
| One-time Adjustments | (425) |
| FY-2006 Base | \$97,898 |
| FY-2006 Bud. FTE Level | 1,054.0 |
| Actual Ave. YTD FTE | 994.1 |
| Funding Adjustments: | |
| Juvenile Detention Centers | 2,766 |
| Salary Increase for Juvenile Justice Spec. and Juvenile Spec. | 3,741 |
| FMAP Reduction | 38 |
| Replace Federal Funds for Early Intervention Services | 351 |
| Fully Fund Level E and E+ Beds | 99 |
| Salary Increase for Nurses | 46 |
| State Employee Pay Increase | 501 |
| Total Adjustments | 7,542 |
| FY-2007 Recommendation | \$105,440 |
| \$ Change from FY-2006 | \$7,117 |
| % Change from FY-2006 | 7.24% |
| <small>Source: Office of State Finance</small> | |

Juvenile Detention Centers

Detention centers are located in 17 counties. In FY-2005, the detention centers were at a 95.2% utilization rate; meaning that of the 109,865 annual bed capacity, 104,640 bed days were used in FY-2005. County juvenile detention centers have historically been funded with 85% state dollars and 15% county dollars. The Governor's budget proposes \$2.766 million to fully fund these centers with state money.

Salary Increase for Juvenile Justice Specialists and Juvenile Specialists

The Governor's budget includes \$3.741 million to raise the salaries of Juvenile Justice Specialists by \$6,350 and Juvenile Specialists by \$3,200.

The OPM FY-2006 Annual Compensation Report cites Juvenile Specialists have experienced a voluntary turnover rate

greater than 25% for the past three years. In FY-2005, Juvenile Specialists I had a turnover rate of 81%. Juvenile Justice Specialists I and II experienced 21% and 14% turnover rates respectively.

With funding for salary increases and the subsequent reduction in turnover and ability to attract qualified applicants, OJA will see a reduction in costs related to overtime and turnover. These savings will provide OJA funding to fill vacancies in direct care staff positions.

FMAP Reduction

The Governor's budget includes \$38,412 to annualize the FFY-2006 decrease in FMAP and provide for the state fiscal year portion of the FFY-2007 FMAP decrease.

Replace Federal Funds for Early Intervention Services

OJA currently contracts with the OU Health Sciences Center to provide early intervention services to juveniles. The multisystemic therapy program shows reductions in delinquency of 48% and in substance abuse of 76% six months after its juvenile clientele exited one of OJA's secure institutions. This program serves approximately 76 youth and is currently funded through a grant from the Department of Justice. The grant will not be available in FY-2007. The Governor's budget proposes \$351,000 to replace the lost federal funds.

Fully Fund Level E and E+ Beds

The legislature appropriated \$788,000 to OJA beginning in FY-2006 for 24 new group home beds. The Governor's budget includes \$99,000 to fully fund these beds.

Targeted Nursing Salary Increase

In recognition of the need to keep nursing salaries competitive, the Governor's budget contains \$45,994 for a 10% targeted increase for these positions. Actual funding is based on December 2005 salary information. Using the Office of Personnel Management's most recent compensation comparison study, this increase will, on average, reduce the market disparity for state nursing salaries compared with private employers by 50%.

State Employee Pay Increase

The Governor's budget includes \$500,916 for a 3% state employee pay increase for the Office of Juvenile Affairs. This funding is based on December 2005 salary information.

Community Based Youth Service Contracts

The Governor's budget recommends transitioning designated Youth Services Agency contracts from the current reimbursement system to a fee-for-service reimbursement system. The revised payment system would be modeled after the Department of Mental Health and Substance Abuse Services' Community Mental Health Center system. This system uses a combination of fee-for-service and reimbursement contracts to create uniform rates for services.

Use of fee-for-service contracts will enable the State of Oklahoma and Youth Services Agencies to save considerable administrative funds on more costly reimbursement contract oversight and service verification. Creation of fee-for-service contracts will also enable the State and Youth Services Agencies to dedicate more resources on services and program development. Information management of performance indicators, outcomes, and data collection will also benefit from the use of fee-for-service contracts. It should be noted that Youth Services Agencies would still be required to keep all documentation information for independent audit purposes.

Physician Manpower Training Commission (PMTC)

Notable Achievements

- *Twenty-eight physicians were placed in 23 rural communities this past year. The average obligation incurred by these physicians is three years.*
- *A new scholarship program was developed for physician assistants. This program provides funding to physician assistant students who agree to establish their practice in rural Oklahoma communities with a population of 20,000 or less.*
- *350 nursing students received scholarships through the Oklahoma Nursing Student Assistance Program.*

Mission

The Legislature created the Physician Manpower Training Commission (PMTC) in 1975 to enhance medical care in rural and underserved areas of the state through the following programs:

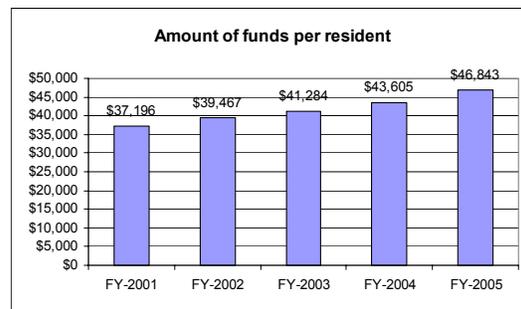
- Oklahoma Intern/Resident Cost-Sharing;
- Community Match Rural Scholarship Incentive Programs;
 - Rural Medical Education Scholarship Loan
 - Family Practice Resident Rural Scholarship
 - Physician/Community Match Loan
- Physician Placement Program;
- Nursing Student Assistance Program; and
- Physician Assistant Scholarship Program.

There are no other programs like this in any other state. The PMTC 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 1998 study done by Dr. Gerald Dukeson of the

Cooperative Extension Service at OSU indicated that a physician establishing practice in a rural Oklahoma community generates 25 jobs and approximately \$700,000 of income annually. Physicians are vital to the economic health of small Oklahoma communities.

Oklahoma Intern/Resident Cost Sharing

The PMTC 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. The benchmark for the amount of funds per resident is based on the regional average for similar programs and is attained annually. The graph below depicts the amount of funds per resident for the past five fiscal years.

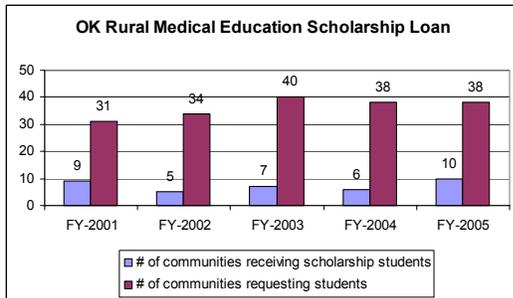


Training for Family Practice residents takes place in Oklahoma City, Tulsa, Enid, Ramona, Lawton and Durant. Statistics show that primary care residents trained in Oklahoma will more likely establish a medical practice in Oklahoma.

Community Match Rural Scholarship Incentive Programs Rural Medical Education Scholarship Loan

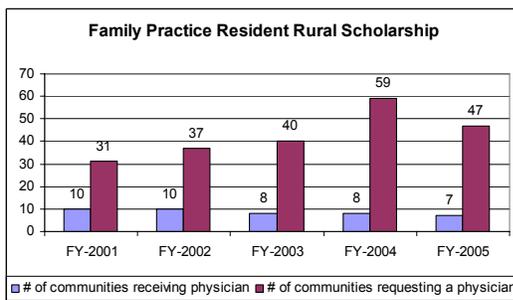
PMTC also administers a loan program where medical or osteopathic students contract to practice in a rural community with a population of 7,500 or less when their training is completed. A student can receive up to \$60,000 over a four-year period with a payback of practicing in a rural community one year for each year of financial assistance. Since 1975, 375

students have participated in the program. As the following graph indicates, in FY-2005, 17.6% of communities requesting physicians received them.



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, 105 recipients have completed training and are fulfilling obligations. The graph below shows how this program meets statewide demand.



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, 149 physicians have been placed.

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 for a minimum of two years, and can receive the funds for up to four years. Contracts are between the individual provider and the PMTC.

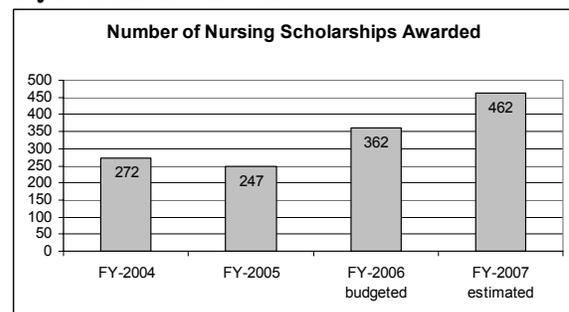
Nursing Student Assistance Program

Established in 1982, this program provides financial assistance to Oklahoma nursing students pursuing LPN, ADN, 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, there have been 4,186 participants. The graph below shows the number of recent recipients by fiscal year.

Key Performance Measure



FY-2007 Recommendation

| <i>FY-2007 Appropriation</i> | |
|--|----------------|
| <i>(amounts in thousands)</i> | |
| | |
| FY-2006 Appropriation | \$5,361 |
| FY-2006 Bud. FTE Level | 7.0 |
| Actual Ave. YTD FTE | 6.0 |
| | |
| Funding Adjustments: | |
| State Employee Pay Increase | 7 |
| Nursing Student Assistance Program | <u>140</u> |
| Total Adjustments | 147 |
| FY-2007 Recommendation | \$5,508 |
| % Change from FY-2006 | 2.74% |
| <small>Source: Office of State Finance</small> | |

State Employee Pay Increase

The Governor's budget includes \$7,148 for a 3% state employee pay increase for PMTC. This funding is based on December 2005 salary information.

Nursing Student Assistance Program

The Governor budget proposes \$140,000 for this program, which would provide sufficient funds for an additional 100 scholarships.

Department of Rehabilitation Services

Notable Achievements

- *DRS reopened vocational rehabilitation and employment services for 1,827 Oklahomans with severe disabilities. The individuals had been placed on waiting lists since July 2002 due to state budget reductions.*
- *DRS's Vocational Rehabilitation and Visual Services divisions expanded services to Spanish-speaking Oklahomans with disabilities through a new Hispanic Community Services Office. The divisions published a brochure about vocational rehabilitation services in Spanish, translated application forms and assigned a Spanish-speaking employee to help staff set up interviews, interpret and translate correspondence into Spanish or English.*
- *During State Fiscal Year 2005, public service announcements valued at over \$1 million for DRS programs ran at no charge on 22 TV and 100 radio stations in Oklahoma. These PSA's recognize educational excellence at Oklahoma School for the Blind and Oklahoma School for the Deaf, remind drivers to be aware of blind people in crosswalks and encourage businesses to hire people with disabilities.*
- *Two Oklahoma School for Blind high school students, Tiffany Priddy from Spiro and Arielle Edwards from Wagoner, were selected through an international competition to hike the high Andes with world-renowned mountain climber Erik Weihenmayer who was the first blind person to reach the Mt. Everest summit.*

Mission

The mission of the Department of Rehabilitation Services (DRS) is to provide opportunities for individuals with disabilities to achieve productivity, independence, and an enriched quality of life.

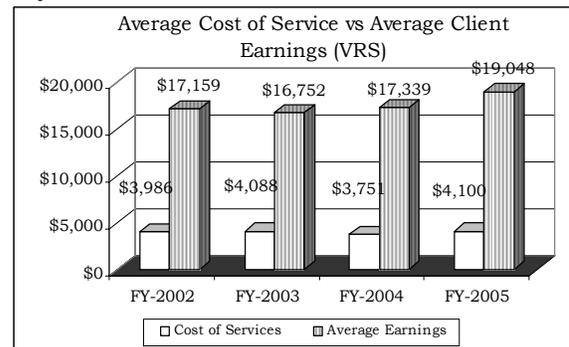
The agency administers four main programs:

- Vocational Rehabilitation and Visual Services Division;
- Oklahoma School for the Blind;
- Oklahoma School for the Deaf; and
- Disability Determination Division

Vocational Rehabilitation and Visual Services Division

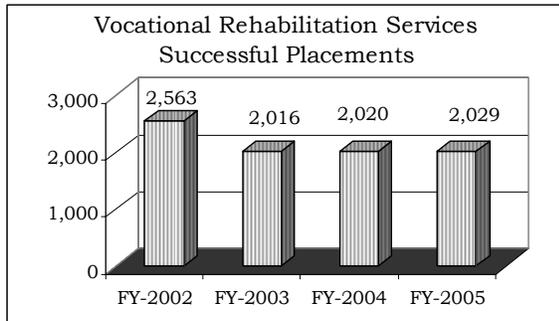
The Vocational Rehabilitation and Visual Services (RVS) division of DRS administers the federal vocation rehabilitation program for Oklahomans with disabilities. DRS provides vocational rehabilitation, education, employment services and independent living programs. Once a client is determined eligible 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. DRS receives \$4 from the federal government for every \$1 of state funding for this program.

Key Performance Measure



Source: OKDRS

Key Performance Measure



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 \$4,100, successfully placed clients received the benefit of earning an average paycheck of \$19,048 per year in FY-2005.

School for the Deaf and School for the Blind

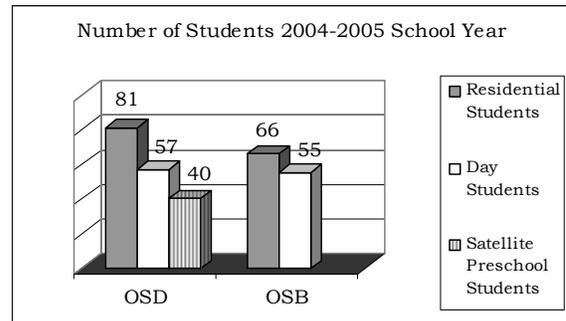
The Oklahoma School for the Deaf and Oklahoma School for the Blind provide residential and day education programs for children who have a primary disability of either blindness or deafness. A comprehensive curriculum of reading, language arts, mathematics, social studies, science, physical education 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.

During the 2004-2005 school year, OSD served a total of 178 students from all across the state. The Sulphur campus housed 81 students during the school week, while 57 students attended school during the day, and 40 preschoolers were served in the satellite preschools in Edmond and Broken Arrow.

A total of 121 students attended OSB campus in Muskogee, 66 residential students and 55 day students.

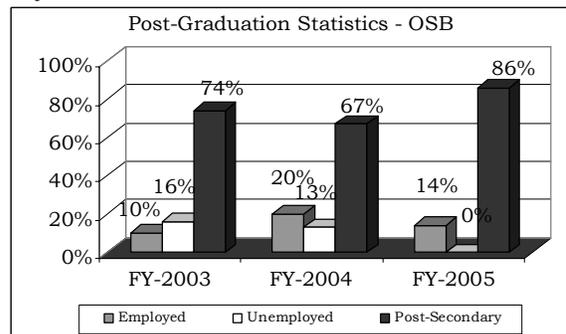


Source: OKDRS

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 public schools throughout the state. Both schools also provide specialized training and summer programs for parents and special education teachers.

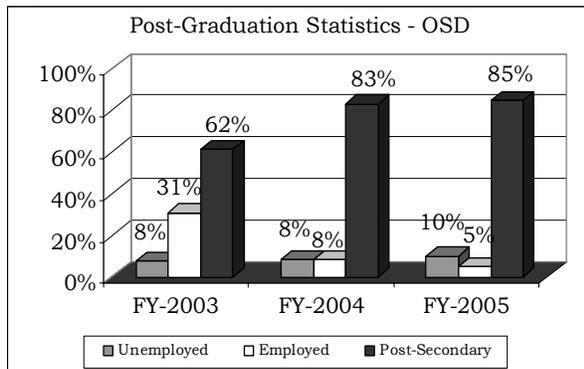
Nationwide, 47 states and the District of Columbia have schools for the deaf; 42 states and the District of Columbia have schools for the blind.

Key Performance Measure



Source: OKDRS

Key Performance Measure



Source: OKDRS

| | <u>OSB</u> | <u>OSD</u> |
|--------------------------|------------|------------|
| FY-2005 Expend. (000's) | \$5,727 | \$8,081 |
| FTE | 100.6 | 126.8 |
| No. of Teachers (BWP) | 24 | 34 |
| No. of Students | 121 | 178 |
| Cost per Student (000's) | \$47 | \$45 |
| Students per Teacher | 5.0 | 5.2 |

Source: OKDRS Budget Work Program, Budget Request, OSB & OSD

Disability Determination Division

The Disability Determination Division (DDD) makes medical eligibility determinations for Oklahomans applying for Supplemental Security Income disability or Social Security Disability benefits. This program is funded 100% with federal dollars.

FY-2007 Recommendation

| FY-2007 Appropriation | |
|-------------------------------|-----------------|
| <i>(amounts in thousands)</i> | |
| FY-2006 Appropriation | \$27,366 |
| FY-2006 Bud. FTE Level | 940.5 |
| Actual Ave. YTD FTE | 867.3 |
| Funding Adjustments: | |
| Teacher Salary Increase | 165 |
| Lottery Funding OSB | 336 |
| Lottery Funding OSD | 423 |
| OSD Satellite School | 800 |
| Pay Increase for Nurses | 12 |
| State Employee Pay Increase | <u>559</u> |
| Total Adjustments | 2,295 |
| FY-2007 Recommendation | \$29,661 |
| % Change from FY-2006 | 8.39% |

Source: Office of State Finance

Teacher Salary Increase

The Governor's budget provides \$165,000 for pay increases, as legislated in SB 1272, to 50 teachers at the Oklahoma School for the Deaf and 37 teachers at the Oklahoma School for the Blind.

Lottery Funding

The Oklahoma School for the Blind will receive \$336,243 of Lottery revenue in FY-2007. The Oklahoma School for the Deaf will receive \$422,880 of Lottery revenue in FY-2007. Lottery funds for OSB and OSD are based on a percentage of the schools' budgets in relation to common education, higher education and CareerTech. Lottery funding can be used for teacher and support personnel salary and benefits, early childhood programs, facility construction, capital outlay projects, and technology.

OSD Satellite School

The Governor's budget includes \$800,000 to allow OSD to start a new program that would enable many deaf children to remain in their homes with their families instead of having to be in a residential program. Collaborating with Jane Brooks Foundation, University of Science and Arts

of Oklahoma, and the Chickasha School District, OSD would establish an early childhood/elementary program for deaf and hard of hearing children housed on the university campus. The lab school would serve as a practicum site for university students majoring in deaf education or speech pathology.

Targeted Nursing Salary Increase

In recognition of the need to keep nursing salaries competitive, the Governor's budget contains \$12,190 for a 10% targeted increase for these positions. Actual funding is based on December 2005 salary information. Using the Office of Personnel Management's most recent compensation comparison study, this increase will, on average, reduce the market disparity for state nursing salaries compared with private employers by 50%.

State Employee Pay Increase

The Governor's budget includes \$559,332 for a 3% state employee pay increase for the Office of Juvenile Affairs. This funding is based on December 2005 salary information.

Capital Proposal

The Governor's budget includes \$8.5 million for a capital project to establish a residential educational facility for children. There are several location options for this project. One option is to renovate a facility or build a new facility near the University of Science and Arts of Oklahoma in Chickasha. This lab school would be a collaboration with the OSD satellite program and USAO, providing USAO an opportunity to establish a special education curriculum. However, the discussion is ongoing to make sure that this facility is located in the most appropriate place. The Governor is committed to funding this project whether it be a renovation project or a new facility.

University Hospitals Authority and Trust

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 \$80 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 \$164 million on hospital equipment and facilities improvements. In addition the Trust has committed \$18.6 million for the construction of the Stanton L. Young Basic Research building Phase II where state of the art genomics and oncology research will be conducted beginning in 2006. The Trust has also completed the Arrhythmia research Institute located in the O.U. Medical Center where pioneering arrhythmia ablation procedures were innovated.*
- **New Ambulatory Care Facility** *During FY-2004, the Trust began planning for the new Children's Physicians Ambulatory Care Facility and parking garage where Oklahoma's largest pediatric specialists group will provide care to Oklahoma's children in a state of the art center. Construction on these pediatric outpatient facilities began in 2005. Additionally, fiscal year 2004 saw the beginning of construction for the adult and children's inpatient care facilities improvement project that relocates adult services and the Level 1 Trauma unit to the Presbyterian tower and women and children's services to*

the Everett tower building adjacent to the new children's ambulatory care facility. The renovation and relocation of the Level I Trauma center and adult care facilities was completed in 2005.

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.

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 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.

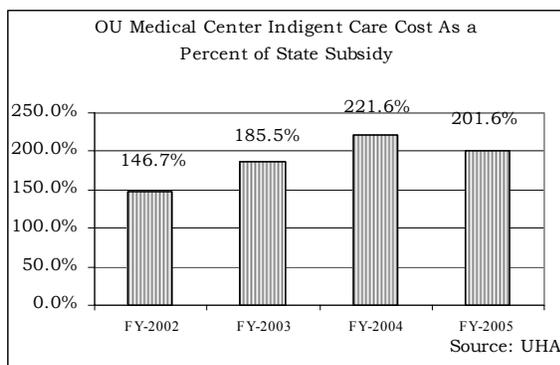
During FY-2005, there were a total of 178,966 persons who received indigent care services at OU Medical Center. The categories of service are as follows:

- 14,834 Inpatients;
- 121,056 Adult outpatient and ER visits; and
- 43,086 ER and Trauma Patients.

Of the number of persons who received services, 592 of the inpatients, 3,106 of the outpatients and 166 of the emergency room patients were Department of Corrections inmates. Oklahoma law requires that OU Medical Center treat inmates at no charge to the Department of Corrections. Therefore, these services are reflected in the total cost of indigent care.

FY-2004 and FY-2005 Indigent Care Percentage Remain Above 150%

Revenue shortfalls combined with increased uncompensated care resulted in indigent care costs remaining above 150% of the indigent care subsidy. In FY-2005, indigent care costs rose to 201.6% of the subsidy.



Trauma Care Related to Indigent Care

OU Medical Center runs the state's only Level I Trauma Center but the state is still in need of comprehensive trauma system development. This includes hospital and ambulance licensing regulations promulgated by the Board of Health along

with other system components. Some of these other components such as statutory changes, additional rules and provision of funding for uncompensated trauma care continue to be developed.

The comprehensive trauma care system 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-2007 Appropriation

| FY-2007 Appropriation | |
|--|-----------------|
| <i>(amounts in thousands)</i> | |
| FY-2006 Appropriation | \$40,549 |
| FY-2006 Bud. FTE Level | 4.0 |
| Actual Ave. YTD FTE | 4.0 |
| Funding Adjustments: | |
| Replacement of lost grant funds for Sooner Success | <u>125</u> |
| FY-2007 Recommendation | \$40,674 |
| % Change from FY-2006 | 0.31% |
| Source: Office of State Finance | |

**Replacement of grant funds for the
Sooner SUCCESS program**

This program is operated at the OU Child Study Center and stands for Sooner State Unified Children's Comprehensive Exemplary Services for Special Needs. The program benefits children and youth with special needs, birth to 21 who have developmental disabilities, chronic health conditions and emotional or behavior conditions. The purpose is to help communities develop integrated systems of care for these children by developing coalitions within counties and across agency lines. This budget provides \$125,000 to replace grant funding which will end in FY-2007. This funding will be added to funds which are already passed through to the Child Study Center by the University Hospitals Authority.

Military Affairs

Oklahoma Military Department

Military Affairs

Summary of FY-2007 Budget Recommendations

| Agency Name | FY-2006 Adj. Approp. | FY-2007 Base | FY-2007 Adj. | Final FY-2007 Appr. | % Diff. from FY- 2006 |
|-----------------------|---------------------------------|---------------------|-------------------------|--------------------------------|--------------------------------------|
| Military Department | \$12,546,432 | \$12,296,432 | \$550,134 | \$12,846,566 | 2.4% |
| Total Military | \$12,546,432 | \$12,296,432 | \$550,134 | \$12,846,566 | 2.4% |

Oklahoma Military Department

Notable Achievements

- 196 soldiers were deployed for Operation Iraqi Freedom. 29 soldiers were deployed for Operation Enduring Freedom. Over 1,000 soldiers returned from action overseas.
- Oklahoma Army National Guard and Air National Guard assisted in fighting wild fires throughout numerous counties in Oklahoma during October, November, and December.
- Members of the Oklahoma Air National Guard were involved in flying relief supplies to Pakistan after the earthquake.
- More than 2,500 soldiers were deployed to New Orleans, LA after hurricanes Katrina and Rita.
- Oklahoma troops helped haul water to communities suffering water outages. Whitesboro and Muse are two of these communities.
- On July 2, OMD reconstituted the State Transition and Reintegration System, providing statewide tracking services for up to 250 adjudicated youth
- First Lady Kim Henry became the official spokesperson for Oklahoma's National Guard Youth Challenge Program, which became the first program to publish their entry web page in both English and Spanish.

Mission

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.

OMD also continues to serve Oklahoma's at-risk youth with programs, which instill

self-esteem and discipline in our young people.

Youth Programs

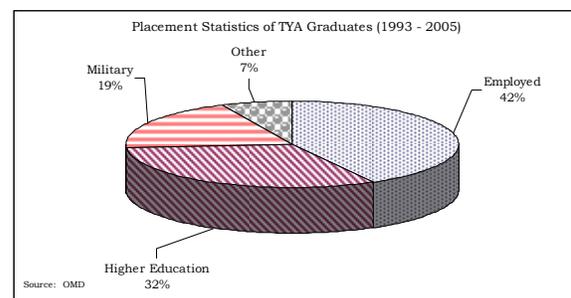
The Oklahoma Military Department fields five programs involving Oklahoma's youth. Throughout 2005, the agency has continued to develop and refine the coordination between its residential programs resulting in significant progress in the areas of job training and job placement. The agency seeks to meet the challenge of reforming at-risk youth in Oklahoma.

Thunderbird Youth Academy

Beginning in FY-1992, the Thunderbird Youth Academy (TYA), located in Pryor, Oklahoma, started holding two 22-week sessions per calendar year. The voluntary program utilizes military discipline to improve self-esteem and physical fitness of approximately 200 Oklahoma at-risk youths every year.

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. Since 1993, over 2,271 of Oklahoma's high school dropouts have dramatically improved their education level and employability potential.



Thunderbird Regimented Training Program

Having served 899 adjudicated cadets in Pryor, this residential program continues to be a unique asset to the Office of Juvenile Affairs. This program, costing \$16,000 per participant – 60% funded by federal grants – also maintains the highest standards of the American Correctional Association certification criteria.

Thunderbird Trades Academy

Located in Pryor, this program launched its inaugural class January 12, 2004 with OSU-Okmulgee. It has graduated 25 youth from its pilot class and has a 100% placement rate. This residential program has new partnership opportunities which are setting the stage for significant job training and placement enhancements for the academy and may result in establishing new models for the nation.

State Transition and Reintegration System (STARS)

Prior to its closing in July 2001, STARS tracked and provided reintegration services for 6,468 youth throughout the state. In July 2005, state lawmakers reopened the program. Currently, STARS provides tracking services for 175 serious violent or sexual offender juveniles each month, statewide.

STARBASE

This program, for elementary school-level youth, has locations in Tulsa, Oklahoma City, Camp Gruber, Anadarko, and Pryor. Since its inception in 1993, STARBASE has inspired over 28,372 of Oklahoma’s at-risk youth to a greater appreciation of math and science through practical application of rocketry, astronomy, life sciences, and aerospace technology.

FY-2007 Recommendation

| FY-2007 Appropriation <i>(amounts in thousands)</i> | |
|---|-----------------|
| FY-2006 Appropriation | \$12,546 |
| Remove one-time Body Armor | (\$250) |
| FY-2007 Base | \$12,296 |
| FY-2006 Bud. FTE Level | 421.5 |
| Actual Ave. YTD FTE | 365.9 |
| Funding Adjustments: | |
| State Employee Pay Increase | 200 |
| Thunderbird Youth Academy | 350 |
| Total Adjustments | 550 |
| FY-2007 Recommendation | \$12,846 |
| % Change for FY-2006 | 4.47% |

Source: Office of State Finance

The FY-2007 appropriation for the Oklahoma Military Department is the same as provided for FY-2006, with the following adjustments.

Remove One-time Body Armor

The Governor’s budget recommends removing \$250,000 of funds used to buy body armor.

State Employee Pay Increase

The Governor’s budget includes \$200,134 for a 3% state employee pay increase for Oklahoma Military Department. This funding is based on December 2005 salary information.

Thunderbird Youth Program

The Governor’s budget includes \$350,000 in funding for the post-residential phase of the Thunderbird Youth Challenge Program. This part of the TYA program allows the Oklahoma National Guard to provide the potential for the youth completing the Challenge program to succeed in pursuing a college degree or entering the work force, thus becoming productive youth, with an increase in the quality of life, within the communities of Oklahoma.

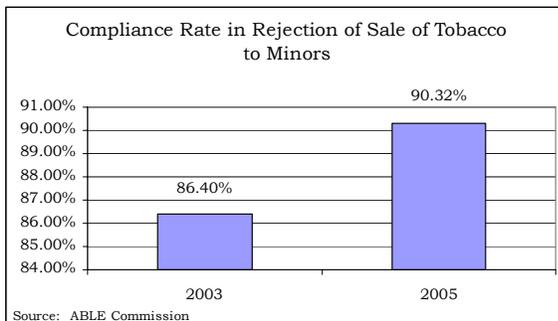
Safety and Security

Alcoholic Beverage Laws Enforcement Commission
Attorney General
Department of Corrections
District Attorneys Council
State Emergency Fund
Oklahoma Department of Emergency Management
State Fire Marshal
Oklahoma Indigent Defense System
Oklahoma State Bureau of Investigation
Council for Law Enforcement Education and Training
Board of Medicolegal Investigations
Oklahoma Bureau of Narcotics and Dangerous Drugs
Control
Pardon and Parole Board
Department of Public Safety

Alcohol Beverage Laws Enforcement Commission

Notable Achievements

- The agency has performed all required alcohol inspections, closing nearly 89% of all cases, despite having reduced its workforce by 20 in FY-2002..
- Agency employees were named to Two National Boards, the Regional Organized Crime Information Center and the National Conference of State Liquor Administrators.
- Oklahoma's compliance rate for rejecting the sale of tobacco to minors was at an all time high of 90.32% in 2005, up from a previous high of 86.40% in 2003.



Mission

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 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.

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 agents to develop the ability to spot things such as fraudulent driver licenses and intoxicated persons.

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 alcohol transactions. ABLE also periodically contracts with the Department of Mental Health to supply agents for tobacco sales operation.

| Source: ABLE | FY-2002 | FY-2003 | FY-2004 | FY-2005 |
|----------------------------------|----------|---------|----------|----------|
| Alcohol Inspections (Businesses) | 4,090 | 4,152 | 2,489 | 2,164 |
| Costs per Alcohol Inspection | \$116.84 | \$98.17 | \$102.38 | \$104.55 |

FY-2007 Recommendation

| FY-2007 Appropriation (amounts in thousands) | |
|--|----------------|
| FY-2006 Appropriation | \$3,739 |
| FY-2006 Bud. FTE Level | 47.0 |
| Actual Ave. YTD FTE | 44.6 |
| Funding Adjustments: | |
| State Employee Pay Increase | 70 |
| Total Adjustments | 70 |
| FY-2007 Recommendation | \$3,809 |
| % Change for FY-2006 | 1.87% |

Source: Office of State Finance

The FY-2007 appropriation for the Alcohol Beverage Laws Enforcement Commission is the same as provided for FY-2006 with the following adjustment.

State Employee Pay Increase

The Governor's budget includes \$69,712 for a 3% state employee pay increase for Alcohol Beverage Laws Enforcement Commission. This funding is based on December 2005 salary information.

Attorney General

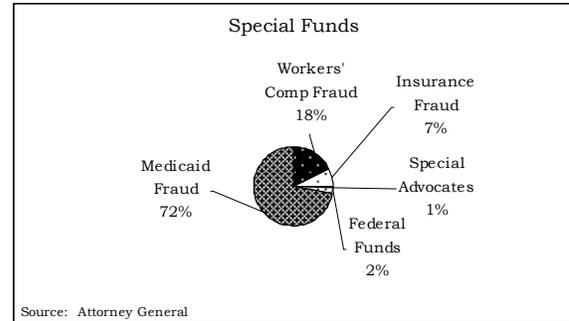
Notable Achievements

- In January 2005, the Attorney General's Office defended the constitutionality of Oklahoma's primary electoral system before the United States Supreme Court. In May 2005, the court ruled 6-3 that Oklahoma's semi-closed primary system is constitutional.
- In October 2005, the office sponsored its seventh domestic and sexual violence conference for law enforcement officers, shelter volunteers, medical professionals and assault survivors.

Mission

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.



Contract Attorneys

Under state law, various agencies contract with the Attorney General's office for legal services. With these contracts, the agency is guaranteed that an assistant attorney general will spend a certain amount of his or her time working for the agency. Contracts with the Attorney General vary from 25% of an attorney's time to 100%. As of January, 2006, the Attorney General's Office has contracts with 44 state agencies.

Key Performance Measure

| | Cost of Counsel (\$ Per Hour) | | |
|--------------------------------|-------------------------------|---------|---------|
| | FY-2003 | FY-2004 | FY-2005 |
| Assistant Attorney General | \$67 | \$60 | \$61 |
| Market Rate of Private Counsel | \$110 | \$110 | \$141 |

Domestic Violence Unit

In 2005, the Legislature authorized the transfer of the powers and duties associated with the Domestic Violence and Sexual Assault Program to the Attorney General's Office from the Department of Mental Health and Substance Abuse Services. Funds were reallocated to the budget of the Attorney General for the continuation of programs and services. Services include community-based programs for victims of domestic violence and sexual abuse that provide:

- Safe shelter;
- Advocacy; and
- Counseling services.

FY-2006 Supplemental

| FY-2006 Supplemental <i>(amounts in thousands)</i> | |
|--|-----------------|
| | |
| FY-2006 Appropriation | \$11,287 |
| Funding Adjustments: | |
| Tobacco Enforcement Unit | <u>350</u> |
| Total Adjustments | 350 |
| FY-2006 Adjusted Appropriation | \$11,637 |
| % Change from FY-2005 | 3.90% |
| % Change from Original FY-2006 | 3.10% |
| Source: Office of State Finance | |

The Governor's budget includes a \$350,000 supplemental appropriation to address the FTE and associated cost needs of the Attorney General's Diligent Tobacco Enforcement Unit. Of this amount, \$230,000 will fund two new assistant attorneys and the remaining will be for professional services such as translation, information technology and outside legal counsel.

State Employee Pay Increase

The Governor's budget includes \$167,434 for a 3% state employee pay increase for Attorney General. This funding is based on December 2005 salary information.

Attorney Salary Increase

The Attorney General's office has, in the past five years, lost many years of experience due to turnover of attorneys. In order to reduce this turnover, the Governor's budget provides \$500,000 for the Attorney General Office to increase the attorneys' pay, on average of \$6,000, yearly, for each of the more than 80 attorneys.

Tobacco Enforcement Unit

The Governor's budget provides \$250,000 as funding for the new FTE attorneys and associated costs for the Diligent Tobacco Enforcement Unit so that Oklahoma may continue to receive a share of the Tobacco Settlement.

FY-2007 Recommendation

| FY-2007 Appropriation <i>(amounts in thousands)</i> | |
|---|-----------------|
| | |
| FY-2006 Appropriation | \$11,287 |
| FY-2006 Bud. FTE Level | 164.0 |
| Actual Ave. YTD FTE | 163.4 |
| Funding Adjustments: | |
| State Employee Pay Increase | 167 |
| Attorney Salary Increase | 500 |
| Tobacco Enforcement Unit | <u>250</u> |
| Total Adjustments | 917 |
| FY-2007 Recommendation | \$12,204 |
| % Change for FY-2006 | 8.12% |
| Source: Office of State Finance | |

The FY-2007 appropriation for the Attorney General is the same as provided for FY-2006 with the following adjustments.

Department of Corrections

Notable Achievements

- *Placed the sex offender registration information on the World Wide Web via the DOC site, making all sex offender information easier for the public to access. This has reduced the staff time previously required to respond to phone and email requests.*
- *The Division of Community Corrections redesigned pre-service training offered to new probation and parole officers to incorporate evidence-based practices.*
- *Recommended law changes that allow for more efficient and faster payments to counties for the cost of holding offenders sentenced to the Department of Corrections.*
- *DOC assisted Oklahoma County Jail in reducing its female count by implementing a fast-track process to include coordinating transportation, medical, case management and initial classification.*
- *The Harrington contract for discounted specialty and hospital care produced savings of \$1,495,184 on OU physicians, \$969,713 on network providers and \$545,742 on non-network providers in FY-2005.*
- *Inmate transports have been reduced from the use of telemedicine. The average savings per avoided transport is estimated at \$317, including the costs of security and transportation.*
- *New federal grants were pursued to continue the progress of the inmate population toward eventual return to society. The amount awarded is in excess of \$2.9 million.*
- *Voice-Over Internet Protocol (VOIP) was installed at Mabel Bassett Correctional Center (MBCC) and Oklahoma State Reformatory (OSR). Documented savings of \$3,000 per month were achieved at OSR. It is anticipated that the cost savings will be approximately \$3,000*

per month as VOIP is installed at other facilities.

- *Record sales of OCI products for FY-2005 achieved \$16,869,550.74.*
- *Two operations were profitable for the first time in their history:*
 - *The Metal Fabrication operation*
 - *Records Conversion*

Mission

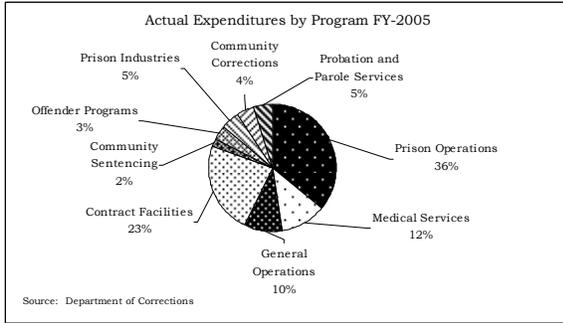
Public safety is a critical function of state government. The Department of Corrections' (DOC) mission reflects the importance of public safety by seeking to protect the public, its employees and the offenders under its supervision. The agency's responsibilities include:

- 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.

As one of the state's largest agencies, DOC's FY-2006 appropriation makes up 7.12% of the state appropriated budget. DOC's appropriation, including supplementals, has nearly doubled from FY-1996 to FY-2005. The following chart shows DOC's FY-2005 expenditures by program.

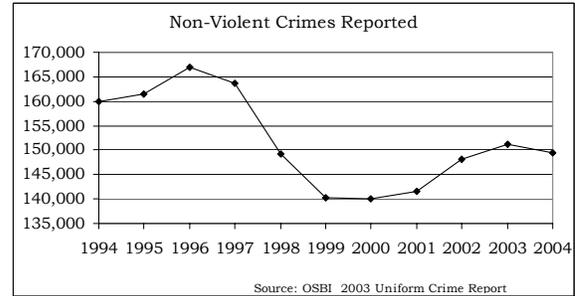
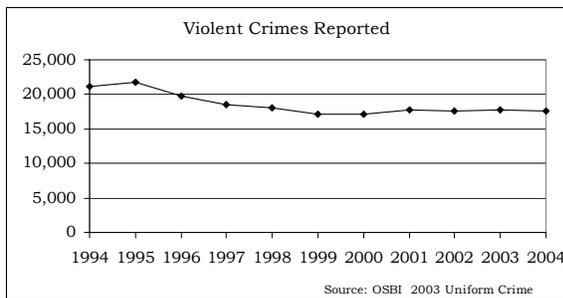
FY-2007 Executive Budget



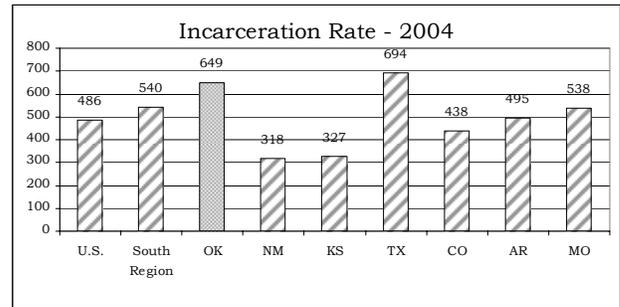
While the Department uses revolving and federal funds, 92% of operational funding in FY-2005 came from state appropriations. Approximately 8% of DOC's funding came from revolving funds and less than 1% from federal funds. DOC generates revolving funds from the sale of products and services to inmates (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.

The Demand for Prison Beds

As illustrated in the graphs, between 1994 and 1995, the number of violent crimes reported increased by 3% and nonviolent crimes increased 1%. From 1995 to 2004, violent crime rates decreased approximately 17%. Reports of nonviolent crimes decreased approximately 7%, overall from 1994 to 2004.

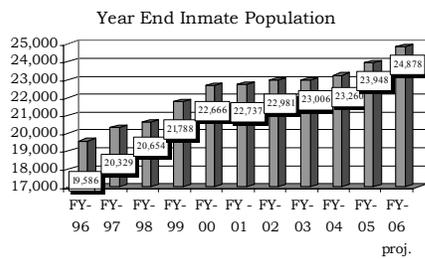


Despite the decrease in violent and nonviolent crimes since 1994, the number of offenders incarcerated in Oklahoma has increased. Oklahoma's incarceration rate is consistently higher than the national average. Oklahoma imprisons 649 inmates for each 100,000 residents. This is 134% of the national average of 486 prisoners per 100,000 residents. Only Louisiana, Mississippi and Texas have higher incarceration rates (Bureau of Justice Statistics – 2004 – published October 2005).



Source: Bureau of Justice Statistics, "Prisoners in 2004". Incarceration rate is the number of inmates per 100,000 residents. Oklahoma and Kansas include some who are sentenced to "1 year or less".

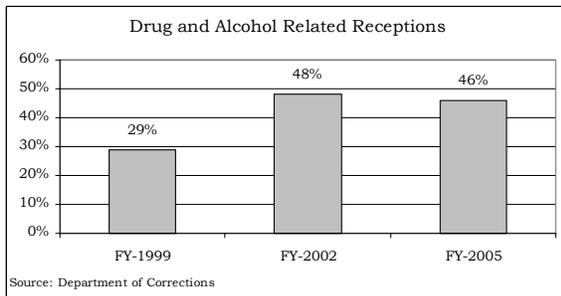
Part of this increase can be traced back to the early 1990s when crime rates were growing. Offenders began to serve more time for their offenses and special laws designed to release prisoners early were rarely invoked. Since then, the demand for prison beds has been increasing. However, as of January 3, 2006, the inmate population was 23,901, down from the FY-2005 year-end population of 23,948.



Source: Department of Corrections

Receptions and releases and the average time served are three critical factors in the demand for more bed space. The next chart shows the increase in drug and alcohol related receptions from FY-1999, FY-2002, and FY-2005.

As shown, in 1999, drug and alcohol related receptions accounted for 29% of total receptions. In 2002, drug and alcohol related receptions increased to 48% of total receptions before decreasing in 2005 to 46%. The state has implemented a number of initiatives to deal with this issue, such as drug courts and community sentencing.



Source: Department of Corrections

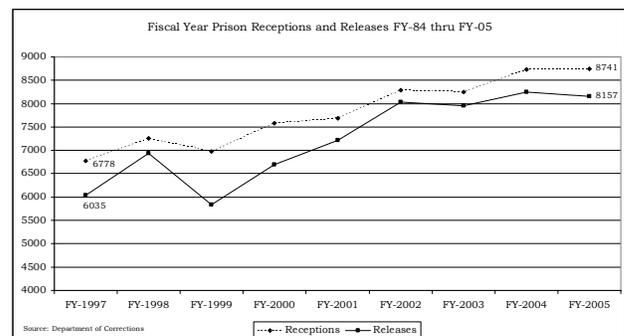
For 2005, DOC processed 8,741 new inmates at the Lexington Assessment & Reception Center (LARC). The following table provides a demographical breakdown of these inmates:

FY-2004 Reception Demographics

| | |
|--------------------|-------|
| Total Receptions | 8,741 |
| Average Age | 32.94 |
| % Males | 84.4% |
| % Females | 15.6% |
| % Non-Violent | 78.7% |
| % White | 57.7% |
| % African-American | 26.7% |
| % Native American | 9.2% |
| % Hispanic | 5.95% |

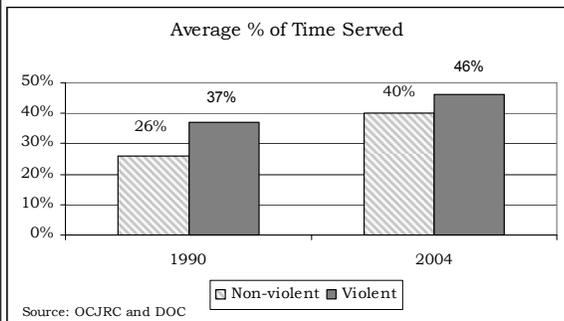
Source: Department of Corrections

Another component to consider in assessing the demand on the state's correctional system is the number of inmates released each year. Receptions continue to outpace releases. In FY-2005, there were 8,741 receptions, yet 8,157 releases.



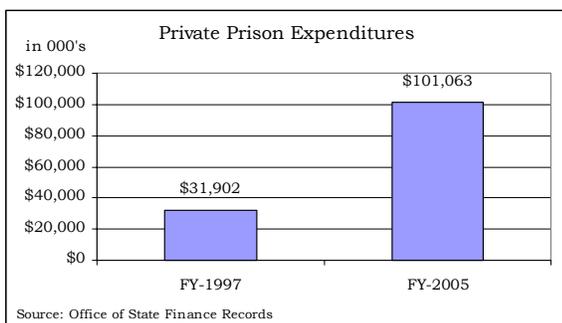
Source: Department of Corrections

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. According to DOC data, inmates released in 2004 served, on average, 40% of their sentence for nonviolent offenses and 46% of their sentence for violent offenses. 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 17,658 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 6,412 private prison beds.



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.

| State Facilities: | | FY-2006 Budgeted Operating Cost per Inmate |
|-----------------------|---------------|--|
| Minimum Security | | \$47.82 |
| Medium Security | | 47.82 |
| Maximum Security | | 47.82 |
| Community Corrections | | 47.82 |
| Work Centers | | 47.82 |
| Contracted Services: | | |
| | Per Diem Rate | Adj. Per Diem* |
| Private Prisons: | | |
| Davis | \$43.97 | \$44.42 |
| Great Plains | 44.64 | 43.65 |
| Lawton | 40.82 | 41.23 |
| Cimarron | 44.44 | 44.90 |
| Contract Jails | 31.00 | |
| Halfway Houses | 32.86 | |
| Jail Back-up | 24.00 | |

* Note: The Adjusted Per Diem Rate includes an allowance for indirect costs. This is comparable to the State Facilities Operating Cost per Inmate.
Source: Department of Corrections

| | |
|-----------------------------------|--------|
| State Medium & Maximum | 7,722 |
| State Minimum & Community Centers | 9,936 |
| State-Operated Capacity | 17,658 |
| Private Prisons | 4,632 |
| County Jails | 471 |
| Halfway Houses | 1,329 |
| Contract Bed Capacity | 6,432 |
| Total Bed Capacity | 24,090 |

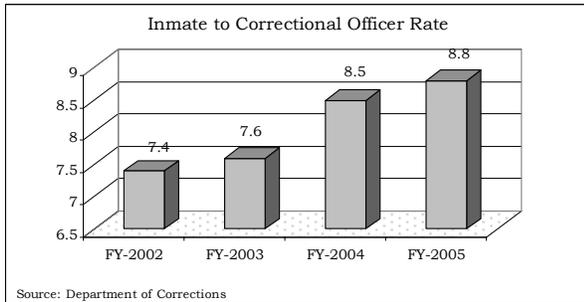
Source: Department of Corrections – 12/05/05

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 near critical level with a budgeted vacancy rate of 16% and an actual vacancy rate of 23.5%.

This staffing level results in existing COs working longer and harder and DOC paying sizeable overtime costs. The following table demonstrates this growing concern of retention of correctional officers.

Key Performance Measure

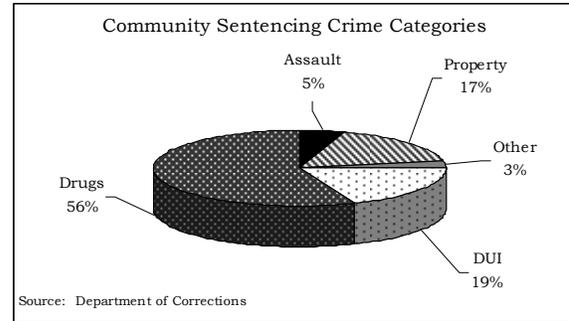


Community Sentencing

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 two regions, covering 77 counties. DOC's FY-2006 budget for the program is \$11.5 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, and supervision 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. In FY-2005, there were 3,470 active participants in the program.

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-2004.



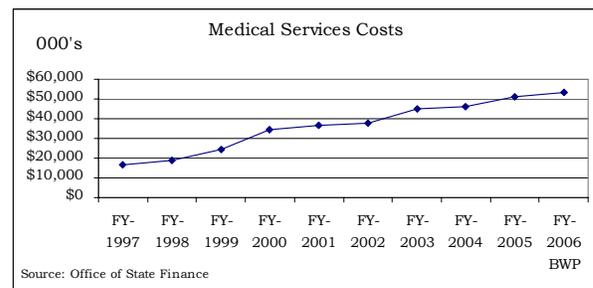
As shown, offenses related to drugs and alcohol comprised 71% of community sentences.

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.



*Note: Medical Services Costs do not include University Hospital or Griffin.

Cost Savings Initiatives

DOC has been actively seeking to control the upward-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;
- 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-2006 Supplemental

| FY-2006 Supplemental <i>(amounts in thousands)</i> | |
|--|------------------|
| FY-2006 Appropriation | \$409,443 |
| Funding Adjustments: | |
| Contract Beds / Compensation Plan | <u>21,000</u> |
| Total Adjustments | 21,000 |
| FY-2006 Adjusted Appropriation | \$430,443 |
| % Change from FY-2005 | 6.22% |
| % Change from Original FY-2006 | 5.13% |
| Source: Office of State Finance | |

The Governor's supplemental recommendation provides \$21 million in 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. This recommendation also includes funds to begin the Market Adjustment Pay Plan in April 2006 (see Market Adjustment Pay Plan below for details).

FY-2007 Recommendation

| FY-2007 Appropriation <i>(amounts in thousands)</i> | |
|---|------------------|
| FY-2006 Appropriation | \$409,443 |
| FY-2006 Bud. FTE Level | 4,855.8 |
| Actual Ave. YTD FTE | 4,663.4 |
| Funding Adjustments: | |
| Annualize FY-2006 Supplemental | 21,000 |
| Market Adjustment Pay Plan | 11,140 |
| Funding Vacancy Rate | 3,025 |
| State Employee Pay Increase | 1,913 |
| Correctional Teacher Pay Increase | 123 |
| Nurses Market Adjustment Increase | 693 |
| State Reintegration Programs | 750 |
| Sex Offender Tracking | 541 |
| County Jail Per Diem Increase | <u>2,433</u> |
| Total Adjustments | 41,618 |
| FY-2007 Recommendation | \$451,061 |
| % Change for FY-2006 | 10.16% |
| Source: Office of State Finance | |

The FY-2007 appropriation for the Department of Corrections is the same as provided for FY-2006 with the following adjustments.

Annualize FY-2006 Supplemental

The Governor's budget provides for the annualization of the FY-2006 supplemental of \$21 million. This amount includes funding for growth in contract beds.

Market Adjustment Pay Plan

The Governor's budget provides \$11,140,000 million for the Department's compensation plan to help with retention of critical positions. The recommendation provides an additional \$3,200 each, yearly, for correctional officers, probation and parole officers, and classified facility personnel – a total of 3,016 employees.

Funding Vacancy Rate

The Governor's budget includes \$3,025,000 in funds to increase DOC's staffing levels to 85% (an additional 26 employees) for correctional officers and 100% (an additional 47 employees) for probation and parole officers at the midpoint as of December 2005.

State Employee Pay Increase

The Governor's budget includes \$1,913,487 for a 3% state employee pay increase for Department of Corrections. This funding is based on December 2005 salary information.

State Teacher Pay Increase

The Governor's budget recommends a \$123,192 increase in pay for the 79 teachers within the Department of Corrections.

Nursing Market Adjustment Increase

In recognition of the need to keep nursing salaries competitive, the Governor's budget contains \$692,736 to fund a 10% increase in nursing staff salaries for Department of Corrections. This funding is based on December 2005 salary information. Using the Office of Personnel Management's most recent compensation comparison study, this increase will, on average, reduce the market disparity for state nursing salaries compared with private employers by 50%.

State Reintegration Programs

The Governor's budget recommends an appropriation of \$750,000 to help fund the Department of Corrections' contracts with Mental Health services. These agencies will work to link persons with mental illness at OSP, Joseph Harp and

Mabel Basset facilities with the appropriate community services prior to release. These funds will also be able to help successfully reintegrate mentally ill offenders into the community. The Governor's recommendation will fund three new case managers and provide treatment to 90 parolees each year.

Sex Offender Supervision

The Governor's budget recommends \$541,000 for the Department of Corrections to fund the increased responsibility of supervising sex offenders as proposed in House Bill 2569. The increased responsibility includes a risk assessment review committee and risk assessment tool, as well as funding for the public notification of sex offenders via mailings.

County Jail Per Diem Increase

The Governor's budget provides \$2,432,976 for a \$6 per diem increase, from a per diem rate of \$24 to a per diem rate of \$30, for county jail back-up beds. Associated with the increase, this budget recommends increasing the amount of time DOC has to receive an inmate after the sheriff has notified the Department that the county jail is at capacity. See Senate Bill 1938.

Other Recommendations

If additional and sufficient funds are certified in the February Board of Equalization, the Governor's budget recommends \$5,014,880 for a reduction in maximum security double-cells at Oklahoma State Penitentiary, Dick Conner Facility, and Oklahoma State Reformatory. This initiative creates greater ability to single-cell problem inmates, yet reduces the number of public beds available. These funds allow DOC to contract 306 more beds.

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:

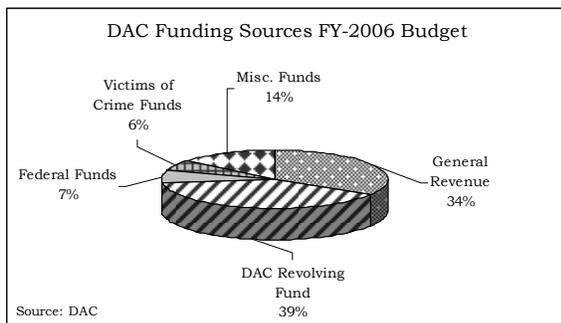
- Administrative support for local District Attorneys;
- Educate state leaders on the District Attorneys' positions on criminal justice issues; and
- Provide assistance to the state's multi-jurisdictional drug task forces.

Mission

The mission of the District Attorney's Council is to protect the citizens of the State of Oklahoma through the effective and efficient administration of justice.

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 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.

Current Issues

Currently, the District Attorneys statewide, include in their budgets a total of more than \$2.8 million that comes from the collection of bogus checks. It is this total that, if Wal-Mart continues their initiative to collect their own bogus checks, the DAC will lose statewide. Many smaller, more rural districts have Wal-Mart as their only source of bogus-check revenue.

FY-2007 Recommendation

| FY-2007 Appropriation <i>(amounts in thousands)</i> | |
|---|-----------------|
| FY-2006 Appropriation | \$30,593 |
| FY-2006 Bud. FTE Level | 1,143.1 |
| Actual Ave. YTD FTE | 1,160.3 |
| Funding Adjustments: | |
| State Employee Pay Increase | 33 |
| Implement Zero-based Funding | <u>1,000</u> |
| Total Adjustments | 1,033 |
| FY-2007 Recommendation | \$31,626 |
| % Change for FY-2006 | 3.38% |

Source: Office of State Finance

The FY-2007 appropriation for the District Attorneys' Council is the same as provided for FY-2006 with the following adjustments.

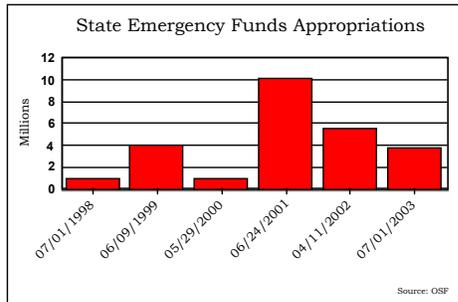
State Employee Pay Increase

The Governor's budget includes \$32,565 for a 3% state employee pay increase for District Attorney's Council. This funding is based on December 2005 salary information.

Increased Funding for Districts

The Governor's budget provides \$1.0 million to be distributed among the 27 districts to help alleviate the funding problems in many districts.

State Emergency Fund



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
- January 2004 ice storms

To address the damages from these disasters, the Legislature and the Governor appropriated \$10.1 million to the State Emergency Fund in FY-2002, \$5.5 million in FY-2003, and \$3.7 million in FY-2004. However, these appropriations will not fund all reconstruction and relief needs from these disasters. The state still has needs of \$13.7 million as its share of federal matching funds.

Current Issues

Wildfires caused b dry conditions and high winds have burned 416,000 acres since November 2005. As of January 15, 2006, 42 of Oklahoma’s 77 counties have reported damages from wildfires.

FY-2006 Supplemental

| FY-2006 Supplemental | |
|---------------------------------------|-----------------|
| <i>(amounts in thousands)</i> | |
| FY-2006 Appropriation | \$0 |
| Funding Adjustments: | |
| Disaster Relief | <u>12,000</u> |
| Total Adjustments | 12,000 |
| FY-2006 Adjusted Appropriation | \$12,000 |

Source: Office of State Finance

The Governor’s budget recommends appropriating a \$12,000,000 supplemental to the State Emergency Fund to be disbursed by the Department of Emergency Management. These funds will help reimburse local governments and businesses for costs related to prior federal and state declared disasters.

Oklahoma Department of Emergency Management (ODEM)

Notable Achievements

- *The Oklahoma Department of Emergency Management (OEM) led the state's Hurricanes Katrina and Rita response and recovery efforts, including housing about 1,600 evacuees at Camp Gruber and helping hundreds more with rental, furniture and utility assistance through the Oklahoma Hurricane Housing Helpline.*
- *OEM assisted Oklahoma communities by garnering fire federal management grants after a devastating week of wildfires in November 2005. The wildfires have affected 42 of Oklahoma's 77 counties.*

Mission

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.

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-2007 Recommendation

| FY-2007 Appropriation <i>(amounts in thousands)</i> | |
|---|----------------|
| | |
| FY-2006 Appropriation | \$1,356 |
| Remove one-time Ops. Center | (\$654) |
| FY-2007 Base | \$702 |
| FY-2006 Bud. FTE Level | 27.0 |
| Actual Ave. YTD FTE | 25.1 |
| | |
| Funding Adjustments: | |
| State Employee Pay Increase | 16 |
| Total Adjustments | 16 |
| FY-2007 Recommendation | \$718 |
| % Change for FY-2006 | -47.05% |

Source: Office of State Finance

The FY-2007 appropriation for the Oklahoma Department of Emergency Management is the same as provided for FY-2006 with the following adjustments.

Remove One-Time Ops Center

The Governor's budget recommends removing \$654,000 of appropriations that were used in replacing the operations center underground the State Capitol.

State Employee Pay Increase

The Governor's budget includes \$15,993 for a 3% state employee pay increase for Oklahoma Department of Emergency Management. This funding is based on December 2005 salary information.

State Fire Marshal (SFM)

Mission

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.

FY-2007 Recommendation

| FY-2007 Appropriation | |
|-------------------------------|----------------|
| <i>(amounts in thousands)</i> | |
| FY-2006 Appropriation | \$1,685 |
| FY-2006 Bud. FTE Level | 32.0 |
| Actual Ave. YTD FTE | 30.3 |
| Funding Adjustments: | |
| State Employee Pay Increase | 46 |
| Council on Fire Training | 100 |
| Firefighter Training | 3,000 |
| Regents Training Funds | 982 |
| Investigation Agent | 57 |
| Total Adjustments | 4,185 |
| FY-2007 Recommendation | \$5,870 |
| % Change for FY-2006 | 248.37% |

Source: Office of State Finance

The FY-2007 appropriation for the State Fire Marshal is the same as provided for FY-2006 with the following adjustments.

State Employee Pay Increase

The Governor's budget includes \$45,615 for a 3% state employee pay increase for State Fire Marshal. This funding is based on December 2005 salary information.

Council on Fire Training

The Governor's budget includes \$100,000 for the Council on Fire Training. The Council is responsible for identifying firefighter training needs, interacting with the Homeland Security Department's Preparedness and Awareness Division on firefighter training, and administering incentive and recognition programs.

Firefighter Training

The Governor's budget recommends \$3.0 million as pass-through funds for the OSU – Fire Service Training. These funds will allow for additional training for rural and volunteer firefighters, as well allowing additional training for firefighters.

Regents Training Funds

Currently, the funds from OSU Fire Training program pass through the Oklahoma State Regents for Higher Education. For FY-2007, the Governor's budget recommends passing those funds through the State Fire Marshal resulting in an appropriation reduction of \$981,782 for the Regents. This recommendation will enhance the coordination of statewide fire safety training efforts and still fund the training of rural and volunteer firefighters as well as provide additional training for firefighters.

Investigation Agent

The Governor's budget provides \$57,000 for the salary of an additional agent who will be responsible for inspecting K-12 schools and college dormitories.

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.

| Case and Cost Statistics | | | |
|--|-------------|-------------|------------------|
| Source: OIDS | FY | FY | FY |
| | <u>2004</u> | <u>2005</u> | <u>2006 Bud.</u> |
| # of Non-Capital cases (staff) | 6,979 | 7,229 | 7,300 |
| Ave. Cost per Non-Capital case (staff) | \$278 | \$293 | \$318 |
| Capital Trial clients (staff) | 85 | 76 | 75 |
| Ave. Cost per Capital case (staff) | \$29,977 | \$32,158 | \$32,747 |
| # of contract Non-Capital cases | 30,624 | 30,955 | 31,000 |
| # of conflict Non-Capital cases | 704 | 433 | 450 |

FY-2007 Recommendation

| FY-2007 Appropriation | |
|-------------------------------|-----------------|
| <i>(amounts in thousands)</i> | |
| FY-2006 Appropriation | \$15,633 |
| FY-2006 Bud. FTE Level | 127.8 |
| Actual Ave. YTD FTE | 125.0 |
| Funding Adjustments: | |
| State Employee Pay Increase | <u>237</u> |
| FY-2007 Recommendation | \$15,870 |
| % Change for FY-2006 | 1.52% |

Source: Office of State Finance

The FY-2007 appropriation for the Oklahoma Indigent Defense System is the same as provided for FY-2006 with the following adjustments.

State Employee Pay Increase

The Governor's budget includes \$237,142 for a 3% state employee pay increase for Oklahoma Indigent Defense System. This funding is based on December 2005 salary information.

Oklahoma State Bureau of Investigation (OSBI)

Notable Achievements

- *The Forensic Laboratory has averaged an acceptable 31-day turnaround time over the past two fiscal years.*
- *The Forensic Laboratory performed 335,957 examinations to close 18,506 cases in FY-2005 compared to 323,470 examinations to close 18,007 cases in FY-2004.*
- *80.1% of arrestee fingerprints are received electronically via 35 Livescan devices at 33 sites in 25 counties (immediate submittal means nearly instant positive identification).*
- *29% more OSBI criminal investigations were closed in FY-2005 (919 cases) compared to FY-2004 (709 cases).*

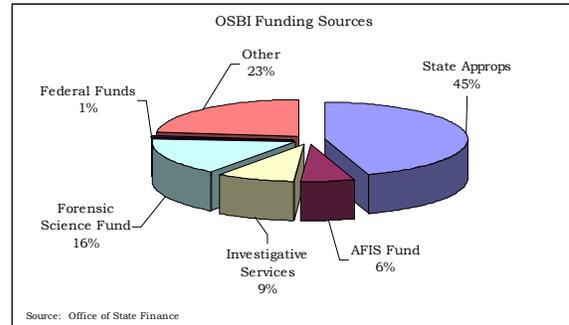
Mission

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.

OSBI provides many investigative services. Among these are collecting and preserving crime scene evidence, participating in undercover investigations, and interviewing witnesses and apprehending criminals.

The OSBI also created a Computer Crime Unit which addresses the increasing number of computer crimes – many of which are against children.

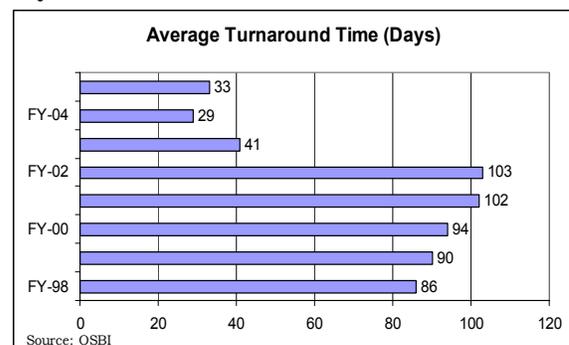


Forensic Science Improvement Plan

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 uses the proceeds exclusively for forensic services. This additional revenue generates \$2.5 million annually, though decreasing slightly.

The Forensic Science Improvement plan has already had a positive impact. From FY-2002 to FY-2004 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 103 days to 29. 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.

Key Performance Measure



FY-2006 Supplemental

SB 646 of the 2005 Regular Session increased the number of DNA samples that OSBI must take. The amended law includes everyone convicted of a felony. Since this number was increased, and retroactive to 1996, the Bureau's responsibility has been expanded greatly. Thus, the Governor's budget recommends a supplemental of \$455,500 to fund 8,000 retroactive samples, 11,125 new and existing samples, at \$22/sample, and a biologist to help analyze the samples.

| FY-2006 Supplemental <i>(amounts in thousands)</i> | |
|--|-----------------|
| FY-2006 Appropriation | \$11,155 |
| Funding Adjustments: | |
| DNA Collections | 456 |
| Total Adjustments | 456 |
| FY-2006 Adjusted Appropriation | \$11,611 |
| % Change from FY-2005 | 4.71% |
| % Change from Original FY-2006 | 4.09% |
| Source: Office of State Finance | |

FY-2007 Recommendation

| FY-2007 Appropriation <i>(amounts in thousands)</i> | |
|---|-----------------|
| FY-2006 Appropriation | \$11,155 |
| FY-2006 Bud. FTE Level | 307.0 |
| Actual Ave. YTD FTE | 290.6 |
| Funding Adjustments: | |
| State Employee Pay Increase | 357 |
| Improvements Bond Repayment | 630 |
| CODIS DNA samples | 530 |
| Internet Predator Investigations | 790 |
| Total Adjustments | 2,307 |
| FY-2007 Recommendation | \$13,462 |
| % Change for FY-2006 | 20.68% |
| Source: Office of State Finance | |

The FY-2007 appropriation for the Oklahoma State Bureau of Investigation is the same as provided for FY-2006 with the following adjustments.

State Employee Pay Increase

The Governor's budget includes \$357,234 for a 3% state employee pay increase for Oklahoma Bureau of Investigation. This funding is based on December 2005 salary information.

Improvements Bond Repayment

The Governor's budget appropriates \$630,000, which is the amount of the increase in bond repayment for the construction of the new Forensic Science Center in Edmond, Oklahoma and other improvements of the OSBI Headquarters.

The Governor's budget also recommends the quick approval, early in session, of a \$5.0 million bond issue for increased construction costs on the new Forensic Center in Edmond.

CODIS DNA Samples

The Governor's budget includes \$530,000 for the increased costs OSBI will incur adhering to SB 646 which increased the number of DNA samples the agency must collect and process into the CODIS database. Samples will be taken from every convicted felon, increasing the number of samples by about 20,000 this year.

Safe Net - Internet Predator Unit

The Governor's budget recommends \$690,000 to establish an Internet Predator Unit within the context of the OSBI Computer Crimes Unit. The Governor recommends an additional \$100,000 for education and awareness programs for the general public.

Council on Law Enforcement Education and Training (CLEET)

Notable Achievement

411 recruits attended the Oklahoma Basic Law Enforcement Academy in FY-2005.

Mission

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.

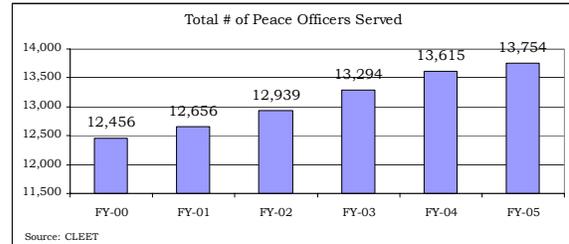
The majority of CLEET'S budget is provided through the CLEET certified fund. This fund is comprised of \$9 criminal penalties that are added on to any criminal fine. Approximately 88% of funding comes from these fines, and 34% of fees collected are dedicated to the Training Center Revolving Fund to pay the annual bond debt service.

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 began in January 2004. The building is expected to be complete by June 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 nine dollars. This will allow CLEET to retire the bonds over a 25-year period.

In FY-2001, the city of Ada was the selected site for the facility. Ada's contributions 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 is offering or accrediting approximately 95 continuing education courses for peace officers in calendar year 2005. 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.

E-Learning

Four programs were developed and hosted on the CLEET website for on-line learning available to police officers 24 hours a day, 7 days a week. The effort was well-received and CLEET will continue developing this venue for training delivery.

FY-2007 Recommendation

| FY-2007 Appropriation <i>(amounts in thousands)</i> | |
|---|----------------|
| | |
| FY-2006 Appropriation | \$2,759 |
| FY-2006 Bud. FTE Level | 34.2 |
| Actual Ave. YTD FTE | 33.9 |
| | |
| Funding Adjustments: | |
| State Employee Pay Increase | 47 |
| Certified CLEET Funds | 717 |
| Ada Facility Operating Costs | <u>500</u> |
| Total Adjustments | 1,264 |
| FY-2007 Recommendation | \$4,023 |
| % Change for FY-2006 | 45.81% |
| Source: Office of State Finance | |

The FY-2007 appropriation for the Council on Law Enforcement Education and Training is the same as provided for FY-2006 with the following adjustments.

State Employee Pay Increase

The Governor's budget includes \$47,486 for a 3% state employee pay increase for the Council on Law Enforcement Education and Training. This funding is based on December 2005 salary information.

Excess CLEET Funds

In the December 2005 Board of Equalization, \$716,741 were certified as an increase in CLEET funds. The Governor's budget includes this amount to be appropriated to CLEET to help alleviate the increased costs of their new facility.

Ada Facility Increased Operating Costs

The Governor's budget includes \$500,000 for the increased costs of operating the new training facility in Ada, which is much larger than the Council's previous training facility.

Board of Medicolegal Investigations

Notable Achievements

- *This year, the Medicolegal Investigations received the Toxicology laboratory accreditation by the American Board of forensic Toxicology.*
- *The Board realized progress in implementation of a statewide death investigator program.*
- *The Board also realized progress in the number of forensic autopsies and forensic drug testing.*

Mission

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.

| Source: Medicolegal | FY 2003 | FY 2004 | FY 2005 |
|----------------------------|------------|------------|------------|
| Autopsies | 1,498 | 1,520 | 1,850 |
| Crime Scene Investigations | 1,821 | 1,798 | 1,821 |
| Drug Screens | 22,708 | 19,725 | 20,750 |

FY-2007 Recommendation

| FY-2007 Appropriation | |
|--------------------------------|----------------|
| <i>(amounts in thousands)</i> | |
| FY-2006 Appropriation | \$3,923 |
| FY-2006 Bud. FTE Level | 64.4 |
| Actual Ave. YTD FTE | 61.9 |
| Funding Adjustments: | |
| State Employee Pay Increase | 98 |
| Field Investigators | 207 |
| Pathologist | 195 |
| Competitive Pathologist Salary | 59 |
| Toxicology Laboratory Chemist | 20 |
| Chief Toxicologist Promotion | <u>19</u> |
| Total Adjustments | 598 |
| FY-2007 Recommendation | \$4,521 |
| % Change for FY-2006 | 15.24% |

Source: Office of State Finance

The FY-2007 appropriation for the Board of Medicolegal Investigations is the same as provided for FY-2006 with the following adjustments.

State Employee Pay Increase

The Governor's budget includes \$97,668 for a 3% state employee pay increase for Board of Medicolegal Investigations. This funding is based on December 2005 salary information.

Field Investigators

The Governor's budget includes \$207,000 to fund four new field investigators. These FTE investigate deaths outside the main metro-areas of Oklahoma City and Tulsa.

Forensic Pathologist

The agency's pathologists have a higher caseload than the National Association of Medical Examiners recommended level. The Governor's budget appropriates \$195,000 to fund a new Forensic Pathologist, which will greatly reduce the caseload per pathologist in the agency.

Oklahoma Bureau of Narcotics and Dangerous Drugs Control (OBND)

Notable Achievement

Oklahoma has been able to strike a major blow against the state's methamphetamine epidemic. Since Governor Henry signed HB 2176 in April 2005, the state has seen a decrease in the number of Methamphetamine labs seized. HB 2176 allows OBND to better control products containing pseudoephedrine across the state. Pseudoephedrine is a key methamphetamine ingredient, and as OBND predicted, controlling this ingredient is substantially reducing meth production.

Mission

The Oklahoma Bureau of Narcotics and Dangerous Drugs Control's (OBND) 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.

Overview

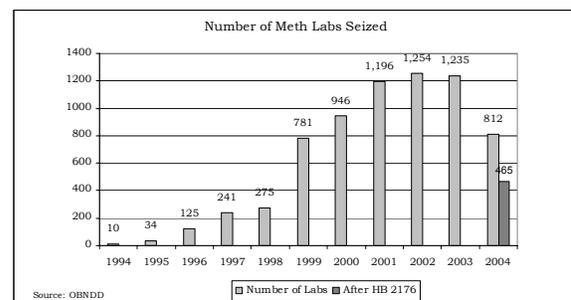
The drug problem in Oklahoma is not a single dilemma, but rather a series of complex multi-faceted issues that necessitate separate solutions. Drugs are sourced in different ways. Drug trafficking trends and patterns continually change. These changes require constant flexibility and innovation on the part of those who allocate and deploy resources.

Successful primary prevention of substance abuse consists of some combination of demand reduction and supply elimination. The general mission of OBND is to control and reduce the local availability of drugs

and the demand for them in Oklahoma. To that end, the Bureau provides a wide variety of specialized programs that include enforcement, intelligence, deconfliction, regulatory, demand reduction and educational activities from its headquarters in Oklahoma City and five district offices located in Tulsa, McAlester, Ardmore, Lawton, and Woodward. OBND also provides infrastructure and support to federal agencies, twenty-five Justice Assistance Grant funded drug task forces, and local law enforcement throughout the state.

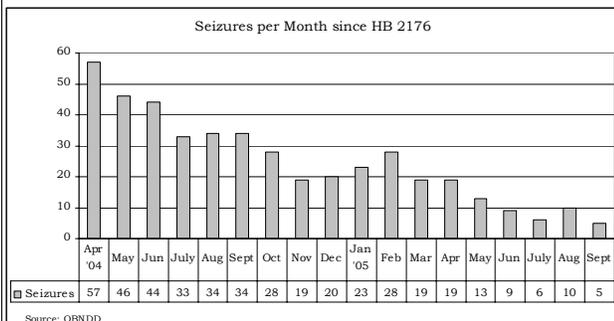
Methamphetamine Production

From 1995 through April 2004, local methamphetamine production had steadily increased in all regions of the state. In 2003, over 1,200 methamphetamine laboratories were reported seized. This methamphetamine was generally produced by small groups of local addicts who purchased and converted cheap unlimited supplies of pseudo-ephedrine, the immediate precursor to methamphetamine. To curb this type of production, in April 2004, HB 2176 added pseudo-ephedrine, commonly used in clandestine labs for producing methamphetamine, to the Schedule V controlled dangerous substance list. This legislation further allowed judges to deny bond to addicts who were arrested for manufacturing.



As a result of this legislature, a 90%-plus diminution in methamphetamine laboratories has occurred. Oklahoma is now in single digits for reported methamphetamine laboratories. A substantial reduction in methamphetamine convictions, addiction, endangered children, and victims burned in laboratory

fires, and related violence has also been noted. Oklahoma’s “model” methamphetamine legislation is being studied and adopted by other states and the federal government.



Increase in Purity and Imports (DEA)

The National Drug Enforcement Agency (DEA) states that between 2000 and 2001, the number of super-labs seized, as reported to the El Paso Intelligence Center (EPIC), grew from 168 in 2000 to 298 in 2001. These super-labs are capable of producing in excess of 10 pounds of methamphetamine in one 24-hour period and have the capacity to produce more “pure” methamphetamine and, according to EPIC, the amount of methamphetamine that is seized in-transit between Mexico and the United States has increased dramatically since the mid-1990’s and ports-of-entry in South Texas have seen an increase in smuggling activity.

With the marked increase in methamphetamine imported to the United States, OBNDD wants to step up their investigations and drug-buy stings. The Governor recommends funding for 12 agents to work toward keeping this imported methamphetamine out of Oklahoma.

FY-2007 Recommendation

| FY-2007 Appropriation | |
|-------------------------------|----------------|
| <i>(amounts in thousands)</i> | |
| FY-2006 Appropriation | \$5,390 |
| One-time Adjustment | (\$21) |
| FY-2007 Base | \$5,369 |
| FY-2006 Bud. FTE Level | 100.0 |
| Actual Ave. YTD FTE | 95.0 |
| Funding Adjustments: | |
| State Employee Pay Increase | 130 |
| Evidence Purchase Fund | 150 |
| Anti-Meth Initiative | <u>1,000</u> |
| Total Adjustments | 1,280 |
| FY-2007 Recommendation | \$6,649 |
| % Change for FY-2006 | 23.36% |

Source: Office of State Finance

The FY-2007 appropriation for the Oklahoma Bureau of Narcotics and Dangerous Drugs is the same as provided for FY-2006 with the following adjustments.

State Employee Pay Increase

The Governor’s budget includes \$130,207 for a 3% state employee pay increase for Oklahoma Bureau of Narcotics and Dangerous Drugs. This funding is based on December 2005 salary information.

Evidence Purchase Fund

The Governor’s budget includes \$150,000 to increase the amount of funds available to OBNDD for drug buy operations. The evidence fund is used to buy drugs from dealers and get the drugs off the streets and also buys information.

Anti-Methamphetamine Initiative

The Governor’s budget recommends \$1.0 million for the Bureau of Narcotics to combat the importation of methamphetamines by funding 12 additional agents.

Staff Pathologist Competitive Pay

The Governor's budget includes \$59,000 to help the agency become more competitive in the regional market for forensic pathologists.

Toxicology Laboratory Chemist

The Governor's budget recommends \$20,000 to fund a toxicology laboratory chemist to increase the turnaround time for toxicology reports.

Deputy Chief Toxicologist Competitive Pay

The Governor's budget includes \$19,000 to increase the Deputy Chief Toxicologist's salary to a regionally competitive level.

Pardon and Parole Board

The Pardon and Parole Board provides 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.

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 Governor makes the final decision on the clemency, with the restrictions and stipulations recommended by the Board.

The Board

The Pardon and Parole Board is a constitutional, five-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, one by the Chief Justice of the State Supreme Court, and one 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.

FY-2007 Recommendation

| FY-2007 Appropriation | |
|-------------------------------|----------------|
| <i>(amounts in thousands)</i> | |
| FY-2006 Appropriation | \$2,316 |
| FY-2006 Bud. FTE Level | 38.0 |
| Actual Ave. YTD FTE | 42.7 |
| Funding Adjustments: | |
| State Employee Pay Increase | 54 |
| FY-2007 Recommendation | \$2,370 |
| % Change for FY-2006 | 2.33% |

Source: Office of State Finance

The FY-2007 appropriation for the Pardon and Parole Board is the same as provided for FY-2006 with the following adjustment.

State Employee Pay Increase

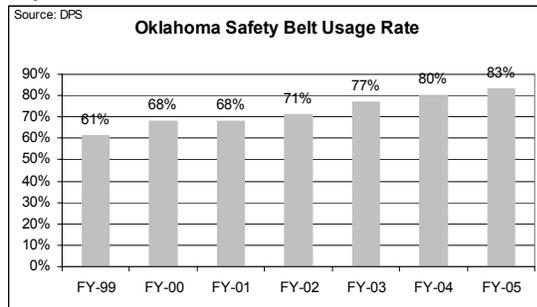
The Governor's budget includes \$53,692 for a 3% state employee pay increase for Pardon and Parole Board. This funding is based on December 2005 salary information.

Department of Public Safety

Notable Achievements

- *Oklahoma's crash and citation records management system has greatly improved since early November 2004. Nearly 76,000 crashes have been coded and entered, and more than 400,000 citations have been processed. What was once a 14-month backlog of crashes has been reduced to only two months.*
- *The agency streamlined its investigative units, combining it into one command and added to its responsibility manhunt operations for escapees and other persons at-large and considered dangerous to the community. This unit has achieved a very impressive 100% success rate in regard to the capture of these dangerous individuals.*
- *DPS also Implemented Spanish Driver License testing statewide.*
- *Oklahoma's Child Restraint usage increased to 82.7%, up from 80.6% in 2004.*
- *Oklahoma's seat belt usage increased from 80.3% in 2004 to 83.1% in 2005, surpassing the national average, 80.0%, for the first time.*

Key Performance Measure



Mission

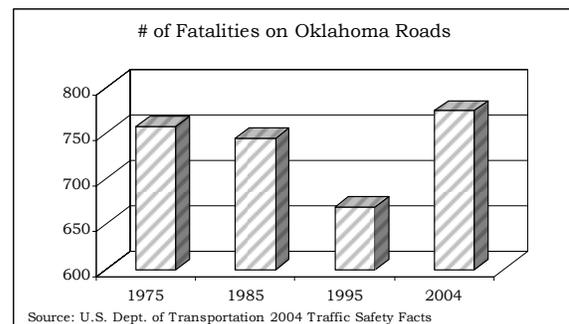
The Department of Public Safety provides the following services to ensure a safe and secure environment for the citizens of this state:

- Law Enforcement Services; and
- Driver License Services;

The Department of Public Safety receives 1.3 % of the state's appropriated budget. Approximately 40 percent of DPS's budget is funded by appropriations. Federal funds, largely due to Homeland Security grants, fund another 40% of the agency's budget.

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.



Fatalities occur at different rates each year and 2004 marks a high point for the past 30 years.

- **Lake Patrol** enforces laws on state lakes.
- **Executive Security** provides security and transportation for the Governor and Lt. Governor.

Trooper Strength

In calendar year 2006, the OHP is expecting a substantial amount of trooper retirements. From April of 2006 through the end of the year, DPS estimates there will be approximately 90 troopers that retire. Thus, the agency will hold two trooper academies during FY-2006, graduating 49 new troopers in December 2005 and starting the second academy of 50 cadets in May 2006. This budget recommends DPS holding another academy for FY-2007 to continue with trooper strength.

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. Before the end of FY-2004, DPS was issuing digital licenses throughout the state.

The Digital License program presents these advantages:

- A more effective tool in locating lost, missing or wanted persons;
- A secure form of identification for Oklahoma Citizens; and
- An accurate and reliable way to capture and store a digitized signature and fingerprint.

FY-2006 Supplemental

In order to ensure public safety, the Governor’s budget recommends a \$2.0 million supplemental to the Department of Public Safety to assist the department meet FY-2006 hiring targets. The department’s needs will continue to be monitored and reevaluated to determine if this amount is sufficient.

| FY-2006 Supplemental | |
|---------------------------------------|-----------------|
| <i>(amounts in thousands)</i> | |
| FY-2006 Appropriation | \$78,888 |
| Funding Adjustments: | |
| Hiring Needs | <u>2,000</u> |
| Total Adjustments | 2,000 |
| FY-2006 Adjusted Appropriation | \$80,888 |
| % Change from FY-2005 | 1.55% |
| % Change from Original FY-2006 | 2.54% |

Source: Office of State Finance

FY-2007 Recommendation

| FY-2007 Appropriation | |
|-------------------------------|-----------------|
| <i>(amounts in thousands)</i> | |
| FY-2006 Appropriation | \$78,888 |
| FY-2006 Bud. FTE Level | 1,566.3 |
| Actual Ave. YTD FTE | 1,463.0 |
| Funding Adjustments: | |
| State Employee Pay Increase | 1,826 |
| Trooper Academy | 871 |
| Trooper Step Increase | 2,000 |
| Driver's License Improvements | <u>994</u> |
| Total Adjustments | 5,691 |
| FY-2007 Recommendation | \$84,579 |
| % Change for FY-2006 | 7.21% |

Source: Office of State Finance

The FY-2007 appropriation for the Department of Public Safety is the same as provided for FY-2006 with the following adjustments.

State Employee Pay Increase

The Governor’s budget includes \$1,825,592 for a 3% state employee pay increase for Department of Public Safety. This funding is based on December 2005 salary information.

Trooper Academy and New Trooper Pay Needs

The Governor’s budget includes \$871,000 to fund the new trooper payroll costs associated with the two Highway Patrol Academies in FY-2006. This budget also recommends the Department of Public Safety holding another Highway Patrol Academy in FY-2007. An academy costs about \$2.9 million, which includes the probationary pay of 50 cadets (\$33,000/year for eight months).

Trooper and Communications Step Increases

The Governor's budget provides \$2.0 million for the step increases of the Department's troopers and communications employees.

Driver's License Examining Improvement

There are many examination stations where community members have to wait two days before taking the exam. Thus, the Governor's budget appropriates \$994,350 for the funding of two new driver's license examiners and ten clerks throughout the state. It is estimated that this addition will reduce the wait time to one day or less in the stations with the longest wait times.

Other Recommendation

The Governor recommends DPS undertake the capital project of creating a statewide communications system for all first responders in the State of Oklahoma. It is estimated that this project will cost approximately \$60.0 million.

Science and Technology Development

**Oklahoma Center for the Advancement
of Science and Technology**

Science and Technology

Summary of FY-2007 Budget Recommendations

| Agency Name | FY-2006 Adj. Approp. | FY-2007 Base | FY-2007 Adj. | Final FY-2007 Appr. | % Diff. from FY- 2006 |
|---------------------------------------|---------------------------------|---------------------|---------------------|--------------------------------|--------------------------------------|
| Center for Adv. /Sc. & Tech. | \$12,400,942 | \$12,400,942 | \$10,035,824 | \$22,436,766 | 80.9% |
| Total Science & Technology | \$12,400,942 | \$12,400,942 | \$10,035,824 | \$22,436,766 | 80.9% |

Oklahoma Center for the Advancement of Science and Technology (OCAST)

Notable Achievements

- *Since its inception in 1987, OCAST has leveraged over \$15 of private and federal funding for every dollar provided to Oklahoma peer-reviewed research and development projects. That translates into nearly \$2 billion invested in Oklahoma.*
- *This past year, OCAST was recognized for its “best practices” model and is mentioned in a book that began 2006 on the New York Times best seller list. Honorable mentions include:*
 - *The World is Flat* author Thomas L. Friedman notes OCAST as a model for nurturing innovation in the global economy;
 - The U.S. Department of Commerce recognizes OCAST as a “best practice” model for technology transfer and commercialization and;
 - The National Governors Association recognizes OCAST as a best practice model for its Technology Business Finance and R&D Intern programs.
- *Jay Martin, Norman native and vice president of research and development at Martin Bionics, is the inventor of the prosthetic “ankle with a brain.” The system uses sensors and artificial intelligence to analyze the patient’s walking pattern. The goal is to offer an amputee full anatomical range of motion. Martin Bionics has received \$540,000 from OCAST to develop his bionic prosthetics.*
- *The Oklahoma Alliance for Manufacturing Excellence, an OCAST strategic partner, helped Oklahoma manufacturing companies create 3,891 jobs in 2005 with a payroll of \$196 million. That compares with 894 jobs created in 2004 with a payroll of \$45.1 million. The National Institute of Standards and Technology lists the Oklahoma Alliance among the five “best”*

manufacturing extension programs in the nation.

Mission

The Oklahoma Center for the Advancement of Science and Technology is tasked with improving the Oklahoma economy by moving technology from concept to commercialization. Using internationally-accepted methods of applying public funds to research projects, OCAST helps Oklahomans develop knowledge-based businesses. These businesses in turn attract private and federal investment, world-class scientists and collaborative relationships that translate into quality jobs for Oklahoma.

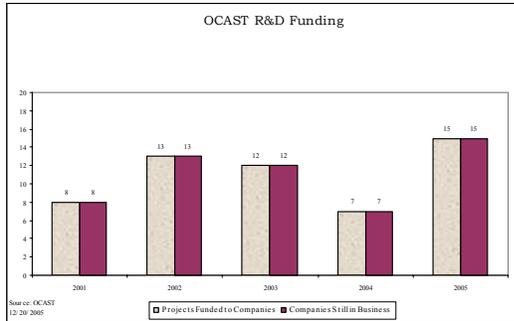
To achieve its vision, OCAST:

- Increases cooperation among the private sector, research foundations and universities through collaborations and networks that maximize productivity;
- Provides leadership, information, services and financial assistance to enhance the ability of Oklahoma advanced technology firms and Oklahoma scientific researchers to compete in the marketplace;
- Uses nationally recognized experts as peer reviewers to ensure performance that meets national standards of excellence and provides Oklahoma with national visibility; and
- Leverages federal and private resources to optimize the effectiveness of limited state resources.

OCAST is Oklahoma’s only technology-based economic development agency – the only agency focusing solely on technology – its development, transfer, commercialization and impact on Oklahoma’s economy.

Research and Development Programs

OCAST strives to select businesses with solid futures for research and development funds. Many startup businesses fail in the first few years. The following graph shows the historical survivability of companies with awards from OCAST.



96% of companies that received Applied Research funding in the past 10 years are still in business today.

Health Research

The Oklahoma Health Research Program awards seed funds for research projects related to human health. The program funds projects for up to three years at a maximum level of \$45,000 per year. Eligible applicants are Oklahoma universities and colleges, nonprofit research organizations and commercial enterprises.

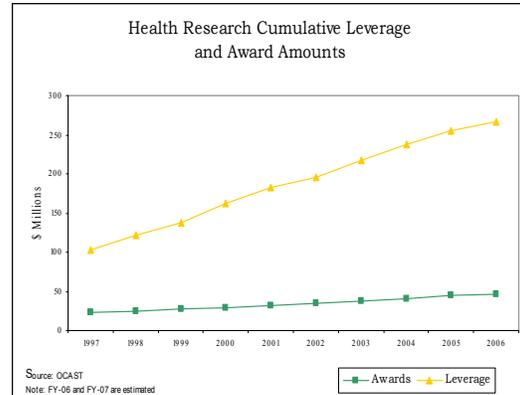
Health Research awards enable researchers to gain expertise and produce data needed to obtain larger grants from federal agencies and other funding organizations. Awards permit research centers to recruit and retain health scientists, researchers and technicians. They contribute to improved health care while permitting expansion in biotechnology, biomedical and commercial enterprises in Oklahoma.

For every state dollar awarded in Health Research grants, almost five dollars is leveraged in private and federal funds. More than 85% of technology clients in the Presbyterian Health Foundation

Research Park are OCAST clients. Nearly 7 of 10 researchers at the Oklahoma Medical Research Foundation have received OCAST awards.

The following graph illustrates the successful leveraging of funds compared to dollars awarded.

Key Performance Measure



Oklahoma's world-class research captured the nation's attention recently when Dr. Jimmy Ballard of the University of Oklahoma Health Sciences Center discovered that a drug inhibitor he was testing stops the growth of anthrax.

An anthrax drug which could be available in two years, according to Dr. Ballard, could help in the fight against terrorism and it is important to livestock producers. Anthrax, although rare, still occurs in livestock. In fact, anthrax often occurs on the heels of drought, when livestock drink from stagnant ponds and other sources of water, a situation not unlike current weather conditions in Oklahoma.

OCAST awarded Dr. Ballard \$105,000 in 1998 to study anthrax toxin and its relationship to tumors.

One test of successful research is the number of patents issued. The following chart shows an improving rate of success for Oklahoma patent applications.

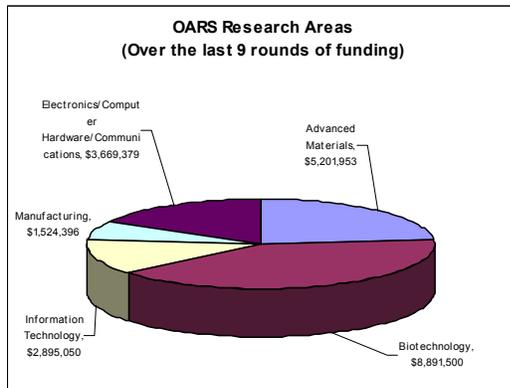
| Health Research Patents | | | | | |
|-------------------------|---------|---------|---------|---------|---------|
| | FY-2003 | FY-2004 | FY-2005 | FY-2006 | FY-2007 |
| Applications | 26 | 11 | 11 | 12 | 12 |
| Awards | 10 | 10 | 1 | 13 | 15 |

Source: OCAST
Note: FY-2006 and FY-2007 are estimated

Applied Research

The Oklahoma Applied Research Support (OARS) program competitively awards funds for one- to three-year projects based upon technical merit, potential for market success and commitment of resources. The program requires a minimum of one dollar matching support for each state dollar awarded. Eligible applicants are Oklahoma businesses and universities, colleges or nonprofit research organizations with industrial partners.

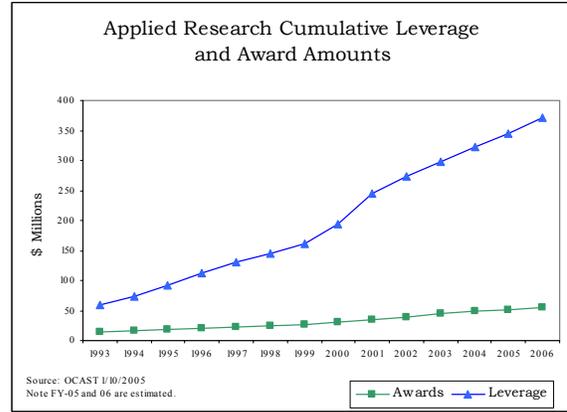
Dr. A.W. Confer of Oklahoma State University is working with the Noble Foundation, headquartered in Ardmore, to develop a vaccine to deal with pneumonia and shipping fever in cattle. Armed with a \$259,395 OCAST applied research award, Dr. Confer is using federal funds and a private firm, SolidTech Animal Health of Newcastle, to develop the vaccine. Estimated savings is \$20 million in the first two years.



This program produces commercially viable Research and Development. Federal and private funding attributed to OARS projects and the ratio of OARS support to private and federal support demonstrate the program's effectiveness at securing capital. For every state

dollar awarded to Applied Research another \$13 is leveraged in private and federal funds and business financial impacts.

Key Performance Measure



OARS R&D Faculty and Student Intern Partnerships

The Intern Partnership program provides support for qualified research and development partnership projects that involve industry and institutions of higher education. The program increases the pool of scientists, engineers and business entrepreneurs available to Oklahoma industry, encourages students to be scientists and engineers and enhances faculty members' teaching experience. The faculty and student interns come from rural and urban colleges and they intern throughout Oklahoma. Through this program the interns learn first-hand about the many outstanding high-tech employment opportunities in Oklahoma. This program helps Oklahoma companies and helps reduce the "brain-drain" from Oklahoma.

Technology Development Programs

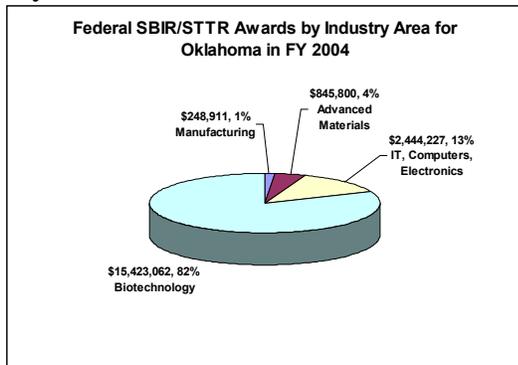
Through the following programs OCAST develops, implements, evaluates and modifies programs and services designed to encourage and enable small Oklahoma firms to develop, apply and commercialize technology.

Small Business Research Assistance (SBRA)

The federal SBIR program provides financial support for technology feasibility studies and prototype development that is lacking in the private investment community. The federal STTR program accomplishes this purpose while forging research collaborations between small firms and universities or other nonprofit research institutions.

OCAST's SBRA program provides assistance to improve the quality of proposals submitted to the federal programs, defrays a portion of a qualifying firm's federal SBIR or STTR proposal preparation costs, bridges funding between federal SBIR grants and assists in locating research resources necessary to successfully compete in the SBIR and STTR programs. Every state taxpayer dollar expended in FY-2005 attracted \$34 of private and federal funding.

Key Performance Measure

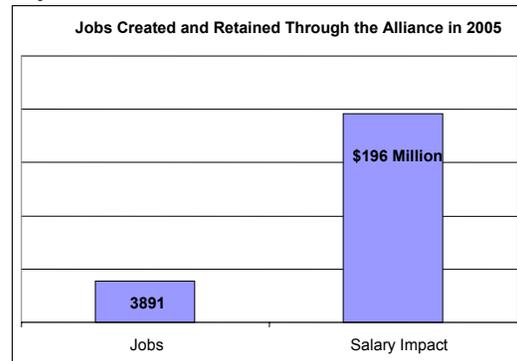


Oklahoma Alliance for Manufacturing Excellence (The Alliance)

OCAST provides oversight and state matching funds to this affiliate of the national NIST Manufacturing Extension Partnership program. The Alliance helps small and medium-sized manufacturers modernize in order to compete successfully. Under a partnership with Oklahoma State University, The Alliance also provides engineering services to small and rural manufacturers through its Application Engineers program. Every state taxpayer dollar expended in

FY-2005 attracted \$70 of private and federal funding.

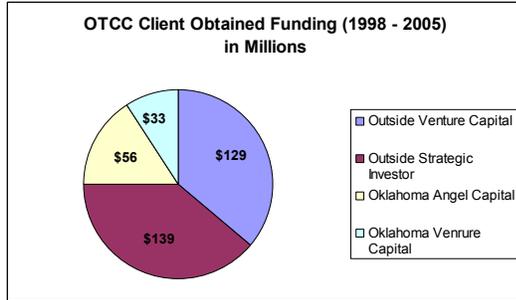
Key Performance Measure



Oklahoma Technology Commercialization Center (Tech Center)

OCAST contracts with a private, nonprofit organization to operate the Tech Center, which assists entrepreneurs, early-stage technology companies and companies seeking to commercialize new technologies. The Tech Center assesses needs, guides clients through the commercialization process and links them to a comprehensive network of technology sources (including Oklahoma universities) and commercialization assistance services. The Tech Center also provides specialized business development services, access to early-stage risk financing, access to specialized incubator space and help in transferring technology.

Every state taxpayer dollar expended in FY-2005 attracted \$33 of private and federal funding. The chart below depicts funding obtained by OTCC clients from various sources over the last 7 years.



OCAST Technology Business Finance Program (TBFP)

This OCAST program provides limited pre-seed financing for start-up advanced technology firms. The program requires a match and includes payback provisions. Those paybacks have totaled more than \$1.5 million since the program began in 1999.

Inventors Assistance Service (IAS)

OCAST contracts with Oklahoma State University to operate the IAS. Through workshops, web site and on-site consultations, the IAS provides Oklahoma inventors with information and training on developing their invention and on issues related to patenting/licensing, marketing and manufacturing. The IAS assists the independent inventor in navigating the process from idea to marketplace.

FY-2007 Recommendations

| FY-2007 Appropriation <i>(amounts in thousands)</i> | |
|---|-----------------|
| FY-2006 Appropriation | \$12,400 |
| FY-2006 Bud. FTE Level | 22.5 |
| Actual Ave. YTD FTE | 19.2 |
| Funding Adjustments: | |
| State Employee Pay Increase | 36 |
| Health / Applied Research | 5,000 |
| Seed Capital Funding | <u>5,000</u> |
| Total Adjustments | 10,036 |
| FY-2007 Recommendation | \$22,436 |
| % Change from FY-2006 | 80.94% |

Source: Office of State Finance

State Employee Pay Increase

The Governor's budget includes \$35,823 for a 3% state employee pay increase for OCAST. This funding is based on December 2005 salary information.

Health / Applied Research

The Governor's budget includes \$5 million for Research initiatives. OCAST is leaving two-thirds of the qualified health research proposals and more than half of the qualified applied research proposals unfunded. Increasing funding for research will attract new scientists to Oklahoma and will also result in the attraction of millions of dollars in federal grants.

\$2 million of the \$5 million will provide additional Health Research grants; the remaining \$3 million will fund additional Applied Research grants. Health Research grants are \$45,000 each. The \$2 million will enable OCAST to increase the number of grants by 36 and the amount of each grant by \$10,000, depending on the caliber and quantity of research available. The Applied Research grants range from \$100,000 to \$300,000. This \$3 million increase will allow for more grants.

Seed Capital Funding

The Governor recommends allocating \$5 million to the OCAST Seed Capital Fund. Seed capital is money provided to Oklahoma entrepreneurs with start-up companies to help attract private investors. The OCAST Seed Capital Fund will build on the state's investment in early-stage research and development. \$5 million in state dollars could stimulate a \$10 million - \$15 million fund with the primary goal of home grown economic development.

The vision is to grow a seed capital fund through successful return on investment so there will be a continued source of seed capital available for Oklahoma's start-up and early-stage innovative companies.

Secretary of State

**Election Board
Ethics Commission
Council on Judicial Complaints
Secretary of State**

Secretary of State

Summary of FY-2007 Budget Recommendations

| Agency Name | FY-2006 Adj. Approp. | FY-2007 Base | FY-2007 Adj. | Final FY-2007 Appr. | % Diff. from FY- 2006 |
|---------------------------------|---------------------------------|---------------------|---------------------|--------------------------------|--------------------------------------|
| Election Board | \$6,621,839 | \$6,621,839 | \$2,256,653 | \$8,878,492 | 34.1% |
| Ethics Commission, Okla. | 492,277 | 492,277 | 9,332 | 501,609 | 1.9% |
| Judicial Complaints, Council on | 278,826 | 278,826 | 1,185 | 280,011 | 0.4% |
| Secretary of State | 510,184 | 510,184 | 12,905 | 523,089 | 2.5% |
| Total Secretary of State | \$7,903,126 | \$7,903,126 | \$2,280,074 | \$10,183,200 | 28.9% |

Election Board

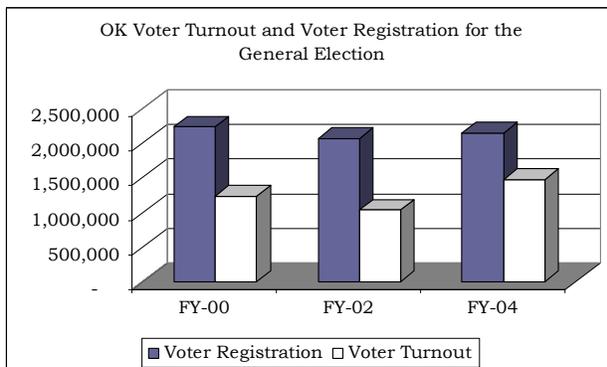
Notable Achievement

Continued compliance with new HAVA standards.

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:

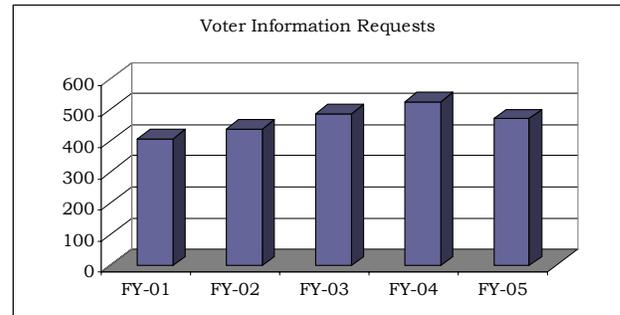
- One voting system;
- One kind of ballot;
- One way of voting;
- One way of counting ballots; and
- One way of recounting ballots.

The graph below shows the voter registration and voter turnout for each of the general elections. A general election is held on the first Tuesday in November in even number years. The next general election is scheduled for November 7, 2006.



Source: Election Board

The graph below shows the number of voter information requests received by the Election Board. Voter information requests were the highest in FY-04 due to the presidential election and state general election.



Source: Election Board

The election system used in Oklahoma provides fair treatment as well as quick, reliable results for voters, candidates, media, taxpayers and the public.

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. The largest expenditures necessary in Oklahoma will be in the areas of polling place technology and disabled voter accessibility.

Election Costs

Every four years the State of Oklahoma has seven statewide elections: two primaries, two run-off primaries, two general elections, and one presidential preferential primary. The cost for each statewide election fluctuates based upon the number of ballots printed and the transit cost of ballots to counties. An estimate for the cost of a general election is \$800,000, and special elections are around \$750,000. In FY-2005, there were 3 statewide elections. The table below shows the number of local elections in FY-05.

FY-2007 Executive Budget

| Total Local Elections in FY-2005 | |
|-------------------------------------|-----|
| County Elections | 57 |
| School | 375 |
| Municipal | 315 |
| Other | 3 |
| Total | 750 |
| Source: Election Board | |

per election, and funds were never added to the Election Board's appropriation for the raise. The Governor's Budget includes \$401,000 to fund the precinct official raise.

County, school, and municipal elections are usually held on the same day making the total number of local elections high.

FY-2007 Recommendation

| FY-2007 Appropriation | |
|---------------------------------|----------------|
| <i>(amounts in thousands)</i> | |
| FY-2006 Appropriation | \$6,622 |
| FY-2006 Bud. FTE Level | 23.3 |
| Actual Ave. YTD FTE | 22.7 |
| Funding Adjustments: | |
| State Employee Pay Increase | 356 |
| HAVA Lapsed Funds | 1,500 |
| Precinct Official Raise | <u>401</u> |
| Total Adjustments | 2,257 |
| FY-2007 Recommendation | \$8,879 |
| % Change from FY-2006 | 34.08% |
| Source: Office of State Finance | |

State Employee Pay Increase

The Governor's budget includes \$355,653 for a 3% state employee pay increase for the office of the Election Board. This funding is based on December 2005 salary information.

HAVA Lapsed Funds

The Governor's budget includes \$1.5 million to replace funds that lapsed in November 2005. This money will be used as a 5% match to secure \$30 million of federal funds for the implementation of the HAVA Act.

Precinct Official Raise

Legislation passed in 2005 gave Precinct Officials a \$20 increase in compensation

Ethics Commission

Notable Achievement

There are currently 120 political committees filing electronically using the OkCIDS (Oklahoma Campaign Information Disclosure System), which is available via the website.

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.

There are five commissioners. One each is appointed by the Governor, President Pro Tempore of the Senate, Speaker of the House, Chief Justice of the Supreme Court, and Attorney General. A full term for a commissioner is five years.

The table above shows the number of complaints filed with the Ethics Commission in FY-2004 and FY-2005. Complaints in FY-2005 more than doubled from FY-2004 due to the General Election in November of 2004.

| Complaints Filed | | |
|----------------------------|----------|-----------|
| | FY-2004 | FY-2005 |
| No Action Taken | 2 | 11 |
| Dismissed | 4 | 4 |
| Settled | 1 | 0 |
| Public Reprimand | 0 | 1 |
| Private Reprimand | 1 | 3 |
| Referred for Investigation | 1 | 1 |
| Total Complaints | 9 | 20 |

Source: Ethics Commission

FY-2007 Recommendation

| FY-2007 Appropriation | |
|-------------------------------|--------------|
| <i>(amounts in thousands)</i> | |
| FY-2006 Appropriation | \$493 |
| FY-2006 Bud. FTE Level | 7.0 |
| Actual Ave. YTD FTE | 7.0 |
| Funding Adjustments: | |
| State Employee Pay Increase | <u>9</u> |
| FY-2007 Recommendation | \$502 |
| % Change from FY-2006 | 1.89% |

Source: Office of State Finance

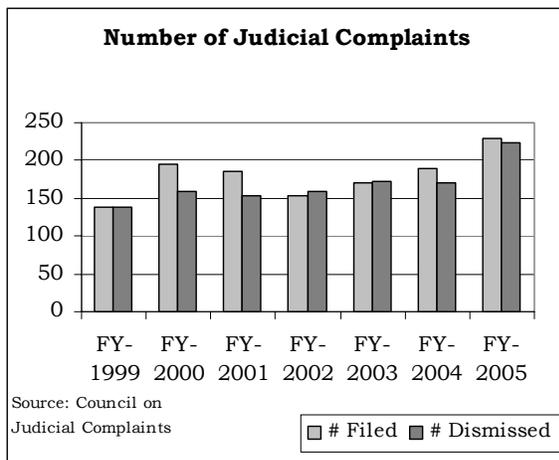
State Employee Pay Increase

The Governor's budget includes \$9,332 for a 3% state employee pay increase for the office of the Ethics Commission. This funding is based on December 2005 salary information.

Council on Judicial Complaints

Created in Title 20 of the Oklahoma Statutes, the Council on Judicial Complaints accepts and investigates allegations of judicial misconduct. The Council has jurisdiction over all persons subject to the Code of Judicial Conduct, including approximately 690 state, municipal and administrative 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-2007 Recommendation

| FY-2007 Appropriation | |
|-------------------------------|--------------|
| <i>(amounts in thousands)</i> | |
| FY-2006 Appropriation | \$279 |
| FY-2006 Bud. FTE Level | 2.0 |
| Actual Ave. YTD FTE | 2.0 |
| Funding Adjustments: | |
| State Employee Pay Increase | 1 |
| Total Adjustments | 1 |
| FY-2007 Recommendation | \$280 |
| % Change for FY-2006 | 0.36% |

Source: Office of State Finance

The FY-2007 appropriation for the Council on Judicial Complaints is the same as provided for FY-2006 with the following adjustment.

State Employee Pay Increase

The Governor's budget includes \$1,185 for a 3% state employee pay increase for the Council on Judicial Complaints. This funding is based on December 2005 salary information.

Secretary of State

Notable Achievements

- *On-line users of the Business Division account for 11% of the entity filings and 57% of the copy orders.*
- *The Office of Administrative Rules has improved the timeliness of electronic publication of the Register from monthly to twice monthly via the SOS web page.*
- *Public Meeting notices are now accepted and published on-line.*
- *Our Executive/Legislative Division now provides immediate access to documents used by other agencies such as legislation, executive orders and state questions. Public safety agencies are provided with immediate access to pardons, paroles, revocations, commutations, and extraditions.*

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;
- 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;

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.

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.

The Oklahoma Register is a semi-monthly publication documenting administrative code changes between publications of the annual supplements.

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. 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. There are currently 118 active participants in this program.

Business Registration Services on the Internet

The Secretary of State is utilizing the Internet in an effort to cut costs and increase efficiency. In FY-2001, the agency contracted with NIC Conquest, Inc. to develop this business registration system, *SoonerAccess*. *SoonerAccess* allows customers to submit the majority of business entity documents, trademarks/renewals, and Notary Public applications/renewals on-line.

One-Stop Customer Service Center

The Secretary of State is working with the Tax Commission to determine if business services offered by the Secretary of State's office can be co-located to the Tax Commission's one-stop customer service center.

FY-2007 Recommendation

| <i>FY-2007 Appropriation</i> | |
|-------------------------------------|--------------|
| <i>(amounts in thousands)</i> | |
| FY-2006 Appropriation | \$510 |
| FY-2006 Bud. FTE Level | 39.0 |
| Actual Ave. YTD FTE | 33.6 |
| Funding Adjustments: | |
| State Employee Pay Increase | <u>13</u> |
| FY-2007 Recommendation | \$523 |
| % Change from FY-2006 | 2.53% |
| Source: Office of State Finance | |

State Employee Pay Increase

The Governor's budget includes \$12,905 for a 3% state employee pay increase for the office of the Secretary of State. This funding is based on December 2005 salary information.

Transportation

**Oklahoma Aeronautics Commission
Oklahoma Space Industry Development Authority
Department of Transportation**

Transportation

Summary of FY-2007 Budget Recommendations

| Agency Name | FY-2006 Adj. Approp. | FY-2007 Base | FY-2007 Adj. | Final FY-2007 Appr. | % Diff. from FY- 2006 |
|-------------------------------|---------------------------------|----------------------|---------------------|--------------------------------|--------------------------------------|
| Space Industry Development | \$523,264 | \$523,264 | \$3,138 | \$526,402 | 0.6% |
| Transportation, Department of | 275,148,137 | 275,148,137 | 16,201,494 | 291,349,631 | 5.9% |
| Total Transportation | \$275,671,401 | \$275,671,401 | \$16,204,632 | \$291,876,033 | 5.9% |

Oklahoma Aeronautics Commission (OAC)

The mission of the Oklahoma Aeronautics Commission (OAC) is to promote Oklahoma aviation. OAC works closely with municipalities and the federal government to preserve and improve our state's 114 public airports.

Oklahoma has the fourth largest number of airports per capita in the country making the state easily accessible to citizens, communities, and business interests. However, maintenance and airport improvement expenses accompany the benefits of having this airport infrastructure. To help pay these costs, OAC has the following dedicated revenues (\$ figures from FY-2005 actual):

- Aircraft excise taxes collected on sales of aircrafts - \$3.8 million;
- Fees for registering aircraft with the Tax Commission -\$324,978; and
- Aviation Fuel Tax - \$83,246

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 40 of them are business jet capable.

FY-2007 Recommendation

The Oklahoma Aeronautics Commission is a non-appropriated agency.

Oklahoma Space Industry Development Authority (OSIDA)

Notable Achievements

- OSIDA has assisted in creating over 76 jobs in the aerospace field. Rocketplane limited has hired 60 Oklahomans while TGV Rocket has hired 16. The average salary of these jobs is \$78,000.
- Developed four aerospace education programs for the following universities and local school districts:
 - University of Oklahoma;
 - Oklahoma State University;
 - Southwestern Oklahoma State University; and
 - Local School districts such as Stillwater and Weatherford.

Mission

OSIDA aspires to aid economic development in Oklahoma by stimulating the creation of space commerce, education and space related industries.

Clinton Sherman Airpark

OSIDA acquired the Clinton Sherman Airpark at no cost in the summer of 2005. This acquisition is ideal for development of space industry because of the airpark's advantages:

- Infrastructure in place that includes runways, hangars, and ramps to fuel the vehicles;
- Favorable weather conditions
- 50 Employees, funded through the South Western Oklahoma Development Authority, to maintain and operate the airpark;
- Over 13,500 feet of runway and ramp space

During FY-2005, OSIDA completed a flight safety study and an environmental impact survey for the Clinton Sherman Airpark. Completion of these studies allowed OSIDA to obtain a Spaceport license for the Airpark from the Federal Aviation Agency (FAA). Having a licensed Spaceport makes Oklahoma more competitive in attracting aerospace companies to the state, and allows the agency to become non-appropriated in the near future.

RocketPlane LTD.

In January 2003, Rocketplane Limited Inc. announced they would 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 LTD. has hired 60 employees at an average salary of \$78,000 and plan to invest over \$30 million in the state. As part of this planned investment, Rocketplane has contracted with over 100 companies from around the state to help them develop needed technology.

FY-2007 Recommendation

| FY-2007 Appropriation | |
|--|--------------|
| <i>(amounts in thousands)</i> | |
| FY-2006 Appropriation | \$523 |
| FY-2006 Bud. FTE Level | 5.0 |
| Actual Ave. YTD FTE | 3.0 |
| Funding Adjustments: | |
| State Employee Pay Increase | <u>3</u> |
| FY-2007 Recommendation | \$526 |
| % Change from FY-2006 | 0.60% |
| <small>Source: Office of State Finance</small> | |

State Employee Pay Increase

The Governor's budget includes \$3,138 for a 3% state employee pay increase for OSIDA. This funding is based on December 2005 salary information.

Department of Transportation (ODOT)

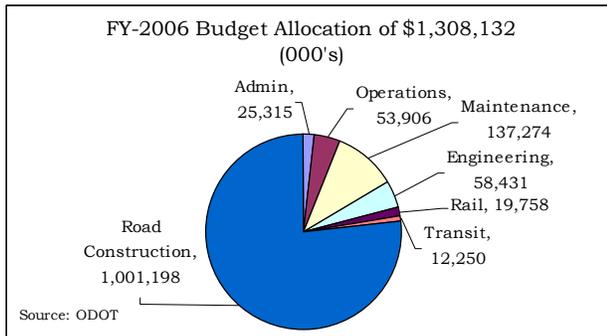
Notable Achievement

ODOT staff increased the public awareness program by making presentations to more than 120 civic organizations.

Mission

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 671 miles of interstate and 11,613 miles of non-interstate roads and bridges to maintain.

The Department of Transportation is appropriated 4.6% of the state budget.



The agency's primary revenue sources in FY-2005 were:

- Federal Funds: Largest source of revenue for ODOT – 67%;
- Certified Transportation Fund: The main source of revenue is state fuel taxes – 20%; and
- Oklahoma Turnpike Authority (OTA) Transfers: OTA transfers state fuel taxes collected on turnpikes if toll revenue is sufficient to meet its debt service obligations – 4%.

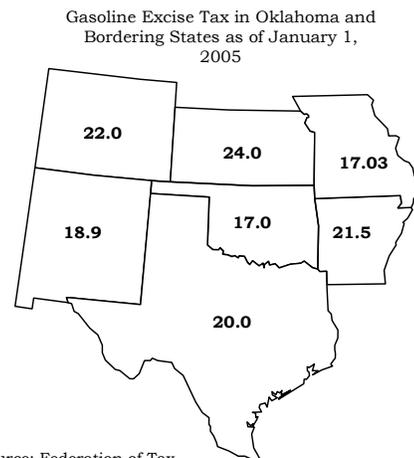
Motor Fuel Taxes

Motor fuel taxes are the main source of revenue to the State Transportation Fund (STF), ODOT's primary source of state funding. The motor fuel taxes that are deposited to the fund are gasoline excise tax, diesel fuel excise tax, special fuel use tax, and special fuel decals. In FY-2005, gasoline and diesel tax totaled \$206.4 million and accounted for over 99% of the collections to the fund. The remaining revenue sources totaled \$1.7 million. The chart below show the apportionment of the revenue sources to the STF.

| Apportionment to the State Transportation Fund | |
|--|---------|
| Gasoline Excise Tax | 63.75% |
| Diesel Fuel Excise Tax | 64.34% |
| Motor Vehicle Tax | 0.31% |
| Special Fuel Use Tax | 64.781% |
| Special Fuel Decals | |

Source: Oklahoma Tax Commission

The gasoline tax is assessed on the consumer when they purchase gas and is the largest source of revenue to STF. Currently, the tax rate is 16 cents per gallon. The map below shows the gasoline excise tax rates for Oklahoma and its border states.



The gasoline tax is apportioned to municipalities for local road repair. The following table shows the apportionment of gasoline tax revenue.

| Gasoline Tax Apportionment | |
|---------------------------------------|---------|
| State Transportation Fund | 63.75% |
| County Highways | 30.125% |
| Cities and Towns | 1.875% |
| County Bridge & Road Improvement Fund | 2.625% |
| General Revenue Fund | 1.625% |
| Source: Oklahoma Tax Commission | |

Diesel tax is also apportioned to the County Highway and the County Bridge and Road Improvement Fund. These funds are the only source of revenue that counties have for highway and bridge maintenance and repair.

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

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.) As a result of the FY-02 revenue shortfall, the \$150 million appropriation for Phase II was never made.

Phase I Capital funding:

- \$165 million appropriations
- \$300 million bond funds
- \$245 million Rainy Day Fund appropriations over a 4 year period

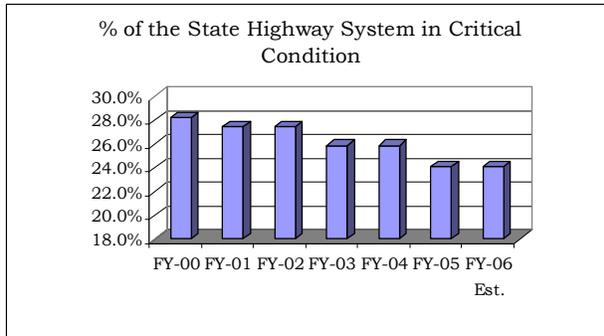
Phase II Capital Funding:

- \$150 million bonds

State Highway System

Historically, roads and bridges have received poor condition ratings from the Federal Highway Administration. According to ODOT, Oklahoma has 3,000 miles of highways rated in inadequate or critical condition. Also, 1,600 bridges are structurally deficient and functionally obsolete.

Key Performance Measure



Source: ODOT

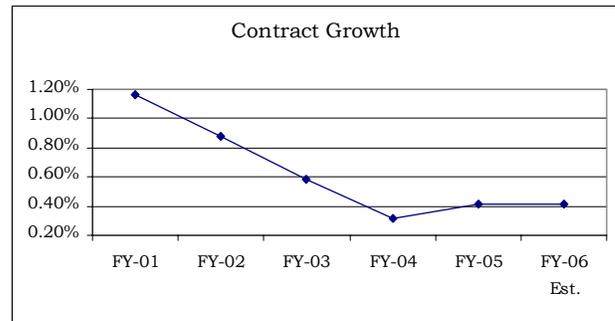
Maintenance Funding Problems

The revenue shortfalls of FY-2002 and FY-2003 threatened to reduce expenditures on the maintenance of roads and bridges. However, under Governor Henry's leadership and direction ODOT has increased efficiency and good management of tax dollars and reduced the impact on the maintenance budget. In fact, the planned expenditures to maintain and replace bridges in future years are higher than in previous years.

Examples of good management practices by ODOT include reducing the number of FTE within the Administration Division by 30 and controlling contract growth. Contract growth is the difference between the contract award amount and the actual cost to complete the project. The chart shows the average contract growth as a percentage of the average contract award amount.

As the following chart discloses, ODOT is performing better than the industry benchmark of 3%.

Key Performance Measure



Source: ODOT

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 94%. 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.

ROADS Fund

Legislation passed in 2005 gave additional funding to ODOT for state roads, highways and bridges. Each year, the Rebuilding Oklahoma Access and Driver Safety (ROADS) Fund receives a specified amount from the Individual Income Tax that is apportioned to the General Revenue Fund. For FY-2006, the ROADS Fund received \$15 million.

Beginning in FY-2007, deposits to the ROADS Fund increase. The fund receives the total amount deposited in the prior fiscal year, and an amount based on a finding of growth revenue made by the Board of Equalization. At its February meeting, the Board of Equalization compares the General Revenue Fund estimate for the coming fiscal year to the existing estimates for the current fiscal year. If there is more than 3% growth, then the ROADS Fund receives an additional \$35 million. If growth is less than 3%, then

the ROADS Fund receives \$17.5 million. Once the ROADS Fund collects a total of \$170 million, then the fund is guaranteed that amount for each fiscal year thereafter.

The preliminary finding at the December 27, 2005 Board of Equalization Meeting showed growth in the General Revenue Fund of more than 3%. Based on the preliminary finding, the ROADS Fund will receive an additional \$35 million for FY-2007. The chart below shows the apportionment to the ROADS Funds and other funds once the preliminary growth finding in December was made.

| Preliminary Apportionment (\$ in 000's) | | |
|---|---------------------|---------------------|
| | FY-2006 Estimate | FY-2007 Estimate |
| ROADS Fund | \$15,000 | \$15,000 |
| Additional ROADS Fund | - | 35,000 |
| Tourism & Passenger Rail Fund | 2,000 | 2,000 |
| Public Transit Fund | 500 | 3,000 |
| Total Apportionment | \$17,500 | \$55,000 |

Source: Office of State Finance

The OK Tourism and Passenger Rail Revolving Fund and the Public Transit Revolving Fund also receive individual income tax that is apportioned to the General Revenue Fund. The apportionments to these funds stay the same year after year regardless of the finding made by the Board of Equalization.

FY-2007 Recommendations

| FY-2007 Appropriation | |
|-------------------------------|------------------|
| <i>(amounts in thousands)</i> | |
| FY-2006 Appropriation | \$275,148 |
| FY-2006 Bud. FTE Level | 2,522.0 |
| Actual Ave. YTD FTE | 2,393.8 |
| Funding Adjustments: | |
| State Employee Pay Increase | 3,295 |
| State Transportation Fund | 10,498 |
| Increase in Certification | <u>2,408</u> |
| Total Adjustments | 16,201 |
| FY-2007 Recommendation | \$291,349 |
| % Change from FY-2006 | 5.89% |

Source: Office of State Finance

State Employee Pay Raise

The Governor's budget includes \$3,294,835 for a 3% state employee pay increase for the Department of Transportation. This funding is based on December 2005 salary information.

State Transportation Fund (STF)

The State Transportation Fund is the primary state funding source for ODOT. Under current law, total collections to the fund for the coming fiscal year are estimated and certified by the State Board of Equalization in accordance with Section 23 Article X of the Oklahoma Constitution. Once certified, the Legislature can only appropriate 95% of the total estimate.

Due to the nature of a certified fund, ODOT does not receive revenue that is collected during the current fiscal year that could otherwise be spent on road and bridge maintenance. This proposal changes the STF from a certified fund to a revolving fund and allows ODOT to receive an additional \$10.5 million in FY-07. The additional funding represents the difference between 100% of estimated collections and the 95% appropriations authority.

Increase in Certification

The State Equalization Board packet shows in increase in appropriations authority for the State Transportation Fund of \$2,408,268.

State and Local Bridge Repair

Of the 6,700 bridges on the state highway system, 1,600 are either too narrow to support today’s traffic, have structural deficiencies, or both. For this reason, the Governor’s budget includes \$100 million in excess certified funds for the repair needs of the state’s worst structurally deficient bridges. The State will get \$50 million to quickly address bridge deficiencies and estimates that 20 to 25 state bridges can be repaired or replaced with this funding. The other half will go to counties. Local projects will be selected with direction from city and county road planners. The \$100 million comes from surplus funds that accrue after the Rainy Day Fund is filled.

Loan Program

Current funding levels from the state and municipalities have fallen short of meeting the maintenance and repair needs of local infrastructure. To help leverage the completion of local road and bridge work and allow communities to readily invest in transportation infrastructure for economic development projects, the Governor’s budget proposes a low interest loan program for cities and counties. Loans will be granted at the state level at a lower interest rate than cities or counties could get elsewhere.

Annualization of the CIP Debt Service

The Governor’s budget proposes to annualize the FY-2006 appropriation of \$69.7 million for the CIP debt service. This proposal provides an additional \$409.5 million for road and bridge maintenance over the next 10 years. The chart below shows the additional funding that is realized from annualizing the debt service.

| Additional Funding from the Annualization of the CIP Debt Service | | | |
|--|--------------|---------------------|-----------------------|
| Year | Debt Service | FY-06 Annualized | Additional Funding |
| FY-07 | (\$69,700) | \$69,700 | \$0 |
| FY-08 | (66,900) | 69,700 | 2,800 |
| FY-09 | (30,500) | 69,700 | 39,200 |
| FY-10 | (30,100) | 69,700 | 39,600 |
| FY-11 | (32,200) | 69,700 | 37,500 |
| FY-12 | (27,400) | 69,700 | 42,300 |
| FY-13 | (11,900) | 69,700 | 57,800 |
| FY-14 | (11,000) | 69,700 | 58,700 |
| FY-15 | (7,800) | 69,700 | 61,900 |
| FY-16 | | <u>69,700</u> | <u>69,700</u> |
| Total | (\$287,500) | \$697,000 | \$409,500 |

Source: ODOT

ODOT estimates that bridge replacement or rehabilitation efforts will increase from 38 bridges a year to 75 bridges a year over the next 10 years.

Lockbox of Transportation Funding

Currently, motor fuel and motor vehicle tax are the source of revenue to the State Transportation Fund (STF), ODOT’s source of state funding. To ensure that future Legislatures and Governors do not divert these sources to other areas, Governor Henry proposes a constitutional lockbox to be approved by a vote of the people. Providing a stable and consistent funding source guarantees an improvement of Oklahoma’s infrastructure.

Interest to the County Bridge and Road Improvement Fund

Each year, revenue in the County Bridge and Road Improvement Fund earns interest that is deposited into the General Revenue Fund. Governor Henry recommends that interest earned annually from this fund be deposited into the fund. This interest totals around \$600,000 annually and can be additional funding that counties and municipalities can spend on local infrastructure.

Veterans Affairs

Oklahoma Department of Veterans Affairs

Veterans

Summary of FY-2007 Budget Recommendations

| Agency Name | FY-2006 Adj. Approp. | FY-2007 Base | FY-2007 Adj. | Final FY-2007 Appr. | % Diff. from FY- 2006 |
|---------------------------------|---------------------------------|---------------------|---------------------|--------------------------------|--------------------------------------|
| Veterans Affairs, Department of | \$36,040,332 | \$36,040,332 | \$3,130,817 | \$39,171,149 | 8.7% |
| Total Veterans | \$36,040,332 | \$36,040,332 | \$3,130,817 | \$39,171,149 | 8.7% |

Oklahoma Department of Veterans Affairs

Notable Achievements

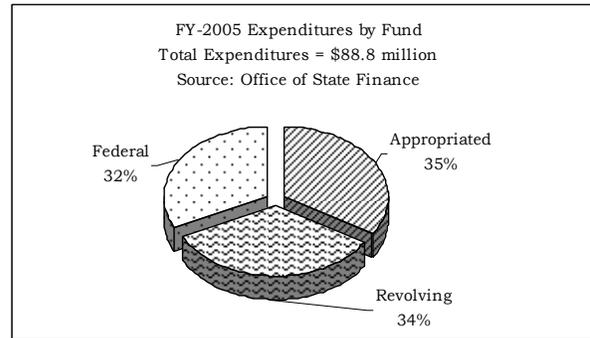
- The Lawton Veterans Center, which began filling beds in FY-2004 completed the process and became fully operational in FY-2005.
- Construction was completed and a new wing was opened at the Talihina Veterans Center. Improvements were also made to the roof and foundation at the Ardmore Veterans Center.
- A leave buy back program was instituted which is designed to increase employee pay and morale while decreasing absenteeism and the need for overtime. This program was developed in conjunction with the Office of Personnel Management.
- The agency lowered their rate of employee turnover during FY-2005 which helps to improve patient care.
- The agency refinanced a bond which will save \$500,000 over a five year period.

Mission

The Oklahoma Department of Veterans Affairs provides medical and rehabilitative services for veterans and their families. The Department operates seven long term care 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-2004, the average daily population in the Oklahoma Centers was approximately 1,197. The Department estimates that at any given time during FY-2005, 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.

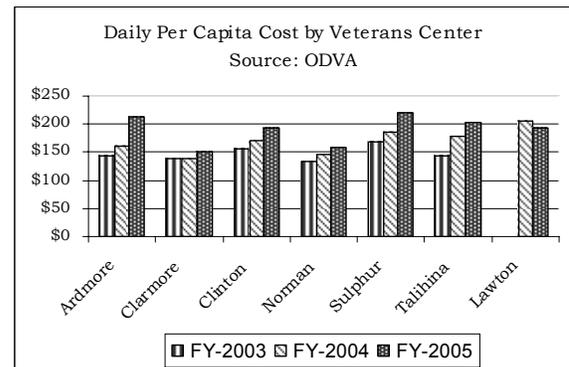
Nationally, federal funding for these centers makes up 31% of the total.



Bed Costs and Occupancy

| | FY 2005 Patients per Center | | | | | | |
|-------------------|--|-----------|---------|--------|---------|----------|--------|
| | Source: Department of Veterans Affairs | | | | | | |
| | Ardmore | Claremore | Clinton | Norman | Sulphur | Talihina | Lawton |
| Avg # of Patients | 163 | 292 | 144 | 291 | 125 | 153 | 178 |
| Available Beds | 175 | 302 | 148 | 301 | 132 | 175 | 200 |
| Percent Filled | 93% | 97% | 97% | 97% | 95% | 87% | 89% |

The following chart shows the average daily per capita cost by facility in FY-2003, 2004 and 2005.

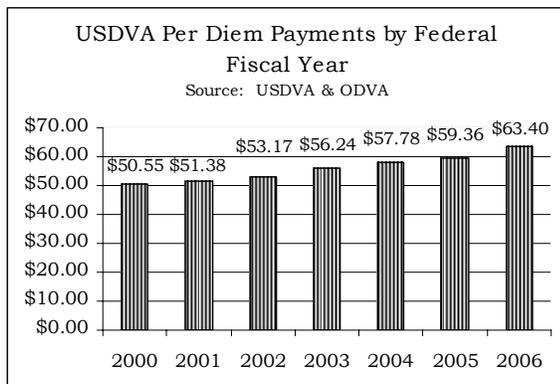


Cost Comparison to Other States

The national average cost per day in state operated Veterans Centers was \$204.12 in the fourth quarter of federal fiscal year 2005. The average cost per day during the same time period in Oklahoma centers was \$195.61.

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. Federal per diem payments usually increase each year, but by varying amounts.



FY-2007 Recommendation

| FY-2007 Appropriation | |
|------------------------------------|-----------------|
| <i>(amounts in thousands)</i> | |
| FY-2006 Appropriation | \$36,040 |
| FY-2006 Bud. FTE Level | 1,831.0 |
| Actual Ave. YTD FTE | 1,810.6 |
| Funding Adjustments: | |
| State Employee Pay Increase | 1,343 |
| Reduce Vacancy Rate | 1,000 |
| 10% targeted nurse salary increase | 788 |
| Total Adjustments | 3,131 |
| FY-2007 Recommendation | \$39,171 |
| % Change from FY-2006 | 8.69% |

Source: Office of State Finance

State Employee Pay Increase

The Governor's budget includes \$1,342,588 for a 3% state employee pay increase for the Department of Veterans Affairs. This

funding is based on December 2005 salary information.

Reduce the Vacancy Rate

The rising costs of medical care combined with revenue shortfalls of recent years resulted in an ever increasing vacancy rate for the Department. The vacancy rate is the number of positions authorized but not funded in the agency's budget. Some agencies which use a high number of relatively low paid positions such as personal care attendants assume some amount of budget savings based on having some positions vacant at any given time. In recent years, the vacancy rate grew from an average 44.2 positions in FY-2001 to an average of 172.1 positions in FY-2005. For the FY-2006 budget year, the agency was given an increase of approximately \$2.1 million to reduce their vacancies by 69 direct patient care attendant positions.

Another factor which drives staffing needs is the upcoming change in federal staffing requirements. New staffing configurations will be based on the diagnostic codes of the patients. This means staffing will be determined by the level of care needed per diagnosis, not just total number of beds.

In order to continue addressing this problem, the Governor's Executive Budget proposes to decrease the vacancy rate by another 30 positions. This reduction will be funded with an increase in appropriations of \$1,000,000 to cover salary and benefits.

Targeted Nurse Salary Increase

In recognition of the need to keep nursing salaries competitive, the Governor's budget contains \$778,229 for a 10% targeted increase for these positions. This funding is based on December 2005 salary information. Using the Office of Personnel Management's most recent compensation comparison study, this increase will, on average, reduce the market disparity for state nursing salaries compared with private employers by 50%.

Legislature

**House of Representatives
Legislative Service Bureau
State Senate**

Legislature

Summary of FY-2007 Budget Recommendations

| Agency Name | FY-2006 Adj. Approp. | FY-2007 Base | FY-2007 Adj. | Final FY-2007 Appr. | % Diff. from FY- 2006 |
|----------------------------|---------------------------------|---------------------|---------------------|--------------------------------|--------------------------------------|
| House of Representatives | \$18,629,154 | \$18,629,154 | \$901,413 | \$19,530,567 | 4.8% |
| Legislative Service Bureau | 2,415,783 | 2,365,783 | 38,680 | 2,404,463 | -0.5% |
| Senate | 13,146,893 | 13,146,893 | 400,344 | 13,547,237 | 3.0% |
| Total Legislature | \$34,191,830 | \$34,141,830 | \$1,340,437 | \$35,482,267 | 3.8% |

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:

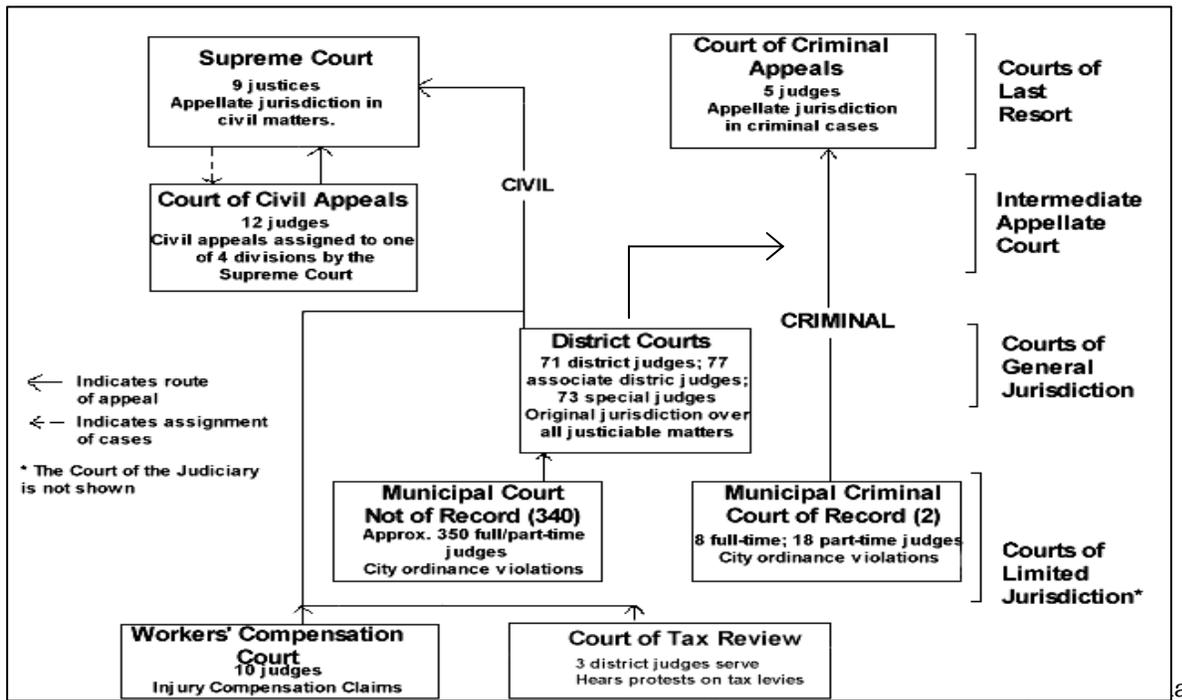
- Bills will become law when passed by both houses and signed by the Governor;
- Joint Resolutions will have the effect of law if passed by both houses, but may not become part of the statutes;
- Concurrent resolutions express the will of both of the houses; and
- Lastly, they can pass simple resolutions, 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.

Judiciary

**Court of Criminal Appeals
District Courts
Supreme Court
Workers' Compensation Court**

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.

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

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.

State Judicial Revolving Fund

The State Judicial Revolving Fund (SJF) is an important source of funding for the judiciary. The Legislature changed the SJF from a certified fund to a revolving fund in 2004. This allows the Administrative Office of the Courts (AOC) to budget 100% of the projected revenues.

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.

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.

Over the past 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.

| \$000's | Actual | Estimated | Estimated |
|----------------------------|----------|-----------|-----------|
| | FY-2004 | FY-2005 | FY-2006 |
| Total Collections | \$77,049 | \$87,000 | \$90,000 |
| Local Court Expenditures | \$41,037 | \$42,372 | \$49,200 |
| Law Library | \$1,766 | \$1,821 | \$4,000 |
| St. Judicial Fund Deposits | \$30,808 | \$37,817 | \$38,184 |

SOURCE: The Administrative Office of the Courts

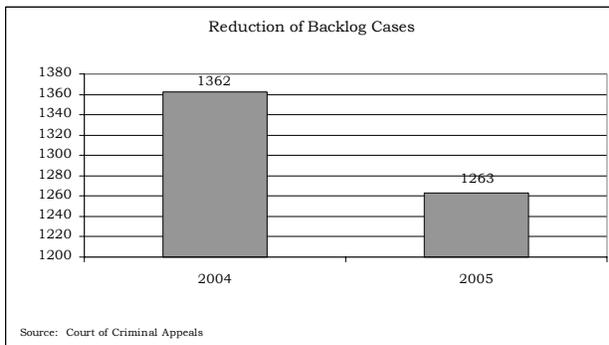
Lump sum expenditures are closely related to court caseloads and case complexities. These costs vary from year to year. Restricted expenditures relate to work force and facility needs and tend to be predictable. Statute establishes the mandated expenditures.

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

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 state 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. Just two years ago, the Court had a caseload of more than 1450 cases. Last year the Court disposed of approximately 1,263 cases. Judge Charles Chapel is presiding judge.



FY-2007 Recommendation

| FY-2007 Appropriation | |
|-------------------------------|----------------|
| <i>(amounts in thousands)</i> | |
| FY-2006 Appropriation | \$2,828 |
| FY-2006 Bud. FTE Level | 31.5 |
| Actual Ave. YTD FTE | 29.0 |
| Funding Adjustments: | |
| State Employee Pay Increase | 61 |
| Judicial Salary Increase | <u>94</u> |
| Total Adjustments | 155 |
| FY-2007 Recommendation | \$2,983 |
| % Change for FY-2006 | 5.48% |

Source: Office of State Finance

The FY-2007 appropriation for the Court of Criminal Appeals is the same as provided for FY-2006 with the following adjustments.

State Employee Pay Increase

The Governor's budget includes \$60,616 for a 3% state employee pay increase for the Court of Criminal Appeals. This funding is based on December 2005 salary information and excludes the five Judges, who are covered under the Judicial Salary Increase.

Judicial Salary Increase

Oklahoma Judges will receive a pay increase in July 2006. The Governor's budget includes \$94,000 to provide for the pay raise for the Court's five judges.

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. The elected positions of District Judge, Associate District Judge and Special Judge often serve as the first contact a person may have with the judicial system.

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 | FY-2005 |
| General Revenue | \$17,236 | \$17,701 | \$8,240 | \$6,072 |
| State Judicial Fund | 22,868 | 22,069 | 31,557 | 22 |
| Special Cash | 0 | 0 | 1000 | 0 |
| 443 Fund | 0 | 110 | 240 | 36,278 |
| TOTAL | \$40,104 | \$39,880 | \$41,037 | \$42,372 |

Note: The State Judicial Fund was converted to a Revolving Fund in FY-2005. Deposits to the Revolving Fund are shown under the 443 Fund.

SOURCE: Office of State Finance

FY-2006 Supplemental

| FY-2006 Supplemental | |
|---------------------------------------|-----------------|
| <i>(amounts in thousands)</i> | |
| FY-2006 Appropriation | \$47,300 |
| Funding Adjustments: | |
| State Judicial Fund Revenue Failure | <u>3,872</u> |
| Total Adjustments | 3,872 |
| FY-2006 Adjusted Appropriation | \$51,172 |
| % Change from FY-2005 | 8.99% |
| % Change from Original FY-2006 | 8.19% |

Source: Office of State Finance

The supplemental recommendation provides funding to replace the revenue failure of the State Judicial Fund. The

Governor's budget recommends this one-time supplemental appropriation of \$3,871,585 for the District Courts.

FY-2007 Recommendation

| FY-2007 Appropriation | |
|-------------------------------|-----------------|
| <i>(amounts in thousands)</i> | |
| FY-2006 Appropriation | \$47,300 |
| FY-2006 Bud. FTE Level | 650.0 |
| Actual Ave. YTD FTE | 617.9 |
| Funding Adjustments: | |
| State Employee Pay Increase | 533 |
| Judicial Salary Increase | <u>4,380</u> |
| Total Adjustments | 4,913 |
| FY-2007 Recommendation | \$52,213 |
| % Change for FY-2006 | 10.39% |

Source: Office of State Finance

The FY-2007 appropriation for the District Courts is the same as provided for FY-2006 with the following adjustments.

State Employee Pay Increase

The Governor's budget includes \$532,724 for a 3% state employee pay increase for District Courts. This funding is based on December 2005 salary information and excludes the 240 Judges and Court Administrators who are covered under the Judicial Salary Increase.

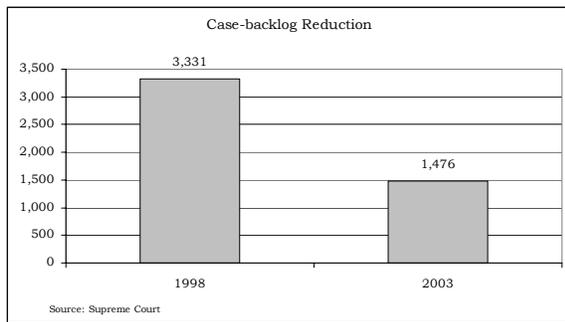
Judicial Salary Increase

Oklahoma Judges will receive a pay increase in July 2006. The Governor's budget includes \$4,379,592 to provide for the pay raise for the District Courts' 240 Judges and Court Administrators.

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.

The Court has been successful in reducing its backlog of cases from 3,331 in 1998 to 1,476 in January 2003 to nearly having the backlog eliminated in 2005. 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 target date of completion is November 2007.

FY-2007 Recommendation

| FY-2007 Appropriation | |
|-------------------------------|-----------------|
| <i>(amounts in thousands)</i> | |
| FY-2006 Appropriation | \$16,000 |
| FY-2006 Bud. FTE Level | 163.0 |
| Actual Ave. YTD FTE | 149.1 |
| Funding Adjustments: | |
| State Employee Pay Increase | 274 |
| Judicial Salary Increase | <u>427</u> |
| Total Adjustments | 701 |
| FY-2007 Recommendation | \$16,701 |
| % Change for FY-2006 | 4.38% |

Source: Office of State Finance

The FY-2007 appropriation for the Court of Criminal Appeals is the same as provided for FY-2006 with the following adjustments.

State Employee Pay Increase

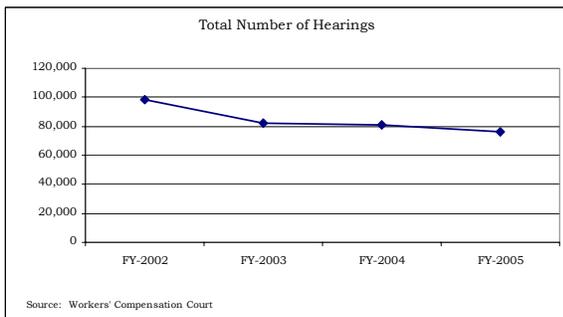
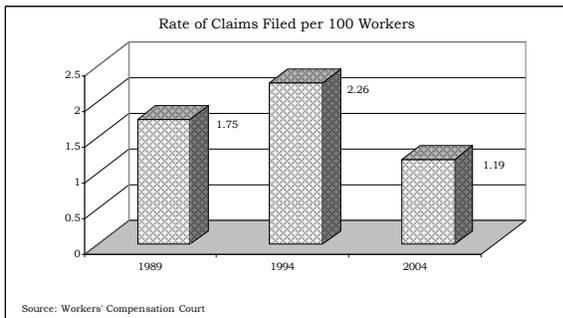
The Governor's budget includes \$273,740 for a 3% state employee pay increase for the Supreme Court. This funding is based on December 2005 salary information and excludes the Supreme Court's 9 Justices, the Court of Civil Appeals' 12 Judges and three other positions who are covered under the Judicial Salary Increase.

Judicial Salary Increase

Oklahoma Judges will receive a pay increase in July 2006. The Governor's budget includes \$426,537 to provide for the pay raise for the Supreme Court's nine Justices and the Court of Civil Appeals 12 Judges. Also included are three other positions tied to judicial pay.

Workers' Compensation Court

The Workers' Compensation Court is comprised of ten Judges who are appointed by the Governor. It is the mission of the Workers' Compensation Court to apply the law as set out in the Oklahoma Workers' Compensation Act. It is the responsibility of this limited tribunal to provide fair and timely resolution of disputes and identification of issues involving on-the-job injuries. Judges also participate in educational seminars and the Court sponsors a biennial conference. Judge Gene Prigmore is the current presiding judge.



FY-2007 Recommendation

| FY-2007 Appropriation | |
|-------------------------------|----------------|
| <i>(amounts in thousands)</i> | |
| FY-2006 Appropriation | \$4,366 |
| FY-2006 Bud. FTE Level | 87.9 |
| Actual Ave. YTD FTE | 83.8 |
| Funding Adjustments: | |
| State Employee Pay Increase | 108 |
| Judicial Salary Increase | <u>189</u> |
| Total Adjustments | 297 |
| FY-2007 Recommendation | \$4,663 |
| % Change for FY-2006 | 6.80% |

Source: Office of State Finance

The FY-2007 appropriation for the Court of Criminal Appeals is the same as provided for FY-2006 with the following adjustments.

State Employee Pay Increase

The Governor's budget includes \$107,895 for a 3% state employee pay increase for Workers' Compensation Court. This funding is based on December 2005 salary information and excludes the Court's ten Judges and one Court Administrator who are covered under the Judicial Salary Increase.

Judicial Salary Increase

Oklahoma Judges will receive a pay increase in July 2006. The Governor's budget includes \$189,000 to provide for the pay raise for the Workers' Compensation Court's ten Judges and the Court Administrator.

State Budget Information

**FY-2006 Recommendations by Committee
Oklahoma State Budget Process
State Revenues
Constitutional Reserve Fund
Appropriation History
Non-Appropriated Agency Budgets and FTE
Higher Education Allocations**

FY-2007 Executive Budget

Summary by Committee

| Education | | | | | | | | | |
|--|----------------------------------|-----------------------|---------------------------------|-------------------------------------|------------------------|----------------------|-----------------------------------|--------------------------------------|--|
| Agency Name | FY-2005 Appropriation | FY-2005 Supps. | FY-2005 Adj. Approp. | Less One-Time and Supps. | FY-2006 Base | FY-2006 Adj. | Recom. FY-2006 Approp. | % Diff. from FY- 2005 | |
| 1 Arts Council | \$3,923,871 | \$0 | \$3,923,871 | \$0 | \$3,923,871 | \$170,006 | \$4,093,877 | 4.3% | |
| 2 CareerTech | 123,887,358 | 1,500,000 | 125,387,358 | (1,500,000) | 123,887,358 | 4,608,241 | 128,495,599 | 3.7% | |
| 3 Education, Dept. of | 2,007,663,450 | 38,187,725 | 2,045,851,175 | (38,187,725) | 2,007,663,450 | 120,872,588 | 2,128,536,038 | 6.0% | |
| 4 Educational TV Auth., Oklahoma | 4,201,753 | 0 | 4,201,753 | 0 | 4,201,753 | 101,656 | 4,303,409 | 2.4% | |
| 5 Higher Educ., Regents for | 802,136,296 | 4,000,000 | 806,136,296 | (4,000,000) | 802,136,296 | 63,716,998 | 865,853,294 | 7.9% | |
| 6 Land Office, Commissioners of the | 4,747,965 | 0 | 4,747,965 | 0 | 4,747,965 | 96,750 | 4,844,715 | 2.0% | |
| 7 Libraries, Department of | 6,212,118 | 0 | 6,212,118 | 0 | 6,212,118 | 108,226 | 6,320,344 | 1.7% | |
| 8 Physician Manpower Training | 5,024,607 | 0 | 5,024,607 | 0 | 5,024,607 | 10,509 | 5,035,116 | 0.2% | |
| 9 Private Vo-Tech Schools, Board of | 155,456 | 0 | 155,456 | 0 | 155,456 | (155,456) | 0 | -100.0% | |
| 10 School of Science & Math | 6,572,319 | 0 | 6,572,319 | 0 | 6,572,319 | 401,110 | 6,973,429 | 6.1% | |
| 11 Science & Technology, Ctr. for Adv. | 11,669,647 | 0 | 11,669,647 | 0 | 11,669,647 | 10,031,694 | 21,701,341 | 86.0% | |
| 12 Teacher Prep., Commission for | 1,998,168 | 0 | 1,998,168 | 0 | 1,998,168 | 17,015 | 2,015,183 | 0.9% | |
| Total Education: | \$2,978,193,008 | \$43,687,725 | \$3,021,880,733 | (\$43,687,725) | \$2,978,193,008 | \$199,979,337 | \$3,178,172,345 | 6.7% | |

| General Government and Transportation | | | | | | | | | |
|--|----------------------------------|-----------------------|---------------------------------|-------------------------------------|----------------------|---------------------|-----------------------------------|--------------------------------------|--|
| Agency Name | FY-2005 Appropriation | FY-2005 Supps. | FY-2005 Adj. Approp. | Less One-Time and Supps. | FY-2006 Base | FY-2006 Adj. | Recom. FY-2006 Approp. | % Diff. from FY- 2005 | |
| 1 Auditor & Inspector | \$5,523,603 | \$0 | \$5,523,603 | \$0 | \$5,523,603 | \$279,074 | \$5,802,677 | 5.1% | |
| 2 Auditor & Inspector - REAP | 15,500,000 | 0 | 15,500,000 | 0 | 15,500,000 | 0 | 15,500,000 | 0.0% | |
| 3 Bond Advisor, State | 188,096 | 0 | 188,096 | 0 | 188,096 | 5,171 | 193,267 | 2.7% | |
| 4 Central Services, Department of | 12,234,432 | 0 | 12,234,432 | 0 | 12,234,432 | 519,449 | 12,753,881 | 4.2% | |
| 5 Commerce, Department of | 33,337,845 | 0 | 33,337,845 | 0 | 33,337,845 | (8,711,346) | 24,626,499 | -26.1% | |
| 6 Election Board | 7,072,129 | 0 | 7,072,129 | (795,000) | 6,277,129 | 167,644 | 6,444,773 | -8.9% | |
| 7 State Emergency Fund | 0 | 4,000,000 | 4,000,000 | (4,000,000) | 0 | 0 | 0 | n/a | |
| 8 Emergency Mgmt | 680,972 | 0 | 680,972 | 0 | 680,972 | 21,852 | 702,824 | 3.2% | |
| 9 Ethics Commission, Okla. | 480,747 | 0 | 480,747 | 0 | 480,747 | 12,177 | 492,924 | 2.5% | |
| 10 Finance, Office of State | 22,866,800 | 0 | 22,866,800 | (292,000) | 22,574,800 | 2,177,811 | 24,752,611 | 8.2% | |
| 11 Governor | 2,522,709 | 0 | 2,522,709 | 0 | 2,522,709 | 56,549 | 2,579,258 | 2.2% | |
| 12 House of Representatives | 18,080,670 | 0 | 18,080,670 | 0 | 18,080,670 | 301,509 | 18,382,179 | 1.7% | |
| 13 Legislative Service Bureau | 2,303,193 | 0 | 2,303,193 | 0 | 2,303,193 | 57,049 | 2,360,242 | 2.5% | |
| 14 Lieutenant Governor | 523,259 | 0 | 523,259 | 0 | 523,259 | 13,011 | 536,270 | 2.5% | |
| 15 Lottery Commission | 0 | 500,000 | 500,000 | (500,000) | 0 | 0 | 0 | 0 | |
| 16 Merit Protection | 512,154 | 0 | 512,154 | 0 | 512,154 | 12,177 | 524,331 | 2.4% | |
| 17 Military Department | 8,062,531 | 0 | 8,062,531 | 0 | 8,062,531 | 2,571,492 | 10,634,023 | 31.9% | |
| 18 Personnel Management | 4,497,011 | 0 | 4,497,011 | 0 | 4,497,011 | 131,943 | 4,628,954 | 2.9% | |
| 19 Secretary of State | 456,927 | 0 | 456,927 | 0 | 456,927 | 13,076 | 470,003 | 2.9% | |
| 20 Senate | 12,769,707 | 0 | 12,769,707 | 0 | 12,769,707 | 244,794 | 13,014,501 | 1.9% | |
| 21 Space Industry Development | 518,323 | 0 | 518,323 | 0 | 518,323 | 4,187 | 522,510 | 0.8% | |
| 22 Tax Commission | 41,462,019 | 0 | 41,462,019 | 0 | 41,462,019 | 3,726,618 | 45,188,637 | 9.0% | |
| 23 Transportation, Department of | 200,875,804 | 0 | 200,875,804 | 0 | 200,875,804 | 56,659,701 | 257,535,505 | 28.2% | |
| 24 Treasurer | 4,926,592 | 0 | 4,926,592 | (500,000) | 4,426,592 | 97,907 | 4,524,499 | -8.2% | |
| Total General Government and Transportation | \$395,395,523 | \$4,500,000 | \$399,895,523 | (\$6,087,000) | \$393,808,523 | \$58,361,845 | \$452,170,368 | 14.4% | |

FY-2007 Executive Budget

| Health and Social Services | | | | | | | | |
|--|----------------------|------------------|----------------------|--------------------------|----------------------|----------------------|------------------------|----------------------|
| Agency Name | FY-2005 | | FY-2005 Adj. | Less One-Time and Supps. | FY-2006 Base | FY-2006 Adj. | Recom. FY-2006 Approp. | % Diff. from FY-2005 |
| | Appropriation | FY-2005 Supps. | Approp. | | | | | |
| 1 Health Care Authority | \$482,256,505 | \$0 | \$482,256,505 | \$0 | \$482,256,505 | \$81,688,093 | 563,944,598 | 16.9% |
| 2 Health Department | 57,563,226 | 0 | 57,563,226 | 0 | 57,563,226 | 1,600,820 | \$59,164,046 | 2.8% |
| 3 J.D. McCarty Center | 3,162,767 | 0 | 3,162,767 | 0 | 3,162,767 | 306,597 | 3,469,364 | 9.7% |
| 4 Mental Health Department | 155,447,428 | 0 | 155,447,428 | 0 | 155,447,428 | 14,969,719 | 170,417,147 | 9.6% |
| 5 University Hospitals Authority | 39,029,342 | 0 | 39,029,342 | 0 | 39,029,342 | 1,250,000 | 40,279,342 | 3.2% |
| 6 Veterans Affairs Department | 30,091,172 | 250,000 | 30,341,172 | (250,000) | 30,091,172 | 4,780,061 | 34,871,233 | 14.9% |
| Total Health and Social Services: | \$767,550,440 | \$250,000 | \$767,800,440 | (\$250,000) | \$767,550,440 | \$104,595,290 | \$872,145,730 | 13.6% |

| Human Services | | | | | | | | |
|-------------------------------------|----------------------|---------------------|----------------------|--------------------------|----------------------|---------------------|------------------------|----------------------|
| Agency Name | FY-2005 | | FY-2005 Adj. | Less One-Time and Supps. | FY-2006 Base | FY-2006 Adj. | Recom. FY-2006 Approp. | % Diff. from FY-2005 |
| | Appropriation | FY-2005 Supps. | Approp. | | | | | |
| 1 Children & Youth, Commission on | \$1,569,789 | \$0 | \$1,569,789 | \$0 | \$1,569,789 | \$28,719 | \$1,598,508 | 1.8% |
| 2 Handicapped Concerns, Office of | 362,128 | 0 | 362,128 | 0 | 362,128 | 10,809 | 372,937 | 3.0% |
| 3 Human Rights Commission | 662,762 | 0 | 662,762 | 0 | 662,762 | 24,104 | 686,866 | 3.6% |
| 4 Human Services, Department of | 408,330,849 | 22,000,000 | 430,330,849 | (22,000,000) | 408,330,849 | 80,684,101 | 489,014,950 | 13.6% |
| 5 Indian Affairs Commission | 248,942 | 0 | 248,942 | 0 | 248,942 | 6,489 | 255,431 | 2.6% |
| 6 Juvenile Affairs, Office of | 92,858,160 | 1,400,000 | 94,258,160 | (1,400,000) | 92,858,160 | 5,126,823 | 97,984,983 | 4.0% |
| 7 Rehabilitation Services, Dept. of | 25,479,628 | 0 | 25,479,628 | 0 | 25,479,628 | 915,208 | 26,394,836 | 3.6% |
| Total Human Services: | \$529,512,258 | \$23,400,000 | \$552,912,258 | (\$23,400,000) | \$529,512,258 | \$86,796,253 | \$616,308,511 | 11.5% |

| Public Safety and Judiciary | | | | | | | | |
|--|----------------------|---------------------|----------------------|--------------------------|----------------------|---------------------|------------------------|----------------------|
| Agency Name | FY-2005 | | FY-2005 Adj. | Less One-Time and Supps. | FY-2006 Base | FY-2006 Adj. | Recom. FY-2006 Approp. | % Diff. from FY-2005 |
| | Appropriation | FY-2005 Supps. | Approp. | | | | | |
| 1 A.B.L.E. Commission | \$3,626,853 | \$0 | \$3,626,853 | \$0 | \$3,626,853 | \$74,586 | \$3,701,439 | 2.1% |
| 2 Attorney General | 5,953,778 | 0 | 5,953,778 | 0 | 5,953,778 | 1,357,092 | 7,310,870 | 22.8% |
| 3 Corrections Department | 384,286,568 | 17,924,000 | 402,210,568 | (17,924,000) | 384,286,568 | 21,874,644 | 406,161,212 | 5.7% |
| 4 Court of Criminal Appeals | 2,750,541 | 0 | 2,750,541 | 0 | 2,750,541 | 79,683 | 2,830,224 | 2.9% |
| 5 District Attorneys Council | 26,926,731 | 700,000 | 27,626,731 | (700,000) | 26,926,731 | 2,844,844 | 29,771,575 | 10.6% |
| 6 District Courts | 43,043,226 | 0 | 43,043,226 | 0 | 43,043,226 | 2,648,439 | 45,691,665 | 6.2% |
| 7 Fire Marshal | 1,537,061 | 0 | 1,537,061 | 0 | 1,537,061 | 47,674 | 1,584,735 | 3.1% |
| 8 Indigent Defense System | 14,428,761 | 600,000 | 15,028,761 | (600,000) | 14,428,761 | 806,678 | 15,235,439 | 5.6% |
| 9 Investigation, Bureau of | 9,681,910 | 0 | 9,681,910 | 0 | 9,681,910 | 487,385 | 10,169,295 | 5.0% |
| 10 Judicial Complaints, Council | 271,152 | 0 | 271,152 | 0 | 271,152 | 3,503 | 274,655 | 1.3% |
| 11 Law Enf. Educ. & Training | 2,686,318 | 0 | 2,686,318 | 0 | 2,686,318 | 759,467 | 3,445,785 | 28.3% |
| 12 Medicolegal Investigations Board | 3,427,372 | 0 | 3,427,372 | 0 | 3,427,372 | 201,543 | 3,628,915 | 5.9% |
| 13 Narc. & Dang. Drugs Control | 4,967,062 | 0 | 4,967,062 | 0 | 4,967,062 | 171,647 | 5,138,709 | 3.5% |
| 14 Pardon & Parole Board | 2,150,328 | 0 | 2,150,328 | 0 | 2,150,328 | 60,552 | 2,210,880 | 2.8% |
| 15 Public Safety Department | 65,062,004 | 0 | 65,062,004 | 0 | 65,062,004 | 7,362,540 | 72,424,544 | 11.3% |
| 16 Supreme Court | 13,337,544 | 0 | 13,337,544 | 0 | 13,337,544 | 389,663 | 13,727,207 | 2.9% |
| 17 Workers' Compensation Court | 3,770,409 | 0 | 3,770,409 | 0 | 3,770,409 | 212,478 | 3,982,887 | 5.6% |
| Total Public Safety and Judiciary | \$587,907,618 | \$19,224,000 | \$607,131,618 | (\$19,224,000) | \$587,907,618 | \$39,382,418 | \$627,290,036 | 6.7% |

Notes:
6 The District Courts' appropriation includes income to the State Judicial Revolving Fund.

FY-2007 Executive Budget

| Natural Resources | | | | | | | | |
|---------------------------------|----------------------------------|-----------------------|---------------------------------|-------------------------------------|----------------------|---------------------|-----------------------------------|--------------------------------------|
| Agency Name | FY-2005 Appropriation | FY-2005 Supps. | FY-2005 Adj. Approp. | Less One-Time and Supps. | FY-2006 Base | FY-2006 Adj. | Recom. FY-2006 Approp. | % Diff. from FY- 2005 |
| 1 Agriculture | \$24,231,030 | \$0 | \$24,231,030 | (\$1,384,853) | \$22,846,177 | \$2,072,369 | \$24,918,546 | 2.8% |
| 2 Centennial Commission | 536,453 | 940,000 | 1,476,453 | (940,000) | 536,453 | 483,011 | 1,019,464 | 90.0% |
| 3 Conservation Commission | 7,617,658 | 0 | 7,617,658 | (500,000) | 7,117,658 | 373,466 | 7,491,124 | -1.7% |
| 4 Consumer Credit Commission | 616,513 | 0 | 616,513 | 0 | 616,513 | 22,169 | 638,682 | 3.6% |
| 5 Corporation Commission | 11,767,056 | 0 | 11,767,056 | (3,000,000) | 8,767,056 | 3,664,738 | 12,431,794 | 5.6% |
| 6 Environmental Quality | 9,495,264 | 0 | 9,495,264 | 0 | 9,495,264 | (82,545) | 9,412,719 | -0.9% |
| 7 Historical Society, Oklahoma | 10,000,253 | 904,000 | 10,904,253 | (904,000) | 10,000,253 | 2,604,183 | 12,604,436 | 26.0% |
| 8 Horse Racing Commission | 12,234,432 | 0 | 12,234,432 | 0 | 12,234,432 | 519,449 | 12,753,881 | 4.2% |
| 9 Insurance Department | 2,136,301 | 0 | 2,136,301 | 0 | 2,136,301 | 98,782 | 2,235,083 | 4.6% |
| 10 J.M. Davis Memorial Comm | 330,983 | 0 | 330,983 | 0 | 330,983 | 11,176 | 342,159 | 3.4% |
| 11 Labor Department | 3,061,658 | 0 | 3,061,658 | 0 | 3,061,658 | 677,653 | 3,739,311 | 22.1% |
| 12 Mines, Department of | 815,510 | 0 | 815,510 | 0 | 815,510 | 42,044 | 857,554 | 5.2% |
| 13 Scenic Rivers Commission | 333,158 | 0 | 333,158 | 0 | 333,158 | 18,099 | 351,257 | 5.4% |
| 15 Tourism & Recreation | 24,162,640 | 0 | 24,162,640 | 0 | 24,162,640 | 2,817,082 | 26,979,722 | 11.7% |
| 16 Water Resources Board | 4,431,977 | 0 | 4,431,977 | (191,632) | 4,240,345 | 134,335 | 4,374,680 | -1.3% |
| 17 Water Resources - REAP | 2,200,000 | 0 | 2,200,000 | 0 | 2,200,000 | 0 | 2,200,000 | 0.0% |
| 18 Will Rogers Memorial Comm. | 882,678 | 0 | 882,678 | 0 | 882,678 | 19,850 | 902,528 | 2.2% |
| Total Natural Resources: | \$114,853,564 | \$1,844,000 | \$116,697,564 | (\$6,920,485) | \$109,777,079 | \$13,475,861 | \$123,252,940 | 7.3% |

THE BUDGET CYCLE
STATE FISCAL YEAR IS JULY 1 - JUNE 30

| | July | Aug | Sept | Oct | Nov | Dec | Jan | Feb | Mar | Apr | May | June | |
|--|----------------------|-----|------|-----------|-----|-----|-----|----------------|-----|-----|-----|------|--|
| 1. Agencies review program needs and prepare Budget Requests and Strategic Plans. | July 1 - Oct 1 | | | | | | | | | | | | |
| 2. Agencies submit Budget Requests. Strategic Plans are submitted every even numbered year. | | | | Oct 1 | | | | | | | | | |
| 3. Office of State Finance reviews Budget Requests and Strategic Plans for development of the Executive Budget Book. | | | | Oct - Nov | | | | | | | | | |
| 4. December Equalization Board Meeting - expenditure authority is the approved basis for the Executive Budget. | | | | | | Dec | | | | | | | |
| 5. Submission of Executive Budget to the Legislature. Legislative session begins. | | | | | | | | Feb | | | | | |
| 6. Feb Equalization Board - expenditure authority is approved basis for Legislative Appropriations and Governor's action | | | | | | | | Feb | | | | | |
| 7. Legislature reviews agency budgets and finalizes appropriation recommendations. | | | | | | | | Feb - May | | | | | |
| 8. Governor's action on Appropriation Bills | | | | | | | | Feb - Mid-June | | | | | |
| 9. June Equalization Board Meeting - revenue and expenditure authority adjusted to incorporate statutory changes. | | | | | | | | | | | | June | |
| 10. Budget Work Programs submitted to the Office of State Finance for approval by July 1 | July 1 FY 2006 | | | | | | | | | | | | |

Oklahoma State Budget Process – State Fiscal Year is July 1 through June 30.

1. **Agencies review** program performance and financial needs for preparation of the Budget Request and Strategic Plan
2. The **Budget Request** is the legal document which contains all financial and program information for each agency including a listing of all requests for additional state funds and changes in revolving or federal funds. Budget Requests must be submitted October 1 of every year under Section 41.29 of Title 62.

Agency Strategic Plans include each agency's mission, goals and performance measures within a five year time line. Section 45.3 of Title 62 requires strategic plans to be submitted October 1 of every even-numbered year.

3. The **Office of State Finance Budget Division** reviews agency budget requests and holds agency budget request hearings for development of the Executive Budget.
4. **December Equalization Board Meeting** – The Equalization Board is the constitutional body responsible for setting revenue and expenditure authority for the Governor and Legislature (Sec. 23 Art. 10 of Oklahoma Constitution). The limit approved at this meeting is the amount used for development of the Executive Budget Book.
5. **Submission of Executive Budget** – The Governor is required to submit an Executive Budget to the Legislature on the first Monday of each regular legislative session. The budget must be balanced using the December Equalization Board amounts.
6. **February Equalization Board Meeting** – The Board is constitutionally required under Section 23 of Article 10 to meet again and incorporate economic adjustments to the revenue and expenditure authority. The limit approved at this meeting constitutes the limit for Legislative appropriations action.
7. **Legislative Appropriations Process** – The appropriations subcommittees and legislative staff of each house review agency budgets, budget requests and pass appropriation bills.
8. **Governor acts**, within constitutional time lines set forth in Sections 11 and 12 of Article 6 of the Oklahoma Constitution, to sign, veto or pocket veto appropriation bills.
9. **June Equalization Board Meeting** – The board is authorized in Section 23 of Article 10 of the Oklahoma Constitution to meet and incorporate statutory changes that increase or decrease revenue and expenditure authority for the coming fiscal year.
10. **Agency Budget Work Programs** are required under Section 41.7c of Title 62 and serve as the official plan of how the agency intends to utilize available funds to accomplish statutory duties and responsibilities. The document is due on or as close thereafter June 1 and is approved July 1.

Oklahoma State Budget Process

State Equalization Board

The Oklahoma Constitution provides for a number of checks and balances to ensure the Governor and Legislature maintain a balanced budget every year. One of the most important provisions is Section 23 of Article 10 which outlines the framework for how Oklahoma sustains a balanced budget. This section designates the State Board of Equalization as the body responsible for establishing expenditure limits for the Governor and the Legislature. The Board of Equalization is comprised of the Governor, Lieutenant Governor, Treasurer, Auditor and Inspector, Attorney General, Superintendent of Public Instruction and Secretary of Agriculture

Pursuant to Section 23, the Equalization Board must meet at least two times every fiscal year:

- “no more than 45 days but no less than 35 days before the start of the legislative session” (sometime in late December or early January); and
- “within five days after the monthly apportionment in February of each year”.

The Board can only meet again and adjust revenue estimates if the Legislature and Governor enact laws during regular or special session that reduce or increase revenue certified by the board, transfer cash from one fund to another or establish a new certified appropriated fund. In practice, the Equalization Board meets in June to incorporate legislative changes enacted during the session and re-certify revenue available for the coming fiscal year.

The benefit of this approach is that both the executive and legislative body are required to use the same revenue estimate and expenditure limit. State expenditures passed by the Legislature and enacted by the Governor cannot exceed the amount of funds certified and authorized by the Board.

The Office of State Finance which staffs the Board, compiles revenue projections from various revenue collecting agencies throughout the state, analyzes the information and presents the information to the Board for its consideration and approval. Projections for the General Revenue Fund which makes up more than 80% of total state appropriated spending are estimated utilizing a state economic model developed by Oklahoma State University and modified to fit the state’s customized needs by Tax Commission staff. Revenue estimates presented to the Board are based on current and prior year collection trends, economic forecasts, federal tax law changes and other foreseeable factors.

Revenue certified and authorized at the December Board meeting serves as the basis for the Governor’s Executive Budget. The Board considers possible revisions to the December estimate at the February meeting. Revisions to the December estimate are based on economic changes which have been noted since that time, which may increase or decrease anticipated revenue collections. The estimate approved at this meeting sets the limit on which legislative appropriations are based.

State Revenues and Expenditures

Spending Limits

Oklahomans believe in responsible budgeting and limiting state expenditure growth to reasonable levels. This philosophy is cemented in paragraph 1 of Section 23 in Article 10 of the Constitution. Increases in Legislative appropriations in any year are limited to no more than 12% more than the preceding year's level, adjusted for inflation. Oklahoma's budget over the past ten years has increased at an average rate of 4.89% in nominal terms. This rate of growth is actually less than the 5.0% average increase in personal income over the past decade.

Paragraph 1 of Section 23 provides an additional limit for Oklahoma's state budget. This paragraph limits expenditures of certified funds to 95% of the Equalization Board estimate. This internal safeguard protects agency budgets from mild fluctuations in revenues in the event revenues do not meet the 100% estimate.

Certain statutory revolving funds are also included in the executive and legislative expenditure authority considered by the Equalization Board. Estimates for revolving funds are included for informational purposes. The Equalization Board does not have to approve them since they are not certified funds. Unlike certified funds, the Governor and Legislature can spend 100% of the revolving fund estimate. There are six revolving fund estimates that are included in the executive and legislative expenditure authority. Revenues from four of the six funds are specifically dedicated to education purposes. Funds from the Tobacco Settlement Fund are directed for health services and the Judicial Fund is directed for district court operations.

Cash Management

Another internal budget control is provided in Section 10.1 of Title 62 of the Oklahoma Statutes which creates the Cash Flow Reserve Fund (CFRF). The CFRF is used for two purposes: (1) to make allocations to agencies in July since the General Revenue Fund (GRF) for that year has no collections until the end of July, and (2) to ensure that each monthly allocation of revenue to agencies is equal to one-twelfth of the money appropriated by the Legislature. This second purpose is intended to protect State agencies from variation in monthly revenue collection patterns and in practice the CFRF is used to make up the difference between actual collections in a month and the required allocations.

Money is deposited into the Cash Flow Reserve Fund for the next fiscal year from current year General Revenue Fund collections that are in excess of the amount appropriated from the fund. The limit on deposits into the Cash Flow Reserve Fund is 10% of the amount certified by the Board of Equalization as available for appropriation from the General Revenue Fund for the next year. General Revenue Fund collections that are in excess of the certified estimate cannot be used to make deposits to the Cash Flow Reserve Fund as those monies are directed elsewhere according to the State Constitution. Any excess General Revenue Fund collections for the current year after the Cash Flow Reserve Fund for the next year has been funded are carried forward as cash that is available for appropriation by the Legislature.

Budget Stabilization

Revenue collected in excess of 100% of the certified GRF estimate is deposited in the Constitutional Reserve Fund (CRF), known as the Rainy Day Fund, at the end of the fiscal year. Deposits into the CRF are limited to 10% of the certified actual collections to the GRF for the preceding fiscal year. The CRF can be accessed for three different and distinct purposes: emergencies, future year budget stabilization, and current year budget stabilization. Up to

25% of the fund may be appropriated upon a declaration of an emergency by the Governor or three-fourths of both the House and Senate. Up to three-eighths of the CRF may be appropriated to make up any decline in revenue certified as available for appropriation by the Board of Equalization from one year to the next. The amount can not exceed the decline in certified revenue. The final three-eighths of the CRF may be appropriated to address a current year revenue shortfall. To access this money, the BOE must determine that a revenue failure has occurred in the GRF and appropriations from the CRF for this purpose are limited to the amount of the shortfall.

Revenue Shortfalls

The Director of the Office of State Finance (OSF) is statutorily charged with making allotments to agencies to control expenditures. State law also requires the State's budget to remain in balance every fiscal year. Oklahoma is barred from expending more money than it collects in a given year.

To ensure that revenues are sufficient to meet the appropriations specified by the Legislature, OSF closely monitors collections throughout the year. The allocation of appropriated monies to agencies occurs on the Tuesday following the second Monday of every month during a fiscal year.

As we saw in FY-2002 and FY-2003, during times of economic recession state revenue collections can fall below the level of appropriations. Thus, limiting appropriations to only 95% of estimated collections is an insufficient measure to ensure the state maintains a balanced budget during times of severe economic distress.

Title 62, Section 41.9 of the Oklahoma Statutes reads, in part:

“At the end of any fiscal year, the entire amount appropriated to any spending agency must be allotted by the Budget Director, except where the estimated budget resources during any fiscal year are insufficient to pay all of the appropriations for such year in full. The Budget Director shall not allot to any spending agency during any fiscal year, an amount which will be in excess of the amount of revenue collected and allocated to appropriations made to such spending agency. In the event of a failure of revenue, the Budget Director shall control the allotment authorizations to prevent obligations being incurred in excess of the revenue to be collected. However, the Budget Director shall make all reductions within each state fund where a revenue failure occurs apply to each department, institution, board, commission or special appropriation made by the State Legislature, in the ratio that its total appropriation for that fiscal year bears to the total of all appropriations for that fiscal year, as provided in Section 23, Article 10, of the Constitution of Oklahoma.”

This directs the Office of State Finance to allocate all of the money appropriated to state agencies, unless revenue collections are less than the amount appropriated. When this occurs, OSF is required by this statute to reduce the allocations to agencies to no more than the amount of revenue collected. Further, the reduction in allocations is to be effected upon all agencies receiving money from the fund in which the failure occurs. Each agency receives a proportional share of the reduction based on their share of appropriations compared to the total appropriations from the fund.

Executive and Legislative Appropriations Process

Executive Budget

The Governor sets the tone for state budget recommendations with the submission of the Executive Budget on the first Monday in February of each regular legislative session. Section 41.34 of Title 62 requires the Governor to submit a balanced budget with detailed revenue and expenditure proposals to the presiding officer of each house. The Director of State Finance is required to prepare the document after reviewing state agency budgets, requests and developing recommendations. The proposals outlined in the Governor's Executive Budget Book serve as the Governor's fiscal and policy priorities for the year.

Legislative Process

The Legislature reviews the Executive Budget and works with the Governor throughout the session to enact a balanced budget. Establishing the state budget is the responsibility of the appropriations committees of the Senate and the House of Representatives. The committees of each house work through appropriation subcommittees which are categorized by specific budget areas such as general government, education, health and safety and security. Subcommittees review agency budgets, requests for additional funding and Governor's recommendations.

The General Appropriations (GA) Bill is a method to provide a base level of funding. This provision is a safeguard to ensure state government programs and services do not shut down in the event the Legislature and the Governor are unable to agree on a budget. Historically, general appropriation bills are passed in March or April of the regular legislative session.

A recent addition to state law, Section 9.11 of Title 62, passed during the 2003 session requires the Legislature to present an appropriation bill to fully fund common education to the Governor at least 25 days prior to April 10 (subsection E of Section 6-101 of Title 70) but not later than April 1. Adjustments to increase or decrease the amount may still be made by the Legislature.

Appropriation decisions for agencies are typically not finalized until April or May when the General Conference Committee on Appropriations, or GCCA is convened. The primary difference between an appropriation subcommittee of the House or Senate and GCCA is that GCCA is comprised of both House and Senate members. Before beginning the GCCA process, the House and Senate agree to allocate a certain amount of available funding to each GCCA subcommittee. Before a formal appropriations bill is presented to either legislative body, the two houses must work together in GCCA, negotiate spending priorities and produce a unified budget together.

Appropriations bills may be written for individual agencies or groups of agencies that are within the same subject area such as education. In addition to appropriating funds for the coming fiscal year, appropriation bills also include agency spending limits, total personnel hiring limits, and the maximum salaries of directors.

If the bills are approved by a majority of both houses, the appropriation bill is sent to the Governor. All legislation, including appropriation bills become effective 90 days after the end of the legislative session or later if a later effective date is specified. Legislation may become effective earlier if passed with an emergency clause. For an emergency clause to be enacted, two-thirds of each body must approve the emergency clause through a separate vote on the bill.

Governor's Action

Section 11 of Article 6 provides the Governor five working days, excluding Sundays, to enact or veto all or part of an appropriations bill while the Legislature is in regular session. If the Governor does not sign or veto a bill within five days, a bill automatically becomes law. The Governor has 15 working days to sign or veto a bill after the regular session has adjourned. Any bill presented to the Governor within five days of the end of the regular legislative session must be acted upon with the 15 days also. In contrast to actions taken during session, if the Governor does not sign or veto a bill within the 15 working days after session, the bill fails to become law. This is also referred to as a pocket veto.

In addition to these powers, Section 12 of Article 6 of the Oklahoma Constitution gives the Governor the authority to disapprove an entire appropriations bill or any item or single appropriation within the bill. This line-item veto power is one manner the Governor exercises control of state budget appropriations.

Vetoes may be overridden by two-thirds majority of each house for bills with no emergency clause and by three-fourths majority of each house for bills with an emergency clause.

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)

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)

Oklahoma Education Lottery Trust Fund (Fund 38X): In November of 2004, voters passed State Question 706 which established this fund as one available for appropriation by the Legislature for the purposes of common education, higher education, and career technology education. Revenue deposited in the fund comes from net proceeds generated by the Oklahoma Lottery. .

Agency Budgets

The state's budget cycle can be divided into three areas:

- Agency Budget Work Programs
- Agency Strategic Plans
- Agency Budget Request
- Financial Tools

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 Work Programs

Oklahoma statutes provide the legal framework under which state agencies budget and expend funds in a responsible manner. Section 41.7c of Title 62 requires every agency to submit a balanced budget on the first day in June or soon thereafter. Funds must be budgeted by program category and must conform to program categories and expenditure limits placed in law.

Appropriation bills set maximum limits on the amount of state appropriated funds, revolving funds and federal funds that each program may budget and spend for the fiscal year. Maximum limits for personnel or full-time-equivalent (FTE) personnel, lease-purchase

expenditures and director salaries are also defined in statute. Budget work programs must work within these parameters to provide a plan on how the agency will utilize all state, revolving and federal funds for the fiscal year.

Work programs are reviewed by the Budget Division of OSF and the approved work program serves as a basis for the subsequent allotment of funds. Certified funds such as the General Revenue Fund are allotted to agencies on a monthly basis and cash appropriations are appropriated in a lump sum. Budget Work Programs can be revised at any time during the fiscal year if justified. Revisions can be accomplished within various expenditure, full-time-equivalent employee and transfer limits.

Agencies are allowed under law (Section 41.46 of Title 62) to transfer up to a maximum of 25% of funds between line-items. The Contingency Review Board can approve transfers between line-items up to 40%. All transfers are subject to review by the Joint Legislative Committee on Budget and Program Oversight to determine if the transfer meets legislative intent or subverts the intention and objectives of the Legislature.

Executive and legislative staff review agency budgets and expenditures throughout the year to ensure each agency is meeting program goals and stated legal expenditure limits.

Strategic Planning

Across the nation, states are in the process of implementing measures to improve efficiency and accountability in state government. Oklahoma is no different. Over the past seven years, the Executive and Legislative branch have implemented measures designed to focus on meaningful performance data which can then be used to make better budgeting decisions.

Passed in 1999, the Oklahoma Program Performance Budgeting and Accountability Act required agencies to submit strategic plans defining their mission, vision, goals and performance measures. At the same time, state agency budget request forms were modified to incorporate program information and performance measures for every program category within an agency. Section 45.3 of Title 62 requires every agency to submit five year strategic plans on October 1 of every even numbered year.

Strategic planning helps focus agency leadership and staff on short-term and long-term goals and how to achieve those goals. Outcome measures required in strategic plans and agency budget requests focus agency leadership and staff on monitoring and improving performance. This information is a valuable tool for policymakers. This performance information is also used in routine and special performance evaluations and policy analysis conducted by agencies, the Office of State Finance, legislative staff, Auditor and Inspector and outside consultants. Evaluating government programs and services using meaningful data, allows elected officials to make better, more informed budgeting decisions.

Budget Request

Section 41.29 of Title 62 requires agencies to submit a "Budget Request" on October 1, of every year. The budget request serves as the financial plan to the agency's strategic plan. This document outlines program funding and performance information and includes a detailed listing of additional state funding requested by each agency.

The Budget Division has been working with select agencies over the past two years to refine and improve funding and performance measure information submitted in the Budget Request and Strategic Plan. There is particular emphasis on unit costs and program performance. Copies of each agency's budget request and strategic plan is submitted to the Office of State

Finance, House and Senate staff and members of the Legislative Oversight Committee on State Budget and Performance.

This committee, established in Section 41.47 of Title 62, is required to review each agency's programs, funding and performance once every four years. Members are directed to utilize zero-base budgeting and performance base budgeting techniques.

Financial Tools

Comprehensive Annual Financial Report (CAFR)

The CAFR is the primary means of reporting the financial activities for all state agencies. Prepared by the Division of Central Accounting and Reporting and in conformance with Governmental Accounting Standards Board (GASB) statements 34 and 35, this model provides a better picture of the state's financial status as a single, unified entity. Financial statements contained in the CAFR include a statement of net assets and liabilities, statement of activities outlining major state expenditures, statement of Revenues, Expenditures and Changes in Fund Balances. The CAFR is a valuable tool to use when reviewing and analyzing overall state budget revenue and expenditure trends.

Single Audit

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. This report provides information on the type of federal funds available for state agencies such as block grants, entitlement programs, matching grants and reports federal fund expenditures for each agency. This report, required by the federal government ensures state agencies are properly expending and accounting for federal funds.

Performance Audits

Since FY-2002, the Office of the State Auditor and Inspector has been conducting performance audits, authorized by 74 O.S. Supp 2001, 213.2. 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. 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.

In practice, performance audits determine if an agency is focusing resources on activities that maximize productivity or outcomes. In addition to identifying efficiencies, performance audits can also identify areas worthy of additional state investment. This is another important tool for policymakers to utilize when reviewing the efficiency and effectiveness of agency programs and expenditures.

Financial System

Daily, monthly and annual reports generated from the Office of State Finance financial systems provide quality agency budgeting and expenditure reports which allow policymakers to track funds by program and object code. Other essential financial reports include budget to actual reports, cash balance and receipts and disbursements for funds.

The Budget Request and Strategic Plan documents give policymakers the opportunity to review an agency's mission, goals and performance to ensure resources are allocated to specified statutory duties and responsibilities. Not only do these financial tools ensure agencies are spending money appropriately but wisely. All of the financial tools mentioned can provide policymakers the opportunity to make informed fiscal policy recommendations based on quality financial and performance information.

Capital Budget

The Capital Budget Process

The State of Oklahoma's Capital Improvement Plan (CIP) and the Long-Range Capital Planning Commission were established in 1992. This provided the infrastructure for state and local governments to perform comprehensive capital plans. Capital projects are defined as one-time projects costing at least \$25 thousand with a useful life of at least five years.

The CIP development process begins early in the calendar year. July 1 is the official deadline for agencies, boards, commissions, trusts, colleges and universities to input their Capital Budget Requests into a web-based system hosted by the Office of State Finance. Once received, the Commission separates requests into two broad categories: self-funded and appropriation-funded. Generally, the Commission accepts an applicant's ranking of self-funded projects without further review.

Projects requiring an appropriation are evaluated according to a ranking process to permit the equitable allocation of limited state resources. The ranking system uses eight criteria:

- legal obligations;
- fiscal impact;
- urgency of maintenance needs;
- departmental priority;
- economic impact;
- impact on service to the public; and
- completion of prior phases.

For more information on the Capitol Budget process please contact Tim Martin with the State Bond Advisor, 602-3100.

Oklahoma Revenues and Expenditures

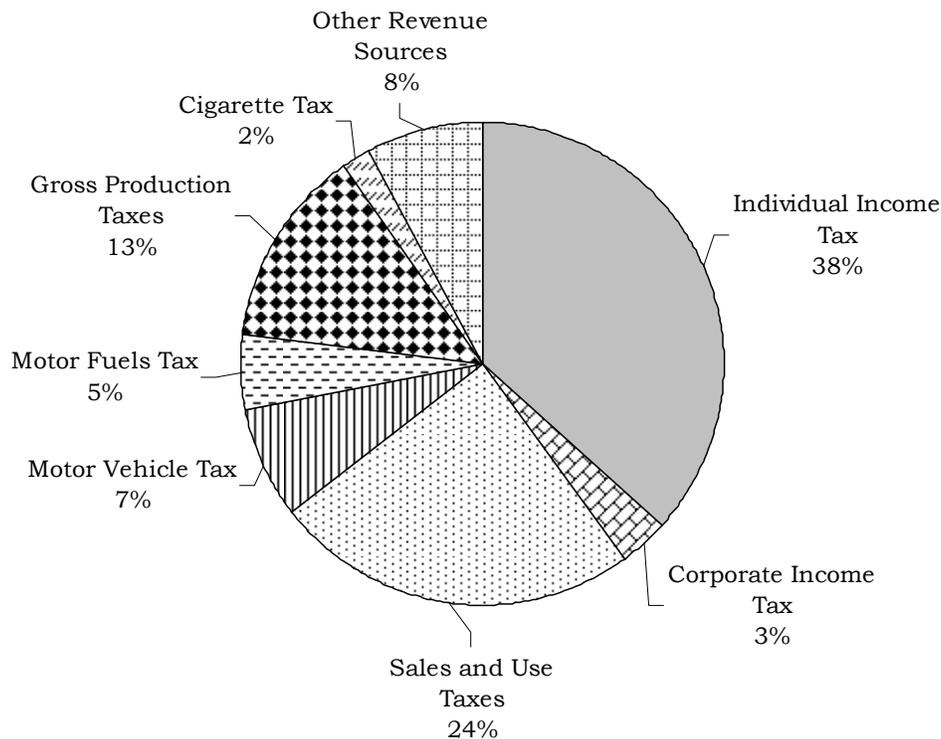
Major Tax Sources

The single largest source of revenue collected by the state comes from taxes paid by Oklahoma citizens, businesses and others doing business in the state. Tax revenue accounted for 46% of total state revenue collections in FY-2005. Most of the state's appropriated revenue is from general taxes. For FY-2005, tax revenue comprised 93% of total appropriated revenue.

Taxes such as income tax are compulsory payments and cannot legally be avoided. This is in contrast to fees, like fishing licenses, which are discretionary and voluntary to the extent one decides to utilize a state service.

The seven major tax categories for FY-2007, which provide 92% of total state tax revenue, are:

The Seven Major Tax Categories FY-2007



Income Taxes

Oklahoma's income tax laws date back to 1915 when an income tax was imposed on the net income of individuals residing in Oklahoma and upon the Oklahoma portion of nonresidents' income. The income tax was extended to corporations and banks in 1931.

The importance of the income tax to state revenues increased when voters approved the 1933 constitutional amendment prohibiting state taxation of property. While there have been numerous changes to the income tax law since its inception, today it is the single most

important source of state revenue and represents almost 46% of all state tax revenue in the General Revenue Fund.

Individual Income Tax: A unique feature of the Oklahoma individual income tax calculation is that two different methods are utilized. Method I employs rates from 0.5 percent to 6.65 percent and does not permit deduction of federal income paid tax from net income. Method II utilizes rates from 0.5 percent to 10 percent and permits the deduction of federal income tax paid from net income. Taxpayers calculate their tax liability by both methods and pay the lesser amount. The majority of taxpayers owe less and pay tax based on the Method I calculation.

The individual income tax rate reaches the top marginal rate at \$21,000 of taxable income for those married, filing jointly. The top rate for single taxpayers is reached at \$10,000.

The “Sales Tax Relief Act,” which took effect in 1990, provides rebates for low to moderate income taxpayers for the state sales tax paid on food. The annual payment is \$40 per person. When first implemented, only families with income less than \$12,000, recipients of TANF or Medicaid recipients in nursing homes were entitled to the payment. The act’s qualification levels were increased in 1999 to \$20,000 for an individual with no dependents and \$50,000 for an individual claiming one or more personal exemptions other than the individual or their spouse, or an individual 65 years of age or older.

Also in 1999, the individual income tax rate was reduced from seven percent to 6.75 percent. The rate was lowered again in 2001 to 6.65 percent. The rate reduction, along with the expansion of the “Sales Tax Relief Act,” contained what was called a trigger provision that allowed for its reversal. Under the terms of that provision, the individual income tax rate reduction and the “Sales Tax Relief Act” expansion were rolled back if the Board of Equalization determined in its first revenue certification meeting that certified revenues would not increase from one fiscal year to the next.

With the passage of State Question 713, the trigger mechanism was repealed and the Method I top individual income tax rate will remain at 6.65%. Additionally, the Sales Tax Relief qualifications will stay at \$20,000 for an individual and \$50,000 for households and seniors. The state questions also exempted capital gains from individual income tax on Oklahoma source income and increased the retirement income exemption from \$5,500 to \$7,500.

House Bill 1547, passed during the 2005 session, lowered the individual income tax rate from 6.65% to 6.25%. Within the same year, Senate Bill 435 eliminated the second method of calculating income tax and modified the tax bracket for single and married separate filers.

The apportionment of individual income tax receipts was changed by the Legislature for the current fiscal year. The table below shows those changes.

| Individual Income Tax Apportionment Changes FY-2006 to FY-2008 | | | |
|---|-----------------------|-----------------------|-----------------------|
| | <u>FY-2006</u> | <u>FY-2007</u> | <u>FY-2008</u> |
| General Revenue Fund | 86.66% | 86.16% | 85.66% |
| 1017 Fund | 8.34% | 8.34% | 8.34% |
| Teacher’s Retirement Fund | 4.00% | 4.50% | 5.00% |
| Ad Valorem Reimburse. Fund | 1.00% | 1.00% | 1.00% |

Corporate Income Tax: Like current individual income tax rates, corporate income tax rates were progressive when implemented in 1931 and remained that way until 1935 when a flat, six

percent rate was established. The rate was decreased to four percent in 1947. The rate has since been increased to its original and current level of six percent.

The corporate income tax rate is applied to all taxable income. Manufacturers' exemptions and some targeted credits and incentive payments frequently are used as economic development tools which reduce a company's income tax liability. The largest of these targeted incentive programs is the "Quality Jobs" program.

While revenue from the corporate income tax is important to the overall revenue picture, it provides only 3% of total tax revenue. That is because corporations subject to the corporate income tax have become, over time, 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 those classifications, all income immediately goes to the partners or shareholders, and as a result, the companies pay no corporate income tax. The partners or shareholders, however, are taxed on that income, as well as income from other sources, under the individual income tax, rather than under the corporate income tax. Additionally, some businesses may be subject to some other form of taxation, such as the bank privilege tax or the insurance premium tax. Legislation in 2004 changed the apportionment of corporate income tax revenue. The table below shows the change in apportionment.

| Corporate Income Tax Apportionment Changes FY-2006 to FY-2008 | | | |
|--|-----------------------|-----------------------|-----------------------|
| | <u>FY-2006</u> | <u>FY-2007</u> | <u>FY-2008</u> |
| General Revenue Fund | 78.50% | 78.00% | 77.50% |
| 1017 Fund | 16.50% | 16.50% | 16.50% |
| Teacher's Retirement Fund | 4.00% | 4.50% | 5.00% |
| Ad Valorem Reimburse. Fund | 1.00% | 1.00% | 1.00% |

State Sales and Use Taxes

The State sales and use tax has varied considerably in both rate and purpose since its initial imposition in 1933 when a temporary one percent tax was dedicated to public schools. Two years later, the tax was renewed, but the revenue from the tax was apportioned to the General Revenue Fund. In 1939, the rate was increased to two percent with 97 percent of the revenue apportioned to the State Assistance Fund or welfare programs administered by what is now the Department of Human Services.

The revenue continued to be dedicated in this manner 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.

When Oklahoma faced a state funding crisis brought on by the decline of the petroleum industry in the 1980s, the state sales tax was increased incrementally to four percent. In 1990, the "Education Reform Act", also known as House Bill 1017, was passed, increasing the sales and use taxes to the current 4.5 percent level.

The 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 telecommunication services. Most services, however, are not subject to the sales and use taxes. Exemptions are also allowed when the product or service is subject to another tax, such as the motor fuels tax. Other specific exemptions are made for governmental and nonprofit entities, agriculture and to certain areas targeted to encourage economic development. The

value of some of the large exemptions from the sales and use tax include an exemption on sales to manufacturers equal to \$1.4 billion in sales tax revenue and sales for resale which total \$720 million in sales tax revenue.

During the 2005 legislative session, the apportionment for sales and use tax revenue changed. Now, for each fiscal year the apportionment for use tax is the same as the apportionment for sales tax. The table below shows the change in apportionment.

| Sales Tax and Use Tax Apportionment FY-2006 to FY-2008 | | | |
|---|-----------------------|-----------------------|-----------------------|
| | <u>FY-2006</u> | <u>FY-2007</u> | <u>FY-2008</u> |
| General Revenue Fund | 85.54% | 85.04% | 84.54% |
| 1017 Fund | 10.46% | 10.46% | 10.46% |
| Teacher's Retirement Fund | 4.00% | 4.50% | 5.00% |

Cigarette Tax

The legislature first enacted a cigarette stamp tax in 1933. The initial tax was three cents per package of 20 cigarettes and gradually increased to \$0.23 per package. In November 2004, voters passed State Question 713 which increased the cigarette tax rate by 80 cents to \$1.03 per package and exempted cigarettes from the state and local sales tax.

For many years the major apportionment of this revenue has been for support of debt service on state bonds. The apportionment of revenue first goes to pay the debt service, and then, the remaining revenue is deposited into the General Revenue Fund. With the increase in the tax rate, this apportionment remains unchanged on the first 23 cents of tax on a pack of cigarettes. Revenue collected from the 80 cent increase is apportioned to the following funds.

| Cigarette Tax Increase Apportionment | |
|---|--------|
| Health Employee Revolving Fund | 22.06% |
| Cancer Center Revolving Fund | 3.09% |
| Trauma Care Revolving Fund | 7.50% |
| OSU Osteopathic Revolving Fund | 3.09% |
| HCA Medicaid Program Fund | 26.38% |
| DMHSA Revolving fund | 2.65% |
| Hilliard Cancer Revolving Fund | 0.04% |
| Teacher's Retirement Fund | 1.00% |
| 1017 Fund | 2.07% |
| Tobacco Prevention Revolving Fund | 0.66% |
| General Revenue Fund | 16.83% |
| Municipalities and Counties | 14.23% |

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 it was here that "horseless carriages" were tagged before it was required by the State.

Oklahoma's modern day motor vehicle taxes are comprised of a broad category of taxes and fees imposed on the purchase and use of motor vehicles, including an excise tax levied on the purchase of cars, trucks, buses, boats and motors, as well as annual registration fees.

Motor vehicle registration fees, commonly called tag fees, are paid annually in lieu of ad valorem or personal property taxes. Voter's passage of State Question 691 in 2000 tied the cost of registration fees to 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 and beyond: | \$15 annually |

The question also changed the calculation of the motor vehicle excise tax, which is paid in lieu of state and local sales taxes. Previously, the tax was assessed at 3.5 percent of the factory delivered price and depreciated at a rate of 35 percent annually. The state question's approval left the rate the same, but assessed it against the actual sales price of the vehicle, which is usually lower than the factory delivered price of a new vehicle.

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. The chart below shows how motor vehicle taxes and fees are apportioned.

| Motor Vehicle Tax Apportionment | |
|--|--------|
| General Revenue Fund | 44.84% |
| State Transportation Fund | 0.31% |
| Counties for Highways | 7.24% |
| Cities and Towns | 3.10% |
| School Districts | 36.20% |

Motor Fuel Taxes

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. By 1916, a two mill tax was levied in townships to supplement the work requirement but both were completely abolished by 1933.

The first gasoline tax become effective in 1923 and was used for the construction and maintenance of roads and bridges. Prior to that time, local governments were responsible for roads and bridges which were supported through ad valorem taxes at the local level.

Motor fuel taxes in Oklahoma are a form of selective sales tax and include the gasoline tax 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, rather than the price. The state gasoline tax is 16 cents per gallon, plus a 1 cent per gallon special assessment. The state tax on diesel fuel is 13 cents per gallon, plus a 1 cent per gallon assessment.

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

Fuel used by all recognized Indian tribes for tribal governmental purposes may be exempt. Tribes may request a refund for taxes paid on motor fuel used for tribal purposes, or in the alternative, they may enter into a compact with the State to receive a portion of the motor fuels tax collections. If they compact with the State, the tribes must agree not to challenge the

constitutionality of the motor fuel tax code. The law permitting the sharing of motor fuels revenue went into effect in 1996.

Motor fuels tax revenue supports road 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. According to state statute, motor fuel taxes, like sales taxes, are assessed on the consumer when they purchase fuel. This tax incidence was defined by statute during the 1996 legislative session as the result of a court ruling that required whoever actually paid the tax be specified in the statutes. Yet while the statutes identify the consumer as paying the tax, it is technically collected and remitted at the terminal rack or refinery level. The chart below shows the FY-2007 apportionment of gasoline and diesel taxes.

| Motor Fuels Tax Apportionment | | |
|--------------------------------------|---------------------|-------------------|
| | <u>Gasoline Tax</u> | <u>Diesel Tax</u> |
| General Revenue Fund | 1.625% | 1.390% |
| 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% |

Gross Production Taxes

Gross production or severance taxes are imposed on the removal of natural products, such as natural gas and oil, 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 state revenue.

While the ad valorem property tax became strictly a local tax in the 1930s, the oil and gas gross production tax have continued to be an important source of revenue for state government, schools and road building and maintenance. The graph below shows that state's reliance on gross production tax revenue has significantly decreased from FY-82 to FY-2004.

Oil and natural gas have a three-tiered tax rate structure that specifies a certain tax rate based on the current price of oil or natural gas. For natural gas, if the price per thousand cubic feet (MCF) is greater than \$2.10, the tax rate is 7%. If the price is between \$2.10 and \$1.75 per MCF, then the rate is 4% and any price lower than \$1.75 results in a tax rate of 1%. For oil, the price must be greater than \$17 per barrel for the tax rate to be 7%. If the price is between \$17 and \$14 per barrel, the tax rate is 4%, and a price below \$14 per barrel yields a 1% tax rate. The charts below show the apportionment for the revenue from gross production tax on oil and natural gas.

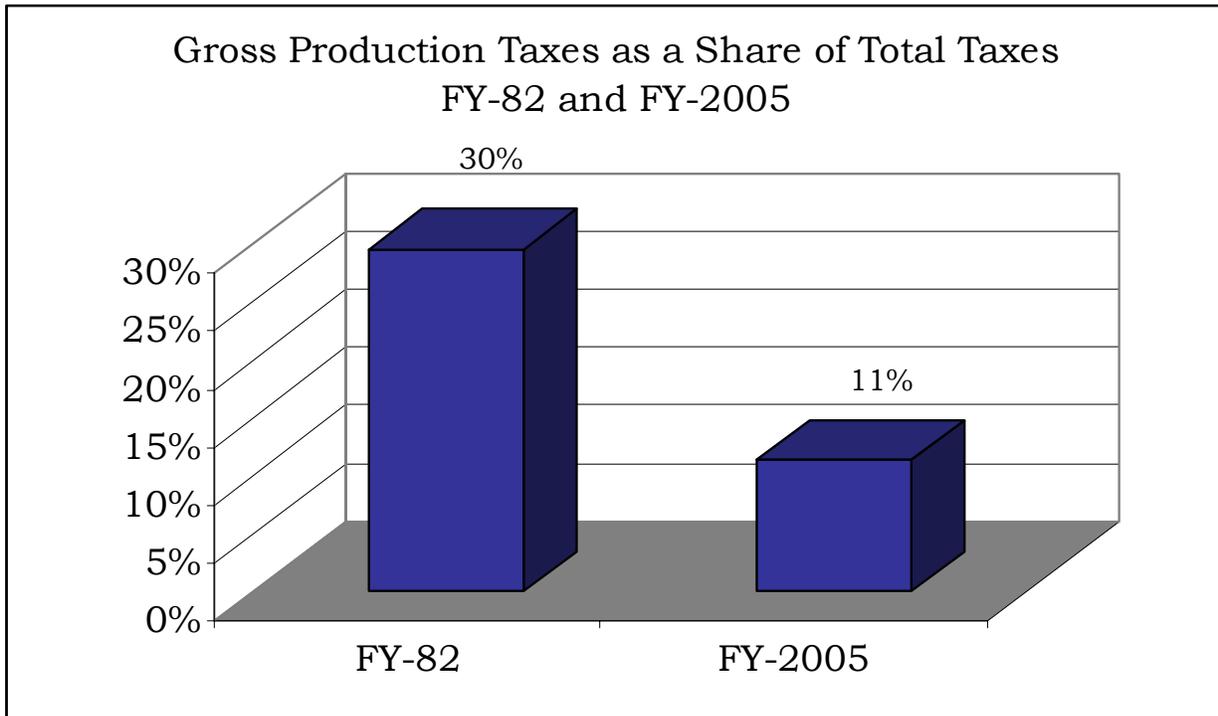
Gross Production Tax – Oil Apportionment

| | |
|----------------------------------|--------|
| Common Education Technology Fund | 25.72% |
| OK Student Aid Revolving Fund | 25.72% |
| Higher Education Capital Fund | 25.72% |
| County Highways | 7.14% |
| School Districts | 7.14% |
| Water Resources Board Fund | 4.28% |
| County Roads and Bridges | 4.28% |

Gross Production Tax – Natural Gas Apportionment

| | |
|----------------------|--------|
| General Revenue Fund | 85.72% |
| County Highways | 7.14% |
| School Districts | 7.14% |

The graph below shows that the state’s reliance of gross production tax revenue has decreased from FY-82 to FY-2005. In FY-1982, gross production taxes comprised over 30% of total state tax revenue but in FY-2005, gross production taxes only comprised 11% of total state tax revenue.



FY-2007 Executive Budget

| Constitutional Reserve "Rainy Day" Fund (CRF) History | | | | | |
|---|---------------|---------------|--------------|--------------|---------------|
| Description | FY-88 | FY-89 | FY-90 | FY-91 | FY-92 |
| Beginning RDF Balance | 0 | 77,994,351 | 152,804,609 | 151,734,223 | 196,861,899 |
| Adjustments to the Balance | 0 | 0 | 0 | 10,464 | 25,176 |
| Appropriations | 0 | (26,000,000) | (75,000,000) | (30,000,000) | (61,878,177) |
| -Budget Stabilization | | | | | |
| 1)Current Fiscal Year | - | - | - | - | - |
| 2)Next Fiscal Year | - | - | - | - | - |
| -Emergency | - | 38,997,176 | 76,402,305 | 75,867,112 | 98,430,950 |
| End of FY Deposit | 77,994,351 | 100,810,258 | 73,929,614 | 75,117,212 | 0 |
| Ending Balance | 77,994,351 | 152,804,609 | 151,734,223 | 196,861,899 | 135,008,898 |
| Description | FY-93 | FY-94 | FY-95 | FY-96 | FY-97 |
| Beginning RDF Balance | 135,008,898 | 91,140,995 | 45,574,052 | 45,574,052 | 114,300,821 |
| Adjustments to the Balance | 0 | 3,555 | 0 | 12,909 | 388,745 |
| Appropriations | (43,867,903) | (45,570,498) | 0 | (22,688,345) | (52,825,496) |
| -Budget Stabilization | | | | | |
| 1)Current Fiscal Year | - | - | - | - | - |
| 2)Next Fiscal Year | - | - | - | - | - |
| -Emergency | 67,504,449 | 45,570,498 | 22,787,026 | 22,787,026 | 57,150,411 |
| End of FY Deposit | 0 | 0 | 0 | 91,402,205 | 247,042,463 |
| Ending Balance | 91,140,995 | 45,574,052 | 45,574,052 | 114,300,821 | 308,906,533 |
| Description | FY-98 | FY-99 | FY-00 | FY-01 | FY-02 |
| Beginning RDF Balance | 308,906,533 | 297,360,609 | 149,858,523 | 157,542,574 | 340,685,730 |
| Adjustments to the Balance | 0 | 1,119,324 | 28,700 | 9,826 | 299,087 |
| Appropriations | (154,444,000) | (148,621,410) | (74,929,261) | (78,771,287) | (268,585,822) |
| -Budget Stabilization | | | | | |
| 1)Current Fiscal Year | - | - | - | - | 98,242,957 |
| 2)Next Fiscal Year | - | - | - | - | - |
| -Emergency | 154,453,266 | 148,680,304 | 74,929,262 | 78,771,287 | 170,342,865 |
| End of FY Deposit | 142,898,076 | 0 | 82,584,612 | 261,904,617 | 0 |
| Ending Balance | 297,360,609 | 149,858,523 | 157,542,574 | 340,685,730 | 72,398,995 |
| Description | FY-03 | FY-04 | FY-05 | FY-06 | |
| Beginning RDF Balance | 72,398,995 | 136,333 | 217,501,299 | 461,316,574 | |
| Adjustments to the Balance | 0 | 0 | 0 | 0 | |
| Appropriations | (72,262,663) | 0 | 0 | | |
| -Budget Stabilization | | | | | |
| 1)Current Fiscal Year | 36,199,498 | 68,167 | - | - | |
| 2)Next Fiscal Year | - | - | - | - | |
| -Emergency | 36,199,498 | 68,167 | 54,375,325 | 115,329,143 | |
| End of FY Deposit | 0 | 217,364,966 | 243,815,275 | N/A | |
| Ending Balance | 136,333 | 217,501,299 | 461,316,574 | N/A | |

FY-2007 EXECUTIVE BUDGET

| Agency / Cabinet Name | 1 FY-2004 Appropriation | 2 Percent Change | 3 Percent of Total | 4 FY-2005 Appropriation | 5 Percent Change | 6 Percent of Total | 7 FY-2006 Appropriation | 8 Percent Change | 9 Percent of Total |
|----------------------------------|-------------------------------|------------------------|--------------------------|-------------------------------|------------------------|--------------------------|-------------------------------|------------------------|--------------------------|
| SUMMARY BY CABINET | | | | | | | | | |
| Governor | \$2,477,659 | -8.63% | 0.05% | \$2,522,709 | 1.82% | 0.05% | \$2,578,710 | 2.22% | 0.04% |
| Lieutenant Governor | 467,494 | -8.63% | 0.01% | 523,259 | 11.93% | 0.01% | 592,436 | 13.22% | 0.01% |
| Agriculture | 28,831,333 | -17.14% | 0.56% | 31,848,688 | 10.47% | 0.59% | 36,999,997 | 16.17% | 0.60% |
| Commerce and Tourism | 63,998,113 | -24.84% | 1.24% | 88,287,668 | 37.95% | 1.64% | 90,522,534 | 2.53% | 1.46% |
| Education | 2,858,400,494 | 1.79% | 55.41% | 2,956,750,789 | 3.44% | 54.80% | 3,208,748,707 | 8.52% | 51.86% |
| Energy | 8,719,937 | -16.13% | 0.17% | 12,582,566 | 44.30% | 0.23% | 13,203,355 | 4.93% | 0.21% |
| Environment | 12,157,415 | -16.09% | 0.24% | 16,127,241 | 32.65% | 0.30% | 15,340,476 | -4.88% | 0.25% |
| Finance and Revenue | 81,721,455 | 7.98% | 1.58% | 82,467,889 | 0.91% | 1.53% | 86,666,319 | 5.09% | 1.40% |
| Health | 672,266,224 | 2.29% | 13.03% | 734,296,501 | 9.23% | 13.61% | 909,937,163 | 23.92% | 14.71% |
| Human Resources & Administration | 19,566,694 | -13.77% | 0.38% | 19,764,541 | 1.01% | 0.37% | 20,509,420 | 3.77% | 0.33% |
| Human Services | 511,831,053 | -1.05% | 9.92% | 537,036,870 | 4.92% | 9.95% | 619,191,715 | 15.30% | 10.01% |
| Military Affairs | 7,021,379 | -4.68% | 0.14% | 8,062,531 | 14.83% | 0.15% | 12,546,432 | 55.61% | 0.20% |
| Safety and Security | 510,297,813 | -0.18% | 9.89% | 525,415,718 | 2.96% | 9.74% | 578,165,197 | 10.04% | 9.34% |
| Science and Technology | 11,014,880 | -6.28% | 0.25% | 11,669,647 | 5.94% | 0.26% | 12,400,942 | 6.27% | 0.28% |
| Secretary of State | 9,340,012 | 16.45% | 0.28% | 8,280,955 | -11.34% | 0.25% | 7,903,126 | -4.56% | 0.24% |
| Transportation | 192,701,238 | -21.57% | 3.74% | 201,394,127 | 4.51% | 3.73% | 275,671,401 | 36.88% | 4.46% |
| Veterans | 26,943,202 | 8.22% | 0.52% | 30,091,172 | 11.68% | 0.56% | 36,040,332 | 19.77% | 0.58% |
| OPERS - Deferred Comp. | 0 | <u>0.00%</u> | <u>0.00%</u> | 0 | <u>0.00%</u> | <u>0.00%</u> | 0 | <u>0.00%</u> | <u>0.00%</u> |
| Total Executive Branch | \$5,017,756,395 | -0.40% | 97.27% | \$5,267,122,871 | 4.97% | 97.62% | \$5,927,018,262 | 12.53% | 95.79% |
| The Legislature | \$31,646,832 | -8.63% | 0.61% | \$33,153,570 | 4.76% | 0.61% | \$34,191,830 | 3.13% | 0.55% |
| The Judiciary | <u>59,185,743</u> | 0.33% | 1.15% | <u>62,901,720</u> | 6.28% | 1.17% | <u>70,493,724</u> | 12.07% | 1.14% |
| Total Legis. & Judic. | \$90,832,575 | -2.99% | 1.76% | \$96,055,290 | 5.75% | 1.78% | \$104,685,554 | 8.98% | 1.69% |
| Total Excl. Supps. / Ret. | \$5,108,588,970 | -0.45% | 99.03% | \$5,363,178,161 | 4.98% | 99.40% | \$6,031,703,816 | 12.47% | 97.48% |
| Supplementals & Emerg. Fund | <u>50,233,911</u> | -45.59% | 0.97% | <u>32,587,017</u> | -35.13% | 0.60% | <u>155,841,940</u> | 378.23% | 2.52% |
| TOTAL APPROPRIATIONS | \$5,158,822,881 | -1.25% | 100.00% | \$5,395,765,178 | 4.59% | 100.00% | \$6,187,545,756 | 14.67% | 100.00% |

FY-2007 EXECUTIVE BUDGET

| Agency / Cabinet Name | 1 FY-2004 Appropriation | 2 Percent Change | 3 Percent of Total | 4 FY-2005 Appropriation | 5 Percent Change | 6 Percent of Total | 7 FY-2006 Appropriation | 8 Percent Change | 9 Percent of Total |
|-------------------------------------|-------------------------------|------------------------|--------------------------|-------------------------------|------------------------|--------------------------|-------------------------------|------------------------|--------------------------|
| GOVERNOR, LT. GOVERNOR | | | | | | | | | |
| Governor | \$2,477,659 | -8.63% | 0.05% | \$2,522,709 | 1.82% | 0.05% | \$2,578,710 | 2.22% | 0.04% |
| Lieutenant Governor | <u>467,494</u> | -8.63% | 0.01% | <u>523,259</u> | 11.93% | 0.01% | <u>592,436</u> | 13.22% | 0.01% |
| TOTAL GOV., LT. GOV. | \$2,945,153 | -8.63% | 0.06% | \$3,045,968 | 3.42% | 0.06% | \$3,171,146 | 4.11% | 0.05% |
| AGRICULTURE | | | | | | | | | |
| Agriculture | \$22,610,776 | -19.23% | 0.44% | \$24,231,030 | 7.17% | 0.45% | \$27,196,069 | 12.24% | 0.44% |
| Conservation Commission | <u>6,220,557</u> | -8.50% | 0.12% | <u>7,617,658</u> | 22.46% | 0.14% | <u>9,803,928</u> | 28.70% | 0.16% |
| TOTAL AGRICULTURE | \$28,831,333 | -17.14% | 0.56% | \$31,848,688 | 10.47% | 0.59% | \$36,999,997 | 16.17% | 0.60% |
| COMMERCE AND TOURISM | | | | | | | | | |
| Commerce, Department of | \$22,008,606 | -23.15% | 0.43% | \$33,337,845 | 51.48% | 0.62% | \$27,334,663 | -18.01% | 0.44% |
| Centennial Commission | 526,503 | -11.94% | 0.01% | 536,453 | 1.89% | 0.01% | 3,899,630 | 626.93% | 0.06% |
| Historical Society | 8,537,394 | -12.97% | 0.17% | 10,142,253 | 18.80% | 0.19% | 13,106,387 | 29.23% | 0.21% |
| J.M. Davis Memorial Comm. | 299,604 | -11.94% | 0.01% | 330,983 | 10.47% | 0.01% | 347,454 | 4.98% | 0.01% |
| Labor Department | 2,958,570 | -15.92% | 0.06% | 3,061,658 | 3.48% | 0.06% | 3,224,721 | 5.33% | 0.05% |
| Native American Cultural Center | 0 | -100.00% | 0.00% | 0 | n/a | 0.00% | 0 | n/a | 0.00% |
| REAP -local gov't thru Aud & Insp* | 6,000,000 | -57.85% | 0.12% | 15,500,000 | 158.33% | 0.29% | 15,500,000 | 0.00% | 0.25% |
| Scenic Rivers Commission | 258,156 | n/a | 0.01% | 333,158 | n/a | 0.01% | 323,041 | n/a | 0.01% |
| Tourism & Recreation Dept. | 22,616,482 | -14.34% | 0.44% | 24,162,640 | 6.84% | 0.45% | 25,955,959 | 7.42% | 0.42% |
| Wildlife Conservation Comm. | 0 | n/a | 0.00% | 0 | n/a | 0.00% | 0 | n/a | 0.00% |
| Will Rogers Memorial Comm. | <u>792,798</u> | -11.94% | 0.02% | <u>882,678</u> | 11.34% | 0.02% | <u>830,679</u> | -5.89% | 0.01% |
| TOTAL COMMERCE & TOURISM | \$63,998,113 | -24.84% | 1.24% | \$88,287,668 | 37.95% | 1.64% | \$90,522,534 | 2.53% | 1.46% |
| EDUCATION | | | | | | | | | |
| Arts Council | \$3,864,077 | -4.09% | 0.07% | \$3,923,871 | 1.55% | 0.07% | \$4,243,338 | 8.14% | 0.07% |
| Education, Department of | 1,950,625,265 | 4.68% | 37.81% | 2,007,663,450 | 2.92% | 37.21% | 2,164,263,450 | 7.80% | 34.98% |
| Educational TV Authority | 3,448,064 | -1.22% | 0.07% | 4,201,753 | 21.86% | 0.08% | 4,624,059 | 10.05% | 0.07% |
| Higher Educ., Regents for | 768,130,523 | -4.01% | 14.89% | 802,136,296 | 4.43% | 14.87% | 889,433,880 | 10.88% | 14.37% |
| Department of Libraries | 6,166,270 | -4.09% | 0.12% | 6,212,118 | 0.74% | 0.12% | 6,681,355 | 7.55% | 0.11% |
| Private Vo-Tech Schools Board | 152,989 | -1.22% | 0.00% | 155,456 | 1.61% | 0.00% | 171,879 | 10.56% | 0.00% |
| School of Science & Mathematics | 6,204,693 | 1.97% | 0.12% | 6,572,319 | 5.92% | 0.12% | 7,020,513 | 6.82% | 0.11% |
| Teacher Preparation Commission | 1,986,006 | -4.09% | 0.04% | 1,998,168 | 0.61% | 0.04% | 2,022,875 | 1.24% | 0.03% |
| Career & Technology Education | <u>117,822,607</u> | -3.74% | 2.28% | <u>123,887,358</u> | 5.15% | 2.30% | <u>130,287,358</u> | 5.17% | 2.11% |
| TOTAL EDUCATION | \$2,858,400,494 | 1.79% | 55.41% | \$2,956,750,789 | 3.44% | 54.80% | \$3,208,748,707 | 8.52% | 51.86% |

FY-2007 EXECUTIVE BUDGET

| Agency / Cabinet Name | 1 FY-2004 Appropriation | 2 Percent Change | 3 Percent of Total | 4 FY-2005 Appropriation | 5 Percent Change | 6 Percent of Total | 7 FY-2006 Appropriation | 8 Percent Change | 9 Percent of Total |
|------------------------------------|-------------------------------|------------------------|--------------------------|-------------------------------|------------------------|--------------------------|-------------------------------|------------------------|--------------------------|
| ENERGY | | | | | | | | | |
| Corporation Commission | \$7,997,813 | -11.94% | 0.16% | \$11,767,056 | 47.13% | 0.22% | \$12,354,190 | 4.99% | 0.20% |
| LP Gas, Marketing & Research | 0 | n/a | 0.00% | 0 | n/a | 0.00% | 0 | n/a | 0.00% |
| Liquefied Petroleum Gas Board | 0 | -100.00% | 0.00% | 0 | n/a | 0.00% | 0 | n/a | 0.00% |
| Mines, Department of | <u>722,124</u> | -20.60% | 0.01% | <u>815,510</u> | 12.93% | 0.02% | <u>849,165</u> | 4.13% | 0.01% |
| TOTAL ENERGY | \$8,719,937 | -16.13% | 0.17% | \$12,582,566 | 44.30% | 0.23% | \$13,203,355 | 4.93% | 0.21% |
| ENVIRONMENT | | | | | | | | | |
| Environmental Quality, Dept. of | \$5,928,921 | -14.82% | 0.11% | \$9,495,264 | 60.15% | 0.18% | \$8,166,580 | -13.99% | 0.13% |
| Pollution Control Board | 0 | n/a | 0.00% | 0 | n/a | 0.00% | 0 | n/a | 0.00% |
| Water Resources Board | 4,028,476 | 12.48% | 0.08% | 4,431,977 | 10.02% | 0.08% | 4,373,896 | -1.31% | 0.07% |
| Water Resources - REAP | <u>2,200,018</u> | -44.25% | 0.04% | <u>2,200,000</u> | 0.00% | 0.04% | <u>2,800,000</u> | 27.27% | 0.05% |
| TOTAL ENVIRONMENT | \$12,157,415 | -16.09% | 0.24% | \$16,127,241 | 32.65% | 0.30% | \$15,340,476 | -4.88% | 0.25% |
| FINANCE & REVENUE | | | | | | | | | |
| Auditor & Inspector | \$5,226,966 | -5.67% | 0.10% | \$5,523,603 | 5.68% | 0.10% | \$5,988,786 | 8.42% | 0.10% |
| Ad Valorem Task Force | 0 | n/a | 0.00% | 0 | n/a | 0.00% | 0 | n/a | 0.00% |
| Banking Department | 0 | -100.00% | 0.00% | 0 | n/a | 0.00% | 0 | n/a | 0.00% |
| Bond Advisor | 163,527 | n/a | 0.00% | 188,096 | 15.02% | 0.00% | 181,212 | -3.66% | 0.00% |
| Capitol Improvement Authority | 0 | n/a | 0.00% | 0 | n/a | 0.00% | 0 | n/a | 0.00% |
| Consumer Credit Commission | 602,747 | -11.94% | 0.01% | 616,513 | 2.28% | 0.01% | 637,925 | 3.47% | 0.01% |
| Insurance Department | 2,072,157 | -22.66% | 0.04% | 2,136,301 | 3.10% | 0.04% | 2,231,595 | 4.46% | 0.04% |
| Finance, Office of State | 20,080,825 | 140.60% | 0.39% | 22,866,800 | 13.87% | 0.42% | 22,756,515 | -0.48% | 0.37% |
| Land Office Commission | 4,095,100 | 0.00% | 0.08% | 4,747,965 | 15.94% | 0.09% | 4,719,497 | -0.60% | 0.08% |
| Securities Commission | 501,088 | -22.67% | 0.01% | 0 | -100.00% | 0.00% | 0 | #DIV/0! | 0.00% |
| Tax Commission | 44,601,406 | -2.75% | 0.86% | 41,462,019 | -7.04% | 0.77% | 45,626,291 | 10.04% | 0.74% |
| Treasurer | <u>4,377,639</u> | -11.08% | 0.08% | <u>4,926,592</u> | 12.54% | 0.09% | <u>4,524,498</u> | -8.16% | 0.07% |
| TOTAL FINANCE & REVENUE | \$81,721,455 | 7.98% | 1.58% | \$82,467,889 | 0.91% | 1.53% | \$86,666,319 | 5.09% | 1.40% |
| HEALTH | | | | | | | | | |
| Health Department | 53,649,633 | -10.70% | 1.04% | 57,563,226 | 7.29% | 1.07% | 62,790,819 | 9.08% | 1.01% |
| Health Care Authority | 439,000,000 | 5.13% | 8.51% | 482,256,505 | 9.85% | 8.94% | 634,786,355 | 31.63% | 10.26% |
| Health Planning Commission | 0 | n/a | 0.00% | 0 | n/a | 0.00% | 0 | n/a | 0.00% |
| Mental Health Department | 145,018,006 | 2.95% | 2.81% | 155,447,428 | 7.19% | 2.88% | 171,810,647 | 10.53% | 2.78% |
| University Hospitals Authority | <u>34,598,585</u> | -10.64% | 0.67% | <u>39,029,342</u> | 12.81% | 0.72% | <u>40,549,342</u> | 3.89% | 0.66% |
| TOTAL HEALTH | \$672,266,224 | 2.29% | 13.03% | \$734,296,501 | 9.23% | 13.61% | \$909,937,163 | 23.92% | 14.71% |

FY-2007 EXECUTIVE BUDGET

| Agency / Cabinet Name | 1 FY-2004 Appropriation | 2 Percent Change | 3 Percent of Total | 4 FY-2005 Appropriation | 5 Percent Change | 6 Percent of Total | 7 FY-2006 Appropriation | 8 Percent Change | 9 Percent of Total |
|---|-------------------------------|------------------------|--------------------------|-------------------------------|------------------------|--------------------------|-------------------------------|------------------------|--------------------------|
| HUMAN RESOURCES AND ADMINISTRATION | | | | | | | | | |
| Employment Security Comm. | \$0 | n/a | 0.00% | \$0 | n/a | 0.00% | \$0 | n/a | 0.00% |
| Merit Protection Commission | 504,885 | -8.63% | 0.01% | 512,154 | 1.44% | 0.01% | 565,684 | 10.45% | 0.01% |
| Personnel Management | 4,602,700 | -8.63% | 0.09% | 4,497,011 | -2.30% | 0.08% | 4,633,249 | 3.03% | 0.07% |
| Central Services, Dept. of (DCS) | 12,047,361 | -16.13% | 0.23% | 12,234,432 | 1.55% | 0.23% | 12,263,035 | 0.23% | 0.20% |
| DCS Capital Improvement Fund | 0 | n/a | 0.00% | 0 | n/a | 0.00% | 0 | n/a | 0.00% |
| Horse Racing Commission | 1,761,748 | -11.94% | 0.03% | 1,858,182 | 5.47% | 0.03% | 2,360,889 | 27.05% | 0.04% |
| Human Rights Commission | <u>650,000</u> | -11.85% | 0.01% | <u>662,762</u> | 1.96% | 0.01% | <u>686,563</u> | 3.59% | 0.01% |
| TOTAL HUMAN RESOURCES AND ADMINISTRATION | \$19,566,694 | -13.77% | 0.38% | \$19,764,541 | 1.01% | 0.37% | \$20,509,420 | 3.77% | 0.33% |
| HUMAN SERVICES | | | | | | | | | |
| Children & Youth Commission | \$1,550,000 | -5.16% | 0.03% | \$1,569,789 | 1.28% | 0.03% | \$1,725,018 | 9.89% | 0.03% |
| Handicapped Concerns | 356,000 | -1.49% | 0.01% | 362,128 | 1.72% | 0.01% | 376,944 | 4.09% | 0.01% |
| Human Services Department | 387,455,619 | -0.04% | 7.51% | 408,330,849 | 5.39% | 7.57% | 481,991,177 | 18.04% | 7.79% |
| Indian Affairs Commission | 244,000 | -5.47% | 0.00% | 248,942 | 2.03% | 0.00% | 255,530 | 2.65% | 0.00% |
| J. D. McCarty Center | 2,457,898 | -10.59% | 0.05% | 3,162,767 | 28.68% | 0.06% | 3,792,283 | 19.90% | 0.06% |
| Office of Juvenile Affairs | 90,000,000 | -5.76% | 1.74% | 92,858,160 | 3.18% | 1.72% | 98,323,348 | 5.89% | 1.59% |
| Phys. Manpower Trng. Comm. | 5,017,536 | -4.56% | 0.10% | 5,024,607 | 0.14% | 0.09% | 5,361,490 | 6.70% | 0.09% |
| Rehabilitation Svcs., Dept. of | <u>24,750,000</u> | 3.72% | 0.48% | <u>25,479,628</u> | 2.95% | 0.47% | <u>27,365,925</u> | 7.40% | 0.44% |
| TOTAL HUMAN SERVICES | \$511,831,053 | -1.05% | 9.92% | \$537,036,870 | 4.92% | 9.95% | \$619,191,715 | 15.30% | 10.01% |
| MILITARY AFFAIRS | | | | | | | | | |
| Military Department | \$7,021,379 | -4.68% | 0.14% | \$8,062,531 | 14.83% | 0.15% | \$12,546,432 | 55.61% | 0.20% |
| SAFETY AND SECURITY | | | | | | | | | |
| A.B.L.E. Commission | \$3,431,691 | -8.29% | 0.07% | \$3,626,853 | 5.69% | 0.07% | \$3,738,839 | 3.09% | 0.06% |
| Attorney General | 5,794,927 | -12.74% | 0.11% | 5,953,778 | 2.74% | 0.11% | 11,286,462 | 89.57% | 0.18% |
| Emergency Management, Dept. of | 666,226 | -4.68% | 0.01% | 680,972 | 2.21% | 0.01% | 1,355,561 | 99.06% | 0.02% |
| Corrections Department | 373,931,566 | 2.03% | 7.25% | 384,286,568 | 2.77% | 7.12% | 409,443,403 | 6.55% | 6.62% |
| District Attorneys Council | 25,972,055 | -8.26% | 0.50% | 26,926,731 | 3.68% | 0.50% | 30,592,742 | 13.61% | 0.49% |
| Fire Marshal | 1,504,323 | -14.00% | 0.03% | 1,537,061 | 2.18% | 0.03% | 1,685,180 | 9.64% | 0.03% |
| Indigent Defense System | 14,243,912 | -1.21% | 0.28% | 14,428,761 | 1.30% | 0.27% | 15,633,001 | 8.35% | 0.25% |
| Investigation, Bureau of | 9,441,383 | -5.79% | 0.18% | 9,681,910 | 2.55% | 0.18% | 11,154,628 | 15.21% | 0.18% |
| Law Enf. Educ. & Training | 2,649,441 | -7.29% | 0.05% | 2,686,318 | 1.39% | 0.05% | 2,758,783 | 2.70% | 0.04% |
| Medicolegal Invest., Board of | 3,257,458 | -10.90% | 0.06% | 3,427,372 | 5.22% | 0.06% | 3,922,904 | 14.46% | 0.06% |

FY-2007 EXECUTIVE BUDGET

| | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 |
|------------------------------------|------------------------|---------|------------|------------------------|---------|------------|------------------------|---------|------------|
| | FY-2004 | Percent | Percent of | FY-2005 | Percent | Percent of | FY-2006 | Percent | Percent of |
| Agency / Cabinet Name | Appropriation | Change | Total | Appropriation | Change | Total | Appropriation | Change | Total |
| Narc. & Dang. Drugs Control | 4,859,814 | -12.09% | 0.09% | 4,967,062 | 2.21% | 0.09% | 5,389,595 | 8.51% | 0.09% |
| Pardon and Parole Board | 2,115,485 | -3.74% | 0.04% | 2,150,328 | 1.65% | 0.04% | 2,316,329 | 7.72% | 0.04% |
| Public Safety, Department of | <u>62,429,532</u> | -3.85% | 1.21% | <u>65,062,004</u> | 4.22% | 1.21% | <u>78,887,770</u> | 21.25% | 1.27% |
| TOTAL SAFETY & SECURITY | \$510,297,813 | -0.18% | 9.89% | \$525,415,718 | 2.96% | 9.74% | \$578,165,197 | 10.04% | 9.34% |
| SECRETARY OF STATE | | | | | | | | | |
| Council on Judicial Complaints | \$267,999 | -4.78% | 0.01% | \$271,152 | 1.18% | 0.01% | \$278,826 | 2.83% | 0.00% |
| Election Board | 8,195,395 | 20.41% | 0.16% | 7,072,129 | -13.71% | 0.13% | 6,621,839 | -6.37% | 0.11% |
| Ethics Commission | 447,124 | -0.63% | 0.01% | 480,747 | 7.52% | 0.01% | 492,277 | 2.40% | 0.01% |
| Secretary of State | <u>429,494</u> | -11.10% | 0.01% | <u>456,927</u> | 6.39% | 0.01% | <u>510,184</u> | 11.66% | 0.01% |
| TOTAL SECRETARY OF STATE | \$9,340,012 | 16.45% | 0.18% | \$8,280,955 | -11.34% | 0.15% | \$7,903,126 | -4.56% | 0.13% |
| SCIENCE AND TECHNOLOGY | | | | | | | | | |
| OCAST | \$11,014,880 | -6.28% | 0.21% | \$11,669,647 | 5.94% | 0.22% | \$12,400,942 | 6.27% | 0.20% |
| TRANSPORTATION | | | | | | | | | |
| Transportation Department | \$192,185,387 | -21.49% | 3.73% | \$200,875,804 | 4.52% | 3.72% | \$275,148,137 | 36.97% | 4.45% |
| Space Industry Develop. Authority | <u>515,851</u> | -43.86% | 0.01% | <u>518,323</u> | 0.48% | 0.01% | <u>523,264</u> | 0.95% | 0.01% |
| TOTAL TRANSPORTATION | \$192,701,238 | -21.57% | 3.74% | \$201,394,127 | 4.51% | 3.73% | \$275,671,401 | 36.88% | 4.46% |
| VETERANS | | | | | | | | | |
| Veterans Affairs Department | \$26,943,202 | 8.22% | 0.52% | \$30,091,172 | 11.68% | 0.56% | \$36,040,332 | 19.77% | 0.58% |
| OPERS Deferred Comp. | <u>\$0</u> | 0.00% | 0.00% | <u>\$0</u> | 0.00% | 0.00% | <u>\$0</u> | 0.00% | 0.00% |
| TOTAL EXECUTIVE BRANCH | \$5,017,756,395 | -0.40% | 97.27% | \$5,267,122,871 | 4.97% | 97.62% | \$5,927,018,262 | 12.53% | 95.79% |
| LEGISLATURE | | | | | | | | | |
| House of Representatives | \$17,437,944 | -8.63% | 0.34% | \$18,080,670 | 3.69% | 0.34% | \$18,629,154 | 3.03% | 0.30% |
| Legislative Service Bureau | 2,060,968 | -8.63% | 0.04% | 2,303,193 | 11.75% | 0.04% | 2,415,783 | 4.89% | 0.04% |
| Senate | <u>12,147,920</u> | -8.63% | 0.24% | <u>12,769,707</u> | 5.12% | 0.24% | <u>13,146,893</u> | 2.95% | 0.21% |
| TOTAL LEGISLATURE | \$31,646,832 | -8.63% | 0.61% | \$33,153,570 | 4.76% | 0.61% | \$34,191,830 | 3.13% | 0.55% |

FY-2007 EXECUTIVE BUDGET

| Agency / Cabinet Name | 1 FY-2004 Appropriation | 2 Percent Change | 3 Percent of Total | 4 FY-2005 Appropriation | 5 Percent Change | 6 Percent of Total | 7 FY-2006 Appropriation | 8 Percent Change | 9 Percent of Total |
|---|-------------------------------|------------------------|--------------------------|-------------------------------|------------------------|--------------------------|-------------------------------|------------------------|--------------------------|
| JUDICIARY | | | | | | | | | |
| Court of Criminal Appeals | \$2,634,378 | 0.22% | 0.05% | \$2,750,541 | 4.41% | 0.05% | \$2,828,160 | 2.82% | 0.05% |
| District Courts | 40,897,067 | 3.05% | 0.79% | 43,043,226 | 5.25% | 0.80% | 47,300,000 | 9.89% | 0.76% |
| Supreme Court | 11,962,341 | -5.47% | 0.23% | 13,337,544 | 11.50% | 0.25% | 16,000,000 | 19.96% | 0.26% |
| Workers' Compensation Court | <u>3,691,957</u> | -8.26% | 0.07% | <u>3,770,409</u> | 2.12% | 0.07% | <u>4,365,564</u> | 15.78% | 0.07% |
| TOTAL JUDICIARY | \$59,185,743 | 0.33% | 1.15% | \$62,901,720 | 6.28% | 1.17% | \$70,493,724 | 12.07% | 1.14% |
| TOTAL EXCL. SUPPS./ & RETIREMENT SYSTEMS | \$5,108,588,970 | -0.45% | 99.03% | \$5,363,178,161 | 4.98% | 99.40% | \$6,031,703,816 | 12.47% | 97.48% |
| Supplementals & Emerg. Fund | <u>\$50,233,911</u> | -45.59% | 0.97% | <u>\$32,587,017</u> | -35.13% | 0.60% | <u>\$155,841,940</u> | 378.23% | 2.52% |
| TOTAL APPROPRIATIONS | \$5,158,822,881 | -1.25% | 100.00% | \$5,395,765,178 | 4.59% | 100.00% | \$6,187,545,756 | 14.67% | 100.00% |

FY-2006 Nonappropriated Agency Budgets and FTE

| | | FY-2006 | FY-2006 |
|--------------------------------------|--|----------------------|-------------------|
| <u>Agency Number and Name</u> | | <u>Budget</u> | <u>FTE</u> |
| 1. | 020 Accountancy Board | \$1,117,060 | 13.0 |
| 2. | 039 Boll Weevil Eradication Organization | 1,450,614 | 34.0 |
| 3. | 044 Anatomical Board | 36,000 | - |
| 4. | 045 Architects Board | 411,977 | 3.1 |
| 5. | 060 Aeronautics Commission | 5,714,816 | 10.5 |
| 6. | 065 Banking Department | 4,709,816 | 42.5 |
| 7. | 092 Tobacco Board of Directors | 9,996,449 | 4.0 |
| 8. | 140 Podiatry Board | 11,400 | - |
| 9. | 145 Chiropractic Examiners Board | 189,128 | 2.0 |
| 10. | 170 Construction Industries Board | 3,113,428 | 35.5 |
| 11. | 190 Costemology Board | 924,898 | 14.0 |
| 12. | 215 Dental Board | 438,716 | 4.0 |
| 13. | 285 Funeral Board | 325,000 | 5.0 |
| 14. | 290 Employment Security Commission | 42,335,000 | 745.0 |
| 15. | 307 Interstate Oil Compact Commission | 537,688 | 1.0 |
| 16. | 315 Firefighters Pension and Retirement Board | 9,170,223 | 12.0 |
| 17. | 320 Department of Wildlife Conservation | 34,842,801 | 349.0 |
| 18. | 343 State Board of Examiners of Perfusionists | 7,300 | - |
| 19. | 359 Energy Resources Board | 13,448,870 | - |
| 20. | 370 Industrial Finance Authority | 6,062,296 | 7.0 |
| 21. | 390 CompSource Oklahoma | 32,229,230 | 398.0 |
| 22. | 416 Law Enforcement Retirement System | 3,356 | 5.0 |
| 23. | 435 Lottery Commission | 16,776,044 | 56.8 |
| 24. | 444 L P Gas Research, Mktng & Safety Comm | 1,090,004 | - |
| 25. | 445 Liquefied Petroleum Gas Board | 700,000 | 8.0 |
| 26. | 446 Comm on Marginally Producing Oil & Gas Wells | 584,210 | 5.0 |
| 27. | 448 Board of Alcohol and Drug Counselors | 216,918 | 1.0 |
| 28. | 450 Medical Licensure Board | 2,966,879 | 25.0 |
| 29. | 475 Motor Vehicle Commission | 323,724 | 4.0 |
| 30. | 509 Nursing Home Administrators Board | 325,678 | 4.0 |
| 31. | 510 Board of Nursing | 2,494,723 | 25.0 |
| 32. | 515 Public Employees Retirement System | 9,350,849 | 67.0 |
| 33. | 516 State & Ed. Employees Group Insur. Board | 39,571,959 | 178.0 |
| 34. | 520 Optometry Board | 118,086 | 1.2 |
| 35. | 525 Osteopathic Examiners Board | 440,550 | 5.0 |
| 36. | 535 Peanut Commission | 192,772 | 1.0 |
| 37. | 557 Police Pension & Retirement Board | 5,177,371 | 11.0 |
| 38. | 560 Pharmacy Board | 976,983 | 8.1 |
| 39. | 570 Engineers & Land Surveyors Board | 904,000 | 7.2 |
| 40. | 575 Psychologists Board | 191,595 | 2.0 |
| 41. | 588 Real Estate Commission | 1,995,405 | 21.0 |
| 42. | 615 Foresters Board | 1,450 | - |
| 43. | 622 Social Workers Board | 134,486 | - |
| 44. | 630 Securities Commission | 4,182,436 | 27.8 |
| 45. | 632 Speech-Language Pathology & Audiology Board | 86,000 | 1.7 |
| 46. | 715 Teachers' Retirement System | 219,753,054 | 52.0 |
| 47. | 755 Used Motor Vehicle & Parts Commission | 738,000 | 12.0 |
| 48. | 772 Board of Tests for Alcohol / Drug Influence | 300,000 | 5.0 |
| 49. | 790 Veterinary Medical Examiners | 319,543 | 3.5 |
| 50. | 815 Employees Benefits Council | 5,300,335 | 31.0 |
| 51. | 875 Wheat Commission | 1,630,327 | 5.0 |
| 52. | 978 Oklahoma Turnpike Authority | 28,169,388 | 583.0 |
| Total: | | \$469,753,835 | 2,835.9 |

SUMMARY OF OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION ALLOCATIONS (2005-2006)

| <u>Regents' Allocation</u> | ORIGINAL ALLOCATION | % OF ORIGINAL ALLOCATION |
|--|--------------------------------|-------------------------------------|
| University of Oklahoma | \$118,558,340 | 13.33% |
| Oklahoma Natural Musuem of History | 3,171,091 | 0.36% |
| OU Law Center | 5,486,796 | 0.62% |
| OU Health Sciences Center | 79,071,767 | 8.89% |
| OU Tulsa | 7,498,677 | 0.84% |
| Oklahoma State University | 110,723,541 | 12.45% |
| OSU Fire Service Training Program | 981,782 | 0.11% |
| OSU Agriculture Experiment Station | 24,906,420 | 2.80% |
| OSU Agriculture Extension Division | 26,269,166 | 2.95% |
| OSU Technical Branch, Okmulgee | 13,293,530 | 1.49% |
| OSU College of Veterinary Medicine | 10,244,467 | 1.15% |
| OSU, Oklahoma City | 8,795,345 | 0.99% |
| OSU Center for Health Sciences | 12,684,835 | 1.43% |
| OSU Tulsa | 11,620,225 | 1.31% |
| University of Central Oklahoma | 45,408,297 | 5.11% |
| East Central University | 16,099,161 | 1.81% |
| Northeastern State University | 33,664,787 | 3.78% |
| Statewide Literacy Program - NSU | 73,229 | 0.01% |
| Northwestern Oklahoma State University | 8,959,681 | 1.01% |
| Southeastern Oklahoma State University | 17,502,471 | 1.97% |
| Southwestern Oklahoma State University | 21,019,467 | 2.36% |
| Cameron University | 19,998,001 | 2.25% |
| Langston University - Campus | 15,983,330 | 1.80% |
| Langston - Endowment | 1,779,115 | 0.20% |
| Oklahoma Panhandle State University | 6,666,783 | 0.75% |
| University of Science & Arts of Oklahoma | 6,433,312 | 0.72% |
| University of Science & Arts - Jane Brooks | 27,038 | 0.00% |
| Rogers State University | 12,352,510 | 1.39% |
| Carl Albert State College | 5,163,800 | 0.58% |
| Connors State College | 5,708,080 | 0.64% |
| Eastern Oklahoma State College | 5,940,806 | 0.67% |
| Murray State College | 4,727,886 | 0.53% |
| Northeastern Oklahoma A&M College | 8,242,094 | 0.93% |
| Northern Oklahoma College | 7,369,925 | 0.83% |
| Oklahoma City Community College | 19,012,248 | 2.14% |
| Redlands Community College | 4,296,903 | 0.48% |
| Rose State College | 18,940,700 | 2.13% |
| Seminole State College | 4,962,845 | 0.56% |
| Tulsa Community College | 30,935,396 | 3.48% |
| Western Oklahoma State College | 4,580,202 | 0.51% |
| Ardmore Higher Education Program | 617,739 | 0.07% |

SUMMARY OF OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION ALLOCATIONS (2005-2006)

| <u>Regents' Allocation cont.</u> | ORIGINAL ALLOCATION | % OF ORIGINAL ALLOCATION |
|---|--------------------------------|-------------------------------------|
| Ponca City Learning Site | 451,305 | 0.05% |
| OSF CORE Assessment Fees | 1,427,350 | 0.16% |
| Section 13 Offsets | 10,036,945 | 1.13% |
| Entry-Yr Tchr Prog Funds | 1,257,206 | 0.14% |
| State Regents' Budget | 6,542,247 | 0.74% |
| OneNet (includes Higher Ed User Fees) | 4,321,003 | 0.49% |
| Internet II / National Lamda Rail | 1,529,250 | 0.17% |
| Scholar-Leadership Enrichment Program | 280,882 | 0.03% |
| Economic Development Incentives | 3,181,628 | 0.36% |
| Regional University Scholarships | 800,229 | 0.09% |
| Prospective Teacher Scholarships | 100,000 | 0.01% |
| Chiropractic Scholarships | 40,000 | 0.00% |
| Teacher Education Assistance Program - indep inst | 120,104 | 0.01% |
| National Guard Waiver Program | 2,045,612 | 0.23% |
| Tulsa Reconciliation Scholarships | 50,000 | 0.01% |
| Teacher Shortage Incentive Program | 402,692 | 0.05% |
| Brain Gain 2010 | 4,000,000 | 0.45% |
| Student Preparation Program | 1,174,710 | 0.13% |
| Summer Academies Program | 300,000 | 0.03% |
| Oklahoma Tuition Aid Grants | 18,927,327 | 2.13% |
| Academic Scholars Program | 7,904,500 | 0.89% |
| Endowed Chairs Program | 7,500,000 | 0.84% |
| Academic Library Databases | 350,000 | 0.04% |
| Master Lease Program | 75,000 | 0.01% |
| OCIA Debt Service | 20,454,869 | 2.30% |
| EPSCoR | 2,699,647 | 0.30% |
| Quartz Mountain | 1,584,934 | 0.18% |
| OHLAP | 27,100,000 | 3.05% |
| George & Donna Nigh Scholarship | 70,000 | 0.01% |
| Oklahoma Tuition Equalization Program | 2,185,894 | 0.25% |
| Capital and One-Time Allocations | 1,990,238 | 0.22% |
| Office of Accountability | <u>758,520</u> | <u>0.09%</u> |
| TOTAL ALLOCATIONS OF APPROPRIATIONS * | \$889,433,880 | 100.00% |

* Includes \$63,318,647 from the Higher Education Capital Revolving Fund, \$59,318,647 from the Student Aid Revolving Fund, \$28,022,139 from the Lottery Trust Fund, \$7,232,343 from the OHLAP Trust Fund, and \$26,500,000 from the Special Cash Fund.

Appendix

Budget and Fiscal/Research Staff
State Organization Chart
State Agencies listed by Cabinet
Summary of FTE Changes
Personnel Changes
Glossary
Acronyms

Office of State Finance

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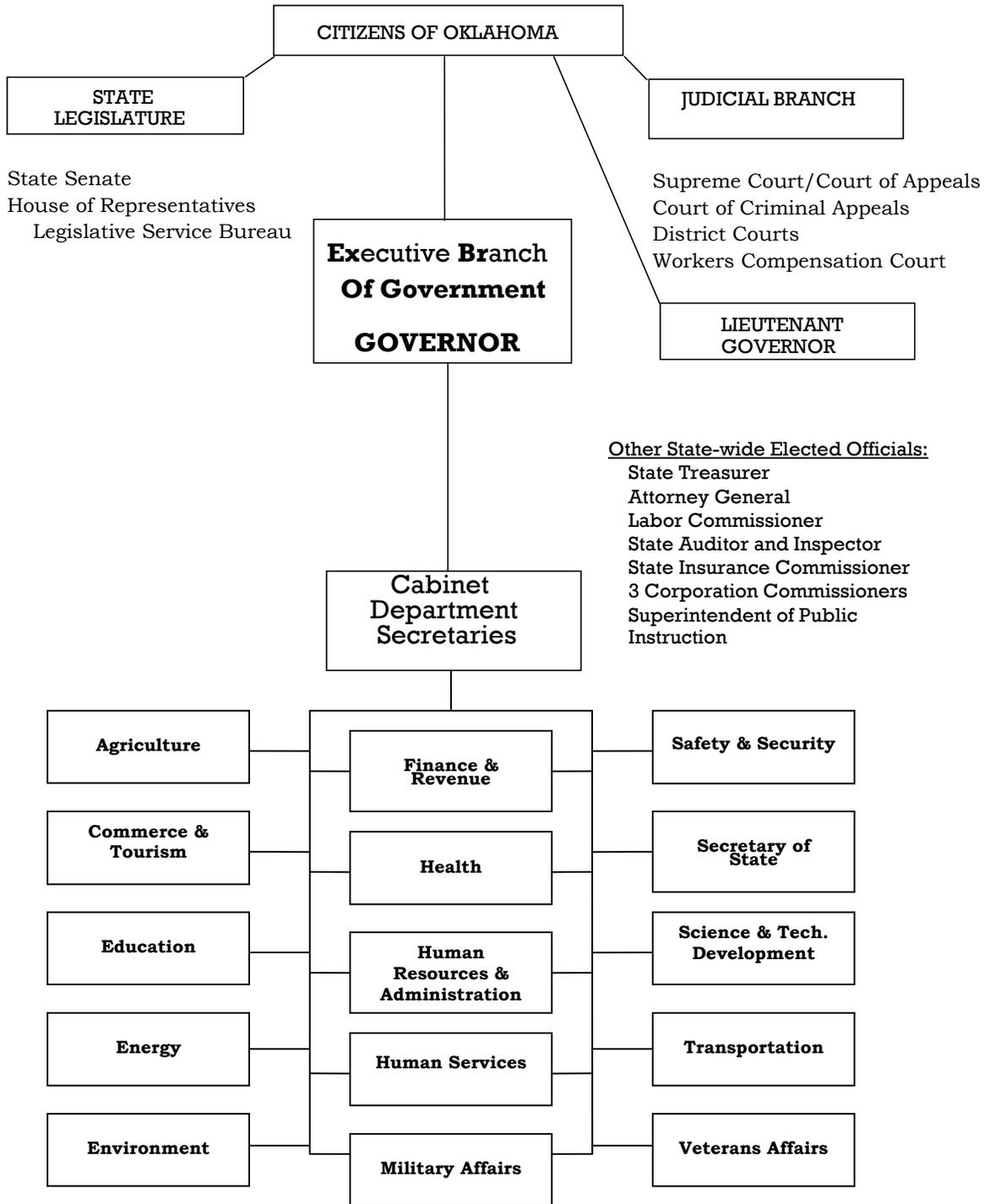
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The Cabinet Secretaries are appointed by the Governor with the approval of the Senate. Many of the secretaries are also heads of Executive Branch agencies. Most state agencies have a controlling board or commission which appoints a chief operating 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-2007 Executive Budget

| Cabinet/Agency | FY-2001 Actual | FY-2002 Actual | FY-2003 Actual | FY-2004 Actual | FY-2005 Actual | FY-2006 YTD |
|--|-------------------|-------------------|-------------------|-------------------|-------------------|----------------|
| Governor | 38.4 | 36.6 | 31.2 | 33.8 | 33.1 | 34.6 |
| Lieutenant Governor | 8.1 | 8.1 | 7.0 | 6.8 | 8.6 | 8.4 |
| Agriculture | 567.4 | 571.3 | 537.2 | 534.3 | 526.2 | 543.4 |
| Commerce and Tourism | 2,193.8 | 2,164.5 | 2,189.9 | 2,071.5 | 2,123.4 | 2233.1 |
| Education (excluding Higher Education) | 1,153.6 | 1,171.0 | 1,115.2 | 958.2 | 967.8 | 994.4 |
| Energy | 502.8 | 501.7 | 926.5 | 866.9 | 906.1 | 986.8 |
| Environment | 935.7 | 943.8 | 950.6 | 971.6 | 986.2 | 992.6 |
| Finance and Revenue | 2,105.4 | 2,131.7 | 2,039.9 | 1,989.1 | 1,965.3 | 2002.5 |
| Health | 4,345.3 | 4,457.5 | 4,409.6 | 4,239.7 | 4,446.6 | 4652.8 |
| Human Resources and Administration | 797.9 | 797.7 | 778.5 | 724.6 | 702.7 | 742.6 |
| Human Services | 9,650.9 | 9,932.4 | 9,793.5 | 9,515.2 | 9,743.2 | 9839.0 |
| Military | 408.2 | 413.7 | 392.9 | 331.5 | 341.8 | 365.9 |
| Safety and Security | 8,551.3 | 8,639.9 | 8,246.2 | 8,118.1 | 8,160.6 | 8204.3 |
| Science & Technology | 19.3 | 19.9 | 20.2 | 19.9 | 18.7 | 19.2 |
| Secretary of State | 69.1 | 67.6 | 67.8 | 66.8 | 67.8 | 65.3 |
| Transportation | 2,535.5 | 2,433.3 | 2,958.4 | 2,962.5 | 2,958.3 | 2955.7 |
| Veterans Affairs | 1,528.9 | 1,452.1 | 1,484.2 | 1,603.8 | 1,741.9 | 1810.6 |
| Sub-total | 35,411.6 | 35,742.7 | 35,948.8 | 35,014.3 | 35,698.3 | 36451.2 |
| Regents | 306.7 | 304.2 | 324.1 | 326.5 | 325.4 | 318.9 |
| Higher Education | 27,637.3 | 28,409.0 | 28,462.1 | 28,312.8 | 29,335.0 | 29886.9 |
| Sub-total | 27,944.0 | 28,713.2 | 28,786.2 | 28,639.3 | 29,660.4 | 30205.8 |
| Total Executive Branch | 63,355.6 | 64,455.9 | 64,735.0 | 63,653.6 | 65,358.7 | 66657.0 |
| Legislature | 539.4 | 540.1 | 532.7 | 513.5 | 507.3 | 457.8 |
| Judiciary | 881.0 | 898.8 | 878.2 | 868.2 | 871.8 | 879.8 |
| Sub-total | 1,420.4 | 1,439.0 | 1,410.9 | 1,381.7 | 1,379.1 | 1337.6 |
| GRAND TOTAL | 64,776.0 | 65,894.8 | 66,145.9 | 65,035.3 | 66,737.8 | 67994.6 |
| Total Excluding Higher Ed | 37,138.7 | 37,485.9 | 37,683.8 | 36,722.5 | 37,402.8 | 38107.7 |
| 305 Governor | 38.4 | 36.6 | 31.2 | 33.8 | 33.1 | 34.6 |
| 440 Lieutenant Governor | 8.1 | 8.1 | 7.0 | 6.8 | 8.6 | 8.4 |
| Agriculture | | | | | | |
| 40 Agriculture, Department of | 487.9 | 492.2 | 471.7 | 429.5 | 438.0 | 444.7 |
| 39 Boll Weevil Eradication | 57.2 | 57.3 | 44.5 | 41.9 | 26.5 | 35.9 |
| 645 Conservation Commission | 16.5 | 15.8 | 15.9 | 57.4 | 56.8 | 58.3 |
| 535 Peanut Commission | 1.0 | 1.0 | 0.0 | 0.0 | 1.0 | 1.0 |
| 631 Sheep & Wool Commission | 0.0 | 0.0 | 1.0 | 1.0 | 0.0 | 0.0 |
| 875 Wheat Commission | 4.8 | 5.0 | 4.1 | 4.5 | 3.9 | 3.5 |
| Total | 567.4 | 571.3 | 537.2 | 534.3 | 526.2 | 543.4 |

FY-2007 Executive Budget

| Cabinet/Agency | FY-2001 Actual | FY-2002 Actual | FY-2003 Actual | FY-2004 Actual | FY-2005 Actual | FY-2006 YTD |
|---|-------------------|-------------------|-------------------|-------------------|-------------------|----------------|
| Commerce and Tourism | | | | | | |
| 7 Centennial Commission | 6.6 | 8.6 | 8.0 | 7.0 | 7.6 | 6.9 |
| 160 Commerce, Department of | 147.1 | 144.4 | 136.5 | 118.9 | 133.4 | 147.6 |
| 290 Employment Security Commission, OK | 708.6 | 712.4 | 725.1 | 730.2 | 749.3 | 798.2 |
| 350 Historical Society, Oklahoma | 150.6 | 154.2 | 144.6 | 139.3 | 141.5 | 154.8 |
| 922 Housing Finance Authority | | | 109.8 | 112.3 | 112.8 | 112.0 |
| 370 Industrial Finance Authority | 7.8 | 7.1 | 7.1 | 7.7 | 6.8 | 6.8 |
| 204 J.M. Davis Memorial Commission | 8.9 | 9.3 | 9.0 | 7.2 | 6.5 | 7.0 |
| 405 Labor Department | 103.2 | 104.2 | 109.8 | 94.6 | 99.1 | 92.9 |
| 981 Municipal Power Authority | | | 46.3 | 45.7 | 46.9 | 48.8 |
| 568 Scenic Rivers Commission | N/A | N/A | 10.3 | 10.0 | 11.1 | 13.1 |
| 566 Tourism & Recreation, Department of | 1,046.6 | 1,010.4 | 871.5 | 787.7 | 797.0 | 833.7 |
| 880 Will Rogers Memorial Commission | 14.4 | 13.9 | 11.9 | 10.9 | 11.4 | 11.3 |
| Total | 2,193.8 | 2,164.5 | 2,189.9 | 2,071.5 | 2,123.4 | 2233.1 |
| Education (Excl. Higher Education) | | | | | | |
| 44 Anatomical Board | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| 55 Arts Council, State | 16.9 | 16.8 | 16.6 | 15.9 | 15.3 | 16.2 |
| 800 Career & Technology Education | 387.2 | 390.2 | 365.7 | 333.6 | 345.2 | 352.0 |
| 265 Education, State Department of | 481.4 | 479.9 | 453.0 | 337.6 | 338.3 | 351.8 |
| 266 Educational Television Authority | 72.0 | 72.1 | 67.1 | 66.2 | 63.1 | 65.2 |
| 430 Libraries, Department of | 74.3 | 74.8 | 72.6 | 67.5 | 65.5 | 66.4 |
| 563 Private Vocational Schools Board | 3.0 | 2.8 | 2.9 | 2.6 | 2.8 | 2.9 |
| 629 School of Science & Mathematics | 61.3 | 69.1 | 70.5 | 67.8 | 69.1 | 70.8 |
| 618 Student Loan Authority | 49.7 | 56.5 | 57.7 | 58.3 | 59.3 | 59.8 |
| 269 Teacher Preparation, OK Commission | 7.8 | 8.9 | 9.1 | 8.7 | 9.2 | 9.3 |
| Total | 1,153.6 | 1,171.0 | 1,115.2 | 958.2 | 967.8 | 994.4 |
| Energy | | | | | | |
| 185 Corporation Commission | 445.3 | 445.1 | 425.5 | 366.5 | 402.5 | 451.1 |
| 980 Grand River Dam Authority (GRDA) | | | 445.4 | 451.5 | 455.0 | 485.4 |
| 307 Interstate Oil Compact Commission | 2.0 | 1.7 | 1.0 | 0.0 | 0.4 | 1.0 |
| 445 Liquefied Petroleum Gas Board | 9.8 | 10.0 | 9.3 | 9.8 | 9.0 | 9.5 |
| 446 Marginally Producing Oil & Gas Wells | 3.1 | 3.1 | 4.1 | 3.5 | 3.5 | 4.0 |
| 125 Mines, Department of | 42.6 | 41.8 | 41.2 | 35.6 | 35.7 | 35.8 |
| Total | 502.8 | 501.7 | 926.5 | 866.9 | 906.1 | 986.8 |
| Environment | | | | | | |
| 292 Dept. of Environmental Quality (DEQ) | 516.0 | 517.6 | 526.9 | 538.5 | 546.9 | 546.7 |
| 835 Water Resources Board | 90.0 | 98.3 | 96.4 | 96.9 | 97.8 | 94.4 |
| 320 Wildlife Conservation Commission | 329.7 | 327.8 | 327.3 | 336.2 | 341.5 | 351.5 |
| Total | 935.7 | 943.8 | 950.6 | 971.6 | 986.2 | 992.6 |
| Finance and Revenue | | | | | | |
| 300 Auditor & Inspector | 159.6 | 160.2 | 148.5 | 147.1 | 152.1 | 153.2 |
| 65 Banking Department, State | 42.8 | 42.5 | 41.4 | 39.1 | 39.1 | 40.5 |
| 390 CompSource | 316.6 | 331.4 | 359.8 | 377.6 | 371.8 | 371.1 |
| 90 Finance, Office of State | 120.3 | 118.0 | 111.9 | 114.4 | 135.5 | 135.7 |
| 315 Firefighters Pension & Retirement | 9.2 | 9.6 | 10.2 | 11.0 | 10.5 | 9.7 |
| 385 Insurance Commissioner | 131.7 | 132.4 | 127.5 | 124.0 | 120.5 | 123.2 |
| 410 Land Office, Commissioners of the | 53.9 | 53.5 | 53.7 | 53.2 | 57.8 | 56.6 |
| 416 Law Enforcement Retirement | 4.5 | 4.0 | 4.0 | 3.9 | 3.9 | 4.0 |
| 435 Lottery Commission | | | | | | 17.6 |
| 557 Police Pension & Retirement Board | 8.0 | 9.2 | 9.6 | 10.0 | 10.0 | 11.0 |
| 515 Public Employees Retirement System | 45.4 | 48.9 | 48.8 | 47.5 | 49.1 | 52.1 |
| 695 Tax Commission | 1,099.9 | 1,098.3 | 999.2 | 936.3 | 892.9 | 903.2 |
| 715 Teachers Retirement System | 45.1 | 49.2 | 49.1 | 48.4 | 49.5 | 49.0 |
| 740 Treasurer | 68.4 | 74.6 | 76.2 | 76.6 | 72.6 | 75.6 |
| Total | 2,105.4 | 2,131.7 | 2,039.9 | 1,989.1 | 1,965.3 | 2002.5 |

FY-2007 Executive Budget

| Cabinet/Agency | FY-2001 Actual | FY-2002 Actual | FY-2003 Actual | FY-2004 Actual | FY-2005 Actual | FY-2006 YTD |
|--|-------------------|-------------------|-------------------|-------------------|-------------------|----------------|
| Health | | | | | | |
| 807 Health Care Authority | 263.8 | 281.3 | 271.3 | 300.7 | 357.6 | 360.6 |
| 340 Health, Department of | 2,285.2 | 2,320.1 | 2,338.3 | 2,119.8 | 2,155.9 | 2265.7 |
| 452 Mental Health & Substance Abuse, Dept. of | 1,793.3 | 1,853.1 | 1,795.7 | 1,814.2 | 1,893.5 | 1986.1 |
| 509 Nursing Homes, State Board of | 3.0 | 3.0 | 3.0 | 3.0 | 3.0 | 3.3 |
| 92 Tobacco Settlement Trust Board | 0.0 | 0.0 | 1.3 | 2.0 | 2.8 | 3.0 |
| 170 Construction Industries Board | | | | | 33.8 | 34.1 |
| Total | 4,345.3 | 4,457.5 | 4,409.6 | 4,239.7 | 4,446.6 | 4652.8 |
| Human Resources and Administration | | | | | | |
| 582 Bond Advisor, State | 0.0 | 0.0 | 0.0 | 3.0 | 3.0 | 3.0 |
| 105 Capitol Improvement Authority | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| 580 Central Services, Dept. of | 262.0 | 259.5 | 242.6 | 206.0 | 191.5 | 222.4 |
| 635 Consumer Credit Commission | 14.7 | 13.7 | 12.9 | 13.6 | 13.2 | 14.8 |
| 353 Horse Racing Commission | 37.6 | 35.8 | 33.5 | 30.8 | 30.8 | 38.6 |
| 355 Human Rights Commission | 18.2 | 19.2 | 18.4 | 15.4 | 17.2 | 18.1 |
| 298 Merit Protection Commission | 9.7 | 9.7 | 8.2 | 6.0 | 7.8 | 6.5 |
| 548 Personnel Management, Office of | 97.6 | 98.4 | 94.6 | 81.3 | 75.9 | 73.1 |
| 630 Securities Commission | 26.7 | 27.6 | 26.5 | 26.9 | 25.7 | 26.8 |
| Sub-total | 466.5 | 463.9 | 436.7 | 383.0 | 365.1 | 403.3 |
| Human Resources and Administration - Non-Appropriated | | | | | | |
| 20 Accountancy, OK State Board of | 6.7 | 6.0 | 6.5 | 7.6 | 7.7 | 10.1 |
| 95 Burial Board, State | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| 145 Chiropractic Examiners Board | 3.0 | 2.0 | 2.0 | 1.9 | 2.0 | 2.0 |
| 190 Cosmetology, State Board of | 13.7 | 12.7 | 13.5 | 13.5 | 13.1 | 13.5 |
| 215 Dentists, Bd. of Governors of Registered | 4.0 | 4.0 | 4.0 | 4.0 | 4.0 | 4.0 |
| 285 Funeral Board | 3.2 | 3.4 | 3.5 | 3.3 | 3.4 | 3.3 |
| 815 Employees Benefit Council | 30.5 | 30.7 | 30.2 | 30.0 | 30.3 | 29.4 |
| 45 Licensed & Landscape Architects, Bd. of Gov. | 3.0 | 2.9 | 2.8 | 3.0 | 3.0 | 3.0 |
| 622 Licensed Social Workers, State Board | 1.2 | 0.4 | 0.0 | 0.0 | 0.0 | 0.0 |
| 450 Medical Licensure & Supervision, Board of | 20.0 | 19.9 | 20.5 | 22.2 | 21.9 | 22.4 |
| 475 Motor Vehicle Commission, Oklahoma | 3.7 | 4.0 | 4.0 | 4.0 | 3.9 | 4.0 |
| 510 Nurse Registration & Education Board | 20.8 | 21.0 | 20.3 | 20.5 | 21.8 | 23.3 |
| 516 OK State & Education Employees Grp.Ins.Bd. | 165.1 | 170.7 | 177.6 | 176.1 | 173.4 | 168.8 |
| 520 Optometry, Board of Examiners in | 1.2 | 1.2 | 1.3 | 1.4 | 1.1 | 1.3 |
| 525 Osteopathic Examiners Board | 4.6 | 4.5 | 4.5 | 4.5 | 4.7 | 5.1 |
| 560 Pharmacy, Board of | 8.2 | 7.8 | 8.2 | 8.2 | 8.1 | 8.0 |
| 570 Professional Engineers & Land Surveyors | 7.5 | 6.4 | 6.2 | 5.8 | 6.4 | 7.2 |
| 575 Psychologist Examiners Board | 1.7 | 1.9 | 2.0 | 2.0 | 1.6 | 2.1 |
| 588 Real Estate Commission, Oklahoma | 18.9 | 18.4 | 18.9 | 17.5 | 17.4 | 17.3 |
| 632 Speech Pathology & Audiology Board | 1.5 | 1.8 | 1.9 | 1.7 | 1.5 | 1.6 |
| 755 Used Motor Vehicle & Parts Commission | 8.8 | 10.0 | 9.9 | 10.4 | 9.1 | 9.9 |
| 790 Veterinary Medical Examiners, Board of | 4.1 | 4.0 | 4 | 4.0 | 3.2 | 3.0 |
| Sub-total | 331.4 | 333.8 | 341.8 | 341.6 | 337.6 | 339.3 |
| Total | 797.9 | 797.7 | 778.5 | 724.6 | 702.7 | 742.6 |

FY-2007 Executive Budget

| Cabinet/Agency | FY-2001 Actual | FY-2002 Actual | FY-2003 Actual | FY-2004 Actual | FY-2005 Actual | FY-2006 YTD |
|--|-------------------|-------------------|-------------------|-------------------|-------------------|----------------|
| Human Services | | | | | | |
| 127 Children & Youth, Commission on | 20.4 | 20.2 | 20.9 | 20.4 | 21.3 | 20.9 |
| 326 Handicapped Concerns, Office of | 8.2 | 8.0 | 7.4 | 7.6 | 8.0 | 8.0 |
| 830 Human Services Department | 7,531.2 | 7,762.1 | 7,681.9 | 7,505.3 | 7,621.9 | 7739.0 |
| 360 Indian Affairs Commission | 4.4 | 4.1 | 3.8 | 4.5 | 3.4 | 3.0 |
| 670 J.D. McCarty Ctr. for Handicapped Concerns | 126.9 | 134.5 | 139.0 | 137.8 | 183.8 | 196.7 |
| 400 Juvenile Affairs, Office of | 1,078.7 | 1,096.3 | 1,057.2 | 989.6 | 1,030.4 | 994.1 |
| 619 Physician Manpower Training Commission | 6.0 | 6.0 | 6.0 | 6.0 | 6.1 | 6.0 |
| 805 Rehabilitative Services, OK Dept. of | 871.1 | 897.3 | 873.3 | 840.0 | 864.3 | 867.3 |
| 825 University Hospitals Authority | 4.0 | 4.0 | 4.0 | 4.0 | 4.0 | 4.0 |
| Total | 9,650.9 | 9,932.4 | 9,793.5 | 9,515.2 | 9,743.2 | 9839.0 |
| Military | | | | | | |
| 25 Military Department | 408.2 | 413.7 | 392.9 | 331.5 | 341.8 | 365.9 |
| Safety and Security | | | | | | |
| 30 A.B.L.E. Commission | 62.2 | 61.2 | 56.2 | 47.4 | 44.5 | 44.6 |
| 49 Attorney General | 158.6 | 158.8 | 158.9 | 158.1 | 163.2 | 163.4 |
| 772 Chem. Tests for Alcohol & Drug Infl. | 0.0 | 0.0 | 0 | 0.0 | 5.0 | 4.2 |
| 131 Corrections Department | 5,095.5 | 5,123.6 | 4,732.1 | 4,683.7 | 4,687.1 | 4663.4 |
| 415 Council on Law Enforcement Educ.&Trng. | 37.8 | 38.6 | 35.4 | 34.0 | 34.2 | 33.9 |
| 220 District Attorney's Council | 1,150.1 | 1,157.1 | 1,135.9 | 1,101.0 | 1,115.2 | 1160.3 |
| 309 Emergency Mgt., Dept. of | 29.0 | 29.1 | 27.6 | 26.8 | 25.3 | 25.1 |
| 47 Indigent Defense System | 134.7 | 141.1 | 127.0 | 120.8 | 122.8 | 125.0 |
| 308 Investigation, Okla. State Bureau of (OSBI) | 256.2 | 264.6 | 285.2 | 291.1 | 291.7 | 290.6 |
| 448 Licensed Alcohol & Drug Counselors, Board of | | | | | | 0.9 |
| 342 Medicolegal Invest. Bd. | 60.1 | 66.1 | 67.6 | 63.4 | 60.1 | 61.9 |
| 477 Narcotics & Dangerous Drugs Control | 97.8 | 102.5 | 97.1 | 94.6 | 94.3 | 95.0 |
| 306 Pardon and Parole Board | 39.7 | 41.9 | 39.7 | 36.2 | 37.8 | 42.7 |
| 585 Public Safety, Department of | 1,399.4 | 1,424.7 | 1,453.2 | 1,432.1 | 1,451.1 | 1463.0 |
| 310 State Fire Marshal, Office of | 30.2 | 30.5 | 30.3 | 28.9 | 28.3 | 30.3 |
| Total | 8,551.3 | 8,639.9 | 8,246.2 | 8,118.1 | 8,160.6 | 8204.3 |
| Science and Technology | | | | | | |
| 628 Cent.f/t Adv.of Science & Technology | 19.3 | 19.9 | 20.2 | 19.9 | 18.7 | 19.2 |
| Secretary of State | | | | | | |
| 678 Council on Judicial Complaints | 2.0 | 2.0 | 2.0 | 2.0 | 2.0 | 2.0 |
| 270 Election Board, State | 23.7 | 22.8 | 22.7 | 22.1 | 22.6 | 22.7 |
| 296 Ethics Commission | 6.8 | 7.0 | 6.9 | 7.0 | 7.1 | 7.0 |
| 625 Secretary of State | 36.6 | 35.8 | 36.2 | 35.7 | 36.1 | 33.6 |
| Sub-total | 69.1 | 67.6 | 67.8 | 66.8 | 67.8 | 65.3 |
| Transportation | | | | | | |
| 60 Aeronautics Commission, OK | 0.0 | 0.0 | 9.0 | 10 | 10.2 | 10.8 |
| 346 Space Industry Development Authority | 0.0 | 0.0 | 4.0 | 3.3 | 2.4 | 3.0 |
| 345 Transportation | 2,535.5 | 2,433.3 | 2,421.4 | 2,400.5 | 2,396.4 | 2393.8 |
| 978 Turnpike Authority | 489.4 | 508.9 | 524.0 | 548.7 | 549.3 | 548.1 |
| Total | 3,024.9 | 2,942.2 | 2,958.4 | 2,962.5 | 2,958.3 | 2955.7 |
| Veterans Affairs | | | | | | |
| 650 Veterans Affairs | 1,528.9 | 1,452.1 | 1,484.2 | 1,603.8 | 1,741.9 | 1810.6 |
| Legislature | | | | | | |
| 422 House of Representatives | 300.5 | 297.5 | 291.2 | 280.7 | 277.4 | 241.4 |
| 423 Legislative Service Bureau | 32.9 | 34.5 | 34.1 | 34.0 | 32.4 | 26.6 |
| 421 Senate | 206.0 | 208.1 | 207.4 | 198.8 | 197.5 | 189.8 |
| Total | 539.4 | 540.1 | 532.7 | 513.5 | 507.3 | 457.8 |

FY-2007 Executive Budget

| Cabinet/Agency | FY-2001 Actual | FY-2002 Actual | FY-2003 Actual | FY-2004 Actual | FY-2005 Actual | FY-2006 YTD |
|--|-------------------|-------------------|-------------------|-------------------|-------------------|----------------|
| Judiciary | | | | | | |
| 199 Criminal Appeals, Court of | 34.7 | 33.9 | 29.7 | 28.1 | 26.5 | 29.0 |
| 219 District Courts | 595.3 | 611.0 | 605.3 | 608.0 | 616.8 | 617.9 |
| 369 Workers' Compensation Court | 94.7 | 96.5 | 91.2 | 89.4 | 84.9 | 83.8 |
| 677 Supreme Court/Court of Appeals | 156.3 | 157.5 | 152.0 | 142.6 | 143.6 | 149.1 |
| Total | 881.0 | 898.8 | 878.2 | 868.1 | 871.8 | 879.8 |
| 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 | 15.0 | 14.4 | 11.2 | 14.7 |
| 605 Regents For Higher Education | 299.3 | 296.7 | 301.8 | 305.6 | 307.7 | 297.3 |
| 610 Regents For Oklahoma Colleges | 7.4 | 7.5 | 7.3 | 6.4 | 6.6 | 6.9 |
| Total | 306.7 | 304.2 | 324.1 | 326.4 | 325.5 | 318.9 |
| Colleges and Universities | | | | | | |
| 10 Oklahoma State University | 7,279.6 | 7,486.4 | 7,350.6 | 7,440.7 | 7,555.7 | 7842.4 |
| Colleges and Universities (cont.) | | | | | | |
| 100 Cameron University | 573.8 | 588.1 | 566.3 | 562.0 | 576.5 | 562.5 |
| 108 Carl Albert J.C. | 206.2 | 217.5 | 240.4 | 257.3 | 275.3 | 260.8 |
| 165 Conners State College | 236.7 | 252.9 | 231.4 | 223.9 | 224.2 | 211.9 |
| 230 East Central Oklahoma State Univ. | 533.3 | 541.0 | 549.2 | 542.1 | 541.6 | 524.5 |
| 240 Eastern Oklahoma State College | 214.0 | 209.3 | 212.5 | 204.9 | 208.8 | 201.8 |
| 420 Langston University | 457.2 | 478.2 | 466.9 | 466.2 | 485.3 | 475.4 |
| 470 Murray State College | 162.2 | 164.7 | 162.5 | 164.0 | 166.8 | 170.8 |
| 480 Northeastern A & M College | 303.1 | 319.5 | 297.1 | 299.8 | 297.7 | 281.3 |
| 485 Northeastern Oklahoma State Univ. | 996.5 | 1,045.5 | 1,016.4 | 1,001.3 | 1,034.8 | 1024.5 |
| 490 Northern Oklahoma College | 241.2 | 247.6 | 248.3 | 255.5 | 277.8 | 272.8 |
| 505 Northwestern Oklahoma State Univ. | 266.6 | 276.2 | 288.6 | 279.8 | 280.6 | 268.5 |
| 530 Oklahoma Panhandle State University | 187.9 | 188.8 | 172.4 | 182.4 | 178.2 | 174.2 |
| 241 Redland Community College | 142.7 | 150.2 | 143.3 | 141.6 | 159.2 | 172.9 |
| 461 Rogers State Univ.(Claremore J.C.) | 285.1 | 325.2 | 331.3 | 330.8 | 348.3 | 361.7 |
| 531 Rose State College | 540.6 | 545.4 | 538.8 | 534.8 | 614.4 | 573.3 |
| 623 Seminole J.C. | 161.1 | 161.4 | 157.5 | 157.5 | 158.5 | 157.8 |
| 633 South Oklahoma City J.C. | 547.6 | 507.8 | 472.8 | 458.9 | 481.5 | 486.8 |
| 660 Southeastern Oklahoma State Univ. | 534.7 | 563.1 | 562.4 | 540.6 | 538.5 | 537.1 |
| 665 Southwestern Oklahoma State Univ. | 633.0 | 632.0 | 681.8 | 676.7 | 684.3 | 688.5 |
| 750 Tulsa J.C. | 1,189.4 | 1,189.1 | 1,172.0 | 1,191.4 | 1,239.7 | 1195.5 |
| 120 University of Central Oklahoma | 1,215.1 | 1,091.5 | 1,176.2 | 1,203.3 | 1,218.2 | 1268.9 |
| 150 Univ. of Science and Arts of Okla | 174.3 | 175.6 | 170.5 | 166.0 | 169.6 | 167.1 |
| 41 Western Oklahoma State College | 144.2 | 143.6 | 143.5 | 137.4 | 146.2 | 148.5 |
| Sub-total | 9,946.5 | 10,014.0 | 10,002.1 | 9,978.2 | 10,306.0 | 10187.1 |
| Colleges and Universities (cont.) | | | | | | |
| 325 OU Geological Survey | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| 760 University of Oklahoma | 5,954.4 | 6,225.5 | 6,232.0 | 6,464.3 | 6,410.2 | 6623.3 |
| 761 Oklahoma University Law Center | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| 770 Okla. University Health Science Ctr. | 4,149.1 | 4,407.1 | 4,578.5 | 4,674.3 | 4,739.2 | 4906.1 |
| 771 OU Health Science Ctr.Prof.Prac.Plan | 257.9 | 276.1 | 298.9 | 317.5 | 324.1 | 328.0 |
| 845 Medical Research & Technology Auth. | 49.8 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Sub-total | 10,411.2 | 10,908.6 | 11,109.4 | 11,456.1 | 11,473.5 | 11857.4 |
| Total | 27,637.3 | 28,409.0 | 28,462.1 | 28,875.0 | 29,335.2 | 29886.9 |

FY-2007 Executive Budget

Personnel Changes
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 | | | | | | | | x | no | | | | | | |
| 830 | DHS | 04/23/1999 | VOBO | 184 | 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 Licensure | 07/12/1999 | RIF | 5 | x | | x | | | | | | x | | | x | yes | 4 | 1 | | \$245,877 | \$39,470 | |
| 825 | University Hospital Authority | 10/29/1999 | RIF | 18 | x | x | x | x | x | | | | | | | x | yes | 18 | | | \$1,060,000 | \$209,485 | |
| 770 | Medical Technology and 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 | 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 | | | | | 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 | x8 | | | | 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 | | | | 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 | | 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 | | See row 33 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 | | | | | | | | | 7 | | | \$283,467 | \$52,501 | |
| 548 | OPM | 5/28/2003 | RIF | 2 | 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 | | | | 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 | |

FY-2007 Executive Budget

| 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 |
|---------|-----------------------|----------------|--------------|--------------------|---------------------|----------------------|-----------|------------|----------------------|--------------|-----------------------------|------------------|------------------|----------------|------------------------|---------------|-------------|------------------------------------|------------------------|----------------------------------|---------------------------|-------------|
| 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 | | | | x | | yes | 1 | | | \$60,234 | \$31,922 |

* Actual information not available. Information displayed reflects the agency's RIF/VOBO plan as submitted to OSF.

GLOSSARY

Actuarial Accrued Liability (re: retirement): That portion, as determined by a particular cost method, of the actuarial present value of pension plan benefits and expenses which in not provided for by Normal Cost contributions.

Actuarial Assumptions (re: retirement): Assumptions as to the occurrence of future events affecting pension costs, such as: mortality, withdrawal, disablement and retirement; changes in compensation and government provided benefits; rates of investment earnings and asset appreciation or depreciation; procedures used to determine the Actuarial Value of Assets; characteristics of future entrants and other relevant items.

Annualization: The computation of costs or revenues for a full year. Usually applied when calculating the full year impact/cost of a program that was funded for a partial year in a previous budget.

Appropriation: Legal authorization granted by the Legislature to make expenditures or incur obligations that may be limited by fund, agency, department, program, object, character, time period or amount. Unexpended appropriations lapse back to the original fund after the lapse (expiration) date.

Appropriations Base: An agency's previous year appropriation reduced by one-time appropriations.

Basic Industry: An industry that sells most of its service or product to out-of-state buyers.

Board of Equalization: A Constitutional body, the State Board of Equalization is made up of the Governor, Lieutenant Governor, State Treasurer, State Auditor and Inspector, Attorney General, Superintendent of Public Instruction, and President of the State Board of Agriculture. The Board annually certifies the amount of state funds available for appropriation. The Board also has duties regarding the equalization of ad valorem taxes among the counties.

Budgeted Vacancy: A vacant employee position which is funded in an agency's current budget (in most instances, the vacancy has remained unfilled for an extended period of time).

Budget Request: A detailed outline of an agency's financial needs for the next fiscal year.

Budget Work Program: An outline of detailed planned expenditures for the ensuing or current fiscal year, which takes into consideration funds appropriated by the Legislature and other funds available to the agency, and any expenditure limitations or directives expressed in legislation.

Capital Expenditure / Outlay: Expenditures made for securing capital assets. Capital assets are significant, tangible assets with a value greater than \$25 thousand that have a life greater than one year and will be used in providing services.

Carryover: This term refers to unobligated monies an agency has available to fund its operations in succeeding fiscal years. Generally, carryover monies are considered non-recurring in nature.

GLOSSARY

Cash-flow Reserve Fund: This fund was established as a fiscal management tool. General Revenue Fund cash is set aside in this fund at the end of each fiscal year. Monies in this fund are used to make cash available for the July allocation of General Revenue funds to state agencies and to provide for monthly cash allocations in those months in which receipts are below needed levels. The use of this fund eliminates the need for "seasonal borrowing."

Constitutional Reserve Fund (CRF): Designed to cushion against economic emergencies, this fund, popularly known as the "Rainy Day Fund," was established by constitutional amendment in 1985. All General Revenue Fund receipts collected in excess of the certified estimate are deposited in this fund. Half of the balance may be appropriated only in the event that one year's estimated General Revenue is lower than the preceding year's. The other half may only be appropriated upon the declaration of an emergency by the Governor and approval by 2/3 of both legislative houses; or, absent a gubernatorial declaration of emergency, approval by 3/4 of both houses.

Expenditure: The disbursement of monies from a state fund for the purchase of goods and services.

Federal Poverty Guidelines: Federal Poverty Guidelines issued by the U.S. Department of Health and Human Services, are a series of income levels with different values for family units of different sizes. Some segments of the Medicaid Program use these guidelines in determining eligibility.

Federal Medical Assistance Percentage (FMAP): Represents the federal share of a state's Medicaid spending for medical services.

Fiscal Year: The 12-month period beginning July 1 and ending June 30 used by the state government for accounting purposes. Fiscal year designation depends on the year in which it ends [e.g., fiscal year 2005 (FY-2005) runs from July 1, 2004 to June 30, 2005].

Fund: A legal accounting entity with a self-balancing set of accounts. Expenditures from a fund may be restricted to specified purposes.

General Revenue Fund: Established by Article 10, Section 2 of the State Constitution, this fund is the principal funding source for state government operations. State taxes, fees and charges, and proceeds from investments make up the revenue to the General Revenue Fund. The fund's resources can be used for any purpose specified by Legislative appropriation. All monies collected that are not dedicated to another fund are deposited in the General Revenue Fund.

Nonappropriated Funds: A term sometimes used to refer to agency revolving funds. Since such funds have statutorily established revenue sources and uses, there is no need for them to be appropriated annually. Nonappropriated funds are also called "continuing appropriations." The terms have the same meaning.

OneNet: Oklahoma's Telecommunications Network (OneNet is not an acronym)

One-time: Budget items that receive funding for one fiscal year (for example, funding for a feasibility study, funding for the replacement of major equipment items, funding for the purchase of furniture for a new facility, etc.).

GLOSSARY

Program Budgeting: A tool to organize budget data by program, rather than item of expenditure or organizational location (generally an agency or division). Program budgeting seeks to link the expenditure of resources with the original mission or purpose of the appropriation of tax dollars.

Rainy Day Fund: See Constitutional Reserve Fund.

Revolving Fund: A fund created statutorily or by inference to finance and account for a particular department or division. Fees received, transfers of appropriations, or other fund transfers support expenditures paid from revolving funds. Revolving funds are continuing funds and are not subject to fiscal year limitations. Agencies generally may exercise greater control over the expenditure of revolving funds than they may over appropriated dollars.

Supplemental Appropriation: This refers to a subsequent appropriation made to an agency in addition to the agency's initial annual appropriation. Supplemental appropriations are to deal with current year funding issues and may be made for a variety of reasons such as to offset a revenue shortfall or to offset insufficient funds to operate a program effectively. Some observers view supplemental appropriations as a sign of inept management or a means of subverting the State's balanced budget restrictions.

Temporary Assistance to Needy Families (TANF): The Federal program that replaced the Aid to Families with Dependent Children (AFDC) program pursuant to the Personal Responsibility and Work Opportunity Reconciliation Act of 1996, enacted August 22, 1996. This act makes significant changes to the United States Welfare System.

Unfunded Liability (re: retirement): The excess of the Actuarial Accrued Liability (that portion, as determined by a particular Actuarial Cost Method, of the Actuarial Present Value of pension plan benefits and expenses which is not provided for by future Normal Costs) over the Actuarial Value of Assets (the value of cash, investments, and other property belonging to a pension plan, as used by the actuary for the purpose of an Actuarial Valuation).

ACRONYMS

- ABLE:** Alcoholic Beverage Laws Enforcement
- ACE:** Achieving Classroom Excellence
- ACP:** Address Confidentiality Program
- ACT:** American College Testing Assessment
- ADA:** Average Daily Attendance
- ADM:** Average Daily Membership
- ADN:** Associate Degree in Nursing
- ADRP:** Alternate Dispute Resolution Program
- AEMS:** Agricultural Environmental Management Services
- AG:** Attorney General
- AIA:** Authorized Inspection Agencies
- AOC:** Administrative Office of the Courts
- AP:** Advanced Placement
- AWOL:** Absent Without Leave
- AYP:** Adequate Yearly Progress
- BLN:** Business Leadership Network
- BOE:** Board of Equalization
- BSN:** Bachelors of Science Degree in Nursing
- BUMP:** Beneficial Use Monitoring Program
- BR:** Budget Request
- BWP:** Budget Work Program
- CARS:** Community At-Risk Services
- CAFO:** Concentrated Animal Feeding Operation
- CAFR:** Comprehensive Annual Financial Report
- CAP:** Client Assistance Program
- CASA:** Court Appointed Special Advocates

ACRONYMS

- CDBG:** Community Development Block Grant
- CIC:** Community Intervention Center
- CIP:** Capital Improvement Plan
- C-I-S:** Cops in Shops Program
- CLEET:** Council on Law Enforcement Education and Training
- CLO:** Commissioners of the Land Office
- CMHC:** Community Mental Health Centers
- CMS:** Centers for Medicare & Medicaid Services
- CO:** Correctional Officer
- CODIS:** Correctional Offender Data Information System (Also ODIS)
- COFTA:** Council on Firefighter Training
- COGS:** Council of Governments/sub-state planning districts
- COJC:** Central Oklahoma Juvenile Center
- CPE:** Continuing Professional Education
- CRB:** Contingency Review Board
- CREP:** Conservation Reserve Enhancement Program
- CRP:** Conservation Reserve Program
- CSBS:** Conference of State Bank Supervisors
- CSG:** Council of State Governments
- CRF:** Constitutional Reserve Fund
- CRT:** Criterion Reference Test
- CSED:** Department of Human Services Child Support Enforcement Division
- CSD:** Customer Services Division
- CWSRF:** Clean Water State Revolving Fund
- CY:** Calendar Year
- DA:** District Attorney

ACRONYMS

DAC: District Attorneys Council

DCAR: Division of Central Accounting and Reporting

DCS: Department of Central Services

DDD: Disability Determination Division

DDSD: Developmental Disabilities Services Division

DEQ: Department of Environmental Quality

DHS: Department of Human Services

DOC: Department of Corrections

DOJ: Department of Justice

DOT: Department of Transportation

DPS: Department of Public Safety

DRS: Department of Rehabilitation Services

DTV: Digital Television

DUI: Driving Under the Influence

DWR: Department of Wildlife Retirement

DWSRF: Drinking Water State Revolving Fund

EAP: Employee Assistance Program

EBC: Employees Benefits Council

ECLS: Environmental Complaints and Local Services

ECS: Education Commission of the States

EEOC: Equal Employment Opportunity Commission

EI: Early Intervention

ELL: English Language Learners

ELO: Education Leadership Oklahoma

EPA: Environmental Protection Agency

EOI: End of Instruction (exam)

ACRONYMS

- EPAS:** Educational Planning and Assessment System
- ESH:** Eastern State Hospital
- ESL:** English as a Second Language
- FAA:** Federal Aviation Administration
- FCC:** Federal Communications Commission
- FFY:** Federal Fiscal Year
- FMAP:** Federal Medical Assistance Percentage
- FTE:** Full-time Equivalent (employee or student)
- FY:** Fiscal Year
- GAAP:** Generally Accepted Accounting Principals
- GAAS:** Generally Accepted Auditing Standards
- GARVEE:** Grant Anticipation Vehicles Program
- GASB:** Governmental Accounting Standards Board
- GCCA:** General Conference Committee on Appropriations
- GEAR UP:** Gaining Early Awareness and Readiness for Undergraduate Programs
- GED:** General Education Development
- GIS:** Geographic Information System
- GME:** Graduate Medical Education
- GMH:** Griffin Memorial Hospital
- GP:** Gross Production
- GPA:** Grade Point Average
- GPS:** Global Positioning System
- GR:** General Revenue
- HAVA:** Help America Vote Act
- HAZ-MAT:** Hazardous Materials
- HB:** House Bill

ACRONYMS

- HCA:** Health Care Authority
- HCBS:** Home and Community Based Services
- HCBSW:** Home and Community Based Services Waiver
- HIV:** Human Immunodeficiency Virus
- HMO:** Health Maintenance Organization
- HPSA:** Health Professional Shortage Area
- HR:** Human Resources
- HRC:** Horse Racing Commission
- HRMS:** Human Resources Management System
- HTS:** Habilitative Training Specialist
- HUD:** Housing and Urban Development
- IAS:** Inventors Assistance Service
- ICAC:** Internet Crimes Against Children
- ICE:** Integrated Computerized Examination
- ICF-MR:** Intermediate Care Facility - Mentally Retarded
- ICS:** Integrated Central Services Accounting System
- IFSP:** Individualized Family Service Plan
- IHSW:** In Home Supports Waiver
- ISD:** Information Services Division
- JDMC:** J. D. McCarty Center
- JOA:** Joint Operating Agreement
- JOIN:** Joint Oklahoma Information Network
- JSU:** Juvenile Services Unit
- LARC:** Lexington Assessment Reception Center
- LERC:** L.E. Rader Center
- LIHEAP:** Low Income Home Energy Assistance Program

ACRONYMS

- LMFO:** Licensed Managed Feeding Operations
- LPN:** Licensed Practical Nurse
- LRCPC:** Long Range Capital Planning Commission
- LSB:** Legislative Service Bureau
- LWCF:** Land and Water Conservation Fund
- MAPS:** Metropolitan Area Projects
- MMCAP:** Minnesota Multi-State Contracting Alliance for Pharmacy
- MRI:** Magnetic Resonance Imaging
- MSN:** Masters of Science in Nursing
- MST:** Mutli-Systemic Therapy
- NAAQS:** National Ambient Air Quality Standards
- NACEA:** Native American Cultural and Educational Authority
- NAEP:** National Assessment of Education Progress
- NAIC:** National Association of Insurance Commissioners
- NBC:** National Board of Certification
- NBR:** Net Benefit Rate
- NCATE:** National Council for Accreditation of Teacher Education
- NCES:** National Center for Education Statistics
- NCLB:** No Child Left Behind Act
- NORCE:** Northern Oklahoma Resource Center in Enid
- NRCS:** Natural Resource Conservation Services (U. S. Department of Agriculture)
- OAC:** Oklahoma Arts Council
- OAC:** Oklahoma Aeronautics Commission
- OADDL:** Oklahoma Animal Disease Diagnostic Laboratory
- OARS:** Oklahoma Applied Research Support
- OASIS:** Oklahoma Areawide Services Information System

ACRONYMS

- OBAN:** Oklahoma Bid Assistance Network
- OBEC:** Oklahoma Business and Education Coalition
- OBND:** Oklahoma Bureau of Narcotics and Dangerous Drugs
- OBWEO:** Oklahoma Boll Weevil Eradication Organization
- OCAST:** Oklahoma Center for the Advancement of Science and Technology
- OCC:** Oklahoma Conservation Commission
- OCCY:** Oklahoma Commission on Children and Youth
- OCI:** Oklahoma Correctional Industries
- OCIA:** Oklahoma Capitol Improvement Authority
- OCJRC:** Oklahoma Criminal Justice Resource Center
- OCWP:** Oklahoma Comprehensive Water Plan
- OCTP:** Oklahoma Commission for Teacher Preparation
- ODAFF:** Oklahoma Department of Agriculture, Food and Forestry
- ODEM:** Oklahoma Department of Emergency Management
- ODIS:** Offender Data Information System
- ODL:** Oklahoma Department of Libraries
- ODMHSAS:** Oklahoma Department of Mental Health and Substance Abuse Services
- ODOC:** Oklahoma Department of Commerce
- ODOL:** Oklahoma Department of Labor
- ODOT:** Oklahoma Department of Transportation
- ODVA:** Oklahoma Department of Veterans Affairs
- ODWC:** Oklahoma Department of Wildlife Conservation
- OESC:** Oklahoma Employment Security Commission
- OETA:** Oklahoma Educational Television Authority
- OFPRS:** Oklahoma Firefighters Pension and Retirement System
- OG:** Oil and Gas

ACRONYMS

- OHLAP:** Oklahoma Higher Learning Access Program
- OHCA:** Oklahoma Health Care Authority
- OHC:** Office of Handicapped Concerns
- OHP:** Oklahoma Highway Patrol
- OHS:** Oklahoma Historical Society
- OHSA:** Oklahoma Occupational Health and Safety Standards Act of 1970
- OIAC:** Oklahoma Indian Affairs Commission
- OIDS:** Oklahoma Indigent Defense System
- OIFA:** Oklahoma Industrial Finance Authority
- OJA:** Office of Juvenile Affairs
- OJSO:** Office of Juvenile System Oversight
- OJJD:** Office of Juvenile Justice and Delinquency Prevention
- OKCIDS:** Oklahoma Campaign Information Disclosure System
- OKNG:** Oklahoma National Guard
- OLBPH:** Oklahoma Library for the Blind and Physically Handicapped
- OLERS:** Oklahoma Law Enforcement Retirement System
- OMD:** Oklahoma Military Department
- OMTI:** Oklahoma Miner Training Institute
- OPAT:** Oklahoma Parents As Teachers
- OPERS:** Oklahoma Public Employees Retirement System
- OPM:** Office of Personnel Management
- OPPRS:** Oklahoma Police Pension and Retirement System
- OSB:** Oklahoma School for the Blind
- OSBI:** Oklahoma State Bureau of Investigation
- OSD:** Oklahoma School for the Deaf
- OSDH/OSDOH:** Oklahoma State Department of Health

ACRONYMS

OSEEGIB: Oklahoma State and Education Employees Group Insurance Board

OSF: Office of State Finance

OSHA: Occupational Safety and Health Administration

OSIDA: Oklahoma Space Industry Development Authority

OSRC: Oklahoma Scenic Rivers Commission

OSU: Oklahoma State University

OU: University of Oklahoma

OSRHE: Oklahoma State Regents for Higher Education

OSSM: Oklahoma School of Science and Mathematics

OST: Office of State Treasurer

OTA: Oklahoma Turnpike Authority

OTAG: Oklahoma Tuition Aid Grant

OTC: Oklahoma Tax Commission

OTEG: Oklahoma Tuition Equalization Grant

OTRD: Oklahoma Tourism and Recreation Department

OTRS: Oklahoma Teachers' Retirement System

OWRB: Oklahoma Water Resources Board

PASS: Priority Academic Student Skills

PCPI: Per Capita Personal Income

PDI: Professional Development Institutes

PhD: Doctor of Philosophy

PICS: Plant Industry & Consumer Services

PMP: Performance Management Process

PMTC: Physician Manpower Training Commission

PPO/PO: Probation and Parole Officer

PPP: Presidential Preferential Primary

ACRONYMS

PRWORA: Personal Responsibility and Work Opportunity Reconciliation Act

PSA: Public Service Announcement

PTAC: Procurement Technical Assistance Centers

PWS: Public Water Supply

PY: Plan Year

QJP: Quality Jobs Program

R & D: Research and Development

RCRA: Resource Conservation Recovery Act

REAP: Rural Economic Action Plan

RIF: Reduction in Force

ROADS: Rebuilding Oklahoma Access and Driver Safety Fund

RN: Registered Nurse

RTP: Recreation Trails Program

RVS: Rehabilitation and Visual Services

SAF: State Aid Factor

SAT: Standardized Achievement Test

SB: Senate Bill

SBIR: Small Business Innovation Research

SBRA: Small Business Research Assistance

SCA: State Compliance Agency

SCHIP: State Children's Health Insurance Program

SDE: State Department of Education

SFM: State Fire Marshal

SH: State Highway

SIF: Schools Interoperability Framework

SJF: State Judicial Revolving Fund

ACRONYMS

- SLRP:** Student Loan Repayment Program
- SMI:** Severely Mentally Ill
- SOJC:** Southwestern Oklahoma Juvenile Center
- SORC:** Southern Oklahoma Resource Center
- SOS:** Secretary of State
- SREB:** Southern Regional Education Board
- SRF:** State Revolving Fund
- SSIS:** State Student Information System
- STARS:** State Transition and Reintegration Services
- TANF:** Temporary Assistance to Needy Families
- TBFP:** Technology Business Finance Program
- TIP:** Training for Industry Program
- TMDL:** Total Maximum Daily Load
- TRIP:** Traveler Response Information Program
- TRS:** Teachers' Retirement System
- TYA:** Thunderbird Youth Academy
- UAAL:** Unfunded Accrued Actuarial Liability
- UCJC:** Union City Juvenile Center
- URSJJ:** Uniform Retirement System for Justices and Judges
- US:** United States
- USDA:** United States Department of Agriculture
- USDVA:** U.S Dept. of Veteran Affairs
- USGS:** United States Geologic Survey
- VFA:** Volunteer Fire Assistance
- VISION:** Virtual Internet School in Oklahoma Network
- WADM:** Weighted Average Daily Membership

ACRONYMS

WC: Worker's Compensation

WIC: Women, Infants and Children

WQS: Water Quality Services Division (ODAFF)

WQS: Water Quality Standards (EPA)

WSCA: Western States Contracting Alliance

YTD: Year to Date

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