

# THE BUDGET PROCESS IN PENNSYLVANIA



**pennsylvania**  
OFFICE OF THE BUDGET

**T**he purpose of this booklet is to describe the budget process as it presently operates in Pennsylvania. This booklet is intended for both the general administrator and the budget specialist to provide a perspective to Pennsylvania's budget process at various levels.

The appendix includes, a glossary of terms commonly used in Pennsylvania's budget process, an agency budget preparation summary, an Office of the Budget organization chart and a compilation of sections from the Pennsylvania Constitution and the Administrative Code that pertain to the budget process.



GOVERNOR'S OFFICE OF THE BUDGET  
333 Market Street, 19th Floor  
Harrisburg, PA 17101-2210

May 2017

#### **OFFICE OF THE BUDGET MISSION STATEMENT**

The mission of the Office of the Budget is to develop, coordinate and oversee the execution of a balanced financial plan for the Commonwealth that reflects the policies and priorities of the Governor, promotes the efficient allocation and use of resources, and ensures that all funds received and disbursed for Commonwealth programs are accounted for in accordance with current laws, regulations and policies.

## TABLE OF CONTENTS

Development of the Budget Process in Pennsylvania.....	4
Program Budgeting in Pennsylvania.....	5
The Budget Process — Overview.....	7
Preparation.....	7
Approval.....	8
Execution.....	8
Audit.....	8
Budget Preparation.....	9
Budget Instructions and Program Policy Guidelines.....	9
Preparation and Submission of Budget Requests.....	9
Budget Analysis and Review.....	10
Mid-Year Briefing.....	10
Governor’s Executive Budget.....	10
Budget Submission and Enactment.....	10
Appropriations Hearings.....	10
The Governor’s Approval.....	11
Budget Execution.....	11
Budget Audit and Evaluation.....	13
Capital Budget.....	14
Capital Budget Process.....	14
Implementation Process for Public Improvement Projects.....	14
Capital Project Asset Categories.....	15
Revenue Estimating.....	16
The Budget Estimate.....	17
The Official Estimate.....	17
The Budget Re-estimate.....	17
Cash Flow Management.....	18
Appendices.....	
Appendix 1: Common Terms Used in Pennsylvania State Fiscal Affairs.....	20
Appendix 2: Agency Budget Preparation.....	27
Appendix 3: Office of the Budget Organizational Structure.....	30
Appendix 4: The Constitutional and Statutory Basis of Budgeting in Pennsylvania.....	
Executive Budget Preparation.....	34
Agency Budget Request Information.....	34
Revenue Estimates.....	35
Debt for Capital Projects.....	36
Commonwealth Credit Not to be Pledged.....	36
Municipal Debt Not to be Assumed.....	36

## *TABLE OF CONTENTS (continued)*

Budget Submission to the General Assembly .....	36
Minimum Requirements for Operating Budget, Capital Budget and 5-Year Plan.....	36
Dates and Other Requirements for Budget Submission.....	37
Transmission of Budget Information to the General Assembly .....	38
Legislative Consideration of the Budget.....	38
Revenue Bills Originate in the House .....	38
Limit on General Bill .....	39
Appropriations for Public Assistance; Military Service; Scholarships .....	39
Appropriations for Charitable and Educational Institutions.....	39
Restriction of Gasoline Taxes and Motor License Fees .....	39
Balanced Operating Budget.....	39
Surplus.....	39
Appropriation of Federal Funds .....	40
Abatement of Appropriations-Preferred Appropriations .....	40
Budget Implementation .....	40
Governor’s Item Veto .....	40
Issuance of Tax Anticipation Notes.....	40
Authorization to Borrow-Limitation .....	40
Financial Auditing .....	41
Preparation of Fiscal Notes .....	41
Preparation and Approval of Rebudgets, Allocation and Allotment of Departments, Boards and Commissions .....	41
Preparation of Rebudget, Allocations and Allotments by Elective Officers .....	42
Budget Implementation Data Transmitted to the General Assembly .....	42
Lapsing of Funds .....	43
Requirements for Program Evaluations .....	45

## DEVELOPMENT OF THE BUDGET PROCESS IN PENNSYLVANIA

A formalized budget process in Pennsylvania had its beginning in the early part of the twentieth century.

Concern with the problems of “economy and efficiency” in Pennsylvania government became evident as early as 1913 when Governor John K. Tener was authorized to appoint a commission “to ascertain and recommend what changes, if any, may be necessary to secure greater uniformity, economy and efficiency” in the State’s government. As a result of the commission’s endeavors, reports were made to the General Assembly, but immediate reforms were not forthcoming.

In 1919, a commission on constitutional amendment and revision and a commission appointed by Governor Sproul were quick to recommend reorganization of the executive branch, but fruition of such plans did not occur until the Administration of Governor Gifford Pinchot when the Administrative Code of 1923 was enacted into law.

The Administrative Code of 1923 had far-reaching effects on the entire executive branch. Essentially, the 1923 Code placed the responsibility for the preparation of a budget with the Secretary of the Commonwealth. For the first time, the Governor was in a position to present a comprehensive estimate of State expenditures and income to the General Assembly. Requests for appropriation expenditures by executive agencies under the Governor’s control were to be submitted regularly for his approval. Thus, the Governor was given the means of controlling the execution of legislative policy.

During the Administration of Governor John Fisher, Pinchot’s successor, the General Assembly built on the foundation provided by the 1923 Code through further revisions to the Code. These revisions, enacted April 13, 1927, created the Department of Revenue and removed the budget preparation function from the Office of the Secretary of the Commonwealth and placed it with the position of Budget Secretary created within the Governor’s

Office. As a result, collection of revenues was consolidated within one administrative department and a high administration official was appointed to oversee the State’s budget. The end result of these changes to the 1923 Code was the adoption of the Administrative Code of 1929 and the Fiscal Code, the basis for State operations today.

Because of the increasing size and activities of State government, George M. Leader, when elected Governor in 1954, concluded that the proper administration of the State government necessitated an enlargement of the Governor’s staff both in size and scope. While still Governor-elect, he engaged the Pennsylvania Economy League to study the existing staff structure and to submit recommendations for improvement. The most significant feature of the Reorganization Plan of 1955 was the creation of the Office of Administration.

Since 1955, the Office of Administration and the Office of the Budget have been either combined or, as at present, work very closely together to assist the Governor in the central administration and direction of the executive branch of the State government.

Until the Leader Administration, the operating budget of the State tended to take the form now known as a “line-item” budget. It presented expenditures by organization and object, such as salaries, wages, office supplies, automobiles, etc. Because a line-item budget was not designed to describe the services to be performed, review for effectiveness was impossible. The budget format and content were revised substantially in 1957 to emphasize governmental functions and services. Generally, these revisions described activities to be performed by the organization as stated in enabling legislation. This step in the evolution of Pennsylvania’s budget process made explicit the relation between function and appropriation. However adequate the function descriptions may have been, assessments for efficiency and

effectiveness remained quite impossible since no objectives and no data measuring these aspects were included.

On November 3, 1959 a constitutional amendment was adopted providing for annual sessions of the General Assembly. Until that time the Commonwealth had a biennial budget. Following the 1959 constitutional amendment and amendment of the Administrative Code in 1961, the Commonwealth has had annual budgets and a fiscal year beginning July 1.

As the governmental system for provision of services grew larger and more complex, it became increasingly difficult for chief executives to go through the process of bringing agency budget requests into line with realistic expectations of available revenues. With only data on the expected cost of programs and a terse statement of function available, decisions on expansion and contraction of programs relied heavily on anecdotal information. A more analytic approach was sought to focus choices between programs based upon factual data and reduced dependence on personal advocacy.

In 1968, Governor Raymond P. Shafer decided to install a Planning, Programming and Budgeting System that structured program decision making in terms of program performance in relation to stated objectives. This approach to budgeting was a complete departure from any of the methods employed in the past. The determination of program value was based on the combination of results achieved and cost as opposed to focusing on cost only. The new process was highly dependent on analysis, not only for the development and maintenance of the data used to measure program performance, but also to show the degree of linkage between cost and results. Additionally, the new process institutionalized executive leadership in the budget process. The chief executive would have a mechanism to set down the blueprint for his budget before the agencies submitted their requests. Therefore, the

budget process became one in which agency budgets became responses to executive policies rather than one in which the executive tries to balance agencies' perception of their needs with available revenues. This feature permitted the executive more time to focus on issues of policy implementation rather than budget balancing.

Major revisions to the Constitution in 1968 provided for the Governor to submit an annual operating budget, an annual capital budget and a financial plan for not less than the next succeeding five years. The Constitutional revision also substituted a more realistic debt limitation for the previous \$1 million limitation so that it became possible to finance capital construction through general obligation debt of the Commonwealth. Prior to the Constitutional revision, the only means of financing debt for capital construction had been through an independent authority.

In 1978, following a study by the Pennsylvania Economy League and special hearings by the General Assembly on the Commonwealth's budget procedures, a Budget Code was enacted that consolidated the Commonwealth's fiscal operations and

placed into law specific budget procedures, many that had been already implemented in preceding years.

Specifically, the Budget Code provides for a five-year budget, a February submission of the budget to the General Assembly except for the first year in which a Governor takes office, an annual Mid-Year briefing in December to the General Assembly of major fiscal issues, preparation of program effectiveness and management efficiency reports, and preparation of fiscal notes for regulatory actions and administrative procedures of departments, boards, commissions or authorities receiving money from the State Treasury. In addition, the Budget Code requires that all programs appearing in the budget have a stated objective describing the desired results and that all programs have a group of measures that quantify program performance in terms of results obtained.

The current budgeting process is much the same as it was upon full implementation of the Planning, Programming and Budgeting System in the early 1970's. The budget process and the Governor's Budget document fulfill all the requirements stated

in the Budget Code. However, over the years operational considerations have produced at least two noteworthy changes. The first is that program identification was eliminated from the accounting system. Requiring that the program be identified on all expenditure documents executed throughout the fiscal year failed to improve program management. That is, while the accounting system produced expenditure reports by program, administrators found it more realistic to manage by organization and appropriation. The reasons for this are straightforward; managers have the authority over organizations not programs that often cut across several organizations, and appropriations are tied to organizations. The second change follows from the first. The definition of program was changed to produce a consistent relationship to appropriations; a single program is funded by one or more entire appropriations. In this way total appropriation(s) amounts are associated with a single program. Prior to this change, a single appropriation could support several programs. This made it difficult to readily determine the total appropriation amount requested by reading any given program proposal. ■

## PROGRAM BUDGETING IN PENNSYLVANIA

The budget process in Pennsylvania today can best be described as "program budgeting." The program budget focuses on the objectives to be accomplished through activities underwritten, either wholly or in part, by

state revenues. This implies that whether the activities are conducted directly by the Commonwealth or are carried out by another entity through a transfer payment, the program budget must justify that expenditure by explaining the resulting

ultimate outcome. The budget process is designed to answer the question: What is the result of a government program in terms of its effect on people and the environment?

The distinguishing features of Pennsylvania's budget process can be summarized as follows:

- The use of programs within agencies rather than organizations within agencies as a means to classify and explain activities and associated costs.
- The use of clearly stated objectives for each program.
- The use of performance measurements that gauge the progress toward an objective and which show the more direct result of the activities conducted.
- The use of total costs, regardless of source, associated with each program.
- The use of an extended time horizon (5 years) over which to project all data.
- The use of Budget Instructions and Program Policy Guidelines documents which explicitly guide agencies in the development of their budget requests.

Basic to Pennsylvania’s program budget process is a program structure that classifies the activities of government in relation to their intended purposes rather than by organization position within an agency.

At the highest level of aggregation the program structure begins with seven major Commonwealth Programs:

- **Direction and Supportive Services**
- **Protection of Persons and Property**
- **Health and Human Services**
- **Education**
- **Economic Development**
- **Transportation and Communication**
- **Recreation and Cultural Enrichment**

The seven Commonwealth programs are defined in terms of seven broad goals. As used in the budget process, a goal is a broadly stated purpose indicating a desired state of affairs. To illustrate, the goal of the Education Program is “to provide a system of learning experiences and opportunities that will permit each individual to achieve his or her maximum potential intellectual development.”

The seven Commonwealth programs are subdivided into program categories that define goals in more specific terms.

Program categories are divided into subcategories (simply called programs in the budget document), that are described in

terms of objectives. The program category Higher Education has a subcategory Higher Education that has as its objective “to fulfill Pennsylvania’s requirements for graduates of higher education programs, to respond to the demands of students for higher education and to support the public institutions providing those programs.”

Objectives are statements of program purposes in terms of desired accomplishments measured by impact indicators.

The focus of the Governor’s Executive Budget is on the agency subcategory level (programs) of the program hierarchy, employing a mix of impact and output data.

The emphasis, however, is on explaining program performance through more direct measures of program activity levels called output measures. The use of these measures better enables the user to detect yearly changes in performance since outputs are more sensitive to fluctuations in program funding than are impact measures which are related to changes in people and the environment. The program structure presumes that a causal relationship exists between programmed activity (outputs) and the achievement of program impacts. Program audits and evaluations test the relationship between outputs and impacts and search out more effective means to accomplish desired results. ■

## **PROGRAM HIERARCHY**

**Commonwealth Programs** ..... Broad goals of State Government.

**Program Categories** ..... Specific goals of programs.

**Program Subcategories** ... Objective of specific program

## THE BUDGET PROCESS – OVERVIEW

The annual budget cycle can be divided into four major stages: preparation (budget development and submission to the General Assembly); approval (budget review and enactment by the General Assembly and budget signing by the Governor); execution (rebudget approval and agency budget implementation); and audit (financial audit and program performance monitoring and evaluation).

### Preparation

The preparation stage of the budget process for a fiscal year beginning July 1, commences nearly twelve months prior to that date. The first step of the process is the distribution of the Budget Instructions by the Office of the Budget and Program Policy Guidelines by the Governor. The Budget Instructions provide detailed guidance for the development and presentation of the program and cost information to be included in the agency budget request. The Program Policy Guidelines define the major policy issues and problems faced by the Commonwealth and provide direction for the preparation of each agency’s budget request.

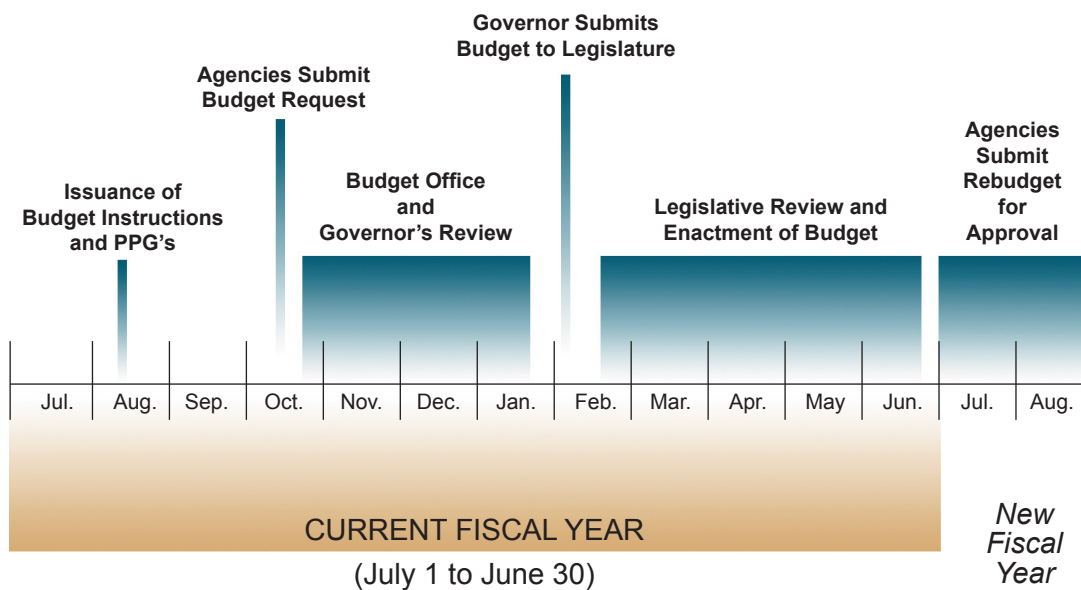
Agencies prepare budget requests starting in August according to the direction and guidance provided in the

Budget Instructions and Program Policy Guidelines. Budget requests are prepared using computerized forms (templates) and include the Agency Program Plan, a programmatic presentation of the agency request as well as a substantial amount of appropriation level and program level information. Agencies submit budget requests to the Secretary of the Budget beginning in early October. See Appendix 2 for a general discussion of the agency budget request preparation process.

During the October through January time period, the Office of the Budget reviews agency budget requests for accuracy and adherence to the Governor’s policy guidelines, analyzes the requests and prepares funding recommendations for the Secretary of the Budget and the

Governor. Total agency requests must be brought into balance with estimated total revenues from existing sources or new revenue sources must be recommended. In addition, during December, the Governor meets with leaders of the General Assembly to apprise them of anticipated spending and revenue levels and to discuss major fiscal issues. The Secretary of the Budget makes recommendations to the Governor on the proposals contained in the agency budget requests. The Governor then conducts reviews to make the final budget decisions. The Governor’s Executive Budget, the result of the preparation phase, is finalized in January and submitted to a joint session of the General Assembly by the Governor through his budget address in early February.

### Budget Process in Pennsylvania





**Approval**

Upon receiving the Governor’s Executive Budget, the appropriations committees of the House and Senate hold hearings to review agency requests for funds. The appropriations hearings provide legislators with an opportunity to review the specific programmatic, financial and policy aspects of each agency’s programs. The General Assembly makes its decisions on the budget in the form of the General Appropriation Bill and individual appropriation bills. The General Appropriation Bill contains appropriations for the executive, legislative and judicial departments, public schools, and for public debt. All other appropriations are made individually by separate special bills. Appropriations made to institutions not under the absolute control of the Commonwealth are considered nonpreferred appropriations and require a two-thirds vote of each House of the General Assembly for passage. The passage of the General Bill and other appropriation bills by both Houses of the General Assembly and the passage of any revenue measures which may be required to ensure a balanced budget constitute the legislative approval phase.

At the time that the General Appropriation Bill and other appropriation bills are presented to the Governor for approval, the official revised revenue estimates for the budget year are issued. If the combined appropriations passed by the Legislature exceed the revenue estimates, the Governor has the authority and duty either to veto entire appropriation bills or to reduce the amount of appropriations in order to produce a budget that is in balance with revenues. The Governor also has the power to reduce or item veto any appropriation thought excessive or unnecessary even if the total appropriations passed by the legislators do not exceed estimated revenues. A Governor’s item veto may be overridden by a two-thirds vote of each chamber of the General Assembly. The signing of the appropriation bills and any revenue bills by the Governor is the last step in the approval stage of the budget cycle.

On occasion, additional appropriations are made subsequent to the passage of the General Appropriation Act. These additional appropriations are made for a purpose for which either no appropriation was originally made, or in those circumstances where the General Assembly deems it desirable that an original appropriation be increased in the current fiscal year period. Additional appropriations are made in supplemental appropriation bills, which are passed in the same manner as regular appropriation bills.

**Execution**

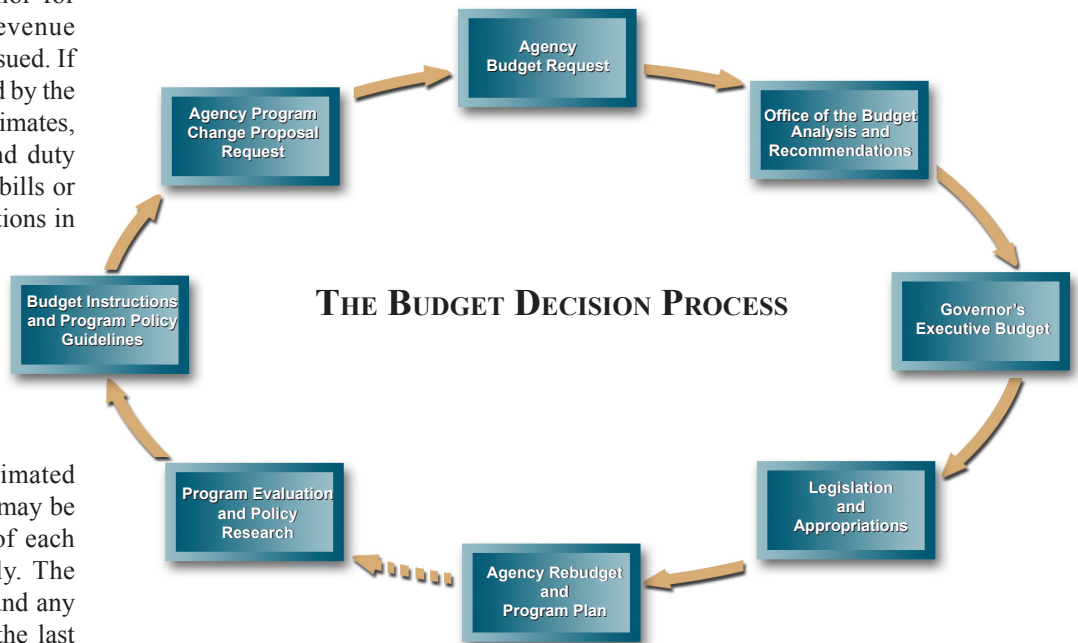
Responsibility for budget execution rests largely with the agencies, but the Office of the Budget has the authority to establish the authorized salaried complement for agencies and to request and approve agency spending plans commonly referred to as rebudgets. The rebudgets are based primarily on the enacted appropriations. The Office of the Budget electronically enters allocation amounts into the accounting system based upon the approved rebudget. Program managers or administrators are responsible for operating agency programs within the resources that are available and for producing the results cited in the Governor’s Executive Budget.

**Audit**

The last phase of the budget cycle, which occurs after the close of the fiscal year, encompasses audit and review of financial and program performance. The Office of the Budget monitors and reviews financial and program performance and may conduct program audits or evaluations of selected programs. In addition, the Auditor General performs a financial post audit.

**Budget Decision Process**

The budget decision process is illustrated through the following chart. The components of the decision process are further identified and discussed in the Budget Preparation, Budget Submission and Enactment, Budget Execution and Budget Audit and Evaluation sections.



## BUDGET PREPARATION

### Budget Instructions and Program Policy Guidelines

The budget process begins with issuance of Budget Instructions and the Governor's Program Policy Guidelines. As noted in the Overview, the Budget Instructions are issued annually by the Office of the Budget and provide detailed guidance for the development and presentation of the program and cost information to be included in the agency budget request. The direction provided in the Budget Instructions is more fully discussed under the Preparation and Submission of Budget Requests topic immediately following the discussion on the Program Policy Guidelines.

The Program Policy Guidelines define the major policy issues and problems faced by the Commonwealth and provide direction for the preparation of each agency's budget request. The Program Policy Guidelines are a policy statement in the strictest sense. The Governor and the Governor's advisors make the final decision on issues for inclusion as well as which issues are to be identified as major priorities.

The Program Policy Guidelines are issued annually and mark the beginning of a policy and program review process which ultimately is reflected by all program and funding recommendations included in the Governor's Executive Budget. The guidelines may take on a different form and content depending upon the Governor's policy direction and purposes. At times the document has stressed controlling the cost of current programs. At other times the emphasis has been on expansion of particular programs or the creation of new programs to respond to emerging problems or issues.

Generally, the Program Policy Guidelines contain at least two sections. The first section serves as an introduction and provides the agencies with information on the current revenue forecast for the next fiscal year. The most important point of this section is to communicate to the agencies how the Governor wants to work within

the revenue forecast; the instruction may be for agency heads to submit budget requests within current commitment funding requirements or within certain growth levels, or to expand certain programs. The second section includes substantive agency guidance and direction, and may also vary in form and content. Most often the substantive guidance defines an issue or problem facing the Commonwealth, and identifies the agency or agencies that are to respond with program change proposals. The issue can be broadly specified thereby leaving latitude for agencies to respond with the most suitable alternative, or the issue can be a specific statement of the issue or problem with indicators in which improvement is expected. The guidelines often emphasize multi-agency cooperation in proposing program changes to address issues.

### Preparation and Submission of Budget Requests

In August of each year, the Office of the Budget issues Budget Instructions for preparation of agency budget requests for the next fiscal year.

Budget preparation is the responsibility of the head of each agency. The agency head and agency executive staff provide guidance to program managers based on the Program Policy Guidelines. To aid their budget preparation efforts, agencies have access to accounting and other historical data via the Commonwealth's centralized computer system integrating accounting, budget, personnel, payroll and purchasing data. Many agencies also have their own computer systems and are responsible for developing and maintaining data and information useful for program management and for measuring program performance.

Agencies prepare and submit budget requests using computerized forms made available by the Office of the Budget. Agencies prepare printed copies of budget requests and are also required to submit

agency, appropriation and program level information in an electronic format using templates developed by the Office of the Budget.

Budget requests portray the amounts required to support the requested level of program effort for the budget request year and the cost of supporting that level for the four subsequent years. The five-year budget provision was established in the 1968 amendments to the Pennsylvania Constitution (Article VII, Section 12). Budget requests include the amounts required to carry-forward existing programs into the budget year, as well as the additional amounts proposed for new or modified programs.

The projected future cost (beyond the budget year) is based on the concept of current commitment. The five-year projection does not attempt to anticipate program changes that might occur in years beyond the budget year, but instead projects future costs and program data based on the future implications (anticipated needs or demands) of current law, regulation, policy and program decisions.

Agencies must develop and include program change proposals in their budget requests in response to issues in the Program Policy Guidelines or in the event of a program elimination or addition, or a change in program purpose, level, or activity. Program change proposals may be presented as part of the an agency's carry-forward budget or as a formal program revision request. Agencies are expected to justify a proposed program change by providing information on: its relationship to the guidelines; any significant changes in the environment to which the agency is responding; special analytic studies or other relevant research supporting the proposal; alternatives that were considered including summary information about cost and benefits of alternatives, explanation

of which programs, if any, will be phased-down or eliminated if the change is approved and the relationship of the proposed change to other programs. Above all, agency budget requests should contain an analysis that describes the relationship between cost and program accomplishments.

The agency fiscal office and program offices work together to compile the budget request and to review and summarize the data for consideration by the agency head. After final review by the agency head, the budget request is submitted to the Office of the Budget in early October on the dates established by the Budget Instructions, but no later than November 1 as required by the Budget Code.

### **Budget Analysis and Review**

The Office of the Budget typically receives all agency budget requests by early October, and then begins a systematic review of each agency's carry-forward budget, proposed program changes and proposed new spending. The Office of the Budget as part of its review and analysis of agency budget requests uses

computerized systems to explore options and conduct analysis using various database, spreadsheet and statistical capabilities. Computerized system reporting capabilities allow the status of recommendations to be monitored as various options are considered throughout the budget analysis and review process.

### **Mid-Year Briefing**

The Administrative Code of 1929, as amended in 1978, requires the Governor to brief the legislative leadership in December of each year on the major budgetary issues anticipated in the upcoming fiscal year. This briefing provides members of the General Assembly a preview of the general fiscal outlook and the major budget issues of the coming fiscal year. It also gives legislators an opportunity to express their views prior to final preparation of the budget. The Administrative Code requires the briefing to include the following points: major increases or decreases in program resources; anticipated results of employe union negotiations; forecasts of mandated programs such as education

subsidies, public assistance programs, debt service and anticipated revenues; and other appropriate budget information including the results of program evaluations.

### **The Governor's Executive Budget**

The Governor and the Secretary of the Budget hold budget meetings involving some or all agencies in late December or early January. Often, the total of all agency budget requests is in excess of the funds that are projected to be available during the next fiscal year. The Office of the Budget, working with the Governor and senior staff concerned with budgetary policy, conduct final reviews of agency requests to bring total requests into balance with the estimated funds available, and to determine which new or modified programs are priorities and as such should be included in the budget. By mid-January, the Governor makes final decisions on the budget, and the Office of the Budget finalizes the Governor's Executive Budget and has it printed.

## ***BUDGET SUBMISSION AND ENACTMENT***

### **Appropriations Hearings**

The Governor's Executive Budget must be submitted to the General Assembly no later than the first full week in February, except the year in which a Governor is first inaugurated. In this instance, the budget must be submitted no later than the first full week in March (Section 619 of the Administrative Code). The Governor usually outlines his budget proposals in an address to a joint meeting of the House and Senate.

At this time, copies of agency budget requests are transmitted to the Majority and Minority Committees on Appropriations of both Houses of the General Assembly and to the Legislative Budget and Finance Committee. Additionally, the administration drafts a General Appropriation Bill (one embracing only appropriations for the legislative, executive and judicial branches of the Commonwealth, for the public debt

and for public schools) together with other appropriation bills. These drafts are provided to the General Assembly as the Governor's Executive Budget is being considered.

All program funding, regardless of source, must be appropriated by the General Assembly. This includes not only those programs funded from various taxes and receipts commonly known as "State" sources, but also programs funded from federal and other sources.

The Appropriations Committees of the House and Senate hold hearings on each agency spending proposal. During the hearings, committee members question department representatives and request additional information or clarification. At the conclusion of these hearings, a

General Appropriation Bill is introduced in the General Assembly for discussion and debate. If both the House and the Senate pass the same General Appropriation Bill by a simple majority, the bill is sent to the Governor. If the House and Senate fail to agree on the same General Appropriation Bill, a conference committee composed of three members of each house is appointed to resolve the differences. The conference committee report is returned to the House and Senate where it must be concurred upon by a simple majority of both houses before being sent to the Governor. The General Appropriation Bill, along with any other bill containing an appropriation for the normal operations of the Commonwealth is known as a preferred appropriation. Preferred appropriations require a simple majority vote of each house for passage.

In addition to the General Appropriation Bill, the General Assembly may consider other bills proposing specific expenditures for charitable or educational institutions not under the absolute control of the Commonwealth. These bills are known as nonpreferred appropriations. Nonpreferred appropriations require a two-thirds vote of each house for passage.

### **Governor's Approval**

The Governor has several options for acting on appropriation bills (both preferred and nonpreferred), but is somewhat limited by certain time constraints. The Governor may sign, take no action, veto, or line-item veto an appropriation bill. If the Governor signs a bill, it becomes law upon signature. A bill also becomes law if the Governor fails to take action on the bill within a time certain.

The Governor may line-item veto a bill, by deleting or reducing appropriations contained in the bill and then signing it. The Governor's amended version of the bill

becomes law unless the General Assembly overrides the line-item veto by a two-thirds vote. The Governor may veto an entire bill by returning the bill with objections to the General Assembly within ten days. The bill will not become law unless the General Assembly overrides the veto by a two-thirds vote.

If the Governor signs or line-item vetoes an appropriation bill, the total dollar amount of such appropriations that may be signed is limited to the total of the official revenue estimate plus the beginning balance. This is further explained in the section on revenue estimating.

The budget as enacted comprises a statement of consensus by the General Assembly and the Governor on the level of expenditures for activities in the various Commonwealth programs and a legal basis for the expenditure of funds. To the extent that the enacted budget varies from the Governor's recommendation the changes must be reflected in each

Agency Program Plan, including changes in the outputs anticipated and impacts to be achieved. Proposed Agency Program Plan changes are communicated to the Office of the Budget through the rebudget process discussed in the following Budget Execution section.

These changes are incorporated in the Agency Program Plan that becomes a statement of the funds available for expenditure during the budget year. Once this revision is accomplished, a shift in the emphasis of the Agency Program Plan takes place, focusing on the planning for the ensuing budget year. Changes in the outputs anticipated and impacts to be achieved occur as agencies update available year program measure data for the next year's budget request. This cycling of the Agency Program Plan, moving it ahead one year, initiates the beginning of another budget cycle. ■

## **BUDGET EXECUTION**

The Governor's signing of the General Appropriation Bill signals the beginning of the execution phase of the budget cycle. With the signing, the Governor's Office of the Budget issues detailed Rebudget Instructions and it becomes the responsibility of each agency to rebudget the funds appropriated in that act.

While the Budget is intended to be a comprehensive plan for the use of the requested funding levels complete with measures of the program results to be achieved from the expenditures and projections four years into the future, the rebudget emphasizes financial analysis and includes only one year's operations. The primary purpose of the rebudget is to distribute funds (State and Federal) appropriated by the General Assembly along with estimated augmentations among the objects of expenditure and programs of an agency. Distribution should reflect both the program decisions and resource

allocations necessary to deliver programs and services within the funds available.

In some cases operating and institutional appropriations will be different from the amounts requested in the Governor's Executive Budget. Therefore, agency heads must assign priorities among agency programs and activities in such a manner that an agency will operate within the funds available. A primary concern of the rebudget review in the Office of the Budget is that the financial plan outlined in the rebudget reflects adequate planning to avoid deficiencies and that selected reductions are reasonable. Until rebudgets are submitted and approved, it is the responsibility of the comptrollers to insure that agency commitments and expenditures are limited to minimum continuation costs.

The short term (one year) financial concerns at this stage of the budget process are reflected in the types of documents and analysis required in the Rebudget

Instructions. These may vary somewhat from year to year but generally include narrative summaries, allocation schedules, complement summaries and rebudget summaries.

The narrative statement is an explanation of the policy, program and operational considerations that are being emphasized in the rebudget. It is intended to provide an opportunity for the agency to discuss its overall approach to the rebudget as well as specific initiatives and program and policy directions for major operating, institutional and subsidy operations.

Agency rebudgets are submitted and reviewed using computerized complement summary and budget summary forms. Following the rebudget review process, allocations are entered into the on-line Integrated Central System.

Complement summaries and allocation schedules provide information about

object classes of expenditure. Object classes of expenditure categorize program costs by items purchased—salaries, leased space, consultant services, desks, chairs, etc., while subcategories organize costs within programs intended to achieve certain objectives—housing and redevelopment, animal health, vocational secondary education, etc. These two types of categorization (object classes and subcategories) reflect two kinds of choices an agency head can make in order to develop a plan to operate within funds available. The agency head can deal with reductions by prioritizing programs thereby reducing or eliminating low priority programs or by reducing or eliminating the cost of items purchased (personnel, travel costs, furniture and equipment, etc.) without specific reference to programs within appropriations. In practice these two approaches seldom are mutually exclusive.

If, for example, a low priority inspection program is selected for elimination, the resultant savings will be reflected in the rebudget in such things as lower personnel costs, reduced travel needs, etc. A major reduction in complement on the other hand cannot be implemented without an effect on the programs and services an agency delivers. Agencies further subdivide major object allocations into minor object accounts through the Integrated Central System on-line allotment programs. No formal central office approval is required. This detailed breakdown of costs is primarily a planning and cost control tool for the agencies' own resource management efforts. Allotment reports are available on-line to agencies, comptrollers and the Budget Office.

Operating appropriations (general government and institutional) are a major concern in the rebudget. Within general government and institutional budgets, personnel costs (major object 100) may be as much as eighty to eighty-five percent of total costs, and a detailed analysis of personnel costs is required on the complement summary. This summary includes a breakdown of personnel costs by minor object, including costs of salaries, wages, and fringe benefits. These detailed

analyses provide back-up to the allocation schedules and help to determine the complement levels agencies can support with available funds.

In order to assist the agencies in their projections of personnel costs, factors are developed by the Office of the Budget working with the Office of Administration for a number of the components of the projection. These include increment and turnover factors combined to produce a salary adjustment factor and employee benefit factors developed by benefit as a percentage of total salary and wage costs or as a dollar amount per funded pay period. Agencies have the option, however, of using alternate factors if accompanied by a description of the computation.

The Rebudget Major Object Summary provides an overview of each State operating and institutional appropriation. A separate form is not required for subsidy appropriations or Federal appropriations unless complement is involved.

The summary form was initiated, in part, as a result of the General Assembly's decision to make specific Federal fund appropriations. As separate appropriations these Federal amounts are segregated from State appropriations in accounting documents. In practice, however, many of the Federal appropriations supplement or match State funds and cannot be analyzed in isolation from State funds necessary to support a program or project. Therefore the summary form assists in drawing together the related funding streams.

Upon completion of its analysis, the Office of the Budget electronically transmits approved allocation schedules and sends a Rebudget memorandum to the agency. Office of the Budget changes are noted on the schedules and explained in the memorandum. The memorandum also serves as a vehicle for establishing the authorized complement for the fiscal year.

The authorized complement reflects the number of salaried positions able to be supported within the funds available. If the existing number of positions exceeds the authorized complement agencies must

take action to abolish a sufficient number of positions to reach the authorized level. Any changes to the authorized complement must be approved by the Office of the Budget.

When the rebudget is submitted to the Office of the Budget, the agency allotment schedules are submitted to the comptroller. Allotment adjustments may be required after the approved rebudget is received by the agency. At this point the agency has a complete detailed plan against which it can compare and monitor the fiscal soundness of its operations for the year. It is now primarily the agency's responsibility to take those actions necessary to implement the plan. ■

## BUDGET AUDIT AND EVALUATION

Pre-audit activities are performed by the Office of the Budget, Comptroller Operations staff and also by the Treasury Department (the latter, an Independent Agency with a Statewide elected agency head) on a daily basis as transactions occur. While financial in nature, pre-audit findings and issues may lead to further special audits or evaluations described below. Contracts for services are pre-audited and approved by the Office of the Budget, Comptroller Operations following the policies and procedures set forth in the Field Procurement Manual. Contracts for commodities are monitored by and contracts for selected services are approved by the Department of General Services. Purchases against the commodity contracts are pre- and post-audited by the Office of the Budget Comptroller Operations following the policies and procedures set for in the Field Procurement Manual.

Post-audit activities are conducted by three audit organizations. First, several of the larger Commonwealth agencies have their own audit units. Secondly, each of the six Comptrollers Offices in the Office of the Budget has an audit staff. Finally, the Fiscal Code provides that the Department of the Auditor General (an Independent Agency with a Statewide elected agency head) shall make all audits of transactions after their occurrence, which may be necessary, in the connection with the administration of the financial affairs of the government of the Commonwealth of Pennsylvania. The Auditor General conducts the majority of audits. These audits are publicly available to government officials, stakeholders and the public. Agency officials and/or the General Assembly act upon significant audit findings and recommendations. All three groups of auditors conduct a variety of financial, compliance and performance audits, internal and external, at both the State and subrecipient levels.

In addition to the pre-audit and post-audit activities conducted by the six Comptrollers Offices, the Bureau of

Audits in the Office of the Budget also conducts performance audits on selected agency programs, or on activities or issues that impact all Comptrollers Offices. Audits can take the form of internal administrative reviews or more official performance audits with published results available to other government officials and the public. Significant audit findings and recommendations are acted upon by agency officials and/or the General Assembly.

The Commonwealth's budget process includes a program evaluation function established as part of the program budgeting system implemented in 1968. The Office of the Budget is authorized by provisions of Article VI Commonwealth Budget Procedures of the Administrative Code of 1929, as amended, to initiate and conduct evaluations of the effectiveness and management efficiency of programs supported by any agency under the Governor's jurisdiction, and to direct, coordinate, assist and/or advise any agency under the Governor's jurisdiction in the conduct of evaluations of its programs or of the programs which it supports. The Secretary of the Budget is also required to prepare reports detailing the results of program evaluations for distribution to the Governor, the General Assembly, interested agencies, stakeholders and interest groups, and the public. As noted earlier, the program structure employed in the budget presumes that a causal relationship exists between programmed activity (outputs) and the achievement of program impacts. Program evaluations test the relationship between outputs and impacts and search out more effective means to accomplish desired results. Evaluations also identify ways to promote efficiency and provide information for budget decision making. Information collected in the process of conducting evaluations and the results of the evaluations suggest issues to be included in the Governor's annual Program Policy Guidelines. Thus, the results of program evaluations feed back into the planning process to make necessary adjustments to programs.

In conducting program evaluations, the Office of the Budget uses scientific research methods and techniques to empirically observe, describe and assess State programs. While all evaluations follow the basic principles and logic of scientific research, each evaluation needs to be tailored to address the particular study topic and research conditions inherent in the program under investigation. Special evaluation studies are conducted by analysts most familiar with the topic or issue under review.

All program evaluations are designed to provide decision makers with factual information useful for improving program planning, monitoring, effectiveness and efficiency. Program evaluations take on many different emphases depending on the questions posed. Some evaluations examine programmatic or fiscal effects and the implications of prior policy decisions, proposed policy or program changes or proposed Administration initiatives, while others are more purely program effectiveness evaluations. Significant findings and recommendations of program evaluations support budget recommendations development and budget decision making, and are used to justify budget initiatives to modify or eliminate certain agency programs or functions.

The Office of the Budget typically conducts evaluations of major program issues and areas. State agency staff are encouraged to supplement the program evaluation efforts. The Office of the Budget is also authorized to advise State agencies in the evaluation of agency programs and is diligent in monitoring and investigating the results of assessments or evaluations of Commonwealth programs or program operations conducted by interest groups and policy analysis or university research groups. Evaluation results may be confidential for internal use by decision makers or published and made available to government officials and the public. ■

## CAPITAL BUDGET

### Capital Budget Process

A capital project is generally defined to mean and include: any building, structure, facility, or physical public betterment or improvement; or any land or rights in land; or any furnishings, apparatus, or equipment for any public betterment or improvement; or any undertaking to construct, renovate, improve, equip, furnish, or acquire any of the foregoing; and that the project must have an estimated useful life in excess of five years and an estimated cost of \$100,000 or more. Improvements to existing assets must increase the usefulness or change the use or function. Maintenance and repair projects, the purpose of which are to preserve or restore existing assets rather than to make an improvement to them, are not considered capital projects, with the exception of assets of historical significance.

The capital budget process in Pennsylvania is similar to the process for operating budgets. It has a preparation and submission to the General Assembly phase, a legislative consideration phase, an approval phase involving both the executive and legislative branches, and an execution phase under the purview of the Governor.

The preparation phase follows the operating budget preparation cycle for a fiscal year beginning July 1. Directions and forms for preparation of capital budget requests are included in the Budget Instructions. When agencies submit their budget requests to the Secretary of the Budget beginning in mid-October through November 1, a capital budget request itemizing the projects the agencies want to undertake is also submitted. Final decisions on the capital budget are made by the Governor at the same time as those for the operating budget. The Governor's final recommendations are contained in a separate Capital Budget section in the Governor's Executive Budget document submitted to the General Assembly.

The recommendations in the Governor's Executive Budget along with any additions or deletions made by the General Assembly are contained in a separate bill usually known as the Capital Budget Project Itemization Act. This bill, along with the Capital Budget Act that contains the maximum debt limitations based upon anticipated expenditures from currently authorized and proposed projects for the next fiscal year beginning July 1, must be passed by both Houses of the General Assembly and presented to the Governor for signature. The Governor reviews the projects contained in the Project Itemization Act taking into consideration the administration's priorities, the importance of the project and the impact on operating budgets. The Governor may sign the bill as is or item veto parts or all of the amounts contained in the bill. Any item veto may be overridden by a two-thirds vote of each House of the General Assembly.

Passage of a Capital Budget Itemization Act does not mean that all projects authorized in the act will be implemented or that a project will be activated in a short period. The timetable for capital project implementation is determined by the Governor. Debt financing a capital project creates a 20-year repayment obligation. In releasing capital projects for design and construction, consideration is given to the Commonwealth's ability to market bonds to finance capital projects, the extent to which revenues in succeeding years can finance increased debt service, the outstanding debt in relation to the Commonwealth's Constitutional debt limit, and operating cost impacts on agency programs or opportunity cost impacts on the Commonwealth's overall operating budget.

The immediate implementation of all authorized capital projects is not practicable administratively or fiscally. As noted above, projects must be consistent with the current Governor's program priorities and fiscal policies to prudently manage debt service. As a result, the Office of the Budget has instituted a process to control the approval and release of capital projects and effectively manage the issuance of general obligation debt, particularly for Public Improvement Projects and Redevelopment Assistance Projects.

Once a capital budget is enacted into law, responsibility for implementation rests with the Executive Branch. While the specific steps involved in the implementation stage differ somewhat depending on the type of capital program and source of funding, the following outline for the bond funded Public Improvement Project category, the building and structure program commonly thought of as the capital budget, will be used to describe the implementation stage.

### Implementation Process for Public Improvement Projects

Upon passage of a Capital Budget Itemization Act, Commonwealth agencies are responsible for reevaluating the need for requested capital projects, taking into consideration program changes or other changing conditions. As a result of this review, some projects may be canceled and others deferred. If the need for a capital project is reconfirmed, the agency initiates a formal request for the project, through the Department of General Services, to the Office of the Budget which approves the project for the Governor.

The Office of the Budget approval is based on an analysis and examination of project alternatives considering engineering standards, operating costs and cost savings, expected useful life, and so on. In addition, the project must be

consistent with the Governor’s program priorities and fiscal policies related to managing Commonwealth debt. After approval by the Office of the Budget, capital projects are assigned to the Department of General Services for implementation. The Department of General Services is responsible for: selecting the architect and/or engineer for the design of the project; reviewing and approving the project design, including coordinating reviews and approvals required by Commonwealth regulatory agencies or the agency for which the project is being implemented; advertising and awarding construction contracts; and inspecting construction until completion of the project.

After the design phase is completed, the Department of General Services requests approval from the Office of the Budget for advertising for construction. The purpose of this approval is to coordinate the awarding of construction contracts and corresponding funding commitments with the Commonwealth’s ability to market the necessary bonds to finance the project and to repay the debt service, and to again review the need for the project as two or more years may have elapsed since the project was initially activated.

There may be occasions during the design, bidding or construction stages of a project when changes in scope of work or

additional funding may be required. In such cases, the approval and implementation procedures are identical to those of the initial request to activate a project—the request is initiated by the agency for which the project is being implemented and submitted through the Department of General Services for review and approval by the Office of the Budget. Such requests are reviewed not only for need but also for compliance with the legislative intent of the project as approved in a capital budget.

---

### Capital Project Asset Categories

Any project that costs less than \$100,000 cannot be bond financed and must be financed through the appropriation of current revenues. Projects costing over \$100,000 can be financed either from current revenues or from bond funds, although generally they are financed through General Obligations Bonds because of high initial cost and long-term utilization of such projects, except where special circumstances arise.

The Constitutional revision of 1968 permits the incurrence of debt without

approval of the electors for capital projects specifically itemized in a capital budget if such debt will not cause the amount of all debt outstanding to exceed one and three-quarters times the average of annual tax revenues deposited in the previous five fiscal years as certified by the Auditor General.

In considering a capital budget, it is necessary to take a much more deliberate approach to the amount of debt that may be incurred to finance a capital budget. Consideration must be given to the

Commonwealth’s ability to market bonds to finance the projects and to pay the debt service. Further consideration must be given to increased operating costs that may result from capital projects.

The capital budget section of the Governor’s Budget includes a detailed listing, by source of funding, of capital projects recommended for the next year. It also includes a forecast of future projects for the ensuing four years and an estimate of cash expenditures for capital projects during each year.

For the purpose of the capital budget, capital projects are grouped into the following active categories of projects:

#### **Public Improvement Projects**

This category includes all types of new buildings and renovation projects. Also included are nonstructural improvements and the acquisition of land. The majority of these projects are designed and constructed through the Department of General Services. However, the Keystone Recreation, Park and Conservation Projects are administered by the Department of Conservation and Natural Resources.

#### **Public Improvement-Original Furniture and Equipment Projects**

This category provides for the equipping of newly completed public improvement projects by purchasing original movable furniture and equipment through the Department of General Services.

#### **Transportation Assistance Projects**

These projects include: the purchase of rolling stock and construction or improvement of facilities operated by mass transportation agencies throughout the Commonwealth; and the acquisition, construction and equipping of rural and intercity common carrier surface transportation systems or any components thereof as authorized in Act 10 of 1976; and aviation transportation systems. These projects are administered by the Department of Transportation.



### **Redevelopment Assistance Projects**

Includes projects of the type that the Department of Community and Economic Development is authorized to finance by capital grants under the provisions of the Act of May 20, 1949 (P.L. 1633), known as the “Housing and Redevelopment Assistance Law.” This category includes grants for the acquisition of land and the construction of buildings and other property appurtenances for municipal agencies and authorities for economic development and the prevention and elimination of blight. These projects are administered by the Office of the Budget.

### **Site Development Projects**

This category provides grants for the acquisition, construction, improvement, expansion, extension, repair or rehabilitation of all or part of any facility or system, whether publicly or privately owned, for the collection, treatment or disposal of wastewater, including industrial waste, or for the supply, treatment, storage or distribution of drinking water. These projects are administered by the Pennsylvania Infrastructure Investment Authority.

### **Flood Control Projects**

This category provides the State’s share of Federal flood control works and improvements to prevent floods and to preserve, control and regulate the flow of rivers and streams in the Commonwealth. These projects are administered by the Department of Environmental Protection.

### **Bridge/Highway Projects**

This category includes the design, purchase of rights-of-way, construction, reconstruction and other improvements to bridges and highways on the State highway system that have a State funding cost of \$100,000 or more:

- a. New road and bridge construction.
- b. All bridge replacements greater than 20 feet.
- c. Improvements to existing trafficways which increase capacity or ingress/egress.
- d. Highway safety projects which constitute an improvement.
- e. Interstate restoration projects.

These projects are designed and constructed through the Department of Transportation. ■

## **REVENUE ESTIMATING**

The procedures and requirements relating to revenue estimates for the Commonwealth’s budget are prescribed by statute in Section 618 of the Administrative Code, by an interpretation of the State Constitution contained in a decision by the Pennsylvania Supreme Court in *Commonwealth v. Alice F. Liveright, et al* in 1932 and an opinion given by the Attorney General of the Commonwealth, E.M. Schnader, further interpreting the Supreme Court’s decision.

Revenue estimates for each tax or revenue source are developed from a statistical relationship between revenue collections and economic or other appropriate variables such as time.

Relationships between revenue collections and these variables are analyzed using various statistical techniques ranging from simple arithmetic averages to multi-variate regression analysis. The more sophisticated techniques are used to estimate the major tax sources because even small percentage errors can have a significant effect on the budget’s fiscal balance.

When economic variables are used in a revenue estimating equation, forecast values for those variables are usually obtained from commercial firms regularly providing such forecast values. Forecasts may be for national or state economic variables as is appropriate.

Estimates of the amount of revenues to be received during a fiscal year are useful for several purposes. First, they provide guidance for setting overall spending limits or targets. Second, estimates are used to determine whether a budget is balanced as required by the State Constitution. Third, estimates provide a yardstick against which revenue trends during the fiscal year may be measured. The Department of Revenue and the Office of the Budget collaborate to develop the revenue estimates used in the budget process.

While annual revenue estimates are prepared for each budgeted State fund, the

focus for revenue estimate development is on the General Fund and the Motor License Fund, the two largest budgeted state operating funds. Within a fund, revenues are categorized as State revenues, augmenting revenues, federal revenues, or restricted revenues. State revenues are those received from taxes and from non-tax sources such as fees for licenses, penalties, interest, investment income and other sources. Augmenting revenues consist of departmental and institutional billings for services rendered. Federal revenues are those federal-aid receipts that pay for or reimburse the Commonwealth for funds disbursed for federally assisted programs. Restricted revenues are those restricted to a specific use or uses by state law, administrative decision, or by the provider of the funds. For budget planning purposes, augmenting revenues, federal revenues and restricted revenues are considered to be self-balancing with their respective expenditures. Consequently, budgets focus on the estimate for State revenues. The determination whether an enacted budget is balanced as required by the Constitution rests solely on estimated and actual State revenues. The discussion of revenue estimates below applies only to estimates of State revenues and to federal revenues to the General Fund.

Throughout the annual budget cycle, several estimates of revenues are prepared, each for a specific function in the budget process. The principal revenue estimates are: the budget estimate; the official estimate; and the budget re-estimate.

### **The Budget Estimate**

The Governor's Executive Budget is required by statute to specify the sources of revenue and the amounts expected from those sources and any new proposals intended to raise or lower expected revenues and the expected revenue impact of those proposals. The Governor's Executive Budget contains estimates of revenues for six years—an estimate for the fiscal year currently in progress, an estimate for the budget year and an estimate for each of the succeeding four fiscal years.

The budget revenue estimate is a look forward 18 months based on current revenue trends and forecasts of economic

conditions during the period. An estimate is prepared for each tax and nontax revenue source and for each budgeted fund. The resulting estimate for each fund becomes, along with the projected surplus or deficit from the end of the preceding year, the amount of financial resources available for appropriation from each fund to support the programs financed from those revenues.

### **The Official Estimate**

Prior to the signing of the General Appropriation Bill for the fiscal year, the Governor is required to sign an official revenue estimate detailing the amount of revenues expected to be received during the fiscal year for the General Fund and Motor License Fund. That revenue estimate is prepared and certified by the Secretary of Revenue and the Secretary of the Budget and, when added to the surplus or deficit carried forward from the preceding fiscal year, serves as the ceiling for appropriations from each fund. These estimates are extremely important factors in the budget process.

In his opinion clarifying questions arising from the Pennsylvania Supreme Court decision in *Commonwealth v. Liveright*, Attorney General W. M. Schnader stated that the “estimates as officially submitted to the Governor as a basis for his action on appropriation measures . . . must be treated as the inflexible test by which fiscal legislation is evaluated.” The word “inflexible” was used in the opinion because the court’s decision was that the revenue estimate could not be changed once it was certified to the Governor. The Attorney General’s opinion remarked that an estimate is not a fact but only a prediction that may fail by being either too high or too low, an inescapable uncertainty in any budget system. Once a revenue estimate is signed by the Governor the only acceptable reason for changing the official revenue estimate is to reflect enacted changes to the laws governing the levy and collection of revenues.

When funds have been appropriated equal to the official revenue estimate plus the surplus or deficit carried forward from the previous fiscal year, additional appropriations may be made during that fiscal year only to the extent that funds are

lapsed from other appropriations or that tax provisions are enacted that will increase the official revenue estimate.

Revenue collections are reviewed monthly and reports are submitted to the Senate and House Appropriations Committees comparing actual collections with estimated collections for each month. Although actual monthly collections often vary from estimated collections, over the year such monthly variations tend to cancel each other. Under any circumstance, other than revision of the tax statutes, the official estimate remains unchanged. This provides stability to the budget process by preventing abrupt reductions to the budget that otherwise would have to occur each month actual collections failed to reach estimates and also preventing the tenuous appropriation increases otherwise likely to occur each time there was an overage in monthly collections.

### **The Budget Re-estimate**

Approximately halfway through the fiscal year, when the budget for the next fiscal year is prepared, a re-estimate of the revenues anticipated for the current fiscal year is made, taking into consideration actual collections to date and prospects for the economy and their expected effect on revenue collections for the balance of the fiscal year. This estimate, together with estimates for expenditures for the fiscal year, is used to estimate the fiscal year ending balance for the fund. The budget re-estimate, although it represents a revision to the official estimate, has no effect on that estimate in terms of its function as the limit on appropriations. The official estimate remains unchanged except for enacted changes to tax and revenue laws. The function of the budget re-estimate is to provide information necessary to plan the management of the Commonwealth’s finances for the remainder of the current fiscal year and to plan the budget for the next fiscal year. The budget re-estimate is included in the following year’s budget preparation process and Governor’s Executive Budget. ■

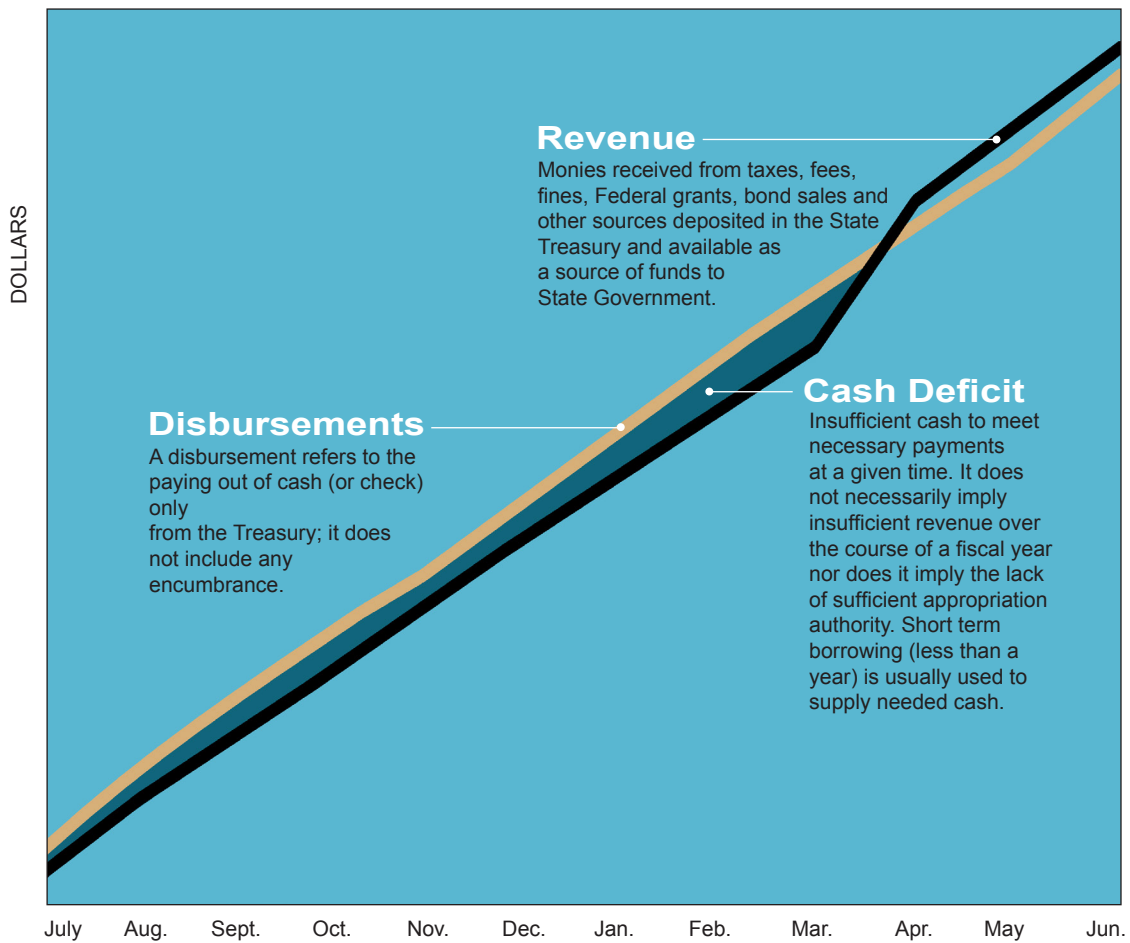
## CASH FLOW MANAGEMENT

Cash flow management seeks to maintain sufficient working capital to make disbursements in accordance with statutory payment dates and to permit the prompt payment of payrolls and other charges payable from the General Fund. Cash receipts and expenditures are monitored closely and unusually large payments (major payments) are scheduled several weeks in advance.

Throughout the fiscal year, imbalances occur between revenue receipts and expenditures for the General Fund. The timing of tax payments is such that the Commonwealth's cash receipts are concentrated in the fourth quarter of the fiscal year, from April through June, while disbursements are distributed more evenly throughout the fiscal year. Consequently, the Commonwealth experiences certain periods within the fiscal year when, absent

sufficient cash balances at the beginning of the fiscal year, General Fund borrowings, or delays in making disbursements, cash balances would be negative. Graphically, General Fund revenues and expenditures during a fiscal year appear as follows:

**General Fund  
Cumulative Revenues and Disbursements**



To remedy the cash flow imbalances in the General Fund when they occur, the Commonwealth borrows short term funds for the fiscal year. The short term debt issued by the Commonwealth for cash flow purposes is known as tax anticipation notes (TANS) as it is secured by tax and other revenues to be received later in the fiscal year. TANS may take several forms such as fixed-interest rate, fixed-term notes or variable interest rate instruments such as commercial paper and variable rate demand notes. When the Commonwealth receives the revenue securing these notes, it redeems the notes by repaying principal plus interest. TANS must be redeemed prior to the end of the fiscal year in which they were issued.

In recent years, in lieu of issuing TANS, the Commonwealth's Treasurer has invested in the General Fund funds from the Treasury's short term investment pool (STIP). Under the STIP investment agreement, the STIP earns ten basis points above its average earnings rate and the General Fund saves the issuance costs associated with the issuance of TANS.

As an additional cash management option, the Governor is permitted to initiate temporary interfund transfers between the General Fund and several of the special revenue funds of the Commonwealth. Any such transfers made during a fiscal

year must be repaid to the originating fund within the first 30 days of the succeeding fiscal year, or in the instance where the originating fund is the Motor License Fund, within eight months of the transfer. In addition, transfers from the Motor License Fund may not be made earlier than one year following any preceding transfer from the Motor License Fund. Interfund transfers to the General Fund generally have been used to bridge very short term cash deficiencies.

Cash management is also necessary to comply with State and federal restrictions on the issuance of TANS. The maximum amount of TANS able to be issued by the Commonwealth is limited by State law to 20 percent of the revenue estimated to be collected during the fiscal year. The Federal Tax Reform Act of 1986, to prevent excessive borrowing, requires that within six months of issuance the actual cash flow deficit must exceed 90 percent of the amount of TANS issued. Failure to meet this requirement carries a financial penalty equal to the arbitrage (interest earned minus interest owed) earned on the borrowing. Accurate cash flow forecasting and careful tax note planning are necessary to maintain the Commonwealth's TAN borrowing within prescribed limits and to avoid the arbitrage rebate to the Federal Government. ■

## COMMON TERMS USED IN PENNSYLVANIA STATE FISCAL AFFAIRS

# Appendix 1

### ***Additional Appropriation***

An appropriation made subsequent to the passage of regular appropriations for a purpose for which either no appropriation was originally made or where the General Assembly deems it desirable but not mandatory that an original appropriation be increased in the current fiscal period.

### ***Agency Program Plan — (APP)***

A document consisting of program and financial information projected over a five-year period. It thus serves as the agency input into the Commonwealth Program Plan.

### ***Allocation***

An administrative breakdown of an appropriation after such appropriation has been made by the General Assembly and signed by the Governor. The allocation assigns specific amounts of money to appropriate major objects and is the spending plan for the entire fiscal year. It is an authorization to spend. In the case of those agencies under the Governor's jurisdiction, the allocation is approved by the Office of the Budget. In the case of independently elected officials it is made internally in those offices.

### ***Allotment***

A further breakdown of an appropriation and allocation by minor object and also by quarters or other periods of time within the fiscal period. Allotments are aimed at controlling the appropriateness and rate of expenditure so as to avoid the depletion of funds before the end of the fiscal year.

In Pennsylvania, because of other expenditure controls, the allotment is primarily a planning and cost control tool at the agency level. The movement of funds among the minor objects can be done at the agency's discretion without Office of the Budget approval.

### ***Appropriation***

Legislation requiring the Governor's approval authorizing an agency, department, board, commission, or institution to spend a specified amount of money for a stated purpose or purposes during a particular period of time, usually one fiscal year.

### ***Appropriation Deficiency***

A deficiency which occurs when an original appropriation is insufficient to meet the requirements of a program during the entire fiscal year. A deficiency appropriation normally is approved only to provide for such requirements as debt service, mandated subsidy payments or to continue minimum standards of protection or patient care.

### ***Augmentation***

Monies such as institutional billings or fees which are credited to a specific appropriation of State revenues. An augmentation can usually be spent for those purposes authorized for the appropriation which it augments. Although augmentations usually are appropriated in general terms with no specific dollar limits, Federal aid monies must be appropriated specifically.

### ***Balanced Budget***

A budget in which proposed expenditures equal actual and estimated revenues and surplus. The Pennsylvania Constitution requires the Governor to submit a balanced budget and prohibits the Governor from approving appropriations in excess of actual and estimated revenues and surplus.

## *APPENDIX 1 — COMMON TERMS USED IN PENNSYLVANIA STATE FISCAL AFFAIRS*

### ***Budget***

A statement of the State's program plan, the resources necessary to support that plan, a description of how and for what purposes the resources are to be used, and a projection of the effects of the programs on people and the environment.

### ***Capital Authorization***

The debt authorization and/or appropriations authorized in the Capital Budget to fund any permitted capital program.

### ***Capital Budget***

The capital budget is that portion of the State Budget that deals with projects for the construction, renovation, improvement, acquisition and original furniture and equipment of any building, structure, facility, land or land rights. Projects must have an estimated useful life in excess of five years and an estimated cost in excess of \$100,000. Most of the capital budget projects in the past have been paid from monies raised by the sale of bonds.

### ***Cash Deficiency***

Insufficient cash to meet necessary payments at a given time. It does not necessarily imply insufficient revenue over the course of a fiscal year nor does it imply the lack of sufficient appropriation authority. Short term borrowing (less than a year) is usually used to supply needed cash.

### ***Character of Expenditure***

A classification of appropriations according to their general purpose: general government, institutional, grants and subsidies, capital improvements, and debt service.

### ***Commonwealth Program Plan—(CPP)***

An aggregation of the Agency Program Plan (APP) within the framework of the Commonwealth program structure.

### ***Contingent Commitment***

An authorization made by proper authority for a spending agency to commit monies for a future year expenditure from a future year appropriation. It is contingent upon the eventual passage of an appropriation for the purpose. Money may not be paid out for goods or services delivered until such an appropriation has been made. It is usually used in the last months of a fiscal year for items ordered for delivery in the summer. It is the first item of encumbrance set up against a new appropriation once it is passed.

### ***Continuing Appropriation***

An appropriation that does not specify the time limit (with some exceptions) within which the money must be spent or encumbered. Specific action must be taken, either by the Office of the Budget or the General Assembly to lapse it.

### ***Current Commitment***

Budget projections are controlled by the concept of current commitment. Projections under current commitment show the future implications of current decisions, assuming no new aspirations and applying only those cost escalators which are a natural characteristic of the program's operation.

### ***Deficiency Appropriation***

An appropriation providing supplemental funding in the event that the original appropriation is not sufficient to meet required spending to the end of the fiscal year.

## APPENDIX 1 — COMMON TERMS USED IN PENNSYLVANIA STATE FISCAL AFFAIRS

### ***Deficit***

A fiscal condition that occurs at the end of a fiscal year, whereby expenditures for a fiscal year exceed the actual cash intake of revenues during the same period plus the prior year surplus. The deficit must be paid from the next year's revenues.

### ***Disbursement***

As contrasted with expenditure, a disbursement refers to the paying out of cash (or check) only from the Treasury; it does not include any encumbrance.

### ***Encumbrance***

That portion of an appropriation that represents an expenditure pursuant to a contract, a purchase order, or a known demonstrable bill but where an actual disbursement has not been made. In accrual accounting it is treated as a debit against the appropriation in the same manner as a disbursement of cash.

### ***Escheat***

The reversion of property to the State. Under the laws of the Commonwealth unclaimed money or property becomes the property of the State.

### ***Executive Authorization***

An authorization made in the name of the Governor to spend money from funds that had been previously appropriated through blanket action of the General Assembly. An example of this would be tax anticipation notes interest and sales tax refunds.

### ***Expenditure***

As contrasted with disbursement, an accounting entry that is both the payment of cash and/or any encumbrance, as in accrual accounting.

### ***Federal Funds Appropriation***

All monies, regardless of source, deposited in the Treasury must be appropriated. Federal funds are appropriated to specific agencies for a specific time period.

### ***Fiscal Year***

A twelve month period beginning July 1 and ending June 30 of the following calendar year which is used as the State's accounting and appropriation period. Definition of years:

*Actual Year* — Includes all expenditures (and encumbrances) chargeable to that fiscal year as of June 30 of the previous year plus any supplemental and deficiency appropriations enacted after June 30. In the case of continuing appropriations, the actual figure will also include any available balances. For non-appropriated and non-executively authorized restricted receipts and restricted revenues, it reflects disbursement only.

*Available (Current) Year* — State funds include amounts appropriated to date and supplemental and deficiency appropriations recommended in the Budget. In the case of Federal funds, the best estimate currently available. For non-appropriated and non-executively authorized receipts and restricted revenues, the best estimate of disbursement currently available is used.

*Budget Year* — Reflects the amounts being recommended by the Governor for appropriation for the next fiscal year.

*Planning Years 1, 2, 3 and 4* — Reflects only the cost of the budget year projected into the future and the implementation of legislatively mandated increases that may be effective in a future year.

## APPENDIX 1 — COMMON TERMS USED IN PENNSYLVANIA STATE FISCAL AFFAIRS

### ***Fund***

An independent fiscal and accounting entity comprising a source of money set aside by law for the purpose of carrying on specific activities in accordance with special regulations, restrictions, or limitations. It has been created by legislation and should not be confused with Restricted Receipts.

### ***Fund Balance***

The beginning balance is the ending balance brought forward from the previous year. The ending balance (positive or negative) is the sum of the beginning balance, revenues/receipts and lapses less expenditures within the fiscal year.

### ***General Appropriation Bill***

A single piece of legislation containing numerous individual appropriations. The General Appropriation Bill contains only appropriations for the executive, legislative and judicial departments of the Commonwealth, for the public debt and for public schools. All other appropriations are made by separate bills each concerning one subject.

### ***General Fund***

That fund into which the general (non-earmarked) revenues of the State are deposited and from which monies are appropriated to pay the general expenses of the State.

### ***Goal***

A goal is a desired state of affairs based upon current knowledge and values. It is timeless in the sense that as achievement approaches, goals tend to be restated at a higher level of aspiration or new goals are projected. Goals reflect the basic values of society and are therefore always culture bound and subjective.

### ***Impact Indicator***

A measure that describes and quantifies the ultimate effect programs have upon the environment or upon individuals. The accomplishment of subcategory objectives is measured in terms of impacts.

### ***Item Veto***

The Pennsylvania Constitution empowers the Governor to disapprove part or all of any dollar item or items of any bill making appropriations of money. The part or parts of the bill approved become law and the item or items disapproved become void. This power is known as the item veto.

### ***Lapse***

The return of unencumbered or unexpended monies from an appropriation or executive appropriation to the fund from which the money was appropriated or executively authorized. Most appropriations are for one fiscal year and any unencumbered and unexpended monies usually lapse automatically at the end of that fiscal year.

### ***Major Object of Expenditure***

A group of expenditure classifications within an appropriation. Major objects of expenditures in Pennsylvania budget terms are: Personnel Services, Operational Services, Fixed Assets, Subsidies and Grants and others as indicated.

### ***Mandated Expenditures***

Expenditures that are authorized and required by legislation, other than appropriation acts, or required by the Constitution. Such expenditures include payment of public debt.

### ***Minor Object of Expenditure***

A grouping of expenditures that are like or similar in nature and are breakdowns within the broader major object categorization. Examples include postage, travel, drugs food, motor vehicles, etc. All minor objects are collected under one of the major object headings.



## APPENDIX 1 — COMMON TERMS USED IN PENNSYLVANIA STATE FISCAL AFFAIRS

### *Need and/or Demand Estimator*

The quantity that identifies how much of a given element's outputs are required, e.g. the incidence of cancer would identify the magnitude of need for a treatment program.

### *Nonpreferred Appropriations*

An appropriation to any charitable or educational institution not under the absolute control of the Commonwealth. Requires the affirmative vote of two-thirds of the members elected to each House of the General Assembly.

### *Objective*

A statement of program purposes in terms of desired accomplishments measured by impact indicators. Ideally accomplishments are intended effect (impact) upon individuals, the environment and upon institutions. The intended effect should be quantifiable and achievable within a specific time and stated resources, and contribute toward pursuing the goals of the Commonwealth. Objectives are found at the program subcategory level.

### *Object of Expenditure*

A classification of expenditures by the nature of the goods and services purchased. See definitions for Major Object of Expenditure and Minor Object of Expenditure.

### *Official Revenue Estimate*

The estimate of revenues for a fiscal year determined by the Governor at the time he signs the General Appropriation Act. It is this revenue estimate which is used to determine whether appropriations are in balance with revenues.

### *Operating Budget*

The operating budget is that portion of the State Budget that deals with the general day to day activities and expenses of State Government, paid out of revenues derived from taxes, fees for licenses and permits, etc.

### *Outputs (Output Measures)*

Quantifiable units produced as a direct result of activity carried out at the element level. The major output of a training program would be the number of people trained and qualified for jobs.

### *Preferred Appropriation*

An appropriation for the ordinary expenses of State Government. Requires the approval of a majority of the Senators and Representatives elected to the General Assembly.

### *Program*

A general term applied to any level of program aggregation defined in the Agency Program Plan. Included are the Commonwealth Program, Program Category as well as Program Subcategory.

### *Program Budgeting*

A method of budgeting that relates expenditures to government program accomplishments. Program budgeting generally includes the identification of programs and their objectives, a system of measuring and reporting program results and the allocation of funds with a consideration of program effectiveness.

### *Program Category*

The first major subdivision of the Commonwealth program. The Program category is defined in terms of desired goals, e.g. clean air environment.

### *Program Measure*

A general term applied to any of the substantive measures found in the agency programs. Included are impacts, outputs and need and/or demand estimators.

**APPENDIX 1 — COMMON TERMS USED IN PENNSYLVANIA STATE FISCAL AFFAIRS*****Program Policy Guidelines—(PPGs)***

Issued by the Governor, the PPGs identify those problems confronting the Commonwealth which are of major concern. The guidelines initiate the budget process in that they ask for a preliminary assessment of alternative program changes that respond to the Governor's concerns.

***Program Revision Request—(PRR)***

The PRR is submitted to support new programs or major changes in existing programs. The PRR reflects the guidance provided by the Governor's Annual Program Policy Guidelines (PPGs), results obtained from special analytic studies, and needs or demands considered relevant by the Governor.

***Program Structure***

The system used to organize goals and objectives within a logical framework so that activities of different organizational units designed to accomplish similar results can be reviewed for decision purposes within the appropriate program context. Program structure also provides the means for determining what information is required in order to identify the needs and demands on government and what information is required for the management and evaluation of program operations.

***Program Subcategory***

A subdivision of a program category. The subcategory focuses upon objectives which can be measured in terms of quantifiable impact. Program subcategories within agencies are called programs within the Governor's Budget.

***Restricted Receipts***

Monies received by a State fund (usually the General Fund) from a source other than the State that may be used only for a specific purpose. The funds are held in a trust capacity for a period of time and then are disbursed to authorized recipients including other State agencies. Restricted Receipts do not augment an appropriation.

***Restricted Revenue***

Monies which, when received, are designated either by law or by administrative decision for specific purposes. The revenues are deposited in the General Fund or in certain special funds. Restricted revenue accounts continue from one year to the next and finance a regular operation of State Government. Disbursements from restricted revenue accounts must be accounted for as expenses of State Government.

***Revenue***

Monies received from taxes, fees, fines, Federal grants, bond sales and other sources deposited in the State Treasury and available as a source of funds to State Government.

***Revenue Estimate—Budget Estimate***

As presented in the Governor's Executive Budget, the amounts expected to be received from each existing source of revenue, along with any new proposals to raise or lower revenues, for the remainder of the fiscal year in progress and for each of the next succeeding five fiscal years.

***Revenue Estimate—Official Estimate***

The estimate of revenues for the appropriate fund detailing the amount of revenues to be received during the fiscal year. The estimate is prepared and certified by the Secretary of Revenue through the Secretary of the Budget and signed by the Governor prior to signing the General Appropriation Bill for the fiscal year.

## APPENDIX 1 — COMMON TERMS USED IN PENNSYLVANIA STATE FISCAL AFFAIRS

### ***Revenue Estimate—Re-estimate***

A re-estimate of current year revenues made when the budget for the next fiscal year is prepared, taking into consideration collections to date and any revised economic forecasts. Although it represents a revision to the official estimate, it has no effect on the official estimate's function as a limit on appropriations.

### ***Revenue Transmittal***

The document submitted to the State Treasurer by the Department of Revenue or any other State agency collecting money which belongs to the State. It is sent to the State Treasury along with the money and shows the source of the money and the proper fund and account to which it should be credited.

### ***Short-Term Borrowing***

Any borrowing done on behalf of any fund of the State where the term of the loan is less than one year.

### ***Short-Term Investment***

Any investment made on behalf of any State fund that matures in less than one year.

### ***Special Fund***

A fund in which revenues raised from special sources named by law are deposited (earmarked revenue). Such revenues can be spent only for the purposes prescribed by the law and for which the revenues were collected. Examples: Motor License Fund, Game Fund, and Boat Fund.

### ***Surplus***

A fiscal condition that may occur at the end of a fiscal year, whereby expenditures are less than the actual intake of revenues during the same period. The surplus funds become available for appropriation for the following year.

### ***Tax Anticipation Notes***

Notes which are issued by the Commonwealth when short-term borrowing in the anticipation of tax revenues is conducted in the public market on behalf of either the General Fund or the Motor Fund or both. The notes are a first obligation against the revenues collected in either fund during the year and must be redeemed before the end of the fiscal year. The notes may be issued in several forms including commercial paper, variable rate demand notes or fixed-rate, fixed-term notes.

### ***Voucher Transmittal***

An authorization prepared by an agency comptroller and sent to the State Treasurer for the drawing of checks in payment of salaries, vendors' invoices, travel expenses etc.

### ***Warrant***

An authorization prepared by the Auditor General and sent to the State Treasurer for the drawing of checks in payment of the items on a voucher transmittal.

## AGENCY BUDGET PREPARATION

# Appendix 2

This section outlines the major tasks involved in the formulation of an agency budget. Agencies need not employ the same methods when preparing their budgets, and this presentation is not intended to impose rigid uniformity on agency budget processes. Rather, it is intended as a reference document showing major activities common among the agencies, the agency budget cycle and the timing of agency budget preparation in correspondence with the overall Commonwealth budget cycle.

Whatever specific form a given agency chooses to execute its budget process, two factors should be emphasized. As shown in the event schedule, the agency head strongly participates in the process of interpreting what the agency can do to respond to the Governor's priorities. Additionally, the agency head actively guides the review of the current commitment budget as well as the formulation of program change proposals. An internal agency budget process is not episodal in nature, rather it is a continuing part of managing an agency. The concern for cost and program performance, both in terms of ultimate accomplishment and procedural efficiency, is reflected in budget decisions.

<i>Governor and Office of the Budget</i>	Publish and distribute the Budget Instructions and Governor's Program Policy Guidelines (PPGs) initiating the budget process.
<i>Agency Head</i>	Review and assess Budget Instructions and Governor's PPGs with agency executive staff. Forward to appropriate staff.
<i>Agency Head</i>	Prepare and issue preliminary internal agency guidelines to executive staff, program managers and planning and financial personnel.
<i>Program Managers, Planning and Financial Staff</i>	Assemble data for preparing a current commitment budget.
<i>Appropriate Staff</i>	Prepare list of tentative Program Revision Requests (PRRs). Submit to Agency Head and executives staff.
<i>Agency Head and Appropriate Staff</i>	Review and evaluate PPGs. Make a tentative decision on PRRs to be developed. Communicate decisions on PRRs to appropriate staff.
<i>Program Managers, Planning and Financial Staff</i>	Prepare PRRs. Determine and cost-out alternatives. Submit to responsible executive staff. Prepare Agency Program Plan (APP) revisions and submit to appropriate staff.

APPENDIX 2 — AGENCY BUDGET PREPARATION

<i>Appropriate Staff</i>	Review PRRs for responsiveness to PPGs. Prepare comments. Submit to Agency Head and executive staff. Review proposed APP revisions and develop tentative APP.
<i>Appropriate Staff</i>	Compile Department current commitment budget. Submit to Secretary and Executive Officers.
<i>Agency Head and Executive Staff</i>	Conduct Department budget hearings. Make program decisions. Communicate decisions to Program Managers, planning and financial staff.
<i>Agency Head and Executive Staff</i>	Participate in policy and program review meetings.
<i>Program Managers, Planning and Financial Staff</i>	Compile agency budget based on program decisions and Budget Instructions. Prepare final narrative in support of budget requests. Submit final draft to Agency Head and appropriate executive staff.
<i>Agency Head and Executive Staff</i>	Review and approve final version of agency budget. Communicate decisions to appropriate staff.
<i>Financial Staff</i>	Update APP consistent with program decisions and final budget presentation. Produce the agency's budget presentation. Obtain signature of the Agency Head. Deliver required number of copies to the Office of the Budget. Distribute appropriate parts of the final budget presentation to program managers and executive staff.
<i>Agency Head</i>	Receive requests for clarifying or supplementing information from the Secretary of the Budget. Forward requests to appropriate staff.
<i>Appropriate Staff</i>	Prepare responses by Agency Head, program managers and planning and financial staff.
<i>Agency Head</i>	Approve and submit requested information.

APPENDIX 2 — AGENCY BUDGET PREPARATION

<i>Agency Head</i>	Receive notice of budget review meetings and hearings. Advise executive staff and appropriate staff. Direct preparation activity.
<i>Executive Staff, Program Managers, Planning and Financial Staff</i>	Develop strategy. Prepare materials. Conduct briefings. Attend meetings and hearings called by Secretary of the Budget or Governor.
<i>Agency Head</i>	Receive supplementary information requests from General Assembly and notices of Appropriations Committees hearings. Direct hearing preparation activity.
<i>Executive Staff, Program Managers, Planning and Financial Staff</i>	Develop strategy. Prepare materials. Conduct briefings. Attend and testify at Appropriations Committees hearings.
<i>Executive Staff, Program Managers, Planning and Financial Staff</i>	Receive and respond to legislative inquiries until appropriation acts are enacted.

## GOVERNOR'S OFFICE OF THE BUDGET

# Appendix 3

The Administrative Code of 1929 established the Office of the Budget within the Governor's Office and provides for appointment of the Secretary of the Budget by the Governor. The Budget function is administered through the Executive Deputy Secretary for Budget. The Chief Accounting Officer is responsible for maintenance and operation of the Commonwealth's accounting system and direction of comptroller operations.

The Office of the Budget is served by a Legal Office appointed and subject to the control of the Office of General Counsel. The Legal Office provides legal research, interpretation, advice, and opinions for the Office of the Budget. The Legal Office works closely with the Office of Legislative Affairs and Communication and the Office of General Counsel on statutory construction and drafting issues. The Legal Office also provides advice and counsel to all of Comptroller Operations as they undertake their responsibilities in accounting for and auditing of the Commonwealth's financial operations, including developing and administering policies and procedures pertaining to the Commonwealth's contracting for services process. Lastly, the Legal Office provides legal representation for the Office of the Budget before administrative agencies and state and federal courts.

There are three major functions under the Executive Deputy Secretary for Budget responsible for administering and carrying out the various phases of the budget process.

### The Bureau of Budget Analysis

Directs and oversees the Commonwealth's operating and capital budget process. Provides direction for the development of agency budget requests; reviews the annual agency budget requests; and prepares the budget document and its supporting information. After the budget is enacted by the General Assembly, reviews agency spending plans or rebudgets and approves allocations, establishes agency complement levels, and monitors agency expenditures and program developments. Reviews and coordinates the implementation of capital budget projects throughout the year. Analyzes the Federal Budget and oversees the appropriation and expenditure of Federal funds in Pennsylvania. Provides information technology (IT) support to all aspects of the budget process and all bureaus within the Budget Office and develops applications for agency budget management and monitoring.

### The Bureau of Budget Administration

The Bureau of Budget Administration provides technical budget support and financial monitoring throughout budget development and implementation and directs the administration of the Commonwealth's annual operating

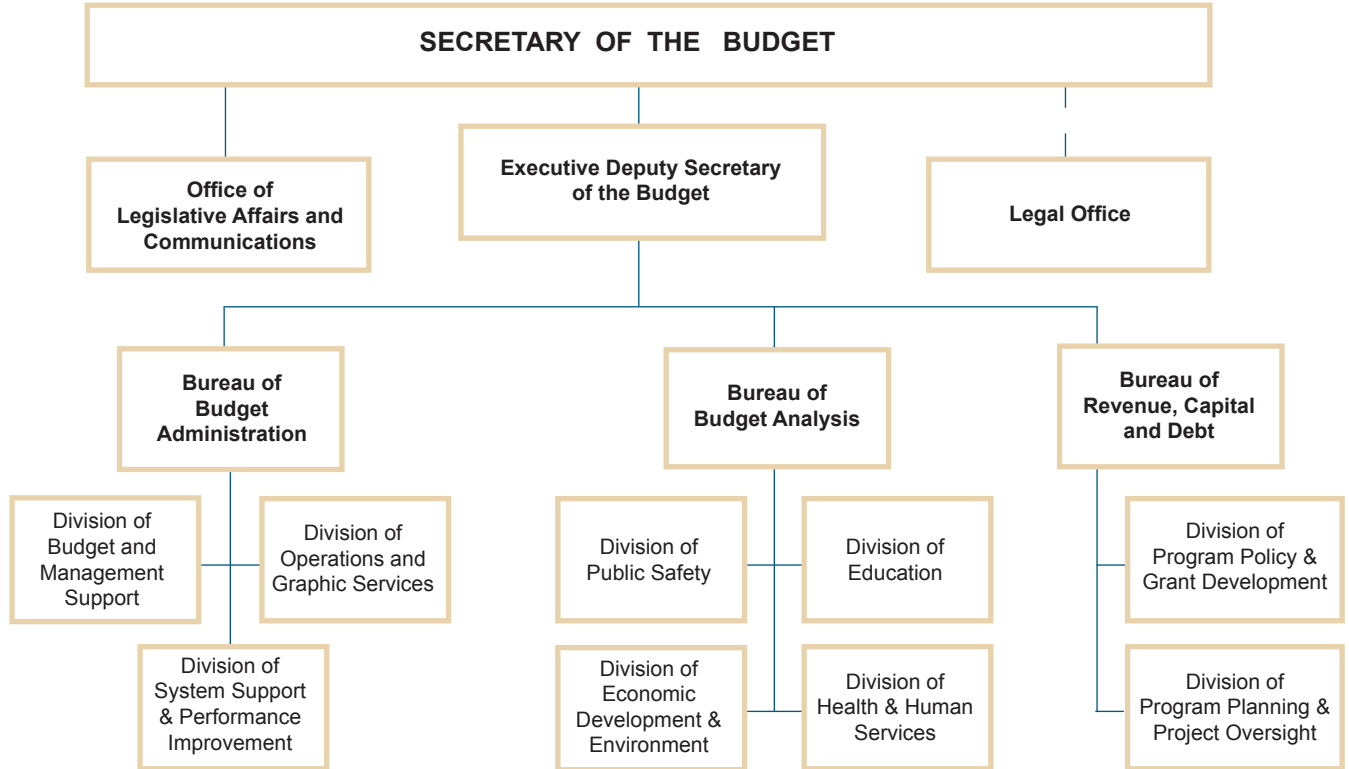
budget cycle through the development and implementation of budget and rebudget instructions and guidelines. The Bureau also manages the Office's budget preparation database and production of budget reports, manages the preparation and production of the Governor's Executive Budget and assists in the review and analysis of appropriations bills to develop and issue Expenditure Symbol Notification letters authorizing agencies' implementation of the Commonwealth's enacted budget. The Bureau also works with the Office for Information Technology for the development and implementation of budgetary processes into the Integrated Enterprise System.

### The Bureau of Revenue, Capital and Debt

The Bureau of Revenue, Capital and Debt analyzes revenue estimates prepared by the Department of Revenue for the budget, and during the year compares revenue trends with the official estimates. The Bureau prepares cash flow estimates and schedules major payments. The Bureau schedules and conducts the sale of bonds, tax anticipation notes and other forms of short term debt. The Bureau also administers the Redevelopment Assistance Capital Program.

**APPENDIX 3 — GOVERNOR’S BUDGET OFFICE AND OFFICE OF ADMINISTRATIVE SERVICES ORGANIZATION**

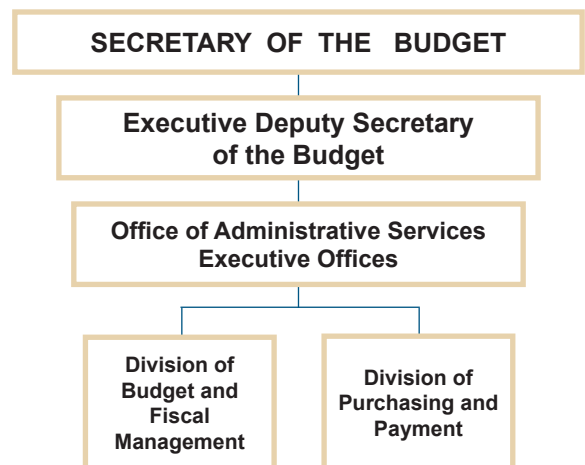
**Office of the Budget, Governor’s Budget Office**



**Office of Administrative Services – Executive Offices**

**Office of Administrative Services – Executive Offices**

The Office of Administrative Services – Executive Offices (OAS-EO) is a shared-services, service-level agreement based organization established in 2005 within the Office of the Budget designed to leverage administrative staff across several agencies. The OAS-EO provides fiscal management, purchasing and payment services for the Executive Offices and continuity of operations (COOP) planning services for the Office of the Budget.





## COMPTROLLER OPERATIONS

## APPENDIX 3

The Comptroller Operations provides a cost-effective uniform system of accounting and financial controls to ensure accountability of government funds by developing and implementing leading edge technologies; adopting innovative and dynamic business practices; providing proactive guidance, direction and support; and facilitating agency operations within the parameters of laws, regulations, policies and standards. Comptroller Operations consists of the following Bureaus and Offices:

### **The Bureau of Accounting and Financial Management**

The Bureau of Accounting and Financial Management supports commonwealth agencies on matters relating to statewide financial accounting and reporting, cash management, and the preparation of the commonwealth's financial statements on both budgetary and GAAP bases. In addition, the bureau consults commonwealth agencies on issues and projects that are financial in nature or scope. The bureau ensures appropriation commitment and spending does not exceed the Governor's established budget and that all funds administered by agencies are expended and accounted for properly.

### **The Bureau of Audits**

The Bureau of Audits provides central audit support and technical audit services to agencies under the Governor's jurisdiction. The bureau assesses new and amended audit standards, principles, and procedures and guides agencies through implementation and changes; serves as liaison with the commonwealth's single audit and provides technical support to the GAAP audit; and monitors Comptroller Operations audit functions to ensure economical, efficient, and effective performance. Additionally, the bureau performs or assists in the performance of financial and performance audits, administers Comptroller Operations' auditor training program, and ensures subgrantees of federal funds comply with federal reporting requirements.

### **The Bureau of Commonwealth Payroll Operations**

The Bureau of Commonwealth Payroll Operations provides comprehensive, cost effective payroll and travel reimbursement services to all employees under the Governor's jurisdiction. Services include the timely and accurate processing of payroll transactions; accounting for payroll disbursements, including remittance of tax, benefit, and other payroll

withholding payments; promptly reimbursing travelers for allowable expenses incurred in the conduct of official commonwealth business; auditing payroll and travel transactions; and coordinating the timely and accurate processing of payroll and travel payments with agency personnel offices and the Treasury Department.

### **The Bureau of Payable Services**

The Bureau of Payable Services provides an array of accounts payable services, including registering suppliers, grantees, customers, and loan recipients to do business with the commonwealth; reviewing and processing purchase orders, contracts, grant agreements, and other procurement documents; advising agencies on financial and service contracting policies and procedures; reviewing and processing supplier and grantee invoices and distributing IRS Forms 1099 and other tax-related documentation to entities receiving payments from the commonwealth; and conducting payment issues resolution through the payable services call center.

### **The Bureau of Planning and Management**

The Bureau of Planning and Management provides operational support to Comptroller Operations bureaus through strategic planning; budget development and monitoring; calculation, billing, and collection of service fees; communications planning and development; workplace environment management; and administrative and human resources support. The bureau coordinates the development of commonwealth-wide accounting, auditing, payroll, travel, and financial management policies and provides training to commonwealth agencies on these and other professional development topics. Additionally, Planning and Management has a central role in the Office of the Budget's information technology (IT) and records management strategies, housing the agency's IT coordinator and open records office.

APPENDIX 3 — *COMPTROLLER OPERATIONS ORGANIZATION*

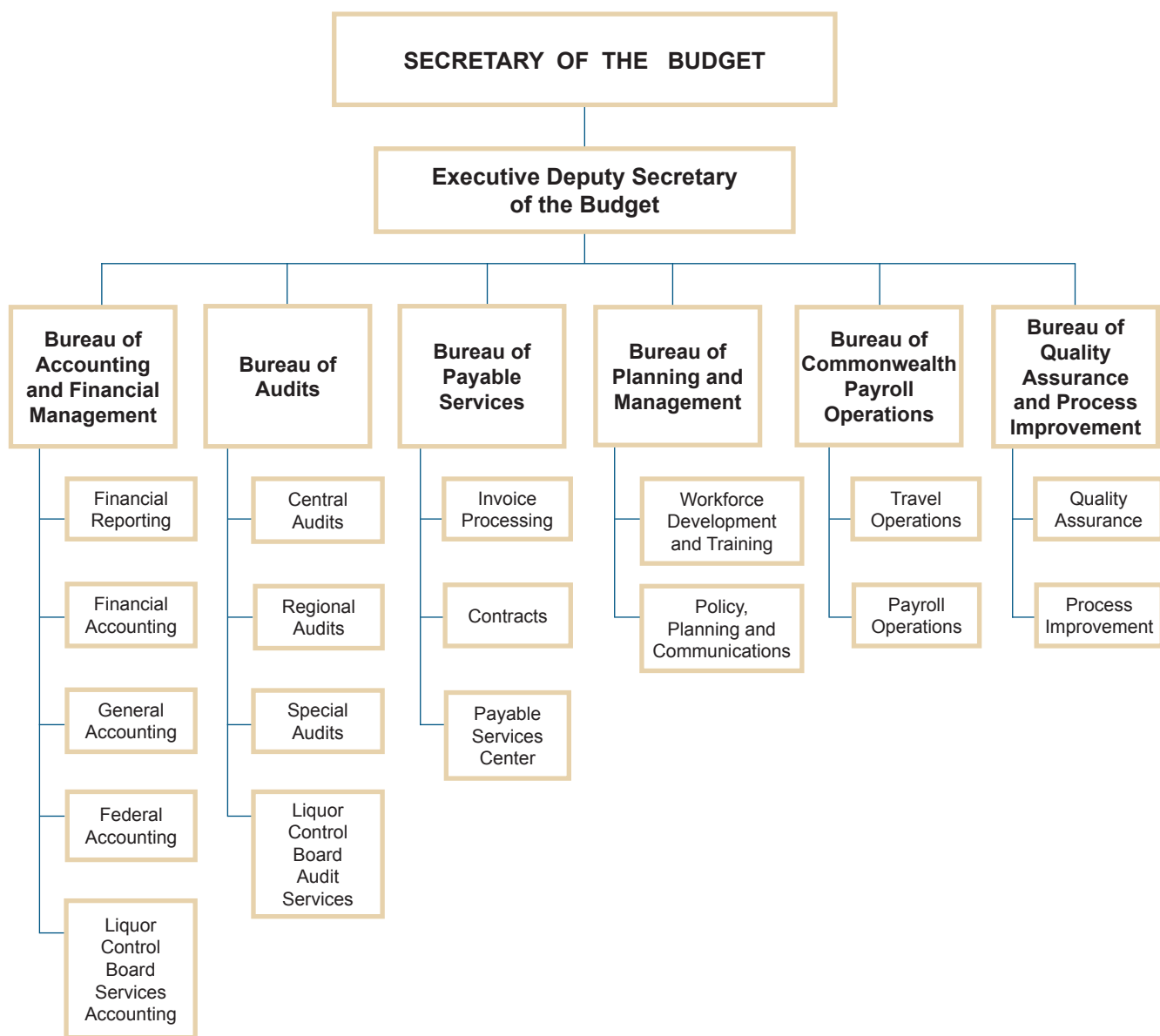
**The Bureau of Quality Assurance**

The Bureau of Quality Assurance provides project management, process improvement, performance measurement, continuous control monitoring, and financial quality assurance services to

commonwealth agencies and Comptroller Operations bureaus. It is the primary point of contact on agency-owned systems that provide financial data to the commonwealth’s uniform accounting system or to Comptroller Operations for

disclosure in commonwealth financial reports. The bureau also performs specialized reviews of agency programs and identifies potential cost recoveries.

**Office of the Budget, Comptroller Operations**



## *THE CONSTITUTIONAL AND STATUTORY BASIS OF BUDGETING IN PENNSYLVANIA*

The legal basis for the Commonwealth Budget Process is found in two primary sources – the Pennsylvania Constitution, and the Administrative Code of 1929, as amended.

This section uses the annual budget cycle as a framework to organize the legal citations. The budget cycle is divided into four phases: Executive Budget Preparation; Budget Submission to the General Assembly; Legislative Consideration of the Budget; and Budget Implementation. These phases are further divided into topic areas to aid the presentation of information.

### **EXECUTIVE BUDGET PREPARATION**

This phase of the budget process encompasses the requirements for preparing the Governor’s Budget. In so doing, the powers and duties of the major participants are defined.

#### **Agency Budget Request Information**

*Administrative Code of 1929, as amended, Article VI, Section 610.*

Section 610. Preparation of Budget:

- (a) The Secretary of the Budget shall, in each year obtain and prepare financial and program information necessary for the preparation of a State budget for the budget year beginning July 1 and for the preparation of financial and program projections for the budget year and for four succeeding years. He shall, not later than August 15 of such year distribute to the Governor, to the Lieutenant Governor, to the Auditor General, to the State Treasurer, to the Attorney General, to each administrative department, to each independent administrative board and commission, to the Chief Clerk of the Senate, to the Chief Clerk of the House of Representatives, to the State court administrator, and to all institutions or other agencies which desire State appropriations to be made to them, the proper instructions and blanks necessary to the preparation of the budget requests with a notice that such blanks shall be returned with the information desired, not later than November 1 of the same year. Such blanks shall be in such form as shall be prescribed by the Secretary, to procure any or all information pertaining to the purposes of all programs to be funded in the budget, the revenues, expenditures, program activities and accomplishments for the preceding fiscal year, for the current fiscal year, and for the budget year and for four succeeding years, the appropriations made for the preceding fiscal year, the expenditures therefrom, encumbrances thereon, the amount unencumbered and unexpended, an itemized estimate of the revenues and expenditures of the current fiscal year, for the budget year and succeeding years, and an estimate of the revenue amounts needed and program activity and accomplishment levels for the respective departments, boards, commissions, for expenses of the General Assembly, for the Judicial Department, and for any and all institutions, or other agencies to which appropriations are likely to be made by the General Assembly for the budget year and ensuing years.
- (b) The Secretary of the Budget may, under the direction of the Governor, make further inquiries and investigations as to the financial needs, expenditures, estimates of levels of program activities and accomplishments, or revenues, of any department, board, commission, authority, political subdivision, institution or other agency receiving money from the State Treasury.

*THE CONSTITUTIONAL AND STATUTORY BASIS OF BUDGETING IN PENNSYLVANIA***Revenue Estimates***Administrative Code of 1929, as amended, Article VI, Section 618.*

Revenue Estimates:

- (a) The Department of Revenue in conjunction with the Secretary of the Budget shall make revenue estimates for the use of the Governor in preparing the budget with periodic revisions until the final estimate is signed by the Governor not later than the time he signs the general appropriation bill. The revenue estimates used to sign any appropriation bill shall show separately State revenues, Federal funds, and, if specifically appropriated, funds from other sources. The Governor shall item veto any part of any appropriation bill that causes total appropriations to exceed the official estimate plus any unappropriated surplus. No changes in the revenue estimates shall be made thereafter unless changes in statutes affecting revenues and receipts are enacted.
- (b) The revenue estimates shall be prepared in a way that they are subject to complete and thorough oversight by the Appropriations Committees of the Senate and the House of Representatives with full knowledge of all data, assumptions, and econometric models which were used to develop the projections and any subsequent revisions of these projections.
- (c) A committee consisting of the Governor, the Secretary of the Budget, the Secretary of Revenue and the Chairmen of the Appropriations Committees of the Senate and the House of Representatives is hereby established to oversee the development, maintenance and/or use of econometric models which may be applied in the forecasting of State revenues. A model or models shall be developed for this purpose in the event that one does not currently exist. The Governor's Office shall maintain and update the model or models or appoint an appropriate agency or agencies to perform this responsibility. The Governor's Office shall inform the Oversight Committee of any changes to be made to the model or models to keep it updated. The equations of the model or models and any historic data bases related thereto shall be available to any member of the Oversight Committee or to the Minority Chairman of the Appropriations Committee of the Senate or House of Representatives upon request at any time for any reason. Members of the Oversight Committee or the Minority Chairman of the Appropriations Committee of the Senate or the House of Representatives may request the Governor's Office or the appropriate agency to run the model or models for any purpose including the testing of new equations and to produce forecasts. Forecasts produced by the model or models and any forecasted data bases related thereto shall be kept confidential by the Governor's Office and the appropriate agency or agencies producing these forecasts until or unless the individual requesting such forecast shall release them from this requirement. In no way shall this confidentiality provision be construed to prevent access by the Appropriations Committees of the Senate or House of Representatives to forecasts used in the preparation of the Governor's revenue estimates after the presentation of the budget as required in Section 619 (b).

*Administrative Code of 1929, as amended, Article VI, Section 618.1*

Revision of Revenue Estimates — Notwithstanding any other provisions of this act to the contrary, the Department of Revenue, in conjunction with the Secretary of Budget and Administration may, within sixty days of the effective date of this amendatory act, revise the official revenue estimate for the Commonwealth to account for additional revenues anticipated to be generated by actions taken and finalized prior to such revision by any agency of the executive branch on increasing regulatory fee rates and by any independent agency not under the direct control of the Governor on revising pricing policies or anticipated transfer of retained earnings.

## THE CONSTITUTIONAL AND STATUTORY BASIS OF BUDGETING IN PENNSYLVANIA

### Debt for Capital Projects

*Pennsylvania Constitution, Article VIII, Section 7*

- (a) Debt may be incurred without the approval of the electors for capital projects specifically itemized in a capital budget if such debt will not cause the amount of all net debt outstanding to exceed one and three-quarters times the average of the annual tax revenues deposited in the previous five fiscal years as certified by the Auditor General. For the purposes of this subsection, debt outstanding shall not include debt incurred under clauses (1) and (2)(i), or debt incurred under clause (2)(iii) if the original debt would not be so considered, or debt incurred under subsection (3) unless the General Assembly shall so provide in the law authorizing such debt.
- (b) All debt incurred for capital projects shall mature within a period not to exceed the estimated useful life of the projects as stated in the authorizing law, and when so stated shall be conclusive. All debt, except indebtedness permitted by clause (2)(i), shall be amortized in substantial and regular amounts, the first of which shall be due prior to the expiration of a period equal to one-tenth the term of the debt.

### Commonwealth Credit Not to be Pledged

*Pennsylvania Constitution, Article VIII, Section 8*

The credit of the Commonwealth shall not be pledged or loaned to any individual, company, corporation or association nor shall the Commonwealth become a joint owner or stockholder in any company, corporation or association.

### Municipal Debt Not to be Assumed

*Pennsylvania Constitution, Article VIII, Section 9*

The Commonwealth shall not assume the debt, or any part thereof, of any county, city, borough, incorporated town, township or any similar general purpose unit of government unless such debt shall have been incurred to enable the Commonwealth to suppress insurrection or to assist the Commonwealth in the discharge of any portion of its present indebtedness.

## BUDGET SUBMISSION TO THE GENERAL ASSEMBLY

This phase provides the legal basis for the kinds of information which must appear in the Governor's Budget.

### Minimum Requirements for Operating Budget, Capital Budget and 5-Year Plan

*Pennsylvania Constitution, Article VIII, Section 12*

Annually, at the times set by law, the Governor shall submit to the General Assembly:

- (a) A balanced operating budget for the ensuing fiscal year setting forth in detail (i) proposed expenditures classified by department or agency and by program and (ii) estimated revenues from all sources. If estimated revenues and available surplus are less than proposed expenditures, the Governor shall recommend specific additional sources of revenue sufficient to pay the deficiency and the estimated revenue to be derived from each source;
- (b) A capital budget for the ensuing fiscal year setting forth in detail proposed expenditures to be financed from the proceeds of obligations of the Commonwealth or of its agencies or authorities or from operating funds; and
- (c) A financial plan for not less than the next succeeding five fiscal years, which plan shall include for each

*THE CONSTITUTIONAL AND STATUTORY BASIS OF BUDGETING IN PENNSYLVANIA*

fiscal year:

- (i) Projected operating expenditures classified by department or agency and by program, in reasonable detail, and estimated revenues by major categories from existing and additional sources; and
- (ii) Projected expenditures for capital projects specifically itemized by purpose and the proposed sources of financing each.

### **Dates and Other Requirements for Budget Submission**

*Administrative Code of 1929, as amended, Article VI, Section 613.*

Submission of Budget to General Assembly:

As soon as possible after the organization of the General Assembly, but not later than the first full week in February of each year, except in the case where a Governor has been elected for his first term of office and then no later than the first full week in March, the Governor shall submit to the General Assembly copies of agency budget requests and a State budget and program and financial plan embracing:

- (1) A balanced operating budget for the ensuing fiscal year setting forth in detail:
  - (i) The amounts recommended by him to be appropriated to the General Assembly, the Judicial Department, the Governor, and the several administrative departments, boards, and commissions of the State Government, and to institutions within the State, and for all public purposes, classified by department or agency and by program.
  - (ii) The estimated revenues or receipts from any and all sources, and an estimated amount to be raised by taxation or otherwise, including proposals for new revenues and receipts.
- (2) A capital budget for the ensuing fiscal year setting forth capital projects to be financed from the proceeds of obligations of the Commonwealth or of its agencies or authorities or from operating funds.
- (3) A program and financial plan for not less than the prior fiscal year, the current fiscal year, this budget year and the four succeeding fiscal years, which plan shall include for each such fiscal year:
  - (i) Actual or estimated operating expenditures classified by department or agency and by program, in reasonable detail, and actual or estimated revenue by major categories from existing and additional sources.
  - (ii) Clearly stated purpose of each program in terms of desired accomplishments.
  - (iii) Measures used to determine to what extent such program has achieved its stated purposes.
  - (iv) Actual or estimated levels of accomplishment for each program and actual or estimated levels of program activities and their associated costs.
  - (v) Clearly stated purposes for each recommended new or revised program, measures to be used to determine whether each new or revised program has achieved its purpose, estimated levels of additional or new accomplishment of each new or revised program, estimated levels of additional activities for each such program, and their associated costs.
  - (vi) When the Secretary of the Budget identifies a new or expanded program by criteria used in the budget instructions, the new or expanded program shall be displayed and justified as a separate item in the Governor's budget request. A new program shall not be considered to be enacted by the General Assembly in its first year unless it is specifically referred to or displayed as a line item in an appropriation bill.

## *THE CONSTITUTIONAL AND STATUTORY BASIS OF BUDGETING IN PENNSYLVANIA*

### **Transmission of Budget Information to the General Assembly**

*Administrative Code of 1929, as amended, Article VI, Section 619*

- (a) In December of each year, the Governor shall meet with the Majority and Minority Chairmen of the Appropriations Committees and the officers of the General Assembly to brief the legislative leadership on the issues he can foresee as being imminent in the budget for the next fiscal year and exchange views with them on issues on the budget before it is formally submitted to the General Assembly. The Governor's briefing shall include:
  - (1) Major anticipated increases or decreases in programs.
  - (2) The results or anticipated results of employee union negotiations for salaries, wages and other benefits.
  - (3) The statistics involved in preliminary forecasts of the major programs mandated by statute such as education subsidies, all public assistance programs, debt service and forecasts of revenue.
  - (4) Other appropriate budget information. The legislative officers shall also inform the Governor of financial matters which should be considered in the budget.
- (b) In the year the Governor is inaugurated, the Governor shall present the budget to the General Assembly no later than the first full week in March and in other years, no later than the first full week in February.
- (c) The budget shall include the results of any program evaluation report completed by the Budget Office in the fiscal year preceding the year in which the budget request is made. The results of the evaluation report and its recommendations shall be summarized and included in the budget documentation.
- (d) The Governor and each department or agency of the Commonwealth, upon request of the Chairman of the Appropriations Committees of either the Senate or the House of Representatives, shall provide documentation of any budget request, including revenue estimates upon which the Governor's budget estimate is based.

### **LEGISLATIVE CONSIDERATION OF THE BUDGET**

This phase covers the General Assembly's consideration of the budget. Aside from the internal rules governing the General Assembly's behavior with respect to budget consideration, this section includes those basic elements of legislative responsibility.

#### **Revenue Bills Originate in House**

*Pennsylvania Constitution, Article III, Section 10*

All bills for raising revenue shall originate in the House of Representatives, but the Senate may propose amendments as in other bills.

#### **Limit on General Bill**

*Pennsylvania Constitution, Article III, Section II*

The general appropriation bill shall embrace nothing but appropriations for the executive, legislative and judicial departments of the Commonwealth, for the public debt and for public schools. All other appropriations shall be made by separate bills each embracing but one subject.

*THE CONSTITUTIONAL AND STATUTORY BASIS OF BUDGETING IN PENNSYLVANIA***Appropriations for Public Assistance; Military Service; Scholarships***Pennsylvania Constitution, Article III, Section 29*

No appropriation shall be made for charitable, educational or benevolent purposes to any persons or community nor to any denomination and sectarian institution, corporation or association; Provided, that appropriations may be made for pensions or gratuities for military service and to blind persons twenty-one years of age and upwards and for assistance to mothers having dependent children and to aged persons without adequate means of support and in the form of scholarship grants or loans for higher educational purposes to residents of the Commonwealth enrolled in institutions of higher learning except that no scholarship, grants or loans for higher education purposes shall be given to persons enrolled in a theological seminary or school of theology.

**Appropriations for Charitable and Educational Institutions***Pennsylvania Constitution, Article III, Section 30*

No appropriation shall be made to any charitable or educational institution not under the absolute control of the Commonwealth, other than normal schools established by law for the professional training of teachers for the public schools of the State, except by a vote of two-thirds of all the members elected to each House.

**Restriction of Gasoline Taxes and Motor License Fees.***Pennsylvania Constitution, Article VIII, Section 11*

All proceeds from gasoline and other motor fuel excise taxes, motor vehicle registration fees and license taxes, operators' license fees and other excise taxes imposed on products used in motor transportation after providing therefrom for (a) cost of administration and collection, (b) payment of obligations incurred in the construction and reconstruction of public highways and bridges shall be appropriated by the General Assembly to agencies of the State or political subdivisions thereof; and used solely for construction, reconstruction, maintenance and repair of and safety on public highways and bridges and air navigation facilities and costs of expenses incident thereto, and for the payment of the obligations incurred for such purposes, and shall not be diverted by transfer or otherwise to any other purpose, except that loans may be made by the State from the proceeds of such taxes and fees for a single period not exceeding eight months, but no such loan shall be made within the period of one year from any preceding loan, and every loan made in any fiscal year shall be repayable within one month after the beginning of the fiscal year.

**Balanced Operating Budget***Pennsylvania Constitution, Article VIII, Section 13*

- (a) Operating budget appropriations made by the General Assembly shall not exceed the actual and estimated revenues and surplus available in the same fiscal year.

**Surplus***Pennsylvania Constitution, Article VIII, Section 14*

All surplus of operating funds at the end of the fiscal year shall be appropriated during the ensuing fiscal year by the General Assembly.

**Appropriation of Federal Funds***(Act 117 of 1976)*

Act 117 requires that all Federal funds, whether designated as grants, augmentations, credits or otherwise must be deposited in the General Fund account, be contained in the budget, and be available for appropriation by the General Assembly as part of its operating budget. Exceptions to this provision occur when the General Assembly has by statute created a special fund or restricted receipt account and has specifically provided for an exclusive, special purpose(s) for which Federal funds can only be used.



## THE CONSTITUTIONAL AND STATUTORY BASIS OF BUDGETING IN PENNSYLVANIA

### **Abatement of Appropriations—Preferred Appropriations**

*Schnader vs. Liveright et. al. 35 Dauphin 179 Affd. 308 Pa. 35, 161 to 697*

If there is a shortage of revenue beyond \$1,000,000, it is not a given appropriation, the last one made, that is singled out for rejection by the fiscal officers, but all must suffer alike and abate proportionately. If the budget is not balanced by the Governor, then all appropriations must suffer proportionately except those in the preferred class. There is no priority among appropriations of the same class in any one biennium.

### **BUDGET IMPLEMENTATION**

The implementation phase covers all duties and responsibilities of the executive branch once appropriations acts have been passed by the Legislature and signed into law by the Governor.

#### **Governor's Item Veto**

*Pennsylvania Constitution, Article IV, Section 16*

The Governor shall have power to disapprove of any item or items of any bill, making appropriations of money, embracing distinct items, and the part or parts of the bill approved shall be the law, and the item or items of appropriation disapproved shall be void, unless re-passed according to the rules and limitations prescribed for the passage of other bills over the Executive veto.

#### **Issuance of Tax Anticipation Notes**

*Pennsylvania Constitution, Article VIII, Section 7(2)*

The Governor, State Treasurer and Auditor General, acting jointly, may (i) issue tax anticipation notes having a maturity within the fiscal year of issue and payable exclusively from revenues received in the same fiscal year, and (ii) incur debt for the purpose of refunding other debt, if such refunding debt matures within the term of the original debt.

#### **Authorization to Borrow—Limitation**

*The Fiscal Code, Section 1601-A*

Whenever the General Assembly has provided revenues for the general purposes of any fiscal period and the Governor, the Auditor General and the State Treasurer determine such revenues will not be sufficient for the current and other expenses payable from the General Fund or such determination is made with regard to the revenues of the Motor License Fund, as a result of which the collectible revenues may not be sufficient to defray the current and other expenses payable from the General Fund or those of the Motor License Fund, the Governor, the Auditor General and the State Treasurer, on behalf of the Commonwealth of Pennsylvania, are hereby authorized and directed during any fiscal period to authorize and direct the borrowing, from time to time, on the credit of the current revenues levied, assessed, collectible and accruing during any current period or on the credit of such revenues of the Motor License Fund, or on the credit of the sum of such revenues of both funds, such sum or sums of money not exceeding, in the aggregate, one-fifth of the contemplated receipts from the revenues which have been provided for either of said funds or from the sum of the revenues of both funds, depending upon the fund or funds for which the loans are being made, based upon estimates submitted to the Governor through the Budget Secretary by the Department of Revenue for any current period by the General Assembly, for the general purposes or the purposes of the General Fund or Motor License Fund of any fiscal period: Provided, That the money borrowed at any one time, when added to the outstanding amount of any other such loan made during such period, shall not exceed one-fifth of the contemplated revenues for such fund or the contemplated revenues of the sum of both funds for such fiscal period.

## *THE CONSTITUTIONAL AND STATUTORY BASIS OF BUDGETING IN PENNSYLVANIA*

### **Financial Auditing**

*Pennsylvania Constitution, Article VIII, Section 10*

The financial affairs of any entity funded or financially aided by the Commonwealth, and all departments, boards, commissions, agencies, instrumentalities, authorities and institutions of the Commonwealth, shall be subject to audits made in accordance with generally accepted auditing standards.

Any Commonwealth officer whose approval is necessary for any transaction relative to the financial affairs of the Commonwealth shall not be charged with the function of auditing that transaction after its occurrence.

### **Preparation of Fiscal Notes**

*Administrative Code of 1929, as amended, Article VI, Section 612*

Fiscal Notes.—The Office of the Budget shall prepare a fiscal note for regulatory actions and administrative procedures of the administrative departments, boards, commissions, or authorities, receiving money from the State Treasury. The fiscal note shall state whether the proposed action or procedure causes a loss of revenue or an increase in the cost of programs to the Commonwealth or its political subdivisions. Any such regulatory action or administrative procedure which requires a fiscal note shall be published in the Pennsylvania Bulletin. The fiscal note shall be published in the Pennsylvania Bulletin at the same time the proposed change is advertised. The fiscal note shall provide the following information:

- (1) The designation of the fund out of which the appropriation providing for expenditures under the action or procedure shall be made.
- (2) The probable cost for the fiscal year the program is implemented.
- (3) A projected cost estimate of the program for each of the five succeeding fiscal years.
- (4) The fiscal history of the program for which expenditures are to be made.
- (5) The probable loss of revenue for the fiscal year of its implementation.
- (6) A projected loss of revenue from the program for each of the five succeeding fiscal years.
- (7) The line item, if any, of the General Appropriation Act or other appropriation act out of which expenditures or losses of Commonwealth funds shall occur as a result of the action or procedures.
- (8) The recommendation, if any, of the Secretary of the Budget and the reasons therefore.

### **Preparation and Approval of Rebudget.**

#### **Allocation and Allotment to Departments, Boards and Commissions.**

*Administrative Code of 1929, as amended, Article III, Section 615*

Estimates of Current Expenditures by Departments, Boards and Commissions:

- (a) Each administrative department, board and commission, except the departments of which the Auditor General, the State Treasurer and the Attorney General are respectively the heads, shall from time to time, as requested by the Governor, prepare and submit to the Secretary of the Budget, for approval or disapproval, an estimate of the amount of money required and the levels of activity and accomplishment for each program carried on by each department, board or commission, during the ensuing month, quarter, or such other period as the Governor shall prescribe. All available Federal funds and funds from other sources shall be characterized as such and shall be included in the estimated expenditures which must be submitted to the Secretary of the Budget before any expenditures therefrom may be made. If such estimates do not meet with the approval of the Secretary of the Budget, it shall be revised as necessary and resubmitted for approval. The Secretary of the Budget may establish an authorized personnel complement level in conjunction with the approved expenditure estimate.

## THE CONSTITUTIONAL AND STATUTORY BASIS OF BUDGETING IN PENNSYLVANIA

- (b) After the approval of any such estimate, it shall be unlawful for the department, board, or commission to expend any appropriation, Federal funds, or funds from other sources or part thereof, except in accordance with such estimate and the authorized complement level, unless the same be revised with the approval of the Secretary of the Budget and within the limits appropriated by the General Assembly.
- (c) If any department, board, or commission, to which this section applies, shall fail or refuse to submit to the Secretary of the Budget estimates of expenditures, in accordance with the Governor's request, the Governor may notify the State Treasurer, in writing, of such failure or refusal, and, after receipt of such notice, the State Treasurer shall not draw any warrant in favor of such department, board, or commission, until the Governor shall have notified the State Treasurer, in writing, that the delinquent department, board, or commission has furnished him with, and he has approved, the estimate as required in this section.
- (d) The Secretary of the Budget shall not, under his authority pursuant to this section, disapprove or reduce any amount appropriated by the General Assembly for grants and subsidies without giving ten (10) days' prior notice to the Majority and Minority Chairmen of the Appropriations Committees of the Senate and the House of Representatives, for their review and comment. Such notice shall include the amount of the appropriation to be reduced or disapproved, the reasons why the appropriation should be reduced or disapproved and the estimated impact of such reduction or disapproval on the programs, services or purposes for which the appropriation is provided.

### Preparation of Rebudget, Allocations and Allotments by Elective Officers

*Administrative Code of 1929, as amended, Article III, Section 616*

Estimates of Current Expenditures by Elective Officers.—The Auditor General, State Treasurer and the Attorney General shall, from time to time, as requested by the Governor, prepare and submit to the Secretary of the Budget estimates of the amounts of money required for each activity or function to be carried on by their respective departments during the ensuing month, quarter, or such other period as the Governor shall prescribe.

### Budget Implementation Data Transmitted to the General Assembly

*Administrative Code of 1929, as amended, Article III, Section 620*

Budget Implementation Data:

- (a) The Governor, the Auditor General, the State Treasurer and the Attorney General shall make monthly expenditure data available to the Majority and Minority Chairmen of the Appropriations Committees of the Senate and the House of Representatives. Monthly data shall be provided within fifteen (15) days after the end of each month. The monthly data shall be prepared in such a way that the last monthly submission is a summary inclusive of the preceding months of the fiscal year and shall be usable to establish a history of expenditure file. This data, at the discretion of the Majority and Minority Chairmen of the Appropriations Committees of the Senate and the House of Representatives may be provided either in finished reports or on computer tapes. The data shall be provided by fund, by appropriation, by department and by organization within each department and shall include:
  - (1) Number of filled personnel positions and their cost.
  - (2) Itemized personnel vacancies and their cost.
  - (3) New positions created and their cost.
  - (4) Wage and overtime costs.
  - (5) Allotments and expenditures for itemized personnel expenses.
  - (6) Allotments and expenditures for itemized operating expenses.
  - (7) Allotments and expenditures for itemized fixed assets.
  - (8) The rate of expenditures in appropriations for major subsidy and grant programs during the month.

In addition to the above specified budgetary data, the Governor shall make available any other budgetary data as may be requested from time to time by the Majority and Minority Chairmen to the Appropriations Committees of the Senate and the House of Representatives.

*THE CONSTITUTIONAL AND STATUTORY BASIS OF BUDGETING IN PENNSYLVANIA*

- (b) The Governor shall make monthly revenue reports to the Majority and Minority Chairmen of the Appropriations Committees of the Senate and the House of Representatives. The revenue reports shall show the actual collection of revenue itemized by source and a comparison of the actual collections with estimated collections for each month. The comparison shall be accompanied by an analysis which would indicate any change in collection patterns which will cause a shortfall or overrun on the annual estimates of more than one per centum (1%).
- (c) The Governor, the Auditor General, the State Treasurer and the Attorney General shall cause to be prepared any other revenue data as may be requested from time to time by the Majority or Minority Chairmen of the Appropriations Committees for the Senate or the House of Representatives.

Section 620.1. Electronic Access of Information.—Except for confidential information, the Majority and Minority Chairmen of the Appropriations Committees of the Senate and House of Representatives shall have access to all information available on inquiry-only screens through the Integrated Central System.

**Lapsing of Funds**

*Administrative Code of 1929, as amended, Article VI, Section 621*

Lapsing of Funds:

- (a) As used in this section:

“Contingent commitment.”—An authorization made by proper authority for a spending agency to commit funds from an appropriation which has not as yet been made by the General Assembly. It is contingent upon the eventual passage of an appropriation for the purpose. Neither goods or services can be delivered nor funds expended until such an appropriation has been made.

“Contracted repairs.”—All repairs to buildings, grounds, roads, fixed and movable equipment and furniture, excluding maintenance and repair work performed by State employes. Repairs are defined as costs which will restore the asset to that condition which will permit the effective use of the asset up to but not beyond its previously determined useful life.

“Economic development.”— Programs to maximize employment opportunities, economic growth and development of communities and the overall economic development of the Commonwealth through industrial development, employability development, community development, resource development, labor-management relations and job training.

“Emergency.”— A situation or circumstance that threatens the continued operation of government or the health, safety or lives of the citizens of the Commonwealth.

“Encumbrance.”— Obligation or commitment in the form of purchase orders, field purchase orders, contracts, grant agreements or other authorizing documents related to unperformed contracts for goods and services which are chargeable to an appropriation and for which a part of the appropriation is reserved.

“Fixed assets.”— Includes as machinery, equipment or furniture those articles which meet the following two general criteria:

- (1) Those items that can be expected to have a useful life of more than one year.
- (2) Those items that can be used repeatedly without materially changing or impairing their physical condition and that can be kept in serviceable condition by normal repair, maintenance or replacement of components.

Also included in this major category of expenditure are: livestock, game and poultry purchased primarily for farm stock, breeding or similar use, land acquisitions, acquisitions of buildings structures, capital improvements to buildings and structures and nonstructural improvements.

*THE CONSTITUTIONAL AND STATUTORY BASIS OF BUDGETING IN PENNSYLVANIA*

“Grants and Subsidies.”— Includes all payments made by the State to political subdivisions, individuals, institutions and organizations for which no direct services are rendered to the State. Also included are: awards, bounties and indemnities.

“Litigation.”— Any pending, proposed or current action or matter, including arbitration and audits, subject to appeal before a court of law or administrative adjudicative body, the decision of which body may be appealed to a court of law.

“Major categories of expenditure.”— Includes personnel services, operational expenses, fixed assets, grants and subsidies, debt service and fixed charges and nonexpense items.

“Operational Expenses.”— Includes the cost of commodities, substances or manufactured articles which are used or consumed in current operation or processed in the construction or manufacture of articles. Also include equipment, expendable tools and other articles not meeting the criteria for machinery and equipment set forth in the definition of “fixed assets.” In addition includes services performed by State or outside agencies which may include the use of equipment or the furnishing of commodities in connection with these services under express or implied contracts.

“Personnel services.”— The cost of salaries and wages, State share of payroll taxes and employe benefits paid to or on behalf of State officials and employes for services rendered and for State annuitants. Includes among other things, the State share of unemployment compensation, employe training and annual and sick leave payouts.

“Procurement document.”— A document authorizing delivery of specified items or the rendering of certain services and the incurrence of a charge for them. Includes purchase orders, field purchase orders, leases, contracts and other authorizing documents.

“Purchase requisition.”— A written or electronic request to the central purchasing agency for the purchase of specified items.

- (b) All actions relating to the encumbering of funds shall be supported by complete documentation. Procurement documents shall have a specified delivery date. Encumbrances shall be expended as herein provided.
- (c) Payments for personnel services shall be charged to the fiscal year in which the expense was incurred or the liability accrued.
- (d) Payments for operational expenses and grants and subsidies shall be charged as follows:
  - (1) Purchases of supplies shall be charged to the fiscal year in which the actual expenses or commitment to purchase was incurred.
  - (1.1) Contracted services and rentals, excluding General State Authority rentals, shall be charged to the fiscal year in which the service was provided or rental occurred.
  - (2) Contracted repairs shall be charged to the fiscal year in which an encumbrance was created.
  - (3) Grants and subsidies shall be charged to the fiscal year in which funds were appropriated, allocated for the purpose by the Budget Secretary and/or encumbered.
  - (4) Except as hereinafter provided, no encumbrance for operational expenses and grants or subsidies shall be made after May 31 in the fiscal year to which the encumbrance is charged.
  - (5) Encumbrances for operational expenses and grants and subsidies made because of purchase orders issued from purchase requisitions or because of an emergency may be created subsequent to May 31 but not later than June 30.
  - (6) Encumbrances for economic development grants or projects may be retained until the close of the second fiscal year following the fiscal year in which the original grants or projects were encumbered.

*THE CONSTITUTIONAL AND STATUTORY BASIS OF BUDGETING IN PENNSYLVANIA*

- (e) Fixed assets shall be charged as follows:
  - (1) Purchase or cost of fixed assets shall be charged to the fiscal year in which an encumbrance was created.
  - (2) Except as hereinafter provided, no encumbrance for fixed assets shall be made after May 31 in the fiscal year to which the encumbrance is charged.
  - (3) Encumbrances for fixed assets made because of purchase orders issued from purchase requisitions or because of an emergency may be created subsequent to May 31 but not later than June 30.
- (f) Outstanding prior year encumbrances shall be cancelled as of October 31, excepting encumbrances for: construction, repairs and improvements and items being litigated. In addition, a prior year encumbrance may remain encumbered beyond October 31 provided the agency comptroller has evidence that either the goods were provided on or before October 31 or the services were provided by June 30 of the previous fiscal year.
- (g) Nothing shall preclude an agency from either encumbering funds against or direct charging expenditures to the current fiscal year to pay for a prior year's encumbrance which was cancelled under subsection (c), (d), (e) or (f).
- (h) Available balances created by the liquidation or cancellation of prior year encumbrances shall be lapsed. These balances shall not be transferred between major categories of expenditure and may not be used to create any new obligation.
- (i) Except as a result of litigation, in no case shall an encumbrance be held for more than the next complete fiscal year.
- (j) In no case shall there be a transfer of funds from an encumbrance in one major category of expenditure to an encumbrance in another major category of expenditure.
- (k) All deadlines for creating encumbrances shall be extended when the encumbrances apply to an appropriation received after the deadlines stated herein.
- (l) In no case shall an encumbrance be created after June 30 of the fiscal year in which the moneys were appropriated.
- (m) The Secretary of the Budget shall have the power to waive any of the provisions included in section 621 upon written request of an agency justifying an exception to these provisions which is in the best interests of the Commonwealth. When the Secretary of the Budget decides to approve an agency request for a waiver of these provisions, he shall submit the agency request along with his own written analysis and justification for the waiver of these provisions to the respective Chairmen of the Majority and Minority Appropriations Committees in the House of Representatives and the Senate allowing a reasonable time for their review and comment.

**Requirements for Program Evaluations**

*Administrative Code of 1929, as amended, Article VI, Section 611.*

Program Evaluation.—The Secretary of the Budget shall have the power and it shall be his duty to initiate and conduct, under the direction of the Governor, evaluations of the effectiveness and management efficiency of programs supported by any agency under the Governor's jurisdiction, including Federally funded as well as State funded programs, and to direct, coordinate, assist and/or advise any agency under the Governor's jurisdiction in the conduct of evaluations of its programs or of programs which it supports. It shall also be the duty of the Secretary of the Budget to prepare reports detailing the results of program evaluation conducted by the secretary for distribution to the Governor, the General Assembly, interested agencies, and the public.



**GOVERNOR'S OFFICE OF THE BUDGET**

333 Market Street, 19th Floor

Harrisburg, PA 17101-2210

717-787-2542

[www.budget.pa.gov](http://www.budget.pa.gov)

For more Pennsylvania information you can visit our website.

[www.pa.gov](http://www.pa.gov)