The Budget Process

An “appropriation” is legislation 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.

An “executive authorization” is an action the governor makes to spend money from accounts previously appropriated through blanket action of the General Assembly. Executive authorization is usually used in connection with special funds.

Pennsylvania’s yearlong budget cycle begins July 1 and ends June 30.

Every August, the budget process begins when the Office of the Budget and the governor distribute instructions and program policy guidelines. State agencies then prepare their budget requests based on these directions.

Agency appropriation proposals must be dollar amounts required to support their level of program effort for the “budget request year” and the cost of supporting that level of service for four subsequent years. This five-year budget plan was established under Article VIII, section 12 of the Pennsylvania Constitution. Agency requests are submitted to the budget secretary from early October to Nov. 1, as mandated by the Budget Code, under Article VI of the Administrative Code.

From October through January, the Office of the Budget reviews revenue estimates, analyzes agency budget requests, and prepares recommendations for the budget secretary and the governor.

The PA Constitution requires the governor to submit a balanced budget under the constitution. Total spending requests must balance with estimated total revenues from existing sources or new revenue sources must be recommended.

The government must anticipate revenues, estimate expenditures needed to continue operations (“cost-to-carry”), and the amount of a deficit, if any, to determine the projected General Fund spend number, thus ensuring a balanced budget.

The Administrative Code of 1929 (as amended in 1978) requires the governor to brief legislative leadership every December on the major budgetary issues anticipated in the upcoming fiscal year. This is typically done now by the budget secretary.

The governor’s Executive Budget is a spending plan that is balanced with offsetting revenue and includes operating and capital budgets. The governor submits his Executive Budget to a joint session of the General Assembly (the Governor’s budget address).

The Administrative Code requires the governor to annually submit a budget no later than the first full week in February. However, when a governor is first inaugurated, the governor has another month to submit his proposal.

The House and Senate appropriations committees follow the governor’s budget introduction with several weeks of hearings to review the proposal and agency requests. These public reviews typically take place between the end of February and the beginning of March.

After the appropriations hearings, budget bills are typically drafted and introduced in April or May.
The General Appropriations bill contains spending proposals for the executive, legislative and judicial branches of the commonwealth, public schools, and for public debt. All other appropriations are made by separate bills each concerning one subject.

There are also appropriations made to any charitable or educational institution not under the absolute control of the commonwealth, which are called non-preferred appropriations and require a two-thirds vote of each chamber of the General Assembly for passage. During this time, other budget-related bills – such as Tax, Education, Human Services, and Fiscal code, which provide rules and guidelines on how to spend the funds adopted in the state budget – may also be adopted.

Finally, the passage of revenue measures may be needed to ensure a balanced budget. The Pennsylvania Constitution requires all revenue-raising bills to originate in the House.

The combined operating budget is primarily provided for in the General Appropriations bill and separate non-preferred appropriations bills. Although the primary focus is on state General Fund expenditures, this is only a portion of the combined operating budget (roughly 40 percent in 2016/17). Federal funds and other smaller special funds make up the balance and are largely provided for in this package of legislation. Important special funds include the Motor License Fund, supporting highway and bridge transportation related programs; the Lottery Fund, assisting senior citizens; the Tobacco Settlement Fund, supporting many health-related programs; and a multitude of smaller, but critical, accounts supporting the environment, agriculture, mass transit, economic development, gaming, and local property tax reduction. To adequately understand commonwealth finances, the combined impact and trends of all of these funds must be collectively analyzed.

While legislative attention is on the General Fund budget, the combined operating budget provides the most accurate representation of spending trends. Considering all funds (federal, state, special and other), the governor’s 2017/18 proposal represents a total commonwealth operating budget that in recent years has been in excess of $80 billion.

As with all offered legislation, if the General Assembly fails to agree on a General Appropriation bill, that proposal may be sent to a conference committee. When this happens, each chamber appoints three members (two majority, one minority) as conferees to resolve the matter. After the conference committee votes on the amended bill, a report, issued to each chamber, must be concurred upon by a simple majority of both houses before being sent to the governor.

After the General Assembly adopts the package of appropriations bills, they are presented to the governor for approval. When this happens, the governor approves the official revenue estimates for the budget year.

The governor has the opportunity to sign the spending bills or permit them to become law without signing them. However, if the combined appropriations passed by the General Assembly exceed the revenue estimates, the governor has the authority and duty either to veto the bill in its entirety or line-item veto particular items before signing the bill (A line-item veto means specific lines or budget items can be stricken from a document before the governor signs it). Current law does not contemplate a scenario for an unbalanced budget that becomes law without the governor’s signature. The General Assembly can override a full veto or a line-item veto with a two-thirds majority in each chamber.

Often, supplemental appropriations are needed after the General Appropriations Act is approved. These new requests occur when no appropriation was originally made or when the General Assembly believes an originally approved appropriation was insufficient.

Budget execution is done primarily within state agencies. However, the Office of the Budget has the authority to approve agency “rebudgets” (agency spending plans based on the enacted appropriations) and impose spending controls during the fiscal year.

The final phase of the budget cycle happens after the close of the fiscal year when the Office of the Budget reviews financial and program performance and may conduct program audits or evaluations. The auditor general also performs a post audit of spending.
The Independent Fiscal Office is a non-partisan, independent agency established under the Administrative Code to prepare advisory, non-binding revenue estimates to aid policymakers during the annual budget cycle.

By June 15, the IFO submits an official revenue estimate for the next fiscal year. This, along with all data, assumptions or econometric models used in development are provided to the Democratic and Republican chairs of the House and Senate appropriations committees, as well as the Secretary of the Budget.

The IFO also prepares a revenue estimate when there is any change in law affecting revenues and receipts.

By Nov. 15, the IFO provides an assessment of the state’s fiscal condition and a projection of what the fiscal condition will be during the next five years.

Act 48 of 2017 established the Performance-Based Budget Board, which is responsible for establishing a schedule requiring each commonwealth agency under the governor’s jurisdiction and for all tax credits to undergo a performance-based budget review at least once every five years.

Under this Act, the Independent Fiscal Office is responsible for developing a performance based budget plan for each agency under the governor’s jurisdiction based upon the performance-based budget information provided by that agency. These plans will then be submitted to the Performance-Based Budget Board, which will review and approve or disapprove the plans. The governor and General Assembly shall then consider all approved plans during the annual budget process.

*A graphic of the budget process timeline is located on the following page.*
**Commission**

In 1913, Gov. John Tener won authorization 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.

A commission on constitutional amendment and revision recommended reorganization of the executive branch in 1919.

**Administrative Code of 1923**

Pennsylvania began a formalized budget process when the Administrative Code of 1923 became law. This placed budget preparation responsibilities with the Secretary of the Commonwealth.

**Creation of Budget Secretary**

Revisions to the Administrative Code in 1927 created the Department of Revenue and placed budget preparation functions with the budget secretary in the Governor’s Office.

**Administrative Code of 1929**

These and other changes resulted in the Administrative Code of 1929 and the Fiscal Code, which are the basis of Pennsylvania state operations.

**Annual Budget**

The commonwealth functioned with a biennial budget until 1959 when a constitutional amendment called for annual sessions of the General Assembly. Along with an amendment to the Administrative Code in 1961 pertaining to fiscal years, the General Assembly enacted its first annual budget in 1961 with a fiscal year beginning July 1.

**Constitutional Revisions**

Major constitutional revisions called 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.

**Budget Code**

A Budget Code consolidated the commonwealth’s fiscal operations and placed specific budget procedures into law.