Overview of State Budgeting Terms and Definitions Part 1

Senate Appropriations Committee Emily Byrne, Deputy Fiscal Officer February 7, 2025



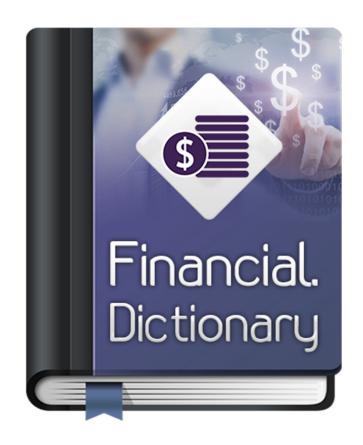
How to Speak Like an Appropriator

Part 1: State Finance terms can feel like another language



How to Speak Budget

- There are lots of terms that are tossed around by the experts who work on state finances that do not have obvious definitions
- Financial terms, like many technical terms, have very specific definitions and using incorrect language and terms can result in unanticipated consequences



Terms that Relate to Appropriations



Key Terms Related to Appropriations

- Spending Authority
- Appropriation
 - Appropriation vs Obligation vs Expense/Expenditure
- Carryforward
- Reversion



Spending Authority and Appropriation

Spending Authority

- General Assembly's authorization to an entity of government to spend a specific amount of money from a specific fund on a specific thing
- Spending authority is granted to all three branches of government

Appropriation

 Formal term for the establishment of spending authority



Spending Authority and Appropriation; An Example

- I give Chris \$5 to buy me a cup of Coffee
- I have given him the authority to spend a certain amount of funds for a specific purpose



Appropriated vs Obligated

- The appropriations process establishes **spending authority** it does not commit funds to specific expenses, grants, or contracts
 - The testimony provided to the Appropriations Committees is an entities best approximation of how they plan to execute their budget, or their spending plan for the next fiscal year
 - Significant deviations from the plan are presented in the Budget Adjustment to realign the plan with authorized **spending authority**
- When the entities move to the execution phase of the budget, they begin to **obligate** the appropriation to specific expenses, grants, contracts
 - Contracts and Grants are executed
 - Payrolls are run every two weeks
 - Supplies are purchased
 - Etc.



Obligated vs Expense/Expenditure

- Through the appropriation and obligation stages of budget execution, no actual money changes hands
- An expense occurs once a payment is made by the entity
 - Payroll runs
 - An invoice is paid for work done by a contractor or a subrecipient of a grant
- Obligations and Expenditures reduce the spending authority available to a department throughout the fiscal year



Obligated vs Expense/Expenditure; An Example



- I give Chris \$5 to buy me a cup of coffee
- When Chris fills the mug he is obligated to pay for the coffee
- An expense occurs when Chris pays the cashier

Carryforward

- Often, an entity does not obligate or expend exactly what has been appropriated
 - Remember the budget is a plan built on a set of assumptions
- When this happens, an entity will find itself with some spending authority that hasn't been **obligated** at the end of the Fiscal Year
- What happens with the spending authority depends on the Fund from where the appropriation originates...



Spending Authority that Expires at the End of the Fiscal Year

- If the spending authority is from Special Funds, Federal Funds, Interdepartmental Transfers, or Internal Service Funds, is unutilized, the spending authority expires at the end of the fiscal year.
 - Unless there is explicit language that rolls the spending authority to the next fiscal year
- **Spending authority** from these funds is either:
 - Reestablished in the Appropriations Process in the next fiscal year
 - Reestablished in law
 - Reestablished through the Excess Receipts process
 - We will talk about Excess Receipts another day



Spending Authority that can Carryforward

- If the spending authority is from the General Fund, Transportation Fund,
 TIB Fund, Education Fund, Technology Modernization Special Fund, or the
 Clean Water Fund, historically the General Assembly has allowed the
 spending authority to carryforward at the end of the fiscal year subject to
 the approval of the Secretary of Administration
- Proposed BAA language:
 - Notwithstanding any other provisions of law and subject to the approval of the Secretary of Administration, General, Transportation, Transportation Infrastructure Bond, Education Fund, Technology Modernization Special Fund (21951), Clean Water Fund (21932), and Agricultural Water Quality Fund (21933) appropriations remaining unexpended on June 30, 2025 in the Executive Branch shall be carried forward and shall be designated for expenditure.

Carryforward continued

- If an entity has unobligated or unexpended spending authority at the end of a fiscal year, it can be brought forward into the next fiscal year.
 - Often there are timing issues with anticipated budgetary needs that don't necessarily align cleanly with the timing of the fiscal year
 - Entities will receive authorization to carryforward funds to meet anticipated needs
 - Pay Act Obligations
 - Project needs that didn't align with the timing of the fiscal year



Carryforward; an Example



- I give Chris \$5 to buy me a cup of coffee
- The cafeteria coffee costs \$1.59
- I tell Chris to keep the change and buy me a cup of coffee tomorrow
 - The funds haven't been obligated
 - Chris is carrying the funds forward for a specific purpose and a known future expense (e.g., buying me a cup of coffee tomorrow)



Reversions

- If a department has funds that are not obligated or expended and it is determined that the spending authority is not needed by a department, then the spending authority is reverted to the General Fund in the Big Bill or the Budget Adjustment
- Through the reversion process, the money that backed the original appropriation is now available to be appropriated again



Reversion; an Example



- I give Chris \$5 to buy me a cup of coffee
- The cafeteria coffee costs \$1.59
- I tell Chris I want my change back
- I now have \$3.41 back in my possession and I can give it someone else to buy me coffee tomorrow or to spend on something else entirely