

# PRESENTATION TO THE LEGISLATURE ON ALABAMA'S FINANCIAL CONDITION



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# Presentation Overview

- ▣ **Appropriation of State Funds**

- ▣ **ETF**

- Revenue Sources
- Appropriations
- Condition of the Fund
- Rolling Reserve Act
- ETF Rainy Day Account

- ▣ **SGF**

- Revenue Sources
- Appropriations
- Condition of the Fund
- SGF Rainy Day Account
- The People's Trust Act

- ▣ **FY 2017 Budget Challenges**

- ▣ **Other Fiscal Issues**

# Appropriations Structure and Revenues of the State

## ▣ **Two Main State Appropriations Bills**

- State General Fund
- Education Trust Fund

## ▣ **Earmarking**

- Alabama earmarks 84% of state revenues (FY 2016), of which 52% goes to the Education Trust Fund
- Earmarking can be:
  - general or specific
  - statutory or constitutional

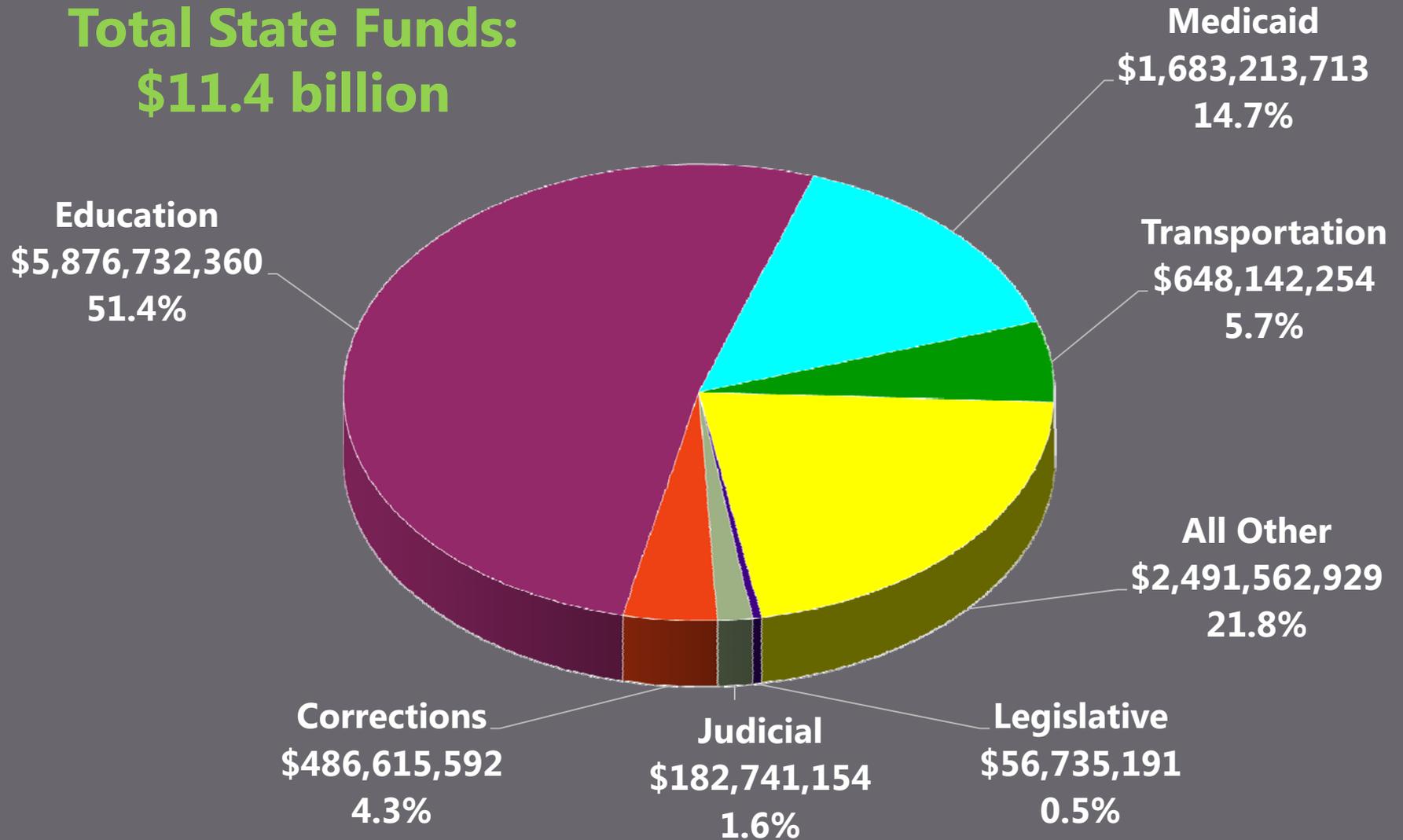
# Appropriation of State Funds FY 2016 (as of 12/31/2015)

- ▣ **General Fund** = \$1.82 billion
- ▣ **Education Trust Fund** = \$5.99 billion
- ▣ **Other State Funds** = \$3.62 billion
- ▣ **Total All State Funds** = \$11.43 billion\*

\* Does not include tuition and other funds not appropriated by the Legislature

# APPROPRIATION OF ALL STATE FUNDS FY 2016

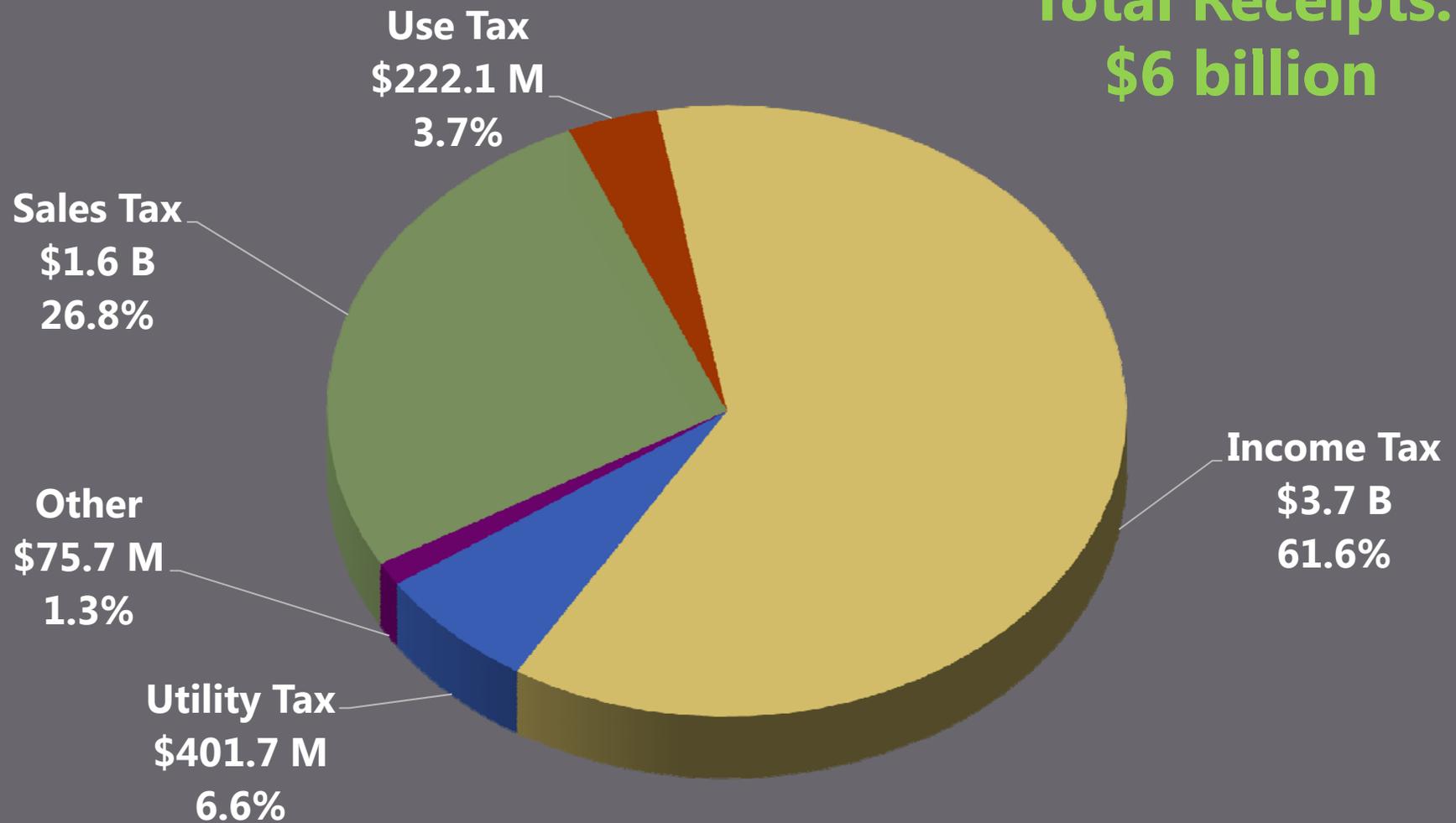
**Total State Funds:  
\$11.4 billion**



# EDUCATION TRUST FUND (ETF)

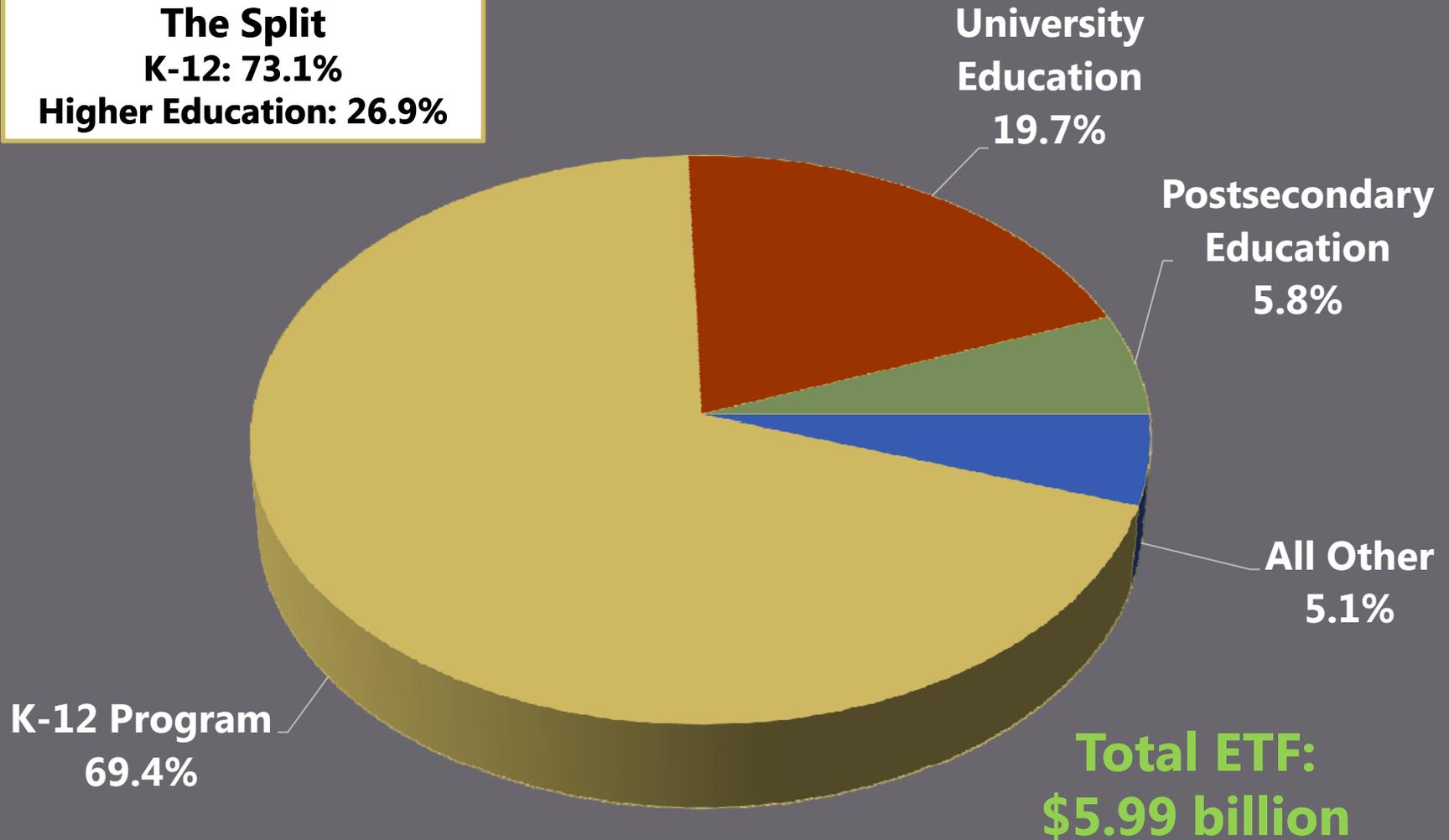
# Education Trust Fund Revenue Sources – FY 2015

**Total Receipts:  
\$6 billion**



# Appropriation of Education Trust Fund FY 2016

**The Split**  
**K-12: 73.1%**  
**Higher Education: 26.9%**



# Act 2015-538 of the 2<sup>nd</sup> Special Session

- ▣ Revised the Rolling Reserve Act to:
  1. change the calculation of the ETF appropriations cap by dropping the low year from the 15-year average growth, removing the 40% growth adjustment, and adding the Prepaid Affordable College Tuition (PACT) appropriation to the cap; and
  2. change the distribution of excess funds when actual ETF receipts exceed the cap

# What Happens to Excess Funds...

## Prior Law

1. Pay back **ETF Rainy Day Account**

2. Remaining balance deposited into the **Budget Stabilization Fund** (until it reached 20% of the current appropriations from the ETF)

3. Any remaining balance deposited into the **Education Trust Fund Capital Fund**

## New Law

1. Pay back **ETF Rainy Day Account**

2. Remaining balance - for FY 2015, 2% of prior FY appropriations and thereafter up to 1% of prior FY appropriations **Budget Stabilization Fund** (until it reaches 7.5% of the prior FY appropriations from the ETF)

3. Any remaining balance deposited into the **Advancement and Technology Fund** (to be appropriated for repairs, deferred maintenance, technology and equipment)

## Impact of Changing Excess Revenues Distribution in FY 2015

- ▣ Excess revenues for FY 2015 were \$140.1 million.
- ▣ All of these funds would have been deposited into the Budget Stabilization Fund under the prior law.
- ▣ Under the new law, only \$118.3 million was deposited into the Budget Stabilization Fund, and the remaining \$21.8 million was deposited into the Advancement and Technology Fund and is available for appropriation in FY 2016.

# The Education Trust Fund Rolling Reserve Act FY 2017 Cap

FY 2015 Net Recurring Revenues	\$6,129,399,073
PLUS:	
Average growth for the 14 highest years out of the last 15 (3.90%)	\$239,046,564
PACT appropriation for FY 2017	\$63,622,000
<b>FY 2017 ETF Appropriations Cap</b>	<b>\$6,432,067,637</b>
ETF Appropriations for FY 2016*	\$5,956,953,929
<b>Cap Difference: FY 2017 vs. FY 2016</b>	<b>\$475,113,708</b>

\* FY 2016 does not include PACT appropriation from gross sales tax account.

## Section 29-9-3(d), as amended

- ▣ If the average of the estimated available revenue is less than the fiscal year appropriation cap, the Legislature shall appropriate no more than the lesser amount of the average of the estimated available revenue or the fiscal year appropriation cap.

# Condition of the ETF

## FY 2016 and FY 2017

	Estimated FY 2016	Estimated FY 2017	Difference
Beginning balance	2,567,160	0	
Regular Receipts (Reflects <b>Revised</b> LFO Estimates for Fiscal Year 2016)	6,183,452,000	6,339,000,000	
Transfer from Gross Sales Tax to Prepaid Affordable College Tuition (PACT)	-33,952,000		
<b>TOTAL RECEIPTS</b>	<b>6,149,500,000</b>	<b>6,339,000,000</b>	<b>189,500,000</b>
<b>TOTAL AVAILABLE</b> (beginning balance plus total receipts)	<b>6,152,067,160</b>	<b>6,339,000,000</b>	<b>186,932,840</b>
Total Fiscal Year Appropriation Cap or Receipts, if Less than Cap	5,956,953,929	6,339,000,000	382,046,071
<b>TOTAL ETF EXPENDITURES*</b>	<b>5,956,953,929</b>	<b>6,339,000,000</b>	<b>382,046,071</b>
<b>ENDING BALANCE BEFORE REVERSIONS AND ADJUSTMENTS</b>	<b>195,113,231</b>	<b>0</b>	
<b>ESTIMATED DISTRIBUTION OF ENDING BALANCE</b>			
Budget Stabilization Fund	59,569,539	0	
Advancement and Technology Fund	135,543,692	0	

\* FY 2017 assumes expenditures will equal estimated available revenues because estimated available revenues are less than ETF Appropriation Cap.

# Estimated Cost of a 1% Pay Increase for Education Employees

<u>Entity</u>	<u>Amount</u>
K-12 Local Boards (certificated)	\$27,150,415
K-12 Local Boards (support)	<u>\$7,731,685</u>
<b>Total</b>	<b>\$34,882,100</b>
Other K-12 Agencies	\$573,385
Postsecondary Institutions	<u>\$3,497,523</u>
<b>Grand Total</b>	<b>\$38,953,008</b>

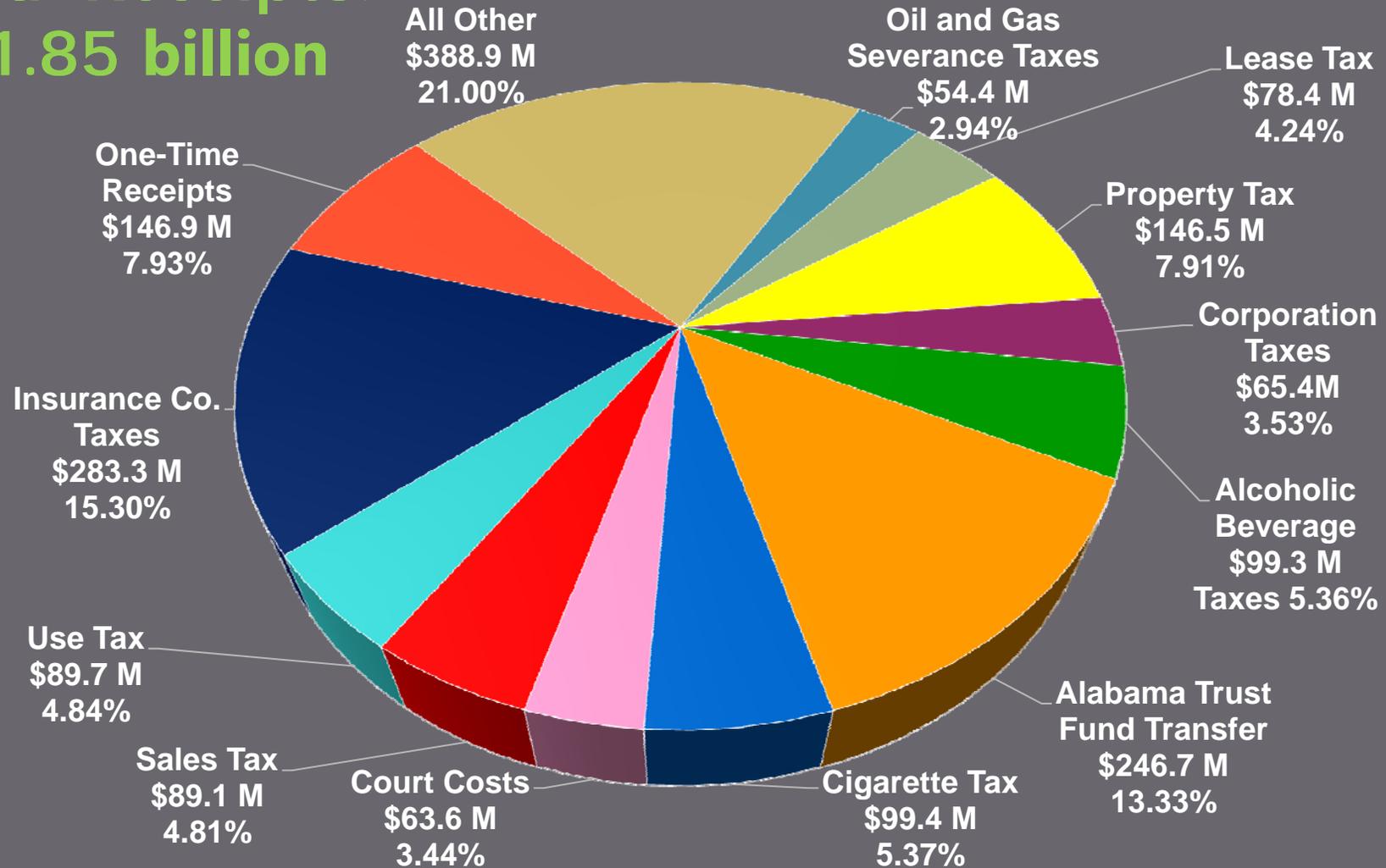
# ETF Rainy Day Account Repayment Provisions

- Reestablished by Amendment 803 to the *Constitution of Alabama of 1901* within the Alabama Trust Fund and limited to an amount equal to 6.5% of the immediately preceding fiscal year's appropriations from the Education Trust Fund (ETF).
- Initial Balance: **\$437,390,828** (based upon 6.5% of the FY 2008 appropriation)
- Withdrawals: The entire amount was withdrawn in FY 2009.
- Required repayment term: **Within six years (July 2015)**
- Repayments to date: **\$437,390,828 (repaid in full)**
  - \$14,412,984 repaid in FY 2012;
  - \$260,388,971 repaid in FY 2013;
  - an absolute appropriation of \$35,000,000, plus a conditional appropriation of \$35,000,000 paid in FY 2014; and
  - an absolute appropriation of \$35,088,873, plus the remaining \$57,500,000 paid from the gross sales tax account in FY 2015.

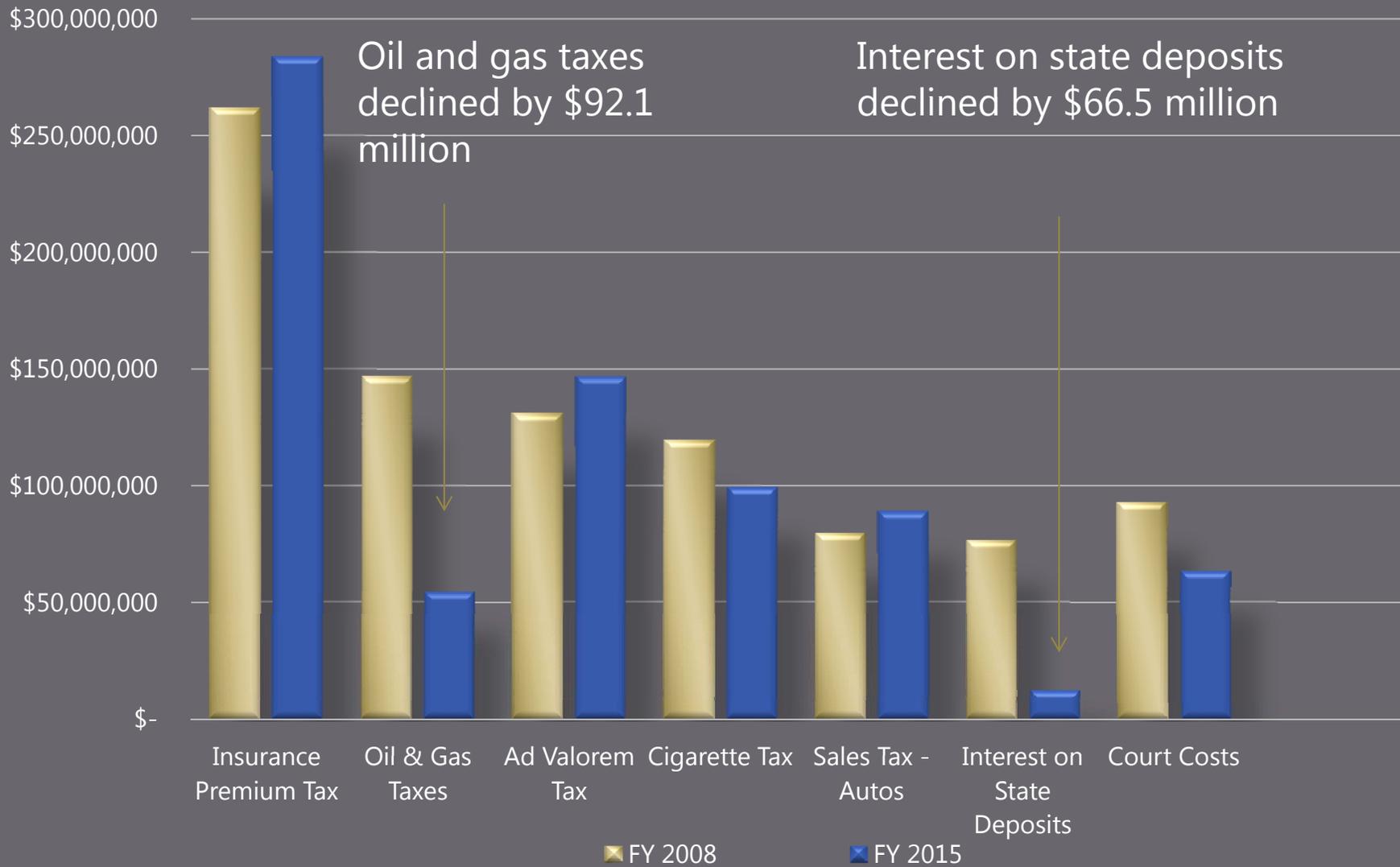
# STATE GENERAL FUND (SGF)

# State General Fund Revenue Sources – FY 2015

**Total Receipts:  
\$1.85 billion**

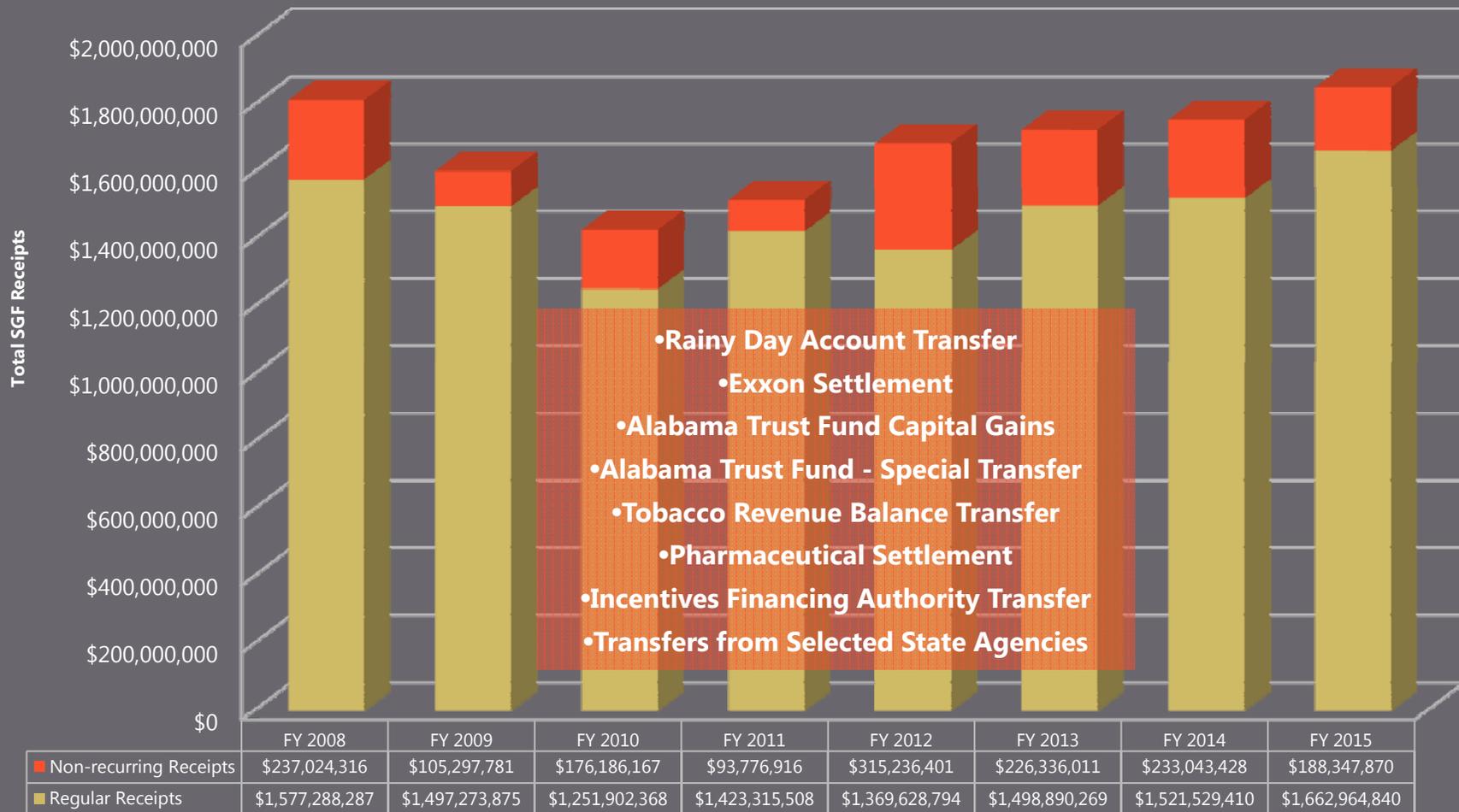


# Major SGF Revenue Sources FY 2015 to FY 2008 Comparison



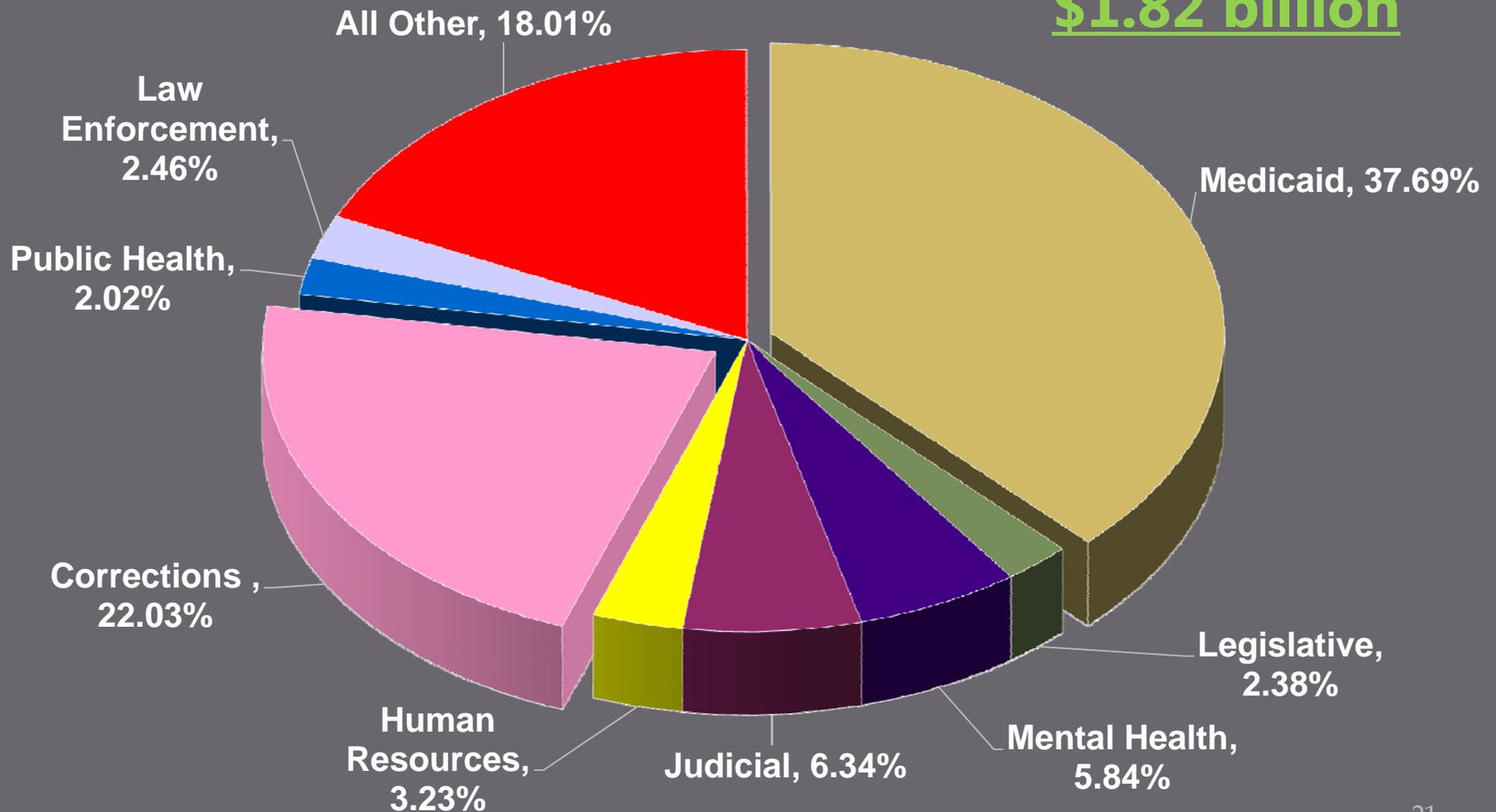
# State General Fund

## Non-recurring and Regular Receipts: FY 2008 through FY 2015

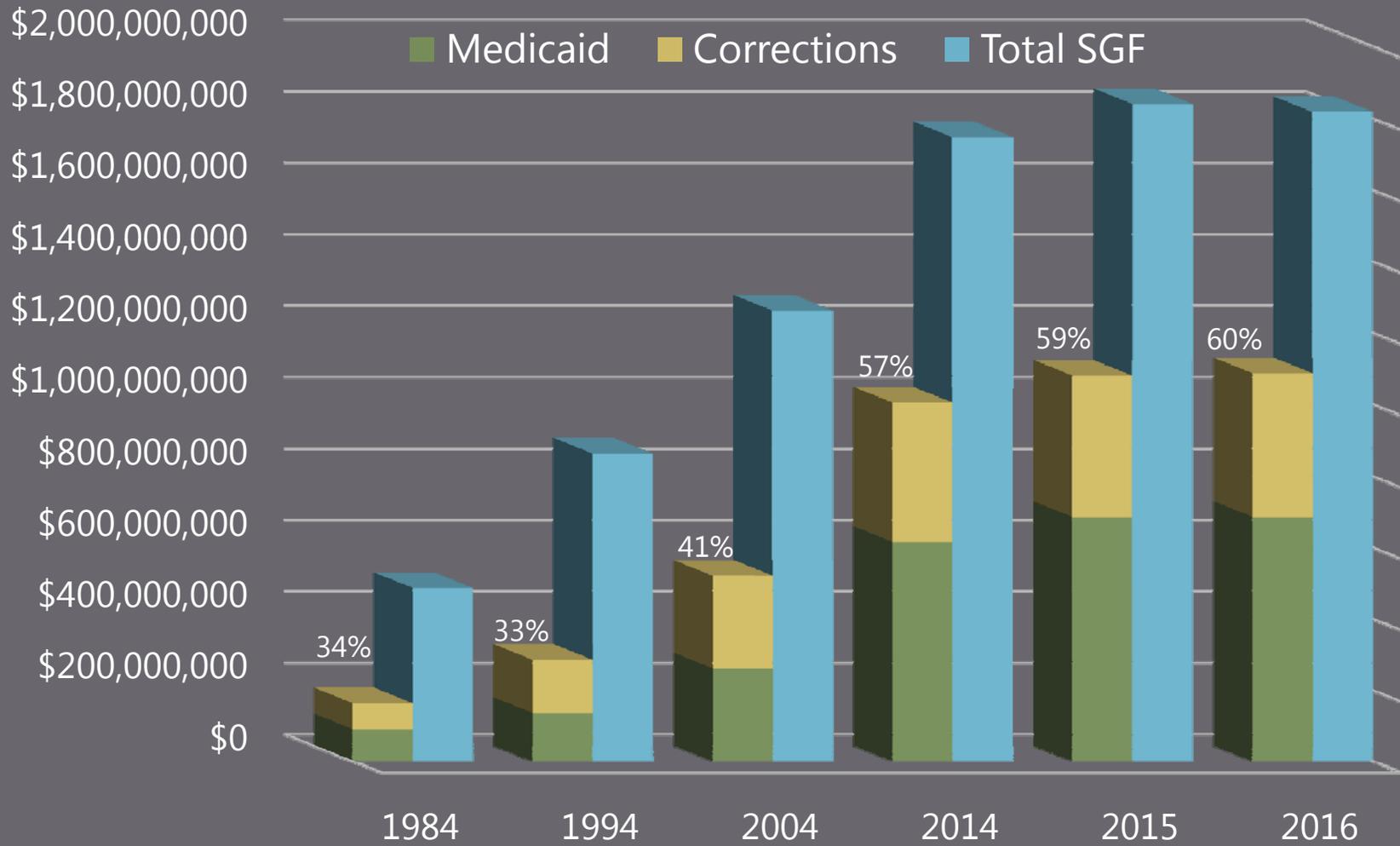


# Appropriation of State General Fund FY 2016

**Total SGF:  
\$1.82 billion**



# State General Fund Growth: Corrections and Medicaid Share



# Condition of the SGF FY 2016 and FY 2017

	Estimated FY 2016	Estimated FY 2017	Difference
<b>BEGINNING BALANCE</b>	<b>72,248,373</b>	<b>19,198,534</b>	<b>-53,049,839</b>
Regular Receipts	1,774,361,181	1,789,800,000	15,438,819
Agency Transfers	44,138,819	6,500,000	-37,638,819
One-Time Receipts	30,200,000	10,200,000	-20,000,000
<b>TOTAL RECEIPTS</b>	<b>1,848,700,000</b>	<b>1,806,500,000</b>	<b>-42,200,000</b>
<b>TOTAL AVAILABLE</b> (beginning balance plus total receipts)	<b>1,920,948,373</b>	<b>1,825,698,534</b>	<b>-95,249,839</b>
Appropriations	1,756,538,819	1,825,698,534	<b>69,159,715</b>
Reversions Reappropriated (as of 12/31/2015)	61,152,584		
Fair Trial Tax	12,800,000		
Other Adjustments	1,258,436		
Conditional Appropriation of Settlement Funds	70,000,000		
<b>TOTAL APPROPRIATIONS AND OBLIGATIONS<sup>1</sup></b>	<b>1,901,749,839</b>	<b>1,825,698,534</b>	<b>-76,051,305</b>
<b>TOTAL ENDING BALANCE</b>	<b>19,198,534</b>		<b>-19,198,534</b>

<sup>1</sup> FY 2016 receipts, appropriations and obligations assume the receipt and expenditure of \$50 million from BP settlement funds later in the fiscal year. FY 2017 estimated appropriations are equal to the estimated available revenues, including BP settlement funds.

# Funding Shortfall in SGF FY 2016

- ❑ Loss of additional annual Alabama Trust Fund transfer amount authorized pursuant to Amendment 856 for fiscal years 2013 through 2015 (-\$145.8 million)
- ❑ Loss of extraordinary receipts used for FY 2015 SGF budget - additional transfer from Business Privilege Tax Escrow Fund and transfers from the Banking Department and 21<sup>st</sup> Century Fund (-\$128 million)
- ❑ Reduced revenue estimates due to the continued decline in receipts from interest on state deposits and oil and gas severance taxes (-\$17 million)
- ❑ Other funding issues (Prison Reform, etc.)

# FY 2016 SGF Budget Overview and How We Got There

## Appropriations:

- Approximately \$120 million in cuts over FY 2015 (Net change (\$82M) with certain increased appropriations)
- Level Funded: Medicaid, DHR, Mental Health, Corrections, Pardons and Paroles and Unified Judicial System
- Added \$16 million for Prison Reform to Corrections (\$4.5 million for community corrections), Pardons and Paroles (\$11 million) and ALEA (\$500,000)
- **Average** cuts to the remaining agencies - 5% to 8% of total state funds

## New Revenues:

- Net change: approximately \$70 million to the SGF
- Cigarette tax, ad valorem change, insurance license fee increase, and drive out certificates

## Revenue Shift:

- Net change: \$80 million to SGF
- Changes distribution formula for use tax split

## Non-General Fund Transfers for SGF Purposes – FY 2016

Source	Budgeted Amount
Alcoholic Beverage Control Board	\$5,512,000
Public Service Commission	12,500,000
Revenue, Department of	16,505,000
Securities Commission	1,600,000
Conservation and Natural Resources, Department of	3,000,000
Environmental Management, Department of	1,224,819
Insurance, Department of	1,764,000
Manufactured Housing Board	134,000
Personnel Department, State	500,000
Tourism Department, Alabama	1,399,000
Public Road and Bridge Fund - transfer to the Unified Judicial System and ALEA	63,500,000
<b>TOTAL</b>	<b>\$107,638,819</b>

# SGF Repayments

## SGF Rainy Day Account

- Established within the Alabama Trust Fund (ATF) by Amendment 803 to the Constitution of Alabama of 1901 and limited to an amount equal to 10% of the immediately preceding fiscal year's appropriations from the State General Fund.

Initial Balance:	<b>\$188.3 million</b> (based upon 10% of FY 2009 appropriations)
Withdrawals:	<b>\$161.6 million withdrawn in FY 2010</b>
Required Repayment Term:	<b>10 years (2020)</b>
Repayments to Date:	<b>\$0</b>
Outstanding Balance:	<b>\$161.6 million</b>

## The People's Trust Act (Section 29-10-1, Code of Alabama 1975)

- Required to repay \$437.4 million transferred from the ATF to the SGF (\$145.8 million in each of FYs 2013, 2014 and 2015) by September 30, 2026. The cumulative total amount began with \$5 million in FY 2014 and increases each fiscal year thereafter. The largest annual increase is \$60 million in FY 2025. The FY 2016 required payment was \$15 million (which will be paid from BP settlement funds), and the FY 2017 required payment is \$20 million.

# FY 2017 SGF Budget Challenges

## FY 2017 SGF Continuation Budget Requested Increases (from Budget Hearings):

- ▣ Medicaid - \$156.6 million
- ▣ Law Enforcement Agency (ALEA) - \$21.8 million
- ▣ Human Resources - \$20.1 million
- ▣ Corrections - \$17.9 million
- ▣ Environmental Management (ADEM) - \$7.2 million
- ▣ Mental Health - \$7.0 million
- ▣ Military - \$4.5 million

These total **\$235.1 million more** than budgeted in FY 2016.

# Other SGF Budget Challenges

- ▣ **Prison Reform** – additional \$10 million
- ▣ **Public Health** – loss of one-time CHIP rollover \$14.6 million
- ▣ **Debt Service** – need more from SGF due to continued decline in royalties
- ▣ **Medicaid** – RCO implementation
- ▣ **Rainy Day Account** – MUST repay \$161.6 in full by FY 2020
- ▣ **People's Trust Act** – required payment of \$20 million in FY 2017 (The FY 2016 required payment of \$15 million will be paid from BP settlement funds.)

# Estimated Cost of a 1% Pay Increase for State Employees

- ▣ Total Cost of 1% pay raise:
  - \$18.2 million
  
- ▣ State General Fund share of 1% pay raise (estimated):
  - \$4.55 million

# Employer Contribution Retirement Rates: 20-Year History

Fiscal Year		Teachers	State Employees	State Police	Judges
1998		9.66%	7.56%	15.74%	19.71%
1999		4.03%	3.11%	6.85%	9.16%
2000		6.38%	4.08%	9.45%	21.19%
2001		6.38%	4.08%	9.45%	21.19%
2002		5.96%	3.95%	9.24%	21.19%
2003		5.02%	3.95%	9.24%	21.19%
2004		6.56%	4.19%	13.87%	21.93%
2005		7.03%	5.57%	18.03%	21.93%
2006		8.17%	6.77%	21.36%	21.93%
2007		9.36%	7.78%	24.12%	22.80%
2008		11.75%	10.26%	30.42%	23.23%
2009		12.07%	11.88%	30.99%	23.23%
2010		12.51%	11.94%	30.57%	24.20%
2011		12.51%	11.94%	30.57%	24.20%
2012		10.00%	9.42%	29.92%	24.35%
2013		10.08%	10.12%	31.61%	32.06%
2014	Tier I	11.71%	12.02%	35.81%	35.24%
	Tier II	11.08%	11.96%	29.52%	
2015	Tier I	11.71%	13.45%	38.37%	35.24%
	Tier II	11.05%	13.31%	32.45%	
2016 <sup>a</sup>	Tier I	11.94%	14.57%	42.61%	40.98%
	Tier II	10.84%	14.09%	38.98%	
2017 <sup>b</sup>	Tier I	12.01%	13.89%	57.25%	40.65%
	Tier II	10.82%	13.25%	53.55%	

a. Budgeted amount  
b. Requested amount

# Employer Cost for Retirement Systems: 20-Year History

Fiscal Year	TRS	ERS	JRF
1998	355,953,472	74,055,482	5,397,838
1999	182,895,065	33,428,569	2,969,304
2000	267,906,340	43,442,959	5,582,715
2001	280,051,290	49,144,145	7,531,949
2002	266,510,671	46,053,625	8,200,383
2003	238,725,494	48,522,435	8,627,322
2004	305,887,402	52,218,449	8,982,290
2005	343,724,774	68,739,801	8,946,381
2006	425,544,602	90,951,802	8,915,570
2007	532,004,599	115,156,793	9,293,711
2008	716,912,822	160,623,070	9,861,941
2009	752,874,357	192,528,482	10,309,412
2010	773,177,416	191,361,347	10,797,333
2011	780,224,248	187,294,046	10,915,820
2012	631,837,073	136,138,632	10,738,380
2013	627,352,877	141,133,488	13,790,453
2014	729,183,963	163,565,064	15,737,610
2015	737,654,554	184,893,403	15,077,762
2016 <sup>a</sup>	746,926,613	200,073,663	17,901,000
2017 <sup>b</sup>	748,562,556	193,948,843	18,111,000

a. Budgeted amount  
b. Requested amount

# PEEHIP Employer Contribution: 20-Year History

Fiscal Year	Employer Cost per Month per Active Employee	Total Employer Cost
1998	\$200	\$271,768,00
1999	225	317,273,000
2000	317	373,727,784
2001	345	404,200,620
2002	414	481,170,672
2003	433	509,244,372
2004	479	566,126,268
2005	583	698,704,512
2006	668	805,407,600
2007	717	881,918,604
2008	775	961,452,126
2009	752	925,317,517
2010	752	911,424,000
2011	752	900,050,546
2012	714	825,157,866
2013	714	828,585.518
2014	714	835,761,336
2015	780	917,610,890
2016 <sup>a</sup>	780	913,077,360
2017 <sup>b</sup>	800	936,489,600

a. Budgeted Amount

b. Requested Amount

# SEHIP Employer Contribution: 20-Year History

Fiscal Year	Employer Cost per Month per Active Employee	Total Employer Cost
1998	\$255	\$91,502,406
1999	320	131,585,762
2000	357	148,115,489
2001	400	169,112,747
2002	445	193,682,768
2003	490	217,474,419
2004	550	227,042,877
2005	650	276,662,054
2006	668	281,492,460
2007	717	319,123,823
2008	775	322,591,716
2009	775	322,232,685
2010	805	361,793,265
2011	805	356,520,996
2012	765	318,095,221
2013	765	304,451,908
2014	825	319,457,298
2015	825	318,102,076
2016 <sup>a</sup>	825	316,463,400
2017 <sup>b</sup>	875	335,643,000

a. Budgeted Amount

b. Requested Amount

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