

Presentation to the Legislature on Alabama's Financial Condition



Norris Green, Interim Director
Legislative Fiscal Office
February 7, 2012

Legislative Fiscal Office Website

www.lfo.state.al.us

- **Budget Fact Book**
- **A Legislator's Guide to Alabama's Taxes**
- **Education Trust Fund & General Fund Comparison Sheets**
- **Retirement and Health Insurance Information**
- **2012 Legislative Presentation Slides**

Appropriation of State Funds FY 2012

	STATE GENERAL FUND (1)	% OF SGF TOTAL	EDUCATION TRUST FUND (1)	% OF ETF TOTAL	OTHER STATE FUNDS (2)	% OF OTHER TOTAL	TOTAL STATE FUNDS	% OF TOTAL
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GENERAL APPROPRIATION ACTS:								
LEGISLATIVE BRANCH	43,296,545	2.31%	11,322,907	0.20%	150,000	0.00%	54,769,452	0.51%
JUDICIAL BRANCH	126,152,243	6.73%			56,791,673	1.79%	182,943,916	1.71%
EXECUTIVE BRANCH:								
ABC BOARD					70,064,132	2.20%	70,064,132	0.66%
AGRICULTURE & FORESTRY	26,952,519	1.44%			23,277,034	0.73%	50,229,553	0.47%
CONSERVATION	246,250	0.01%			89,736,002	2.82%	89,982,252	0.84%
CORRECTIONS	381,532,845	20.35%			38,926,798	1.22%	420,459,643	3.93%
HUMAN RESOURCES	87,214,931	4.65%	12,564,377	0.22%	178,941,660	5.63%	278,720,968	2.61%
MEDICAID	643,788,706	34.33%			877,706,694	27.59%	1,521,495,400	14.24%
MENTAL HEALTH	116,303,337	6.20%	628,150	0.01%	198,714,746	6.25%	315,646,233	2.95%
PUBLIC HEALTH	56,285,836	3.00%	44,483,248	0.79%	160,054,084	5.03%	260,823,168	2.44%
PUBLIC SAFETY	56,086,993	2.99%			56,779,720	1.78%	112,866,713	1.06%
REVENUE	179,595	0.01%			127,030,000	3.99%	127,209,595	1.19%
TRANSPORTATION					469,601,417	14.76%	469,601,417	4.39%
YOUTH SERVICES	10,950,147	0.58%	47,166,743	0.84%	28,669,152	0.90%	86,786,042	0.81%
DEBT SERVICE	31,636,663	1.69%			41,874,836	1.32%	73,511,499	0.69%
NON-STATE APPROPRIATIONS	259,182	0.01%			765,500	0.02%	1,024,682	0.01%
OTHER APPROPRIATIONS	294,182,659	15.69%	114,326,270	2.03%	584,471,097	18.37%	992,980,026	9.29%
ETF APPROPRIATION ACTS:								
K - 12 FOUNDATION PROGRAM			3,897,242,708	69.20%	177,566,959	5.58%	4,074,809,667	38.13%
POSTSECONDARY EDUCATION			364,598,783	6.47%			364,598,783	3.41%
UNIVERSITIES (INCLUDING ACHE)			1,129,710,821	20.06%			1,129,710,821	10.57%
DEBT SERVICE			9,621,220	0.17%			9,621,220	0.09%
TOTALS (3)	1,875,068,451	100.00%	5,631,665,227	100.00%	3,181,121,504	100.00%	10,687,855,182	100.00%

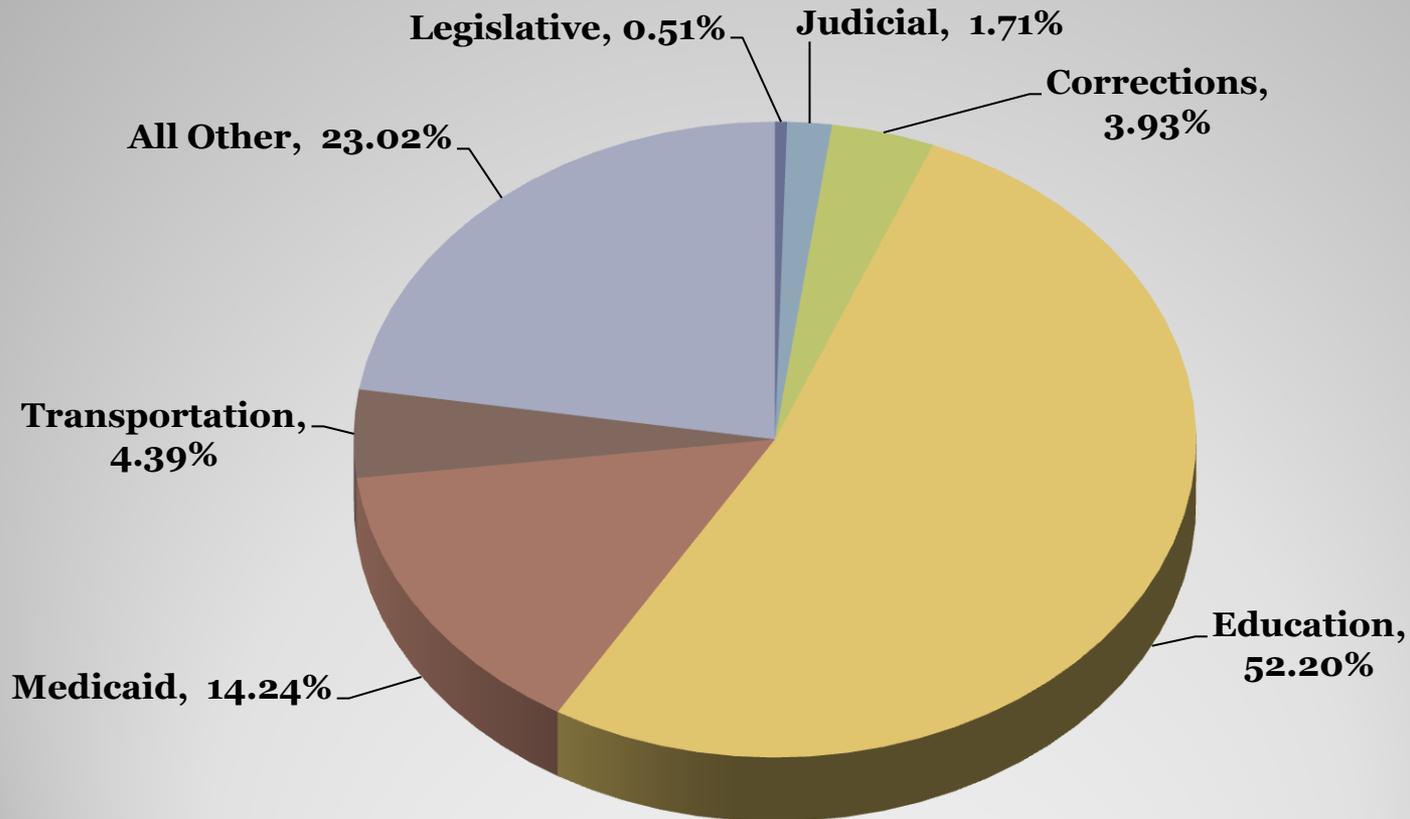
Appropriations as of December 31, 2011.

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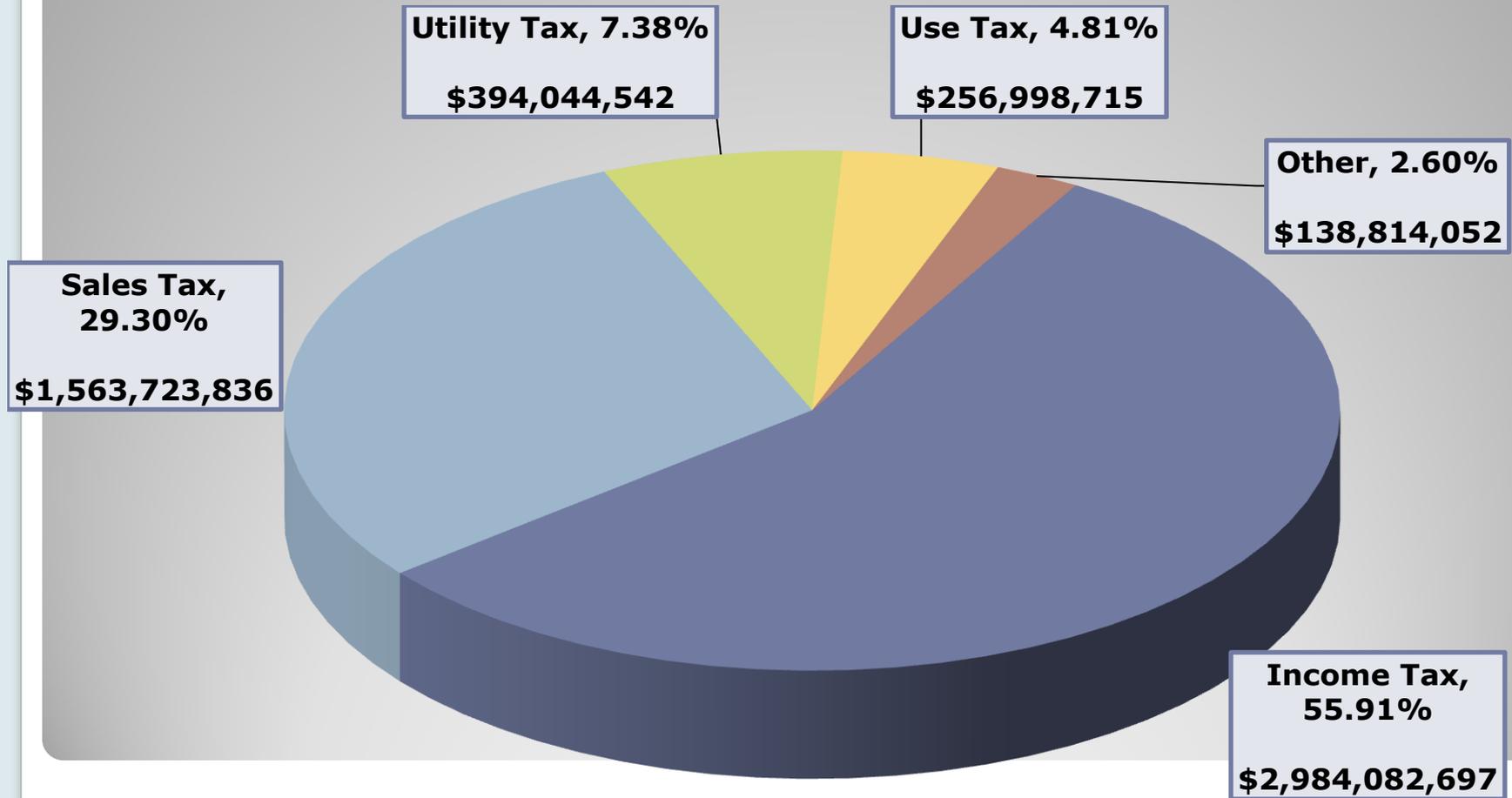
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(3) Totals may not add due to rounding.

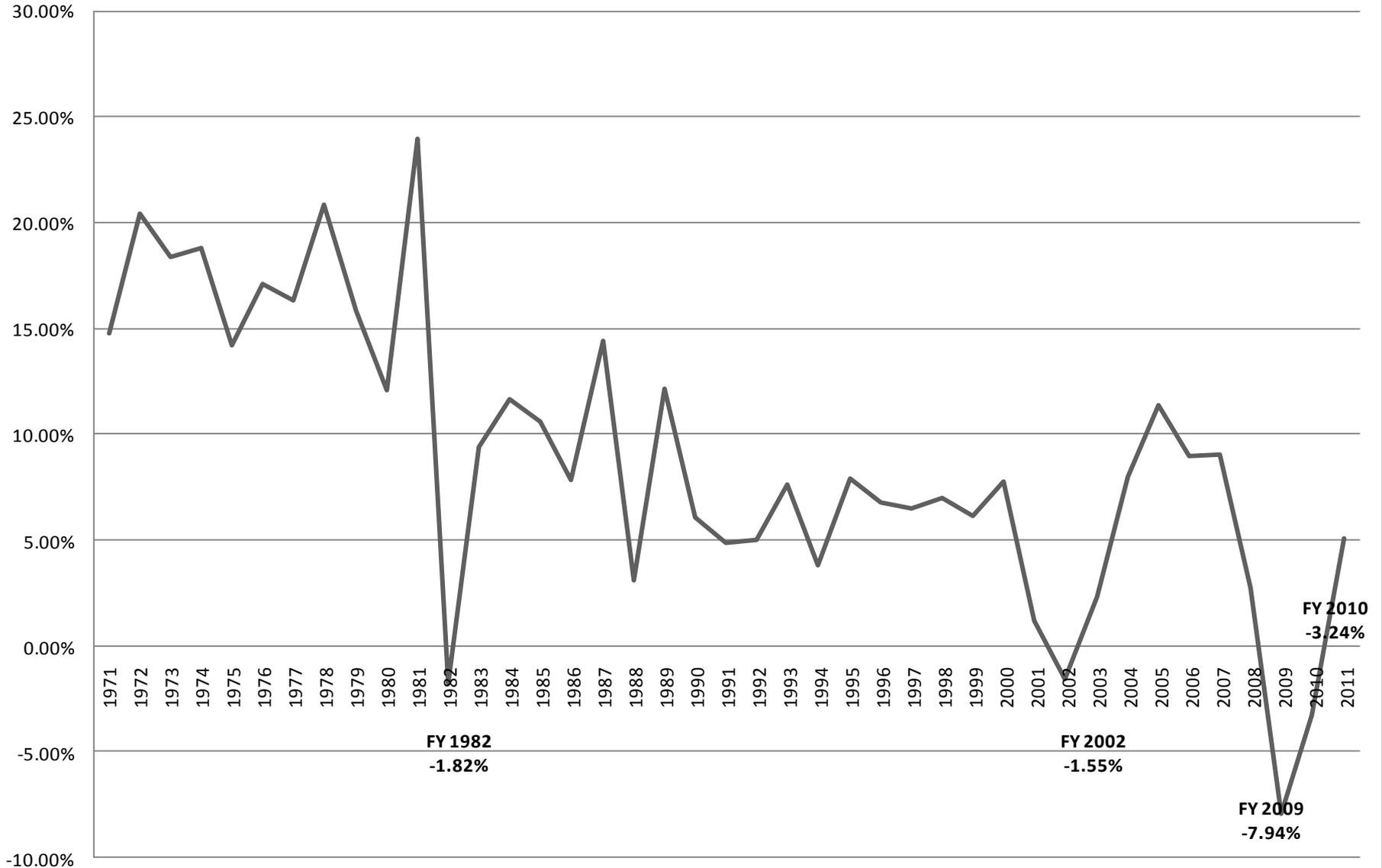
Appropriation of All State Funds for FY 2012



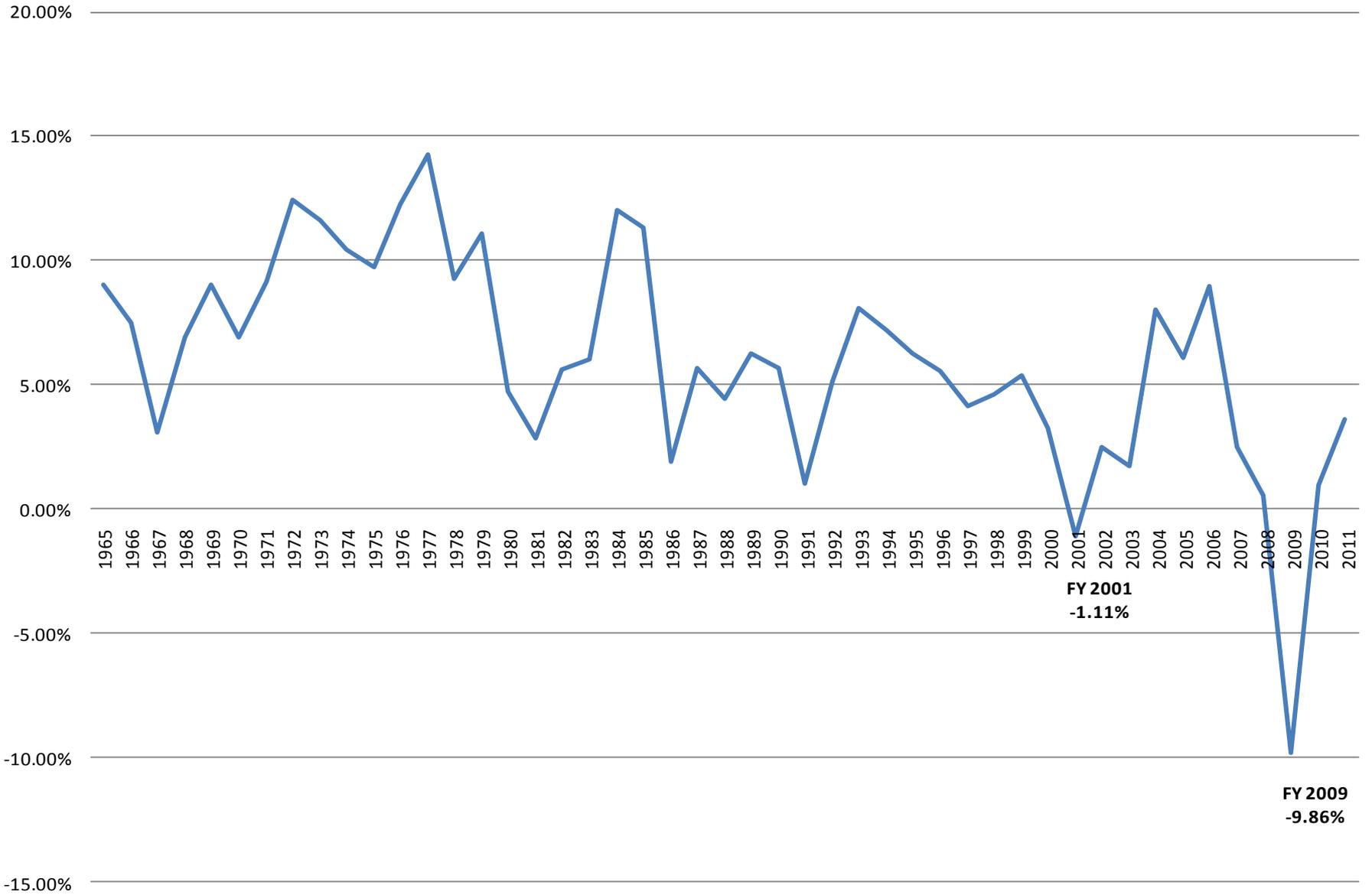
Sources of Revenue to the Education Trust Fund FY 2011



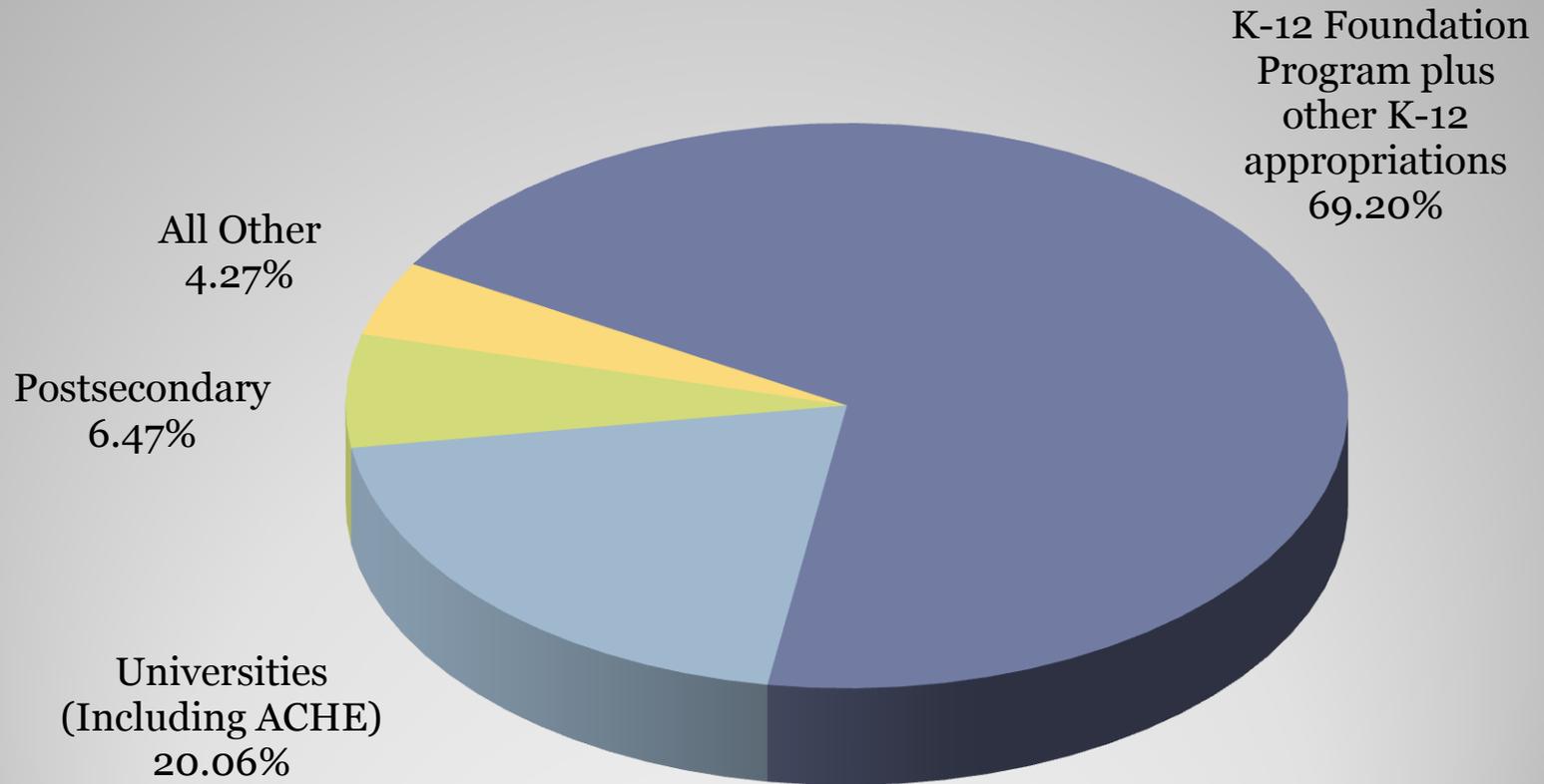
Income Tax Gross Receipts Percentage Change Over Prior Year



% Change in Sales Tax Gross Receipts Since 1965



Appropriation of the Education Trust Fund FY 2012



Condition of the Education Trust Fund Fiscal Years 2008, 2009, 2010, and 2011

	Actual FY 2008	Actual FY 2009	Actual FY 2010	Actual FY 2011
Beginning balance	280,045,027			11,773,101
Receipts	5,943,258,156	5,241,600,057	5,206,441,481	5,286,761,155
PSCA Repayment	32,000,000			32,302,687
Transfer from Rainy Day Account/Proration Prevention Account	439,372,515	437,520,418		
DHR Food Stamp Sales Tax Reversion			11,028,645	18,600,000
TOTAL RECEIPTS	6,414,630,671	5,679,120,475	5,217,470,126	5,337,663,842
TOTAL AVAILABLE (beginning balance plus total receipts)	6,694,675,698	5,679,120,475	5,217,470,126	5,349,436,943
Appropriations, Net of Proration	6,729,089,656	5,707,308,868	5,227,445,033	5,368,293,793
Reversions and Adjustments	-34,413,958	-28,188,393	-21,748,008	-27,460,739
TOTAL EXPENDITURES	6,694,675,698	5,679,120,475	5,205,697,025	5,340,833,054
ENDING BALANCE			11,773,101	8,603,889

Stimulus Funds

Jobs

\$500,000,000 \$500,000,000

\$150M to be expended in FY 11 & FY 12

Condition of the Education Trust Fund Fiscal Year 2012 and Fiscal Year 2013

	Budgeted FY 2012	Projected FY 2013	DIFFERENCE
Beginning balance	8,603,889		-8,603,889
Receipts	5,552,000,000	5,651,400,000	99,400,000
Transfer from Dual Relay Fund	30,000,000		-30,000,000
DHR Food Stamp Sales Tax Reversion	18,000,000	18,600,000	600,000
TOTAL RECEIPTS	5,600,000,000	5,670,000,000	70,000,000
TOTAL AVAILABLE (beginning balance plus total receipts)	5,608,603,889	5,670,000,000	61,396,111
Appropriations*	5,631,665,227	5,479,907,537	-151,757,690
TOTAL EXPENDITURES	5,631,665,227	5,479,907,537	-151,757,690
ENDING BALANCE	-23,061,338	190,092,463	
*FY 2012 appropriations are as of December 31, 2011. FY 2013 appropriations represent the estimated appropriations cap calculated pursuant to the Education Trust Fund Rolling Reserve Act (Act 2011-3).			

Rolling Reserve Cap

The Education Trust Fund Rolling Reserve Act - Act 2011-3

- **Establishes the maximum amount (the “Fiscal Year Appropriation Cap”) that may be appropriated from the ETF in any fiscal year, beginning with FY 2013**
- **Calculation of the Cap**
 - Begin with the total recurring revenues deposited into the ETF in the most recently completed fiscal year. For the FY 2013 budget, the baseline is FY 2011. FY 2011 recurring revenues were \$5,305,361,155.
 - The baseline is adjusted, upward or downward, by the average growth rate in the ETF for the fifteen most recently completed fiscal years. For the FY 2013 budget, the fifteen years are fiscal years 1997 through 2011. The average growth rate for these years was 3.29%.
 - Multiply the baseline (\$5,305,361,155) by the average growth percentage (3.29%) to determine the amount to add to the baseline – the result is \$174,546,382
 - Add \$5,305,361,155 and \$174,546,382 to get the preliminary cap, which is \$5,479,907,537
 - If the growth rate for FY 2011 exceeds the fifteen year average growth rate, then an adjustment is made to increase the cap. The adjustment is equal to 40% of the dollar growth in revenues for FY 2011 over FY 2010.
 - The growth rate for FY 2011 was 1.68%, which is less than the fifteen year average growth rate of 3.29%. Therefore, this adjustment cannot be made for FY 2013

The Education Trust Fund Rolling Reserve Act

Act 2011-3

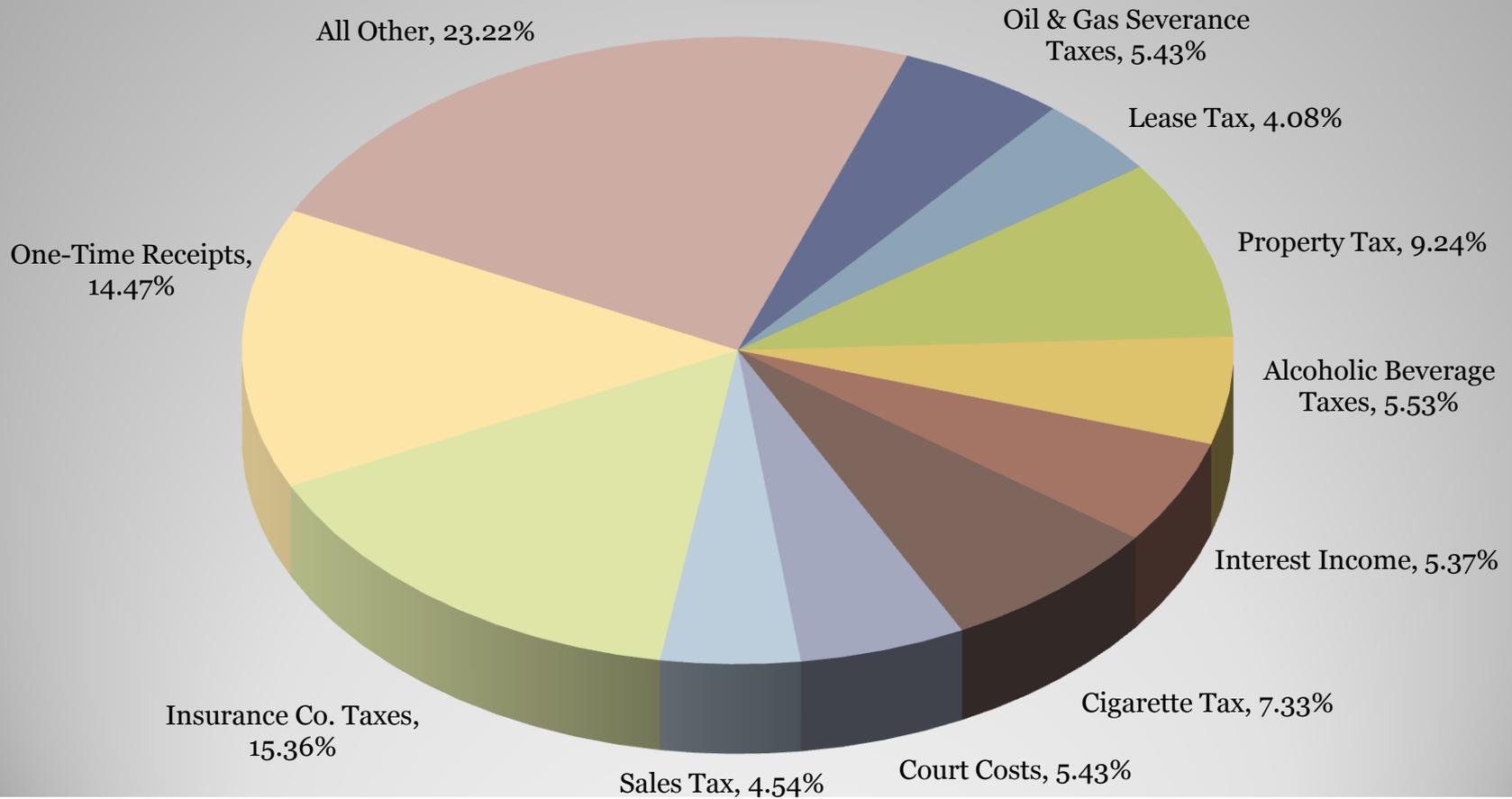
- **Calculation of the Cap (continued)**

- If legislation is enacted that will increase or decrease recurring revenues deposited into the ETF, then an amount equal to 95% of the fiscal note attached to the legislative act is added or subtracted from the cap.
 - As of now, no adjustments can be made for this provision of the Act
- Any nonrecurring revenue deposited into the ETF during FY 2013 is added to the cap
 - No adjustment has been made for this provision
- The total cap is the sum of all of adjustments and the baseline
 - The total cap for FY 2013 is \$5,479,907,537
 - This is a reduction of \$108,092,463 from the FY 2012 appropriation total, which is \$5,588,000,000

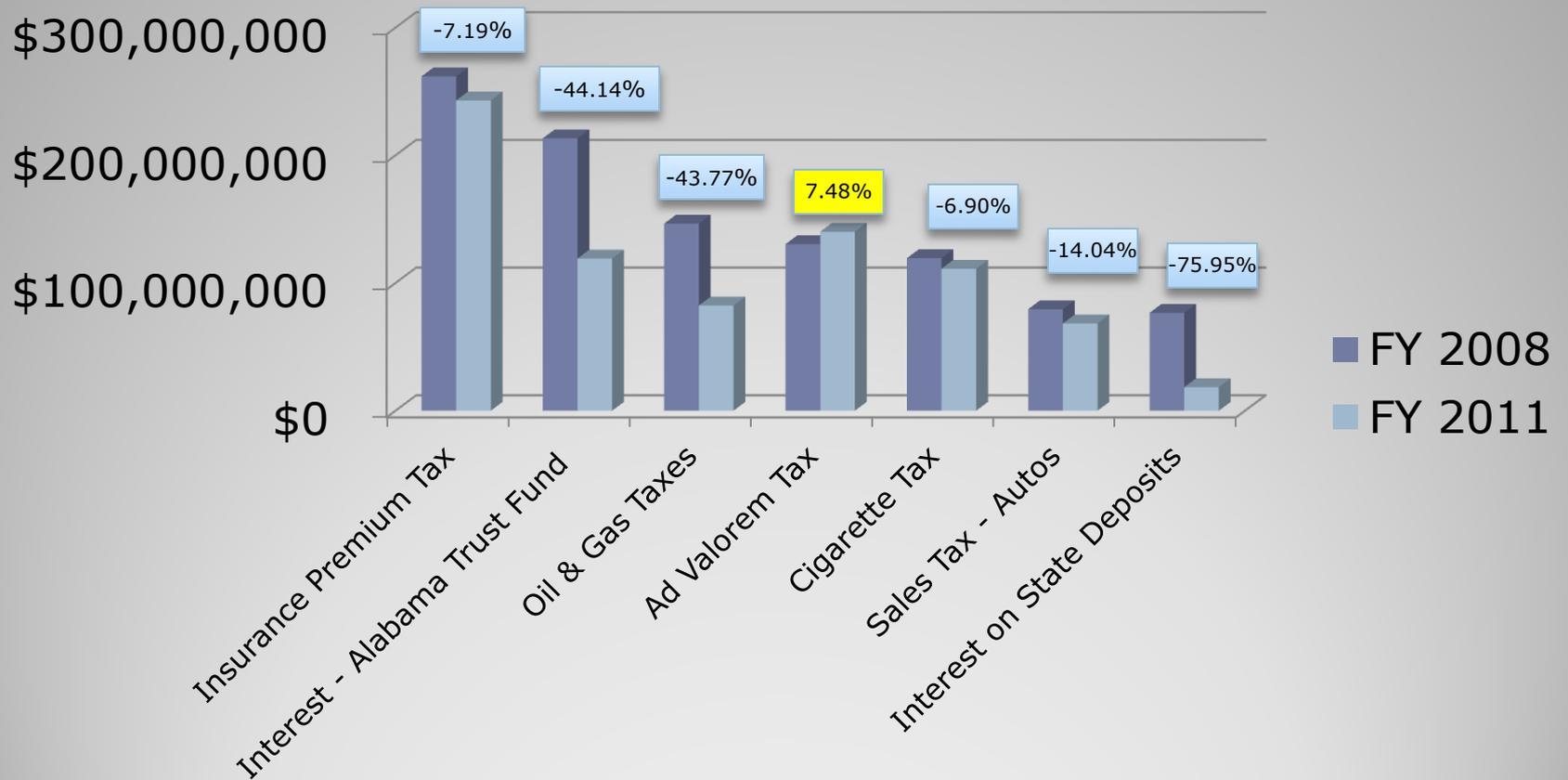
- **What happens to excess funds when growth exceeds the cap?**

- Pay back Rainy Day Account – borrowed \$437M to be paid back in 6 years
 - None paid back yet
 - Three years left
- Budget Stabilization Fund – 20% of current appropriation from the ETF. Can be used if:
 - cap does not equal previous year budget; or
 - needed to prevent proration
- Education Trust Fund Capital Fund

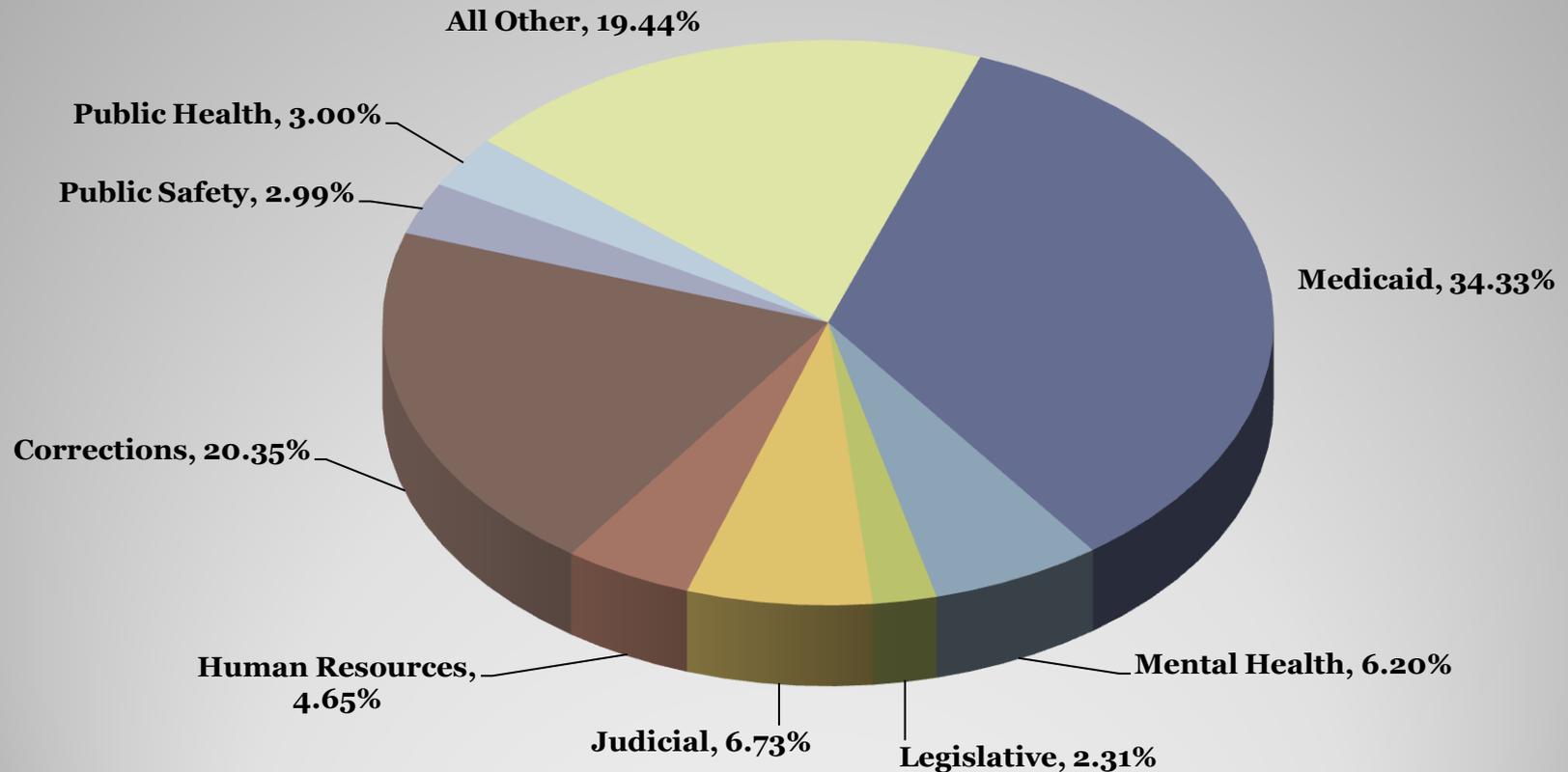
Sources of Revenue to the State General Fund FY 2011



Seven Largest SGF Revenue Sources



Appropriation of the State General Fund FY 2012



Appropriation of State Funds FY 2012

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State General Fund Appropriations

- **Medicaid**
 - **Largest consumer of General Fund dollars**
- **Corrections**
 - **Second largest consumer of General Fund dollars**
- **Corrections and Medicaid account for approximately 55% of the total General Fund appropriations for FY 2012**

State General Fund Growth - Medicaid and Corrections



Condition of the State General Fund Fiscal Years 2008, 2009, 2010, and 2011

	Actual FY 2008	Actual FY 2009	Actual FY 2010	Actual FY 2011
BEGINNING BALANCE	239,088,035	218,986,877	105,430,816	60,101,706
TOTAL RECEIPTS^{1,2,3}	1,814,312,603	1,602,571,656	1,428,088,535	1,517,092,424
TOTAL AVAILABLE (beginning balance plus total receipts)	2,053,400,638	1,821,558,533	1,533,519,351	1,577,194,130
TOTAL APPROPRIATIONS AND OBLIGATIONS, NET OF PRORATION	1,834,413,761	1,716,127,717	1,473,417,645	1,535,186,080
TOTAL ENDING BALANCE	218,986,877	105,430,816	60,101,706	42,008,050

1) FY 2009 receipts include one-time receipts of \$38,800,000 transferred from the Incentives Financing Authority; \$108,000,000 transferred from the Business Privilege Tax Escrow Fund; \$52,034,871 from pharmaceutical settlements; \$437,500 from a court order for the 5th Circuit DA; and \$14,025,410 transferred from tobacco settlement revenues.

2) FY 2010 receipts include one-time receipts of \$161,565,874 transferred from Rainy Day Account and \$11,120,293 transferred from tobacco settlement revenues.

3) FY 2011 receipts include one-time receipts of \$45,000,000 from abandoned property; \$91,536,399 transferred from the Business Privilege Escrow Fund; \$10,000,000 transferred from the Insurance Guaranty Fund; \$56,091,288 in capital gains transferred from the Alabama Trust Fund; \$10,760,253 transferred from tobacco settlement revenues; and \$16,925,375 transferred from a pharmaceutical settlement.

Stimulus Funds

\$354,000,000 \$527,000,000 \$234,000,000

Condition of the State General Fund Fiscal Years 2012 and 2013

	ESTIMATED FY 2012	ESTIMATED FY 2013	DIFFERENCE
BEGINNING BALANCE	42,008,050		
TOTAL RECEIPTS¹	1,662,209,264	1,337,242,898	-324,966,366
TOTAL AVAILABLE (beginning balance plus total receipts)	1,704,217,314	1,337,242,898	-366,974,416
TOTAL APPROPRIATIONS AND OBLIGATIONS*	1,875,068,451	1,337,242,898	-537,825,553
TOTAL ENDING BALANCE	-170,851,137		
*FY 2012 appropriations and obligations are as of December 31, 2011.			
1) Includes \$372,926,264 in one-time revenues and transfers, including: \$279,516,366 in capital gains from the Alabama Trust Fund; \$6,000,000 from the sales and use tax discounts; \$20,000,000 from abandoned property; \$44,000,000 from the business privilege tax escrow fund; \$10,719,898 from tobacco settlement balances; \$8,500,000 in additional transfers from the Public Service Commission; \$3,000,000 in additional transfers from the Securities Commission; and \$1,000,000 from the Alcoholic Beverage Control Board.			

Non-General Fund Transfers to the State General Fund FY 2012

	FY 2012 Budgeted Amount
Public Service Commission Transfer to the General Fund	\$12,323,000
Securities Commission Transfer to the General Fund	\$4,500,000
Reduced Alcoholic Beverage Control Board Appropriation to Increase Profit Transfer to the General Fund	\$12,000,000
Tobacco Settlement Transfer to General Fund	\$10,719,898
Sales Tax Discount Receipts Transferred to General Fund instead of Department of Conservation and Natural Resources	\$5,000,000
Use Tax Discount Receipts Transferred to General Fund instead of Department of Conservation and Natural Resources	\$1,000,000
Public Road and Bridge Transfer to Unified Judicial System - supplanted SGF	\$35,000,000
Public Road and Bridge Transfer to Public Safety - supplanted SGF	\$25,000,000
Public Road and Bridge Transfer to Public Safety - statute	\$3,500,000
Elevator Safety Board transfer to General Fund	\$1,200,000
Transfer funding for CHIP from General Fund to Education Trust Fund - 1st Year	\$30,447,377
TOTAL	\$140,690,275

Options

1. Raise revenue
2. Reallocate existing revenue
3. Make across the board SGF cuts
 1. This hits agencies disproportionately
4. Target specific cuts and eliminate some programs

Earmarking

- Alabama earmarks 84% of state revenue
- National average is 24%
- Earmarking can be general or specific
- Earmarking can be statutory or constitutional

Top 10 Earmarked Taxes

Rank	Title of Tax	FY 2011 Receipts	Current Distribution
1	Income Tax - Individual	\$2,795,903,502	ETF/Property Tax Relief Fund
2	Sales (2% and 4%)	\$1,909,385,590	Counties/DHR/ETF/SGF (4%) and ETF/SGF (2%)
3	Gasoline and Motor Fuels	\$536,165,699	Department of Conservation/Public Road and Bridge/ Local Governments
4	Utility Gross Receipts	\$408,981,575	Mental Health Fund/ETF
5	Property Tax (6 mills)	\$359,430,862	DHR/Historical Commission/Veteran's Assistance Fund (1 mill); Public School Fund (3 mills) and State General Fund (2.5 mills)
6	Medicaid Provider Taxes	\$302,606,460	Medicaid Agency - used to match federal funds
7	Income Tax - Corporate	\$290,802,772	ETF/Property Tax Relief Fund
8	Insurance Company License and Premium Taxes	\$273,020,710	ETF/SGF/Mental Health/Insurance Department
9	Use (2% and 4%)	\$265,253,881	ETF (4%) and ETF/SGF (2%)
10	Utility License (2.2%)	\$149,914,329	Mental Health Fund/SGF

Alabama Trust Fund (ATF)

- Created as a depository for offshore oil and gas leases and royalty payments
- September 2008 assets - \$3.2 billion
- September 2011 assets - \$2.8 billion (excludes accounts receivables amounts withdrawn from the ETF Rainy Day Account and the State General Fund Rainy Day Account)
- Assets are held in perpetual trust

Alabama Capital Improvement Trust Fund (ACITF)

- Amendment 666 – ratified in 2000 and funded with 28% of prior year ATF royalties
 - \$735.5 million deposited into the ACITF to date
- Bond Commission
 - Authority to issue up to \$350 million in economic development bonds
 - Constitutional amendment ratified in June 2007 increased bond authority to \$750 million
 - \$720 million in bonds issued
 - \$30 million in bonding authority remaining

Alabama Capital Improvement Trust Fund (Amounts in Millions)

	FY 2010	FY 2011	FY 2012
Beginning Balance	\$19.8	\$5.3	\$4.1
Royalty Revenues	49.3	34.4	33.2
Total Expenditures*	63.8	35.6	35.8
General Fund Relief	17.6	0	0
Ending Balance	\$5.3	\$4.1	\$1.5

*Includes General Fund Relief. FY 2012 assumes the \$5 million conditional appropriation to the Unified Judicial System is released.

Since inception: Royalties \$735.5M; Appropriations \$115.6M for economic development projects; \$301.8M for debt service on 666 bonds; \$316.6M appropriation for existing debt; \$1.5M balance.

FY 2012 Tobacco Settlement Appropriations

Children First Trust Fund (CFTF):	FY 2012
Public Health	\$4,872,681
Human Resources	9,745,362
Child Abuse and Neglect Prevention	2,436,340
State Multiple Needs Children's Fund	4,076,550
Mental Health/Mental Retardation	2,770,740
Juvenile Probation Services Fund	5,742,298
Youth Services	9,420,516
Alabama Medicaid	1,705,438
All Other	1,342,256
Total CFTF Appropriation	\$42,112,181

Other Tobacco Revenue:	FY 2012
Children's Affairs Administration	\$250,000
Alabama 21st Century Fund	13,000,000
Senior Services Trust Fund	1,392,195
Medicaid Trust Fund	29,236,085
Senior Services - Medicaid Waiver	2,088,292
Total Other Appropriation	\$45,966,572

State General Fund Transfer	\$10,718,511
Grand Total	\$98,797,264

Retirement Recap

Benefit Formula - ERS & TRS

- Both ERS and TRS have the same benefit structure
- Can retire at any age with 25 years of service or at age 60 with at least 10 years (Vested after 10 years)
- Use highest 3 years out of last 10 years employed to get final average salary
- Multiply final average salary by .020125 times total number of years of credible service to get maximum benefit
- There are several options which reduce benefit to provide for spouse or other individual (actuarially determined)
- Separate calculation for state policemen – higher benefit and shorter work requirements; however, not under social security system

Retirement Contribution Rates

Employer Contribution Rates:

<u>Fiscal Year</u>	<u>Teachers</u>	<u>State Employees</u>	<u>State Police</u>	<u>Judges</u>
1992	6.35%	6.02%	12.59%	27.00%
1993	6.35%	6.00%	12.59%	28.70%
1994	6.31%	6.00%	14.23%	27.01%
1995	6.31%	6.99%	15.22%	27.01%
1996	9.23%	6.99%	15.22%	23.05%
1997	9.23%	6.99%	15.17%	19.71%
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%	22.50%
2008 ⁽¹⁾	11.75%	10.26%	30.42%	23.23%
2009 ⁽²⁾	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%

(1) The FY 2008 rates include the following one-time amounts attributable to bonus payments to retirees: teachers, .69%; state employees, .42%; state police, .42%; judges, .18%.

(2) The FY 2009 rates include the following one-time amounts attributable to bonus payments to retirees: state employees, .51%; state police, .51%; judges, .18%.

Employee Contribution Rates FY 2013:

- 7.5% Teachers and State Employees (except state police, certified law enforcement, correctional officers and firemen); for all years prior to FY 2012, the rate was 5%
- 10% State Police
- 8.5% Judges and certified law enforcement, correctional officers, and firemen; for all years prior to FY 2012, the rate was 6%

Note: Employee contribution rates are set by statute.

Employer Cost for Retirement System

FY	TRS ⁽¹⁾	ERS ⁽²⁾	JRF ⁽³⁾
1992	233,507,746	53,628,567	5,979,485
1993	235,429,461	54,506,267	6,859,219
1994	245,783,913	56,265,932	6,280,387
1995	289,703,296	69,619,376	6,854,217
1996	284,615,456	68,802,114	6,494,717
1997	328,195,083	68,911,987	5,866,165
1998	355,953,472	74,055,482	5,397,838
1999 ⁽⁴⁾	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	621,287,412	152,626,320	10,889,000
2013	626,000,000	160,000,000	14,000,000

⁽¹⁾ Teachers' Retirement System **total** cost. Since FY 1996, a small portion of the employer contribution shown above has been paid from funds other than the ETF.

⁽²⁾ Employees' Retirement System **total** cost.

⁽³⁾ Judicial Retirement Fund **total** cost.

⁽⁴⁾ The Retirement System changed from book to market value for assets in FY 1999, resulting in a lowering of the employer rate/contributions most significantly in FY 1999, but which also affected employer contributions each year thereafter to a lesser degree.

Note: The amounts shown for FY 2012 are budgeted amounts.

The amounts shown for FY 2013 are estimated amounts.

Experience Study Funding Results

Retirement Systems

	TRS	ERS State Employees
Unfunded Accrued Liability	\$7.79 Billion	\$2.14 Billion
Funding Ratio	72.1%	68.41%
<u>Employer Annual Required Contribution</u>		
Normal	2.07%	1.06%
Accrued Liability	7.65	8.71%
Death Benefit	0.10	0.14%
Term Life	0.05	---
Administration	<u>0.21</u>	<u>0.21%</u>
Total	10.08%	10.12%
Amortization period in years	30	30

New Hire Plan Scenarios

Retirement Eligibility Requirements and Final Average Salary (FAS) Period for New Hires - all scenarios include a 1.50% benefit multiplier	Employer Rate Savings in First Year	Employer Rate Savings in 30th Year
65&10 – 3-year FAS	0.10%	1.67%
65&10 – 5-year FAS	0.12	1.85
65&10 – 10-year FAS	0.15	2.28
60&10 – 3-year FAS	0.07	1.11
60&10 – 5-year FAS	0.08	1.32
60&10 – 10-year FAS	0.12	1.81
Rule of 85 or 65&10 – 3-year FAS	0.06	0.95
Rule of 85 or 65&10 – 5-year FAS	0.08	1.16
Rule of 85 or 65&10 – 10-year FAS	0.11	1.65
Rule of 80 or 65&10 – 3-year FAS	0.04	0.62
Rule of 80 or 65&10 – 5-year FAS	0.06	0.84
Rule of 80 or 65&10 – 10-year FAS	0.09	1.35

SOURCE: Cavanaugh Macdonald Consulting, LLC – Retirement Systems of Alabama

Presentation to the Legislature on Alabama's Financial Condition



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Legislative Fiscal Office

February 7, 2012

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