

# PRESENTATION TO THE LEGISLATURE ON ALABAMA'S FINANCIAL CONDITION

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# OVERVIEW

- ▶ Alabama Economic Condition
- ▶ Appropriation of State Funds for FY 2018
- ▶ Status of the Education Trust Fund and the State General Fund for FY 2017 and FY 2018
- ▶ Outlook for the Education Trust Fund and the State General Fund for FY 2019
- ▶ General Funding Issues



# THE GREAT RECESSION

- ▶ According to NBER, began December 2007 and ended in June 2009 (18 months) – the longest of any recession since World War II
- ▶ Worst recession since the Great Depression of the 1930s
- ▶ The U.S. economy shrank in five quarters, including four quarters in a row
- ▶ U.S. unemployment rates (Source: U.S. Bureau of Labor Statistics):
  - ▶ December 2007 – 5% (at or below this % for previous 30 months)
  - ▶ June 2009 – 9.5% (peaked at 10% after recession ended in October 2009)
  - ▶ Total U.S. Job Losses During Recession – 7.5 million
- ▶ Stock market decline that began in August 2007 cost U.S. households roughly \$16 trillion of net worth



# IMPACT ON ALABAMA JOBS

- ▶ Total Employment (Source: AL Department of Labor):
  - ▶ December 2007 – 2,083,000
  - ▶ June 2009 – 1,917,000
  - ▶ Low Point of 1,891,000 followed recession in November 2009
  - ▶ Difference (November 2009 vs. December 2007) – 192,000
- ▶ Unemployment Rate (Source: AL Department of Labor):
  - ▶ December 2007 – 4.4% (lower than U.S. average)
  - ▶ June 2009 – 11.4%
  - ▶ High Point of 11.9% followed recession in months of September, October, and November 2009



# IMPACT ON ALABAMA INCOMES

- ▶ Total Personal Income (Source: U.S. Bureau of Economic Analysis):
  - ▶ Average annual % increase between 2001 recession and 2007 recession – 5.3%
  - ▶ 2007 – \$152.2 billion (5.0% increase over 2006)
  - ▶ 2008 – \$157.7 billion (3.6% increase over 2007)
  - ▶ 2009 – \$155.5 billion (1.4% decrease from 2008)
  - ▶ Average annual % increase since Great Recession – 2.8%
- ▶ Total Wages and Salaries (Source: U.S. Bureau of Economic Analysis):
  - ▶ Average annual % increase between 2001 recession and 2007 recession – 4.7%
  - ▶ 2007 – \$77.2 billion (4.7% increase over 2006)
  - ▶ 2008 – \$79.1 billion (2.4% increase over 2007)
  - ▶ 2009 – \$76.3 billion (3.5% decrease from 2008)
  - ▶ Average annual % increase since Great Recession ended – 2.5%



# IMPACT ON MAJOR STATE REVENUES

## INCOME TAXES

- ▶ Gross individual taxes
  - ▶ FY 2008 – \$3.61 billion
  - ▶ FY 2009 – \$3.32 billion
  - ▶ FY 2010 – \$3.21 billion
  - ▶ Difference FY 2010 vs. FY 2008 = -\$400 million
  - ▶ Did not exceed FY 2008 collection level until FY 2013

## SALES TAXES

- ▶ Gross sales taxes
  - ▶ FY 2008 – \$2.03 billion
  - ▶ FY 2009 – \$1.83 billion
  - ▶ FY 2010 – \$1.85 billion
  - ▶ Difference FY 2009 vs. FY 2008 = -\$200 million
  - ▶ Did not exceed FY 2008 collection level until FY 2014



# CURRENT ALABAMA CONDITION

- ▶ Unemployment Rate (Source: AL Department of Labor, seasonally adjusted figures):
  - ▶ November 2017 – 3.5% (new record low) and below the national rate of 4.1%
  - ▶ November 2016 – 6.2%
- ▶ Roughly 76,000 unemployed persons in November 2017 (new record low) compared to roughly 136,000 in November 2016
- ▶ Total Employment (Source: AL Department of Labor):
  - ▶ Gain of 30,500 jobs over the past year
  - ▶ Gains in construction, manufacturing, leisure and hospitality, education and health services, among others
- ▶ Alabama individual income tax withholding payments for FY 2017 were up by 4.14%
- ▶ Average growth over the last 6 months – 6.47%



# APPROPRIATION OF STATE FUNDS





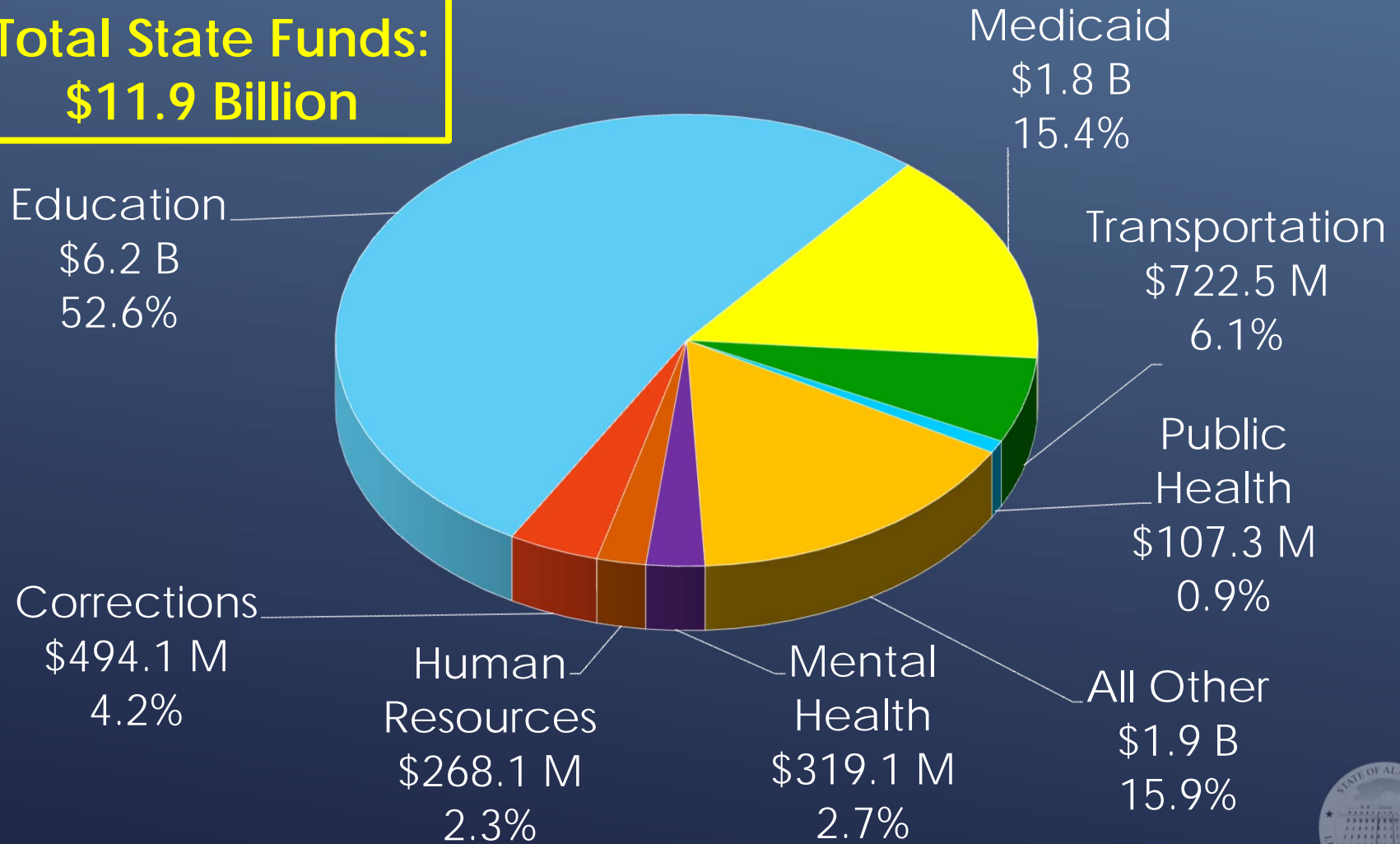
# APPROPRIATION OF ALL STATE FUNDS FY 2018 (AS ENACTED)

- ▶ General Fund = \$1.85 Billion
- ▶ Education Trust Fund = \$6.42 Billion
- ▶ Other State Funds = \$3.60 Billion
- ▶ Total State Funds = \$11.87 Billion



# APPROPRIATION OF ALL STATE FUNDS FY 2018 (AS ENACTED)

**Total State Funds:  
\$11.9 Billion**

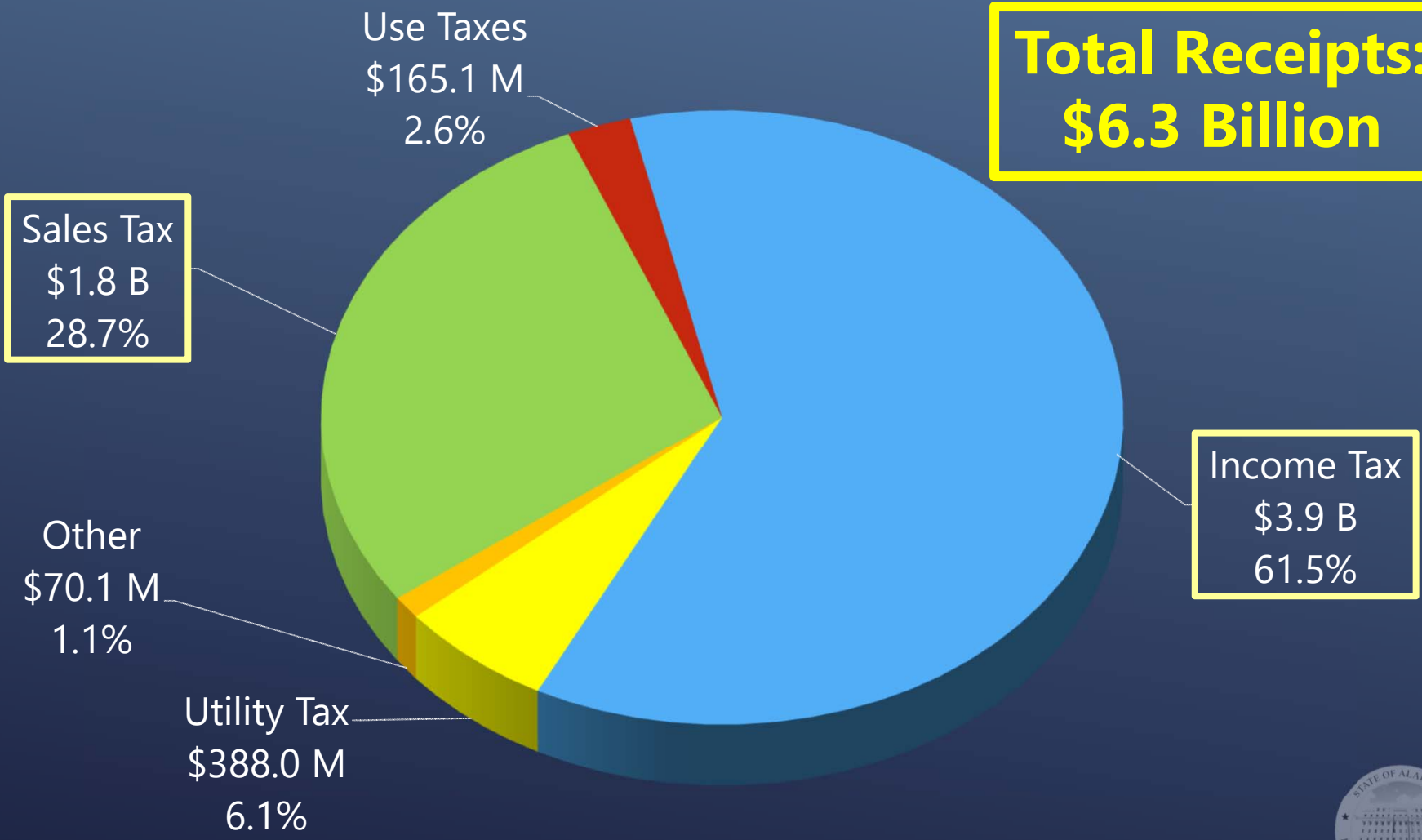


# Education Trust Fund (ETF)

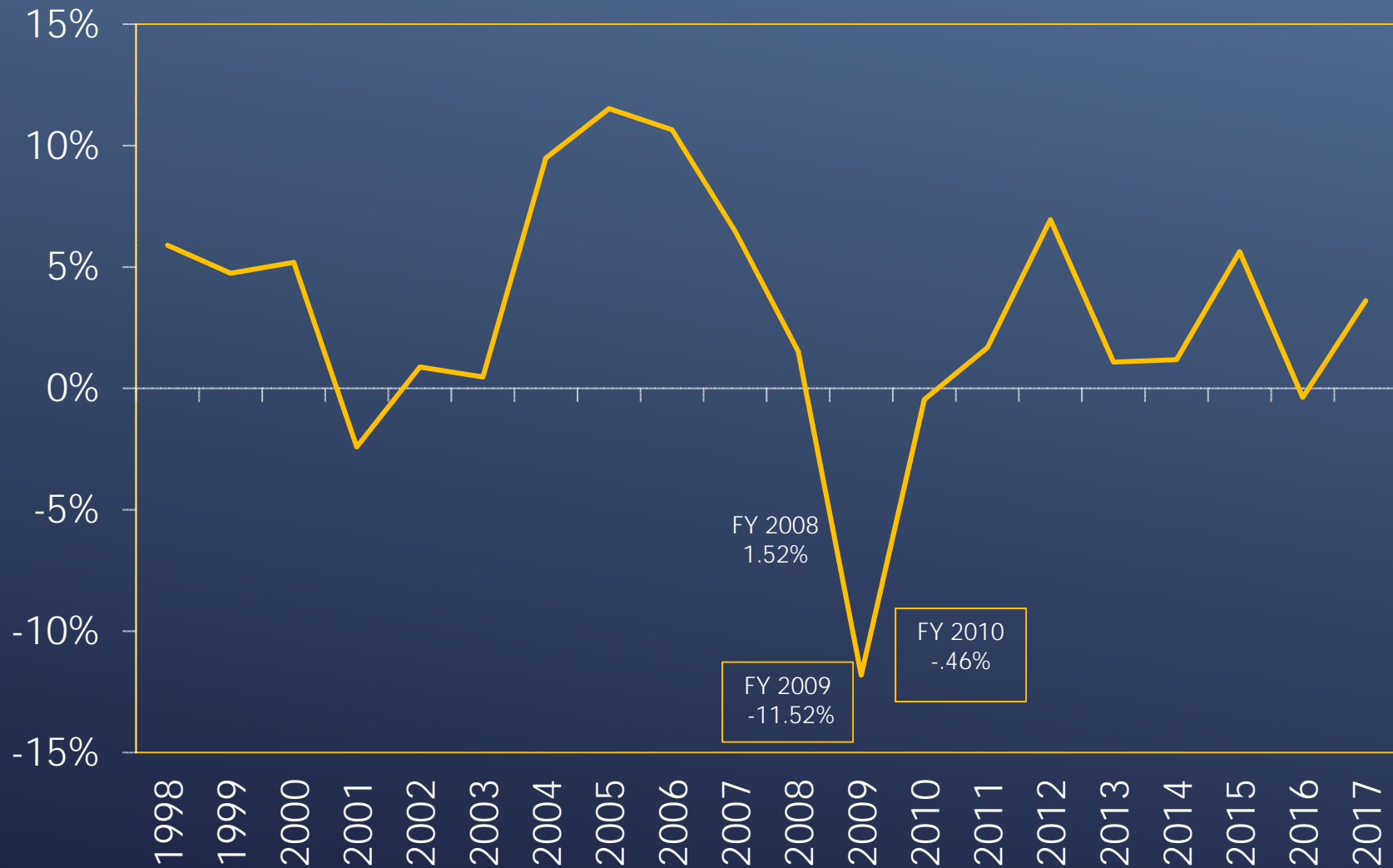


# EDUCATION TRUST FUND REVENUE SOURCES - FY 2017

**Total Receipts:  
\$6.3 Billion**



# GROWTH IN ETF RECURRING REVENUES SINCE FY 1998



## ETF PRORATION SINCE 1992

- ▶ FY 1992: 3.0%
- ▶ FY 2001: 6.2%
- ▶ FY 2003: 4.4% (Reduced to 0% after transfer of approximately \$180 million from Rainy Day Account/PPA)
- ▶ FY 2008: 6.5% (Reduced to 0% after transfer of approximately \$439 million from PPA)
- ▶ FY 2009: 18.0% (Reduced to 11% after transfer of approximately \$437 million from Rainy Day Account)
- ▶ FY 2010: 9.5%
- ▶ FY 2011: 3.0%



# CONDITION OF THE ETF FY 2017 AND FY 2018

	Actual FY 2017	Estimated FY 2018	Difference
Beginning Balance	5,041,468	6,919,305	1,877,837
Regular Receipts (FY 2018 reflects Fiscal Division revised estimates)	6,327,327,215	6,516,000,000	188,672,785
<b>TOTAL AVAILABLE</b> (beginning balance plus regular receipts)	<b>6,332,368,683</b>	<b>6,522,919,305</b>	<b>190,550,622</b>
<b>TOTAL ETF EXPENDITURES (FY 2018 as of 12/31/2017)</b>	<b>6,332,041,468</b>	<b>6,419,124,473</b>	<b>87,083,005</b>
<b>ENDING BALANCE BEFORE REVERSIONS AND ADJUSTMENTS</b>	<b>327,215</b>	<b>103,794,832</b>	<b>103,467,517</b>
Reversions and Adjustments	6,592,090		
<b>DISTRIBUTION OF ENDING BALANCE BEFORE REVERSIONS AND ADJUSTMENTS</b>			
Budget Stabilization Fund		63,320,415	63,320,415
Advancement and Technology Fund		40,474,417	40,474,417



# BUDGET STABILIZATION FUND

- ▶ Established by the ETF Rolling Reserve Act
- ▶ A portion of any revenues deposited into the ETF in excess of the fiscal year appropriation cap for the immediately preceding fiscal year is transferred to the Budget Stabilization Fund
  - ▶ For FY 2015, up to 2% of the previous year's ETF appropriations (\$118,305,984)
  - ▶ Thereafter, up to 1% of the previous year's ETF appropriations (\$59,595,211 in FY 2016, no transfer in FY 2017) until the fund reaches 7.5% of the previous year's ETF appropriations
  - ▶ Total current balance of approximately \$179 million
- ▶ Amounts in the Budget Stabilization Fund may be withdrawn only to prevent proration in the ETF





# ADVANCEMENT AND TECHNOLOGY FUND

- ▶ Also, established by the ETF Rolling Reserve Act
- ▶ Any funds remaining after the transfer to the Budget Stabilization Fund are transferred to the Advancement and Technology Fund
  - ▶ For FY 2016, the transfer was \$56,386,922
  - ▶ No transfer for FY 2017



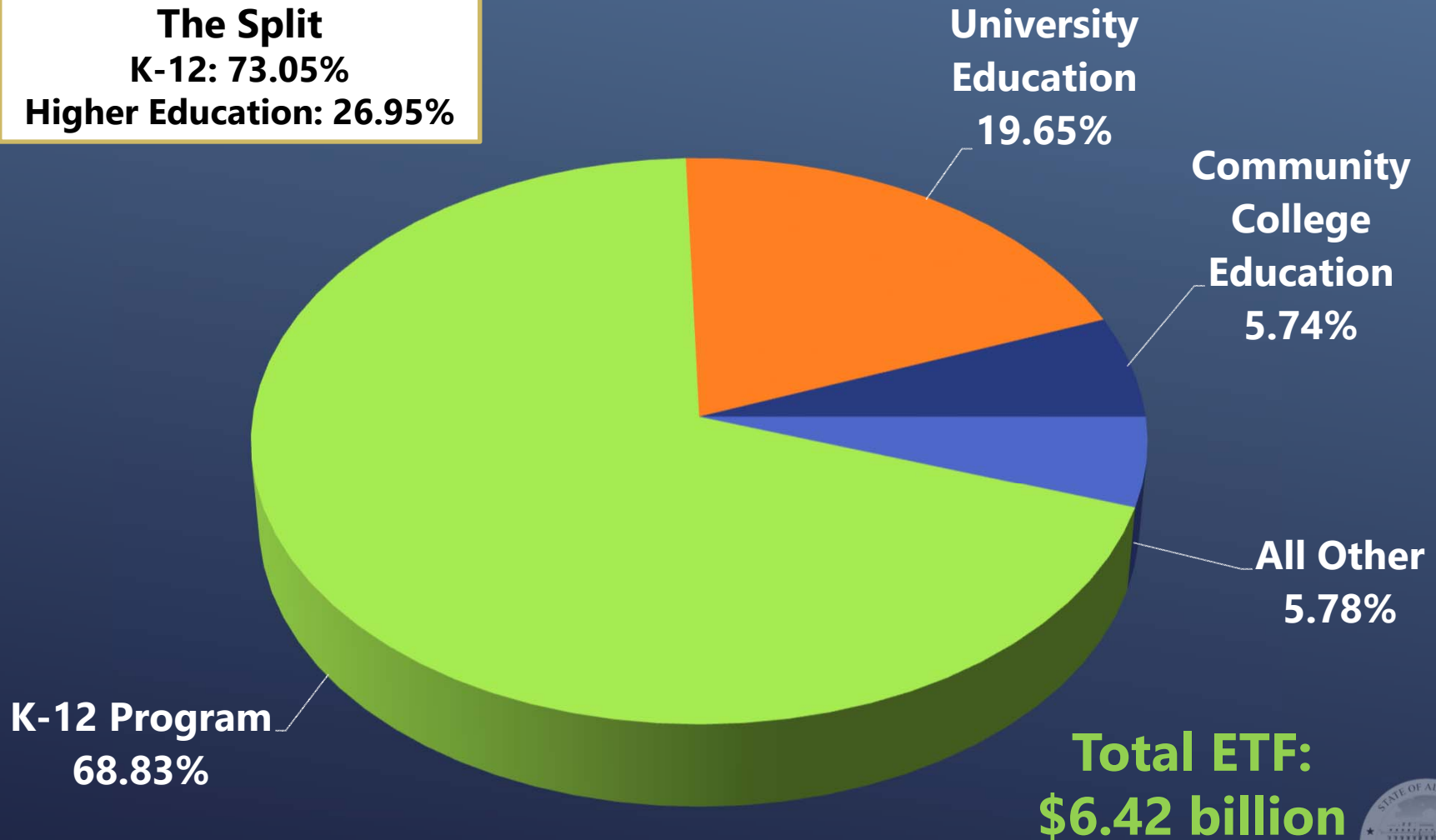
# ADVANCEMENT AND TECHNOLOGY FUND

- ▶ Funds must be appropriated through an independent supplemental appropriation bill for:
  - ▶ repairs and deferred maintenance of facilities;
  - ▶ for classroom instructional support;
  - ▶ for insuring facilities;
  - ▶ for transportation; and
  - ▶ for the acquisition or purchase of educational technology and equipment
- ▶ The annual appropriation of these funds is divided between the public schools and institutions of higher education in accordance with the percentage split between these two sectors of education
- ▶ The supplemental appropriation bill to appropriate these funds did not pass during the 2017 Regular Session



# Appropriation of Education Trust Fund FY 2018

**The Split**  
K-12: 73.05%  
Higher Education: 26.95%



# ETF ROLLING RESERVE ACT FY 2019 CAP

FY 2017 Net Recurring Revenues \$6,327,327,215

PLUS:

Average growth for the 14 highest years out of the last 15 (4.25%) \$268,911,407

New recurring revenue measures -24,320,000

PACT appropriation for FY 2019 \$61,539,000

**FY 2019 ETF Appropriations Cap \$6,633,457,622**

ETF Appropriations for FY 2018 \$6,417,000,027

**Cap Difference: FY 2019 vs. FY 2018 \$216,457,595**



# CONDITION OF THE ETF FY 2018 AND FY 2019

	Estimated FY 2018	Estimated FY 2019	Difference
Beginning Balance	6,919,305		-6,919,305
Regular Receipts (Reflects Fiscal Division estimates)	6,516,000,000	6,720,000,000	197,000,000
<b>TOTAL AVAILABLE</b> (beginning balance plus regular receipts)	<b>6,522,919,305</b>	<b>6,720,000,000</b>	<b>197,080,695</b>
<b>TOTAL ETF EXPENDITURES</b>	<b>6,419,124,473</b>	<b>6,633,457,622</b>	<b>214,333,149</b>
<b>ENDING BALANCE BEFORE REVERSIONS AND ADJUSTMENTS</b>	<b>103,794,832</b>	<b>86,542,378</b>	<b>-17,252,454</b>
<b>ESTIMATED DISTRIBUTION OF ENDING BALANCE</b>			
Budget Stabilization Fund	63,320,415	64,191,245	870,830
Advancement and Technology Fund	40,474,417	22,351,133	-18,123,284



# ESTIMATED COST OF A 1% PAY INCREASE FOR EDUCATION EMPLOYEES

<u>Entity</u>	<u>Amount</u>
K-12 Local Boards (certificated)	\$28,181,000
K-12 Local Boards (support)	<u>\$8,446,000</u>
<b>Total</b>	<b>\$36,627,000</b>
Other K-12 Agencies	\$638,500
Postsecondary Institutions	<u>\$3,710,000</u>
<b>Grand Total</b>	<b>\$40,975,500</b>



# ETF FUNDING ISSUES FOR FY 2019

- ▶ PEEHIP has requested an employer rate of \$800 per active employee per month for FY 2019 – the same rate as in FY 2018
- ▶ TRS employer rates recommended by the actuary were 12.41% for Tier I and 11.35% for Tier II, both slight increases from FY 2018
  - ▶ Total additional employer costs - \$12.0 Million, of which an estimated 59% would be paid from ETF appropriations
- ▶ Total additional ETF cost - \$7.1 Million



# FEDERAL TAX CUTS AND JOBS ACT

## INDIVIDUAL

- ▶ For tax years 2018 through 2025:
  - ▶ Rates and brackets modified with most tax rates being reduced
  - ▶ Increased estate and gift tax exemption
  - ▶ Standard deduction increased
  - ▶ Personal and dependent exemption eliminated
  - ▶ Limitation on the deduction for state and local taxes and home mortgage interest

## CORPORATE

- ▶ Established a flat 21% tax rate, rather than previous graduated rates ranging from 15% to 35%
- ▶ Alternative Minimum Tax repealed
- ▶ Increased Section 179 expensing limits for qualifying property
- ▶ Temporary 100% first year bonus depreciation for qualifying property



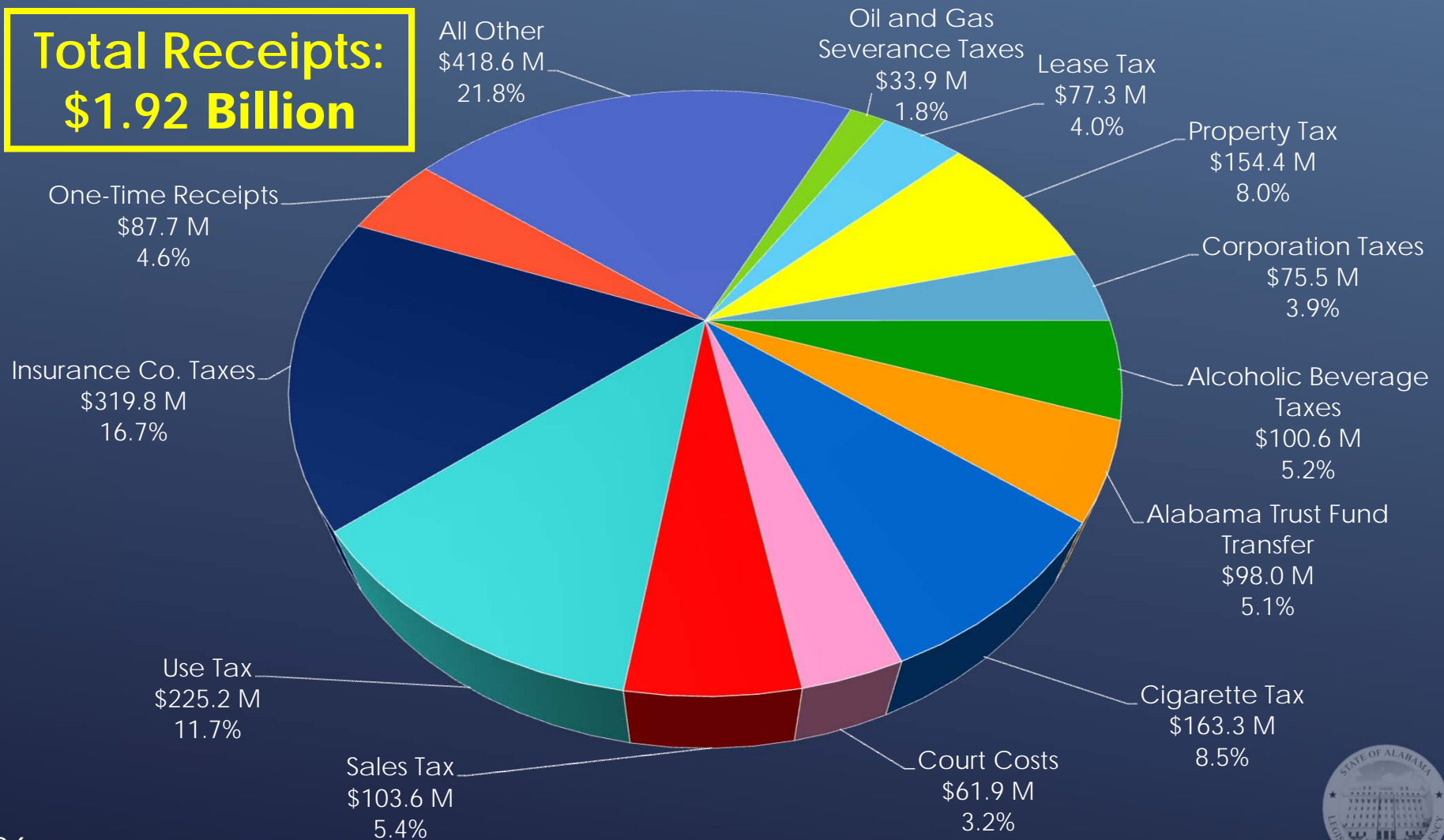


# State General Fund (SGF)



# STATE GENERAL FUND REVENUE SOURCES - FY 2017

**Total Receipts:  
\$1.92 Billion**

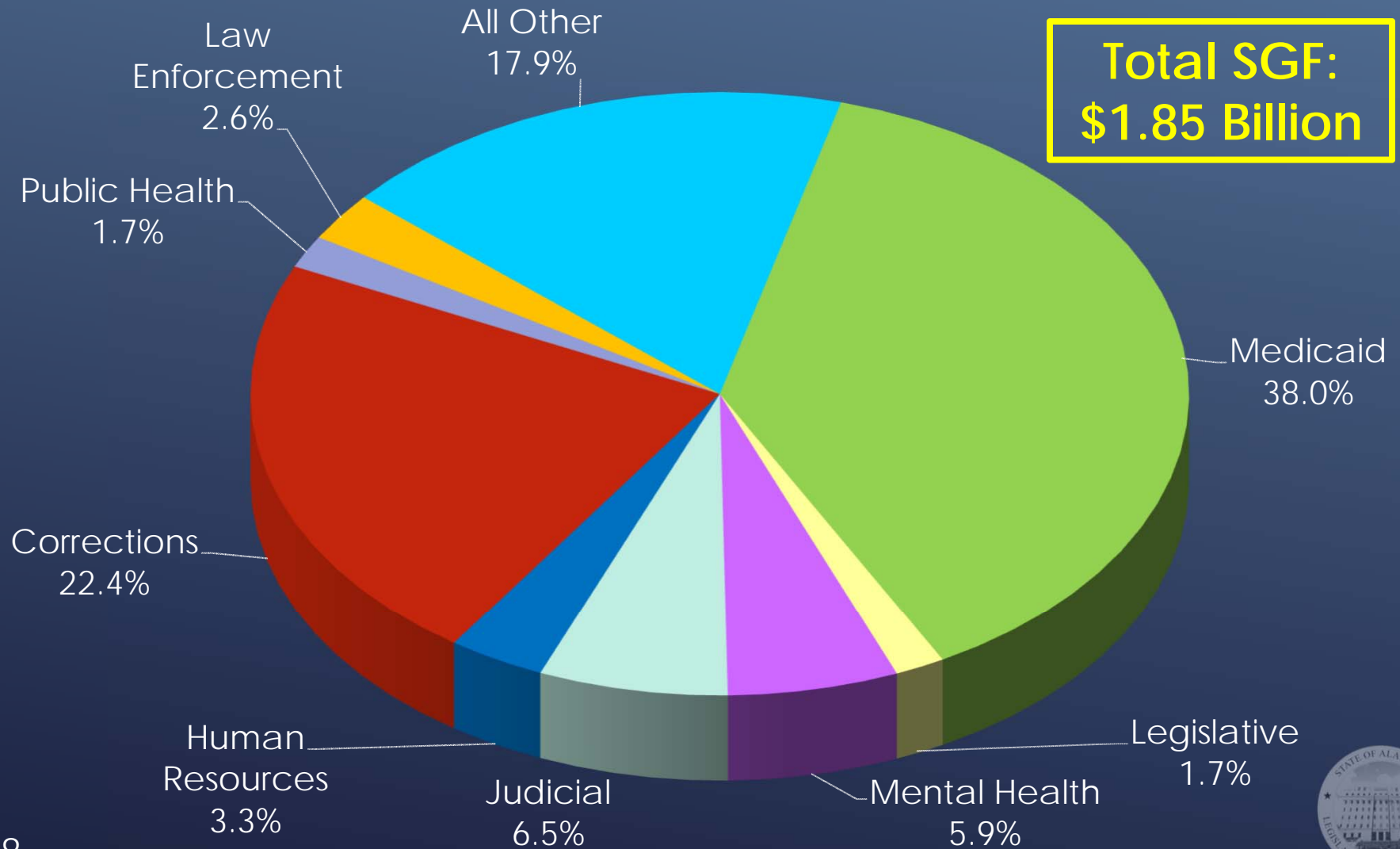


	FY 2015	FY 2016	FY 2017
Alcoholic Beverage Control Board Taxes and Profits	99,255,047	100,816,514	100,623,508
Ad Valorem Tax – 2.5 Mills	146,459,174	150,853,517	154,429,888
Alabama Trust Fund Regular Distributions	100,933,482	103,310,045	98,040,084
Cigarette Tax	99,351,497	164,746,858	163,313,105
Corporation Taxes – Regular	65,351,352	56,831,934	75,499,764
Court Costs – Judicial Article	63,574,968	61,282,678	61,860,771
Insurance Premium and License Taxes	283,264,436	293,534,706	319,814,875
Leasing and Rental Tax	78,440,761	76,634,471	77,297,544
Lodgings Tax	43,984,070	46,869,544	49,851,286
Sales Tax on Autos	89,091,956	97,844,307	102,230,663
Use Taxes	92,235,264	197,691,644	228,384,170
All Other	<u>689,370,703</u>	<u>494,910,617</u>	<u>488,488,114</u>
<b>Grand Total</b>	<b>1,851,312,710</b>	<b>1,845,326,835</b>	<b>1,919,833,772</b>

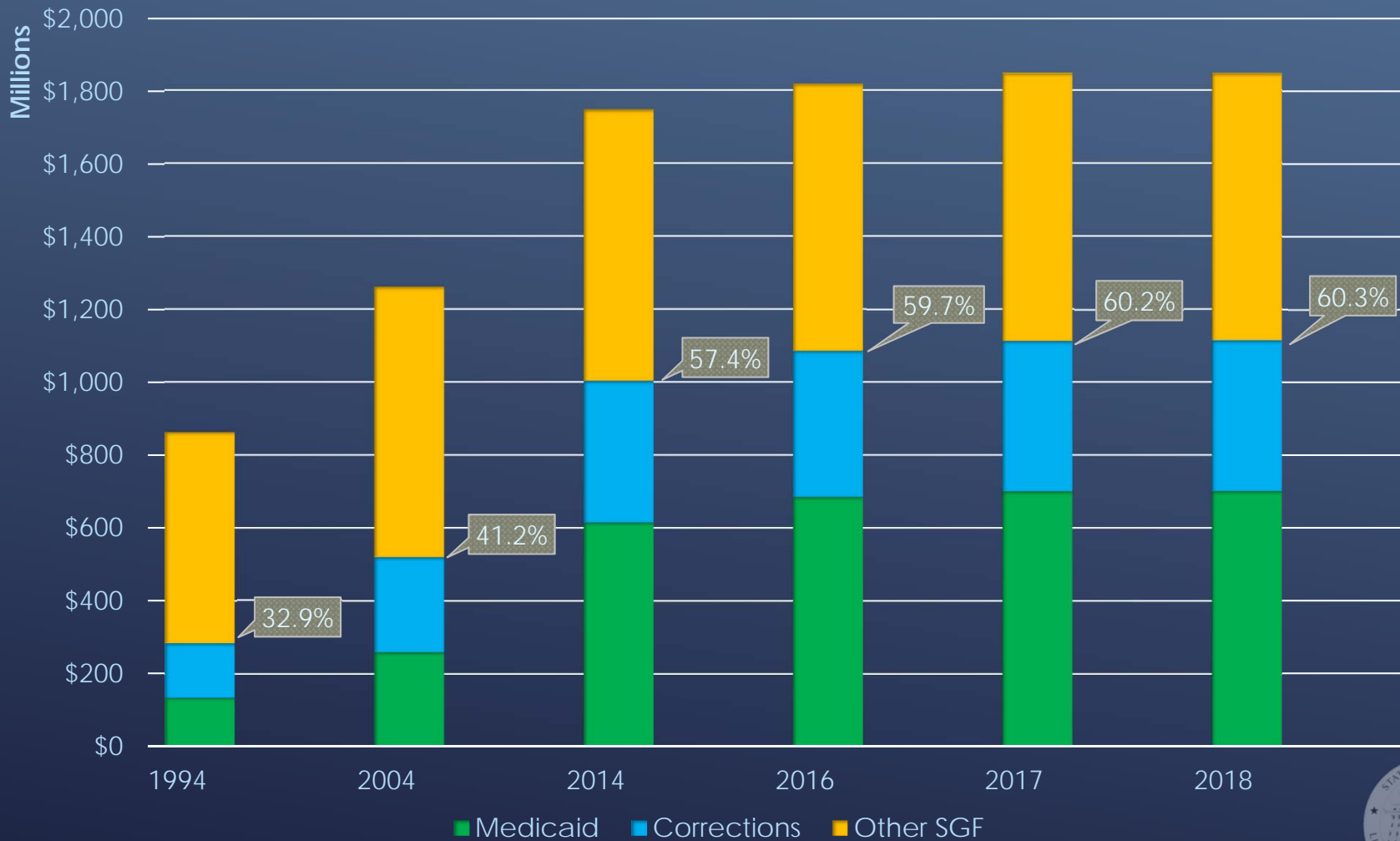


# APPROPRIATION OF STATE GENERAL FUND FY 2018 (AS ENACTED)

**Total SGF:  
\$1.85 Billion**



# STATE GENERAL FUND GROWTH: CORRECTIONS AND MEDICAID SHARE



# CONDITION OF THE SGF FY 2017 AND FY 2018

	Actual FY 2017	Estimated FY 2018	Difference
<b>BEGINNING BALANCE</b>	63,817,402	143,022,892	79,205,490
Regular Receipts	1,837,328,771	1,886,995,000	49,666,229
Agency Transfers	32,505,000	28,005,000	-4,500,000
BP Settlement Funds	50,000,000		-50,000,000
<b>TOTAL RECEIPTS</b> (FY 2018 reflects revised Fiscal Division estimates)	<b>1,919,833,771</b>	<b>1,915,000,000</b>	<b>-4,833,771</b>
<b>TOTAL AVAILABLE</b> (beginning balance plus total receipts)	<b>1,983,651,173</b>	<b>2,058,022,892</b>	<b>74,371,719</b>
Appropriations (as of 12/31/2017)	1,854,466,022	1,871,610,460	17,144,438
Reversions Reappropriated (as of 12/31/2017)	48,549,920	56,958,524	8,408,604
<b>TOTAL APPROPRIATIONS AND OBLIGATIONS</b>	<b>1,903,015,942</b>	<b>1,928,568,983</b>	<b>25,553,041</b>
Reversions and Adjustments	-62,387,661		62,387,661
<b>TOTAL ENDING BALANCE</b>	<b>143,022,892</b>	<b>129,453,909</b>	<b>-13,568,983</b>



# NON-GENERAL FUND TRANSFERS FOR SGF PURPOSES - FY 2018

Source	Budgeted Amount
Public Service Commission	\$10,000,000
Revenue, Department of	16,505,000
Securities Commission	1,500,000
Public Road and Bridge Fund - transfer to the Unified Judicial System and ALEA	<u>63,500,000</u>
<b>TOTAL</b>	<b>\$91,505,000</b>



# CONDITION OF THE SGF FY 2018 AND FY 2019

	Estimated FY 2018	Estimated FY 2019	Difference
<b>BEGINNING BALANCE</b>	<b>143,022,892</b>	<b>129,453,909</b>	<b>-13,568,983</b>
Regular Receipts	1,886,995,000	1,923,995,000	37,000,000
Agency Transfers	28,005,000	28,005,000	
<b>TOTAL RECEIPTS</b> (Fiscal Division estimates)	<b>1,915,000,000</b>	<b>1,952,000,000</b>	<b>37,000,000</b>
<b>TOTAL AVAILABLE</b> (beginning balance plus total receipts)	<b>2,058,022,892</b>	<b>2,081,453,909</b>	<b>23,431,017</b>
Appropriations (as of 12/31/2017)	1,871,610,460		
Reversions Reappropriated (as of 12/31/2017)	56,958,524		
<b>TOTAL APPROPRIATIONS AND OBLIGATIONS</b>	<b>1,928,568,983</b>		
<b>ESTIMATED ENDING BALANCE</b>	<b>129,453,909</b>		





# ESTIMATED COST OF A 1% PAY INCREASE FOR STATE EMPLOYEES

- ▶ Total Cost of 1% pay raise:
  - ▶ \$18.4 Million
  
- ▶ State General Fund share of 1% pay raise:
  - ▶ \$4.8 Million



# FY 2019 SGF FUNDING ISSUES

FY 2019 SGF Requested Budget Increases Over FY 2018 Enacted (from Budget Hearings):

- ▶ Medicaid - \$55.5 Million
- ▶ Law Enforcement Agency (ALEA) - \$5.9 Million
- ▶ Public Health - \$57.2 Million (\$53.5 Million for CHIP)
- ▶ Corrections - \$30 Million Supplemental for FY 2018 and an additional \$50 million for FY 2019
- ▶ Mental Health - \$13.2 Million

FY 2019 Total of \$181.8 Million more than budgeted in FY 2018



# OTHER FUNDING ISSUES

- ▶ ERS employer rates recommended by the actuary were 14.51% for Tier I and 14.14% for Tier II, both slight increases from FY 2018
  - ▶ Total additional employer costs - \$9.8 Million, of which an estimated 26% would be paid from SGF appropriations
  - ▶ Total additional SGF cost - \$2.6 Million
- ▶ Children's Health Insurance Program (CHIP)
  - ▶ A provision of the ACA authorized an additional 23% of federal matching funds to states through FY 2019; however, funds were only appropriated through FY 2017
  - ▶ FY 2018 – currently operating using FY 2017 federal funding (FY 2018 and future allocations have not been authorized)
  - ▶ Recent Congressional proposals have included the current 23% increase in the CHIP federal matching percentage (FMAP) for FY 2018 and FY 2019 and a phase down to begin in FY 2020
  - ▶ If this proposal is enacted, in FY 2020, the Department of Public Health will need approximately \$25.5 million and the Medicaid Agency will need approximately \$13 million in additional State General Fund dollars for a total of \$38.5 million



# OTHER FUNDING ISSUES

- ▶ Medicaid
  - ▶ Requested increase in FY 2019 is \$757 million (\$55 million over FY 2018) but lower than expected due to carryforward
  - ▶ At this time, the expected need in FY 2020 is \$810 million (\$53 million more than the 2019 request) plus inflation and any unknown federal mandates
- ▶ Corrections Lawsuit
  - ▶ Class action lawsuit filed by the Southern Poverty Law Center (SPLC) and the Alabama Disability Advocacy Program (ADAP) brought on behalf of inmates who allege medical, mental health, and ADA claims
  - ▶ Federal court ruled in June 2017 that mental health care was inadequate and ordered the state to come up with a long-term plan to address complaints



# LSA WEBSITE

- ▶ Website: [www.lsa.state.al.us](http://www.lsa.state.al.us)
  - ▶ About the LSA and each of the divisions
  - ▶ Fiscal Division
    - ▶ Special Reports
      - ▶ Alabama's Financial Condition
    - ▶ Publications
      - ▶ Tax Expenditures
      - ▶ Tax Guide
      - ▶ Budget Fact Book
    - ▶ Appropriations Information
      - ▶ ETF and SGF Comparison Spreadsheets



# Q&A

