



# **THE STATE GENERAL FUND (SGF)**



# CURRENT BUDGET PROCESS

# Important Terms

## ■ Receipts

- The amount or quantity of revenues received
- For budget requests and budget preparation purposes, receipts are estimated amounts

## ■ Appropriations

- An authorization for an agency to make expenditures and to incur obligations for specific purposes
- State agencies may not spend more than the amount appropriated annually by the Legislature
- State agencies shall not spend more than available revenues – both the constitution and statute prohibit deficit spending
- Agency appropriations include all fees, receipts and income received by an agency including Education Trust Fund or State General Fund appropriations as well as revenue sources dedicated to specific agency funds or functions. Funds are not subject to withdrawal by the agency except as appropriated and allotted

## ■ Earmarking

- The direction of revenues to a specific fund or for a specific purpose
- Funds can be earmarked by statute, by the constitution, or by the appropriation act
- For example, sales taxes are earmarked by statute while income taxes are earmarked to the Education Trust Fund for public school teacher salaries pursuant to the Constitution

# Earmarking

- Earmarking can be general or specific
- Earmarking can be constitutional or statutory
- *According to a 2008 report from the National Conference of State Legislatures, the average proportion of state tax revenue earmarked in Fiscal Year 2005 was 24%*
  - *Alabama earmarked 84%, far exceeding any other state*
  - *The highest percentage of our surrounding states was 56% in Tennessee*
  - *Florida and Mississippi both earmarked 27%*
  - *Georgia only earmarked 6%*
- In 2015, approximately 86% of state revenues were allocated to agencies and funds other than the State General Fund
  - *The percentage would be approximately 93% if federal revenues were included*

# Appropriation Required to Spend

- Section 72 of the Constitution of Alabama of 1901:
  - *Provides that no money shall be paid from the treasury except upon appropriations made by law*
    - This includes the State General Fund, Education Trust Fund, and other state and federal funds
    - Revenues may be earmarked to a specific fund or agency, but those funds must be appropriated in order to be spent
    - The only exceptions to appropriating specific amounts in the appropriations acts include open-ended appropriations, including estimated appropriations for debt service, election expenses, the Fair Trial Tax Fund, and various revolving funds
    - Also, language in both the Education Trust Fund and State General Fund appropriations acts appropriates any unanticipated gifts, grants, including grants by the Congress of the United States, municipalities or counties, insurance proceeds, contributions or entitlements, to any department, division, board, or agency for the purpose for which the grant or contribution was made

# General Timeline

DATE	REQUIREMENT
August-September	Budget instructions and forms distributed by the Executive Budget Office to state agencies
By November 1	State agencies submit budget requests to the Governor (Executive Budget Office) and Legislature (LSA Fiscal Division)
Not later than the first day of the second month preceding each regular session	The Department of Finance (Executive Budget Office) prepares a tentative budget for the Governor's consideration
At least two weeks prior to the start of each regular session	Governor provides for executive budget hearings
On or before the second legislative day of each regular session	The Governor transmits the Executive Budget document and related bills to the Legislature outlining his or her financial program for the next fiscal year, which begins October 1

# Agency Budget Requests

- Estimates of the expenditure requirements for the next fiscal year by the administrative head of each budgeted agency
  - The budget is prepared for each fund, appropriation unit, and activity by each major object of expenditure
  - Contains a detailed statement of actual agency revenues for the preceding fiscal year and estimated revenues for the current and next fiscal year
  - Also contains a personnel classification budget request form showing employees and amounts by classification
  - After receiving the agency budget requests, the Executive Budget Office prepares a tentative budget utilizing revenue estimates prepared by the staff, state officials, and other consultants



# **HISTORICAL BUDGET BACKGROUND**



# Budget Periods

- Section 48 of the Constitution of Alabama of 1901 provided for the Legislature to meet quadrennially
  - *The general assembly of 1903 was the first to meet under the new constitution and appropriate funds for four years<sup>1</sup>*
- Amendment 39 to the Constitution of Alabama of 1901 (1939), provided for the Legislature to meet in May of 1943 and on the first Tuesday in May in each second year thereafter, until the date of meeting shall have been changed by act of the Legislature and approved by the Governor
- Amendment 339 to the Constitution of Alabama of 1901 (1975), provided for regular sessions of the Legislature to be held annually beginning in the year 1976 on the first Tuesday in May, or on such other day prescribed by law

<sup>1</sup> Ira W. Harvey, *A History of Educational Finance in Alabama*, 1989

# Operating Funds

- The government for the State of Alabama operates primarily from six major funds--State General Fund, Education Trust Fund, Public Road and Bridge Fund, Alabama Medicaid Fund, Mental Health Fund, and Public Welfare Trust Fund<sup>1</sup>
- Revenues from various sources, including taxes, interest, federal government, and profits, are deposited into the proper fund and appropriated to provide services to the citizens of the state and for the operating expenses of state government<sup>1</sup>
- Monies in the funds are appropriated on an annual basis by the State Legislature through the two major appropriation bills - General Appropriation and Education Trust Fund - and by separate appropriation bills<sup>1</sup>
- Alabama and only 2 other states (Michigan and Utah) have separate education and general fund budgets<sup>2</sup>

<sup>1</sup>Executive Budget Office

<sup>2</sup>National Conference of State Legislatures

# Budget Submission

- Amendment 448 to the Constitution of Alabama of 1901 (1984):
  - *Specifies that the paramount duty of the Legislature at any regular session is to make the basic appropriations for any budget period that will begin before the start of the next regular session*
  - *Requires the Governor to transmit to the Legislature on or before the second legislative day of each regular session of the Legislature a proposed budget for the then next succeeding budget period*
  - *“Basic appropriations” is defined to mean such appropriations as the Legislature may deem appropriate for the expenditures by the state during the ensuing budget period for the ordinary expenses of the executive, legislative and judicial departments of the state, for the payment of public debt, and for education*

# Executive Budget Document

- The budget document recommended by the Governor is published and transmitted to the Legislature on or before the second legislative day of each regular session (Amendment 448)
  
- The document is comprised of three parts:
  - *Part I – Contains the Governor’s budget message and fiscal data (including revenue estimates)*
  - *Part II – Provides the detailed recommended appropriations for each agency*
  - *Part III – Contains the proposed appropriation bills and revenue bills needed to implement the recommendations. The appropriation bills indicate the programmatic appropriation to each agency and the source of funds from which each appropriation is made*
  
- The appropriation recommendations, as altered by the Legislature, are adopted by the Legislature as the Appropriation Acts



# **SGF DESCRIPTION AND REVENUE SOURCES**

# State General Fund Description

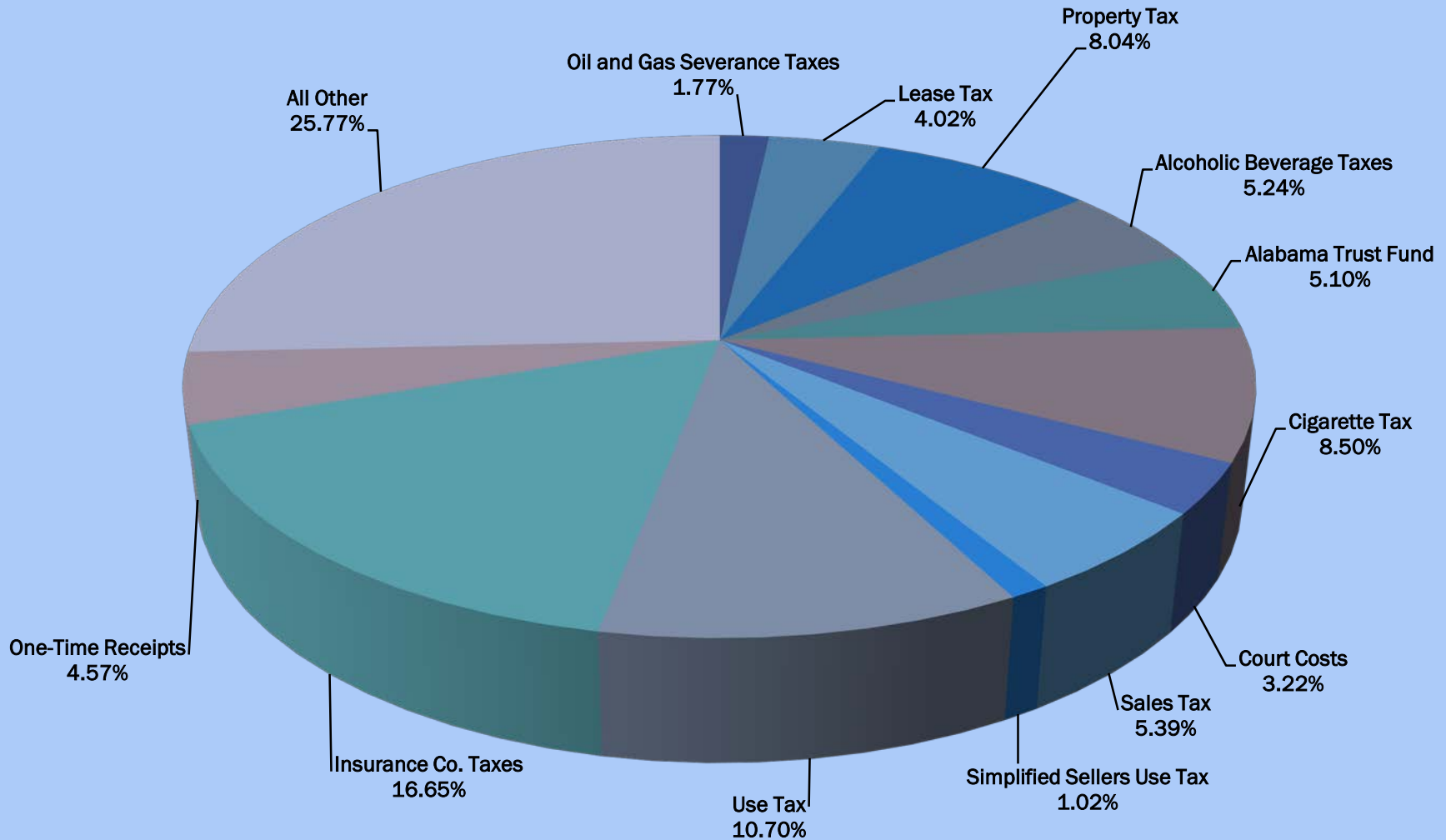
- The General Fund supports state programs such as child development and protection, criminal justice, conservation efforts, economic development, public health and safety, mental health, Medicaid, legislative activities, and the court system.
- Revenues credited to the General Fund are used for the ordinary expenses of the executive, legislative, and judicial departments of state government, for other functions of government, for debt service on certain general obligation bond issues, and for capital outlay.
- Taxes from over 40 sources are deposited into the General Fund, with the largest sources being the insurance company premium tax, use tax, cigarette tax, ad valorem tax, and Alabama Alcoholic Beverage Control Board taxes and profits.

SOURCE: Executive Budget Office

# State General Fund Regular Receipts, 3-Year History

	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	689,370,703	494,910,617	488,488,114
<b>Grand Total</b>	<b>1,851,312,710</b>	<b>1,845,326,835</b>	<b>1,919,833,772</b>

# State General Fund Receipts by Tax, FY 2017

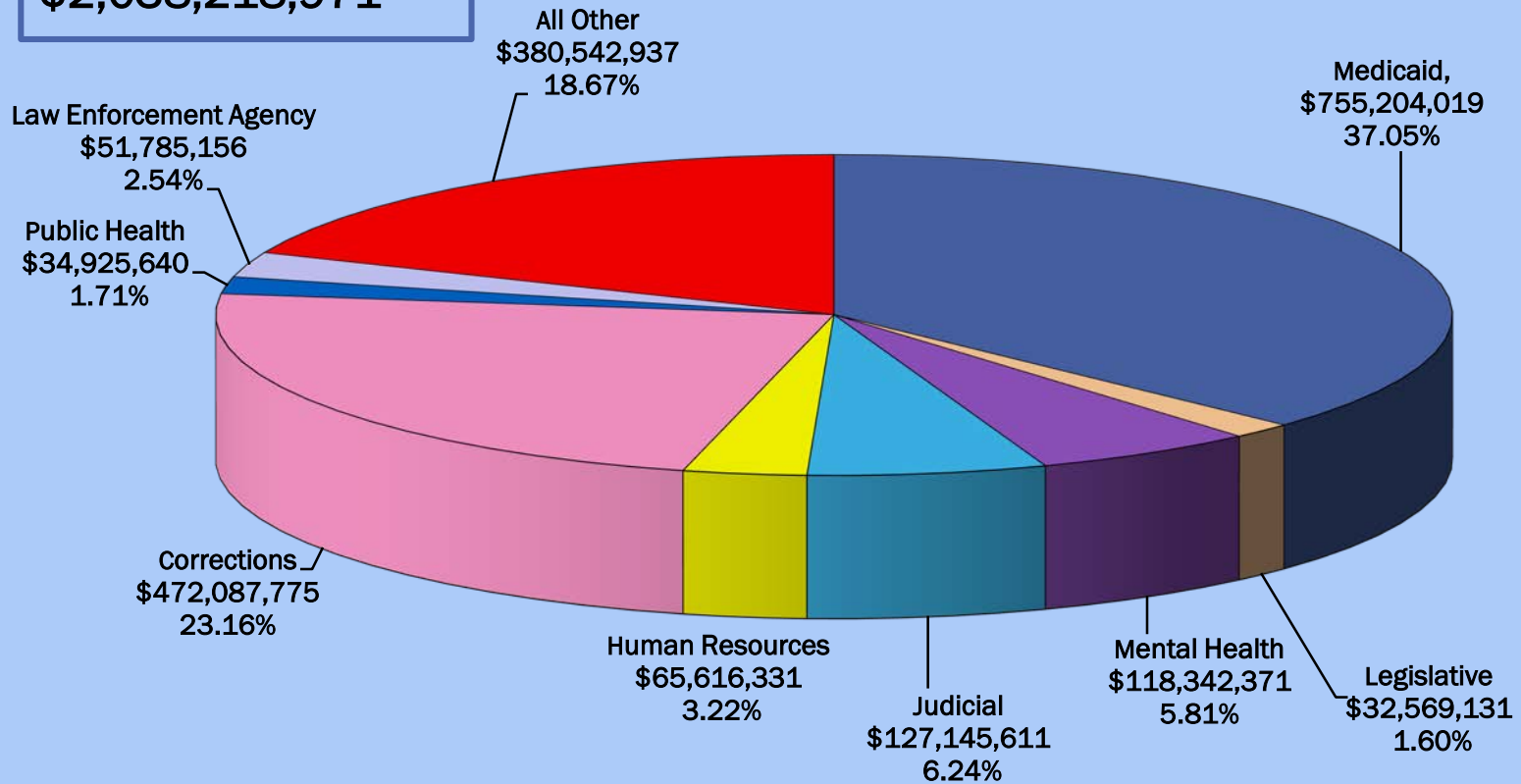




# SGF APPROPRIATIONS

# Appropriation of the General Fund, FY 2019

Total State General Fund:  
\$2,038,218,971



# SGF Proration Since 1992

- The State shall not spend more than available revenues – both the constitution and statute prohibit deficit spending
- When appropriations exceed available revenues, the budget must be prorated
- FY 1992: 5.5%
- FY 1993: 3.2%
- FY 2010: 20.0% (Reduced to 10% after transfer of approximately \$161.6 million from the General Fund Rainy Day Account)
- FY 2011: 15.0%
- FY 2012: 10.62%

# SGF Rainy Day Account

- Established by Amendment 803 within the Alabama Trust Fund and limited to an amount equal to 10% of the immediately preceding fiscal year's appropriations from the State General Fund
  - *Initial Balance: \$188.3 million*
  - *Withdrawals: \$161.6 million was withdrawn in fiscal year 2010*
  - *Required repayment term: Ten years (2020)*
  - *Repaid in full in fiscal year 2017*

# 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