

PRESENTATION TO THE LEGISLATURE ON ALABAMA'S FINANCIAL CONDITION



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Legislative Fiscal Office

March 3, 2015

www.lfo.alabama.gov

(334) 242-7950

Presentation Overview

- ▣ **Appropriation of State Funds**

- ▣ **ETF**

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

- ▣ **SGF**

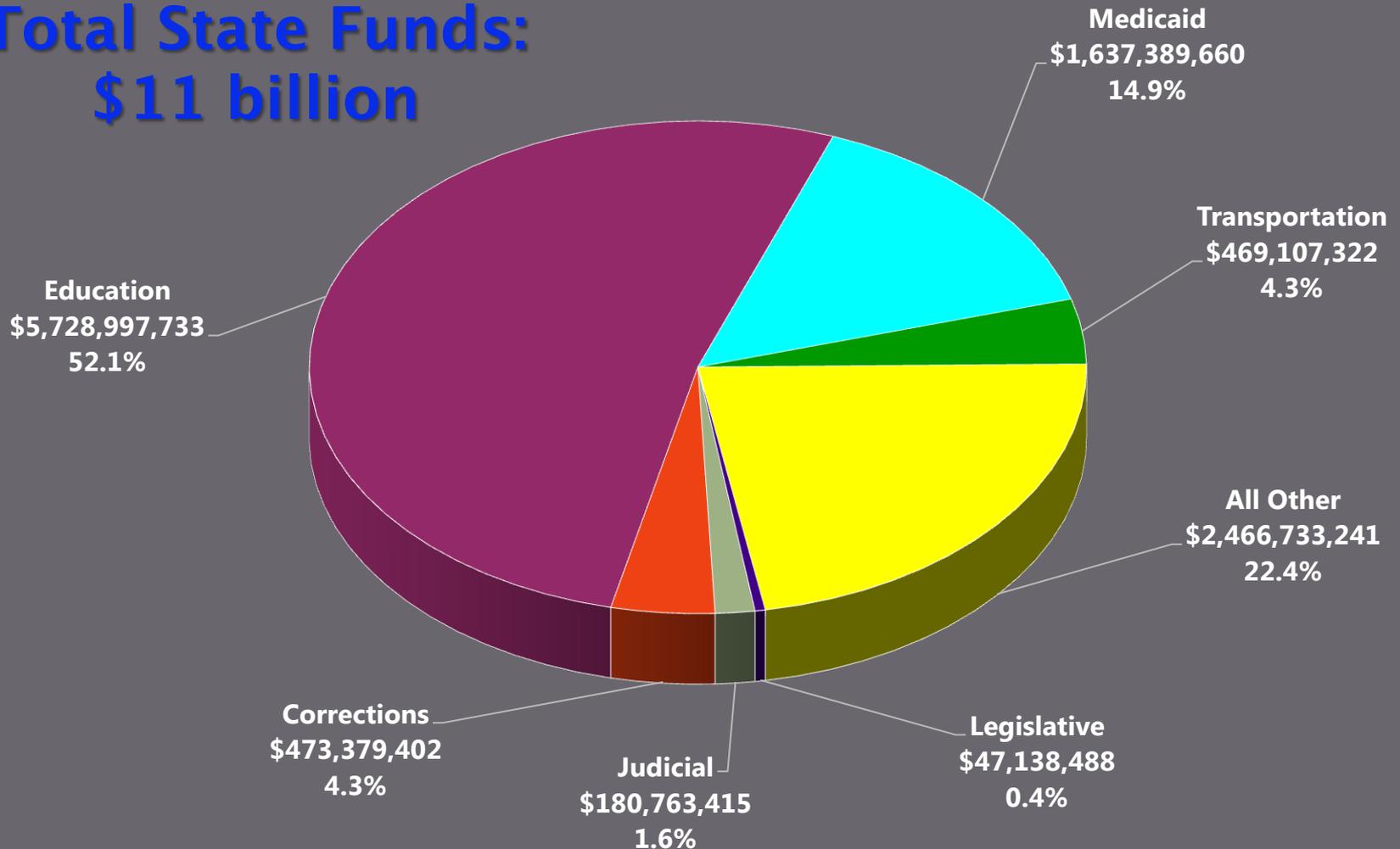
- Revenue Sources
- Appropriations
- Condition of the Fund
- SGF Rainy Day Account
- The People's Trust Act

- ▣ **FY 2016 Budget Requests**

- ▣ **Other Fiscal Issues**

APPROPRIATION OF ALL STATE FUNDS FY 2015

**Total State Funds:
\$11 billion**



APPROPRIATION OF ALL STATE FUNDS FY 2015

	STATE GENERAL FUND	% OF SGF TOTAL	EDUCATION TRUST FUND	% OF ETF TOTAL	OTHER STATE FUNDS (1)	% OF OTHER TOTAL	TOTAL STATE FUNDS	% OF TOTAL
LEGISLATIVE BRANCH	34,911,001	1.90%	12,047,487	0.20%	180,000	0.01%	47,138,488	0.43%
JUDICIAL BRANCH	112,982,845	6.14%			67,780,570	2.10%	180,763,415	1.64%
EXECUTIVE BRANCH								
ABC BOARD					73,567,556	2.28%	73,567,556	0.67%
AGRICULTURE AND FORESTRY	24,182,800	1.31%			22,858,485	0.71%	47,041,285	0.43%
CONSERVATION					98,925,716	3.06%	98,925,716	0.90%
CORRECTIONS	394,281,304	21.43%			79,098,098	2.45%	473,379,402	4.30%
HUMAN RESOURCES	58,708,632	3.19%	27,414,792	0.46%	170,374,998	5.27%	256,498,422	2.33%
MEDICAID	685,125,607	37.25%			952,264,053	29.46%	1,637,389,660	14.88%
MENTAL HEALTH	105,496,435	5.74%	44,202,347	0.75%	203,454,392	6.29%	353,153,174	3.21%
PUBLIC HEALTH	81,194,580	4.41%	13,815,785	0.23%	58,092,042	1.80%	153,102,407	1.39%
PUBLIC SAFETY/LAW ENFORCEMENT	55,358,923	3.01%	430,000	0.01%	81,487,858	2.52%	137,276,781	1.25%
REVENUE	363,000	0.02%			140,048,147	4.33%	140,411,147	1.28%
TRANSPORTATION					469,107,322	14.51%	469,107,322	4.26%
YOUTH SERVICES	7,290,237	0.40%	54,344,619	0.92%	19,782,565	0.61%	81,417,421	0.74%
DEBT SERVICE	28,398,142	1.54%	21,331,287	0.36%	36,424,958	1.13%	86,154,387	0.78%
NON-STATE APPROPRIATIONS	196,978	0.01%					196,978	0.00%
OTHER APPROPRIATIONS	250,991,516	13.64%	215,914,312	3.64%	572,082,139	17.70%	1,038,987,967	9.44%
K - 12 EDUCATION			4,054,520,312	68.35%	180,470,363	5.58%	4,234,990,675	38.49%
POSTSECONDARY EDUCATION			337,427,675	5.69%			337,427,675	3.07%
UNIVERSITY EDUCATION			1,150,334,262	19.39%	6,245,121	0.19%	1,156,579,383	10.51%
TOTALS (2)	1,839,482,000	100.00%	5,931,782,878	100.00%	3,232,244,383	100.00%	11,003,509,261	100.00%

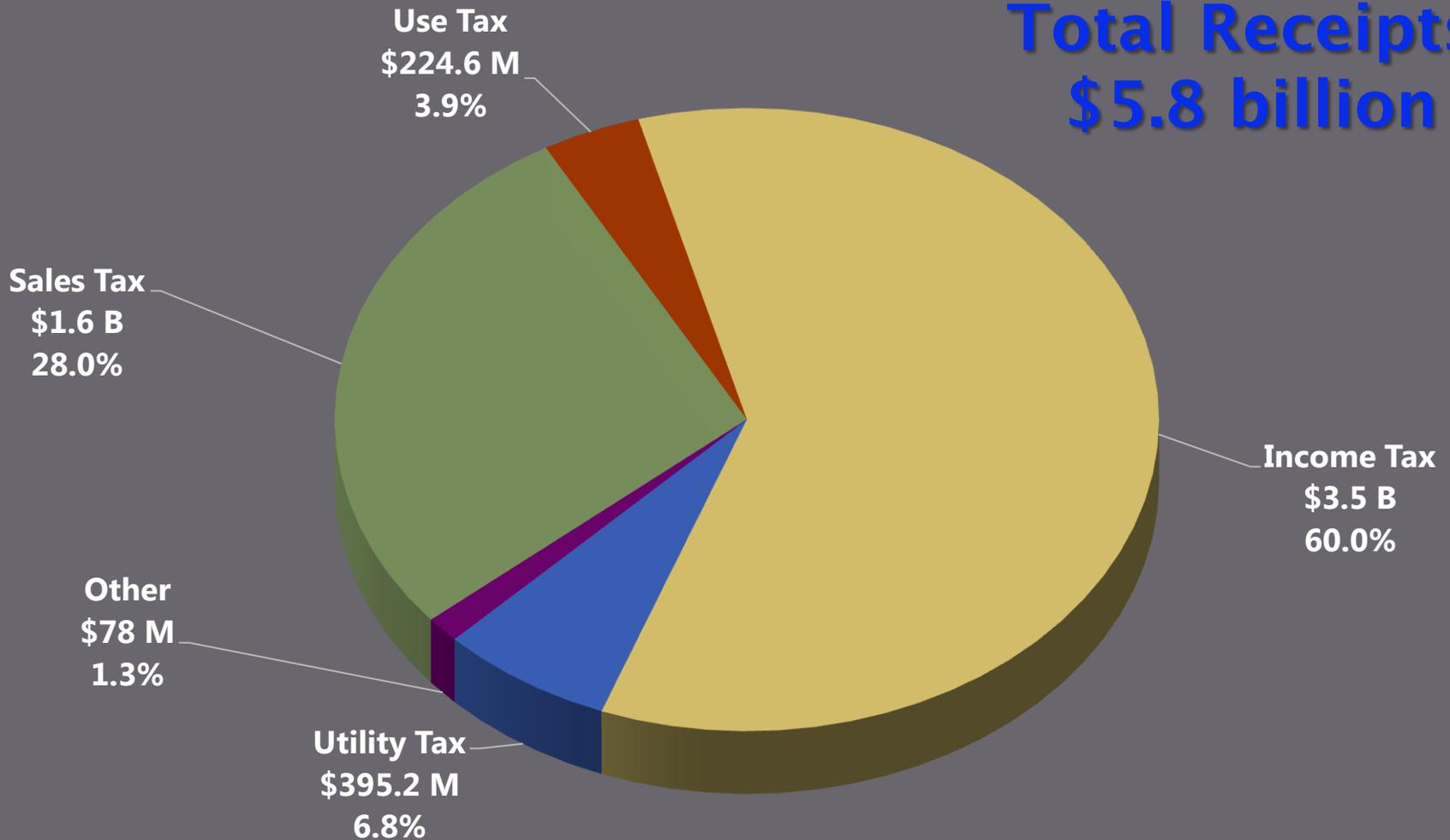
Appropriations as Enacted

(1) Includes taxes, fees and charges collected by state agencies, Children First Trust Fund and tobacco settlement fund appropriations; **does not include bond proceeds, interagency transfers or federal funds.**

(2) Totals may not add due to rounding.

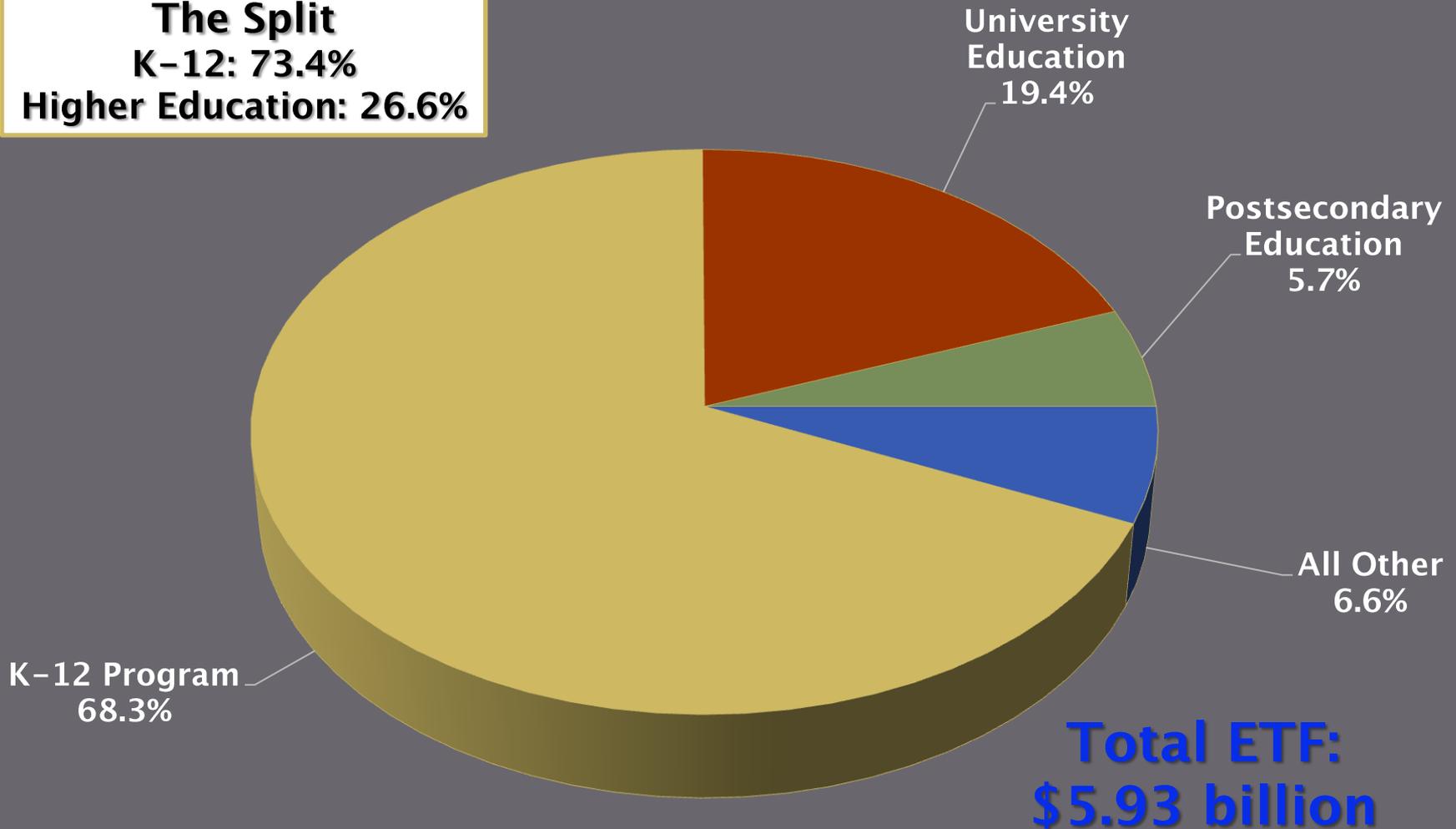
Education Trust Fund Revenue Sources – FY 2014

**Total Receipts:
\$5.8 billion**



Appropriation of Education Trust Fund FY 2015

The Split
K-12: 73.4%
Higher Education: 26.6%



Condition of the ETF

FY 2008 and FYs 2012 through 2014

	Actual FY 2008	Actual FY 2012	Actual FY 2013	Actual FY 2014
BEGINNING BALANCE	280,045,027	8,603,889	19,944,991	5,785,900
Receipts	5,943,258,156	5,646,893,519	5,683,296,432	5,802,736,486
PSCA Repayment	32,000,000			
Transfer from Proration Prevention Account	439,372,515			
DHR Food Stamp Sales Tax Reversion		27,314,100		
Dual Relay Fund Transfer		30,000,000		
TOTAL RECEIPTS	6,414,630,671	5,704,207,619	5,683,296,432	5,802,736,486
TOTAL AVAILABLE (beginning balance plus total receipts)	6,694,675,698	5,712,811,508	5,703,241,423	5,808,522,386
Appropriations	6,729,089,656	5,683,985,540	5,442,852,452	\$5,736,727,180
ETF Rainy Day Account Repayment (absolute appropriation)				35,000,000
ETF Rainy Day Account Repayment (conditional appropriation)				35,000,000
TOTAL APPROPRIATIONS	6,729,089,656	5,683,985,540	5,442,852,452	5,806,727,180
ENDING BALANCE (before reversions and adjustments)		28,825,968	260,388,971	1,795,206
<i>ENDING BALANCE USED FOR ETF RAINY DAY ACCOUNT REPAYMENT</i>		14,412,984	260,388,971	
REVERSIONS AND ADJUSTMENTS	34,413,958	5,532,007	5,785,900	5,279,121
NET ENDING BALANCE ⁽¹⁾		19,944,991	5,785,900	7,074,327
CUMULATIVE AMOUNT REPAYED TO THE ETF RAINY DAY ACCOUNT		14,412,984	274,801,955	344,801,955

⁽¹⁾Net ending balance for FY 2013 excludes the ending balance used for the ETF Rainy Day Account repayment.

Condition of the ETF

FY 2015 and FY 2016

	LFO Estimated FY 2015	LFO Estimated FY 2016	Difference
Beginning Balance	7,074,326		
Regular Receipts	6,044,158,000	6,248,850,000	3.67%
Transfer to Alabama's Prepaid Affordable College Tuition (PACT) ¹	-23,558,000		
Transfer to ETF Rainy Day Account	-57,500,000		
One-time payment of corporate income tax	64,400,000		
TOTAL RECEIPTS	6,027,500,000	6,248,850,000	
TOTAL AVAILABLE (beginning balance plus total receipts)	6,034,574,326	6,248,850,000	
Appropriations (as of January 31, 2015 for FY 2015) ²	5,908,224,878	5,961,953,929	53,729,051
TOTAL APPROPRIATIONS	5,908,224,878	5,961,953,929	53,729,051
ENDING BALANCE	126,349,448	286,896,071	

**Total Appropriations
Decreased by
\$820.9 million from
FY 2008 to FY 2015**

¹FY 2016 does not include provision to make PACT appropriation from gross sales tax receipts.

²FY 2016 appropriations equal ETF Rolling Reserve Appropriations Cap.

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 FY 2008 appropriations times 6.5%)
- Withdrawals: The entire amount was withdrawn in FY 2009.
- Required repayment term: **Within six years (July 2015)**
- Repayments to date: **\$344,801,955**
 - \$14,412,984 repaid in FY 2012;
 - \$260,388,971 repaid in FY 2013; and
 - a \$35,000,000 absolute appropriation, plus a \$35,000,000 conditional appropriation, paid in FY 2014.
- Outstanding Balance: **\$92,588,873**
 - In the FY 2015 ETF Appropriations Act, there is an absolute appropriation of \$35,088,873 to repay the Account. The remaining \$57,500,000 will be paid from the Gross Sales Tax Account.

The Education Trust Fund Rolling Reserve Act FY 2016 Cap

FY 2014 Recurring Revenues	\$5,802,736,486
PLUS:	
15-year average growth rate (2.83%)	\$164,217,443
FY 2016 Base Cap	\$5,966,953,929
Tax Credit: Act 2014-147^a	-\$5,000,000
FY 2016 Adjusted Cap	\$5,961,953,929
ETF Appropriations for FY 2015 ^b	\$5,908,224,878
Cap Difference: FY 2016 vs. FY 2015	\$53,729,051

^aAlabama Community College System's Career-Technical Dual Enrollment Program.

^bExcludes the \$23,558,000 appropriated from the Gross Sales Tax Account for the Prepaid Affordable College Tuition (PACT) Program.

What Happens to Excess Funds When Growth Exceeds the Cap?

1. Pay back
ETF Rainy Day Account

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

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

The Education Trust Fund Rolling Reserve Act

- ▣ **Establishes the maximum amount (the “Fiscal Year Appropriation Cap”) that may be appropriated from the ETF in any fiscal year**

- ▣ **Calculation of the Cap**
 - Begin with the total recurring revenues deposited into the ETF in the most recently completed fiscal year (sum of regular receipts, plus or minus any one-time nonrecurring or new recurring items). For FY 2016, the baseline is FY 2014. FY 2014 recurring revenues were \$5,802,736,486.
 - The baseline is adjusted, upward or downward, by the average growth rate in the ETF for the 15 most recently completed fiscal years. For the FY 2016 budget, the 15 applicable years are FYs 2000 through 2014. The average growth rate for those years was 2.83%.
 - Multiply the baseline (\$5,802,736,486) by the average growth percentage (2.83%) to determine the amount to add to the baseline - \$164,217,443.
 - Add \$5,802,736,486 and \$164,217,443 to get the base cap (\$5,966,953,929).

The Education Trust Fund Rolling Reserve Act

▣ Calculation of the Cap (continued)

▪ Other Adjustments:

- ▣ If the growth rate in recurring revenues for FY 2014 exceeds the 15-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 2014 over FY 2013. The growth rate for FY 2014 was 1.18%, which is less than the 15-year average growth rate of 2.83%. Therefore, no adjustment is made for FY 2016.
- ▣ If legislation is enacted that will increase recurring revenues deposited into the ETF, then an amount equal to 95% of the estimate reflected on the fiscal note attached to the legislative act is added to the cap. (No such adjustment is applicable for FY 2016.) If legislation is enacted that will decrease recurring revenues deposited into the ETF, the negative impact, based on the enacted fiscal note, is subtracted from the cap.
 - Act 2014-147 provides a tax credit to individuals and businesses that make contributions for qualifying educational expenses for the Alabama Community College System's Career-Technical Dual Enrollment Program. The tax credits may be first claimed for the 2015 tax year. The cumulative amount of credits claimed may not exceed \$5,000,000 annually.
- ▣ Any nonrecurring revenue deposited into the ETF during FY 2014 is added to the cap. No adjustment has been made for this provision.

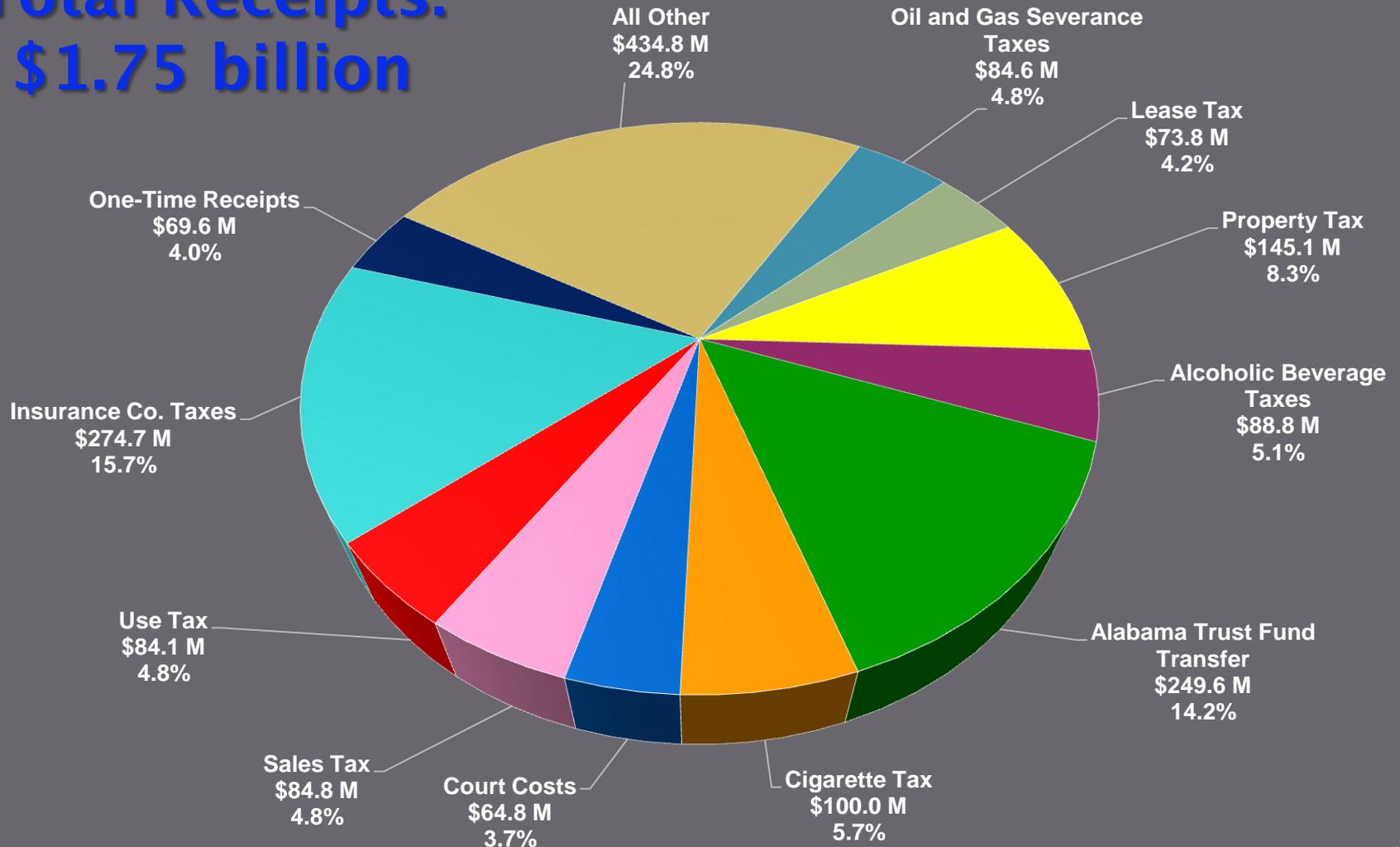
The Education Trust Fund Rolling Reserve Act

- ▣ **Total cap is the sum of the baseline and all adjustments**
 - The total **cap for FY 2016 is \$5,961,953,929.**
 - This is an increase of **\$53,729,051** over budgeted ETF appropriations for FY 2015. (The FY 2015 appropriation total excludes the \$23,558,000 appropriated from the Gross Sales Tax Account for the Prepaid Affordable College Tuition (PACT) Program.)

- ▣ **What happens to excess funds when growth exceeds the cap?**
 - Pay back the ETF Rainy Day Account until the account has been repaid in full – borrowed \$437 million in FY 2009 to be paid back in six years (July 2015):
 - \$344.8 million repaid thus far (\$14.4 million at the end of FY 2012; \$260.4 million at the end of FY 2013; and a \$35 million absolute appropriation, plus a \$35 million conditional appropriation paid in FY 2014). Remaining outstanding balance owed is **\$92,588,873.**
 - In the FY 2015 ETF Appropriations Act, there is an absolute appropriation of \$35,088,873 to repay the ETF Rainy Day Account. The remaining \$57,500,000 will be paid from the Gross Sales Tax Account.
 - Any remaining balance is then deposited into the Budget Stabilization Fund until the Fund reaches an amount equal to 20% of current appropriations from the ETF. Can be used if the cap:
 - does not equal the previous year's budget; or
 - is needed to prevent proration.
 - Thereafter, deposited into the Education Trust Fund Capital Fund.

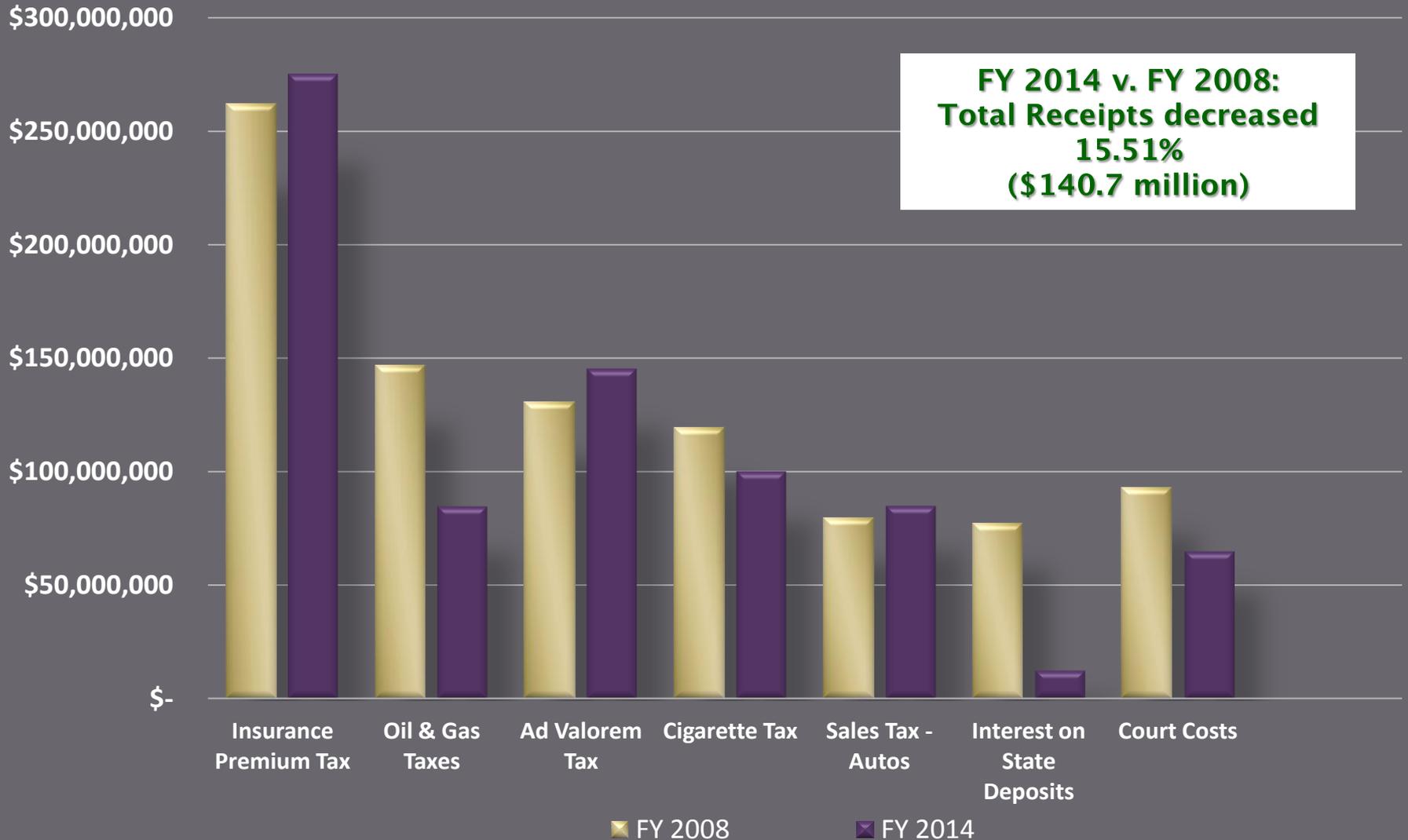
State General Fund Revenue Sources – FY 2014

**Total Receipts:
\$1.75 billion**



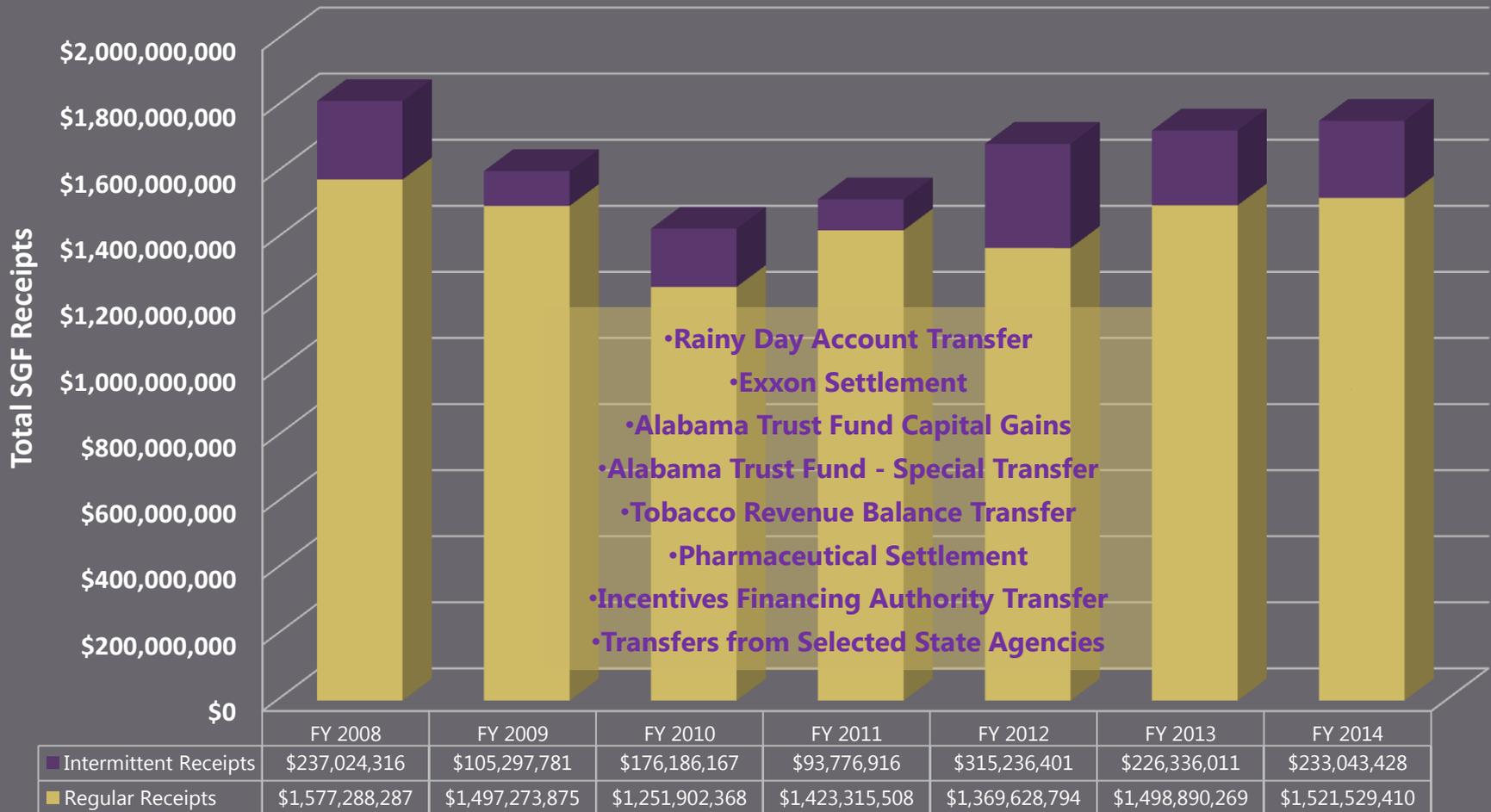
Major SGF Revenue Sources

FY 2014 to FY 2008 Comparison



State General Fund

Intermittent and Regular Receipts: FY 2008 through FY 2014



State General Fund Intermittent and Regular Receipts: FY 2015

Regular Receipts: \$1.503 Billion

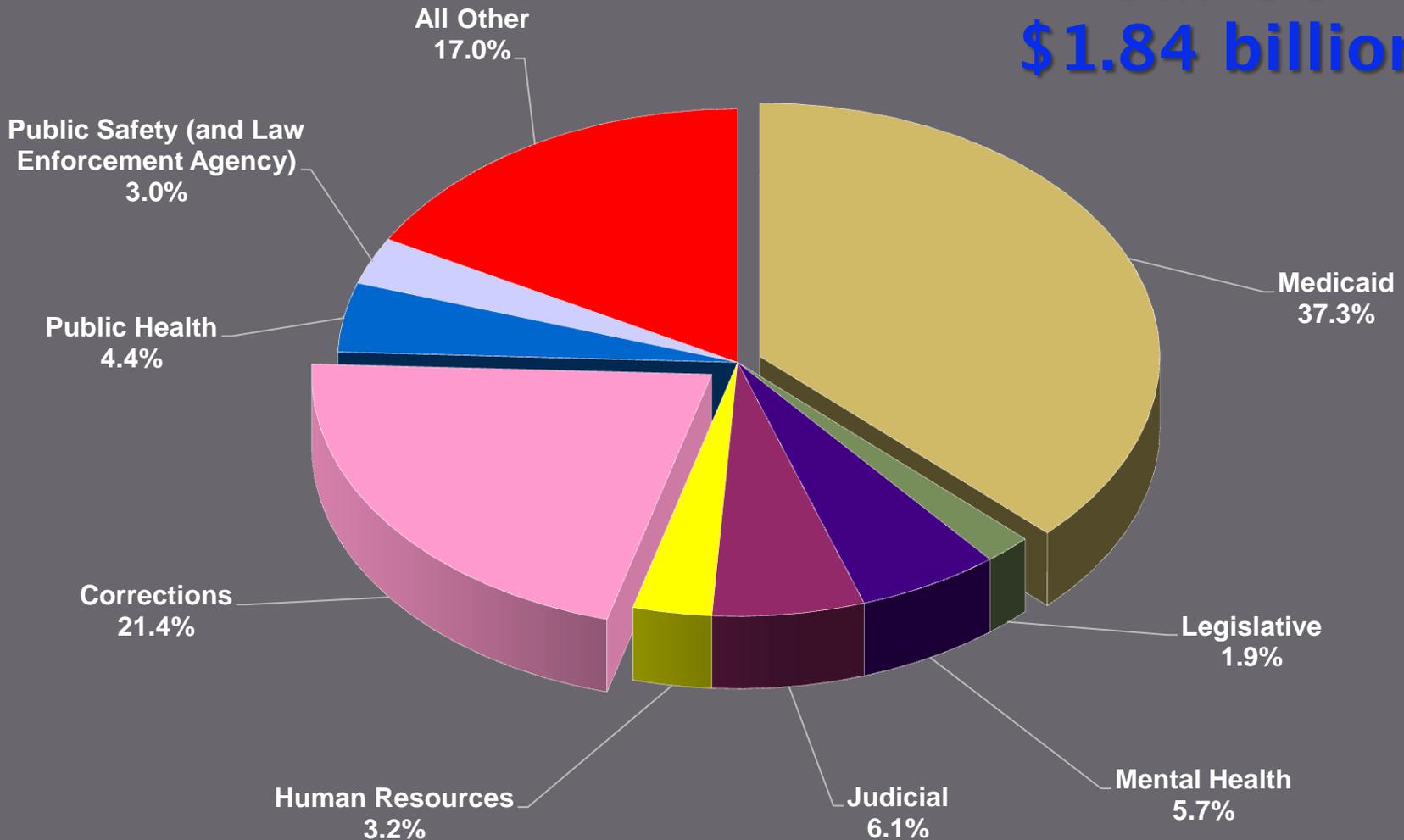
Total Receipts: \$1.787 Billion

Source	FY 2015 Budgeted Amount
Examiners of Public Accounts – Transfer to SGF	\$4,500,000
Public Service commission – Additional transfer to SGF	1,177,000
Revenue, Department of (Administrative Fund) – Transfer to SGF	4,000,000
21 st Century Fund, Alabama – Transfer to SGF	20,000,000
Tobacco Settlement – Transfer to SGF (estimated)	10,600,000
Banking Department – Extraordinary transfer to SGF	7,500,000
Business Privilege Escrow – Additional transfer to SGF	60,000,000
Abandoned Property – Additional transfer to SGF	20,000,000
Insurance Premium from AHIP ⁽¹⁾ repeal – Expected additional receipts to SGF	10,000,000
Alabama Trust Fund – Additional transfer to SGF pursuant to Amendment 856	<u>145,796,943</u>
TOTAL	\$283,573,943

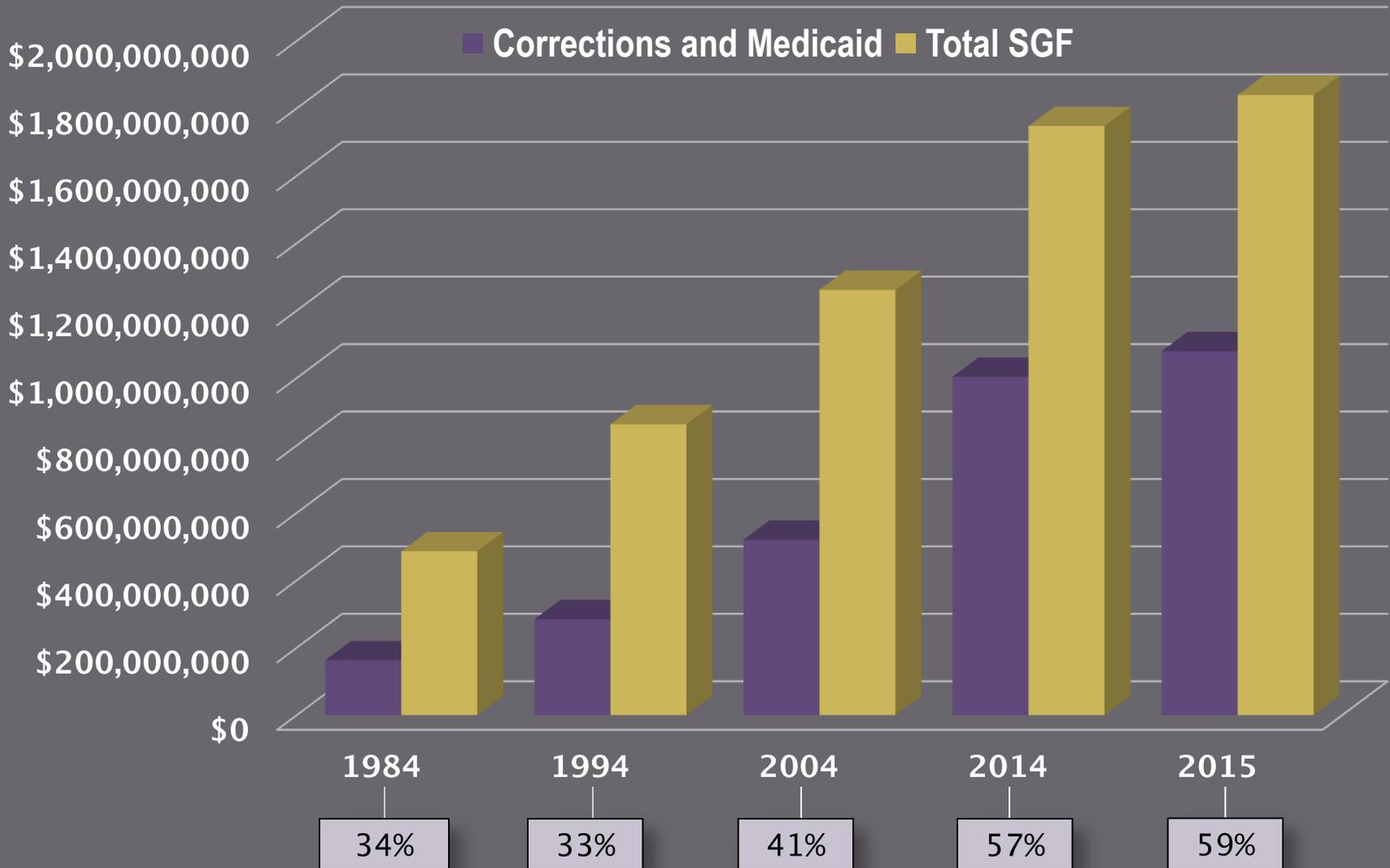
⁽¹⁾AHIP – Alabama Health Insurance Plan

Appropriation of State General Fund FY 2015

**Total SGF:
\$1.84 billion**



State General Fund Growth: Corrections and Medicaid Share



Condition of the SGF

FY 2008 and FYs 2012 through 2014

	Actual FY 2008	Actual FY 2012	Actual FY 2013	Actual FY 2014
BEGINNING BALANCE	\$239,088,035	\$42,008,050	\$39,720,232	\$38,136,502
TOTAL RECEIPTS	1,814,312,603	1,683,865,194	1,725,226,280	1,754,572,838
TOTAL AVAILABLE (beginning balance, plus total receipts)	2,053,400,638	1,725,873,244	1,764,946,512	1,792,709,340
TOTAL EXPENDITURES (Net of Proration for FY 2012 only)	1,834,413,761	1,686,153,012	1,726,810,010	1,747,370,095
TOTAL ENDING BALANCE	218,986,877	39,720,232	38,136,502	45,339,245

Condition of the SGF FY 2015 and FY 2016

15.46% Decrease
in total appropriations for FY 2015
vs. total available in FY 2016

	ESTIMATED FY 2015	ESTIMATED FY 2016	DIFFERENCE
BEGINNING BALANCE	45,339,245	0	
Regular Receipts	1,552,683,482	1,545,760,045	
Additional Transfer from Alabama Trust Fund (Amendment 856)	145,796,943		
Transfers and Reversions	30,600,000	21,700,000	
One-Time Receipts	57,500,000	20,000,000	
TOTAL RECEIPTS	1,786,580,425	1,587,460,045	
TOTAL AVAILABLE (beginning balance plus total receipts)	1,831,919,670	1,587,460,045	
APPROPRIATIONS AND OBLIGATIONS (as enacted)¹	1,839,482,000	1,587,460,045	-252,021,955
Additional Appropriations (as of January 31, 2015):			
Reversions Reappropriated	36,980,913		
Other Adjustments	1,318,722		
TOTAL APPROPRIATIONS AND OBLIGATIONS (as of January 31, 2015)	1,877,781,635	1,587,460,045	-290,321,590
TOTAL ENDING BALANCE	-45,861,965		

¹FY 2015 appropriations and obligations as of January 31, 2015. FY 2016 estimated appropriations are equal to estimated available revenues.

FY 2016 estimates include the regular transfer amount from the business privilege escrow account. One-time receipts include an additional \$20 million transfer in FY 2015 and FY 2016 from abandoned property per the State Treasurer's Office.

How the Governor and Legislature Closed the FY 2013 SGF Gap (\$538 million)

- FY 2012: Proration 10.62%
- FY 2013: Increased appropriations of 25 agencies/entities
 - FY 2013: Cut appropriations of 86 agencies/entities
- Passed transfer act to allow earmarked funds to be transferred to the SGF
- Passed court costs bill to generate funds outside the SGF but allowed for reduction in SGF appropriation to certain judicial functions
- Passed Constitutional Amendment to allow transfers from the Alabama Trust Fund to the SGF for FY 2013 (and for FYs 2014 and 2015)
 - Passed Constitutional Amendment to change spending policy for the Alabama Trust Fund
- Passed bill earmarking 25% of regular use tax for SGF. Also, 75% of any tax from remote sellers, if authorized by Congress.

Comparison of Selected Data FY 2008 to FY 2014

State General Fund Expenditures

- Net change: \$72.2 million less (4.10% decrease) expended in FY 2014 than in FY 2008
 - 29 entities no longer funded by the SGF (total savings: \$10.9 million)
 - 49 entities expended less (total decrease: \$289.4 million)
 - 23 entities expended more (total increase: \$228.2 million)

Total Expenditures

- Net change: \$2.689 billion more (23.84% increase) expended in FY 2014 than in FY 2008
 - 57 entities expended less (total decrease: \$257.9 million)
 - 43 entities expended more (total increase: \$2.946 billion)

Other Expenditures (excludes Grants and Benefits)

- Net change: \$86.04 million more (1.83% increase) expended in FY 2014 than in FY 2008
 - 62 entities expended less (total decrease: \$486.6 million)
 - 38 entities expended more (total increase: \$572.7 million)

Personnel Changes

- Net change: 5,269 FTEs less (14.66% decrease) in FY 2014 than in FY 2008
 - 23 entities reported no change in FTEs
 - 60 entities reported a decrease in FTEs (-6,446)
 - 18 entities reported an increase in FTEs (1,177)

SGF Repayments

SGF Rainy Day Account

- Established within the Alabama Trust Fund (ATF) 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 (based upon FY 2009 appropriations times 10%)
Withdrawals:	\$161.6 million withdrawn in FY 2010
Required Repayment Term:	Ten years (2020)
Repayments to Date:	\$0
Outstanding Balance:	\$161.6 million

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 begins with \$5 million in FY 2014 and increases each fiscal year thereafter. The largest annual increase is \$60 million in FY 2025.

FY 2016 Budget Requests (as of March 2, 2015)

FY 2016 ETF Requested Amount: \$6.54 billion

- \$695.7 million (11.9%) more than budgeted to be expended in FY 2015
- The Rolling Reserve Cap for FY 2016 allows increased ETF spending of \$53.7 million above FY 2015 appropriations¹

FY 2016 SGF Requested Amount: \$2.13 billion

- \$364.8 million (20.63%) more than budgeted to be expended in FY 2015
- The LFO FY 2016 estimated receipts for the SGF are \$290 million less than appropriations for FY 2015

¹Excluding the \$23,558,000 appropriated from the Gross Sales Tax Account.

Employer Contribution Rates: 20-Year History

Fiscal Year	State				
	Teachers	Employees	State Police	Judges	
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%	22.80%	
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%
2014	Tier II	11.08%	11.96%	29.52%	
2015	Tier I	11.71%	13.45%	38.37%	35.24%
2015	Tier II	11.05%	13.31%	32.45%	
2016	Tier I	11.94%	14.57%	42.61%	40.98%
2016	Tier II	10.84%	14.09%	38.98%	

Employer Cost for Retirement Systems: 20-Year History

Fiscal Year	TRS	ERS	JRF
1997	\$328,195,083	\$68,911,987	\$5,866,165
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	744,164,006	182,124,749	15,518,000
2016	757,439,895	197,539,701	18,407,000

PEEHIP Employer Contribution: 18-Year History

Fiscal Year	Employer Cost per Month per Active Employee	Total Employer Cost
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 ^a	780	905,458,320
2016 ^b	800	937,920,000

^aBudgeted Amount
^bRequested Amount

SEHIP Employer Contribution: 18-Year History

Fiscal Year	Employer Cost per Month per Active Employee	Total Employer Cost
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 ^a	825	316,463,400
2016 ^b	875	335,643,000

^aBudgeted Amount
^bRequested Amount

LFO Website

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PRESENTATION TO THE LEGISLATURE ON ALABAMA'S FINANCIAL CONDITION



Norris Green, Director
Legislative Fiscal Office

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