

# STATE BUDGET UPDATE

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February 6, 2022



# **ECONOMIC CONDITIONS**

# CURRENT ALABAMA ECONOMIC CONDITIONS

- **Alabama's labor market has recovered well from the pandemic**
- 2.8% seasonally adjusted December unemployment rate
  - Well below December 2021's rate of 3.1%
- Number of those counted as employed rose to 2,229,259
  - Yearly increase of 56,418
- December's rate represents 63,412 unemployed persons
  - 69,434 unemployed persons in December 2021
- Wage and salary employment increased by 55,900 over the year, to 2,120,500 – **New Record high**
  - Gains seen in education and health services (+15,400), professional and business services sector (+12,700), and government sector (+8,600), among others
- Over the year job growth of 2.7% - one of the highest job growth rates in the last 20 years (excluding immediate pandemic recovery)
- Record high employment in trade, transportation, and utilities sectors

# U.S. GROSS DOMESTIC PRODUCT (GDP)

- Real GDP increased at an annual rate of 2.9% in the fourth quarter of 2022, according to the January 26, 2023 “advance” estimate, following an increase of 3.2% in the third quarter
  - Reflects increases in private inventory investment, consumer spending, government spending (federal, state, and local), and nonresidential fixed investment that were partly offset by decreases in residential fixed investment and exports
  - Increase in private inventory investment was led by manufacturing, utilities, and construction (led by utilities).
  - Increase in consumer spending was led by health care, housing and utilities, motor vehicles, and parts
  - Consumer spending, which makes up roughly two-thirds of total economic output, grew by 2.1% in the fourth quarter after growing by 2.3%% in the first quarter

Source: Bureau of Economic Analysis

# U.S. PERSONAL INCOME

- Current dollar personal income increased by \$311.0 billion in the fourth quarter
  - Primarily reflecting increases in compensation (led by private wages and salaries), government social benefits, and personal interest income
- Disposable personal income, or the amount left to spend or save after paying taxes, increased \$297.0 billion (6.5%) in the fourth quarter
- Real disposable personal income, or the after-tax income available to households adjusted for inflation, increased by 3.3%% in the fourth quarter, compared to a 1.0% increase in the third quarter
- Personal savings rate, or the personal savings as a percentage of disposable personal income, was 2.9% in the fourth quarter, compared to 2.7% in the third quarter

Source: Bureau of Economic Analysis

# MOST RECENT REPORT ON INFLATION

- Consumer Price Index for all Urban Consumers (CPI-U) declined 0.1% in December after rising 0.1% in November
- The energy index fell 4.5% in December more than offsetting increases in the shelter indexes
- The all-items index increased 6.5% for the 12 months ending in December **the smallest 12-month since October 2021**
- The energy index rose by 7.3% for the 12 months ending in December
- The food index increased by 10.4% over the last year
- All increases were smaller than the increases for the 12-month period ending in November

Source: Bureau of Labor Statistics

# FEDERAL RESERVE RESPONSE TO INFLATION

- The Federal Reserve decided to raise interest rates by one-quarter point at their policy meeting that concluded 2/1/23, its eighth increase since March
- The target range for the federal funds rate increased to a range of 4.5% to 4.75%
- The Federal Reserve is raising rates at the most aggressive pace since the 1980s
- Federal Reserve Chairman Jerome Powell stated that ongoing increases in the target range will be necessary to return inflation to 2% over time
  - Despite a slowdown in growth, the labor market remains tight – the unemployment rate is near a 50-year low, while job vacancies are very high, and wage growth is elevated
  - Labor market is out of balance – demand for workers substantially exceeding supply
  - Inflation remains well above the long-run goal of 2% - monthly pace of price increases has slowed, but more evidence needed to give confidence that inflation is on a sustained downward path

# **ALABAMA BUDGET STRUCTURE**



# BUDGET STRUCTURE OF ALABAMA

## Fiscal year begins on October 1

- 46 states have fiscal years that begin on July 1
- 4 states, including Alabama, have fiscal years that begin on other dates
- Alabama and Michigan are the only states with an October 1 start date, which matches the federal fiscal year

## Two main state appropriation acts enacted each year

- **General Fund Appropriations Act** – includes appropriations from the State General Fund (SGF), federal and local funds, and other state funds
- **Education Appropriations Act** – includes appropriations from the Education Trust Fund (ETF), federal and other funds, and other state funds
- Only 2 other states (Michigan and Utah) have separate education and general fund budgets

# EARMARKING STATE REVENUES

Alabama earmarks roughly 82% of state revenues (FY 2023) to agencies and funds other than the State General Fund

Earmarking can be:

- general or specific
- statutory or constitutional

Earmarking examples:

Income Taxes (Constitutional)

- Education Trust Fund

Sales Taxes (Statutory)

- Majority to the Education Trust Fund

Motor Fuels Taxes (Constitutional)

- For cost of construction, reconstruction, maintenance and repair of public highways and bridges

Provider Taxes (Statutory)

- Alabama Health Care Trust Fund for the Medicaid Agency

Ad Valorem Taxes (Both Constitutional and Statutory)

- General Fund, Public School Fund, DHR/Veterans' Assistance Fund

Insurance Premium Taxes (Statutory)

- Mental Health Trust Fund, General Fund

# APPROPRIATIONS AND BUDGET SUBMISSION

- Section 72 of the Constitution of Alabama of 2022:
  - 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**
- Section 71.01 of the Constitution of Alabama of 2022
  - 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

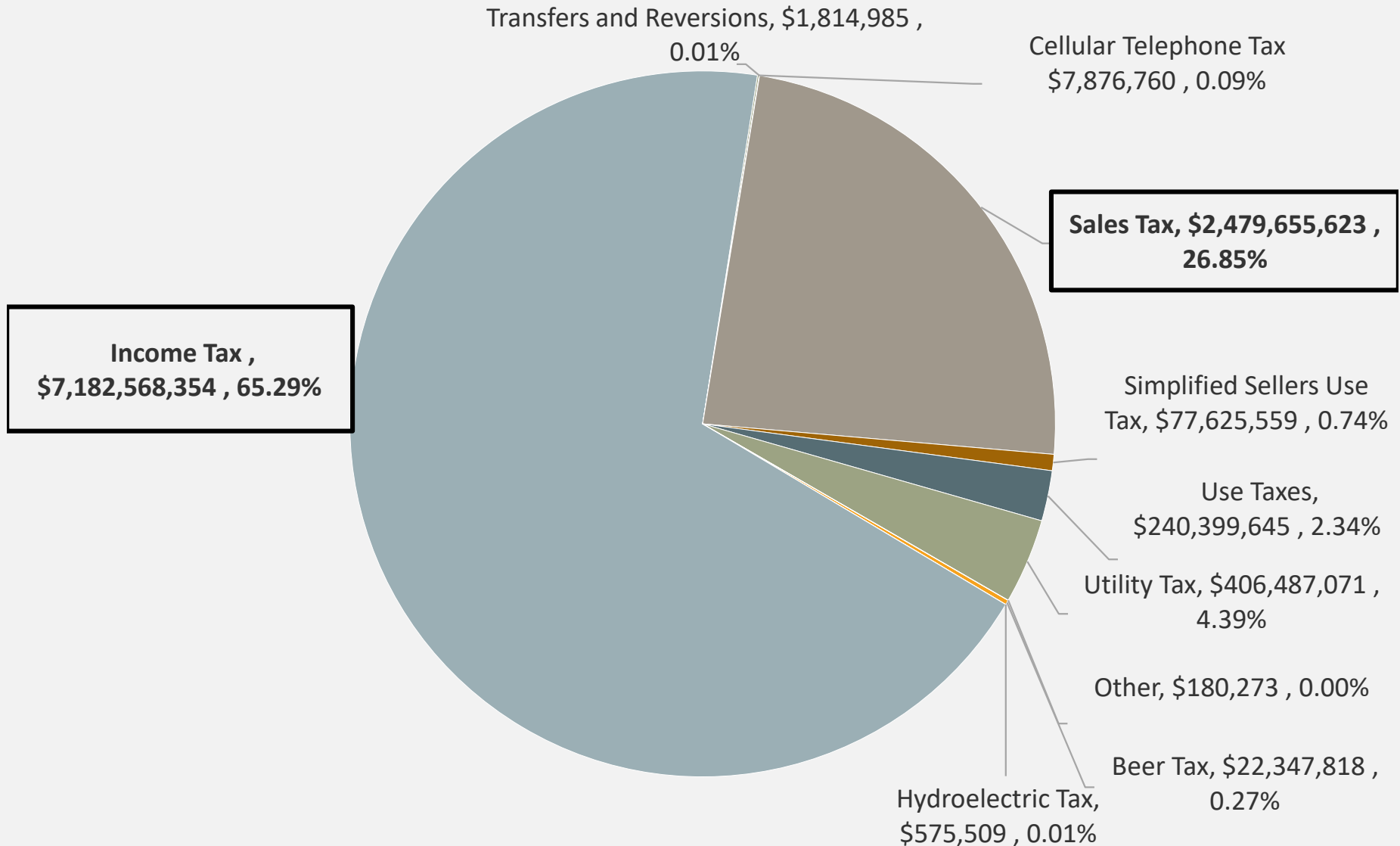
# REVENUE SOURCES

# EDUCATION TRUST FUND EOY NET RECEIPTS

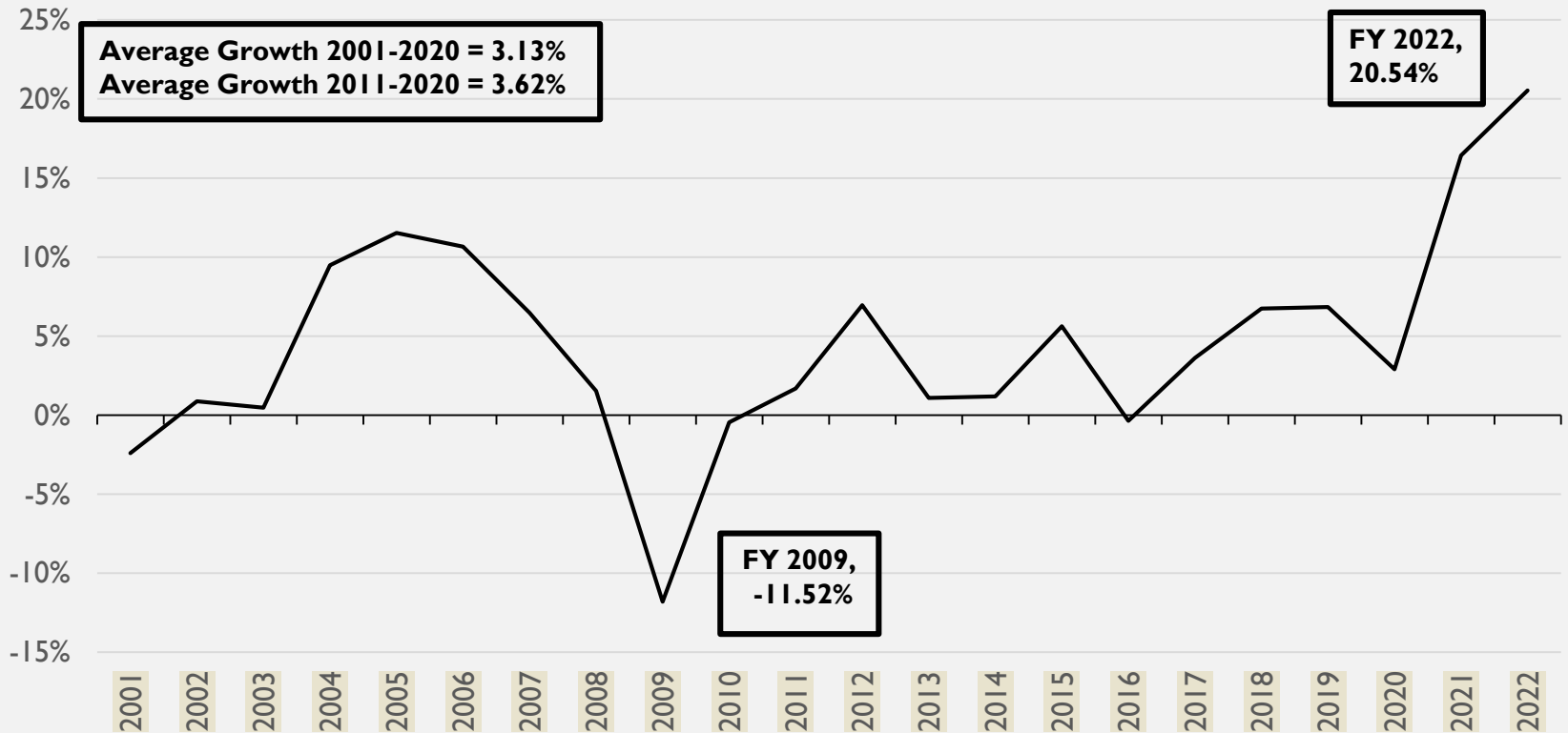
## EDUCATION TRUST FUND NET RECEIPTS (as of September 30)

REVENUE SOURCE	FY 2021	FY 2022	Difference	% Difference
Beer Tax	23,444,102	22,347,818	(1,096,284)	(4.68%)
Hydroelectric Tax	1,152,768	575,509	(577,259)	(50.08%)
Income Tax	5,643,876,383	7,182,568,354	1,538,691,971	27.26%
Sales Tax	2,320,781,188	2,479,655,623	158,874,435	6.85%
Simplified Sellers Use Tax	64,247,692	77,625,559	13,377,867	20.82%
Use Taxes	202,198,001	240,399,645	38,201,644	18.89%
Utility Tax	379,592,951	406,487,071	26,894,120	7.08%
Other	7,994,380	8,057,034	62,654	.78%
<b>Subtotal</b>	<b>8,643,287,465</b>	<b>10,417,716,613</b>	<b>1,774,429,149</b>	<b>20.53%</b>
<i>Transfers and Reversions</i>	525,598	1,814,985	1,289,387	245.32%
<b>TOTAL</b>	<b>8,643,813,063</b>	<b>10,419,531,598</b>	<b>1,775,718,536</b>	<b>20.54%</b>

# FY 2022 ETF NET RECEIPTS



# % GROWTH IN ETF RECURRING REVENUES SINCE FY 2001

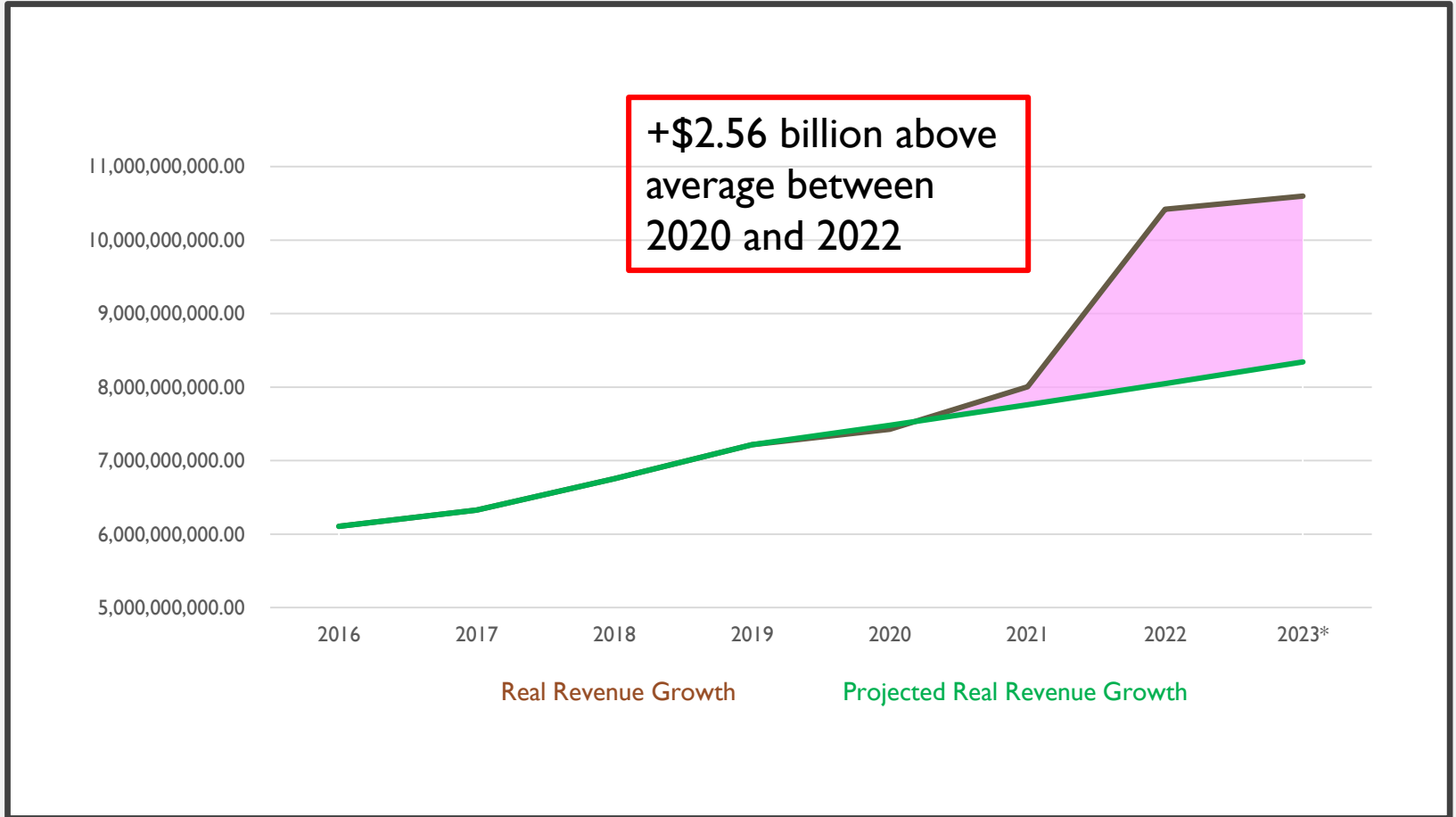


# ABNORMAL ETF REVENUE GROWTH CONTINUED IN FY 2022

- **Gross sales tax receipts grew by \$222.2 million (7.64%)**
  - Average growth Fiscal Years 2011-2019 (after Great Recession and before COVID) was **3.33%**
- **Gross individual income tax receipts grew by \$1.23 billion (22.02%)**
  - Average growth Fiscal Years 2011-2019 (after Great Recession and before COVID) was **4.68%**
  - Withholding payments (largest component) **grew by \$433.2 million (10.47%)** – average growth Fiscal Years 2011-2019 (after Great Recession and before COVID) was **3.82%**
    - First annual growth in withholding payments exceeding 10% since 1984
- **Gross corporate income tax receipts grew by \$325.4 million (33.40%)**
  - Average growth Fiscal Years 2012-2019 (after Great Recession and before COVID) was **6.35%** (corporate revenues still reflected a decline in 2011 from Great Recession impacts)



# ETF ACTUAL REAL GROWTH VS. PROJECTED REAL GROWTH USING AVERAGE GROWTH RATE FROM 2011-2019



\*2023 real revenue growth value is a revised preliminary estimate

	FY 2021	FY 2022
Beginning Balance	60,536,098	1,330,783,131
ETF Revenues	<u>8,643,813,063</u>	<u>10,419,531,598</u>
<b>TOTAL AVAILABLE</b> (beginning balance plus receipts)	<b>8,704,349,161</b>	<b>11,750,314,729</b>
Enacted ETF Appropriations	7,217,422,487	7,672,576,575
ETF Reversions Reappropriated	31,542,626	47,488,255
ETF Supplemental Appropriations	<u>212,262,018</u>	<u>1,283,283,616</u>
<b>TOTAL ETF APPROPRIATIONS AND OBLIGATIONS</b>	<b>7,461,227,131</b>	<b>9,003,348,446</b>
<b>ENDING BALANCE BEFORE REVERSIONS AND ADJUSTMENTS</b>	<b>1,243,122,030</b>	<b>2,746,966,283</b>
Reversions and Adjustments	<u>-87,661,101</u>	<u>-160,452,507</u>
<b>TOTAL ENDING BALANCE</b>	<b>1,330,783,131</b>	<b>2,907,418,790</b>

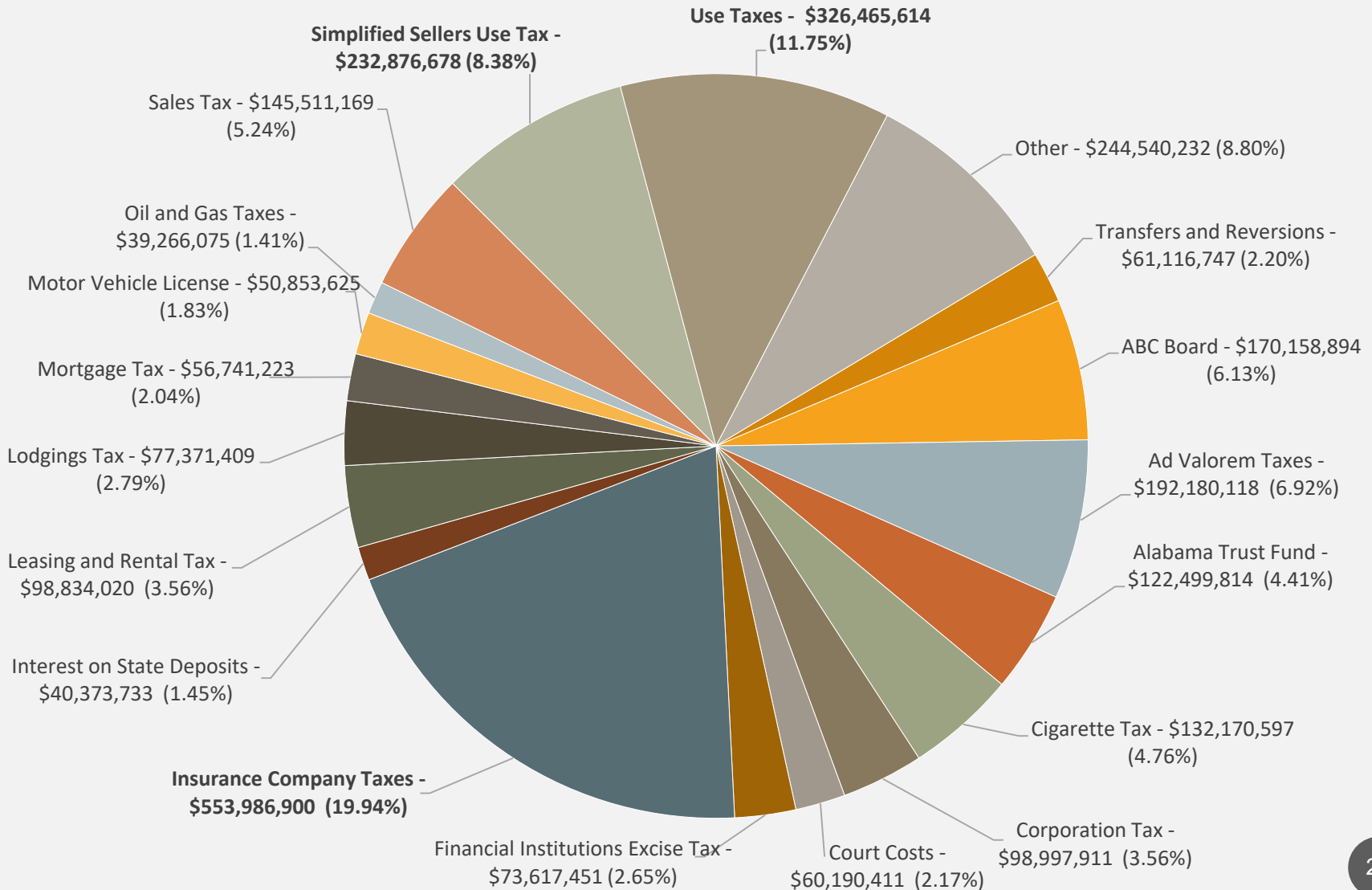
## CONDITION OF THE ETF FY 2021 AND FY 2022

# GENERAL FUND EOY NET RECEIPTS

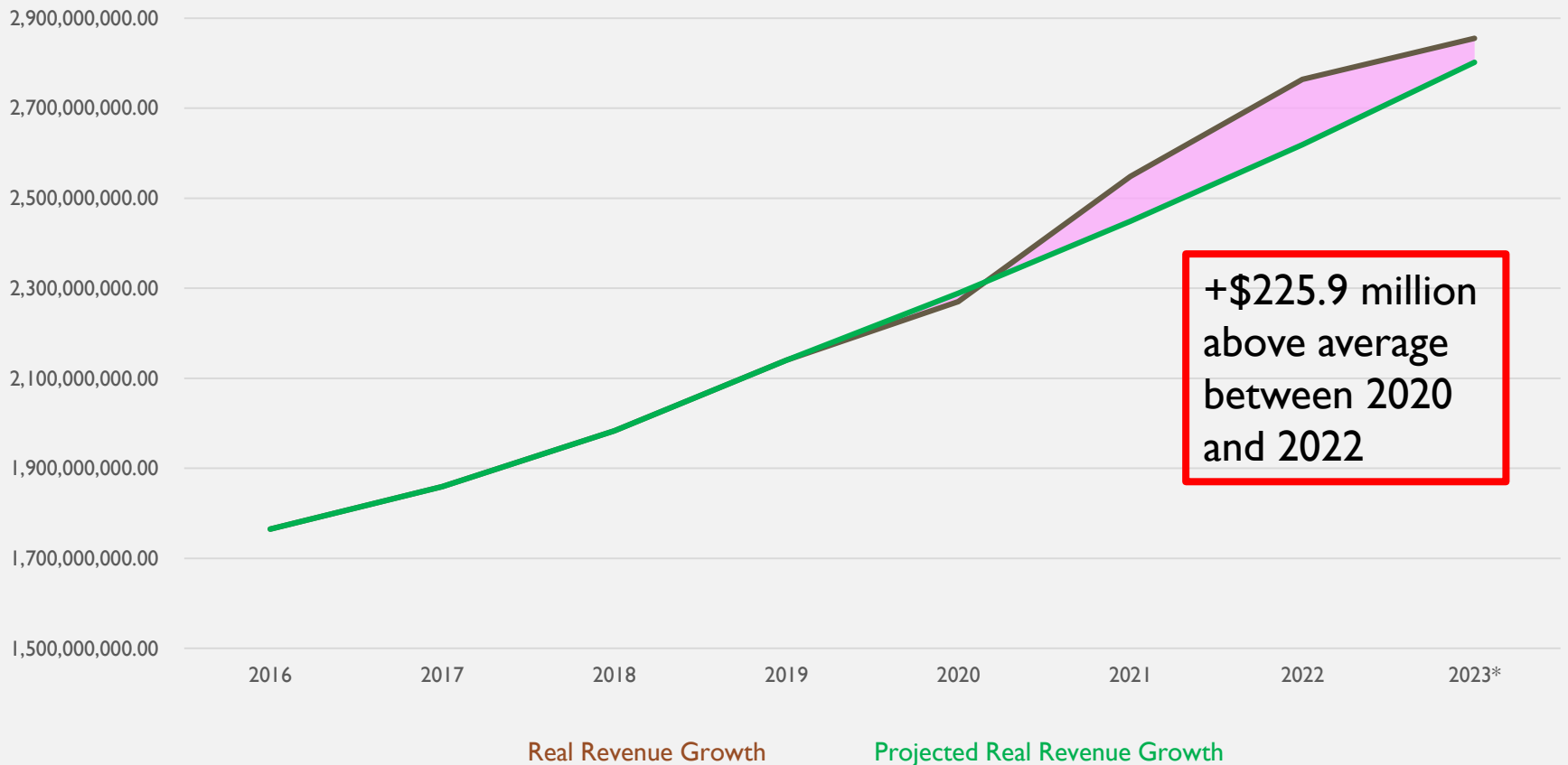
## STATE GENERAL FUND NET RECEIPTS (as of September 30)

REVENUE SOURCE	FY 2021	FY 2022	Difference	% Difference
ABC Board	45,000,000	45,000,315	315	0.00%
Ad Valorem Taxes	182,200,777	192,180,118	9,979,341	5.48%
Alabama Trust Fund	123,577,185	122,499,814	(1,077,370)	(.87%)
Cigarette Tax	143,374,979	132,170,597	(11,204,381)	(7.81%)
Corporation Tax	98,708,994	98,997,911	288,916	.29%
Court Costs	59,644,764	60,190,411	545,647	.91%
Financial Institutions Excise Tax	90,417,436	73,617,451	(16,799,984)	(18.58%)
Insurance Company Taxes	489,046,539	553,986,899	64,940,360	13.28%
Interest on State Deposits	19,643,087	40,373,732	20,730,645	105.54%
Leasing and Rental Tax	91,707,455	98,834,020	7,126,565	7.77%
Lodgings Tax	63,099,773	77,371,409	14,271,636	22.62%
Mortgage Tax	58,472,446	56,741,223	(1,731,222)	(2.96%)
Oil and Gas Taxes	21,846,688	39,266,075	17,419,387	79.73%
Sales Tax	143,006,190	145,511,169	2,504,979	1.75%
Simplified Sellers Use Tax	192,743,077	232,876,678	40,133,601	20.82%
Use Taxes	282,397,962	326,465,614	44,067,652	15.60%
Other	405,698,268	420,555,438	14,857,170	3.66%
<b>Subtotal</b>	<b>2,510,585,620</b>	<b>2,716,638,874</b>	<b>206,053,254</b>	<b>8.21%</b>
<i>Transfers and Reversions</i>	50,947,048	61,113,747	10,166,699	19.96%
<b>TOTAL</b>	<b>2,561,532,668</b>	<b>2,777,752,621</b>	<b>216,219,952</b>	<b>8.44%</b>

# FY 2022 SGF NET RECEIPTS



# SGF ACTUAL REAL GROWTH VS. PROJECTED REAL GROWTH USING AVERAGE GROWTH RATE FROM 2011-2019



**+\$225.9 million  
above average  
between 2020  
and 2022**

\*2023 real revenue growth value is a revised preliminary estimate

	FY 2021	FY 2022
<b>BEGINNING BALANCE</b>	<b>446,035,109</b>	<b>489,699,351</b>
General Fund Receipts	<u>2,562,158,281</u>	<u>2,777,752,621</u>
<b>TOTAL AVAILABLE</b> (beginning balance plus receipts)	<b>3,008,193,390</b>	<b>3,267,451,972</b>
Regular Appropriations	2,474,275,172	2,532,675,629
Reversions Reappropriated	111,378,183	109,947,214
Supplemental Appropriations	31,997,985	200,602,881
Transfer to General Fund Budget Reserve Fund	<u>22,297,484</u>	<u>72,702,517</u>
<b>TOTAL APPROPRIATIONS AND OBLIGATIONS</b>	<b>2,639,948,824</b>	<b>2,915,928,241</b>
<b>ENDING BALANCE</b> (before reversions and adjustments)	368,244,556	351,523,731
Reversions and Adjustments	-121,454,795	-164,321,494
<b>TOTAL ENDING BALANCE</b>	<b>489,699,351</b>	<b>515,845,225</b>

## CONDITION OF THE SGF FY 2021 AND FY 2022

**EDUCATION TRUST  
FUND ROLLING  
RESERVE ACT**

**PRORATION  
SINCE 2001**

**EDUCATION TRUST FUND**

Fiscal Year	Proration % without RDA Transfers	Proration % after RDA Transfers
2001	6.2%	
2003	4.4%	0%
2008	6.5%	0%
2009	18.0%	11.0%
2010	9.5%	
2011	3.0%	



# ETF ROLLING RESERVE ACT

- Effective beginning FY 2013
- Caps the annual appropriations from the ETF
  - Tied to the percentage growth in recurring revenues to the ETF over the last 15 years, dropping the lowest year
- Limits ETF expenditures to the average of the estimated available revenues when such estimates are less than the ETF appropriations cap
- Prescribes how excess funds are distributed in fiscal years when appropriations equal the cap and actual ETF receipts exceed the cap, including:
  - Budget Stabilization Fund: An additional reserve fund accessible only in the event of proration or for temporary transfers to public schools/higher education due to natural disasters
  - Advancement and Technology Fund: Funding available for supplemental appropriation to K-12 and higher education for certain allowable expenses
- **No ETF proration since the ETF Rolling Reserve Act became effective**

## BUDGET STABILIZATION FUND

- In fiscal years where ETF appropriations are equal to the fiscal year appropriation cap:
  - A portion of any revenues deposited into the ETF in excess of the fiscal year appropriation cap are transferred to the Budget Stabilization Fund (BSF)
  - Up to 1% of the previous year's ETF appropriations until the fund reaches 7.5% of the previous year's ETF appropriations
- Amounts in the Budget Stabilization Fund may be withdrawn only to prevent proration in the ETF (Act 2018-544 also allowed temporary transfers for damages from natural disasters)
- Total cash/invested balance in BSF (as of October 1, 2022): **\$559.6 million**

# ADVANCEMENT AND TECHNOLOGY FUND

- In fiscal years when ETF appropriations are equal to the fiscal year appropriation cap, any excess funds remaining after the transfer to the Budget Stabilization Fund are transferred to the Advancement and Technology Fund
- The annual appropriation of these funds is divided between the public K-12 schools and institutions of higher education in accordance with the percentage split between these two sectors of education
- Total funds appropriated in FY 2022 (Act 2022-394) = \$282.3 million
  - K-12 - \$205.7 million
  - Higher Education - \$76.6 million
- Current cash balance = **\$750.4 million**

# ADVANCEMENT AND TECHNOLOGY FUND

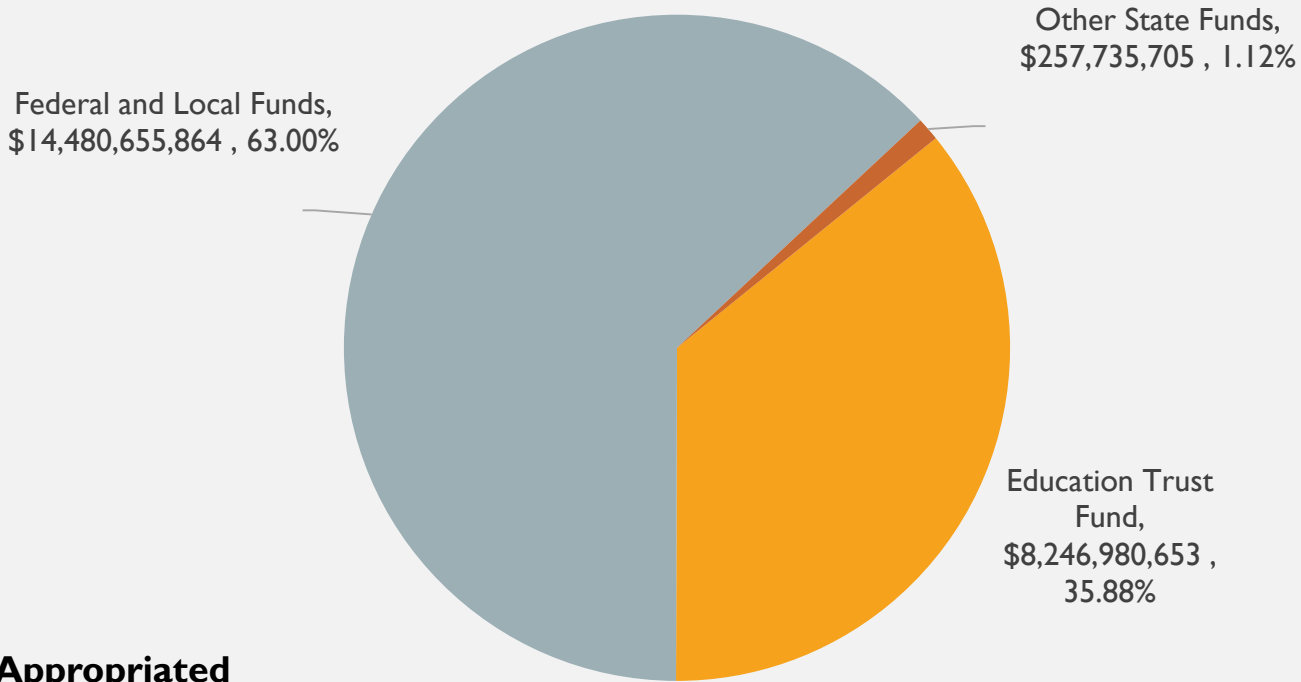
Funds must be appropriated through an independent supplemental appropriation bill and must be used for any of the following:

- Repairs and deferred maintenance of facilities;
- Classroom instructional support;
- Insuring facilities;
- Transportation;
- School security measures as a part of a system wide security plan; and
- Acquisition or purchase of educational technology and equipment

The supplemental appropriation bill can be enacted in the next regular or a special session of the Legislature

# **OVERVIEW OF FY 2023 ETF APPROPRIATIONS**

# FY 2023 ETF APPROPRIATIONS ACT



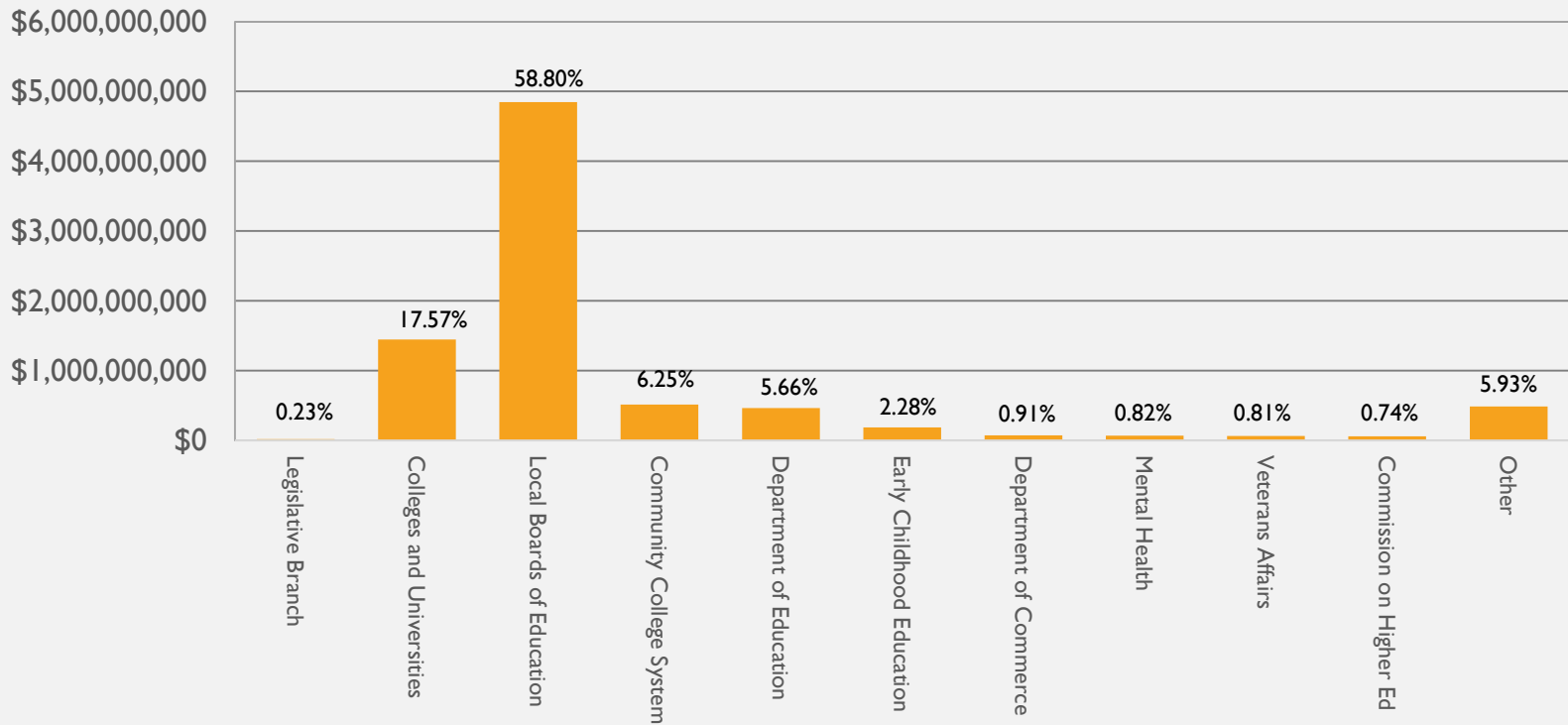
**Total Funds Appropriated**  
Summary of how much money was appropriated in total in the Education Appropriation Act (Act 2022-393).

# ETF SUMMARY

## FY 2023

- Prior to FY 2023, FY 2022 ETF appropriations were the highest ever at \$7.67 billion (excluding reversions reappropriated and supplementals)
- Enacted ETF appropriations for FY 2023 were \$8.26 billion
- ETF appropriations for FY 2023 are \$589 million more than enacted ETF appropriations for FY 2022 – **establishing a new record high**

# FY 2023 ETF APPROPRIATIONS



## ETF Appropriations by Agency

Total appropriations from the Education Trust Fund are broken down by agencies for a closer look into where the money was allocated.



# FY 2023 OTHER FUNDS APPROPRIATIONS

Agency	Appropriations from Other State Funds	Appropriations from Federal and Local Funds
Colleges and Universities	--	8,228,236,229
Rehabilitation Services	1,000,000	161,587,836
Community College System Board of Trustees	12,000,000	871,069,121
Early Childhood Education	500,000	31,474,000
Local Boards of Education	215,532,864	723,240,625
Department of Education	10,144,570	4,366,604,531
Other	18,558,271	98,443,522

## Other Appropriations by Agency

Total appropriations from sources other than the Education Trust Fund are broken down by agencies for a closer look into where the money was allocated.

# ETF HIGHLIGHTS FOR FY 2023

## PRE K / K-12

- 4% pay raise for ALL education employees.
- Created a new salary matrix for education employees where each year step beyond year 8 is 1% higher than the year before extending through year 35 – the previous salary matrix provided step increases after every 3 years (everyone within each 3-year band makes the same), but no step increases beyond year 27
- Pre-K - \$24.3 million total increase including \$1.5 million allocated to the Summer/After School Program (new).
- K-12 Local Boards of Education
  - Foundation Program - \$249.4 million total increase, including:
    - OCE - \$29.2 million increase
    - Student Materials - \$9.7 million increase
    - Student Growth - \$27.1 million total
  - Transportation - \$25.3 million increase
  - Technology Coordinators - \$7.9 million increase, including \$6.9 million to improve cybersecurity
  - School Nurses - \$8.9 million increase
  - TEAMS Salary Matrix - \$30 million increase

# ETF HIGHLIGHTS FOR FY 2023

## PRE K / K-12 CONTINUED

- Math, Science, and Technology Initiative (AMSTI) - \$18 million increase, including \$15 million for provisions of the new Alabama Numeracy Act
- Alabama Reading Initiative - \$14 million increase
- Underperforming Schools - \$10.54 million total, including \$5.4 million for auxiliary teachers in grades K-3 (new)
- Special Education Pre-School Program - \$10 million increase
- Special Education Certified Behavior Analysts (new) - \$8.5 million total
- Career Tech Initiative - \$5.9 million increase, including \$5 million increase for Career Coaches
- Governor's Mathematics Education Coaching Corps - \$5 million total (new)
- Gifted Students - \$4.9 million increase
- Grant program for unmet needs of K-12 schools - \$2 million increase

HB 135 (ACT 2022-393)

# ETF HIGHLIGHTS FOR FY 2023

## HIGHER EDUCATION

- Alabama Commission on Higher Education (ACHE) - \$15.1 million total increase, including:
  - Deferred Maintenance Program - \$5 million total
  - STEM Major Teacher Recruitment Program - \$4.5 million total (new)
  - Alabama Student Assistance Program - \$772,775 increase
  - Educational Grants Program - \$722,775 increase
  - FAFSA Completion - \$500,000 total (new)
- Alabama Community College System - \$45.7 million total increase (9.7%), including:
  - O&M - \$20.9 million increase
  - Career Tech Equipment - \$5 million total (new)
  - Dual Enrollment - \$5 million increase
  - Innovation Center - \$5 million increase
  - Short Term Certification Credentials - \$5 million
  - Prison Education - \$4.1 million increase, including \$500,000 for Perry County Facility
- LPN Program - \$2 million total (new)
- Universities:
  - \$118.5 million total funding increase for Alabama's public colleges and universities.
  - Individual for Alabama's fourteen public 4-year universities of no less than 6.5%.

**QUESTIONS?**

