

Presentation to the Alabama Association of School Boards



Kirk Fulford

Deputy Director

Legislative Services Agency

Fiscal Division

December 7, 2018

PRESENTATION OVERVIEW

- **State Budgets**
- **ETF Revenues and Trends**
- **History of Education Trust Fund (ETF) Proration**
- **Education Trust Fund (ETF) Rolling Reserve Act**
- **Education Trust Fund Condition for FY 2018**
- **FY 2019 Education Trust Fund Appropriations**
- **ETF Funding Issues for FY 2019 and FY 2020**

STATE BUDGETS

TWO BUDGET ACTS

- Alabama is one of only 3 states (Michigan and Utah) that have separate education and general fund budgets¹
- *Original Establishment: Act Number 163 of the 1927 Regular Session levied new revenue sources for educational purposes and provided that all revenue collected from those sources would be set apart as a Trust Fund for educational purposes only, designated as the Special Educational Trust Fund*²

¹ National Conference of State Legislatures

² Ira W. Harvey, *A History of Educational Finance in Alabama*, 1989

WHY TWO BUDGETS?

- Section 71 of the Constitution of Alabama of 1901:

“The general appropriation bill shall embrace nothing but appropriations for the ordinary expenses of the executive, legislative, and judicial departments of the state, for interest on public debt, and for public schools...”

- The courts have interpreted the phrase “for public schools” in this section to include only elementary and secondary schools and not universities and colleges (*Alabama Educ. Association v. Board of Trustees*, 374 So.2d 258 (Ala 1979); *Opinion of the Justices*, 512 So. 2d 72 (Ala. 1987))
- The courts have also ruled that appropriations from the Education Trust Fund cannot be made in a general appropriation bill unless they are for the public schools (*Childree v. Hubbard*, 524 So.2d 336 (Ala. 1988))

ETF REVENUES AND TRENDS

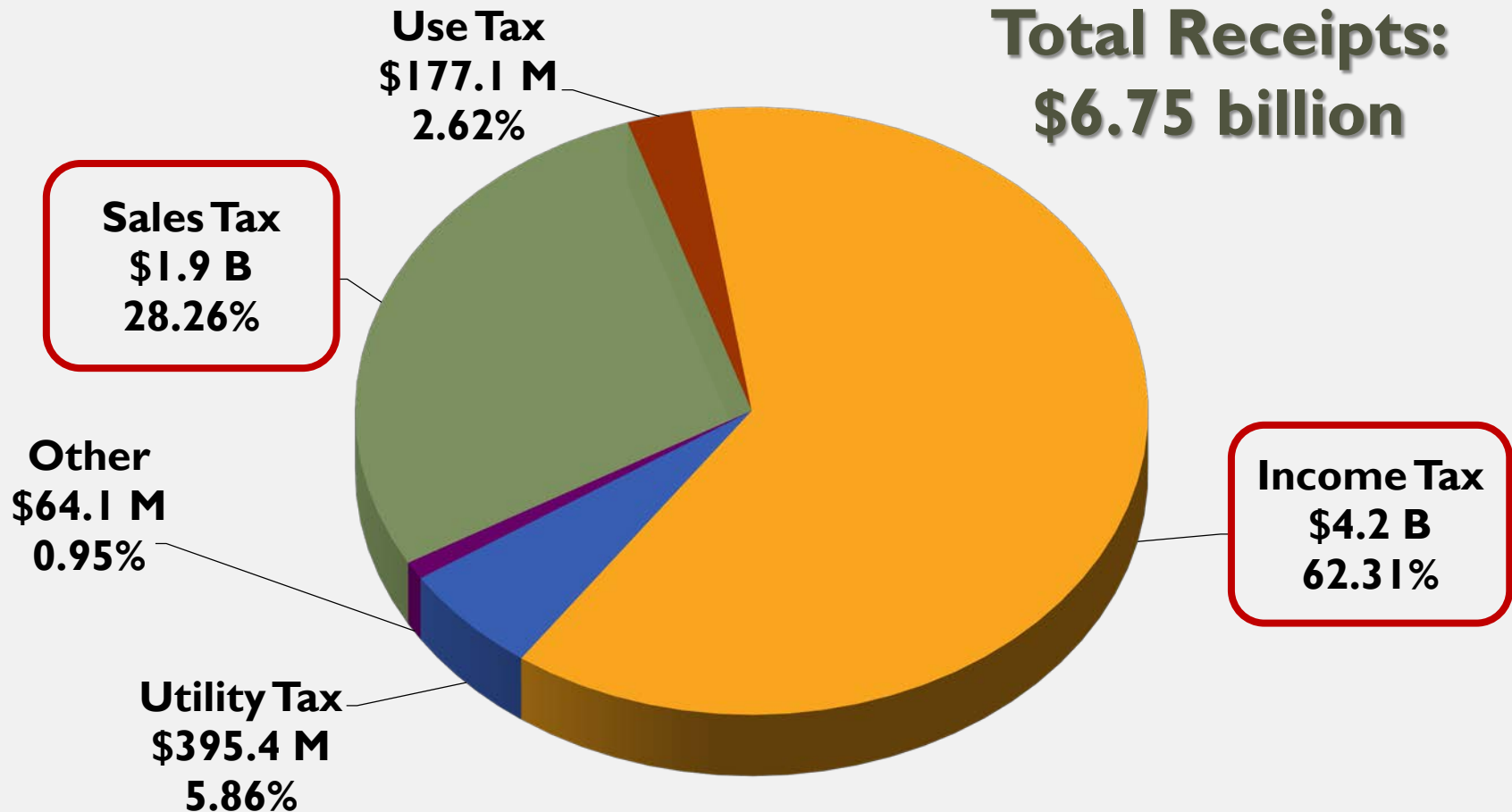
DESCRIPTION

- The Education Trust Fund (ETF) is the largest operating fund of the State.
- Revenues credited to the ETF are used for the support, maintenance and development of public education in Alabama.
- Programs and agencies supported by the ETF include K-12 education, public library services, performing and fine arts, debt service, scholarship programs, the state's education regulatory departments, and two and four-year colleges and universities. Funding from the ETF is also provided to non-state agencies that provide educational services to the people of Alabama, including the arts, disease counseling and education, and youth development.
- Ten tax sources are allocated to the ETF, the largest of which are the individual and corporate income tax, sales tax, utility tax, and use tax.

SOURCE: Executive Budget Office

EDUCATION TRUST FUND REVENUE SOURCES - FY 2018

**Total Receipts:
\$6.75 billion**



FY 2017 VS. FY 2018 ETF RECEIPTS

FY 2017

- ❑ Total Net Receipts - \$6.327 Billion
- ❑ Total Growth % - 4.19%
- ❑ Gross Income Tax:
 - ❑ Total – \$4.666 Billion
 - ❑ Individual - \$4.206 Billion
 - ❑ Corporate - \$460 Million
- Gross Sales Tax – \$2.27 Billion
- Simplified Sellers Use - \$6.55 Million
- Use Tax - \$158.5 Million
- Utility Tax - \$388.0 Million

FY 2018

- ❑ Total Net Receipts - \$6.754 Billion
- ❑ Total Growth % - 6.74%
- ❑ Gross Income Tax:
 - ❑ Total – \$5,072 Billion
 - ❑ Individual - \$4.567 Billion
 - ❑ Corporate - \$505 Million
- Gross Sales Tax – \$2.37 Billion
- Simplified Sellers Use - \$9.85 Million
- Use Tax - \$167.3 Million
- Utility Tax - \$395.4 Million

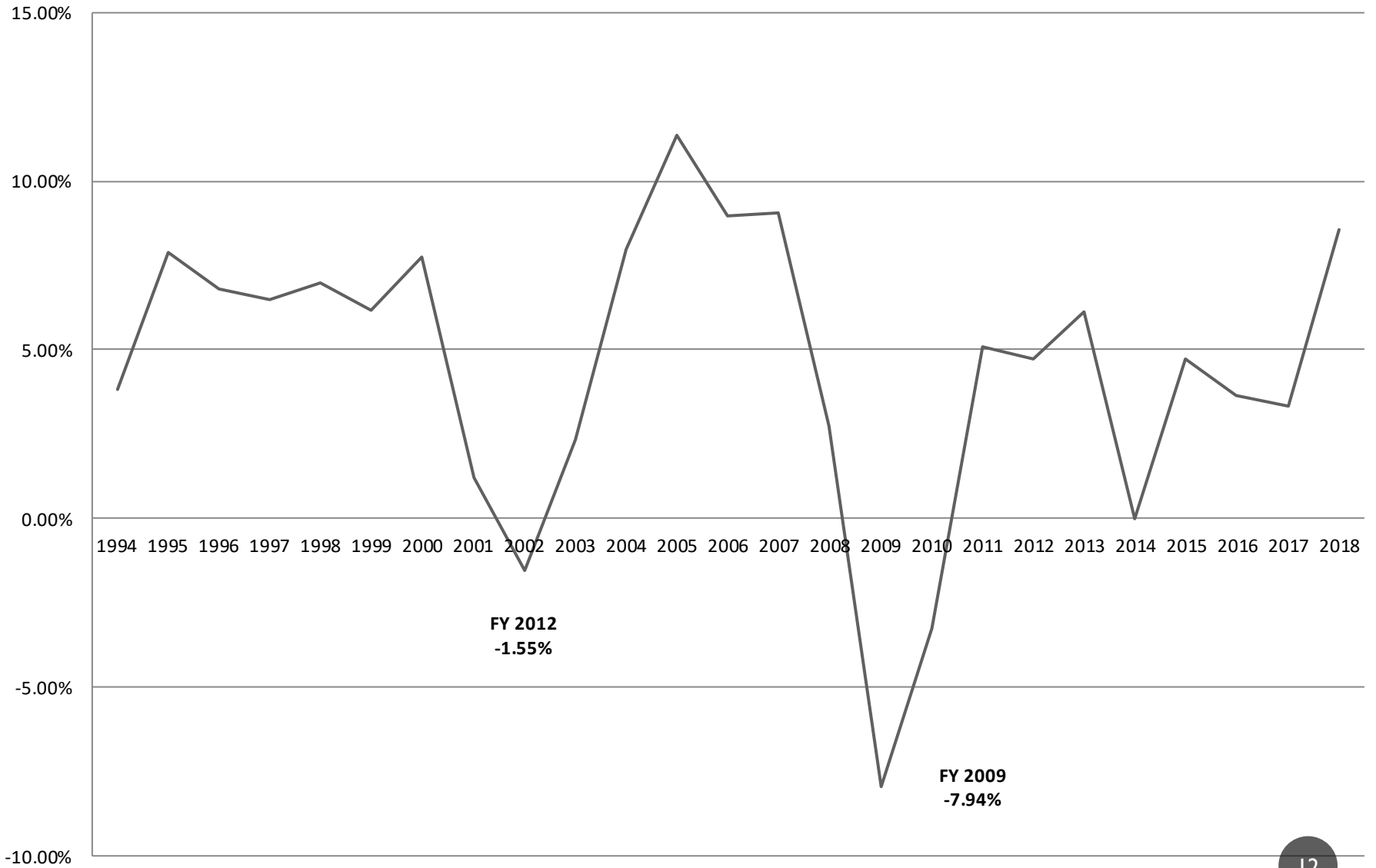
REGULAR RECEIPTS, 3-YEAR HISTORY

	FY 2016	FY 2017	FY 2018
Beer Tax	22,909,170	22,231,590	21,871,509
Income Tax	3,722,129,992	3,892,525,501	4,208,436,405
Insurance Premium Tax	30,993,346	30,993,296	30,993,296
Mobile Telecommunications Tax	17,700,484	15,904,023	10,402,545
Sales Tax	1,744,468,414	1,811,657,811	1,908,442,757
Use Taxes	157,068,198	165,057,908	177,141,487
Utility Tax	376,625,096	387,966,309	395,433,475
All Other	<u>1,041,361</u>	<u>990,780</u>	<u>843,905</u>
Grand Total	6,072,936,061	6,327,327,218	6,753,565,379

CURRENT ALABAMA STATISTICS

- Record level of employment (Source:AL Department of Labor
 - October 2018 – 2,122,970 people counted as employed, setting a new record high for the sixth consecutive month
 - October 2017 – 2,082,593 people counted as employed
 - Gain of 40,377 people employed since October 2017
- Alabama individual income tax withholding payments for FY 2017 were up by 4.14%
- Alabama individual income tax withholding payments for FY 2018 were up by 7.37% - the highest percentage growth since FY 2006

% Change in Individual Income Tax Gross Receipts Since 1994



% Change in Sales Tax Gross Receipts Since 1994



HISTORY OF EDUCATION TRUST FUND PRORATION

BALANCED BUDGET REQUIRED

- Amendment 26 to the *Alabama Constitution* provides that no warrants shall be withdrawn on the state treasury unless sufficient revenues are available.
- In such instances, any expenditures from funds (ETF or General Fund) which have insufficient revenues shall be prorated so that only available revenues are expended.
- Once proration is declared by the Governor, state expenditures from those funds are reduced across the board by the percentage necessary to balance the budget.

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%

EDUCATION TRUST FUND ROLLING RESERVE ACT

ETF ROLLING RESERVE ACT

- **Act 2011-3**
 - Effective beginning in FY 2013
 - Placed a cap on annual appropriations from the ETF tied to the percentage growth in recurring revenues to the ETF over the last 15 years
 - Also, created an additional reserve fund, the Budget Stabilization Fund, to access only in the event of proration
- **Amended by Act 2015-538 to:**
 - 1) change the calculation of the ETF appropriations cap by dropping the low year from the 15-year average growth, and add the Prepaid Affordable College Tuition (PACT) appropriation to the cap;
 - 2) limit ETF expenditures to the average of the estimated available revenues when such estimates are less than the ETF appropriations cap; and
 - 3) change the distribution of excess funds when actual ETF receipts exceed the cap by limiting amounts deposited into the Budget Stabilization Fund and creating the Advancement and Technology Fund
- **No ETF proration since the ETF Rolling Reserve Act became effective**

BUDGET STABILIZATION FUND

- 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
 - Up to 1% of the previous year's ETF appropriations (\$64,239,193 in FY 2019) 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)

ADVANCEMENT AND TECHNOLOGY FUND

- Any funds remaining after the transfer to the Budget Stabilization Fund are transferred to the Advancement and Technology Fund
- Remaining funds at the end of FY 2018 were \$272.3 million (transferred at the beginning of FY 2019)
- 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.
Available amounts for FY 2019:
 - K-12 - \$198.7 million
 - Higher Education - \$73.6 million

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;
 - school security measures as a part of a system wide security plan (new); and
 - for the acquisition or purchase of educational technology and equipment
- The supplemental appropriation bill can be enacted in the next regular or special session of the Legislature

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

EDUCATION TRUST FUND CONDITION

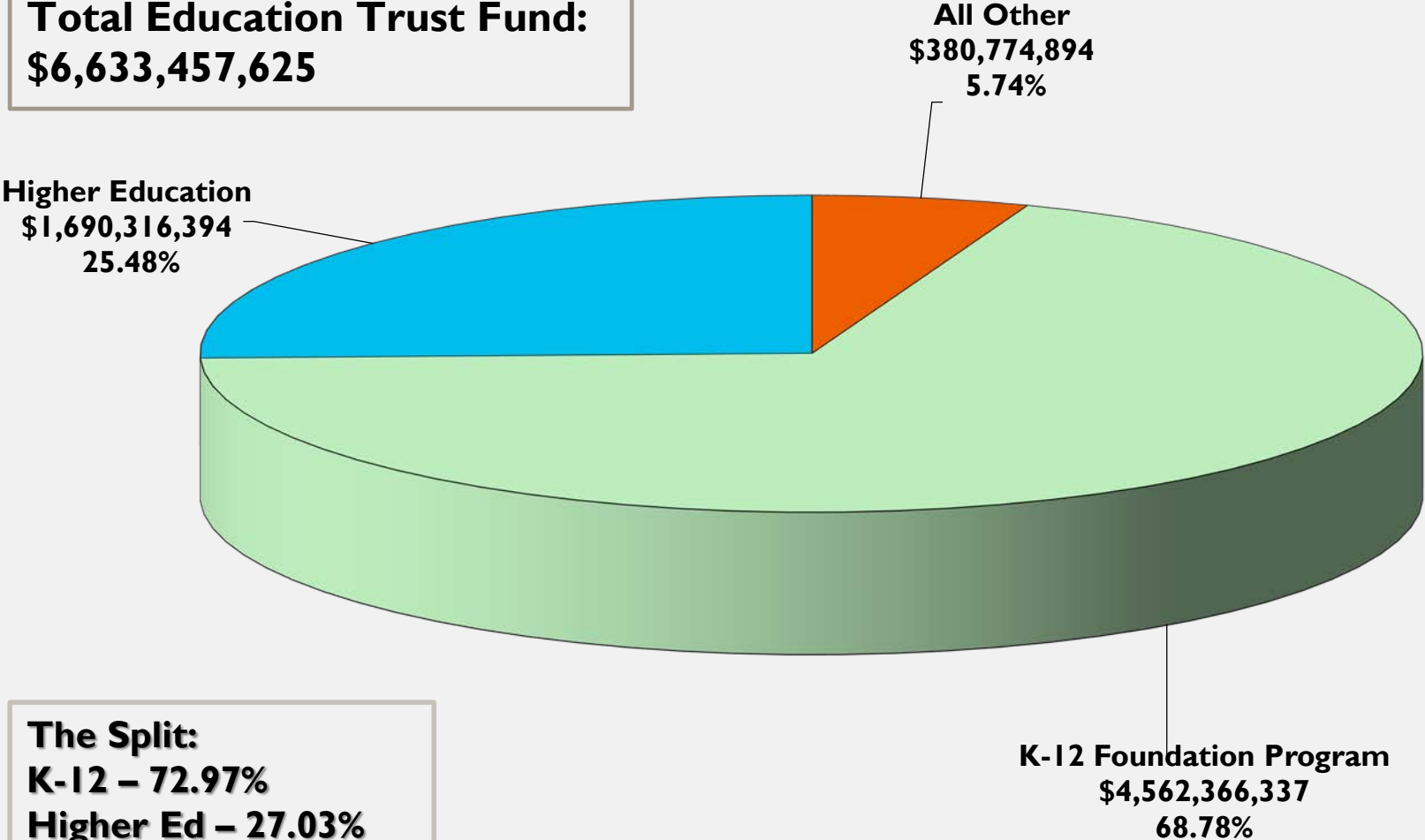
CONDITION OF THE ETF FY 2017 AND FY 2018

	Actual FY 2017	Actual FY 2018	Difference
Beginning Balance	5,041,468	6,919,305	1,877,837
Regular Receipts	6,327,327,215	6,753,565,379	426,238,164
TOTAL AVAILABLE (beginning balance plus regular receipts)	6,332,368,683	6,760,484,684	428,116,001
TOTAL ETF EXPENDITURES	6,332,041,468	6,423,919,332	91,877,864
ENDING BALANCE BEFORE REVERSIONS AND ADJUSTMENTS	327,215	336,565,352	336,238,137
Reversions and Adjustments	6,592,090	14,441,002	7,848,912
DISTRIBUTION OF ENDING BALANCE BEFORE REVERSIONS AND ADJUSTMENTS			
Budget Stabilization Fund		64,239,193	64,239,193
Advancement and Technology Fund		272,326,159	272,326,159

FY 2019 EDUCATION TRUST FUND APPROPRIATIONS

APPROPRIATION OF THE ETF, FY 2019

**Total Education Trust Fund:
\$6,633,457,625**



**The Split:
K-12 – 72.97%
Higher Ed – 27.03%**

ETF FUNDING ISSUES FOR FY 2019 AND FY 2020

FY 2019

- Supplemental appropriation from Advancement and Technology Fund
 - Total transfer of \$272.3 million
 - Of this amount, \$198.7 million could be appropriated for K-12 and \$73.6 million for Higher Education
- No anticipated issues with revenues in FY 2019
 - FY 2018 ETF receipts higher than FY 2019 ETF appropriations

FY 2020

- The largest ETF budget prior to FY 2019 was in FY 2008 - \$6.73 Billion
 - The FY 2008 ETF budget required a transfer of \$439.4 million from the Proration Prevention Account
- Allowable ETF appropriations for FY 2020 will exceed the FY 2008 amount
- PEEHIP did not request an increase in funding
- Small increase in TRS rate for Tier I (.02%)
- Small decrease in TRS rate for Tier II (-.01%)
- Will ETF revenue growth continue?

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