



# Presentation to the Alabama Association of School Boards

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# 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 2019**
- **FY 2020 Education Trust Fund Appropriations**
- **ETF Funding Issues for FY 2020 and FY 2021**



# State Budgets

# Two Budget Acts

- Alabama is one of only 3 states (Michigan and Utah) that have separate education and general fund budgets<sup>1</sup>
- 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<sup>2</sup>

<sup>1</sup> National Conference of State Legislatures

<sup>2</sup> 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))



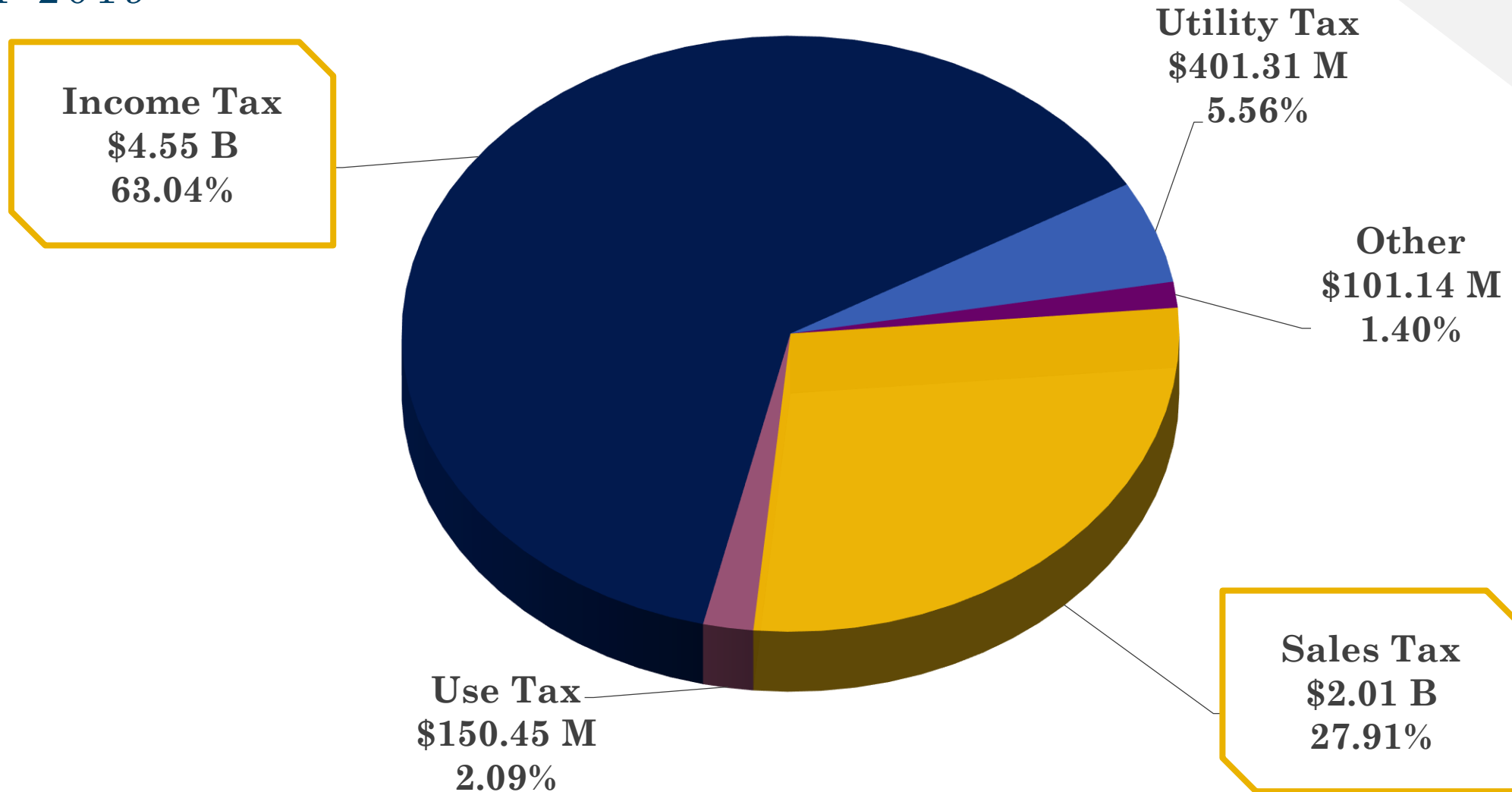
# ETF Revenues and Trends

# 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 other 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

# Education Trust Fund Revenue Sources

FY 2019





# ETF Receipts

FY 2018 vs. FY 2019

## 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

## FY 2019

- Total Net Receipts - \$7.215 Billion
- Total Growth % - 6.84%
- Gross Income Tax:
  - Total – \$5,425 Billion
  - Individual - \$4.842 Billion
  - Corporate - \$582 Million
- Gross Sales Tax – \$2.468 Billion
- Simplified Sellers Use - \$23.29 Million
- Use Tax - \$150.4 Million
- Utility Tax - \$401.3 Million

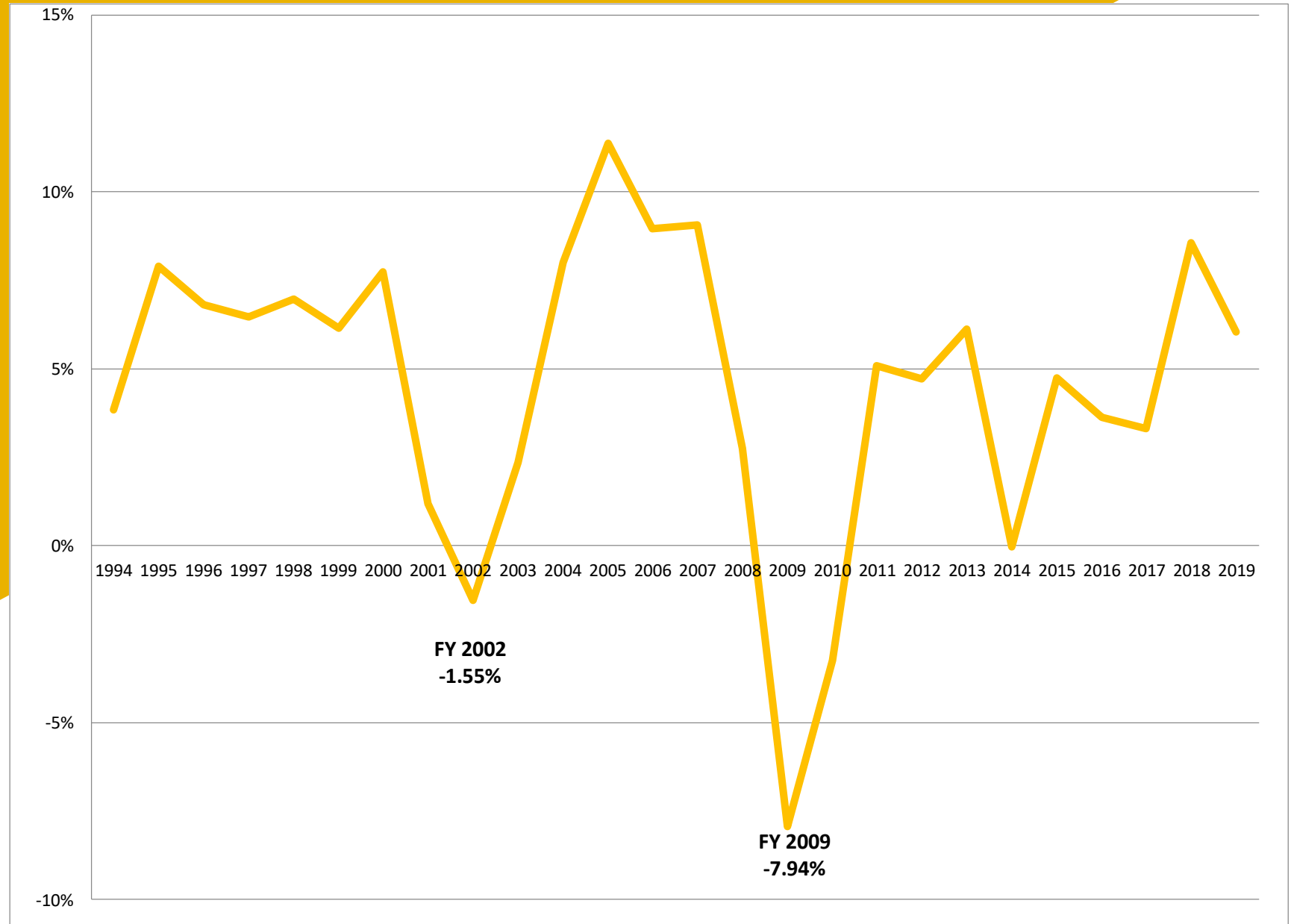
# Regular Receipts, 4-Year History

	<b>FY 2016</b>	<b>FY 2017</b>	<b>FY 2018</b>	<b>FY 2019</b>
Beer Tax	22,909,170	22,231,590	21,871,509	22,594,709
Income Tax	3,722,129,992	3,892,525,501	4,208,436,405	4,548,470,728
Insurance Premium Tax	30,993,346	30,993,296	30,993,296	30,993,296
Mobile Telecommunications Tax	17,700,484	15,904,023	10,402,545	11,924,391
Sales Tax	1,744,468,414	1,811,657,811	1,908,442,757	2,013,911,327
Use Taxes	157,068,198	165,057,908	177,141,487	184,991,766
Utility Tax	376,625,096	387,966,309	395,433,475	401,311,662
All Other	1,041,361	990,780	843,905	531,581
<b>Grand Total</b>	<b>6,072,936,061</b>	<b>6,327,327,218</b>	<b>6,753,565,379</b>	<b>7,215,276,203</b>

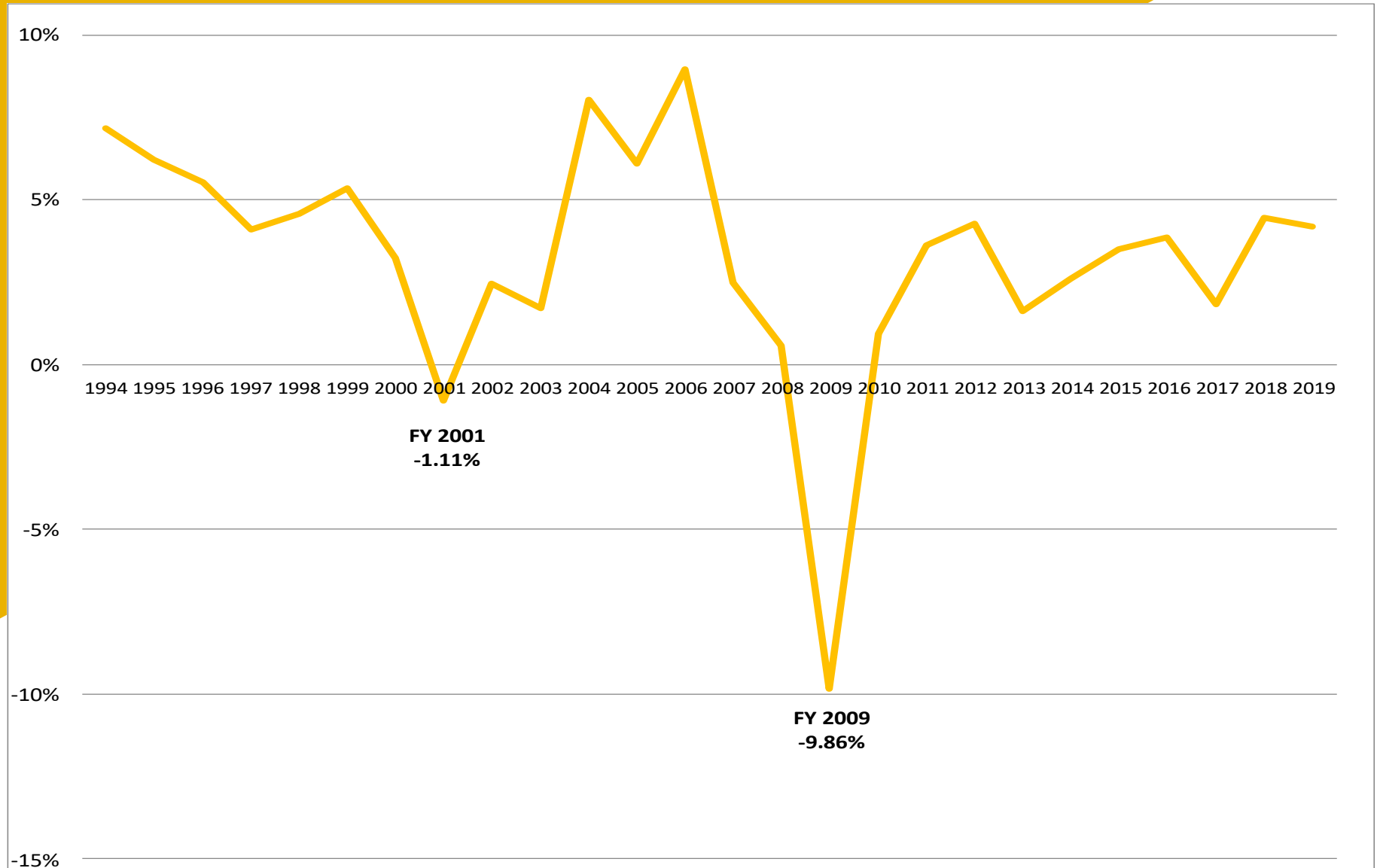
# Current Alabama Statistics

- Record level of employment
- October 2019 – 2.8% unemployment rate and 2,200,681 people counted as employed, setting new record highs for the eighth consecutive month
- October 2018 – 2,122,970 people counted as employed
- Gain of 77,711 people employed since October 2018
- Alabama individual income tax withholding payments for FY 2019 were up by 5.07%
- 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



# % Change in Sales Tax Gross Receipts





# History of Education Trust Fund Proration

# Balanced Budget Required

- Amendment 26 to the Constitution of Alabama of 1901 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/Proration Prevention Account)
- FY 2008: 6.5%  
(Reduced to 0% after transfer of approximately \$439 million from Proration Prevention Account)
- **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 (\$66,502,986 in FY 2020) 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

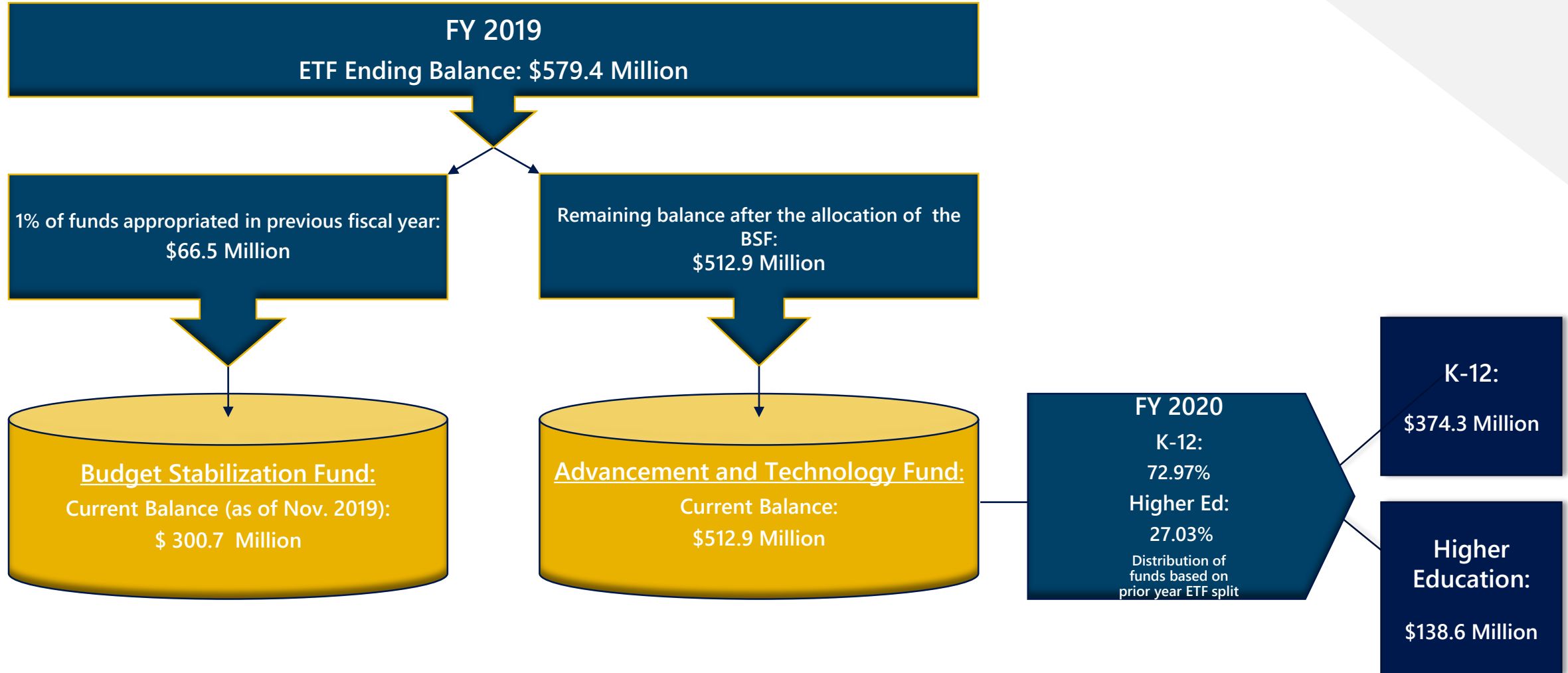
- Any funds remaining after the transfer to the Budget Stabilization Fund are transferred to the Advancement and Technology Fund
  - Remaining funds at the end of FY 2019 were \$512.9 million (transferred at the beginning of FY 2020)
  - The annual appropriation of these funds is divided between the public K-12 schools and institutions of higher education in accordance with the percentage split between these two sectors of education. Available amounts for FY 2020:
    - K-12 - \$374.3 million
    - Higher Education - \$138.6 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 special session of the Legislature

# ETF Rolling Reserve Act:

How Excess Revenues are Allocated



# ETF Rolling Reserve Act

## FY 2020 CAP

FY 2018 Net Recurring Revenues \$6,753,565,379

PLUS:

Average growth for the 14 highest years out of the last 15 (4.70%) \$317,417,573

New recurring revenue measures -5,826,000

PACT appropriation for FY 2020 \$60,738,300

**FY 2020 ETF Appropriations Cap \$7,125,895,252**

ETF Appropriations for FY 2019 \$6,650,298,624

**Cap Difference: FY 2020 vs. FY 2019 \$475,596,628**



# Education Trust Fund Condition



# Condition of the ETF

FY 2018 and FY 2019

	<u>Actual FY 2018</u>	<u>Actual FY 2019</u>	<u>Difference</u>
Beginning Balance	6,919,305	14,441,002	7,521,697
Regular Receipts	6,753,565,379	7,215,276,203	461,710,824
<b>TOTAL AVAILABLE</b> (Beginning balance plus regular receipts)	<b>6,760,484,684</b>	<b>7,229,717,205</b>	<b>469,232,521</b>
<b>TOTAL ETF EXPENDITURES</b>	<b>6,423,919,332</b>	<b>6,650,298,627</b>	<b>226,379,295</b>
<b>ENDING BALANCE</b> (Before Reversions and Adjustments)	<b>336,565,352</b>	<b>579,418,578</b>	<b>242,853,226</b>
Reversions and Adjustments	14,441,002	34,438,145	19,997,143
<b>DISTRIBUTION OF ENDING BALANCE (Before Reversions and Adjustments)</b>			
Budget Stabilization Fund	64,239,193	66,502,986	2,263,793
Advancement and Technology Fund	272,326,159	512,915,592	240,589,433



# FY 2020 Education Trust Fund Appropriations

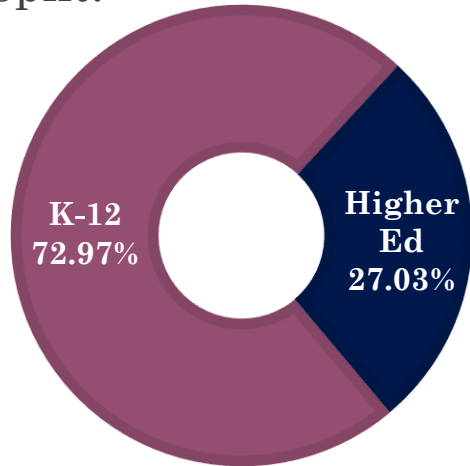
# ETF Appropriations

FY 2020

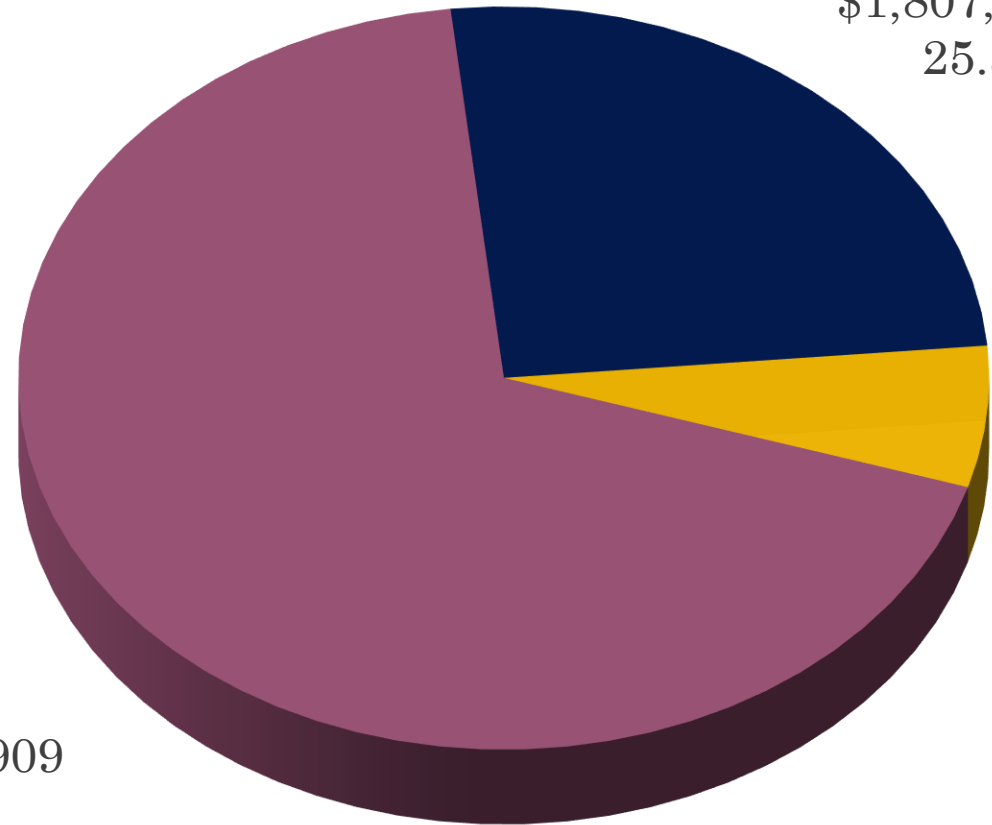
**Total Education Trust Fund:**

\$7,125,895,252

The Split:



K-12  
\$4,880,576,909  
68.49%



Higher Education  
\$1,807,544,270  
25.37%

All Other  
\$437,774,073  
6.14%



# ETF Funding Issues for FY 2020 and FY 2021

# FY 2020

- The ETF budget for FY 2020 was the largest in the state's history at \$7.12 billion – almost \$400 million more than the previous high
- The largest ETF budget prior to FY 2020 was in FY 2008 - \$6.729 Billion
  - The FY 2008 ETF budget required a transfer of \$439.4 million from the Proration Prevention Account to avoid proration
- Will ETF revenue growth continue at current rates?
- FY 2020 budgeted ETF appropriations are less than receipts for FY 2019 – revenues would have to decline by approximately \$90 million to have any issues in FY 2020
  - Not anticipated at this time

# FY 2021

- Allowable ETF appropriations for FY 2021 will exceed the FY 2020 amount
- PEEHIP did not request an increase in the employer contribution rate for FY 2021
- The TRS rate will actually decrease by a small amount for both Tier I and Tier II in FY 2021
- Will ETF revenue growth continue to allow spending to the cap amount?
  - The economy will eventually slow down
  - ETF revenues will react quickly to economic conditions



# TRS and PEEHIP

# PEEHIP

<b>Fiscal Year</b>	<b>Employer Cost Per Month Per Active Employee</b>	<b>Total Employer Cost</b>
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	\$ 911,875,393
2011	\$ 752	\$ 900,050,546
2012	\$ 714	\$ 825,157,866
2013	\$ 714	\$ 828,585,518
2014	\$ 714	\$ 835,761,336
2015	\$ 780	\$ 917,610,890
2016	\$ 780	\$ 920,206,786
2017	\$ 800	\$ 945,333,828
2018	\$ 800	\$ 947,135,332
2019	\$ 800	\$ 945,792,186
2020	\$ 800	\$ 946,192,186




# Teacher Retirement System (TRS)

Fiscal Year		Rate	Amount
2007		9.36	532,004,599
2008		11.75	716,912,822
2009		12.07	752,874,357
2010		12.51	773,177,416
2011		12.51	780,224,248
2012		10.00	631,837,073
2013		10.08	627,352,877
2014	TIER I	11.71	729,183,963
	TIER II	11.08	
2015	TIER I	11.71	737,654,554
	TIER II	11.05	
2016	TIER I	11.94	749,184,863
	TIER II	10.84	
2017	TIER I	12.01	783,351,690
	TIER II	10.82	
2018	TIER I	12.24	798,730,561
	TIER II	11.01	
2019	TIER I	12.41	830,142,198*
	TIER II	11.35	

\* FY 2019 amounts shown are the budgeted Amounts



# Thank You.

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