



Presentation to the Alabama Association of School Boards

Kirk Fulford
Legislative Fiscal Officer

Legislative Services Agency
Fiscal Division

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 2021**
- **FY 2022 Education Trust Fund Appropriations**
- **ETF Funding Issues for FY 2022 and FY 2023**





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 Fund²

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))



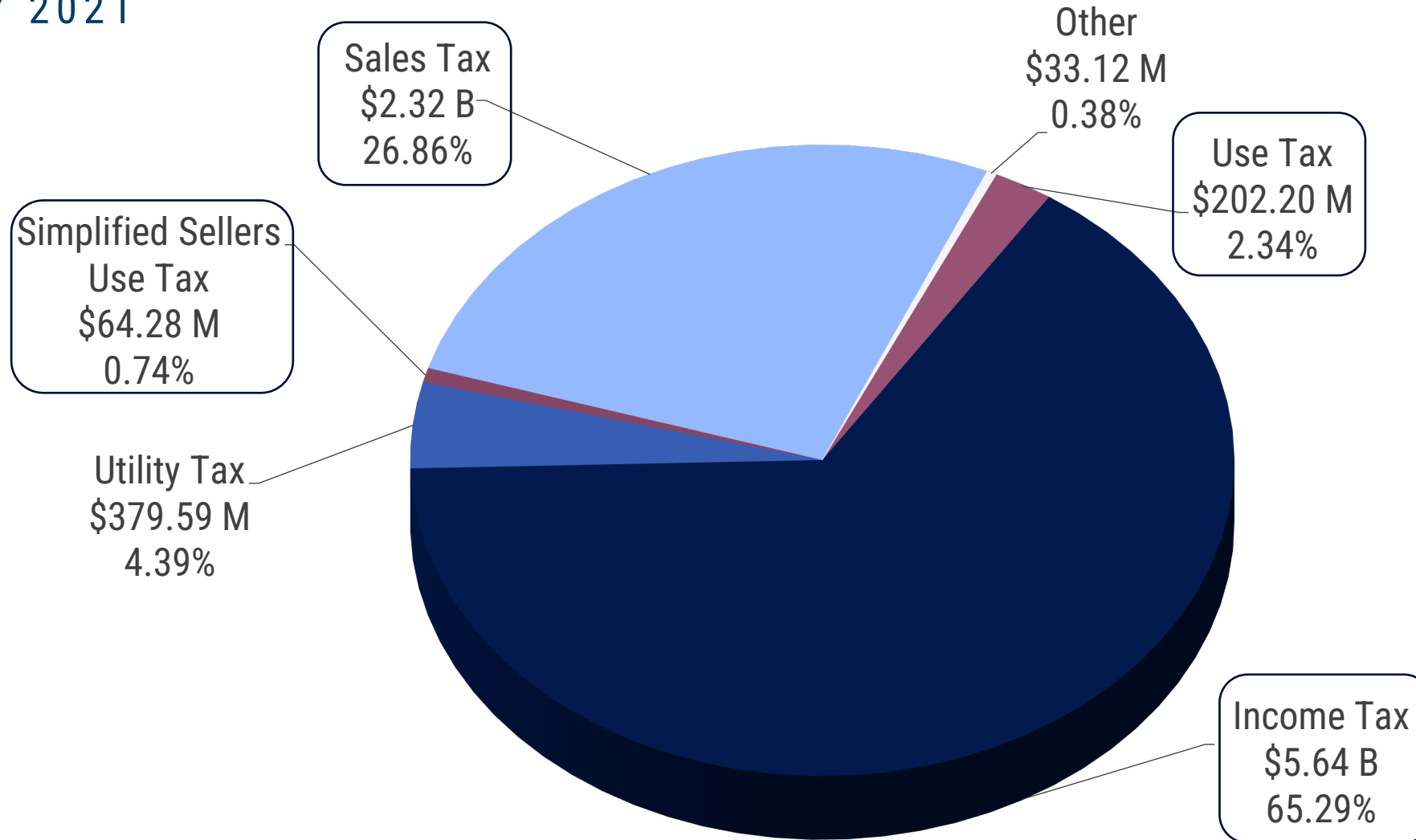
ETF Revenues and Trends

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 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 2021



ETF Receipts

FY 2020 vs. FY 2021

FY 2020

- Total Net Receipts* - \$7.425 Billion
- Total Growth % - 2.90%
- Gross Income Tax:
 - Total – \$5.540 Billion (2.12%)
 - Individual - \$4.936 Billion (1.94%)
 - Withholding - \$3.847 Billion (2.62%)
 - Corporate - \$604 Million (3.63%)
- Gross Sales Tax – \$2.523 Billion (2.22%)
- Simplified Sellers Use - \$46.26 Million (98.60%)
- Use Taxes - \$183.7 Million (13.61%)
- Utility Tax - \$388.0 Million (-3.32%)

FY 2021

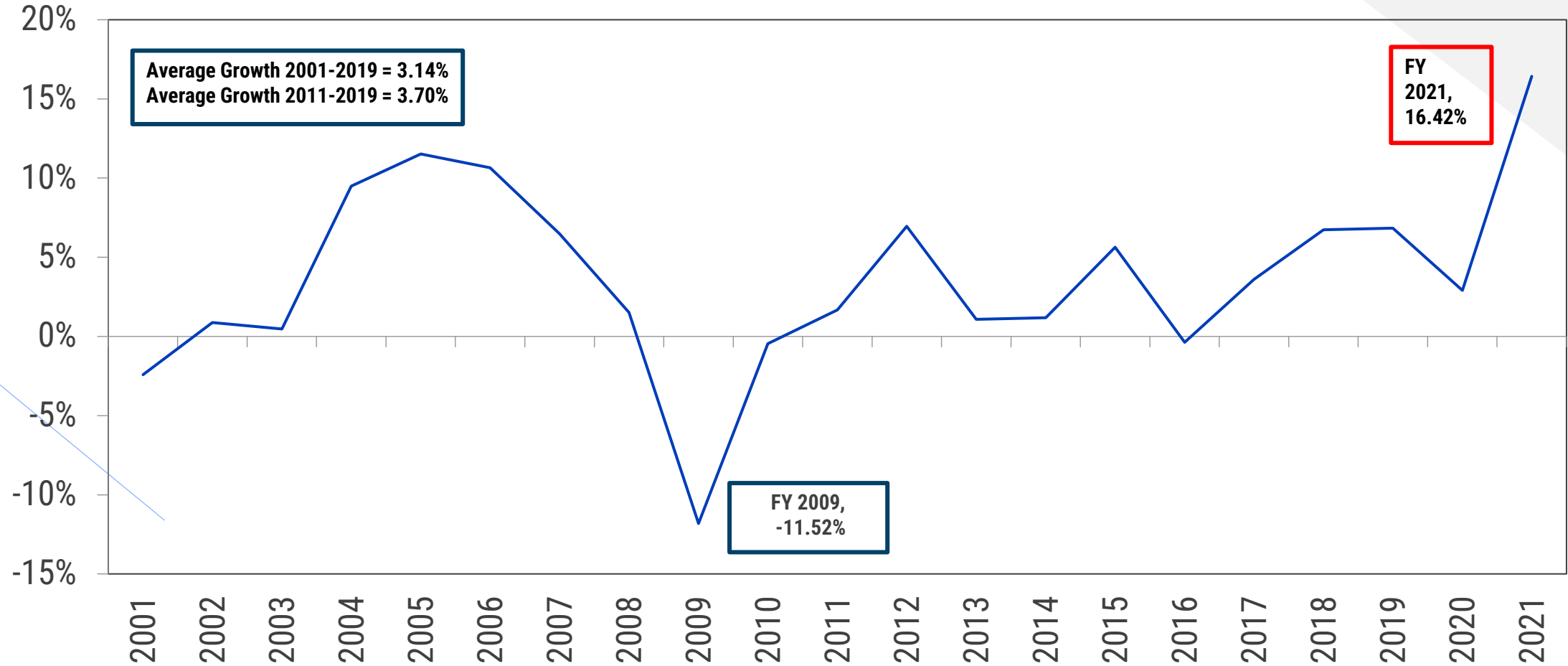
- Total Net Receipts - \$8.644 Billion
- **Total Growth % - 16.42%**
- **Gross Income Tax:**
 - **Total – \$6.553 Billion (18.28%)**
 - **Individual - \$5.579 Billion (13.03%)**
 - **Withholding - \$4.135 Billion (7.49%)**
 - **Corporate - \$974 Million (61.25%)**
- **Gross Sales Tax – \$2.895 Billion (14.75%)**
- Simplified Sellers Use - \$64.25 Million (38.89%)
- Use Taxes - \$202.2 Million (10.07%)
- Utility Tax - \$379.6 Million (-2.17%)

*Equals real receipts, excluding one-time transfers.

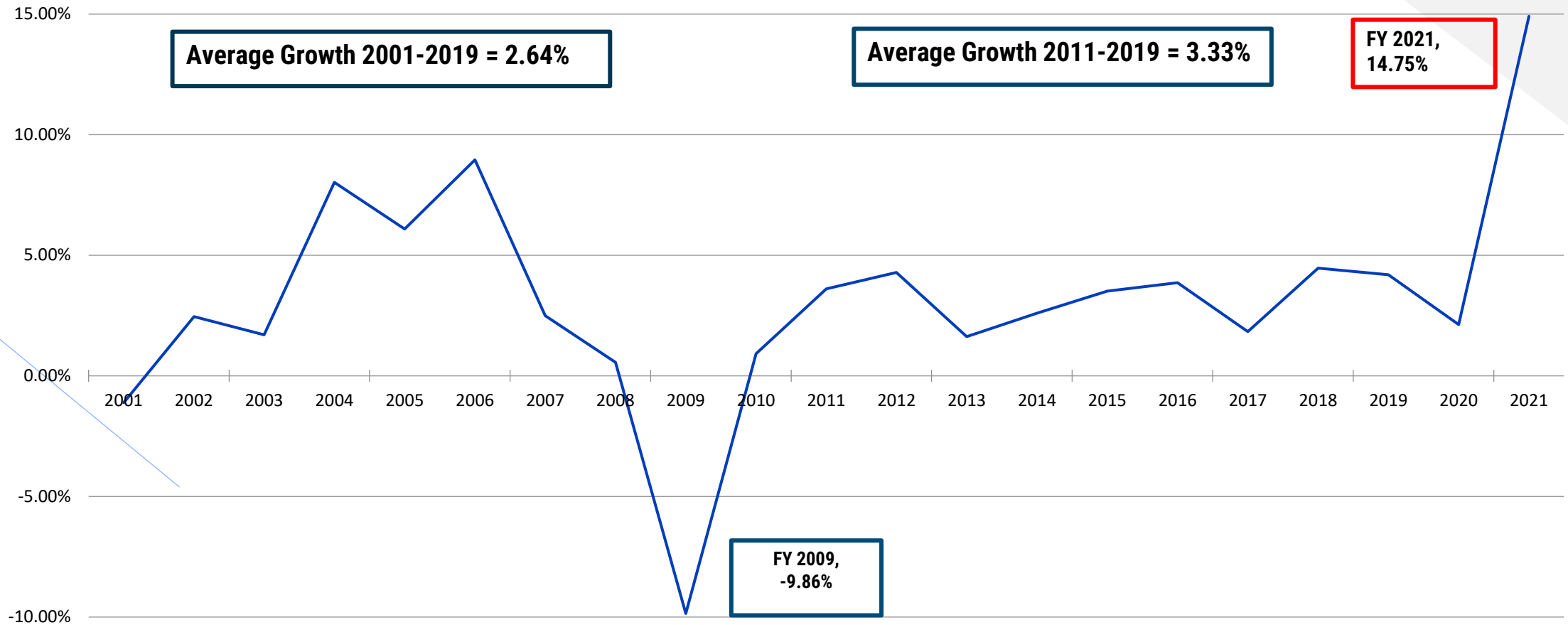
Regular Receipts, 4-Year History

	FY 2018	FY 2019	FY 2020	FY 2021
Beer Tax	21,871,509	22,594,709	22,313,701	23,444,102
Income Tax	4,208,436,405	4,548,470,728	4,657,167,330	5,643,876,383
Insurance Premium Tax	30,993,296	30,993,296	30,993,296	-
Mobile Telecommunications Tax	10,402,545	11,924,391	9,804,426	7,854,607
Sales Tax	1,908,442,757	2,013,911,327	2,084,997,958	2,320,781,188
Use Taxes	177,141,487	184,991,766	229,956,797	266,445,693
Utility Tax	395,433,475	401,311,662	388,005,780	379,592,951
All Other	843,905	531,581	667,470	1,292,542
Grand Total	6,753,565,379	7,215,276,203	7,424,571,740	8,643,813,063

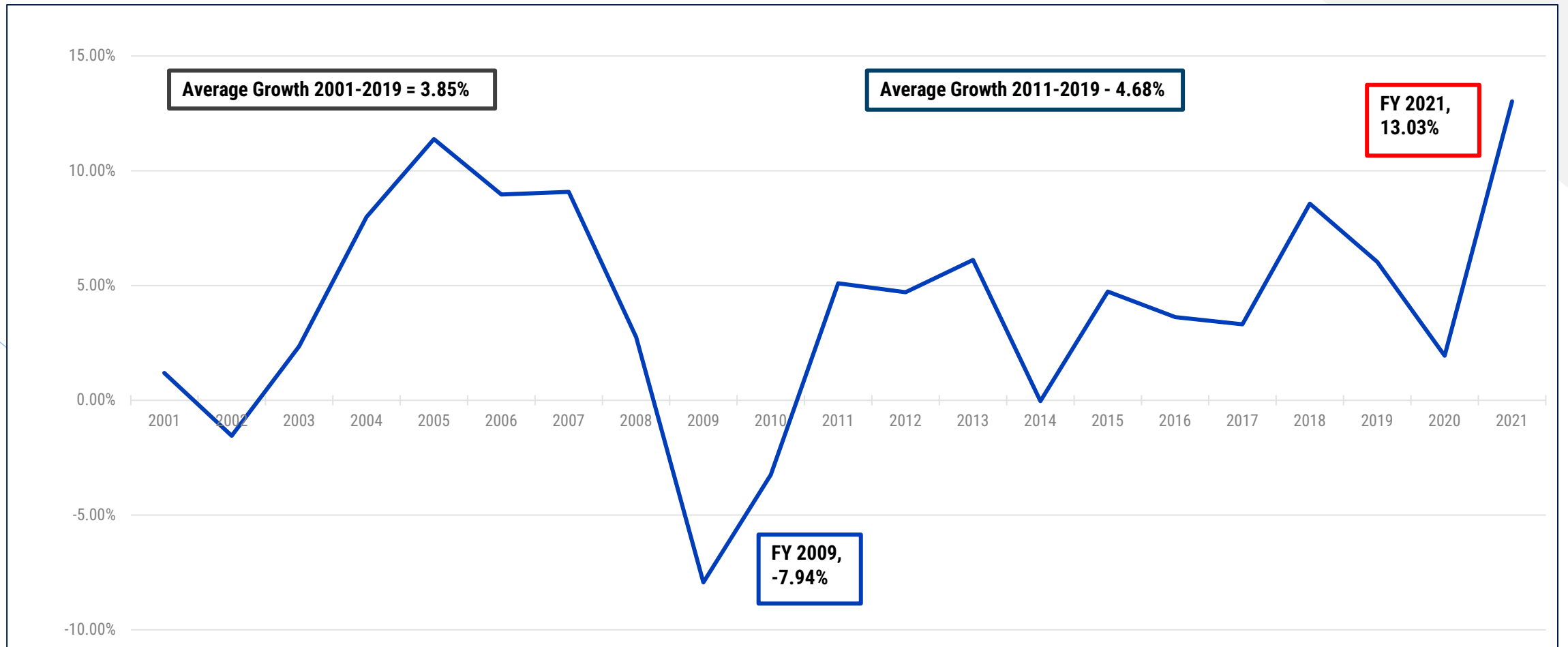
% Growth in ETF Recurring Revenues Since FY 2001



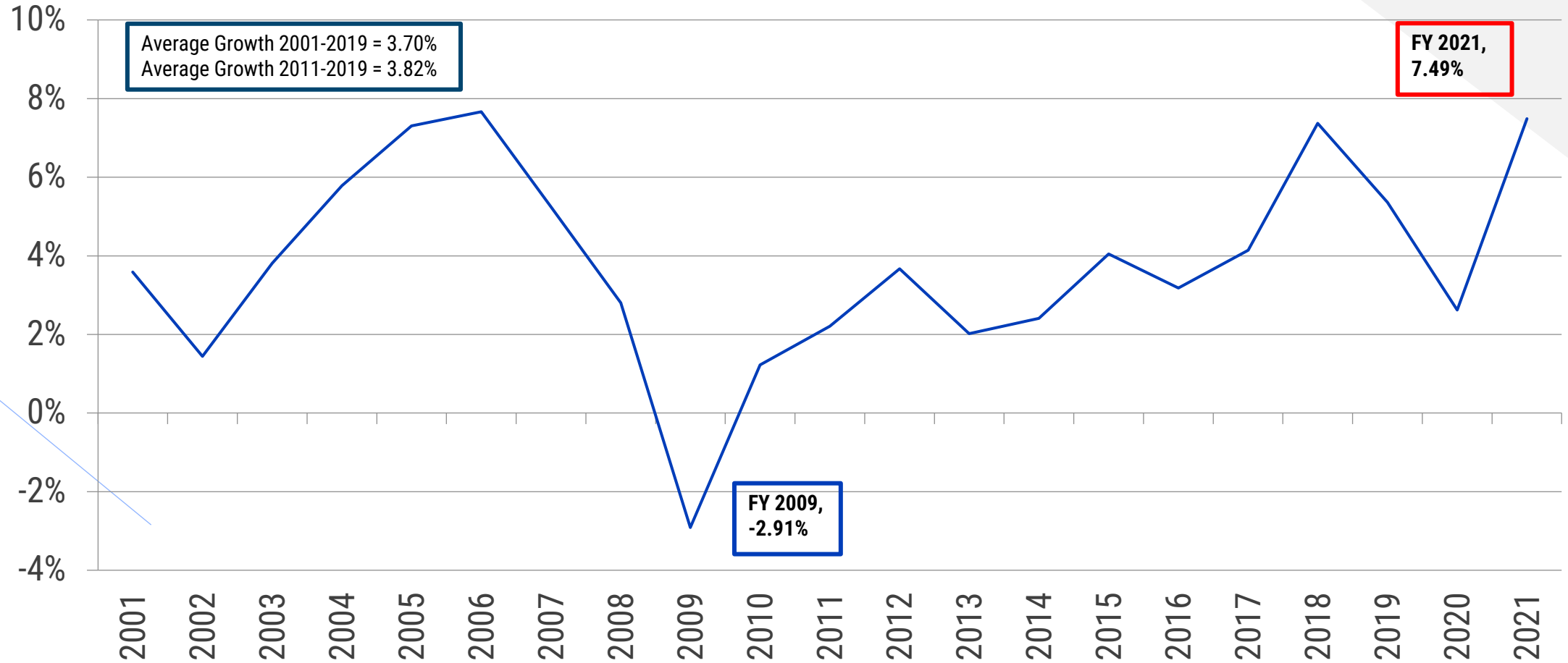
% Growth in Sales Tax Gross Receipts Since 2001



% Growth in Individual Income Tax Gross Receipts Since 2001



% Growth in Withholding Payments Since FY 2001



Abnormal Growth in FY 2021

- **Gross sales tax receipts grew by \$372.1 million (14.75%)**
 - Average growth Fiscal Years 2011-2019 (after Great Recession and before COVID) was **3.33%**
- **Gross individual income tax receipts grew by \$643.1 million (13.03%)**
 - Average growth Fiscal Years 2011-2019 (after Great Recession and before COVID) was **4.68%**
- **Gross corporate income tax receipts grew by \$369.9 million (61.25%)**
 - 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)

Alabama Economy Forecast

March 2020 – COVID 19

- **Personal Income**
 - 2020 – (1.5%)
 - 2021 – 4.3%
- **Real GSP**
 - 2020 – (4.7%)
 - 2021 – 2.2%
- **Unemployment Rate**
 - 2020 – 7.4%
 - 2021 – 5.7%

May 2021 (with Stimulus and Rescue Plan)

- **Personal Income**
 - 2020 – 3.7%
 - 2021 – 5.5%
- **Real GSP**
 - 2020 – (2.0%)
 - 2021 – 5.2%
- **Unemployment Rate**
 - 2020 – 6.3%
 - 2021 – 4.0%

Alabama Personal Income Statistics

- Personal income measures all income received by a state's residents, including:
 - Wages and salaries
 - Supplements to wages and salaries
 - Employer-sponsored health and retirement benefits
 - Income from owning a business
 - Dividends, interest, and rent
 - Government benefits such as
 - Medicare
 - Medicaid
 - Social Security
 - **Payments from programs created through the 2020 Coronavirus Aid, Relief, and Economic Security Act, December 2020 COVID relief bill, and the 2021 American Rescue Plan Act**

Alabama Personal Income Statistics, cont.

- Pre-pandemic Alabama growth rate (Q4 2007 to Q4 2019) = 1.31%
- Alabama growth rate (Q4 2020 to Q4 2021) = 17.45%
- Change in earnings and government transfer payments between Q1 2020 to Q1 2021:
 - Earnings – 1.96%
 - Government transfer payments – 71.73%
- Economic impact payments to Alabama residents
 - December 2020 COVID relief bill = \$2.22 billion
 - 2021 American Rescue Plan Act = \$6.18 billion

Alabama Labor Statistics

- COVID impact:
 - March 2020 seasonally adjusted unemployment rate = 2.6% with 57,985 unemployed persons out of 2.23 million labor force
 - April 2020 seasonally adjusted unemployment rate = 13.2% with 288,253 unemployed persons
- October 2021 – 3.1% preliminary, seasonally adjusted unemployment rate representing 67,829 unemployed persons out of 2.21 million labor force – lowest number of unemployed persons recorded in 2021
- October 2020 – 4.7% seasonally adjusted unemployment rate with 107,301 unemployed persons
- Decrease of 39,472 people unemployed since October 2020
- Seasonally adjusted U.S. jobless claims hit a **52-year low** in mid-November
- Labor market continues to rebound, but labor market participation still a concern

SOURCE: AL Department of Labor



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

- 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
- Prepaid Affordable College Tuition (PACT) appropriations are added to the cap
- Prescribes how excess funds are distributed when 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

- 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 (BSF)
 - Up to 1% of the previous year's ETF appropriations (\$71,603,334 in FY 2021) until the fund reaches 7.5% of the previous year's ETF appropriations
 - In addition to the above transfer, an additional transfer of \$75,000,000 was made in FY 2021 per Act 2021-391
- 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, 2021): \$448.4 million

Advancement and Technology Fund

- 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.
- Remaining funds at the end of FY 2020 were \$242.1 million (transferred at the beginning of FY 2021)
 - Transferred an additional \$65,000,000 in FY 2021 per Act 2021-391
- Total funds appropriated in FY 2021 = \$282.3 million (including a portion of prior balance)
 - K-12 - \$206.0 million
 - Higher Education - \$76.3 million
- Current amount available for appropriation in FY 2022 = \$282.3 million

Advancement and Technology Fund, cont'd

- 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



Education Trust Fund Condition

Condition of the ETF

Fiscal Year 2021

	FY 2021
Beginning Balance	60,536,098
Revenues	8,643,813,063
Total Available Funds	8,704,349,161
 <u>LESS APPROPRIATIONS AND OBLIGATIONS:</u>	
Enacted Appropriations	7,217,422,487
Transfer to Budget Stabilization Fund (Act 2021-391)	75,000,000
Transfer to Advancement and Technology Fund (Act 2021-391)	65,000,000
Other Supplemental Appropriations (Act 2021-391)	72,262,018
Reversions Reappropriated	31,542,626
Total Appropriations and Obligations	7,461,227,131
 Ending Balance (before reversions and adjustments)	1,243,122,030
Reversions and Adjustments	-87,661,101
Ending Balance (after reversions and adjustments)	1,330,783,131

FY 2022 ETF Condition

As of November 30, 2021

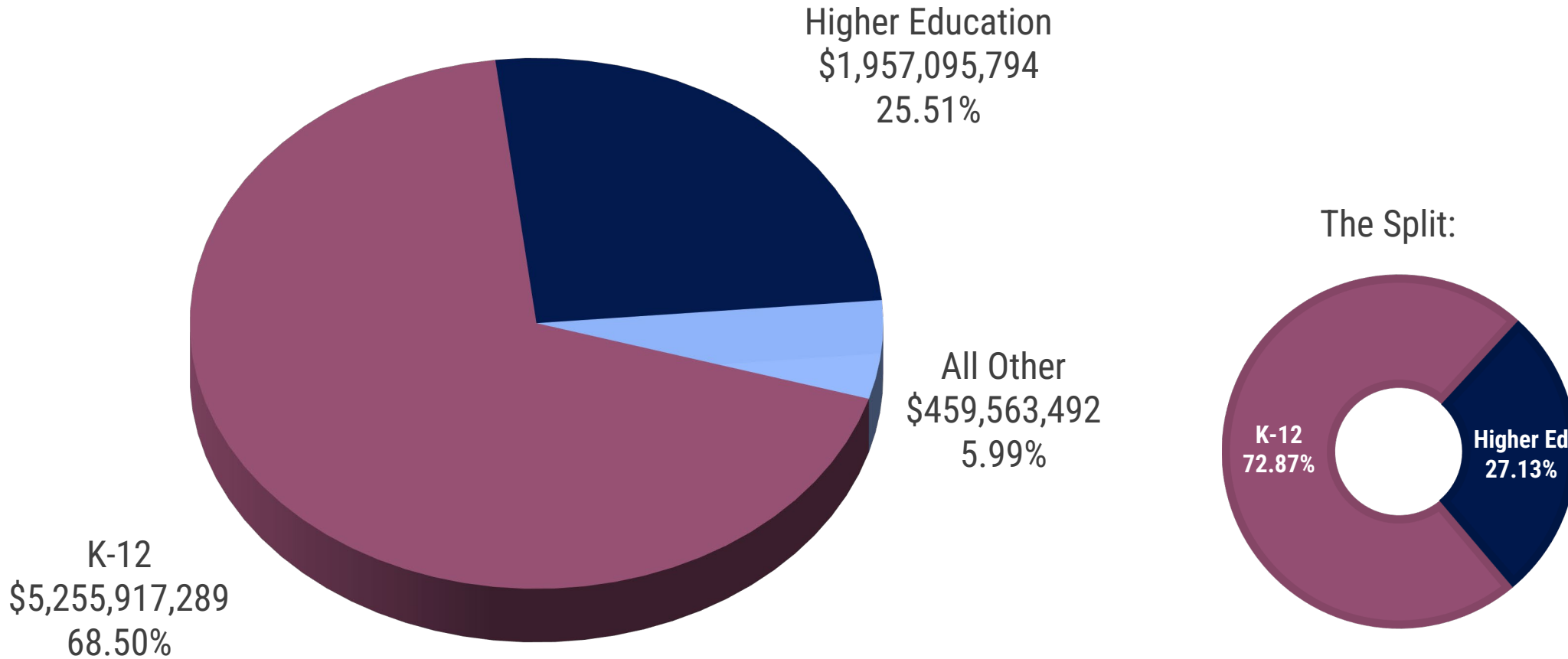
	FY 2022
Beginning Balance (includes only the reversions and adjustments)	87,661,101
YTD Receipts	1,313,652,487
Total Available Funds	1,401,313,588
<u>LESS CURRENT APPROPRIATIONS AND OBLIGATIONS</u>	
Appropriations	7,672,576,575
Reversions Reappropriated	84,187,262
Total Appropriations and Obligations	7,756,763,837
Additional Revenue Needed (December-September)	6,355,450,249
Revenue Received (December-September)	7,451,096,510
Growth Needed	-1,095,646,261



FY 2022 Education Trust Fund Appropriations

ETF Appropriations FY 2022

Education Trust Fund Total: \$7,672,576,757



ETF Highlights for FY 2022

- 2% pay raise for ALL education employees
- Salary Matrix adjustment to provide at least 2% increase for certain steps
- Pre-K - \$29.6 million total increase including an additional \$1.6 million allocated to the Governor's "Strong Start, Strong Finish" initiative
- K-12 Local Boards of Education
 - Foundation Program - \$207.4 million total increase, including:
 - OCE - \$32.2 million
 - Student Materials - \$4.3 million
 - Technology - \$6.9 million
 - Transportation - \$4.6 million increase
 - Technology Coordinators - \$3.8 million increase
 - School Nurses - \$6.7 million increase
 - Teacher Stabilization Program (one-time) - \$95.4 million
 - TEAMS Salary Matrix (new) - \$50 million
- Alabama Reading Initiative - \$2 million increase
- Grant program for unmet needs of K-12 schools (new) - \$3 million
- Special Education Licensed Interpreters Deaf/Hard Hearing Teachers (new) - \$8.5 million
- Advanced Placement - \$2 million increase
- High Needs Special Ed Grant Program - \$7.6 million increase
- Special Ed Pre-School Program - \$12 million increase
- National Board for Professional Teaching Standards - \$2.3 million increase
- Career Tech Initiative - \$11 million increase
- Remote Learning Hub Pilot (new) - \$2 million
- Gifted Students - \$1 million increase



ETF Funding Issues for FY 2022 and FY 2023

FY 2022

- The enacted ETF budget for FY 2022 was the largest in the state's history at \$7.67 billion – \$455.2 million more than FY 2021 (previous high)
- Also, potential for large supplemental appropriations from both ETF and Advancement and Technology Fund
- Will ETF revenue growth continue at current rates?
 - Not likely, based on historical trends
- FY 2022 budgeted ETF appropriations are less than receipts for FY 2021 – revenues would have to decline by over \$1 billion to have any issues with funding in FY 2022
 - Not anticipated at this time
 - Concerns about lingering inflation and additional COVID variants
 - Impact of reduced federal assistance

FY 2023

- Allowable ETF appropriations for FY 2023 will exceed the FY 2022 amount
- PEEHIP did not request an increase in the employer contribution rate for FY 2023
 - No active employee rate increase since FY 2017
- Small increase in the TRS rate for both Tier I and Tier II in FY 2023
 - Less than 0.20% each
- ETF revenue growth
 - The economy will eventually slow down
 - ETF revenues will react quickly to economic conditions
- Looming fiscal cliff when federal funds run out



Thank You.



Kirk Fulford, Legislative Fiscal Officer



334.261.0650



kfulford@lsa.state.al.us



WWW.LSA.STATE.AL.US