

Presentation to the Legislature on Alabama's Financial Condition

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AGENCY

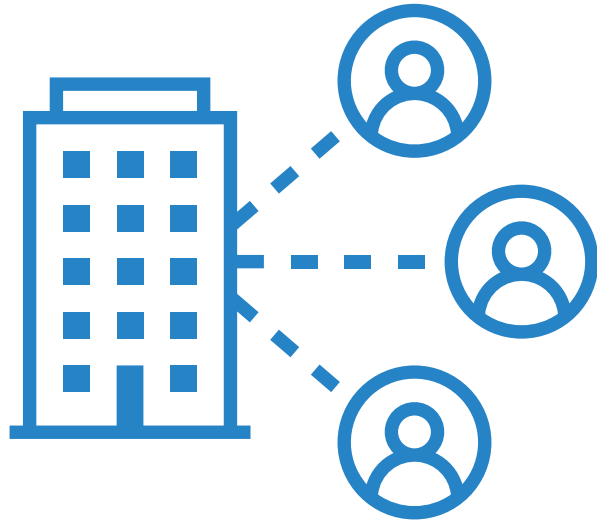
FEBRUARY 5, 2024





Economic Conditions

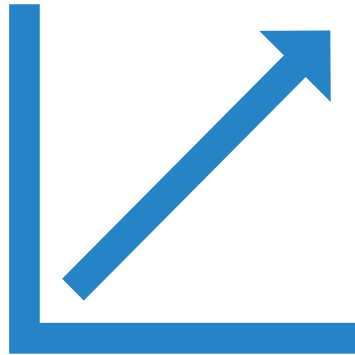
Conditions of the U.S. Economy



Labor Market (December 2024):

- ❑ Total nonfarm payroll employment increased by 256,000
- ❑ Unemployment Rate changed little at 4.1% - the rate has been either 4.1% or 4.2% for the past 7 months.
- ❑ Number of unemployed people at roughly 6.9 million, also changed little.
- ❑ Labor force participation rate was unchanged at 62.5% and has remained in a range of 62.5% to 62.7% since December 2023.
- ❑ Employment to population ratio at 60%, changed little over the month and year.
- ❑ Average hourly earnings for all private nonfarm employees increased by \$0.10 or 0.3% to \$35.69.
- ❑ Over the last 12 months, average hourly earnings have increased by 3.9%.
- ❑ Average workweek for all employees on nonfarm payrolls was 34.3 hours for the 5th month in a row. In manufacturing, the average workweek was 40.0 hours.

Conditions of the US Economy Cont.



Real GDP (December 2024):

- ❑ Increased at an annual rate of 2.3% in the fourth quarter of 2024.
- ❑ Increased at an annual rate of 3.1% in the third quarter of 2024, following an increase of 3.0% annual rate in the second quarter.
- ❑ Increase in GDP in the fourth quarter primarily reflects increases in consumer spending and government spending that were partly offset by a decrease in investments.
- ❑ Deceleration in the fourth quarter primarily reflected downturns in investments and exports.



Consumer Spending for 2024

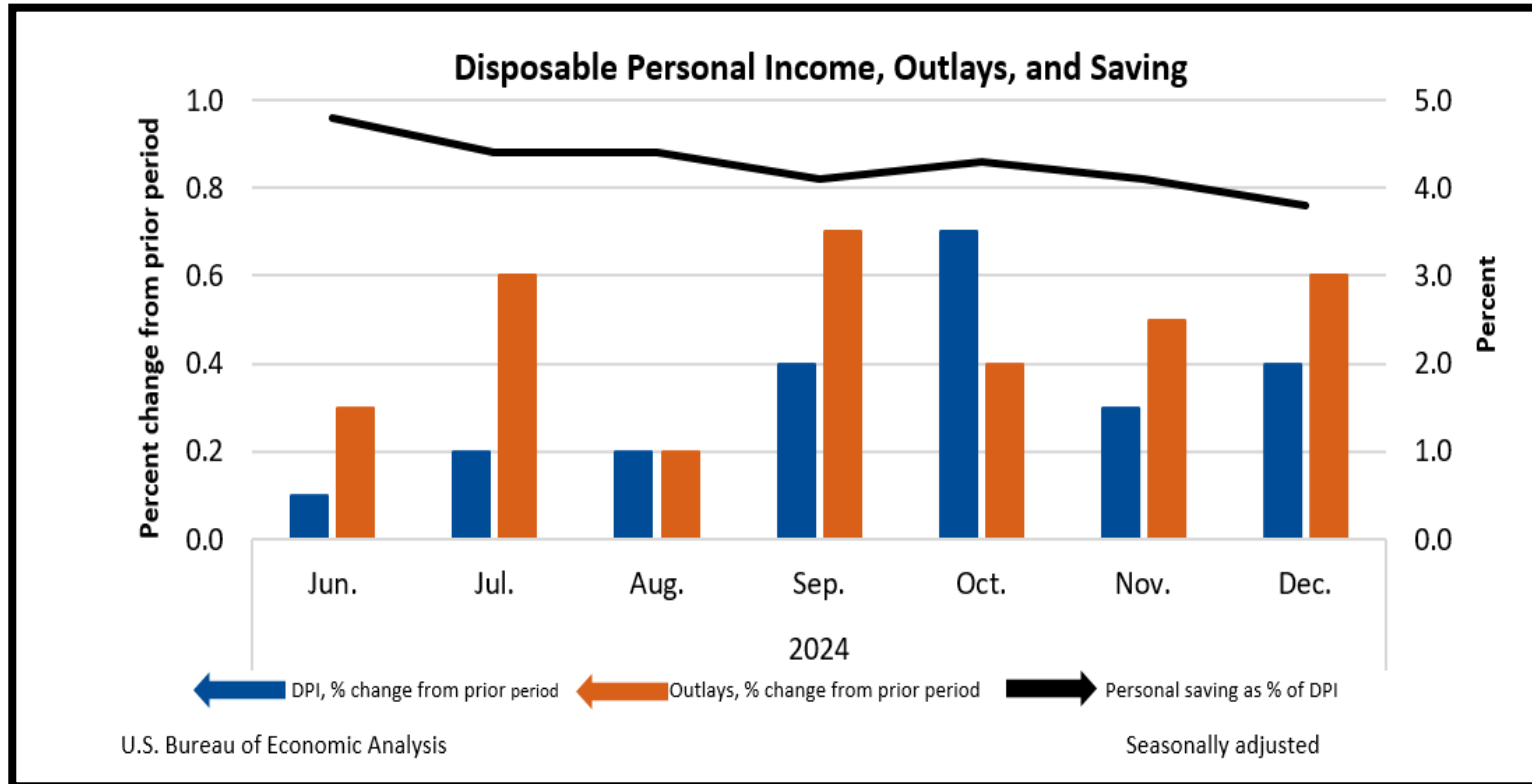
Monthly Consumer Spending:

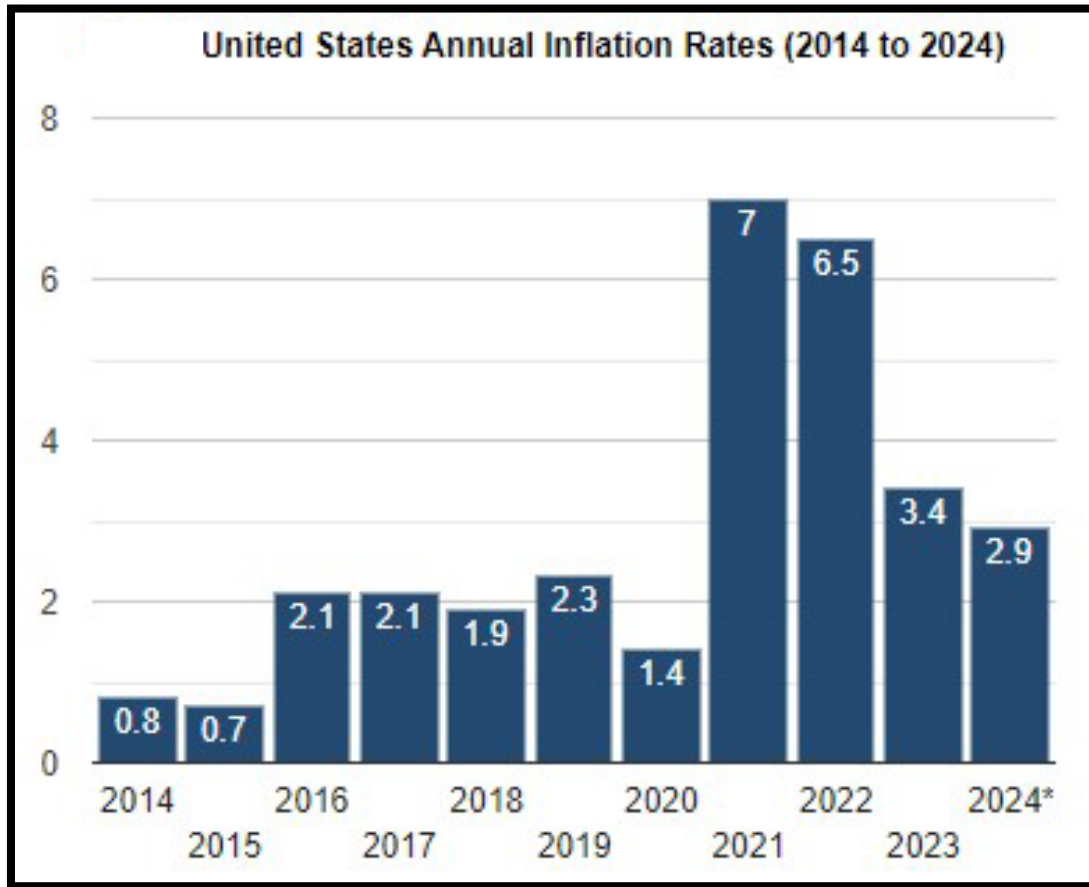
- December +0.7%
- November +0.6%
- October +0.5%
- September +0.7%
- Current—Dollar PCE increase in December of \$133.6 billion reflected an increase of \$78.2 billion in spending for services and \$55.4 billion in spending for goods.

Consumer Savings For 2024

Monthly Personal Savings Rate:

- December +3.8%
- November +4.1%
- October +4.3%
- September +4.1%

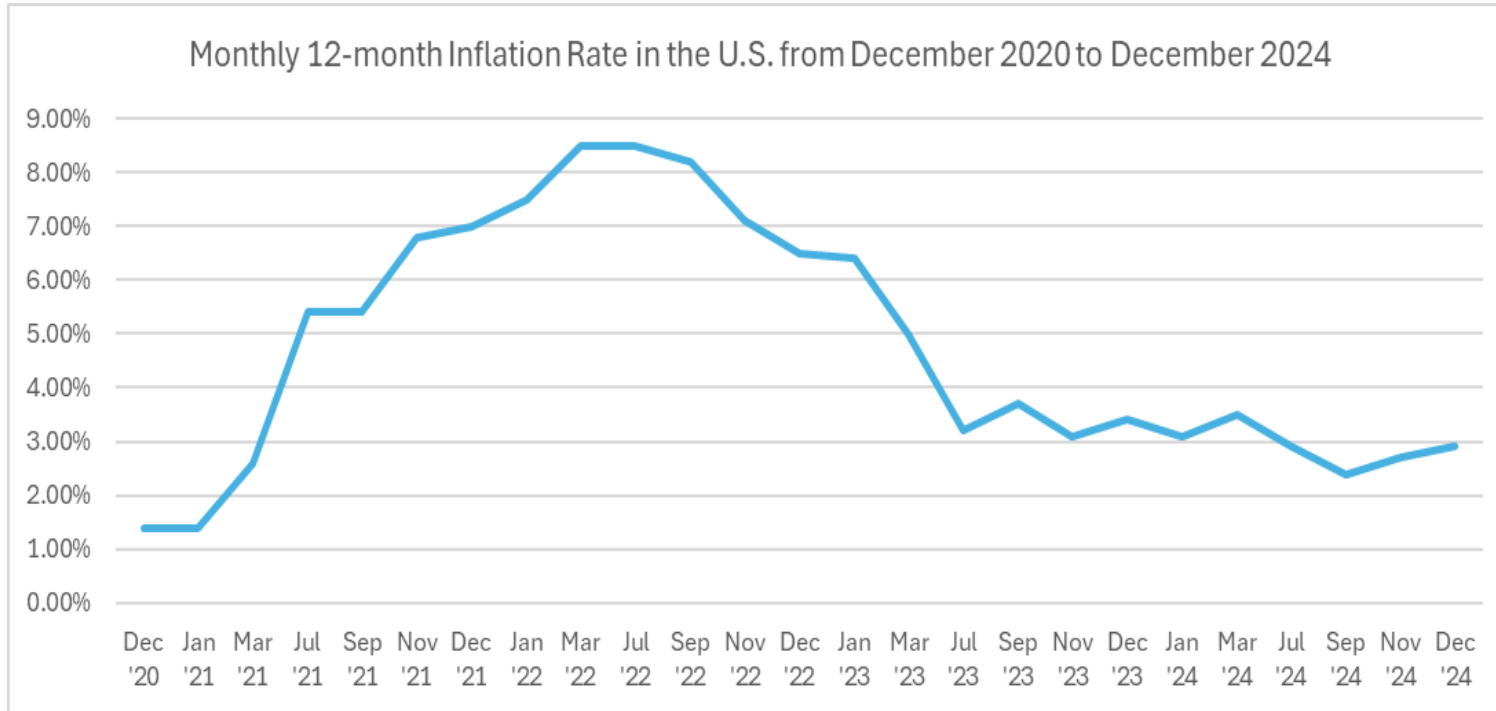




Rate of Inflation

- ❑ Headline annual inflation rate for U.S. was 2.9% for the 12 months ended December 2024.
- ❑ Increase of 0.4%, following a 0.3% increase in November.
- ❑ Highest rate since July and aligned with economic forecasts.
- ❑ Inflation peaked at 9.1% during the 12-month period ending June 2022.

Inflation Trends



- ❑ The December 2024 inflation rate increased to 2.9%, up from the November rate of 2.7%.
- ❑ The December 2024 inflation rate of 2.9% is down from the December 2023 rate of 3.4%.

Federal Reserve's Response to Inflation

- ❑ Following aggressive interest rate hikes in response to post-pandemic inflation that began in 2022 and continued through July 2023, the FOMC began cutting interest rates in September 2024.
- ❑ The final months of 2024 saw actual inflation stall just above the Fed's target of 2% but the progress was sufficient for the fed to cut rates.
- ❑ Total rate cuts of 100 BPS (1%) through December 2024.

Per Federal Reserve press release (1/29/2025):

- ❑ Recent indicators suggest economic activity continues to expand at a solid pace.
- ❑ Labor market condition remains solid.
- ❑ Unemployment rate has stabilized at a low level.
- ❑ Inflation has made progress toward stated goal but remains elevated.
- ❑ **Economic outlook is uncertain.**
- ❑ Decided to maintain the federal funds rate—**no change.**
- ❑ FOMC will continue to monitor economic data and risks when considering extent and timing of further cuts.

Alabama Economy

Labor Market (December 2024):

3.3% preliminary seasonally adjusted unemployment rate, up from the November rate of 3.1%.

- December is above the December 2023 rate of 2.8%

The unemployment rate represented 76,643 unemployed persons, compared to 73,265 in November and 64,101 in December 2023.

The labor force participation rate increased by one-tenth percentage point to 57.7%

- Over the year, the percentage has **increased by three-tenths of a percentage point.**
- Number of people counted as employed increased by 18,803 over the year to 2,280,007.

The Civilian labor force was 2,356,650, a new record high, with 31,345 more people joining over the year

Wage and salary employment increased by 39,000 to 2,234,300, also a new record high.

- Gains were seen in private education and health services (+11,500), leisure and hospitality (+7,800), government (+6,500), among others

Real GDP (3rd Quarter): Increased by 6.0% at an annual rate—higher than all states except Arkansas (6.9%).

Current Dollar Personal Income (3rd Quarter): Increased by 5.0% at an annual rate—higher than all states except Arkansas (5.4%).

Unemployment and Workforce Participation

(as of December 2024)

UNEMPLOYMENT RATE

	Pre Pandemic (2019)	Post Pandemic (2024)
United States	3.5%	4.1%
Alabama	3.1%	3.3%

WORKFORCE PARTICIPATION

	Pre Pandemic (2019)	Post Pandemic (2024)
United States	63.2%	62.5%
Alabama	58.6%	57.7%

Alabama Unemployment Rate





FY 2024 Review

General Fund EOY Net Receipts

Revenue Source	FY 23	FY 24	Difference	Percent
ABC Board	\$173,591,676	\$171,472,347	-\$2,119,329	-1.22%
Ad Valorem Taxes	\$214,269,126	\$239,777,012	\$25,507,886	11.90%
Alabama Trust Fund	\$118,659,764	\$125,330,370	\$6,670,606	5.62%
Cigarette Tax	\$121,179,471	\$109,748,356	-\$11,431,115	-9.43%
Corporation Tax	\$103,450,258	\$103,545,858	\$95,600	0.09%
Court Costs	\$64,233,346	\$65,448,528	\$1,215,182	1.89%
Financial Institutions Excise Tax	\$78,540,392	\$35,447,779	-\$43,092,613	-54.87%
Insurance Company Taxes	\$584,440,292	\$634,326,502	\$49,886,210	8.54%
Interest on State Deposits	\$404,602,014	\$557,339,779	\$152,737,765	37.75%
Leasing and Rental Tax	\$101,923,183	\$108,971,952	\$7,048,769	6.92%
Lodgings Tax	\$82,430,243	\$83,544,940	\$1,114,696	1.35%
Mortgage Tax	\$35,639,392	\$33,509,092	-\$2,130,301	-5.98%
Oil and Gas Taxes	\$33,066,619	\$24,664,852	-\$8,401,767	-25.41%
Sales Tax	\$152,038,233	\$151,262,892	-\$775,341	-0.51%
Simplified Sellers Use Tax	\$276,697,316	\$316,156,569	\$39,459,253	14.26%
Use Taxes	\$350,362,458	\$365,018,511	\$14,656,053	4.18%
Other	\$297,548,449	\$295,781,208	-\$1,767,241	-0.59%
Subtotal	\$3,192,672,232	\$3,421,346,547	\$228,674,316	7.16%
Transfers and Reversions	\$46,917,411	\$44,800,751	-\$2,116,660	-4.51%
TOTAL	\$3,239,589,643	\$3,466,147,298	\$226,557,655	6.99%

EOY Condition of the SGF Fiscal Year 2024

	FY 2024
Beginning Balance	\$717,456,188
Revenues	<u>\$3,466,147,298</u>
Total Available Funds	\$4,183,603,486
<u>LESS APPROPRIATIONS AND OBLIGATIONS:</u>	
Enacted Appropriations	\$3,418,975,438
Reversions Reappropriated	<u>\$215,268,008</u>
Total Appropriations and Obligations	\$3,634,243,446
Ending Balance (before reversions and adjustments)	\$549,360,040
Reversions and Adjustments	-\$210,287,375
Ending Balance (after reversions and adjustments)	\$759,647,415

Allocation of FY 24 SGF Ending Balance

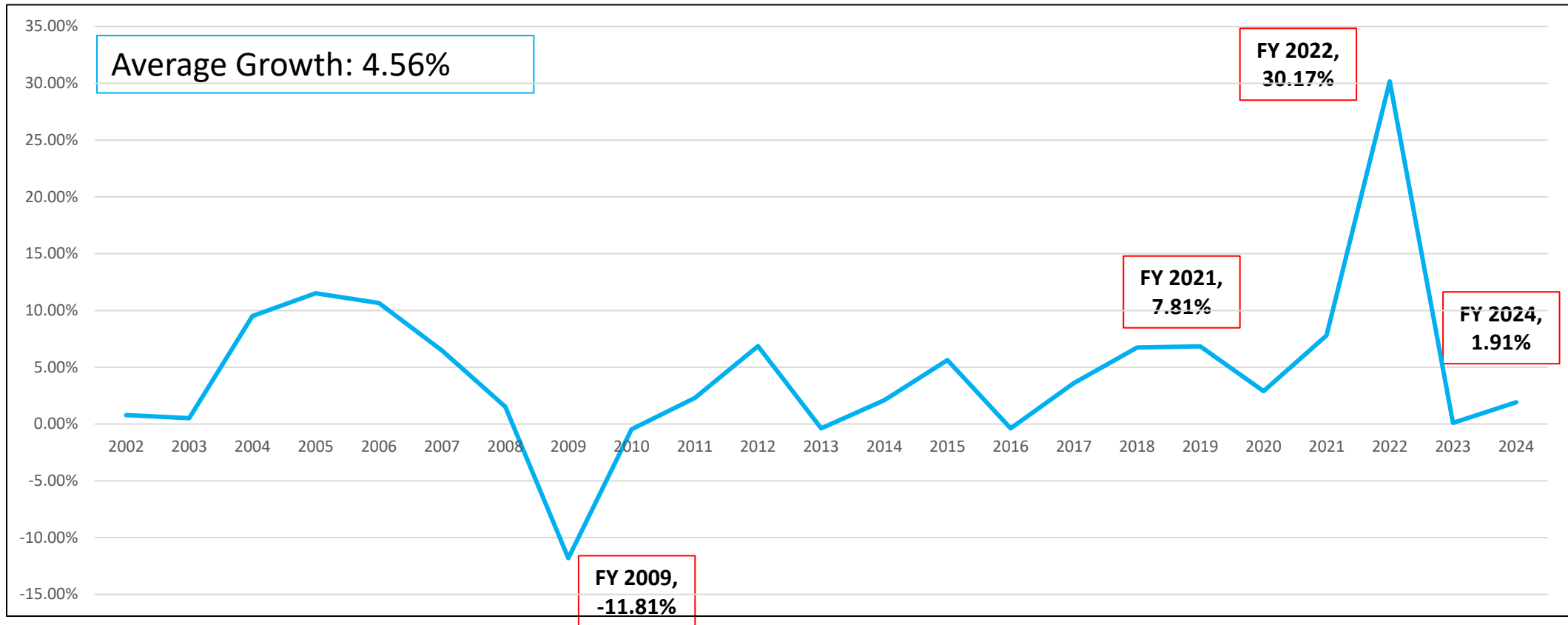
As of December 31, 2024

Agency/Fund	Amount
Reversions Reappropriated	191,048,183
Corrections – Correctional Capital Improvement Fund (conditional released)	200,000,000
Corrections – Correctional Officers/Correctional Capital Improvement Fund (conditional released)	50,000,000
Legislative Council for State House	35,000,000
Other conditionals released	<u>13,000,000</u>
TOTAL	489,048,183

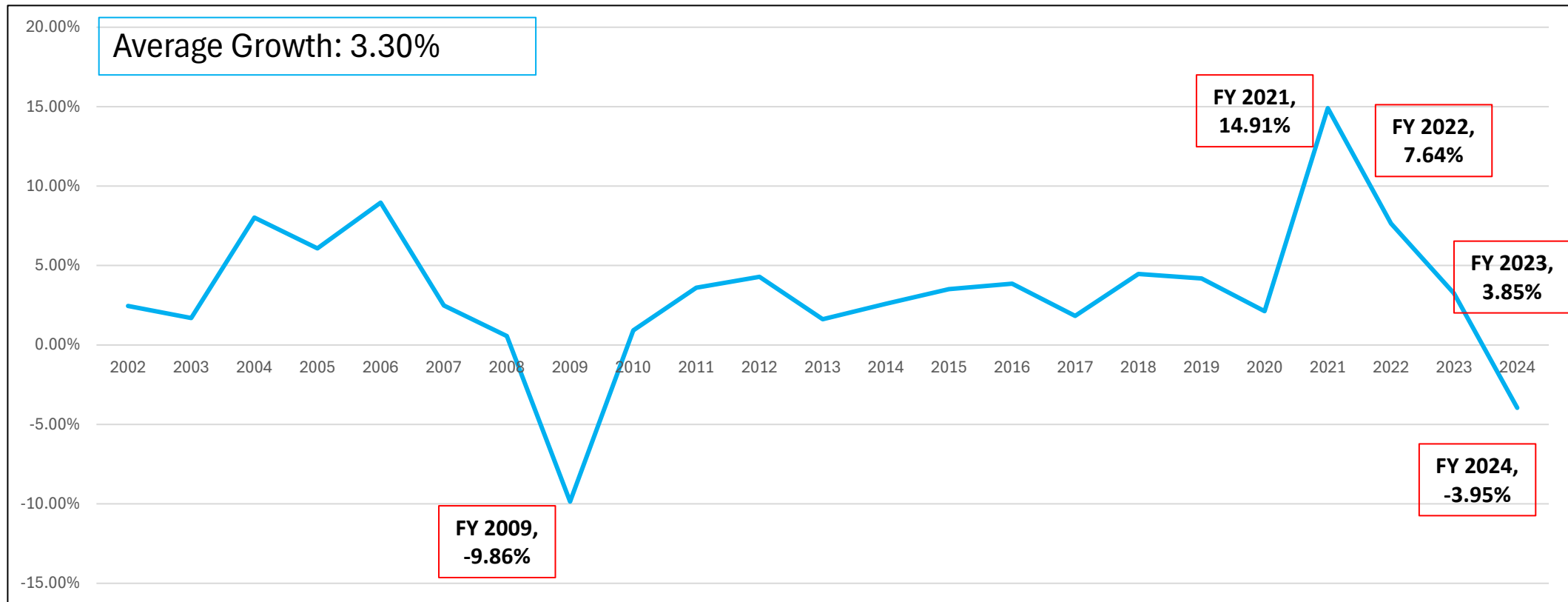
Education Trust Fund EOY Net Receipts

	FY 2023	FY 2024	Difference FY 24 vs. FY 23	% Difference
Beer Tax	\$22,597,381	\$21,461,147	-\$1,136,234	-5.03%
Hydroelectric Tax	\$557,070	\$3,585	-\$553,485	-99.36%
Income Tax	\$7,032,093,931	\$7,267,128,927	\$235,034,996	3.34%
Sales Tax	\$2,592,614,517	\$2,543,942,368	-\$48,672,149	-1.88%
Simplified Sellers Use Tax	\$92,232,439	\$105,385,523	\$13,153,084	14.26%
Use Taxes	\$258,761,926	\$256,741,021	-2,020,905	-0.79%
Utility Tax	\$421,950,643	\$425,813,175	\$3,862,532	0.92%
All Other	<u>\$8,579,279</u>	<u>\$8,318,856</u>	<u>-\$260,423</u>	-3.04%
Subtotal	\$10,429,387,186	\$10,628,794,602	199,407,416	1.92%
<i>Transfers and Reversions</i>	<u>\$1,572,999</u>	<u>\$31,753,991</u>	<u>\$30,180,992</u>	<u>1918.69%</u>
Grand Total	\$10,430,960,185	\$10,660,548,593	\$229,588,408	2.20%

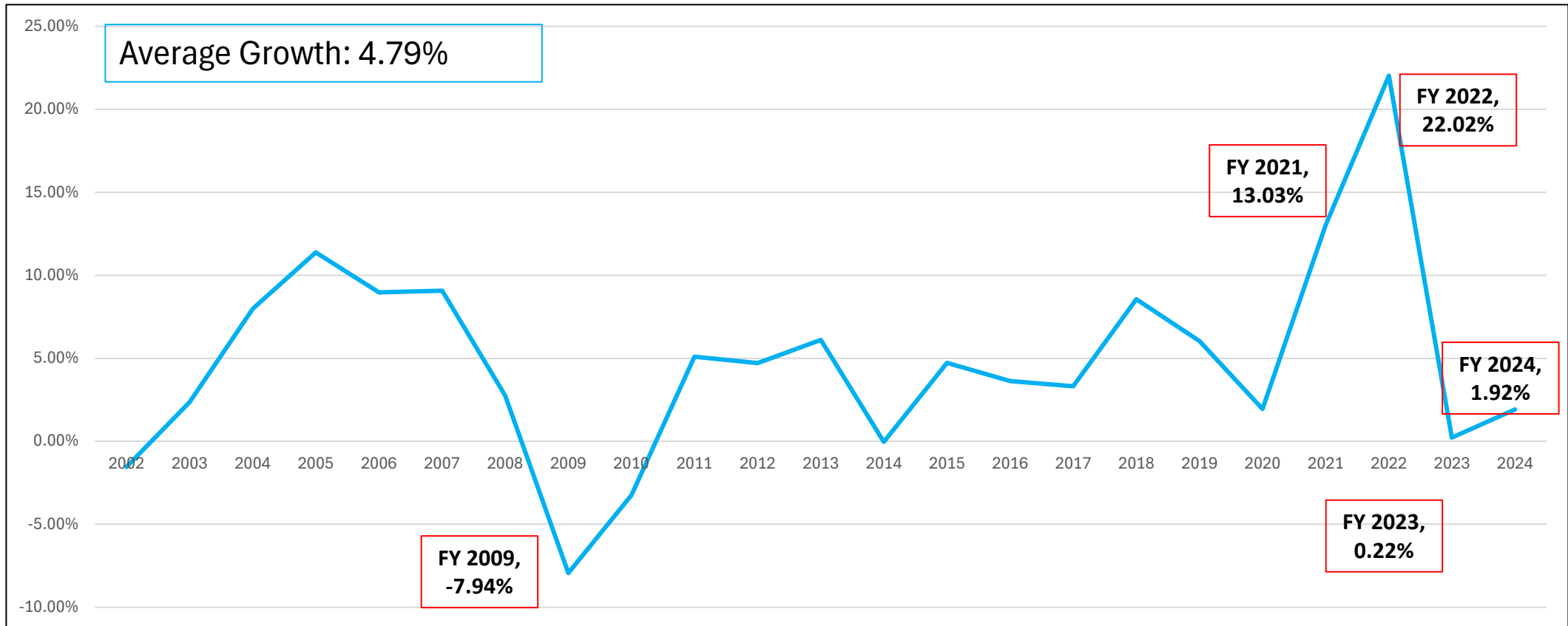
% Growth in ETF Recurring Revenues Since FY 2002



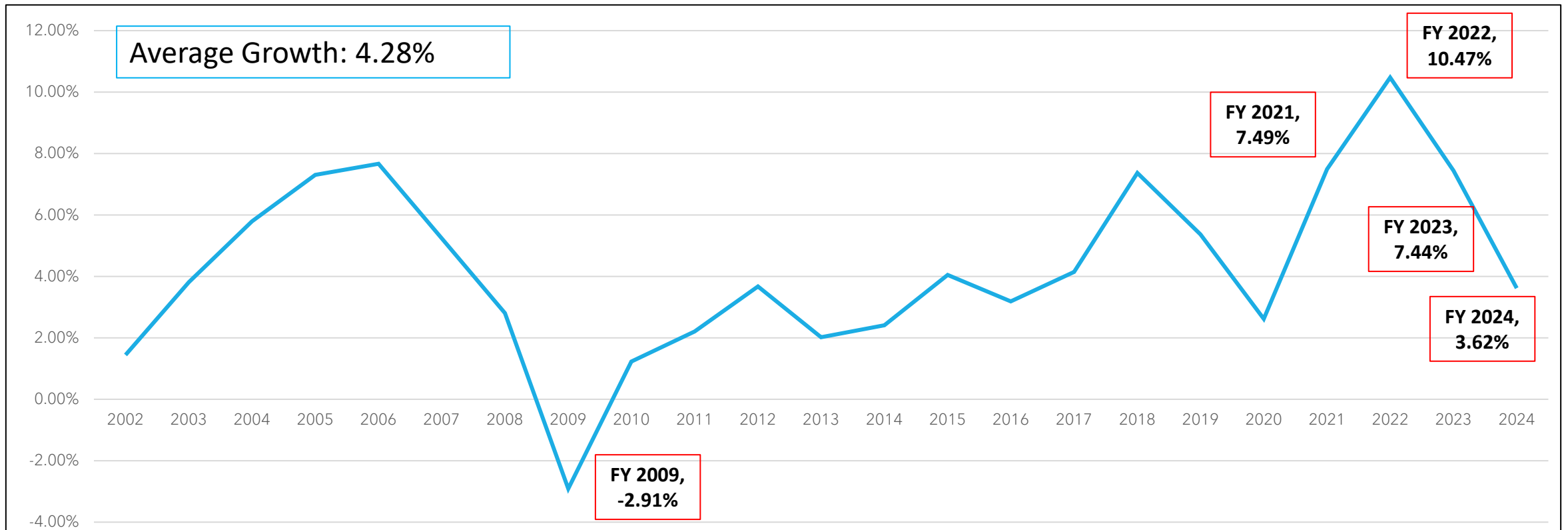
% Growth in Gross Sales Tax Since FY 2002



% Growth in Gross Individual Income Tax Since FY 2002



% Growth in Withholding Payments Since 2002



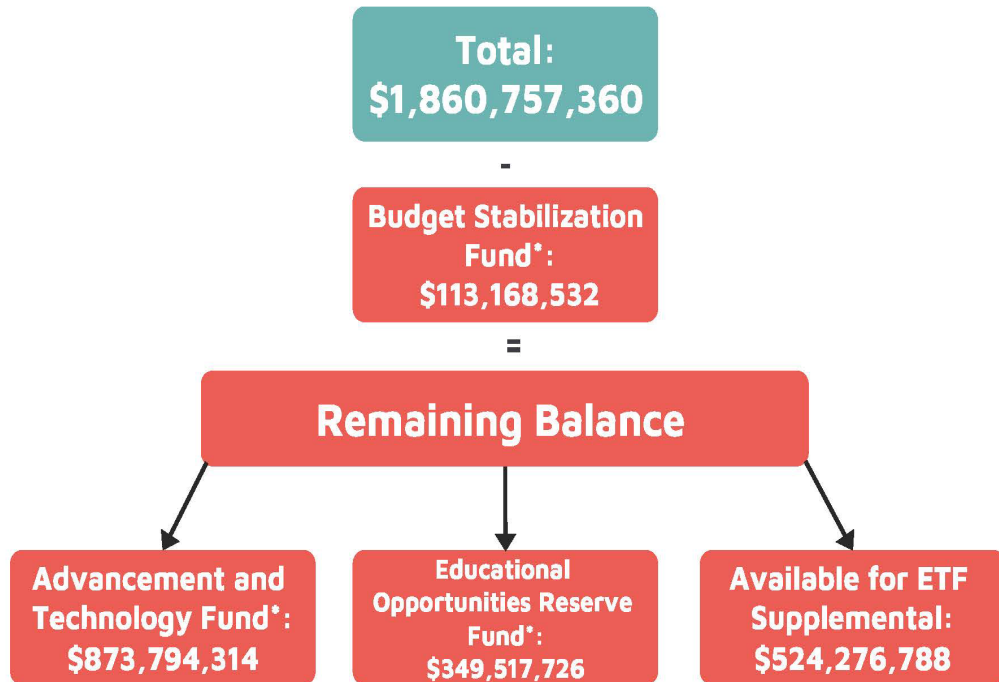
EOY Condition of the ETF Fiscal Year 2024

	FY 2024
Beginning Balance	\$2,518,997,462
ETF Revenues	<u>\$10,660,548,592</u>
TOTAL AVAILABLE (beginning balance, plus receipts)	\$13,179,546,054
Enacted ETF Appropriations	\$9,480,295,192
Transfer to Budget Stabilization Fund	\$111,698,094
Transfer to Advancement and Technology Fund	\$1,000,000,000
Transfer to Educational Opportunities Reserve Fund	\$412,800,727
ETF Reversions Reappropriated	<u>\$312,059,145</u>
TOTAL ETF APPROPRIATIONS AND OBLIGATIONS	\$11,316,853,158
ENDING BALANCE BEFORE REVERSIONS AND ADJUSTMENTS	\$1,862,692,896,
Reversions and Adjustments	-\$453,225,632
TOTAL ENDING BALANCE	\$2,315,918,528



Allocation of ETF Excess Funds

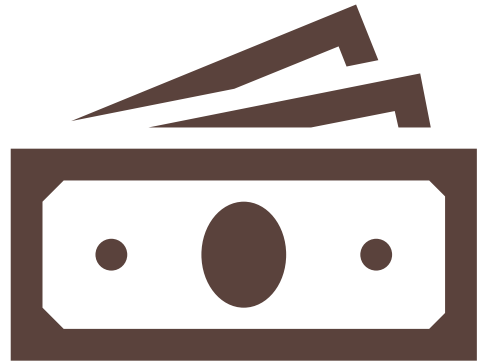
Pursuant to the Rolling Reserve Act



FY25 Allocation of FY24 ETF Ending Cash Balance Before Reversions

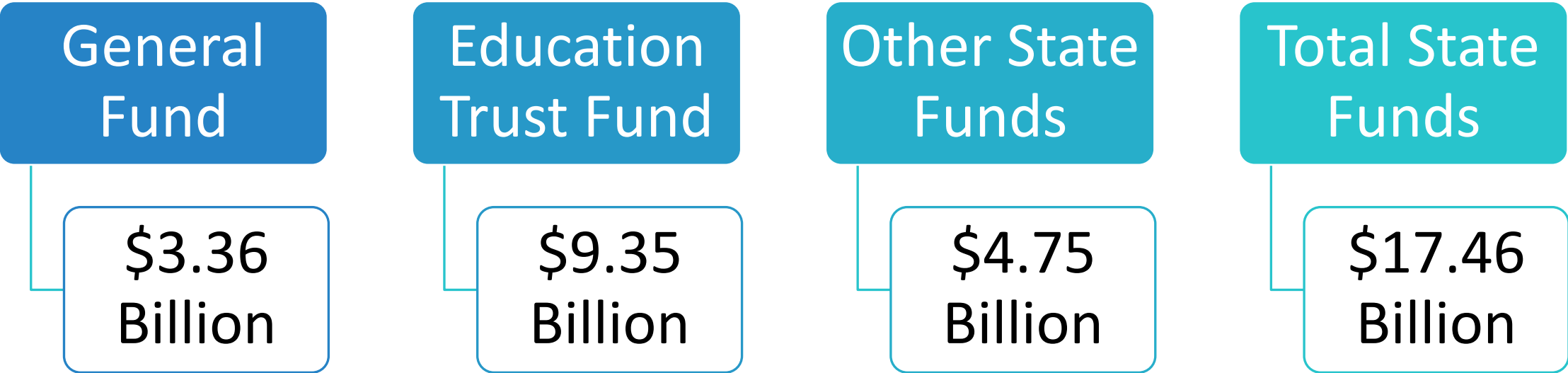
*Funds to be transferred by May 31, 2025

*As of November 4, 2024



Appropriations Funds for FY 2025

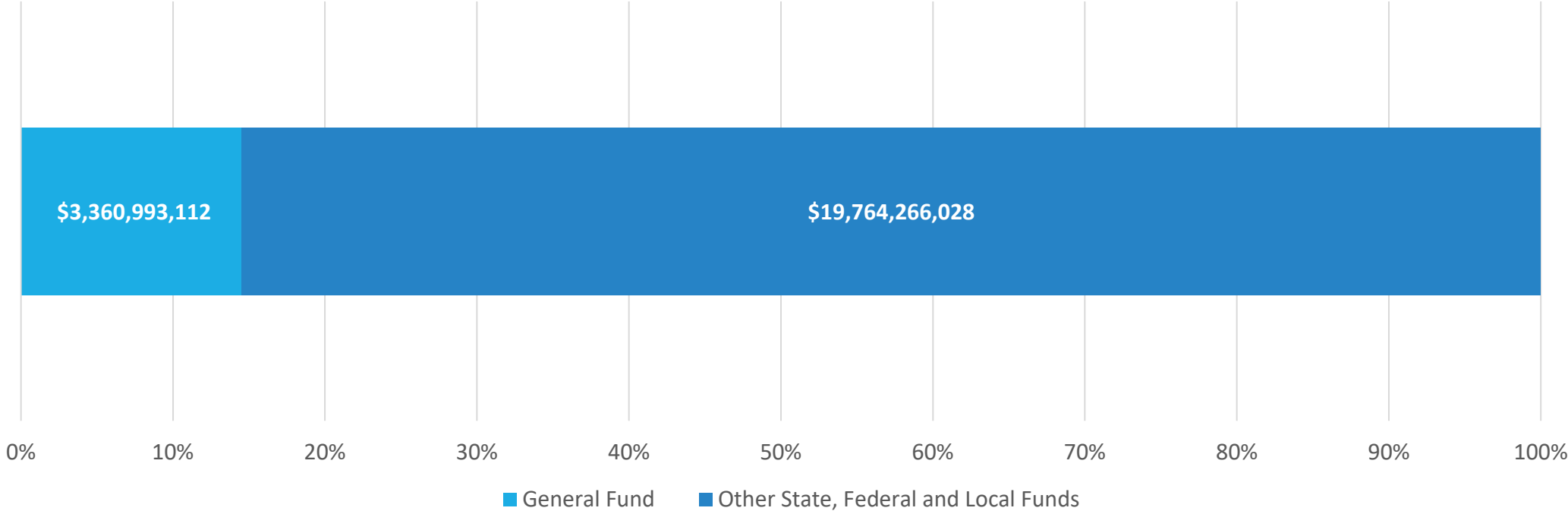
Appropriation of all State Funds FY 2025 (As Enacted)



FY 2025 SGF Appropriations Act

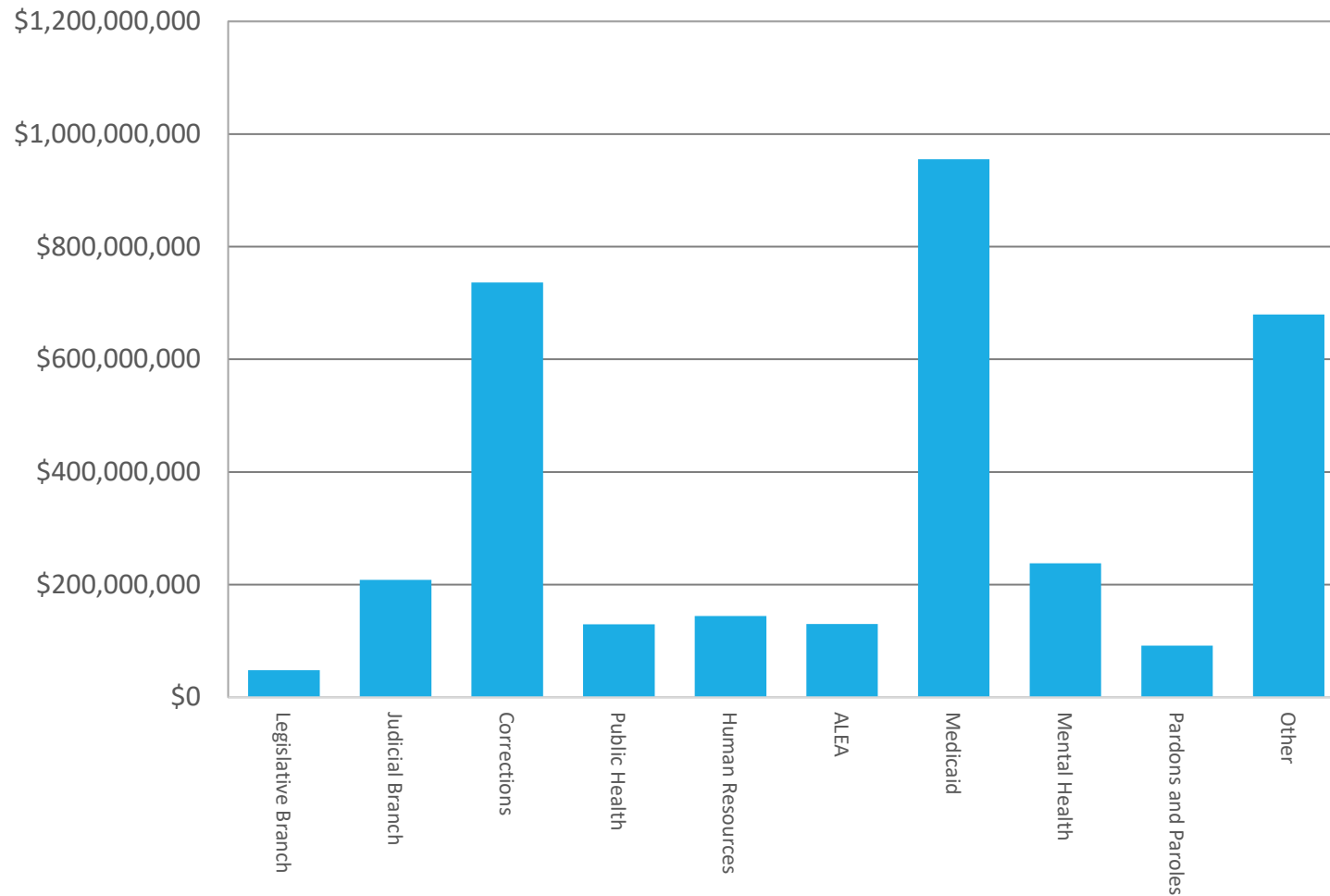
Total Funds Appropriated: \$23,125,259,140

Summary of how much money was appropriated in total in the General Fund Appropriation Act (Act 2024-355).



FY 2025 SGF Appropriations

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



FY 2025 Other Funds Appropriations

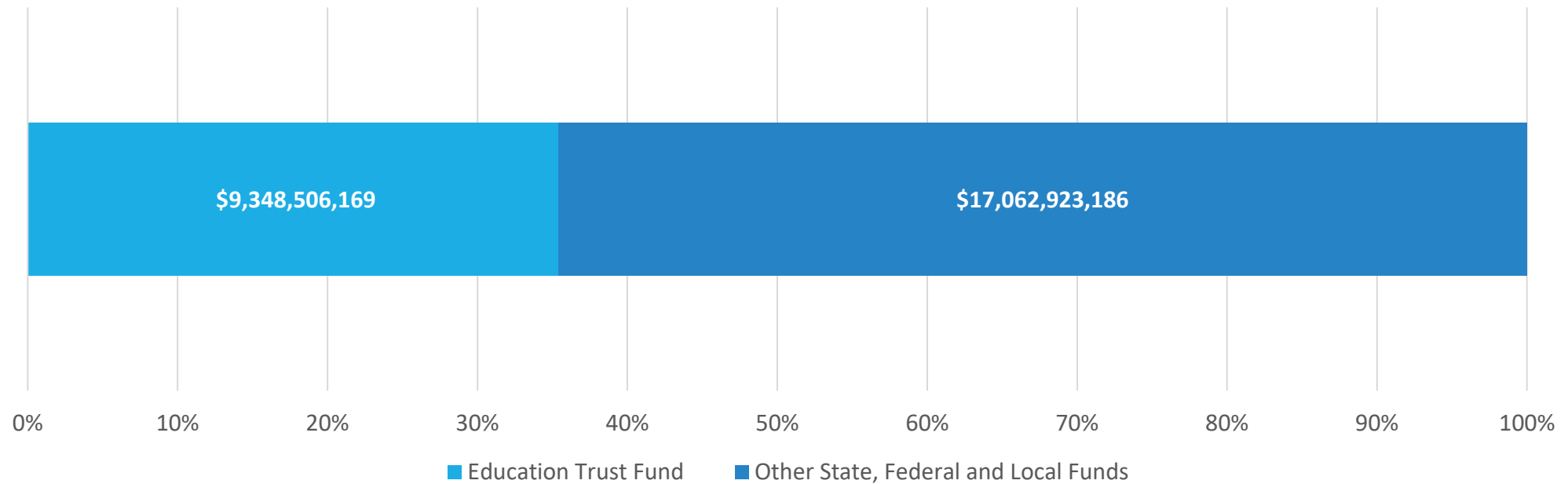
Total appropriations from sources other than the General Fund are broken down by agencies for a closer look into where the money was allocated.

Agency	Appropriations from Other State Funds	Appropriations from Federal and Local Funds
Medicaid	\$1,541,407,012	\$7,197,249,244
Transportation	\$790,071,250	\$1,283,175,000
Public Health	\$276,602,978	\$857,468,602
Human Resources	\$246,123,712	\$2,399,794,918
Mental Health	\$244,278,583	\$850,241,702
Corrections	\$113,391,352	
Other	\$2,049,048,007	\$3,675,872,347

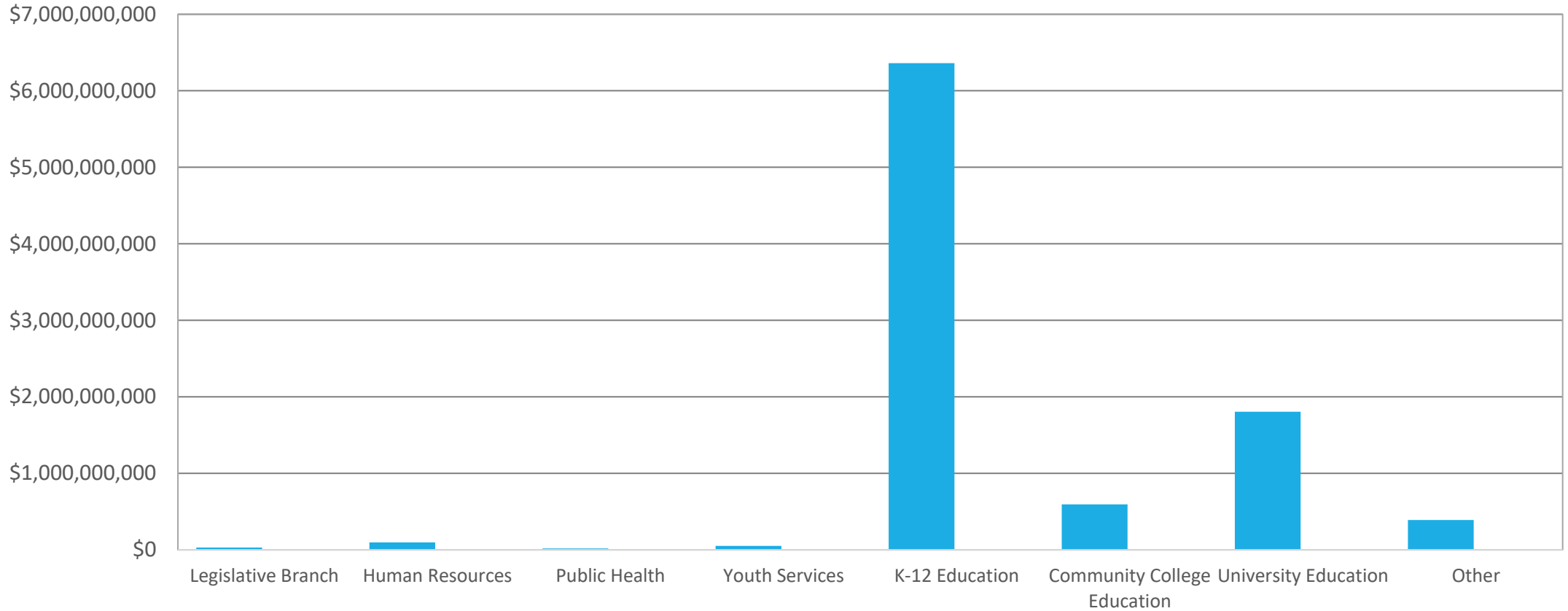
FY 2025 ETF APPROPRIATIONS ACT

Total Funds Appropriated: \$26,411,429,355

Summary of how much money was appropriated in total in the Education Appropriation Act (Act 2024-351).



FY 2025 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 2025 Other Funds Appropriations

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.

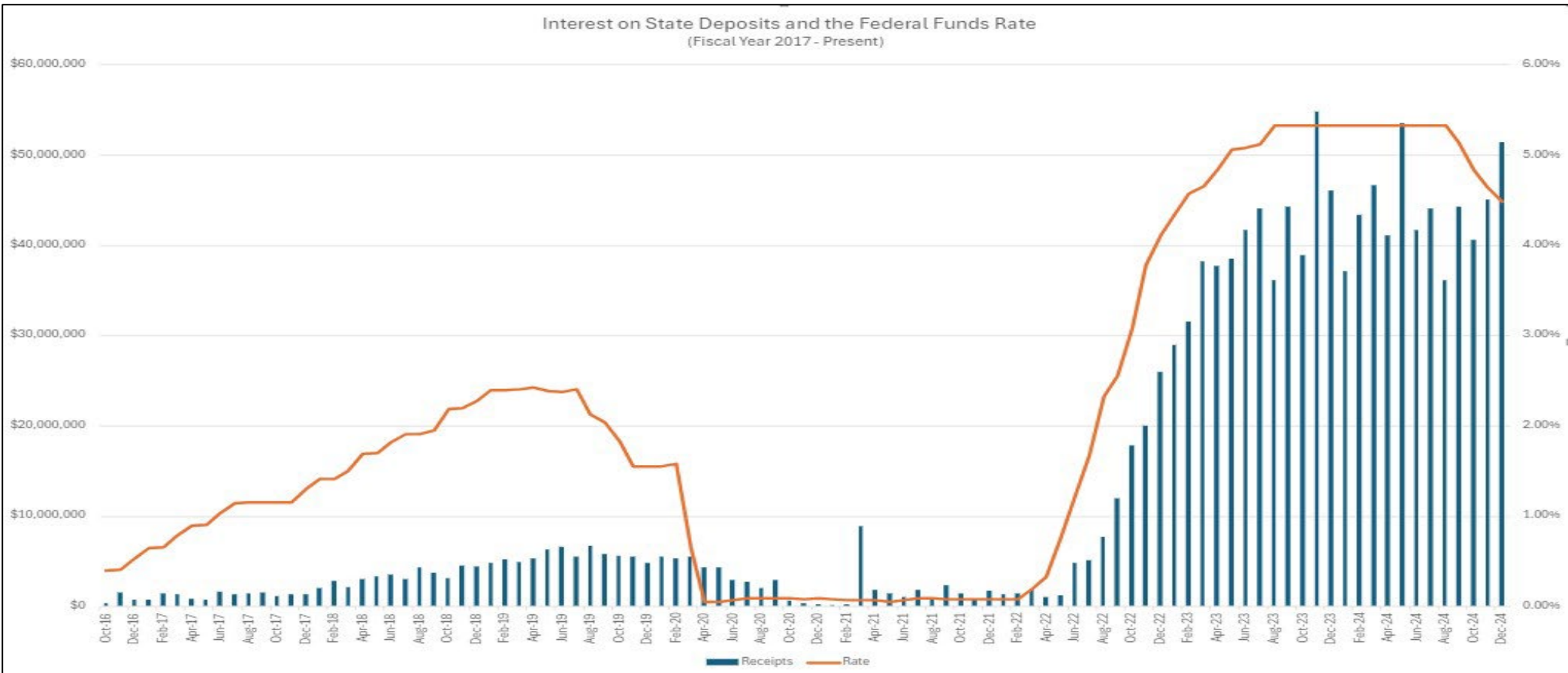
Agency	Appropriations from Other State Funds	Appropriations from Federal and Local Funds
K-12 Education	\$227,047,023	\$5,222,221,515
Community College Education	\$12,000,000	\$733,638,277
University Education		\$10,506,132,965

FY 2025 and FY 2026 Budget Outlook

Condition of the SGF FY 2025 and FY 2026

	FY 2025	FY 2026	Difference
BEGINNING BALANCE	\$549,360,040	\$362,305,044	-\$187,054,997
Reversions	210,287,375		-210,287,375
Receipts (LSA Certified Estimates)	3,453,739,897	3,397,094,771	-56,645,126
TOTAL AVAILABLE	4,213,387,313	3,759,399,815	-453,987,498
LESS EXPENDITURES:			
Budgeted Appropriations	3,362,034,086	3,360,993,112	-1,040,974
Ending Balance Conditionals Released	248,000,000		-248,000,000
Corrections – Conditional Released (staffing/prisons)	50,000,000		-50,000,000
Reversions Reappropriated	191,048,183		-191,048,183
Supplemental Appropriations			
TOTAL APPROPRIATIONS AND OBLIGATIONS	\$3,851,082,269	\$3,360,993,112	-\$490,089,157
PROJECTED ENDING BALANCE	\$362,305,044	\$398,406,703	\$36,101,659

Interest on State Deposits History



ETF Rolling Reserve Act: With Act 2023-390 Changes

- Effective **beginning in FY 2024**
- Establishes a secondary spending limit for annual appropriations from the ETF equal to 106.5% of prior year appropriations in FY 2024, reduced by .25% annually to 105.75% in FY 2027 and thereafter
- Caps annual appropriations from the ETF to the appropriation cap, or secondary spending limit whichever is less
 - Drops the high and low growth years from the calculation of the appropriation cap
- Creates the ***Educational Opportunities Reserve Fund*** and provides for the use of funds
- Prescribes a new allocation of annual ETF receipts in excess of expenditures, including:
 - Budget Stabilization Fund – an amount equal to 1% of prior year ETF expenditures
 - Advancement and Technology Fund – 50% of the remaining balance, not to exceed \$1 billion annually
 - Educational Opportunities Reserve Fund – 20% of the remaining balance

Advancement and Technology Fund

Any amount of the available balance may be appropriated through a supplemental appropriation bill and divided between K-12 public schools and institutions of higher education in accordance with the percentage split between the two sectors



Allowable one-time expenses:

- Repairs/deferred maintenance of facilities
- Capital outlay
- Classroom instructional support
- Insuring facilities
- Transportation
- School security measures
- Educational technology and equipment

Balance After FY 2025 Transfer: \$1.66 billion

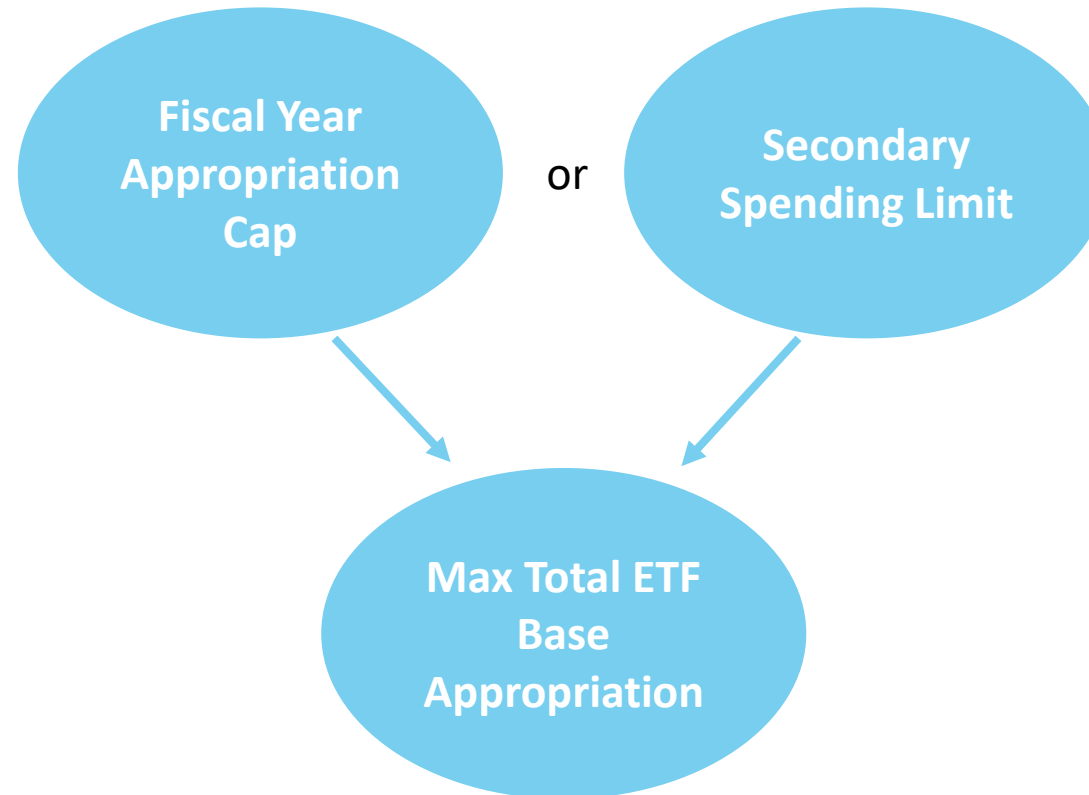
Educational Opportunities Reserve Fund

- May be withdrawn through a supplemental appropriation bill
- Allowable one-time uses:
 - To offset a reduction in revenues to the ETF that could negatively impact funding for budgeted obligations from the ETF for the current fiscal year
 - To provide funding for unanticipated obligations
 - To sustain required programmatic increases for existing ETF obligations in the event of a change in economic conditions
 - To maintain prior year appropriation levels, if the computation of the fiscal year appropriation cap or secondary spending limit is less than prior year base ETF appropriations
 - For start-up or transitional support for initiatives that provide access to enhanced educational opportunities to all public K-12 or higher education students in the state, or both
- **Balance after FY 2025 transfer: \$1.12 billion**

Rolling Reserve Act Allowable ETF Appropriations

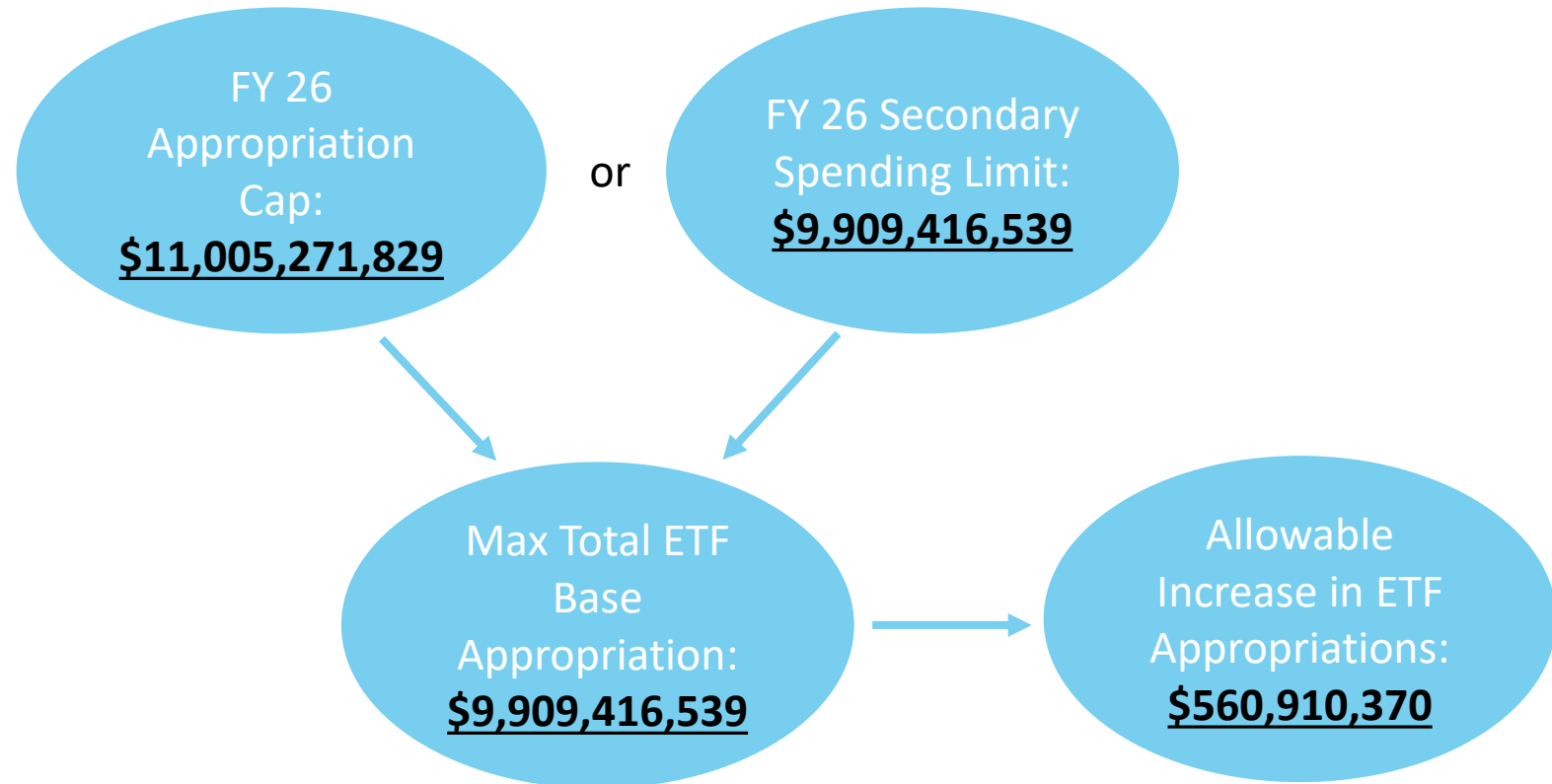
(Formula)

The lesser of the two:



FY 2026 Allowable ETF Appropriations

The lesser of the two:



Condition of the ETF FY 2025 and FY 2026

	Estimated FY 2025	Estimated FY 2026	Difference
BEGINNING BALANCE	\$2,315,918,528	\$1,580,527,828	-\$282,165,068
TOTAL RECEIPTS (Fiscal Division estimates)	10,885,691,677	11,130,155,219	244,463,542
TOTAL AVAILABLE (beginning balance plus total receipts)	13,201,610,205	12,710,683,047	-490,927,158
Regular Appropriations (FY 2025 as enacted, FY 2026 Equals Secondary Spending Limit)	9,332,104,640	9,909,416,539	577,311,899
Reversions Reappropriated (as of 12/31/2024)	428,220,377		-428,220,377
Assumed supplemental appropriations (maximum available)	524,276,788	439,295,101	-84,981,687
Transfer to Educational Opportunities Reserve Fund*	349,517,726	292,863,401	-56,654,325
Transfer to Budget Stabilization Fund*	113,168,532	116,210,824	3,042,292
Transfer to Advancement and Technology Fund*	873,794,314	732,158,502	-141,635,812
TOTAL APPROPRIATIONS AND OBLIGATIONS	\$11,621,082,377	\$11,489,944,367	-\$131,138,010
ESTIMATED ENDING BALANCE	\$1,580,527,828	\$1,220,738,680	-\$359,789,148

*Equals estimated allocations pursuant to the updated Rolling Reserve Act

Sales Tax on Food

- Food defined in the state sales and use tax statutes as it is defined for Supplemental Nutrition Assistance Program (SNAP).
- Separate state tax rate for food established at 4%, reduced to 3% on September 1, 2023.
- **Tax rate would have been further reduced to 2% on September 1, 2025, if average estimated growth in total net receipts to the Education Trust Fund for fiscal year 2026 certified by Director of Finance and Legislative Fiscal Officer was at least 3.5% higher than previous year.**
- Estimated growth requirement **not met** for FY 2026 based on certified revenue estimates (average growth of less than 3%).
- The rate will be reduced in a subsequent fiscal year when growth requirement is satisfied.

Funding Issues To Consider

SGF Funding Issues

- Flattening out/ possible declining revenues over the next few years as federal and other invested funds are expended and potential for additional interest rate cuts.
- Managing expectations - large supplemental appropriations due to excess funds.
- Requested increase by Medicaid of over \$228 million to maintain existing program.
- Requested increase by Corrections of over \$217 million for staffing, healthcare contract increase, capital outlay, and food service contract increase.
- Requested increase by Public Health for CHIP of over \$28 million.
- Requested increase in employer rate for SEIB from \$1,005/per month to \$1,055/per month— total cost to fund requested increase \$20.5 million.
- Others

ETF Funding Issues

- ❑ Expiring ESSER Funds.
- ❑ Maximum allowable ETF supplemental appropriations = **\$524.3 million**.
- ❑ Advancement and Technology Fund available balance **\$1.66 billion – possible supplemental**
- ❑ Total allowable increase in ETF appropriations for FY 2026 = **\$560.9 million**.
- ❑ Discussion of Student-weighted hybrid funding
- ❑ PEEHIP requested employer rate increase from \$800 per month to \$904 per month—first increase since 2017.
 - ❑ Total increase in employer cost = \$124 million
 - ❑ Est. amount from ETF = \$89.5 million
- ❑ TRS requested employer rate increase of 1% for both Tier I and Tier II.
 - ❑ Total increase in employer cost = \$114.9 million
 - ❑ Est. amount from ETF = \$68.4 million
- ❑ CHOOSE Act funding, programmatic increases for Numeracy Act and Reading Initiative, Summer and After School program, higher education funding, etc.



Questions?



Thank You

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