

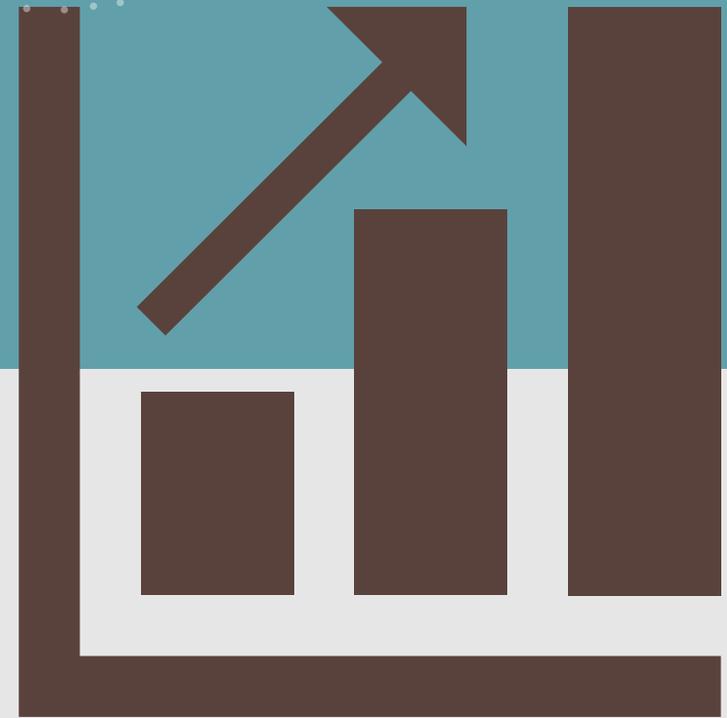
# Presentation to the Legislature on Alabama's Financial Condition

Kirk Fulford  
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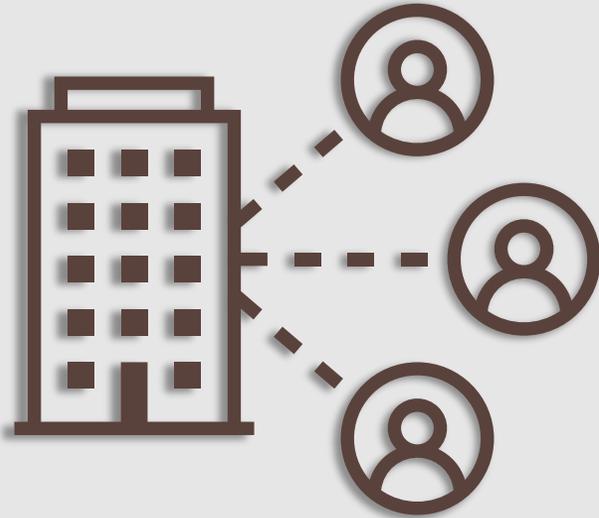
January 14, 2026



# Economic Conditions



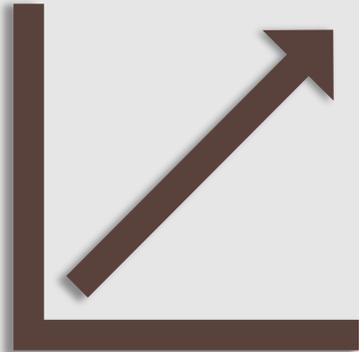
# Conditions of the U.S. Economy



## Labor Market (December 2025):

- ❑ Total nonfarm payroll employment changed little (+50,000).
- ❑ The unemployment rate, at 4.4%, and the number of unemployed people, at 7.5 million, changed little.
- ❑ The number of people jobless less than 5 weeks was down to 2.3 million in December.
- ❑ The number of long-term unemployed (jobless for 27 weeks or more) changed little in December at 1.9 million but is up by 397,000 over the year. Long-term unemployed account for more than 26% of all unemployed people in December.
- ❑ Both labor force participation rate, at 62.4%, and the employment-population ratio, at 59.7%, changed little in December and have shown little change over the year.

# Conditions of the US Economy Cont.



## Real GDP (December 2025):

- ❑ Increased at an annual rate of 4.3% in the 3<sup>rd</sup> Quarter of 2025, according to initial estimates (3.8% in 2<sup>nd</sup> Quarter).
- ❑ The growth reflected increases in consumer spending, exports, and government spending that were partly offset by a decrease in investment.
- ❑ **Real final sales to private domestic purchasers** (the sum of consumer spending and gross private investment) increased by 3.0% in the 3<sup>rd</sup> Quarter compared with an increase of 2.9% in the 2<sup>nd</sup> Quarter.
- ❑ **Price index for gross domestic purchases** increased by 3.4% in the 3<sup>rd</sup> Quarter, compared with 2.0% in the 2<sup>nd</sup> Quarter.
- ❑ **Personal consumption expenditures (PCE) price index** increased by 2.8%, compared to an increase of 2.1% in the 2<sup>nd</sup> Quarter.

# 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 2025 saw the Fed implement three consecutive  $\frac{1}{4}$  percentage point rate cuts (September, October, December).
- ❑ Total rate cuts of 75 BPS (0.75%) in 2025.

## Per Federal Reserve press release (12/10/2025):

- ❑ Recent indicators suggest economic activity has been expanding at a moderate pace.
- ❑ Job gains have slowed and the unemployment rate edged up through September.
- ❑ Inflation has moved up since earlier in the year and remains somewhat elevated.
- ❑ **Uncertainty about the economic outlook is elevated.**
- ❑ Federal funds rate lowered by  $\frac{1}{4}$  percentage point to 3.5% to 3.75%.
- ❑ FOMC will continue to monitor economic data and risks when considering extent and timing of further cuts.
- ❑ Per EconomyNow, market probability of a rate cut in March is only 14.6% (as of 1/13/26)

# Alabama Economy

## Labor Market (November 2025):

- 2.7% preliminary seasonally adjusted unemployment rate, down from the September rate of 2.8%.
  - November's rate is lower than November 2024's rate of 3.3%.
- The unemployment rate represented 65,078 unemployed persons, compared to 66,711 in September and 78,802 in November 2024.
- The labor force participation rate was 57.7% in September 2025 (below U.S. rate of 62.4%)
- Number of people counted as employed increased by 28,752 over the year to 2,310,238.
- The Civilian labor force was 2,377,970 with 17,677 more people joining over this year
- Wage and salary employment increased by 12,400 to 2,223,800 over the year (record high)
  - Gains were seen in the leisure and hospitality sector (+7,800), the private education and health services sector (+6,800), and the construction sector (+3,900), among others.
- Average weekly wages increased by \$83.65 over the year to a new record high of \$1,148.80

# Alabama Economy

## OTHER:

- **Real GDP (2<sup>nd</sup> Quarter 2025):** Percentage change at 1.2% annual rate.
- **Current Dollar Personal Income (2<sup>nd</sup> Quarter 2025):** Percentage change at a 3.6% annual rate.
- **Personal consumption expenditures (2024):** Percentage change at 5.4% annual rate.
  - Goods, including durable goods and nondurable goods – 0.87%
  - Services – 4.53%

# FY 2025 Review



# General Fund EOY Net Receipts

Revenue Source	FY 24	FY 25	Difference	Percent
ABC Board	171,472,347	167,688,001	-3,784,346	-2.21%
Ad Valorem Taxes	239,777,012	252,735,923	12,958,911	5.40%
Alabama Trust Fund	125,330,370	120,125,402	-5,204,968	-4.15%
Cigarette Tax	109,748,356	102,866,862	-6,881,494	-6.27%
Corporation Tax	103,545,858	103,321,330	-224,529	-0.22%
Court Costs	65,448,528	66,587,607	1,139,078	1.74%
Financial Institutions Excise Tax	35,447,779	45,578,705	10,130,926	28.58%
Insurance Company Taxes	634,326,502	716,072,700	81,746,198	12.89%
<b>Interest on State Deposits</b>	<b>557,339,779</b>	<b>510,334,219</b>	<b>-47,005,560</b>	<b>-8.43%</b>
Leasing and Rental Tax	108,971,952	106,650,403	-2,321,549	-2.13%
Lodgings Tax	83,544,940	87,294,613	3,749,673	4.49%
Mortgage Tax	33,509,092	40,368,382	6,859,291	20.47%
Oil and Gas Taxes	24,664,852	19,562,144	-5,102,708	-20.69%
Sales Tax	151,262,892	156,700,037	5,437,145	3.59%
<b>Simplified Sellers Use Tax</b>	<b>316,156,569</b>	<b>357,515,596</b>	<b>41,359,027</b>	<b>13.08%</b>
Use Taxes	365,018,511	387,242,719	22,224,208	6.09%
Other	295,781,208	305,088,531	9,307,325	3.15%
<b>Subtotal</b>	<b>3,421,346,547</b>	<b>3,545,733,174</b>	<b>124,386,627</b>	<b>3.64%</b>
Transfers and Reversions	44,800,751	40,532,229	-4,268,523	-9.53%
<b>TOTAL</b>	<b>3,466,147,298</b>	<b>3,586,265,403</b>	<b>120,118,105</b>	<b>3.47%</b>

# EOY Condition of the SGF Fiscal Year 2025

	FY 2025
Beginning Balance	759,647,415
Revenues	<u>3,586,265,403</u>
<b>Total Funds Available</b>	<b>4,345,912,818</b>
LESS:	
Appropriations	3,661,910,190
Reappropriation of Reversions	<u>191,048,183</u>
Total Appropriations and Obligations	3,852,958,373
Ending Balance (before reversions and adjustments)	492,954,445
Reversions and Adjustments	<u>(208,413,009)</u>
<b>Ending Balance (after reversions and adjustments)</b>	<b>701,367,454</b>

# Education Trust Fund EOY Net Receipts

	FY 2024	FY 2025	Difference FY 25 vs. FY 24	% Difference
Beer Tax	\$21,461,147	\$20,335,789	-\$1,125,358	-5.24%
Hydroelectric Tax	\$3,585	\$486,469	\$482,883	13468.72%
<b>Income Tax</b>	<b>\$7,267,128,927</b>	<b>\$7,495,197,540</b>	<b>\$228,050,613</b>	<b>3.14%</b>
<b>Sales Tax</b>	<b>\$2,543,942,368</b>	<b>\$2,574,138,300</b>	<b>\$30,195,931</b>	<b>1.19%</b>
Simplified Sellers Use Tax	\$105,385,523	\$119,171,865	\$13,786,342	13.08%
Use Taxes	\$256,741,021	\$282,078,946	\$25,337,925	9.87%
Utility Tax	\$425,813,175	\$424,999,488	-\$813,687	-0.19%
Other	<u>\$8,318,856</u>	<u>\$8,816,014</u>	<u>\$497,158</u>	<u>5.98%</u>
<b>Subtotal</b>	<b>\$10,628,794,601</b>	<b>\$10,925,206,410</b>	<b>\$296,411,809</b>	<b>2.79%</b>
<b>Transfers and Reversions</b>	<b>\$31,753,991</b>	<b>\$1,008,209</b>	<b>-\$30,745,782</b>	<b>-96.82%</b>
<b>Grand Total</b>	<b>\$10,660,548,593</b>	<b>10,926,214,619</b>	<b>\$265,666,027</b>	<b>2.49%</b>

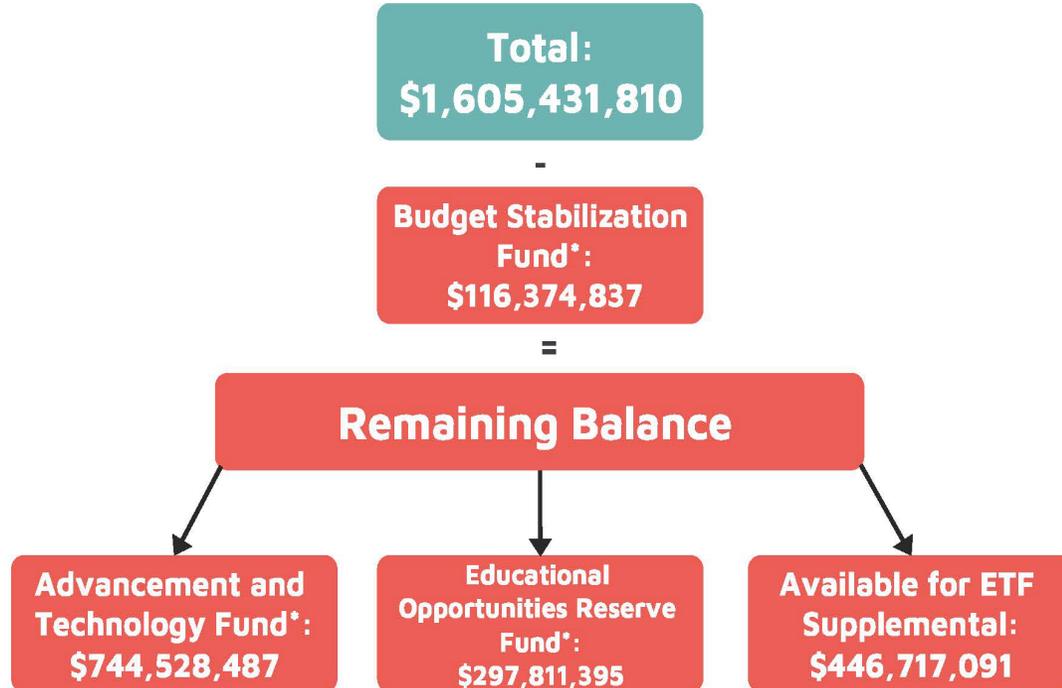
# EOY Condition of the ETF Fiscal Year 2025

Beginning Balance	2,315,918,528
Receipts	<u>10,926,214,619</u>
Total Available Funds	13,242,133,147
Total Obligations	<u>11,637,483,706</u>
Ending Balance ( <u>before</u> reversions and adjustments)	1,604,649,441
Reversions and Adjustments	<u>-441,261,812</u>
<b>Total Ending Balance (<u>after</u> reversions and adjustments)</b>	<b>2,045,911,253</b>



## Allocation of ETF Excess Funds

Pursuant to the Rolling Reserve Act



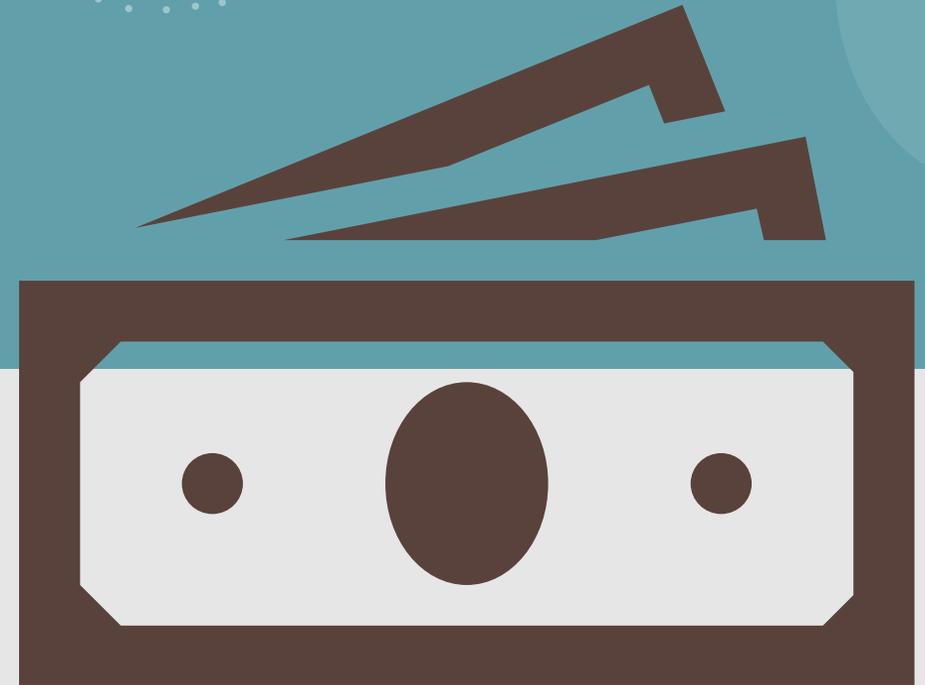
\*Funds to be transferred by May 31, 2026

\*As of November 4, 2025

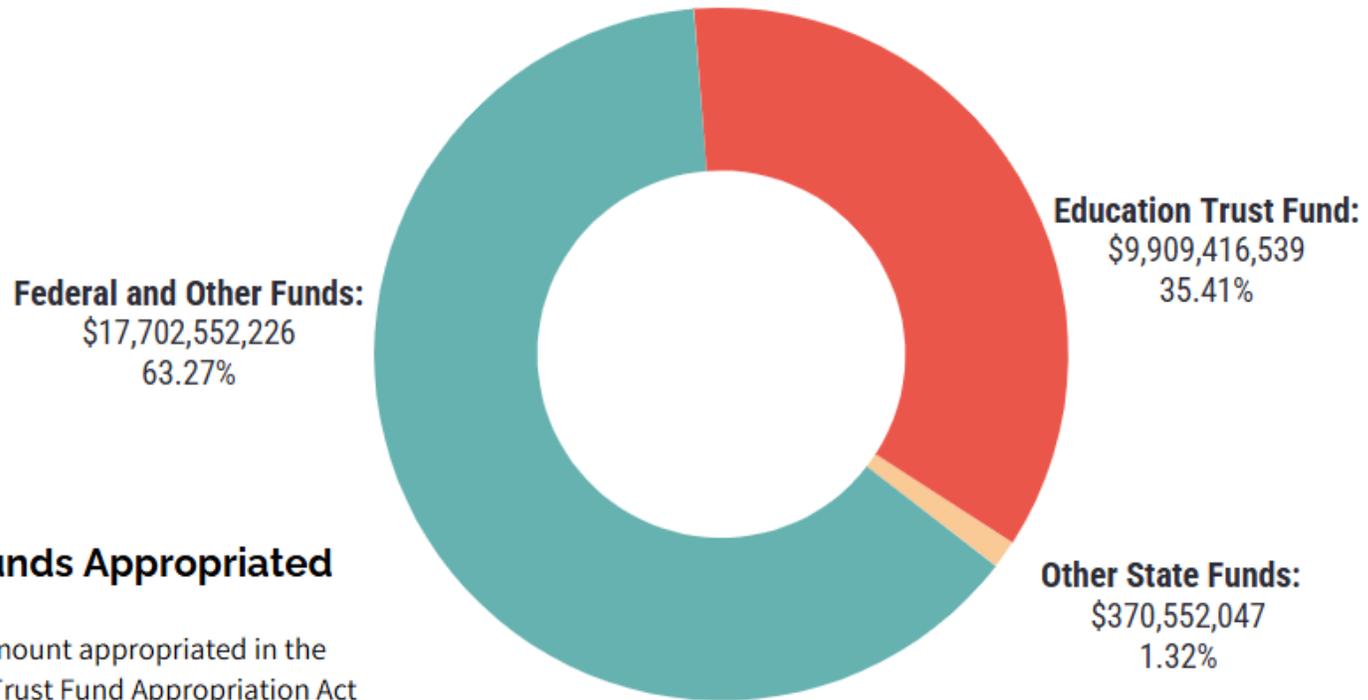
\*\*Less \$27 million previously committed

FY26 Allocation of  
FY25 ETF Ending Cash  
Balance

# Appropriations/Current Conditions for FY 2026



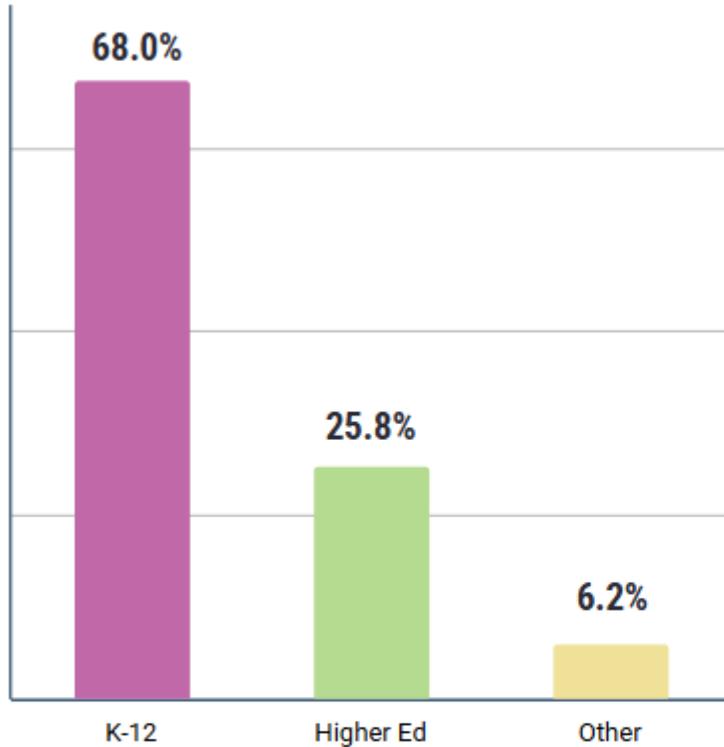
# FY 2026 Education Trust Fund Appropriation Act



## Funds Appropriated

The total amount appropriated in the Education Trust Fund Appropriation Act (Act 2025-270).

# FY 2026 Education Trust Fund Appropriation Act



## ETF Appropriations Split

Total appropriations from the Education Trust Fund allocated according to the split between K-12 and Higher Education.

Agency	Appropriations from Other State Funds	Appropriations from Federal and Other Funds
Colleges and Universities		\$10,840,603,034
Local Boards of Education	\$323,532,864	\$914,359,036
Community College System	\$12,000,000	\$1,138,509,210
Department of Education	\$10,145,634	\$4,370,818,852
Early Childhood Education	\$1,000,000	\$20,514,223
Other	\$23,873,549	\$417,747,871



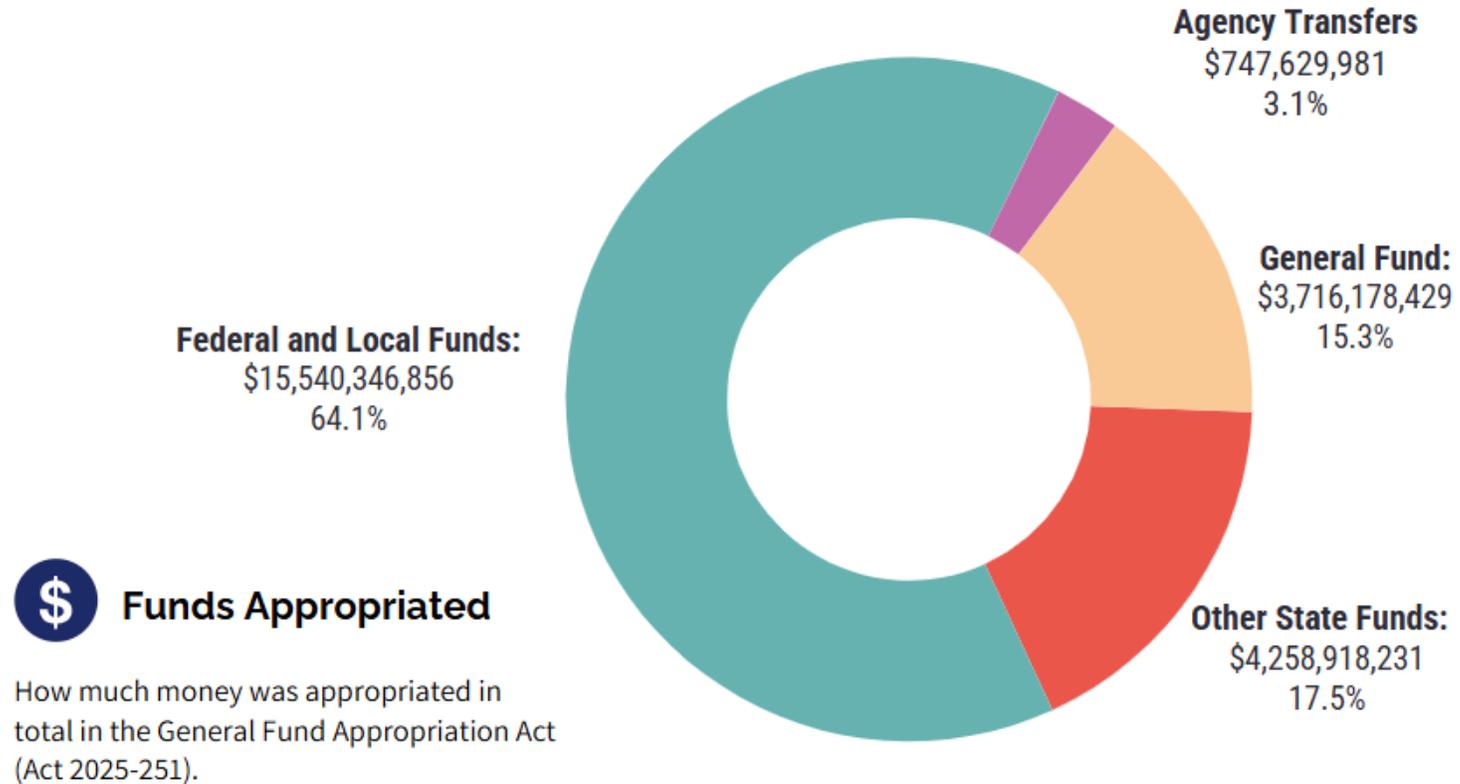
## Other Appropriations by Agency

Shows total appropriations from sources other than the Education Trust Fund for a closer look at where all other funds are allocated.

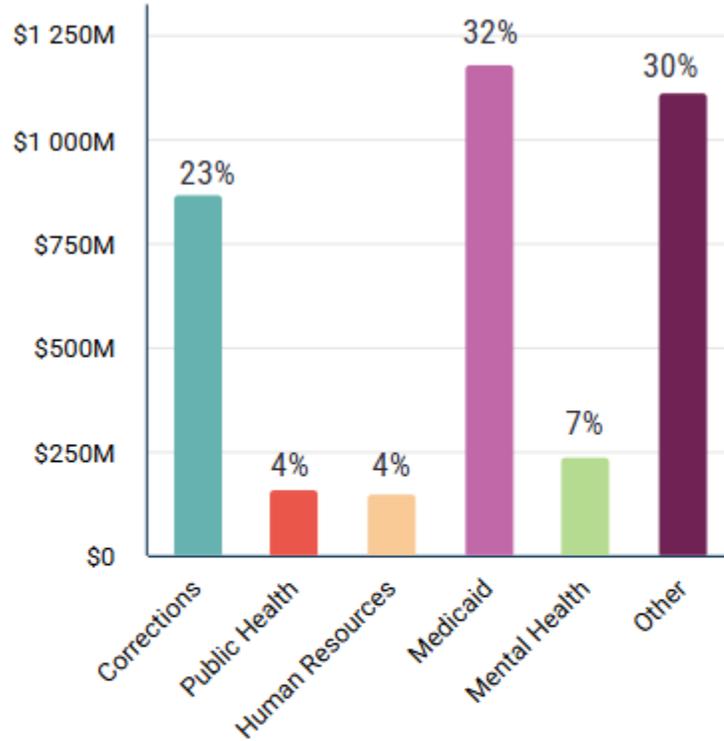
<b>Beginning Balance</b>	<b>\$2,045,911,253</b>
Revenues (as of 12/31/2025)	<u>\$2,366,220,105</u>
<b>Total Available Funds</b>	<b>\$4,412,131,358</b>
<b>LESS APPROPRIATIONS AND OBLIGATIONS:</b>	
Enacted Appropriations	\$9,909,416,539
Conditional Appropriations	\$27,000,000
Transfer to Budget Stabilization Fund	\$116,374,837
Transfer to Advancement and Technology Fund	\$744,528,487
Transfer to Educational Opportunities Reserve Fund	\$297,811,395
Reversions Reappropriated	\$439,498,469
<b>Total Appropriations and Obligations</b>	<b>\$11,534,629,727</b>
<b>Additional Receipts Needed (Jan-Sept FY 2026)</b>	<b>\$7,542,215,460</b>
<b>Receipts Jan-Sept FY 2025</b>	<b>\$8,503,214,295</b>

**CONDITION OF  
THE ETF – FY26  
(AS OF 12/31/2025)**

# FY 2026 State General Fund Appropriation Act



# FY 2026 State General Fund Appropriation Act



## SGF Appropriations by Agency

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

Agency	Appropriations from Other State Funds and Agency Transfers	Appropriations from Federal and Local Funds
Medicaid	\$1,757,893,153	\$7,196,257,802
Transportation	\$815,800,000	\$1,874,057,842
Public Health	\$266,738,756	\$952,932,034
Human Resources	\$272,190,369	\$2,472,657,406
Mental Health	\$243,033,026	\$879,511,526
Corrections	\$113,391,352	
Other	\$1,537,501,556	\$2,164,930,246



## Other Appropriations by Agency

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

Beginning Balance	\$701,367,454
Revenues (as of 12/31/2025)	\$878,228,782
<b>Total Available Funds</b>	<b>\$1,579,596,236</b>
<u>LESS APPROPRIATIONS AND OBLIGATIONS:</u>	
Enacted Appropriations	\$3,676,244,427
Conditional Appropriations	\$41,500,000
Corrections – Correctional Officer Conditional Appropriation	\$40,000,000
Reversions Reappropriated	\$194,927,908
<b>Total Appropriations and Obligations</b>	<b>\$3,952,672,335</b>
<b>Additional Receipts Needed (Jan-Sept FY 2026)</b>	<b>\$2,373,076,099</b>
<b>Receipts Dec-Sept FY 2025</b>	<b>\$2,729,321,211</b>

Condition of the  
SGF– FY26  
(as of 12/31/2025)

# Federal Changes - OBBBA

# Tax Provisions - Individual

## Provision

- 1) Extension and Enhancement of Reduced Tax Rates.
- 2) Extension and Enhancement of Increased Standard Deduction.
- 3) Extension and Enhancement of Increased Child Tax Credit.
- 4) Limitation on Individual Deductions for State and Local Taxes (SALT) – increased from \$10,000 to \$40,000.
- 5) No Tax on Tips – New deduction from income for qualifying tips not to exceed \$25,000.
- 6) No tax on Overtime – New deduction for qualifying overtime up to \$12,500 for single taxpayers and \$25,000 for married.
- 7) No Tax on Car Loan Interest – New deduction of up to \$10,000 for interest paid on car loans for certain vehicles.

## Applies/Does NOT Apply

- 1) **No** – Alabama individual income tax is not directly tied to the calculation of federal taxable income.
- 2) **No** – Alabama has its own standard deduction.
- 3) **No.**
- 4) **Yes.**
- 5) **No.**
- 6) **No.**
- 7) **Yes.**

# Tax Provisions - Corporate

## Provision

- 1) Full expensing for certain business property – permanently restores 100 percent bonus depreciation.
- 2) Full expensing of domestic research and experimental expenditures – restores full deductibility in the year incurred.
- 3) Increased dollar limitations for expensing certain depreciable business assets – increased from \$1 million to \$2.5 million.
- 4) Modification of limitation on business interest - reinstates exclusion of certain items from calculation.
- 5) Special depreciation allowance for qualified production property.

## Applies/Does NOT Apply

- 1) Yes.
- 2) Yes.
- 3) Yes.
- 4) Yes.
- 5) Yes.

# Supplemental Nutrition Assistance Program (SNAP)

- Prevents the Secretary of Agriculture from increasing the cost of the Thrifty Food Plan based on a reevaluation or update of market baskets, but requires adjustments based on CPI (upon enactment)
- Amends able-bodied adult work requirements by increasing the age they must continue to work to 64 (up from 54) and changes the definition of “dependent child” from under 18 to under 14 (upon enactment)
- Implements a citizenship requirement for SNAP eligibility (upon enactment)
- Increases the state share of SNAP administration costs from 50% to 75% **beginning in FY 2027 – estimated additional cost to the state of \$39.8 million**
- Requires states to contribute at least 5% to the cost of the SNAP allotments **beginning in FY 2028 – contribution percentage based on state error rate**
  - Based on state error rate for FY2024, this could cost the state **over \$173.4 million**, unless error rate is reduced below 6%

# Medicaid Examples

- States required to regularly obtain beneficiary address information (by January 1, 2027)
- States required to check SSA's Death Master File at least quarterly to ensure deceased individuals do not remain enrolled (by January 1, 2027) – requirement for providers also (by January 1, 2028)
- Freezes, at current rates, state provider taxes in effect as of the date of enactment and prohibits states from establishing new provider taxes (enactment)
- Sunsets the temporary 5 percentage point FMAP bump for states adopting ACA expansion (effective January 1, 2026)
- Requires adults ages 19 to 64 applying for coverage or enrolled through the ACA expansion group to complete at least 80 hours per month of work, education, or community service

# Medicaid Examples

- Restricts the definition of qualified immigrants for purposes of Medicaid and CHIP eligibility (effective October 1, 2026)
- Prohibits implementation of the May 2024 nursing home minimum staffing rule until October 1, 2034
- Prohibits federal Medicaid funds to certain abortion entities (upon enactment)
- Limits retroactive coverage to one month for expansion enrollees and two months for traditional enrollees (effective January 1, 2027)
- Establishes the Rural Health Transformation Program that will provide \$50 billion in formula grants to states (\$10 billion annually from FYs 2026-2030) to be used to enhance rural healthcare (effective October 1, 2025)
  - **Alabama to receive \$203.4 million in FY 2026 to be spent in accordance with the state plan approved by CMS**

# State Funding Issues to Consider

# SGF Funding Issues

- ❑ Flattening out/declining revenues as federal and other invested funds are expended with potential for additional interest rate cuts.
- ❑ Managing expectations from the expiration/elimination of federal funding for certain programs and transfer of costs for others.
- ❑ **FY 2028** – Governor Recommended level funding for most state agencies in FY 2027.
- ❑ Enhanced Affordable Care Act (ACA) premium tax credits expired at the end of 2025 – could impact the number of people covered and premium tax revenues to the General Fund.
- ❑ Simplified Sellers Use Tax (SSUT) lawsuit – FY 2025 General Fund revenues were \$357.5 million (10% of total General Fund revenues).
- ❑ Prison construction timeline and costs.
- ❑ State Employees Insurance Board (SEIB) – requested funding increase to \$1,175 per member per month (\$150 increase or about \$57 million total increase over FY2026, roughly \$18 million General Fund).
- ❑ COLA for state employees – each 1% cost a total of roughly \$26.5 million (\$8 million General Fund).

# ETF Funding Issues

- ❑ Maximum allowable ETF supplemental appropriations = **\$419.7 million.**
- ❑ Advancement and Technology Fund available balance **\$1.12 billion – possible supplemental**
- ❑ Total allowable increase in ETF appropriations for FY 2027 = **\$569.7 million.**
- ❑ Discussion of outcomes-based funding for higher education
- ❑ PEEHIP requested employer rate increase from \$904 per month to \$1,209 per month.
  - ❑ Total increase in employer cost (if funded) = \$380.5 million
- ❑ TRS requested employer rate increase of less than 1% for both Tier I and Tier II.
  - ❑ Total increase in employer cost = \$5.5 million
- ❑ COLA for K-12 – each 1% cost approximately \$48 million
- ❑ Programmatic increases for RAISE Act, Numeracy Act, and others

# FY 2026 and FY 2027 Budget Outlook

# GENERAL FUND

# Condition of the SGF FY 2026 and FY 2027

	FY 2026	FY 2027	Difference
<b>BEGINNING BALANCE</b>	\$701,367,454	\$286,765,770	-414,601,684
<b>Receipts (LSA Estimates)</b>	<b>3,538,070,651</b>	<b>3,483,284,873</b>	<b>-54,785,778</b>
<b>TOTAL AVAILABLE</b>	<b>4,239,438,105</b>	<b>3,770,050,643</b>	<b>-469,387,462</b>
<b>LESS EXPENDITURES:</b>			
Budgeted Appropriations (as of 12/31/2025)	3,676,244,427	3,716,178,429	39,934,002
Ending Balance Conditionals Released	41,500,000		-41,500,000
Corrections – Conditional Released (staffing/prisons)	40,000,000		-40,000,000
Reversions Reappropriated	194,927,908		-194,927,908
<b>Supplemental Appropriations</b>	<b>0</b>	<b>0</b>	
<b>TOTAL APPROPRIATIONS AND OBLIGATIONS</b>	<b>3,952,672,335</b>	<b>3,716,178,429</b>	<b>-236,493,906</b>
<b>PROJECTED ENDING BALANCE</b>	<b>\$286,765,770</b>	<b>\$53,872,214</b>	<b>-232,893,556</b>

# EDUCATION TRUST FUND

# 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

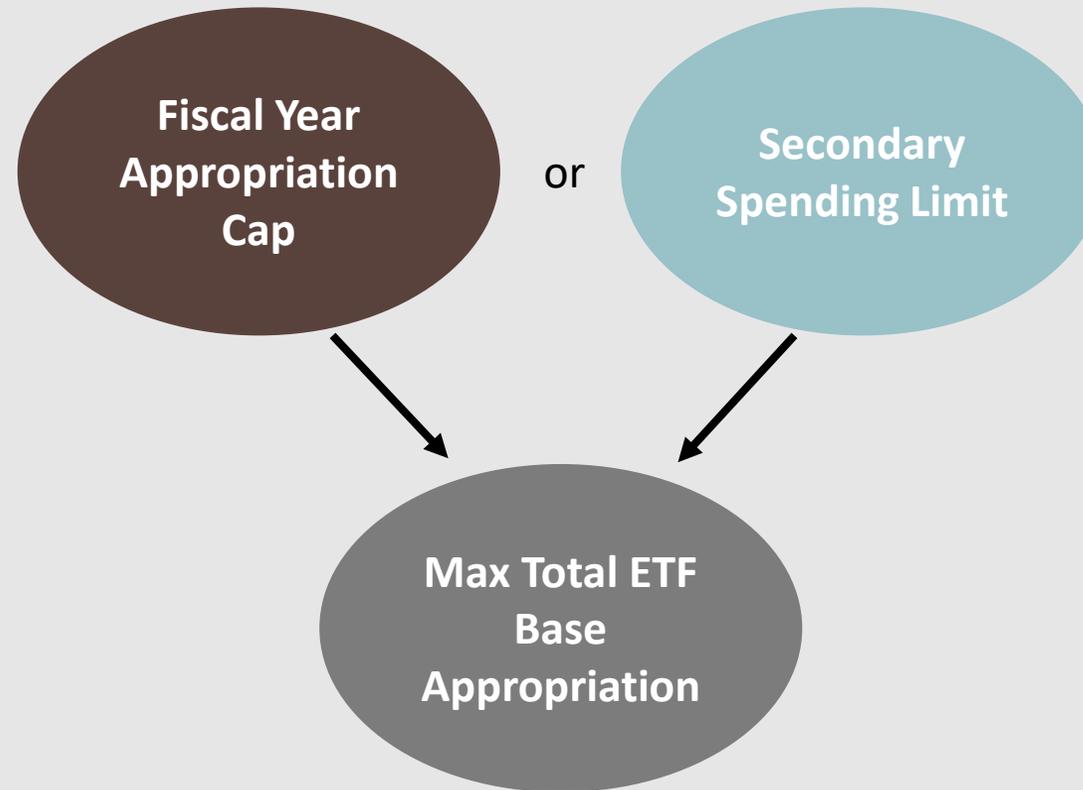
**Balance After FY 2026 Transfer: \$1.12 billion**

# 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 2026 transfer: \$1.04 billion**

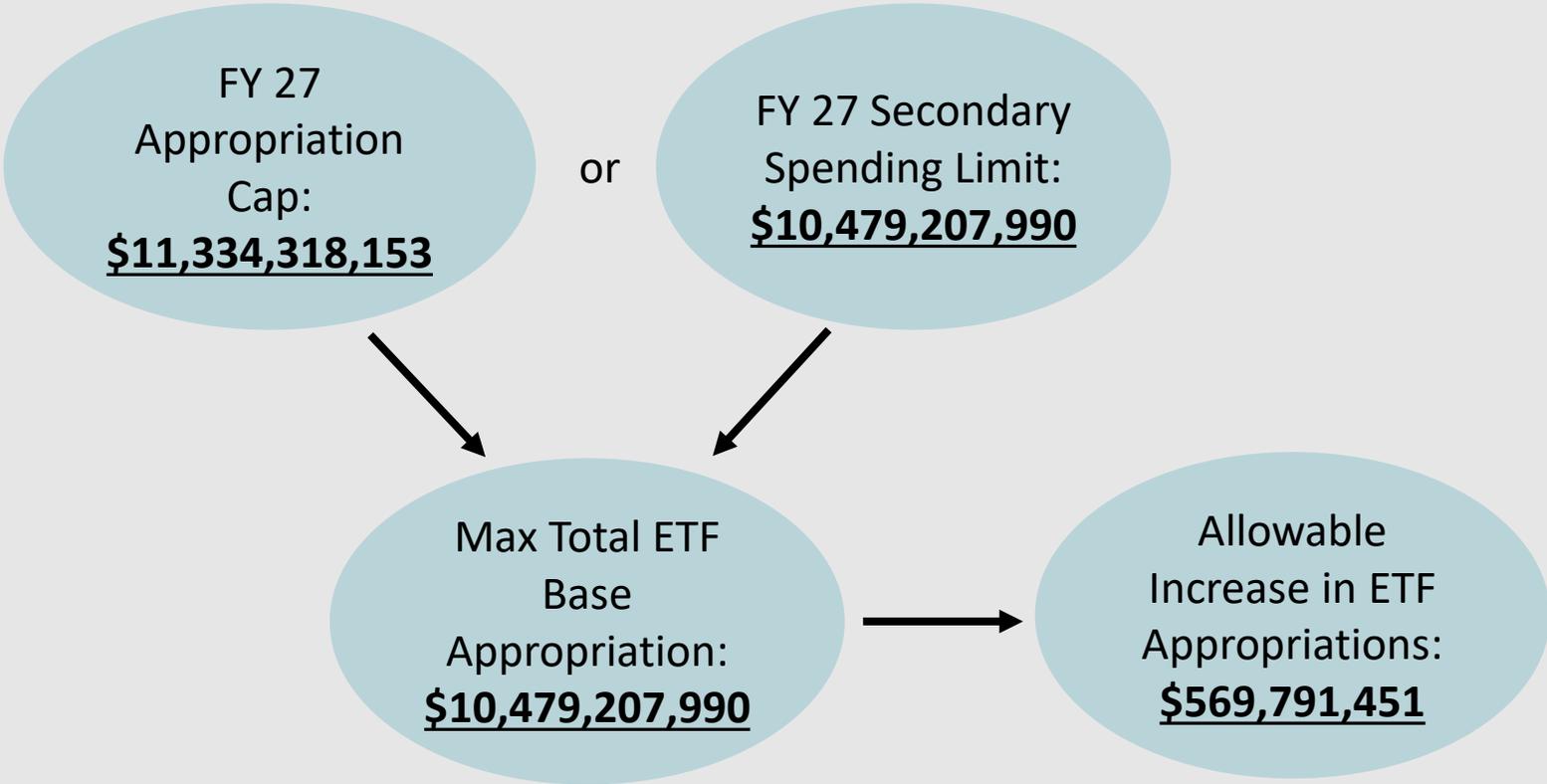
# Rolling Reserve Act Allowable ETF Appropriations (Formula)

The lesser of the two:



# FY 2027 Allowable ETF Appropriations

The lesser of the two:



# Condition of the ETF FY 2026 and FY 2027

	Estimated FY 2026	Estimated FY 2027	Difference
<b>BEGINNING BALANCE</b>	\$2,045,911,253	\$1,104,290,242	-941,621,011
<b>TOTAL RECEIPTS (LSA estimates)</b>	<b>11,012,725,807</b>	<b>11,282,948,785</b>	<b>270,222,978</b>
<b>TOTAL AVAILABLE (beginning balance plus total receipts)</b>	<b>13,058,637,060</b>	<b>12,387,239,027</b>	<b>-671,398,033</b>
Regular Appropriations (FY 2026 as enacted, FY 2027 Equals Secondary Spending Limit)	9,909,416,539	10,479,207,990	569,791,451
Reversions Reappropriated (as of 12/31/2025)	439,498,469		-439,498,469
Assumed supplemental appropriations (maximum available)	419,717,091	295,424,032	-124,293,059
Transfer to Educational Opportunities Reserve Fund*	297,811,395	196,949,355	-100,862,040
Transfer to Budget Stabilization Fund*	116,374,837	119,543,468	3,168,631
Transfer to Advancement and Technology Fund*	744,528,487	492,373,387	-252,155,100
<b>TOTAL APPROPRIATIONS AND OBLIGATIONS</b>	<b>11,954,346,818</b>	<b>11,583,498,232</b>	<b>-370,848,586</b>
<b>ESTIMATED ENDING BALANCE</b>	<b>\$1,104,290,242</b>	<b>\$803,740,795</b>	<b>-300,549,447</b>

\*Equals estimated allocations pursuant to the updated Rolling Reserve Act

Questions?





# Thank You!

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