

OVERVIEW OF ALABAMA BUDGETS AND THE BUDGETING PROCESS

Legislative Services Agency – Fiscal Division

www.lsa.state.al.us

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PRESENTATION OVERVIEW

- **BUDGET BACKGROUND**
- **BUDGET PROCESS AND METHODOLOGY**
- **ETF DESCRIPTION AND REVENUE SOURCES**
- **SGF DESCRIPTION AND REVENUE SOURCES**
- **FY 2019 APPROPRIATIONS**

BUDGET BACKGROUND

BUDGET PERIODS

- Amendment 339 to the *Alabama Constitution* (1975), provided for regular sessions of the Legislature to be held annually beginning in the year 1976 on the first Tuesday in May, or on such other day prescribed by law
- Annual vs. Biennial Budgets
 - 30 states, including Alabama, adopt annual budgets
 - 20 states adopt biennial budgets



TWO BUDGET ACTS

- Alabama and only 2 other states (Michigan and Utah) have separate education and general fund budgets¹
- 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

¹National Conference of State Legislatures

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

WHY NOT ONE BUDGET?

- Section 71 of the *Alabama Constitution* :

“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...All other appropriations shall be made by separate bills, embracing but one subject.”

- 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))

APPROPRIATION REQUIRED TO SPEND

Section 72 of the *Alabama Constitution*:

- Provides that no money shall be paid from the treasury except upon appropriations made by law
- This includes the State General Fund, Education Trust Fund, and other state and federal funds
 - Alabama is one of 43 states that appropriate all federal funds¹
 - Alabama is one of 37 states that appropriate all non-federal funds¹
- Revenues may be earmarked to a specific fund or agency, but those funds must be appropriated in order to be spent
- Also, language in both the Education Trust Fund and State General Fund appropriations acts appropriates any unanticipated gifts, grants, including grants by the Congress of the United States, municipalities or counties, insurance proceeds, contributions or entitlements, to any department, division, board, or agency for the purpose for which the grant or contribution was made

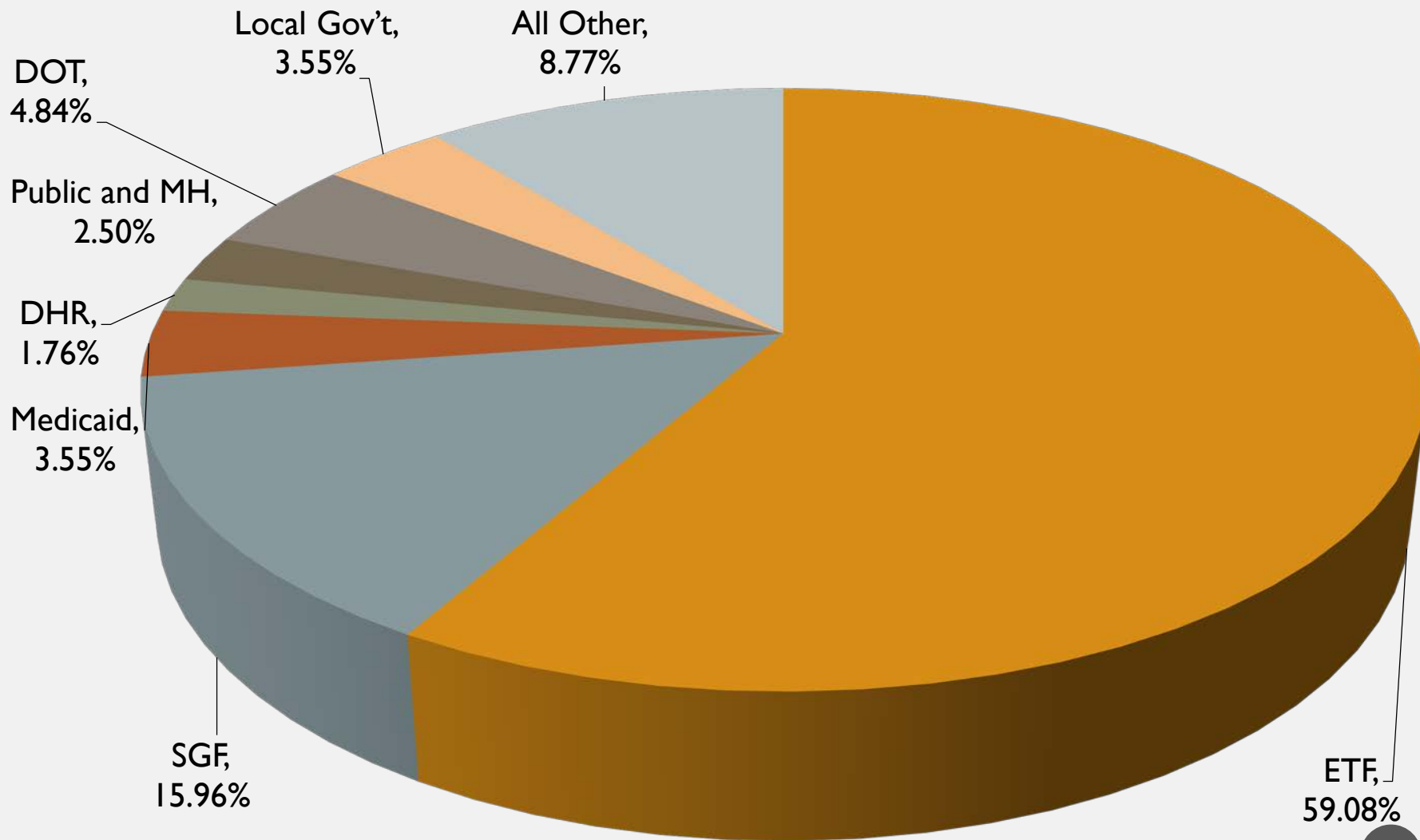
¹SOURCE: National Association of State Budget Officers, *Budget Processes in the States*, Spring 2015



REVENUE EARMARKING

- Earmarking can be general or specific
- Earmarking can be constitutional or statutory
- According to a 2008 report from the National Conference of State Legislatures, the average proportion of state tax revenue earmarked in Fiscal Year 2005 was 24%
 - Alabama earmarked 84%, far exceeding any other state
 - The highest percentage of our surrounding states was Tennessee with 56%
 - Florida and Mississippi both earmarked 27%
 - Georgia only earmarked 6%
- In 2017, approximately 84% of state revenues were allocated to agencies and funds other than the State General Fund
 - The percentage would be approximately 91% if federal revenues were included

WHERE DID STATE REVENUES GO IN FY 2017?



SAMPLE FROM APPROPRIATIONS ACT

SB178

		General Fund	Earmarked Funds	Appropriation Total
<hr/>				
1	61. Health Planning Agency,			
2	State:			
3	(a) Health Planning Develop-			
4	ment and Regulation Program .	6,999	1,500,000	1,506,999
5	SOURCE OF FUNDS:			
6	(1) State General Fund	6,999		
7	(2) Departmental Receipts		1,500,000	
8	Total Health Planning Agency,			
9	State.....	6,999	1,500,000	1,506,999
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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 instances when there are insufficient revenues available in the ETF or General Fund the Governor may declare proration. Once proration is declared, state expenditures from those funds (ETF or General Fund) are reduced across the board by the percentage necessary to balance the budget.

BUDGET PROCESS AND METHODOLOGY

IMPORTANT TERMS

- **Fiscal Year**

- Defined as a 12-month period of time when an organization's annual financial records begin and end

- **Receipts**

- The amount or quantity of revenues received
- For budget requests and budget preparation purposes, receipts are estimated amounts

- **Appropriations**

- An authorization for an agency to make expenditures and to incur obligations for specific purposes
- Agency appropriations include all fees, receipts and income received by an agency including Education Trust Fund or State General Fund appropriations as well as revenue sources dedicated to specific agency funds or functions. Funds are not subject to withdrawal by the agency except as appropriated and allotted.
- State agencies may not spend more than the amount appropriated annually by the Legislature

FISCAL YEAR START DATE

- 46 states have fiscal years that begin on July 1
- 4 states, including Alabama, have fiscal years that begin on other dates
- Alabama and Michigan are the only states with an October 1 start date, which matches the federal fiscal year

SOURCE: National Association of State Budget Officers, *Budget Processes in the States*, Spring 2015

PRIMARY BUDGET APPROACH

Incremental Budgeting

- Requires an explanation only for increases and decreases from current budgeted expenditures
- A total of 30 states, including Alabama, use this approach

Other Concepts Used by States

- **Line-item** – Focuses on objects or lines of expenditures (such as personnel or capital outlay) - Only 3 states use this approach
- **Program** – Identifies programs or activities as the primary budget units and presents information on the missions, goals, and objectives of each program - A total of 13 states, including Georgia, use this approach
- **Performance** – Uses programs or activities as budget units and presents information on program goals and performance - Only 3 states use this approach
- **Zero-Based** – Subjects all expenditures to justification - Only Oregon uses this approach

BUDGET SUBMISSION

- Amendment 448 to the *Alabama Constitution* (1984):
 - Specifies that the paramount duty of the Legislature at any regular session is to make the basic appropriations for any budget period that will begin before the start of the next regular session
 - Requires the Governor to transmit to the Legislature on or before the second legislative day of each regular session of the Legislature a proposed budget for the then next succeeding budget period
 - “Basic appropriations” is defined to mean such appropriations as the Legislature may deem appropriate for the expenditures by the state during the ensuing budget period for the ordinary expenses of the executive, legislative and judicial departments of the state, for the payment of public debt, and for education

AGENCY BUDGET REQUESTS

- Estimates of the expenditure requirements for the next fiscal year by the administrative head of each budgeted agency
 - The budget is prepared for each fund, appropriation unit, and activity by each major object of expenditure
 - Contains a detailed statement of actual agency revenues for the preceding fiscal year and estimated revenues for the current and next fiscal year
 - Also contains a personnel classification budget request form showing employees and amounts by classification
 - After receiving the agency budget requests, the Executive Budget Office prepares a tentative budget utilizing revenue estimates prepared by the staff, state officials, and other consultants

GENERAL TIMELINE

DATE	REQUIREMENT
August-September	Budget instructions and forms distributed by the Executive Budget Office to state agencies
By November 1	State agencies submit budget requests to the Governor (Executive Budget Office) and Legislature (LSA Fiscal Division)
Not later than the first day of the second month preceding each regular session	The Department of Finance (Executive Budget Office) prepares a tentative budget for the Governor's consideration
At least two weeks prior to the start of each regular session	Governor provides for executive budget hearings
On or before the second legislative day of each regular session	The Governor transmits budget recommendations (Executive Budget Document) and related bills to the Legislature for the next fiscal year

EXECUTIVE BUDGET DOCUMENT

- The document is comprised of three parts:
 - Part I – Contains the Governor’s budget message and fiscal data (including revenue estimates)
 - Part II – Provides the detailed recommended appropriations for each agency
 - Part III – Contains the proposed appropriation bills and revenue bills needed to implement the recommendations. The appropriation bills indicate the programmatic appropriation to each agency and the source of funds from which each appropriation is made
- The appropriation recommendations, as altered by the Legislature, are adopted by the Legislature as the Appropriation Acts

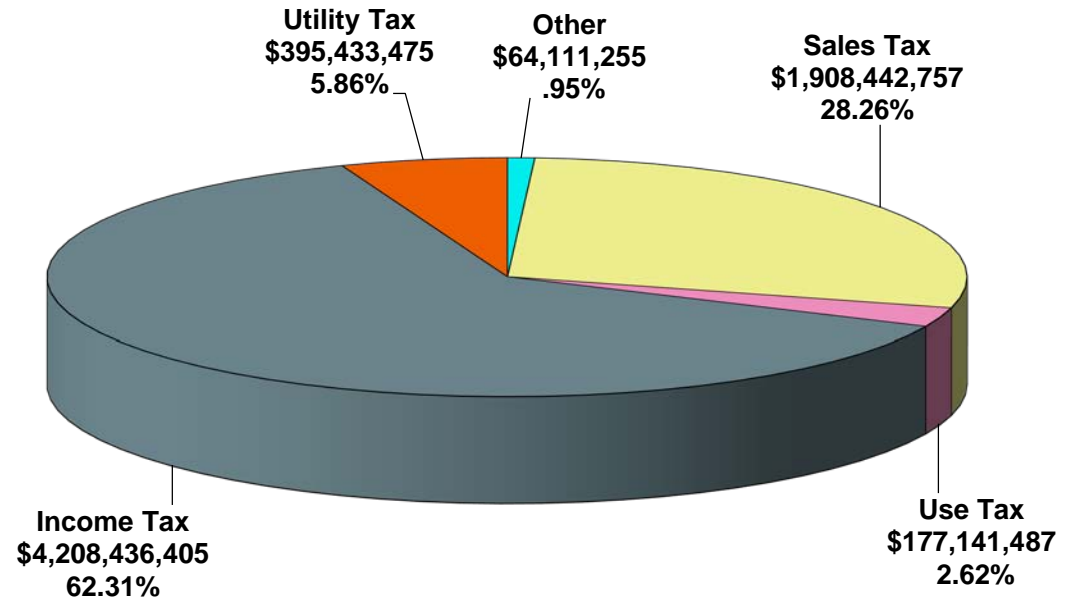
ETF DESCRIPTION AND REVENUE SOURCES

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, debt service and capital improvements relating to educational facilities, and other functions related to educating the state's citizens.
- Programs and agencies supported by the ETF include K-12 education, public library services, performing and fine arts, various 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.

**Total Receipts:
\$6,753,565,379**

**RECEIPTS
BY SOURCE,
FY 2018**



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

SGF DESCRIPTION AND REVENUE SOURCES

STATE GENERAL FUND DESCRIPTION

- The General Fund supports state programs such as child development and protection, criminal justice, conservation efforts, economic development, public health and safety, mental health, Medicaid, legislative activities, and the court system.
- Revenues credited to the General Fund are used for the ordinary expenses of the executive, legislative, and judicial departments of state government, for other functions of government, for debt service on certain general obligation bond issues, and for capital outlay.
- Taxes from over 40 sources are deposited into the General Fund, with the largest sources being the insurance company premium tax, use tax, cigarette tax, ad valorem tax, and Alabama Alcoholic Beverage Control Board taxes and profits.

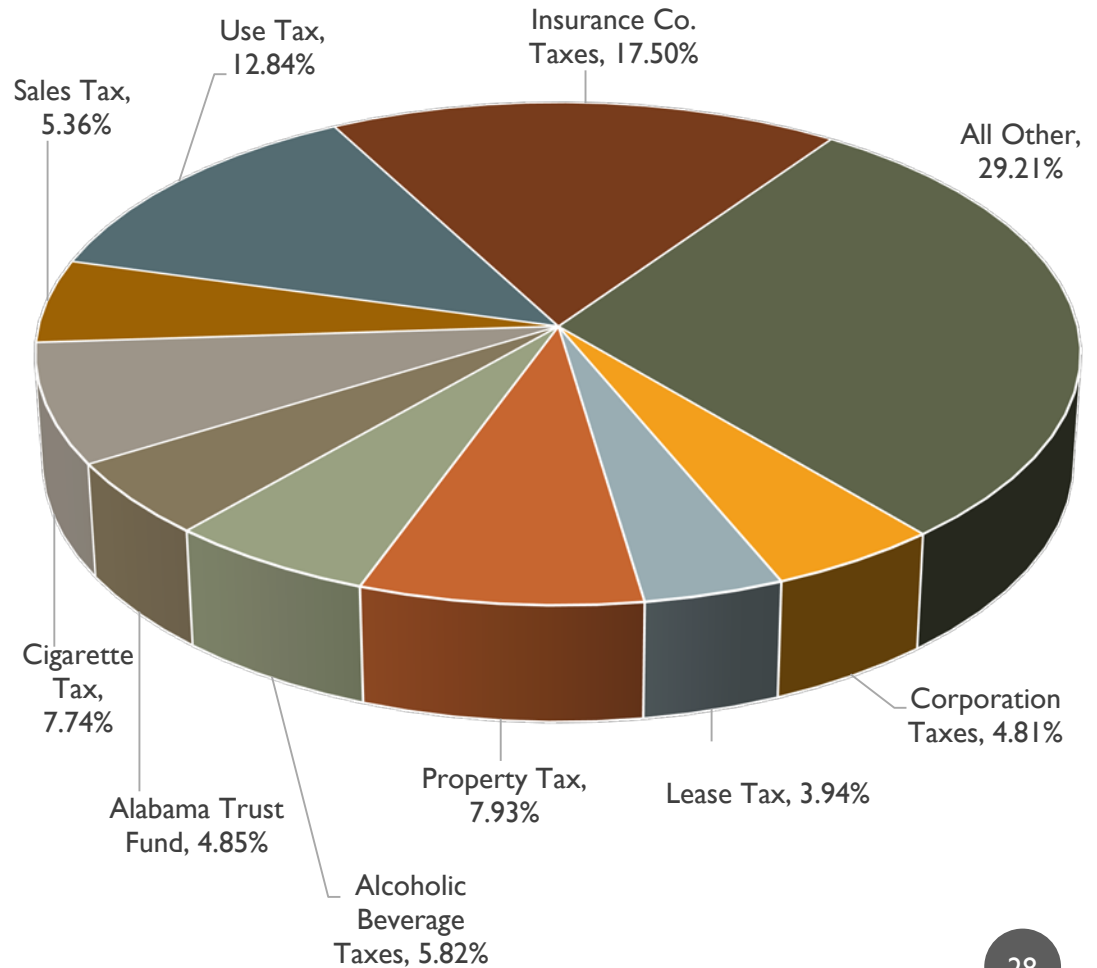
SOURCE: Executive Budget Office

STATE GENERAL FUND REGULAR RECEIPTS, 3-YEAR HISTORY

	FY 2016	FY 2017	FY 2018
Alcoholic Beverage Control Board Taxes and Profits	100,816,514	100,623,508	116,129,608
Ad Valorem Tax – 2.5 Mills	150,853,517	154,429,888	158,296,335
Alabama Trust Fund Distributions	103,310,045	98,040,084	96,782,802
Cigarette Tax	164,746,858	163,313,105	154,554,657
Corporation Taxes	56,831,934	75,499,764	96,063,758
Court Costs – Judicial Article	61,282,678	61,860,771	59,980,037
Insurance Premium and License Taxes	293,534,706	319,814,875	349,352,551
Leasing and Rental Tax	76,634,471	77,297,544	78,556,124
Lodgings Tax	46,869,544	49,851,286	53,633,487
Sales Tax on Autos	97,844,307	102,230,663	106,979,981
Use Taxes (all)	197,691,644	228,384,170	256,297,633
All Other	494,910,617	488,488,114	469,490,534
Grand Total	1,845,326,835	1,919,833,772	1,996,117,507

RECEIPTS BY SOURCE, FY 2018

**TOTAL RECEIPTS:
\$1,996,117,505**



**BUDGET CONDITIONS
FOR FY 2017 AND FY 2018**

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

CONDITION OF THE SGF FY 2017 AND FY 2018

	Actual FY 2017	Actual FY 2018	Difference
BEGINNING BALANCE	63,817,402	143,022,892	79,205,490
Regular Receipts	1,869,833,771	1,996,117,505	126,283,734
BP Settlement Funds	50,000,000		-50,000,000
TOTAL RECEIPTS	1,919,833,771	1,996,117,505	76,283,734
TOTAL AVAILABLE (beginning balance plus total receipts)	1,983,651,173	2,139,140,397	155,489,224
Appropriations	1,854,466,022	1,909,989,654	55,523,632
Reversions Reappropriated	48,549,920	56,944,348	8,394,428
TOTAL APPROPRIATIONS AND OBLIGATIONS	1,903,015,942	1,966,948,178	63,932,236
Reversions and Adjustments	-62,387,661	-69,881,997	-7,494,336
TOTAL ENDING BALANCE	143,022,892	242,088,392	99,065,500

APPROPRIATIONS FOR FY 2019

APPROPRIATION OF STATE FUNDS FY 2019 (AS ENACTED)

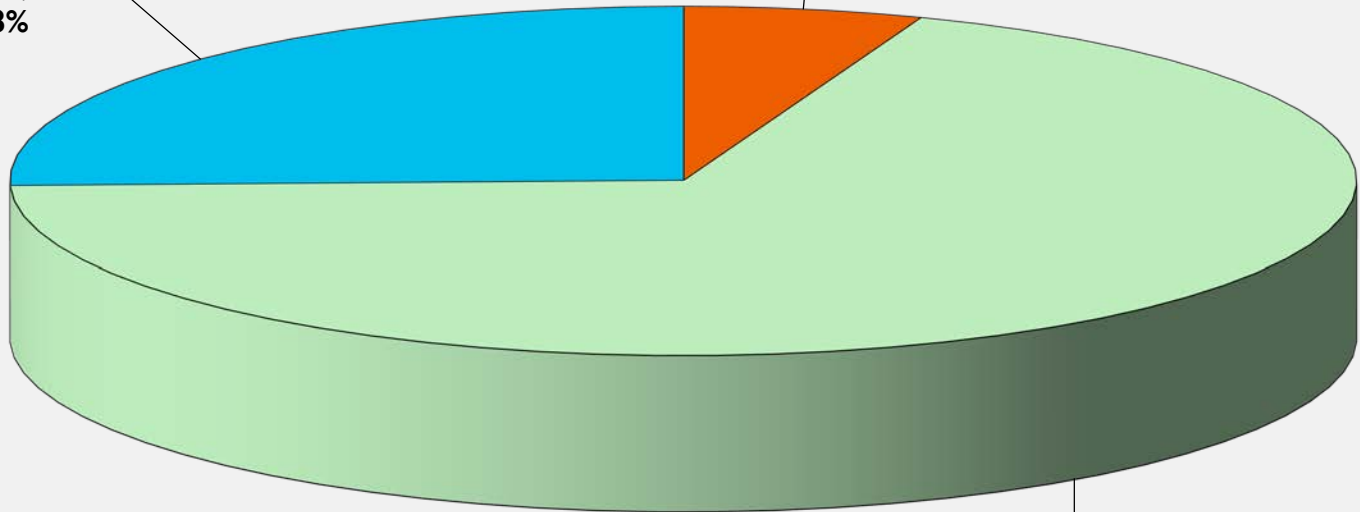
- General Fund - \$2.04 billion
- Education Trust Fund - \$6.63 billion
- Other State Funds - \$3.48 billion
- Total All State Funds - \$12.15 billion

APPROPRIATION OF THE ETF, FY 2019

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

**Higher Education
\$1,690,316,394
25.48%**

**All Other
\$380,774,894
5.74%**

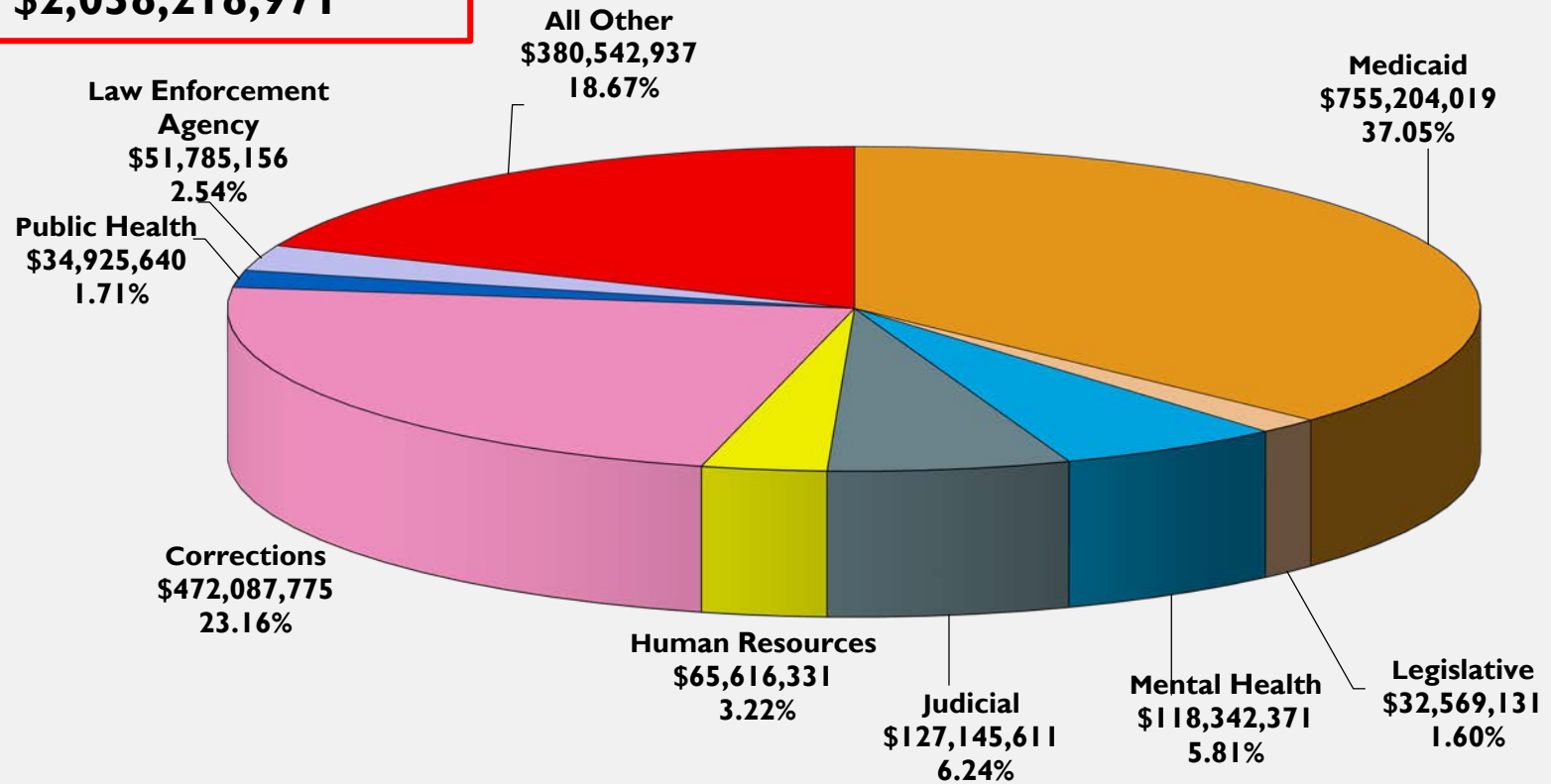


**The Split:
K-12 – 72.97%
Higher Ed – 27.03%**

**K-12 Foundation
Program
\$4,562,366,337
68.78%**

APPROPRIATION OF THE SGF, FY 2019

**Total State
General Fund:
\$2,038,218,971**



Q&A