

Legislative UPDATE

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Current News About Legislative Issues Affecting The University of Alabama System

STATE BUDGET PICTURE PAINTS CHALLENGING SCENARIO

As the 2008 Legislative session begins this week, Alabama faces funding issues that have become a familiar trend around the country. Consumer spending has slowed and corporate income taxes are down substantially. Reduced budgets and intense competition for scarce dollars are expected to dominate the action in Montgomery this year.

On January 16 Joyce Bigbee, Director of the Legislative Fiscal Office, presented a sobering status report on State revenues for the current year FY2008 and projections for FY2009. Clearly, fiscal challenges both this year and next will be formidable. For a detailed look at the presentation and slides, go to www.lfo.state.al.us. The budget discussion is found under the link [Outline](#) and the visuals under the link [Slide Show](#).

REVENUE OVERVIEW

Fiscal Year 2007

- Actual receipts to the 2007 Education Trust Fund were projected to result in a carry forward into FY2008 of about \$398 million. The actual carry forward was \$280 million, about \$118.5 million less than appropriated in the FY2008 legislative budget. So FY2008 began \$118.5 million in the **red**.
- The two major sources of this shortfall were corporate income taxes and sales taxes.
 - ✓ Corporate income taxes were projected to grow 12.4% for FY2007 but in fact experienced a **negative** growth rate of 3.5%.
 - ✓ Sales tax receipts were projected to grow at a rate of 4% but in fact grew at a rate of 2.7%.

Fiscal Year 2008

- For FY 2008, the projected revenue available will be \$6.3 billion, while the approximate appropriations for this year (FY2008) are \$6.7 billion.
- The Education Trust Fund would have to grow at a rate of 9.5-10% in FY2008 to end the year in the black.
- The Legislative Fiscal Office is projecting an actual growth rate in FY2008 of 2.7%, which would result in a deficit of over \$400 million at the end of FY2008.
- Because the State Constitution prohibits deficit spending, the FY2008 revenue projections would trigger the need to tap the proration prevention account to prevent a 6% proration in the ETF for FY2008.
- A withdrawal of this magnitude would leave the statutory proration prevention account with a balance of less than \$10 million.

Fiscal Year 2009

- The scenario outlined above would leave the FY2009 budget with a beginning balance of zero!
- Estimated receipts for FY2009 reflect a projected growth rate of 3.75%.
- Available revenue for FY2009 would be reduced by \$83 million, the first year's debt service on the \$1 billion school capital bond issue passed last year.
- This would result in an available balance of \$6.155 billion to appropriate for FY2009, an amount \$552 million **LESS** than the projected expenditures for FY2008.
- The total revenue remaining in the "safety net" of the statutory proration prevention fund plus the Constitutional rainy day fund is projected to be slightly more than \$250 million.
- Requests for budget increases from entities funded from the Education Trust Fund for FY2009 total \$644 million.

THE BOTTOM LINE

It is going to be a challenging year for both the education budget and the general fund budget for FY2009.

For more details on revenue forecasts, please visit the Legislative Fiscal Office web site at www.lfo.state.al.us

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