

ALABAMA FINANCES

Legislative Budget Hearing Presentation
February 8, 2011

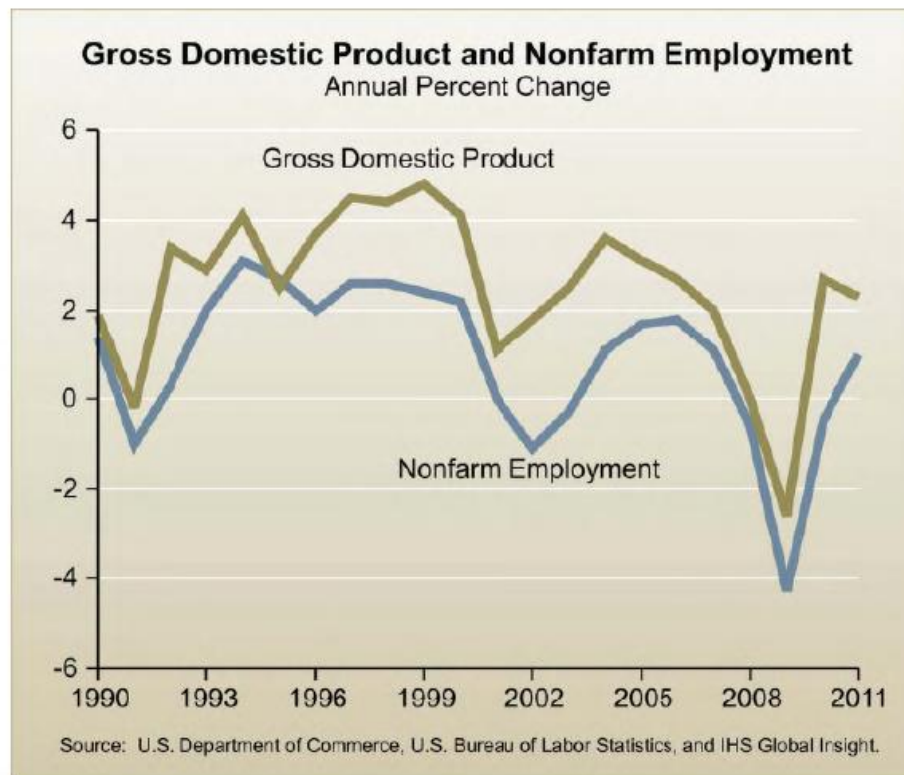


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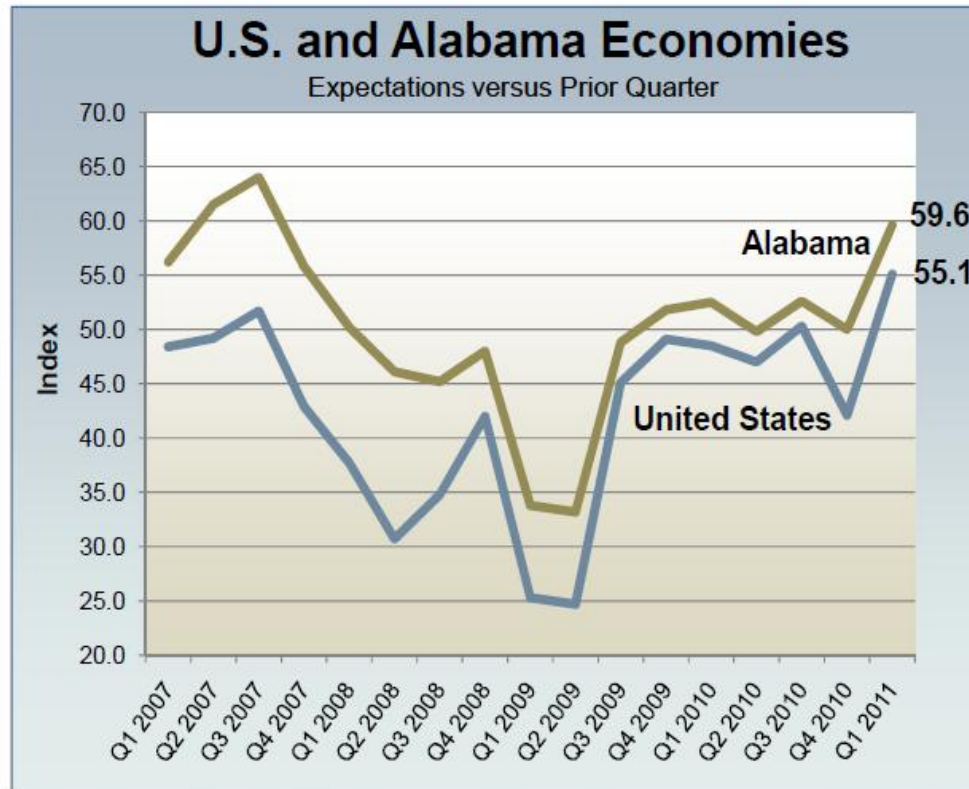
U.S. Economy

- U.S. GDP bottomed out in 2009, slowly recovering
- > 8 million jobs lost in recession
- Jobs returning much more slowly than they were lost



Alabama Economy

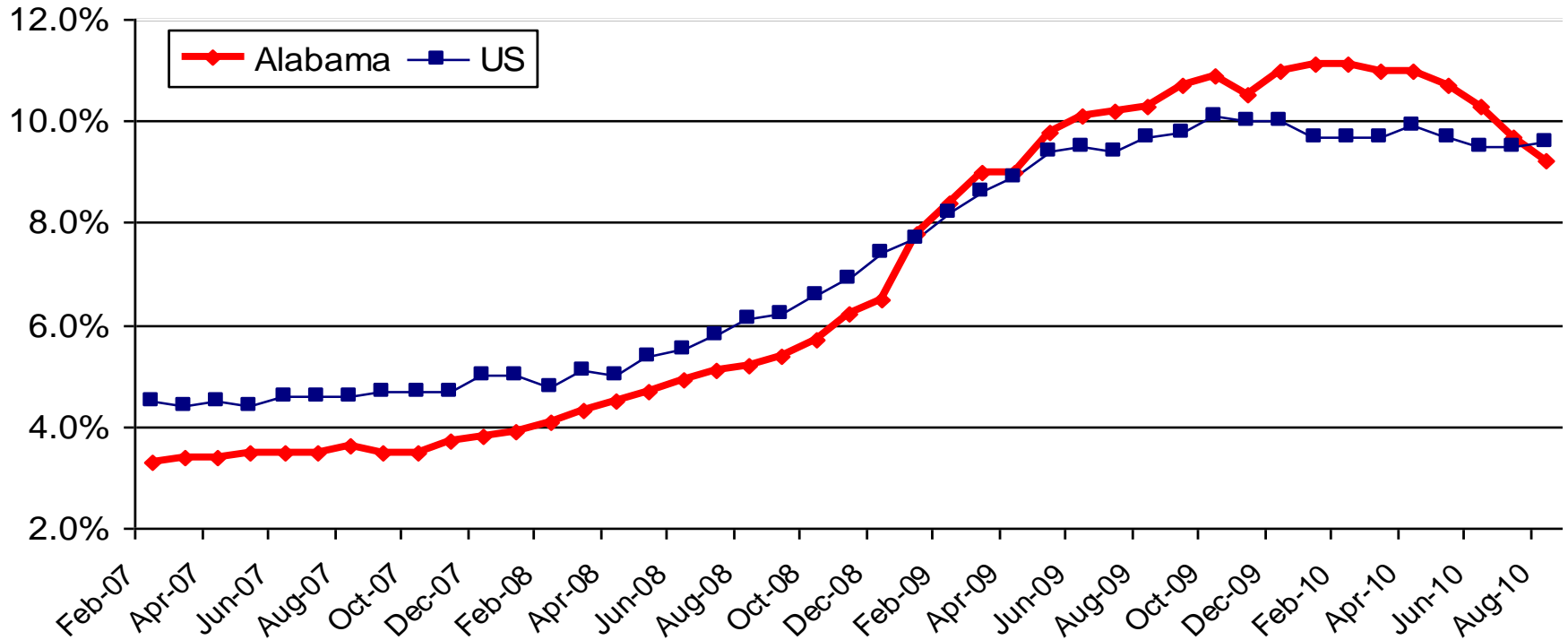
- 4.8 million residents
- 1.93M in workforce, 200,000 unemployed
- Alabama lagged the U.S. in feeling impact of recession
- Downturn here was steeper, but now recovery is faster



Alabama Economy

- In 2007 and 2008, Alabama's economy outpaced that of the broader U.S. economy with significantly lower unemployment rates.
- In 2009 and 2010, Alabama's unemployment rate spiked as we lost industrial and manufacturing-related jobs. Last few months have been encouraging.

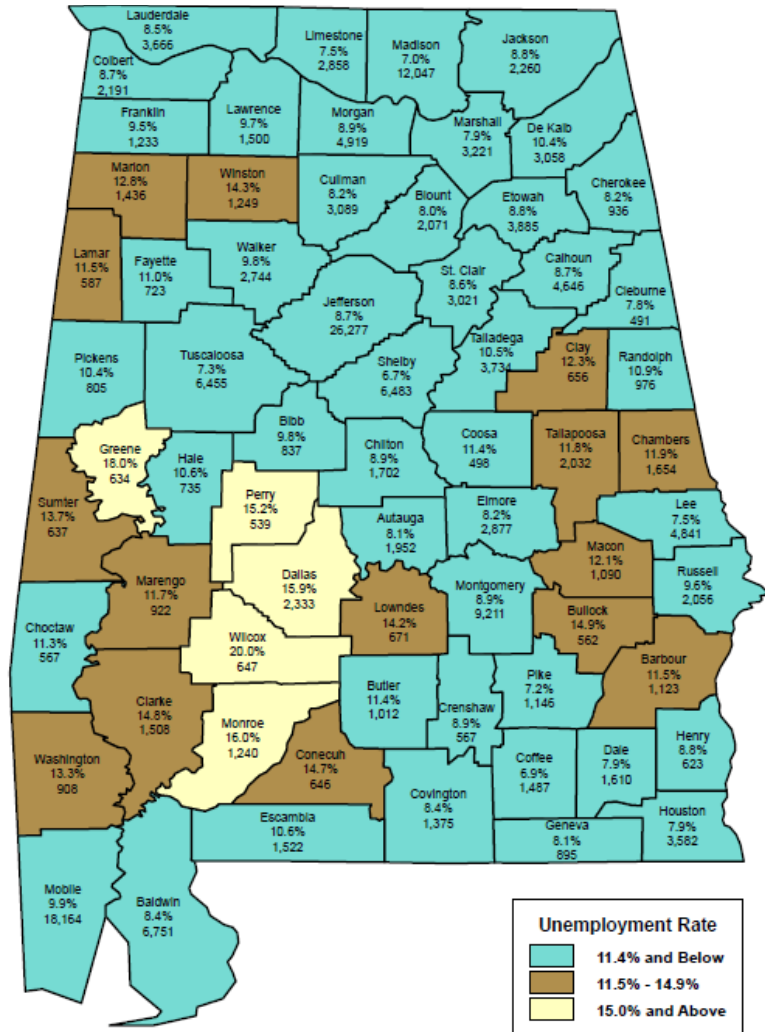
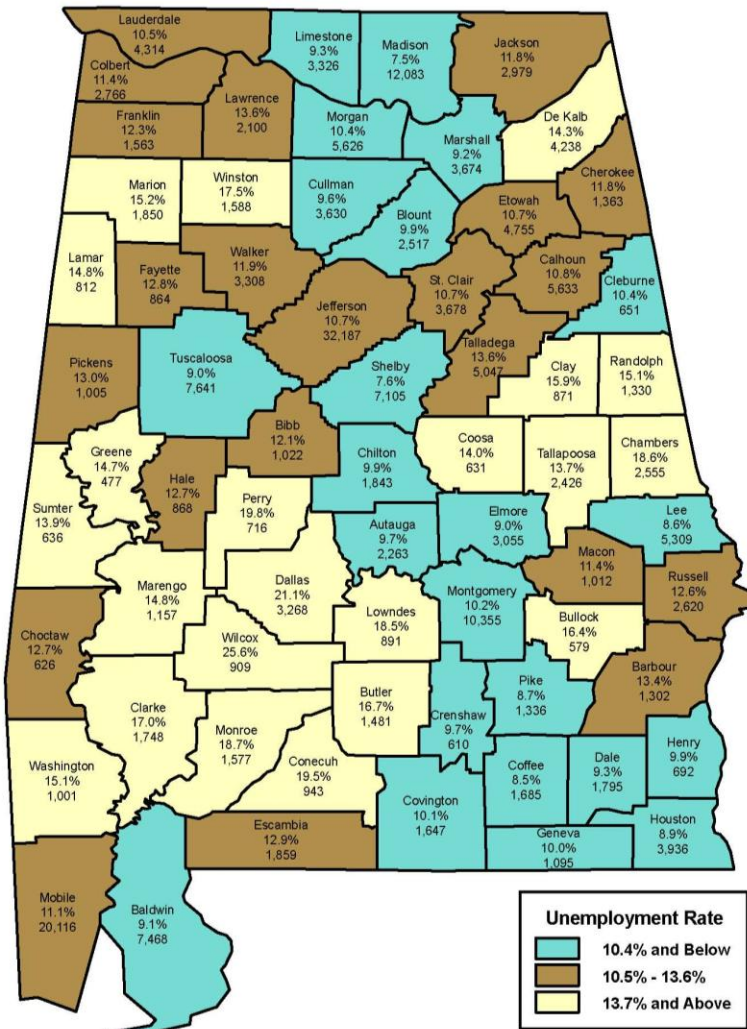
U.S. and Alabama Unemployment Rates
(seasonally adjusted)



Alabama's Unemployment Rate – Then and Now

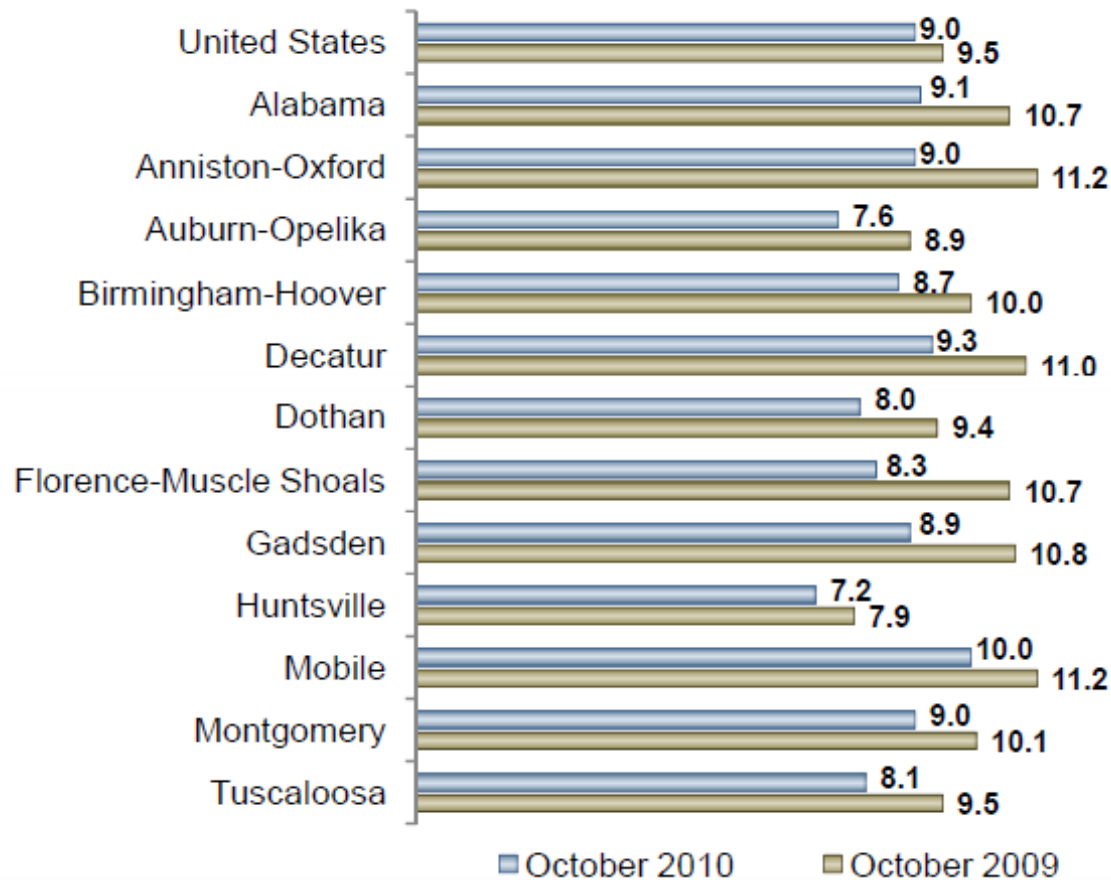
September 2009 – 10.7%
(seasonally adjusted)

December 2010 – 9.1%
(seasonally adjusted)



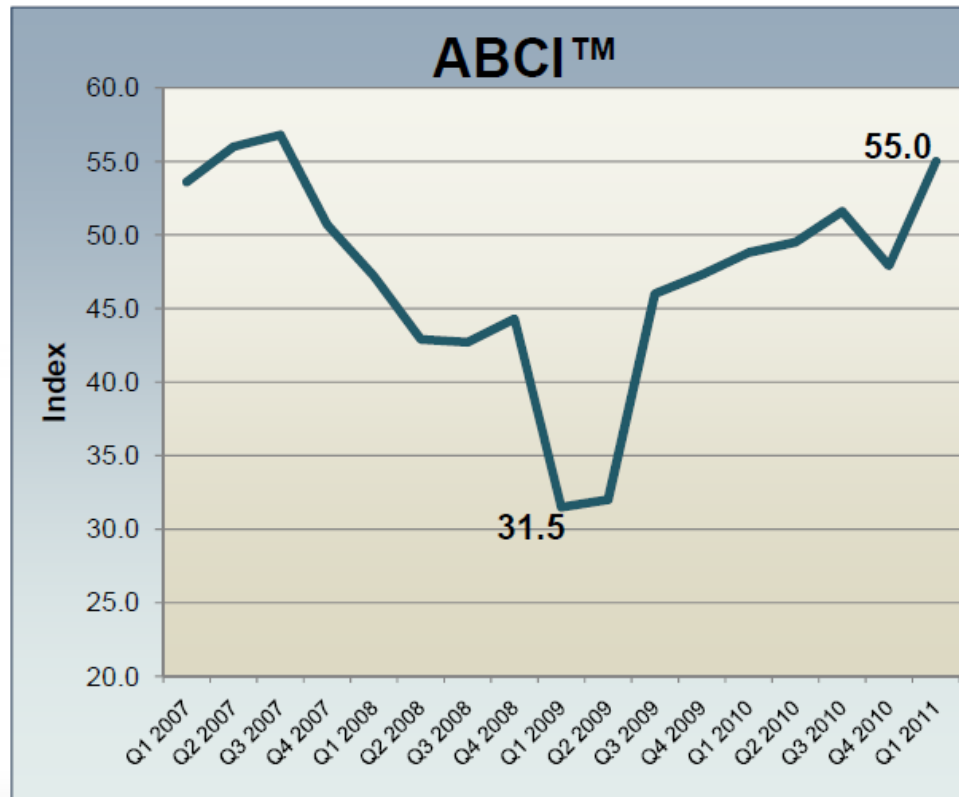
Alabama's Unemployment Rate – Then and Now

- Unemployment has dropped across all areas of the State with the decrease of 1.6% besting the U.S. decrease of 0.5%



Alabama Business Confidence Index (ABCI)

- Alabama businesses are gaining confidence about prospects for 2011 with optimism close to pre-recession levels



General Fund Budget Outlook

- General Fund agencies have been cut about 20% over past 2 years
- Currently anticipating shortfall of at least \$150M on \$1.6B budget in FY 2011
- FY 2011 budget includes roughly \$450 million in one-time revenues
- Using entire ATF unrealized capital gains error amount in FY 2012 would still leave gap of \$200+ million, not including any increases for inflationary costs or employee benefit increases

General Fund Budget Outlook (Continued)

- Corrections received \$346M from GF in 2011
- Medicaid received \$345M from GF in 2011
 - Would require \$700M in 2012 GF to avoid cuts in services
- Court system received \$150M from GF in 2011
 - Majority of courts' budget is constitutionally protected from proration
- These three agencies made up more than half of GF budget in 2011
 - Level-funding Medicaid alone would eat up nearly half of 2012 budget
- Difficult and painful decisions must be made

Education Trust Fund Outlook (2011)

- ETF has already been cut about 20% over past two years
- Tax collections are currently on pace to be about \$200 million short of 2011 appropriation level
- January tax collections, however, were moderately encouraging
 - Individual income tax revenues up
 - Sales tax revenues up
 - Corporate income tax revenues down
- Governor Bentley will wait and see February's receipts before making a decision on proration one way or the other
 - Balancing need for clarity with desire to avoid unnecessary proration declaration
 - Will decide no later than early March.
- If proration is declared in ETF, would be 5th time since 2000 and 18th time since 1950.

Education Trust Fund Outlook (2012)

- Still working with EBO and DOR to refine our revenue estimate
- Primary change from 2011 to 2012 is loss of federal stimulus funds
 - \$300M in SFSF
 - \$200M in IDEA/Title I
 - \$150M in Jobs Act
- Also losing \$32M in fleet renewal
- Don't count on BP settlement to save ETF
- Expect growth in tax receipts over 2011, but not nearly enough to cover loss of federal funds
- Expect slight decrease in overall ETF appropriation level that will feel much more significant because of loss of federal funds

Other States' Budget Outlook

- States closed \$84B in deficits for FY 2011
 - Now 15 states are \$27B short of even those reduced 2011 levels
 - IL faced 47% budget deficit before nearly doubling income tax rates
- 35 states face 2012 budget gaps that total \$82B
 - Gap is greater than 10% of budget in 21 states
 - NC – 20%; NJ 26%
- \$66B more in deficit predicted in 2013

Other States' Proposals

- SC selling old school buses for scrap metal and buying used buses
- TN is considering the early release of 2,000+ prisoners per year
- NC is considering eliminating more than \$1B worth of tax credits to help close a \$3.7B deficit
- Several states are considering measures to improve collections of taxes on online sales
- Several states are considering early release of prisoners and/or sentencing reform to reduce costs
- AZ cut university funding by 20%, community college funding by 50%, eliminated health care for 280,000 adults
- IL increased income tax rates by roughly 70%

Other States' Proposals

- CT issued \$2 billion bond to fund teachers' pension system
- Several states have reduced benefits and/or raised retirement age / years of service requirements
- Several states have adopted or proposed defined contribution retirement plans (401k)
- Several states have raised employee contribution rates
 - e.g., MS increased employee rate from 7.25% to 10%
- Several states (e.g., GA, TN, NC) have required that any proposals that will affect pension benefits or costs get an actuarial analysis to determine long term price tag



Bentley Administration Budget Principles

- Conservative Budgeting
 - Cannot afford to continue to put our schools through proration
 - Wreaks havoc mid-year in operations plans, with few options for making up shortfall, as most expenditures are already locked in
 - Forces many systems to eliminate reserves and take out loans to get through the remainder of the school year
 - We must improve our budgeting system to reduce likelihood and frequency of proration



Bentley Administration Budget Principles

- Strategic Allocation of Limited Resources
 - Cannot continue to fund all of the programs and projects we have funded in the past
 - Must do a better job of prioritizing
- Working with Legislature on front end of budgeting process
- Structural long-term reform
 - Commission to Improve State Government
- Everything is on the table