

Budget Discussion

September 8, 2022

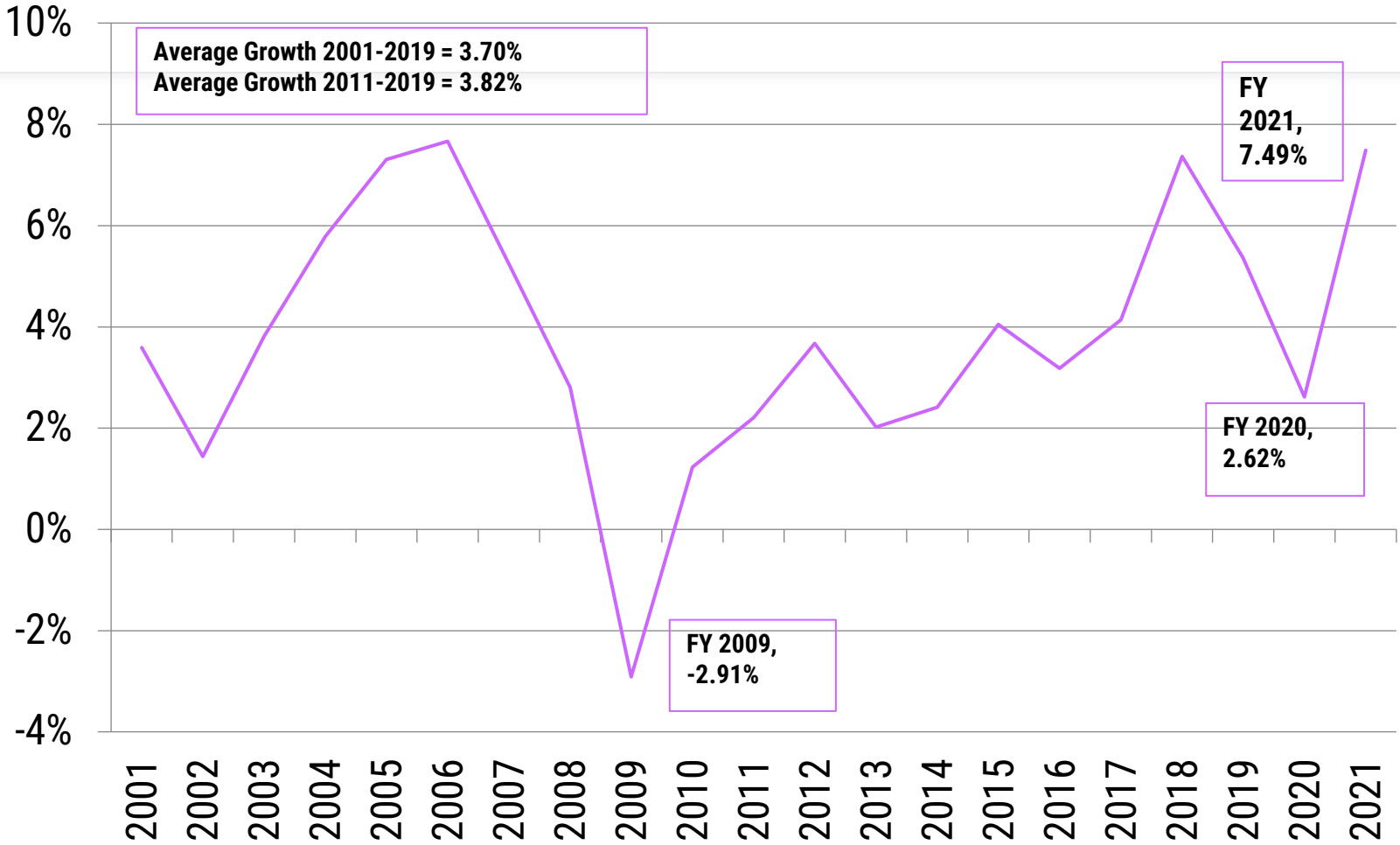
Kirk Fulford,
Legislative Fiscal Officer

Current Alabama Economic and Budget Conditions

Current Alabama Economic Conditions

- **Alabama's labor market has been robust**
- 2.6% seasonally adjusted July unemployment rate – **Record Low (Unchanged from June)**
- Civilian labor force increased by 47,818 over the year to 2,291,962 - **New Record High**
- Number of those counted as employed rose to 2,232,543 – **New Record High**
 - Yearly increase of 65,475
- July's rate represents 59,419 unemployed persons – **New Record Low**
 - 77,076 unemployed persons in July 2021
- Wage and salary employment increased by 34,300 over the year
- Wage and salary growth continues in many sectors
 - Second highest weekly wage rate in history, an increase of nearly \$28 per week
 - Average weekly wages at second highest level in history at \$1,005.34 per week
- Withholding payments are up by **10.46%** (\$399 million) FYTD

Growth in Withholding Payments Since FY 2001

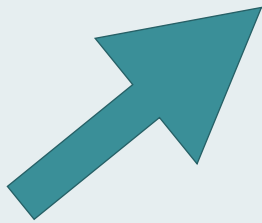


State General Fund

August FY 2022 General Fund Growth

General Fund

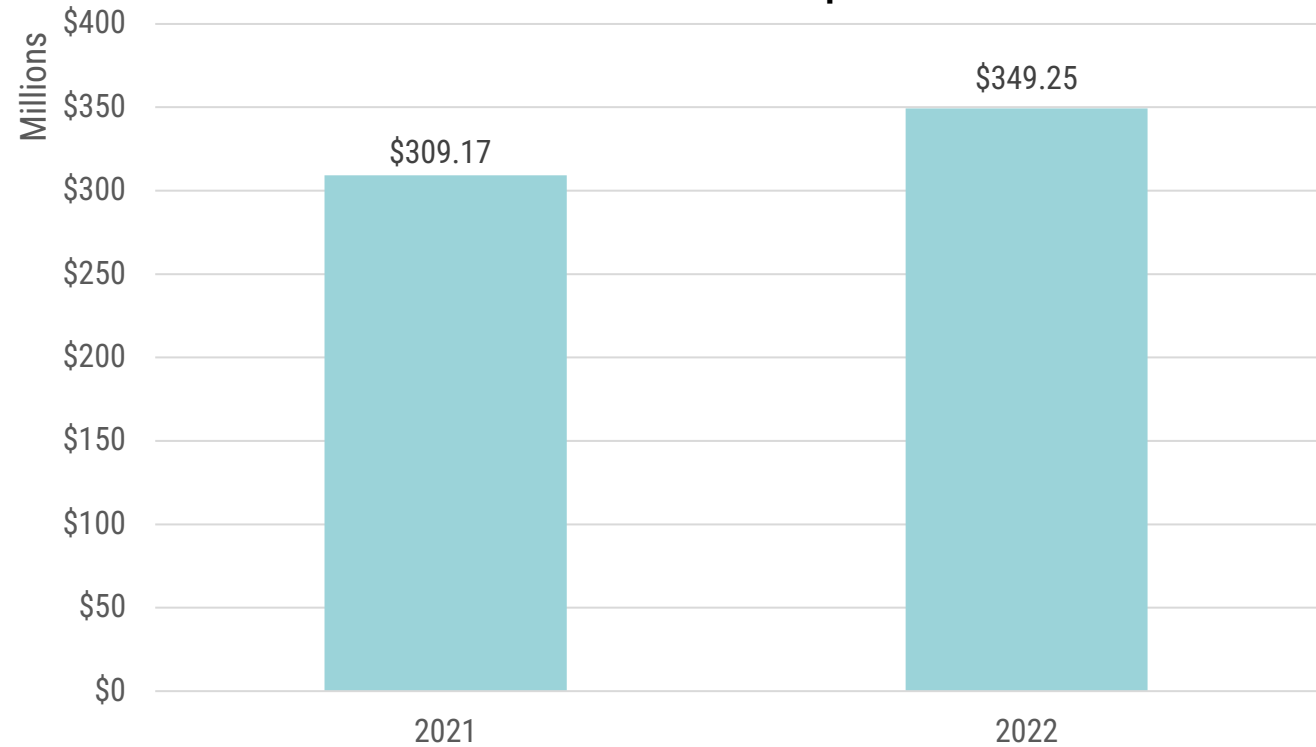
Total Revenue Growth: \$40.08 M



12.96%

Increase in FY 2022 over FY 2021

Total Net Receipts



General Fund YTD Net Receipts

| STATE GENERAL FUND NET RECEIPTS (as of September 1) | | | | |
|---|----------------------|----------------------|--------------------|--------------|
| REVENUE SOURCE | FY 2021 | FY 2022 | Difference | % Difference |
| ABC Board | 138,297,786 | 157,743,292 | 19,445,507 | 14.06% |
| Ad Valorem Taxes | 177,380,053 | 186,799,584 | 9,419,531 | 5.31% |
| Alabama Trust Fund | 123,577,185 | 122,499,814 | -1,077,370 | -0.87% |
| Cigarette Tax | 134,585,269 | 121,301,482 | -13,283,787 | -9.87% |
| Corporation Tax | 8,023,428 | 8,275,640 | 252,212 | 3.14% |
| Court Costs | 54,452,022 | 54,643,681 | 191,659 | 0.35% |
| Financial Institutions Excise Tax | 90,417,436 | 73,617,451 | -16,799,984 | -18.58% |
| Insurance Company Taxes | 486,731,223 | 549,573,828 | 62,842,605 | 12.91% |
| Interest on State Deposits | 17,340,545 | 28,426,113 | 11,085,568 | 63.93% |
| Leasing and Rental Tax | 83,878,296 | 90,053,642 | 6,175,346 | 7.36% |
| Lodgings Tax | 56,436,231 | 70,530,215 | 14,093,984 | 24.97% |
| Mortgage Tax | 53,532,964 | 52,309,526 | -1,223,438 | -2.29% |
| Oil and Gas Taxes | 19,229,773 | 34,989,341 | 15,759,568 | 81.95% |
| Sales Tax | 130,513,498 | 133,468,983 | 2,955,484 | 2.26% |
| Simplified Sellers Use Tax | 177,363,115 | 211,752,439 | 34,389,324 | 19.39% |
| Use Taxes | 259,196,158 | 296,852,737 | 37,656,579 | 14.53% |
| Other | 274,868,746 | 270,556,985 | -4,311,760 | -1.57% |
| Subtotal | 2,285,823,726 | 2,463,394,754 | 177,571,027 | 7.77% |
| <i>Transfers and Reversions</i> | 48,438,979 | 61,095,558 | 12,656,580 | 26.13% |
| TOTAL | 2,334,262,705 | 2,524,490,312 | 190,227,607 | 8.15% |

General Fund Budget Condition (as of September 1, 2022)

Beginning Balance \$489,699,351

YTD Receipts \$2,524,490,312

Total Available Funds \$3,014,189,663

Revenue Needed in
Sept. of FY 2022

-\$94,457,617

Total Obligations \$2,919,732,046

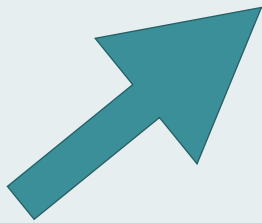


Education Trust Fund

August FY 2022 Education Trust Fund Growth

Education Trust Fund

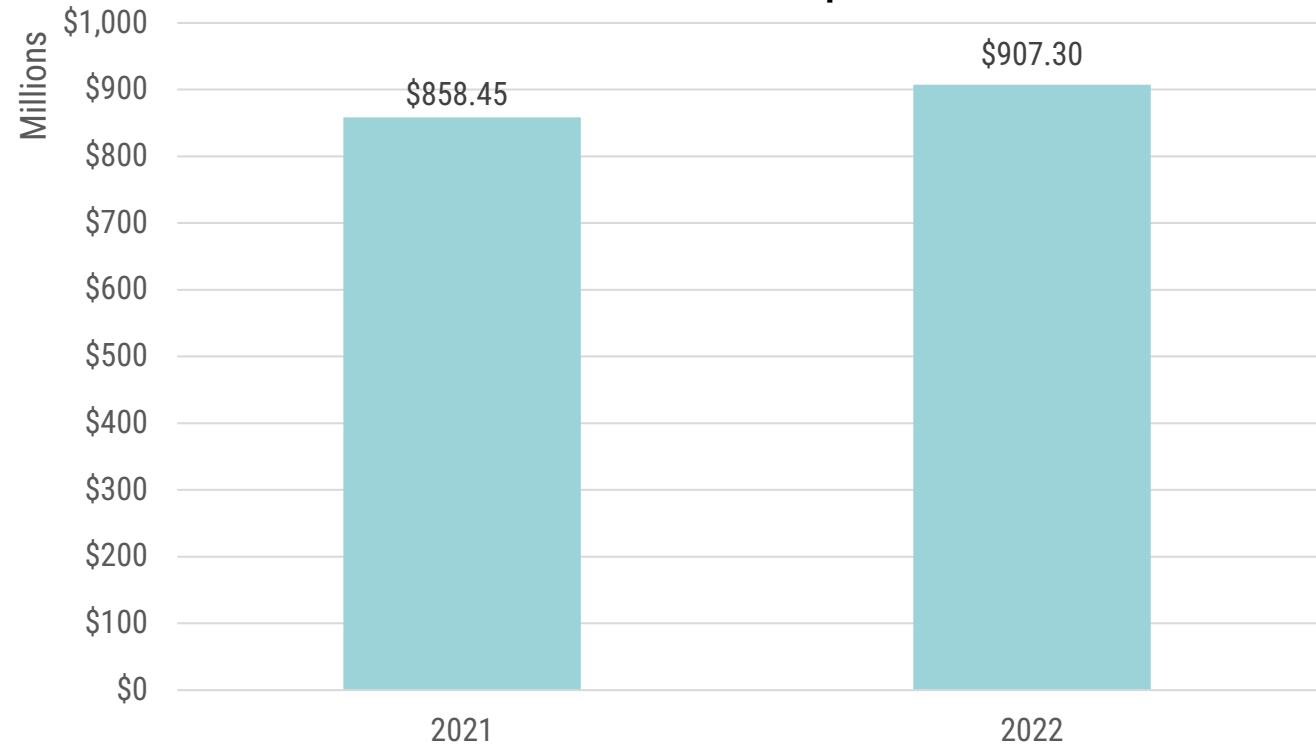
Total Revenue Growth: \$48.85 M



5.69%

Increase in FY 2022 over FY 2021

Total Net Receipts



Education Trust Fund YTD Net Receipts

| EDUCATION TRUST FUND NET RECEIPTS (as of September 1) | | | | |
|---|------------------------|------------------------|------------------------|---------------|
| REVENUE SOURCE | FY 2021 | FY 2022 | Difference | % Difference |
| Beer Tax | \$21,304,154 | \$20,798,393 | -\$505,760 | -2.37% |
| Hydroelectric Tax | \$540,503 | \$0 | -\$540,503 | -100.00% |
| Income Tax | \$4,999,235,328 | \$6,345,728,769 | \$1,346,493,441 | 26.93% |
| Sales Tax | \$2,119,401,930 | \$2,250,652,523 | \$131,250,592 | 6.19% |
| Simplified Sellers Use Tax | \$59,121,038 | \$70,584,146 | \$11,463,108 | 19.39% |
| Use Taxes | \$184,662,771 | \$219,603,290 | \$34,940,519 | 18.92% |
| Utility Tax | \$343,587,441 | \$366,496,395 | \$22,908,954 | 6.67% |
| Other | \$7,358,261 | \$7,317,361 | -\$40,900 | -0.56% |
| Subtotal | \$7,735,211,427 | \$9,281,180,879 | \$1,545,969,451 | 19.99% |
| <i>Transfers and Reversions</i> | \$486,928 | \$1,388,806 | \$901,879 | 185.22% |
| TOTAL | \$7,735,698,355 | \$9,282,569,685 | \$1,546,871,330 | 20.00% |

Education Trust Fund Budget Condition (as of September 1, 2022)

Beginning Balance \$1,330,783,131

YTD Receipts \$9,282,569,685

Total Available Funds \$10,613,352,816

Revenue Needed in
Sept. of FY 2022

-\$1,610,004,370

Total Obligations \$9,003,348,446



U.S. Economic Conditions

U.S. Gross Domestic Product (GDP)

- Real GDP decreased at an annual rate of 0.6% in the second quarter of 2022 according to the August 25, 2022 “second” estimate
 - Decrease in GDP reflects decreases in private inventory investment, residential fixed investment, and government spending (federal, state, and local), partly offset by increases in exports and consumer spending
 - Consumer spending, which makes up roughly two-thirds of total economic output, grew by only 1% in the second quarter – the lowest quarterly growth since the onset of the COVID recession in the second quarter of 2020
- Real GDP decreased at an annual rate of 1.6% in the first quarter

U.S. Gross Domestic Income (GDI) and Corporate Profits

- GDI is an alternative measure of the national economy, counting the total income that all sectors of the economy generate, and costs incurred in production
 - Increased by 1.4% in the second quarter, compared to an increase of 1.8% in the first quarter
 - Average of Real GDP and Real GDI (equally weighted measure) increased by 0.4% in the second quarter, compared with an increase of 0.1% in the first quarter
- Corporate profits from current production increased by \$175.2 billion in the second quarter, after a decrease of \$63.8 billion in the first quarter

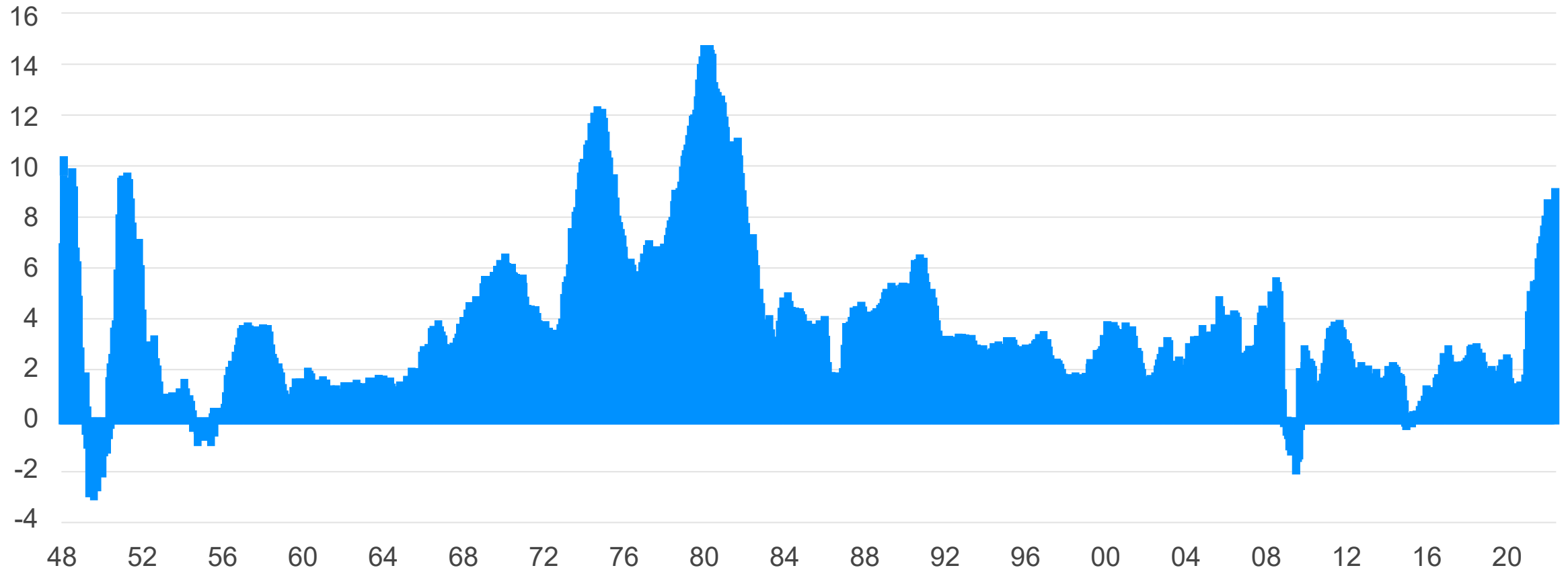
U.S. Personal Income

- Current dollar personal income increased by \$353.1 billion in the second quarter
 - Primarily reflecting increases in compensation (led by private wages and salaries), proprietors' income (both nonfarm and farm), personal income receipts on assets, and rental income
- Disposable personal income, or the amount left to spend or save after paying taxes, increased \$287 billion (6.5%) in the second quarter
- Real disposable personal income, or the after-tax income available to households adjusted for inflation, decreased by 0.6% in the second quarter
- Personal savings rate, or the personal savings as a percentage of disposable personal income, was 5.1% in the second quarter

Source: Bureau of Economic Analysis

Historic Levels of Headline Inflation

Consumer Price Index, % change yr ago



Most Recent Report on Inflation

- Consumer Price Index for all Urban Consumers (CPI-U) was unchanged in July after rising by 1.3% in June
- The gasoline index fell 7.7% in July and offset increases in food and shelter indexes
- The all-items index increased 8.5% for the 12 months ending in July, **a smaller increase than the 9.1% increase for the period ending June**
- The energy index rose by 32.9% over last year, **a smaller increase than the 41.6% increase for the period ending June**
- The food index increased by 10.9% over the last year, **the largest 12-month increase since the period ending May 1979**

Federal Reserve Response to Inflation

- The Federal Reserve approved a second consecutive 0.75-percentage-point interest rate increase in the federal funds rate at their policy meeting that concluded 7/27/22
- The Federal Reserve is raising rates at the most aggressive rate since the 1980s
- Rates raised since March by as much as the rates were raised between 2015-2018
- Federal Reserve Chairman Jerome Powell stated at an annual economic conference in Jackson Hole, WY in August that interest rates would continue to go up and stay there until policymakers are confident that prices are under control

Worker Productivity

- U.S. nonfarm business sector labor productivity, a measure of goods and services produced in the U.S. per hour worked, declined at a seasonally adjusted rate of 4.1% in the second quarter
 - Output decreased by 1.4%
 - Hours worked increased by 2.7%
- The second quarter of 2022 is the second consecutive quarter in which output per hour worked declined
- From the second quarter of 2021, nonfarm business sector labor productivity decreased by 2.4% - the largest decline in this series, which began in the first quarter of 1948
- Unit labor costs, increased by 10.2% in the second quarter
 - Increased by 9.3% over the last four quarters – the largest four-quarter increase since a 10.6% increase in the first quarter of 1982



Why Be Concerned About an Economic Slowdown

Growth in Education Trust Fund Recurring Revenues Since FY 2001

| Fiscal Year | Amount | % Change |
|-------------|-----------------|----------|
| --- | --- | --- |
| 2001* | \$4,015,374,184 | -2.41% |
| 2002* | \$4,047,458,062 | .80% |
| 2003 | \$4,068,690,120 | .52% |
| 2004 | \$4,456,026,869 | 9.52% |
| 2005 | \$4,969,255,238 | 11.52% |
| 2006 | \$5,498,361,937 | 10.65% |
| 2007 | \$5,853,973,857 | 6.47% |
| 2008* | \$5,943,258,155 | 1.53% |
| 2009* | \$5,241,600,047 | -11.81% |
| 2010 | \$5,217,470,126 | -.46% |






| Fiscal Year | Amount | % Change |
|-------------|-----------------|----------|
| 2011 | \$5,305,361,155 | 1.68% |
| 2012 | \$5,674,207,619 | 6.95% |
| 2013 | \$5,735,296,432 | 1.08% |
| 2014 | \$5,802,736,486 | 1.18% |
| 2015 | \$6,129,399,073 | 5.63% |
| 2016 | \$6,106,888,061 | -.37% |
| 2017 | \$6,327,327,215 | 3.61% |
| 2018 | \$6,753,565,379 | 6.74% |
| 2019 | \$7,215,276,203 | 6.84% |
| 2020* | \$7,424,571,740 | 2.90% |

Average Growth 2001-2020 = 3.13%
Average Growth 2011-2020 = 3.62%

*Indicates recession years. Arrows indicate proration years.

Growth in General Fund Recurring Revenues Since FY 2001

| Fiscal Year | Amount | % Change | | Fiscal Year | Amount | % Change |
|-------------|-----------------|----------|---|-------------|-----------------|----------|
| --- | --- | --- |  | 2011 | \$1,328,559,738 | 5.83% |
| 2001* | \$1,163,074,891 | 4.78% |  | 2012 | \$1,359,016,870 | 2.29% |
| 2002* | \$1,144,312,996 | -1.61% | | 2013 | \$1,547,825,390 | 13.89% |
| 2003 | \$1,238,321,514 | 8.22% | | 2014 | \$1,550,343,233 | .16% |
| 2004 | \$1,221,839,895 | -1.33% | | 2015 | \$1,579,836,188 | 1.90% |
| 2005 | \$1,378,217,962 | 12.80% | | 2016 | \$1,765,073,131 | 11.73% |
| 2006 | \$1,498,491,435 | 8.73% | | 2017 | \$1,859,240,859 | 5.34% |
| 2007 | \$1,573,406,406 | 5.00% | | 2018 | \$1,983,621,056 | 6.69% |
| 2008* | \$1,574,389,580 | .06% | | 2019 | \$2,139,814,015 | 7.87% |
| 2009* | \$1,358,732,123 | -13.70% | | 2020* | \$2,270,095,974 | 6.09% |
| 2010 | \$1,255,402,368 | -7.60% |  | | | |

Average Growth 2001-2020 = 3.86%
Average Growth 2011-2020 = 6.18%

*Indicates recession years. Arrows indicate proration years.

Questions?

