

Alabama State Tax Collections, 2024

*Increases, Decreases, and Trends in the Revenues
Supporting the State Government*



**Public Affairs
Research Council
of Alabama**



*Alabama State Tax Collections, 2024: INCREASES,
DECREASES, AND TRENDS IN THE REVENUES SUPPORTING
THE STATE GOVERNMENT*

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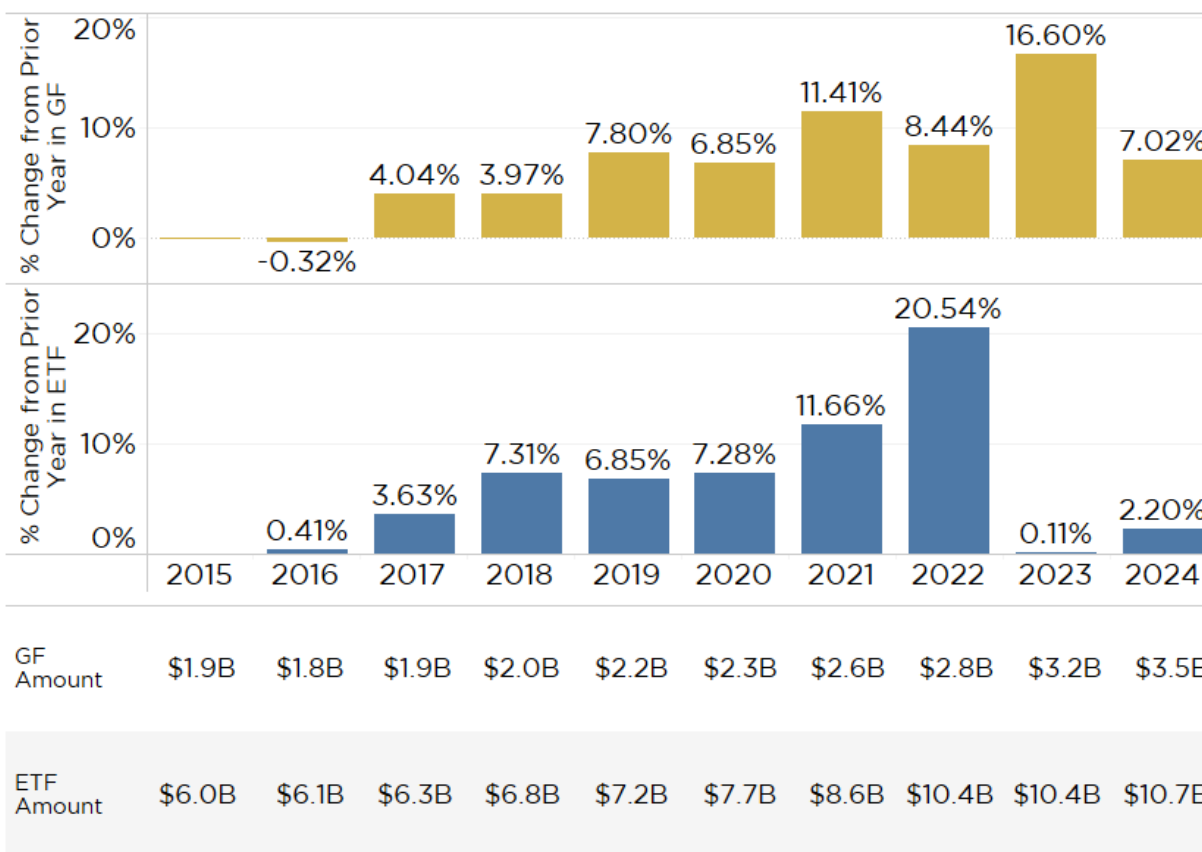
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Executive Summary

After a wild post-pandemic ride, Alabama tax revenues continue to trend toward more normal patterns. The Education Trust Fund (ETF), powered by state income and sales taxes, grew modestly, collecting 2.2% more than the previous year. Meanwhile, growth in the General Fund (GF) cooled but still posted an unusually high increase of 7%, boosted by high interest earned on state deposits and continued growth in tax revenue from online sales, insurance, and property taxes.

Figure 1. Tax collection trends in Alabama's General Fund and Education Trust Fund



The GF supports non-education spending, while the ETF supports spending on K–12 schools, colleges, and universities. From FY 2021 through FY 2023, the two funds saw unusually high surges of growth related to pandemic-related economic conditions, federal stimulus and relief payments, and shifting employment and consumption patterns.

In 2024, the GF maintained its winning streak. Thanks to budget surpluses, replenished stockpiles of Rainy Day reserves, and federal relief and investment funds deposited in state accounts, Alabama has a growing body of cash in its accounts. That cash earns interest. Throughout FY 2024, interest rates have stayed high as the Federal Reserve tries to cool inflation. As a result, the state revenues from interest grew by more than \$150 million, up to \$557 million over 2023, a base year that was already a big leap in interest income from the prior years.

As the Federal Reserve moves to lower interest rates, the growth in interest income will not continue. Billions of federal dollars made available through the American Rescue Plan Act (ARPA) have been on deposit in state accounts. All of that money has to be expended by the end of 2026. That will lower the base deposits, which, combined with high interest rates, have provided a large revenue boost from interest on state deposits. Declining balances and falling interest rates will put downward pressure on that revenue source in FY 2025 and FY 2026.

Meanwhile, in the ETF, the two main drivers in the fund went in opposite directions. In 2024, sales taxes declined by 2%, while income tax revenue grew by 3%. Overall, the ETF increased by \$230 million, a 2% increase.

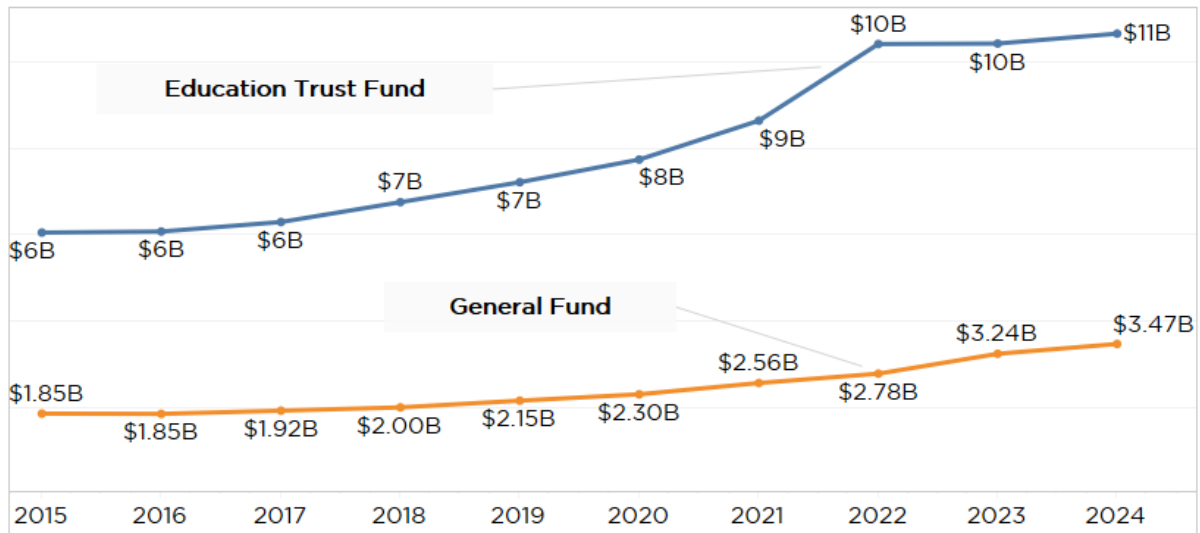
It is not surprising that sales tax revenues decreased. The Legislature lowered the sales tax on groceries by 1 cent, a change that went into effect when the fiscal year ended in 2023. The Legislative Services Agency predicted the change would lower total sales tax revenue by \$152 million, but collections were down only \$132 million.

The bill changing the grocery tax rate included a provision to lower the tax by another cent in 2024, but only if the ETF was projected to grow by 3.5% or more. That did not happen, and the second reduction did not occur.

Current economic conditions suggest that Alabama tax collections in FY 2025 will remain steady. Unemployment is still near record lows, and the number of people working has increased. However, Alabama's labor force participation continues to lag behind the U.S. rate. That means that fewer Alabamians, in percentage terms, are either working or looking for work. That partially explains why Alabama does not generate as much income or tax revenue per capita as other states. As the Federal Reserve lowers interest rates, income for interest on state deposits will not grow as fast.

The State Finance Department predicts that collections in FY 2025 will exceed FY 2024 totals by only .71% in the ETF and by 1.25% in the General Fund. The 2025 GF budget represented an 11.53% increase over 2034. Spending in the ETF was budgeted to grow by 6.5% over the 2024 totals.

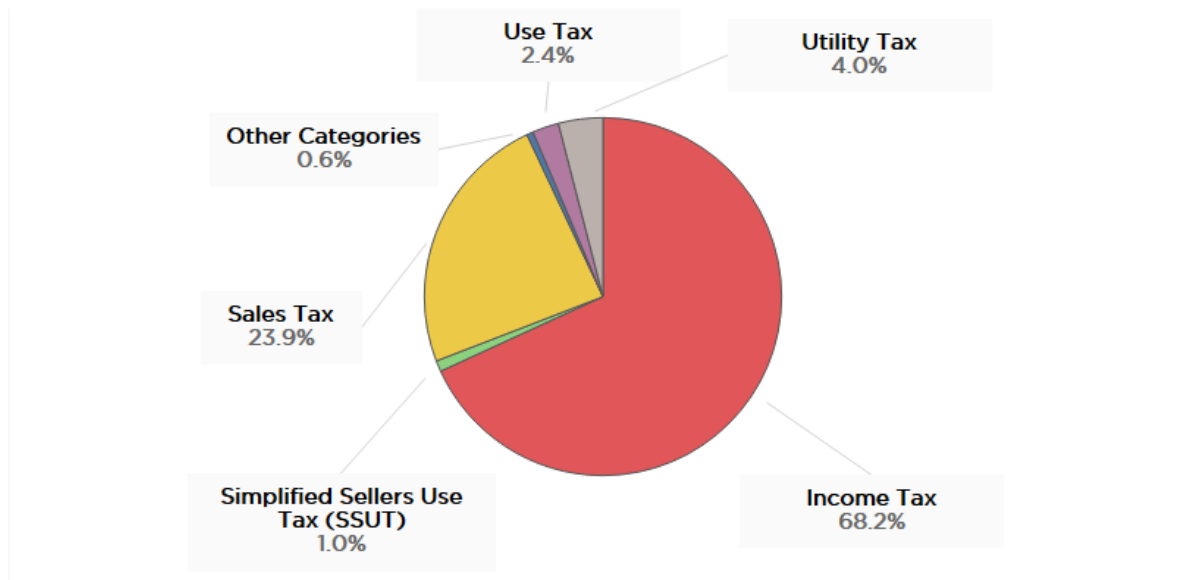
Figure 2. Trends in Revenue Totals, Education Trust Fund and General Fund



The Education Trust Fund

The ETF¹ receives the receipts of state sales and use tax, income tax, plus a handful of other revenue streams, as shown below. Income taxes, as well as sales and use taxes, comprise 96% of these sources. Thus, the ETF relies on a strong economy for growth. During a recession, the ETF can be expected to contract.

Figure 3. Education Trust Fund by Source of Revenue, 2024



Education Trust Fund Total

Revenues	FY 2024	Change 2023-2024	% Change 2023-2024
Total	10,660,548,593	229,588,408	2.2%

¹ The Education Trust Fund (ETF) is the largest operating fund of the State. Revenues credited to the ETF are used for the support K-12 education, public library services, performing and fine arts, scholarship programs, the state's education regulatory departments, and two- and four-year colleges and universities. ETF funding also supports non-state agencies that provide educational services, including the arts, disease counseling and education, and youth development. Twelve 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. http://budget.alabama.gov/education_trust_fund_description/.

In addition, inflation can affect these revenue sources. Higher inflation can drive up the amount collected in sales tax. Still, the higher collections may not represent real growth due to increased costs to the government and the need to raise public employee compensation to keep up with inflation. Figure 4 depicts the ‘All items’ *Consumers Price Index for All Urban Consumers (CPI-U) for the South Region*. Prices increased 2.1% for the 12 months ending in September 2024 (all items, less food & energy, were 3%). Fortunately, as growth in tax collection is moderating, so is the inflation rate.

Figure 4. Percent Change in Consumer Price Index, Sept 2021-Sept 2024

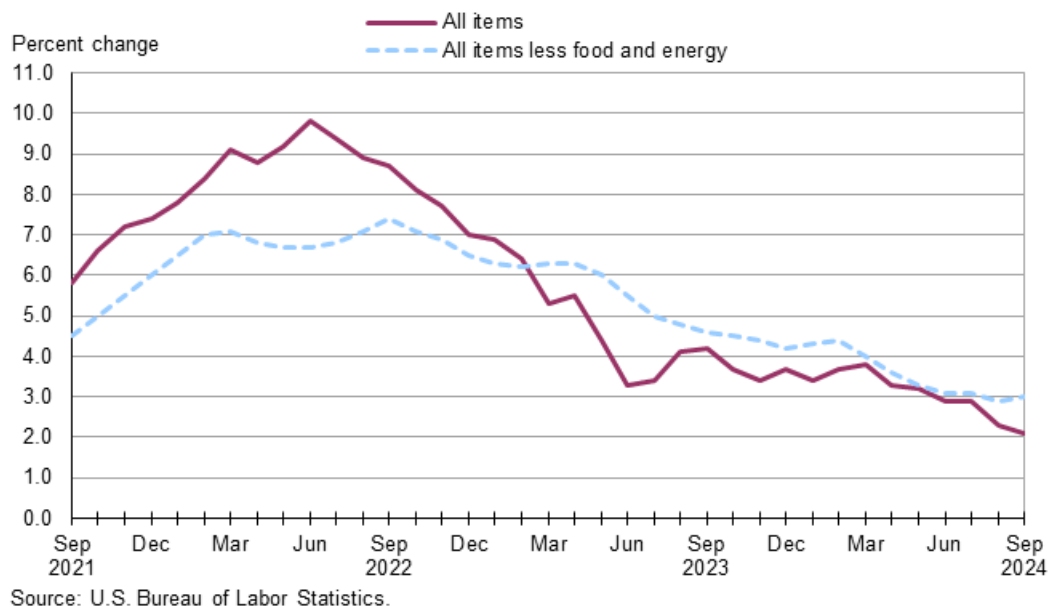
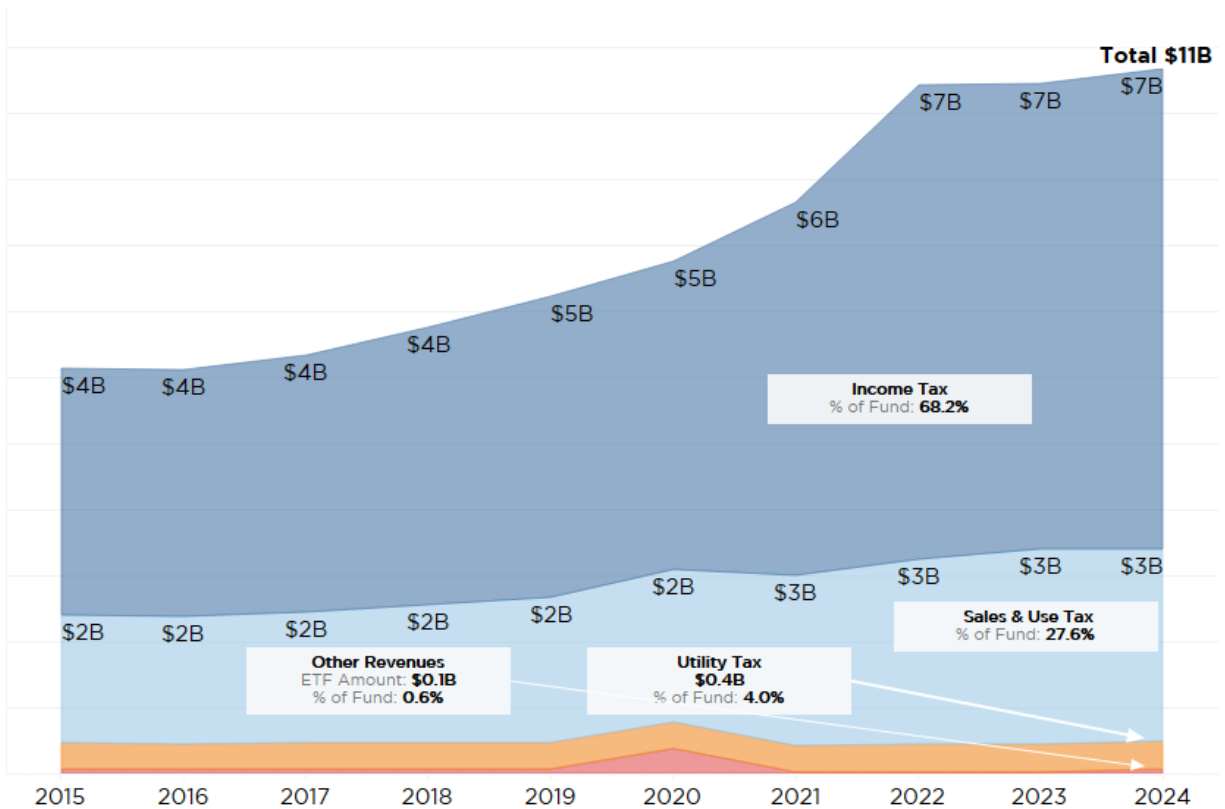


Figure 5 depicts the overall revenue trends for the ETF, showing the trends for the four main revenue categories and a fifth “other” category. The income tax and the sales & use tax categories reflect 96% of the total revenue sources.

Figure 5. Revenue Sources for ETF, by % of Fund



For a detailed list of all revenues with the ETF, see Table 1 below, which includes, in descending order, a total for FY 2024 revenue, revenue by source, the change from the previous year, the percentage change from the previous year, and the percentage of all revenues from the source.

Table 1. ETF Revenue Sources and Change

Revenues	FY 2024	Change 2023-2024	% Change 2023-2024	Percent of Total
Total	10,660,548,593	229,588,408	2.2%	100.0%
Income Tax	7,267,128,927	235,034,995	3.3%	68.2%
Sales Tax	2,543,942,368	-48,672,149	-1.9%	23.9%
Utility Tax	425,813,175	3,862,532	0.9%	4.0%
Use Tax	236,328,040	-3,866,483	-1.6%	2.2%
Simplified Sellers Use Tax (SSUT)	105,385,523	13,153,084	14.3%	1.0%
ABC Board	21,461,147	-1,136,234	-5.0%	0.2%
Use Tax - Remote Sellers	20,412,981	1,845,578	9.9%	0.2%
Mobile Telecomm unications Tax	8,102,178	12,433	0.2%	0.1%
Transfers and Reversions	31,753,991	30,180,992	1918.7%	0.3%
Hydroelectric Tax	3,585	-553,485	-99.4%	0.0%
Miscellaneous	35,707	-244,340	-87.2%	0.0%
Privilege Licenses	121,944	8,176	7.2%	0.0%
Courts Cost	59,745	7,260	13.8%	0.0%

Income Taxes

There are two components of income taxes: individual income taxes and corporate income taxes. Both grew. Individual income taxes are the larger overall source of income tax revenue. But in 2024, corporate income tax collections increased by \$164 million, or 14%, providing a bigger increase than from individual income taxes, where collections increased only 2%. The amount paid out in refunds increased by 6%, producing a net gain of \$79 million, or 1%.

Considering the low rate of unemployment and an increase in the number of people working, one might have expected more gain in individual income tax collections. However, some changes likely decreased collections. In January 2024, a bill exempting overtime pay from income taxes went into effect.² That exemption is set

² <https://arc-sos.state.al.us/ucp/L1280257.A11.pdf>

to expire in June of 2025. Additionally, Act 2022-294 created an exemption for those 65 years and older on the first \$6,000 of taxable retirement income.³ This began with the 2023 tax year, and payment of those taxes occurred in 2024.

Alabama corporate tax collections, on the other hand, have continued to rise. Part of the explanation may be a tax cut at the federal level.

The Tax Cuts and Jobs Act of 2017 lowered the highest federal corporate tax rate from 35% to 21%, decreasing corporations' federal taxes. However, because Alabama allows companies and individuals to deduct federal income taxes paid from their taxable income, federal reductions result in an increase in taxes due to Alabama.

In addition, a state law change concerning how to calculate income earned in a state may play a role.

In 2021, Alabama joined the majority of states in calculating corporate income based on the single sales factor.⁴ Before the change, the amount of income generated in a state was based on a formula that considered multiple factors. Now, the calculation is based on sales in the state. Thanks to the change, out-of-state corporations with little to no property or payroll in Alabama have seen an increase in the portion of their income attributed to the state. Meanwhile, in-state corporations would have had the opposite effect and a significantly lower apportionment after the change to a single sales factor.

³ <https://arc-sos.state.al.us/ucp/L0928703.A11.pdf>

⁴ <https://arc-sos.state.al.us/ucp/L0535284.A11.pdf>

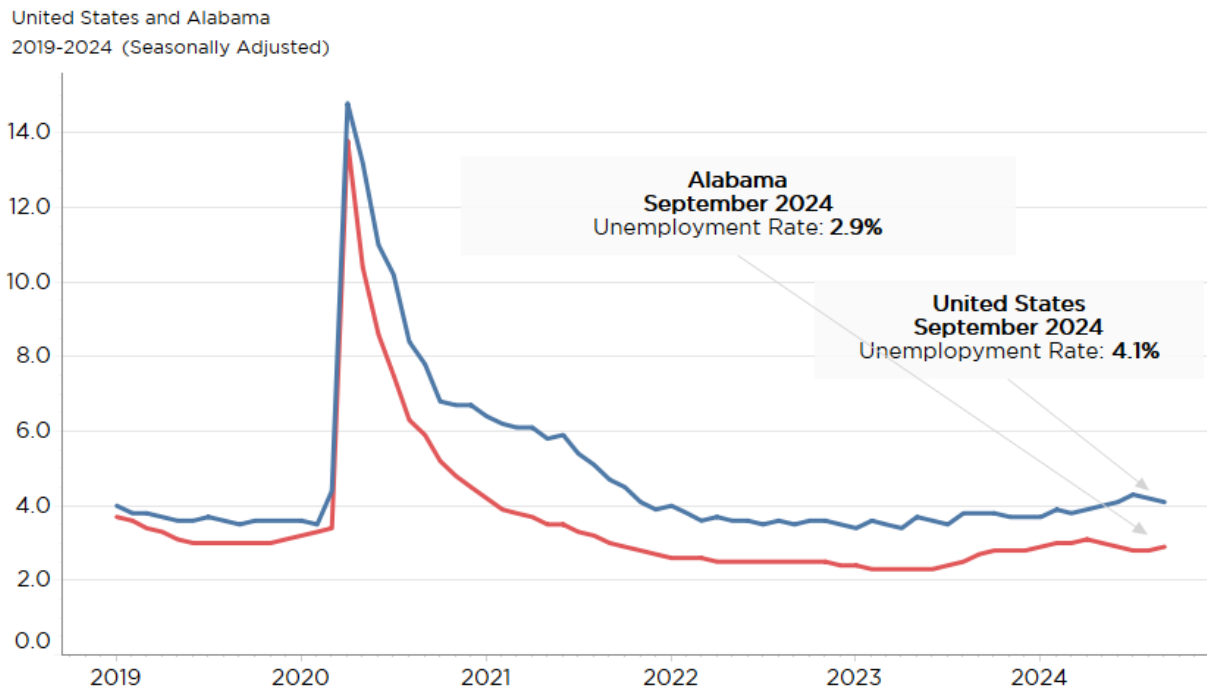
Table 2. Details on Income tax collections, FY 2024

Source of Fund	Prior Year Gross Receipts YTD	Current Year Gross Receipts YTD	Amount of Change	% Change
Individual Income Tax Receipts	\$6,823,266,320	\$6,954,236,557	\$130,970,236	2%
Individual Income Tax Refunds	-\$887,717,062	-\$939,666,719	-\$51,949,657	6%
Net Individual Income Tax Collections	\$5,935,549,259	\$6,014,569,837	\$79,020,579	1%
Corporate Income Tax Receipts	\$1,398,806,709	\$1,589,703,972	\$190,897,263	14%
Corporate Tax Refunds	-\$188,011,649	-\$214,948,029	-\$26,936,380	14%
Net Corporate Income Tax Collections	\$1,210,795,060	\$1,374,755,943	\$163,960,883	14%
Other costs				
Revenue Dept Cost of Collections	-\$44,035,642	-\$44,035,642	\$0	0%
Property Tax Relief	-\$70,196,452	-\$78,161,212	-\$7,964,760	11%
Final Total to Fund	\$7,032,093,931	\$7,267,128,927	\$235,034,995	3%

Income tax collections are based on how many people are working and how much people earn. In Alabama, the number of people seeking work but not finding it continues to be at historic lows and has been consistently lower than the national unemployment rate.

Seasonally adjusted, Alabama's unemployment rate was 2.9% in September 2024 compared to 4.1% nationally.

Figure 6. Trend in Unemployment Rate, Alabama vs. U.S.⁵

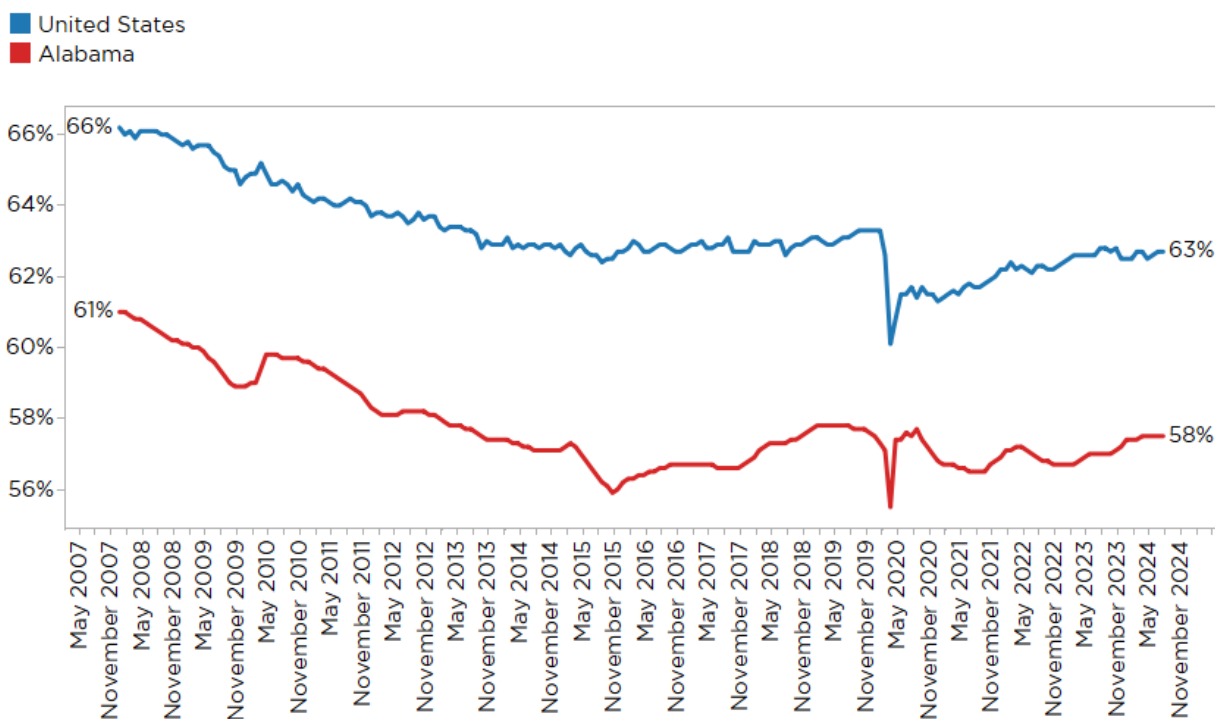


Despite that low unemployment rate, Alabama has a smaller share of its population who are employed than other states.

The labor force participation rate is the number of all employed and all unemployed workers in the state divided by the state's civilian population. Figure 7 below shows that Alabama's labor force participation rate, 58%, continues to lag behind the US rate of 63%. However, both the state and national rates saw a slight increase in participation from 2023 to 2024. This suggests that more people are entering the workforce, which can positively affect total earned income in the state and, thus, income tax receipts. At the same time, as the population ages and people live longer in retirement, the proportion of the population in the labor force experiences downward pressure.

⁵ <https://www2.labor.alabama.gov/LAUS/LAUSTab.aspx>

Figure 7. Trends in the Labor Force Participation Rate (Seasonally adjusted), U.S. vs. Alabama⁶



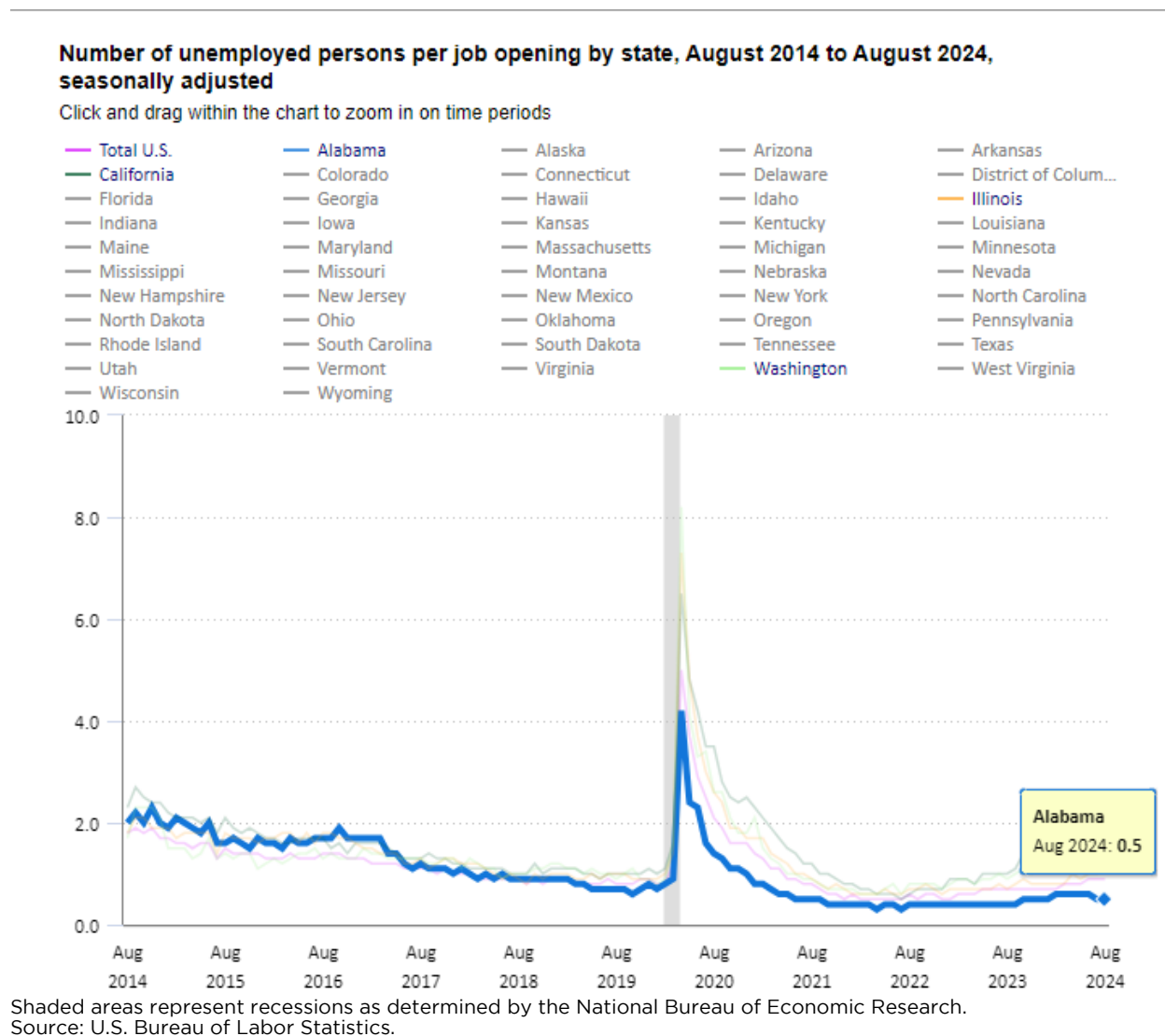
The state continues to enjoy low unemployment, even with the rising labor-force participation rate. The number of job openings in Alabama continues to exceed the number of unemployed people in the state.

According to figures from the U.S. Bureau of Labor Statistics, there are twice as many job openings in Alabama as there are unemployed persons. Alabama has one of the highest rates of job openings to unemployed persons in the U.S.

Thus, Alabama still has untapped potential to draw more discouraged workers into the workforce in order to meet demand. By doing so, the individuals and the state would benefit from higher earnings and tax revenues.

⁶ <https://www2.labor.alabama.gov/LAUS/LAUSTab.aspx>

Figure 8. Ratio of job seekers to job openings.⁷



Sales & Use Taxes

Sales and use tax revenue fell in FY 2024, down 1% overall. The state sales tax, a 4% levy on purchases, was down 2%, bringing in about \$49 million less than it did in 2023. The decrease was not unexpected since the sales tax rate on purchases of

⁷ <https://www.bls.gov/charts/state-job-openings-and-labor-turnover/unemployed-persons-per-job-opening-by-state.htm>

groceries decreased in 2024 from 4% to 3% through an act of the Legislature. The Use tax, generally a tax on purchases made out of state, was also down.

According to a Department of Revenue analysis of tax collections, the impact of the 1% grocery tax reduction on sales and use taxes in FY 2024 was the forgoing of \$122 million that would otherwise have been collected.

On the other hand, the revenue generated by the Simplified Seller's Use Tax (SSUT) continued its rise. The SSUT applies an 8% tax to consumer transactions over the Internet. Half of the revenue goes to the state and half to local governments. The ETF receives 25% of the state's share of the SSUT, with the rest going to the General Fund. The SSUT's contribution to the EFT increased to \$105 million, up \$13 million or 14% over 2023.

Key taxes and their applications:⁸

Sales Tax - Gross proceeds from the sale of all taxable items for consumption or other use to consumers (except as specifically exempted by law) within Alabama and the gross receipts from conducting or operating public places of amusement or entertainment.

Use Tax - Excise tax on tangible personal property purchased outside Alabama for storage, use, or other consumption in Alabama.

Simplified Sellers Use Tax (SSUT) - Gross proceeds of sales of tangible personal property from eligible sellers located outside of Alabama selling into the state. Offers a flat statewide tax on sales made over the internet with no additional local tax collection authority. (50% distributed to the state, of which 75% goes to GF and 25% to ETF). Read more about SSUT in PARCA's report, [E-Commerce and Taxation: Questions of Efficiency and Equal Treatment](#).

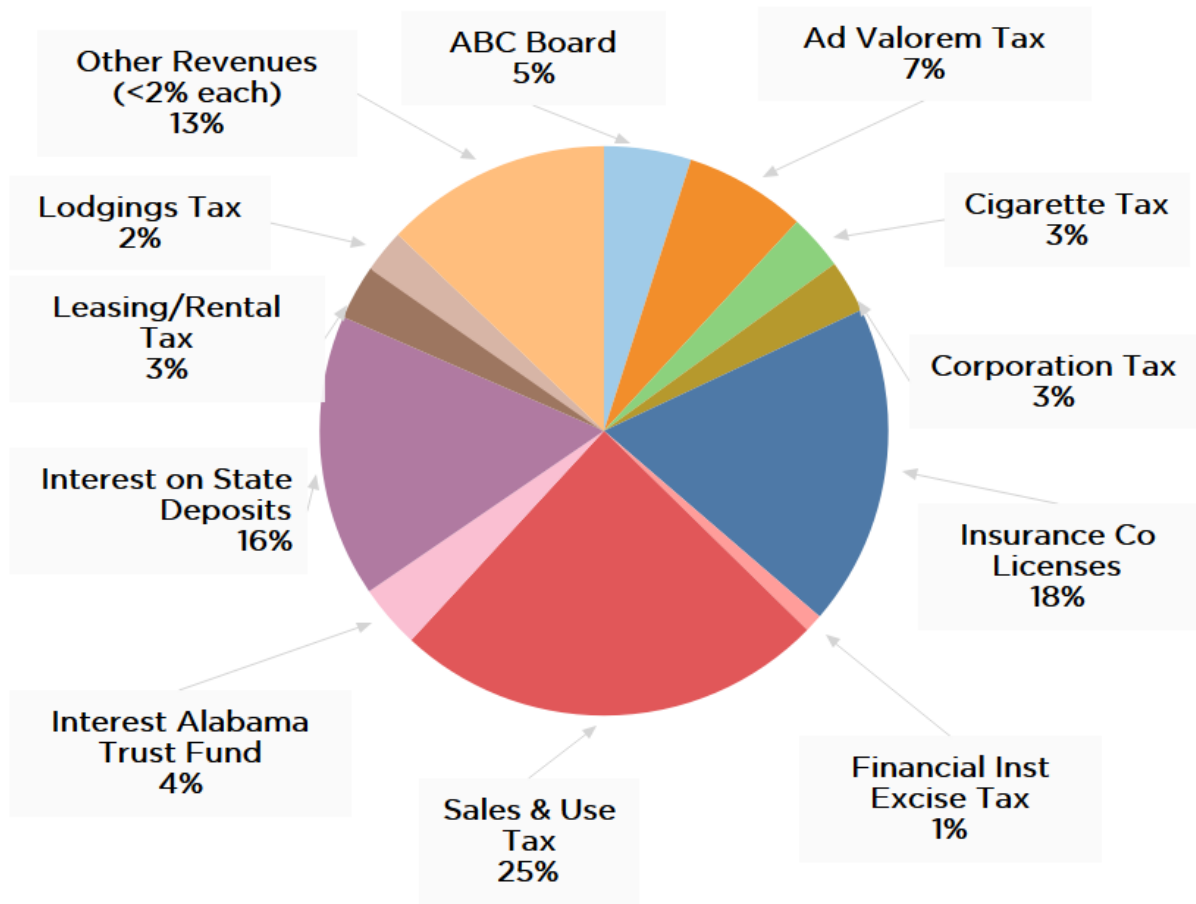
⁸ <https://www.revenue.alabama.gov/all-tax-types/>

The General Fund

The state’s General Fund receives revenue from a multitude of sources. Historically, this tax combination has produced slow growth in revenue over time, which contributed to struggles in funding General Fund agencies like Medicaid and the Department of Corrections.

However, in recent years, legislators have shifted some growth taxes into the General Fund, which has led to more stable growth. In FY 2023 and 2024, that stable growth was augmented by high revenue from interest on state deposits, a function of high interest rates applied to a large pool of cash and reserves.

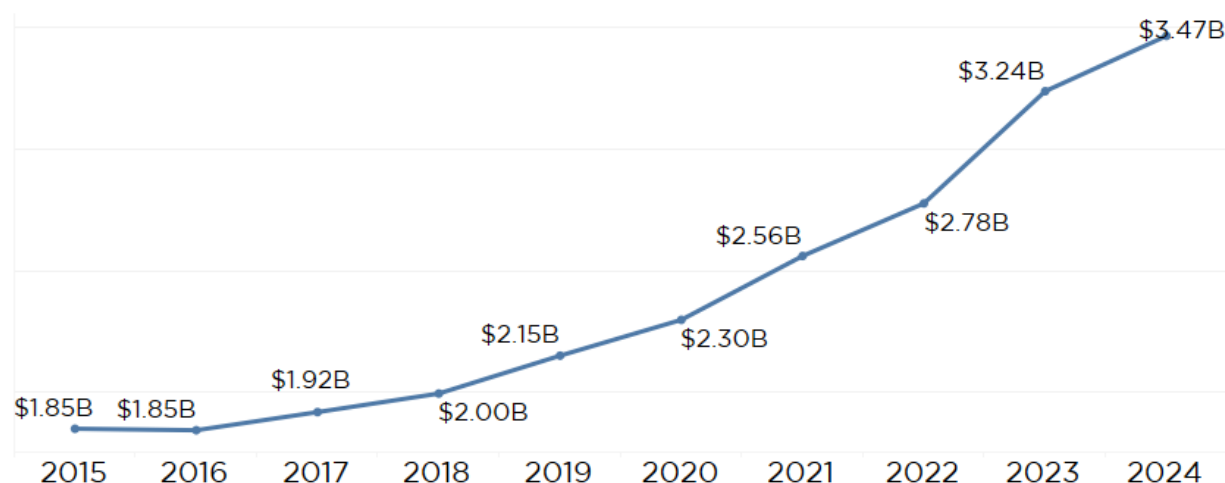
Figure 9. General Fund Revenue Sources, by percentage contribution, 2024



Revenues	FY 2024	Change 2023-2024	% Change 2023-2024
Total	3,466,147,298	227,298,379	7.0%

The biggest contributors to the 7% increase in overall revenue (shown in Figure 9) were those revenues from interest, continued growth in the Simplified Sellers Use Tax, and a steady increase in the state ad valorem or property tax.

Figure 10. General Fund Trend by Total Revenues, 2015-2024



Major components

Changes the Legislature made to the composition of the taxes flowing into the General Fund have provided growth and stability to the fund. About a decade ago, a portion of the use tax was shifted to the General Fund, and when a sales tax on online transactions was established, the bulk of that revenue was routed to the General Fund. Those two consumption taxes together, the Simplified Sellers Use Tax and the state's use tax, now make up 25% of the General Fund (See Figure 9). The General Fund receives 75% of the Simplified Sellers Use Tax, 53% of the State Use Tax, plus a percentage of the sales tax on automobiles, boats, and manufactured homes.

Insurance company licenses come in second as a source of revenue, providing 18% of GF revenue.

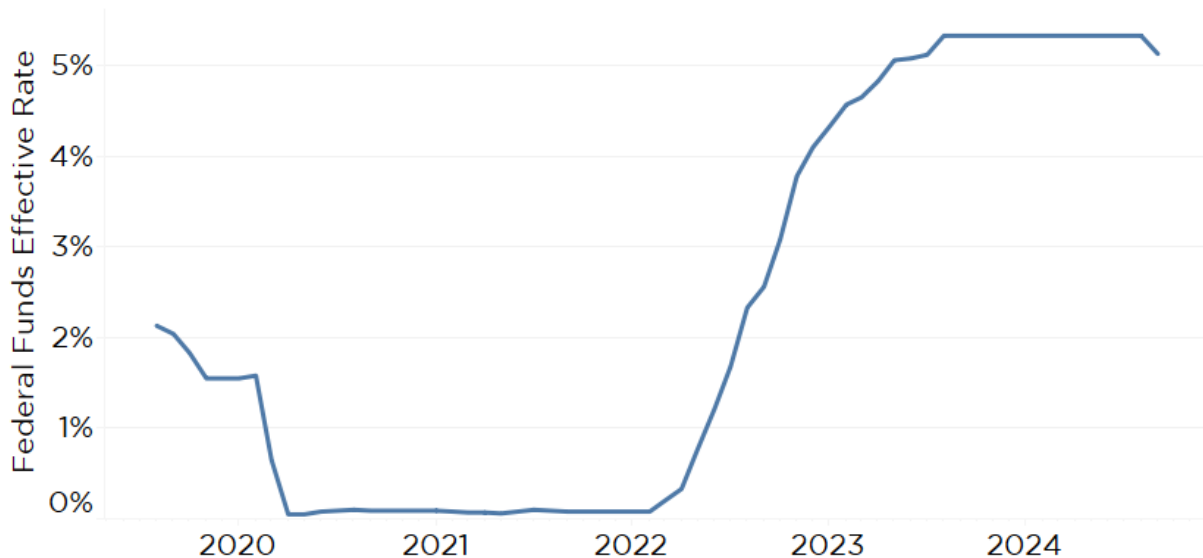
In 2024, interest on state deposits continued to rank third place as a revenue source, accounting for \$557 million or 16% of revenue to the fund.

Unusual Growth in Interest Income

The steep rise in the revenue from interest is an unusual occurrence, the result of high interest rates and full state coffers.

During the pandemic, the U.S. Federal Reserve dropped the target effective federal funds rate, the rate financial institutions charge each other to borrow money, to near zero in order to lower the cost of borrowing and stimulate the economy. However, as inflation surged in 2022, the Federal Reserve raised interest rates to slow the economy and restrain surging prices.

Figure 11. Federal Funds Effective Rate, 2019-Sept. 2024, Source Federal Reserve Bank



At the same time, large surpluses accumulated in state accounts as income and sales taxes surged and as federal recovery and stimulus funds flowed through the state.

Inflation has cooled, and the Federal Reserve has begun to lower its target interest rates. Budget surpluses are decreasing, and most of the extra federal money in state accounts is being spent. As interest rates continue to decline, revenue from interest will retreat. The State Finance Department has predicted that growth in the current fiscal year, FY 2025, will be 1.25% higher than the collected amount in FY 2024.

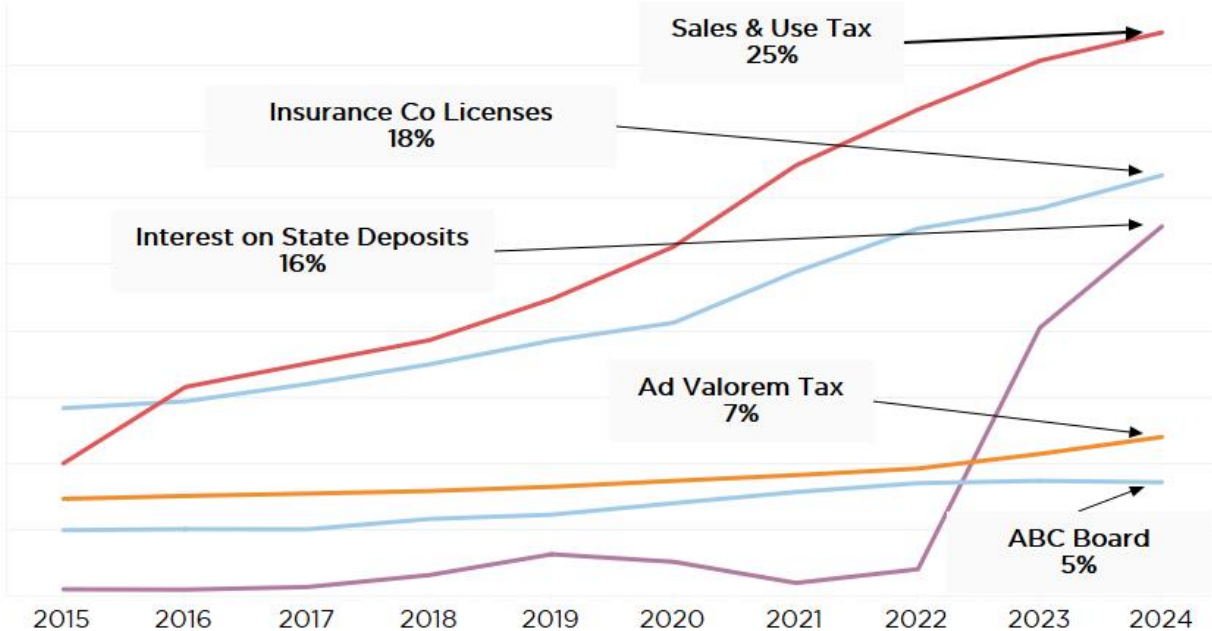
Trends in Revenue Sources Feeding the General Fund

Ad valorem taxes, Alcoholic Beverage Control Board (ABC) revenues, and a number of other revenue streams also contribute to the General Fund.

Figure 12 depicts the trends for the five largest categories of revenue: sales and use tax, insurance company licenses, interest on state deposits, ad valorem tax, and ABC board, which together comprise 54.6% of all GF revenues. It makes it apparent that the interest on state deposits had the largest percentage increase in FY 2023 and 2024, while the other four categories had smaller increases.

Figure 12. Revenue Trends from Major Sources and 2024 Percentage Contribution to General Fund

General Fund Trend by Major Categories, 2015-2024



For a detailed list of all revenues with the GF, see Table 3, which includes, in descending order, a total for FY 2023 revenue, the change in amount from the previous year, the percentage change from the previous year, as well as the percentage composition to total GF revenues.

Table 3. General Fund Revenue Sources, Change, and Percentage of Fund, 2024

Revenues	FY 2024	Change 2023-2024	% Change 2023-2024	Percent of Total 2024 =
Total	\$3,466.1M	\$227,298,379	7.0%	100%
Insurance Co Licenses	\$634.3M	\$49,886,210	8.5%	18%
Interest on State Deposits	\$557.3M	\$152,737,765	37.8%	16%
Simplified Sellers Use Tax (SSUT)	\$316.2M	\$39,459,253	14.3%	9%
Use Tax	\$298.8M	\$9,740,439	3.4%	9%
Ad Valorem Tax	\$239.8M	\$25,507,886	11.9%	7%
ABC Board	\$171.5M	(\$2,119,329)	-1.2%	5%
Sales Tax	\$151.3M	(\$775,341)	-0.5%	4%
Interest Alabama Trust Fund	\$125.3M	\$6,670,606	5.6%	4%
Cigarette Tax	\$109.7M	(\$10,727,455)	-8.9%	3%
Leasing/Rental Tax	\$109.0M	\$7,048,769	6.9%	3%
Corporation Tax	\$103.5M	\$95,600	0.1%	3%
Lodgings Tax	\$83.5M	\$1,114,696	1.4%	2%
Courts Costs	\$65.4M	\$1,215,182	1.9%	2%
Use Tax - Remote Sellers	\$61.2M	\$5,536,730	9.9%	2%
Motor Vehicle Licenses	\$53.0M	\$1,193,924	2.3%	2%
Abandoned Property	\$45.0M	(\$75)	0.0%	1%
Transfers and Reversions	\$44.8M	(\$2,063,287)	-4.4%	1%
Financial Inst Excise Tax	\$35.4M	(\$43,092,613)	-54.9%	1%
Mortgage Tax	\$33.5M	(\$2,130,301)	-6.0%	1%
Oil and Gas Production Tax	\$24.7M	(\$8,401,767)	-25.4%	1%
Auto Title Tax	\$21.7M	(\$60,702)	-0.3%	1%
Public Safety	\$20.5M	\$1,528,453	8.0%	1%
Deed Record Tax	\$18.2M	\$1,082,023	6.3%	1%
Driver's License Fees	\$17.9M	\$111,326	0.6%	1%
Sales Tax Discount-Parks Bonds	\$17.4M	(\$10,825,802)	-38.4%	1%
Securities Commission	\$15.9M	\$519,804	3.4%	0%
Public Utilities Receipts	\$13.8M	(\$2,994,744)	-17.8%	0%
Mobile Telecommunications Tax	\$11.7M	\$24,882	0.2%	0%
Pari-Mutuel Betting	\$11.3M	\$3,008,920	36.4%	0%
Tobacco Tax	\$10.7M	(\$459,493)	-4.1%	0%
Miscellaneous Receipts	\$9.2M	\$3,320,699	56.7%	0%
Oil Company Licenses	\$8.9M	\$33,938	0.4%	0%
Privilege Licenses	\$8.8M	\$1,857,337	26.7%	0%
Freight Line Equipment	\$5.6M	\$32,103	0.6%	0%
Use Tax Discount	\$5.0M	(\$621,191)	-11.1%	0%
Vapor Products	\$3.6M	\$138,400	4.0%	0%
Tobacco Settlement	\$2.1M	(\$307,102)	-12.9%	0%
Manufactured Home Registration	\$0.5M	\$15,632	3.1%	0%
Judicial Admin. Fees	\$0.1M	(\$1,346)	-1.8%	0%
Hazardous Waste Fees	\$0.0M	(\$13,312)	-32.5%	0%

Sales & Use Taxes

In some previous charts and graphs, the sales & use tax category combines sales tax, use tax, and SSUT. These taxes, along with other revenue sources, are defined in [*A Legislator's Guide to Alabama Taxes*](#).⁹ The following sections reference pages in the March 2023 edition of that publication.

Sales tax is a “tax imposed on the gross proceeds from the sale of all taxable items to individuals and/or corporations within the state and on the gross proceeds from conducting or operating public places of amusement or entertainment” (p.119-120).

The General Fund gets just a sliver of the tax, a portion coming from the sales of automobiles, boats, and manufactured homes. For FY 2024, sales tax (along with sales tax discount – parks bonds) amounted to \$166 million, declining by \$10 million, or 3.46%. It represented 5.56% of all GF revenues. For comparison, the general sales tax deposited in the ETF was \$2.5 billion in 2024.

The use tax is a “tax paid on items purchased outside Alabama for consumption or use inside the state” (p.139-140). For FY 2024, use tax (along with use tax discount and use tax – remote sellers) grew by almost \$14 million, or 4%. It represented \$365 million, or 11% of all GF revenues. The General Fund receives 53% of the state use tax, and 47% goes to the ETF.

Simplified Sellers Use Tax (SSUT) is a “tax authorized in lieu of sales and use taxes otherwise due by or on behalf of Alabama customers who have purchased items from an eligible seller who participates in the Simplified Sellers Use Tax Remittance Program that were shipped or otherwise delivered into Alabama by the eligible seller” (p.122). For FY 2024, SSUT’s contribution to the General Fund grew by \$40 million, or 14%. It represented 9% of all GF revenues.

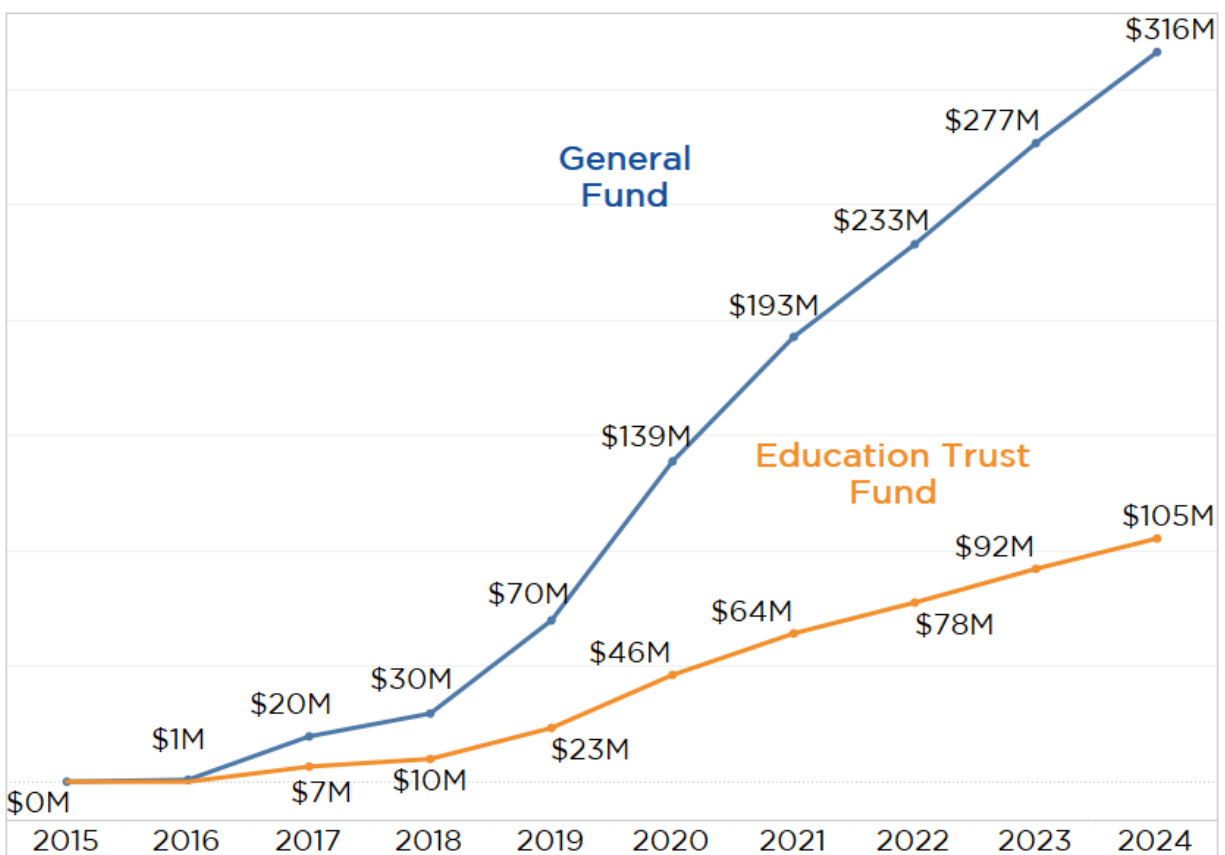
The SSUT was a new source of revenue for the ETF and GF beginning in FY 2016. Currently, 25% of SSUT revenue is distributed to the ETF, while 75% is distributed to the GF. In eight fiscal years, SSUT has risen to represent 9% of all GF revenues (1% for the ETF).

⁹ <https://alison.legislature.state.al.us/LSA-fiscal-archive-publications>

As shown in the graph below, SSUT has been an unwavering source of growth for both funds. Online sales sharply increased during the pandemic, and that growth has continued. However, the rate of growth from online sales is slowing. FY 2024's increase of 14% is slower than FY 2023 (19%), FY 2022 (20.8%) and FY 2021 (38.9%). However, the convenience of online shopping helps to ensure its continued utilization, if not continued growth.

Overall, by designating 75% of SSUT to the GF, the State has provided an additional steady source of income to fund the GF program expenditures.

Figure 13. Simplified Seller's Use Tax Contribution to General Fund and Education Trust Fund



Insurance Company Licenses

Identified in state reports as “Insurance company licenses,” this tax is a sales tax on insurance policy premiums: “a premium tax imposed on the amount of premiums written by an insurer and fees imposed for the privilege of providing insurance within

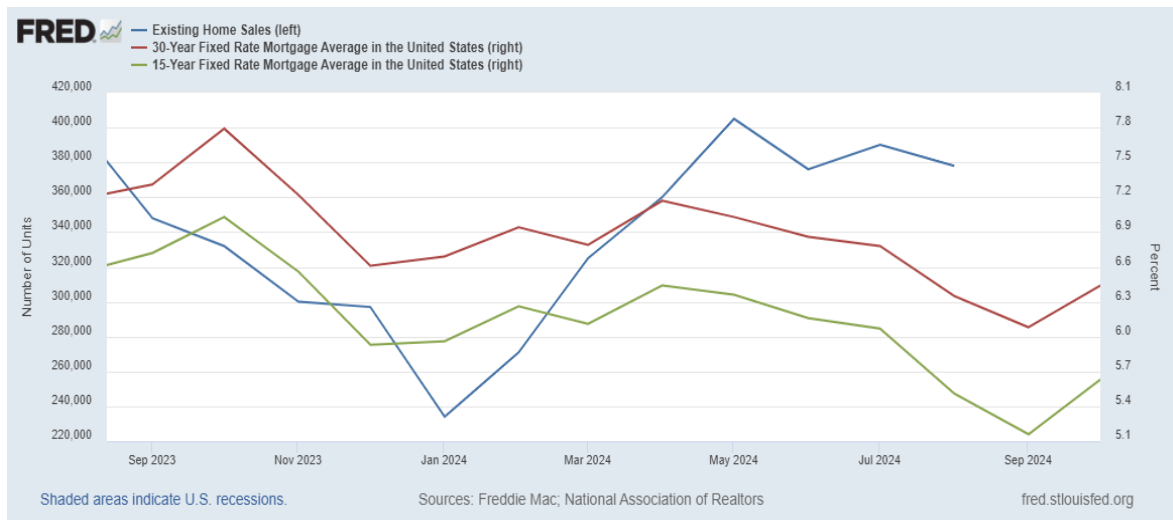
the state.”¹⁰ This take on insurance premiums represents the largest source of GF revenue, \$635 Million, 18.0% of the GF total.

In 2024, revenue from the tax increased by \$50 million, or 8.5%. Growth in the tax suggests that more policies are being written, the value of insured property is increasing, and the cost of insurance is rising.

Other Revenue Changes of Note

Changes in other revenue sources reflect changes in economic conditions. Property taxes were up by \$26 million, or 12%, reflecting the rising value of real estate. However, the mortgage tax, which is based on real estate sales, was down, reflecting the drop in sales volume due to higher interest rates. The mortgage tax decreased by \$2 million in 2024, a decrease of 6%. That is on top of a steep decline in the mortgage tax in 2023 of \$21 million, or 37%. On the other hand, after declining in 2023, the Deed Record Tax increased by \$3 million or 6.3%. As interest rates are declining, home sales are already showing signs of increasing.

Figure 14. Existing Home Sales vs. Interest Rates



Source: Federal Reserve Bank of St. Louis¹¹

¹⁰ [A Legislator's Guide to Alabama Taxes](https://alison.legislature.state.al.us/LSA-fiscal-archive-publications), <https://alison.legislature.state.al.us/LSA-fiscal-archive-publications>.

¹¹ <https://fred.stlouisfed.org/graph/?g=10Ofw#>

Cigarette taxes continued their long-term decline, declining by \$10 million, or 9%.

Oil and gas production taxes fell by \$25 million, down 25%. That continued a decline from last year after the spike in oil prices drove up those revenues in 2022.

Lodging taxes, drawn from taxes paid on hotel stays, were modestly up by \$1 million, a 1.4% increase.

The Bigger Picture

The revenue flowing into the General Fund and the Education Trust Fund presents only a portion of the state government spending in Alabama. In addition to funds earmarked for the GF and ETF, other state revenue streams flow directly to agencies within the government.

Table 4 below depicts the total appropriations for FY 2019 through FY 2024.

The “state budgeted funds” column represents the amounts appropriated from the GF and ETF, primarily derived from state taxes. The “federal and earmarked state funds” column represents additional funds provided by the federal government, as well as money generated by fees, tuition, charges for services, and taxes designated by law for certain uses. These funds are also appropriated by the Legislature, even though the use of that money is already pre-determined. The “total funds” column represents “state budgeted” and “earmarked” funds added together.

Some examples of earmarked funds going directly to state agencies include:

- Taxes on motor fuels that flow directly to the Alabama Department of Transportation (ALDOT) for highway building.
- Tuition collected by state colleges and universities.
- Federal funds for various departments, including transportation, Medicaid, education, and social services.

Table 4. General Fund, ETF, Earmarked State Taxes and Federal Appropriations

		State Budgeted Funds	Federal Funds + Earmarked State Taxes and Revenues	Total
General Fund Agencies	2019	\$2.19B	\$13.76B	\$15.94B
	2020	\$2.30B	\$14.51B	\$16.81B
	2021	\$2.64B	\$14.85B	\$17.49B
	2022	\$3.13B	\$15.94B	\$19.07B
	2023	\$3.56B	\$17.53B	\$21.09B
	2024	\$3.63B	\$18.57B	\$22.20B
	2025	\$3.84B	\$19.74B	\$23.40B
Education Trust Fund Agencies	2019	\$6.99B	\$9.64B	\$16.63B
	2020	\$7.13B	\$9.84B	\$16.97B
	2021	\$7.77B	\$11.01B	\$18.79B
	2022	\$9.00B	\$11.04B	\$20.04B
	2023	\$11.17B	\$14.74B	\$25.91B
	2024	\$11.32B	\$15.09B	\$26.40B
	2025	\$9.35B	\$17.06B	\$26.41B

Rolling Reserve Act

An additional check against overspending is the Rolling Reserve Act. Budgeted expenditures in the ETF are capped by a formula based on the ETF's historical growth rate. The cap keeps lawmakers from overspending in periods of growth and, likewise, preserves funds for periods of decline or level funding.

In June 2023, Governor Ivey signed an amendment to the Rolling Reserve Act into law. Before that, excess funds were transferred to a) ETF Budget Stabilization Fund and b) ETF Advancement and Technology Fund. The new 2023 Act created an additional savings fund called the Educational Opportunities Reserve Fund. The new law also lays out a new formula for budget caps in future years.

If a recession or other event does cause a contraction in revenues, Alabama is positioned well to weather a downturn.

The Legislature has replenished Rainy Day Funds and has created an additional savings account that can be tapped if revenues slow or decline.

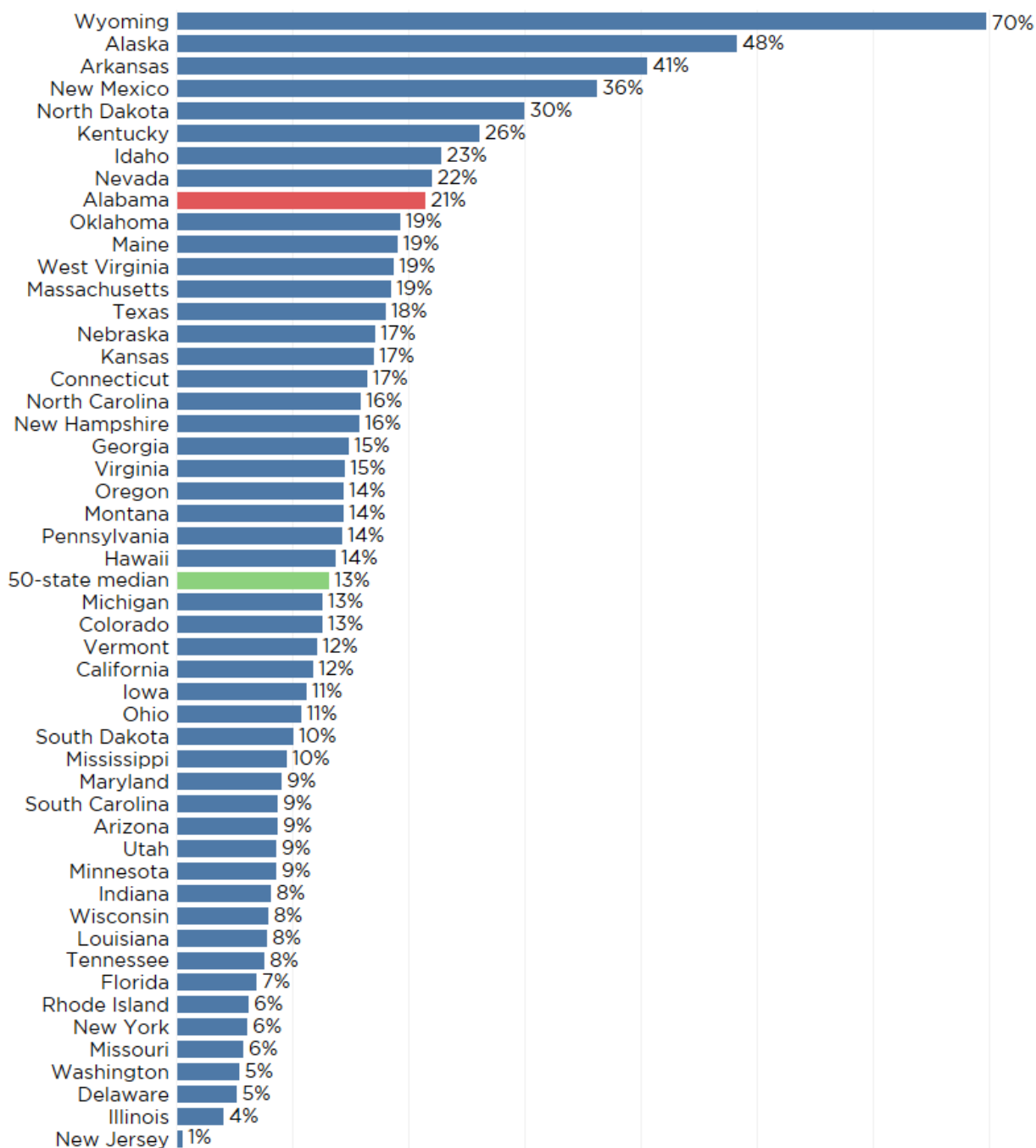
Table 5. Reserve fund balances as of Oct. 2024

Reserve Fund	FY 2024	FY 2025
ETF Budget Stabilization Fund	\$710,000,000	\$827,000,000
ETF Advancement & Technology	\$1,750,000,000	\$1,660,000,000
ETF Educational Opportunities Reserve Fund	\$767,000,000	\$1,120,000,000
GF Budget Reserve	\$150,000,000	\$150,000,000
ETF Rainy Day	\$726,000,000	\$735,000,000
GF Rainy Day	\$326,000,000	\$363,000,000
Total	\$4,429,000,000	\$4,855,000,000

According to the 2024 Pew Charitable Trust's "Fiscal 50: State Trends and Analysis," Alabama's level of reserves is in the top 10 of states in terms of reserves as a percentage of operating revenues.

According to Pew, Alabama could run 78 days on its Rainy Day reserves compared to the 50-state median of 48 days. This continues an upward trend that began in FY 2014.

Figure 15. Percentage of General Fund Spending represented by the Rainy Day Fund¹²



¹² <https://www.pewtrusts.org/en/research-and-analysis/data-visualizations/2014/fiscal-50#ind5>

Conclusion

In summary, the General Fund had strong results in FY 2024, with its 7% increase over the prior year, while the Education Trust Fund advanced just 2% after being essentially flat in 2023. For both funds, the years of exceptional growth should be over, with moderate annual increases on the horizon.

Because of restrained state spending during the high growth years, state budgets should remain stable as spending rises toward the levels of actual revenue collections. The economy remains strong, which bodes well for sustaining growth. However, as federal funds are spent down, additional state funds will need to be allocated toward programs that have been effective and beneficial.

Meanwhile, more difficult choices may also have to be made.

Things to watch include:

- the Federal Reserve and future interest rate decisions
- the effect of interest rate cuts on the housing market and the general economy
- the decrease in revenues from interest on state deposits, as federal funds are spent down, as well as from interest rate changes
- the updated Rolling Reserve Act and the addition of a third savings fund, as well as the new formula for budget caps
- SSUT and whether its growth continues to slow

Overall, the state appears to be poised for the future with the existing and additional savings accounts, as well as the ability to control expense growth through conservative appropriations.



Public Affairs Research Council of Alabama

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State and community leaders make better-informed decisions when provided with unbiased, non-partisan data and resources about the topics they care about the most.

HOW WE WORK

We conduct *non-ideological research* on issues affecting the people of Alabama so state and community leaders, and others, can make better-informed decisions based on facts, not rhetoric.

We *independently evaluate* the efficacy of public programs and nonprofit services.

We offer technical and research assistance for public and nonprofit partners to help them integrate the use of *accurate data* into their work.

We engage in *meaningful dialogue* with state and community leaders and others on the topics Alabamians care about the most.

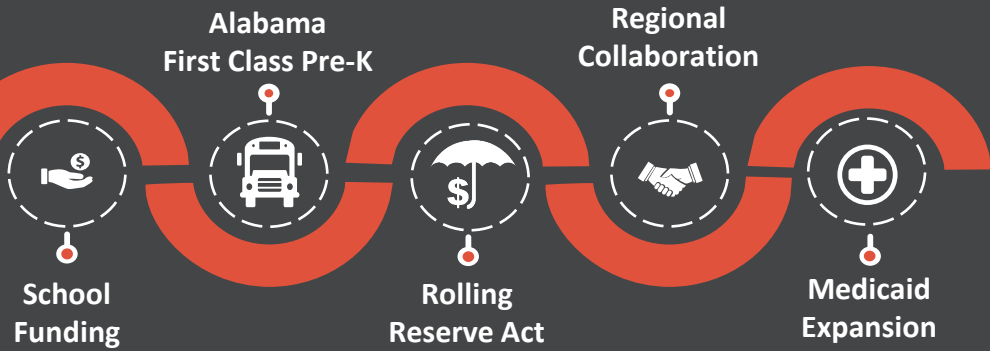


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