

Trust Fund Income for Alabama Counties

Each Alabama county receives a payment each April that is part of the annual earnings income of BOTH the **Alabama Trust Fund** and the **Alabama County and Municipal Government Trust Fund**. The expenditure of the revenue is governed by Ala. Code § 11-29-6.

What is the Alabama Trust Fund?

- The Alabama Trust Fund is a savings account for the state and its local governments.
- It is built with: 1) payments from companies leasing the rights to drill for oil in the state's waters in the Gulf of Mexico, and 2) the annual royalty payments when the oil is actually extracted.
- Each year, the earnings on this fund, known as trust income, are distributed to:
 - Alabama General Fund Budget,
 - Counties,
 - Cities,
 - Forever Wild Land Trust.

What is the Alabama County and Municipal Government Trust Fund?

- The Alabama County and Municipal Government Trust Fund was established in 2000.
- It is used to hold portions of the Alabama Trust Fund that have been withdrawn to ensure that county and city revenue is protected.
- These withdrawals have occurred when voters have allowed money in the Alabama Trust Fund (not the annual earnings) to be spent for special purposes.
- Without the Alabama County and Municipal Government Trust Fund, counties and cities would have lost revenue each time voters approved spending money from the corpus of the Alabama Trust Fund.

How much trust income do Alabama counties get?

- The annual allocation to counties represents 10 percent of the annual earnings income of the Alabama Trust Fund and 50 percent of the annual earnings income of the Alabama County and Municipal Government Trust Fund.
- City governments receive a like share of income from both trust funds.
- The county portion is divided among the 67 counties using the same formula used to divide Alabama's gasoline taxes. About half the revenue is divided equally among the counties, and the remainder is divided based on population.
- The April 2014 distribution to counties from both trust funds was just more than \$25 million and in 2013 counties received \$38 million.
- The smallest allocation in 2014 was \$196,394.

What changed with the 2012 constitutional amendment about the Alabama Trust Fund and Alabama County and Municipal Government Trust Fund?

- In 2012, Alabama voters approved a constitutional amendment that 1) allowed for a one-time withdrawal of a portion of the corpus of the Alabama Trust Fund, and 2) changed the calculation of annual earnings income for both funds.
- The change to the earnings income calculation will provide a more predictable stream of income beginning in April 2014. In fact, the annual distribution will be set about 16 months in advance.

What governs the two trust funds?

- The operation of the trust funds and the distribution of income are established in Alabama's constitution. Changes require not only legislative approval, but also a statewide referendum.

The ACCA Legislative Program for 2014 includes the following statement on this proposed constitutional amendment:

Referendum on Diversion of Alabama Trust Fund Revenue

The Association recommends a "no" vote on the constitutional amendment proposed by Act 2013-266, which would increase bonding authority paid from principal in the Alabama Trust Fund by \$50 million resulting in the diversion of up to \$74 million in Alabama Oil and Gas Capital Payments otherwise required to be deposited into the Alabama Trust Fund. Although the proposed amendment authorizes the expenditure of such revenue for the payment of bonds for capital improvements to Alabama National Guard armories, the Association believes the further withdrawal of any principal or the diversion of any future income violates the intent of the trust and damages the financial stability of county governments that depend on the annual trust income.

- The Association has consistently and strongly opposed legislation allowing the corpus of the Alabama Trust Fund to be spent because that permanently reduces the annual payments to counties.

Upcoming statewide referendum threatens county funds

During the 2013 legislative session, the Alabama Legislature approved a proposed constitutional amendment to sell up to \$50 million in bonds to pay for improvements at Alabama's National Guard armories. The Association strongly opposed this legislation, which passed on the last night of the session, because it allows for the bond payments to be made from the corpus of the Alabama Trust Fund, rather than from the state's portion of the annual earnings income.

There have been other constitutional amendments that have spent part of the corpus – including amendments establishing "rainy day" accounts for both state budgets. However, all of these amendments have included language to make extra payments to counties and cities to ensure that there was no loss of trust income to local governments.

The 2013 legislation, which will be on the 2014 general election ballot, does not include any "hold harmless" language for counties. The Alabama Senate defeated the counties' amendment to protect local government revenue by a vote of 19-12.

What can counties do to protect these important dollars long term?

The proposed 2014 ACCA Legislation also includes a policy statement suggesting that the trust funds be completely separated to ensure that county revenue is not lost during future withdrawals, because:

- The Legislature has shown its willingness to withdraw money from the corpus of the Alabama Trust Fund;
- In 2013, counties were not successful in adding language that would ensure that local revenue is not reduced through these withdrawals.

The annual income from the Alabama County and Municipal Government Trust Fund is allocated only to counties and cities. Because counties and cities receive a total of 20 percent of the Alabama Trust Fund annual

earnings, a constitutional amendment protecting future local revenue could simply move all county and city revenue into the Alabama County and Municipal Trust Fund. Doing so would leave only state revenue in the Alabama Trust Fund, and counties would no longer be required to oppose state efforts to withdraw money from the Alabama Trust Fund.

The ACCA Legislative Program for 2014 includes the following statement:

The Future of the Alabama Trust Fund

Alabama counties and cities each utilize the distribution of 10 percent of the annual income of the Alabama Trust Fund for important capital improvement projects at the local level. The Association has consistently opposed legislative efforts to withdraw portions of the corpus of the Alabama Trust Fund as such withdrawals produce a permanent reduction of annual revenue to every county in the state. In 2000 Alabama voters established the County and Municipal Government Trust Fund, which is used to provide counties and cities with interest income that would have otherwise been lost from the expenditure of the corpus of the Alabama Trust Fund. The Association believes the distributions to counties and cities can, ultimately, only be protected from future expenditures by enacting a constitutional amendment which shifts 20 percent of the corpus of the fund and 20 percent of all future oil lease and royalty payments into the County and Municipal Government Trust Fund. The separation of the existing and future revenue into two distinct trust funds would protect local revenues while enabling the State of Alabama to utilize the state-portion of the Alabama Trust Fund as allowed by other referendums. The Association will actively oppose the passage of any proposed constitutional amendments allowing the expenditure of Alabama Trust Fund corpus unless such legislation also includes language ensuring that counties will no longer be impacted by such expenditures.