

ALABAMA TRUST FUND  
ANNUAL REPORT  
2019



ALABAMA STATE  
TREASURER'S  
OFFICE

600 Dexter Ave.  
Montgomery Alabama

# EXECUTIVE SUMMARY

## FOR FISCAL YEAR 2019

The Alabama Trust Fund (ATF) experienced another solid investment performance for the fiscal year ending September 30, 2019. Here are the highlights:

- The investment portfolio generated a rate return of 5.73%.
- The investment portfolio grew to \$3.29 billion, a \$50 million or 1.54% increase over the previous year.
- The ATF distributed \$173.9 million in support of its recipients (see page 2).

The main components of the ATF accounting structure are the incoming oil and gas capital payments and investment earnings, outgoing distributions and the investment portfolio.

For fiscal year 2019, the ATF generated \$261.9 million in revenues from investment income, realized gains, and oil and gas capital payments. Expenditures were largely comprised of the \$173.9 million constitutionally required distributions, and \$10 million in professional fees.

At September 30, 2019, trust assets were approximately \$3.29 billion in eligible investments of trust fund monies and \$245.9 million in land acquired under the Alabama Forever Wild Land Trust for a total of almost \$3.5 billion.

The year 2012 marked the restructuring of the Alabama Trust Fund through the passage of constitutional amendment 856. With this restructuring the ATF is now properly designed to receive royalties, invest them prudently and distribute assets from the trust promptly to the designated beneficiaries. The changes that were made brought the ATF into the 21<sup>st</sup> century and the effect is a renewal of the ATF's significant financial impact on the state.

The financial information provided in this report confirms the improvements in the ATF. The process has worked and is continuing too.

# ATF ANNUAL HISTORICAL REPORT

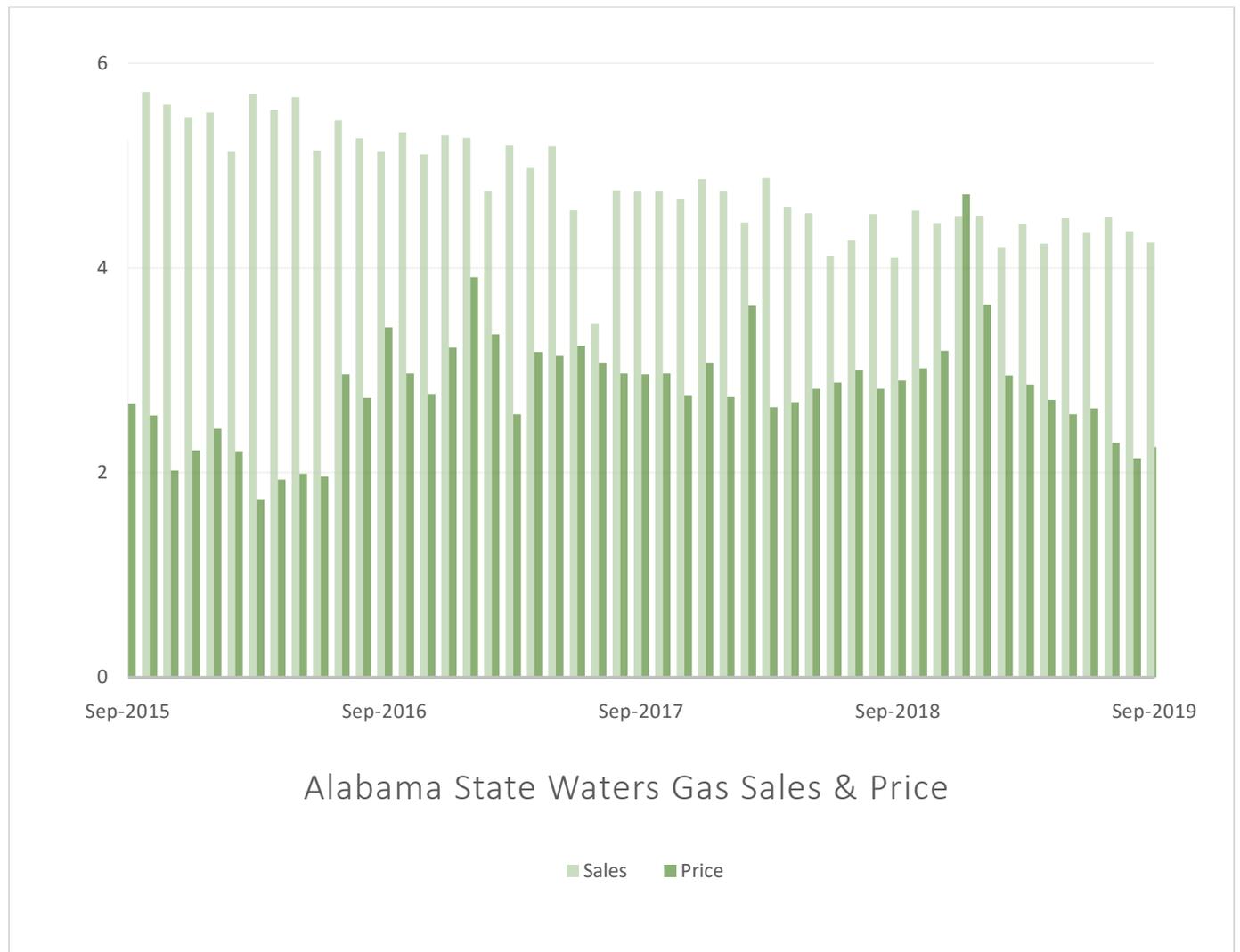
(IN MILLIONS)

	FY 15	FY 16	FY 17	FY 18	FY 19
<b>INFLOWS</b>					
ROYALTIES	61.4	43.4	47.7	47.7	42.8
INCOME	124.1	92.1	195.6	203.9	219.1
<b>TOTAL INFLOWS</b>	<b>185.5</b>	<b>135.5</b>	<b>243.3</b>	<b>251.6</b>	<b>261.9</b>
<b>TRANSFERS FROM ATF</b>					
GENERAL FUND	100.9	103.3	98.0	96.8	104.2
FOREVER WILD	14.6	15.0	14.2	14.0	15.0
CITIES	14.6	15.0	14.2	14.0	15.0
COUNTIES	14.6	15.0	14.2	14.0	15.0
SENIOR SERVICES	1.5	1.5	1.4	1.4	1.5
STATE LANDS	0.6	0.4	0.5	0.5	0.4
AL CAPITAL IMPROVEMENT TRUST FUND	24.4	17.0	13.4	19.4	19.5
COUNTY MUNICIPAL TRUST FUND	6.1	4.3	3.0	3.3	3.3
GENERAL FUND (AMEND. 856 REPAYMENT)	136.0	N/A	N/A	N/A	N/A
<b>TOTAL TRANSFERS</b>	<b>313.3</b>	<b>171.5</b>	<b>158.9</b>	<b>163.1</b>	<b>173.9</b>
AMENDMENT 856 WITHDRAWS	146.0	0.0	0.0	0.0	0.0
REPAYMENT FROM GENERAL FUND	10.0	0.0	238.4	0.0	13.5
<b>NET TOTAL TRANSFERS FROM ATF</b>	<b>313.3</b>	<b>171.5</b>	<b>79.5</b>	<b>163.1</b>	<b>160.4</b>

Annual transfers from the ATF to the General Fund are 5% of the 3-year rolling average of the value of the invested assets plus 33% of the annual royalties. This amount declined during the FY13-FY17 due to the significant Amendment 856 withdrawals. The asset growth and repayments in FY 17 began the reversal of that trend.

# OIL AND GAS REPAYMENTS

Oil and gas capital payments are defined as “any royalty or other payment, with the exception of any taxes, heretofore or hereafter levied that is based upon or determined with respect to the production of oil, gas, or other hydrocarbon minerals and that is paid to the state...” The amount of the payments is dependent on two components: natural gas volumes and the price of natural gas per thousand cubic feet. For the Alabama leases there is an assumed decline projected by the Alabama Oil and Gas Board. Recent results reflect and confirm this declining revenue trend. For example, in FY13, the ATF received \$83 million in royalties. In FY19, the ATF received \$42.8 million in royalties.

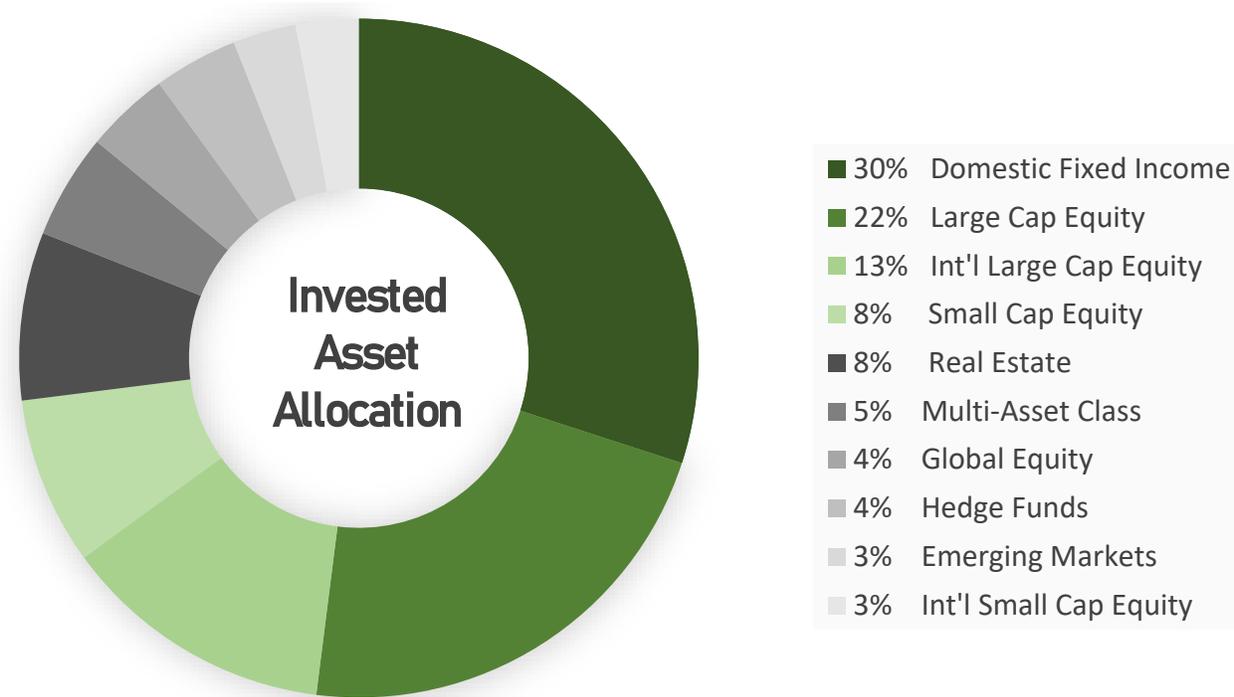


# INVESTMENT PORTFOLIO

The ATF has a long-term investment horizon with asset allocation and diversification being the primary determinants of positive investment performance.

Invested Assets Annual Rate of Return									
Fiscal Year	2012	2013	2014	2015	2016	2017	2018	2019	8 YR AVERAGE
Rate of Return	12.95%	9.08%	8.48%	-0.09%	10.61%	11.55%	6.99%	5.73%	8.16%

## INVESTED ASSET ALLOCATION (as of September 30, 2019)



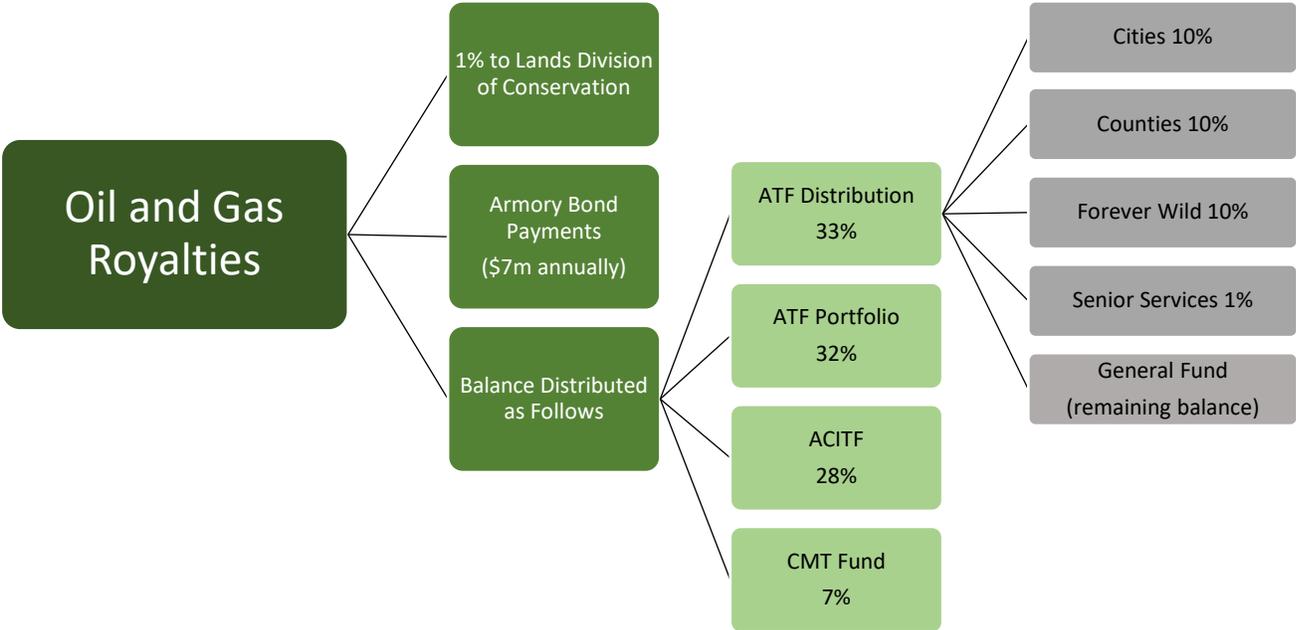
# DISTRIBUTIONS

Over the years, various constitutional amendments have determined the distributions and recipients from the revenues of the ATF.

Oil and gas capital payments received are annually distributed from the ATF as follows:

Distribution	Recipient
33%	Cities, Counties, Forever Wild Land Trust, Alabama Senior Services, General Fund
28%	Alabama Capital Improvement Trust Fund
7%	County and Municipal Government Capital Improvement Trust Fund
1%	Alabama Department of Conservation and Natural Resources
As necessary	Alabama National Guard Armory bond debt service payment
Remainder	ATF

Additionally, 5% of the 3-year average market value of invested assets of the ATF are distributed to the cities, counties, Forever Wild Land Trust, Alabama Senior Services Trust Fund, and General Fund.



# SUMMARY OF REPAYMENTS DUE TO THE ATF

Under House Bill 36 the General Fund is scheduled to make the following repayments to the ATF:

Fiscal Year	Amount
2021	\$13,500,000
2022	\$13,500,000
2023	\$13,500,000
2024	\$13,500,000
2025	\$13,500,000
2026	\$13,500,000
2027	\$13,500,000
2028	\$13,500,000
2029	\$13,500,000
2030	\$13,500,000
2031	\$13,500,000
2032	\$13,500,000
2033	\$8,456,703
<b>Total</b>	<b>\$170,456,703</b>

## Board

The Board of Trustees of the ATF is responsible for the possession, control and management of the trust fund. The board is comprised of nine trustees consisting of the Governor, the State Treasurer, the Director of Finance, three trustees appointed by the Governor, two trustees appointed by the Lieutenant Governor, and one trustee appointed by the Speaker of the House of Representatives.

### Board of Trustees and Officers

- Kay Ivey, Chair, Governor of Alabama
- Kelly Butler, Vice Chair, Alabama Director of Finance
- John McMillan, Secretary, Alabama State Treasurer
- John Hornsby - appointed
- Daniel Hughes - appointed
- Edgar Pruitt - appointed
- Sandra deGraffenried - appointed
- Guice Slawson - appointed
- Stacey Faison – appointed

# SUMMARY OF THE AMENDMENTS AND ACTS

## **AMENDMENT 450 – PASSED ON 1985**

- Created the Alabama Trust Fund as an irrevocable, permanent trust fund.
- Terminated the Heritage Trust Fund in 2001 and transferred trust capital to the ATF.

## **SECTION 11-66, CODE OF ALABAMA – PASSED 1986**

- Created the Municipal Government Capital Improvement Fund.
- Allowed at such time that ATF trust income equaled or exceeded \$60 million in the preceding fiscal year the General Fund must pay 10% to this fund to be distributed by the State Comptroller.

## **SECTION 11-29, CODE OF ALABAMA – PASSED IN 1986**

- Created the County Government Capital Improvement Fund.
- Allowed at such time that ATF trust income equaled or exceeded \$60 million in the preceding fiscal year the General Fund must pay 10% to this fund to be distributed by the State Comptroller.

## **AMENDMENT 488 – PASSED IN 1988**

- Allowed the Heritage Trust Fund and the Alabama Trust Fund to invest in such investments as allowed by law for the Retirement Systems of Alabama.
- Allowed capital gains from the sales of investments to become part of the trust fund capital.

## **AMENDMENT 543 – PASSED IN 1993**

- Created the Forever Wild Land Trust for the purpose of acquiring, maintaining and protecting unique land and water areas within the State.
- Redirected the percentage of the ATF income currently being retained by the ATF to be distributed to the Forever Wild Land Trust.

## **AMENDMENT 666 – PASSED IN 2000**

- Redistributed 35% of Oil and Gas capital payments
- Created the County and Municipal Government Capital Improvement Trust Fund and the Alabama Capital Improvement Trust Fund.
- Allowed for the transfer of up to 75% of the realized and unrealized capital gains on sales of investments other than fixed income to the General Fund.
- Directed that the Secretary-Treasurer of the Retirement Systems of Alabama shall be the initial manager of 50% of the ATF assets.

### **AMENDMENT 709 – PASSED IN 2002**

- Created the Education Trust Fund Rainy Day Account.

### **AMENDMENT 803 – PASSED IN 2008**

- Repealed Amendment 709.
- Re-established the Education Trust Fund Rainy Day Account.
- Created the General Fund Rainy Day Account.

### **AMENDMENT 856 – PASSED IN 2012**

- Provided new procedure for ATF distributions.
- Provided distributions for the County and Municipal Government Capital Improvement Trust Fund.
- Transferred \$145,796,943 annually to the General Fund for fiscal years 2013, 2014 and 2015.
- Repealed laws in conflict with the amendment.

### **AMENDMENT 887 – PASSED IN 2014**

- Increased the total amount of bonding authority granted under Amendment 666.
- Provided for additional payments from the ATF oil and gas capital payments to fund debt service on armory bonds issued.
- Provided for the use of the bond proceeds for plans, construction and maintenance of Alabama National Guard armories.

Additional information on the Alabama Trust Fund can be found on the State Treasurer's website, [treasury.alabama.gov/alabama-trust-fund](http://treasury.alabama.gov/alabama-trust-fund). It includes annual reports, agendas and documentation from quarterly Board meetings, and supplemental reports concerning the ATF and its activities.