



Alabama Department of Finance
2008 Report





The Alabama Department of Finance 2008 Annual Report

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From the Office of the Governor

October 27, 2008

Greetings!

The Alabama Department of Finance carries greater responsibilities than many citizens may realize. With multiple divisions and more than 500 employees, Finance has a wide range of functions. From formulating our executive budgets and managing state insurance programs, to renting cars through the State Motor Pool and buying goods and services for all state agencies, the Department of Finance truly leaves its mark on Alabama government.

I am pleased to recognize the accomplishments of this department, some of which may be found in the pages of this report. I also want to express my thanks to all Finance employees for their dedication and to State Finance Director Jim Main for his leadership. Because of your efforts, Alabama's government is becoming more transparent and accountable to the people we serve. Working together, we will make Alabama better for future generations.

Sincerely,

A handwritten signature in black ink that reads "Bob Riley".

Bob Riley, Governor





State of Alabama
Department of Finance

From the Office of the Director

October 27, 2008

Fellow Citizens of Alabama,

It has been an honor for me to serve as State Finance Director for the past four years. I also consider it a privilege to share the duties and responsibilities of this position with a group of talented, dedicated and inventive public servants. The programs, initiatives and practices this team has created continue to make state government more accountable and transparent to those we serve, and save taxpayer dollars.

This second annual report of the Finance Department highlights a few of the accomplishments made by the Department during the 2008 fiscal year. It is my hope it will give you a glimpse of the expertise that is working for the taxpayers of Alabama through the Department of Finance.

Very truly yours,

James Allen Main, Director



General Fund

The General Fund budget pays for all non-education related expenses in Alabama. General Fund revenues increased by \$527.8 million, or more than 40 percent, from fiscal year 2004 through fiscal year 2008. Expenditures increased by \$636.6 million, or more than 51 percent, during the same period. This was made possible by healthy beginning balances in the General Fund each of these years.



Alabama General Fund Summary Fiscal Years 2004-2008

	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
Beginning balance	\$105,027,233	\$156,681,879	\$168,149,376	\$263,228,436	\$239,088,034
Net receipts	1,221,839,895	1,437,229,950	1,656,451,339	1,634,581,148	1,825,271,509
Federal Fiscal Relief Funds	75,612,290				
Total Available	1,402,479,418	1,593,911,829	1,824,600,715	1,897,809,584	2,064,359,543
Less:					
Expenditures & Encumbrances	1,245,797,539	1,425,762,453	1,561,372,279	1,658,721,550	1,882,393,528
Anticipated Reversion on FEMA Funds				(18,000,000)	
G.O. Debt Service Reserve	15,626,299	0	0	0	
Ending Balance	\$141,055,580	\$168,149,376	\$263,228,436	\$239,088,034	\$181,966,015



Education Trust Fund

The Education Trust Fund (ETF) provides funding for education in Alabama. Most of the revenue in the ETF comes from state sales and income taxes. Alabama's education budget has averaged more than nine percent growth during the past four years, providing tremendous opportunities for expansion of the Alabama Reading Initiative, the Alabama Math, Science and Technology Initiative and ACCESS, the state's innovative distance learning program.



Alabama Education Trust Fund Summary Fiscal Years 2004-2008

	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
Beginning balance	\$7,500,510	\$189,905,715	\$570,958,477	\$695,053,788	\$280,045,027
Net receipts	4,456,026,869	4,969,255,238	5,498,361,937	5,854,027,193	5,975,258,156
Transfer from Rainy Day Acct.					439,372,515
Total Available	4,463,527,379	5,159,160,953	6,069,320,414	6,549,080,981	6,694,675,698
Less:					
Expenditures & Encumbrances	4,237,621,664	4,552,202,476	5,338,266,626	6,197,042,725	6,694,675,698
Repayment to Rainy Day Acct.	35,000,000	36,000,000	36,000,000	71,993,229	0
G.O. Debt Service Reserve	8,339,908	8,868,817	8,838,858	4,328,000	0
End-of-year Balance	\$181,565,807	\$562,089,660	\$686,214,930	\$275,717,027	\$0



Executive Planning Office (SMART Governing)

In 1975, Alabama adopted a sound budgeting law known as the Budget Management Act. However, two key pieces of the legislation, planning and performance monitoring, were never fully integrated into the budgeting process. Several administrations created pilot programs to make planning and performance monitoring part of the budgeting process, but none were fully implemented. In 2004, the SMART Governing initiative began transforming the process by providing a system of budgeting that reflects the needs and expectations of Alabama’s citizens.

SMART is:

- Specific results
- Measurable key goals
- Accountable to stakeholders
- Responsive to internal and external customers
- Transparent to everyone



The SMART Cycle

SMART Strategic Planning

In the first phase of SMART Governing, agencies develop a summary strategic plan, often called a SMART Plan. In its SMART Plan, an agency identifies its mission or purpose, its multi-year goals, a vision for the future and a detailed plan of how it will achieve those goals. Part of the process includes conducting an internal/external assessment. This analysis identifies critical issues that must be resolved in order for the agency to meet its goals. Strategies for the planning year serve to move the agency/institution closer to its goals and/or eliminate critical issues. Finally, the plan identifies specific ways to measure progress toward meeting the stated goals and measuring the outcomes of those goals. This is accomplished by listing performance measures or indicators and stating the targets or objectives for the fiscal year.



SMART Budgeting

The second phase is the SMART Budget Request. This is a summary plan, plus an annual funds request, which includes the cost of each budget program or budget activity. These SMART Budget Requests are presented to the Legislature for funding appropriations.

SMART Operations Planning

The SMART Operations Plan is the third phase of SMART Governing. It is a revised budget request that reflects the funds appropriated in the budget passed by the Legislature and signed by the Governor. The SMART Operations Plan is submitted for approval and spending authority.

SMART Reporting

The last phase, a SMART Quarterly Performance Report, compares actual accomplishments to those planned. Based on the performance indicators and objectives identified earlier in the SMART process, performance is reported at the end of every quarter. These reports track an agency's or institution's fiscal year progress toward its multi-year goals.

In its fifth year, the SMART Governing process witnessed great improvement in agency participation and planning. A number of agencies attended an intensive, one-day training session in April 2008 to learn better, more efficient ways to complete their SMART plans. During the session, Governor Bob Riley recognized the High Performers for fiscal year 2007. To be considered a High Performer, agencies must meet a number of criteria. These include submitting all SMART forms by their required deadlines, completing forms demonstrating an understanding of and commitment to the SMART

process, and perhaps most importantly, consistently performing at 80% of a projected performance target, and not exceeding that target by 20% or more. Fiscal year 2007 High Performers include

The progress over the past few years is significant.

- 2008 Grading the States report

In 2008, Alabama is geared up to finally fulfill its long-lost promise.

- 2008 Grading the States report

the Alabama Securities Commission, the Alabama Supreme Court, the departments of Archives and History, Industrial Relations, Mental Health and Mental Retardation, Rehabilitation Services, the Educational Television Commission and the State Employees Insurance Board. SMART Governing also received

national recognition in the Pew Center's 2008 Grading the States report. Alabama's overall grade improved, thanks in part to the SMART Governing process.



Business & Industry

Economic Development Projects

The State Finance Director and the Department of Finance Legal Services Division assist the Alabama Development Office with economic development in the state. A number of major projects have broken ground in Alabama during the past five years, and the state has witnessed many expansions of companies already doing business here. The projects listed below have helped create more than 114,500 jobs during the past five years, and are responsible for more than \$19.4 billion flowing into Alabama's economy. The letter N denotes a new project and the letter E denotes the expansion of an existing operation.

<i>Company</i>	<i>County</i>	<i>Investment</i>
ThyssenKrupp (N)	Mobile	\$4.5 billion
U.S. Steel Corp. (N)	Sumter	\$450 million
National Alabama Corp. (N)	Colbert	\$350 million
AlphaPet (N)	Morgan	\$160 million
AJIN USA (N)	Chambers	\$89 million
Gulf Coast Energy (N)	Sumter	\$75 million
Berg Spiral Pipe (N)	Mobile	\$75 million
TWB Company (N)	Autauga	\$65 million
Dixie Pellets (N)	Dallas	\$60 million
Freebird, Inc. (N)	Lamar	\$60 million
Children's Place (N)	DeKalb	\$55 million
Blue Cross and Blue Shield of Alabama Data Processing Center (N)	Jefferson	\$55 million
Alabama Yutaka (N)	Cullman	\$50 million
Verizon Wireless (N)	Huntsville	\$44 million
Perihelion Global (N)	Covington	\$40 million
Hunt Refining Company (E)	Tuscaloosa	\$450 million
Kamtek, Inc. (E)	Jefferson	\$310 million
Hyundai (E)	Montgomery	\$270 million
Austal USA (E)	Mobile	\$254 million



Alabama Trust Fund



The value of the Alabama Trust Fund (ATF) has nearly doubled over the past decade. The ATF receives 65% of all royalties from oil and natural gas production in the state’s Gulf waters. Earnings are distributed to the state’s General Fund (70%), to Forever Wild (10%), which uses the money to purchase, maintain and protect unique lands and water areas within the state, and cities and counties (20%). The Capital Improvement Trust Fund receives 28% of oil and natural gas royalties, which goes to bridges, buildings, highways, industry recruiting, state docks, technical equipment and debt service. The County and Municipal Government Capital Improvement Trust Fund receives the remaining 7%. In order to learn more about the potential for growth in the Alabama Trust Fund, the Finance Department in 2006 commissioned a study of Alabama’s oil and gas reserves by the State Oil and

Gas Board. Completed in March 2007, this first-ever, comprehensive study of oil and gas development in Alabama’s Gulf waters identified producing, shut-in, plugged and abandoned, and potential drilling sites. Based on four scenarios, it was determined that Alabama Trust Fund royalties from oil and natural gas production in the Gulf could increase as much as \$1.68 billion with further development. In 2002, the Education Trust Fund (ETF) Rainy Day Account was created within the ATF. During fiscal year 2003, nearly \$180 million was withdrawn from the ETF Rainy Day Account to prevent proration in Alabama’s school systems. During fiscal year 2007, the final payment of the \$180 million loan was made to the ETF Rainy Day Account, one year before the balance was due. The investment portfolio of the Fund has been diversified to include international equity. Core plus fixed income and securities lending have also been used to provide additional income for the Fund. Sixteen money managers handle the state’s ATF investments.

The Alabama Trust Fund - Snapshot of a Decade of Growth

<i>Fiscal Year</i>	FY 1998	FY 2001	FY 2004	FY 2007	FY 2008 (est.)
<i>Ending Corpus*</i>	\$1,592.80	\$2,139.38	\$2,411.50	\$3,125.44	\$3,143.26
<i>Percent Change</i>	9.72	14.48	8.85	7.52	0.57

** in millions - the corpus is the principal amount of the ATF*



SMART Business Systems



Mission

The mission of SMART Business Systems is to enable the state to emerge as a single enterprise to provide information, services and accountability to all individuals and entities served by the state of Alabama, through the transformation of existing business systems and continuous process improvements thereafter.

The Need for SMART Business Systems

SMART Business Systems (SBS) became a separate division of the Department of Finance in the summer of 2008. SBS will replace archaic software systems through a planned process before the potential sudden failure of a core system results in the need for an emergency replacement. The new software should eliminate the need for numerous and sometimes redundant systems and spreadsheets currently used by agencies for their most basic financial, procurement, personnel and payroll needs. Another factor driving this statewide transformation is the need for true accountability and transparency.

SMART Business Systems will provide a system to be used by all state agencies, boards and commissions for financial, procurement, personnel and payroll functions, except where a legal exception exists or the entity operates entirely outside the State Treasury. As a result of implementing SBS, Alabama expects to see efficiency improvements and other benefits, including the following:

- Enhanced reporting and data inquiry capabilities
- Incorporation of nationally recognized best practices into business processes
- Improved access to information for individuals and entities served by the state
- Web-based services/information for employees, vendors and citizenry
- Technology to support continuous improvements and innovation for the state

SMART Business Systems Keys to Success

- Executive level support
- Active participation and cooperation of state agencies
- Availability of knowledgeable staff
- Sufficient state funding throughout the duration of the project



Health Care

Statewide Wellness Program

In 2008, the foundation was laid for a statewide wellness program for state employees and educators. In partnership with Auburn University's Harrison School of Pharmacy and the State Employees Insurance Board (SEIB), the Department of Finance hopes to encourage all state employees to make healthier living a priority. The first phase of this program, called HealthMapRx, will include a health clinic located in downtown Montgomery that will provide employees with free health screenings and offer advice on managing their health care needs. SEIB CEO William Ashmore and Auburn University School of Pharmacy Dean Lee Evans are working with policy makers in Washington, D.C., to implement all aspects of the program.



Education Assistance



In 1983, Alabama implemented a new student loan program to help college-bound students fund their education. The program was active for a number of years. However, it began to taper off and became nearly extinct.

Under Governor Riley's administration and led by its president, State Finance Director Jim Main, the Alabama College Loan Program (ACLP) was revitalized. Bonds were issued in the amount of \$100 million to pay off the old debt and provide sufficient funds for the newly invigorated program.

The ACLP offers low-cost, federally-guaranteed loans. Benefits include a 0% origination fee and a 0% guarantee fee. Although the loans are available to all students, there are special interest-free loans for teachers and nurses who commit to practicing in Alabama upon completing their education. Members of the Alabama National Guard who have been activated to federal service, as well as their spouses and dependents, are also qualified for interest-free loans. Spouses are eligible while married to the service member and dependents qualify until they turn 24 years old. Applications for the Alabama College Loan Program are available from school counselors, college financial aid offices or on the web at www.studentloanpeople.com/aclp.html.



Our Divisions

Comptroller

2008 marks the ninth consecutive year the Government Finance Officers Association of the United States and Canada (GFOA) has awarded a Certificate of Achievement for Excellence in Financial Reporting to the state of Alabama. The award recognizes the Comptroller's Financial Reporting Section for its comprehensive annual financial report (CAFR). It is the highest form of recognition in the area of governmental accounting and financial reporting. Alabama's commitment to maintaining high standards in financial matters was also recognized with a 2008 National President's Award from the Association of Government Accountants (AGA). Fiscal year 2008 also saw great strides in the establishment of SMART Business Systems, an innovative software solution that will streamline the state's payroll, personnel, procurement and financial functions.



Debt Management

The division of Debt Management maintains the accounting for eight authorities. The Alabama Public School and College Authority (PSCA) issued the largest bond in its history in January 2007. The one billion dollar bond is funding capital projects for public education institutions across the state. The PSCA also issued bonds in January 2008 to fund additional capital projects for certain K-12 schools.

Executive Budget Office

The fiscal year 2008 education budget was the largest in state history. It provided increased funding for Alabama's Pre-K Program, Governor Riley's ACCESS distance learning initiative and workforce development programs, which train workers for new and expanding industries in Alabama. The budgets also gave a 3.5% pay raise for state employees and a 7% pay raise for teachers. Retirees received a one-time bonus. The Department of Public Safety received funds that allowed them to put 100 new state troopers on Alabama roadways. The Department of Public Health was able to fund breast and cervical cancer screenings for 750 low-income women. Public Health was also able to maintain the number of those enrolled in the Children's Health Insurance Program (CHIP), and provide funding for more Alabama cities to participate in a statewide trauma communication system. The fiscal year 2008 budget also enabled the Department of Human Resources to increase the number of foster children reunited with family members. In a cost-saving measure, the state successfully converted from bi-weekly payday to semi-monthly payrolls, saving an additional payday every eleven years. Also in 2008, the Wynfield estate in Montgomery was deeded to Alabama and is maintained by the Department of Finance. Wynfield is the former home of industrialist and philanthropist Winton Blount and his wife Carolyn.

Finance Accounting

Finance Accounting performs the accounting function for the divisions of the Department of Finance. In 2008, staff developed procedures that resulted in more efficient operations for several divisions, including practices that encourage the combination of bids when purchasing goods and services. Finance Accounting has also helped with rate analysis and other accounting changes at the State Motor Pool and has set up procedures to eliminate property and billing issues faced by the Information Services Division. Finance Accounting worked with consultant staff of the Statewide Cost Allocation Plan (SWCAP) to develop more efficient ways of gathering and submitting information from state agencies necessary to complete this annual report.



Finance Personnel

Finance Personnel assists each division of the Department of Finance with personnel practices, with the goal of providing effective, efficient management of all employees. In fiscal year 2008, Finance Personnel created two new databases designed to foster a more efficient working environment. The first, an employee information database, was created to provide quick and easy access to employee payroll information. It is also capable of serving as a temporary back-up when the Government Human Resource System (GHRIS) is down. Finance Personnel has also created a document database, in which certain state personnel forms are scanned and saved. This electronic filing system saves both time and actual file space.



Information Services

The Information Services Division (ISD) continues its mission to provide high-value information technology services to the state of Alabama. ISD is responsible for a broad range of information technologies, from wide area networking and telephone service, to maintaining state websites. In 2008, ISD expanded its services, particularly in e-government. That expansion was recognized in August 2008 by *CIO Magazine*, which named Alabama to its CIO 100. The prestigious award honors companies making outstanding achievements in and contributions to information technology. The magazine cited Alabama's more than 130 online government services, as well as innovative programs like ACCESS (Alabama Connecting Classrooms, Educators and Students Statewide). Alabama was the only state government selected for the list, which included corporate heavyweights like Coca-Cola, Lockheed Martin and Motorola. Also in 2008, the state's web portal, Alabama.gov, was named among the Best of the Web for the fifth straight year. CDG's Best of the Web awards are designed to recognize the most innovative, user-friendly state and local government web portals. Additionally, a Brookings Institute study ranked Alabama's state agency websites among the best in the nation. A concentrated effort by state agencies to improve the design and functionality of their websites during the past year resulted in Alabama's number eight ranking among all states. ISD has also continued to create cost-saving measures. By negotiating a discount with Microsoft, state agencies saved almost half a million dollars on software purchases. In 2008, ISD provided in-house training to a number of security administrators, saving more than \$137,000 compared with off-site training. The ISD Copy Center processed more than 2,800 jobs in fiscal year 2008, saving state agencies approximately 20% over commercial printing costs.





Finance Legal Services

Finance Legal Services provides legal counsel and services to the Department of Finance. Staff attorneys handled a number of issues in 2008, from managing major litigation claims under the General Liability Trust Fund to assisting with contract negotiations and preparation for major economic development projects. Finance Legal also provides legal and administrative services to the Board of Adjustment. The Board of Adjustment represents the only remedy for individuals or businesses seeking payment for damages done by the state of Alabama. Finance Legal is currently working to implement automation of its management process, including administrative operations for both the legal division and the Board of Adjustment. When completed, the automation process will allow the entire claims process to be carried out online.



Purchasing

The Division of Purchasing is responsible for the procurement of all goods and non-professional services used by state agencies. Purchasing recently completed the year-end process for fiscal year 2008. For the fourth consecutive year, no purchase requests were returned to any agency due to time-frame issues. The Division continues to focus on insuring each agency's ability to acquire the goods and services necessary to reach agency goals and objectives. One way Purchasing is doing this is by improving the design and development of usable term contracts for high-volume goods and services. Also, much care is taken to insure both contracts and single-buying events are published in a clear, concise format. This results in better vendor pricing. Purchasing has also made tremendous efforts to shorten the amount of time required to execute purchasing events in order to prevent state agencies from experiencing unnecessary waiting periods when acquiring goods and services.

Risk Management

The Risk Management Division administers the State Insurance Fund (SIF), the General Liability Trust Fund (GLTF), the State Employee Injury Compensation Trust Fund (SEICTF), the State Employee Assistance Program (EAP) and the Equipment Maintenance Program (EMP). Risk Management also manages insurance coverage for state government agencies that require commercially-provided insurance. Additionally, the division provides risk management guidance on issues affecting the state of Alabama. In the SIF, property surveys used to determine proper insurance to value increased from 1,714 last year, to more than 4,100 in 2008. A favorable ruling by the Alabama Supreme Court supported Risk Management's interpretation of the GLTF guidelines, strengthening the Division's ability to settle claims in a reasonable manner. Also in 2008, the SEICTF implemented more effective loss prevention activities, creating a five percent rate reduction that went into effect in October. This program guarantees a 25% savings over previous maintenance programs. The Equipment Maintenance Program has saved Alabama more than \$1.1 million in fiscal year 2008, and more than \$3.3 million since the program began in December 2005.





Service Division



The Service Division is responsible for a variety of functions, from operating the state’s central mail room and renting cars through the State Motor Pool, to maintaining the grounds of the capitol complex. The Department of Finance’s Office of Space Management is also under the Service Division umbrella.

In 2008, the central mail room began using electronic return receipts for certified mail. This new procedure reduces paper work and saves senders more than \$1.00 per letter. Also, by completing some of the services typically performed by the post office, the central mail room is able to save money for state agencies. The mail room’s sorter saved agencies more than \$651,000 in fiscal year 2007. In fiscal year 2008, that savings reached almost \$890,000, as the central mail room processed almost 16 million pieces of mail. A new production inserter, flat sorter and an intelligent document management system have been purchased and should be operational by the middle of 2009. These new capabilities will allow any state agency to send documents electronically and the central mail room will process and send the items to the post office.

In 2008, the State Motor Pool continued to promote the use of ethanol, as its fleet expanded to offer more vehicles capable of using the bio-fuel. 2008 saw 86% of State Motor Pool vehicles using ethanol, and the division expects 100% of its vehicles to be ethanol-friendly by 2010. During fiscal year 2008, ethanol saved the State Motor Pool an average of .50 cents per gallon over gasoline.



The Finance Department’s Office of Space Management oversees state leases and manages a variety of building projects. In 2008, a major project was completed with the renovation of the former Public Safety Building, located across from the state capitol. The building now houses the office of the Attorney General and the Alabama Department of Homeland Security. The project was finished under budget, at a cost of \$170.00 per square foot. This is substantially less than the cost of new



construction, and the renovation allowed the state to preserve the building, which is a 1930 Works Progress Administration (WPA) Project. There are a number of other active projects, including the re-roofing of the state capitol. The long-life roof is scheduled to be in place in early 2009. An energy-saving lighting retrofit project is underway at the Gordon Persons Building. The former Public Health Services Building was demolished after being vacant for more than ten years. Its demolition will make way for a Retirement Systems of Alabama project designed to bring the adjacent former Judicial Building back to life. At the First White House of the Confederacy, a new heating and air conditioning system was installed and structural improvements were made. These improvements will stabilize the structure and interior finishes of this historic landmark. Energy

conservation measures are being implemented in the Lurleen B. Wallace Office Building and the Folsom Administrative Building. These measures are expected to reduce energy consumption in both buildings by more than ten percent. In 2008 alone, almost 100,000 square feet of office and clinical space were purchased and/or renovated by the state.



GO Zone Bonds



President Bush signed into law the Gulf Opportunity Zone (GO Zone) Act in December 2005 to help Louisiana, Mississippi and Alabama recover from the devastation of that year's hurricane season. The state of Alabama implemented two sections of the act that allow for allocations to issue GO Zone Bonds and Additional Advance Refunding (AAR) Bonds. In 2008, federal legislation added Dallas and Colbert counties in Alabama to the list of those eligible for GO Zone Bonds (Baldwin, Choctaw, Clarke, Colbert, Dallas, Hale, Marengo, Mobile, Pickens, Sumter, Tuscaloosa and Washington). The AAR is a statewide program. Both programs will expire December 31, 2010. Information on the two programs can be found online at www.finance.alabama.gov.

Lease Search

As part of its efforts to be more transparent to the people of Alabama, the Department of Finance introduced a web-based tool called Lease Search. Lease Search allows anyone with Internet access the ability to search the state's lease agreements. It also serves as a resource for state agencies considering sub-lease and consolidation opportunities, as well as cost comparisons for specific locations. In order to keep Lease Search functionally simple, not all information regarding each lease is displayed. However, it is readily available and will be provided on request. For more information about a lease, contact the Department of Finance's Office of Space Management. Lease Search is available online at www.finance.alabama.gov.

