

What a Difference 4 Months Makes

At midnight on May 16th as the gavel sounded the end of the 2012 Regular Session of the Legislature the debate that is raging today was set in motion and at 7:00 pm next Tuesday that debate will end. The debate centers on a constitutional amendment that, if approved by voters, will allow the Legislature to remove \$450 million from the Alabama Trust Fund (ATF) over the next three years.

Proponents arguing for approval warn of dire consequences if the amendment does not pass: mass release of convicted felons, loss of healthcare for children, closure of rural hospitals, shut down of nursing homes, and loss of more than 10,000 jobs. We have even seen some proponents argue: rural fire protection will be lost, teachers pay will be cut, and doctors will leave the state.

On the other hand, opponents of the amendment argue that, like the federal government, the problem is not revenue but spending. Approval will simply allow the Legislature to continue to spend more money without reining in spending. Opponents argue that adequate revenue exists without raiding the Trust Fund IF readily available reform measures are implemented.

So who is right? To answer this, let's look back at what Legislators knew when they passed SB147 authorizing the September 18th vote and then look at what we have learned since then.

What They Knew Then

The challenge faced by the Legislature when they were developing budgets for FY2013 was inadequate information. Budgets were proposed and debated in April and May for a budget year that would begin on October 1st. At that time, they were using projections of revenue that extended months in the future. Added to the challenge, most were not aware of the results of studies on cost-savings in state government operations which had been completed but not released. In fact, the results of those studies have still not been released although some of the information has leaked out.

So, what did they do? They were faced with funding requests (\$1.671 billion) that most state agency heads called "bare-boned" and still not enough projected revenue (\$1.4 billion) to balance the budget. To close the budget gap they were presented with 3 options: cut Medicaid and Corrections, increase the tax on cigarettes by \$1 per pack, or take the money needed out of the ATF. They opted for the latter, which required approval of a Constitutional Amendment (CA) by voters.

If approved by voters on September 18th, the CA would add \$198 million from the ATF for FY2013 (*source: Alabama Policy Institute - \$145 million from the corpus plus \$53 million as a result of changing the way income is defined*). This would happen not just for FY2013 but also for FY2014 and FY2015. Opponents question why the measure would remove money for three years IF the intent was to use the funds to balance the FY2013 budget. So far, proponents have not provided any response.

What We Know Now

While we still don't know for sure how much revenue the state will have in FY2013, we are 4 months closer and our projections of revenue are much better. Also, we have been able to obtain some information from the yet-to-be-released reports detailing cost-saving opportunities.

Here's what we've learned:

- Contributions from the ATF will be approximately \$74 million higher than anticipated. According to State Treasurer Young Boozer, if the distribution from capital gains in the ATF were made on June 30th "the board could have transferred as much as \$74.3 million to the General Fund." This is in addition to the \$63.3 million that was already included in the Budget. (*source: State Treasurer's Office*)

- The Governor’s office has developed a plan to offer an “early out” package to state employees that are eligible for retirement. According to the plan, if 1750 state employees (5% of the workforce) opted to retire under this plan it would generate an annual savings of \$95 million. If the retirements were effective on December 31st, the savings for FY2013 would be \$71 million. (source: Governor’s Office)
- During the 2012 Session, the Legislature located \$12 million of unspent Tobacco Settlement Funds that were sitting in various agency accounts. This money could be transferred back into the General Fund to meet FY2013 needs. (source: Alabama Legislature)
- Cost-saving opportunities abound, but few have been implemented. The Alabama Commission on Improving State Government provided a report to the Governor detailing cost-saving opportunities by changing the way state agencies do business. For example, by switching all payments to electronic funds transfer (EFT), the state could save \$48 million per year. Also, changing employees to electronic timekeeping and requiring direct deposit would save an additional \$10 million. According to the Commission, these could be implemented immediately by the Governor. (source: Governor’s Commission)
- Medicaid is fully funded until August, 2013. On September 13th, State Representative Joe Hubbard argued that proponents’ warnings of dire consequences were just not true, “Alabama’s Medicaid Commissioner testified Medicaid is full funded through at least August of 2013.”

So, let’s do the math.

(\$198 million)	Budget shortfall if CA is fails
\$ 74 million	Additional capital gains (2012) distribution from ATF
\$ 71 million	Savings from early retirement plan
\$ 12 million	Unspent Tobacco Settlement funds
\$ 48 million	Savings from switching to EFT
\$ 10 million	Savings from electronic timekeeping / direct deposit
\$215 million	Total savings / additional funds

Bear in mind that these are not figures we made up. They came from the Governor’s office, the Legislature, the Governor’s Commission, or the State Treasurer’s office. Bottom line – we can fully fund the FY2013 budget without taking additional money out of the Alabama Trust Fund. In fact, if additional cost-saving measures are implemented, we could even generate a surplus!

So why do proponents continue to warn of dire consequences? The answer may be found when you take a closer look at the FY2013 budget. Regular appropriations total \$1.671 billion. In addition, there are \$372 million in “conditional appropriations”. In bureaucratic-speak, that means, if more money comes in than \$1.671 billion, every additional dollar up to \$372 million is already spent.

As an example, in the FY2013 budget Medicaid received a regular appropriation of \$603 million and conditional appropriations of \$167 million. Conditional appropriations for Medicaid would represent a 28% increase over their regular appropriations. If you consider the arguments that proponents are making for passage (loss of healthcare for children and closure of hospitals and nursing homes) it begins to make sense. Health care providers are the ones that will benefit the most...especially if they can get a bonus of \$167 million which could be used for a federal match that would sweeten the pot to \$500 million or more.

Fortunately, we have the advantage of better information than the Legislature had back 4 months ago. Now its time for you to decide. Make sure you register your vote on September 18th.