

General Fund Can't Meet Rising Health Care Costs

By Kimble Forrister

There will be many opportunities for finger-pointing when the governor's task force on health care costs reports its findings next month: generous coverage for state employees and teachers; pharmaceutical company profits; insurance company profits; etc. Let's hope the report also points to the critical condition of General Fund revenue.

In the face of a \$330 million shortfall in next year's \$1.4 billion General Fund, providers and advocates formed a broad coalition this year to protect Medicaid from cuts. The case was clear and persuasive: Medicaid serves nearly 800,000 Alabamians, it gets a 2.4-to-1 federal match, and without it our entire health care infrastructure would fall apart.

The coalition found a sympathetic House budget committee, chaired by Rep. John Knight, and it found legislators in the halls who said, "Of course!" No one was interested in cuts that would endanger Medicaid. As Commissioner Herrmann put it, any further reduction in services would jeopardize Alabama's participation in the federal program.

To stave off disaster one more year, Rep. Knight's committee assembled an unappealing package of tax increases, shifts and cuts. The decision to put off the 27th pay period to the FY 2006 budget is the perfect example of a stop-gap measure. The postponement would make sense if we had any hope that the General Fund would stand to benefit from an economic upturn. Then, once things got back to normal, we could afford the additional pay period the following year. If the economy really took off, we might even be able to afford adequate state services. But the General Fund doesn't work that way.

In Alabama, a rising tide doesn't lift all budgets. Unlike the Education Trust Fund, the General Fund is anchored on a short rope. Its revenue depends on relatively small accounts, such as the insurance premium tax; interest on state deposits and the Alabama Trust Fund; and the inheritance tax, which is rapidly being phased out. At the same time, General Fund spending grows rapidly as we send more people to prison and as the cost of Medicaid is driven up by health care inflation and the growing number of eligible participants.

Other states are facing budget crises. Their revenues are down, and their corrections and Medicaid costs have swelled. But no other state runs both programs on such bare-bones budgets. And no other state earmarks all of its growth taxes for education, leaving the rest of the budget to starve. Looking back on the legislative session, I think our basic message was right: "We must not cut Medicaid. It needs new revenue." It would help if teachers and state employees paid more for health insurance, but that wouldn't solve the problem. It would help if business paid a fairer chunk of the income tax, but that wouldn't solve the problem. Both of these together wouldn't meet next year's shortfall.

I keep running into people who say, "Things won't change until we throw these guys out and elect a whole new bunch." But that won't solve the problem either. No legislature could fund expanding health care and corrections costs with dwindling revenue sources. Alabama already funds health care and corrections at levels far below those of most other states.

Fortunately, our legislative leaders and our governor know all this. So do the Alabama Education Association and the Business Council of Alabama. (That's right, Paul Hubbert worries about the General Fund predicament.) For each of these parties, the responsible path ahead requires work in two areas: negotiating a plan to put growth revenues into the General Fund, and informing the Alabama public about the fund – what it is, what it pays for, and why it's starving. The first task will be far easier than the second.

Kimble Forrister is state coordinator of Alabama Arise.