

## **The General Fund Squeeze – 5-04**

*By Kimble Forrister*

Advocates for children, poor people, and better government found it difficult to get our bearings at the State House this year. We had predicted a budget crisis in the first regular session after the failure of the 2003 tax reform campaign. We got a budget crisis, but it took a different shape than we expected.

We had feared a shortfall in the \$5 billion education budget, including a danger of teacher layoffs. As it turned out, the economy improved just enough to cause a modest rebound of sales and income tax revenues. Since those taxes are earmarked to education, legislators were able to restore funding for textbooks and computers, cover increased costs of teacher health care, and expand the Alabama Reading Initiative. We haven't reached adequate funding, but there's room to breathe for a year.

In the \$1.2 billion General Fund, we faced a \$330 million shortfall. To protect Medicaid from cuts, we formed a broad coalition of providers and advocates. We thought the threat was real, since Medicaid accounted for three-fourths of the shortfall, so we made our case: 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. We educated a lot of people on what Medicaid means to our state.

Once we actually started making this case at the Legislature, we found a very sympathetic House budget committee chaired by Rep. John Knight, and we found legislators in the halls who said, "Of course!" No one was interested in cuts that would endanger Medicaid. Advocates around the state wanted marching orders, but there was no opponent for them to confront.

Rep. Knight's committee was convinced that Alabama already had the most bare-bones Medicaid program in the nation. The committee began to assemble an unappealing package of tax increases, shifts, and cuts to stave off disaster one more year. In our office, policy analyst Mary Weidler complained about their plan to put off the 27<sup>th</sup> pay period to the FY 2006 budget: "They will just face the same problem next year."

I said, "Well, maybe the economy will improve by then."

Mary replied, "But if the economy improves, that won't help the General Fund!"

That's when the light went on in my head. I finally got it. I had been thinking that once things got back to normal, the natural growth in revenue would allow legislators – if they were responsible and thrifty -- to craft a General Fund budget that would in turn allow our state to "live within its means." But that formula doesn't work for the General Fund.

Revenue sources for the General Fund are a grab-bag of small accounts like interest from the Alabama Trust Fund (of which we've started spending the corpus) and the inheritance tax, which is rapidly being phased out. At the same time, General Fund spending grows rapidly as we put more people into our prisons and as double-digit health care inflation hikes the cost of Medicaid.

Other states are facing budget crises. Their corrections and Medicaid costs have swelled and their revenues are down. But no other state has a bare-bones, no-frills budget for both, 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 it 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 solve 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 has already cut health care and corrections far below what any other state has been willing to do.

Fortunately, our legislative leaders and our governor know all this. So does AEA and BCA. (That’s right, Paul Hubbert worries about the predicament of the General Fund.) For each of these entities, the responsible path ahead requires work in two areas: negotiating a plan to put revenue growth 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.