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## Calendar notes

**Auburn** Noon – 1 p.m., Thurs.,  
March 18, cluster meeting, UU  
Busch Center.

**Montgomery** 10 a.m. – 1 p.m.,  
Health Fair, Southlawn Middle  
School, 5533 Mobile Hwy. Arise  
will have a table.

## Constitutional reform House nixes call for convention

By Stephen Stetson, policy analyst

**Constitutional reform advocates met another setback** on Feb. 23 when the Alabama House voted 58-32 to table HJR 54, a resolution calling for a statewide vote on a constitutional convention. The measure's sponsor, House Speaker Pro Tem Demetrius Newton, D-Birmingham, vowed to bring it up again this session.

**Opponents of the proposal invoked the bogeymen of tax hikes and legalized gambling.** Proponents, citing polls that show a majority of Alabamians favor a convention, stress there's still time for voters to speak out.

**Grassroots support for reform continues to grow** with screenings of Melanie Jeffcoat's new film, *Open Secrets*, which uses verbatim transcripts from the 1901 constitutional convention to dramatize the racist and anti-democratic goals of that gathering. To find out more or arrange a screening, e-mail [melanie@constitutionalreform.org](mailto:melanie@constitutionalreform.org).

# Report

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February 26, 2010

## More than 96 percent would benefit

# Grocery tax bill back in House

By Chris Sanders, policy analyst

**Most Alabamians would save roughly \$100 apiece per year under a plan to end the state sales tax on groceries and over-the-counter medicines** – and it would not cost schools a dime, according to the Legislative Fiscal Office (LFO). The planned substitute version of HB 1, sponsored by Rep. John Knight, D-Montgomery, would put money in the pockets of millions of Alabamians while protecting education funding.

**The plan would cut taxes for more than 96 percent of Alabamians, according to the LFO.** HB 1 would remove the 4 percent state sales tax on groceries and OTC medicines and cap the deduction for federal income taxes for the state's highest earners. Local sales taxes would be unaffected, and the amount of money in the education budget would neither increase nor decrease.

**Most Alabamians – couples making \$200,000 or less and singles making \$100,000 or less – would keep their full deduction.** The bill would eliminate the deduction for couples making \$300,000 or more and singles making \$150,000. Couples between \$200,000 and \$300,000 and singles between \$100,000 and \$150,000 would retain a partial deduction.

**The bill to “untax groceries” would bring Alabama’s tax system more in line with those of its neighbors.** Mississippi is the only other state that offers no tax break on groceries, and Iowa and Louisiana are the only other states that allow a full state deduction for federal income taxes. The measure would require

voter approval in November and take effect in January 2011.

**Polling has shown majorities of Democrats, Republicans and independents support the idea.** HB 1 also has gained support from the editorial boards of several state newspapers. An editorial from one of those papers, *The Daily Home* of Talladega, is on Page 2.

## Tough times ahead for state budgets

By Chris Sanders, policy analyst

**Alabama is running out of quick fixes for its budget struggles.** As temporary federal relief aid nears an end and budget reserves run dry, the state soon will face a fundamental choice: Should we slash funding for core functions of government or raise more money to pay for them?

**About \$3 billion in federal money from the American Recovery and Reinvestment Act (ARRA)** has helped Alabama avoid tax increases and thousands of layoffs since 2009. Gov. Bob Riley's budgets anticipate that an additional \$545 million in federal money from a jobs bill will do the same in fiscal year (FY) 2011. Riley's budgets assume the bill will provide about

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**Action alert:** Send the enclosed “untax groceries” flyer to your House member and urge him or her to vote **Yes on HB 1.**

## A few words from Kimble —

To untax groceries, we must win both Democratic and Republican support. Democrats no longer hold a three-fifths majority in the Alabama House — and besides, helping families make ends meet should be neither a Democratic nor a Republican cause. After HB 1 passes the Legislature, we need to take it to voters as a measure that has won strong support from both sides of the aisle.

**In a time of tight budgets, legislators can't do much to help voters.** That's why our message to them has unusual appeal in an election year: *Working families are struggling. Here's something you can do to help — without hurting our schools.*

**We can't leave out that last phrase.** Our schools can't take a \$405 million cut. Anyone who can't agree that we must find a way to pay for cutting the grocery tax will never vote for HB 1.

**Winning a Republican vote is harder.** We have to be ready when they say, "I agree with ending the grocery tax; I don't agree with how you want to pay for it. I don't want to raise taxes on anybody." We're addressing two big problems with our broken tax system: First, most people pay too much; second, a few people pay too little. As we know from the Alabama chart at [whopays.org](http://whopays.org), the top earners pay half the share of income that most of us pay in state and local taxes. A big reason why top earners pay so little is Alabama's unusual deduction for federal income taxes, which moves more tax dollars into the pockets of the top 4 percent than to the bottom 96 percent combined. The top earners wouldn't get this tax break if they lived in Georgia or Mississippi or 37 other states that have a state income tax. We propose to cap it.

**Couples who make more than \$300,000 could adjust their lifestyles** if they had to pay another 1 percent of income in taxes. Likewise, small business owners who can clear \$300,000 can handle a modest tax increase. But most small business owners make less than \$200,000. Untaxing groceries would help both their families and their customers make ends meet, and that's good for business.

With peace,

**From The (Talladega) Daily Home, 2/9/10**

## Grocery tax should be repealed now

Here we are again — Alabama lawmakers at the crossroads of doing the right thing or choosing to ignore a constituency that could really use the help.

**That's what it means to repeal the 4 cents Alabamians pay the state in sales tax on groceries** and over the counter medicine. It would mean a break on every dollar families spend to put food on the table.

**Yet when state Rep. John Knight, D-Montgomery, raises the issue each legislative session,** it succumbs to an untimely death. Why? Because to pay for it, it would eliminate the state tax deduction for federal income tax on single filers making \$150,000 and joint filers making more than \$300,000.

**That's lawmakers favoring 4 percent of the people in Alabama,**

leaving 96 percent without relief they could use so the wealthiest can take advantage of a tax deduction. And it leaves Alabama as only one of two states in the country that still [fully] charges tax on groceries.

**It is unconscionable that a bill that would offer such widespread relief continues to hit roadblocks** once it arrives in Montgomery, but this state's leaders seem to put more emphasis on gambling under the guise of calling it a tax on the poor rather than taking a chance on actually helping poorer citizens.

**The bill has been introduced once again,** and it is hoped that this time around — especially in these economic times — lawmakers realize just how critical it could be in serving the people of this state.

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### State budgets

*[Continued from Page 1]*

\$345 million for education and about \$200 million for Medicaid. Thus far, Congress has not approved the money. (See "Washington update," Page 3.)

**Riley's proposed FY 2011 education budget is \$6.1 billion,** including both ARRA funds and jobs bill money. That is up slightly from this year's total of \$6 billion before proration. Riley's proposed FY 2011 General Fund budget, including ARRA and jobs bill money, is \$1.9 billion. That is down from this year's total of \$2.1 billion, including ARRA money. By comparison, Alabama in FY 2008 devoted state funds of \$6.7 billion to the Education Trust Fund and \$1.9 billion to the General Fund.

**Even with temporary federal aid, the state could face service cuts and hundreds of job losses.** The state Medicaid agency has proposed limiting adult enrollees' prescription drugs, even as enrollment grows. Mental health advocates say up to 20,000 people could lose needed services under Riley's budgets. And his budgets recommend no new

funds for state employees' health insurance, which could mean benefit cuts or higher premiums and co-pays.

**Those reductions would come on top of consecutive years of budget cuts amid falling revenues.** In FY 2009, Riley ordered 10 percent cuts for most General Fund agencies and 11 percent proration of the education budget. He also drained the education rainy day account to prevent even deeper cuts. For FY 2010, Riley has ordered 7.5 percent education proration and 12 percent cuts for all General Fund agencies except Medicaid and prisons.

**Past budget woes have led Alabama lawmakers to seek new revenues.** In the last recession, the state relied on both spending cuts and tax increases. And Alabama created its income tax and sales tax during the Great Depression. David Bronner, head of the Retirement Systems of Alabama, said the state must increase taxes to avoid massive cuts. And Rep. John Knight, D-Montgomery, who chairs the House General Fund budget committee, said Alabama needs more money to fund essential public services adequately in the long term.

## President Obama's plan

# A jumpstart for health reform?

By Anna Blair, health policy analyst

After a year in which both houses of Congress passed health care reform bills and public controversy spooked efforts to gain final passage, President Obama on Feb. 25 hosted a bipartisan meeting of congressional leaders to seek common ground for moving forward. Three days earlier, the president released a proposal combining features of the House and Senate bills.

The televised seven-hour Health Care Reform Summit failed in its stated purpose but did highlight, perhaps once and for all, the stark differences between Democratic and Republican visions of health care reform. The event appeared to leave Obama and his allies two alternatives: Either pass the Senate bill in the House with a simple majority and make changes through a process known as budget reconciliation, or abandon the goal of comprehensive reform. Despite Republican claims to the contrary, the reconciliation approach would not involve the entire bill, but only aspects relating to the budget.

Some of the president's key provisions, adapted from the Senate bill, include making insurance more affordable for individuals and families with incomes between 133 percent and 400 percent of the federal poverty level (FPL), or between \$29,000 and \$88,000 annual income for a family of four. Most people below 133 percent FPL would qualify for Medicaid. (Alabama Medicaid's current income limit for adults is around 11 percent FPL.) Obama's plan keeps the Senate's state-based insurance exchange, while boosting premium and cost-sharing subsidies. There is no public option.

The president also would extend important consumer protections

to existing employer-based and individual market plans. These protections include allowing enrollees to keep their adult children under their policy until age 26; prohibiting annual and lifetime benefit limits; and prohibiting denial of coverage because of pre-existing conditions. Other consumer protections include increased oversight of insurance companies, such as review of excessive rate increases.

Over the next 10 years, Obama's plan would close the huge gap in Medicare prescription drug coverage, known as the "doughnut hole." It also would broaden the Medicare tax base. By applying the tax to capital gains, dividends and other investment income, the president would make Medicare fairer by ending a feature of current law enabling many of the wealthiest Americans to escape paying the Medicare tax on much of their income while lower- and middle-income people pay the tax on virtually all their income. Building on both the House and Senate bills, the president also proposes to crack down on waste, fraud and abuse in Medicare and Medicaid.

In other changes from the Senate bill, the president allays concerns about variations in Medicaid assistance for states, in particular the Senate's provision of full, permanent federal funding to Nebraska only. Obama's plan provides a uniform enhanced Medicaid match rate for states covering newly eligible childless adults and parents up to 133 percent FPL. Resembling more the approach of the House bill, the president's plan replaces the Senate's variable state support with uniform 100 percent federal support for the newly eligible in all states from 2014 through

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## Washington update

### Congress keeps states guessing

By Chris Sanders, policy analyst

Lawmakers in Alabama and other states are in a holding pattern, delaying work on their budgets to see if Congress will provide more financial assistance to state governments. More federal help may be on the way, but the timing and amount remain uncertain.

Gov. Bob Riley's proposed fiscal year (FY) 2011 budgets assume about \$550 million from a jobs bill that the U.S. House passed in December. (See "State budgets," Page 1.) The U.S. Senate has not approved those funds yet, and they were not included in a jobs bill that senators approved 70-28 in late February. The Senate's bill focused on small-business tax cuts and infrastructure spending.

Senate Majority Leader Harry Reid, D-Nev., said in late February that he is preparing another jobs package that would send more Medicaid money to states. Press reports thus far have not mentioned more state education money. Reid said the Senate could take up the measure in early March.

A letter signed by 43 state governors, including Riley, asks congressional leaders to extend the Medicaid assistance offered under the American Recovery and Reinvestment Act (ARRA) for six more months. The extension would help in "protecting jobs and speeding economic recovery," the letter says.

The consequences of no further federal aid could be dramatic. With tax collections slumping and ARRA money running out, states may have to lay off thousands of workers and slash public services like schools and public safety. Those cuts could delay or reverse the nation's economic recovery, according to the Center on Budget and Policy Priorities. The CBPP has estimated that the nation's economy could lose 900,000 jobs without additional federal relief.

The FY 2011 federal budget will be another focus on Capitol Hill in the coming months. One area of interest will be the White House's proposal to make permanent ARRA's expansions of the American Opportunity Tax Credit for higher education expenses and the Earned Income Tax Credit (EITC) and Child Tax Credit (CTC) for low-income working families. Failure to renew the CTC at current levels would push 600,000 children into poverty nationwide, the CBPP estimates. Overall, 18.1 million children nationwide would see their credit reduced or eliminated, including 278,000 in Alabama, according to the CBPP.

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## Health care reform

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2017, then 95 percent for 2018 and 2019, and 90 percent from 2020 on.

In another adaptation, the president's plan scales back the Senate bill's excise tax on costly "Cadillac" plans, delaying imposition until 2018 and targeting only the most generous or inefficient plans. The vast majority of plans would not face any tax.

Other features in the president's proposal include a mandate that individuals with income above the federal tax-filing threshold buy insurance or, with some exceptions, face a penalty; the creation of a number of health care access, wellness and prevention initiatives; and increased investment in

community health centers. As in the Senate bill, there is no employer mandate, but the president's plan gives small businesses \$40 billion in tax credits to help cover their employees, starting this year.

The president estimates his plan would cost \$950 billion over 10 years. It would be paid for primarily through Medicare savings, the excise tax on high-cost insurance plans, fees on certain medical manufacturers and insurers, and an increase in Medicare hospital insurance contributions for high-income taxpayers.

A number of the differences between the president's plan and the Senate bill, such as the uniform Medicaid assistance to states and the scaled-back excise tax, could be handled in budget reconciliation if the

House passes the Senate bill. This approach seems to offer the last best hope for comprehensive health care reform in this decade, and perhaps for many years to come.

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