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Bulletin Board

ARISE POLICY CONFERENCE

Friday, March 4 – 9:15 a.m. to 3:20 p.m., Montgomery campus of Auburn University (AUM), Taylor Center. Visit arisecitizens.org for more details.

ARISE LOBBY DAY

Montgomery – Thurs., March 31, Capitol Auditorium & State House
9:30 a.m. – Registration
10 a.m. – Issue briefing
11 a.m. – Lobbying
Noon – Membership meeting
1 p.m. – Press conference
1:30 p.m. – Adjourn

Visitors welcome at *'the People's House'*

You may have read about proposed security changes that would limit public access to State House halls. Senior staffers in the House and Senate assure us that earlier reports on new restrictions were inaccurate and the longstanding “open door” policy still applies. It’s always a good idea, however, to let your lawmakers know you’re planning a visit. As you prepare for Lobby Day, call the switchboards [House (334) 242-7600; Senate (334) 242-7800] and set up an appointment with your legislators for March 31, between 11 a.m. and noon.

Report

This newsletter made possible by the members of Arise Citizens' Policy Project
Vol. 14, No. 2

February 22, 2011

'Cannot be cured by growth'

Shortfalls spell service cuts, layoffs

By Chris Sanders, policy analyst

Larger class sizes, higher college tuition and thousands of layoffs are a sample of what Alabama's budget shortfalls may force next year. Gov.

Robert Bentley also likely will announce in early March a third straight year of proration, or mid-year budget cuts, this year as state revenues continue their slow recovery from a record downturn during the Great Recession.

The Education Trust Fund (ETF) budget for fiscal year (FY) 2011 is on pace for 2 percent proration, Legislative Fiscal Office director Joyce Bigbee said during legislative budget hearings in early February. Proration for the General Fund could be in the 9 percent range, Bigbee said. Those cuts would come on top of a roughly 20 percent decline in state revenues for both budgets since FY 2008.

Next year could bring even worse revenue news. The ETF could face a \$687.6 million, or 11 percent, shortfall in FY 2012 as federal assistance from the American Recovery and Reinvestment Act (ARRA) and other sources run out, Bigbee said. The funding situation is even direr for the General Fund, which could face a decline of \$554.2 million, or 29.4 percent, as ARRA assistance expires.

Education funding shortages could lead to fewer K-12 teachers, deferred school maintenance, higher employee pension costs, and higher tuition at colleges and universities. At least 1,000 of Alabama's 48,000 public teacher jobs

may go unfilled next year without more money, state school Superintendent Joe Morton said. Higher education officials say further funding cuts could force layoffs and the end of some academic or athletic programs. Scholarship reductions and soaring college tuition also are likely, adding to affordability problems caused by an 86 percent increase in median in-state tuition and fees at Alabama universities since 2000-01 and a 52 percent increase in comparable two-year college costs in that time.

The General Fund shortfall could shrink if the budget receives a one-time \$263 million payment from the Alabama Trust Fund, stemming from an attorney general's opinion that the fund's board miscalculated transfers to the General Fund between 2003 and 2007. But even if Bentley declares proration this year and the entire windfall goes to next year's budget, General Fund revenues would remain about \$200 million, or 11 percent, short of FY 2011 spending, Finance Director David Perry said.

General Fund agencies will not share in many of the revenue gains as the economy recovers, Perry said. That is because Alabama earmarks sales tax and income tax revenues, which rise and fall with the economy, for education. As a result, Medicaid, prisons and other public services often do not see their funding keep pace with increasing costs. “Our General Fund has a structural deficit that cannot be cured by growth,” Perry said.

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A few words from Kimble —

“Fear has been defeated, and there is no turning back.” My family may have been more glued to CNN during the Egyptian protests because our Sarah Alice spent a semester in Cairo two years ago. Rarely do we see long-repressed grievances erupt into a movement for change. It’s one reason to think through our vision for social justice: Someone needs to stand ready to offer a blueprint when a historic movement arrives. In the meantime, my takeaway is that many of us need to defeat fear, especially the fear of phoning a legislator. They’re human like we are, and we have a message they need to hear. For example . . .

Alabama should take “a balanced approach” to its budget crisis. We’re on track to see the most drastic General Fund cuts in recent memory, partly because we ignored our structural deficit for years. We can’t grow our way out of this problem: The General Fund simply doesn’t get enough revenue to pay the bills. Short of a fundamental restructuring of our entire tax and budget system, we can responsibly address the current crisis with *a balanced approach – a blend of selected cuts and new revenue.*

We’ve done it before. In 2004, Gov. Bob Riley, Rep. John Knight and health care stakeholders reached agreement on a balanced plan to address the Medicaid shortfall: a blend of taxes (tax increases on tobacco products and nursing home beds) and careful cuts like fewer brand-name drugs, fewer doctor visits and fewer hospital days for Medicaid patients. Right now, much of the public (and many of the new lawmakers) don’t yet realize the gravity of our situation. Let’s “defeat our fear” and join our voices with our neighbors who are at risk.

Yours in peace and hope,

Budget shortfall

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Without new revenue, that design flaw could force deep cuts to numerous public services and the elimination of many others next year. It would take more than \$1.1 billion, or almost 70 percent of the \$1.6 billion (including the windfall) projected to be available in next year’s General Fund, to maintain Medicaid and prisons at current service levels in FY 2012. Another \$500 million would be needed to provide courts, mental health,

public health, state troopers and the Department of Human Resources (DHR) with the same amount appropriated in FY 2011. That would mean virtually no money left over for senior services, state parks and dozens of other public services.

Legislators should not address Alabama’s budget woes through cuts alone, ACPP executive director Kimble Forrister said. “We need a balanced approach of both spending cuts and new revenue to protect public services that help Alabamians have better lives and better futures,” Forrister said.

Health reform under fire, moving forward

By Jim Carnes, health policy analyst

As the Affordable Care Act (ACA) of 2010 approaches its first anniversary on March 23, opponents of the health care reform law are mounting a variety of efforts to overturn it, block its implementation or change its substance. But looming deadlines for major state responsibilities under the ACA – and serious consequences for failing to meet them – are prompting many states, including Alabama, to proceed with planning health care reforms while fighting to reverse or revise the law. Federal funding for initial costs, such as a \$1 million planning grant Alabama received last September, is an added incentive for moving forward.

The new Congress already has seen a repeal measure pass the House but fall short in the Senate. In addition to outright repeal, House Republicans also are seeking to undermine what they call “Obamacare” by blocking funding for its major provisions.

Legal challenges to the ACA have resulted in four U.S. district court rulings so far, split 2-2 for and against the law or crucial parts of it. A Virginia judge in December struck down the law’s requirement that most Americans purchase health coverage by 2014. Without the so-called “individual mandate,” it would be impossible to prevent healthy people from waiting until they get sick to buy insurance, thus

raising costs and reducing benefits.

Analysts call this skewing effect on the risk pool “adverse selection.” A Florida judge on Jan. 31 declared the entire law unconstitutional. Alabama is one of 26 plaintiff states in that case.

In light of the Florida decision, Gov. Robert Bentley and other state leaders initially put implementation of the law on hold. For example, the Alabama Department of Insurance (DOI) suspended meetings of stakeholders it had enlisted (including Arise) to plan the state’s Health Benefits Exchange, an insurance “marketplace” for the uninsured that is one of the cornerstones of the reform law.

The timeline for designing and launching the exchange leaves little room for delay. States must seek approval for their exchange plans from the Department of Health and Human Services (HHS) by Jan. 1, 2013, and begin accepting enrollees by the following July 1, for coverage beginning Jan. 1, 2014. As one DOI official put it, “2014 is now.” If the law survives in its present form, states that decline to create an exchange on their own will get a federal version that advocates and officials agree will be less responsive to individual state needs.

Another benchmark for Alabama’s compliance with the ACA will be the passage of state laws granting authority

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Health care reform

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to carry out its provisions. With the 2011 Alabama legislative session opening March 1, Arise will be watching to see whether the DOI or other state agencies file bills authorizing:

- the DOI to enforce federal law;
- the DOI to regulate health insurance rates;
- an external review requirement for consumer appeals; and
- the establishment of a state Health Benefits Exchange.

In early February, 28 Republican governors, including Bentley, sent a letter to President Obama urging his support for an “expedited appeal” of the two court decisions against the ACA. The normal appeals process, culminating in a ruling by the U.S. Supreme Court, could take several years.

Bentley and 20 other Republican governors sent a separate letter to HHS Secretary Kathleen Sebelius outlining their “grave concerns” about the ACA. Among the changes the governors called for were “complete flexibility” in operating the exchanges and full federal funding for administrative costs of determining eligibility for exchange participants.

For the time being, it appears Alabama leaders will hedge their bets, using federal dollars to plan for health care reform while devoting state resources to challenging it. As meetings of the exchange stakeholders resume, Arise will continue to hold that the ACA isn’t forcing Alabama to make unwanted changes. Rather, it’s helping us do things that have been out of our reach for too long, such as covering the one in seven Alabamians who are uninsured, improving the quality and accessibility of health care, and holding down costs.

Property tax lawsuit set for trial

By Chris Sanders, policy analyst

A federal lawsuit set for trial next month could bring Alabama property taxes to the forefront of legislative debate. Plaintiffs in *Lynch v. Alabama* are asking a federal court to rule the state’s property tax limits unconstitutionally discriminate against African American children by preventing rural and low-income school districts from collecting enough revenue to support education. State lawyers deny those claims. U.S. District Judge Lynwood Smith will hear the case beginning March 21 in Huntsville.

The *Lynch* case traces its roots to an earlier, successful lawsuit over Alabama education funding. The district court in *Knight v. Alabama*, a higher education desegregation case, found “a direct line of continuity” between the racially motivated property tax policies of Alabama’s

post-Reconstruction era and the millage rate caps and low assessment ratios in effect today. The *Lynch* plaintiffs also say low property taxes contribute to higher college tuition and the scarcity of need-based financial aid, making college less affordable for low-income students, a disproportionate number of whom are African American.

Alabama lawmakers would have one year to craft a new education funding system if the court finds for the *Lynch* plaintiffs and the ruling stands on appeal. State lawyers counter that such a ruling could increase taxes substantially statewide. They also say voters in the plaintiffs’ home counties, Lawrence and Sumter, could increase local property taxes but have refused. Alabama’s property taxes are the nation’s lowest and would remain so even if they were doubled, then-Gov. Bob Riley said in January.

Washington update

Social services at risk in deficit fight

By Chris Sanders, policy analyst

Child nutrition, community health centers, low-income energy assistance and more could be on the chopping block as Congress considers budget bills in the coming months. Lawmakers are looking to finalize budgets for the rest of fiscal year (FY) 2011, which began Oct. 1, and FY 2012 amid growing public focus on annual budget deficits.

The White House urges a balanced approach of spending cuts and new revenue to rein in the deficit. President Obama’s proposed FY 2012 budget would reduce the deficit by \$1.1 trillion over the next decade, including \$400 billion in savings from a five-year freeze on overall domestic discretionary spending. (That category includes programs like education, housing and transportation.) On the revenue side, Obama calls for the elimination of numerous tax loopholes and an end to the Bush-era tax cuts in 2013 for couples making above \$250,000 annually.

Congressional Republicans are pushing for far deeper cuts and far less new revenue. GOP leaders have criticized Obama for not cutting spending aggressively enough, and the House voted 235-189 last week for \$61 billion of additional FY 2011 domestic spending cuts, including in education, public health and job training. Many Republicans have proposed exempting defense spending from cuts and making the Bush-era tax cuts permanent for everyone. House Republicans also voted last month to support repeal of the Patient Protection and Affordable Care Act, including cost-saving measures for Medicare and Medicaid.

House Republicans’ FY 2011 budget would cut a wide range of public services. Alabama would lose more than \$17.8 million in federal K-12 funding and \$18.6 million in job training grants this year, according to estimates by the Center on Budget and Policy Priorities (CBPP). An \$845, or 17 percent, reduction in the maximum discretionary Pell Grant award would reduce or eliminate grants for 176,000 Alabama college students, according to the CBPP, making higher education even more unaffordable for many low-income Alabamians. Head Start, community health centers and mass transit would be among hundreds of other programs also facing

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Your support means so much!

ACPP thanks the following members for their gifts received between Dec. 5, 2010, and Feb. 9, 2011:

Birmingham Coalition of the Homeless
Unitarian-Universalist Fellowship of Montgomery
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Ellen Abell, Auburn
Craig Baab, Montgomery
Lynne Berry, Huntsville
Dr. Neal & Mrs. Anne Berte, Birmingham
Bill & Anne Blackerby, Birmingham
Brenda & Jerry Boman, Notasulga
Gov. Albert P. Brewer, Birmingham
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Carole B. Zugazaga, Auburn

A note from Brenda

Every contribution to ACPP reflects the belief that people can be more effective participants in the democratic process when they're equipped with solid information based on independent research. Your financial donations give us the resources to make very complex issues such as the state tax structure easier to understand and discuss.

With nearly one-third of the 2011 Alabama Legislature assuming the role of state lawmaker for the very first time, the need for such information is shared by our elected officials as well as every responsible citizen. One Arise member recently responded to this need by vowing to double his contribution because, in his words, "our job at the Legislature is going to be twice as hard."

The Donate page at arisecitizens.org offers several convenient ways to support our mission with your financial contributions. Click the Donate button to choose the *method of giving that works best for you.*

Brenda Boman
Development Director

Washington update

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cutbacks, as would WIC, a nutrition program for low-income women and infants. Americorps and the Corporation for Public Broadcasting would be defunded entirely.

Obama's FY 2012 budget would spend more on education and infrastructure, but it would not be pain-free for low-income families. The proposal would slash funding for the

Low-Income Home Energy Assistance Program (LIHEAP), which helps millions of households pay heating and cooling bills. LIHEAP funding would be halved nationally, but Alabama's program would lose more than 70 percent of the almost \$59 million it is set to receive this year. However, Obama's plan would help ease the pressure on budgets in Alabama and other states with a two-year waiver of interest payments on federal loans to state unemployment insurance funds.

The deficit reduction debate thus far has focused mostly on domestic discretionary programs, which account for just 12 percent of federal spending. But three of every five federal dollars goes toward Medicare, Medicaid, Social Security and defense, meaning hard revenue and spending choices lie ahead. In the short term, though, the battle will stay on more limited ground, with deliberations over the FY 2011 budget likely to continue into March or April, just in time for the FY 2012 debate to begin.