

# House approves General Fund with agency cuts



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(Photo: Mickey Welsh / Advertiser)

Legislators pushed the General Fund budget out of the House of Representatives on Friday. But several state agencies got squeezed in the process.

The \$1.7 billion budget passed the lower chamber 59 to 37 Friday afternoon after a two-hour debate. The budget was \$22 million lower than one that passed committee Wednesday. A proposal to increase the maximum amount of tax owed under the business privilege tax, worth \$22.5 million, failed to advance Thursday.

"It's not something we wanted to do, but it's the reality of the revenue we have," House Speaker Mike Hubbard, R-Auburn, said after the vote. "We had no choice but to go through and make cuts where we had to."

The Montgomery County delegation split along party lines. Reps. Reed Ingram, Dimitri Polizos and Chris Sells of Greenville, all Republicans, voted for the budget. Reps. Alvin Holmes, John Knight and Thad McClammy, all Democrats, voted against it.

The House approved approximately \$108 million in new taxes revenue for the beleaguered budget on Thursday, as well as changes to the education budget's Rolling Reserve Act that would move \$50 million to the General Fund in the next fiscal year. But the revenue won't be enough to fill a shortfall of at least \$200 million in next year's budget.

As a result, the General Fund looks bleak. Only Medicaid and Corrections will be level-funded, and Corrections has warned that level-funding amounts to a cut that could exacerbate the prison overcrowding crisis. The proposal does include funding to continue a change in the way the state delivers Medicaid, and efforts to reduce overcrowding.

Mental Health, Human Resources, Public Health and the court system, which the House intended to level fund, will see cuts of 2.5 percent without the business privilege tax.

Elsewhere, state agencies face cuts of up to 8 percent. The Alabama Department of Environmental Management will lose three-fourths of its current \$1.2 million General Fund budget. The Department of Forensics Sciences could see cuts of \$1 million, about 10 percent of its current allocations.

The lost money could lead to more staff losses at state agencies — which have shrunk by 5,500 positions over the past five years — and reduced services.

House Ways and Means General Fund chairman Steve Clouse, R-Ozark, said he expected agencies to meet the shortfalls through employee attrition.

"We've had some tremendous cuts," he said. "It will hurt them bad, but I think they'll be able to still operate."

## Slow movement of taxes

The House's revenue measures include a 25-cent increase in the state cigarette tax worth about \$60 million; a \$13 increase in the cost of automobile title fees worth \$19 million, and an increase in the car rental tax from 1.5 percent to 2 percent, worth about \$6 million. The measures passed the House on close votes Thursday.

Representatives also approved the Rolling Reserve transfer worth \$50 million, a transfer of the use tax from the education budget to the General Fund worth between \$38 million and \$70 million, and provider taxes for nursing homes and pharmacists participating in Medicaid, each worth about \$8 million.

The taxes had a mixed reception in Senate committees Friday. After a morning postponement, senators approved the cigarette tax and the Medicaid provider taxes. Senators delayed a vote on the automobile title bill after some Democrats said it would hurt poor Alabamians. The car rental tax increase did not come up for a vote.

"It lets the House know we respect what they're doing," said Senate President Pro Tem Del Marsh, R-Anniston. "It's message of good faith to keep talking. We may not agree with everything that happened in the House yesterday, but there's room for compromise."

Marsh said he hoped to get Mental Health and Human Resources back to level-funding.

Senate committees also passed the use-tax transfer and Rolling Reserve Act changes, but Senate Finance and Taxation General Fund chairman Arthur

Orr, R-Decatur, said the bills would be "heavily amended" before they reached the Senate floor. Hubbard, Marsh and Clouse all indicated Friday that there would be negotiations over the amount of use tax transferred from the education budget to the General Fund.

Marsh said that the Legislature passed some revenue measures in the first special session, such as a nexus bill for sales taxes and the elimination of a withholding measure for individual income taxes, which could replace up to \$35 million of roughly \$50 million of a use-tax transfer. He wanted to see the net gain from the use tax transfer go over \$50 million.

"We want to make sure that number has enough growth with it, enough percentage of the use tax that will allow the General Fund to have sustained growth going forward," Marsh said.

Hubbard was willing to negotiate, but did not want to upset the stability of the education budget.

"It's not that education doesn't want to support the General Fund, but I think there's going to be negotiations there," he said.

### Cuts and pushback

The business-privilege tax bill remains on the House calendar, and senators indicated discussions over the measure would continue. The Alabama Farmers Federation — which holds considerable sway in the Legislature, particularly among Republicans — lobbied against the bill Wednesday and Thursday, saying it could hurt economic development.

That lobbying appeared to have angered legislators. The Senate Finance and Taxation Education committee Friday morning voted to end deductions enjoyed by insurance companies for insurance offices and real property. The credits apply to insurance premium tax. Most of the proceeds of the tax go to the General Fund, though about \$30 million ends up in the Education Trust Fund, according to the Legislative Fiscal Office. According to the Department of Insurance, about \$11.1 million of those credits went to Alfa.

"I would say the time has come for these people to be treated like their competitors in this state," said Senate Finance and Taxation Education chairman Trip Pittman, R-Montrose, the sponsor of the bill.

Jeff Helms, a spokesman for the Alabama Farmers Federation, said Friday the organization opposed the move and had not changed its mind on the business-privilege tax change, which it says will hurt economic development.

"The credits that are in question are in place to encourage investment in Alabama," Helms said. "Any company can take advantage of those. Companies that invest in real estate and create jobs in Alabama to offset a portion of the premium tax they pay. We feel like that's an investment."

After the meeting, Pittman said budget solutions were proving difficult because "some parties tend to derail anything because they like the status quo."

"If you're not willing to support a local tax base to support education, then it becomes personal," he said.

Democrats renewed their arguments for a lottery to help shore up the General Fund. The idea has some support among Senate Republicans, but a measure to allow Powerball and Mega Millions-type games in Alabama died in committee on Thursday. Hubbard, who does not oppose a vote on a lottery, said that he saw no point in bringing a lottery to a vote if it would not move out of the Senate.

The minority party, in turn, has refused to vote for taxes without a commitment to a lottery or Medicaid expansion. House Minority Leader Craig Ford, D-Gadsden, said the House should have allowed a lottery vote before voting for taxes.

"I don't think the Senate is going to pass this tax package," he said. "I think the leadership left a lot of their people out to dry."

Negotiations should continue through the weekend. The full Senate could take up the tax measures on Monday. The General Fund could come to the Senate floor Tuesday.

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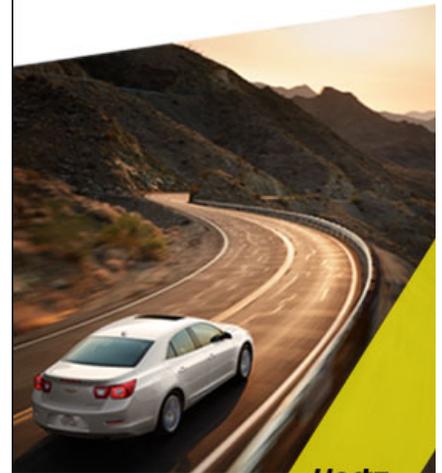


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