



AMERICANS FOR TAX REFORM

LEGISLATIVE ALERT

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Gov. Riley's Alabama Excellence Project – Tax Hikes Disguised as Tax Reform

By Karen Bailey and Paul Prosocki

Like most states, the combination of artificially high spending baselines and a sluggish national economy conspired to push Alabama into budget shortfalls in FY 2003 and 2004. But unlike the chief executives of Florida, Colorado, New Mexico, Minnesota, New Hampshire, and other states, Gov. Bob Riley (R) has decided to avoid spending restraint, or any prioritizing of scarce resources for state programs. Instead, he has called for an unprecedented raid on the pocketbooks of Alabama's hard-working families, at the same time those families are cutting their own budgets to cope with tough economic times.

The governor's tax plan, a massive \$1.2 billion per year tax hike, has passed the legislature and will be voted upon by the people on September 9th. For the sake of their jobs, their standard of living, and the future of the state, Americans for Tax Reform urges all Alabamans to vote AGAINST the tax hikes. And ATR reminds all state legislators that their continued support of the governor's plan will be seen by their constituents as being hostile to the interests of taxpayers.

Gov. Riley's plan is a feast for the tax collector, boosting taxes on everything imaginable – income, sales, services, property, corporate profits, insurance premiums, mortgages and deeds, cigarettes, and others.

The tax plan would cost up to **\$293.21 per person per year, or \$1172.84 for a family of four.** A study commissioned by the Alabama Policy Center found that the tax plan would devastate Alabama's already weak economy by destroying **28,267 jobs, \$1.219 billion in personal income, and \$403 million in investment.** **Farmers and timberland owners will be forced to sell their land, and small businesses will be further burdened, destroying the engine of economic growth. And every Alabama resident will be nickel-and-dimed to the poorhouse.**

Alabama's budget problems are a result of excessive spending during the boom years of the late 1990's, not a lack of revenue. Since 1997, state spending has been growing at a rate of nearly 6%, well above the rate of inflation or revenue growth. Economic recovery will close much of the budget gap, but spending and excessive earmarking of funds must be addressed for long-term fiscal stability to be assured.

Gov. Riley is using a \$675 million budget shortfall this year to justify a \$1.2 billion raid annually on his constituents. But that shortfall includes up to \$777 million in NEW spending over last year's levels. The \$272 million of federal aid to states passed as part of President Bush's tax cuts, combined with a more modest level of spending increase, would take the pressure off Alabama's budget.

Since the budget problem is temporary, and long-term fiscal stability can be achieved with spending restraint and structural reform, short-term measures are justified to close this year's budget gap. Among measures to consider are tapping into Alabama's roughly \$2.5 billion in rainy day funds, refinancing the state debt, asset sales, early retirements and buy-outs, and reductions in payroll through attrition. These measures, combined with \$272 million in federal aid and modest spending restraint, can get Alabama through its crisis.

Gov. Riley's plan would be a disaster for his state. Farmers and timberland owners would be pushed off their land; small businesses would see their profits shrink; carpenters, plumbers, and similar skilled, independent operators would be burdened by sales tax and likely driven out of business; consumer goods, from cars to cigarettes to motor oil, would cost more; common transactions, from buying a house to getting insurance to protect one's family, would suddenly cost more, too. Job-creating small businesses would be further burdened, and large corporations from out of state or overseas would be less likely to pick Alabama as a site for new investment.

Gov. Riley claims to want to invest to modernize Alabama – to bring it into the 21st Century. **But no state has ever taxed itself into prosperity.** Alabama's future should be found in private sector investments, entrepreneurship, and growth. Draining \$1.2 billion of resources out of private investment, entrepreneurship, and growth will only lock Alabama in the past.

Passing Gov. Riley's plan will not only kill 28,000+ jobs and hundreds of millions of dollars in investment. It will mean the political death of those politicians who jumped on the bandwagon and pushed the voters to approve such a destructive scheme. When voters realize that every aspect of life suddenly costs more, and their jobs are threatened, and their children have to leave the state to find opportunity, Gov. Riley and his supporters will be looking for work as well. **Which brings us to the irony of the tax plan – with taxpayers struggling, teachers, public employees, and Montgomery spending interests will be the ones living the Life of Riley!**