

Revenue Announcement—REMARKS

Friday, February 27, 2015, at 11:00 a.m.

Press Office Hallway

OPENING:

- Good morning!
- As we begin the 2015 Legislative Session, the most serious issues we face is the funding of our state's General Fund. We have spent the last four years climbing out of a financial hole. We've right-sized and saved taxpayers over \$1.2 billion dollars annually by doing what people elected us to do. We have streamlined government to make it more efficient, consolidated agencies, refinanced bonds, and done more to make government function better with taxpayer dollars.
- The General Fund covers most non-education functions of state government. Agencies like Mental Health, Medicaid and Corrections all have a very important role in government, and these agencies depend on funding from the General Fund to operate.
- Three years ago, we had to borrow from the Alabama Trust Fund in order for agencies that depend on the General Fund to survive. *That money is now gone, and we are left with a critical choice: **continue on with the same status quo of funding or look for a new option that helps in the long run.***
- Over the last few months, I have taken a strategic look at the General Fund. Just like a doctor carefully examines a patient to determine the diagnosis, I have taken a careful review of the funding sources and structure of the General Fund.
- I am the doctor to nearly 5 million Alabamians, and these Alabamians expect government to operate properly. The General Fund isn't operating properly!
- We have debts that go back to 2005 that need to be repaid. We have borrowed money to prop up the General Fund in order for state agencies to operate.

- For decades, the state has failed to confront problems in how the General Fund is funded or address the critical funding needs of our agencies.
- The temporary solution has been to take money from one area to help plug funding holes in another are all now causing significant problems for this fund. Every year, we face a funding challenge with the General Fund, and this year, the challenge is greater.
- *We face a \$700 Million Dollar shortfall in the General Fund Budget, and we cannot afford to ignore it any longer.*
- Here is how we arrived at that number.
 - \$265 M in one time money that we used to prop up the General Fund and is no longer available.
 - We need to annually repay the Alabama Trust Fund \$32 Million for money that was previously borrowed.
 - Medicaid needs an increase of \$115 Million to operate, and Corrections needs an increase of \$40 Million.
 - We've been creative with how we fund some agencies and have pushed what we can to the Education Trust Fund. We need to restore that money to the Education Trust Fund. \$187 Million is what is needed to revert back to the General Fund.
 - We have taken money from our Road and Bridge Funds to support General Fund agencies. I want money designated for roads and bridges to go to roads and bridges. That amount is approximately \$63Million.
 - When you total all of that up, we reach \$702 Million.
- *The problems in the General Fund are real and require bold solutions to resolve.*
- **Just like Alabama families have to make sacrifices to their operating budgets, we, too, in state government have to do the same. I've been a conservative Republican my entire life, and tax increases are NOTpopular to me.**
- No one likes to pay taxes. No one wants to pay more tax. I don't like it any more than you do, but we have failed to address the challenges that lie before us.

- I understand that some people will not be happy with this plan, but I am committed to reforming the finances of the state. And I am here today to announce how we plan to accomplish it.

TAX FAIRNESS/DEBT/UNEARMARKING:

- I strongly believe that taxes should be fair among all people. It is unfair for certain groups to be taxed for goods and services while others are not taxed for those same goods and services.
- I also strongly believe that debts owed must be paid. Alabama families know how important it is to pay debts, and the state must pay the debts that are owed.
- It is not fair to saddle the next Governor with hundreds of millions of dollars in debt, and I will not do it.

THE PLAN:

- My plan will not impact the majority of Alabamians. However, it will be fair to all Alabamians.
- Here is what I am proposing:
 - 1— (*Combined Reporting*) Close the financial loopholes that allow international and national corporations to avoid paying their fair share in taxes. Out of more than 3,000 Fortune 500 corporate tax returns filed in Alabama for the 2012 tax year, almost 58% paid ZERO income tax to our state. That is unfair to the rest of the Alabama business owners and I want to stop it. 24 states already have combined reporting for corporations, and Alabama needs to be the 25th. By having combined reporting, we estimate an increase in revenue of \$20 Million.
 - 2—(*Financial Institution Excise Tax*) Sales tax is something that people are used to paying. If I go to a store and purchase paper and pens for my personal use, I pay sales tax on it. The Financial Institution Excise Tax allows banks to receive a credit for sales tax paid. That is not fair to the other institutions in Alabama who do not receive that same credit. By removing the Financial Institution Excise Tax, we estimate a \$1 Million increase in revenue.

- 3—(*Insurance Premium Tax*) Current Alabama law allows insurance companies to reduce the amount of taxes they pay based on various credits allowed by law. By removing the credits allowed with the Insurance Premium Tax, we estimate a \$25 Million increase in revenue.
 - 4—(*Public Utility License Tax*) Municipalities that provide utility services, like power and water, to their people are not required to pay a Utility License Tax on those utilities. Municipalities have received an unfair exemption for that tax, and I plan to remove it. With removing the exemption for municipal utilities, we estimate a \$47 Million increase in revenue.
 - 5—(*Individual Income Tax*)—I plan to eliminate the tax withholding exemption certificates. Some employees have claimed to be exempt from withholding, so employers have withheld no tax. Then these employees have failed to file tax returns, while other Alabamians do file. We expect an increase of \$12 Million in revenue by ending this practice.
 - 6—(*Sales Tax for Autos*)—Compared to surrounding states, the sales tax for automobile purchases in Alabama is low. I am proposing to increase the rate for automobile purchases to 4%, with an estimated \$200 Million increase in revenue.
 - 7—(*Rental Tax for Autos*)—I am proposing to increase the automobile rental tax to 4%, with an estimated \$31 million increase in revenue.
 - 8—(*Cigarette Tax*)—As a doctor, the dangers of cigarettes on my patients are deadly. As Governor, cigarettes pose a serious financial burden to the resources of state government. I plan to increase the cost of cigarettes by 82 cents per pack. We estimate a \$205 Million in revenue.
- This plan will raise **\$541 million** in revenue for the General Fund. I will also propose unearmarking **\$187 million** to solve the financial shortfall in the General Fund and reach \$700 million.
 - Ninety-one percent of all revenues collected by state government are already earmarked.

- Alabama has the highest percentage of earmarks in the country, by a huge margin.
- I propose we un earmark some of these funds so that we can better determine the needs of our state and steer the taxpayer dollars where they will be best used.
- We will bring a plan next week to replace the \$187 million that we un earmark and create more money in the Education Trust Fund.
- We will use the stabilization fund to do that, and we will have more money for education, including K-12, Higher Ed and the 2 year system.
- **Let me be clear: My plan today does not hurt education.**

CLOSING:

- I was elected to make Alabama a better place. Part of doing that requires tough decisions to be made.
- I challenge my colleagues in the Alabama Legislature to have an open mind to this revenue plan and work with me to put our state's budgets on a better path forward.
- **Arent you, like me, ready for a permanent solution that supports a fair and equitable tax treatment for everyone?**
- We've got to live within our means, and I believe this plan is our best chance to get the General Fund in order.
- I am conservative, and I believe that there is nothing more conservative than getting Alabama's fiscal house in order and planning for our future generations.
- I'm asking you to support me.