

## State Budget Consolidation

### Background

Alabama is one of only three states which formulate their education and general fund budgets separately.<sup>i</sup> Alabama's state budget has been split into the State General Fund and the Education Trust Fund since public education began in Alabama in 1927.<sup>ii</sup> Historically, the two budgets were handled by the same, bipartisan conference committee until the late 1990s, when former House Speaker Seth Hammett (D-Andalusia) split responsibility for them into the Ways and Means: General Fund and the Ways and Means: Education Fund.

One of the reasons for creating a separate committee to govern the Education Trust Fund was pressure from special interest groups to protect education earmarks. This, in turn, is one of the main reasons the percentage of funds that are earmarked in Alabama's budget is one of the highest in the nation. In a typical year, 72 percent of Alabama's education budget is earmarked, compared to only 25 percent for the rest of the nation.<sup>iii</sup> By directing almost three-fourths of its budget to particular projects and agencies, the state has very little flexibility to reallocate its remaining funds should lean economic times require it.

### Recommendation

There are several reasons why Alabama's State General Fund budget and its Education Trust Fund budget should be merged:

- Budget consolidation would increase flexibility in fiscally lean years by permitting funds to be shifted to needed areas.

### ISSUE SNAPSHOT

Alabama is one of only three states which formulate their education and general fund budgets separately.

Consolidating budgets could increase flexibility to move funds to areas of need.

- Consolidation could also be used as a mechanism to remove earmarks from both budgets.
- As an alternative to consolidation, the State Legislature could enable revenues to be easily transferred between funds as necessary to meet budget obligations.

<sup>i</sup> Michigan and Utah are the only two other states with bifurcated budgets. Source: National Conference of State Legislators, Arturo Perez (education budget expert), personal communication, July 12, 2011. Available at 303-856-1493.

<sup>ii</sup> Ira W. Harvey, *A History of Educational Finance in Alabama* (Auburn, AL: Truman Pierce Institute for the Advancement of Teacher Education, 1989).

<sup>iii</sup> National Conference of State Legislators.