Reducing Earmarks in the State Budget

Background

Alabama earmarks more of each tax dollar than any other state in the country.\(^1\) Alabama’s budget is in such a mess because around 88% of Alabama’s tax revenue is earmarked, whereas the average state earmarks about 25%,\(^2\) meaning that 88% of revenues collected are already obligated to specific sources by statute or constitutional amendment. Alabama’s earmarks mandate that the State maintain a minimum level of spending for specific lines in the State’s budget. This leaves roughly 12% of total state funds to be allocated for current needs under the discretion of the legislature. Governor Bentley and some legislative leaders have expressed openness to removing some earmarks to provide greater flexibility and discretion in appropriating funds.

Currently, the majority of these earmarks pertain to education. The Education Trust Fund (ETF) receives 52% of Alabama’s total state funds, while the General Fund (GF) receives only 16%. For example, Alabama’s income taxes, for example, are specifically dedicated to public school teacher salaries through Constitutional Amendment.\(^3\)

The 32% of total state funds not credited to the ETF or GF (amounting to $3.5 billion in FY2014) is directed to a variety of smaller operating funds as required by the Alabama Constitution. For example, gas tax revenues go into the Public Road and Bridge Fund to be used for the cost of road work and bridge repair on public highways. The Mental Health Fund covers operations for the Department of Mental Health and is funded by certain taxes and federal funds that go directly into the Special Mental Health Trust Fund, along with appropriations from the ETF and GF.

ISSUE SNAPSHOT

Around 88% of Alabama’s tax revenue is earmarked, meaning that 88% of revenues collected are already obligated to specific sources by statute or constitutional amendment and cannot be altered.

Lifting earmarks would force legislators to prioritize spending in a responsible manner.

Zero-base budgeting would allow the legislature begin anew, justify every line item in the budget yearly, prioritize funding, and set standards to measure performance based upon funding levels.

Policy Consideration

As the new quadrennium begins for the Alabama Legislature, legislators may begin to realize that their ability to fix the shortfalls within the GF do not currently exist because such a large portion of the State’s appropriations are made through earmarks. Legislators are prohibited from reducing spending over a majority of the line items in the budget since earmarks dominate the State’s budget. Furthermore, the rise of Medicaid and corrections require additional funding each year to meet their minimum obligations. Thus, the legislature has even less ability to affect the budget or promote fiscally responsible reforms than most realized.

The only way to eliminate waste and reduce spending is to reduce or eliminate nondiscretionary spending. Allowing greater discretion over the budgetary process for legislators is a valid alternative compared to recent proposals that erroneously assert that Alabama can only solve its budgetary shortfalls through additional taxes or...
eliminating deductions. Lifting some of the earmarks would not create new revenue; however, it would allow legislators greater flexibility over the budgeting process, which would then force legislators to prioritize spending in a responsible manner.

Recommendation

The best way for the State to create long-term stability in its budget is for the legislature to take back control over the budgeting process by regaining discretion over the budget. The legislature needs discretion in the budgeting process. However, the amount of earmarks between the ETF and GF budgets eliminates lawmaker’s flexibility to make fiscally responsible budgeting decisions on a year-to-year basis. In order to do this effectively, the legislature should review each and every appropriation in the budget, including earmarks, and evaluate whether it is necessary for funding to remain at current levels.

To reclaim control over the State budgets, lawmakers should repeal certain statutes and Constitutional amendments that mandate spending over certain agencies, departments, boards and state projects. This can accomplished either through a piecemeal approach, removing one or a few earmarks at a time, or through a sweeping reform that removes all outdated earmarks at once. The legislature must look to the examples of other states in reforming its earmark problem. Typically, states have only around 25% of their funding earmarked. Setting a similar modest goal would allow the State to address the shortfalls in the GF without having to consider enacting additional tax revenues.

It is time that the legislature implements an entirely new approach to budgeting. Currently, the State utilizes a historical or traditional budgeting method, which projects spending for the next fiscal year spending based upon the spending of the previous year. This is a traditional model for government budgeting; however, this model fails to avoid the natural growth of government and its agencies from outpacing other budgetary considerations.

In accordance with reducing or eliminating earmarks, the legislature should begin to enact fiscally conservative reforms through a zero-base budgeting approach. Zero-base budgeting would require that the legislature begin anew, justify every line item in the budget yearly, prioritize funding, and set standards to measure performance based upon funding levels. This budgeting model would force the State to prioritize and justify spending in a way that would expose waste, abuse, and inefficiency.

2 For fiscal year 2015 the state enacted Act 2014-284, which allocated $14,325,052,917 to the GF. Of that, $12,492,164,261 was earmarked, leaving only $1,832,888,656 up to the discretion of the legislation.
3 See Ala Const. Amend. 61.