

GOVERNMENT WASTE: THE TAX REFORM RED HERRING

A. In Education, Waste Not Does Not Equal Want Not.

Fortunately, most of the tax proposals produced by the Governor or enacted by the Legislature will have to stand a vote of the people of Alabama through a referendum. Unfortunately, this is the same group of voters who have been programmed to believe the education budget is dripping with waste by political rhetoric, slanted media reports, and special interest groups supporting the current funding system. Indeed, Governor Riley has said time and time again that he will not seek additional funding until he's satisfied that all the waste is eliminated, and he's set up yet another commission, this one to study waste. Now, we applaud Governor Riley for attempting to trim the education budget to a more efficient beast, but we fear he may be joining a long list of Governors who counted as their main success convincing Alabamians that education doesn't need any more money. If we take a moment to study the waste, perhaps we can expose it for the stalking horse it is.

The Education Trust Fund is an approximately \$4.1 billion budget that appropriates funds to pay teachers and maintain every public school, college, and university in this state. Power bills, security, and every other basic need of these schools and institutions are paid for out of these funds.

For those of you out front leading the "waste parade", you'll be happy to know that financial

accountability has all but wiped out what are unfairly labeled as frills in our education system, such as art, music, speech and debate for a substantial number of our K-12 systems. These systems are down to the bare bones. Our children are not receiving the same level of education provided by our sister States, like North Carolina, Kentucky, Florida and Georgia, thanks to poor funding in the name of waste management. Don't fret, though, we can identify some "non-education" expenses within the education budget.

One can argue that about \$200 million worth of "non-education" expenses is embedded in the education budget. These expenditures include appropriations to the Departments of Youth Services, Mental Health and Mental Retardation to educate children committed to these institutions. The Department of Human Resources gets a little education money to help teach foster children under its care. Likewise, the Department of Rehabilitative Services receives some of the education money to educate physically handicapped children. No humane person can label this needed agency care for the less fortunate, waste.

If we therefore strip these worthy agency appropriations out of our waste list, we're left with around \$40 million of "wasteful expenditures". These expenditures are for early childhood centers, at

risk students, leukemia and cystic fibrosis research, and other such projects. At bottom, then, the real waste is committed by wasting words blaming our education funding crisis on how we use the meager available appropriations.

Let's juxtapose our waste elimination examples in the education budget to a family of four with both parents teaching. Daddy has a B.S. degree in Chemistry and makes \$32,500 teaching high school chemistry after three years of teaching. Momma has a Masters Degree in History, and makes \$37,500 after three years of teaching in high school. These salaries, which are less than what I pay legal secretaries, can be verified with a quick look at the salary matrix found in the budget introduced this legislative session. Our couple makes a household income of \$70,000. They have a minimum of 10 years of education beyond high school and six years of work experience between them.

If you decide that Alabama needs to cut all the non-education expenses and save the \$200 million, our family needs to cut \$285 per month by proportion. They can get rid of a car or a week's worth of groceries per month. Such extravagances shouldn't be missed. Let's assume, though, that the expenditures of agencies for the less fortunate are not waste. If we take the remaining \$40 million figure as our waste figure, then our family of four will need to forgo \$57 per month. Momma and

daddy can use only one car during the week, or cut down on air conditioning, or deny themselves cable television services, and they'll make it. Denying themselves cable television will solve all their financial woes? Now do you see how ridiculous the waste arguments are? Perhaps, our family can forgo the vacation fund Governor Riley assumes every family has when he discusses earmarking.

The purpose of this exercise is to demonstrate the need for increased revenue in the education budget. Broad based tax reform that provides adequate, stable revenue is needed for education in Alabama to see real progress. If you still think the education budget has plenty of money, tell that to the next teacher you see in the local store buying supplies for his class out of her own pocket.

B. Our Tax System: The Real Source of Government Waste.

In the last dozen articles, we have outlined the many maladies of our tax system, from its primitive structure in assessing the highest tax bill on the poor and on individuals when compared to business, to its inefficient collection system, only devoting 5% of Department of Revenue resources to audits of companies and bending over backwards to favor taxpayers when the law requires that all taxes be construed in Alabama's favor. It is no surprise that Alabama's tax system was recently rated among the ten worst in the Country by the Institute of Taxation and Economy policy.

We have been encouraged in recent days by reports that Governor Riley is no longer engaging in face saving efficiency efforts to cut waste to balance the budget. The Governor has woken up and smelled the coffee, resulting in a proposed billion dollar tax hike to adequately pay for education. Before the celebrations begin, let us remind the Governor that you cannot fill up the deficit bucket if it has more holes in the bottom than a colander.

While the Governor engages in marathon sessions to negotiate a tax reform package, down the street unfair tax breaks continue to be provided to mineral companies, banks, insurance companies and the timber industry by our Department of Revenue. Geoffrey tax havens go unregulated, business tax audit bills that should be invoiced to the taxpayer for payment gather dust on the tax assessor's desk, and the Legal and Judicial sections of the Department of Revenue do not enforce the laws already on the books. Businesses have grown and prospered as a result of Alabama's half-hearted tax enforcement policy. The resulting tax breaks have served their purpose. Now it is time for Alabama's large businesses to give back on a fair share basis.

It is no accident that the same neighboring states who have implemented tax reform also have

a no nonsense tax enforcement policy. Take, for example, Mississippi. The fruit of its tax reform efforts equals over \$800 million per year in new revenues. At the same time, Mississippi prohibits the deduction of Geoffrey transfers by big businesses for income tax purposes. If Alabama merely enforced the anti-Geoffrey tax law already in place, it would provide \$50 million in new revenue.

North Carolina has substantially increased the percentage of total expenditures allotted to education. Not surprisingly, this State is known for cracking down on business tax scams. It brought the famous Limited case, taking on one of the largest Geoffrey cheats in the Nation involving Abercrombie and Fitch, Bath and Body Works, Victoria's Secret and others. North Carolina also has a wall of shame, which lists delinquent taxpayers for public scrutiny if they do not get current. The Legal Division of its Department of Revenue proactively participates in large business audits, unlike in Alabama.

Florida and Georgia have also boosted education revenues, while at the same time they have taken the lead in auditing large multistate companies and making them pay their share of tax. While helping the previous Administration initiate the Superauditor Program, we were able to meet with representatives of all four of these states and were tremendously impressed with their zeal,

intelligence and evenhandedness in enforcing our tax laws.

For Alabama not to follow suit by fairly, uniformly and unequivocally enforcing our tax laws would be a great waste for our State and our children. After all, the Alabama Department of Revenue's Mission Statement is to "efficiently and effectively administer the revenue laws."

C. Conclusion

In summary, there is waste in Alabama Government where it can be tolerated the least, in our billing and collections department, the Alabama Department of Revenue. We encourage the Governor to seek new revenue for education, while at the same time admonishing the Administration to clean up our present tax collection system. Otherwise, we can expect creative taxpayers to circumvent the Governor's new tax reform measures with impunity.