

Alabama's Tax Reform: What Went Wrong and Why?¹

Alabama Municipal Revenue Officers Association

December 5, 2003

by

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On September 9, 2003 more than 2 out of 3 Alabamians rejected a far reaching and comprehensive tax plan that would have fundamentally changed the tax system of the State to generate more than \$1 billion in new revenue. Governor Riley stumped the State unsuccessfully to gather support for the tax plan, but was not able to gain the favor of the Republican party, business community, and those interests that had backed him in his election campaign. Later that month, the Legislature met in special session to approve a budget cutting plan that would reduce State agency appropriations an average of 18% and reduced support to non-State agencies and organizations by 75%.

In late September 2003, the Center for Governmental Services conducted a telephone poll of 874 Alabamians about their opinions on the Tax Plan, what they supported and opposed about the plan, which groups or individuals influenced their opinion on the plan, and how the State should respond to the budgetary crisis. The margin of error is less than +/- 4%. The fundamental questions addressed by this research include:

1. Why did the tax reform plan fail so fundamentally to gain public support?
2. Who supported and who opposed Amendment 1?
3. What cuts and/or new revenue sources will the public likely approve?
4. What lessons can we learn from the defeat of Amendment 1?

In February 2004, the Legislature will convene in its annual session, and it will be faced with balancing the budget and/or finding revenue for an estimated \$600 million income shortfall.

¹ This text and complete set of tables is available at www.auburn.edu/cgs Please provide proper credit when citing.

What Influenced Their Vote?

Since approximately two-thirds of the voters rejected Amendment 1, it is important to identify what features of the plan proved most problematic for the voters who opposed the Amendment. Sixty-eight percent of opponents to the tax plan strongly objected to the provision to increase the tax rate on automobiles and light trucks. Sixty-three percent were strongly influenced by the provision to assess real property at 100% market value; 61% were strongly influenced in their rejection of the plan by the fact that the Governor was seeking twice as much revenue than was necessary to balance the budget; and 56% of opponents had strong reservations about trusting the legislature to allocate the new revenues appropriately. For the tax plan to have passed, each of these four points would have had to be addressed to the satisfaction of the majority of the voters.

Table 1: Position on Provisions of the Tax Plan by Those Voting No (n= 511)

Provision of Tax Plan	Strong Influence	Some Influence	No Influence	Don't Know
1. Governor Requested More than Minimum Necessary	61%	16%	22%	1%
2. The Legislature Has Too Much Control Over New Revenues	56%	14%	27%	4%
	Strong Oppose	Weak Oppose	Weak Support	Strong Support
3. Increase in State Sales Tax Rate on Cars and Trucks	68%	14%	6%	5%
4. Increased Assessment of Real Property to 100% of Market Value	63%	9%	7%	8%

Those who voted in favor of the tax plan had an entirely different set of provisions that influenced their vote when compared to the opponents of the Amendment. Sixty-six percent of those who supported the amendment were strongly influenced by the possibility of teacher layoffs; and 52% were strongly influenced by the potential closure of some senior citizen centers. Fifty-nine percent of supporters were strongly influenced in their position by the perceived unfairness of the tax system in the State; and 59% were very impressed with the promise to implement a college scholarship fund based on academic achievement. Conversely, opponents of the plan reported relatively low levels of influence or support for these same provisions.

The supporters of the amendment strongly favored certain provisions of the tax plan. Seventy percent strongly supported an increase in the child exemptions for State income tax purposes, 65% strongly supported the plan's increase in cigarette tax rate, and 61% strongly supported the Governor's initiative to assess large timber holdings at a higher rate.

Table 2: Position on Provisions of the Tax Plan by Those Voting Yes (n= 293)

Provision of Tax Plan	Strong Influence	Some Influence	No Influence	Don't Know
1. Potential Teacher Layoffs in Your Community	66%	20%	14%	0%
2. Governor's Positions That Current Tax System is Unfair to the Poor	59%	22%	19%	0%
3. College Scholarship Fund That is Based Upon Merit	59%	21%	20%	0%
	Strong Support	Weak Support	Weak Oppose	Strong Oppose
4. Increase in Child Exemption on State Income Tax	70%	11%	3%	6%
5. Increase in the State Cigarette Tax Rate	66%	14%	2%	9%

Who Influenced Their Vote?

The campaigns for and against Amendment 1 assembled unlikely groups of coalition partners. The Republican Party took a strong and public stand against its own governor. The Democrats took an equally strong and public stand in support of a Republican governor. The utility companies and ALFA parted company on the tax plan, and the business community split and fractured in strong support and strong opposition. The Tax plan received the endorsement of the state employees association and the education association, despite the fact that both groups had recently opposed the Governor on a broad series of issues. The African American community also expressed less than full enthusiasm for the package, and had recently clashed with the Governor over the issue of voting rights for felons.

Some of the churches took strong stands in support of the tax plan and argued that tax reform was a moral imperative. The National Christian Coalition publicly supported the Governor, while the state chapter opposed the plan. All the major newspapers strongly backed the tax reform package, as did the state chapter of the AARP.

After the vote, few of these groups or campaigns had made much of a difference in influencing public opinion. Forty-eight percent of the proponents of the Amendment cited the support of the Alabama Education Association as influential in determining their vote. Thirty-six percent cited the strong support of the Governor as an influence on determining their vote; and 23% mentioned the support of the AARP. Surprisingly, neither proponents nor opponents gave much weight to the positions of the political parties, ALFA, Christian Coalition, or Church groups as major influences on their position on this amendment. In addition, few respondents cited television ads in support of or opposition to the amendment as influential in forming their opinion on this issue; and direct mailing encumbered even lower levels of influence.

Table 3: Important Influence on Final Opinion Regarding Amendment 1 by Interest Group (percent reporting) (n= 874)

Group	Supporter Tax Plan	Opponent Tax Plan	Total Sample
1. Support of Governor Riley	36%	6%	17%
2. Opposition of ALFA	11%	10%	10%
3. Support of AEA	48%	18%	29%
4. Opposition of Alabama Christian Coalition	12%	12%	12%
5. Support of the Alabama Democratic Party	16%	8%	11%
6. Opposition of the Alabama Republican Party	10%	10%	10%
7. Support of the AARP	23%	12%	16%
8. Opinions of Family Members	24%	23%	23%
9. Opinion of Church or Church Members	15%	13%	14%

Table 4: Important Influence on Final Opinion Regarding Amendment 1 by Communication Method (percent reporting) (n= 874)

Communication Method	Supporter Tax Plan	Opponent Tax Plan	Total Sample
1. TV Ads Supporting Amendment One	20%	7%	12%
2. TV Ads Opposing Amendment One	11%	18%	15%
3. Mail Brochures Supporting Amendment One	13%	5%	8%
4. Mail Brochures Opposing Amendment One	5%	8%	7%

Demographics of the Voters

Overall, the traditional Alabama voter did not support Amendment One, and many of those who may have benefited most from tax reform were found within the ranks of the opponents. Seventy-five percent of voters with a high school education or GED voted *no* on the amendment, as did 71% of rural voters; 72% of those with incomes under \$20,000; and 73% of voters who described themselves as *conservatives*.

Among the supporters could be found those with a graduate or professional degree (58% support for Amendment One); African-American voters (55% support); voters who have lived in Alabama between 10 and 20 years (51% support); and labor union members (50% support). Surprisingly, the level of support from those age 61 or older was only marginally higher (37%) than the composite vote total; and the level of support from female voters was only slightly higher (38%) than the population as a whole. In short, there is little in these results that would suggest that another attempt would give an appreciably different result.

Table 5: Demographic Characteristics of the Alabama Voter on Amendment One (In Percent) (n= 874)

Group Characteristic	Supported Tax Plan	Opposed Tax Plan
Total Sample	35%	65%
Women	38%	62%
African-American	55%	45%
Caucasian	31%	69%
Over \$100,000 Household Income	44%	56%
Less than \$20,000 Household Income	28%	72%
Graduate or Professional Education Degree	58%	42%
High School Diploma or GED	25%	75%
Age 40 or younger	32%	68%
Age 61 or older	37%	63%
Strong Democrat	45%	55%
Strong Republican	36%	64%
10 – 20 Years in Alabama	51%	49%
Conservative	27%	73%
Liberal	49%	51%
Labor Union Member	50%	50%
Rural Resident (Non incorporated area)	29%	71%
Farm Owner	32%	68%

Is Tax Reform a Hopeless Cause?

The respondents were asked a series of questions to determine the intensity of their support or opposition to tax reform in Alabama, as well as what were the critical issues about the Amendment One tax package that they supported and opposed. The results indicate that tax reform faces an uphill struggle, but it is not a hopeless case. Specifically, about 17% of the voters are likely to support a tax reform program, and about twice that percentage (i.e. 34%) appear to be steadfast in opposition to change. The remaining 49% can be convinced, but proponents of tax reform must win over more than 2 of every 3 uncommitted voters. On September 9th, however, the tax reform package attracted only 1 of every 3 uncommitted voters as it went down to defeat.

The greatest potential for success of tax reform in Alabama is a solid link to education. Thirty-eight percent of the voters (more than the percentage of those who voted for the Amendment) list improved education as the most critical issue that they would support. An additional 11% of the voters were critical that the tax package did not explicitly and solely link educational improvement to the proposed tax increase. Issues of fairness, regressivity, and morality were identified as the critical issues for only 3% of the respondents.

In addition to a link with children and the educational process, proponents of tax reform must acknowledge the deep-seated distrust of government in the State. While 31% of respondents did not see a need for tax change, 13% felt strongly that additional revenues would be wasted by state government, and an additional 10% felt that the package was too complicated, and therefore suspect.

The Voter Response to the State Fiscal Crisis

Respondents were asked what measures they would most support to cut state spending and balance the budgets and they were not given a set of choices. Fully 27% of respondents replied that the *elimination of waste* was the most important step that they would support to cut spending. This was followed by *reduction of governmental salaries* (14%), and *replacing the leadership* (12%). Four percent each stated that social welfare programs should be cut, and that the schools should be reorganized with attendant reductions in school administrators. Apparently fifty-plus years of populist fervor by statewide candidates for public office have convinced many that the problem is wasteful spending in Montgomery, and not an imbalance between service expectations and revenues.

Asked what measures they supported to increase state revenues to balance the budget, a quarter of respondents (25%) named the lottery. Eleven percent argued for increases in alcohol or cigarette taxes; 9% replied that the property tax should be raised, and 6% felt that a sales tax increase was in order. None of these taxes, nor all combined, however, would generate the income needed to overcome the budgetary crisis in the State, let alone move Alabama forward.

When given choices, Alabamians expressed some consensus about what should and should not be cut or raised, as well as issues that brought out solid divisions among the electorate. Sixty-eight percent are strongly opposed to laying off any teachers; 54% are strongly opposed to cutting assistance to programs that aid senior citizens or children; and half (50%) will not tolerate an increase in the State sales tax rate. The public, however, strongly supports an increase in the tax rate on alcohol (73%); an increase in the tax rate on cigarettes and tobacco (64%); and 63% would support a lottery. The public is sharply divided, however, on cutting state agency budgets (26% strongly support and 27% strongly oppose); increasing the tax rate on businesses (26% strongly support and 26% strongly oppose); ending state support for the arts (24% strongly support and 28% strongly oppose); and ending state support for private school and universities (25% strongly support and 35% strongly oppose).

Table 6: Position on Various State Revenue and Spending Issues (n= 874)

Support for Revenue Enhancement Measures	Strongly Support	Weakly Support	Weakly Oppose	Strongly Oppose
1. Increase in the tax rate on businesses	26%	20%	14%	26%
2. Increase in the cigarette and tobacco tax rate	52%	12%	7%	21%
3. Increase state sales tax rate	15%	20%	12%	50%
4. Increased state tax rate on alcohol	56%	16%	6%	16%
5. Lottery or video gambling	50%	13%	5%	28%
Support for Program Reductions	Strongly Support	Weakly Support	Weakly Oppose	Strongly Oppose
6. Cut state agency budgets as much as 25%	26%	22%	13%	27%
7. End state support for art related non-profit organizations	24%	15%	17%	25%
8. End state support for senior & children non-profit organizations	15%	10%	14%	54%
9. End support for all private schools and universities	25%	15%	17%	35%
10. Laying off school teachers	7%	8%	11%	68%

Lessons Learned from September 9, 2003

The road to tax reform in Alabama will be long and hard, and it is unlikely to occur through a sweeping program of reform, as attempted by Amendment One. Alabamians, however, may accept piecemeal tax reform if taxes and fees are linked to programs and

services that the people support. The second is that the only program issue with such support today is K-12 education.

The third lesson is that chances for tax reform would improve if Alabamians had a higher regard and confidence in their leaders, and political and administrative institutions. The problem is that the lack of revenue makes it very difficult for the State to raise its rankings and the attendant pride of Alabamians in their state government. As long as Alabama languishes on the bottom of the national rankings in state services and quality of life issues, the reaction of many voters is that increasing financial support would result in throwing away good money after bad.