



Alabama Partnership for Progress Summary of Legislation

During the June 2003 special session, Governor Bob Riley proposed and the Legislature passed the most comprehensive accountability and tax reform plan in Alabama's history to address the \$675 million gap in the state budget and to fund essential state services. This plan will move Alabama forward by investing in education while bringing strong, new levels of accountability to state government. The following is a brief synopsis of the legislation. A more detailed summary of the bills can be found at the Legislative Fiscal Office's website (<http://www.lfo.state.al.us/>).

Summary of Accountability Reform Bills

Education Budget - SB1

- Guarantees that the state will provide funding this fall for local school systems to hire the same number of teachers as last year, except in systems where enrollment has declined

Tenure Reforms - SB2 and SB3

- Streamlines the hearing process for tenure cases to save money and to make it easier to fire incompetent teachers
- Reduces the length of the current process for removing (with cause) a teacher from his or her job from over 400 days to about 150 days
- Shifts the financial burden from local school boards to the state so that no school would be forced to take money out of the classroom just to dismiss an incompetent teacher
- Treats teachers and other public school employees the same, unlike current law
- Institutes binding arbitration through the United States Federal Mediation and Conciliation Services, with review by appellate courts in limited circumstances

Foundation Program Changes - SB4

- Invests in professional development to fully implement the Alabama Reading Initiative and fully implement the Math, Science, and Technology Initiative
- Gives local school systems greater flexibility in distributing resources to serve the best interests of the students with direct classroom investments
- Increases principal pay to attract top-quality leaders for our schools
- Increases the number of instructional school days from 175 to 180 over five years, which will take us from last in the country to the national average.
- Requires local boards of education to develop and submit strategic plans to the State Board of Education in areas such as capital needs, transportation, professional development, technology, and students with special needs
- Provides a mechanism to allow all systems to meet Southern Association of Colleges and Schools (SACS) standards for student-teacher ratios and other instructional support unit ratios
- Bases funding calculations on average attendance for the first 20 days following Labor Day for increased accuracy and for better budget management

Teacher Incentive Pay - SB 7

- Provides for a one-time bonus to teachers who agree to teach in underserved areas of the state or in hard to staff subjects like math and science

- Provides loan forgiveness to students who agree to be certified in hard to staff subjects, or who agree to teach in underserved areas

State Employee/Teacher Health Insurance - HB 9

- Requires that state employees, public school teachers, and higher education employees share in the cost of health insurance premiums to address rapidly increasing health care costs
- Requires that such employees meet the regional average for contributions
- Provides that the changes be phased in over time in years that the employee receives a pay increase
- Allows discounted rates for low-income employees
- Reduces benefits for employees who retire with less than 25 years of service
- Provides for public colleges and universities which do not insure with PEEHIP to pay the employer cost for university retirees instead of the state

Education Administrator Accountability - SB 10

- Removes tenure for all assistant principals, financial officers, and instructional supervisors hired after July 1, 2004 to give superintendents the flexibility to make the staffing decisions necessary for efficient management of the school system
- Allows principals, assistant principals, financial officers, and instructional supervisors who have tenure to relinquish it voluntarily in return for a one-time bonus of \$5,000

Pass-Through Pork - SB16

- Permanently bans pass-through pork (the practice of the legislature moving money around without telling us where the money is going) and makes it a punishable crime
- Requires reports to the Governor of any directive by a legislator to make a prohibited pass-through appropriation
- Requires all grant-making agencies and their recipients to maintain a public record of all grants and all applicants for such grants

School Fiscal Management and Responsibility Act - SB 24

- Imposes criminal sanctions for willfully providing inaccurate financial information
- Requires testing of local superintendents of education in finance, instruction and legal requirements
- Requires school boards to adopt sound fiscal management policies and reporting practices
- Provides for annual audits of local school systems to be reported to the State Department of Education
- Requires the State and Local Superintendents of Education to employ a chief education financial officer and necessary auditors
- Requires the State Department of Education to purchase of necessary financial software to monitor the financial conditions of local school systems and to provide training
- Provides that local boards develop a plan to establish and maintain a reserve of one month's operating expenses
- Strengthens the financial takeover powers of the State Superintendent of Education

College Scholarship Bill - HB 40

- Provides merit-based full tuition scholarships for Alabama students who achieve the academic standards
- Applies to attendance at any public college, university, two-year college or technical college in the State of Alabama
- Eligibility requirements
 - 3.0 GPA (2.5 for non-degree programs)
 - 20 ACT Score (No ACT requirement for non-degree programs)
 - Completion of 18.5 core curriculum units (16 units for non-degree programs)

Summary of Tax Reform Bills

Constitutional Amendment - HB 1

- Ties the Governor's accountability, education, and tax reform measures together and allows the public to vote on the entire package in the September 9th referendum.

Cigarette Taxes - HB 2

- Prohibits local governments from increasing tobacco taxes in the future
- Increases Alabama's tax on a 20-pack of cigarettes from 16.5 cents to 31 cents, still one of the lowest rates in the country
- Doubles the tax on all other tobacco products

Property Tax - HB3

- Restructures the property tax system in Alabama while maintaining some of the lowest taxes in the country; all changes to be phased in over four years.
- Increases the homestead exemption from \$40,000 to \$50,000 of appraised value
- Protects seniors by ensuring that Alabamians over age 65 will remain exempt from all state taxes on their homes
- Assesses all property at 100% of market value or current use value for the state portion of the tax, and reduces the state tax rate from 6.5 mills to 3.5 mills.
- Consolidates utility and commercial property over time into one class at a 22% assessment ratio for local taxes
- Maintains 10% local assessment ratio for residential and agricultural land
- Does not affect federally subsidized low-income housing
- Maintains current use protection for all land under 2,000 acres (covering 95% of Alabama landowners), with maximum current use values per acre rising by 22%
- Creates a new farmstead exemption. The first \$150,000 of improvements or the first 200 acres of qualifying farmland will be completely exempt from state property taxes.
 - Approximately 70% of farms in Alabama are 200 acres or less and will pay little or no increase under this proposal
- Overall, property taxes per person in Alabama will remain significantly lower than every neighboring state, will be well below the regional average, and will be less than half the national average

Utility Taxes - HB 4

- Eliminates the utility license tax, which is only paid by some utilities in the state
- Raises the gross receipts tax (which is paid by all utilities) from 4% to 5.75% to compensate for eliminating the license tax
- Most consumers should see a rate reduction on their utility bills as a result of this change

Mortgage and Deed Record Taxes – HB 7

- Increases mortgage recording fees from 1.5 mills to 3 mills
- Increases deed recording fees from 1 mill to 2 mills
- Both of these rates will remain below the regional average

Sales and Excise Taxes - HB 11

- Increases the sales and use tax rates on cars from 2% to 2.5%, and increases lease tax rates on cars from 1.5% to 3% - still below the regional average.
- Includes repair and installation services of tangible personal property in the sales tax base at a rate of 4%, including warranty service contracts
- Brings us in line with other Southeastern states

Insurance Tax Credits - HB13

- Levels the playing field for insurance companies, particularly in the property and casualty sector.
- Eliminates the examination expense credit, which is unique to Alabama in the South
- Reduces two credits that are unique to Alabama.
 - Reduces the credit for business privilege taxes paid from 60% to 30%
 - Limits the use of home office and real estate investment credits, thereby reducing the competitive disadvantage that most companies face
- Brings domestic property and casualty insurance carriers to the regional average

Income Tax - HB19

Personal Income Tax:

- 67% of Alabamians would pay the same or lower state income taxes than they do now
- Raises the income tax threshold for a family of four from \$4,600 to approximately \$20,000 within four years
- Provides significant tax relief to Alabama families by raising the child exemption, which has not been adjusted since the Great Depression, from \$300 to over \$2,100 in the first year alone, and ties it to the federal exemption and deduction levels after that so we won't find our exemption levels so outdated again
- Eliminates the federal income tax deduction, but continues to allow deductions for mortgage interest, charitable contributions, and medical expenses
- The first \$75,000 (single) or \$150,000 (married) of income will be taxed at the same rate of 5% that it is today. Income above these amounts will be taxed at a rate of 6%.
- Maintains the exemption for all defined benefit pension income (e.g. teacher retirement, government plans, large company plans), and for the first time, exempts the first \$40,000 of defined contribution pension plans (e.g. IRAs, 401Ks) as well

Corporate Income Tax:

- Eliminates the federal income tax deduction and sets the corporate income tax rate at 6%, which is about average compared to other Southeastern states

Financial Institution Excise Tax (FIET) and Business Privilege Tax HB 25 and HB 14

- Eliminates the credit for sales taxes paid by banks
- Eliminates the federal income tax deduction for financial institutions
- Sets the tax rate for banks at 6% to bring us in line with the regional average
- Treats banks like other corporations by capping the business privilege tax at \$15,000