

*(“Alabama” continued from page 19)*

local governments collect the lowest tax revenues in the country. Only two other states are even close. One is Tennessee, which recently decided to raise taxes by \$900 million a year. The other is Mississippi, and taxing at its level would add \$800 million in revenue each year to Alabama’s state and local governments. Every other state is ahead of us by well over a billion dollars in annual tax revenue. Put another way: the unanimous judgment in 49 other states is that providing adequate public services requires far more state and local tax revenue than we collect in Alabama.

Because of the lack of tax revenue, most of our state and local services fall at or near the bottom of national rankings. This is the primary reason that the State of Alabama can’t afford to expand its nationally recognized reading initiative to every public school in the state, why few state troopers are on the road after midnight, and why state prisons are overcrowded and understaffed. These and other public services make a state a better place to live, work, and do business - even for those who don’t use them directly.

However, taxpayers shouldn’t be asked to supply additional money without reform of the tax system itself, as well as improvements in the way the state conducts its business.

Alabama’s tax system is “broke,” lacking in both fairness and balance. For example, the tax burden on lower-income families is high, and it ought to be reduced. An Alabama family of four earning as little as \$4,600 has to pay state income tax, the lowest threshold of any state. Mississippi’s income tax threshold for that same family is \$19,600. While sales taxes are high, no other state collects less in local property taxes per person, which leads directly to inadequate public schools that are vulnerable to economic downturns. Some of the necessary tax changes can be made by the Governor and Legislature, but others will require voters to approve constitutional revisions.

The way the state conducts much of its financial business also is “broke.” Because there is no reason to raise money that won’t be put to work efficiently, this too must be fixed.

The state budget process doesn’t focus on wise investments. Many states have 5-year capital plans, but Alabama has no blueprint for building and maintaining facilities and only loose control over the borrowing that occurs through a number of state authorities. While other states have been working for years to connect appropriations to need and performance, Alabama still has only “pilot” programs in a few agencies.

Important checks and balances are missing. The Legislature should oversee the way state agencies operate, but this is hard to do without the performance benchmarks we don’t have. The Governor should help legislators focus on statewide priorities rather than “pork,” but Alabama’s Governor doesn’t have the strong veto power that is necessary.

The State Finance Department manages both the Governor’s budget and the internal administration of state government, creating conflicts of interest in purchasing, borrowing, and accounting that have become very apparent in recent years across administrations of both stripes. Georgia divides these duties, and Alabama should consider doing the same.

The state’s financial planning process is hampered by the fact that we have earmarked about 9 of every 10 state tax dollars, far more than any other state. This creates monopolies for those who “own” a particular revenue source, and it provides no incentive to budget wisely. Taxpayers would be better served by full and open competition for appropriations, based on needs and performance criteria. Voters will be involved in this issue, since about half the earmarking is done through the constitution.

Perhaps the most important accountability measure that could be adopted would be home rule. Taxpayers are best served when decisions are made as close to home as possible. Legislators

will pay much more attention to their duties as the state’s “board of directors” if they do not have to worry with local issues that should be decided in the county courthouse. Local officials will be better able to serve their constituents without the confusing thicket of local acts and local constitutional amendments that now exists. Again, voters ultimately will decide if they want such change for their communities.

The silver lining to Alabama’s financial crisis may be that it is forcing everyone to confront these long-term issues. The Governor-elect ran on a platform calling for change; we must hope that he and the Legislature reach common ground and bring to the voters sensible plans that will lay the foundation for long-term improvement in Alabama government.

For more information about the Public Affairs Research Council of Alabama, go to their web site at: <http://parca.samford.edu> or contact Johnnie Aycock at The Chamber at 391-0559.



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# 5th Annual Leadership Prayer Breakfast To Be Held April 2nd



*NFIB CEO, Jack Faris*

Plans for the 5th annual West Alabama Leadership Prayer Breakfast have been announced. The event, which has grown into one of the area's major annual programs, will be held at the Bryant Center on Wednesday morning, **April 2<sup>nd</sup>** beginning at **7:00 AM**.

The featured speaker at this year's event will be **Mr. Jack Faris**, President and CEO of the National Federation of Independent Businesses (NFIB), an organization that Fortune Magazine describes as "Washington's most powerful business lobbying group." NFIB currently has approximately 600,000 members throughout the United States.

Chamber President, **Johnnie Aycock**, coordinator of the West Alabama Leadership Prayer Breakfast, stated, "we are very excited to have such an influential business leader as our guest speaker for this year's program to share, not only his lessons of leadership, but his faith and belief in the power of prayer."

The West Alabama Leadership Prayer Breakfast grew out of the Franklin Graham Festival, held in Tuscaloosa approximately five years ago. As an outgrowth of the event, several business people came together to establish and implement the annual prayer breakfast, which annually draws over 800 business, educational, and elected leaders.

Table sponsors, which help underwrite the annual program, are encouraged, and anyone interested in assisting as a sponsor should contact Johnnie Aycock at 391-0560. Once table sponsors are secured, tickets will be available at no cost in limited quantities at locations throughout the community, including Gospel Supply, National Bank of Commerce and The Chamber office.

*(See "Prayer" page 30)*

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*("Prayer" continued from page 28)*

The doors will open and breakfast will be served beginning at 7:00 AM, with the program starting at 7:30 AM and concluding by 8:30 AM.

Mr. Faris has been a nationally recognized business advocate since 1992 as NFIB's CEO, gaining national attention in 1993 as a leader against government-mandated health coverage and since that time, as the lead organization to have the "death tax" repealed. Mr. Faris was also appointed to the National Commission on Economic Growth and Tax Reform, formed by former Speaker Newt Gingrich and former Majority Leader, Bob Dole.

Faris, a former small business owner, also served as campaign finance director for Lamar Alexander of Tennessee for his 1978 gubernatorial campaign; and from 1978 to 1981 as the Executive Director of the Republican National Finance Committee. He serves on a variety of boards and commissions including Fellowship of Christian Athletes, American Cancer Society, Students Taking A Right Stand, Junior Achievement National Board, and many others.

Mr. Faris is a sought-after speaker, participating in many Christian and civic association functions across America each year.

For more information about the West Alabama Leadership Prayer Breakfast or to sponsor a table, contact Johnnie Aycock at 391-0560.

# Alabama Economic Outlook Summary

## Manufacturing

Declines in Alabama manufacturing output and capital expenditures led the 2001 regional economic slowdown. Construction, retail and wholesale trade, and selected service-related industries, which were the engines of growth up until recently, followed manufacturing's decline losing a significant number of jobs in 2002. Manufacturing showed some signs of recovery in the first seven months of 2002, with the rate of job losses slowing somewhat.

However, manufacturing production and payroll again showed significant losses toward year end. Alabama's economy is vulnerable to manufacturing declines because of the high relative importance of the sector in the state. Manufacturing accounts for almost 20 percent of gross state product (GSP) and 18 percent of the state's nonagricultural employment.

Nationally, manufacturing accounts for 14.0 percent of total GDP and 12 percent of total nonagricultural employment. Manufacturing also pays higher wages and so it has more pronounced and fairly rapid effects on consumer spending.

Lack of job growth in manufacturing industries, together with somewhat slowing consumer spending, lack of demand in general, and excess capacity in both manufacturing and retailing affected all sectors of the state's economy in 2002. The manufacturing sector has consistently lost jobs since 1996, losing almost 62,000 since the last recorded gain in 1995. Except for motor vehicles and related industries, all manufacturing industries lost jobs in 2002.

Manufacturing jobs losses occurred in the relatively more labor-intensive, non-durable goods producing industries, notably textiles and apparel. This affects the economy profoundly, particularly when such losses are in rural

areas. All sectors of the economy experienced declines in payroll for 2002 except for government, which gained 1,100 jobs because of the addition of 1,500 mostly education jobs in state and local government.

Alabama is not the only state to have experienced job losses this year. Every other state experienced a similar decline in payrolls, some more than others, depending on the structure of their economies.

While Alabama continued to experience job losses in 2002—about 1,700 more jobs were lost in 2002 than in the previous year—Alabama did show productivity increases resulted in output growth, unlike in 2001. In 2002 the state lost 19,300 jobs, with manufacturing accounting for 10,200 or 53 percent. It is important to note that manufacturing payroll declines for 2002 are about half the almost 20,000 jobs lost in 2001.

Nondurable manufacturing employment shrank 7,100, with textiles and apparel industries accounting for 3,700. Durable goods industries fared much better in 2002, losing about 3,100 jobs after an almost 12,000 job loss in 2001. The shining star of Alabama manufacturing, automobile and related industries, gained 2,200 jobs in 2002. The remaining industries lost jobs except for lumber, which gained a few hundred. Primary and fabricated metals lost 2,200 jobs and industrial and electronic manufacturers lost almost 2,900 jobs.

## Construction

Residential construction has remained strong throughout the most recent downturn, particularly in the state's metropolitan areas. Industrial and commercial construction experienced significant slowdowns to offset the strength in residential construction. Total construction activity seemed to be at a standstill for 2002.

*(See "Summary" next page)*

*(“Summary” continued from previous page)*

The sector lost about 1,000 jobs, after losing a little over 600 jobs in 2001. The sector’s job losses would have been more severe if the housing and residential markets in general had not stayed relatively strong.

### **Trade**

Wholesale and retail trade which had been one of the fastest growing segments of the state economy, lost 6,100 jobs in 2002, following a 4,900-job loss in 2001. These employment contractions are in stark contrast to 1999 when the sector accounted for almost 40 percent of the total new jobs gained in the state.

The decline in trade sector payrolls can be attributed to the slowdown in consumer spending and excess retail capacity. Intense competition from volume or discount retailers is making it more difficult for marginal retailers to deal with excess capacity.

### **Services**

Services, another fast growing sector of the state economy, managed to hold employment, losing about 100 jobs in 2002. The sector had added almost 7,900 new payroll jobs in the previous year. Most of the job losses were due to sharp declines in spending on outsourcing services and a slowdown in both business and tourism travel. The sector, however, still remains one of the strongest in the state.

### **State Tax Revenues**

Most states have experienced revenue shortfalls forcing cutbacks in spending in the fiscal year just ended, FY2002. For all fifty states, there was a total budget gap of \$36 billion and spending declined by almost \$15 billion. Alabama tax revenues rose 2.2 percent to a little less than \$6.1 billion, about \$130 million more than for FY2001. Sales tax revenues, which largely depend on consumer and business spending, increased by \$37.2 million or 2.5 percent to approximately \$1.6 billion.

In a typical year, business spending contributes about a third to one-half of all sales tax receipts. A lack of business spending constrained growth in sales tax revenues although consumer spending remained relatively strong.

Individual income tax revenues, which usually account for about 40 percent of total tax receipts, suffered the first decline in recent history. Layoffs in manufacturing in particular and severe erosion of capital gains are largely to blame. Individual income tax revenues totaled \$2.4 billion, 1.6 percent or \$38 million less than for the previous year.

By contrast corporate income taxes grew almost 70 percent, adding \$124.1 million to reach \$304.5 million. Utility gross receipts taxes fell 1.4 percent but the mid year increase in the mobile phone tax rate contributed to a 43.8 percent increase in mobile telecom tax collections.

Appropriations made to the Alabama Education Trust Fund in FY2002 grew by 1.2 percent, an increase of almost \$46 million to a total of \$4.05 billion. However, appropriations made to the state’s General Fund declined by 4.05 percent to approximately \$1.1 billion, down about \$46 million.

### **Outlook for 2003**

Alabama gross state product, the total value of all goods and services produced in the state, is expected to grow 2.8 percent in 2003 when measured in inflation adjusted 1996 dollars. Output is expected to increase for all sectors.

Among manufacturing industries, only apparel output is likely to contract, by about 1.1 percent. Motor vehicle industry output is expected to rise almost 11 percent in 2003. Electrical and non-electrical machinery industries will record strong growth, and together with motor vehicles, will help manufacturing output rise 5.7 percent.

Residential construction is expected to remain fairly strong, albeit at a slightly lower pace than in 2002.

Commercial and industrial construction activity is expected to pick up in the second half of 2003. Overall, construction should grow by 2.8 percent.

Trade, expected to improve slightly over 2002, is forecasted to grow 2.5 percent, a tenth of a percent better than the 2.4 percent experienced in 2002. Demand growth for communications equipment and services is expected to remain weak and these industries are likely to lose more jobs.

Total Alabama employment is expected to increase by 1.0 percent and a lot of the new jobs will be in automotive-related industries. Our forecast is based on the expectation government and Federal Reserve will continue their economic stimulus policies.

However, there is a high probability that employment gains may not materialize as forecasted. Increases in payroll employment will primarily depend on how quickly businesses increase capital and other investment spending. If business spending on capital goods remains weak, employment is not expected to increase by much and may even remain flat. If the manufacturing sector remains weak, there is likely to be more payroll declines.

Note: Special appreciation is expressed to **Dr. Carl Ferguson and Deborah Hamilton** and the Center For Business and Economic Research at The University of Alabama for their assistance in providing this 2003 Economic Outlook.

The Alabama Economic Outlook 2003 is the 23<sup>rd</sup> in an annual series produced by the Center For Business and Economic Research at The University of Alabama. Complete copies are available for \$18.00 each. For more information or to obtain a copy, call 205-348-6191 or visit our web site at: [cber.cba.ua.edu](http://cber.cba.ua.edu).

# ViewPoint

by *Johnnie Aycock*  
President



As we enter 2003, Alabama is once again in a financial and constitutional crisis. As pointed out in various articles of this issue of "Perspectives", our state is "broke" in terms of budgets and the ability to efficiently and effectively move out of the cellar into the 21st century.

Many reasons, excuses and scenarios can be offered for the dilemma Alabama faces - and it really is becoming a 'broken record'. And as many of us believe, Alabama can do better.

Wrapped around most of the problems and threaded throughout the crisis Alabama finds itself in is the issue of an antiquated, ineffective framework for state government - the 1901 constitution. While reform efforts are underway, and appear to be picking up broader interest, there are still many citizens that are wary of constitutional reform, and there is a lack of understanding of how constitutional reform impacts us as individual citizens.

Recently, however, I heard a presentation at the annual meeting of the Chamber of Commerce Association of Alabama by Dr. Joe Dumas, that was simple to relate to and understand - so I thought I would share it with you. Dr. Dumas is the Director of the Economic Development Institute at Auburn University, and he relates constitutional reform to a small business enterprise.

Imagine Mom and Pop's grocery store. It seems the old store has been open forever. Mom and Pop have

continued to add on to the store, but not according to any evident plan. Aisles are lined to overflowing with items in no particular system of order. Behind the cash register, one can still see the old painted-over sign that says, "Whites Only".

The rich and powerful in town like Mom and Pop's Store because Mom and Pop give them big discounts. They really can't afford to do it, but they feel like they need the support of the powerful to stay afloat. Anyway, they can almost make up the difference by charging the poor folks more.

All around, shiny new stores have opened up. They offer products and services that Mom and Pop can't afford to offer. At least not unless they raise prices or make the rich pay their fair share. They won't do either. Instead, they will cut back on the services they offer. In fact, Mom is thinking of firing Pop to make payroll.

Year's back, Mom and Pop's son, Junior, opened up a branch store just outside town. He's in worse shape than Mom and Pop. Junior has wanted to make some improvements in his store, but Mom and Pop don't trust him to make decisions and handle all that responsibility.

Before Junior can change prices, add new stock items, or give a pay raise to his stock boy, he has to get permission from Mom and Pop. Two years ago, Junior asked if he could raise the price of bread by two cents. Mom and Pop said they'd think about it. Last

week, they finally gave the OK. Too bad, however, now Junior needs a price increase of two cents more - and Junior is still behind.

Everyone keeps telling Mom and Pop they need to change and modernize to keep up with the times. Maybe they are right. They're losing money, there's no more room, and things are so disorganized that people keep getting lost in the store. Pop finally gives in. He's decided to add on another room. That will fix things for now.

It's time for meaningful tax and constitutional reform in Alabama - and another quick, short-term fix will not take Alabama out of crisis and into the 21st century.

"Many of the provisions of our present antiquated fundamental law constitute insuperable barriers to most of the important reforms necessary to meet modern conditions and to secure greater economy and efficiency in the administration of state government....and the only rational option....is to remodel the entire constitution."

I wish I had said that, and you would think it is a recent quote by a elected leader. Instead, this is a quote by Governor Emmet O'Neal in a message to the Alabama Legislature in 1915, only a few years after the adoption of the 1901 constitution which shackles Alabama today.

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