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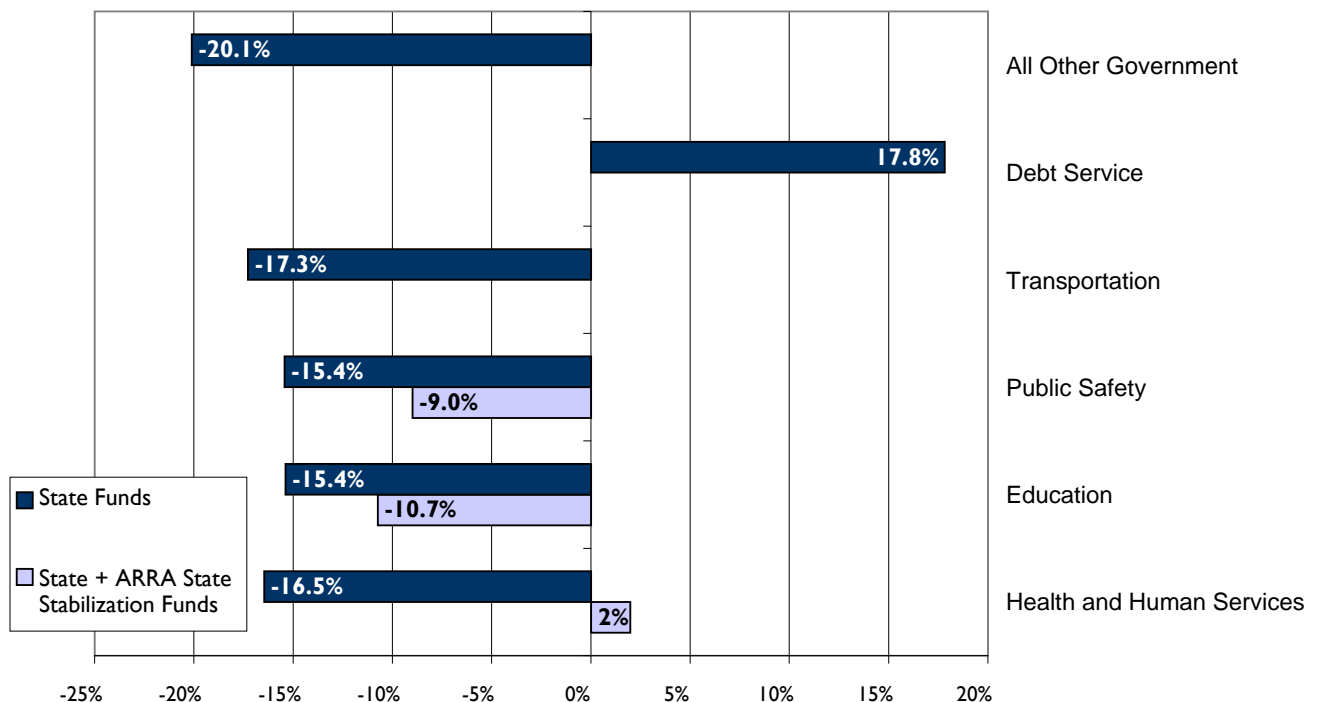
## Overview of the Governor's Proposed FY 2010 Amended Budget and the FY 2011 Budget

By Alan Essig, Executive Director

### Summary

Due to the "Great Recession," state revenues have continued to decline through the first six months of the current fiscal year (FY 2010). This decline is resulting in a FY 2010 budget shortfall of an additional \$1.4 billion, for a total FY 2010 budget shortfall of \$4.6 billion. In order to balance the FY 2010 budget, the governor has proposed additional budget cuts throughout state government this year.<sup>1</sup> He carries most of these additional budget cuts into his proposed FY 2011 budget (beginning July 1).

Chart 1 Percent Change in Funds: Original FY 2009 to Proposed FY 2011



THOUGHTFUL ANALYSIS...RESPONSIBLE POLICY

The governor's FY 2011 revenue estimate projects revenue growth of almost \$600 million, or 3.9 percent. To balance the FY 2011 budget, the governor has recommended approximately \$400 million in additional fees and taxes, as well as \$287 million in additional one-time revenues.

The proposed FY 2011 budget avoided further cuts due to including \$1.4 billion in federal Recovery Act funds. In comparison to the FY 2009 budget, and including Recovery Act funds, state budget cuts in FY 2011 have totaled \$1.8 billion, or 9.2 percent. Expiring Recovery Act funds and depleted one-time revenues in the base of the FY 2011 budget, along with expected budget growth, has led the governor to project a \$2.6 billion shortfall in FY 2012.

Despite the budget crisis, Georgia's population is still among the fastest growing in the nation, resulting in existing and emerging needs, especially during these recessionary times. Existing demands include education for our expanding youth population, infrastructure for our community and economic development, health services for those unable to access the insurance market, services for our aging population, and protection for abused and neglected children, to name a few.

The recession has produced additional needs, as almost half a million Georgians search for employment. For example, Georgians are returning to school in droves, expanding the technical college system enrollment by 27 percent year-over-year. Additional investments will be necessary to assist these workers as they upgrade their skills in preparation of taking advantage of the upcoming recovery. Table 1 highlights various indicators of the need for public services.

**Table 1 A Few Indicators of the Need for Public Services**

	<b>GA Total</b>	<b>GA %</b>	<b>US %</b>
Population under age 18	2.5 million	26.2%	24.3%
Adults aged 25 and over without a high school diploma or GED	1 million	16.1%	15.1%
Adults aged 25 and over with less than an associate's degree	4.1 million	66.0%	64.9%
Child poverty	501,892	20.1%	18.2%
Poverty	1.38 million	14.7%	13.2%
Non-elderly uninsured rate	1.7 million	19.2%	17.2%
Unemployed	480,000	10.2%	10.0%

Source: Census Bureau's American Community Survey and Current Population Survey; Bureau of Labor Statistics' Local Area Unemployment Statistics

As Georgia grapples with multi-billion dollar budget deficits through FY 2012, policymakers must struggle with how to provide services to Georgians most affected by the recession and also make the investments necessary for Georgia to prosper economically. Governor Perdue has taken a more balanced approach to budgeting in the Medicaid budget: He proposes additional taxes and fees to avoid significant cuts to Medicaid provider reimbursement rates. Such a balanced and targeted approach throughout the rest of the budget would allow Georgia to position itself to

prosper when the economy recovers, rather than relying on cutting prior investments and underfunding public structures.

## FY 2010 Amended Budget Overview

### Revenues

When comparing the original FY 2010 revenue estimate to actual revenues collected in FY 2009, revenues would have needed to grow by 1.4 percent in order to fund the budget. For the first six months of FY 2010, revenues collected by the Department of Revenue have decreased by 13.7 percent as compared to the first 6 months of FY 2009.

The proposed FY 2010 amended budget (AFY) decreases the FY 2010 General Funds revenue estimate by \$1.4 billion, for a decline of 8.9 percent under FY 2009 revenue collections. Revenues for the remaining six months of the fiscal year will need to grow by 1.4 percent to fully fund the FY 2010 Amended Budget.

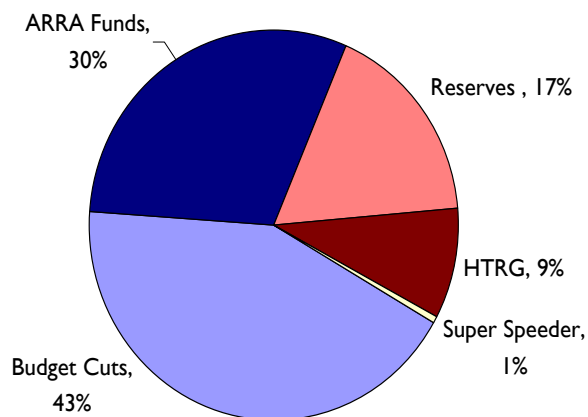
Table 2 Revenue Estimate: Change in AFY 2010 Compared to Enacted FY 2010

Fund Source	FY 2010 Original Budget (HB 119)	FY 2010 Amended Budget	Change in Revenues	Percent Change
General Revenue	\$16,101,870,603	\$14,672,549,550	(-\$1,429,321,053)	(-8.9%)
Motor Fuel Funds	\$894,250,037	\$879,279,044	(-\$14,970,993)	(-1.7%)
Lottery Funds	\$938,089,332	\$1,044,666,425	\$106,577,093	11.4%
Tobacco Funds	\$310,975,744	\$307,986,351	(-\$2,989,393)	(-1.0%)
Authority and Other Funds	\$65,890,146	\$86,533,731	\$20,643,585	31.3%
Revenue Shortfall	\$258,597,684	\$258,597,684		
Mid-Year Reserve		\$167,666,618	\$167,666,618	
<b>TOTAL</b>	<b>\$18,569,673,546</b>	<b>\$17,417,279,403</b>	<b>(-\$1,152,394,137)</b>	<b>(-6.2%)</b>

Chart 2 FY 2010 Deficit Reduction

### Budget Deficit

The total FY 2010 deficit, as compared to the FY 2009 original budget (HB 990), totals \$4.6 billion. The FY 2010 enacted budget closed a \$3.2 billion deficit, while the AFY 2010 budget closes an additional \$1.4 billion shortfall. The budget deficit has been closed by using Recovery Act funds, using reserve funds, eliminating the Homeowners Tax



Relief Grant (HTRG), and cutting various state services. See Table 3.

Table 3 **FY 2010 Deficit Reduction**

Net State Agency Budget Cuts	\$1,962 million
American Recovery and Reinvestment Act	\$1,402 million
Elimination of Homeowners Tax Relief Grant	\$ 428 million
Revenue Shortfall Reserve	\$ 259 million
OPEB and State Health Benefit Plan Reserve	\$ 204 million
Mid-Year Adjustment Reserve	\$ 168 million
Tobacco Settlement Fund Reserves	\$ 152 million
Super Speeder Fines	\$ 23 million
<b>TOTAL FUNDS</b>	<b>\$4,598 million</b>

### **FY 2011 Budget Overview**

The FY 2011 budget incorporates and annualizes many of the budget cuts implemented in FY 2010, but also includes \$1.25 billion of revenues above the AFY 2010 revenue estimate. These additional funds replace the almost \$800 million in reserve funds used to balance the FY 2010 budget and allow for funding student growth in the Board of Education, Board of Regents, and Technical College System budgets. Approximately \$1.4 billion in Recovery Act funds are in the base of the FY 2011 budget (8 percent of budget).

The proposed budget expends almost 96 percent on Education, Health, Public Safety, Human Services, Transportation, and debt service.

Table 4 **FY 2011 State Budget Breakdown**

	<b>General Funds</b>	<b>General Funds and Recovery Act Funds</b>
Education	54.6%	53.1%
Health	17.3%	20.1%
Public Safety	9.9%	9.9%
Human Services	2.9%	2.7%
Transportation	4.2%	3.9%
Debt Service	7.0%	6.5%
All Other Government	4.1%	3.8%

## State Revenues

The FY 2011 State Funds Budget contains \$18.1 billion. In addition, the budget is supplemented with \$1.4 billion in Recovery Act funds. As shown in Table 4, the FY 2011 budget is based on 8.1 percent increase in General Fund revenues. The increased revenues consist of securitizing certain Georgia Environmental Facilities Authority (GEFA) loans (\$287 million), a new 1.6 percent provider fee on managed care organizations and hospitals (\$345 million), eliminating the Medicaid CMO exemption on the existing Insurance Premium Tax (\$68 million), and 3.9 percent growth in revenues from FY 2010 (\$599 million). The Georgia State University Economic Forecasting Center economic forecast projects a 2.7 percent growth in state revenues.<sup>2</sup>

**Table 5 Changes in FY 2011 Revenue Estimate Compared to AFY 2010 Revenue Estimate**

	<b>FY 2010 Amended Budget Revenue Estimate</b>	<b>FY 2011 Revenue Estimate</b>	<b>Revenue Increase/Decrease</b>	<b>Percent Change</b>
<b>Taxes and Fees</b>	<b>\$15.507 billion</b>	<b>\$16.106 billion</b>	<b>\$599 million</b>	<b>3.9%</b>
GEFA Securitization		\$287 million	\$287 million	
Managed Care/ Hospital Fee		\$345 million	\$345 million	
Medicaid CMO Insurance Premium Tax		\$68 million	\$68 million	
Medicaid CMO Fee	\$42.5 million		-\$42.5 million	
<b>Total General Revenues</b>	<b>\$15.549 billion</b>	<b>\$16.806 billion</b>	<b>\$1.256 billion</b>	<b>8.1%</b>
Lottery Funds	\$1.044 billion	\$1.127 billion	\$83.0 million	7.9%
Tobacco Settlement Funds	\$308 million	\$140 million	-\$168 million	-54.5%
Other Funds	\$87 million	\$83 million	-\$4 million	-4.6%
Revenue Shortfall Reserve	\$259 million		-\$259 million	
Mid-Year Adjustment Reserve	\$168 million		-\$168 million	
<b>TOTAL REVENUES</b>	<b>\$17.417 billion</b>	<b>\$18.156 billion</b>	<b>\$739 million</b>	<b>4.2%</b>

## Recovery Act Funds

The FY 2011 budget contains \$1.4 billion in Recovery Act funds that help balance the budget. More than \$506 million helps supplement funding for education, almost \$128 million helps supplement funding for public safety agencies, and more than \$764 million helps to fund Medicaid.

Without the \$1.4 billion in Recovery Act funds, thousands of teachers and state employees might have lost their jobs, and thousands of low-income pregnant women, children, elderly, and disabled would likely have joined the ranks of the uninsured. See Table 6 for a breakdown.

Table 6 **Recovery Act Fiscal Stabilization and Medicaid Funds in the FY 2011 Budget**

<b>Education Stabilization Funding</b>	
Department of Education	\$342,626,224
Board of Regents	\$140,205,158
Technical College System	\$23,690,491
<b>Total Education Stabilization Funding</b>	<b>\$506,521,873</b>
<b>General Stabilization Funding</b>	
Department of Corrections	\$84,877,989
Georgia Bureau of Investigation	\$6,132,772
Department of Juvenile Justice	\$28,020,203
Department of Public Safety	\$8,872,757
<b>Total General Stabilization</b>	<b>\$127,903,721</b>
<b>Medicaid Funding</b>	
Department of Community Health	\$757,081,618
<b>Other</b>	
Department of Human Services (Title IV-E)	\$7,177,918
<b>TOTAL ARRA FISCAL STABILIZATION AND MEDICAID</b>	<b>\$1,398,685,130</b>

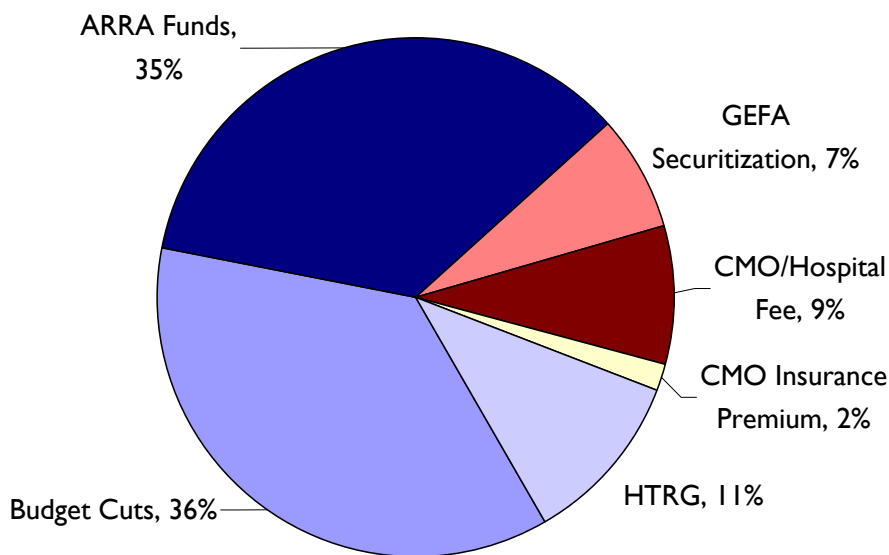
### Budget Deficit

The FY 2011 deficit, as compared to the FY 2009 original budget, totals \$4 billion. The governor proposes closing the budget deficit through using Recovery Act Funds, using reserve funds, and cutting \$1.45 billion in various state services. The FY 2011 deficit is less than the FY 2010 deficit due to the projected \$599 million revenue growth. See Table 7 and Chart 3.

Table 7 **FY 2011 Deficit Reduction**

Savings from Net State Agency Budget Cuts	\$1,446.4 million
American Recovery and Reinvestment Act	\$1,398.7 million
Not Funding Homeowners Tax Relief Grant	\$428.3 million
CMO/Hospital Fee	\$345 million
GEFA Securitization	\$287 million
CMO Insurance Premium Tax	\$68 million
<b>TOTAL FUNDS</b>	<b>\$3,973.4 million</b>

Chart 3 FY 2011 Deficit Reduction



**Budget Cuts**

The FY 2011 General Funds budget is \$3.2 billion, or 16.1 percent less than the FY 2009 budget. Including the \$1.4 billion in ARRA funds, the FY 2011 budget is \$1.8 billion less than the FY 2009 budget, or 9.2 percent. Since 2008, state government has been reduced by more than 13,300 (12.2 percent) authorized jobs.<sup>3</sup>

Table 8 State Agency Budget Cuts From General Funds: FY 2011 Compared to FY 2009

Agency	Decrease/ Increase	Pct. Change	Agency	Decrease/ Increase	Pct. Change
Judicial Branch	-\$4,994,895	-3.0%	GBI	-\$16,339,203	-21.1%
General Assembly	-\$3,004,765	-7.2%	Juvenile Justice	-\$74,334,303	-21.5%
Audits	-\$4,334,874	-12.2%	Labor	-\$13,720,266	-24.6%
Accounting Office	-\$1,571,225	-28.8%	Law	-\$2,053,990	-10.5%
Administrative Services	-\$1,717,341	-12.5%	Natural Resources	-\$37,067,037	-28.3%
Agriculture	-\$7,074,074	-15.1%	Pardons and Parole	-\$5,935,441	-10.2%
Banking and Finance	-\$1,271,957	-9.9%	Public Defenders	-\$1,504,598	-3.7%
Behavioral Health & Developmental Disabilities	-\$57,025,197	-7.0%	Public Safety	-\$33,460,587	-24.7%

Continued

Agency	Decrease/ Increase	Pct. Change	Agency	Decrease/ Increase	Pct. Change
Community Affairs	-\$29,950,504	-56.1%	Public Service Commission	-\$1,485,060	-14.4%
Community Health	-\$492,462,396	-18.5%	Regents	-\$351,212,237	-15.4%
Corrections	-\$169,727,434	-14.7%	Revenue	-\$26,372,766	-20.4%
Defense	-\$2,679,229	-22.9%	Secretary of State	-\$7,795,740	-19.3%
Driver Services	-\$4,445,003	-7.1%	Soil and Water	-\$690,296	19.3%
Early Care and Learning	-\$3,168,349	-69.3%	Student Finance	-\$30,840,513	-97.7%
Economic Development	-\$10,449,038	-26.4%	Teachers Retirement	-\$558,000	-36.6%
Education	-1,239,097,298	-15.1%	Technical College	-\$50,069,643	-13.5%
Employees Retirement	-\$341,042	-4.8%	Transportation	-\$147,933,610	-17.3%
Forestry	-\$9,170,593	-23.4%	Veterans	-\$4,474,081	-17.4%
Governor	-\$5,768,350	-12.1%	Workers Comp.	\$3,291,612	18.6%
Human Services	-\$124,769,744	-19.5%	Debt Service	\$186,101,813	18.5%
Insurance	-\$2,897,056	-15.1%	<b>TOTAL</b>	<b>\$-3,235,867,314</b>	<b>-16.1%</b>

Table 9 **State Agency Budget Cuts From General Funds When Supplemented by ARRA Funds: FY 2011 Compared to FY 2009**

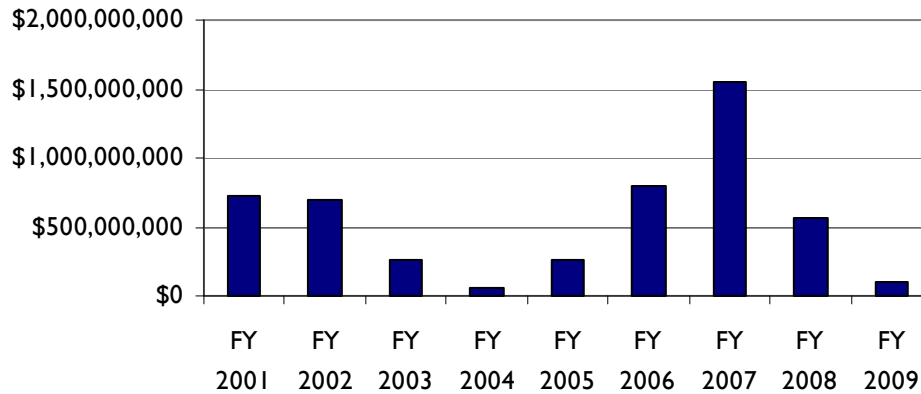
Agency	Decrease/ Increase	Pct. Change	Agency	Decrease/ Increase	Pct. Change
Community Health	\$264,619,222	9.9%	Juvenile Justice	-\$46,314,100	-13.4%
Corrections	-\$84,849,445	-7.3%	Public Safety	-\$24,587,830	-18.2%
Education	-\$896,471,074	-10.9%	Regents	-\$211,007,079	-9.3%
GBI	-\$10,206,431	-13.2%	Tech Colleges	-\$26,379,152	-7.1%
Human Services	-\$116,546,826	-18.2%	<b>TOTAL</b>	<b>-\$1,844,360,102</b>	<b>-9.2%</b>

## Reserves

The Revenue Shortfall Reserve (RSR) is Georgia's rainy day fund, established to help Georgia get through tough economic times. At the end of FY 2007, the RSR contained \$1.5 billion. The RSR at the end of FY 2009 contained only \$103 million. The governor used more than \$1.4 billion in RSR funds to help balance the state budgets in fiscal years 2008, 2009, and 2010. Due to the lack of funds in the RSR, it is imperative that the governor submits a very conservative revenue estimate for both AFY 2010 and FY 2011.

In order for Georgia to maintain our AAA bond rating, there is also an expectation from the bonding agencies that Georgia will begin to rebuild the RSR. Since funds for the RSR come from state surplus, the governor should plan for such a surplus through conservative revenue estimates.

**Chart 4 Revenue Shortfall Reserve**



**FY 2012 Projected Budget Deficit**

The governor projects a \$2.6 billion deficit in FY 2012.<sup>4</sup> This projected deficit is due to the need to replace one-time funds used in FY 2011 plus projected growth in the FY 2012 budget. To close the \$2.6 billion FY 2012 projected budget deficit through revenue growth, state revenues would need to grow by more than 15 percent in FY 2012.

*Table 10 FY 2012 Projected Deficit*

Replacement of One-Time Funds		Projected Budget Growth	
ARRA Education Stabilization	\$506.5 million	Department of Corrections	\$5.2 million
ARRA General Stabilization	\$127.9 million	K-12 (Equalization, Growth)	\$200.0 million
ARRA Enhanced Medicaid FMAP	\$764.2 million	University and Technical Colleges	\$160.0 million
Other ARRA	\$10.7 million	Retirement Systems	\$126.0 million
GEFA Securitization	\$287.9 million	Behavioral Health DOJ Sttlmnt	\$48.0 million
Georgia Ports Enhanced Payment	\$22.9 million	Medicaid and PeachCare	\$130.0 million
State Health Benefit Plan	\$175.0 million		
<b>TOTAL</b>	<b>\$1.72 billion</b>	<b>TOTAL</b>	<b>\$844.2 million</b>
<b>TOTAL PROJECTED FY 2012 DEFICIT = \$2.6 billion</b>			

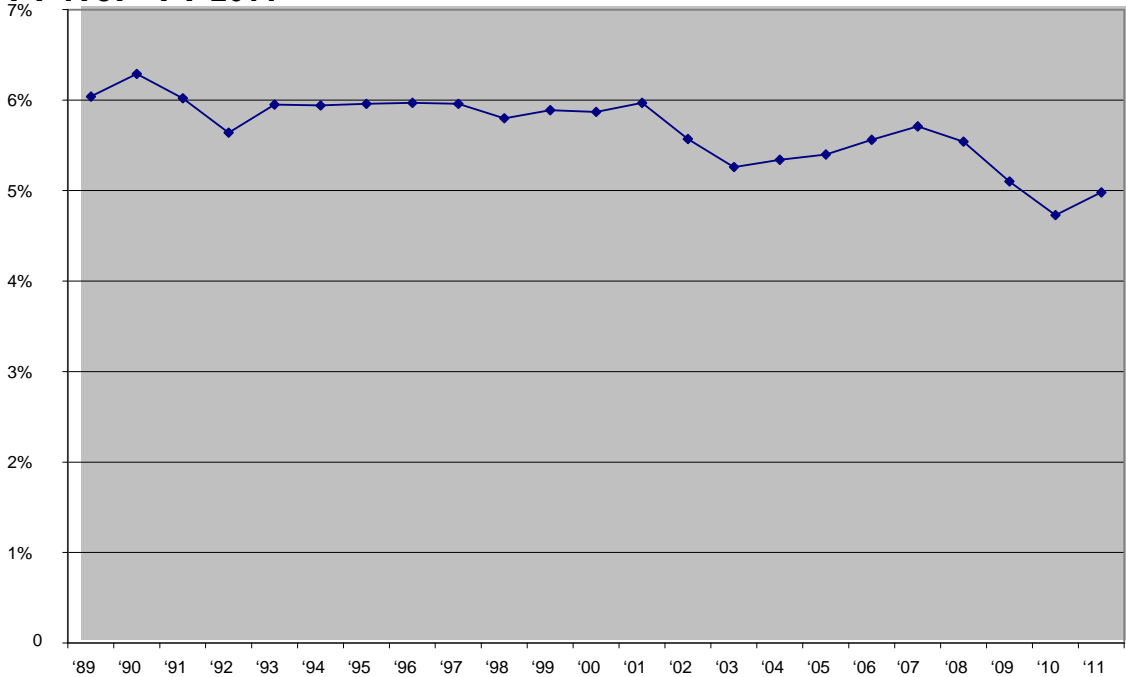
**CONCLUSION — It’s a Revenue Problem**

Georgia is going through the worst fiscal crisis since the Great Depression. The “Great Recession” has resulted in deficits of more than \$4 billion in FY 2010 and FY 2011. State spending is not a

driving factor in these deficits, considering that Georgia ranks in the bottom 10 for spending per capita. The current budget shortfall is due to the combination of a historic weak economy and an antiquated tax code.

State revenue collections, as a percentage of personal income, have declined dramatically over the past 10 years. In other words, as Georgians incomes increased, the state revenues collected from Georgians did not keep pace. This decrease is the result of 20 years of tax cuts, a narrowing of the tax base due to an economy changing from manufacturing to services, an out-of-date tax system developed more than 50 years ago, and a weakening economy.

**Chart 5 State Total Revenues as Percent of Personal Income  
FY 1989 - FY 2011**



Revenue Solutions for the Revenue Problem

Given the immediate fiscal crisis and the long-term structural deficit in Georgia, new revenues should be part of a balanced deficit-reduction package. According to Peter Orszag and Nobel Prize-winning economist Joseph Stiglitz, tax increases, particularly tax increases on higher-income families, are the least damaging mechanism for closing state fiscal deficits in the short run.<sup>5</sup>

Governor Perdue has taken a more balanced approach in regards to the Medicaid budget. The governor has proposed additional taxes and fees to avoid significant cuts to Medicaid provider reimbursement rates. Such a balanced and targeted approach throughout the rest of the budget will allow Georgia to position itself to prosper when the economy recovers.

Revenue raising options include:

- Increase cigarette taxes by \$1 a pack to raise \$300 to \$400 million.

- Impose a temporary 1 percent surcharge on family income over \$400,000 to raise an estimated \$225 million. (Would impact less than 1 percent of taxpayers.)
- Lower the cap on various tax credits and exemptions passed during the past three legislative sessions. For example, lower the \$50 million cap on the tax credit for student scholarship organization donations to \$2 million during the recession.
- Lower the amount of all tax credits by 10 percent to match state budget cuts.
- Create a ceiling on vendor compensation for sales tax collection.
- Close corporate tax loopholes.
- Implement policies and funds to help collect the estimated \$1.6 billion in uncollected tax revenues from all sources.

In the long term, and in light of the structural deficit, Georgia needs to undertake fundamental tax reform and modernization that addresses the question: How do we fairly and equitably raise the funds necessary to provide the quality public services and infrastructure that Georgians demand? Such tax reform and modernization should include:

- Create a tax break budget, as is required in Senate Bill 206, to increase transparency and accountability for tax breaks. Georgia needs a tax break budget, as found in 39 other states, to detail the costs and benefits of tax breaks. It would provide data that legislators and the public need to weigh Georgia's spending options.
- Eliminate unnecessary and ineffective tax breaks based on data in a tax break budget.
- Expand the sales tax to cover some household services. The change from a manufacturing economy to a service economy and the rise of Internet sales has weakened the sales tax base. Broadening the sales tax to cover some services would help strengthen this declining revenue base.
- Modernize the income tax structure to the 21st century. The income tax has been relatively unchanged since the 1930's and should be modernized by increasing standard deductions, broadening brackets, establishing a new top rate, and creating a state earned-income tax credit (EITC).

Revenue increases as part of a balanced deficit reduction package would be more beneficial to the economy than budget cuts alone. In the long term, fundamental tax reform and modernization would allow Georgia to make the investments in the human and physical infrastructure of the state that is necessary for Georgia to prosper.

Georgia cannot become a prosperous state without adequate revenues, and it certainly cannot be a regional leader without a plan to rebuild its lost revenue system.

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## Endnotes

<sup>1</sup> All budget information from Governor's budget reports, <http://www.opb.state.ga.us/budget-information/budget-publications/governor's-budget-recommendations.aspx>.

<sup>2</sup> Georgia State University Economic Forecasting Center, "Forecast of Georgia and Atlanta," November 2009.

<sup>3</sup> Governor's Budget Report: FY 2010. Governor's Budget Report: FY 2011, <http://www.opb.state.ga.us/budget-information/budget-publications/governor's-budget-recommendations.aspx>.

<sup>4</sup> Presentation of Governor Perdue before Joint Appropriations Committees of the Georgia General Assembly, January 19, 2010.

<sup>5</sup> Peter Orszag and Joseph Stiglitz, "Budget Cuts vs. Tax Increases at the State Level: Is One More Counter-Productive than the Other During a Recession?" Center on Budget and Policy Priorities, revised November 6, 2001, <http://www.cbpp.org/10-30-01sfp.htm>.

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