



Budget Notes

Thoughtful Analysis...Responsible Policy

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VISION 2007: First GBPI Policy Conference



Several policy leaders in education, health care, and tax reform joined GBPI Executive Director Alan Essig as presenters at VISION 2007. They included Joy Hawkins, Vice President, Regional Education, Metro Atlanta Chamber of Commerce; Dean Alford, chair of the Governor's Education Task Force; and Laura Granruth, Volunteer Tax Committee member of the Virginia Organizing Project.

GBPI STAFF

Alan Essig

Executive Director
aessig@gbpi.org
404.420.1324 ext. 101

Sarah Beth Gehl

Deputy Director
sbgehl@gbpi.org
404.420.1324 ext. 102

Timothy Sweeney

Sr. Health Care Analyst
tsweeney@gbpi.org
404.420.1324 ext. 103

Robert Welsh

Policy Analyst
rwelsh@gbpi.org
404.420.1324 ext. 104

Clare S. Richie

Policy Analyst
crichie@gbpi.org
404.420.1324 ext. 100

Peter Armstrong

Community Education and
Outreach Coordinator
parmstrong@gbpi.org
404.420.1324 ext. 105

Nearly 200 people attended GBPI VISION 2007, a policy conference hosted by the Georgia Budget and Policy Institute on January 4 at the Loudermilk Center in Atlanta. Participants included recognized leaders in economic policy research, public officials, advocates, service providers, public policy students, and interested citizens.

The conference theme, "Reform and Revitalization," was reflected in the presentations of keynote speakers and breakout session presenters throughout the event. State Senator Jack Hill and State Representative Ben Harbin delivered plenary messages, emphasizing the need for continual analysis, accountability, and transparency in public administration.

An impressive assembly of presenters led discussions on reform in the policy areas of taxes, health care, and education. They included: Dean Alford, Chair of the Governor's Education Task Force; Ben Thacker Gwaltney and Laura Granruth, The Virginia Organizing Project; Joy Hawkins, Vice President-Regional Education with Metro Atlanta Chamber of Commerce; Jason Levitis, Policy Analyst and Counsel for Center on Budget and Policy Priorities; Dr. David Soquist, Director of the Fiscal Research Center, Georgia State University; and Dr. Kenneth Thorpe, Robert W. Woodruff Professor and Chair of the Health Policy Management Department, Emory University. Mike Cassidy, President and Chief Executive Officer of the Georgia Research Alliance, and Dr. Catherine Renault, Program Manager at the Research Triangle Institute, served as keynote speakers during the conference lunch. They emphasized that training Georgians to compete in the new economy must be an integral part of Georgia's economic development policy.

In his closing statements, Essig expressed optimism that the Policy Conference would become an annual event. "GBPI will use this conference to create opportunities for leaders and policymakers to come together and discuss the development of effective and fair policies to address the state's many needs," he said. VISION 2007 Policy Conference presentations are available to download at www.gbpi.org.

100 Edgewood Avenue
Suite 950
Atlanta, GA 30303
Fax: 404.420.1329
Website: www.gbpi.org

Letter from the Director

Health Insurance for Georgia's Children: Is it a Priority?

Georgia's PeachCare program, which insures children from low and moderate income working families, is facing an immediate short-term federal funds shortfall and a potential longer term funding problem. This is a dire problem for the program's 270,000 children; but, it is a fixable problem. Unfortunately, some of Georgia's leaders are not working towards a solution to the funding shortfall that would protect health insurance coverage for our children. Instead, they are using this crisis as an opportunity to weaken the program.

State leadership on this issue should revolve around stabilizing and strengthening the health and welfare of Georgia's children, not weakening it.

By any measure PeachCare is a successful and cost-effective program of which Georgia should be proud. PeachCare has dramatically reduced the number of uninsured children in this state. Studies overwhelmingly show the positive health and education benefits of children receiving health insurance coverage, especially coverage for dental and vision care. The program has provided such coverage for only \$111 per child per month (FY 2006), with participating families also contributing through premium payments.

Rather than protecting this vital program, some of Georgia's leaders are offering proposals to freeze enrollment, lower eligibility, eliminate covered services such as dental and vision, and increase barriers to coverage such as increased premiums. In particular, the proposals to cap PeachCare enrollment and lower eligibility thresholds from 235 percent of poverty to 200 percent of poverty will have significant long-term impacts. Only about 5 to 7 percent of PeachCare enrollees come from families with incomes over 200 percent of poverty. Working families at these income levels most likely do not have other realistic health insurance options for their children; therefore, children denied coverage would likely fall into the ranks of the uninsured.

Capping enrollment could have an even more profound and dramatic effect, as such an action would prevent children at near-poverty levels from enrolling in the program. Currently, 70 percent of PeachCare

enrollees are under 150 percent of poverty (\$31,000 for a family of four). Thus, many if not most of those denied coverage due to an enrollment freeze would be from families with the lowest incomes. These proposals will do nothing to alleviate the funding shortfall, but instead will move Georgia further away from the goal of ensuring adequate access to health-care. Such proposals serve to punish the very children and families the program is designed to help.

While PeachCare is indeed facing financial hurdles, most expect that Congress will act in the coming months to both shore up funding for the current year and reauthorize the program for the next five years. No matter what actions Congress takes, the state has options and the responsibility to ensure that all of the roughly 270,000 current enrollees remain on the program and eligible children seeking enrollment are covered.

As opposed to cutting back on the PeachCare Program, the General Assembly can appropriate the necessary funds to help Georgia get through the immediate crisis. Most likely any state funds used to bridge the federal funding gap would eventually be reimbursed by the Federal Government. Georgia could also move the lower income PeachCare children onto the Medicaid Program or even make the PeachCare Program a Medicaid expansion, guaranteeing that eligible children are always able to receive needed healthcare services.

Many if not most of those denied coverage due to an enrollment freeze would be from families with the lowest incomes.

If Georgia can afford \$19 million to build boat ramps for bass fishing and \$142 million more in tax cuts for only the wealthiest senior citizens, Georgia can afford to assure the health of its children. It is only a matter of priorities. State leadership on this issue should revolve around stabilizing and strengthening the health and welfare of Georgia's children, not weakening it.

*- Alan Essig,
Executive Director*

*- Timothy Sweeney,
Senior Health Care Analyst*

GBPI Report Shows How the Federal Food Stamp Program Benefits Georgia's People and Economy

By Robert Welsh

GBPI has released *Georgia's Food Stamp Program: Feeding Georgians and Feeding the Economy*. The report provides comprehensive information about the federal Food Stamp Program and the benefits it provides to Georgia's people and economy.

The U.S. Congress will soon begin working on reauthorization of the Farm Bill of 2007, which could include continuation and/or expansion of the Food Stamp Program. Public officials and community leaders from Georgia who support reauthorization include U.S. Senator Saxby Chambliss, who is the ranking Republican member of the Senate Committee on Agriculture, Nutrition, and Forestry.

"Our nutrition assistance programs, anchored by the food stamp program, play a key role in ensuring that needy Americans have access to the food they need to lead healthy, productive lives," said Senator Chambliss in a statement. "I know from the school teachers in my family the importance of good nutrition, especially for our children's development. Moreover, the food for nutrition programs comes from U.S. farmers which helps agriculture. The U.S. food assistance programs are good for families, good for farmers and good for America."

As the nation's largest and most comprehensive nutrition program, the Food Stamp Program helps low-income people purchase a nutritionally adequate diet. Nationally, more than 25 million people use food stamps to purchase food from local retailers.

Food insecurity — the lack of adequate nutrition for an active, healthy life — remains a problem, both nationally and in Georgia. Many eligible people who need help buying food are not receiving food stamps. In Georgia, only 65 percent of eligible people participate in the program.

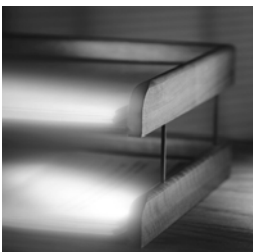
The Food Stamp Program pumped \$1.047 billion into the Georgia economy in 2005, benefiting residents, farmers, grocers, and small businesses.

Highlights of the Food Stamp Program include:

- On average over 921,000 Georgians used food stamps every month to buy food in 2005. That amounts to 10 percent of the people in Georgia.
- During the recent recession and subsequent weak recovery, Georgia's Food Stamp Program responded to the increased needs. In 2000, an average of 559,000 Georgians received food stamps each month. That number rose steadily to 921,000 in 2005, an increase of 64.7 percent.
- The Food Stamp Program pumped \$1.047 billion into the Georgia economy in 2005, benefiting residents, farmers, grocers, and small businesses throughout the state.

By increasing the share of eligible households that participate in the Food Stamp Program by five percentage points, Georgia would provide food stamps to an additional 57,000 low-income Georgians and bring \$39.4 million into our local economy. This would result in a total of \$72.5 million in new economic activity in Georgia. To that end Georgia has acted proactively and eliminated the federal vehicle asset test, received the able bodied adults without children waiver, and implemented the transitional food stamp benefit.

GBPI's Outbox



- ♦ [Show Us the Money: Transparency Needed on Tax Breaks \(Mar., 2007\)](#)
- ♦ [Georgia's Food Stamp Program: Feeding Georgians and Feeding the Economy \(Feb., 2007\)](#)
- ♦ [An Updated Analysis of Health Savings Accounts and Consumer Directed Health Plans \(Jan., 2007\)](#)
- ♦ [Retaining PeachCare Coverage - Examining Medicaid Expansion Programs \(Jan., 2007\)](#)

GBPI Continues Its Analysis of Health Plans

By Timothy Sweeney

In January, 2007 GBPI released the policy brief, *An Updated Analysis of Health Savings Accounts and Consumer Directed Health Plans*. This publication continues the analysis of national and state health care policy that GBPI has been conducting through a series of reports for the past two years.

As the number of individuals without health insurance continues to rise both nationally and in Georgia and as overall health care costs increase, groups across the political spectrum are searching for healthcare reform solutions to address these two connected issues. Some lawmakers are pushing for more tax-breaks targeting Health Savings Accounts (HSAs) and High Deductible Health Plans (HDHPs), which combine to form a “Consumer Directed Health Plan” (CDHP). Before enacting additional tax-cuts, however, these products need to be examined as to whether they can actually address either of these two significant healthcare issues: 1) access to healthcare services, and 2) proper use of them.

To this end, GBPI’s policy brief presented data from three recently released reports that examined characteristics and behaviors of individuals enrolled in CDHPs. Additionally, the policy brief examined the claim that over-utilization of healthcare services is the significant driving factor in recent healthcare cost increases. Based on the studies GBPI examined, the policy brief presented the following key conclusions regarding CDHPs and HSAs.

Incentivizing only high-deductible plans . . . is neither fair tax policy nor good healthcare policy.

HSAs are not effective tools to target the uninsured.

Because CDHPs are not especially attractive, or even financially viable, for Georgians with lower incomes, it is very unlikely that these products will motivate currently uninsured individuals and families to buy health insurance. For example, the two studies examining the income of CDHP participants and HSA enrollees found that these individuals have significantly higher incomes when compared to the population at large or even other privately insured individuals. Another study found that only 10% of CDHP participants were uninsured prior to enrollment in their current plan, compared to 24% for participants in comprehensive plans.

HSAs are not likely to reduce healthcare costs by incentivizing healthy behavior, “proper” healthcare utilization.

While CDHP proponents argue employing financial incentives will motivate healthier behavior and more “proper” use of healthcare services, data does not necessarily support this argument. Instead, CDHP participants often face financial *dis*-incentives to utilize preventive care, and data shows that CDHP participants are more likely to forego needed and recommended care as well as preventive care due to the costs of such care.

Kaiser Report Compares CDHP Enrollees to Non-CDHP Control Group

	CDHP Group	Non- CDHP
Enrollees who reported not getting needed care	23%	11%
Enrollees who reported visiting a doctor for a check-up	63%	74%

“Consumer driven” solution rests on faulty assessment of healthcare spending.

The CDHP assertion that simply limiting the demand for health care services will address overall healthcare costs rests on the faulty assumption that over-utilization of health care services is a significant factor driving healthcare spending increases. Instead, research data suggests that approximately 75-80 percent of healthcare spending in Georgia is linked to chronically ill patients, while chronically ill patients receive less than 60 percent of all clinically recommended medical care. As this data suggests, the factors influencing healthcare spending and cost growth are far more complicated and are not likely to be addressed by CDHPs and HSAs.

While data consistently shows the significant limitations of CDHPs and HSAs as solutions to Georgia’s healthcare and health insurance issues, some lawmakers have proposed additional tax incentives for these products. Incentivizing only high-deductible plans at the expense of traditional comprehensive plans, however, is neither fair tax policy nor good healthcare policy. If the state insists on using the tax code to motivate the purchase of private health insurance, such tax incentives should be available for all types of health insurance products.

See the GBPI analysis of HSAs at www.GBPI.org.

Do Georgia's Tax Policies Reflect Our Priorities?

Tax Breaks for Senior Citizens: Who Really Benefits?

By Sarah Beth Gehl

Currently, the Georgia income tax structure greatly favors senior citizens. An elderly couple can exclude retirement income up to \$70,000 and all of Social Security income (averages about \$20,000), for a total of \$90,000 in tax-free income in 2008. Including standard deductions and personal exemptions, that no-tax floor rises to \$101,000 (or even higher if Social Security income is above average). In contrast, a young, family of four had a no-tax floor of \$15,900 in 2005.

House Bill (HB) 195 would increase the tax preference for seniors by raising the retirement income exclusion from \$35,000 (single taxpayer, 2008 level) to a full exclusion of retirement income from state taxation by 2013 for taxpayers age 65 and over. This will cost the state an estimated \$142 million in 2013. That revenue loss will grow in future years as Georgia's elderly population is projected to increase from 10 percent to 16 percent of the population by 2030. Just as seniors will be demanding more services, the tax base will be shrinking.

An estimated 10 percent of elderly taxpayers will receive a tax cut from HB 195. Since the vast majority of seniors are already covered by the existing exclusions, this tax cut goes primarily to wealthy seniors. Ninety-six percent of the total tax cut will go to seniors with income of \$100,000 or more, who will receive an average tax cut of \$3,623.

Alternative: If legislators are determined to increase the already generous income tax preferences for seniors, a better tax policy alternative would be to increase the wage earner allowance in the existing retirement exclusion. Under current law, seniors are eligible for up to \$4,000 earned income (i.e. wages and salaries) exclusion as part of the total retirement income exclusion. Thus, the current system, as well as the HB 195 proposal, favors seniors who live on retirement income over seniors who continue to work. Rather than maintaining the bias against elderly wage earners, legislators could keep the retirement exclusion at \$35,000 (anticipated 2008 level) and increase the wage allowance within that exclusion, thereby benefiting low income seniors who must continue to work.

See the GBPI analysis of HB 195 at www.GBPI.org.

How Would You Have Cut the State Budget by \$1.3 Billion?



By Sarah Beth Gehl

This is the question legislators must answer if they truly believe in the benefits of Senate Resolution (SR) 20, which would put a TABOR-like spending cap on our state budget. Under SR 20, government spending would only be allowed to increase over last year's spending by a formula of population growth plus government inflation growth. Any excess revenues would be used for reserves, debt service, refunds for taxpayers, and/or local school enrollment growth.

If the SR 20 spending cap were in place in the 1990s, there would have been significant budget cuts annually. It is doubtful that a cap as called for in SR 20 would have allowed Georgia to increase teacher salaries to the national average or implement stricter prison sentencing policies. In fact, by FY 2002 the state budget under SR 20 would have been \$1.3 billion (9 percent) less than actual spending. A prerequisite for any legislator to vote for SR 20 should be to identify specifically what \$1.3 billion worth of cuts he/she would have suggested from the 2002 budget. This will actually allow voters to make an educated decision at the ballot – would you rather have had these programs funded or \$1.3 billion in cuts?

See the GBPI analysis of SR 20 at www.GBPI.org.

Budget 101: Where the Money Goes

The Georgia State Budget is a complex document with hundreds of programs and funding items. It can seem daunting to try to figure out where all the money goes. But in reality, Georgia spends its money on seven fundamental areas: education, Medicaid & PeachCare, criminal justice, health & social services, debt service, transportation, and the Homeowners' Tax Relief Grant. All other state government comprises just 4% of the budget.

Education (55.4%): Education is the main priority in Georgia's budget, with 55% of all state funds going to Pre-K programs, K-12 schools, colleges and universities, community colleges, and other education related programs. Within education, K-12 education is the dominant spending area (38.6% of the total state budget). Within K-12 education, salaries are the overwhelming cost driver, with 90% of state spending in K-12 going to payroll and benefits for teachers, counselors, bus drivers, administrators, and others.

Medicaid and PeachCare (11.6%): Medicaid and PeachCare are healthcare programs jointly funded by the state and federal governments that are targeted primarily towards pregnant women and children from low-income families, low-income individuals with disabilities, low-income elderly, and some very low-income parents. Currently, approximately two-thirds of Medicaid and PeachCare enrollees are children. Historically, however, about 60% of total benefit expenditures go to the elderly and disabled population, who make up less than one-quarter of all enrollees.

Criminal Justice (9.3%): The Department of Corrections, Georgia Bureau of Investigations, Department of Juvenile Justice, Board of Pardon and Paroles, Department of Public Safety, and the Court system make up the criminal justice spending area. The Department of Corrections consumes the majority of those funds (59%). The main cost drivers within Corrections are the number of inmates and the healthcare costs of those inmates. The amount of state funds going to the housing and healthcare of inmates comprises 74 percent of the Corrections budget.

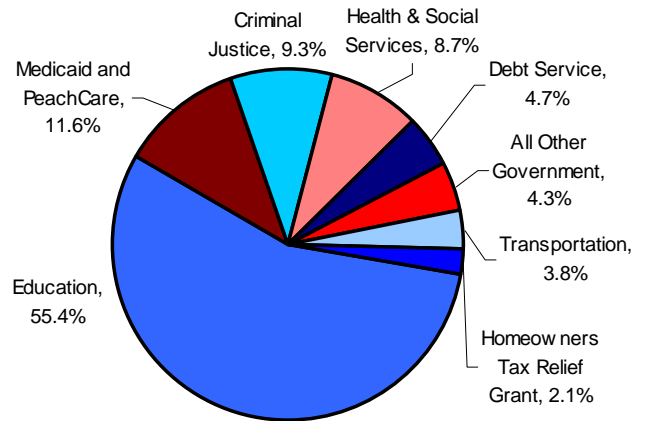
Health and Social Services (8.7%): Georgia's health and social services spending includes the Department of Human Resources (DHR) budget and a small fraction of the Department of Community Health (DCH) budget. (Only \$150 million of the DCH budget is included since the vast majority of DCH funds go to Medicaid and PeachCare.) Within DHR, the three main spending areas are Mental Health, Developmental Disabilities, & Addictive Diseases Services (47% of DHR); Division of Family and Childrens Services (28% of DHR); and Division of Public Health (12% of DHR).

Debt Service (4.7%): Georgia pays for certain projects, such as roads and school buildings, using bond money. The state's total debt from bonds issued from FY 1974 through FY 2006 is \$16 billion. Similar to a home mortgage, the state must pay on the principal and interest of those bonds every year. In FY 2008, the state will pay an estimated \$954 million (or 4.7 percent of the budget) to debt service.

Transportation (3.8%): State dollars for transportation are from motor fuel taxes (\$754 million) and general revenues (\$21 million). Of those state dollars, 82 percent goes to highway construction and maintenance and local road and bridge construction. The remaining 18 percent goes to rail, transit, airport aid, ports and waterways, air transportation, tollway authority, and administration.

Homeowners' Tax Relief Grant (2.1%): Within the Department of Revenue appropriation, there is a \$432 million property tax cut called the Homeowners' Tax Relief Grant. This tax credit provides homeowners with an additional \$8,000 homestead exemption applied to all county, city, school, and state property taxes. The state reimburses local governments for the revenue they lose due to that tax credit (i.e. \$432 million).

How Our State Budget Dollars Are Spent



APRIL 11, 2007: SAVE THE DATE

GBPI Will Honor Dr. Satcher at Visionary Luncheon

The Georgia Budget and Policy Institute is excited to announce the 2nd annual GBPI Visionary Luncheon on Wednesday, April 11 at the Intercontinental Hotel, Buckhead.

The 2007 Visionary Award will be presented to David Satcher, M.D., Ph.D., director of the Center of Excellence on Health Disparities, Morehouse School of Medicine. Dr. Satcher's distinguished career also includes positions as dean of Meharry Medical College, United States Surgeon General and Assistant Secretary for Health, Director of the Centers for Disease Control and Prevention (CDC), and President of Morehouse School of Medicine.

The Visionary Award is to be awarded each year to an individual whose life and work reflects a deep commitment to community service as well as advocacy for education that enlightens us all about the power of public policy to change lives. Dr. Satcher has been a leader in addressing public and mental health issues, raising awareness about health disparities, and expanding the availability of medical professionals and resources in underserved areas.

Speakers during the luncheon will include Andrew Young, former Atlanta Mayor and United Nations Ambassador; John Head, Carter Center Fellow, journalist, and author; Dr. Gary Nelson, president of the Healthcare Georgia Foundation; and Helene Gayle, President and Chief Executive Officer of CARE.

For more information about the Visionary Luncheon, contact GBPI at 404-420-1324 or www.gbpi.org.

The Visionary Award is to be presented to an individual whose life and work reflects a deep commitment to community service as well as advocacy for education that enlightens us all about the power of public policy to change lives.

Former Georgia Legislators Join the GBPI Board

The Honorable Jeff Brown (R) and the Honorable Sam Zamarripa (D) have joined the GBPI Board of Directors. Representative Brown and Senator Zamarripa retired from the Georgia General Assembly in 2006.

Representative Brown served Georgia House District 69, which includes parts of Carroll, Heard, and Troup Counties, since 1994. During the 2005-2006 Session of the General Assembly he served as Vice-Chair of the Health Subcommittee of the House Appropriations Committee, and on the committees for Health and Human Services, Ways and Means, and Rules. A resident of LaGrange, Representative Brown is President of Comprehensive Search, an employment and HR services company. Brown is a member of the Rotary International and has been appointed as a member of the LaGrange Industrial Development Authority, Hi Tech Task Force, West Point Lake Advisory Committee and West Georgia Technical College Foundation.

Senator Zamarripa served Georgia Senate District 36, which includes parts of Fulton County, since 2002. He served on the Senate Economic Development, Insurance and Labor, Science and Technology, and Transportation Committees. A resident of Atlanta, Senator Zamarripa is Managing Partner of Heritage Capitol Advisors, which provides investment banking services. He is Co-Founder and Director of United Americas Bank, N.A. and serves on the corporate boards of Assurance America Corporation and Diaz Foods, Incorporated. Zamarripa is also an advisory director of the Atlanta Medical Center and holds board positions with the Atlanta College of Art and Atlanta Public Television. He is also Founder and Chairman of the Georgia China Future and Founder and Chairman of the Georgia Association of Latino Elected Officials.



Georgia Budget and Policy Institute
100 Edgewood Avenue
Suite 950
Atlanta, GA 30303

Support GBPI

The articles and analysis in this edition of GBPI's *Budget Notes* provide just a few examples of the work we do throughout the year to provide timely, credible, and accessible analysis of tax and budget issues in Georgia. We also reach Georgians from around the state through presentations and workshops.

If you believe that our work makes a valuable contribution to Georgia's policy debate and increases public understanding of the role of state fiscal policy in sustaining Georgia's quality of life, we ask you to please make a tax deductible financial contribution to the Georgia Budget and Policy Institute today. As a nonprofit 501(C)(3) organization, GBPI depends on your support.

Your dollars will support our work on the following critical issues in the months ahead:

- ◆ Continuation of research on state health care policy

and its impact on Georgia citizens;

- ◆ Continued research on programs affecting children;
- ◆ Ongoing research on state taxation and economic development, including the *State of Working Georgia*;
- ◆ Continued expansion of GBPI's capacity on federal budget issues that have an impact on Georgia.

There are two convenient ways for you to support the Georgia Budget and Policy Institute:

1. To donate online, visit www.gbpi.org/donations.htm.
2. Fill out the information below and mail a check to:

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