



State Fiscal Crisis FY 2011 and Beyond

Alan Essig

Executive Director

Georgia Budget & Policy Institute

June 15, 2010



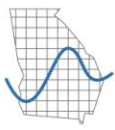
Georgia Budget & Policy Institute's Mission

We seek to build a more prosperous Georgia by rigorously analyzing budget and tax policies and providing education to inspire informed debate and responsible decision-making, advancing our vision of a state in which economic opportunity and well-being are widely shared among all.



Economic Growth is Back but Jobs are Still Scarce

- GDP has grown each of past three quarters
- Moderate growth projected to continue through 2010 and into 2011
- Georgia's unemployment rate is 10.2% (among highest in nation)



GBPI
Georgia Budget and Policy Institute



Georgia Fiscal Year 2011 Budget

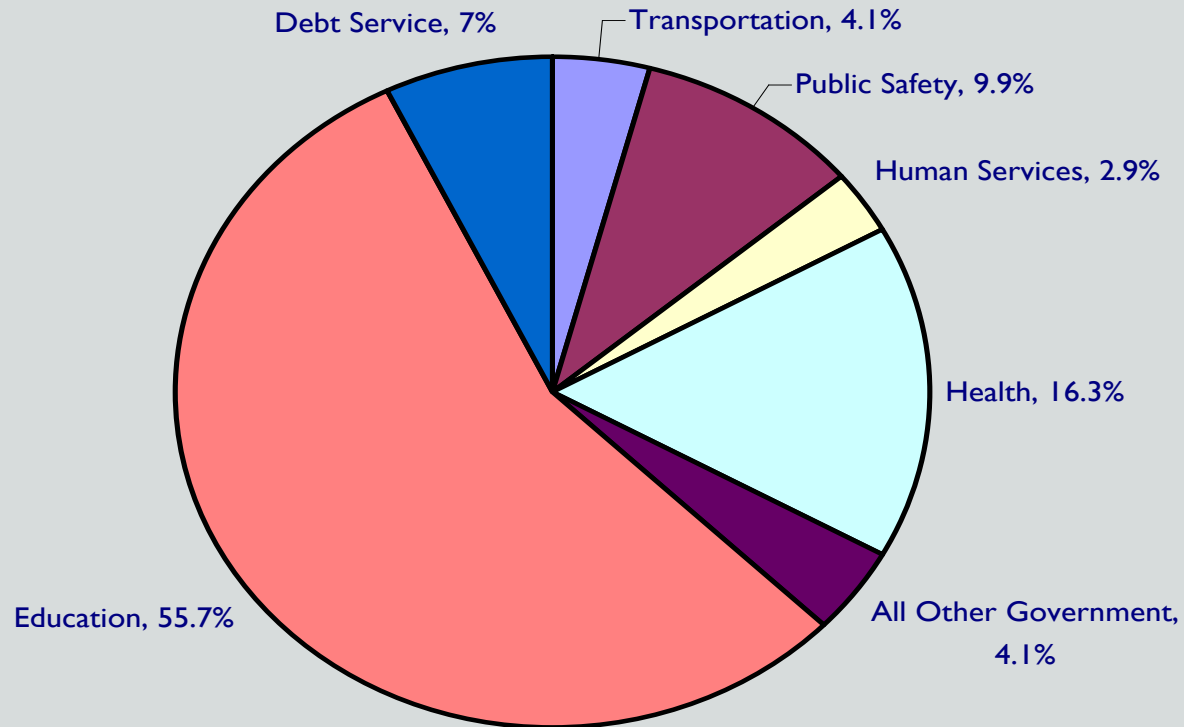
- State General Funds budget totals \$16.6 billion.
- Revenues will be down 17.4% compared to FY 2009, for a total of \$3.5 billion less this coming year.



GBPI
Georgia Budget and Policy Institute



How the State Spends Its Money





FY 2011 Contains More Than \$2.5 Billion in Actual Cuts

(as compared to FY 2009)

- K-12: \$1.07 billion (13%)
- Board of Regents: \$343 million (15.1%)
- DHS: \$128 million (20.1%)
- Corrections: \$100 million (8.7%)
- Natural Resources: \$40 million (30.4%)
- Smaller agencies cut by an average of more than 20%



Impact of Budget Cuts Across State Government

- Many smaller agencies cut by over 20%
 - ◎ Agriculture, Forestry, Labor, Economic Development, Secretary of State, Natural Resources, etc.
- Negative policy impacts on:
 - ◎ economic development
 - ◎ regulatory abilities
 - Health and Safety



Impact of Relying on Cuts to Lower-Priority Programs to Balance the Budget

Even if you were to eliminate entire budgets of the “4% of all other government” and layoff more than 13,000 state employees, you save only \$681 million.



Budget Balanced With Some New Revenues but at a Cost

House Bill 1055

- ⊙ Hospital tax that sunsets in FY 2013 (\$229 million)
- ⊙ Tax cut for wealthy senior citizens and state property tax cut (\$245 million annual loss by 2016)

**Total impact of tax cuts and sunset:
\$475 million a year**



FY 2011 Budget Is Facing a Potential Shortfall

- If FY 2010 goes into a deficit caused by weaker-than-projected revenues, actions to balance the budget could result in a FY 2011 deficit of several hundred million dollars.
- If the U.S. Congress does not extend enhanced Medicaid funding through next June, Georgia will have a \$375 million shortfall.



FY 2012 Projected Shortfall

FY 2012 deficit is estimated to be between \$1 billion and \$2 billion even with moderate revenue growth.

- ⊙ One-time funds no longer available to state
- ⊙ Normal budget growth – \$500 million to \$1 billion



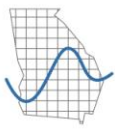
Georgia Facing Structural Deficit: FY 2013 and Beyond

- Ongoing financial pressures – student population growth, healthcare, state prisoner growth/aging, pay raises, mental health, child protective services (\$500 million to \$1 billion)
- Revenues will sunset and more tax cuts will phase in (\$475 million)



Georgia Needs to Rebuild its Revenue Shortfall Reserve to Preserve AAA Bond Rating

- RSR currently is \$103 million
- Maximum RSR is now 15% of revenues (current equivalent is \$2.3 billion)
- To rebuild RSR over next five years, surpluses must total between \$300 million and \$500 million a year



Structural Deficit: What Would Additional Budget Cuts Over the Next 3 to 5 Years Really Mean?

- It's impossible to cut hundreds of millions of dollars through minor actions. Major policy changes would need to be considered, many with negative implications.
- Policymakers would have to cut significantly across state government, including high priority areas such as education and healthcare.



Fundamental Tax Reform

- House Bill 1405 creates a Tax Reform Council:
 - ◎ Council to study tax system and make recommendations to the General Assembly for action during the 2011 legislative session
- Georgia has an antiquated tax and revenue system:
 - ◎ Income tax was developed in 1937
 - ◎ Sales tax implemented in 1951 has been dramatically narrowed



Tax Reform Should Ensure:

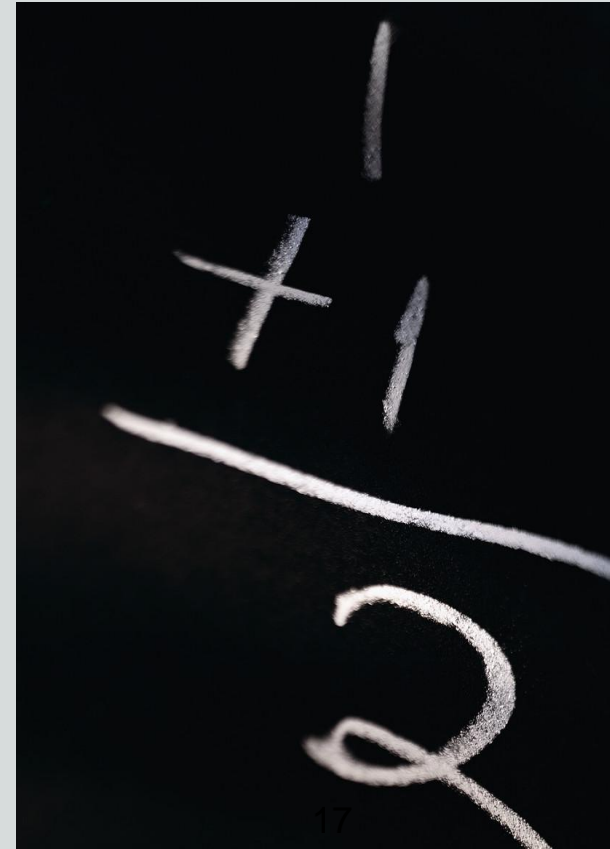
- **Adequate Revenues** – Tie tax structure to long-term financial needs of the state.
- **Fairness** – Does not shift cost of state government from wealthy to moderate- and low-income Georgians.



Georgia Has a Structural Deficit

Can Georgia afford billions of dollars in additional cuts to services?

What are the level of investments Georgia needs to compete in 21st century economy?





Contact Info:

Alan Essig

100 Edgewood Ave

Suite 950

Atlanta, GA 30303

404.420.1324

aessig@GBPI.org

Sign up for
ebulletins at
www.GBPI.org