



Revenue Solutions for Georgia's Revenue Problems

Alan Essig

Executive Director

Sarah Beth Gehl

Deputy Director



Georgia Budget & Policy Institute

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GEORGIA'S SHORT-TERM REVENUE PROBLEM

- In July, Governor projected \$1.6 billion shortfall for FY 2009 (less than 1% decline).
 - ⊙ In first six months, revenues declined 2.7%.
- GSU Economic Forecasting Center November forecast:
 - ⊙ **Projects 6% revenue decline in FY 2009**
 - **\$2.5 billion shortfall**
 - ⊙ **Projects 1% revenue decline in FY 2010**
 - **\$1.0 billion shortfall**





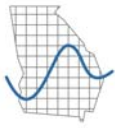
WHY IT MATTERS

SHORT-TERM

1. **Already low tax and spend state**

LONG-TERM





Georgia Has Always Ranked LOW

49th State Spending per Capita

43rd State & Local Own Source Revenues per Capita
(taxes, fees, etc.)

43rd State Tax Revenues Per Capita

41st State Revenue and State and Local
Revenue as a % of Income





WHY IT MATTERS

SHORT-TERM

1. Already low tax and spend state
2. **Majority of funds go to a few priorities**

LONG-TERM

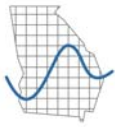




Over 84% of Budget Spent on Education, Healthcare, Criminal Justice, and Social Services

Snapshot of State Spending	FY 2009 (\$20.1B)
Education	54.0%
Medicaid and PeachCare	11.3%
Criminal Justice	9.9%
Health and Social Services	9.0%
Transportation	4.3%
Debt Service	5.0%
Homeowners Tax Relief Credit	2.1%
All Other State Agencies	4.4%





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Consequence – Not much fat to cut so we're cutting vital programs!!!

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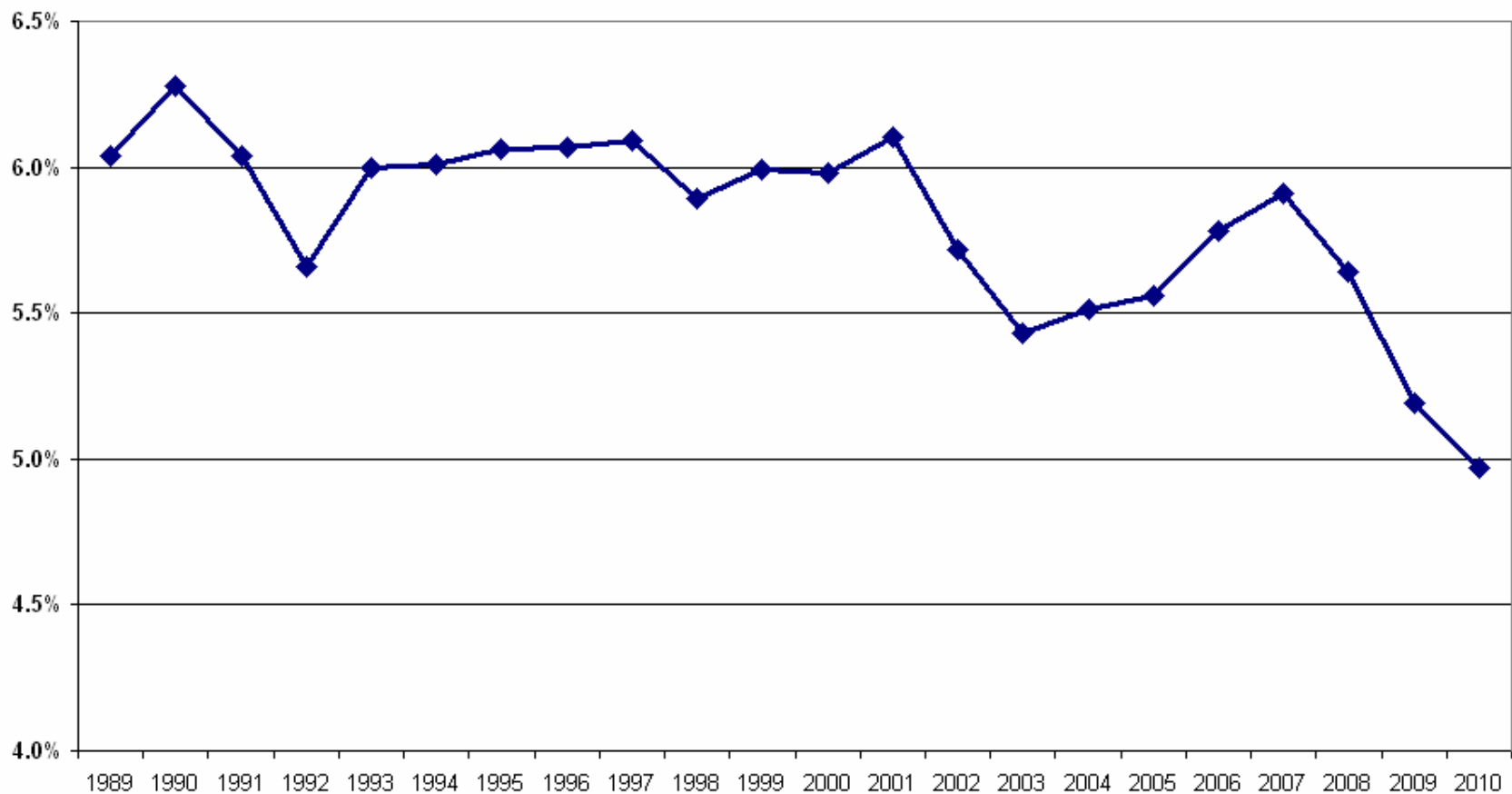
1. **Already declining tax base & new low base**





AS GEORGIANS' INCOMES INCREASED, THE STATE TAXES COLLECTED FROM GEORGIANS HAVE NOT KEPT PACE

State Revenues as Percent of Personal Income FY 1989 - FY 2010





WHY IT MATTERS

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1. Already low tax and spend state
2. Majority of funds go to a few priorities

Consequence – Not much fat to cut so have to cut vital programs!!!

LONG-TERM

1. Already declining tax base & new low base
2. **Regular growth of services and need**





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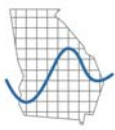


Expected Budget Growth

Between **\$500 million and \$1 billion** in new revenues to pay for the basic growth in government in FY 2010 and beyond.

- ◎ Board of Ed & Board of Regents Growth
- ◎ Medicaid and PeachCare Growth
- ◎ Prisoner Growth and Aging of Prison Pop.
- ◎ New Debt Service





WHY IT MATTERS

SHORT-TERM

1. Already low tax and spend state
2. Majority of funds go to a few priorities

Consequence – Not much fat to cut. Instead, cutting vital programs!!!

LONG-TERM

1. Already declining tax base & new low base
2. Regular growth of services and need

**Consequence – Long-term revenue problem.
Cuts will continue!!!**





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REVENUE SOLUTIONS FOR OUR REVENUE PROBLEMS

SHORT-TERM:

BALANCED DEFICIT REDUCTION

- Targeted and prioritized budget cuts
- Federal assistance
- Strategic use of RSR
- Revenue enhancements





SHORT-TERM: Revenue Enhancements

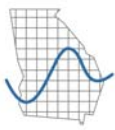
Economic Argument – “Basic economic theory suggests that direct spending reductions will generate more adverse consequences for the economy in the short run than either a tax increase or a transfer program reduction.” -Joseph Stiglitz and Peter Orszag

Historical Argument – In response to recessions in the 1980s, 1990s, and 2000s, a majority of states raised revenues. (Source: NASBO)

Practical (and perhaps Moral) Argument – “The only solution, if we want to preserve the priorities of classroom instruction, health care and public safety, is to raise new revenue.”

- Governor Steve Beshear, Kentucky





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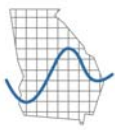
SHORT-TERM: Revenue Enhancements

Create New Top Income Tax Rate = \$200 million to \$320 million

Other state:

- North Carolina: In response to 2001 recession, NC placed a new top rate of 8.25% for married couples with income over \$200,000. Top rate has gradually been reduced and will return to original level this year.





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SHORT-TERM: Revenue Enhancements

Increase Cigarette Tax by \$1 pack = \$442 million

Other states:

- Mississippi: Gov. Barbour (R) proposed 24¢ increase.
- Kentucky: Gov. Beshear (D) proposes 70¢ increase.
- Virginia: Gov. Kaine (D) calls for 30¢ increase.
- Kansas??? Florida???

HB 39



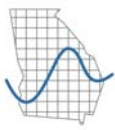
SHORT-TERM: Revenue Enhancements

Lower cap or implement income ceiling on various tax credits and exemptions = \$50 million

- Implement income ceiling on child care tax credit
- Lower \$50 million cap on tax credit for student scholarship donations
- Eliminate or delay new tax credits for High Deductible Health Plans

Other states: Virginia and Kansas





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REVENUE SOLUTIONS FOR OUR REVENUE PROBLEMS

LONG-TERM: COMPREHENSIVE TAX REFORM

- Solidify tax base to assure adequacy
- Improve fairness of tax system
- Modernize tax base for a 21st century economy
- Increase accountability of tax expenditures
- Improve ability to withstand downturns to assure stability





LONG-TERM: Tax Transparency and Accountability

Tax Expenditure Report – Treat tax expenditures as we treat budget expenditures.

- ⊙ Highlight all tax breaks currently in law (sales, income, property).
- ⊙ Estimate lost revenue.
- ⊙ Perform cost-benefit analysis.





LONG-TERM: Comprehensive Tax Reform

- Target property tax relief through property tax circuit breaker (ability to pay).
- Reform income tax:
 - ◉ Expand tax brackets
 - ◉ Increase exemptions
 - ◉ Index to inflation
 - ◉ Enact State Earned Income Tax Credit.
- Expand sales tax to cover some household services.
- Reinstate the estate tax.





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REVENUE SOLUTIONS

Budget policy and tax policy must be linked. You get what you pay for!!!





Contact Info

Alan Essig

Sarah Beth Gehl

100 Edgewood Ave, Suite 950

Atlanta, GA 30303

404.420.1324

aessig@gbpi.org

sbgehl@gbpi.org

www.gbpi.org

