

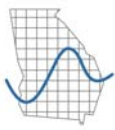


# *Mental Health America of Georgia*

**Alan Essig, Executive Director**  
Georgia Budget & Policy Institute

**December 3, 2008**





## Economic Outlook

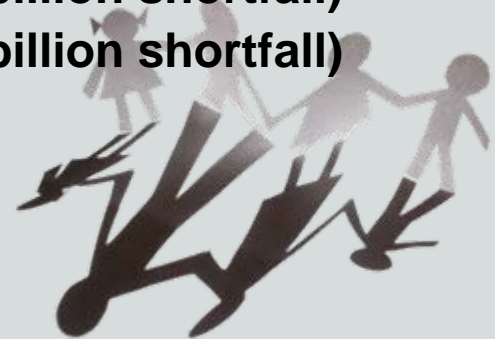
- Recession began December 2007
- Jobs key to recovery
  - Georgia Unemployment rate 7.0%
  - Job decline projected throughout 2009
  - Job growth projected to begin 2<sup>nd</sup> quarter of 2010.





# FY 2009 and FY 2010 Revenue Outlook

- FY 2009 budget based on 8.4% revenue growth (\$1.48 billion)
- In July Governor projected \$1.6 billion shortfall (less than 1% decline).
  - ⊙ First four months revenues declined 2.0%
- Georgia State University 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)**





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# Georgia is a Low Tax and Spend State.

**49<sup>th</sup>** State Spending per Capita

**43<sup>rd</sup>** State and Local Own Source Revenues per Capita  
(taxes, fees, etc.)

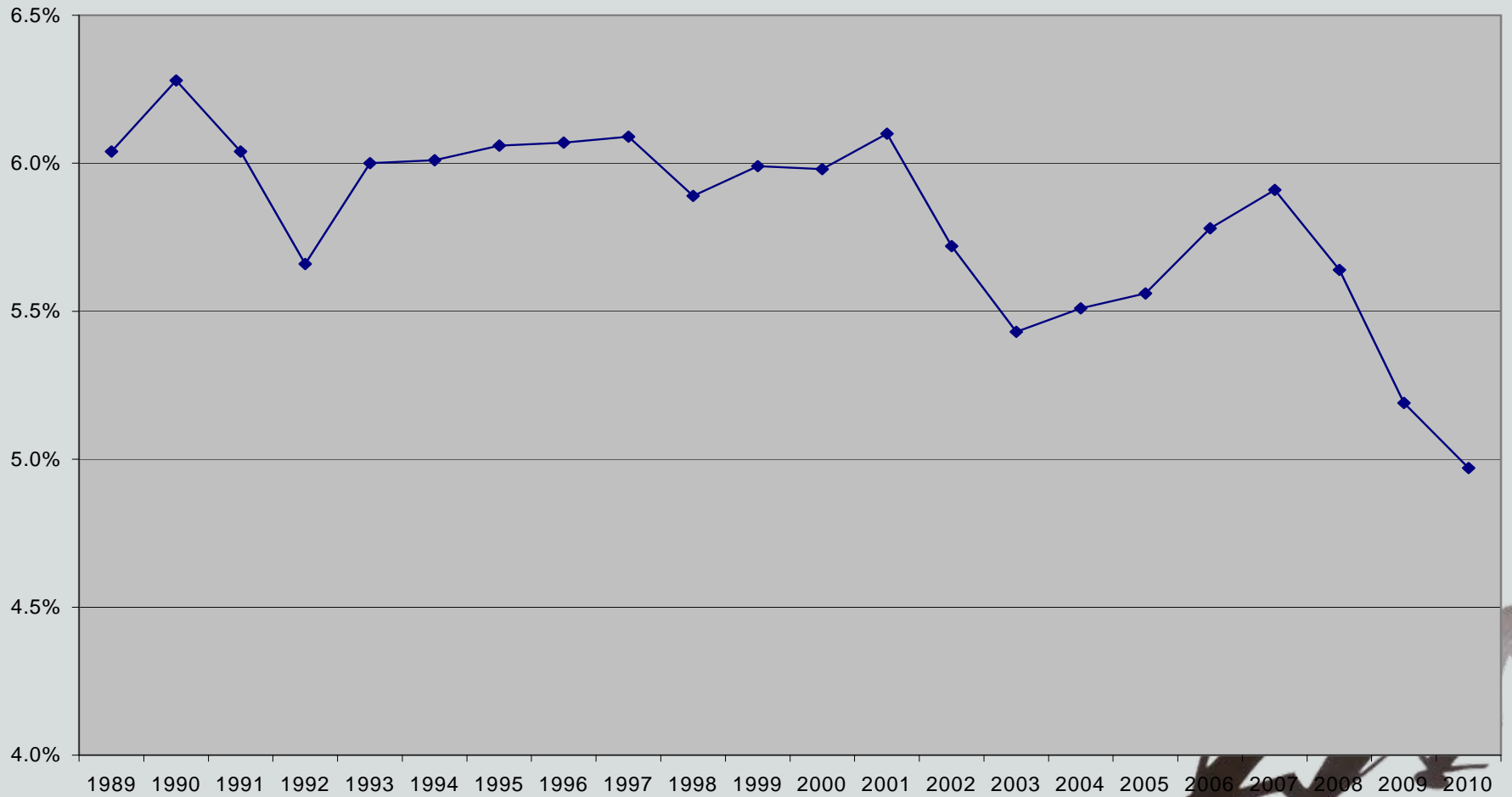
**43<sup>rd</sup>** State Tax Revenues Per Capita

**41<sup>st</sup>** State Revenue and State and Local Revenue as a Percentage of Income.



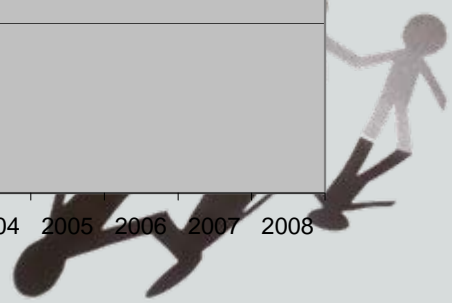
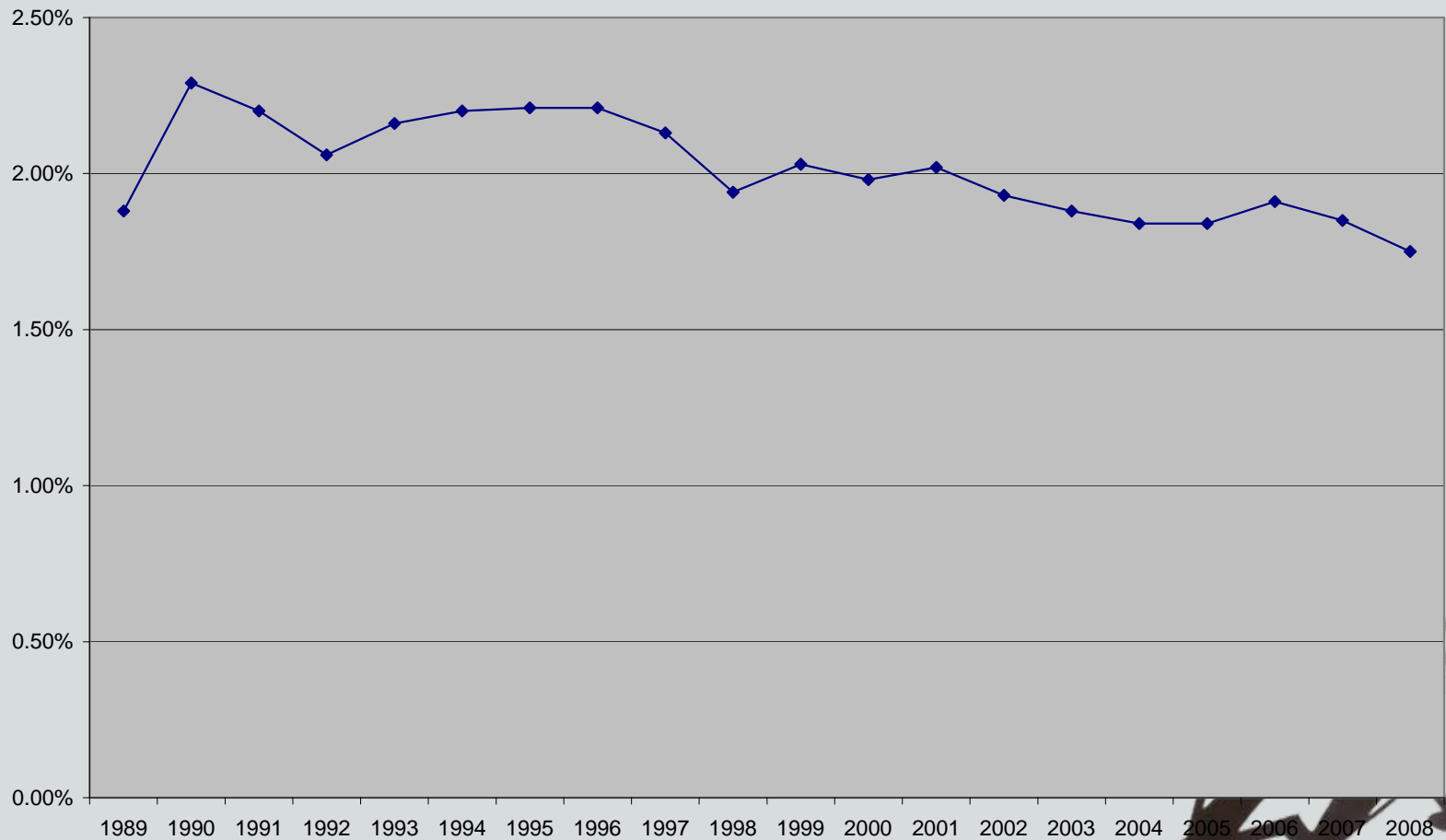


**Chart 1**  
**State Revenues as Percent of Personal Income FY 1989 - FY 2009**





**Chart 2**  
**State Sales Tax as a Percent of Income FY 1989 - FY 2008**

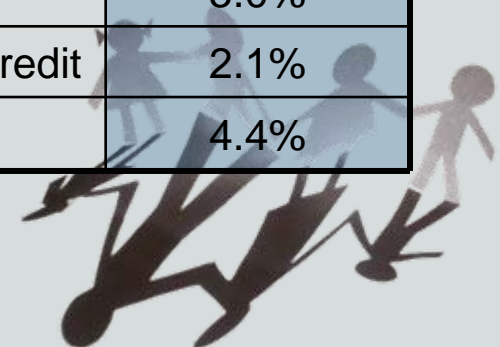


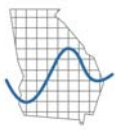


# FY 2009 State Funds Budget Breakdown

Over 84% of the state budget is spent on education, healthcare, criminal justice, and social services. These three areas drive the state budget and are increasing both in cost and population faster than overall inflation and population growth.

<b>Snapshot of State Spending</b>	<b>FY 2009 (\$20.1B)</b>
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%





# Governor Deficit Reduction Plan (\$1.6 billion) FY 2009 and FY 2010

- Governor ordered:
  - ⊙ Medicaid and PeachCare cuts of 5% (\$108 million).
  - ⊙ Board of Education cuts of 2% (\$161 million)
  - ⊙ All other state agencies cut 6% (\$443 million)
  - ⊙ Cut Homeowners Tax Relief Grant (\$428 million)
- Agencies must also submit plans to cut budgets by 8% and 10%.
  - ⊙ Going from 6% to 10% cuts is an addition \$400 million.
- Governor does not plan to use RSR at this time.





## LONG TERM ISSUE: Expected Budget Growth

- Between \$500 million and \$1 billion in new revenues to pay for the basic growth in government in FY 2010
  - ◎ Board of Ed & Board of Regents Growth
  - ◎ Medicaid and PeachCare Growth
  - ◎ Prisoner Growth and Aging of Prison Pop.
  - ◎ New Debt Service





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# Balanced Deficit Reduction Plan

- Targeted and prioritized budget cuts.
- Revenue enhancements.
- Strategic use of Revenue Shortfall Reserve.





# Deficit Reduction Plan – Revenue Options

- Increase Cigarette Tax by \$1 pack - \$442 million
- Eliminate some special interest tax breaks - \$120 million
- 1% Income tax surcharge on family income above \$400,000 - \$225 million
- Reinstate Estate Tax - \$150 million
- Increase Sales Tax by 0.5 percent - \$700 million





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# Comprehensive Tax Reform and Modernization

- Solidify tax base to assure adequacy
- Improve fairness of tax system
- Modernize tax base for a 21<sup>st</sup> century economy
- Improve ability to withstand downturns to assure stability
- Increase accountability of tax expenditures – Tax Expenditure Report





# Comprehensive Tax Reform – 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.
  - ⦿ Cost-Benefit Analysis – Does tax policy make sense.
- Eliminate tax exemptions that do not make policy or economic sense.





# Comprehensive Tax Reform – Tax Cuts

- Property Tax (Georgia 35<sup>th</sup>)
  - ⊙ Targeted tax relief through property tax circuit breaker (ability to pay).
- Income Tax
  - ⊙ Expand tax brackets
  - ⊙ Increase exemptions
  - ⊙ Index to inflation
  - ⊙ Enact State Earned Income Tax Credit

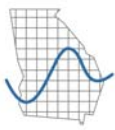




# Comprehensive Tax Reform – Tax Increases

- Increase cigarette tax
- Reinstate estate tax
- Based on tax expenditure report, eliminate some income and sales tax exemptions
- Expand sales tax to some household services
- Increase top income tax rate
- Close corporate tax loopholes
- Increase sales tax rate





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# Comprehensive Tax Reform

- To assure adequacy, tax cuts must be paid for.  
**NO FREE LUNCH!!!**
- Budget policy and tax policy must be linked.  
You get what you pay for!!!





# Contact Info

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