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## Analysis of the FY 2010 Budget: Closing One Year's Shortfall and Planning for Another

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State lawmakers closed the \$3.1 billion budget deficit for fiscal year 2010 during the last session by:

- cutting \$800 million from state agencies;
- eliminating the Homeowners Tax Relief Grant, thereby saving \$428 million;
- using \$1.4 billion from the federal State Fiscal Stabilization Fund and an increased federal Medicaid match (ARRA funds); and
- using \$500 million in various reserve funds.

During the first 11 months of FY 2009, revenues declined 10 percent from FY 2008 levels. Assuming a 10 percent revenue decline for the entire year, it will result in:

- An FY 2009 budget shortfall of \$600 million. The shortfall most likely will be closed by using most of the remaining Revenue Shortfall Reserve funds and end-of-year budget savings.
- An FY 2010 budget shortfall of \$800 million (based on Georgia State University projection of a 4 percent revenue decline in FY 2010). Without the availability of reserve funds Governor Perdue may need to lower the revenue estimate by as much as \$1 billion.

If lawmakers use the remaining \$690 million from the State Fiscal Stabilization Fund that has been set aside for FY 2011 to help close the FY 2010 deficit, then the state will go into FY 2011 facing a deficit of more than \$1.5 billion.

To avoid crippling cuts over the next two years to state services (education, healthcare, public safety, and social services, which represent 85 percent of Georgia's budget), lawmakers need to take a balanced approach to budgeting. The development of a fair and adequate tax system should be a crucial strategy to bring the state budget into long-term balance.

### FY 2010 Budget Overview

As it enters FY 2010, the state is already facing a looming deficit. The budget is out of balance before the new year starts because lawmakers based it on the FY 2009 amended budget passed in the recent legislative session, which used a revenue estimate that was based on a revenue decline of 6.8 percent under actual

revenues collected in FY 2008. On May 28, the governor lowered his FY 2009 revenue estimate by \$274 million; the FY 2009 budget now is based on an 8.3 percent revenue decline from FY 2008, and the FY 2010 budget is now based on a 0.5 percent decline in revenues under that. (See Table 1)

The governor's recent estimate was not low enough. Actual revenue collections through May are showing a revenue decline of 10 percent, and 18.6 percent between January and May. (If June revenue collections continue at this rate, the state will face a FY 2009 shortfall of at least \$600 million.)

If overall FY 2009 revenues decline by 10 percent, as opposed to the governor's projected 8.3 percent, FY 2010 revenues would have to grow by 1 percent to balance the FY 2010 budget. Although such revenue growth is highly unlikely, the Governor has not revised the FY 2010 revenue estimate. The Georgia State University Economic Forecasting Center recently projected that FY 2010 revenues will decrease by 4 percent from FY 2009 revenues.<sup>1</sup> Assuming a 10 percent revenue decline in FY 2009, a 4 percent revenue decline in FY 2010 would therefore result in an FY 2010 budget shortfall of \$800 million.

Reserve funds will most likely be exhausted to close out FY 2009, therefore the governor will likely be very conservative in revising the FY 2010 revenue estimate, *most likely lowering his FY 2010 revenue estimate by as much as \$1 billion.*

The FY 2010 state budget contains \$16.1 billion in general revenue funds, \$938 million in designated lottery funds, \$894 million in motor fuel funds for highways, \$310 million in tobacco settlement funds, \$66 million in payments from various authorities, and \$259 million from the Revenue Shortfall Reserve (RSR), totaling \$18.6 billion.<sup>2</sup>

**Table 1**  
**Changes in the FY 2010 Revenue Estimate Compared to the FY 2009**  
**Amended Budget Revenue Estimate<sup>3</sup>**

	<b>FY 2009 Amended Budget Revenue Estimate</b>	<b>FY 2010 Revenue Estimate</b>	<b>Percent Change</b>
<b>Taxes</b>			
Income Tax – Individual	\$8,224,075,509	\$8,238,130,400	0.2%
Income Tax – Corporate	\$695,434,000	\$542,867,700	-21.9%
Sales and Use Tax	\$5,432,735,812	\$5,213,143,800	-4.0%
Other Taxes	\$1,124,715,340	\$1,136,525,000	1.0%
Interest Fees and Sales	\$983,955,258	\$869,330,294	-11.6%
<i>Revised Revenue Estimate (May 28)</i>	<i>-\$274,342,946</i>		
<b>TOTAL GENERAL REVENUE</b>	<b>\$16,186,573,023</b>	<b>\$16,099,997,194</b>	<b>-0.5%</b>
<b>Other Revenue Sources</b>			
Motor Fuel Tax	\$993,534,395	\$894,250,000	-10.0%
Lottery Funds	\$880,152,075	\$938,089,332	6.6%
Tobacco Settlement Funds	\$159,069,341	\$310,975,744	95.5%
Brain and Spinal Injury Trust Fund	\$1,968,993	\$2,066,389	4.9%
Payments From Authorities	\$20,780,632	\$65,890,146	217.1%
Revenue Shortfall Reserve	\$200,000,000	\$258,597,684	29.3%
Midyear Adjustment Reserve	\$187,278,126		
<b>TOTAL STATE FUNDS</b>	<b>\$18,629,356,585</b>	<b>\$18,569,866,489</b>	<b>-0.3%</b>

The state budget contains two types of revenue, one derived from only taxes, and the second from other sources. Tables 2 and 3 delineate spending breakdowns for the state budget. As shown, over 95 percent of

general fund revenue is allocated towards education, healthcare, criminal justice, transportation, debt service, programs within the Departments of Human Services, and programs within the Department of Behavioral Health and Developmental Disabilities.

**Table 2**  
**FY 2010 General Funds Budget**  
**(Includes Motor Fuel Funds)**

Funding Area	
Education	56.8%
Criminal Justice	9.8%
Medicaid and PeachCare	9.5%
Health and Social Services	9.0%
Debt Service	6.5%
Transportation	4.1%
All Other Government	4.3%

**Table 3**  
**FY 2010 Total State Funds Budget**  
**(Includes Lottery Funds and Tobacco Funds)**

Funding Area	
Education	58.1%
Health and Social Services	10.0%
Criminal Justice	9.1%
Medicaid and PeachCare	8.9%
Debt Service	6.1%
Transportation	3.8%
All Other Government	4.0%

### Revenue Shortfall Reserve

The revenue shortfall reserve (RSR) is Georgia's rainy day fund, established to help Georgia get through tough economic times. As shown in Table 4, \$566 million is currently available in the RSR to cover potential revenue shortfalls in FY 2009 and FY 2010.

At the end of FY 2007, the RSR contained \$1.5 billion. Lawmakers used a third of this to cover the FY 2008 shortfall during the year. More than \$200 million surplus funds were then added to the RSR at the end of FY 2008 after the audit, bringing the balance to \$1.2 billion heading into FY 2009. Lawmakers then used \$187 million from the RSR's midyear adjustment reserve for education and \$200 million from the RSR to balance the FY 2009 amended budget. The FY 2010 budget allocates \$258 million from the RSR.

Most, if not all, of the \$565 million remaining in the RSR will most likely be needed to close out FY 2009 due to the \$600 million projected shortfall.

**Table 4**  
**Revenue Shortfall Reserve<sup>4</sup>**

FY 2007 Revenue Shortfall Reserve	\$1,544,595,188
Revenue Shortfall Reserve Funds Used to Balance FY 2008 Budget	-\$536,218,804
FY 2008 Audit Surplus	\$203,406,862
Revenue Shortfall Reserve as of June 30, 2008	\$1,211,783,246
Amended FY 2009 Midyear Adjustment Reserve for Education	-\$187,278,126
Amended FY 2009 Appropriation of RSR	-\$200,000,000
FY 2010 Appropriation of RSR	-\$258,597,684
<b>Available RSR</b>	<b>\$565,907,436</b>

### Reducing the FY 2010 Deficit

When lawmakers created the FY 2010 budget they were facing a \$3.14 shortfall compared to the original FY 2009 budget as passed during the 2008 session of the General Assembly, (a 15.6% difference). They

passed a balanced budget through a combination of budget cuts, various reserve and other funds, and ARRA funds.

**Table 5  
FY 2010 Deficit Reduction Measures**

Increased Medicaid Funds (ARRA)*	\$733,542,592
State Fiscal Stabilization Funds (ARRA)	\$661,430,468
Revenue Shortfall Reserve	\$258,597,684
Tobacco Settlement Fund Reserve	\$151,906,403
Payments From Authorities	\$65,890,146
Super Speeder Fines	\$23,000,000
Elimination of Homeowners Tax Relief Grant	\$428,290,501
Net State Agency Budget Cuts	\$823,160,685
<b>TOTAL FUNDS</b>	<b>\$3,145,818,805</b>

\*Included in these totals are \$7.2 million in additional Foster Care Title IV-E funds Georgia received from enhanced FMAP rates.

## American Recovery and Reinvestment Act Funds

### State Fiscal Stabilization Funds and FMAP

There are two funding sources from ARRA legislation that are available to Georgia between FY 2009 to FY 2011 to use to balance its budget: the State Fiscal Stabilization Fund (\$1.54 billion) and increases in the federal Medicaid Assistance Percentage (known as FMAP) from 64.9 percent to 74.8 percent (\$1.6 billion).

Lawmakers included \$190 million from the State Fiscal Stabilization Fund and \$477 million in increased FMAP to help balance the FY 2009 budget and prevent cuts. To balance the FY 2010 budget as passed, lawmakers allocated more than \$661 million from the State Fiscal Stabilization Fund and budgeted approximately \$731 million from FMAP.

Both sources are used primarily to backfill general state fund shortfalls. In other words, as lawmakers appropriate these federal funds to various state agencies, they remove an equivalent amount of state funds. Using \$1.4 billion in FMAP and State Fiscal Stabilization Funds this way prevented \$1.4 billion of additional budget cuts to education, Medicaid, and public safety programs due to insufficient state revenues in FY 2010.

Currently, approximately \$690 million in additional State Fiscal Stabilization Funds are not allocated and could help cover projected shortfalls in FY 2009 or FY 2010, or be appropriated in FY 2011. Increased FMAP funds (\$446 million) will be available only for FY 2011.

**Table 6**  
**FY 2009 and FY 2010 Budget**  
**Increased FMAP and State Fiscal Stabilization Funds**

	<b>FY 2009</b>	<b>FY 2010</b>	<b>Total Appropriated</b>	<b>Remaining Funds</b>
<b>FMAP FUNDS</b>				
Department of Community Health	\$427,000,000	\$649,894,414	\$1,076,894,414	
Department of Behavioral Health and Developmental Disabilities	\$43,242,131	\$65,059,142	\$108,301,273	
Department of Human Services *	\$6,757,869	\$11,411,119	\$23,368,540	
<b>TOTAL FMAP</b>	<b>\$477,000,000</b>	<b>\$726,364,675</b>	<b>\$1,208,564,227</b>	<b>\$446,191,000</b>
<b>FISCAL STABILIZATION</b>				
Board of Education	\$157,931,192	\$413,145,927	\$571,077,119	
Board of Regents	\$17,189,581	\$92,617,896	\$109,807,477	
Technical College System	\$2,114,871	\$15,406,239	\$17,521,110	
Department of Corrections	\$10,000,000	\$97,234,674	\$107,234,674	
GBI		\$6,132,772	\$6,132,772	
Juvenile Justice		\$28,020,203	\$28,020,203	
Department of Public Safety		\$8,872,757	\$8,872,757	
Department of Revenue	\$2,356,685		\$2,356,685	
<b>TOTAL FISCAL STABILIZATION</b>	<b>\$189,592,329</b>	<b>\$661,430,468</b>	<b>\$851,022,797</b>	<b>\$690,296,671</b>
<b>TOTAL FMAP and STATE FISCAL STABILIZATION</b>	<b>\$666,592,329</b>	<b>\$1,387,795,143</b>	<b>\$2,059,587,024</b>	<b>\$1,136,487,671</b>

\*Not included in these totals are \$7.2 million in additional Foster Care Title IV-E funds Georgia received from enhanced FMAP rates. These federal funds also replace state fund shortages.

### Program-Specific ARRA Funds

The FY 2010 budget also includes \$54.1 million in program-specific ARRA funding. These funds are not used to help balance state budgets, but are available to states in order to supplement existing state and federal programs. Georgia has allocated the following:

**Table 7**  
**Program Specific ARRA Funding**

Childcare and Parent Services Program	\$36,000,000
Child Support Services	\$14,000,000
Food Stamp Eligibility and Benefits (for caseload growth)	\$2,000,000
Food Banks	\$1,100,000
Elder Support Nutritional Services Incentive Program*	\$1,045,000
<b>TOTAL PROGRAMATIC ARRA FUNDS</b>	<b>\$54,145,000</b>

\* This ARRA funding does supplant state funds.

### **State Agency Budget Breakdown**

The FY 2010 general fund budget is \$2.8 billion less than the FY 2009 budget, a 13.9 percent decrease. Eliminating the Homeowners Tax Relief Grant saves the state \$428 million. In many cases, general fund

reductions were supplanted by ARRA funds, TANF funds, or reserve funds, thus avoiding further cuts to services. Highlights include:

Department of Education – Cuts from the general fund are \$803 million (9.8% of the total DOE budget). However, lawmakers are using \$166 million in State Health Benefit Plan surpluses to cover the Department of Education health insurance contribution for non-certificated employees and retirees, therefore actual overall cuts are \$636 million (7.7% of the total DOE budget). Key reductions in state funding include:

- Board of Education equalization grants: \$122 million
- K-12 QBE funding formula: \$654 million

Department of Human Services – The general fund budget cut is \$112 million (18.1%). Federal TANF funds supplanting state funds total \$27.4 million. Funding for the Office of Regulatory Services is transferred to the Department of Community Health (\$5.9 million). Key reductions in state funding include:

- Child Welfare Services: \$17.6 million
- Child Welfare Out-of-Home Care: \$18.6 million
- Elder Community Living Services: \$6.2 million

Department of Behavioral Health and Developmental Disabilities – The general fund budget cut is \$118 million (14.7%). Key reductions in state funding include:

- Adult Mental Health Services: \$10.7 million.
- Child and Adolescent Mental Health Services: \$17.2 million.
- Adult Developmental Disabilities Services: \$5.5 million.

**Table 8  
FY 2010 General Funds Budget Compared to FY 2009 Original Budget**

	<b>FY 2009 Budget</b>	<b>FY 2010 Budget</b>	<b>Percent Increase/Decrease</b>
<b>STATE AGENCY</b>			
Accounting Office	\$5,456,173	\$4,626,452	-15.2%
Administrative Services	\$13,792,429	\$7,194,199	-47.8%
Agriculture	\$46,719,425	\$43,529,578	-6.8%
Banking and Finance	\$12,898,273	\$12,355,581	-4.2%
Behavioral Health and Dev Disabilities	\$809,013,405	\$690,425,261	-14.7%
Community Affairs	\$53,426,544	\$26,933,317	-49.6%
Community Health	\$2,655,165,219	\$2,011,404,214	-24.3%
Corrections	\$1,157,668,132	\$986,640,067	-14.8%
Defense	\$11,716,641	\$10,693,740	-8.7%
Driver Services	\$62,791,511	\$59,251,761	-5.6%
Early Care and Learning	\$4,574,106	\$3,944,272	-13.8%
Economic Development	\$39,581,672	\$33,148,712	-16.3%
Education	\$8,195,597,771	\$7,393,006,953	-9.8%
Employees Retirement System	\$7,151,826	\$7,187,430	0.5%
Forestry	\$39,265,053	\$34,463,728	-12.2%
Governor's Office	\$47,774,172	\$48,985,692	2.5%

Department of Human Services	\$621,711,481	\$509,461,256	-18.1%
Insurance	\$19,230,125	\$17,321,489	-9.9%
Georgia Bureau of Investigation	\$77,283,468	\$62,905,982	-18.6%
Juvenile Justice	\$345,129,544	\$288,029,073	-16.5%
Labor	\$55,769,092	\$47,432,021	-15.0%
Law	\$19,650,981	\$18,008,924	-8.3%
Natural Resources	\$130,877,057	\$102,810,328	-21.5%
Pardons and Parole	\$58,439,590	\$53,417,306	-8.6%
Public Defenders Standards Council	\$40,439,957	\$39,789,395	-1.6%
Public Safety	\$135,260,351	\$106,167,357	-21.5%
Public Service Commission	\$10,348,009	\$9,735,943	-5.9%
Board of Regents	\$2,278,680,052	\$2,063,094,628	-9.5%
Dept. of Revenue	\$129,207,540	\$113,085,387	-12.5%
Secretary of State	\$40,504,390	\$33,871,025	-16.4%
Soil and Water Conservation	\$3,572,839	\$3,185,293	-10.9%
Student Finance Commission	\$31,553,893	\$37,699,977	19.5%
Teachers' Retirement System	\$1,523,000	\$1,129,000	-25.9%
Technical College System	\$370,975,007	\$331,829,976	-10.6%
Transportation (State Funds)	\$29,659,047	\$15,420,784	-48.0%
Transportation (Motor Fuel)	\$826,557,516	\$688,318,657	-16.7%
Veterans Service	\$25,701,669	\$22,822,878	-11.2%
Workers Compensation	\$17,720,194	\$19,319,813	9.0%
<b>OTHER ITEMS</b>			
General Obligation Debt (State Funds)	\$794,073,670	\$906,108,385	14.1%
General Obligation Debt (Motor Fuel)	\$215,601,343	\$224,681,343	4.2%
Homeowners Tax Relief Grant	\$428,290,501		-100.0%
Legislative Branch	\$77,084,764	\$71,033,242	-7.9%
Judicial Branch	\$169,523,185	\$160,138,013	-5.5%
<b>STATE GENERAL FUND EXPENDITURES</b>	<b>\$20,116,960,715</b>	<b>\$17,320,608,433</b>	<b>-13.9%</b>

The education, healthcare, and criminal justice state agencies would have had to endure severe cuts due to state fund shortfalls but for ARRA funds that bolstered the state budget. The following are areas lawmakers allocated ARRA funds and cushioned the cuts:

- Using ARRA funds, the Board of Education is cut \$223 million (2.7%). Without ARRA funds the cut would have been \$636 million (7.7%).
- Using ARRA funds, the Board of Regents budget cut is \$123 million (5.4%). The cut would have been \$216 million (9.5%) without them.
- The increased Medicaid match (\$650 million) from ARRA resulted in a 0.2 percent increase in the Department of Community Health (DCH) budget, allowing for full funding of projected Medicaid growth. Without the ARRA funds the DCH budget would have been cut by \$643 million (24.3%).
- The increased FMAP resulted in cuts of \$53.5 million (6.6%) in the Department of Behavioral Health and Developmental Disabilities. Without it, cuts would have been \$118.6 million (14.7%).
- The increased FMAP and other ARRA funding resulted in \$92.6 million (14.9%)<sup>5</sup> in cuts to the Department of Human Services. The cut would have been \$112.2 million (18.1%) without them.
- Using ARRA funds, the Department of Corrections is cut \$73.8 million (6.4%). Without the ARRA funds the cut would have been \$171 million (14.8%).

**Table 9**  
**FY 2010 General Funds and ARRA Funds Used to Replace State Funds**  
**Compared to the FY 2009 Original Budget**

	<b>FY 2009 Original Budget</b>	<b>ARRA Funds used to Replace State Funds</b>	<b>FY 2010 Budget with ARRA funds that Replaced State Funds</b>	<b>Percent Increase/ Decrease</b>
<b>STATE AGENCY</b>				
Behavioral Health and Developmental Disabilities	\$809,013,405	\$65,059,142	\$755,484,403	-6.6%
Community Health	\$2,655,165,219	\$649,894,414	\$2,661,298,628	0.2%
Corrections	\$1,157,668,132	\$97,234,674	\$1,083,874,741	-6.4%
Education*	\$8,195,597,771	\$413,145,927	\$7,972,800,861	-2.7%
Department of Human Services*	\$621,711,481	\$19,634,037	\$529,095,293	-14.9%
Georgia Bureau of Investigation	\$77,283,468	\$6,132,772	\$69,038,754	-8.4%
Juvenile Justice	\$345,129,544	\$28,020,203	\$316,049,276	-8.4%
Public Safety	\$135,260,351	\$8,872,757	\$115,040,114	-15.0%
Board of Regents	\$2,278,680,052	\$92,617,896	\$2,155,712,524	-5.4%
Technical College System	\$370,975,007	\$15,406,239	\$347,236,215	-6.4%
<b>OTHER ITEMS</b>				
Homeowners Tax Relief Grant	\$428,290,501			-100%
Debt Service	\$1,009,675,013		\$1,130,789,728	12%
Other Agencies	\$2,032,510,771		\$1,746,853,938	-14.1%
<b>TOTAL</b>	<b>\$20,116,960,715</b>	<b>\$1,396,018,061</b>	<b>\$18,883,274,475</b>	<b>-6.1%</b>

\* The FY 2010 Department of Education (DOE) budget includes \$166 million from State Health Benefit Plan surpluses, which covers the DOE health insurance contribution for non-certified employees and retirees.

\* If the \$27.4 million in TANF funds that replaced state funds are included, the DHS budget cut is actually 10.5%.

### **Bond Projects**

The FY 2010 budget contains \$1.2 billion in bond projects, which will increase the existing debt service by \$121.1 million.

**Table 10**  
**FY 2010 Bond Funding**

	<b>Funds</b>	<b>Percentage</b>
<b>Board of Regents</b>	\$339,770,000	28.0%
<b>Board of Education</b>	\$297,620,000	24.6%
<b>Technical College System</b>	\$165,100,000	13.6%
<b>Department of Transportation</b>	\$123,000,000	10.2%
<b>Environmental Facilities Authority</b>	\$45,000,000	3.7%
<b>Department of Agriculture</b>	\$38,850,000	3.2%
<b>Georgia Ports Authority</b>	\$36,045,000	3.0%
<b>Department of Corrections</b>	\$34,530,000	2.9%
<b>Board of Regents – Local Libraries</b>	\$27,620,000	2.3%
<b>Jeckyl Island Authority</b>	\$25,000,000	2.1%
<b>Department of Natural Resources</b>	\$79,570,000	6.7%
<b>TOTAL</b>	<b>\$1,212,105,000</b>	<b>100%</b>

## Conclusion

This past legislative session the governor and General Assembly closed a \$3.1 billion deficit for the upcoming FY 2010 budget year through a combination of cutting the budget, eliminating the Homeowners Tax Relief Grant, using various reserve funds, and using federal stimulus funds. As FY 2009 comes to an end June 30, the state faces a shortfall of at least \$600 million, while the FY 2010 budget is heading towards an additional shortfall of up to \$1 billion.

In order to balance the FY 2009 and FY 2010 budgets, lawmakers will need to use most, if not all of the reserve funds and may use most of the remaining federal stimulus funds. As reserve funds and federal stimulus funds are one-time revenue sources, and as economic growth is projected to remain weak, lawmakers will likely need to cut funding to state agencies by as much as \$1.5 billion by FY 2011 if they do not add additional sources of revenue. In that 85 percent of the state budget is spent on education, healthcare, public safety, and social services, they will need to make significant cuts in these areas.

### Revenue Solutions for the Revenue Problem

These recurring budget shortfalls are due to a combination of a historically weak economy, a shrinking tax base (due to 15 years of tax cuts and breaks), and an antiquated tax code that has not kept up with a changing economy.

**Georgia does not have a spending problem:** Georgia ranks 49<sup>th</sup> among the 50 states in per capita state expenditures.

**These recurring budget shortfalls are not a matter of waste and inefficiency:** Georgia has the highest performance management grade in the Southeast and is one of the top eight, best-managed states in the country, according to the Pew Center on the States.<sup>6</sup>

**Georgia has a revenue problem.** The state can only solve this problem through fundamental tax reform that links the budget needs of the state to a modern, 21<sup>st</sup> century tax system. A fair and adequate tax structure can and should be developed that enables funding high-quality government services in a modern and growing state.

Given the immediate fiscal crisis and the long-term structural budget 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>7</sup>

#### **Short-term revenue raising options include:**

- Increase the cigarette tax by \$1 a pack to raise \$400 million.
- Impose a temporary 1 percent surcharge on family income over \$400,000 to raise an estimated \$225 million. (Impacts less than 1 percent of taxpayers.)
- Reinstate the state estate tax to raise between \$100 million and \$150 million. (Would impact less than 1 percent of all estates).
- Lower the cap on various credits and exemptions. For example, lower the \$50 million cap on the tax credit for student scholarship organization donations to \$2 million.
- Adequately fund the Department of Revenue, enabling it to hire additional auditors, which, as estimated by the Department of Revenue, would bring in an estimated \$800,000 of tax revenue owed to the state per auditor.

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 equitably raise the funds necessary to provide the high quality public services and infrastructure that Georgians demand and deserve?

Such tax reform and modernization for the long term include:

- Create a tax break budget (as called for in Senate Bill 206) to increase transparency and accountability for tax breaks. Georgia needs this to detail the costs and benefits of tax breaks. A tax break budget, as found in 39 other states, would provide data that legislators and the public need in order 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 21<sup>st</sup> 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
  - creating a state Earned Income Tax Credit.

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

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<sup>1</sup> "Forecast of Georgia and Atlanta May 2009," Georgia State University Economic Forecasting Center."

<sup>2</sup> All FY 2010 budget data is from the Committee on Conference Report on House Bill 119.

<sup>3</sup> "State of Georgia Bond Sale Official Statement," May 6, 2009, [http://gsfic.georgia.gov/vgn/images/portal/cit\\_1210/10/60/1404843172009C-D-E%20Georgia%20GO%20Bonds%20Final%20Official%20Statement.pdf](http://gsfic.georgia.gov/vgn/images/portal/cit_1210/10/60/1404843172009C-D-E%20Georgia%20GO%20Bonds%20Final%20Official%20Statement.pdf).

<sup>4</sup> Ibid.

<sup>5</sup> The DHS budget includes \$27.4 million in TANF funds which also replaced state funds. Using the TANF funds, the DHS budget cut is now \$65.2 million (10.5 percent). For more information about the DHS budget see GBPI's report "Highlights of the FY 2010 General Fund Budget for the Department of Human Services and the Department of Behavioral Health and Developmental Disabilities," available at [www.GBPI.org](http://www.GBPI.org).

<sup>6</sup> "Measuring Performance: The State Management Report Card for 2008," *Governing Magazine*. <http://www.pewcenteronthestates.org/uploadedfiles/grading-the-States-2008.pdf>, retrieved June 8, 2009.

<sup>7</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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