

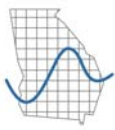


# *The Georgia Fiscal Crisis: FY 2010 and FY 2011*

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March, 2010





# Georgia Budget Shortfalls

- FY 2010 deficit – \$4.6 billion: How the General Assembly closed the gap
  - ⊙ Made almost \$2 billion in budget cuts
  - ⊙ Eliminated the tax break *Homeowner's Tax Relief Grant* – \$428 million
  - ⊙ Used \$1.4 billion in Federal Recovery Act Funds
  - ⊙ Used \$800 million in reserve and other one-time funds (very little remains for future)
- Revenues coming in below estimate – \$200 to \$300 million additional shortfall





# Georgia Budget Shortfalls

- FY 2011 deficit – \$4 billion: How the governor proposes closing the gap
  - ◎ Includes 4% revenue growth
  - ◎ Net state agency budget cuts - \$2 billion
  - ◎ Using Recovery Act funds - \$1.4 billion
  - ◎ CMO/Hospital fee - \$345 million
  - ◎ GEFA securitization - \$287 million
  - ◎ CMO insurance premium tax - \$68 million





# Georgia Budget Shortfalls

- FY 2011 – Additional potential shortfall of as much as \$1 billion
  - ⊙ Plan to Move \$300 million in Recovery Act funds from FY 2011 to FY 2010.
  - ⊙ Must lower FY 2011 revenue estimate by \$200 to \$400 million to account for continued revenue decline.
  - ⊙ If CMO/Hospital tax not approved for FY 2011 budget, short \$300 million.
  - ⊙ If GEFA securitization not approved for FY 2011 budget, short \$300 million.





# Georgia Budget Shortfalls

- FY 2012 – Governor projects \$2.6 billion shortfall
  - ◎ Replacing one-time funds - \$1.7 billion
  - ◎ Projected budget growth - \$844 million





# Competing Philosophies

- 100% budget cuts and additional tax cuts, or
- Balanced approach of targeted budget cuts and targeted revenue increases.





# Are Budget Priorities the Problem?

- 96% of budget spent on education, healthcare, public safety, transportation, Department of Human Services, and debt service (\$16.8 billion).
- 4% of budget spent on remaining 20 agencies and the legislative branch (\$691 million).

**NO**





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

- Even if you were to eliminate entire budgets of the “4%” you save only \$691 million but layoff more than 13,000 state employees.
- Still would need to cut the rest of budget by an additional \$1.9 billion (11%) during the next two years.





# Without Further Revenues, Georgia Faces Fundamental Policy Decisions Not Just Management Issues

- **Education (\$9.2 billion budget)**
  - ◎ 80% salaries
  - ◎ Cuts save funds through fewer teachers (larger class sizes, fewer school days fewer colleges), and/or pay cuts.
- **Healthcare (\$2.9 billion budget)**
  - ◎ Cuts save funds through serving fewer low-income pregnant women, children, elderly, and disabled, and/or paying providers less.





# Without Further Revenues, Georgia Faces Fundamental Policy Decisions — Not Just Management Issues

- Department of Human Services (\$488 million budget)
  - ◎ Save funds through cutting protection and safety net programs.
- Public Safety (\$1.7 billion budget)
  - ◎ Save funds through fewer prisoners, parolees, and public safety officers.





## A Balanced Approach to Solving a Budget Crisis

“We cannot just cut or just tax our way out of this immediate budget shortfall. We must have a responsible, balanced approach of painful cuts and new revenue.”

(Governor Gregoire, Washington State of State address)

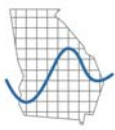




## Targeted Tax Increases Do Not Hurt Economy During a Recession

- After 2001 recession tax raising states showed similar increases in wages, jobs, and income as national average.
- Leading economists have called for states to use a balanced approach in state deficit reduction.





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## Short Term: Avoid Further Erosion of Our Tax Base

**Further tax cuts will only increase the deficits (HB 1023 and HB 1024).**

- ◎ **So-called supply-side state tax cuts will have:**
  - minimal positive impact on private sector jobs
  - negative impact on public and private sector jobs

**General Assembly should take a moratorium on further special interest tax breaks.**





# Short Term: A Balanced Approach to Reducing the Deficit

**The General Assembly should implement a balanced approach, including such options as:**

- ⊙ Increase the cigarette tax by \$1 a pack (raises \$300 to \$400 million);
- ⊙ Temporary 1% surcharge on family income over \$400,000 (raises \$225 million);
- ⊙ Broaden sales tax base
- ⊙ Scale back special interest tax breaks;
- ⊙ Implement policies to help collect the estimated \$1 billion in uncollected tax revenues from all sources.





# Long Term: Georgia Is Facing a Structural Deficit

## Greater Demands on Current Budget

- ⊙ Increased number of students in K-12, Board of Regents, and tech schools
- ⊙ Increased number of enrollees in Medicaid and PeachCare
- ⊙ Increased number of state prisoners and an aging prison population (increased healthcare costs)
- ⊙ Increased debt service from building and repairing roads, schools, and state-owned buildings
- ⊙ Teacher & other state employee salary increases





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# Long Term: Georgia Is Facing a Structural Deficit

## New State Priorities

- ⊙ Mental health funding
- ⊙ Transportation
- ⊙ Water
- ⊙ Implementing national healthcare reform

**How will Georgia meet these goals without new revenues?**





# Long-Term Solution: Transparency and Accountability

## Increase tax transparency and accountability: Implement a *Tax Expenditure Report*

*Treat tax expenditures as we treat budget expenditures:*

- ⦿ Highlight all tax breaks currently in law (i.e. sales, income, property)
- ⦿ Estimate lost revenue
- ⦿ Perform cost-benefit analysis
- ⦿ 39 states do this, but Georgia does not!

**SB 206**



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## Long-Term Solution: 21<sup>st</sup> Century Georgia Tax Code

**Georgia has an antiquated tax and revenue system:**

- ◎ **Income tax was developed in 1937**
- ◎ **Sales tax implemented in 1951 has been dramatically narrowed**
- ◎ **Many fees have not been increased in more than 20 years**





# Georgia Has a Structural Deficit

Can Georgia afford billions of dollars in additional budget cuts over the next two years?





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