



TAX REFORM: A REALITY CHECK

GEORGIA WILL NOT “GROW ITS WAY OUT” OF THE HR 1246 REVENUE CUTS

How will the state budget handle a \$773 million shortfall in 2011?

It is unrealistic to count on revenue growth alone to cover such a shortfall. In non-recession years revenue growth has averaged approximately 8 percent a year over the past 20 years. Revenues have only grown 1.9 percent in the first 8 months of the current fiscal year, and the Governor’s current revenue estimate is for only 4.3 percent growth in FY 2009.

Revenues would need to grow approximately 4 percent to cover a \$773 million shortfall. It would take an additional 4 percent revenue growth to cover education enrollment increases and a modest teacher and state employee salary increase. This 8 percent growth in revenues does not include inflationary increases for healthcare (Medicaid, PeachCare, State Employees Health Benefit Plan), new debt service to pay for infrastructure needs (schools, water and sewer, prisons, maintenance of state owned buildings including hospitals), increases in Department of Corrections budget due to growth in state prison population, or state employee retiree health plan obligations (OPEB). Georgia would need revenue growth of over 11 percent to cover the \$773 million shortfall and pay for enrollment growth, inflation related expenses, and other known obligations. Of course it would take even more revenue growth to pay for improvements to education (lower class size, salary increases above inflation, fully funding formulas) and improvements to the scandalous mental health and child welfare systems. Georgia has only had 10 percent revenue growth once in the past 20 years (FY 1993), and currently the state and nation are entering into an economic recession.

Given that the state budget will surely not “grow its way out of this” based on historic rates of growth and recent economic trends, the only other options will be to raise taxes or cut spending:

- Spending Cuts. A \$773 million cut to programs represents:
 - 10 percent of K-12 education; or,
 - 33 percent of the Board of Regents budget; or,
 - 100 percent of the PeachCare budget and 30 percent of Medicaid; or,
 - 65 percent of the Department of Corrections budget.

In that 75 percent of the state budget pays for education, healthcare, and criminal justice, it will be impossible to balance the state budget without some combination of deep cuts to these services.

How can Georgia make the investments necessary in education, transportation, communications, healthcare, and water infrastructures that will allow Georgia businesses to compete in the 21st century economy without an adequate revenue stream? How will Georgia be in a position to improve our scandalous mental health and child protective services systems with a \$773 million hole in the state budget? It is important to note that Georgia is already among the lowest tax states in the nation.