

# Georgia Budget Primer 2013

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## ■ About the Georgia Budget and Policy Institute

The Georgia Budget and Policy Institute (GBPI) seeks to build a more prosperous Georgia. We rigorously analyze budget and tax policies and provide education to inspire informed debate and responsible decision-making, advancing our vision of a state in which economic opportunity and well-being are widely shared among all. GBPI is an independent, nonprofit, nonpartisan organization founded in 2001. Visit [www.gbpi.org](http://www.gbpi.org) for more information.

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## ■ Introduction

Four years after the biggest recession since the Great Depression, Georgia is recovering, albeit slowly. With nearly 220,000 jobs lost since the start of the recession and \$2 billion less in state coffers, Georgia has responded with years of belt-tightening and austerity, challenging the state's ability to provide critical services and lay the groundwork for a robust recovery. Today, Georgia has fewer revenues to meet the needs of school children and college students, ensure safe neighborhoods, provide health care for the elderly and disabled, help abused children, and improve economically vital highways and transit systems. Experts call it a "structural deficit"—year after year, budget after budget, the money coming in is not enough to keep pace with the needs of Georgians and demands of a modern economy.

The Georgia Budget and Policy Institute (GBPI) Georgia Budget Primer 2013 provides a snapshot of Georgia's finances and the trends that must be reversed to put the state on sound economic footing.

In developing a solid financial plan for Georgia, it is important for policymakers to set priorities that meet the needs of Georgians and make the necessary investments to attract business, create jobs, and grow the economy. A balanced approach that includes strategic investments in areas that make Georgia competitive is essential for the state's future. Public education, transportation, public safety, and quality of life are key areas that we must not sacrifice.

For more in-depth analyses of the enacted FY 2013 budget, visit [www.gbpi.org](http://www.gbpi.org).

## ■ Importance of the State Budget

The state budget is the ultimate financial plan that determines how much Georgia will invest in programs and services that touch the lives of all Georgians. Investing wisely and adequately in education, health, safety, and transportation saves the state money and builds wealth in the long run.

### Examples of How the State Budget Affects Us

- More than 1.7 million students are educated in Georgia's K-12 public school system.
- Some 500,000 students are educated in the state's technical colleges, 4-year colleges, and universities.
- Approximately 1.7 million Georgians who are elderly, disabled, children, or low-income parents receive state supported health insurance coverage. Furthermore, 700,000 working or retired state employees, teachers, other school district employees, and their families receive health insurance through the State Health Benefit Plan.
- More than 86,000 acres of state parks, historic sites, and other amenities provide recreation areas for 10 million visitors annually.
- More than 55,000 inmates are housed in Georgia's correctional system, and more than 150,000 offenders are on state supervised probation.

Source: Governor's Budget Report, FY 2013

## ■ Where Georgia Ranks

Georgia faces severe challenges as it struggles to recover from one of the worst recessions since the Great Depression. High unemployment, years of budget cuts, and an outdated revenue system threaten the state's ability to educate its children, provide health care for the elderly, and ensure the safety of all communities. Now more than ever, a balanced approach to the state budget that includes revenue increases, rather than relying only on spending cuts, is crucial to investing in the State's economy and getting Georgia back on track. Georgians expect good public education, a clean environment, efficient transportation, safe communities, and humane social services. All are key elements of Georgia's competitive edge.

Poor public services, dilapidated highways, aging school buildings, and outdated communications technology do not stimulate job creation or build strong communities. Every dollar of public spending must be scrutinized to ensure that taxpayers get the highest value for their dollar.

Georgia has considerable ground to make up. Among the states, it ranks:

- 5<sup>th</sup> in the number of residents without health insurance
- 50<sup>th</sup> (out of 51) in Medicaid expenditures per beneficiary (28 percent below national average)
- 11<sup>th</sup> for the number of children living in poverty (26.3 percent, or 646,824 children)
- 5<sup>th</sup> for poverty among all ages (19.1 percent, or 1,827,743 Georgians)
- 34<sup>th</sup> in 4<sup>th</sup> grade math test scores
- 26<sup>th</sup> in 4<sup>th</sup> grade reading test scores
- 40<sup>th</sup> in 8<sup>th</sup> grade math test scores
- 34<sup>th</sup> in 8<sup>th</sup> grade reading test scores
- 50<sup>th</sup> in state tax revenue per capita
- 44<sup>th</sup> in state tax revenue as percentage of income
- 39<sup>th</sup> state and local tax revenue per capita
- 38<sup>th</sup> state and local tax revenue as a percent of income

Sources: U.S. Bureau of the Census, Kaiser Family Foundation Website: StateHealthFacts.org, National Assessment of Educational Progress (NAEP), Federation of Tax Administrators

## ■ Budget Basics

The state's fiscal year (FY) 2013 runs from July 1, 2012 through June 30, 2013, and Georgia's budget is \$39.5 billion. That includes \$19.3 billion in state funding, \$11.3 billion in federal funding, and \$8.9 billion in other funds.

The state budget is the most important piece of legislation lawmakers pass. It is the only legislation that the General Assembly is mandated to pass each year. The state constitution requires Georgia to maintain a balanced budget, which means the government cannot spend more money than it collects in revenues.

The budget outlines the government's spending plan, its priorities, and how much revenue it expects to collect. The budget process is continuous. Even as Georgia is implementing its current budget, it is auditing the previous year's budget and planning for the next one. Beyond the General Assembly, many others participate in the budget process, including the governor, state budget director, state economist, agency leaders and budget officials, the state auditor, and citizens and advocates.



## ■ Key Stages in the Budget Cycle

### Development/Proposal

1. The budget process begins in the spring as state agencies prepare planning documents and budget requests for submission to the Governor's Office of Planning and Budget (OPB).
2. By early summer, the OPB Director sends guidelines for enhancements or cuts that should be included in the budget requests.
3. All requests for the current fiscal year and the new budget for the upcoming fiscal year must be submitted by September 1.
4. Between September and December, the governor, governor's staff, and agency leaders review the state agency budget requests.
5. By the end of the year, the governor finalizes the budget proposal, taking estimated revenue levels into account.

### Appropriations

1. Within five days after the legislative session starts in January, the governor presents his budget proposal to the General Assembly, and lawmakers review it.
2. The Appropriations committees in the House of Representatives and Senate jointly host budget hearings to learn more about the budget proposal, and then the House and Senate appropriations subcommittees each hold additional budget hearings.
3. The House votes first on any changes to the current fiscal year budget.
4. The Senate reviews the House-passed budget and makes changes.
5. Once the legislature has passed changes for the current fiscal year, the same procedure is followed for the upcoming fiscal year.
6. As the budgets passed by the House and Senate differ, the Lieutenant Governor and Speaker of the House appoint a conference committee to agree on a single version of the budget.
7. Then, the Senate and House each vote to approve the final version.
8. The governor has 40 days from the end of the legislative session to sign the budget bills into law and veto specific parts of the bills.

## ■ Where Does the Money Come From?

Over time, Georgia's revenue has been eroded by the changing economy, shifting from manufacturing to services, years of tax cuts, and the Great Recession. Comprehensive tax reform is needed to ensure the budget is supported by diverse sources of revenue, which are critical to a state's fiscal health.

Georgia relies on a number of taxes, fees, and funds, which can be categorized as:

- Incomes taxes (personal and corporate)
- Sales taxes
- Other excise taxes and fees
- Designated funds and other revenue sources (such as the Georgia Lottery and Tobacco Settlement Fund)

### **Tax Expenditures: Spending by Another Name**

Georgia foregoes more than \$3 billion a year on hundreds of special exemptions, credits, preferential rates, and other tax preferences, known collectively as "tax expenditures." They are meant to encourage certain activities and goals. In 2011, for example, Georgia gave up an estimated \$37 million through an income tax exemption for the state's budding film industry, while in that same year it lost nearly \$200 million per year for various agricultural exemptions.

This is no different than spending that money through the traditional budget process. Yet, this hidden spending often stays on the books for years, even decades, without review. Many of these tax expenditures are based on sound tax and economic policies, implemented in all states. At the same time, a great deal of others are unproven and potentially wasteful and need to be reviewed more closely. In 2010, the legislature required Georgia to publish an annual tax expenditure report, which lists many of these provisions and estimates their annual value. More information is needed, however, to determine whether Georgia's tax-side expenditures are actually achieving their goals.

**Figure 1 Where Does the Money Come From? Revenue Estimate, FY 2013**

<b>FY 2013 Revenue Estimate and Other Revenue Sources</b>		
<b>Income Taxes</b>		
Personal Income Tax	\$8,604,798,000	44.5%
Corporate Income Tax	\$735,023,441	3.8%
	\$9,339,821,441	48.3%
<b>Sales Taxes</b>		
Sales and Use Tax	\$5,560,652,700	28.7%
<b>Other Taxes and Fees</b>		
Tobacco Tax	\$232,268,000	1.2%
Alcohol Beverage Tax	\$160,425,500	0.8%
Property Tax	\$51,482,500	0.3%
Insurance Premium Tax	\$378,919,500	2.0%
Motor Vehicle License Tax	\$312,421,900	1.6%
Nursing Home Provider Fees	\$157,444,961	0.8%
Hospital Provider Payments	\$235,302,027	1.2%
All Other Interest Fees and Sales	\$764,602,273	4.0%
	\$2,292,866,661	11.9%
<b>Designated Funds and Other Revenue Sources</b>		
Motor Fuel Tax	\$967,307,000	5.0%
Lottery Funds	\$904,439,791	4.7%
Tobacco Settlement Funds	\$145,640,765	0.8%
Brain and Spinal Injury Trust Fund	\$2,396,580	0.0%
National Mortgage Settlement	\$99,365,105	0.5%
Payments from State Organizations	\$29,179,500	0.2%
	\$2,148,328,741	11.1%
<b>TOTAL</b>	<b>\$19,341,669,543</b>	<b>100.0%</b>

Source: State of Georgia Preliminary Official Board Statement, June 13, 2012

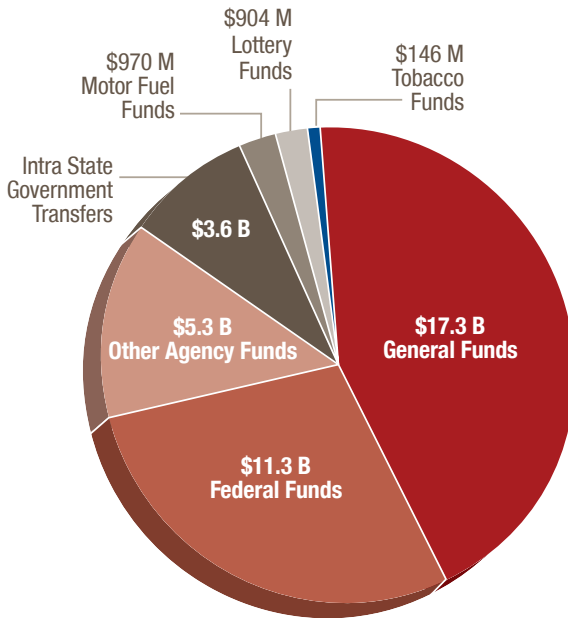
## ■ Budget Overview

Seven funding sources dominate Georgia's budget:

- General Funds
- Federal Funds
- Other Agency Funds
- State Government Transfers
- Motor Fuel Funds
- Lottery Funds
- Tobacco Settlement Funds

We will examine each in turn.

**Figure 2 General and Federal Funds Make Up Most of the State Budget**  
 FY 2013 State Budget Total \$39.5 Billion



■ General Funds	\$17,322,329,929	43.9%
■ Federal Funds	\$11,286,684,853	28.6%
■ Other Agency Funds	\$5,304,283,377	13.4%
■ Intra State Government Transfers	\$3,552,780,935	9.0%
■ Motor Fuel Funds	\$969,649,334	2.5%
■ Lottery Funds	\$904,439,791	2.3%
■ Tobacco Funds	\$145,640,765	0.4%
<b>TOTAL</b>	<b>\$39,485,808,984</b>	<b>100%</b>

Source: Enacted FY 2013 Budget (HB 742)

## General and Motor Fuel Funds

**\$18,289,582,683 (46%)**

General funds consist of state taxes and fees. Nearly 96 cents of every dollar collected goes to seven areas:

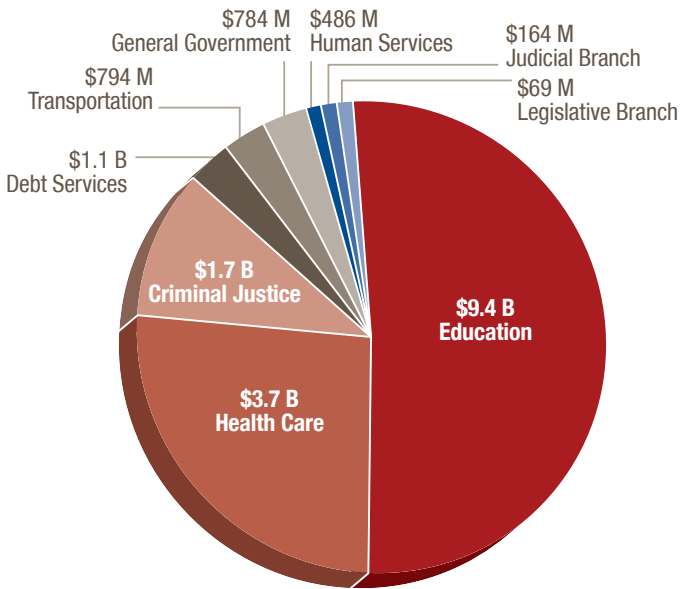
- K-12 and Post-Secondary Education (52 cents of every dollar spent)
- Health Care (21 cents)
- Criminal Justice (9 cents)
- Debt Service (6 cents)
- Transportation (4 cents)
- Department of Human Services (3 cents)
- Judicial Branch (1 cent)

The remaining 4 cents of every dollar spent pay for all other state agencies, boards, and commissions, and the legislative branch.

### Motor Fuel Funds

The state constitution restricts Motor Fuel Funds for public roads and bridges. The state of Georgia collects a motor fuel tax of 7.5 cents per gallon on gasoline, diesel fuel, gasohol, liquid propane, and other substances sold as motor fuel. The state also levies a retail motor fuel sales tax at a rate of 4 percent. Of the 4 percent, 3 percent goes to transportation with the remaining 1 percent going to the General Funds. The FY 2013 budget appropriated nearly \$970 million in Motor Fuel Funds. Of this amount, \$787 million is appropriated to the Department of Transportation, and \$183 million is appropriated to the General Obligation Debt Sinking Fund (debt service).

**Figure 3 Education and Health Care Dominate General Fund Spending**  
 FY 2013 State General Funds and Motor Fuel Funds Budget: \$18.3 Billion



Education	\$9,417,537,959	51.5%
Health Care	\$3,732,924,338	20.4%
Criminal Justice	\$1,716,651,366	9.4%
Debt Service	\$1,125,327,590	6.2%
Transportation	\$794,416,060	4.3%
General Government	\$784,143,435	4.3%
Human Services	\$485,511,070	2.7%
Judicial Branch	\$163,577,372	0.9%
Legislative Branch	\$69,493,493	0.4%
<b>TOTAL</b>	<b>\$18,289,582,683</b>	<b>100%</b>

Source: Enacted FY 2013 Budget (HB 742)

## Federal Funds

**\$11,286,684,853 (29%)**

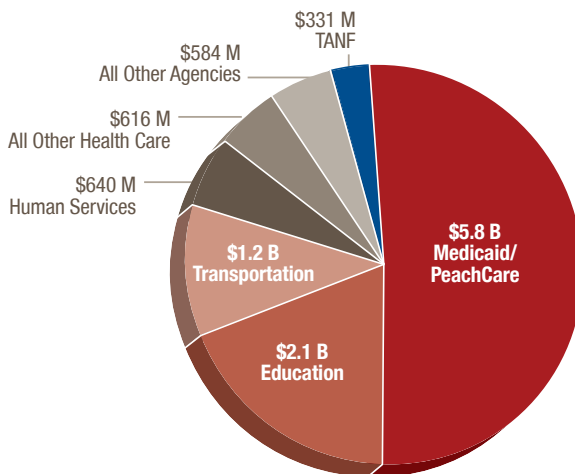
Funds from the federal government fund state programs and services:

- \$5.8 billion for Medicaid and PeachCare
- \$2.1 billion for low-income students, students with disabilities, school nutrition, and other education services
- \$1.2 billion for the Department of Transportation
- \$971 million for child welfare, elder services, Temporary Assistance for Needy Families (TANF), and other human services

The state is required to match federal funding for Medicaid and many human services. Consequently, a cut in state funds can lead to a corresponding cut in federal funds.

**Figure 4 Federal Funds Primarily Pay for Health Care, Education, Transportation, and Human Services**

FY 2013 Federal Funds, \$11.3 Billion



Source: Enacted FY 2013 Budget (HB 742)



## Other Agency Funds and State Government Transfers

**\$8,857,064,312 (23%)**

Other Agency Funds (\$5.3 billion) and State Government Transfers (\$3.6 billion) account for nearly \$8.9 billion of the FY 2013 budget. These funds include University System of Georgia and Technical College System tuition and fees (\$2.5 billion) and University System of Georgia research funds (\$2.0 billion); both are retained by the individual schools.

**Figure 5 Agency Funds and State Government Transfers, FY 2013**

State Health Benefit Plan Insurance Payments	\$3,008,837,150
Tuition and Fees for Higher Education	\$2,539,142,656
University System of Georgia Research Funds	\$2,009,308,896
All Other	\$1,299,775,610
<b>TOTAL</b>	<b>\$8,857,064,312</b>

Source: Enacted FY 2013 Budget (HB 742)

The State Health Benefit Plan (SHBP) is the health insurance plan that covers state employees, teachers, and other school district employees. State agencies and local school districts contribute to the plan – as do the employees themselves – and the funds are counted as “other agency funds” when they are spent. As of May 2012, the SHBP covers more than 650,000 active employees, retirees, and their families.

## Lottery Funds

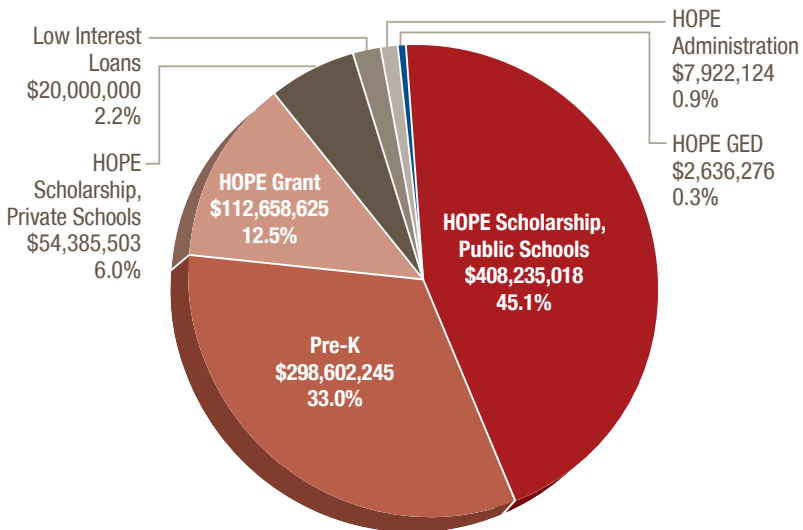
**\$904,439,791 (2%)**

Money from Georgia Lottery sales can be used for:

- Helping Outstanding Students Educationally (HOPE) grants, scholarships, or loans for Georgians to attend colleges in the state.
- Voluntary pre-kindergarten education.
- Educational technology/training and capital outlay – one-shot expenditures to be funded only when obligations for the first two categories and reserve replenishment are met.

**Figure 6 The Majority of Lottery Funds Go to the HOPE Program**

FY 2013 Lottery Funds, \$904 Million



Source: Enacted FY 2013 Budget (HB 742)

## Lottery Programs Face Significant Cuts

The HOPE program and the Georgia Pre-Kindergarten program – both funded with Lottery proceeds – are in financial trouble. The Georgia Student and Finance Commission projects that by FY 2016 the traditional HOPE award might cover less than half of tuition for HOPE recipients attending schools within the University System. HOPE awards covered approximately 87 percent of tuition in FY 2012.

Tuition for students attending colleges and universities in the University System will increase by 2.5 percent for FY 2013. For students attending public research institutions, tuition will increase between 3.5 and 6 percent. Tuition for students attending technical colleges will increase 13 percent. HOPE awards will not cover these tuition increases, or future increases in tuition, steadily depleting the value of HOPE and increasing the burden on students and families.

**Lottery Programs Face Significant Cuts** *(continued)*

The FY 2013 budget provides \$298.6 million for Georgia’s Pre-K program. That is only enough to fund 170 out of 180 school days. In addition, more than 8,500 children are on the Pre-K waiting list. Total spending for Pre-K is 15.9 percent, or \$56.4 million, below spending in FY 2011.

**Figure 7 Lottery Programs Face Significant Cuts**

<b>Lottery Funds FY 2011-FY 2013</b>	<b>FY 2011</b>	<b>FY 2013</b>	<b>Change (\$)</b>	<b>Change (%)</b>
Pre-K	\$355,016,059	\$298,602,245	(56,413,814)	-15.9%
HOPE - Other	\$20,154,616	\$10,558,400	(9,596,216)	-47.6%
HOPE Grant	\$220,407,829	\$112,658,625	(107,749,204)	-48.9%
HOPE Scholarship Private Schools	\$54,663,937	\$54,385,503	(278,434)	-0.5%
HOPE Scholarship Public Schools	\$493,461,474	\$408,235,018	(85,226,456)	-17.3%
College Opportunity Grant	\$15,000,000	\$ -	(15,000,000)	-100.0%
Low Interest Loans	\$ -	\$20,000,000	20,000,000	
<b>TOTAL</b>	<b>\$1,158,703,915</b>	<b>\$904,439,791</b>	<b>(254,264,124)</b>	<b>-21.9%</b>

Sources: Enacted FY 2011 Budget (HB 77) and enacted FY 2013 Budget (HB 742)

Note: ‘HOPE-Other’ category consists of funding for HOPE GED program and HOPE administration

## Tobacco Funds

**\$145,640,765 (0.4 %)**

The Tobacco Master Settlement Agreement (MSA) was the largest civil settlement in U.S. history and was negotiated and signed in November 1998 by 46 states and the four largest tobacco companies. Annual payments to the states under the MSA are technically perpetual, though the initial payment schedule covers 25 years. Georgia is one of only a few states that has not earmarked MSA payments for specific purposes. As a result, the use of MSA funds can vary from year to year.

**Figure 8 Tobacco Settlement Funds Focus on Medicaid**  
FY 2013 Tobacco Settlement Fund Budget

<b>FY 2013 Tobacco Settlement Fund Budget</b>	
Low-Income Medicaid	\$106,719,052
Mental Retardation Waiver Programs	\$10,255,138
Georgia Cancer Coalition	\$6,837,444
Cancer Treatment for Low-Income Uninsured	\$6,613,249
Elder Community Living and Support Services	\$6,191,806
Breast and Cervical Cancer Treatment	\$3,474,205
Cancer Screening	\$2,915,302
Smoking Prevention and Cessation	\$2,368,932
Underage Smoking Compliance	\$150,000
Cancer Registry	\$115,637
<b>TOTAL</b>	<b>\$145,640,765</b>

Source: Enacted FY 2013 Budget (HB 742)

## ■ Budget Trends

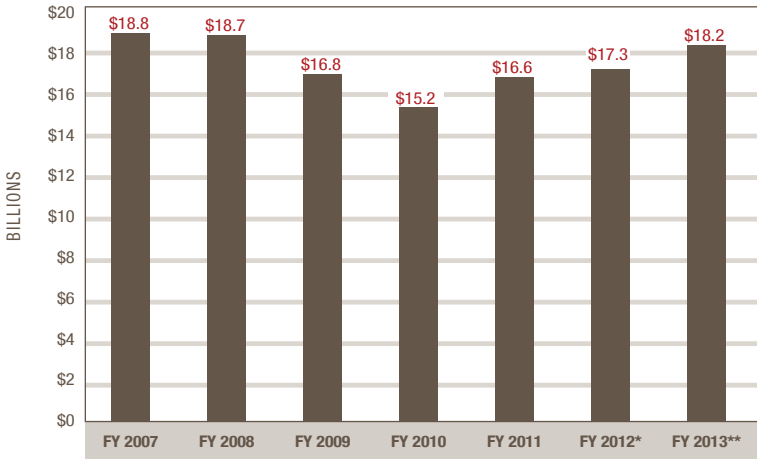
### Revenues

Because of the Great Recession, General and Motor Fuel Funds dramatically declined by \$3.6 billion, or 19.2 percent, between FY 2007 and FY 2010. Revenues rebounded in FY 2011 and FY 2012 due to economic growth and slight increases in various taxes and fees.

As a percentage of income, Georgians are paying lower state taxes than at any point in the last 30 years. During the 1990s, Georgians paid an average of 5.9 percent of their income in state taxes. Even though taxes were cut during the 1990s—including a sales tax exemption on food and various personal and corporate income taxes—the share of Georgians income going to support education, health care, transportation, and other services remained the same due to a booming national economy. A strong economy meant taxes could be cut without cutting services. This changed during the 2000s. The prior tax cuts, combined with two recessions and weak recoveries, caused a dramatic drop in revenues. Between 2010 and 2012, revenues as a share of personal income plummeted to historic lows of between 4.5 percent and 4.7 percent. This drop in revenues, not increases in state spending, is the reason for the fiscal crisis facing Georgia. If revenues as a percent of personal income had equaled the 1990s average of 5.9 percent in FY 2012, the state budget would have contained \$4.5 billion in additional revenues.

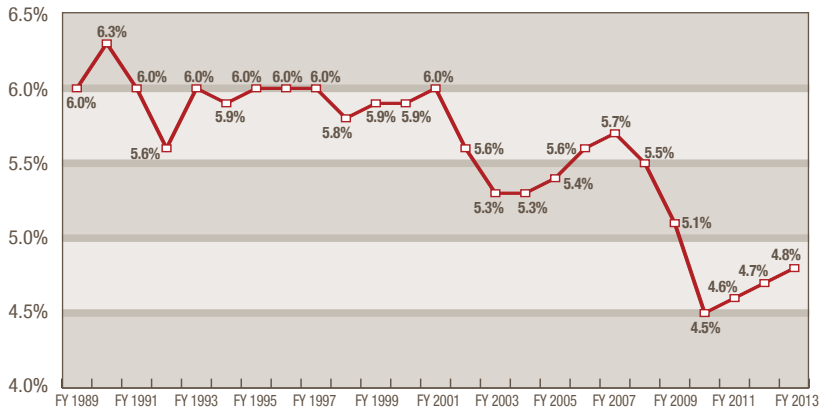
The FY 2013 budget is based on a revenue estimate of 5.2 percent growth over FY 2012 revenue collections. Still, the General and Motor Fuel Funds are 9.1 percent (\$1.8 billion) less than in FY 2009. Although revenues increased by \$3 billion since the lowest point of revenue in FY 2010, the great majority of new revenues covered K-12 and higher education enrollment increases, Medicaid and PeachCare enrollment increases, state employee and teacher health benefits, and state employee retirement system obligations. Most of the budget cuts made since FY 2009 have not been replaced.

**Figure 9 Revenues in 2013 Expected to Remain Below 2007 Levels**  
General Funds and Motor Fuel Funds FY 2007 – FY 2013



Sources: Governor's Budget Reports and the Preliminary Official Bond Statement Dated June 13, 2012, Governor's FY 2013 Revenue Estimate  
\* Unaudited revenues, \*\* Governor's FY 2013 Revenue Estimate

**Figure 10 Georgia's Revenue as a Share of Income at Historic Low**  
Revenues as a Percentage of Income (FY 1989 – FY 2013)



Sources: Governor's Budget Reports and the U.S. Bureau of Economic Analysis

## Budget Growth

There is \$1 billion in revenue growth appropriated in the FY 2013 budget.

The vast majority is due to population growth and ongoing obligations.

Only 7 percent is allocated for non-growth related additions:

- \$575 million to cover population growth and shortfalls in Medicaid, K-12 education, University System, and Technical College System.
- \$231 million to cover increases in state employee and teacher health benefits, retirement obligations, unemployment insurance, liability insurance, and other administrative items.
- \$99 million from the Mortgage Settlement Agreement went to OneGeorgia Authority for future rural economic development projects and Regional Economic Business Assistance (REBA) for closing funds for business deals in Georgia.
- \$74 million to fund non-growth related additions.
- \$54 million of Motor Fuel Funds and Lottery Funds allocated to designated expenditures.

Source: Senate Budget and Evaluation Office FY 2013 Talking Points, March 27, 2012



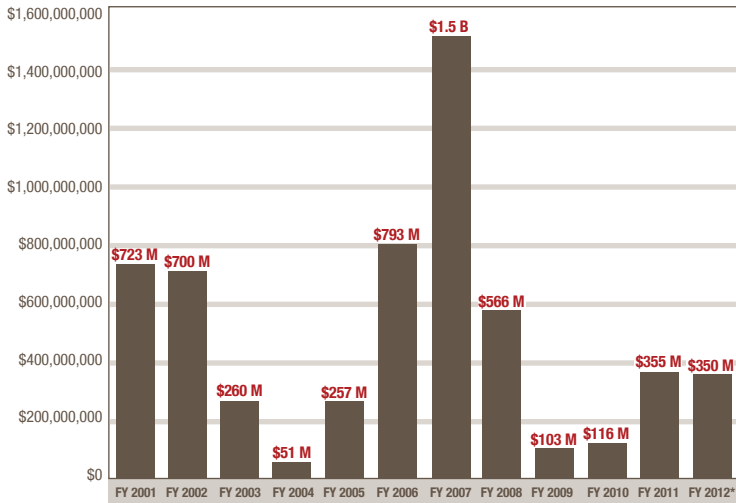
## ■ Reserve Fund

The Revenue Shortfall Reserve (RSR) is Georgia's "rainy day" fund, established to help Georgia get through tough economic times. The RSR acts as a savings account for the state should revenue collections decline unexpectedly. The RSR can fill the gap in funding and prevent additional budget cuts. The General Assembly cannot appropriate funds to these reserves through the normal budget process; funds are automatically transferred from surplus funds to the reserve funds at the end of the fiscal year.

Increasing the funds in the RSR is important for keeping Georgia's AAA bond rating, which saves the state millions of dollars in interest payments and helps minimize budget cuts during an economic downturn. Current law provides that the reserve cannot exceed 15 percent of the previous year's net revenue. For each fiscal year, the General Assembly may appropriate from the RSR an amount up to 1 percent of the previous year's net revenue collections to pay for increased K-12 needs.

At the end of FY 2007, the Revenue Shortfall Reserve (RSR) contained \$1.5 billion. Governor Sonny Perdue used more than \$1.4 billion in RSR funds to help balance the state budgets in fiscal years 2008, 2009, and 2010. The RSR at the end of FY 2011 contained only \$355 million. Revenue collections in FY 2012 were only \$7.5 million above the revenue estimate, while state agencies returned approximately \$160 million in unspent funds to the state treasury. The \$167 million in excess funds during FY 2012 results in a preliminary RSR total of \$523 million. Slightly less than \$173 million is available for appropriation from the RSR in the FY 2013 Amended Budget for increased K-12 needs, which would bring the Revenue Shortfall Reserve down to \$350 million. A full RSR of 15 percent of previous year's revenues would total approximately \$2.6 billion.

**Figure 11 Rainy Day Fund Needs to be Rebuilt**  
 Revenue Shortfall Reserve, FY 2001 – FY 2012



Sources: Governor’s Budget Reports, Preliminary Official Bond Statement Dated June 13, 2012, and Selected Summary Financial Information Fiscal Year Ended June 30, 2012 Prepared by State Accounting Office.

\*The FY 2012 preliminary Revenue Shortfall Reserve (RSR) totals \$523 million. The amount available for appropriation from the RSR for increased K-12 needs in the FY 2013 Amended Budget totals \$173 million, which would bring the RSR down to \$350 million.

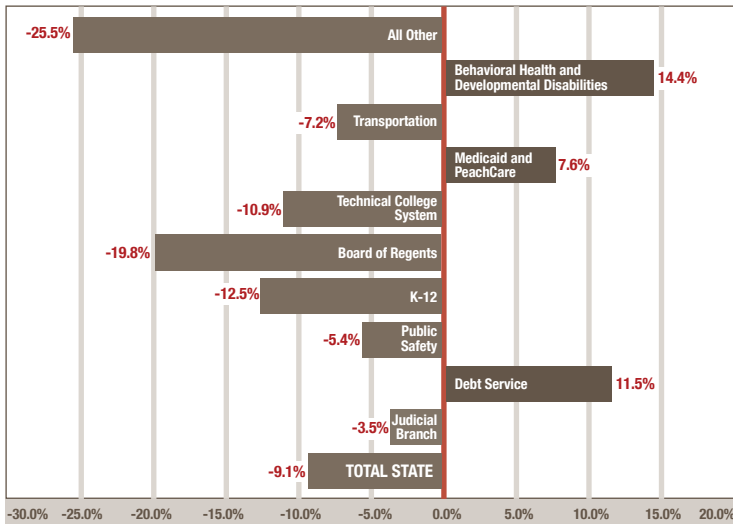
## ■ Cuts and More Cuts

### Service Cuts

Since FY 2009, lawmakers have dramatically cut services for children, the disabled, the elderly, and just about everyone else in Georgia. Funding cuts of nearly 13 percent for K-12 and nearly 20 percent for the University System have meant fewer teachers, larger class sizes, shorter school years, and property tax and tuition increases to plug the gaps (Figure 12). Smaller state agencies such as Labor, Forestry, Natural Resources, and Agriculture faced cuts of over 25 percent. Such cuts hurt economic development, consumer protections, and public health and safety.

There are \$256 million additional cuts expected in the FY 2013 Amended Budget. The Governor's Office of Planning and Budget told state agencies to submit amended budget plans that include 3 percent cuts, though the K-12 education funding formula is exempt. Instructions for FY 2014 budget requests include an additional 2 percent cut to Medicaid and PeachCare, bringing the potential budget cuts in FY 2014 to an additional \$297 million.

**Figure 12 \$1.8 Billion Less Revenue**  
 Percent Change in Funds FY 2009 – FY 2013



Sources: Enacted FY 2009 Budget (HB 990), enacted FY 2013 Budget (HB 742)

\* Debt service funds are used to pay principal and interest on bonds sold to fund capital construction projects

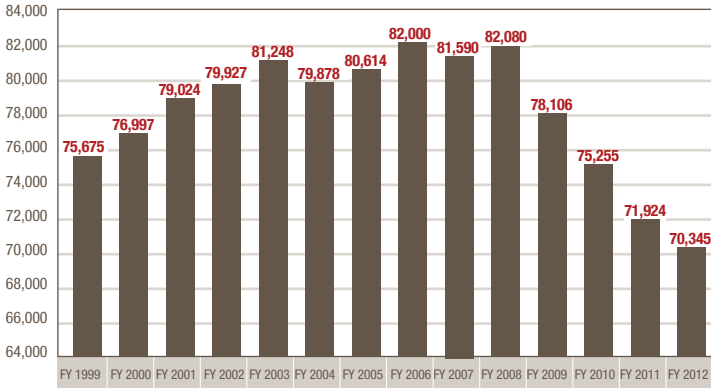
Funding increased to the Department of Behavioral Health and Developmental Disabilities due to settlement of a lawsuit with the United States Department of Justice. The settlement agreement established yearly funding targets from FY 2011 to FY 2015.

Funding increased to the Medicaid and PeachCare programs due to enrollment increases of over 15 percent and the enactment of a temporary hospital provider fee for FY 2011 through FY 2013.

## Employee Cuts

The number of state employees (not including Board of Regents, University System of Georgia) decreased by 11,735 or 14.3 percent, since FY 2008. Compared to FY 1999, the number of state employees decreased by 5,330 or 7.0 percent. This compares to a population increase of nearly 25 percent (2 million) between FY 1998 and FY 2011. Fewer employees are serving far more people, meaning longer lines for driver's licenses, larger caseloads for child protection workers, fewer state patrol officers on our highways, and fewer health and safety inspections. The overall quality of life is diminished.

**Figure 13 Fewer State Employees Today, but Serving More People\***

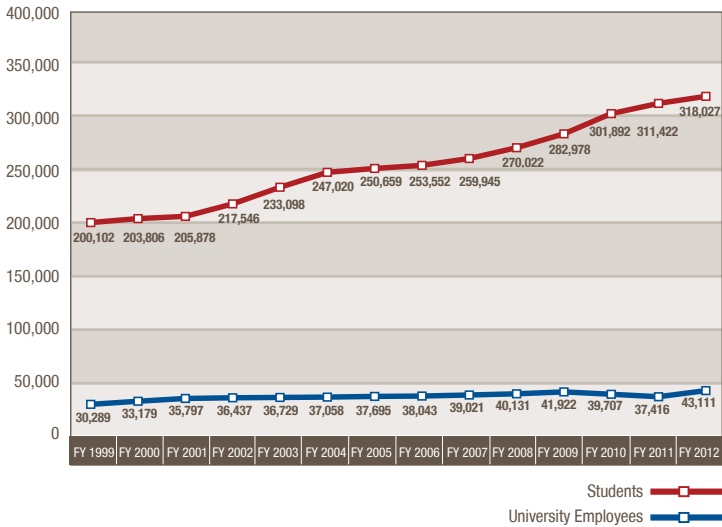


Source: Email from the Department of Administrative Services, July 13, 2012

\* Total state employees not including Board of Regents

Although the number of University System of Georgia employees increased by 12,822 (30 percent) between FY 1999 and FY 2012, the number of students increased by nearly 118,000 (59 percent). That is the equivalent to adding three University of Georgias and one Valdosta State University in just over 13 years.

**Figure 14 The Growth in the Number of Board of Regents Employees Lags Behind the Growth in the Student Population**



Source: Email from the Board of Regents, July 11, 2012

**Figure 15 Largest State Employers as of June 30, 2012**

<b>Agency</b>	<b>Number FTE</b>
Corrections	12,070
Human Services-DFACS	5,977
Technical College System of Georgia	5,865
Behavioral Health and Developmental Disabilities	5,702
Public Health	5,380
Community Service Boards	4,814
Transportation	4,410
Juvenile Justice	3,572
Labor	3,328
Human Services-Other	2,171
Natural Resources	1,828
Public Safety	1,735
Revenue	1,188
All Other State Agencies	12,305
<b>TOTAL</b>	<b>70,345</b>

Source: Email from Department of Administrative Services, July 13, 2012

## K-12 Education Funding

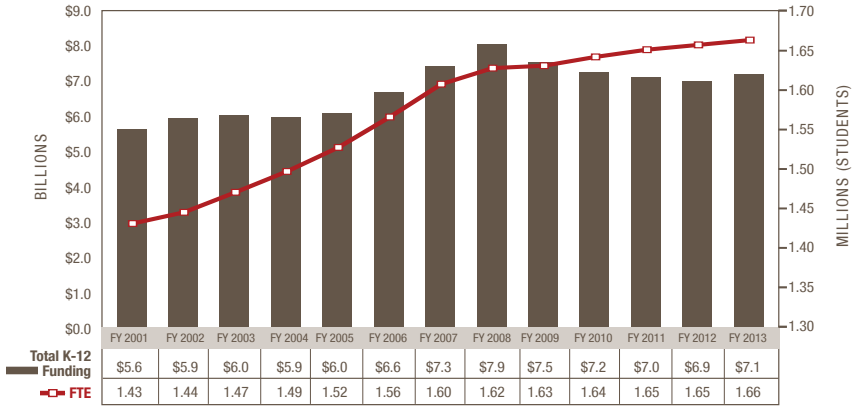
Education funding makes up more than half of the state budget.

Since FY 2001, the state's core K-12 funding program, Quality Basic Education (QBE), has not been funded fully. QBE received more than \$5.6 billion in cumulative cuts. Overall funding for the Department of Education is \$800 million less in FY 2013 than FY 2008. When adjusted for inflation, per capita full-time equivalent (FTE) spending decreased by \$565 per pupil between FY 2001 and FY 2012. The FY 2012 budget needed to increase by \$940 million to be at the same inflation-adjusted per capita level as FY 2001.

As state funds decreased, local school districts increased their share of the funding and now contribute nearly as much as the state. In FY 2001, discounting federal funds, local school districts contributed 40 percent of school funding while the state contributed 60 percent.

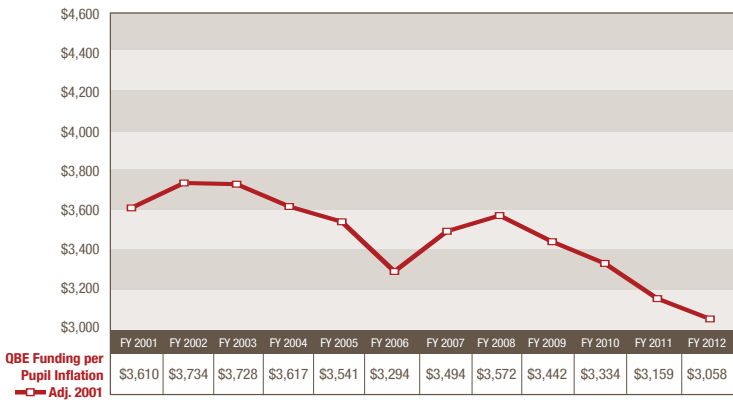


**Figure 16 QBE and Equalization Funding Has Decreased By Nearly \$1 Billion**  
Department of Education Funding, FY 2001 – FY 2013



Sources: Enacted Budgets, FY 2001 – FY 2013

**Figure 17 QBE Funding Per Pupil (Inflation Adjustment) Has Not Kept Up With Student Growth and Inflation This Past Decade**  
Department of Education Expenditures per FTE, FY 2001 – FY 2012



Sources: Amended Budgets, AFY2001 – AFY2012, Georgia Department of Education Allotment Sheets, and Consumer Price Index

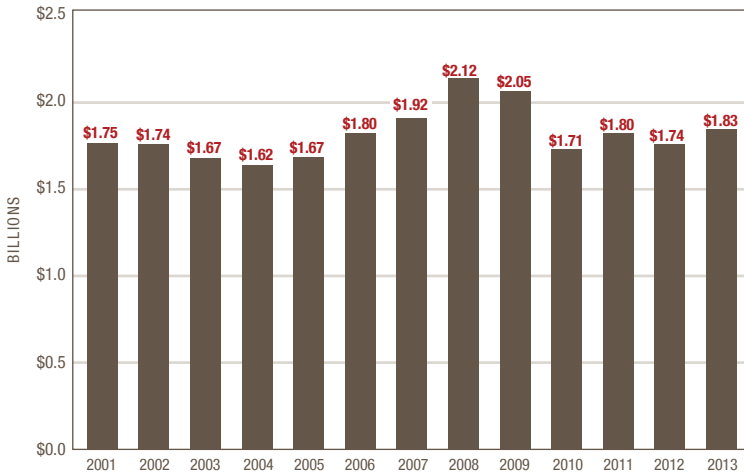
Note: Inflation-adjusted QBE funding per pupil for FY 2012 estimated based on inflation for 2011

## University System of Georgia

Funding for the Board of Regents is only \$81 million (4.6 percent) more in FY 2013 than in FY 2001. Since 2001, the number of full-time students increased more than 81 percent and the costs for tuition and fees increased by nearly 100 percent. When adjusted for inflation, per capita student spending decreased \$6,446 between FY 2001 and FY 2012. The FY 2012 budget needed to increase \$1.8 billion to be at the same inflation-adjusted per capita level as FY 2001.

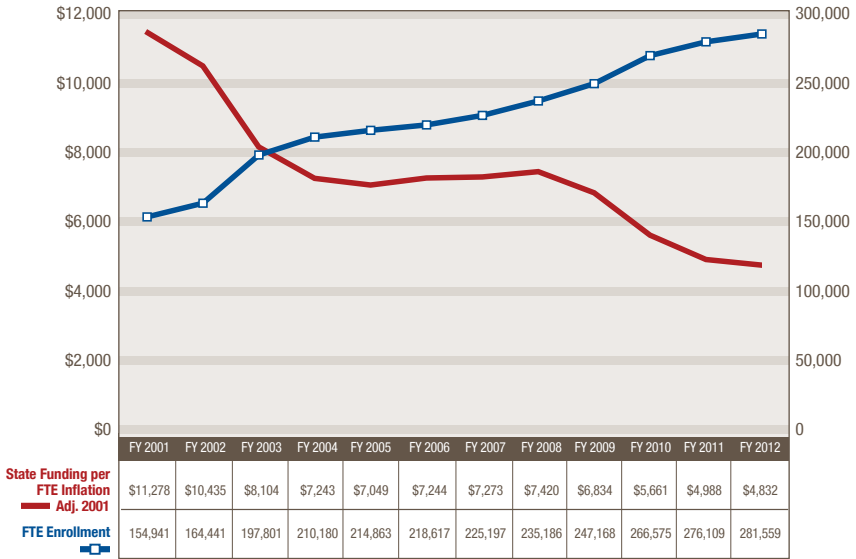
**Figure 18 Board of Regents Funding Stagnates While Number of Students Soar**

Board of Regents Funding, FY 2001 – FY 2013



Source: Governor's Budget Reports, FY 2001 – FY 2013

**Figure 19 Board of Regents Funding Lags Behind Student Growth and Inflation**  
Board of Regents Funding per FTE, FY 2001 – FY 2012



Sources: Governor’s Budget Reports, FY 2001 – FY 2012, University System of Georgia, FTE Reports, Fall Enrollment, FY 2001 – FY 2012 and Consumer Price Index

As state funding decreased and enrollment exploded, the University System made up a portion of the funding shortfall by increasing tuition. Over the last three years, tuition increased by more than 70 percent, on average.

**Figure 20 University System of Georgia Enrollment, Tuition and Mandatory Fees, FY 2009 - FY 2012**

<b>University System of Georgia</b>	<b>Fall 2008</b>	<b>Fall 2011</b>	<b>Change (%)</b>	<b>Growth Rate Fall 2001 to Fall 2011</b>	<b>Annual Average 2001 to 2011</b>
Total Enrollment	270,022	318,027	17.8%	51.8%	5.1%
<b>Tuition and Mandatory Fees</b>	<b>Fall 2008</b>	<b>Fall 2012</b>	<b>Change (%)</b>	<b>Growth Rate Fall 2001 to Fall 2012</b>	<b>Annual Average 2001 to 2012</b>
Research Universities	\$5,402	\$9,679	79.2%	180.8%	18.1%
Regional Universities	\$4,084	\$6,743	65.1%	158.7%	15.9%
State Universities	\$3,746	\$6,387	70.5%	154.1%	15.4%
State Colleges	\$2,257	\$3,753	66.3%	98.6%	9.9%
Two-Year Institutions	\$2,057	\$3,328	61.8%	130.2%	13.0%
University System Average	\$3,258	\$5,550	70.3%	138.4%	13.8%

Sources: University System of Georgia, Fiscal Affairs Division, Tuition and Fee Information, Fall 2008 and Fall 2011. University System of Georgia, Office of Research and Policy Analysis, Enrollment reports, FY 2001 – FY 2012

## Technical College System

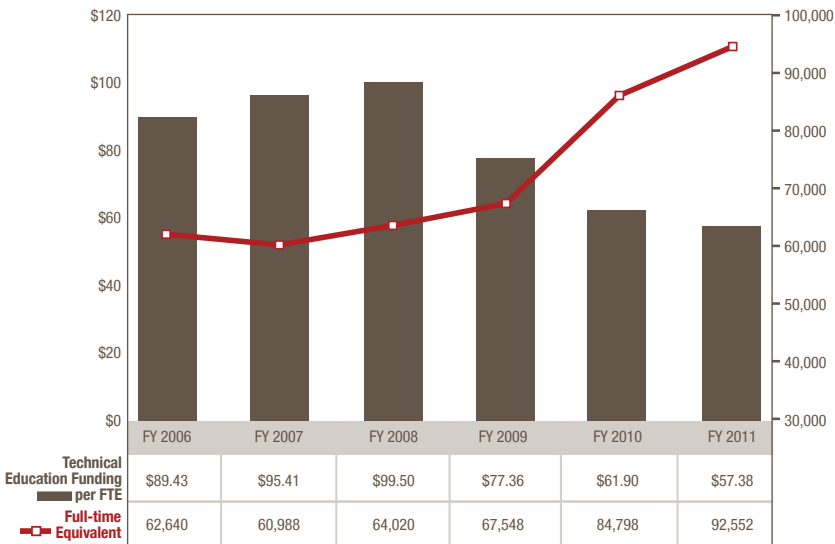
The purpose of the Technical Education program appropriation is to provide for workforce development through certificate, diploma, and degree programs in technical education and continuing education program for adult learners and to encourage both youth and adult learners to acquire postsecondary education or training to increase their competitiveness in the workplace.

The Technical Education program received nearly 90 percent of funding for the Technical College System of Georgia (TCSG). Although funding for the Technical Education program declined by 10.4 percent between FY 2008 and FY 2013, enrollment increased by 17.1 percent. Funding per credit hour decreased by 44 percent since FY 2000.

### Technical College System *(continued)*

In recent years, the TCSG addressed cuts in state funding and enrollment growth by raising tuition rates, increasing class size, and boosting the share of part-time instructors with lower pay and no benefits to 71 percent of the faculty. Such a large percentage of part-time faculty threatens the accreditation of the technical college system.

**Figure 21** Technical Education Funding Per FTE and Enrollment

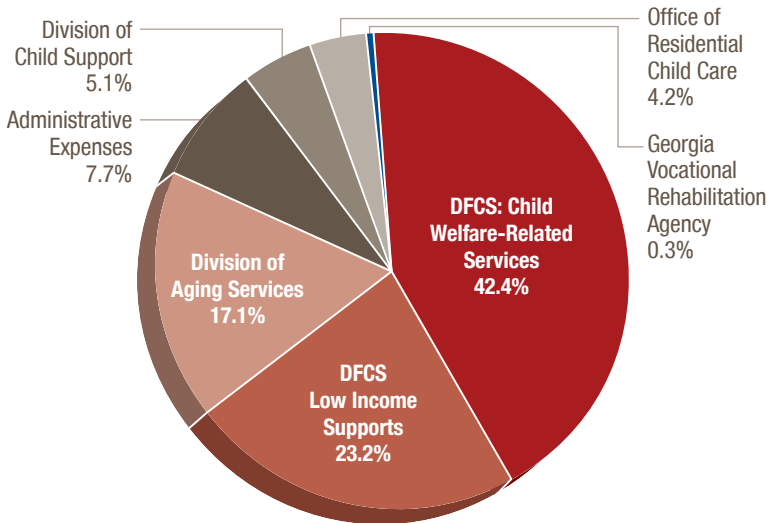


Source: Technical College System of Georgia Amended Budgets, FY 2005 – FY 2011

## Department of Human Services

Since FY 2009, the Georgia Department of Human Services (DHS) faced significant budget cuts, staff reduction, and restructuring, all while demand for services increased – primarily due to the Great Recession.

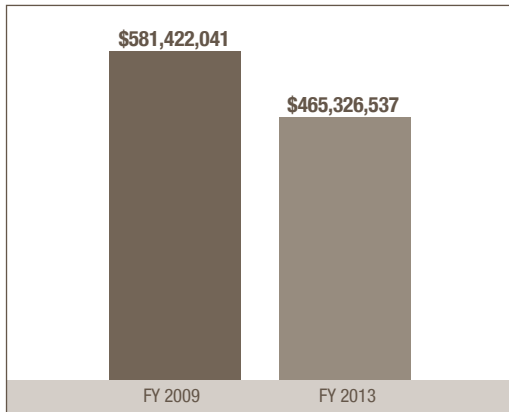
**Figure 22** Child Welfare-Related Services Represent the Largest Share of the DHS State Fund Budget, FY 2013



Source: Enacted FY 2013 Budget (HB 742)

The enacted FY 2013 DHS budget is a continuation of state fund cuts, reduced staff, and reduced services. In fact, state funding is 20 percent less than the pre-recession FY 2009 budget. What takes DHS to a new low in FY 2013, however, is the loss of \$37.3 million in federal Temporary Assistance for Needy Families (TANF) funds.

**Figure 23 Department of Human Services FY 2013 State Fund Budget 20 Percent Smaller Than FY 2009**

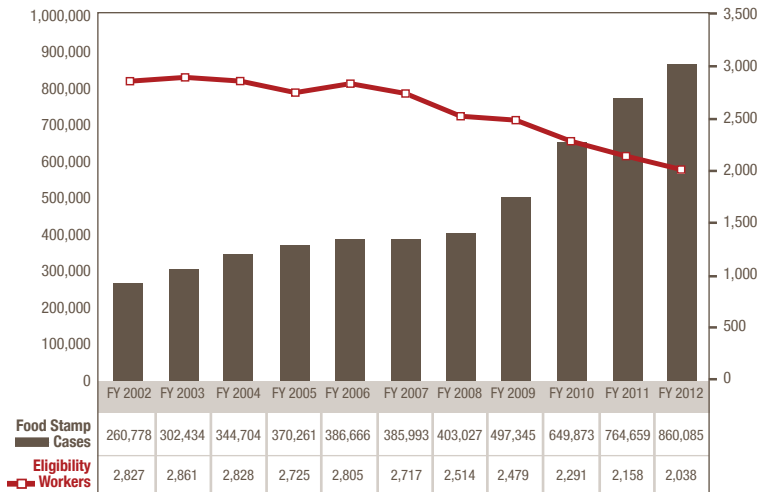


Source: Enacted FY 2009 Budget (HB 990) (for comparison purposes, includes programs that remained at DHS after restructuring except for Child Care Services, which was transferred out in FY 2013) and enacted FY 2013 Budget (HB 742) (for comparison purposes, excludes Georgia Vocational Rehabilitation Services Agency).



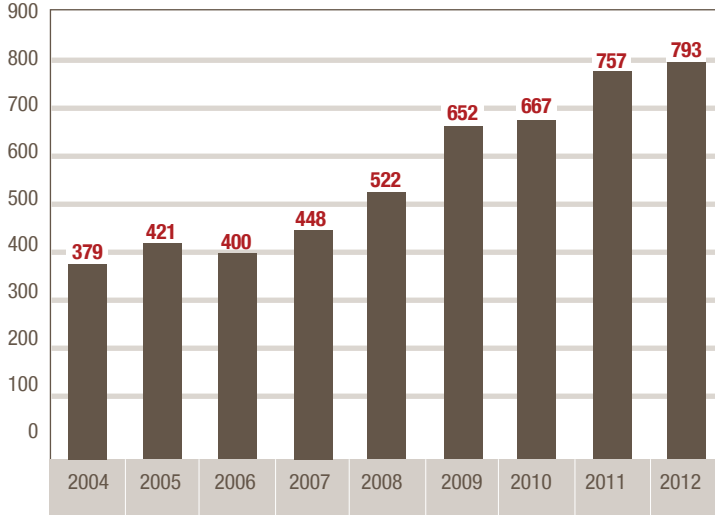
The number of employees who process applications for Georgia families seeking food assistance, Medicaid, and TANF decreased to 2,038 in FY 2012 from a high of 2,861 workers in FY 2003. In 2012, each worker handled 793 cases, compared to 379 in 2004 (Figure 25).

**Figure 24 Food Assistance Recipients Increase as Eligibility Workers Decrease, FY 2002 - 2012**



Sources: DHS board meeting presentations in November 2010, August 2011, August 2012, and data provided by DHS Chief Financial Officer in August 2012.

**Figure 25 Case Loads of Eligibility Workers at All-time High, 2004-2012**



Sources: Commissioner Reese, DHS Presentation to Joint Appropriations Committee, January 19, 2012 and Lynn Vellinga, Board Meeting Presentation, August 15, 2012.

## ■ Budget Outlook

### Medicaid/PeachCare

Georgia's Medicaid and PeachCare programs have avoided large-scale budget cuts since 2009 in part due to enhanced federal funding from the American Recovery and Reinvestment Act that lasted from FY 2009 to FY 2012 and the passage of the hospital provider fee in 2010. The enhanced federal funds from the Recovery Act have since expired, however, and declining General Fund investment in Medicaid and PeachCare since 2009 creates shortfalls in FY 2013 and FY 2014, even with the continuation of the hospital provider fee beyond FY 2013.

Medicaid and PeachCare provide health insurance coverage (including long-term care services for some) to more than 1.7 million Georgians from low-income families. The programs primarily serve children, pregnant women, individuals with disabilities, and elderly Georgians.

Although General Fund appropriations declined from FY 2009 to FY 2013, total spending for Medicaid and PeachCare programs increased by 11 percent due to increases in other state funding, most notably the creation of a temporary hospital provider fee for FY 2011 to FY 2013. Enrollment in Medicaid and PeachCare increased by 200,000 (about 15 percent) from June 2008 to December 2011 and will likely continue to grow during 2012 and 2013.

Rising health care costs, enrollment growth fueled by a weak economy, and other factors will put additional financial stress on Georgia's Medicaid and PeachCare programs in the coming years. Together, the programs face a \$374 million shortfall in FY 2013 (and nearly a \$400 million shortfall in FY 2014), due largely to expected enrollment growth in the next 12 months that the state did not initially take into account. In addition, the programs face more than \$60 million in state budget cuts in FY 2013 and \$100 million in cuts for FY 2014, which increases the funding gap to more than \$435 million in FY 2013 and more than \$500 million in FY 2014. If the temporary hospital provider fee is allowed to expire at the end of FY 2013, the funding shortfall in FY 2014 would be more severe.

## **Medicaid/PeachCare** *(continued)*

Georgia must also decide whether or not to take advantage of billions of dollars in new federal funding to expand Medicaid coverage to hundreds of thousands of uninsured Georgians in 2014. Federal funding will cover 100 percent of the costs for newly eligible Georgians for three years; the state will be responsible for 10 percent of the costs for newly eligible Georgians beginning in FY 2020. The expansion is expected to bring in tens of billions of new federal funds to Georgia's health care system over the next decade.

**Figure 26 Medicaid and PeachCare Funding FY 2009 and FY 2013**

	<b>FY 2009</b>	<b>FY 2013</b>	<b>Increase from FY 2009 to FY 2013</b>
<b>Aged, Blind, and Disabled</b>			
State General Funds	\$1,138,859,171	\$1,213,014,554	6.5%
Hospital Fee Revenue		\$25,488,041	N/A
Nursing Home Fees	\$120,805,958	\$157,444,961	30.3%
Total Aged, Blind, and Disabled	\$1,259,665,129	\$1,395,947,556	10.8%
<b>Low-Income Medicaid</b>			
State General Funds	\$916,833,695	\$789,037,546	-13.9%
Tobacco Funds	\$50,973,695	\$110,193,257	116.2%
Hospital Fee Revenue		\$208,186,737	N/A
Total Low-Income Medicaid	\$967,807,390	\$1,107,417,540	14.4%
<b>PeachCare for Kids</b>			
State General Funds	\$98,672,929	\$77,951,094	-21.0%
Hospital Fee Revenue		\$1,627,249	N/A
Total Medicaid and PeachCare	\$98,672,929	\$79,578,343	-19.4%
<b>Total Medicaid and PeachCare</b>			
State General Funds	\$2,154,365,795	\$2,080,003,194	-3.5%
Tobacco Funds	\$50,973,695	\$110,193,257	116.2%
Hospital Fee Revenue		\$235,302,027	N/A
Nursing Home Fees	\$120,805,958	\$157,444,961	30.3%
<b>TOTAL</b>	<b>\$2,326,145,448</b>	<b>\$2,582,943,439</b>	<b>11.0%</b>

Sources: Enacted FY 2009 Budget (HB 990) and Enacted FY 2013 Budget (HB 742)

## FY 2013 Amended and FY 2014

The fiscal crisis in Georgia is far from over. After responding to the downturn with crippling cuts over the past four years, Georgia still does not have enough revenue coming in to keep pace with growth in education, health care, public safety, and other needs. Unless the governor and General Assembly take a balanced approach that includes increased revenues, additional cuts to these vital services can be expected during the 2013 session of the General Assembly. Such cuts will inevitably result in a weaker economy and fewer jobs.

Some factors to keep in mind:

- Weak revenue collections in FY 2012 hurt Georgia's ability to build the Revenue Shortfall Reserve (RSR), or "rainy day" fund.
- The \$374 million shortfall between Medicaid and PeachCare must be addressed in the FY 2013 Amended Budget.
- The hospital provider fee, which brings in an estimated \$200 million for Medicaid and PeachCare, ends in FY 2014 unless it is extended by the legislature.

Georgia can no longer rely on a predominately cuts-only approach to solve the state's problems. There is a better way. For Georgia's fiscal health and economic future, it is time to change strategy. Georgia must look at its revenues and determine where making strategic investments with additional revenue will pay off in the long run.

In 2012, the General Assembly failed to enact the kind of comprehensive tax reform that will address Georgia's revenue problem and ensure the state can meet its future obligations to its citizens. Bringing Georgia's tax code into the 21<sup>st</sup> century is a great way to start moving forward.

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