

Overview of Georgia's 2014 Fiscal Year Budget

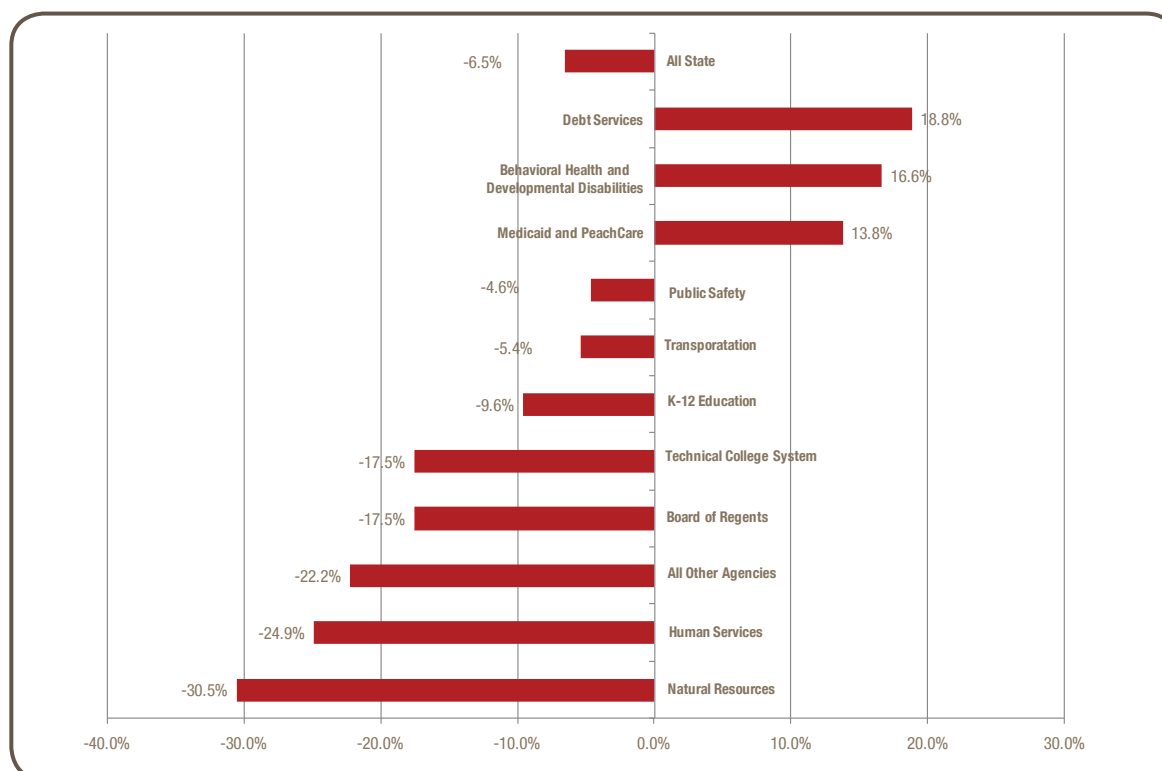
Georgia's Economic Recovery Requires State Support for Education, Transportation, Health Care

By Alan Essig, Executive Director

Just a few years ago Georgia was a leading state for job growth. But Georgia ranks 32nd in job growth since the beginning of the recession in 2007. In fact, Georgia is down 387,000 jobs since the economic downturn hit. To build a strong economy and once again lead the nation in job growth requires increased investments in education, transportation, and healthcare. Georgia needs a well-trained and educated workforce, a transportation system that carries goods to the marketplace and ensures employees an efficient commute, and quality hospitals and medical clinics. The state spending plan for 2014 moves us in the wrong direction.

The governor's budget recommendation for the 2014 fiscal year that starts July 1 includes several hundred million dollars in cuts on top of the billions in cuts made over the past five years. Many state agency budgets are 20 to 30 percent less than their levels during the 2009 fiscal year. This over-emphasis on more cuts to vital services threatens Georgia's ability to create jobs and build a strong economy.

Figure 1 Education Has Taken Significant Cuts Since the 2009 Fiscal Year



Source: Governor's Budget Reports Fiscal Years 2009-2014

K-12 education alone is being supported at a level more than \$1 billion below what the state formula calls for. This will result in the continuation of teacher furloughs, larger class sizes, and shorter school days and years in many school districts. Funding for both the Board of Regents (University System of Georgia) and the Technical College System are down by more than 17 percent since the 2009 fiscal year, while the number of students enrolled has increased.

In managing the revenue crisis resulting from the Great Recession Georgia lawmakers relied overwhelmingly on cuts in services as opposed to a more balanced approach that would include revenue increases. This has resulted in disinvestment in the most important support systems for a strong economy.

As stated in the report of the 2010 Special Council on Tax Reform and Fairness for Georgians:

Overall, Georgia's taxes are low, have not increased over the past 30 years as measured by taxes as a share of personal income, and are competitive. Research on business firm location finds that while taxes matter, other factors seem to play a larger role. Factors such as a functioning transportation systems, availability of water, and the quality of public education are more important components of the decision making process.

With a comprehensive approach to tax reform, an approach that leads to an increase in revenues, Georgia can make such investments and still maintain a competitive tax advantage relative to other states.

Without additional revenues, Georgia will continue to face budgets that fall far short of meeting the state's growing needs and revenue growth that is just enough to avoid even more drastic budget cuts, but not nearly enough to make the investments necessary for Georgia to prosper. Future budgets will continue the slow erosion of vital government services. The long-term economic health of Georgia depends on ending this failed strategy.

Amended 2013 Fiscal Year Budget Overview

State Revenues

The amended 2013 fiscal year spending plan decreases Georgia's revenue estimate by \$190 million. This reflects reduced revenue projections from the original forecast of 5.1 percent growth over 2012 collections. The amended projection calls for 4.1 percent growth. Many state agencies face additional budget cuts of as much as 3 percent as the current budget is amended.

For the first six months of the current year, revenues collected by the Georgia Department of Revenue increased by 4.9 percent. Although revenues appear to be on target to meet the revised estimate, they need to grow between 7 percent and 8 percent to drive a significant surplus. Creating a surplus is critical for funding mid-year K-12 enrollment growth and rebuilding the Revenue Shortfall Reserve (RSR), which has fallen to a historically low level.

Budget Actions

The amended 2013 budget contains several major changes from the spending plan that took effect July 1, 2012. Highlights of the changes from the original budget are that it:

- Adds \$172.8 million from the Education Mid-Term Adjustment Reserve. These funds are mostly used for K-12 student enrollment growth (\$156.2 million) and Special Needs Scholarships (\$3 million).
- Cuts the Regional Economic Business Assistance program (\$63.8 million) and the OneGeorgia Authority (\$35.6 million). These funds were originally appropriated from the National Mortgage Settlement Agreement.
- Adds funds to Medicaid to cover a shortfall due to the underfunding of enrollment growth in the budget (\$211.6 million).

- Cuts funds from the Board of Regents for personal services and operating expenses (\$73.4 million).
- Reduces funds for debt service (\$144.2 million) to reflect savings associated with refunding and favorable rates received in recent bond sales.

Fiscal Year 2014 Budget Overview

State Revenues

The state-funded portion of Georgia's 2014 budget is \$19.9 billion. As shown in Table 1, the 2014 budget is based on 4.6 percent growth (\$828 million) during the fiscal year in general fund revenues. Accounting for Mid-Year Adjustment Reserves, Authority Reserves, and National Mortgage Settlement funds, the money available for the 2014 general funds budget increased by only \$515 million over the revenue available in the 2013 Amended Budget.

Table 1 Moderate Revenue Growth Funds 2014 Budget
Changes in Revenue Estimate, AFY 2013 – FY 2014

| Revenue Source | FY 2013 Amended Budget Revenue Estimate | FY 2014 Revenue Estimate | Revenue Increase/ Decrease | Percent Change |
|---|---|--------------------------|----------------------------|----------------|
| Taxes (Income, Sales, Other) | \$16.773 billion | \$17.597 billion | \$823.3 million | 4.9% |
| Interest, Fees and Sales | \$1.196 billion | \$1.201 billion | \$5.0 million | 0.04% |
| TOTAL GENERAL REVENUES | \$17.970 billion | \$18.795 billion | \$828.3 million | 4.6% |
| Mid-Year Adjustment Reserve | \$172.7 million | | | |
| Authority Reserves | \$51.1 million | \$9.3 million | -\$41.8 million | -81.7% |
| National Mortgage Settlement | \$99.4 million | | -\$99.4 million | |
| REVENUES TO FUND GENERAL FUND BUDGET | \$18.293 billion | \$18.808 billion | \$514.5 million | 2.8% |
| Lottery Funds | \$866.4 million | \$910.8 million | \$44.5 million | 5.1% |
| Tobacco Settlement Funds | \$153.3 million | \$143.8 million | -\$9.6 million | -6.3% |
| Brain and Spinal Injury Trust Fund | \$2.4 million | \$2.0 million | -\$0.4 million | -17.0% |
| TOTAL STATE REVENUES | \$19.315 billion | \$19.864 billion | \$548.9 million | 2.8% |

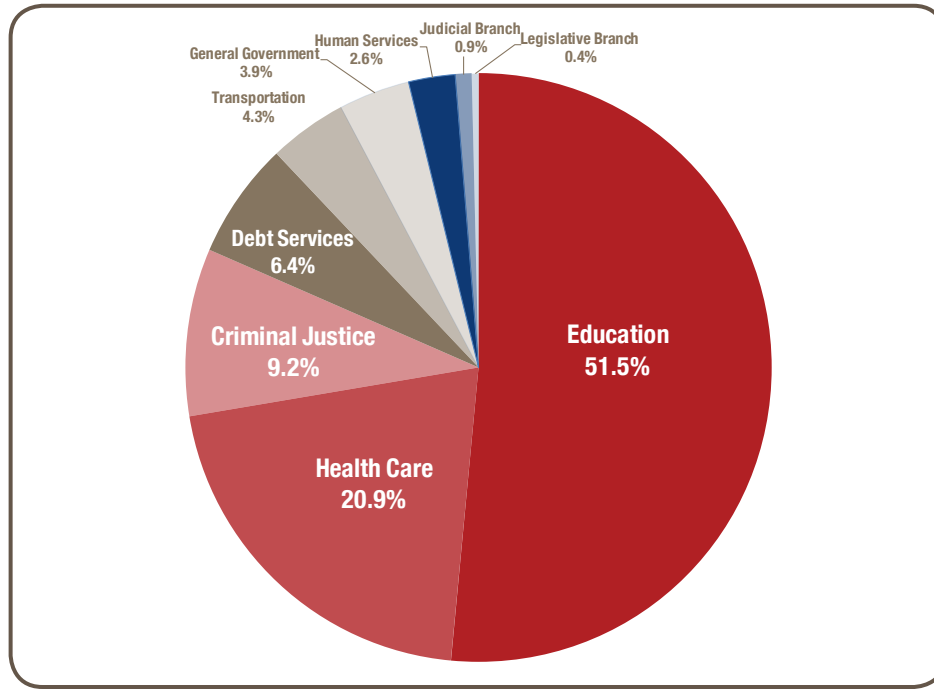
Source: Governor's Budget Report Fiscal Year 2014

Budget Overview

The budget for the 2014 fiscal year allots nearly 95 percent of general funds to education, health, public safety, human services, transportation, and debt service.

Table 1 Education and Healthcare Dominate General Fund Spending

FY 2014 State General Funds: \$18.8 billion



Source: Governor's Budget Report Fiscal Year 2014

Budget Actions

The 2014 budget increases general fund spending by \$518 million more than the 2013 fiscal year spending plan passed during the 2012 legislative session. Most of next year's increased spending avoids cuts to Medicaid (\$224.9 million), pays for increased numbers of students in K-12 and the Board of Regents (\$210.2 million) and makes the required payments into the Teachers and State Employees Retirement Systems (\$127.3 million). At the same time, the plan cuts several hundred million dollars to agencies throughout state government that provide services.

Table 2 Major Areas for Budget Increases

| | |
|--|---------------|
| Medicaid and PeachCare | \$224,878,733 |
| K-12 Education | \$210,207,407 |
| Teachers and State Employees Retirement System Contributions | \$127,253,261 |
| Debt Service | \$74,916,396 |
| Education Equalization | \$40,964,947 |
| DOJ Settlement Agreement | \$35,395,625 |

Source: Governor's Budget Report Fiscal Year 2014

For detailed analysis of the Department of Community Health, Public Health, Human Services, Community Affairs, Economic Development, and education budgets please watch for separate budget analysis reports at www.gbpi.org

Bond Projects

The 2014 budget includes \$713 million in new bond projects. The state sells bonds to pay for capital improvements such as construction of new school buildings as well as renovations and equipment in the K-12, university and technical college systems; construction and renovations to state hospitals, prisons and state office buildings; as well as construction and maintenance of roads and bridges. Highlights include:

- \$237.8 million for K-12 education including \$206 million for the K-12 Capital Outlay Program and \$25 million for the purchase of school buses.
- \$193.1 million for the University System including \$58.8 million for a law school building at Georgia State University, \$45 million for a cancer research building at Regents University in Augusta and \$40 million for improvements and renovations statewide.
- \$50 million to the Georgia Ports Authority for a Savannah Harbor deepening project.
- \$65 million to the Georgia Environmental Finance Authority including \$36.1 million for the Water and Sewer Construction Loan Program and \$20.7 million for Water Supply and Reservoir Construction Loan Program

Lottery Funds

Lottery expenditures have three permitted uses:

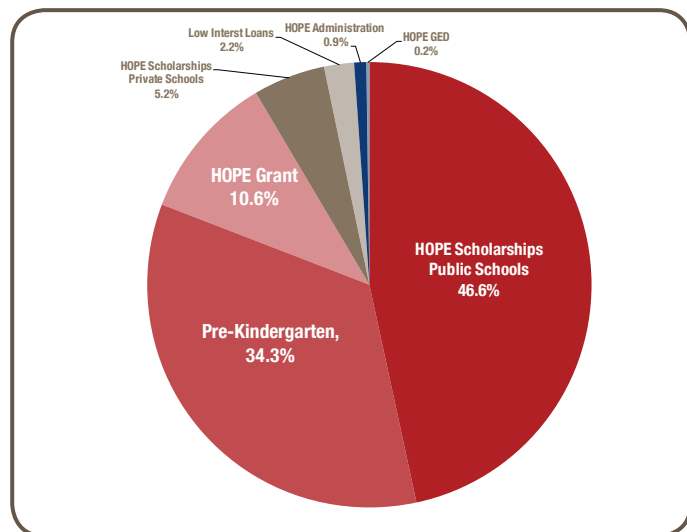
- Tuition grants, scholarships, or loans for Georgians to attend colleges in the state.
- Voluntary pre-kindergarten (Pre-K) for Georgians.
- Educational technology/training and capital outlay – one shot expenditures to be funded only when obligations for the first two categories and reserve replenishment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

During the 2011 legislative session the General Assembly restricted the HOPE Scholarship and HOPE Grant programs, and cut Pre-K to 160 days from 180. This year's budget restored funding for 10 of the 20 days that were cut. In the 2014 fiscal year, the governor proposes to restore another 10 days to the Pre-K Program, bringing it back to 180 days. The plan will increase the award amount for HOPE scholarships by 3 percent. In addition the governor is proposing \$6.5 million for a Strategic Industries Workforce Development Grant to provide additional financial assistance above what is covered by the traditional HOPE Grant for students pursuing high demand certificates or diplomas.

Tobacco Settlement Funds

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

Figure 3 Lottery Fund, 2014 (\$910,819,213)



Source: Governor's Budget Report Fiscal Year 2014

Table 4 Tobacco Settlement Fund Budget, 2014

| | |
|---|----------------------|
| Low Income Medicaid | \$110,193,257 |
| Cancer Treatment and Prevention | \$14,315,845 |
| Mental Retardation Waiver Programs | \$10,255,138 |
| Elder Community Living and Support Services | \$6,191,806 |
| Smoking Prevention and Cessation | \$2,368,932 |
| Enforcement/Compliance for Underage Smoking | \$433,783 |
| Total Tobacco Settlement Funds | \$143,758,761 |

Source: Governor's Budget Report Fiscal Year 2014

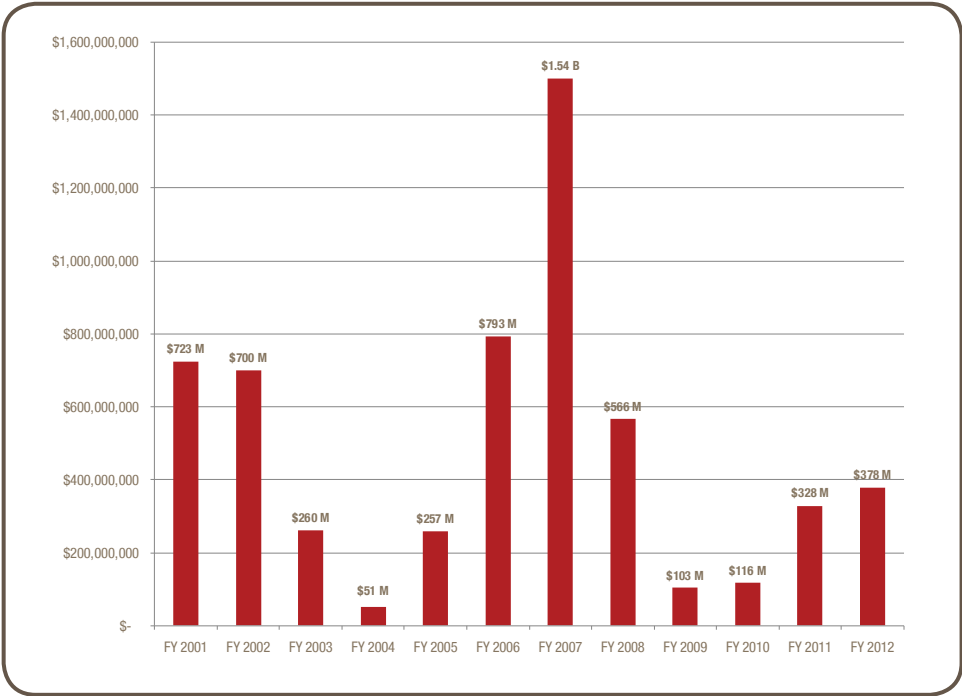
to year. The budget that takes effect in July decreases funding for eminent cancer scientists and clinicians by \$2 million. It increases funding for enforcement and compliance for underage smoking by \$283,000.

Reserves

The Revenue Shortfall Reserve (RSR) is Georgia’s “rainy day” fund, established to help the state get through tough economic times. At the end of the 2007 fiscal year, the fund contained \$1.5 billion. Gov. Sonny Perdue used more than \$1.4 billion from reserves to help balance the state budgets in 2008, 2009, and 2010. By the end of the 2010 fiscal year, the fund contained only \$116 million. For Georgia to maintain its top AAA bond rating, bonding agencies expect the state to rebuild its reserves. A small surplus in the 2013 budget allowed the state to increase reserves to \$378 million from \$328 million.

Revenue growth during the first six months of 2013 was 4.9 percent, slightly above the 4.1 percent revenue estimate. The revenue estimate for next year is based on 4.6 percent growth. For a sizable surplus this year and next, revenues need to grow significantly faster than projected. To plan for the mid-term adjustments in enrollment growth and reserves increasing by at least \$300-\$400 million a year, revenues need to grow between 7 percent and 8 percent.

Figure 4 Rainy Day Fund at Historically Low Level
Revenue Shortfall Reserve, FY 2001 – FY 2012



Source: Governor’s Budget Report Fiscal Year 2014

