

Overview of Georgia's 2017 Fiscal Year Budget

By Tim Sweeney, Deputy Director of Policy

The \$23.7 billion state budget proposed by Gov. Nathan Deal for the 2017 fiscal year starting July 1, 2016 represents a high water mark for state spending in a single year. The governor proposes a \$1.9 billion increase in total state spending compared to the 2016 budget approved last year, but only returns overall state spending to pre-recession levels measured on a per-capita basis. While the overall increase in dollars appears dramatic, more than 40 percent of the growth comes from a transportation funding overhaul passed during the 2015 legislative session. The plan creates new transportation-focused revenue starting with the 2016 fiscal year, but did not include this revenue in the state's spending plan signed into law last spring. Compared to the governor's recently amended budget plan for the 2016 fiscal year, which reflects new revenue from the transportation package, the 2017 spending plan relies on revenue growth of about 4.2 percent in the state's general fund.

In addition to the new transportation money, growth in the proposed budget continues to reduce the austerity cuts to Georgia's K-12 education system that have long caused public schools to increase class sizes, furlough teachers and shrink attendance calendars. The budget also allots new money for enrollment growth in Georgia's public schools and university system, as well as for increased enrollment in Medicaid and PeachCare. The proposal also would shift a portion of the Department of Corrections budget into the newly-created Department of Community Supervision.

Amended 2016 Fiscal Year Budget

2016 Revenue Revision

The governor's amended 2016 budget increases state spending by \$1.162 billion, or 5.3 percent, more than the original 2016 budget passed last year. Nearly \$750 million, or 65 percent of the new revenue projected in the governor's amended budget, is generated by the transportation funding package passed in 2015. The governor's revised 2016 spending plan would represent just a 1.8 percent increase more than the original if the anticipated new transportation money were included when it was approved.

The amended 2016 budget calls for a larger state spending increase than recent January budget revisions, but the new revenue estimate reflects *lower* growth than forecast last year. Actual state revenue in 2015 far exceeded the predictions of budget writers who crafted the original 2016 budget. They assumed revenue growth of about 5 percent more than the prior year. The stronger than expected revenue performance means that the 2016 fiscal year revenues outside of gains from the transportation overhaul need to grow by just 2.5 percent to achieve the targets laid out in the governor's amended budget.

2016 Spending Changes

The bulk of the governor's proposed 2016 spending increases account for the new transportation revenue. The amended 2016 budget proposal also includes new money for non-transportation purposes:

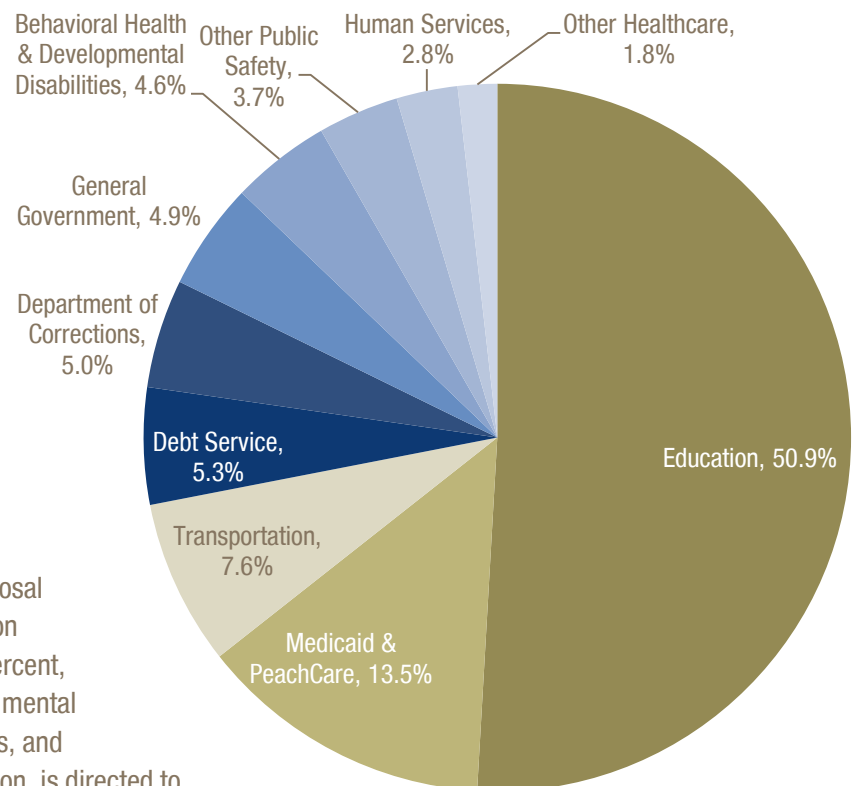
- \$109.9 million in the midterm adjustment to fund student enrollment growth in public K-12 schools and state charter schools
- \$86 million for increased state support for out-of-home services in the Department of Human Services
- \$42.8 million for Medicaid enrollment growth and \$48.1 million for other Medicaid and PeachCare changes, including restoring funding proposed in the original 2016 budget but not included in the one lawmakers passed
- \$20.2 million for the Move on When Ready initiative, which allows high school students to receive high school credit for postsecondary courses
- \$154.9 million in money from the general fund for transportation, including replacing Motor Fuel Funds with general funds for debt service on road and bridges
- \$10 million for the Governor's Emergency Fund

Fiscal Year 2017 Budget Proposal

The year-over-year spending increase in the governor's proposed 2017 budget might seem dramatic, but a substantial amount of it is because the transportation funding package was not reflected in the 2016 budget he signed last May. Excluding transportation-related spending, the 2017 budget funds a little more than \$1 billion in new general fund spending. The governor's proposed budget for the general fund in 2017 calls for revenue growth of 4.2 percent above the amended 2016 estimate, excluding motor fuel taxes and lottery revenues.

Fifty-four percent, or \$559 million of the new general fund spending in the governor's proposal is for education without the new transportation revenue. Another \$217.5 million, about 21 percent, is allotted to health care programs, including mental health and developmental disabilities services, and Medicaid. Another 8 percent, nearly \$78 million, is directed to human services programs. The budget provides about \$92 million, or 9 percent of new funding, to corrections and other public safety programs.

Education and Health Care Dominate
2017 Fiscal Year Budget



These figures include new money to be used for pay raises for state employees, university and technical college employees and potentially for teachers. The budget provides \$239.4 million overall for state employees, as well as targeted pay raises, as follows:

- \$94 million for statewide increases for state employees and another \$43 million to address employee retention needs for specific job classifications in select agencies
- \$59.5 million for faculty, staff, and public librarians funded through the Board of Regents along with \$8.9 million for teachers and support staff with the Technical College System of Georgia
- \$34 million in lottery money for statewide increases to lead and assistant Pre-K teachers

The budget also proposes a \$300 million reduction in the lingering austerity cut to the state's education funding formula for K-12 schools, which the governor says districts should use to lengthen the school calendar, eliminate furlough days and provide teacher raises. The budget lacks an increase to the teacher salary schedule to ensure that Georgia teachers receive raises, though the governor is urging school districts to use the money for raises.

Notable general fund budget increases for 2017 include:

- \$205 million for statewide and targeted salary hikes for state agencies, universities and technical schools

Education

- \$300 million to reduce the austerity cut to the K-12 Quality Basic Education funding formula
- \$138 million for K-12 Education formula growth and state charter school funding
- \$44 million for enrollment growth at Georgia universities
- \$29 million for the Move on When Ready initiative

Health Care

- \$103 million for enrollment growth in Medicaid and \$11 million for other Medicaid needs in the Department of Community Health (Beginning in 2017, PeachCare is federally funded in full and requires no state money for projected enrollment growth)

Human Services

- \$101 million to increase support for out-of-home care services and \$14 million to hire more caseworkers in the Department of Human Services (the out of home care funding includes \$49 million to replace prior year TANF funding not available in 2017)

Transportation

- \$169 million more from the general fund for transportation, including a replacement of Motor Fuel Funds used to pay debt service on road and bridges

Economic Development

- \$20 million for economic development programs in the Department of Community Affairs

Proposed Budgets Incorporate Revenue from 2015 Transportation Package

The governor's budget proposals for the amended 2016 budget and the new 2017 budget incorporate the transportation revenue package passed during the 2015 legislative session. The transportation revenue plan was initially expected to raise about \$900 million in the 2016 fiscal year, growing to \$1 billion in future years.

Now that the budget reflects the new transportation revenue, it:

- Shifts about \$170 million in gas tax revenue, often referred to as the fourth penny of the state's four-cent gas tax, from the general fund to the Motor Fuel Fund
- Increases Georgia's motor fuel tax by about 7 cents per gallon of gas and 8 cents per gallon of diesel
- Creates a new \$5 per night fee on hotel stays in Georgia
- Places new fees on electric vehicles and heavy duty trucks and eliminates tax breaks for electric cars and on Delta Airlines' purchase of jet fuel.

To accommodate changes prompted by the 2015 transportation revenue overhaul and to implement other noted changes, the 2017 proposed budget:

- Directs all motor fuel taxes and interest to the Department of Transportation (DOT) so \$136.8 million previously directed to debt service on transportation bond projects are replaced with general fund money.
- Increases total DOT Motor Fuel Taxes spending to \$1.66 billion in 2017, a jump of \$793.5 million.
- Adds a new category to show revenue created by the fees added by the 2015 transportation package. These new fees are projected to generate \$145.5 million in 2016 and \$158 million in 2017, but are not directed to any specific budget line item.
- Adds \$30.5 million to increase total general fund DOT spending to \$54.5 million, more than double the amount in the 2016 budget passed last year.

Bond Projects

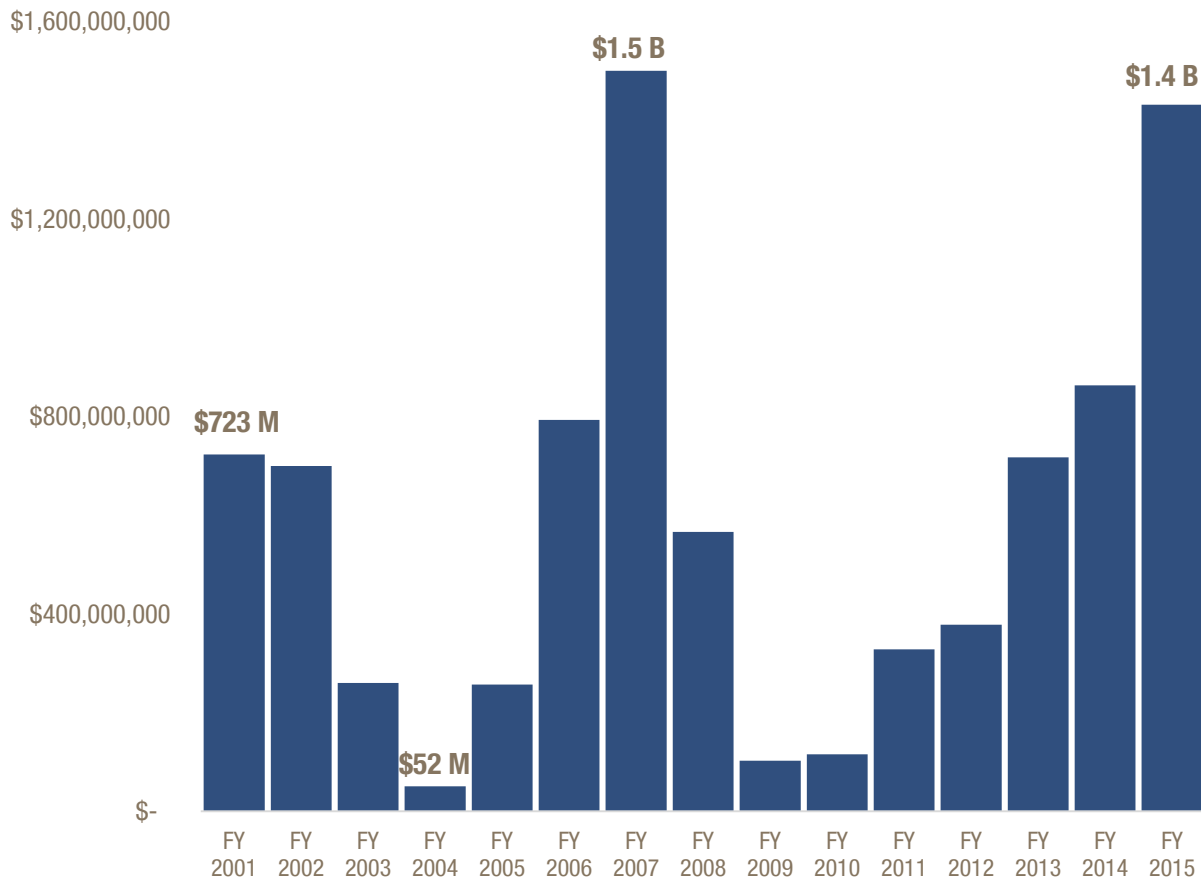
The 2017 budget includes \$850 million for new bond projects. The budget also adds \$112.4 million to cover new principal and interest payments, while counting \$118.9 million in savings as a result of more favorable interest rates at recent bond sales. The state sells bonds to pay for capital improvements, such as construction of new buildings. Bond projects include renovations and equipment in K-12 schools, university and technical college system, construction and renovations to state buildings, as well as construction and maintenance of roads and bridges. Notable bond projects for 2017 include:

- \$234.8 million for K-12 schools, including \$222.2 million for the Capital Outlay Program and \$10 million for the purchase of new buses
- \$159.7 million for the University System of Georgia, including \$60 million for construction and renovations statewide, \$47.4 million for library construction and renovation at the Georgia Institute of Technology and \$19 million for the renovation and expansion of the Biology building at the University of West Georgia
- \$118 million for the Technical College System of Georgia, including \$36.4 million for renovations and equipment statewide and \$48.3 million for a new Hall County campus for Lanier Technical College
- \$10 million to fund reservoirs in multiple locations in Georgia
- \$100 million for repair, replacement, and renovation of bridges statewide

Reserves

Georgia's Revenue Shortfall Reserve, or rainy day fund, stands at \$1.4 billion in January 2016. That is the largest balance since before the great recession. The reserve fund builds at the end of each fiscal year if there is surplus state revenue. A healthy reserve cushion is desirable to maintain important state programs during economic downturns that sap state revenue. Prior to the Great Recession, the reserves grew to \$1.5 billion, or enough to operate the state for about 30 days. The state tapped these reserves to help balance the state budget in 2008, 2009 and 2010. Even with such historically substantial reserves, lawmakers cut many important state programs in the aftermath of the recession. Many of the programs cut are still not restored to pre-recession funding levels.

Revenue Shortfall Reserve



Source: The Governor's Budget Report, Fiscal Year 2016