Georgia Budget and Policy Institute

Thoughtful Analysis...Responsible Policy

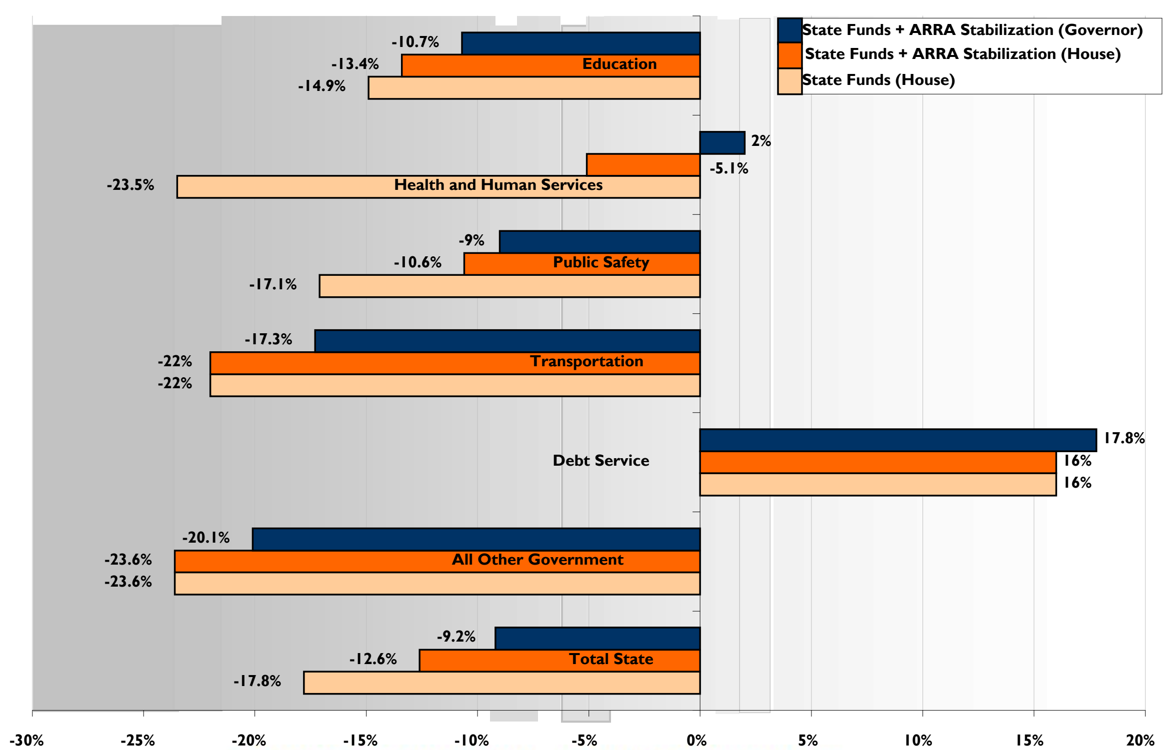
Overview of the House of Representatives Proposed FY 2011 Budget

By Alan Essig, Executive Director

Summary

The House of Representatives' version of the fiscal year (FY) 2011 budget, balances the budget by incorporating additional budget cuts than that of the governor's proposed FY 2011 budget. Compared to the pre-recession FY 2009 budget, the House version (House Bill 948), includes General Fund cuts totaling 17.8 percent, or $3.6 billion. When incorporating American Recovery and Reinvestment Act funds, the total cut is 12.6 percent.

Chart 1 **Percent Change in Funds: Original FY 2009 to House Version FY 2011**



Two factors worsened the deficit since the time the governor released his budget proposal. One is the governor's downward revision of the 2011 revenue estimate (-$333 million), and the other is the governor's transfer of Recovery Act funds ($343 million) designated for FY 2011 into FY 2010.

The House budget assumes $229 million in additional revenues from hospital provider fees (these will sunset after 3 years) and $96 million from increases in various fees from the recently passed HB 1055. HB 1055 also includes a five-year phase out of the state property tax (will cost the state $95 million) and a five-year phase out of the income tax on retirement income for those age 65 and over (will cost $150 million). These actions by the General Assembly now will open up additional shortfalls in future years. The total cost to the budget five years from now, when the hospital fee sunsets and the state property tax and senior citizen income tax phases out, will be approximately $475 million.

House Version of FY 2011 Budget Overview

The House version of the FY 2011 budget incorporates and annualizes most of the budget cuts proposed by the governor as well as those he implemented in FY 2010. Similar to Governor Perdue's proposed budget, the House version also includes $1.2 billion of revenues above the Amended FY 2010 Budget's revenue estimate and approximately $1 billion in Recovery Act funds are in the base (6 percent of budget).

The House version also includes hundreds of millions of dollars in additional budget cuts to address the governor's lowered revenue estimate and the transferred Recovery Act funds out of the FY 2011 budget and into FY 2010.

Although the actual dollars appropriated are less, the percentage of funds going towards education are greater in the House budget than the governor's, despite downward revenue estimates. Both the House budget and governor's proposed budget expends 96 percent on education, health, public safety, human services, transportation, and debt service.

Table 1 **FY 2011 State Funding Breakdown**

	General Funds, Governor	General Funds, House	General Funds and Recovery Act Funds, Governor	General Funds and Recovery Act Funds, House
Education	54.6%	55.9%	53.1%	53.6%
Health	17.3%	16.1%	20.1%	19.3%
Public Safety	9.9%	9.9%	9.9%	10.1%
Human Services	2.9%	2.9%	2.7%	2.7%
Transportation	4.2%	4%	3.9%	3.8%
Debt Service	7%	7.1%	6.5%	6.7%
All Other Government	4.1%	4%	3.8%	3.8%

State Revenues

After the governor revised the state's revenue estimate downward, the House version of the FY 2011 State Funds Budget contains $17.8 billion, a reduction from the Governor's proposed budget of $333 million. In addition, the House version of the budget contains $343 million less in Recovery Act funds due to transferring those funds to the FY 2010 budget in order to close a FY 2010 budget gap.

As shown in Table 2, the House version of the FY 2011 budget is based on an 8.3 percent increase in General Fund revenues over the projected FY 2010 revenues. The increased revenues consist of securitizing certain Georgia Environmental Facilities Authority (GEFA) loans ($287 million), implementing a new 1.45 percent provider fee on managed care organizations and hospitals ($229 million), increasing various fees ($96 million), eliminating the Medicaid CMO exemption on the existing Insurance Premium Tax ($68 million), and 3.9 percent growth in revenues from FY 2010 ($586 million).

Table 2 **Changes in FY 2011 Revenue Estimate Compared to the Amended FY 2010 Revenue Estimate**

	FY 2010 Amended Budget Revised Revenue Estimate	FY 2011 Revised Revenue Estimate	Revenue Increase/Decrease	Percent Change
Taxes and Fees	**$15.207 billion**	**$15.793 billion**	**$586 million**	**3.9%**
GEFA Securitization		$287 million	$287 million	
Managed Care/ Hospital Fee		$229 million	$229 million	
Medicaid CMO Insurance Premium Tax		$68 million	$68 million	
Increased Fees		$96 million	$96 million	
Total General Revenues	**$15.207 billion**	**$16.473 billion**	**$1.266 billion**	**8.3%**
Lottery Funds	$1.044 billion	$1.127 billion	$83.0 million	7.9%
Tobacco Settlement Funds	$308 million	$140 million	-$168 million	-54.5%
Other Funds	$87 million	$83 million	-$4 million	-4.6%
Revenue Shortfall Reserve	$259 million		-$259 million	
Mid-Year Adjustment Reserve	$168 million		-$168 million	
TOTAL REVENUES	**$17.074 billion**	**$17.823 billion**	**$749 million**	**4.4%**

Recovery Act Funds

The FY 2011 budget contains $1 billion in Recovery Act funds that help balance the budget, a decrease of $367 million, primarily due to the transfer of Recovery Act funds to FY 2010 in order to close a budget deficit. Based on the governor's recommendation, the House's budget moves more than $342 million in Education Stabilization from the FY 2011 budget to the FY 2010 budget. Due to low enrollment projections, the federal Medicaid funds were decreased by $24.5 million.

Without the $1 billion plus Recovery Act funds, thousands of teachers and state employees might have lost their jobs, and thousands of low-income pregnant women, children, elderly, and disabled Georgians would likely have joined the ranks of the uninsured. See Table 3 for a breakdown.

Table 3 **Recovery Act Fiscal Stabilization and Medicaid Funds in the FY 2011 Budget**

Education Stabilization Funding	**Governor's Original Proposal**	**House Version**	**Change**
Department of Education	$342,626,224	$140,709,507	-$201,916,717
Board of Regents	$140,205,158	$23,186,142	-$117,019,016
Technical College System	$23,690,491		-$23,690,491
Total Education Stabilization Funding	**$506,521,873**	**$163,895,649**	**-$342,626,224**
General Stabilization Funding			
Department of Corrections	$84,877,989	$84,877,989	
Georgia Bureau of Investigation	$6,132,772	$6,132,772	
Department of Juvenile Justice	$28,020,203	$28,020,203	
Department of Public Safety	$8,872,757	$8,872,757	
Total General Stabilization	**$127,903,721**	**$127,903,721**	**0**
Medicaid Funding			
Department of Community Health	$757,081,618	$732,544,793	-$24,536,825
Other			
Department of Human Services (Title IV-E)	$7,177,918	$7,177,918	
TOTAL ARRA FISCAL STABILIZATION AND MEDICAID	**$1,398,685,130**	**$1,031,522,081**	**-$367,163,049**

Budget Cuts

Due to the lower revenue estimate by the Governor, the House version of the FY 2011 budget contains $333 million less in General Funds and $367 million less in Recovery Act funds than the Governor's proposed budget. The House version of the budget will result in hundreds of millions of dollars of additional cuts. The House version of the FY 2011 General Funds budget is $3.6 billion, or 17.8 percent less than the FY 2009 budget. When including the $1 billion in

Recovery Act funds, the FY 2011 budget is $2.5 billion less than the pre-recession FY 2009 budget, or 12.6 percent.

Table 4 **State Agency Budget Cuts From General Funds: FY 2011 Compared to FY 2009**

Agency	Decrease/ Increase	Pct. Change	Agency	Decrease/ Increase	Pct. Change
Judicial Branch	-$15,470,526	-9.1%	GBI	-$16,772,509	-21.7%
General Assembly	-$13,550,808	-32.5%	Juvenile Justice	-$77,482,247	-22.5%
Audits	-$5,596,127	-15.8%	Labor	-$16,355,562	-29.3%
Accounting Office	-$1,713,008	-31.4%	Law	-$2,295,596	-11.7%
Administrative Services	-$4,265,420	-30.9%	Natural Resources	-$39,887,991	-30.5%
Agriculture	-$12,526,620	-26.8%	Pardons and Parole	-$7,524,001	-12.9%
Banking and Finance	-$1,663,499	-12.9%	Public Defenders	-$2,001,012	-5%
Behavioral Health & Developmental Disabilities	-$57,376,841	-7.1%	Public Safety	-$33,991,433	-25.1%
Community Affairs	-$33,183,313	-62.1%	Public Service Commission	-$1,928,178	-18.6%
Community Health	-$746,861,823	-28.1%	Regents	-$355,674,139	-15.6%
Corrections	-$185,388,589	-16%	Revenue	-$20,026,063	-15.5%
Defense	-$3,026,842	-25.8%	Secretary of State	-$9,898,547	-24.4%
Driver Services	-$4,586,968	-7.3%	Soil and Water	-$766,856	-21.5%
Early Care and Learning	-$3,297,283	-72.1%	Student Finance	-$4,426,417	-14%
Economic Development	-$11,753,594	-29.7%	Teachers Retirement	-$558,000	-36.6%
Education	-$1,211,104,490	-14.8%	Technical College	-$49,852,904	-13.4%
Employees Retirement	$1,638,958	22.9%	Transportation	-$188,696,953	-22%
Forestry	-$10,965,100	-27.9%	Veterans	-$4,696,589	-18.3%
Governor	-$8,227,413	-17.2%	Workers Comp.	$3,296,241	18.6%
Human Services	-$136,164,062	-21.3%	Debt Service	$177,274,766	22.3%
Insurance	-$3,389,559	-17.6%	**TOTAL**	**$-3,592,486,074**	**-17.8%**

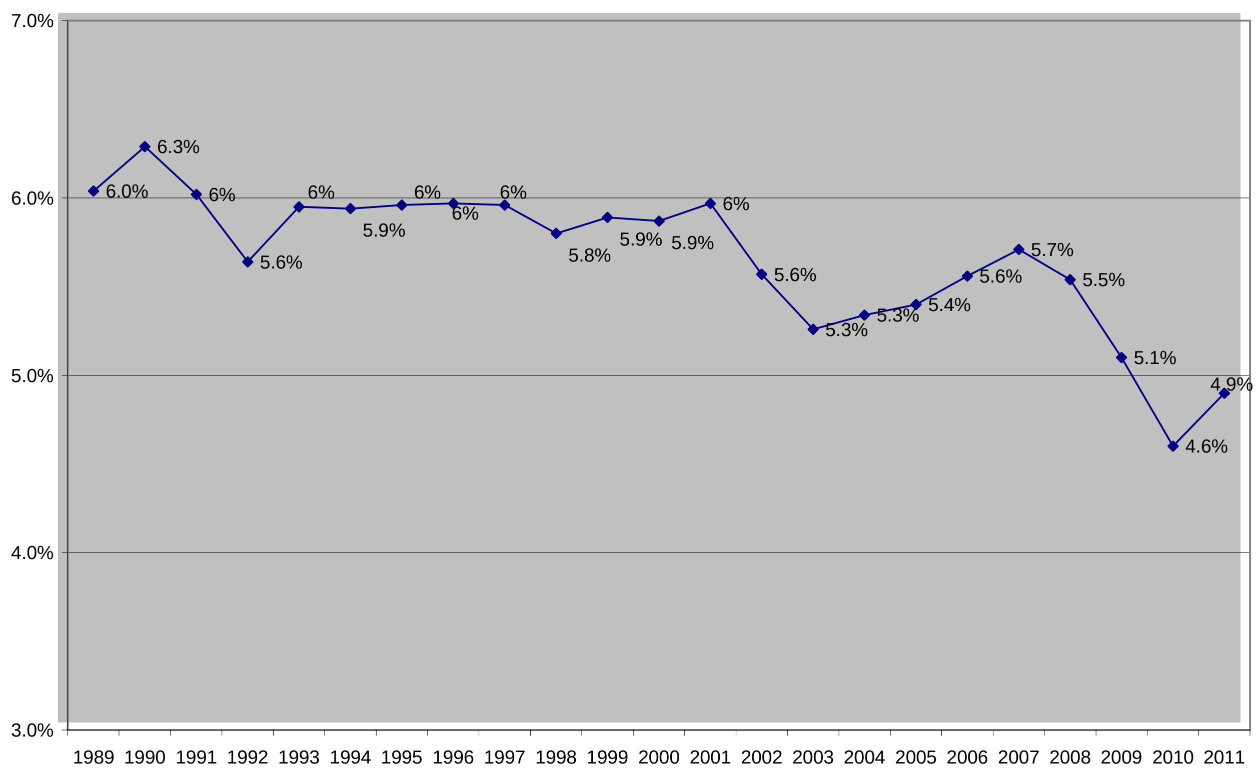
Table 5 **State Agency Budget Cuts From General Funds When Supplemented by ARRA Funds: FY 2011 Compared to FY 2009**

Agency	Decrease/ Increase	Pct. Change	Agency	Decrease/ Increase	Pct. Change
Community Health	-$14,317,030	-0.5%	Juvenile Justice	-$49,462,044	-14.3%
Corrections	-$100,510,600	-8.7%	Public Safety	-$25,118,676	-18.6%
Education	-$1,070,394,983	-13%	Regents	-$332,487,997	-14.5%
GBI	-$10,639,737	-13.8%			
Human Services	-$127,941,144	-20%	**TOTAL**	-$2,537,123,157	-12.6%

CONCLUSION — It's a Revenue Problem

Georgia is going through the worst fiscal crisis since the Great Depression. The "Great Recession" has resulted in multi-billion-dollar deficits. State spending is not a driving factor in these deficits, considering that Georgia ranks in the bottom 10 for spending per capita. The current budget shortfall is due to the combination of a historic weak economy and an antiquated tax code.

Chart 2 **State Total Revenues as Percent of Personal Income FY 1989 – FY 2011**



State revenue collections, as a percentage of personal income, have declined dramatically over the past 10 years. In other words, as Georgians incomes increased, the state revenues collected from Georgians did not keep pace. This decrease is the result of 20 years of tax cuts, such as those included in the recently passed HB 1055, a narrowing tax base due to an economy changing from manufacturing to services, an out-of-date tax system developed more than 50 years ago, and a weakening economy.

Revenue Solutions for the Revenue Problem

Governor Perdue and the House of Representatives have taken a more balanced approach in regards to the Medicaid budget through support for the hospital fee bill, and a bill to increase a wide variety of fees for services provided by state agencies. The House assumes more than $325 million in additional revenues, with the increased hospital fees in particular bringing down an additional $680 million in federal Medicaid funds.

In the long term, and in light of billion-dollar-plus deficit projected in FY 2012, the hospital provider fee that sun-sets after 3 years ($229 million) and more than $230 million in new tax cuts slated to take effect in five years, Georgia needs to undertake fundamental tax reform and modernization.

State leaders could put Georgia on a path to recovery by addressing the question: How do we fairly and equitably raise the funds necessary to provide the quality public services and infrastructure that Georgians demand? Passing HB 1405, which forms a Tax Reform Council, is an opportunity to undertake the fundamental tax reform and modernization that is so desperately needed.

Revenue increases as part of a balanced deficit reduction package is more beneficial to the economy than budget cuts alone. Georgia cannot become a prosperous state without adequate revenues, and it certainly cannot be a regional leader without a plan to rebuild its lost revenue system.

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