



Georgia Once Again Faces Budget Shortfall

Governor Orders Hundreds of Millions of Dollars in Additional Budget Cuts

By Alan Essig, Executive Director

As the state begins its 2011 fiscal year it is facing a potential budget shortfall of between \$413 million and \$613 million. This shortfall is on top of the \$2.5 billion in budget cuts already implemented since FY 2009.

This budget gap is due to several factors: 1) the U.S. Congress has not extended the enhanced Medicaid match which would provide Georgia \$375 million; 2) the state transferred \$37.7 million in Education Stabilization Recovery Act funds budgeted for FY 2011 into FY 2010; and 3) the state has a projected shortfall in the State Health Benefit Plan of as much as \$200 million.

According to the Georgia State University Fiscal Research Center, Georgia is facing a FY 2012 structural deficit of between \$1.8 billion and 2.0 billion.¹

The preliminary FY 2010 revenue reports from the Office of Treasury and Fiscal Services show a \$121 million revenue shortfall in FY 2010, which if accurate, would result in an additional \$121 million shortfall in FY 2011.² The final FY 2010 audited revenue figures are not available as of the date of this report's publication. Depending on the final FY 2010 revenue collection audit, the FY 2011 deficit may be higher or lower.

The Governor's Actions to Close the Gap

Governor Perdue, acknowledging the possibility that Georgia will not receive the enhanced Medicaid match of \$375 million, recently ordered the Office of Planning and Budget to withhold four percent of state agency monthly allotments beginning in August.

The Office of Planning and Budget instructed agencies to anticipate and prepare as though their total budgets will be cut by the entire four percent. The Quality Basic Education (QBE) funding formula, QBE equalization, and the State Schools program are exempt from the allotment holdback.

Furthermore, state agencies were instructed to submit FY 2011 Amended General Fund budget proposals with plans for four percent, six percent, and eight percent budget cuts. The Department of Education has been instructed to plan for a two percent cut in the Quality Basic Education (QBE) funding formula, QBE equalization, and State Schools program.³ See Appendix A for details about the budget impact of the cuts on each state agency.

FY 2011 Budget Gap Details

1) Enhanced Medicaid Match

The FY 2011 state budget includes \$748 million in an enhanced federal Medicaid match (FMAP) originally contained in the Recovery Act. The enhanced Medicaid match is set to expire on December 31, 2010. Georgia's budget includes \$375 million from the enhanced match under the assumption that the U.S. Congress will extend the enhanced Medicaid match for six months until June 30, 2011. The Senate has been unable to muster the 60 votes needed to pass legislation that includes the Medicaid extension. If Congress does not pass an extension, the state budget will face a \$375 million shortfall.

2) Education Stabilization Recovery Act Funds

Among other recent actions to closeout fiscal year 2010, the governor transferred \$37.7 million in federal Education Stabilization Recovery Act funds from FY 2011 to FY 2010.⁴ This transfer opens up a \$37.7 million hole in the FY 2011 budget since these funds are budgeted for this fiscal year.

3) State Health Benefit Plan

The State Health Benefit Plan (SHBP) is operating with a projected shortfall of as much as \$200 million. As a result of reduced state contributions to the SHBP, the plan is operating without the funding reserve it has previously enjoyed and current SHBP cash assets are not large enough to cover outstanding claims. As a result, the SHBP is essentially operating with a deficit, as current outstanding claims (including those that have not yet been reported) exceed the cash held by the plan.

The entire deficit does not necessarily have to be addressed in the current fiscal year. Addressing the deficit will likely require additional funding to the plan, although expense-reducing options could also be considered. Currently, the Department of Community Health (DCH), which houses the SHBP, is pursuing potential grant funding available to employers under the new national health reform law, also known as the Affordable Care Act (ACA). If DCH does not win the funds, the state could increase monthly premiums

from employees and families, increase cost-sharing from consumers enrolled in the SHBP, increase contributions from employers (state agencies), or simply direct appropriations from the State General Fund.

Recommendations

- 1) To order for Georgia to avoid most of these additional budget cuts in FY 2011, Congress should pass the enhanced Medicaid match extension.
- 2) As the Tax Reform Council begins their study of Georgia's tax system, it should address the large additional budget shortfalls facing Georgia over the next two years.
- 3) State policy makers should take an approach to solving the fiscal crisis over the next two years that includes revenue increases in addition to targeted budget cuts.

Appendix A

General Fund Budget Cut Options as Instructed by the Office of Planning and Budget

State Agency	Budget Cuts/Increases FY 2011 as Passed Compared to Original FY 2009 ⁵	Pct. Change	FY 2011 Additional 4% Reduction	FY 2011 Additional 6% Reduction	FY 2011 Additional 8% Reduction
Judicial Branch	-\$15,968,465	-9.4%	-\$6,142,189	-\$9,213,283	-\$12,284,278
General Assembly	-\$6,047,427	-14.5%	-\$1,424,407	-\$2,136,610	-\$2,848,813
Audits	-\$5,493,158	-15.5%	-\$1,197,361	-\$1,796,041	-\$2,394,721
Accounting Office	-\$1,618,520	-29.7%	-\$153,506	-\$230,259	-\$307,012
Administrative Services	-\$3,176,636	-23.0%	-\$424,632	-\$636,948	-\$849,263
Agriculture	-\$16,727,411	-35.8%	-\$1,199,641	-\$1,799,461	-\$2,399,281
Banking and Finance	-\$1,648,547	-12.8%	-\$449,989	-\$674,984	-\$899,978
Behavioral Health and Developmental Disabilities	-\$56,729,896	-7.0%	Exempt	Exempt	Exempt
Community Affairs	-\$27,760,929	-52.0%	-\$1,026,625	-\$1,539,937	-\$2,053,249
Community Health	\$163,575,241	6.2%	-\$63,948,733	-\$95,923,084	-\$127,897,446
Corrections	-\$100,894,850	-8.7%	-\$38,875,812	-\$58,313,718	-\$77,751,623
Defense	-\$3,056,093	-26.1%	-\$346,422	-\$519,633	-\$692,844
Driver Services	-\$4,586,968	-7.3%	-\$2,328,182	-\$3,492,273	-\$4,656,363
Early Care and Learning	-\$3,297,283	-72.1%	-\$51,073	-\$76,609	-\$102,146
Economic Development	-\$11,078,828	-28.0%	-\$1,140,114	-\$1,710,171	-\$2,280,228
Education ⁶	-\$1,064,956,990	-13.0%	-\$148,641,352	-\$148,641,352	-\$148,641,352
Employees Retirement	\$1,638,958	22.9%	Exempt	Exempt	Exempt
Forestry	-\$10,734,596	-27.3%	-\$1,141,218	-\$1,711,827	-\$2,282,437
Governor	-\$7,114,480	-14.9%	-\$1,626,388	-\$2,439,582	-\$3,252,775
Human Services	-\$128,437,804	-20.1%	-\$19,037,923	-\$28,556,884	-\$38,075,846
Insurance	-\$3,476,978	-18.1%	-\$630,126	-\$945,189	-\$1,260,252
GBI	-\$10,739,375	-13.9%	-\$2,416,457	-\$3,624,685	-\$4,832,914

State Agency	Budget Cuts/Increases FY 2011 as Passed Compared to Original FY 2009	Pct. Change	FY 2011 Additional 4% Reduction	FY 2011 Additional 6% Reduction	FY 2011 Additional 8% Reduction
Juvenile Justice	-\$50,652,195	-14.7%	-\$10,658,286	-\$15,987,429	-\$21,316,572
Labor	-\$16,282,567	-13.0%	-\$2,416,457	-\$3,624,685	-\$4,832,914
Law	-\$2,669,900	-13.6%	-\$679,342	-\$1,018,865	-\$1,358,486
Natural Resources	-\$39,773,948	-30.4%	-\$3,644,124	-\$5,466,187	-\$7,288,249
Pardons and Parole	-\$7,591,917	-13.0%	-\$2,033,907	-\$3,050,860	-\$4,067,814
Public Defenders	-\$2,001,012	-5.0%	-\$1,537,558	-\$2,306,337	-\$3,075,116
Public Safety	-\$25,344,399	-18.7%	-\$4,041,728	-\$6,062,592	-\$8,083,456
Public Service Commission	-\$1,908,023	-18.4%	-\$337,599	-\$506,399	-\$675,199
Regents	-\$343,436,013	-15.1%	-\$76,482,316	-\$114,723,474	-\$152,964,632
Revenue	-\$19,419,224	-15.0%	-\$4,391,533	-\$6,587,299	-\$8,783,065
Secretary of State	-\$9,088,868	-22.4%	-\$1,256,621	-\$1,884,931	-\$2,513,242
Soil and Water	-\$797,996	-22.3%	-\$110,994	-\$166,491	-\$221,987
Student Finance	\$1,202,941	3.8%	-\$1,310,273	-\$1,965,410	-\$2,620,547
Teachers Retirement	-\$558,000	-36.6%	Exempt	Exempt	Exempt
Technical College	-\$51,064,606	-13.8%	-\$12,796,416	-\$19,194,624	-\$25,592,832
Transportation ⁷	-\$174,104,072	-20.3%	-\$274,473	-\$411,709	-\$548,945
Veterans	-\$4,518,989	-17.6%	-\$847,307	-\$1,270,961	-\$1,694,614
Workers Compensation	\$3,255,328	18.4%	Exempt	Exempt	Exempt
Debt Service	\$157,576,034	15.6%	Exempt	Exempt	Exempt
TOTAL	-\$2,455,056,012	-12.2%	-\$413,911,985	-\$546,547,286	-\$679,182,598

Endnotes

¹ Bourdeaux, Carolyn and Sjoquist, David, "Estimating Georgia's Structural Deficit," Georgia State University Andrew Young School of Policy Studies Fiscal Research Center, Report Number 209, July, 2010.

² Report from the Office of Treasury & Fiscal Services, July 12, 2010.

³ Amended Fiscal Year 2011 General Policy Guidelines and Preparation Procedures issued by the Office of Planning and Budget July 12, 2010.

⁴ E-mail correspondence from Debbie Dlugolenski, Director of the Office of Planning and Budget, dated July 14, 2010.

⁵ Includes Recovery Act Funds to various state agencies (Community Health - \$748.9 million; Corrections - \$84.9 Million; Education - \$140.7 million; Regents - \$23.1 million; GBI – \$6.1 million; Juvenile Justice – 28.0 million; Public Safety – \$8.9 million; Human Services - \$7.2 million)

⁶ Office of Planning and Budget FY 2011 Amended Budget instructions exempt the QBE funding formula, QBE equalization, and the State Schools Program from the allotment withholding. The Department of Education still must submit a plan for a two percent cut to the QBE funding formula, QBE equalization, and the State Schools Program for the FY 2011 Amended Budget.

⁷ Motor Fuel Funds in the Department of Transportation are exempt from the holdback of the allotments and the proposed cuts in the FY 2011 budget submission. State general funds are not exempt.

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Contact: Alan Essig, aessig@GBPI.org

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