



# GBPI

Georgia Budget and Policy Institute

Thoughtful Analysis...Responsible Policy

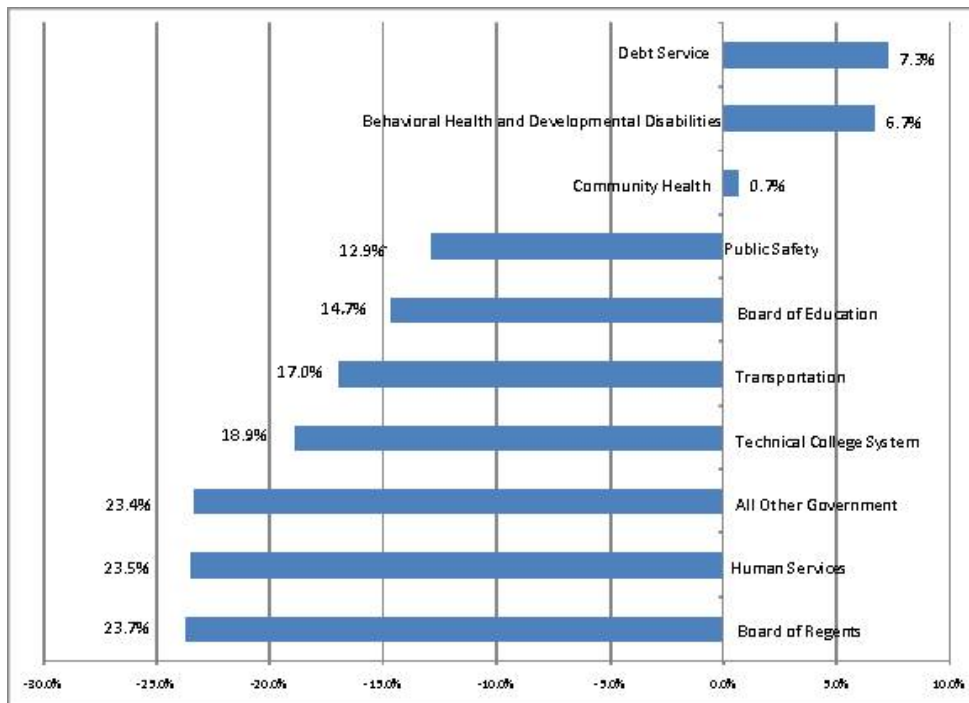
## The Governor's FY 2012 Budget: Have We Hit the Bottom?

By Alan Essig, Executive Director

### Summary

The governor's proposed FY 2012 budget eliminated a \$1.3 billion deficit by, among other actions, cutting state agency funding by an additional \$518 million and underfunding enrollment growth in education agencies and Medicaid by \$357 million. The budget cuts are on top of the nearly \$2.5 billion in budget cuts implemented over the past three years. **Compared to the adopted FY 2009 budget, the FY 2012 budget decreases state general fund spending by 14.6 percent (\$2.9 billion).**

**Chart 1: Percentage Change in Funds: Original FY 2009 to Proposed FY 2011**



THOUGHTFUL ANALYSIS...RESPONSIBLE POLICY

The FY 2012 budget also cuts funds for the lottery funded HOPE program by \$307 million, or 38 percent, and the pre-kindergarten program by \$19.7 million, or 6 percent. The governor has not included any lottery reserve funds in his lottery revenue estimate; therefore, the lottery-funded programs are based on an estimate of actual lottery revenues. The governor did not propose a restructuring plan for the HOPE program.

Despite the budget crisis, Georgia’s population is still among the fastest growing in the nation, resulting in existing and emerging needs, especially during these recessionary times. Existing demands include education for our expanding youth population, infrastructure for our community and economic development, health services for those unable to access the insurance market, services for our aging population, and protection for abused and neglected children, to name a few.

The recession has produced additional needs as almost half a million Georgians search for employment. For example, Georgians are returning to school in droves, expanding the technical college system enrollment by 22 percent year-over-year. Additional investments will be necessary to assist these workers, as they improve their skills, to take advantage of the upcoming recovery. Table I highlights various indicators of the need for public services.

**Table I: A Few Indicators of the Need for Public Services**

	<b>GA Total</b>	<b>GA %</b>
Adults aged 25 and over without a high school diploma or GED	1 million	16.5%
Adults aged 25 and over with less than an associate’s degree	4.1 million	66.1%
Child poverty	568,324	22.3%
Poverty	1.57 million	16.5%
Non-elderly uninsured rate	2 million	22.5%
Unemployed	469,000	10.1%

*Sources: U.S. Census Bureau’s American Community Survey and Current Population Survey; Bureau of Labor Statistics’ Local Area Unemployment Statistics, Georgia State University Sources of Health Insurance Coverage in Georgia*

As Georgia grapples with immediate multi-billion dollar budget deficits and a structural deficit going forward, policymakers must struggle with how to provide services to Georgians most affected by the recession and also make the investments necessary for Georgia to prosper economically. A balanced and targeted approach, one that includes additional revenues, would allow Georgia to position itself to prosper when the economy recovers, rather than relying on cutting prior investments and underfunding public structures.

## **FY 2010 Amended Budget Overview**

### Revenues

The FY 2011 amended revenue estimate decreased revenues by \$27.7 million and assumes an 8.5 percent revenue increase over FY 2010 collections. Discounting one-time revenues and new fees approved in the 2010 session of the General Assembly, year-over-year revenue growth is projected at 4 percent. For the first six months of FY 2011, revenues collected by the Department of Revenue increased by 8.1 percent as compared to the first six months of FY 2010. It is highly likely that revenue growth will result in a surplus of several hundred million dollars. The governor has stated that those surplus funds will be used to begin the rebuilding of the Revenue Shortfall Reserve.

### Budget Actions

The FY 2011 amended budget contains several major changes from the budget as originally passed:

- The governor appropriated \$152.2 million from the Mid-Year Adjustment Reserve. These funds were used for K-12 student enrollment growth (\$83 million), differentiated pay for newly certified math and science teachers (\$12.7 million), and to cover a shortfall in non-certified teachers' health insurance program (\$56.5 million).
- The governor increased state funds by \$139 million in the Medicaid program to cover a decrease in the American Recovery and Reinvestment Act (Recovery Act) enhanced federal Medicaid match.
- An increase in state funds of \$24.5 million within the Department of Behavioral Health and Developmental Disabilities (DBHDD) to begin funding the Department of Justice Settlement Agreement.
- In order to fund the increases in the Medicaid program and DBHDD Department of Justice Settlement Agreement, state agencies were cut by more than \$200 million, with the Board of Regents facing the largest cut, \$133.7 million or 6.9 percent, from the original FY 2011 appropriation.

## **FY 2012 Budget Overview**

The FY 2012 budget cuts the FY 2011 budget by \$518 million, or 3.3 percent. In addition to the \$518 million in cuts included in the FY 2012 budget, the Board of Regents (\$145 million) and the Technical College System of Georgia (\$63 million) did not receive additional funds for student enrollment growth, and the Department of Community Health did not receive funds for growth in Medicaid enrollment (\$62 million).

Although the Department of Education did receive funds for student enrollment growth (\$91.3 million), the Quality Basic Education (QBE) funding formula was cut by \$65 million and the expiring Recovery Act funds (\$126.2 million) were not replaced, for a total QBE formula funding cut of approximately \$191 million. The state did receive \$321 million in additional federal funds from the Education Jobs Act passed in August of 2010. These funds were distributed to school districts in the fall of 2010 for use in the FY 2011 budget. The Governor's Office of Planning and

Budget did not intend for those funds to supplement school districts FY 2011 budgets; instead, those funds were to supplant local funds, which were then to be placed in reserve for use in FY 2012. It is unclear as to what extent school districts followed the intent of the governor's budget office, and have local funds available to replace the decrease in state and federal funds in the FY 2012 budget. (For a more detailed analysis of the education budget proposals, see "Highlights of the Governor's FY 2012 Education Budget Proposals" at GBPI.org.)

The proposed budget expends more than 96 percent on education, health, public safety, human services, transportation, and debt service.

**Table 2: FY 2012 State Funds Budget Breakdown**

	<b>General Funds</b>
Education	52.8%
Health	20.2%
Public Safety	10%
Debt Service	6.3%
Transportation	4.1%
All Other Government	3.9%
Human Services	2.7%

State Revenues

The FY 2012 State Funds Budget contains \$18.1 billion. As shown in Table 3, the FY 2011 budget is based on 5.8 percent (\$935.8 million) growth in General Fund revenues.

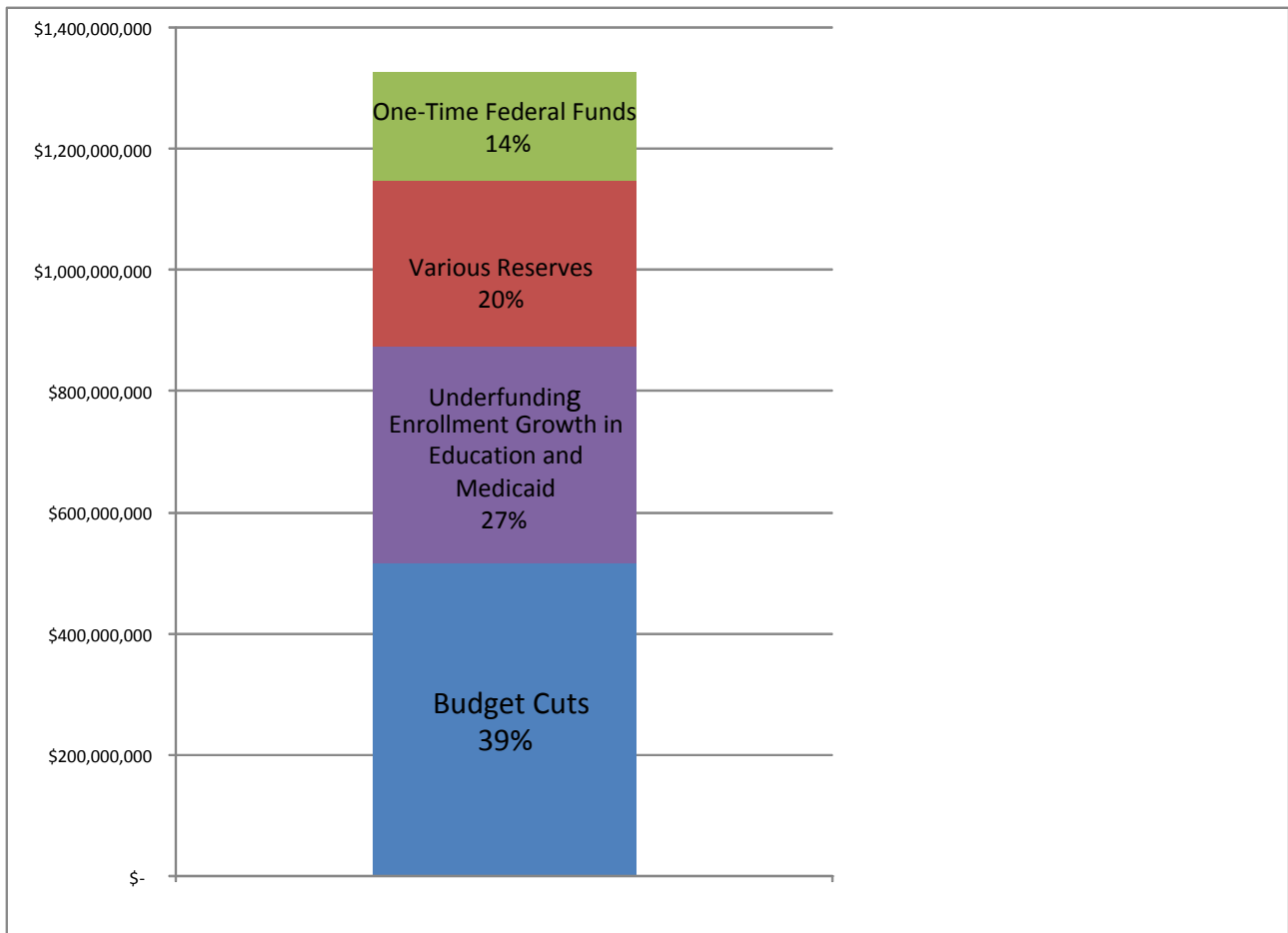
**Table 3: Changes in FY 2012 Revenue Estimate Compared to AFY 2011 Revenue Estimate**

	<b>FY 2011 Amended Budget Revenue Estimate</b>	<b>FY 2012 Revenue Estimate</b>	<b>Revenue Increase/Decrease</b>	<b>Percent Change</b>
Taxes (Income, Sales, Other)	\$15.064 billion	\$15.981 billion	\$916.7 million	6.1%
Interest, Fees and Sales	\$1.155 billion	\$1.175 billion	\$19.1 million	1.7%
<b>TOTAL GENERAL REVENUES</b>	<b>\$16.219 billion</b>	<b>\$17.156 billion</b>	<b>\$935.8 million</b>	<b>5.8%</b>
GEFA Monetization	\$288 million			
Lottery Funds	\$1.159 billion	\$832.4 million	-\$326.3 million	-28.2%
Tobacco Settlement Funds	\$146.8 million	\$138.4 million	-\$8.3 million	-5.7%
Brain and Spinal Injury Trust Fund	\$1.96 million	\$1.93 million	-\$27,140	-1.4%
Authority Reserves	\$85.8 million	\$34.6 million	-\$51.3 million	-59.7%
Mid-Year Adjustment Reserve	\$152.2 million			
<b>TOTAL REVENUES</b>	<b>\$18.053 billion</b>	<b>\$18.163 billion</b>	<b>\$109.8 million</b>	<b>0.6%</b>

## FY 2012 Budget Deficit

The FY 2011 and FY 2012 General Fund deficit totaled approximately \$1.3 billion, and was a result of expiring Recovery Act funds and various reserve and other one-time funds in the base of the FY 2011 budget, funding of the Department of Justice Settlement Agreement for mental health and disability services, as well as growth in K-12, post-secondary education, and Medicaid enrollment. More than 66 percent of the deficit is closed through budget cuts throughout state government and underfunding enrollment growth in Department of Education, Technical College System of Georgia, Board of Regents, and Medicaid.

**Chart 2: Closing the Deficit**



## Budget Cuts<sup>1</sup>

The FY 2012 General Funds budget is \$2.9 billion less (14.6 percent) than the FY 2009 budget.

**Table 4: State Agency Budget Cuts from General Funds: FY 2012 Compared to FY 2009**

Agency	Decrease/ Increase	Pct. Change	Agency	Decrease/ Increase	Pct. Change
Judicial Branch	-\$13,075,746	-7.7%	Georgia Bureau of Investigation	-\$17,541,925	-22.7%
General Assembly	-\$6,047,427	-14.5%	Juvenile Justice	-\$65,418,924	-19.0%
Audits	-\$7,279,119	-20.5%	Labor	-\$18,822,090	-33.8%
Accounting Office	-\$1,887,373	-34.6%	Law	-\$2,784,751	-14.2%
Administrative Services	-\$4,452,249	-32.3%	Natural Resources	-\$45,235,473	-34.6%
Agriculture	-\$17,709,409	-37.9%	Pardons and Parole	-\$7,922,129	-13.6%
Banking and Finance	-\$2,005,896	-15.6%	Public Defenders	-\$2,885,904	-7.1%
Behavioral Health and Developmental Disabilities	\$54,524,136	6.7%	Public Safety	-\$28,076,710	-20.8%
Community Affairs	-\$6,867,127	-22.3%	Public Service Commission	-\$2,568,568	-24.8%
Community Health	\$56,901,975	2.1%	Regents	-\$540,595,187	-23.7%
Corrections	-\$121,132,917	-10.5%	Revenue	-\$19,772,032	-15.3%
Defense	-\$3,278,302	-28.0%	Secretary of State	-\$11,032,625	-27.2%
Driver Services	-\$6,748,396	-10.7%	Soil and Water	-\$1,026,763	-28.7%
Early Care and Learning	-\$3,442,644	-75.3%	Student Finance	-\$2,053,239	-6.5%
Economic Development	-\$7,841,157	-19.8%	Teachers Retirement	-\$730,000	-47.9%
Education <sup>2</sup>	-\$1,200,857,019	-14.7%	Technical College	-\$70,017,196	-18.9%
Employees Retirement	\$1,638,958	22.9%	Transportation	-\$145,265,411	-17.0%
Forestry	-\$12,325,105	-31.4%	Veterans	-\$5,102,910	-19.9%
Governor	-\$3,242,507	-6.8%	Workers Comp.	\$3,316,653	18.7%
Human Services	-\$169,984,921	-26.6%	Debt Service	\$73,588,052	7.3%
Insurance	-\$3,947,202	-20.5%	<b>TOTAL</b>	<b>-\$2,931,918,902</b>	<b>-14.6%</b>

<sup>1</sup> Author calculations based on FY 2009 budget bill (HB 990) and FY 2012 Governor's Budget Report.

<sup>2</sup> Georgia received \$321 million from the Education Jobs Act passed in August 2010. Funds were distributed to school districts in fall of 2010 for use in FY 2011. The governor's budget assumes school districts used federal funds to supplant local funds in FY 2011, and will use the saved local funds in FY 2012. To the extent school districts did increase local fund reserves for use in FY 2012, the actual decrease in total funding will be less.

## Lottery Funds

Lottery expenditures have three permitted uses:

- Tuition grants, scholarships, or loans for Georgians to attend colleges in the state.
- Voluntary pre-kindergarten 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.

For the last several years lottery expenditures outpaced lottery revenues. Over this time, the lottery-funded budget has been balanced with the appropriation of lottery reserves. The FY 2012 budget proposal does not use lottery reserves, and is therefore cut by \$326 million compared to the FY 2011 amended budget. Most of these funds (\$275 million) are cut from the HOPE program. The governor did not propose a plan for the restructuring of the HOPE program.

**Table 5: Lottery Fund Programs FY 2012 compared to FY 2011 Amended Budget**

	<b>FY 2011 Amended Budget</b>	<b>FY 2012</b>	<b>(\$ Change)</b>	<b>(% Change)</b>
Pre-Kindergarten Grants	\$355,016,059	\$335,294,298	-\$19,721,761	-5.6%
HOPE Scholarships – Public Schools	\$493,531,474	\$303,307,959	-\$190,223,515	-38.5%
HOPE Scholarships – Private Colleges	\$54,663,937	\$37,920,023	-\$16,743,914	-30.6%
HOPE Grant	\$220,407,829	\$131,861,043	-\$88,546,786	-40.2%
HOPE Other	\$35,084,616	\$24,018,933	-\$11,065,683	-31.5%
<b>TOTAL</b>	<b>\$1,158,703,915</b>	<b>\$832,402,256</b>	<b>-\$326,301,659</b>	<b>-28.2%</b>

## Reserves

The Revenue Shortfall Reserve (RSR) is Georgia's rainy day fund, established to help Georgia get through tough economic times. At the end of FY 2007, the RSR contained \$1.5 billion. The RSR at the end of FY 2010 contained only \$116 million. Former Governor Perdue used more than \$1.4 billion in RSR funds to help balance the state budgets in fiscal years 2008, 2009, and 2010. In order for Georgia to maintain its AAA bond rating, there is also an expectation from the bonding agencies that Georgia will begin to rebuild the RSR. Since funds for the RSR come from state surplus, the governor should plan for such a surplus through conservative revenue estimates in both the amended FY 2011 and FY 2012 budgets. Although the amended FY 2011 revenue estimate will appear to result in a budget surplus of several hundred million dollars, the FY 2012 revenue estimate of a 5.8 percent revenue increase seems more problematic in driving a sizeable surplus.

## **Conclusion: A Balanced Approach to the Fiscal Crisis is Needed**

The FY 2011 amended budget and FY 2012 budget contain more than \$875 million of additional state agency budget cuts and unfunded formula driven growth. Even with additional students, Medicaid recipients, state prisoners, and other increases in the demand for government services due to the Great Recession, the state budget is almost \$3 billion less than it was three years ago.

The continued erosion of vital public services will have a negative impact on Georgia's long-term economic health. Georgia cannot cut its way to prosperity. It takes a vibrant and efficient public sector in partnership with the private sector for sustained economic growth.

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 functioning transportation systems, availability of water, and the quality of public education are more important components of the decision making process.”

Revenue increases as part of a balanced deficit reduction package would be more beneficial to the economy than budget cuts alone. In the long term, fundamental tax reform and modernization, such as many of the recommendations contained in the report of the Special Council on Tax Reform and Fairness for Georgians, would allow Georgia to make the investments in the human and physical infrastructure of the state that is necessary for Georgia to prosper.

Georgia cannot become a prosperous state without adequate investments in basic infrastructure such as transportation, education, and health care and it must rebuild its decaying revenue system to make those investments happen.

© 2011 Georgia Budget & Policy Institute  
All Rights Reserved.

This document may be quoted with proper citation. A PDF is available for reference and dissemination at [GBPI.org](http://GBPI.org).  
Contact: Alan Essig, [aessig@gbpi.org](mailto:aessig@gbpi.org), 404.420.1324 ext. 101