Policy Report

FY 2013 Budget Analysis: Budget Overview

A Review of the Governor's Budget Report - FY 2013

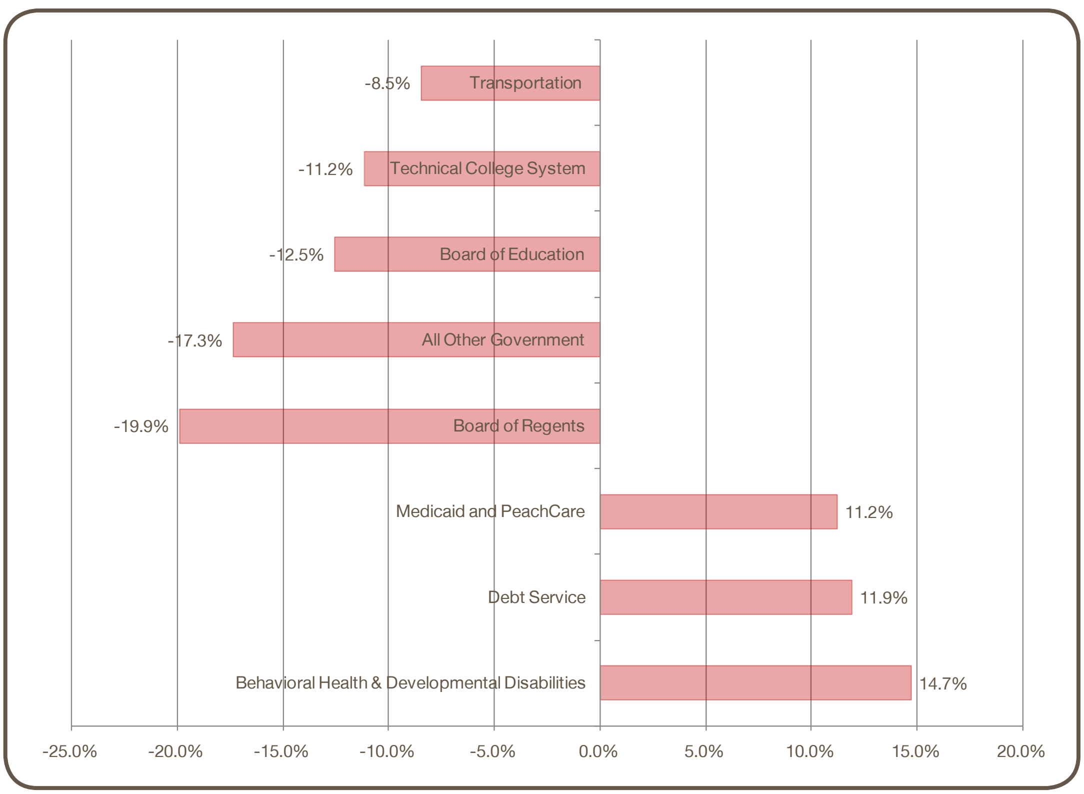
By Alan Essig, Executive Director

Summary

For the first time in several years there are no dramatic cuts in the governor's budget recommendations. Even with new spending and an increase of $930 million in general funds from last year, the FY 2013 budget is still nearly $2 billion less than the pre-recession budget of FY 2009. Overall, many state agency budgets are 20 to 30 percent less than their budgets in FY 2009.

Education funding continues to make up more than 51 percent of the state budget, with challenges in funding growth evident in some areas. For example, the FY 2013 budget fully funds student growth within the Department of Education (K-12), yet partially funds student growth within the Board of Regents (University System of Georgia).The Department of Education's budget is $1 billion (12.5 percent) less than it was in FY 2009, while the Board of Regents budget is down more than $450 million (19.9 percent).

Figure 1 Percentage Change in Funds, FY 2009 - FY 2013



The majority of additional funding in the FY 2013 budget is for student enrollment growth, filling shortfalls in Medicaid and the State Health Benefit Plan, and making required payments to the State Employees and Teachers Retirement Plans. The FY 2013 budget also funds implementation of several recommendations from the Special Council on Criminal Justice Reform, including nearly $30 million to fund the third year of the Department of Justice Settlement Agreement for developmental disabilities and mental health consumers, and the Savannah Harbor Deepening Project. Many agencies face additional 2 percent budget cuts, including the Board of Regents which is cut by $35 million for personal services and operating expenses.

Even with moderate revenue growth, Georgia faces a structural deficit. In fact, Gov. Deal projects a $319 million deficit in FY 2014. Any additional tax cuts, currently mentioned as part of the Competitiveness Initiative will only increase the deficit. Without a significant improvement in the economy or tax reform that results in increased revenues, Georgia will continue to struggle to provide services to Georgians most affected by the recession. The state will also find it challenging to 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 as the economy recovers, rather than relying on cutting prior investments and underfunding public resources such as schools and roads that are most important for future job growth.

Amended FY 2012 Budget Overview

Revenues

The Amended FY 2012 Budget increases the state fund revenue estimate by $102 million and assumes a 4.5 percent revenue increase above the FY 2011 collections. For the first six months of FY 2012, revenues collected by the Department of Revenue increased by 5.2 percent as compared to the first six months of FY 2011. Although revenues appear on target to meet the revenue estimate, revenues need to grow between 7 percent and 8 percent to drive a modest surplus. Surplus is critical for funding mid-year enrollment growth and building the Revenue Shortfall Reserve (RSR).

Budget Actions

The Amended FY 2012 budget contains several major changes from the budget as originally passed:

- Adds $165.6 million from the Education Mid-Term Adjustment Reserve. These funds are mostly used for K-12 student enrollment growth ($87.9 million), State Special Charter Schools ($8.6 million).
- Adds $151 million for the Medicaid Program because the General Assembly underfunded the program when the FY 2012 budget originally passed.
- Adds $54 million to the employer contribution to the State Health Benefit Plan.
- Cuts $31 million from The Board of Regents for personal services and operating expenses.

FY 2013 Budget Overview

State Revenues

The FY 2013 budget contains $19.2 billion in state funds. As shown in Table 1, the FY 2013 budget is based on 4.9 percent growth ($847 million) in General Fund revenues.

Table 1 Changes in Revenue Estimate, AFY 2012 - FY 2013

Revenue Source	FY 2012 Amended Budget Revenue Estimate	FY 2013 Revenue Estimate	Revenue Increase/ Decrease	Percent Change
Taxes (Income, Sales, Other)	$16.196 billion	$17.003 billion	$807.3 million	5.0%
Interest, Fees and Sales	$1.113 billion	$1.153 billion	$39.5 million	3.5%
TOTAL GENERAL REVENUES	**$17.309 billion**	**$18.156 billion**	**$846.8 million**	**4.9%**
Lottery Funds	$918.0 million	$904.4 million	-$13.6 million	-1.5%
Tobacco Settlement Funds	$138.5 million	$145.6 million	$7.2 million	5.2%
Brain and Spinal Injury Trust Fund	$2.3 million	$2.4 million	$62,872	2.7%
Authority Reserves	$17.0 million	$15.6 million	-$1.4 million	-8.3%
Mid-Year Adjustment Reserve	$165.6 million			
TOTAL REVENUES	**$18.550 billion**	**$19.224 billion**	**$673.5 million**	**3.6%**

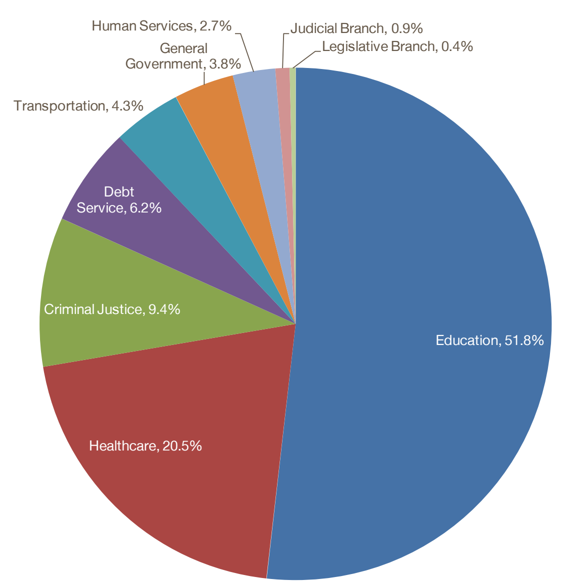
Budget Actions

The FY 2013 budget increases General Fund spending by $930 million above the FY 2012 budget as passed during the 2011 legislative session. Most of the increased spending keeps the Medicaid budget whole ($243.8 million), pays for increased number of students in K-12, Board of Regents, and Technical College System ($188.5 million), and makes the required payments into the Teachers and State Employees Retirement Systems ($145.6 million).

Table 2 Major Areas for Budget Increases, FY 2013

Medicaid	$243,807,217
Education Formula Growth	$188,477,327
Retirement System's	$145,593,699
Other	$78,970,678
Debt Service	$64,608,074
Transportation Construction and Maintenance	$63,172,574
State Health Benefit Plan	$45,933,100
Annualize Cost of Prison Expansion	$35,274,014
DOJ Settlement Agreement	$29,848,434
General Liability and Workers Compensation	$17,513,818
Replace Lost TANF Supplemental Funding	$16,793,009
TOTAL SPENDING	**$929,991,944**

Figure 3 General Funds Breakdown, FY 2013



The FY 2013 budget expends more than 96 percent on education, health, public safety, human services, transportation, and debt service.

For more detailed analysis of the Department of Community Health, Public Health, Human Services, and education budgets please see separate budget analysis reports at www.gbpi.org.

Other Agency Budget Highlights:

Public Safety

- $10 million to the Criminal Justice Coordination Council for grants to counties for Accountability Courts as recommended by the Special Council on Criminal Justice Reform.
- $1.4 million to Pardons and Paroles for mandatory supervision of offenders who serve their maximum sentence.
- $35 million to annualize the cost of private prison expansion (2,650 beds).

Behavioral Health and Developmental Disabilities

- $29.8 million to fund the third year of the Settlement Agreement with the United States Department of Justice.

Department of Labor

- $33 million in state funds to pay the annual interest payment on the Unemployment Trust Fund loan due on September 30, 2012. Contains $5.8 million in the Department of Labor Budget and $27.3 million in the Governor's Emergency Fund.
- Transfers the Vocational Rehabilitation Division, including the Roosevelt Warm Springs Institute, the Georgia Industries for the Blind, and the Business Enterprise Program to the Department of Human Services.
- Transfers the Safety Inspection Program to the Department of Agriculture.
- Transfers responsibility for implementation of the Workforce Investment Act to the Governor's Office of Workforce Development.

One Georgia Authority

- $10 million for economic development projects.

Infrastructure (Bonds)

- $46.7 million for the Savannah Harbor Deepening Project.
- $45.8 million for reservoirs ($25 million) and Water Construction and Reservoir Construction Loan Program ($20.8 million).
- $22.5 million for Water and Sewer Construction Loan Program.
- $469 million for various building and maintenance projects in the Department of Education, Board of Regents, and the Technical College System.

Other Reorganizations

- Consolidates and transfers the State Personnel Administration to the Department of Administrative Services.
- Transfers funding and assets from the Georgia Aviation Authority to the Georgia Forestry Commission, Department of Natural Resources, and the Department of Public Safety.
- Transfers Child Care Services program from the Department of Human Services to the Department of Early Care and Learning.

Lottery Funds

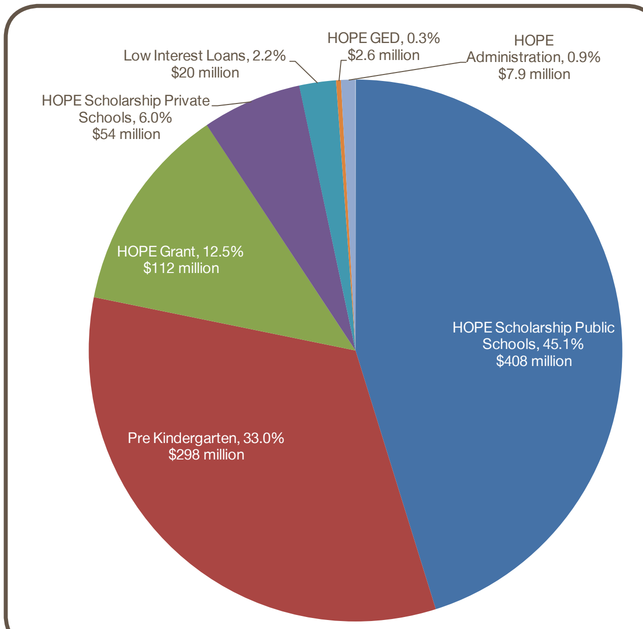
Lottery expenditures have three permitted uses:

- 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.

Due to increased demand and cost of the HOPE scholarship program, lottery-funded expenditures were projected to fall short of lottery deposits by more than $250 million in FY 2012. During the 2011 session of the General Assembly, legislation passed that restricted the HOPE Scholarship and HOPE Grant programs – saving more than $205 million – and cut the Pre-K program by $54 million.

Figure 4 **Lottery Fund, FY 2013**

(Percentages Based on the Total Lottery Fund, $904,439,791)



The FY 2013 budget restores funding for 10 of the 20 days that were cut from the pre-kindergarten program in FY 2012. The additional school days are paid for by cutting 2,000 Pre-K slots. This swap of 10 extra school days for 2,000 slots actually decreases funding for the Pre-K program by $2.7 million.

Tobacco Settlement Funds

The Tobacco Master Settlement Agreement (MSA) was the largest civil settlement in U.S. history and was negotiated and signed in November 1998 by 46 states and the four largest tobacco companies. 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 who has not earmarked MSA payments for restricted use. As a result, the specific allocations of MSA funds can vary from year to year. The FY 2013 budget increases funds for the Low Income Medicaid program by $8 million and decreases funds for eminent cancer scientists and clinicians by $831,000.

Table 3 **Tobacco Settlement Fund Budget, FY 2013**

Low Income Medicaid	$106,719,052
Cancer Treatment and Prevention	$19,955,837
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	$150,000
Total Tobacco Settlement Funds	**$145,640,765**

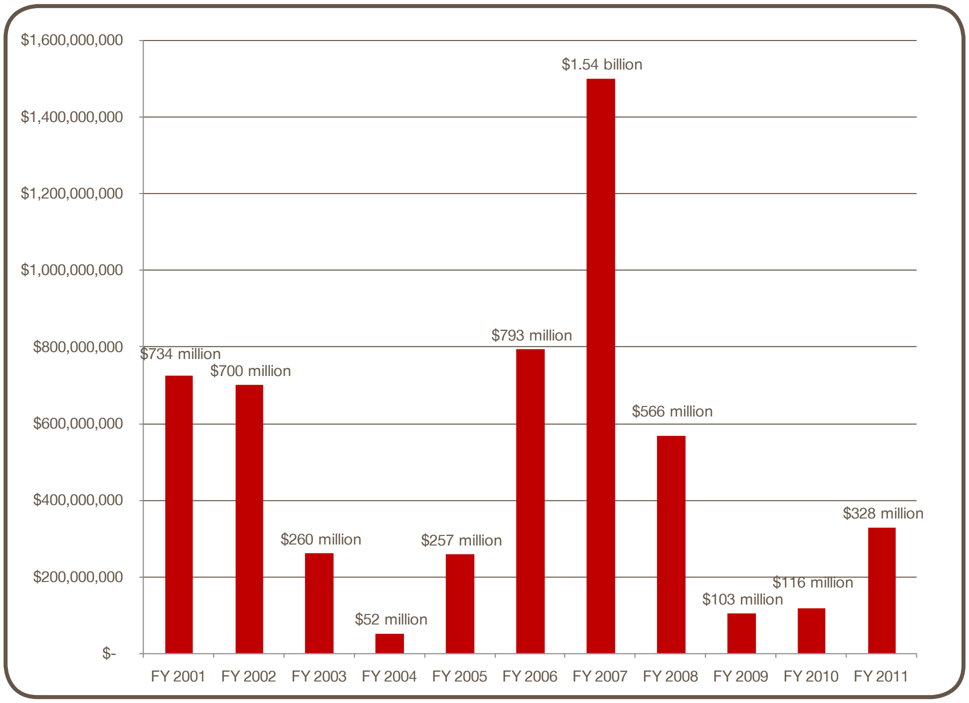
Reserves

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. Governor Perdue used more than $1.4 billion in RSR funds to help balance the state budgets in fiscal years 2008, 2009, and 2010. By the end of FY 2010, the RSR contained only $116 million. For Georgia to maintain its AAA bond rating, bonding agencies expect that Georgia will rebuild the RSR. A small surplus in FY 2012 allowed the RSR to increase to $328 million. Since funds for the RSR come from state surplus, Gov. Deal should plan for such a surplus through conservative revenue estimates in both the Amended FY 2012 and FY 2013 budgets.

Revenue growth during the first six months of FY 2012 was 5.2 percent, slightly above the 4.5 percent revenue estimate. For a sizable surplus in FY 2012 and FY 2013, revenues need to grow significantly faster.

To plan for the mid-term adjustments in enrollment growth and RSR increasing by at least $300-$400 milion a year, revenues need to grow between 7 percent and 8 percent.

Figure 5 Revenue Shortfall Reserve (RSR)



Conclusion: A Call for More Revenues

Due to projected moderate revenue growth, the FY 2013 budget avoids the drastic budget cuts of the past several years. Unfortunately, moderate revenue growth is insufficient to even begin replacing those cuts. In fact, looking forward to FY 2014, the Governor projects a nearly $320 million deficit.

To build a strong economy and once again lead the nation in job growth, it requires increased investments in education, transportation, and healthcare. Where Georgia lags competitively is not taxes, Georgia has among the lowest taxes in the nation. Georgia needs a well-trained and educated workforce, a transportation system that allows goods to get to the marketplace and ensures employees a hassle-free commute, and quality hospitals and medical clinics.

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.

For the past 30 years Georgia's economic development policy has revolved around keeping overall taxes as low as possible, allowing businesses additional tax credits and exemptions when asked, and minimally funding investments that matter to the general public, including education, transportation, and safe communities. While that economic development strategy resulted in Georgia being among the leaders in job growth during the 1990's, it has been a different story the last 10 years. While taxes remain among the lowest in the nation, Georgia now trails the nation in job growth.

For Georgia to regain its position as an economic leader, additional smart investments in education, transportation, and quality of life must be a priority. 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.

Without additional revenues, Georgia will face status quo budgets going forward, revenue growth just enough to avoid drastic budget cuts, but not nearly enough to make the investments necessary for Georgia to prosper. The long-term economic health of Georgia depends on ending this failed economic development strategy.

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