

Georgia Budget Primer 2015

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■ About the Georgia Budget and Policy Institute

The Georgia Budget and Policy Institute produces research and state budget analysis to show Georgia ways to provide better education, health care and opportunity for everyone. Visit www.gbpi.org for more information.

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■ Introduction

Georgia plans to spend \$19.7 billion in state funds raised through taxes and fees for the 2015 fiscal year. The budget plan anticipates a revenue increase of \$807 million, or 4.3 percent more than the prior year.

Most of the new revenue is consumed by needs of a growing and aging population. Budget cuts imposed due to the Great Recession remain and hurt the state's ability to provide public essentials, including a quality education, access to health care and human services.

The state's 2015 budget adds \$314 million more for K-12 education over the prior year. Still, the \$314 million falls more than \$747 million short of the state's own education funding formula. The larger story of Georgia's 2015 spending plan is one of missed opportunity to invest in the building blocks of economic growth for our state's families and their secure future.

The Georgia Budget and Policy Institute's Georgia Budget Primer 2015 is a clear explanation of the state's revenue collections and its spending plan. It includes basics to help a novice understand the budget's complexities. Seasoned observers of state government will also find this publication is an authoritative reference during the 12-month fiscal year that starts July 1, 2014.

The governor proposed the 2015 state budget at the start of the Georgia General Assembly in January 2014. State lawmakers made small changes to it before Gov. Nathan Deal signed the budget into law in April. Lawmakers will amend the 2015 state budget after the next legislative session starts January 2015 to reconcile it with actual revenues and make other needed adjustments. Please visit www.gbpi.org for up-to-date analysis of the changes.

This booklet tells the story of a state that continues to shortchange investments in its schools, communities and services crucial to its quality of life. It is past time for the state to change the trajectory of its story. It is time for Georgia to embrace what's possible.

■ Georgia by the Numbers

Importance of the State Budget

Georgia's budget for 2015 touches the lives of people in every corner of the state. From the mountains of north Georgia to the southern coastal plains, the spending plan affects the quality of life in Georgia's communities. The state's future prosperity depends on Georgia's investments in essential services like education, health care, public safety and transportation, just to name a few. Here are some examples of the wide impact the state budget has on the lives of Georgians:

1.7 million – approximate number of children in the K-12 public school system (\$7.9 billion in the 2015 state budget)

1.8 million – approximate number of Georgians who receive health care coverage who are seniors, disabled, children or low-income parents (\$2.9 billion in the 2015 state budget)

18,000 – approximate miles of road overseen by the Georgia Department of Transportation (\$864 million in 2015 state budget)

56,401 – approximate number of inmates in Georgia Department of Corrections facilities (\$1.1 billion in 2015 state budget)

Where Georgia Ranks Among the States

When it's good to rank first, Georgia is...

50th* – in Medicaid spending per patient

40th – in eighth grade math scores

When it's good to rank fiftieth, Georgia is...

6th – in the number of residents living in poverty

6th – in the number of children living in poverty

46th

Georgia's rank in
state and local revenue
per person*

Sources: Federation of Tax Administrators, U.S. Census Bureau, National Assessment of Education Progress, Kaiser Family Foundation State Health Facts, U.S. Department of Education

* Out of 50 states and the District of Columbia

■ Budget Basics

Georgia's 2015 fiscal year is July 1, 2014 through June 30, 2015 and the total budget available to the state is \$42.4 billion. That includes \$20.8 billion in state funding, \$12.1 billion in federal funding and \$9.4 billion in other funds and transfers.

The state budget outlines Georgia's priorities, how it plans to spend money to meet them and how much revenue it expects to collect. It is the most important piece of legislation lawmakers pass. In fact, it is the only legislation that the General Assembly is legally mandated to pass each year. The Georgia Constitution requires the state to maintain a balanced budget, which means the government cannot spend more money than it collects in revenues.

The budget process is ongoing. Even as Georgia is implementing its current budget, it is auditing the previous year's budget and planning for the next one. Beyond the General Assembly, many others participate in the process, including the governor, state budget director, state economists, agency leaders and budget officials, state auditors, advocates and the public.

Steps Along Georgia's Budget Path

1



Budget Request Instructions Sent to Agencies:
In early summer, the Governor's Office of Planning and Budget (OPB) sends guidelines to agencies for budget requests.

2



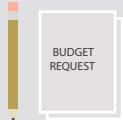
Agencies Prepare Budget Request:
Agencies prepare requests and get board approval (if applicable).

3



Budget Request Submitted:
Agencies submit all requests for current and upcoming fiscal year to OPB by September 1.

4



Budget Request Analyzed:
The governor, OPB staff, and agency leaders review and assess current and new budget requests.

5



Governor Finishes Budget:
By the end of the calendar year, the governor finalizes the budget proposals.

6



Budget Documents Sent to the General Assembly:
In January, within the first five days of the General Assembly session, the governor presents his budget proposals.

Steps Along Georgia's Budget Path

7



Legislative Appropriations Process:
The Appropriations committees in the Georgia House of Representatives and Senate hold budget hearings for the current and upcoming fiscal year.

8

HOUSE



House Approves Its Budget
The House votes on changes to governor's budget proposals. Passes its version to the Senate.

9

SENATE



Senate Approves its Budget:
The Senate reviews the House-passed budget for the current and upcoming fiscal years, can make changes, then votes on latest versions.

10



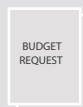
Conference Committee Meets:
The lieutenant governor and Speaker of the House appoint a conference committee to negotiate a single version of the budget.

11



Final Version Approved:
The House and the Senate each vote to approve the final version.

12

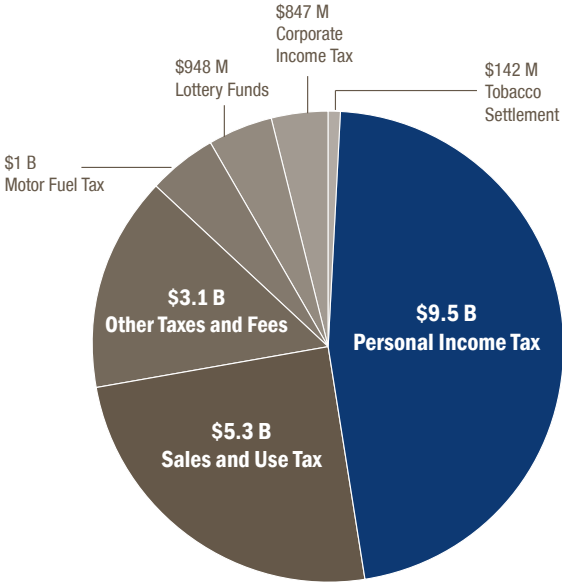


Appropriations Bill Sent to Governor:
The governor has 40 days from the end of the legislative session to sign the budget bill into law and may veto specific parts of it.

Where Does the Money Come From?

Georgia’s fiscal health depends on the state’s ability to raise money from diverse sources. While Georgia has a mix of income taxes, sales taxes and other fees, the reliability of the revenue structure is faltering. The tax code needs to be updated to reflect Georgia’s shift in recent decades to a more service-based economy from one that relied on sales of cars, household appliances and other tangible goods. Many services in Georgia are not taxed, depleting the state’s revenue year after year. The income tax accounts for about half of all state revenue and is the most reliable of Georgia’s revenue sources. The income tax adds fairness to the state revenue stream. (See “Georgia’s Income Tax is Essential to Growth” on page 8).

Figure 1 Income Tax Largest Source of State Revenue
2015 Fiscal Year Total State Revenue Projection is \$20.8 billion



Source: Georgia’s 2015 Fiscal Year Budget (HB 744), signed by governor

Figure 2 Revenue Estimate, 2015 Fiscal Year

	AMOUNT	PERCENTAGE
INCOME TAXES		
Personal Income Tax	\$9,536,657,000	45.8%
Corporate Income Tax	\$846,667,000	4.1%
	\$10,383,324,000	49.8%
SALES TAXES		
Sales and Use Tax	\$5,258,817,000	25.2%
OTHER TAXES AND FEES		
Tobacco Tax	\$213,874,800	1.0%
Alcohol Beverage Tax	\$183,054,700	0.9%
Property Tax	\$ 17,117,500	0.1%
Insurance Premium Tax	\$342,098,275	1.6%
Motor Vehicle License Tax	\$333,125,000	1.6%
Nursing Home Provider Fees	\$167,756,401	0.8%
Title Fee	\$744,646,000	3.6%
Hospital Provider Payments	\$264,217,234	1.3%
All Other Interest Fees and Sales	\$835,075,664	4.0%
	\$3,100,965,574	14.9%
DESIGNATED FUNDS		
Motor Fuel Tax	\$1,001,444,100	4.9%
Lottery Funds	\$ 947,948,052	4.6%
Tobacco Settlement Funds	\$142,461,830	1.0%
Brain and Spinal Injury Trust Fund	\$1,784,064*	0.0%
	\$2,093,638,046	10.0%
Total	\$20,836,744,620	100.0%

Source: Governor's Budget Report Fiscal Year 2015

*Less than .01%

■ Georgia's Income Tax Essential to Economic Growth

Georgia's tax on income provides a reliable stream of money to pay for schools, health care and other vital public needs. It is the source of about half of the revenue collected by the state, helps keep the sales tax rate relatively low and earns the state a top credit rating that keeps the cost of borrowing low.

Out of about \$20.8 billion in state revenues Georgia expects to collect in the 2015 fiscal year, \$10.4 billion is projected to come from the income tax. To put that in perspective, the income tax alone this year could pay all of Georgia's public education costs – for K-12 schools, universities, and technical colleges. It brings in more than twice as much as the state expects to spend on health care during the year.

But this steady and crucial source of revenue might be in jeopardy. In November 2014 Georgia voters could approve a constitutional amendment to permanently cap the state income tax at 6 percent. The Georgia General Assembly could later reduce or eliminate Georgia's income tax and replace it with an increased sales tax.

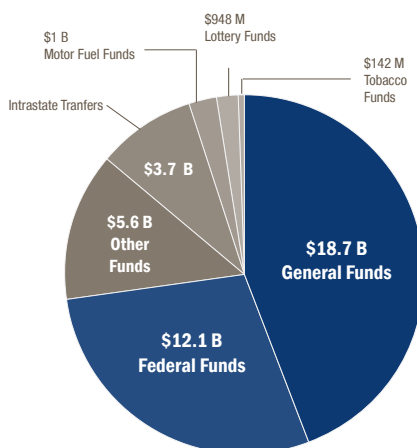
Changing Georgia's diverse approach to funding essential needs would hurt families and businesses by eroding investments in schools, transportation, public safety and other ingredients crucial to a strong economy. Middle-class and low-income Georgians would end up paying more of their earnings in other, less equitable ways, such as the sales tax, while upper-income Georgians would get a substantial tax break.

Georgia Relies on Diverse Funding Sources

Including federal funds, the total 2015 Georgia budget is \$42.4 billion and is made up of six funding sources:

- **General Funds** – State money (taxes and fees) that is used for general purposes of state government.
- **Federal Funds** – Funding from the federal government to pay for all or portions of specific programs.
- **Other Funds** – Funds received by state agencies and institutions for services performed such as higher education tuition and fees.
- **Lottery Funds** – These are dedicated to Pre-Kindergarten programs and scholarships for higher education.
- **Tobacco Settlement Funds** – This ongoing annual payment results from a legal settlement with the country's four largest tobacco companies.

Figure 3 General and Federal Funds Make Up Most of the State Budget 2015 Fiscal Year State Budget Total \$42.4 Billion



Source: Georgia's 2015 Fiscal Year Budget (HB 744), signed by governor

General and Motor Fuel Funds

\$19,746,334,738 (47 percent of Georgia's budget)

General funds come from state taxes and fees. About 96 cents of every dollar collected goes to seven areas:

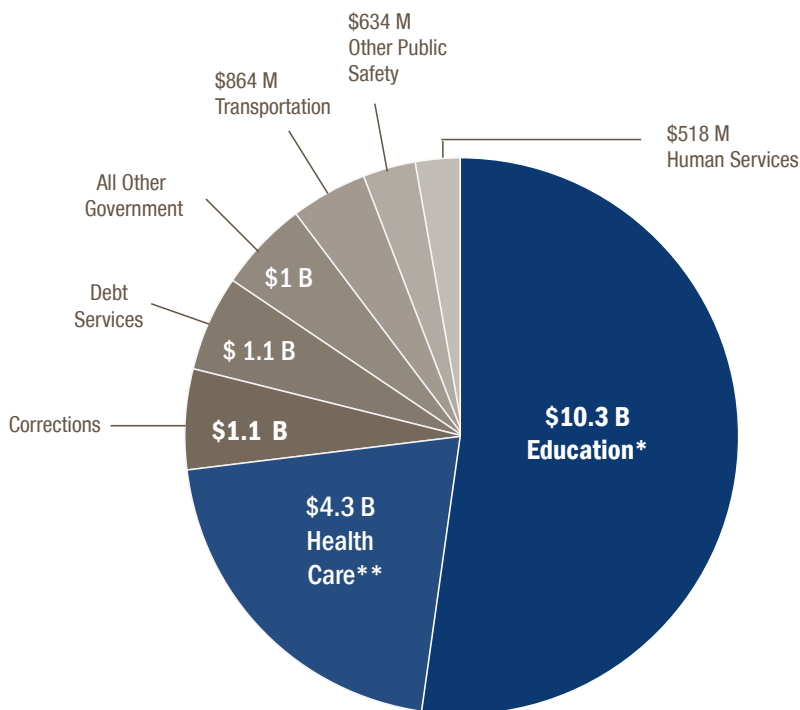
- K-12 and Postsecondary Education (52 cents of every dollar spent)
- Health Care (21 cents)
- Public Safety (9 cents)
- Debt Service (6 cents)
- Transportation (4 cents)
- Department of Human Services (3 cents)
- Judicial and Legislative branches (1 cent)

The remaining four cents of each dollar pays for all other state agencies, boards and commissions.

Motor Fuel Funds

Georgia's Constitution restricts spending of Motor Fuel Funds to public roads and bridges. The state collects a motor fuel excise tax of 7.5 cents per gallon on gasoline, diesel fuel, gasohol, liquid propane and other fuels. The state also levies a 4 percent sales tax on motor fuel sold at the pump. Of that retail tax, 3 percent goes to transportation with the remaining 1 percent going to the General Fund. Georgia's budget for the 2015 fiscal year spends more than \$1 billion in Motor Fuel Funds. Of this amount, \$849 million goes to the Department of Transportation and \$157 million is appropriated to the General Obligation Debt Sinking Fund, or debt service.

Figure 4 Education and Health Care Dominate General Fund Spending
2015 Fiscal Year State General Fund and Motor Fuel Funds Budget: \$19. Billion



Source: Georgia's 2015 Fiscal Year Budget (HB 744), signed by governor

* Education spending details: Georgia's 2015 budget for K-12 is \$7.9 billion, for the University System of Georgia is \$1.9 billion and the Technical College System of Georgia is \$332 million

**Health care spending details including tobacco funds: Georgia's 2015 budget for Medicaid is \$2.9 billion, for Behavioral Health is \$969 million; for Public Health is \$232.2 million; and for other health care is \$139 million

Federal Funds

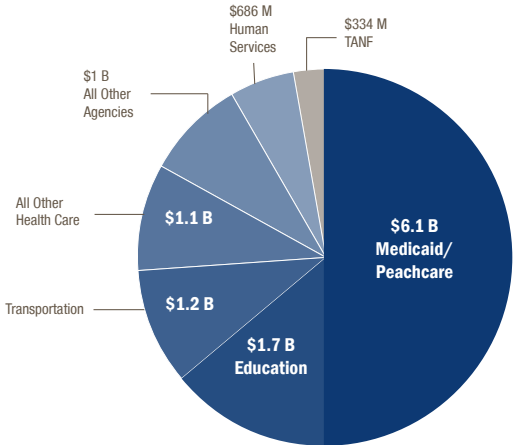
\$12,184,984,411 (29 percent of Georgia’s budget)

Money from the federal government flows to a wide variety of state programs and services. As Congress continues to cut the federal budget, important services are at risk throughout the state. The great majority of federal money is spent for the following:

- \$6.1 billion for Medicaid and PeachCare
- \$1.7 billion for students with disabilities, low-income students, school nutrition and other education services
- \$1.2 billion for the Georgia Department of Transportation
- \$1 billion for child welfare, elder services, Temporary Assistance for Needy Families (TANF) and other human services

The state is required to use its own dollars to match federal funding for Medicaid and many human services. Consequently, a cut in state funds for a service can lead to a corresponding cut in federal funds.

Figure 5 Federal Funds Primarily Pay for Health Care, Education, Transportation and Human Services
2015 Fiscal Year Federal Funds, \$12.2 Billion



Source: Georgia’s 2015 Fiscal Year Budget (HB 744), signed by governor

Other Funds

\$5,625,274,459 (13 percent of Georgia's budget)

Other Funds include \$2.8 billion in tuition and fees paid by University System of Georgia and Technical College System students and \$2.1 billion in University System of Georgia research funds. The money is retained by the individual schools.

Figure 6 Most Other Funds Come From Higher Education Tuition, Fees and Research

Tuition and Fees for Higher Education	\$2,812,455,582
University System of Georgia Research Funds	\$2,103,850,673
All Other	\$708,871,434
Total	\$5,625,274,459

Source: Georgia's 2015 Fiscal Year Budget (HB 744), signed by governor

Intrastate Government Transfers

\$3,727,892,729 (9 percent of Georgia's budget)

Intrastate transfers for the most part are payments from the State Health Benefit Plan.

Figure 7

State Health Benefit Plan Payments	\$3,170,009,742
Medicaid Services Payments-Other Agencies	\$280,857,262
Self-Insurance Trust Fund Payments	\$161,735,205
Other Intrastate Government Payments	\$63,090,685
State Employee and Teacher Retirement Payments	\$52,199,835
Total	\$3,727,892,729

Source: Georgia's 2015 Fiscal Year Budget (HB 744), signed by governor

Tobacco Funds

\$142,461,830 (0.3 percent of Georgia’s budget)

Georgia receives annual payments from a legal settlement with four of the country’s largest tobacco companies, known as the Tobacco Master Settlement Agreement (MSA). Georgia does not earmark MSA payments for specific purposes. As a result, the use of tobacco settlement funds can vary from year to year.

FIGURE 8 Tobacco Settlement Funds Focus on Medicaid

2015 Tobacco Settlement Fund Budget	
Low-Income Medicaid	\$109,968,257
Adult Developmental Disabilities Waiver Services	\$10,255,138
Cancer Treatment for Low-Income Uninsured	\$6,613,249
Elder Community Living and Support Services	\$6,191,806
Cancer Screening	\$2,915,302
Smoking Prevention and Cessation	\$2,368,932
Eminent Cancer Scientists and Clinicians	\$1,692,069
Regional Cancer Coalitions	\$1,204,740
Underage Smoking Compliance	\$433,783
Clinical Trials	\$500,000
Cancer Program Administration	\$202,917
Cancer Registry	\$115,637
Total	\$142,461,830

Source: Georgia’s 2015 Fiscal Year Budget (HB 744), signed by governor

■ Budget Trends

Modest Revenue Increases Can't Offset Years of Cuts

Georgia's 2015 fiscal year budget is the first one since the Great Recession hit that does not include additional cuts. The state projects revenue growth of \$807 million, or 4.3 percent, over revenues from the year before.

State revenues are now above pre-recession levels, yet still below 2007 levels on a per-capita basis. Revenues are \$3.6 billion below 2007 fiscal year levels on an inflation-adjusted, per-capita basis.

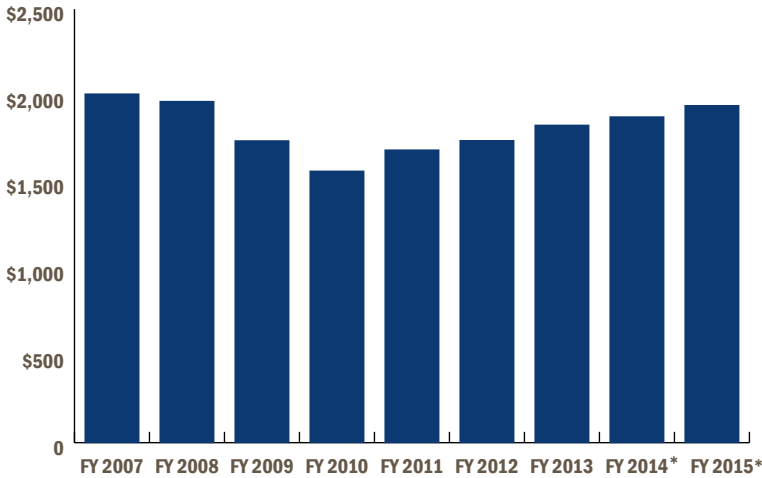
The recession caused a dramatic decline in state revenues from 2008 to 2010, falling by \$3.6 billion, or 19.2 percent. Even with moderate revenue growth since the 2011 fiscal year, new cuts were included in every budget from 2011 through 2014.

The majority of revenue growth in the state's 2015 budget is obligated to pay for natural growth in government expenses and services. More students are enrolled in Georgia schools, wages lost in the sluggish economy made more Georgians eligible for Medicaid and PeachCare and the state is paying more for state employees and retirees' health insurance and retirement costs. Revenues are still not enough to restore services cut by lawmakers made since 2009.

Increases in the 2015 state budget include:

- \$314 million for partial restoration of the K-12 funding formula cut
- \$173 million for growth in the Medicaid and PeachCare programs
- \$151 million for K-12 and University system formula growth
- \$142 million for increases in state employee and teacher retirement
- \$51 million for a 1 percent merit-based state employee salary increase
- \$34 million to improve treatment for people with mental and developmental disabilities under an agreement between the state and the U.S. Justice Department

Figure 9 Georgia's Per-Capita Revenues Remain Below 2007
General and Motor Fuel Funds 2007-2015 Fiscal Years



Sources: Governor's Budget reports, fiscal years 2007- 2015 and author calculations
* Based on Governor's revenue estimate included in FY 2015 budget report

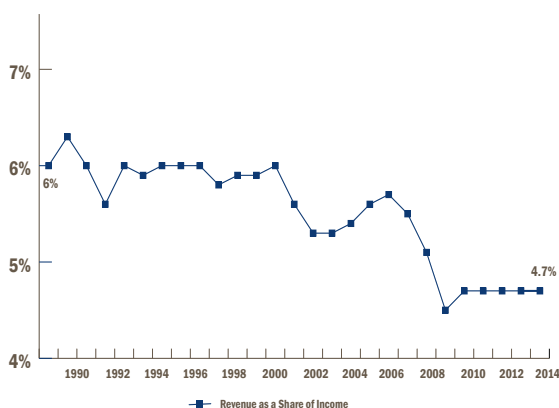
Georgians Paying Historically Less in Taxes

Georgians now pay less in state taxes as a percentage of income than at any point in the last three decades. During the 1990s, Georgians paid an average of 5.9 percent of their income in state taxes. Even though the state cut taxes during the 1990s, reducing or eliminating various personal and corporate income taxes and approving a sales tax exemption on food, the share of the average Georgian's income taxed to support state government remained the same. A strong economy allowed the state to cut taxes while maintaining support for services.

This dynamic changed last decade. The tax cuts, combined with two recessions and the weak recoveries that followed, caused a dramatic drop in the percentage of income Georgians pay in taxes. Revenues plummeted as a share of personal income from 2010 to 2012, reaching historic lows of about 4.7 percent, where they are projected to remain through the 2015 fiscal year. This loss of revenue, rather than a major increase in state spending, explains the financial challenge facing the state.

If Georgians paid 5.6 percent per capita in personal state income taxes in 2015, the lowest that share reached in the 1990s, the state would gain \$3.8 billion to make investments in necessities such as education and health care.

Figure 10 Revenue as a Share of Income at Historic Low Percentage of Income (1989 – 2015 Fiscal Years)



Sources: Governor's Budget reports and U.S. Bureau of Economic Analysis

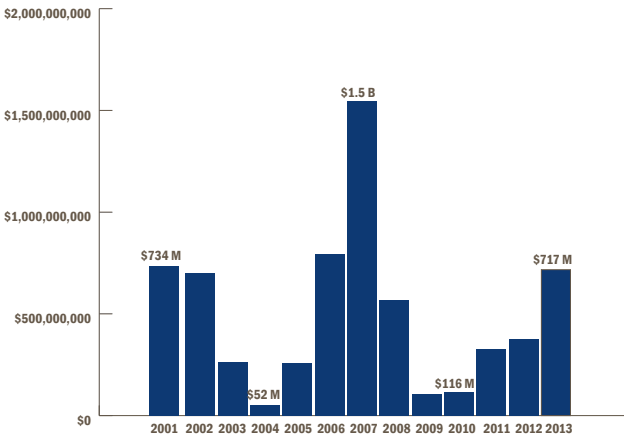
Reserve Fund

The Revenue Shortfall Reserve is Georgia’s “rainy day” fund, meant to provide stability during economic downturns. The fund acts like a savings account for the state to cover expenses and maintain services when revenues decline unexpectedly. Georgia law says the fund cannot exceed 15 percent of the previous year’s net revenue. As this report is published, it holds \$717 million. Reserves would need to be about \$2.7 billion to match 15 percent of last year’s revenues.

Increasing the amount of money in the fund is important to maintain Georgia’s exceptional AAA bond rating, a top rating that allows the state to borrow money at the most favorable terms, which saves millions of dollars in interest payments. The General Assembly may also use the fund to spend an amount equal to 1 percent of the previous year’s net revenue to pay for increased K-12 needs.

The General Assembly cannot appropriate money to the fund through the normal budget process. Instead, any money not spent by the end of each fiscal year is automatically transferred to the fund.

Figure 11 Rainy Day Fund Trails Pre-Recession Level
Revenue Shortfall Reserve, 2001- 2013 Fiscal Years



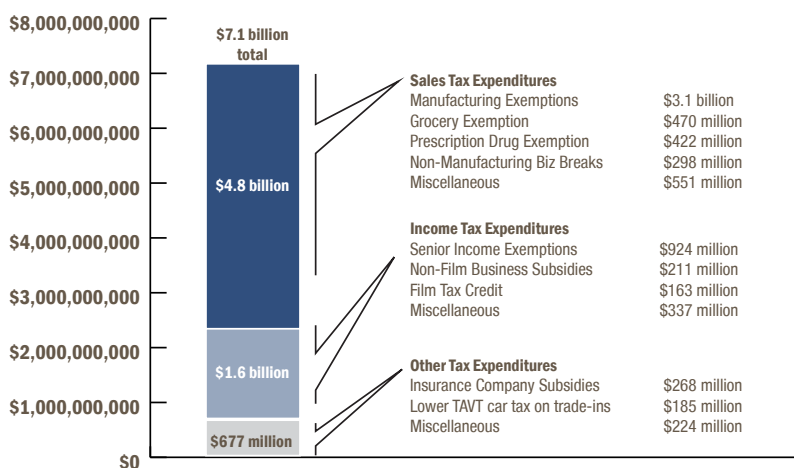
Source: Georgia’s 2015 Fiscal Year Budget (HB 744), signed by governor

Tax Expenditures

Georgia foregoes billions of dollars in state revenue each year through dozens of credits, deductions and other special preferences called tax expenditures. Often described as hidden spending, tax expenditures are intended to promote policy objectives that can range from economic development to support for working families. Georgia's assortment of tax expenditures is projected to cost the state treasury about \$7 billion in the 2015 budget year, or about the amount state lawmakers invest annually in K-12 education.

Some of Georgia's tax breaks, such as sales tax exemptions on groceries and prescription drugs, are considered sound tax policy. Others, such as income tax subsidies for film production operations and other large companies, may not deliver enough benefits to offset their cost in lost revenue. State lawmakers lack a reliable way to determine which ones are worthwhile, and many tax expenditures remain on the books for years, even decades, without review. Stronger evaluation of tax breaks could help Georgia get a better bang for its buck over time.

Figure 12 Georgia's Tax Expenditures are Costly



Source: Georgia Tax Expenditure Report for Fiscal Year 2015. Note: Totals are approximate. Personal income tax totals exclude personal exemption, standard deduction and credit for taxes paid to other states.

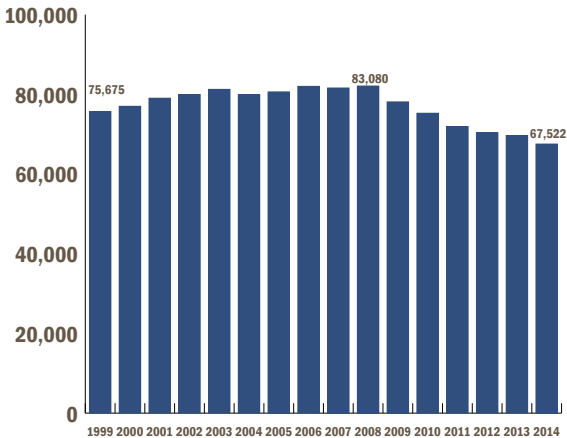
Employee Cuts

Until recent years, Georgia employed enough people to respond to the needs of its growing population. Georgia plans to cut the number of state employees* during the 2014 fiscal year to 14,558 fewer than it employed in 2008, a reduction of 17.7 percent over those six years.

The result is a much smaller group of state employees trying to serve a much larger population. That means fewer child protection workers watching out for abuse and neglect, fewer state patrol officers keeping our highways safe, fewer health and safety inspectors protecting the public from illness and injury and fewer examiners to meet the demand for business licenses.

*Excludes Board of Regents, University System of Georgia.

Figure 13 Fewer State Employees Serving Larger Population*



Source: Email from Georgia Department of Administrative Services, April 15, 2013

Figure 14 Largest State Agency Employers on December 31, 2013

Agency	Employees*
Corrections	11,894
Human Services-DFCS	5,651
Technical College System of GA	5,815
Community Service Boards	5,095
Public Health	4,893
Behaviorial Health & Developmental Disabilities	4,608
Transportation	4,175
Juvenile Justice	3,677
Human Services - Other	3,446
Public Safety	1,805
Natural Resources	1,680
Labor	1,403
Revenue	1,036
All Other State Agencies	12,317
Total	67,522

Source: Email from Georgia Department of Administrative Services, April 15, 2013

*Full-time equivalent employees

■ **A Detailed Look at Georgia’s 2014 Budget**

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Human Services37

■ Education Funding in Georgia: Austerity Squeeze Continues

Georgia is investing \$10.3 billion in education in the 2015 fiscal year, or about 52 percent of the state's budget. Spending on elementary and secondary education is \$7.9 billion. The budget for the university system is \$1.9 billion and \$332 million for technical colleges.

Funding for education gets a small boost in 2015, reversing a trend of yearly budget cuts, but falls far short of pre-recession levels. School districts, technical colleges and universities still face significant financial constraints in the 2015 fiscal year.

The General Assembly approved spending an additional \$314 million through the state's formula for funding public schools. This reduces the austerity cut to \$747 million from \$1 billion the previous year. School districts may be able to use the money to return to the standard 180-day calendar and end teacher furloughs in the 2014-2015 school year. Still, districts will cope with larger class sizes, fewer teachers and fewer student programs than in the recent past.

Underfunding public schools year after year weakens efforts to improve student achievement in Georgia. States with the highest-achieving students focus on key policies that include a rigorous curriculum, assessments and address teacher quality, all supported with adequate funding. Georgia's educators are developing and implementing similar policies. They need enough money to make these policies work, even more so in the state's many schools where most students are from low-income families.

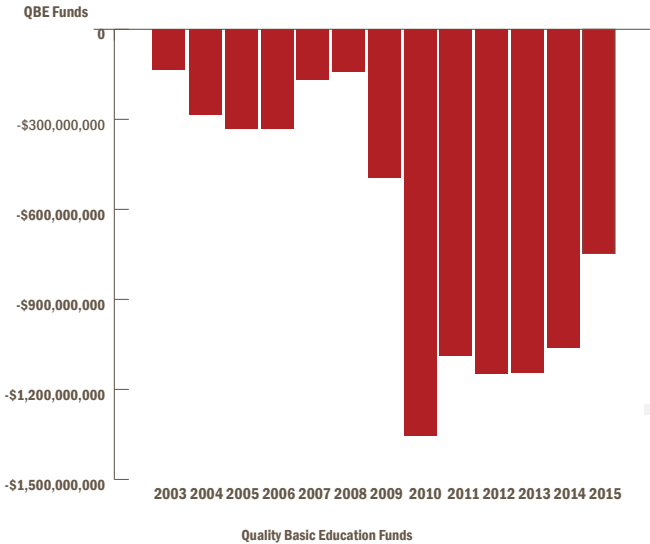
Spending for both the technical college system and university system is about 6 percent more in the 2015 budget than the year before. This small increase after years of deep cuts carries long-term implications. The state is adopting a new funding formula for colleges and universities tied to student performance benchmarks instead of enrollment levels. The 2015 funding will set a low baseline for the 2016 fiscal year and beyond.

Georgia's 2015 budget continues a recent pattern that shortchanges public education at every level.

Elementary and Secondary Education: K-12 Funding Formula Short \$747 Million

Georgia is shortchanging its public schools by \$747 million in the 2015 fiscal year, according to the state’s own formula. The General Assembly underfunded public schools every year since 2002, cutting a cumulative \$8.3 billion from its Quality Basic Education formula.

Figure 15 Georgia Makes Deep Cuts to Education Through the QBE Formula Each Year



Source: Georgia Department of Education, QBE Earnings Sheets, 2015, Midterm 2002- 2014 fiscal years

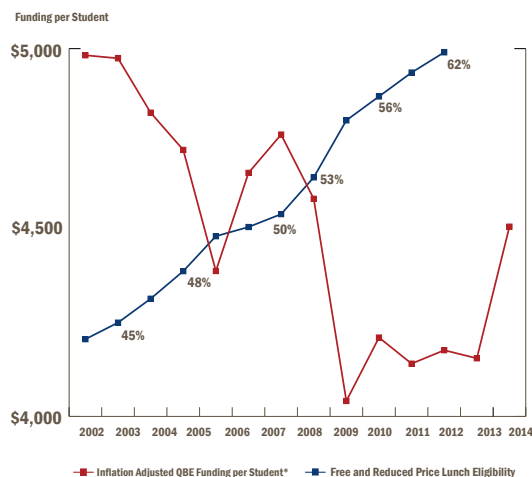
Schools would receive about \$439 more per student on average in the 2014-2015 school year if the General Assembly adhered to the state’s formula. This money adds up quickly. A class of 25 students would get about \$11,000 more and a school of 800 students would receive about \$350,000 more.

Elementary and Secondary Education: Students Need More Support, Get Less

State spending per student fell an inflation-adjusted average of 9.3 percent since 2002. This decline is due in part to austerity cuts lawmakers imposed on the state's primary funding formula. Lawmakers added to the austerity cuts in 2012 when they permanently downsized the Quality Basic Education Equalization program, designed to provide supplemental funding to low property-wealth districts. Districts responded by reducing teaching positions, raising class sizes, cutting the school calendar and scaling back instructional programs for struggling students.

The cuts coincided with growing needs of students. More than 60 percent of Georgia public school students qualify for federal free and reduced lunches, well above the 44 percent who did in 2002. These students often need extra support to meet high levels of academic achievement. Low-income students can catch up to their peers from higher-income families through strategies including longer school days and years, as well as smaller classes in early grades. These strategies are rare in Georgia classrooms.

Figure 16 Students Needs Climb While Funding Shrinks



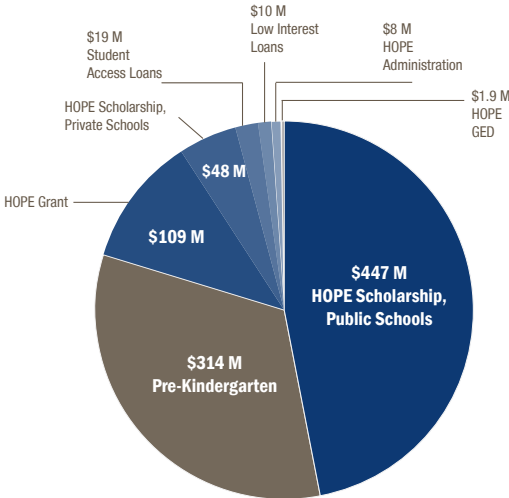
Source: Georgia's Fiscal Year Budgets 2002-2015; Georgia Department of Education QBE Earnings Midterm, Free and Reduced Price Lunch

**Lottery Funds:
Support for Young Children and College Students**

Georgia anticipates collecting \$948 million from lottery sales in the 2015 fiscal year, which is budgeted to fund:

- Helping Outstanding Pupils Educationally (HOPE) scholarships for high-achieving students pursuing a bachelor's or associate's degree
- HOPE grants for students in a certificate or diploma program at a two-year college
- HOPE GED grants, one-time awards to students who complete a GED and enroll in postsecondary education
- Student Access Loans (SAL), which provide low-interest loans to college students
- Student Access Loan-Technical (SALT), which provides low-interest loans to technical college students
- Georgia's Pre-Kindergarten program

Figure 17 Most Lottery Money Supports HOPE Programs

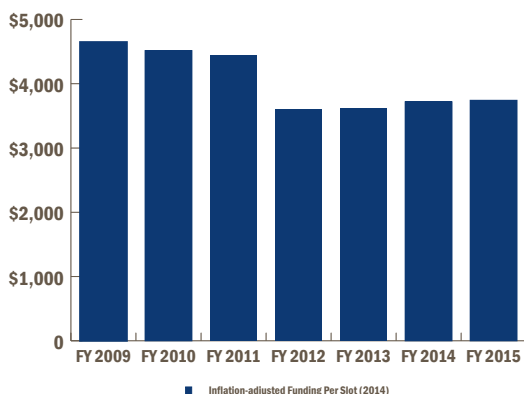


Source: Georgia's 2015 Fiscal Year Budget (HB 744), signed by governor

Pre-Kindergarten: Stagnant Funding Threatens Quality

Georgia’s lottery-funded Pre-Kindergarten program is held up as a national model, shown to improve children’s school readiness. Despite this, the state’s financial commitment to the program is not what it once was. State funding per student is an inflation-adjusted 19.5 percent lower in the 2015 fiscal year than in 2009. The funding cuts spur larger class sizes and other changes that threaten the program’s quality.

Figure 18 Diminished Funding Compromises Quality



Source: Georgia’s 2009-2015 Fiscal Year Budgets; CPI Inflation Calculator, Bureau of Labor Statistics, U.S. Department of Labor

Less state funding means lower salaries for Pre-K teachers, which can make it harder to attract and retain highly-qualified educators. Lead teachers with a bachelor’s degree and teacher certification can earn up to \$33,403 during the 2014-2015 school year through state funding. Assistant teachers, required to have postsecondary training, earn just \$13,335. These salaries are lower than what Pre-K teachers earned in the 2008-2009 school year. In addition Pre-K teachers do not receive salary increases for additional education or experience unlike elementary and secondary teachers.

HOPE Financial Aid: Undoing the Damage

State lawmakers focused the past two years on mitigating the harm to the HOPE Grant program caused by their 2011 restructuring of the overall HOPE financial aid programs to cut costs. Thousands of technical college students lost access to the HOPE grant after the state raised eligibility requirements. The state also raised eligibility requirements for the scholarship, requiring high school students to take advanced classes beginning with those who graduate in 2015. Award amounts for both programs were slashed. As intended, spending on the HOPE financial programs dropped.

Figure 19 HOPE Award Amounts Decline

	2011	2015	Change \$
HOPE Grant	\$220,407,829	\$109,059,989	\$(111,347,840)
HOPE Private School Scholarship	\$54,663,937	\$47,916,330	\$(6,747,6087)
HOPE Public School Scholarship	\$493,461,474	\$446,598,286	\$(46,863,188)
Total	\$768,533,240	\$603,574,605	\$(164,958,635)

Source: Georgia 2011 and 2015 fiscal year budgets, signed by governor

The 2011 HOPE Grant changes led to steep enrollment declines across the technical college system. The university system has seen a small decline but the full fallout of changes to the scholarship is undetermined given the pending changes to eligibility requirements.

The Legislature returned to original HOPE Grant eligibility requirements in 2013 to address the enrollment decline. It launched Strategic Industries Workforce Development grants to provide new funding to technical college grant recipients in high demand fields. In addition it created the Zell Miller Scholar grant program. The program will cover tuition at a technical college for students with a 3.5 GPA.

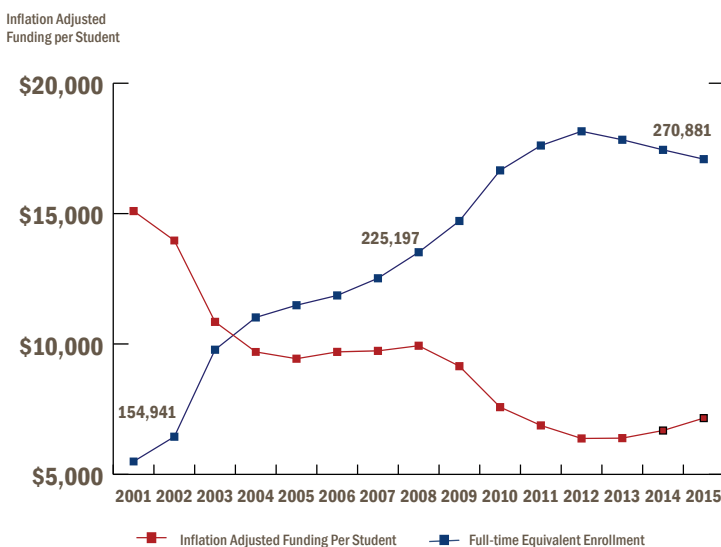
Many students still struggle to pay for college, evidenced by declining enrollment.

University System of Georgia: Budget Cuts Part of New Performance Funding System

Funding per student for the university system plunged over the last 15 years. State funding per full-time equivalent student is \$7,158 in 2015, 52 percent below what it was in 2001 in inflation-adjusted dollars. These cuts prompted the university system to consolidate institutions and raise tuition (see page 30). Colleges and universities responded with increased class sizes, more part-time instructors and fewer courses.

State funding for the 2015 fiscal year did inch up from 2014 but much of the increase is directed to rising retirement and health care expenses. Little goes to restore cuts in instruction.

Figure 20 University Funding Per Student Plummets Since 2001



Source: Georgia 2001-2015 Fiscal Year Budgets; Board of Regents, University System of Georgia, fall semester enrollment reports; CPI Inflation Calculator, Bureau of Labor Statistics, U.S. Department of Labor

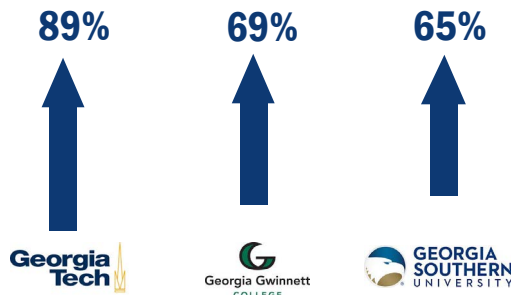
Higher Education in Georgia: Tuition Hikes Make College Less Affordable

The deep cuts in state funding for the university and technical college systems pushed both to raise tuition significantly in recent years. Increases are in store for students enrolled in both systems in the 2014-2015 school year.

Tuition and mandatory fees increased an average of 67 percent across the university system between fall 2008 and fall 2014, though it is much higher at some institutions. Tuition and fees for freshmen at Georgia Tech in fall 2014 are 89 percent higher than for freshmen in fall 2008. For freshmen at the University of Georgia, they are 80 percent more in 2014 than in 2008.

Tuition in the technical college system is up 65 percent during the same period.

These increases push more of the cost of higher education onto students and their families at a time when many have less ability to pay. Median family income in Georgia remains stuck below pre-recession levels. The tuition hikes are bad news for students in the technical college system. More than 60 percent of these students are low-income, as measured by their participation in the federal Pell Grant program. Meanwhile, the tuition increase means that the HOPE Grant will cover about 72 percent of tuition for a full-time student in the technical college system in the 2014- 2015 school year. The HOPE Scholarship will cover an average of about 84 percent of tuition for a full-time student in the university system. This is well below the award amount in place until 2011 when both the HOPE Scholarship and Grant covered full tuition and mandatory fees.



Technical College System of Georgia: Fiscal Challenges Continue

State funding per full-time equivalent student in the technical college system in the 2015 fiscal year is 11 percent below what it was in 2009, in inflation-adjusted dollars. To cope with the cuts in recent years, the system consolidated schools and raised tuition. Individual colleges laid off faculty and staff and increased class sizes. The majority of Georgia's technical college faculty is part-time now instead of full-time, a tradeoff that is linked to lower graduation rates.

Total state spending on technical colleges edged up to \$331 million for the 2015 fiscal year, up from \$314 million in 2014. However, a large part of the money is set aside for rising retirement costs and merit-based pay increases. That leaves a relatively small amount available to restore cuts in instruction.

New Higher Education Funding Formulas Are Based on 2015 Budget

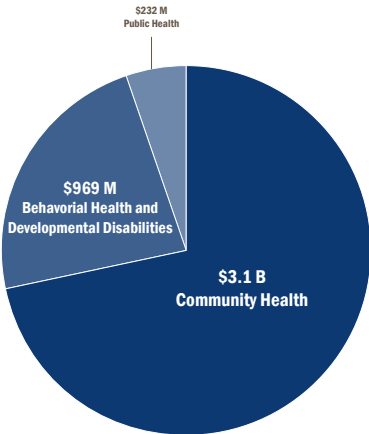
Diminished levels of funding for the university and technical college systems are embedded in a new performance funding framework that will determine state spending beginning with the 2016 fiscal year. After that year begins July 1, 2015, increases in funding will be determined by an institution's progress toward specific benchmarks, including gains in the number of students who finish programs. Funding for 2015 will serve as base amount for the new system. This replaces the current approach, which calculates funding by student enrollment. The long-term effect of this switch is uncertain, particularly its effect on open access institutions. These schools serve many low-income students who may not be ready for postsecondary work and are at higher risk for dropping out.

Health Care

Overview

Health care services are primarily delivered through three state agencies, the departments of Community Health, Public Health, and Behavioral Health and Developmental Disabilities. State funding for these three agencies is about \$4.3 billion in 2015, or roughly 22 percent of total state spending.

Figure 21 \$4.3 Billion for Health Care is Distributed to Three Agencies



Source: Georgia's 2015 Fiscal Year Budget (HB 774), signed by governor

- The Department of Community Health is the largest of Georgia's three health care agencies. It accounts for \$ 3.1 billion, or 72 percent of total state spending on health care. It operates Georgia's Medicaid and PeachCare programs, operates some planning and regulatory functions, and the State Health Benefit Plan that provides health care to state employees and teachers.
- The state's spending on behavioral health and disabilities, including some services funded through Medicaid, account for about \$969 million, or 23 percent of Georgia's spending on health care.
- The Department of Public Health operates a variety of population-based health programs such as immunizations, health screening and infectious disease control. It receives \$232 million, 5 percent of Georgia's health spending.

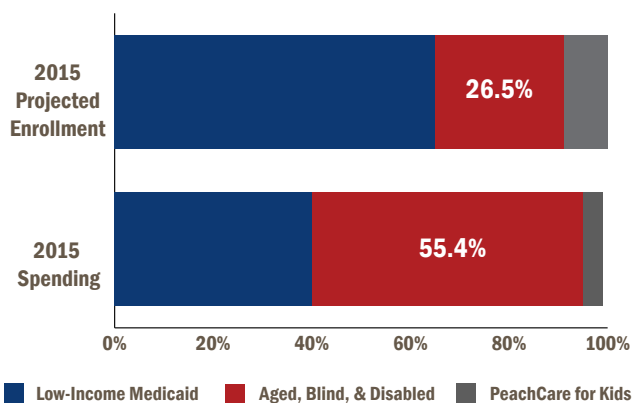
Medicaid and PeachCare Enrollment and Spending

Medicaid and PeachCare are expected to serve more than 1.8 million Georgians in 2015. The programs are important sources of health coverage for children, pregnant women, low-income seniors and people with physical and developmental disabilities. Medicaid and PeachCare cover more than 40 percent of Georgia’s children. About 1.2 million children are likely to be covered by the two programs in 2015, or about 62 percent of all Georgians enrolled in them. Medicaid also covers more than half of all Georgia births.

Medicaid is the main source of long-term care coverage for Georgians, both in nursing homes and in community-based settings. Medicaid is the primary payer for three-fourths of nursing home patients in Georgia. Medicaid also helps pay Medicare premiums for more than 150,000 Georgians.

Low-Income Medicaid serves pregnant women, children and very low-income parents. The Aged, Blind & Disabled portion of the program serves the elderly and people with a qualifying disability. Most enrollees qualify for the low-income Medicaid program, but the majority of spending is for elderly and disabled patients. PeachCare serves children from families with income above the Medicaid threshold.

Figure 22 Bulk of Medicaid is for Children, Seniors and Disabled



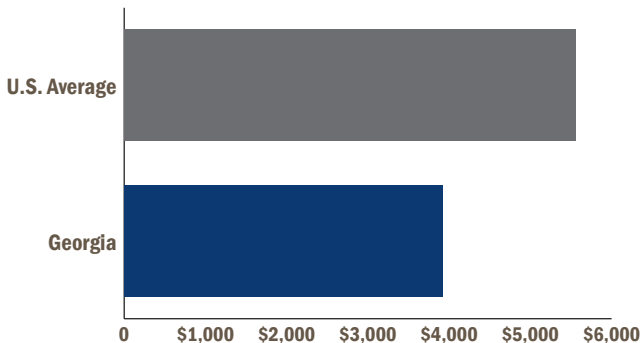
Source: Georgia’s 2015 Fiscal Year Budget (HB 744), signed by governor

Georgia’s Medicaid Investment Ranks Near Bottom

Georgia expects to spend \$2.9 billion in state funds to serve more than 1.8 million residents covered by Medicaid and PeachCare, a modest amount by national standards. Georgia’s spending per Medicaid enrollee ranked second lowest among the states, or about 30 percent below the national average according to the most recent data from 2010. Georgia spent the fourth lowest amount per-capita of any state, nearly 35 percent below the national average, according to the most recent data from 2012.

The low rankings belie the harsh health and economic realities faced by Georgia’s people. Georgia’s population scores poorly in national health assessments, suggesting the state should rank high in per-enrollee spending. Georgia ranked sixth worst for poverty in 2012, also suggesting the need for higher per-capita spending to pay for a large population of Medicaid-eligible people.

Figure 23 Georgia’s Spending Per Medicaid-Enrollee About 30 Percent Below U.S. Average



Source: Kaiser Family Foundation

Pinpointing the exact reasons for Georgia’s low rankings is inexact, but factors likely to play include:

- Georgia’s strict eligibility levels, especially for adults. Forty states offer less strict standards for working parents. Twenty-five offer less strict standards for children.
- More than 300,000 Georgians eligible for Medicaid or PeachCare are not enrolled. That’s third most among states not yet expanding Medicaid eligibility.
- More than a decade of low provider reimbursement rates for Medicaid patients.

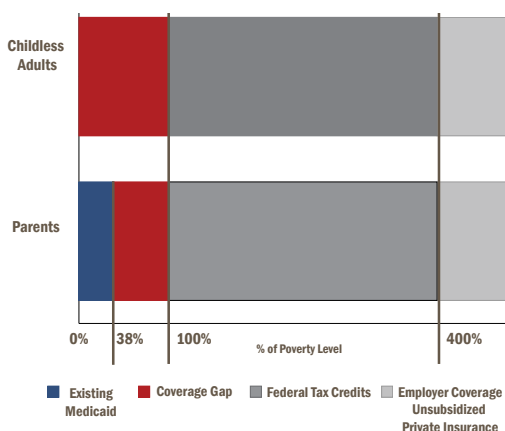
Failure to Expand Medicaid Leaves More than 400,000 Georgians in Coverage Gap

Georgia is home to about 1.85 million people without health coverage, the fifth most of any state in the nation according to the most recent data available from 2012. About 517,000 of them could be eligible for federal tax credits to purchase health insurance through the new health insurance marketplace, while 314,000 uninsured Georgians are already eligible for Medicaid or PeachCare. While some of these people have incomes too high to qualify for federal subsidies, about 409,000 uninsured Georgians fall into a coverage gap because of the state’s decision not to expand Medicaid.

Georgia’s Medicaid eligibility standards fall well below the threshold to qualify for federal tax credits through the health insurance marketplace. This results in a coverage gap for uninsured Georgians with income too high to qualify for Medicaid and too low to qualify for federal tax credits from the health insurance marketplace.

Closing the coverage gap could decrease the number of Georgians who go without health coverage by more than 20 percent and would bring in about \$3 billion in new federal money to Georgia each year to cover nearly all of the costs to insure newly eligible people who enroll.

Figure 24 Medicaid Expansion Fills Coverage Gap for Low-Income Adults



Source: GBPI Calculation based Georgia Department of Human Services guidelines and 2014 federal poverty guidelines published by the U.S. Department of Health and Human Services

Behavioral Health and Developmental Disabilities

Georgia significantly increased spending for behavioral health and developmental disability services in recent years largely due to a 2010 legal settlement with the U.S. Department of Justice that requires the state to provide more of those services in home or community settings rather than institutions.

Georgia's 2015 budget reflects the final year of the initial five-year agreement, which set a schedule for the state to provide new services and supports to people in need of care. By the end of the five-year time frame, Georgia will have added about \$159 million to the annual budget to increase services under terms of the settlement. Total state spending for the Department of Behavioral Health and Developmental Disabilities, or its predecessor departments, grew by more than \$144 million since 2009, an increase of nearly 19 percent.

Public Health

Georgia's public health programs in 2015 largely depend on funding from the federal government. Federal money accounts for nearly two-thirds of department's \$645 million 2015 budget, while state funding accounts for the rest. The federally-funded Special Supplemental Nutrition Program for Women, Infants and Children, also known as WIC, makes up the bulk of the federal funds and about half the department's total budget for 2015.

The Department of Public Health operates a variety of programs focused on health promotion, disease prevention and health-related disaster response and preparedness. The department will receive \$200.4 million from the General Fund and \$13.7 million in Tobacco Settlement funds. The trauma care network commission also receives \$16.4 million from the General Fund.

The largest state-funded programs provide financial assistance to county health departments, aim to prevent the spread of infectious disease and provide treatment and health promotion services aimed at children and infants.

Human Services

Overview

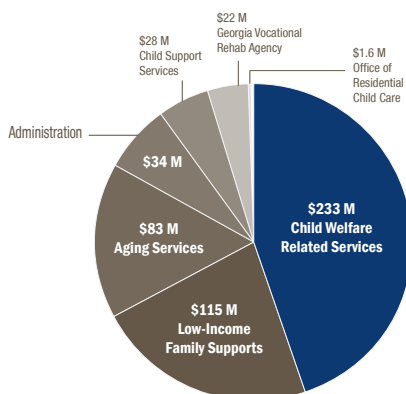
Georgia's spending to help children, the poor and the elderly falls under the state Department of Human Services. State funding for the agency is \$518 million in 2015, less than 3 percent of total state spending.

Child welfare-related services represent the largest share of the department's responsibilities, accounting for \$233 million, or 45 percent, of the department's 2015 budget. These services include protecting children from abuse, abandonment and neglect, as well as safeguarding them in suitable temporary and permanent homes.

About \$115 million of the Human Services budget helps low-income families gain access to Temporary Assistance for Needy Families (TANF), nutrition assistance, Medicaid and other federal services. These temporary supports help people stay healthy and prepared for job opportunities, putting them on a path to financial independence.

Other Human Services functions protect and sustain older Georgians, enforce parents' responsibility to financially support their children and help people with disabilities get jobs. Human Services employees also license, monitor and inspect temporary foster homes.

Figure 25 Georgia's Children a Major Focus of Human Services



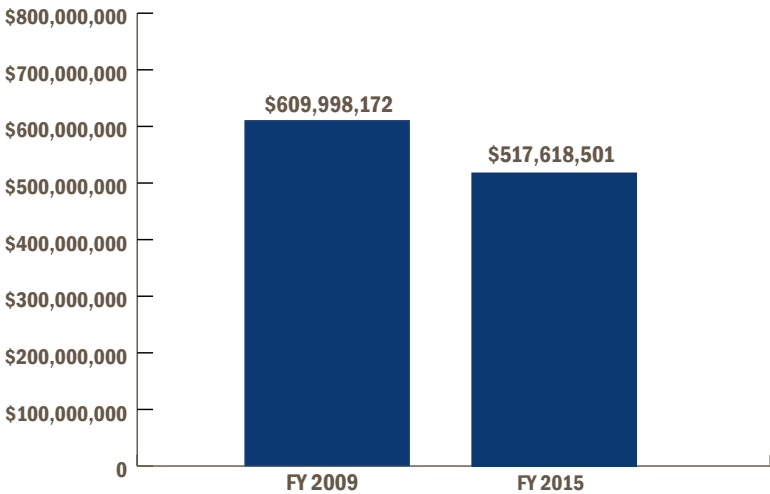
Source: Georgia's 2015 Fiscal Year Budget (HB 774), signed by governor

Less Support for State's Most Vulnerable

The Georgia Department of Human Services budget is down 15 percent since the 2009 fiscal year. The result is fewer state workers to protect children and fewer staffers to help Georgians who need TANF, nutrition assistance and Medicaid, to move toward financial independence.

Since 2009, the decline in state support for the department has meant losses or changes in a number of services, including community-based support services for seniors and work assistance for families receiving TANF. Recruitment of potential adoptive families and support services for grandparents raising grandchildren also were significantly cut.

Figure 26 Department of Human Services Budget Down 15 Percent



Source: Georgia's 2009 and 2015 fiscal year budgets

Child Welfare Workers: New Commitment is Long Overdue

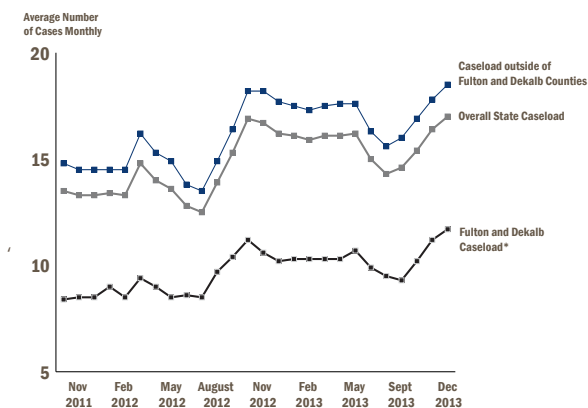
The largest portion of the Human Services budget, \$233 million, pays the salaries of staff who investigate allegations of child abuse, abandonment and neglect and goes to support families and organizations that provide temporary and permanent homes for children.

More than \$7 million was added to the department’s budget in 2015 to hire 175 additional Child Protective Services workers. Caseworkers are often a child’s first line of defense against abuse, abandonment and neglect. The state budget for child welfare-related services remains down more than 15 percent since 2009.

Support for additional caseworkers is long overdue. Child welfare workers handled about 35 percent more cases in December 2013 than October 2011.

Workers handle an average of about 18 cases a month, while 12 to 17 is recommended by the Child Welfare League of America, a coalition of private groups and public agencies. Case workers need time to talk with families in person, assess a child’s risk and follow up to confirm recommended services and supports are provided.

Figure 27 Child Welfare Caseworkers Stretched Thin Across Georgia*



*Note: A court settlement sets service benchmarks for Fulton and DeKalb counties.

Source: Department of Human Services Appropriations presentation, 1/2013; Child Welfare Information Gateway

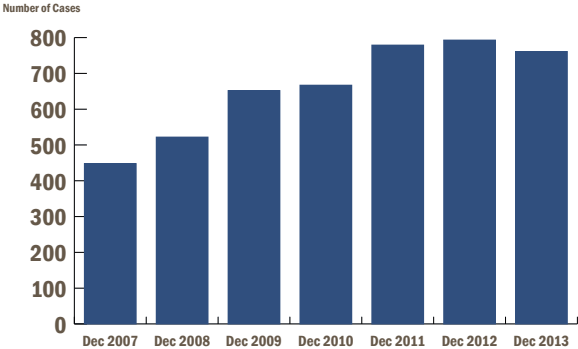
Low-Income Supports: Georgia Fails to Keep Up With Need

Georgians continue to struggle with high poverty, unemployment and lost wages years after the end of the recent recession. The state’s human services workers are now helping about 50 percent more than they served in 2007, before the economy collapsed.

These workers help families secure TANF, nutrition assistance and Medicaid. TANF is a state-federal partnership designed to help low-income families become financially independent through job preparation, temporary cash assistance and other support. The Supplemental Nutrition Assistance Program (SNAP, commonly called food stamps) helps low-income families afford the nutritious food they need to work, attend school and otherwise contribute to their communities. Medicaid provides some low-income Georgians with health insurance. (The important role of Medicaid in Georgia is detailed in this booklet’s Health Care section beginning on page 33).

The highest growth rate among these low-income supports is for food stamps, which grew at a 94 percent participation rate from December 2007 to February 2014. The state was ill-prepared to deal with this growth. The federal government in early 2014 threatened to penalize Georgia as much as \$76 million for allowing a backlog of overdue food stamp applications to accumulate. As this publication goes to press, federal scrutiny continues.

Figure 28 Workloads Increase for Workers Who Help Low-Income Families



Source: Department of Human Services, Joint Appropriation Sub Committee Presentation Fiscal Year 2015 Budget, February 5, 2014

Services for Older Georgians Still Fall Short of Need

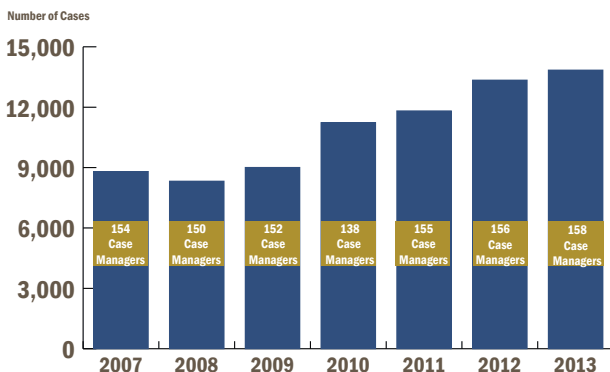
Georgia's population is aging, which increases the need to help seniors with medication, nutrition and other necessities. In only three other states is the over-65 population growing faster than in Georgia.

Adult Protective Services prevents abuse, neglect and exploitation of Georgians 65 or older who are not in long-term care, and investigates violations. Reports of elder abuse, neglect and exploitation surged 50 percent in Georgia from fiscal year 2007 to 2013, while confirmed cases increased by 57 percent. Meanwhile, the number of Adult Protective Service workers remained the same.

Georgia's 2015 budget adds \$690,000 to hire 11 additional Adult Protective Services workers. Aging experts say the state should hire 33 new Adult Protective Services Workers in 2015 at an estimated cost of \$2 million.

Georgia's 2015 spending plan underfunds the demand for adult community living and support services. These services allow members of the state's growing aging population to live independent lives in their own communities instead of nursing homes. Aging experts recommended \$6 million for the 2015 budget to shrink the list of people waiting for assistance. The 2015 budget adds far less, about \$750,000 for Meals on Wheels and senior nutrition programs.

Figure 29 Adult Protective Services Cases Rise, Staff Levels Remains Same



Source: Department of Human Services Appropriations presentation, January 2013

■ Looking Ahead to Next Year

Georgia's leaders still cling to minimalist budget strategies introduced during the Great Recession, more than five years after economists said the downturn reached bottom. The possibilities to improve education, health care and prosperity for everyone stretch out enticingly before the people of Georgia.

Even though Georgia's monthly state revenue reports are routinely positive as the 2015 fiscal year begins, growth is historically low for an economic recovery. Although Georgia ranked as the No. 1 place to do business by a cable channel and a trade magazine recently, the state lags in rankings most important to people. Georgia owns the country's sixth worst poverty rate. Georgia ranks fifth for people without health insurance. Georgia ranks 40th in eighth grade math scores. Georgia must show urgency to improve these less admirable rankings.

Despite a \$314 million increase for K-12 education, Georgia's 2015 budget shorts its school children by \$747 million. Georgia students will still cope with fewer teachers, larger class sizes and cuts to electives.

The state is bypassing billions of federal dollars it could use to extend health coverage to more than 500,000 Georgians through Medicaid expansion. The expansion is a great deal for the state. The federal government pays 100 percent of the cost through 2016 and at least 90 percent after that.

State leaders say we cannot afford both a world-class education system and a health system that gives all Georgians access to quality care. They'd have you believe Georgia simply can't muster the revenue all at once to pay for these basic needs.

These are false choices. Georgia can find the money to invest in several building blocks of the economy at once. Smart tax reform could modernize Georgia's tax code to increase revenues and give tax relief for many workers. Georgia can still remain a low-tax state and make the investments most important for broad-based economic growth. It is time for Georgia to emerge from shadow of the economic downturn and escape the self-defeating choices that hinder our economic progress. It is time Georgia embraces what's possible.

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