

## ■ Overview of Georgia's 2019 Fiscal Year Budget

By Taifa S. Butler, Executive Director

The \$26 billion state budget proposed by Gov. Nathan Deal for the 2019 fiscal year starting July 1, 2018 lays out Georgia's spending priorities for the coming year. It represents a \$1.03 billion increase in total state spending over the 2018 budget approved last year. The budget is based on a very lean estimated growth rate of 3.7 percent in general funds over the current budget year. Before and after the recession that started in 2007, Georgia experienced higher rates of revenue growth. Annual revenue growth averaged 6.3 percent from 2011 to 2017 and 8.4 percent from 2004 to 2007.

The proposed 2019 budget includes some worthwhile investments, including \$23 million to implement health and foster care recommendations from the governor's Commission on Children's Mental Health and \$1.5 million for a new Principal Leadership Academy. At the same time, much of the new spending simply covers the costs associated with naturally rising needs and expenses. About 87 percent of the new money in the 2019 budget pays for growing enrollment in Georgia's public schools and universities, increased need in Medicaid or the Teacher Retirement System.

While the proposed budget represents a high water mark for Georgia in absolute dollars, per-capita state spending is just below pre-recession levels. The resulting proposal leaves gaps in public investments such as K-12 education and health care that are crucial to families' financial security and Georgia's economic health. Notably, the governor's proposal fails to close the persistent austerity cut in K-12 education, leaving a gap of \$167 million between state appropriations and the amount of money called for by the state's own funding formula. The budget also assumes lawmakers will once again fail to close Georgia's health coverage gap, leaving billions in federal Medicaid funds on the table for yet another year.

The cautious approach to the 2019 budget can be attributed in part to Georgia lawmakers' high level of uncertainty due to several external factors. The yet-to-be-determined effects of the 2017 federal tax law, along with the lingering threat of federal cuts to vital services such as health care may swing Georgia's budget outlook in unpredictable ways. State lawmakers might also decide to offer hundreds of millions of dollars in public subsidies to Amazon to persuade the company to choose Atlanta as the location for its second headquarters.

A positive aspect of this year's budget is its projection of \$2.3 billion for the state's Revenue Shortfall Reserve, or rainy day fund, which essentially acts as a collective savings account for Georgia to pay for core services in the event of an economic recession or unexpected emergency. Gov. Deal and state budget-writers deserve praise for rebuilding the savings account that now equals roughly 10 percent of general state revenues. Moving forward, lawmakers can consider redirecting their focus from setting aside money for the reserves to addressing persistent needs in areas such as K-12 schools and access to child care, college and health coverage.

## Amended 2018 Fiscal Year Budget

Each January the governor proposes two distinct budgets. The “little budget” amends spending levels for the current fiscal year that ends June 30 to reflect actual tax collections and any spending changes over the course of the year. The “big budget” lays out a new spending plan for the next fiscal year that starts the following July 1.

### Amended 2018 Revenues and Spending

The governor’s amended 2018 budget increases state revenues and spending by \$307 million more than the original 2018 budget passed last year. General fund revenue collections for the first six months of the fiscal year show revenue growth of 4.1 percent, compared to the 2.3 percent assumed in the current plan. At this rate, revenues for the rest of the 2018 fiscal year need to grow just 1.9 percent to meet anticipated expenses.<sup>1</sup>

Nearly \$233 million of the additional funds come from the Mid-Year Adjustment for Education, which provides additional money at the midpoint of each fiscal year to pay for historically rising K-12 student enrollment. Another \$80.8 million is due to an increased revenue estimate due to slightly stronger collections than projected.

### **Highlights of the 2018 amended budget include:**

#### Education

- \$102.1 million for a midterm adjustment for increased enrollment in public K-12 and state charter schools
- \$15 million to purchase 194 school buses statewide
- \$10.7 million to the Georgia Student Finance Commission to cover the growing numbers of students in the Dual Enrollment program, formerly known as Move on When Ready
- \$10 million to the Board of Regents for the Graduate Medical Education program at Augusta University

#### Health and Human Services

- \$23 million to support the Indigent Care Trust Fund and draw down additional federal money for Disproportionate Share Hospital payments
- \$15.1 million to fund increased needs in Georgia’s foster care system
- \$11.6 million to cover additional costs for the portion of Medicaid that supports seniors and people with physical or intellectual disabilities. Meanwhile, the budget includes a reduction of \$5.6 million in state funds for the low-income portion of Medicaid

#### Rural development or infrastructure

- \$25.2 million to expand 11 runway lengths at rural airports with an aim to attract more private investment
- \$17.6 million for the Department of Revenue to disperse Forestland Protection grants, which give landowners incentives to set aside forest tracks for conservation or other future use
- \$10 million to the OneGeorgia Authority to help local governments on Georgia’s coast repair beaches damaged by erosion, storms or other environmental factors
- \$10 million in additional money for the Governor’s Emergency Fund, which provides support for communities affected by storms such as 2017’s Hurricane Irma



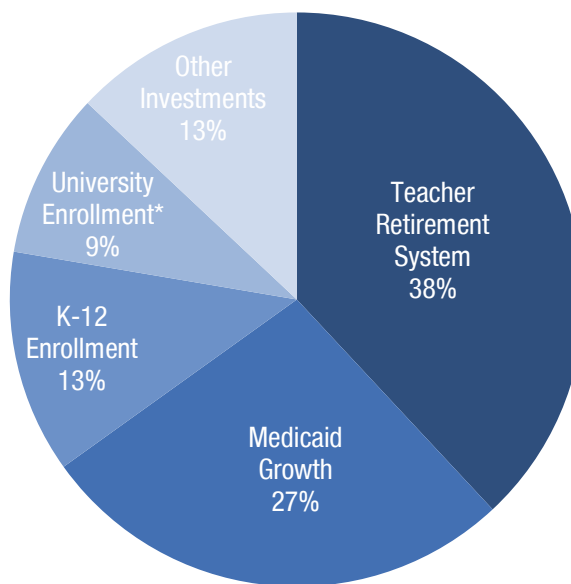
## Fiscal Year 2019 Budget Proposal

The governor's \$26 billion proposal for the 2019 budget year contains slightly more than \$1 billion in new state spending compared to 2018. About \$950 million of that increase is due to general taxes and fees collected above the current fiscal year, an increase of 3.7 percent. The remainder comes from higher lottery sales and miscellaneous sources. Most of the new spending simply covers costs associated with naturally rising needs and expenses.

About 87 percent of the new funds in the 2019 budget pay for growing enrollment in Georgia's public schools and universities, increased need in Medicaid or the Teacher Retirement System. The 3.7 percent revenue estimate that the governor used to craft the budget plan is also leaner than much of the recent past. Annual revenue growth averaged 6.3 percent from 2011 to 2017 and 8.4 percent over the four years prior to the last economic recession.

## Naturally Rising Needs Account for Most New Expenditures

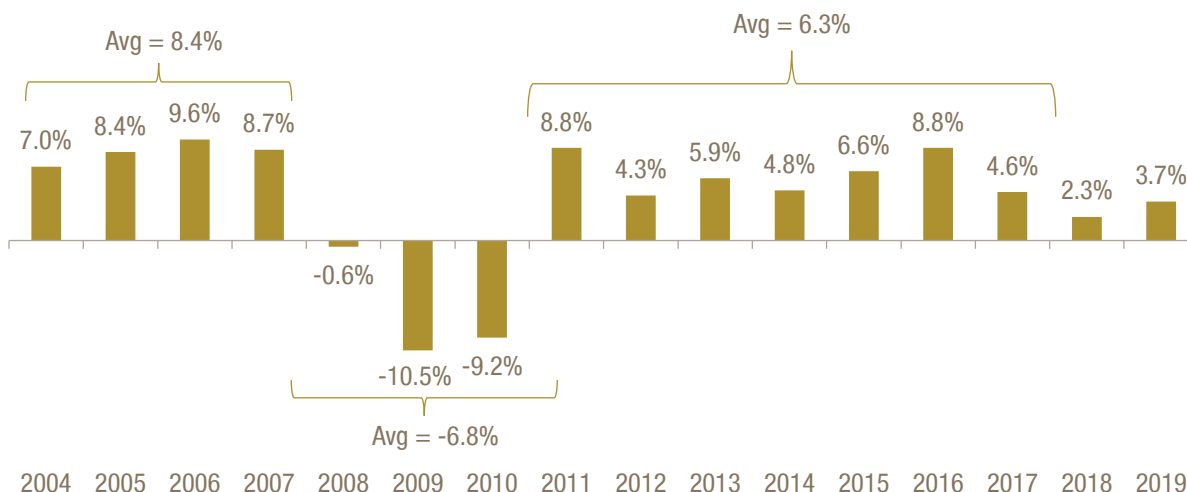
Share of \$950 million general fund increase in FY2019 budget



Source: GBPI analysis of Governor's Budget Report FY 2019. University enrollment includes additional funds for Dual Enrollment growth.

## New Budget Proposals Based on Low Expected Revenues

Georgia annual revenue growth, 2004-2019 fiscal years



Source: GBPI analysis of Budget in Brief for FY 2018 and Governor's Budget Proposal for FY 2019.

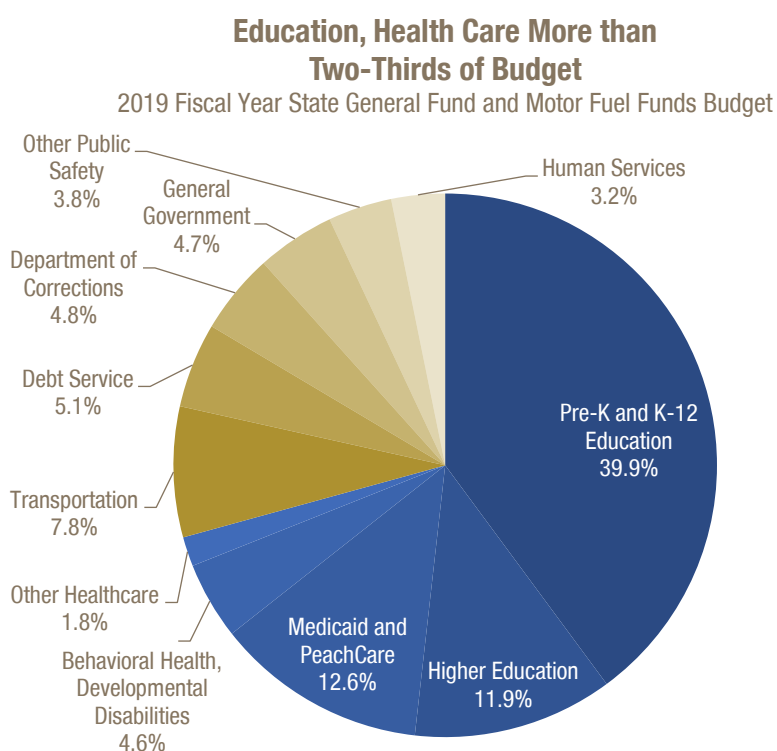
The governor's cautious approach to the proposed 2019 budget appears driven in large part by uncertainty over external factors that could swing state revenues and spending in unpredictable ways.

- Some aspects of the recent **federal tax law** will likely affect Georgia's revenue collections due to complex links between state and federal tax codes. As of this report's publication, state experts are still examining whether those effects will be positive, negative or neutral.
- The apparent likelihood of **Congressional budget cuts** in the coming year might jeopardize federal funding for critical services such as Medicaid and pressure budget-writers to backfill resulting shortfalls.
- State lawmakers might also decide to offer hundreds of millions in public subsidies to **Amazon** to persuade the company to choose Atlanta as the location for its second headquarters.

### Cautious approach leaves holes in crucial investments, including education and health care.

Education spending continues to dominate the state budget, accounting for 51.8 percent of Georgia's general revenue funds. About \$9.8 billion, or 40 percent of state funds, go to support teacher salaries, instructional materials, school buses and other necessities of local public schools. Another \$2.9 billion supports Georgia's colleges and universities, which accounts for 12 percent of general fund spending.<sup>2</sup> Medicaid is the next largest state expense behind education, accounting for 12.6 percent of state general revenue. Health care spending accounts for 18.9 percent of Georgia's budget, after accounting for non-Medicaid services such as mental health and substance abuse treatment or public health interventions like vaccination programs.

The 2019 spending proposal as a whole represents a high water mark for Georgia in absolute dollar terms. Yet, it also only returns per-capita state spending to just below pre-recession levels.<sup>3</sup> As such, it leaves gaps in crucial public investments, such as K-12 education and health care. The budget fails to fill the austerity cut to the state's K-12 system, leaving a \$167 million gap between proposed funding and the suggested level of support called for by the state's own funding formula. And while the allotment for Georgia's colleges and universities are slightly higher than last year, the budget continues a long-term trend of stagnant or falling support that's shifted more higher education costs to students and parents over time.<sup>4</sup>



Source: GBPI analysis of Governor's Budget Report for FY 2019

On health care, the budget fails to include an expansion of Medicaid under the federal health care law for yet another year. Georgia's unwillingness to help nearly half a million of its residents gain access to a doctor left about \$12 billion in federal dollars on the table since 2014.<sup>5</sup> Georgia today spends the fifth-lowest amount per Medicaid enrollee among the states.

**Notable 2019 changes in GBPI's focus areas of education, health care and human services include:**

K-12 Education

- \$293 million to the Teacher Retirement System to maintain its fiscal soundness
- \$120 million to cover student enrollment growth and routine adjustments in teachers' salaries through the Quality Basic Education formula, the state's formula for funding K-12 schools
- \$30 million for the Equalization program, which provides funds to districts with low property wealth
- Almost \$9.9 million for the State Commission Charter School supplement
- \$1.5 million for a new statewide Principal Leadership Academy

Higher Education

- \$68 million in lottery funds for HOPE scholarships to cover projected need and a 3 percent award increase
- \$64.4 million for increase in the employer share of the Teachers' Retirement System in the university and technical college systems
- \$54 million for enrollment growth and operating costs in the university system
- \$34 million for Dual Enrollment allocated to the Georgia Student Finance Commission, which administers program payments to colleges

Health Care

- \$255.9 million for Medicaid, including \$92.3 million to replace one-time Tenet Healthcare settlement funds spent in the 2018 fiscal year and \$57.9 million to reduce the federal matching rate from 68.5 percent to 67.62
- \$20.6 million for behavioral health services recommended by the state's Commission on Children's Mental Health, such as crisis services and opioid abuse and suicide prevention programs
- \$16.9 million for a 4.3 percent increase in the nursing home reimbursement rate
- \$3.1 million for 125 new slots for the New Options Waiver and Comprehensive Supports Waiver Program for people with intellectual and developmental disabilities
- \$1.9 million to fund 122 new residency slots in primary care medicine

Human Services

- \$15.1 million to increase funds for growth in out-of-home care use
- \$7.5 million to increase per diem rates for relative foster parent care
- \$3.8 million for increases in child placement agency administrative costs and foster care per diem rates
- \$2.3 million to fund care coordinator positions for foster children, as recommended by the state's Commission on Children's Mental Health



## Bond Projects

The 2019 budget includes authorization to sell \$875 million in bonds for new projects, compared to \$1.05 billion requested last year. The additional yearly debt service for these bonds is \$84.9 million. The state sells bonds to pay for capital improvements, such as renovations and equipment in K-12 schools, university and technical college system, construction and renovations to state buildings, as well as construction and maintenance of roads and bridges. Notable bond projects in the 2019 budget include:

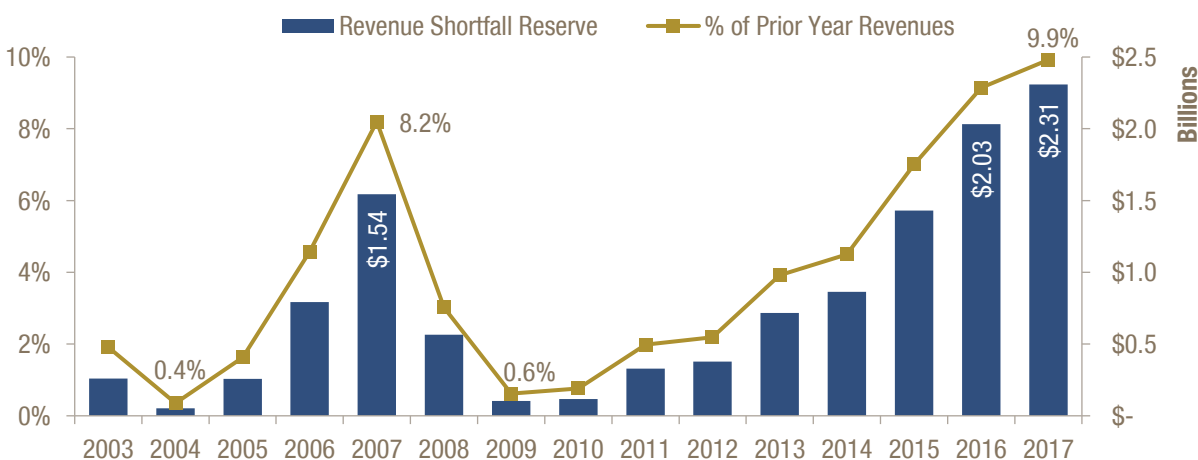
- \$270.6 million for the University System of Georgia, including large projects at Augusta University, Georgia Institute of Technology, Georgia Southern and the University of Georgia
- \$262.4 million for K-12 education, most of it for the Capital Outlay Program for statewide school construction
- \$100 million for repair and replacement of bridges across the state
- \$95.3 million for the Technical College System of Georgia, including \$23.5 million for Chattahoochee Technical College in Marietta and \$17.8 million for Coastal Pines Technical College in Camden County

## Reserves

Georgia's Revenue Shortfall Reserve, or rainy day fund, stands at \$2.3 billion in January 2018, or 9.9 percent of 2017 general fund revenues. Current reserves are enough to operate the state for 32 days in the event of an emergency or recession. Rather than lawmakers appropriating funds to the reserve fund, the balance grows at the end of each fiscal year if there is surplus state revenue. Prior to the Great Recession, the reserves grew to \$1.5 billion before lawmakers justifiably tapped the savings to help balance budgets in 2008, 2009 and 2010. Even so, many important services and programs experienced cuts during and after the recession.

Gov. Deal and legislators deserve credit for rebuilding the savings account to a prudent level. Moving forward, lawmakers can consider pivoting from a sustained focus on rebuilding the reserves now that the fund is restored to a healthy level.<sup>6</sup> Georgia still faces big needs in areas such as K-12 schools and access to health care, so extra money beyond this year might be better spent closing those gaps. As with personal finances, states eventually reach a point where there's less marginal return to more saving. At that point, investing more instead in strategic goals likely offers a better financial return.

### State Savings Account Reaches New Heights



Source: GBPI analysis of the Governor's Budget Report, Fiscal Year 2019

## ENDNOTES

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<sup>1</sup> Kenneth Heaghney, Georgia state economist, “Amended FY 2018 and FY 2019 Revenue Estimates,” Joint Appropriations Committees. 1/16/2018.

<sup>2</sup> Figure does not include monies generated by the Georgia lottery, which is slated to provide \$834 million to students receiving the HOPE Scholarship, HOPE Grant and related higher education programs in the 2019 budget year.

<sup>3</sup> The 2019 budget would include about an extra \$935 million if Georgia invested the same amount per person as it did in the 2009 budget levels, once factoring in 14 percent inflation and 12 percent population growth.

<sup>4</sup> [“Georgia’s Education Cuts a Growing Burden for Low-Income Students,”](#) GBPI. Sept. 2017.

<sup>5</sup> [“Georgia Ready to Close the Coverage Gap,”](#) GBPI. January 2018.

<sup>6</sup> Standard & Poor’s and Moody’s credit rating agencies currently give their top AAA bond scores to states with savings equal to or greater than 8 percent and 10 percent, respectively, of annual revenue or spending. Georgia’s savings now stand at 9.9 percent of prior year revenues. “Building State Rainy Day Funds,” Pew Charitable Trusts. 2014.

