Debate over budget cuts follows reduced revenue estimate as state implements tax cuts, raises teacher pay

The Governor’s FY 2020 budget request reduces the state’s 2020 revenue estimate by $404 million. State agencies submitted over $210 million in FY 2020 Budget Cuts and $300 million in 2021.

“The safety net is stretched to the max… I can’t tell you how painful it is to hand this back.”
DBHDD Commissioner Judy Fitzgerald
-$35.4 MILLION

“I see $15 million in cuts to the county boards of health… some of these counties have a difficult time keeping their lights on.”
House Appropriations Vice Chair Clay Pirkle
-$16.4 MILLION

“We are way down to the bone…There is no discretionary spending left.”
Georgia Public Service Commissioner Chuck Eaton explaining PSC decision to furlough state employees 5 days per year
-$734,000
State revenue trends before and after the Tax Cuts & Jobs Act (TCJA) and state response

Georgia Tax Revenues, Fiscal Years 2017-2021

FY 2017, Reported
FY 2018, Reported
FY 2019, Reported
FY 2020, Original Estimate
FY 2020, Estimated
FY 2021, Estimated

TCJA Reshaped Georgia’s Tax Code & Revenue Collections

Major Provisions of the Tax Cuts and Jobs Act:

- Restructures personal income tax for individuals and families ($4.8 billion in 2020; expires 2025)
- Reduces taxes for pass-through businesses ($1.3 billion in 2020; expires 2025)
- Permanently reduces corporate tax rate from 35% to 21% and makes changes to business deductions and international tax provisions ($1.8 billion)
- Doubles exemption for estate taxes to $11 million for individuals or $22 million for married couples ($127 million; expires 2025)
- Eliminates Affordable Care Act Individual mandate

Georgia’s State Tax Changes to TCJA (HB 918; Expires 2025):

- Updates Georgia’s state tax code to include many of the federal changes to personal income tax deductions. Adopted alone, these changes would have generated up to $1.1 billion in new revenue in 2020
- Doubles standard deduction to $4,600 for individuals or $6,000 for married couples through 2025 ($515 million in FY 2020)
- Reduces top income tax rate from 6 to 5.75% through 2025 ($456 million)
- Pending: Allows General Assembly to reduce the income tax rate to 5.5% with the passage of a joint resolution in 2020 ($552 million)
Timeline of State Budget

• May 2019 – Gov. Kemp signs Georgia’s 2020 budget into law – state budget approved with $958 million in increased spending from FY 2019, with majority of new funds dedicated to enrollment growth and increasing teacher pay by $3,000 per year

• September 2019 – state agencies submit plans at Gov. Kemp’s request for 4% FY 2020 budget cuts & 6% FY 2021 budget cuts

• January 2020 – Gov. Kemp reduces the current year revenue estimate by $400 million, calling for $210 million in FY 2020 budget cuts from current spending levels

• Gov. Kemp submits 20201 budget request that includes $300 million in spending cuts and $400 million in pay raises for teachers and some state employees
Overview of Proposed Spending Cuts

- $210 million in cuts for FY 2020 and $300 million in FY 2021, targeting similar areas of state budget and affecting almost every agency.

- 2021 Budget Cuts by Policy Area:
  
  Public safety ($105 million)
  Essential government agencies ($78 million)
  Health care ($58 million)
  Education ($35 million)
  Agriculture and environmental stewardship programs ($17 million)
  Economic development and community affairs ($8 million)
Key Agencies Facing Major Budget Cuts

• Most agencies are facing cuts of 3-6 percent to operating budgets

• Agencies facing the largest overall share of the $300 million in proposed budget cuts proposed for 2021:

  Corrections ($54 million)
  Department of Behavioral Health and Developmental Disabilities ($35 million)
  Human Services ($29 million)
  Juvenile Justice ($19 million)
  Public Health ($16 million)
  Education ($12 million)
  Transportation ($11 million)
Most of Georgia’s State Budget Considered Mandatory Spending

**Education and Health Care Equal 74 Percent of State Budget**

FY 2021 Budget, $28.1 Billion

- P-12 Education, 40.25%
- Higher Education, 14.38%
- Medicaid and PeachCare, 11.82%
- Transportation, 7.27%
- Debt Service, 4.44%
- Behavioral Health and Developmental Disabilities, 4.47%
- Department of Corrections, 4.39%
- General Government, 4.25%
- Other Public Safety, 3.50%
- Human Services, 3.01%
- Other Health Care 2.22%

FY 2021 Budget adds $1.1 Billion to keep up with Georgia’s growth and increase pay for teachers

**Fiscal Year 2021: Spending Increases Fund Increased Teacher Pay and Enrollment Growth**

- K-12 Teacher pay increase and salary increase for workers under 40k, $359 million
- Medicaid and PeachCare growth and funding formula changes, $239 million
- K-12 Enrollment growth and equalization, $176 million
- Other, $100 million
- University System and Technical College Enrollment growth, $82 million
- Charter enrollment growth, $51 million
- Transportation (Motor Fuel), $50 million
- Increase pay for state employees earning less than $40,000 per year, $44 Million

Combination of Growth, Cuts, One-time Savings Balance Executive Budget

New Spending Funded by Growth, Cuts and One-Time Savings

- Net Growth, $488 million
- 2021 Spending cuts, $300 million
- 2021 TRS savings, $192 million
- Reduction in the amount of supplemental funding sent down to local districts, $151 million

Even with Cuts, Georgia’s Fiscal Projections Demand Growth

Projected Growth of General Fund Expenditures, in Millions, 2020-2024

AFY 2020 | FY 2021 | FY 2022 | FY 2023 | FY 2024
--- | --- | --- | --- | ---
$24,000.00 | $26,000.00 | $27,000.00 | $28,000.00 | $29,000.00

Projected Spending
Most Likely Revenue Estimate

State Savings Account Provides Safeguard for Georgia’s Fiscal Health

State Savings Account Reaches New Height


GEORGIA BUDGET & POLICY INSTITUTE GBPI.org
Georgia’s Budget Debate will Impact Families Across the State

• General Assembly debating the first mandatory agency spending cuts since the Great Recession

• Georgia’s tax code and revenue system are at a crossroads. Antiquated state income and sales structures tested by recent major changes, as General Assembly debates tax further changes

• Major debates over enhancing revenues, proposed spending cuts, and decisions on new spending such as teacher pay remain are ongoing under the Gold Dome
Keep up with changes to state spending and tax policies at GBPI.org and find additional resources on key policy areas.