



# Overview of Georgia's 2020 Fiscal Year Budget

By: Danny Kanso, Policy Analyst

Georgia's 83<sup>rd</sup> governor, Brian P. Kemp, introduced his administration's policy priorities by submitting a proposed \$27.5 billion budget to the General Assembly for the 2020 fiscal year, beginning July 1, 2019.

After nine consecutive years of economic expansion since the Great Recession, the governor's budget maintains a conservative economic outlook for the upcoming fiscal year. The incoming administration projects a 3.2 percent rate of growth for 2020, adding just enough new revenues to the state's treasury to finance Gov. Kemp's first set of proposed salary increases for teachers and state employees.

At the top of Gov. Kemp's priority list is a \$3,000 permanent pay increase for Georgia's 115,000 certified teachers. Carrying a \$483 million price tag, the governor's signature spending proposal delivers "a large down payment" on his earlier promise to raise teacher salaries by \$5,000. In the introductory letter of his first budget proposal, Gov. Kemp makes reference to his full commitment to Georgia's educators and suggests that an additional \$2,000 in permanent pay increases is forthcoming. The proposed 2020 budget also includes a 2 percent merit pay increase for all state employees estimated to cost \$119 million. Similarly, the state's 2020 spending plan directs an additional \$16.5 million in lottery funds to increase lead Pre-Kindergarten teacher salaries by \$3,000 and assistant teacher salaries by 2 percent.

Outside of the governor's proposed pay increases, the vast majority of new spending is required to cover costs associated with naturally rising needs and expenses. About 95 percent of the new money in the 2020 budget funds pay raises for teachers and state employees, growing enrollment in Georgia's public schools and universities, baseline Medicaid expenses, and adjustments for the Teacher Retirement System.

Gov. Kemp hints that the administration may be considering a Medicaid Waiver that could increase access to health care for the hundreds of thousands of Georgians who are currently without any form of coverage. Authorizing the Department of Community Health to negotiate a Georgia-specific agreement with the federal government could allow the state to access billions of dollars in additional funding available under the Patient Protection and Affordable Care Act, which 37 other states have already moved forward to accept.

In fiscal year 2018, \$71 million in funds were directed to the Revenue Shortfall Reserve (RSR) – down from the previous year's returned surplus of \$143 million. The RSR, or rainy day fund, acts as a collective

savings account for Georgia to pay for core services in the event of an economic recession or unexpected emergency. The savings account now equals more than 10.5 percent of general state revenues, totaling more than \$2.55 billion. Going forward, Gov. Kemp’s administration would be wise to consider continuing to invest a greater percentage of new revenues into bolstering core areas of government.

## Amended 2019 Fiscal Year Budget

Each January the governor proposes two distinct budgets. The “little” budget, or amended budget, adjusts spending levels for the current fiscal year that ends June 30 to reflect actual tax collections, enrollment growth, 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.

This year, in the wake of Hurricane Michael and the billions of damages sustained across Georgia, lawmakers returned for the state’s first Special Session since 2011 to add more than \$270 million to the original 2019 budget approved last March. Alongside his proposed fiscal year 2020 budget, Gov. Kemp submitted additional recommendations to amend the 2019 budget a second time, increasing state spending by \$435 million.

### Amended 2019 Revenues and Spending

General fund tax and fee collections for the first six months of the fiscal year show revenue growth on pace to reach 4.1 percent. Gov. Kemp’s amended 2019 budget includes \$2.6 million to implement the tax reform policies signed into law with the passage of House Bill 918 – lowering the state’s top tax rate to 5.75 percent, doubling the standard deduction, and adopting conformity with the federal tax code – and House Bill 61, which will require online retailers to collect and remit sales tax.

Nearly \$243 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 rising K-12 student enrollment. Gov. Kemp also includes \$69 million in one-time funds for school safety grants, which will provide \$30,000 to all 2,294 Georgia public schools to implement locally determined safety priorities. Another \$71 million is included for the Department of Community Health, responding to growth in the Georgia Medicaid program, increased baseline expenses, and a decline in the share of state revenue matched by the federal government.

### Highlights of the 2019 amended budget include:

#### *Education*

- \$92.1 million for a midterm adjustment for increased enrollment in public K-12 and state charter schools required by the Quality Basic Education (QBE) funding program
- \$68.8 million to provide a one-time \$30,000 school security grant to all 2,294 Georgia public schools

- \$39.3 million for the State Charter Schools Commission to implement House Bill 787, which was passed last year to increase the funding formula for state charter schools.
- \$3.6 million for growth in Dual Enrollment

### *Health*

- \$54 million for Medicaid and the Indigent Care Trust Fund, including \$33.7 million for baseline Medicaid expense growth, a \$14.5 million reduction to the state's Hospital Provider Payment revenue, and \$18.7 million to support the Indigent Care Trust fund and draw down additional federal money for Disproportionate Share Hospital payments
- \$8.4 million for mental health services for high schools through the Georgia Apex Program (GAP)
- \$9.3 million for Mercer University School of Medicine to establish a new four-year medical school in Columbus

### *Infrastructure and Rural Development*

- \$36 million for Chattahoochee Technical College to establish an Aviation Academy at Silver Comet Field at the Paulding Northwest Atlanta Airport
- \$35 million for Forestland Protection Act grants
- \$491,000 in initial funding for the Atlanta-region Transit Link (ATL) Authority

## Fiscal Year 2020 Budget Proposal

The governor's \$27.5 billion proposal for the 2020 budget year contains slightly more than \$1.3 billion in new state spending compared to the 2019 budget passed during the 2018 Session. About \$817 million of that increase is due to general taxes and fees collected above the current fiscal year. Notably, however, the state's Title Ad Valorem Tax collections have decreased by 12.7 percent or \$182 million in the wake of legislation advanced in the 2017 and 2018 biennial session of the General Assembly. The remainder of revenue growth comes from higher lottery sales and miscellaneous sources.

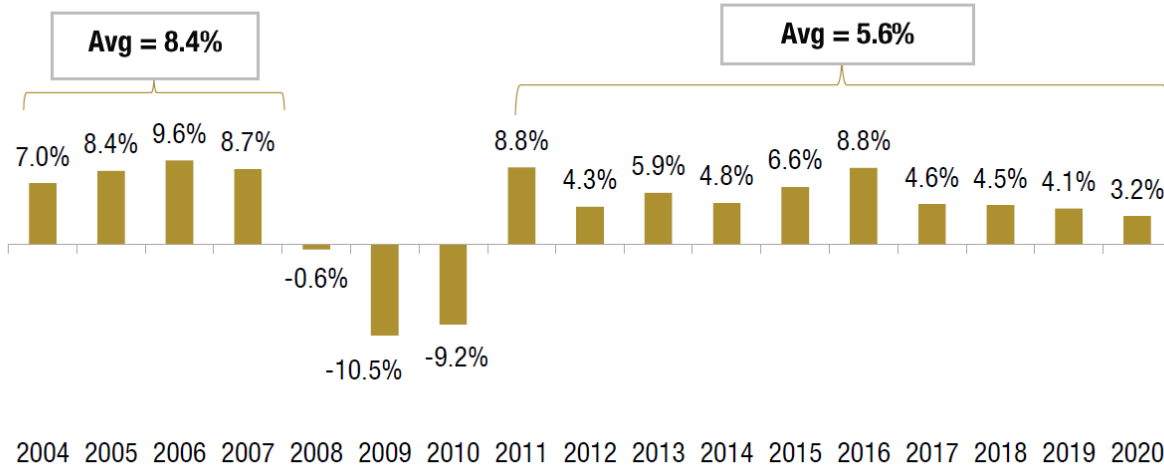
Most of the new spending simply covers costs associated with naturally rising needs and expenses. About 95 percent of the new funds in the 2019 budget pay for Gov. Kemp's proposed pay raise for teachers and state employees, growing enrollment in Georgia's public schools and universities, increased need in Medicaid, or the Teacher Retirement System.

Gov. Kemp's budget targets education, behavioral health, transportation, health care, and higher education with increases in funding 5 percent greater than the original FY 2019 budget. These investments are covered by a projected 16.8 percent increase in corporate income tax collections, a 3.7 percent boost in individual income tax revenue, and a 5.1 percent rate of growth in the state sales tax. Looking ahead to further bolster the state's bottom-line in future years, both the administration's 2019

and 2020 budgets allocate funding for the Department of Revenue to implement a system requiring the remittance of online sales tax.

### 2019 and 2020 Budgets Based on Conservative Revenue Estimates

Georgia annual revenue growth, 2004-2020 fiscal years



The 3.2 percent revenue estimate used to craft the 2020 budget plan may telegraph the state’s long-term need to embrace new proposals that further strengthen revenue collections. State tax collections remain temporarily lifted by last year’s House Bill 918, which brought Georgia’s tax code into conformity with changes made by the federal Tax Cuts and Jobs Act, lowered the top income tax rate to 5.75 percent, and doubled the standard deduction to \$4,600 for individuals and \$6,000 for married couples filing jointly.

However, the legislation also included a provision that will allow lawmakers to further reduce the rate to 5.5 percent with the passage of a joint resolution in 2020. If lawmakers choose to adopt this additional rate cut, it could further reduce state tax collections by an estimated \$467 million in FY 2021.<sup>1</sup> With additional teacher pay raises promised by Gov. Kemp – along with a growing inventory of potential new investments awaiting further debate by the General Assembly – greater total revenue collections will likely be required to meet Georgia’s needs in the years ahead.

To sustain Georgia’s healthy growth rate in future years and ensure that our state government can afford to fund a more robust slate of policy priorities, lawmakers could explore ways to raise more revenues by closing ineffective loopholes and adjusting specific taxes and fees – like the tobacco tax – which offer Georgia little competitive advantage and are far out of step with the national average. Through this process, the state can continue adopting relatively low-cost proposals, like the Georgia Work Credit, that both cut taxes and address the inequities causing low and middle-income families to pay the highest percentage of their earnings in total state and local tax liability.

Education spending continues to dominate the state budget, accounting for more than 52 percent of Georgia's general revenue funds. About \$10.7 billion, or 40.5 percent of state funds, support teacher salaries, instructional materials, school buses, and other necessities of local public schools. Another \$3.1 billion supports Georgia's colleges and universities, which accounts for 11.8 percent of general fund spending.<sup>2</sup>

Medicaid is the next largest state expense behind education, accounting for 12.3 percent of state general revenue. Health care spending accounts for 22 percent of Georgia's budget, after accounting for non-Medicaid services such as mental health and substance abuse treatment programs.

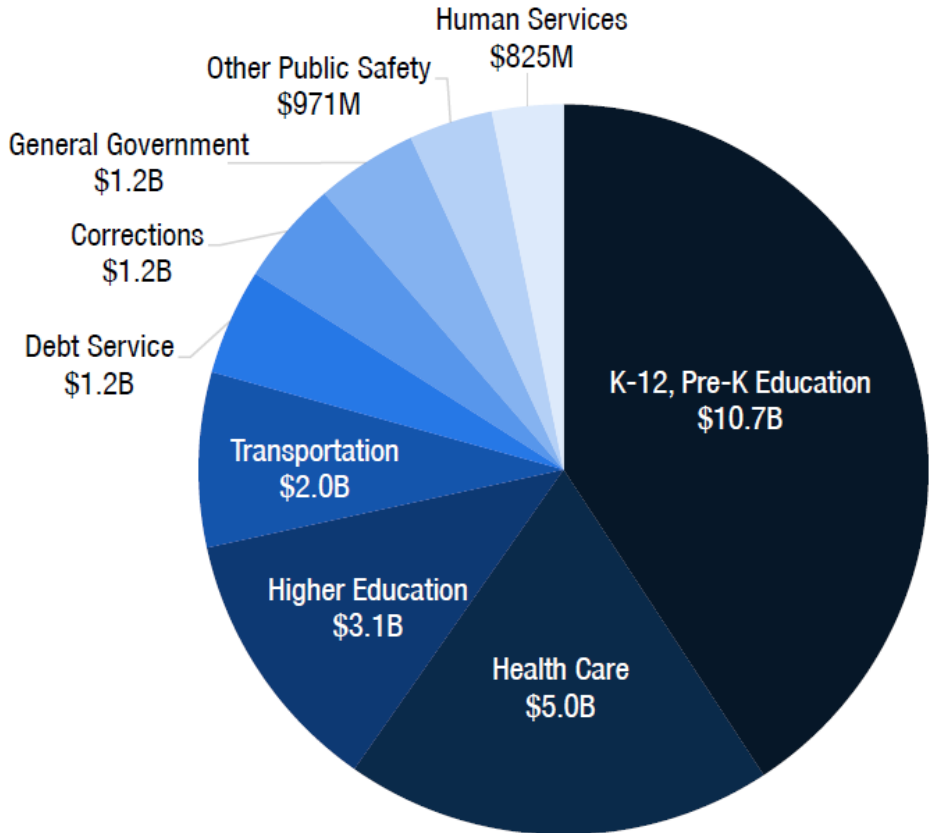
The administration's first full budget proposal presents several early-stage investments that may suggest the major policy areas where Gov. Kemp will focus his attention next. Following through on a core issue at the center of his 2018 gubernatorial campaign, Gov. Kemp includes \$500,000 to form a gang taskforce within the Georgia Bureau of Investigation. While Kemp points to funding a "Criminal Gang and Criminal Alien Database" with existing resources from the Criminal Justice Coordinating Council, few additional details demonstrate how this policy will substantively develop.

Drawing the greatest share of early attention is Gov. Kemp's recommendation of \$1 million in additional funding (and a total of \$2 million) for the Department of Community Health to "pursue state flexibility options for Georgia's Medicaid program that increases choices, improves quality, encourages innovation and grows access to affordable healthcare across the state." In his introductory letter, the governor reflects that "all Georgians deserve access to quality, affordable healthcare" and Kemp's decision to invite debate on the future of the state's Medicaid program will undoubtedly reenergize continued legislative efforts to draw down the full share of federal dollars currently available under the Patient Protection and Affordable Care Act.

Gov. Kemp takes office at a time when Georgia is experiencing record levels of economic activity and employment. However, as the governor noted in his inaugural State of the State address, "it still feels like the Great Recession in parts of Rural Georgia. Businesses are closing. Opportunities are drying up. People are losing faith."<sup>3</sup> Under his overarching message of "putting Georgians first," Gov. Kemp has left on the table the prospect of pursuing major reforms to the state's Medicaid program that could provide coverage to more than 400,000 citizens and help address the greatest challenges facing the state with bipartisan solutions. GBPI has outlined a series of principles that could help guide this policy process, maximizing the potential return on the state of Georgia's investment to build a stronger health care system.

**Education and Health Care Equal 70 Percent of State Budget**

2020 Fiscal Year \$26 billion General Fund and Motor Fuel Funds Budget



Notable 2020 changes in GBPI’s focus areas of education, health care, and essential services include:

*K-12 Education*

- \$491.6 million to increase salaries for certified teachers by \$3,000 and to provide a 2 percent salary increase for school bus drivers, nurses, and nutrition workers
- \$133.5 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. The total number of students will reach 1.75 million in FY 2020 – with over 130,000 teachers and administrators

- \$78.8 million for the Equalization program, which provides funds to districts with low property wealth
- \$46.3 million for the State Charter Schools Commission to implement House Bill 787 and increase state funding provided to charter schools
- \$21.3 million to the Teacher Retirement System to maintain its fiscal strength
- \$20 million in bonds for buses for local school districts
- \$16.5 million in lottery funds to increase Pre-Kindergarten lead teacher salaries by \$3,000 and assistant teacher salaries by 2 percent

### *Higher Education*

- \$86.2 million for enrollment growth and operating costs in the university system
- \$77.8 million in lottery funds for HOPE scholarships to cover projected need and a 3 percent award increase, including a \$42 million transfer from HOPE Grants for technical college students
- \$3.5 million for Dual Enrollment allocated to the Georgia Student Finance Commission, which administers program payments to colleges

### *Health*

- \$182 million for Medicaid and PeachCare, including \$92 million to offset a reduction in the Federal Medical Assistance Percentage (FMAP) rate from 67.62 percent to 67.30 for Medicaid and from 100 percent to 88.61 percent for PeachCare
- \$2.9 million for the Georgia Board for Physician Workforce, including \$2.3 million for 112 new primary care medical residency slots and \$500,000 for the loan repayment program for rural health care providers
- \$78.6 million for the Department of Behavioral Health and Developmental Disabilities, including \$10.2 million for crisis services and \$4.9 million for addictive diseases bed capacity

### *Essential Services, Infrastructure, and Criminal Justice*

- \$9.9 million to pay per diem for additional foster families caring for children in state custody
- \$3.5 million to implement the Family First Prevention Services Act, resulting from 2018's adoption reforms
- \$4.3 million to expand all levels of accountability courts
- \$1.1 million to expand the Georgia Prisoner Reentry Initiative to an additional 10 locations
- \$500,000 for the implementation of a Georgia Bureau of Investigation Gang Taskforce



### *Bond Projects*

The 2020 budget includes authorization to sell \$1.05 billion in bonds for new projects, compared to \$875 million requested last year. The additional yearly debt service for these bonds is \$105.7 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:

- \$209.1 million for the University System of Georgia, including large projects at Georgia State University, Kennesaw University, Georgia Southern, Georgia College and State University, and University of West Georgia
- \$299.6 million for K-12 education, most of it for the Capital Outlay Program for statewide school construction
- \$150 million for the Secretary of State to replace election voting systems statewide
- \$105.9 million for the Technical College System of Georgia, including \$49.4 million for the new Carroll County Campus of West Georgia Technical College and \$29.5 million for Wiregrass Technical College in Lowndes County
- \$100 million for repair and replacement of bridges across the state

### *Reserves*

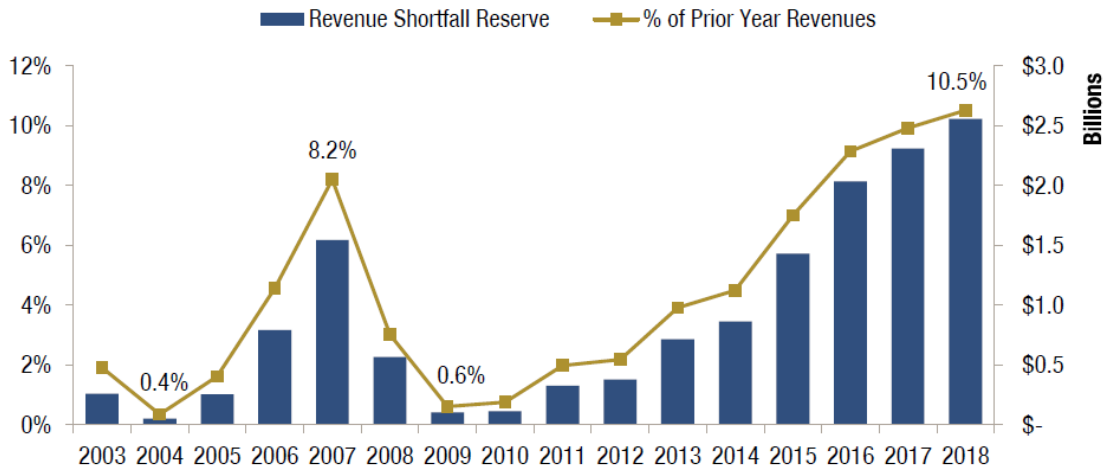
Georgia's Revenue Shortfall Reserve, or rainy day fund, stands at \$2.55 billion, or 10.5 percent of 2019 general fund revenues. Current reserves are enough to operate the state for 34 days in the event of an emergency or recession.

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 – up to 15 percent of the previous fiscal year's revenues. 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 have an opportunity to produce a significant return on investment by directing a greater percentage of revenue growth into long-awaited improvements to core areas of state government.<sup>4</sup> Georgia still faces big needs in areas such as K-12 schools and access to health care, and the prospect of generating new sources of revenue like the online sales tax could position the state to make transformative investments. As with personal finances, states eventually reach a point where there's less marginal return to more saving. At that point, investing more in strategic goals – such as drawing down federal dollars at a rate of 9–to–1 for a Medicaid waiver or helping more Georgia families move out of poverty and up the economic ladder – will build a more stable financial foundation over the long-term.



### State Savings Account Reaches New Heights



### Endnotes

- <sup>1</sup> Department of Audits and Accounts, Fiscal Note on House Bill 918 (LC 34 5383-ECS). February 23, 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> WXIA STAFF, "Governor Brian Kemp issues first State of the State Address | full transcript," *11Alive News*, January 17, 2019.
- <sup>4</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.