BUDGET OVERVIEW

Overview of Georgia's 2025 Fiscal Year Budget

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Introduction

Over the last three years, Georgia has generated record budget surpluses. These surpluses have resulted in the state adding between 15 to 23% of total General Fund expenditures to its reserve accounts annually, reflecting unprecedented underestimates of state revenue collections. This year, Governor Brian P. Kemp's $36.1 billion Fiscal Year (FY) 2025 budget proposal increases per-person spending (adjusted for inflation) above Georgia's pre-pandemic (FY 2020) level for the first time. Although this is a positive step, the per-person spending increase is equivalent to a real growth rate of just 1.5% per year during this period.

FY 2025 Budget Exceeds FY 2020 Per-Person Spending, Breaking Four-Year Trend	
FY2020 Total State Expenditures adjusted for inflation	$31,938,765,894
Per-Person Spending (FY 2020)	$3,008
FY 2025 Total State Expenditures	$36,087,802,875
Per-Person Spending (FY 2025)	$3,218
Gap between adjusted FY 2020 and FY 2025 (Per-Person)	$210
Gap between adjusted FY 2020 and FY 2025 (Total)	$2,357,213,346
Real Rate of Annual Growth	1.5%

Source: Governor's Office of Planning and Budget population estimates, 2022-2060, 2025 population; U.S. Census, "State Population Totals and Components of Change: 2020-2019, 2019 population; U.S. Bureau of Labor Statistics, Inflation Calculator, July 2019 to December 2023.

The governor forecasts that net revenue collections for AFY 2024 and FY 2025 will decrease from fiscal years 2022 and 2023. However, total appropriations proposed in AFY 2024 are 15% higher ($5.1 billion) than Georgia's original 2024 budget, while proposed appropriations for FY 2025 are boosted by 11.3% ($3.7 billion) above the original 2024 budget. These additions are primarily directed toward K-12 education, rising Medicaid costs, infrastructure and capital improvements. Even with these additions, Gov. Kemp's AFY 2025 and FY budget proposals are likely to preserve Georgia's unprecedented $11 billion in undesignated reserves, leaving these funds unallocated into the next fiscal year.

What is a budget surplus?

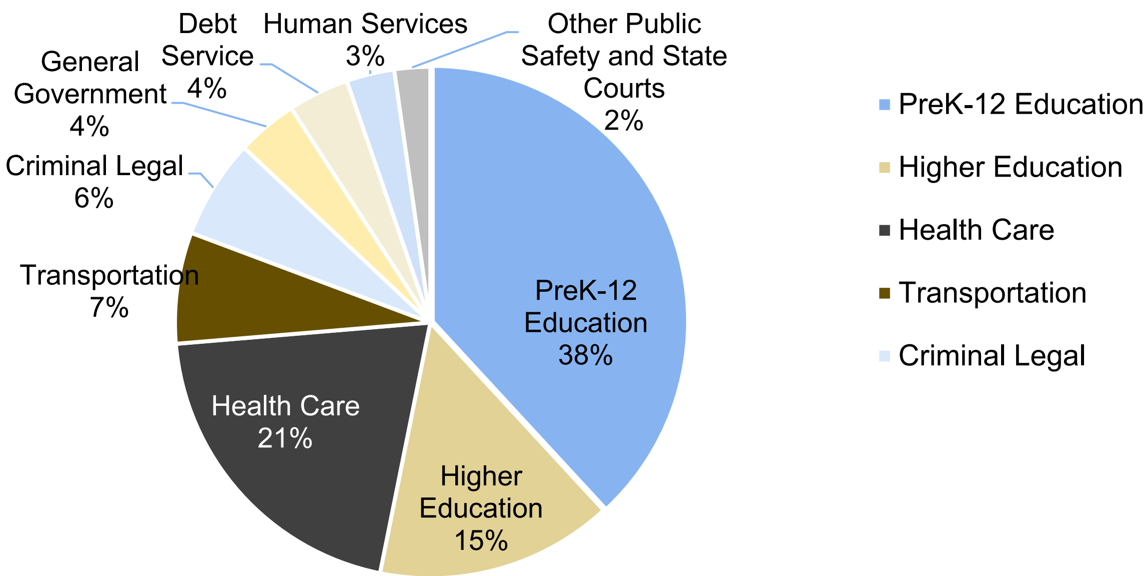
A budget surplus occurs when the amount of revenue the state collects exceeds the amount it spends during the fiscal year. Although a surplus implies that Georgia's government has met all its obligations to state residents, the annual state budget is the product of a series of policy decisions made by the general assembly and governor.

Where do surplus revenues go?

The Revenue Shortfall Reserve (RSR), also called the "rainy day fund," was created in 1976 to act as the state's saving account and to help manage instability in revenue collections and hedge against the possibility of a recession. When the state raises more in revenue than it spends, it produces a surplus. At the end of each fiscal year, any surplus in general revenue collections is automatically added to the state's RSR until that account reaches 15% of prior year collections (increased from the previous maximum of 10% in 2011). At that point, funds go into a separate account that represents unobligated or undesignated surplus. This is in addition to a dedicated reserve account for surplus funds raised by the Georgia Lottery, as well as smaller reserve accounts used to help manage bond payments and tobacco settlement funds.

The governor's AFY 2024 and FY 2025 budget proposals include positive additions, such as cost-of-living salary adjustments for state employees and certified teachers, enhanced funding for student transportation, reductions in Pre-K classroom sizes, and adjustments to maintain the solvency of Georgia's Employees' Retirement System (ERS) and State Health Benefit Plan (SHBP). There are opportunities to build on this positive momentum and address critical needs facing the state, such as Georgia's full-time state employee turnover rate of 21%—a years-long trend, with statewide staffing levels dropping by nearly 4,400 since FY 2019.[1]

Education and Health Care Equal 73 Percent of $36.1 Billion Budget for Fiscal Year 2025



Source: Governor's Budget Report Amended FY 2024 and FY 2025

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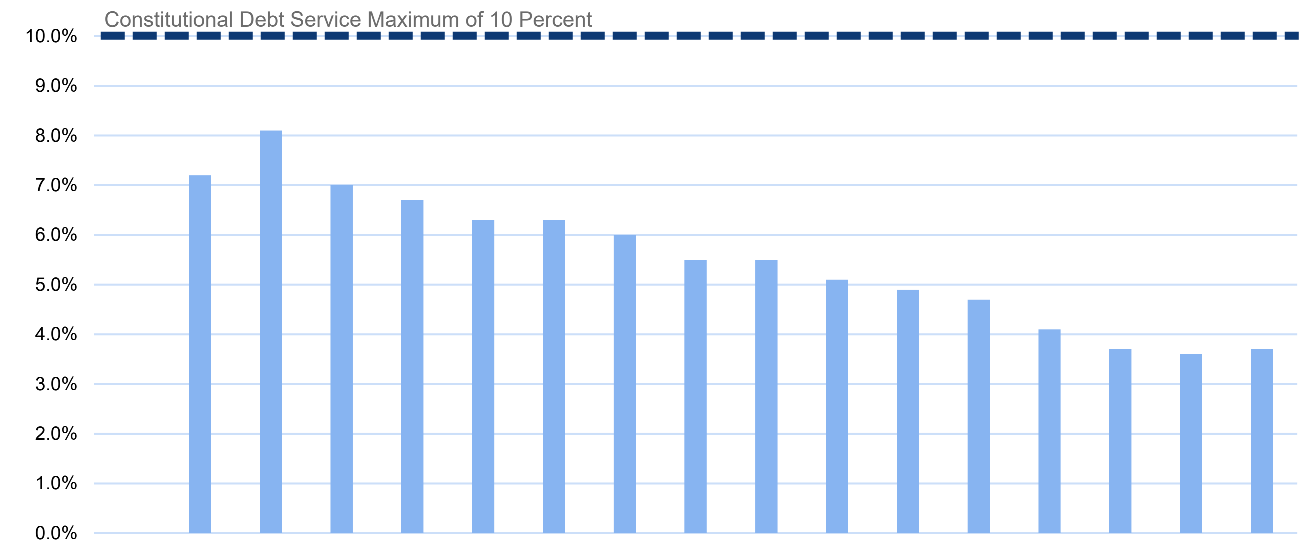
Each January, the governor proposes two distinct budgets: (1) The amended budget for the current fiscal year (FY 2024, ending June 30, 2024) that adjusts spending levels to reflect actual tax collections, enrollment growth and any spending changes over the remaining months of the year and (2) the full budget for the next fiscal year (FY 2025, starting July 1, 2024) that lays out a new spending plan for the next fiscal year. Under Georgia law, the governor has the authority to set the revenue estimate, which caps spending. The state's General Assembly, made up of 236 members, is responsible for appropriating funds and is constitutionally obligated to pass an annual state budget.

In the proposed budget for FY 2025, $3.7 billion in new spending is included above the original FY 2024 spending plan. Out of this total, approximately $1.5 billion is allocated for improving Pre-K-12 education, while about $650 million is added to maintain the operations of Georgia's health agencies. Notable additions in the FY 2025 budget include:

- $382.1 million to increase the base salary schedule for K-12 certified teachers.
- $250 million to adjust for K-12 enrollment increases.
- $244 million to finance the increased employer share of SHBP costs to offer health insurance to certified educators:
    - Funds allocated do not cover rising costs for non-certified school personnel. Local districts will be responsible for covering these expenses, shouldering an increase of 67%, or $635 per member per month, between FY 2024-25. Georgia stopped funding SHBP for non-certified school employees in 2012, shifting full costs to local districts.

- $205 million to increase the recurring Pupil Transportation Grant to cover approximately 31% of total student transportation costs, up from about 17% in 2023:
    - This remains down from the historic level of funding provided before Georgia began reducing the state's commitment for these costs in the 1990s. The governor's FY 2025 proposed budget also includes $20 million in bonds to replace 227 school buses and $5 million to increase salaries by 4.1%.
- $104 million to establish the School Security Grant program as part of the state's K-12 funding formula.
- $11 million for K-12 literacy initiatives, including regional literacy coaches.
- $23.6 million to increase the salary schedule for certified and assistant Pre-K teachers by $2,500 and $11 million to reduce Pre-K classroom sizes from 22 to 20 students over a four-year phase-in.
    - This action is intended to reverse a change made in 2012 due to budget cuts, in which classroom capacity increased from 20 to 22 students.[2]
    - Leaders of Georgia's House of Representatives recently announced a $100 million plan to further strengthen the Pre-K program, including enhanced start-up funding and resources for capital investments.[3]
- $4.6 million to increase Childcare and Parent Services (CAPS) reimbursement rates to the 50th percentile of market rates.
- $484 million for Medicaid and PeachCare, primarily adjusting for the expiration of funding enhancements made in response to the COVID-19 pandemic.
- $80M to increase reimbursement rates for home- and community-based providers serving individuals with intellectual and developmental disabilities under the NOW/COMP waiver program plus $9.4 million to annualize 500 slots and $2.3 million for 100 new slots.
    - An estimated 7,300 Georgians with disabilities are on waiting lists to access needed services—demonstrating an urgent need for access to services. For context, in December 2022, the bipartisan Senate Study Committee on People with Intellectual and Developmental Disabilities and Waiver Plan Access recommended adding funding to open 2,400 waiver slots. Increasing provider reimbursement rates and supporting the workforce is a key part of unlocking additional waiver slots.[4]
- $9.5 million for one additional behavioral health crisis center, along with $6.6 million to complete funding for three behavioral crisis centers funded in the previous budget.

State Use of Debt Remains at Historic Lows



Fiscal Year	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**	**2024** (Estimated)	**2025** (Estimated)
Annual Debt Service (Billions)	$1.27	$1.31	$1.23	$1.22	$1.23	$1.28	$1.29	$1.29	$1.36	$1.31	$1.33	$1.25	$1.25	$1.34	$1.40	$1.29

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Although Georgia's Constitution limits annual debt to 10% of the prior year's revenue collections, the state projects its annual debt service to fall far below that limit at just 3.7% in FY 2025. Due to the state's long-held AAA bond rating, Georgia can borrow at low interest rates to finance capital projects. For more than 25 years, Georgia has maintained its triple-A bond designation from all three ratings agencies, including during multiple years in which the state withdrew funds from its reserves.[5]

In his budget proposals, Governor Kemp allocates $1.1 billion in AFY 2024 and $820 million in FY 2025 to the Georgia State Financing and Investment Commission to cover the costs of infrastructure improvements in cash. Alternatively, the state could leverage its plentiful bonding capacity and AAA credit rating to pay for these projects over time. Paying for infrastructure improvements in cash limits the funding available for recurring expenses, even as the state borrows at the lowest level in decades at 3.6% of prior year revenue in AFY 2024 and 3.7% in FY 2025—well below the previous 10-year average (2014-2023) of 5.2%.

After Making Long-Awaited Adjustments to New Baseline, Governor's Revenue Estimate Continues Four-Year Trend of Flat Revenue Estimates

The revenue estimate forecasts the amount of funding the state can expect to generate and caps state spending, limiting the amount the General Assembly can appropriate. Under Georgia law, the governor has unilateral authority to set the state's revenue estimate with the advice of the State Fiscal Economist.

Austerity policies address budget challenges primarily through spending cuts. These measures are often implemented in response to a negative economic event, but once established, may remain in place indefinitely unless reversed. Cuts that are not backfilled can also create new issues by disrupting the delivery of underlying programs and services or resulting in other harmful effects.

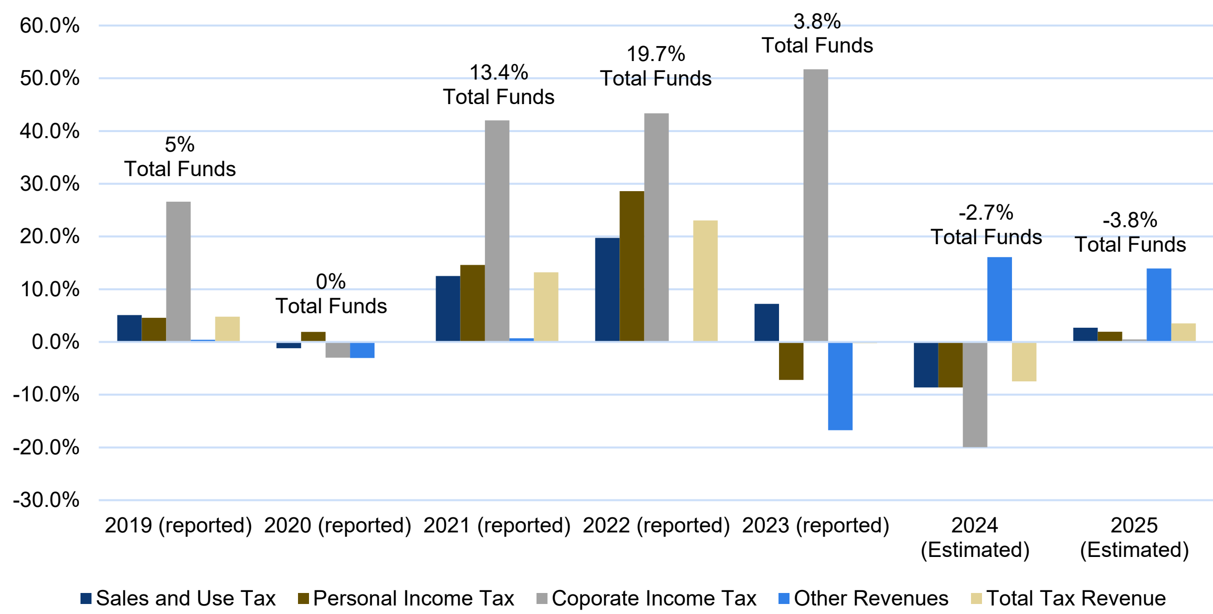
Revenue Estimate, 2025 Fiscal Year

Revenue Estimate, 2025 Fiscal Year	Amount Raised	Percentage of Total
Income Taxes	**18,871,837,000**	**52.29%**
Personal Income Tax	15,808,929,000	**43.81%**
Corporate Income Tax	3,062,908,000	**8.49%**
Sales Tax	**8,369,250,000**	**23.19%**
Other Taxes, Fees and Interest	**5,116,679,212**	**14.18%**
Motor Vehicle Title Tax (TAVT)	788,313,435	**2.18%**
Motor Vehicle License Fee	416,725,078	**1.15%**
Other Transportation Fees	268355191	**0.74%**
Insurance Premium Tax	680,835,519	**1.89%**
Tobacco Tax	221,139,206	**0.61%**
Alcohol Beverage Tax	222,546,068	**0.62%**
Fireworks excise tax	2,927,764	**0.01%**
Hospital Provider Payments	410,990,552	**1.14%**
Nursing Home Provider Fees	152,886,715	**0.42%**
Interest on Motor Fuel Deposits	134,000,000	**0.37%**
Interest on All Other State Deposits	807,815,825	**2.24%**
All Other Interest, Fees and Sales	1010143859	**2.80%**
Designated Funds	**3,730,036,663**	**10.34%**
Motor Fuel Tax & Interest	2,067,466,000	**5.73%**
Lottery Funds	1,511,852,557	**4.19%**
Tobacco Settlement Funds	148,615,599	**0.61%**
Brain & Spinal Injury Trust Fund	1,848,188	**0.01%**
Safe Harbor for Sexually Exploited Children Fund	254,319	**0.00%**
Funds Released from Undesignated Surplus	**0**	**0.00%**
Total	**36,087,802,875**	**100.00%**

Source: Governor's Budget Report FY 2025 and AFY 2024

Following historic state revenue growth between FY 2021 and 2023, Governor Kemp's revenue estimate projects a significant decrease in tax collections in FY 2024 and for most revenue sources to remain flat in FY 2025. Inflation is expected to moderate, and the state economist's forecast incorporates the effects of a mild recession. Governor Kemp forecasts overall taxes collected by the Department of Revenue in FY 2024 to decrease by 7.5% ($2.5 billion), year over year, from FY 2023.[6] This decrease is greater than the $2 billion from the state's undesigned reserves incorporated into the revenue estimate. However, through the first six months of FY 2024, overall state revenue receipts have increased by 1.6% ($253 million). From this baseline, Governor Kemp's AFY 2024 revenue estimate projects that revenues will decrease by 16.6%, year over year ($2.9 billion), between January and June 2024. But, if revenues continue to perform at the current pace, Georgia will end FY 2024 with another substantial surplus.

State Forecasts Drop in Tax Collections in FY 2024; Governor Issues Negative Revenue Estimate for FY 2025



Source: Governor's Budget Report AFY 2024 and FY 2025; Governor's Budget Report AFY 2023 and FY 2024; Department of Revenue, Monthly Reports of Comparative Summary of State General Fund Receipts

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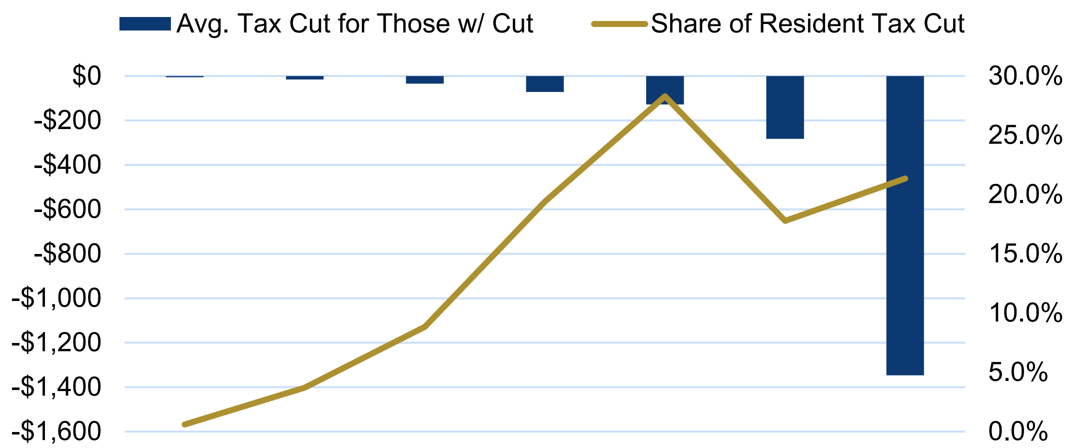
In FY 2025, Governor Kemp estimates that tax collections will rebound from the projected decrease in the current fiscal year. However, total state funds available will remain 6% below the level reported for FY 2023. Under this projection, personal and corporate income tax collections would fall by 7% and 20%, respectively, while sales taxes would decrease by about 6% from FY 2023 levels. These estimates remain conservative and point toward a continued trend of revenue surpluses that would result in increased reserves beyond the record levels reached in FY 2023.

Accelerating Flat Tax Plan Offers Little Relief to Most Georgians

With Georgia already transitioning from a graduated income tax to a flat tax of 5.49% beginning in January 2024, Governor Kemp has proposed accelerating the plan enacted in 2022 to reduce the top income tax rate further to 5.39%.

Accelerating Flat Tax from 5.49 to 5.39% Offers Small Benefits to Most, only 13% of $349 Million in Cuts Goes to 60% of Georgia Households



Average Income Group	**Lowest 20%**	**Second 20%**	**Middle 20%**	**Fourth 20%**	**Next 15%**	**Next 4%**	**Top 1%**
	$14,000	$33,000	$58,000	$105,000	$183,000	$424,000	$1,876,000

Source: Governor's Budget Report AFY 2024 and FY 2025; Governor's Budget Report AFY 2023 and FY 2024; Department of Revenue, Monthly Reports of Comparative Summary of State General Fund Receipts

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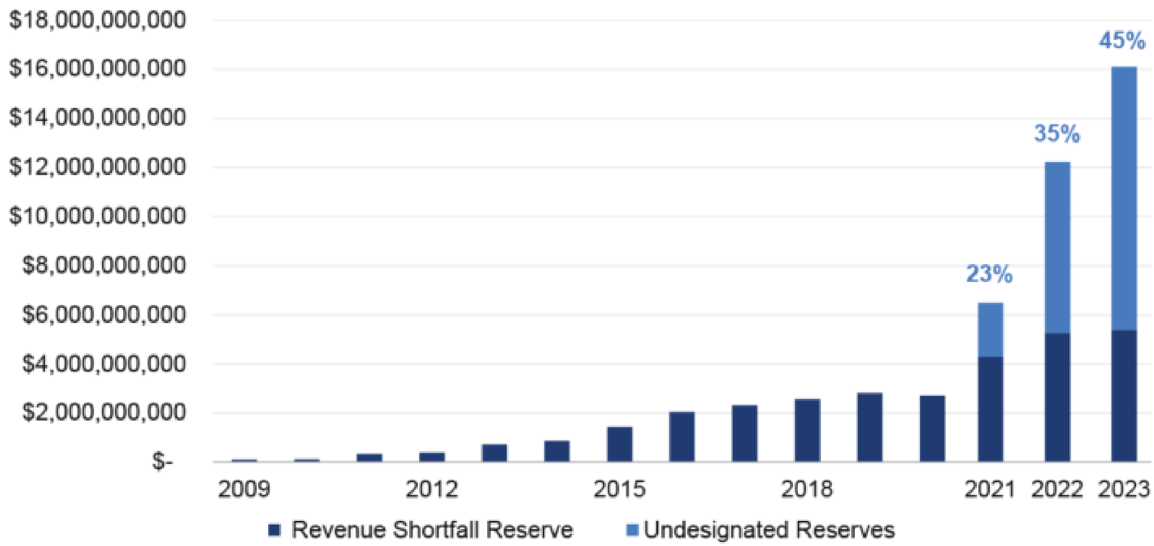
While those at the top of the economic ladder will see their incomes increase more substantially, most Georgians are unlikely to notice the impact of this change, which is estimated to save middle-income households an average of $34 over a full year. This change will cost around $349 million annually. Expanding access to health care by closing the coverage gap through full Medicaid expansion or improving the quality of public schools by incorporating funding to address the effects of poverty could have a greater impact on most Georgia families at a similar cost.

State Reserves Grow as Most Funds Remain Unspent

State Surpluses Overflow into 'Undesignated Reserves', Reach Unprecedented $10.9 Billion in FY 2023



Source: Georgia Revenues and Reserves Report, Fiscal Year Ended June 30, 2023, State Accounting Office; Governor's Budget Report Amended FY 2024 and AFY 2023.

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FY 2023 marks the state's third consecutive year in which the RSR has reached its maximum balance since expanding in 2011 to hold 15% of the prior year's revenue collections. On top of $5.4 billion in RSR funds, the state maintains $10.9 billion in undesignated reserves, $2.2 billion in Lottery/HOPE reserves and healthy balances across other accounts.

Outside of Georgia's proposed spending plans for AFY 2024, state leaders have only allocated a small portion of the available undesignated surplus funds despite the availability of these funds from the close of FY 2021 through FY 2024. Thus far, the state's focus has been on providing narrow, one-time income tax rebates and temporary suspensions of the gas tax. This trend has led to the state generating a significant amount of surplus funds every year as recurring revenues exceed annual spending. This is largely due to leaders keeping spending below the current capacity and holding onto excess reserves.

Georgia Pads Reserves by $4.4 Billion in FY 2023				
	FY 2022	FY 2023	Net Increase	Percentage Increase
Revenue Shortfall Reserve	$5,240,228,297	$5,391,680,822	$151,452,525	3%
Undesignated Reserves	$ 6,978,505,963	$10,898,285,383	$3,919,779,420	36%
Lottery for Education	$1,895,981,691	$2,164,234,094	$268,252,403	12%
Tobacco Settlement Funds	$134,088,436	$157,527,680	$23,439,244	15%
Guaranteed Debt Common Reserve Fund	$49,514,903	$45,082,028	$ (4,432,875)	-10%
Total Balance of Selected Reserve Accounts	$14,298,319,290	$18,656,810,007	$4,358,490,717	23%
Source: Governor's Budget Report Amended FY 2024 and FY 2025				

Governor Kemp's revenue estimate for AFY 2024 includes $2 billion in funds released from the state's undesignated reserves. However, with the addition of these resources, Georgia's AFY 2024 revenue estimate remains more than $1 billion below the amount raised in FY 2023. Even after accounting for the revenue drop likely caused by the implementation of the state's flat tax and increased standard deduction, Georgia remains on pace to meet the spending level in Governor Kemp's AFY 24 budget proposal without spending down these reserves.

The huge level of general fund reserves held by the state is a recent trend, as is the size of repeated underestimations of annual state revenue collections. From FY 2009 to 2019, the state of Georgia ended each fiscal year with an average of $270 million in surplus funds before achieving what was a then-record RSR balance of $2.8 billion (11% of revenues) at the conclusion of 2019.[7] For the past three years, the state of Georgia has raised approximately $13.6 billion more than it spent in General Fund revenues, adding to $2.7 billion in reserves that took nearly a decade to accumulate. These funds allowed Georgia to fill the Revenue Shortfall Reserve (RSR) up to its cap of 15% of revenues ($5.4 billion) for the first time, covered the expenses of two years of modest income tax rebates and backfilled revenues lost due to multiple suspensions of the gas tax.

Georgia Can Make Generational Investments by Responsibly Allocating Reserves

As state leaders consider how best to manage the $11 billion available in undesignated reserves, guiding principles could include prioritizing one-time investments that generate high levels of equitable return by frontloading future expenditures. There are several unique areas in which surplus funds could present a rare opportunity to address deficits built up over time and projected needs for the future, all while strengthening Georgia's economy, supporting job creation and benefiting families statewide. GBPI recently released a report entitled *Georgia's $16 billion question: Will the state equitably invest in its people*, which details equitable options available to responsibly spend down Georgia's reserves, including by creating a self-sustaining child care trust fund to improve statewide access to affordable, quality services and financing a major modernization of Georgia's school bus fleet.

Regarding bus fleet modernization, school districts in Georgia face higher transportation costs as the state has reduced funding for pupil transportation. In 1991, the state paid over half of the costs but covered only 17% of the $1.1 billion in expenses last year. Governor Kemp has proposed a budget for FY 2025 that aims to increase the state's share of pupil transportation funding up to 40% of the state's funding formula, or 31% of the actual costs incurred by the districts in 2023. Additionally, the budget will finance the replacement of 227 school buses. This is a positive step in the right direction, and the state can continue to build upon it. Looking ahead, Georgia schools need a comprehensive plan to make up for decades of disinvestment. Georgia can improve education opportunities across the board by investing in modernizing buses, which would be especially beneficial for rural districts with fewer students spread over large geographic areas.

Conclusion

Governor Kemp's AFY 2024 and FY 2025 budget proposals recognize that Georgia is in a position to use its unprecedented resources to address deficiencies that hold back public schools, its health care system and core government functions. However, these proposals maintain the state's recent pattern of underestimating revenue collections even as Georgia continues to hold $11 billion in undesignated reserves outside of the traditional budget process.[8]

Major decisions loom as the General Assembly takes up Governor Kemp's AFY 2024 and FY 2025 budget proposals. With Georgia's economy continuing to grow and stabilize beyond the volatility experienced during the pandemic era, state leaders are well-positioned to maximize this historic opportunity to foster equitable prosperity by closing gaps created by years of austerity policies and enacting forward-looking investments in the state's future.[9]

End Notes

[1] Department of Administrative Services. 2024, November 6. *Annual Workforce Report: Fiscal Year End 2023*. https://doas.ga.gov/sites/default/files/2023-11/Annual%20Workforce%20Report%20%20Fiscal%20Year%20End%202023%20%281%29.pdf

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[3] Georgia House of Representatives. 2024, January 16. *Speaker Burns, Pro Tem Jones Announce Recommendations for Major Investments in Pre-K Education.* https://house-press.com/speaker-burns-pro-tem-jones-announce-recommendations-for-major-investments-in-pre-k-education/

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[9] Buschman, R. 2024, January 16. "Georgia's Economic and Revenue Outlook". *Governor's Office of Planning and Budget.* https://www.legis.ga.gov/api/document/docs/default-source/house-budget-and-research-office-document-library/2024-joint-budget-hearings/tuesday-presentations/state_economist_2024_joint_hearing_presentation.pdf?sfvrsn=d22bb399_2