GBPI
Georgia Budget & Policy Institute

BUDGET OVERVIEW

Overview of Georgia's Budget for the Amended 2025 and Full 2026 Fiscal Years

Danny Kanso, Director of Legislative Strategy and Senior Fiscal Analyst

Governor Brian P. Kemp's executive budget proposals for the current fiscal year (AFY 2025) and next year (FY 2026) are characterized by a focus on one-time projects and modest spending increases. The $37.7 billion revenue estimate for FY 2026 is shaped by Gov. Kemp's proposal to direct approximately $748 million per year to accelerate planned cuts to Georgia's flat income tax rate. The proposed income tax rate would shift down from 5.39% to 5.19%, saving most Georgia households less than $70 per year.[1] The $41.6 billion executive budget proposal for AFY 2025 includes more than $6 billion in one-time appropriations (including $1 billion for one-time tax rebates), financed with both general funds and an estimated $2.7 billion to be drawn from the state's $11.5 billion undesignated surplus account.

Georgia's Budget Surpluses Grow as State Revenues Surpass Spending

Year	Revenue Shortfall Reserve Balance	Undesignated Surplus Balance	Lottery Fund Surplus Balance	Total Surplus from Prior Year
2024	$5,466,259,838	$11,476,167,236	$2,412,796,535	$901,023,310
2023	$5,391,680,822	$10,898,285,383	$2,164,234,094	$4,339,484,348
2022	$5,240,228,297	$6,978,505,963	$1,895,981,691	$5,814,389,100
2021	$4,288,774,541	$2,342,811,556	$1,668,740,754	$4,211,083,932
2020	$2,704,664,669	$0	$1,384,578,250	-$4,392,854

Source: Governor's Budget Reports, FY 2022 – 2026, compiled by author.

Budget Proposals

Each January, the governor proposes two distinct budgets. The first is the amended budget for the current fiscal year (FY 2025, ending June 30, 2025) that adjusts spending levels to reflect actual tax collections, enrollment growth in areas like public education and health care and any policy changes over the remaining months of the year. The second budget released is the full budget for the next fiscal year (FY 2026, starting July 1, 2025) that lays out a new spending plan. Under Georgia law, the governor has the authority to set the revenue estimate, which caps spending. The state's General Assembly is responsible for appropriating funds and is constitutionally obligated to pass an annual state budget.

Surplus Revenue

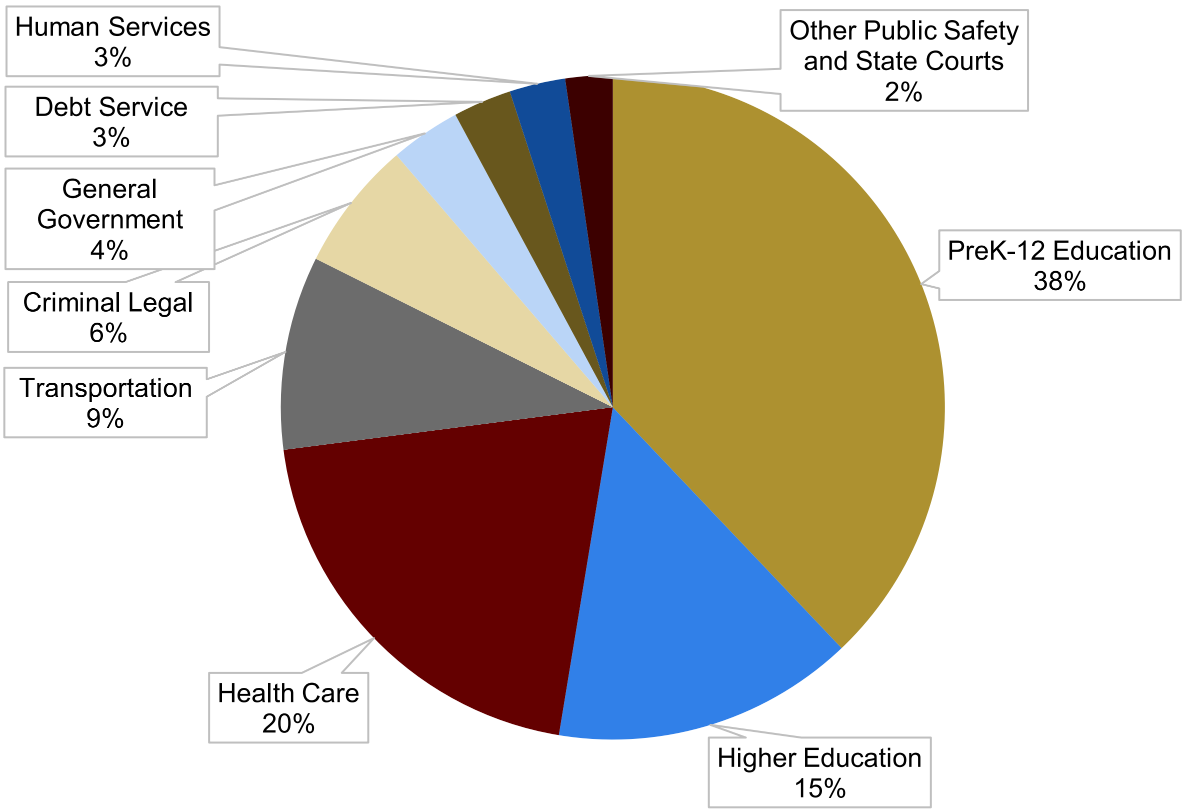
The Revenue Shortfall Reserve (RSR), also called the "rainy day fund," was created in 1976 to act as the state's savings account and to help manage instability in revenue collections and hedge against the possibility of a recession. When the state raises more in revenue than it spends, it produces a 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.

Education and Health Care Equal 73% of $37.7 Billion Budget for Fiscal Year 2026

Total appropriations for AFY 2025 have increased by 15% ($5.4 billion) from the original budget to $41.6 billion, while spending for next year is up by 4.4% to $37.7 billion. In the proposed budget for FY 2026, $1.6 billion in new spending is added to the original spending plan from the previous year. Out of this total, approximately $432 million in appropriations are for Pre-K-12 public education, while $141 million is added to establish the Promise Scholarship Program that provides $6,500 vouchers toward private school tuition for eligible students.[2] About $367 million in new funding is included for higher education, dual enrollment and HOPE scholarships. Georgia's three major health agencies were also allotted $328 million in funding enhancements.

Cumulatively, these additions for education and health care comprise more than 98% of the net increase included as part of Gov. Kemp's FY 2026 executive budget.

Education and Health Care Equal 73 Percent of $37.7 Billion Budget for Fiscal Year 2026



Source: Governor's Budget Report AFY 2025 and FY 2026.

Notable additions and reductions recommended as part of the FY 2026 budget include:

- Department of Education:
  - $306 million added to account for enrollment growth, which has reached 1.74 million students and over 148,000 teachers and administrators.
  - $174 million added to finance a 7% increase in the employer health care contribution for the State Health Benefit Plan (SHBP), up from $1,760 per-member per-month to $1,885. Although not budgeted for by the state, local districts will have to shoulder a similar cost for non-certified employees such as bus drivers and maintenance workers.
  - $20 million added to replace 227 school buses across the state.
  - $10.3 million added for the Pupil Transportation Grant to help cover student transportation costs.
  - $113 million in reductions for Equalization grants due to a narrowing gap in wealth between districts, and $116 million in downward adjustments to the Quality Basic Education Formula to account for districts raising more in property taxes.
- Department of Early Care and Learning:
  - $14 million added for the second year of a four-year phase-in that will reduce Pre-K class sizes from 22 to 20 students.
  - $4 million added to fund 500 more slots in the Childcare and Parent Services (CAPS) program for families with low incomes.
  - $1.5 million added to adjust CAPS program reimbursement rates to the 60th percentile of costs.
- Higher Education:
  - $170 million added for instruction to reflect an increase in credit hour enrollment at University System of Georgia (USG) institutions.
  - $119 million added for capital projects at USG institutions.
  - $81 million in additional lottery funds for HOPE scholarships and grants
  - $33 million added for instruction to reflect an increase in credit hour enrollment at Technical College System (TCSG) institutions.

  - $21 million in additional funds for Dual Enrollment program needs.

- Health:
  - $324 million added for Medicaid and PeachCare, including $23 million to provide 12 months of continuous eligibility for children under the age of 19.
  - $44 million added for the Department of Behavioral Health and Developmental Disabilities to support reimbursement rate increases for home- and community-based providers and to open additional slots that allow individuals with intellectual and developmental disabilities to receive services through the NOW/COMP waiver program

Amended Fiscal Year 2025 Budget Features $6 Billion in One-Time Spending

Although it is customary for state leaders to adjust the amended year budget to include one-time spending increases, this year's executive budget proposal for AFY 2025 reflects a decision to keep recurring expenses low in favor of paying for the costs of major long-term expenses upfront. As part of this strategy, the state plans to issue bonded debt at the lowest rate in recent history (3.2%), which is far below Georgia's constitutional capacity of 10% of prior year revenues. Using bonds to pay for capital investments allows the state to finance the cost of infrastructure projects over a long-term period, helping to ensure that taxpayers contribute to covering their costs as they are used. Further, bonded debt allows the state to capitalize on its AAA bond rating to borrow at the lowest rates available, while freeing up resources for other needs.

As part of an estimated $6 billion in one-time spending for AFY 2025, the state plans to allocate:

- $1.6 billion for the Georgia State Financing and Investment Commission to finance capital projects with one-time funds rather than bonds.
- $1 billion to the Department of Revenue to issue non-refundable income tax rebates of $250 for individuals, $375 for head of household filers and $500 for married couples filing jointly (proposed as HB 112).[3]
- $840 million for the Department of Transportation, including $530 million for projects related to freight and logistics efficiency and safety, $250 million for local transportation infrastructure projects and $60 million for the Georgia Transportation Infrastructure bank's loan and grant program.
- $800 million to the Department of Community Affairs, including $502 million for surface water investments in Georgia's coastal region, $28 million for rural workforce housing grants and loans and $20 million for rural site development.

- $615 million for the state's response to damage caused by Hurricane Helene, including $99 million to backfill motor fuel revenues that were not collected after Gov. Kemp suspended collections of the gas tax.
- $500 million for the Employees' Retirement System to improve the long-term financial viability of the pension system for state retirees.
- $329 million for the Department of Administrative Services, including $175 million to reduce outstanding obligations for the state's liability insurance program, $50 million for insurance costs associated with state-owned buildings and property and $104 million to modernize eligibility systems for the Department of Community Health and the Department of Human Services.
- $281 million for the Department of Corrections to expand capacity and address security issues, in addition to other backlogs, maintenance, and repairs.
- $50 million for the Department of Education to provide one-time grants of $21,635 per school to improve security.

Governor's Revenue Estimate Remains Flat Year-Over-Year, Continuing Five-Year Trend

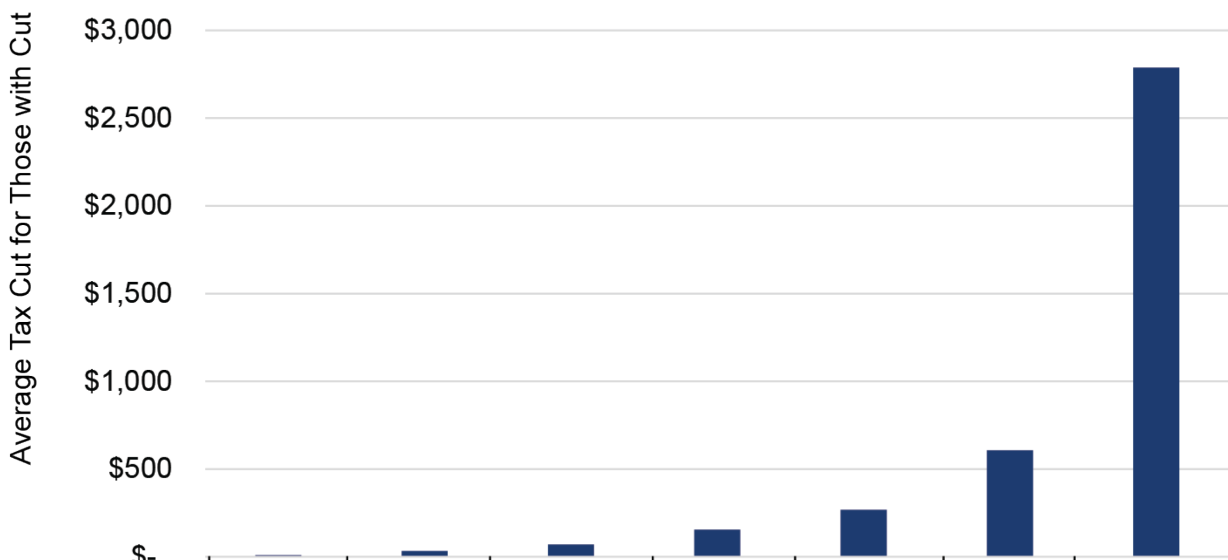
The revenue estimate forecasts the amount of funding the state can expect to generate and caps state spending, limiting the amount the General Assembly can appropriate. Under Georgia law, the governor has unilateral authority to set the state's revenue estimate with the advice of the State Fiscal Economist. As part of setting the revenue estimate, the governor also has discretion to release surplus funds to be spent as part of the regular budget process.

Revenue Estimate, 2026 Fiscal Year		
Income Taxes	**$18,948,157,923**	**50%**
Personal Income Tax	$15,693,797,140	42%
Corporate Income Tax	$3,254,360,783	9%
Sales Tax	**$9,434,974,148**	**25%**
Other Taxes and Fees	**$5,369,915,055**	**14%**
Motor Vehicle Title Tax (TAVT)	$884,110,448	2%
Insurance Premium Tax	$750,707,907	2%
Motor Vehicle License Fee	$413,046,876	1%
Hospital Provider Payments	$464,183,027	1%
Nursing Home Provider Fees	$158,995,531	0%
Tobacco Tax	$208,224,970	1%
Alcohol Beverage Tax	$218,155,374	1%
Interest on Motor Fuel Deposits	$168,199,071	0%
Interest on All Other State Deposits	$563,372,784	1%
All Other Interest, Fees and Sales	$1,540,919,067	4%
Designated Funds	**$3,958,158,075**	**10%**
Motor Fuel Tax & Interest	$2,308,243,731	6%
Lottery Funds	$1,499,153,364	4%
Tobacco Settlement Funds	$148,615,900	0%
Brain & Spinal Injury Trust Fund	$2,010,871	0%
Safe Harbor for Sexually Exploited Children Fund	$134,209	0%
Total	**$37,711,205,201**	**100%**

Source: Governor's Budget Report AFY 2025 and FY 2026.

Through the first six months of FY 2025 (July to December 2024) Georgia's revenue collections have increased by 1.8%, or $283 million, year-over-year. In FY 2024, the state raised approximately $38.2 billion and added about $901 million to its surplus accounts by spending less than it generated in revenue. This year, Gov. Kemp has proposed accelerating a planned reduction to Georgia's flat personal and corporate income tax rate through HB 111. Under this proposal, the rate would shift from 5.39% to 5.19% at an estimated cost of $748 million per year. This change would take effect in January 2025, mid-way through the current fiscal year. Accounting for the effects of this change, along with reductions to the income tax rate that went into effect last year, the governor projects that total income tax revenues will fall by 3.5%, or $686 million, from FY 2024.

Proposed Reduction of State Income Tax Rate from 5.39% to 5.19% Offers Little to Most Georgians



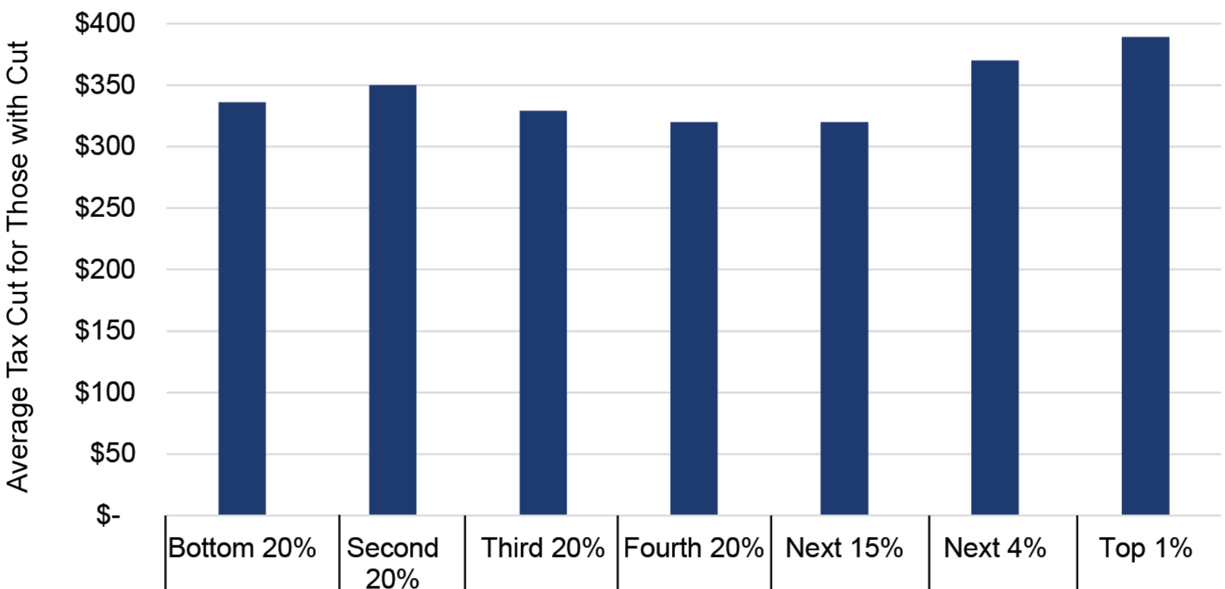
	Bottom 20%	Second 20%	Third 20%	Fourth 20%	Next 15%	Next 4%	Top 1%
Average Income	$14,400	$34,400	$60,600	$109,900	$193,000	$454,500	$1,954,100

Source: Institute on Taxation and Economic Policy, January 2025.

As demonstrated in the chart above, the median income family in Georgia would see about $70 per year in tax savings if HB 111 is fully implemented. Of $748 million in estimated revenue lost to the state, just 33% of the savings, or $245 million, would be shared by 80% of Georgia households. Those with incomes among the top 20% would see 67% of the total savings, or $503 million per year. Reducing the state's overall income tax represents one of the costliest and most regressive ways to cut taxes. It is designed to deliver outsized benefits to Georgians already at the top of the income ladder who earn the highest incomes.

Last year, Georgia reduced its individual income tax rate from 5.49% to 5.39% and its corporate income tax rate from 5.75% to 5.39%, while making a policy change to tax both sources of income under a single flat rate. These changes reduced overall revenues by $596 million per year.

Refundable Child Tax Credit Offers Relief to Families



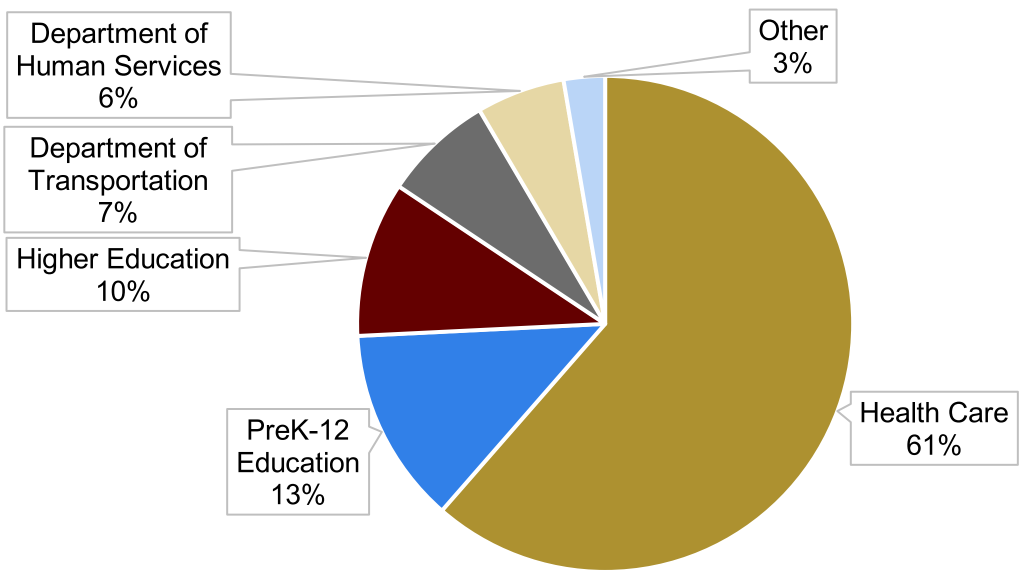
	Bottom 20%	Second 20%	Third 20%	Fourth 20%	Next 15%	Next 4%	Top 1%
Average Income	$14,400	$34,400	$60,600	$109,900	$193,000	$454,500	$1,954,100

Source: Institute on Taxation and Economic Policy, January 2025.

At an estimated annual cost of $286 million, a fully refundable child tax credit of $250 per child up to seven-years of age would offer broad-based benefits to families across Georgia, while focusing resources on those who need the most support. This analysis is built on the framework recommended by the Senate Study Committee on Access to Affordable Child Care. However, if lawmakers set aside the same level of resources that would be consumed by the proposed cut to Georgia's income tax rate ($748 million annually), an even more robust program could be implemented to deliver more meaningful relief to Georgia families. This program would also help to address one of the most significant economic barriers facing the state, access to child care, which is responsible for at least $1.75 billion in lost economic activity annually.[4]

With New Federal Leadership, Reconciliation Legislation Could Significantly Affect State Budget

$22 Billion in Federal Funds Mostly Pays for Health Care, Education, Infrastructure and Human Services



Source: Governor's Budget Report AFY 2025 and FY 2026.

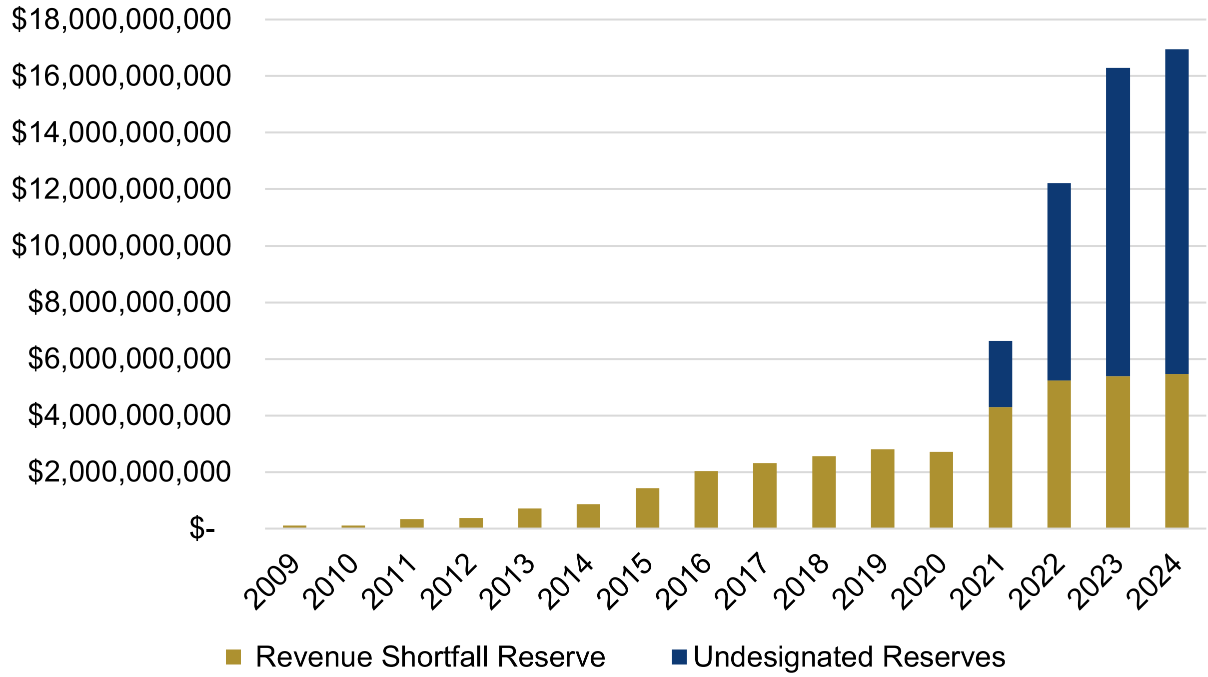
Georgia's FY 2026 budget appropriates $22.4 billion in anticipated federal funds, which primarily cover costs associated with Medicaid and other health programs, education, infrastructure and human services. Several critically important agencies, such as the Department of Human Services, receive more funding from the federal government than from the state. With new leadership in Washington signaling that major changes in federal spending and tax policy could be on the horizon, Georgia's budget could be vulnerable to potential rollbacks of programs that state residents rely on. The current federal funding plan runs through March 14, 2025. Another deadline known as the debt limit, at which point the federal government is restricted from increasing its borrowing to finance spending, will likely be reached in spring or summer of 2025, requiring further action from Congress.[5]

The federal budget process is likely to play out through a special legislative process called “reconciliation,” which was created by the Congressional Budget and Impound Control Act of 1974 to allow fiscal legislation to be expedited.[6] Under the rules of the U.S. Senate, reconciliation bills are not subject to the filibuster, which allows these measures to pass under a 50-vote threshold rather than needing 60-votes. However, Senate rules generally prohibit the inclusion of provisions that are not related to spending levels, revenues or the debt limit. Without further changes to Senate rules or parliamentary procedure, this is likely to limit the potential of these bills to implement non-budgetary policy changes. Nonetheless, as the Tax Cuts and Jobs Act of 2017[7] faces a partial expiration in December 2025, with an estimated renewal cost of $4.6 trillion over 10-years, major policy decisions loom that could have sweeping effects.[8] Rather than simply renewing this legislation, lawmakers could focus on making the federal tax code more equitable while also protecting federal programs that their constituents rely on.

As Lawmakers Begin the Appropriations Process, Georgia Remains Strongly Positioned to Invest in its Future

While Gov. Kemp’s executive budgets include a range of one-time spending proposals, Georgia continues to leave huge sums of surplus funding unallocated while major needs go unaddressed. The state’s strategy of financing capital projects and long-term needs using recurring funding rather than bonds has left its budget stretched thin despite having the capacity to meet both its future obligations and the needs of its residents in the present moment. As lawmakers look to achieve their priorities through the appropriations process, Georgia’s fiscal position offers an unprecedented opportunity to invest in lasting prosperity for its residents by improving its tax system, health policy and public education system.

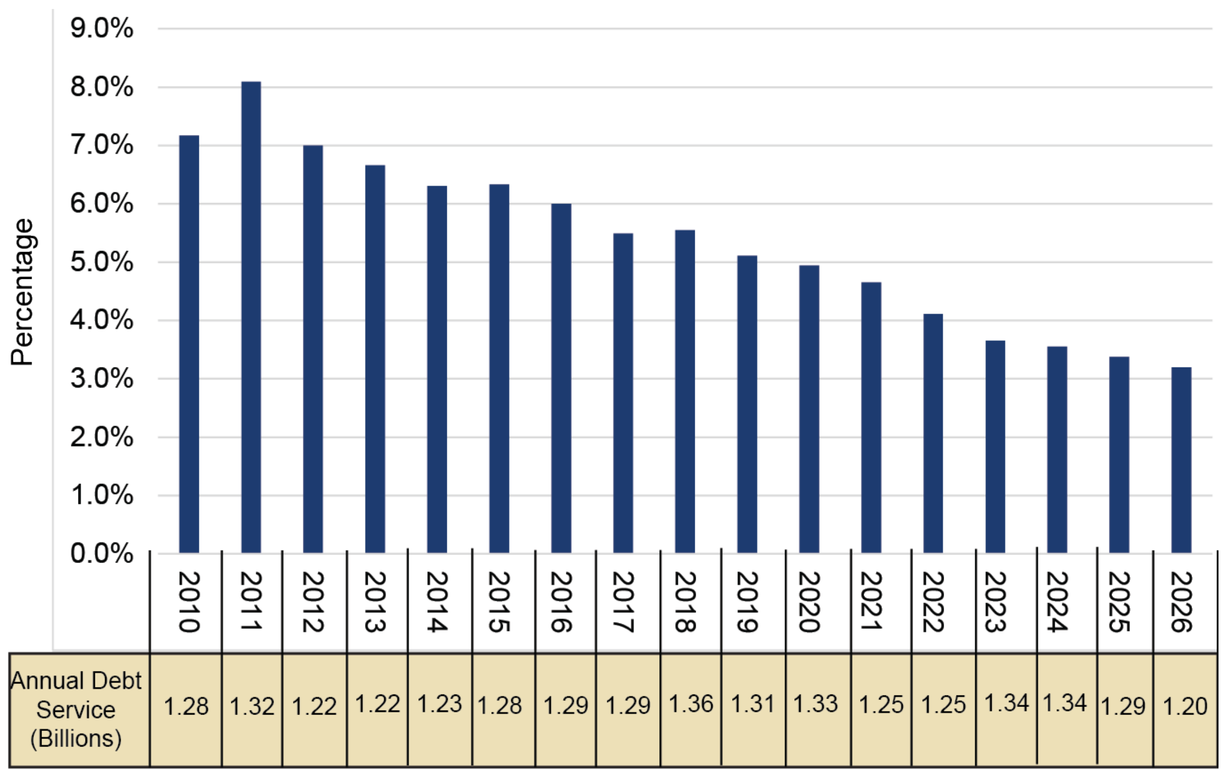
State Surpluses Overflow into Undesignated Reserves, Reach Unprecedented $16.9 Billion in FY 2024



Source: Governor's Budget Report for AFY 2025 and FY 2026

As demonstrated in the chart above, Georgia has yet to dip into its undesignated reserves, as the state's balance of cash on hand has steadily increased since 2020. Even in FY 2024, when Gov. Kemp included $2 billion in undesignated surplus as part of the state's revenue estimate, these funds went unspent due to higher-than-expected tax collections. Instead of spending $2 billion in surplus funds, the state added an additional $901 million to its major reserve accounts. This year Gov. Kemp's budget proposals plan for $2.7 billion to be allocated from the state's $11.5 billion in undesignated surplus funds as part of a $41.6 billion spending plan for FY 2025. It is likely that the state will utilize at least some of these surplus revenues. The spending plan allocates $1 billion for one-time tax rebates of up to $500 and distributes upwards of $5 billion split between general funds and surplus funds for one-time expenditures.

State Use of Debt at Record Low for FY 2026



Source: Governor's Budget Report for AFY 2025 and FY 2026

Since the beginning of Gov. Kemp's first term, the state's use of bonded debt has dropped from an already historically low level of 4.9% of prior year revenues to just 3.2% in 2026. This comes as the state allocates $1.6 billion in AFY 2025 and $867 million in FY 2026 to capital projects that could be financed through long-term bonds. This choice means that the state will forgo current needs in staffing, salaries, services and program functions so that it can pay for long-term infrastructure projects upfront.

Conclusion

As evidenced by its $11.5 billion undesignated surplus account, the state's recent spending plans have left substantial levels of recurring funding unspent at the end of each year. However, recurring funding continues to be used for one-time expenses rather than making strategic ongoing investments in equitably supporting Georgians. It is well within the state's capacity to approve the full slate of priorities put forward by Gov. Kemp, while also making progress in these critical budget areas:

- **Increasing pay for state employees, especially public benefit eligibility staff.** Georgia has made strides in recent years to attract and retain a strong workforce. However, under Governor Kemp's executive budget proposal for FY 2026, most state employees will not receive a cost-of-living adjustment, and 20 state agencies are set for funding reductions or increases of less than 1% from their original FY 2025 budget. Although progress has been made in recent years, overall system-wide turnover among state employees stood at 18% in FY 2024.[9] Over one half of eligibility staff, who support Georgians receiving public benefits, leave their jobs after being in the position for one year or less.[10] Failure to retain talent among these workers negatively impacts the most vulnerable Georgians.

- **Supporting Georgia's children.** Georgia is one of just six states nationally that does not provide additional public money to educate K-12 students from families with low incomes. The state also continues to maintain a public-school counselor to student ratio of 1:450, significantly higher than the 1:250 ratio recommended by the American School Counselor Association. As parents, economists and providers have continued to raise the alarm about the child care crisis facing the state, lawmakers are well positioned to make a generational investment in the future through policies such as establishing a dedicated Child Care Trust fund to increase access and affordability for quality programs statewide.[11]

- **Supporting communities through robust public health infrastructure.** Despite facing enormous challenges during the pandemic and in its aftermath, Georgia has yet to make reforms to strengthen its public health system to reduce preventable deaths and support healthier communities.[12] In FY 2026, the executive budget provides an increase of less than 1% from the prior year to support the Department of Public Health.

- **Providing equitable tax relief.** Georgia's strong fiscal position also offers the opportunity to implement tax relief measures that are designed to make a meaningful difference in the lives of working families, such as a refundable child tax credit. Under this approach, the state could stretch its resources further than it would by cutting the income tax rate from the top down. Georgia could also generate dividends on these investments by improving the quality of life across the state and the earning potential of its residents.

Looking ahead, lawmakers have a historic opportunity to respond to the effects of persistent inflation and the rising cost of living by doing more to make Georgia a better place to live, work and raise a family. State leaders can accomplish this by strengthening core functions across human services, education, and health and investing in making sure that programs and services are built to serve Georgians effectively.

End Notes

[1] Institute on Taxation and Economic Policy, January 2025.

[2] Voucher uptake across the state is not evenly distributed, with a few wealthier counties using a voucher that is paid for by the entire state. Georgia Budget and Policy Institute. (2023). *Data from qualified education expense tax credit voucher shows that a few, wealthier counties benefit from vouchers that the entire state subsidizes.* https://gbpi.org/wp-content/uploads/2023/03/SB-233-Voucher-Bill-Map-PDF.pdf

[3] Nonrefundable tax rebates cannot exceed the amount of income taxes owed by the taxpayer. With a refundable credit, if the taxpayer's liability is lower than the amount they are eligible for, they can get the difference back as a refund regardless of the amount owed in income taxes

[4] Goldberg, H., Cairl, T., & Cunningham, T. J. (2018). "How child care challenges affect Georgia's workforce and economy. Georgia Early Education Alliance for Ready Students and Metro Atlanta Chamber. https://geears.org/wp-content/uploads/Opportunities-Lost-Report-FINAL.pdf; Senate Office of Policy and Legislative Analysis. (2024). *Final report of the Senate Study Committee on Access to Affordable Child Care (SR 471).* https://www.legis.ga.gov/api/document/docs/default-source/senate-study-committees-document-library/2024senatestudycommaccesstochildcare-finalreport.pdf?sfvrsn=afd19b7a

[5] Friedman, J., & Kogan, R. (2024, December 17). *Hitting the debt limit: 3 things to know*. Center on Budget and Policy Priorities. https://www.cbpp.org/research/federal-budget/hitting-the-debt-limit-3-things-to-know

[6] Congressional Budget and Impoundment Control Act of 1974. Public Law 93-344—July 12, 1974. 93rd Cong. https://www.congress.gov/93/statute/STATUTE-88/STATUTE-88-Pg297.pdf

[7] Kanso, D. (2019, August 12). *Tax Cuts and Jobs Act in Georgia: High-income households receive greatest benefits.* Georgia Budget and Policy Institute. https://gbpi.org/tax-cuts-and-jobs-act-georgia/#:~:text=The%20Tax%20Cuts%20and%20Jobs%20Act%20(TCJA)%20fundamentally%20changes%20how,state%27s%20main%20source%20of%20revenue

[8] Congressional Budget Office. (2024). *Budgetary outcomes under alternative assumptions about spending and revenues.* https://www.cbo.gov/system/files/2024-05/60114-Budgetary-Outcomes.pdf

[9] Department of Administrative Services. (2024). *State of Georgia fiscal year 2024 workforce report.* https://doas.ga.gov/sites/default/files/2024-12/FY24%20DOAS%20Workforce%20Report%20Dec.%202024.pdf

[10] GBPI open records requests from DFCS' Office of Family Independence. Cited in Finch Floyd, I. (2024, February 13). *Overview: 2025 fiscal year budget for Human Services.* Georgia Budget and Policy Institute. https://gbpi.org/overview-2025-fiscal-year-budget-for-human-services/#_edn4

[11] Kanso, D. (2023, October 31). *Georgia's $16 Billion Question: Will the State Equitably Invest in Its People?* Georgia Budget & Policy Institute. https://gbpi.org/georgias-16-billion-question-will-the-state-equitably-invest-in-its-people/

[12] Chan, L. (2024, December 20). *Public health for all y'all: How a thriving, fully funded public health system can support a stronger, healthier Georgia*. Georgia Budget & Policy Institute. https://gbpi.org/public-health-for-all-yall-how-a-thriving-fully-funded-public-health-system-can-support-a-stronger-healthier-georgia/