

Fiscal Overview

How the state budget process works

Georgia's fiscal year is July 1 to June 30. When the annual legislative session begins in January the fiscal year is just over its halfway point, requiring the General Assembly to pass two budgets: the "amended" budget, which makes adjustments to the budget for the current fiscal year, and the budget for the upcoming fiscal year.

Unlike the federal government, Georgia's Constitution mandates a balanced budget. There is also a Constitutional debt service limit of 10 percent of prior year revenues.

Each year's budget is also constrained by the revenue estimate, which is set by the Governor. The General Assembly cannot appropriate funds that exceed the revenue estimate. This is a strong executive power. Technically, the Governor could set the revenue estimate at \$1 and the General Assembly could change how that dollar is allocated but could not increase the budget above \$1.

Traditionally, Georgia's governors are conservative in setting the revenue estimate. If the economy experiences an unexpected recession, a lower initial revenue estimate makes it less difficult to curtail spending. On the other hand, it also means actual revenues will exceed the revenue estimate in most years. The "amended" budget decides where to reduce appropriations in a recession or how to spend excess funds during a growing economy.

The state has two primary reserve funds. The Midyear Adjustment Reserve allocates funds to be appropriated in an amended budget during the next legislative session in order to fund the increased cost of new students enrolled in the fall. The Revenue Shortfall Reserve, often referred to the state's "rainy day" fund, allocates funds to offset an unexpected shortage in revenues during the upcoming fiscal year.

The "rainy day fund" balance is currently \$1.4 billion.

Considerations When Comparing States

Some states are more decentralized, with local government accounting for a large portion of all government spending; in others, state government plays a larger role. State spending on K-12 education, for example, ranges from 31 percent in South Dakota to 88 percent in Vermont. For this reason, it is important to examine state spending plus local spending when comparing states.

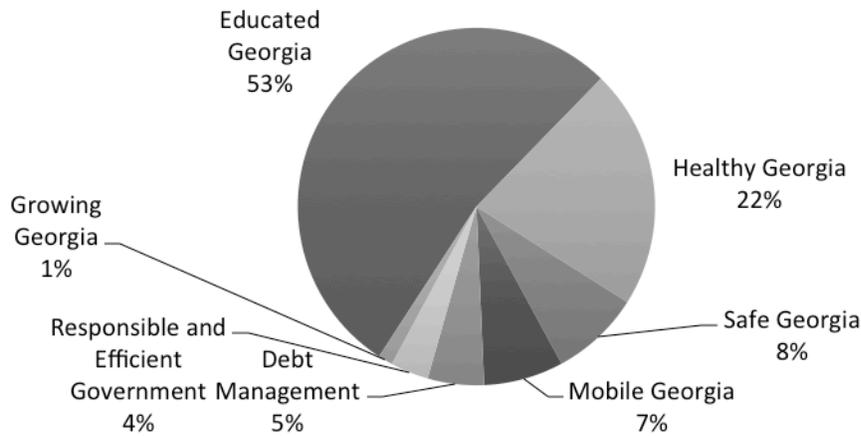
Most state comparisons use per capita amounts, which are easy to understand but fail to take into account cost-of-living differences. A more accurate comparison is achieved by adjusting per capita amounts for cost of living or calculating amounts as a percentage of state personal income.

Where does the money go?

This pie chart shows how state dollars were allocated by policy area in the Governor's FY 2017 budget, which anticipates spending \$23.7 billion in state dollars. That amount increases to \$47.5 billion when it is combined with federal dollars and other revenues such as higher education tuition payments and state employee health insurance premium payments.

The U.S. Census Bureau data for FY 2013 (latest data) provides the most accurate overview of state spending because it includes all sources of revenue – federal, state and local – for all states.

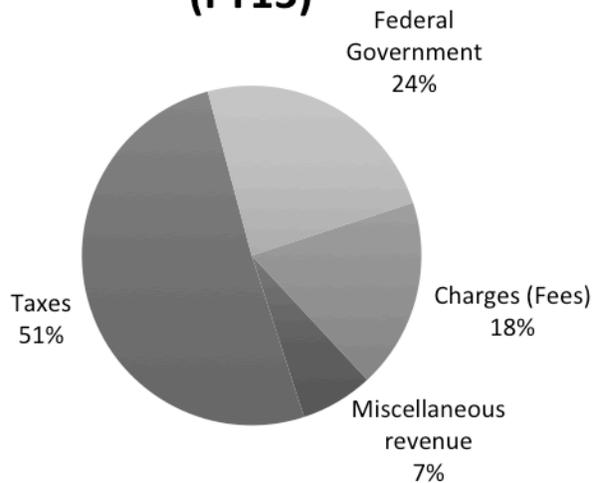
State Spending by Policy Area (FY17)



Revenues

Of Georgia's \$65 billion in total federal, state and local revenues, 51 percent is from taxes. Georgia's state and local taxes rank 46th per capita and 41st as a percentage of personal income. (State-only taxes are \$17.8 billion and rank 49th.)

Sources of State and Local Revenue (FY13)



State and Local Revenues (FY 2013)

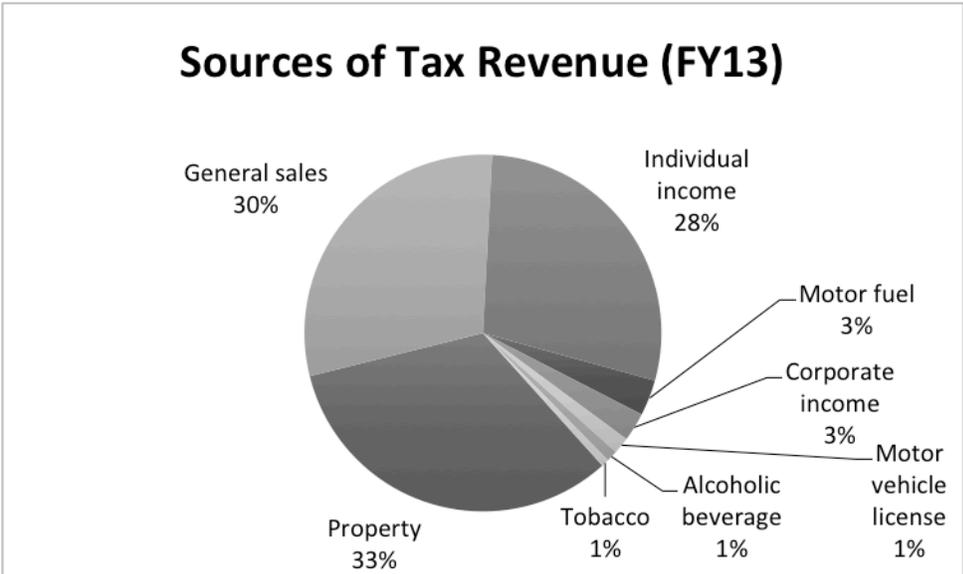
	(in 1,000s)	Per Capita	Rank
Taxes	\$33,215,010	\$3,324	46
Federal Government	\$15,775,358	\$1,579	41
Charges (Fees)	\$11,838,659	\$1,185	34
Miscellaneous revenue	\$4,522,414	\$453	46
Total General revenue	\$65,351,441	\$6,540	49

Eighty-four percent of state and local tax revenue comes from three major taxes: local property taxes, state individual income taxes, and state and local sales taxes. Compared to other states, none of these taxes are particularly high or low.

<i>Selected Sources of Tax Revenue (FY 2013)</i>			
	<u>(in 1,000s)</u>	<u>Per Capita</u>	<u>Rank</u>
Property	\$10,100,046	\$1,011	32
General sales	\$9,156,191	\$916	25
Individual income	\$8,772,227	\$878	32
Motor fuel*	\$1,000,626	\$100	44
Corporate income	\$797,255	\$80	41
Motor vehicle license	\$457,490	\$46	47
Alcoholic beverage	\$315,011	\$32	11
Tobacco	\$211,618	\$21	48

*Does not include the motor fuel tax increase passed in 2015.

The motor fuel tax brings in about \$1 billion and is ranked 44th on a per capita basis. These FY 2013 tax revenues do not include the transportation tax increase in FY 2016, which raised \$826 million. The additional revenue came from an increase in the motor fuel tax (\$657 million) as well as an increase in the hotel and motel tax, elimination of exemptions for alternative fuel vehicles and jet fuel, and an increase in highway impact fees on trucks (\$169 million).



Spending

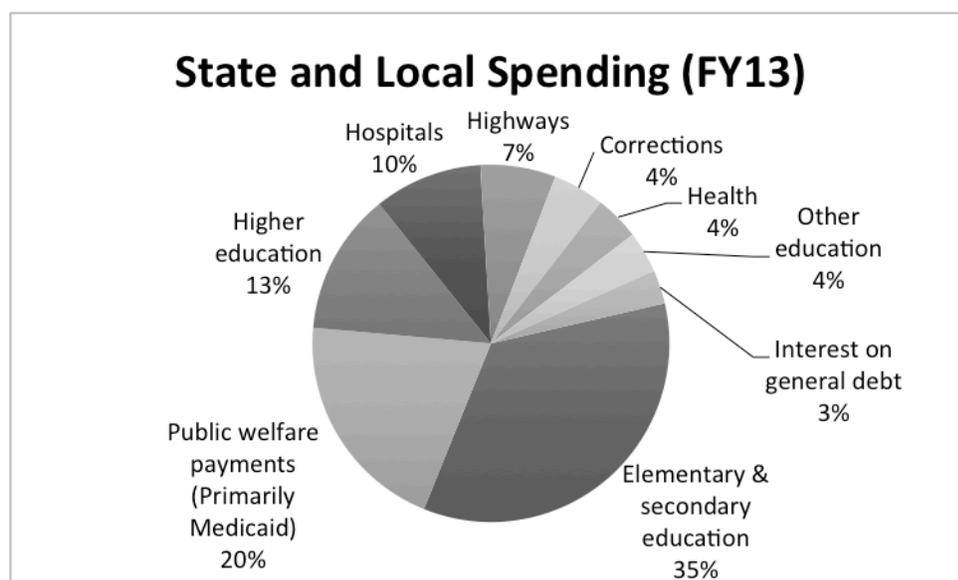
Of the \$65 billion in total general expenditures, \$58 billion goes toward annual operating expenses and \$7 billion toward capital projects.

State and Local Expenditures (FY 2013)			
	<u>(in 1,000s)</u>	<u>Per Capita</u>	<u>Rank</u>
Operating expenditure	\$58,026,161	\$5,807	47
Capital expenditure	\$7,241,093	\$725	33
Total general expenditure	\$65,267,254	\$6,532	47

The nine categories below account for 84 percent of all expenditures.

<i>Selected Expenditure Categories (FY 2013)</i>			
	<u>(in 1,000s)</u>	<u>Per Capita</u>	<u>Rank</u>
Elementary & secondary education	\$17,044,972	\$1,706	25
Public welfare payments (Primarily Medicaid)	\$9,945,300	\$995	42
Higher education	\$6,297,952	\$630	45
Hospitals	\$4,815,887	\$482	20
Highways*	\$3,353,297	\$336	49
Corrections	\$2,286,814	\$229	17
Health	\$1,984,428	\$199	33
Other education (Primarily Pre-K)	\$1,840,969	\$184	15
Interest on general debt	\$1,496,757	\$150	49

*The Transportation Funding Act of 2015 is projected to increase transportation spending in FY 2017 by more than \$800 million.



The best way to evaluate spending is to look at individual policy areas. Although we delve into each of these areas in their own chapters, here is a summary.

Pre-K education: The National Institute for Early Education Research ranks Georgia seventh in the nation in terms of access and 23rd in state spending on pre-k programs.

K-12 education: Georgia's spending on K-12 education per capita ranks 25th and spending as a percentage of personal income ranks 12th, but per-pupil spending ranks 37th.

Higher Education: Although tuition and fees have increased dramatically across the nation and in Georgia, the average amount of tuition and fees for public four-year institutions (\$8,447) and two-year institutions (\$3,647) both rank below the national average at 31st. After factoring in scholarships and other financial aid, Georgia's net tuition per student of \$4,468 ranks 41st highest in the nation.

Health care: Georgia ranks 47th in terms of Medicaid spending per capita, although this is before the impact of the Affordable Care Act. Even though Georgia chose not to expand Medicaid eligibility, its costs have increased due to higher enrollment and other factors. Spending on hospitals ranks 20th.

Corrections: Although Georgia ranks 17th in spending on corrections, the trend is positive. Georgia is a national leader in criminal justice reform. Reforms started in 2011 have already saved the state more than \$200 million, the jail backlog has moved from several thousand to a few hundred, the number of juveniles in secure facilities is down about 25 percent, and the adult prison population is falling.

Transportation: Georgia ranked 49th in spending on roads and bridges in FY 2013. The quality of Georgia's highways, as measured by the Reason Foundation's Annual Report on the Performance of State Highway Systems, had declined from a high of fourth in the country in 2000 to 13th in its latest report.¹ The transportation tax increase that passed in 2015 has dedicated an additional \$826 million to road and bridge construction and maintenance. Georgia's motor fuel tax was increased from 28.5 cents per gallon (20th highest) in 2013 to 31 cents per gallon in 2016 (17th highest).²

Debt Service: Georgia is one of only nine states with a AAA bond rating (the highest) from all three major credit-rating services. Per capita state and local debt outstanding ranks 43rd and interest on debt is 49th.

Pension and other unfunded liabilities: As of 2013, Georgia had \$18.6 billion in unfunded public pension liabilities. On a per capita basis, this ranks 38th highest.³ Georgia's public pensions are 79 percent funded, which ranks 16th highest. The per capita unfunded liability for Other Public Employee Benefits or OPEB, which primarily accounts for future health care expenses for retired employees, ranks 35th highest. Georgia's OPEB liabilities decreased 13 percent from 2008 to 2013.⁴

Spending Trends

One factor to keep in mind is that in Georgia, as in most states, spending rises during good economic times and must be ratcheted back during recessions due to balanced budget requirements. (The accompanying chart shows dips starting in 2002 and in 2008, with increases in between.) It's easy, but misleading, to make the case that spending is growing either too fast or too slowly by cherry-picking the right starting and ending points in the economic cycle. A more accurate picture is achieved by looking at spending over an entire economic cycle. Finally, budget predictions can often be inaccurate because no one can perfectly predict the future. Where possible, audited, actual spending figures should be used.

A reasonable benchmark for government growth is population and inflation. On an inflation-adjusted, per capita basis, the size of Georgia's state government (as measured by spending) in 2016 was the same as it was in 1996.⁵

¹ "21st Annual Report on the Performance of State Highway Systems Reason Foundation," September 2014,

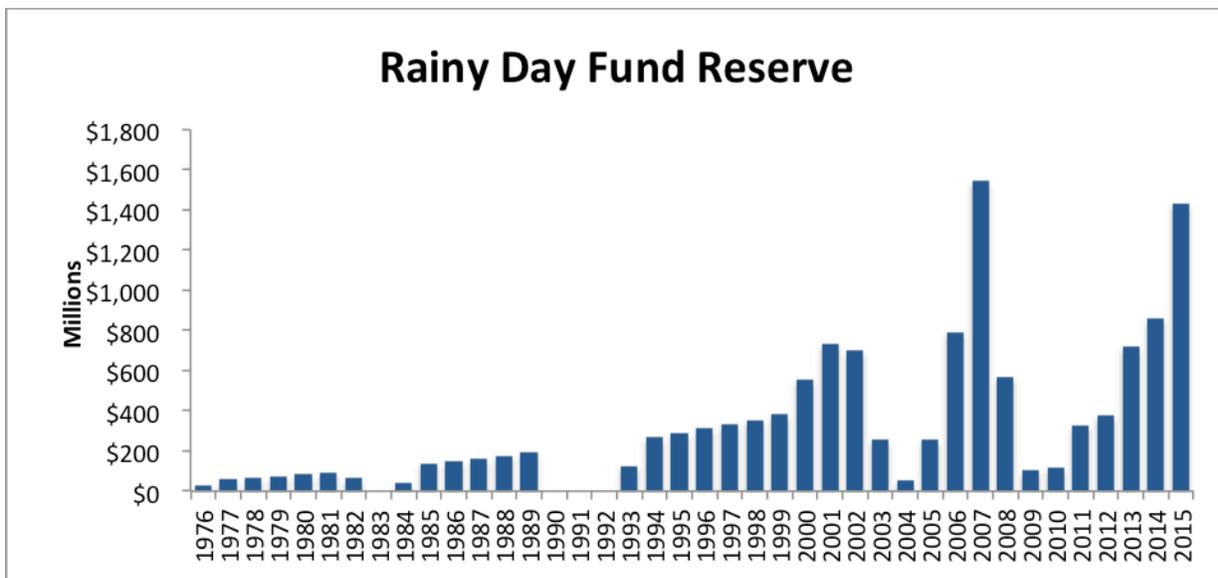
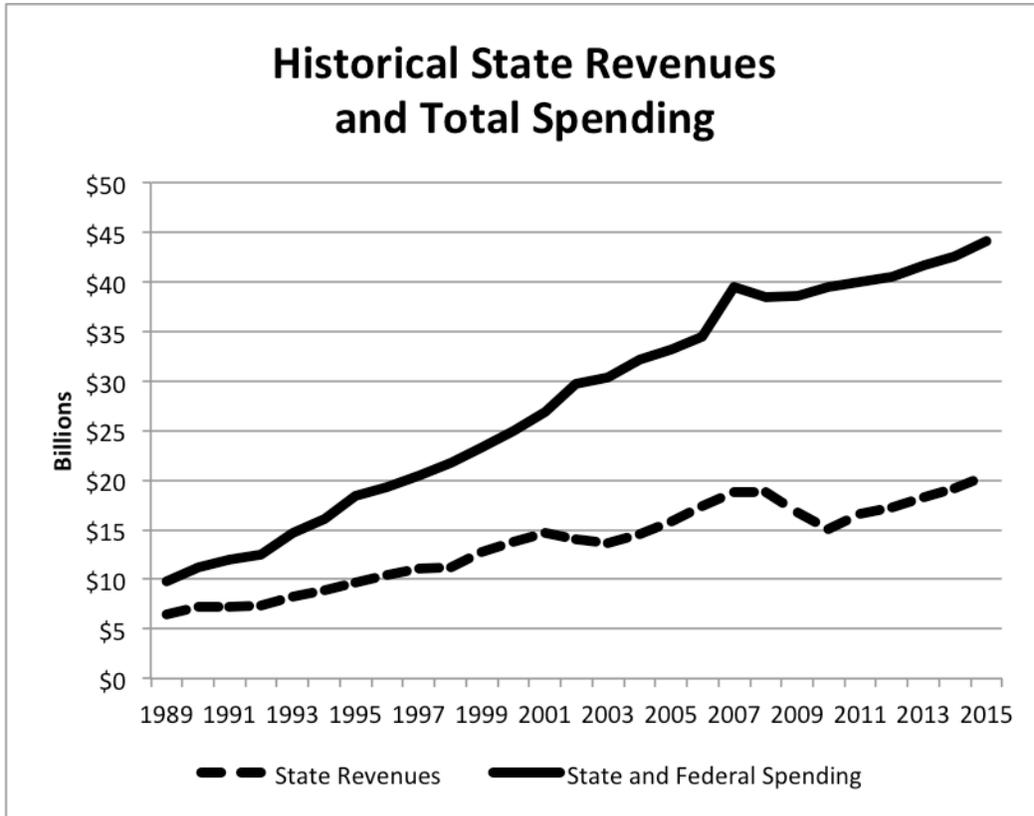
<http://bit.ly/1UgtvLC>

² American Petroleum Institute, January 2016, <http://bit.ly/20Yttsp>

³ "The State Pensions Funding Gap: Challenges Persist," The Pew Charitable Trusts, July 2015, <http://bit.ly/1SbJfxK>

⁴ "A Briefing on Georgia's Budget: The Big Picture," Georgia State University, November 2015, <http://bit.ly/1qEhC61>

⁵ Ibid.



There are several sources and many ways to look at state revenue and spending. Here's an overview of the various sources of data:

Comprehensive Annual Financial Report (CAFR) – Federal government accounting rules require every state to produce a Comprehensive Annual Financial Report (CAFR). This is the most accurate measure

because it reflects audited, actual revenues and expenses and includes all state and federal funds. The latest available CAFR is for FY 2015.

Governor's Budget – The most recent information can be found in the Governor's Budget, published each January. It includes the Governor's revenue estimate as well as detailed budgets for each state agency and spending over the previous three years. The most recent data is for FY 2017.

U. S. Census Bureau – The U.S. Census Bureau publishes an annual survey of federal, state and local funds for each state. The information is usually a couple of years old; the latest is for FY 2013.