

**GEORGIA STATE SENATE
BUDGET AND EVALUATION OFFICE**

Chairman's Column

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DON'T LOOK DOWN IF YOU'RE AFRAID OF HEIGHTS!

There are two aspects of viewing Georgia's next year fiscally that cause concern the more you examine them. Keep in mind that the 2010 budget, even with the adjustments being made at the present time, is still only 2% under the final 2009 revenue level.

These both have to do with looking ahead and judging where we are headed by studying the last 12 months. Some believe in comparing each fiscal year as a whole. A more accurate way is to follow the present trend versus the previous year's trend. The belief that the state's revenues will improve in the latter half of FY2010 ignores these trends.

The first 6 months of FY 2009 was the end of the prosperous period before the recession fully kicked in. Starting in January, 2009, a new 10-20% negative trend began and is now firmly in place. Other factors, unemployment rates and consumer confidence among others indicate a recovery is many months away. If you compare the historical levels of those FY 2009 months, it is obvious the immediate past collections will be insufficient to compete with the period of a year ago.

Since the past 6 months or so, starting with January 09 numbers, we are following a very negative slide. A look backward is important and probably more telling than one month's figures in July or a yearly average that the minus 2% revenue estimate represents. The last 6 months of FY09 represent as a group probably the most dismal stretch of revenue numbers in the states history. And if you adjust to June 2008 numbers, the difference is stark.

The Recent Past

- Within \$30 million, June, 2009 was the worst June since 1996.
- May, 2009, was the worst May since 1999.
- April, 2009, was the worst April since 2003.
- March, 2009, except for the two recession years of 2002 and 03, was the worst March since before 1996.
- Adjusted for inflation, February, 2009 was the worst revenue month in the states history.
- Within \$30 million or so, January, 2009 was the worst January since 1999.

Of course, with this trail of the last few months as a backdrop, here is what the state faces from one year ago before the economy really hit the skids with the January numbers. These are adjusted to June 2008 numbers. Remember, each month competes with the same month a year ago.

The Next 6 Months - Extremely Difficult to Compete

- July, 2008, at \$1.3 billion, came in just under the 5 year average for that month. July of 2009 was 9.6% under that figure.
- August, 2008 was the 4th highest August in 14 years.

- September, 2008, at \$1.6 billion was the second highest September in 14 years.
- October, 2008, at \$1.4 billion was over the average for the last 5 years, the good revenue years.
- November, 2008, was the highest November in 14 years at \$1.4 billion.
- December, 2008, started the downward trend coming in at the lowest figure, \$1.4 billion, since 2004.

So, if you look over your shoulder at the trends of the last 6 months which are down 10-20%, and you see the high numbers of the months we must compare to in the next 5 months or so, it is definitely enough to keep you up late watching old movies like "Mr. Smith Goes to Washington" or "Lassie Come Home."

HEALTHCARE REFORM DOWNSIDE?

Health insurance representatives are asserting a downside to a federal option for health insurance could have consequences for local and state governments who collect and depend upon insurance premium taxes.

The alternative option, whether a government or co-op option would not be subject to premium taxes now collected for state and local governments. Many fear that a government option would become the preferred option for various reasons.

Georgia has some of the highest premium taxes and this fact has discouraged the siting of corporate insurance headquarters for a number of years. Charlotte and Jacksonville, among others, have benefited from this differential which comes into play with the "reciprocity" laws that most states have which causes states' premium tax rates to be based on the corporate headquarters state rate.

The state collects up to 2% for state government and local governments divide up to 2% between cities and counties. This amounts to \$348 million for state government and \$427 million for local governments.

While the premium tax is collected on all types of insurance, health insurance premiums exceed premiums of other types of insurance by a large amount.

Of course, no one knows how health care reform will play out, but the loss of premium taxes could be one of the side effects of the federal government getting deeper into the health insurance business.