

GEORGIA STATE SENATE
BUDGET AND EVALUATION OFFICE

Chairman's Column

January 8, 2010

Although I am optimistic about the future of Georgia, in the coming session we will face some hard realities regarding the budget. In this column, I want to outline some of my thoughts about our likely approach to these tough choices.

Last year, the General Assembly approached the budget with an emphasis on fiscal discipline, and by trying to prudently manage reserves and stimulus funds for future years. This year we are going to have to repeat this process, but under even tougher conditions and with an eye towards long term change.

Based on last fall's revenue projections, our total revenues can now only sustain a \$15.7 billion state budget, roughly the same as in 2005. The drop in tax collections has been so precipitous that the Senate Budget Office projects the state may not recover to its previous levels until after 2015.

What this means is that we need to begin the process of rethinking the business of state government. Not all issues are going to be resolved this session, but we cannot continue furloughing state employees for the next five years. Fundamentally, the Governor and legislators are going to have to make tough decisions in five major state policy areas: K-12 education, higher education, corrections, health care, and revenues.

K-12 Education as a whole represents 42% of Georgia's annual budget. Teacher salaries alone make up one-third of the state's budget. The Governor and the General Assembly have worked hard to protect teachers. This year eligible teachers received step increases for training and advanced degrees and in the 2009 budget they received a cost of living increase, which no other employees received. In 2010, the Governor was forced to implement a three day furlough for all state employees, including teachers, to save almost \$129 million. Because education makes up such a large portion of the budget, the Governor is likely to propose additional cuts.

That being said, the General Assembly will be looking for ways to help school districts leverage their existing funds. Both the House and Senate are considering new legislation to give school districts more flexibility to manage their own funds, such as suspending the 65% expenditure requirement and finding new ways to reward high performing teachers. They will also examine ways to improve administrative efficiencies and to assist with innovations through technology.

Higher Education: Around 13% of the state budget is directed to the state's University System and Technical Colleges. According to the Southern Regional Education Board, 43% of Georgia's University system revenues came from appropriations compared to 33% in other southern states, meaning the state's system is much more reliant on state appropriations. That may be partially due to the fact that Georgia's average tuition is 38% below the southeastern states' median. If budget reductions result in significant tuition increases, the state may need to implement some sort of needs based assistance.

However, the problem is not entirely tuition. University System institutions' endowment income only makes up around 1.4% of the University system revenues, compared to a 6.7% average in other southern states. The Board of Regents should also take an in-depth look at student fees, which compound the cost of education for students, but are often not directed towards essential educational services. A sharper focus on 4-year graduation could include disincentives to lengthier timelines.

Finally, the higher education system should continue to examine its own internal operations and phase out low demand programs, while looking for ways to consolidate administration and other services.

Medicaid: 16% of the state budget goes to health care for low-income children and mothers, the elderly, and disabled, or \$222 for every man, woman and child in the state not on Medicaid. Last year the Governor proposed to increase taxes on hospitals and insurance companies as a way of avoiding provider rate cuts. Due to the stimulus, the General Assembly was able to avoid doing either. This year we may not be so fortunate.

If the state does take up a hospital or insurance tax, measures should ensure that hospitals heavily affected by uncompensated or indigent patients are protected.

Medicaid waste, fraud, and abuse has also been an ongoing concern and the General Assembly will review ways to save money by better enforcing stricter regulations for both recipients and providers.

Corrections: Around 6% of the budget is Department of Corrections. Georgia ranks 18th in the nation in per capita spending on Corrections - yet 4th in the number of adults incarcerated per capita and 1st in the number of adults under some form of correctional supervision.

Since the beginning of the economic downturn, the Department has worked closely with the legislature to find ways to reduce the burden of corrections on taxpayers, while still ensuring the safety of Georgians. The Department has already closed five inefficient state prisons and has proposed closing three additional ones this year. In order to manage the population, the Department is adding beds within existing facilities, a cheaper option than maintaining an entirely separate prison, and is investing in private prisons. The state is also examining paroling low-risk, geriatric patients to nursing homes, and making better use of electronic monitoring and community facilities.

Revenues: While the state is obviously examining every way possible to lower expenditures, the General Assembly may also choose to consider ways to increase funds coming into the state. As many local governments have pointed out, the state needs to first turn to enforcement of tax collections. We have heard numerous anecdotal stories of businesses that are not paying sales taxes or are ringing up cash items as untaxed "lottery." Maybe private enterprises could help identify fraud and provide collection services.

There are other options as well. A recent audit pointed out that some state fines and fees have not been updated for 20 years, many of which could be adjusted for inflation. It stands to reason that a fee should cover the cost of delivering a service.

Another consideration may be to develop a "tax expenditure" report to help legislators assess whether the various credits, deductions or exemptions provided throughout the tax code are still serving their original purposes.

This session legislators are going to be faced with many tough decisions that will have serious implications on the state's future. It is going to take the cooperation of the Governor and the General Assembly to make strategic, well-informed decisions to ensure the state's future fiscal stability and to rethink how we manage our way out.