Tax reform: What’s next?
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death. Taxes. Atlanta Traffic. Indeed these are the certainties of life in metropolitan Atlanta. Death is inevitable; congestion on Atlanta’s highways is as certain as a ladder in the middle lane of I-285; however, taxes are worthy of debate because Georgia’s financial purse, how much is in it and how it gets spent, is a direct result of the General Assembly’s actions.

In 2006, Americans worked a total of 116 days (77 for federal and 39 for state) to satisfy their tax obligations. According to the Tax Foundation, Georgia reached its “Tax Freedom” day on April 22, making it the 25th state to do so. Georgia ranks 27th in the burden placed on individuals in satisfying income tax liability. South Dakota taxpayers enjoy the lowest burden, and New York taxpayers possess the highest burden. Additionally, the same Foundation ranks Georgia 19th according to its business tax environment; Wyoming ranks 1st on the list while New York, again, ranks as the least business-friendly state. (Georgia’s individual income, property, and unemployment insurance taxes are considered disadvantages under the rankings).

Georgia took in $5.7 billion in general sales and sales tax revenue in FY2006; this sum is about 34 percent of total state revenue and 20 percent of local government’s revenue. Increased consumer activity that results in just a 5 percent increase in the collection of state sales tax revenues equals about $935 million.

Where are the taxes utilized? Georgia tax revenues fund schools, state universities, highways, public safety, public health, business and professional licensing, court functions, wildlife management, and the state retirement system; moreover, over 75 percent of the state’s annual budget is appropriated to education, healthcare, and criminal justice. These areas are growing faster in actual cost and population served than overall

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inflation and population growth. Since 1990, the state’s Medicaid population has grown 126 percent while the state’s prison population has grown 153 percent; this is significant considering the state’s overall population growth was only 39 percent.

Reserved funds are dedicated sums that are required to be filled before a surplus is considered unreserved; some of these include transportation, lottery, tobacco, and Medicaid funds. It was Georgia’s unreserved surplus that steadied the budget during the recession following the September 11th attacks. Georgia requires that the revenue shortfall reserve be funded equal to 4 percent of the net revenue from the previous year; the national average is only 3.8 percent. Some have advocated maintaining the “rainy day” fund at its cap of 10 percent to ensure that the state could weather another recession without relying upon the deep budget cuts which would be required to balance the budget.

Funding at 10 percent is arguably necessary for the state to meet its current obligations during a revenue shortfall, or to fund state operations for about 45 days.

Some states, such as Colorado, Arkansas, Kansas, and Montana have no “rainy day” funds because they are not required under their state constitutions. In Fiscal Year 2007, Georgia will need $400 million to meet its basic reserve obligations.

Georgia levies its income tax in six tax brackets ranging from 1 to 6 percent. The top rate of 6 percent is levied against annual income over $7000. This amount has not been changed since the 1930s; therefore, generally all full-time Georgia workers will have their state income tax liability at the top rate. Last year, the individual income tax netted about $8 billion while the corporate income tax netted about $700 million. Georgia relies more heavily on income tax revenue than all its contiguous neighbors; in the South, Virginia is the highest. Currently, income tax on individuals and corporations equals about 50 percent of total revenue. At the corporate level, Georgia heavily relies on the taxation of business to business transactions. This revenue increases the cost of doing business in the state, which is passed onto consumers thereby masking the true tax burden for each Georgian.

Georgia offers a vast array of state tax exemptions; in Fiscal Year 2004, they equaled $9.8 billion. During the last two Legislative Sessions, Georgia added 14 new state exemptions. Had there been no existing exemptions over this same period of time, Georgia would have taken in nearly $15 billion at the 4 percent state sales tax rate.

The first tax and expenditure limitation (TEL) was enacted in California after a property tax revolt that resulted in passage of Proposition 13 in the 1970s. Recent years have brought renewed interest in debating TELs. These budget mechanisms are intended to restrain the growth of budgets whether the concern is based on too much revenue or excess spending. According to the National Conference of State Legislatures (NCSL), several constitutional amendments to control spending, TABOR (Taxpayer Bill of Rights), SOS (Stop Overspending) and TASC (Tax and Spending Control) are on the ballot this year in Maine, Montana, Nebraska, and Oregon. Judicial decisions have suspended proposed ballot meas-

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growing. Vehicle miles traveled (VMT) have grown by more than 35 percent since 1990; and in Georgia alone, the Governor’s Office of Highway Safety reported over 112 million VMT in 2004. Freight shipments through the United States are expected to double in volume by 2020, and truck travel connected to international trade should double by 2015. The demand for public transportation services has increased by 23 percent since 1995 and is at its highest point since World War II. Since 1993, urban traffic has increased 45 percent, while rural highway traffic has increased 23 percent. Traffic congestion on the nation’s highways is now estimated to cost Americans nearly $65 billion each year in wasted time and fuel. In addition, in the aftermath of the events of September 11, 2001, Hurricane Katrina, and other natural disasters, many states are confronted with billions of dollars of new and unexpected costs for security and the replacement of damaged transportation infrastructure.

When you consider Georgia’s geographic location (we are within two travel days of 80 percent of the continental U.S.), it becomes evident that our transportation issues and related decisions are extremely important. Our prosperity as a state and individually is directly affected.

The Statewide Transportation Plan

The Georgia Department of Transportation’s (GDOT) Office of Planning began its update of the GDOT Statewide Transportation Plan (SWTP) in November 2004, with a consultant team lead by Cambridge Systematics, Inc. The previous SWTP was adopted by the State Transportation Board in December 2001 with a “horizon year” of 2025. In order to meet the federal requirement to actively maintain at least a 20-year window into the future, the current SWTP has a “horizon year” of 2035. It was adopted and approved by the State Transportation Board (STB) in January.

The SWTP assesses the current and future performance of all major transportation modes in the state—highways, transit, air, water, bicycle, and pedestrian. It also examines the linkages between such modes. The project developed new statewide economic and transportation demand forecasts for the year 2035. Incorporating all existing regional and modal plans, the SWTP defines financially constrained and unconstrained statewide transportation programs, estimates the cost of these programs, and forecasts available and potential funding. Updating the SWTP provides GDOT with the technical and programmatic guidance needed to meet the transportation demands of the 21st Century.

Initiatives

◆ Public Private Partnerships. One of the more promising funding alternatives currently being examined by the STB is the Public-Private Initiative (PPI). PPIs involve private companies contracting with the state, through GDOT, to build specified improvements to our transportation infrastructure and then tolling those improvements, as done with HOV lanes, to obtain a return on their investment. The state would own and manage the roadways; however, the up-front dollars would come from the private industry.

The PPI proposals under consideration include the I-75/I-575 corridor on Atlanta’s northwest side, and the Georgia 400 corridor. Incidentally, the STB has adopted a policy that no existing lanes can be tolled.

◆ Fast Forward Program. The Governor’s Fast Forward Congestion Relief Program was introduced to address Georgia’s growing congestion problems. It is a six-year, $15.5 billion transportation program that will relieve congestion and spur economic growth through the acceleration of existing projects. It calls for the sale of bonds to add to regular program dollars, and will allow the state to complete some projects in a six-year span rather than 18 years.

◆ Governor’s Road Improvement Program (GRIP). The goal for GRIP is to have 95 percent of every Georgia community with more than 2,500 people within 20 miles of a four-lane highway. It is an expensive initiative, about $3.667 billion when complete. GRIP is a long-term program that is currently about 58 percent complete.

◆ Governor’s Paving the Way Home Initiative. This program provides $234 million to be spent over the next two years in local communities to help with projects funded through the Local Assistance Road Program and state aid.

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ures in Missouri, Nevada, and Oklahoma for this year. In Washington, voters will be asked to repeal the estate tax (which is dedicated wholly to education).

Over 30 states utilize some form of a TEL. Several states, such as Maine, have statutory spending or tax limiting mechanisms. Other states, such as Colorado, have TELs embedded in their state constitutions. Of the states, four have limits that apply to revenue, four have limits that apply to spending, and two have limits applying to both. Seventeen states have limits tied to growth in personal income, and four states have limits tied to change in population plus inflation.

No two TELs are exactly alike in their structure, for each state governs and appropriates differently. The NCSL identifies four categories of TELs in the United States: expenditure limits, revenue limits, appropriation limits, and hybrids.

Most states with a TEL operate under an expenditure limit. Expenditure limits are generally tied to personal income or a growth index. In many states, the limit is tied to a growth index related to the expansion of the economy. Somewhat more restrictive are expenditure limits with refund provisions if revenues exceed the authorized spending level.

Revenue limits tie an allowable, predetermined annual increase in revenue to personal income or some other type of index such as inflation or population, and the limit provides for the refund of any excess revenues to taxpayers. Missouri provides applicable refunds to taxpayers who file a state income tax return.

Appropriation limits simply tie appropriations to the revenue forecast, typically allowing from 95 percent to 99 percent of expected revenues to be appropriated. These limits generally do not establish an absolute limit or tie growth to a measurable index. Delaware, Iowa, Mississippi, Oklahoma and Rhode Island have this type of appropriation limit in operation.

Some states also have hybrid components of various limits. Oregon has a state spending limit tied to personal income growth, and a provision requiring refunds if revenues are more than 2 percent above the revenue forecast. This law limits spending and, in a sense, limits revenues by tying them to the forecasted amount. Colorado is another hybrid state.

Colorado commonly is viewed as having the most restrictive set of fiscal limits; however, voters in 2005 chose to suspend the TABOR constitutional amendment originally passed in the 1990s. The Colorado law limited the state’s revenue by limiting the amount that the legislature could budget. The cap could increase year to year pursuant to a formula based upon a percentage of population growth plus inflation, income, or both. Colorado would not be authorized to spend more than the formulated amount allowed, and if revenues fall below the formulated amount, then actual revenues logically serve as the cap. This is known as the “ratchet down effect.” Some tax experts have argued it is better to utilize a three-year average of revenue collections as the base rather than the low point in the previous year.

“Government’s view of the economy could be summed up in a few short phrases: If it moves, tax it. If it keeps moving, regulate it. And if it stops moving, subsidize it.”

President Ronald Reagan

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Additionally, a voter approval requirement is the most restrictive type of TEL since all tax increases must receive voter approval. Only three states have adopted voter approval requirements. Currently, Colorado requires voter approval for all tax increases. Missouri and Washington require voter approval for tax increases over a certain amount.

Some states require a supermajority in the legislature to enact a tax increase; 16 states now use this supermajority requirement. Supermajority requirements dictate either three-fifths, two-thirds, or three-fourths majority vote in both chambers to pass tax increases or impose new taxes. The effectiveness of supermajority requirements depends upon the makeup of the legislature and the state's tax system. In states with one predominant party, the majority party may have enough votes to increase or block tax increases. Some of these states provide for emergency suspension of the supermajority requirement to be called by the governor; however, a fiscal crisis cannot be the cause for the emergency.

The Georgia Budget and Policy Institute argues that Georgia does not have a problem with spending despite the fact its budget has grown at a faster rate than its population. Although tax burdens remain historically low, programs such as teacher salary increases, tougher crime penalties, and property tax relief have propelled the growth of Georgia's budget.

The Georgia Public Policy Foundation asserts that the Georgia General Assembly must adhere to some basic economics: Fiscal reform should not emanate from those with the most powerful lobbyists; it should be based upon economically sound principles.

Georgia should uphold the principles of minimizing the tax burden on taxpayers by limiting exemptions to ensure a broad-based tax and lower rates, and avoid picking winners and losers under Georgia tax's policy.

Information discussed herein has been provided in part by the Fiscal Research Center at the Andrew Young School of Policy Studies, GBPI, Georgia Department of Revenue, GPPF, NCSL, Senate Budget & Evaluation Office, and the Tax Foundation.
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Major Projects

■ I-85/Georgia 316 Intersection. On February 20, GDOT broke ground for a $147 million expansion of the I-85 and Georgia 316 intersection – certainly a major project that will greatly improve traffic flow in the northeast quadrant of metro Atlanta. Completion date: December, 2008.

■ I-85/West Point Interchange Project. In 2006, Kia Motors selected West Point as the location for its first United States manufacturing plant. The Georgia Department of Economic Development is in the process of purchasing a 2,200-acre site along the west side of I-85 that will house the plant and community training center. The site is located just north of State Route (SR) 18 and extends up to Gabbettville Road in Troup County.

■ Jones Bridge Road Reconstruction and Rehabilitation Project. This project is a large intersection improvement at Jones Bridge/Abbotts Bridge and Kimball Bridge (SR 120) Roads. It will lower the Jones Bridge Road intersection by eight feet to improve sightline distances for motorists, and will also include lengthening turn lanes.

■ Peachtree Road (Buckhead) Construction Project. As part of the Governor’s Fast Forward Program, this project is designed to move traffic more efficiently and enhance pedestrian safety between Shadowlawn and Roxboro Roads on SR 141. It is the result of collaboration between the GDOT, the Buckhead CID, and the Buckhead Coalition. The scheduled completion date for the first of three phases in this project is late summer 2007.

■ C.H. James Parkway/SR 6 Construction Project. This is a rehabilitation project in Douglas County along SR 6 stretching from Bankhead Highway (SR 8) to Dallas Road Bridge, just north of Hill Road.

■ GA 400 Widening. This $47.6 million project began in December 2005 and will impact nearly 10 miles of roadway along the corridor between Holcomb Bridge Road and McFarland Road on the northbound and southbound lanes by widening the roadways up to four lanes in designated places. This project is part of the Governor’s Fast Forward initiative.

■ US 411 Connector Project. This Bartow County project will provide a direct connection between US 411, at its interchange with US 41 west of Cartersville and I-75. It will relieve congestion along the existing US 411 to I-75 corridor. Anticipated completion date is the winter of 2011 or spring of 2012.

Transportation Studies

■ The Eisenhower Parkway Extension is a proposed improvement designed to enhance system connectivity and reduce congestion on routes between south and east Bibb County.

■ The Appalachian Corridor Study will explore east-west mobility across north Georgia.

■ The Banks-Franklin-Jackson Counties Transportation Study identified existing and future operating conditions for the transportation systems within each of these counties.

■ The Bibb-Jones Cross County Connector Study addresses the need and purpose as well as the preferred planning corridor for a connector between I-75 north of Macon and US 80 east of Macon.

■ The Chickamauga and Chattanooga National Military Park Transportation Study is sponsored by the National Park Service, using funds provided by the Federal Highway Administration to investigate changes in traffic patterns in and around the Chickamauga Battlefield Park resulting from the completion of the US 27 relocation in Walker County.

■ The Habersham, Rabun, Stephens, and White Counties Transportation Study looked at all modes of transportation in the area, evaluating the current transportation deficiencies and identifying future transportation needs.

■ The Multi-County Study involves development of long-range transportation plans that will address rapid growth and air quality concerns in suburban metro Atlanta area counties. The six counties under study were Barrow, Carroll, Dawson, Hall, Spalding, and Walton. SRO

Portions of the information discussed in this article were provided by the Georgia Department of Transportation, the Georgia Department of Economic Development and Tourism, the Georgia Department of Revenue, the Governor’s Office of Highway Safety, the National Conference of State Legislatures, and the Atlanta Regional Commission.