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GEORGIA REVENUES AND EXPENDITURES: AN ANALYSIS OF THEIR GEOGRAPHIC DISTRIBUTION

Introduction

Georgia has often been characterized not as one, but as "two states"—the metropolitan Atlanta region and the rest of the state. One Georgia is more urbanized, has higher per capita income, and is experiencing rapid growth. The "other Georgia" is more rural, has lower per capita income, and a lack of economic growth. The differences in the level of economic activity between the metropolitan and non-metropolitan parts of the state likely lead to differences in flows of public finances between the different parts of the state. Areas with more economic activity will generate higher amounts of revenue, and areas in greater need will attract more of certain types of public expenditures such as aid to families and targeted economic development programs. An important set of policy questions relate to the relationship between the revenues generated in an area and the public expenditures received. While claims have been made regarding the potential geographic imbalance between revenues generated and expenditures made, there has been no attempt to document these flows. In this brief we address that issue.[1] In particular, we estimate the flow of revenue from and public expenditures to the Atlanta metropolitan area and the rest of the state.

This policy brief presents a geographic analysis of "who bears the burden" of state taxes and who benefits from state public expenditures. By adding up the taxes paid and benefits received by individuals, families, and businesses by county, we estimate the proportion of taxes paid and benefits received in the Atlanta metropolitan area and the rest of the state. We use standard tools employed in fiscal policy analysis to determine who bears the burden of taxes and who benefits from public expenditures; those tools are discussed in detail in the report on which this brief is based. Determining the burden and benefit of public finances is not an easy thing to do. First, one must determine who *really* pays specific taxes and who benefits from specific expenditures. For example, who bears the burden of corporate taxes? It may be consumers (through higher prices) or business owners (through lower profits). Who benefits from public education expenditures? Certainly the children in school benefit from spending on education, but their parents and general community also benefit. Once the hard questions of who pays and who benefits are answered, we need to find the appropriate data to allocate the burden of taxes and the benefit of public expenditures. Because

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of the nature of the analysis, we present the analysis under some alternative assumptions about these benefits and expenditures—but find that these alternative assumptions make very little difference in our overall results.

We find that the Atlanta metropolitan area generates more revenue than it receives in expenditures, a result that is not surprising. The policy question is: Is the magnitude of the net flows appropriate? Certainly, wealthier areas of the state should have a negative net flow, but the issue is whether the current net outflow of revenue less expenditures is too high or too low. That is not an issue we address in this brief.

The metropolitan Atlanta region is defined in two ways for this analysis. The first definition is the ten county core area defined by the Atlanta Regional Commission (ARC) planning district.[2] We call this area the Metro10. The second is a 28 county area that the U.S. Census currently defines as the Atlanta metropolitan area.[3] We call this area the Metro28. We find that the residents of the Metro10 area provided approximately 51 percent of Georgia state revenues and received approximately 37 percent of Georgia state expenditures. The residents of the Metro28 area accounted for approximately 61 percent of Georgia state revenue and received approximately 47 percent of Georgia state expenditures for fiscal year 2004. We next briefly discuss revenue and expenditure allocations as well as the robustness of our estimates.

Revenue Allocation

The analysis presented in this brief finds that for fiscal year 2004, the residents of the Metro10 area provided approximately 51 percent of Georgia state revenues.[4] The residents of the Metro28 area accounted for approximately 61 percent of Georgia state revenue. Taxes accounted for 89 percent of Georgia state total revenue for fiscal year 2004. Much of Georgia state tax revenue consists of two taxes: income tax and sales tax. Georgia state income tax and sales tax accounted for 75 percent of total state *tax revenue*, with income tax accounting for 44 percent and sales tax comprising 31 percent. The remaining 25 percent of Georgia *tax revenue* is provided by eight other taxes: Georgia corporate income tax, the estate tax, alcohol tax, tobacco tax, motor vehicle tax, motor fuel tax, property tax, and insurance premium tax.

The remaining 11 percent of Georgia general revenues is generated from interest, miscellaneous fees, charges, and the lottery. Interest accounts for 1 percent of total state revenue, but is not included in our calculations. Georgia lottery revenue comprises 5 percent of state revenue. Fees, charges, and miscellaneous revenue make up the remaining 5 percent of Georgia state revenue in fiscal year 2004 (see Table I).

Expenditure Allocation

We next examine state expenditures and allocate them to metropolitan Atlanta and the rest of the state based on who benefits from the expenditures. We find that for fiscal year 2004, the residents of the Metro10 area received approximately 37 percent of Georgia state expenditures. The residents of the Metro28 area received approximately 47 percent of Georgia state expenditures.

In fiscal year 2004, Georgia spent approximately 56 percent of total general fund expenditures on education. Three social welfare categories accounted for 31 percent of total state expenditures: health care, human resources, and public safety. The remaining 13 percent of state expenditures fall under the categories of government administration, transportation, environment and housing, veteran services, and workers' compensation (see Table II).

Accounting for differences in the size of the population in the Atlanta metropolitan area and the rest of the state, we find that the Metro10 area generated approximately $500 per capita more in state revenue than it received in state expenditures. Similarly, for every $1,000 of adjusted gross income, the Metro10 area generated approximately $22 of revenue more than it received in expenditures. The numbers are similar for the Metro28 area. The other 149 counties generated approximately $30 less in revenue than they received in expenditures, per $1,000 of adjusted gross income.

Robustness of Estimates

These estimated allocations are based on a set of assumptions regarding who bears the burden of taxes and other revenue and who benefits from expenditures. These assumptions are the ones we believe are most appropriate. However, other assumptions could be made. Therefore, we considered an alternative set of assumptions.

It is possible that due to the methods used to estimate metropolitan Atlanta contributions to state revenue and receipt of state expenditures that these figures may be inaccurate. To check the robustness of these estimates we arbitrarily subtracted 20 percent of estimated metropolitan Atlanta revenue for which county level data did not exist. This results in the Metro10 and Metro 28 contributions to state revenue declining to 49 percent and 59 percent respectively. Due to a lack of county

TABLE I. GEORGIA REVENUE SOURCES FOR FISCAL YEAR 2004

			------% Generated From-------	
Revenue Source	**Revenue**	**% of Total**	**Metro10**	**Metro28**
Income Tax	$6,288,520,378	44%	56%	66%
Sales Tax	$4,860,904,312	31%	49%	59%
Motor Fuel Tax	$731,856,759	5%	41%	51%
GA Corp. Inc. Tax	$486,970,358	3%	54%	64%
Insurance Premium Tax	$317,462,533	2%	46%	59%
Motor Vehicle License Tax	$262,806,813	2%	38%	50%
Tobacco Tax	$227,549,406	1%	45%	56%
Alcohol Tax	$153,178,078	1%	48%	59%
GA Estate Tax	$65,110,425	0.4%	68%	72%
Property Tax	$63,677,784	0.4%	52%	63%
Total Tax Revenue	$13,458,036,846			
Fees and Sales	$120,977,978	0.8%	56%	66%
Lottery*	$787,354,547	5%	35%	46%
Other Georgia Revenues	$580,704,997	3.7%	47%	57%
Total GA Revenue	$14,947,074,368		51%	61%

Source: Office of Planning and Budget (2007) and author’s calculations.
* Lottery revenue is net the expenses of administration.

TABLE II. GEORGIA EXPENDITURES FOR FISCAL YEAR 2004

			--------% Received By-------	
General Category	**Budget Amount**[1]	**% of Total**	**Metro10**	**Metro28**
PK-12 Education	$6,185,350,097	40%	36%	47%
Post-Secondary Education	$2,416,001,126	16%	38%	49%
Environment and Housing	$267,365,026	2%	32%	42%
Gov. Administration	$998,966,643	6%	43%	53%
Health Care	$2,009,455,214	13%	28%	31%
Social Services	$1,431,479,890	9%	38%	44%
Public Safety	$1,396,318,193	9%	46%	54%
Transportation	$664,624,076	4%	38%	49%
Veterans Services	$22,131,693	0.14%	39%	49%
Workers’ Comp.	$17,056,071	0.11%	45%	56%
Georgia Total Expenditures	$15,408,748,029		37%	46%

Source: Office of Planning and Budget (2004) and author’s calculations.
[1]The budgeted expenditures from the Governor’s budget report are used because they provide the necessary level of expenditure detail to perform accurate incidence analysis. This level of detail is not available in reports that list actual fiscal year expenditures.

level data, some of the expenditure estimates may also be inaccurate. Thus, we arbitrarily allocated an additional 20 percent to all expenditures that did not have county level data to the Atlanta metropolitan area. The result of these adjustments is the Metro10 and the Metro28 areas received an estimated 41 percent and 51 percent of state general fund expenditures, respectively. These expenditures represent a two percentage point decrease in revenue share and roughly a five percentage point increase in the expenditure share for the metropolitan Atlanta area.

We provide another robustness check on our estimation of expenditure allocations. We examine how the distribution of state expenditures changes if we alter some of our assumptions regarding the distribution of the benefit for a group of expenditures that may have a large public benefit component. It is possible that some state expenditures have a greater public benefit than we assigned them. For instance, PK-12 education benefits were assumed to flow almost entirely to students currently enrolled in school and their families. State spending on education has local spillover effects that benefit the community. Examples are education facilities open to the public such as athletic fields or community meeting facilities, or increases in property values due to the perceived value of education. We adjust some of our incidence assumptions to test if allocating these public benefits to the surrounding communities has a significant effect on our results. When we assume more "public" benefits, we find that metropolitan Atlanta expenditures increase, but by no more than 2 percentage points.

One potential source of the gap between revenue generated and expenditures received is that metropolitan Atlanta has greater adjusted gross income and that the income tax is somewhat progressive. For instance, without the income tax the Metro10 area would have generated 47 percent of state revenue and the Metro28 area would have generated 57 percent. These figures are closer to their share of state population of approximately 43 percent for the Metro10 area and 54 percent for the Metro28 area.

Another potential explanation for the gap is that the state in effect allocates expenditures in a per capita manner. This is particularly true for the PK-12 education expenditures. For instance, Quality Basic Education Act (QBE) dollars per student are approximately the same for metropolitan Atlanta and the rest of the state. This is not surprising as this is one of the stated goals of QBE. However, if one examines the amount of QBE dollars received per $1,000 of adjusted gross income, metropolitan Atlanta received approximately $30 while nonmetropolitan Atlanta received approximately $50.

Conclusion

In fiscal year 2004 the metropolitan Atlanta area appears to have contributed more to state revenue than it received in state expenditures under the assumptions specified. The Metro10 area of Atlanta is home to approximately 43 percent of the state's population and generated 53 percent of Georgia's total state adjusted gross taxable income. The Metro10 area contributed an estimated 51 percent of total Georgia state revenue. However, the Metro10 area received an estimated 37 percent of state general fund expenditures. The story is similar for the Metro28 area. It comprised approximately 54 percent of the state's population and generated 64 percent of Georgia's total state adjusted gross taxable income. The Metro28 area contributed an estimated 61 percent of total Georgia state revenue but received 47 percent of state general fund expenditures.

These results are robust to reasonable errors in estimating the incidence of metropolitan Atlanta revenue and expenditures. Preliminary analysis indicates that the reason that the Metro10 and Metro28 contribute a greater share of revenue than they receive in expenditure benefits may be due to two principal factors: 1) the state income tax, which raises greater revenue per capita from the wealthier metropolitan Atlanta area; 2) state expenditures are in affect largely allocated on a per capita basis and to a lesser extent negatively related to income per capita.

NOTES

[1]This policy brief is based on *Georgia Revenues and Expenditures: An Analysis of Their Geographic Distribution*, Fiscal Research Center Report #188.

[2]The list of Metro10 counties is: Cherokee, Clayton, Cobb, DeKalb, Douglas, Fayette, Fulton, Gwinnett, Henry, and Rockdale.

[3]The Metro28 include the Metro10, plus: Barrow, Bartow, Butts, Carroll, Coweta, Dawson, Forsyth, Haralson, Heard, Jasper, Lamar, Meriwether, Newton, Paulding, Pickens, Pike, Spalding, and Walton.

[4]Data for 2004 are used since that is the most recent year for which all of the data necessary to make the calculations are available.

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