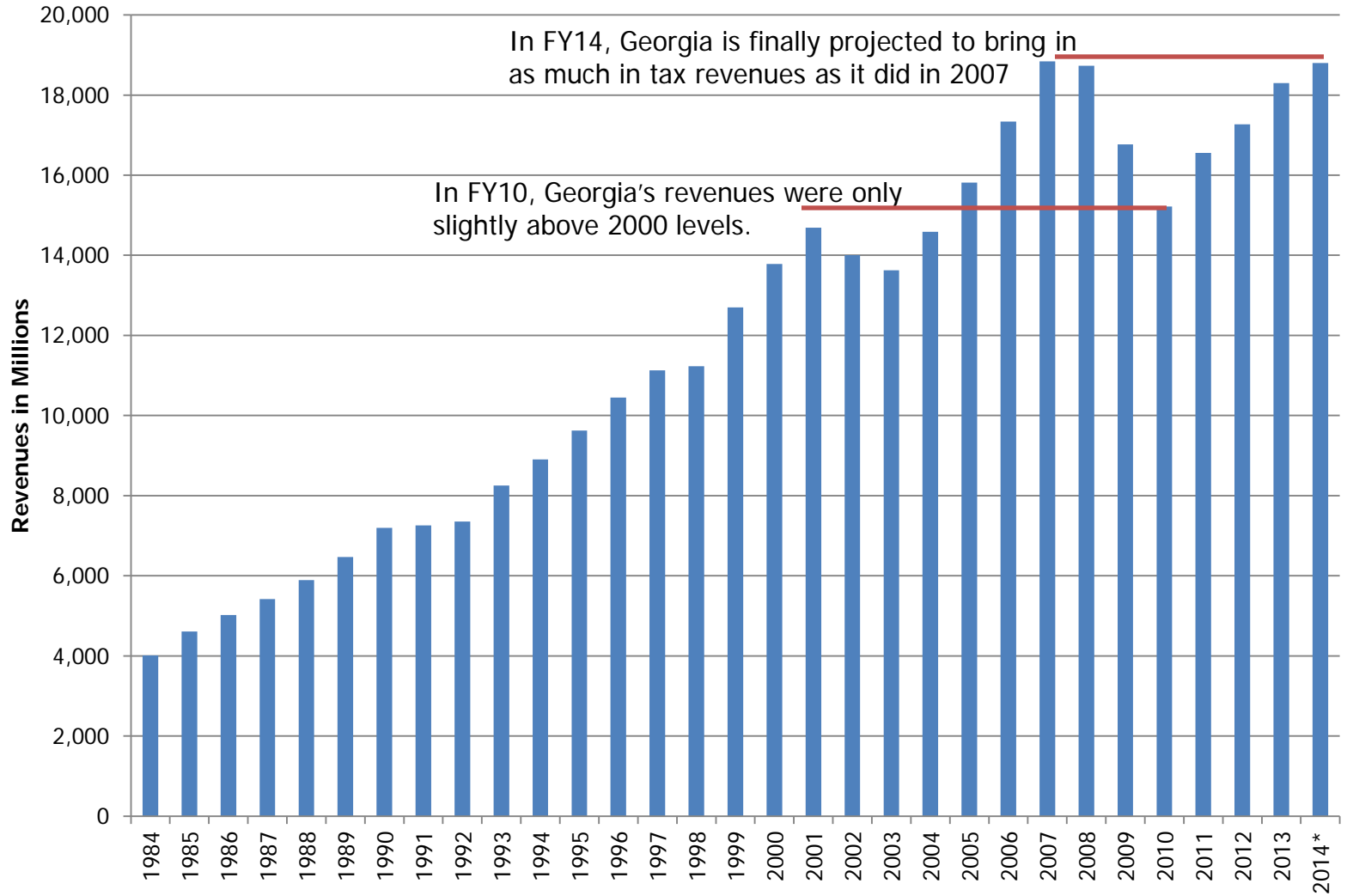




A Briefing on Georgia's Budget FY14-FY15

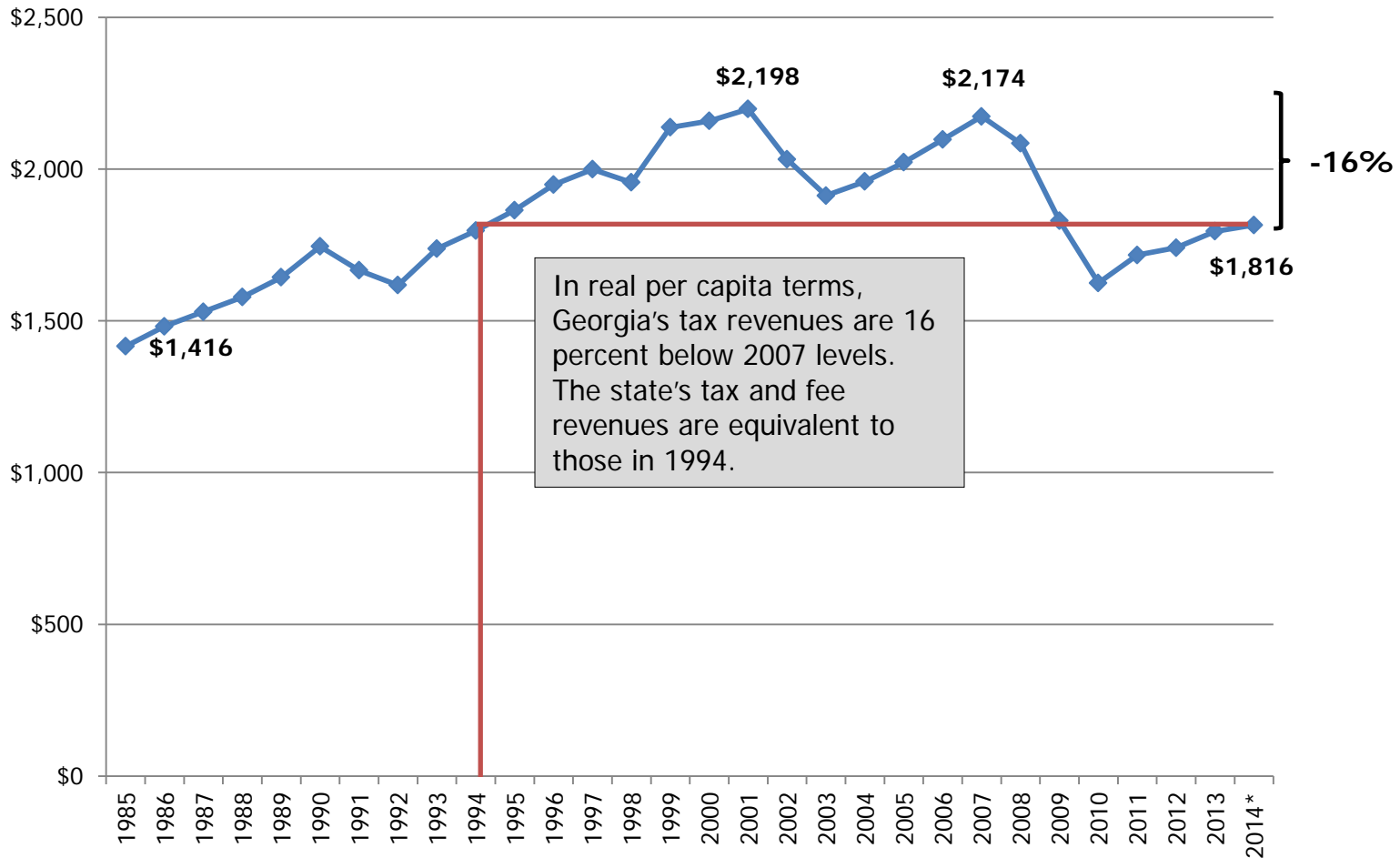
Dr. Carolyn Bourdeaux
Andrew Young School of Policy Studies at
Georgia State University

Georgia's State Tax Revenues 1984-2014



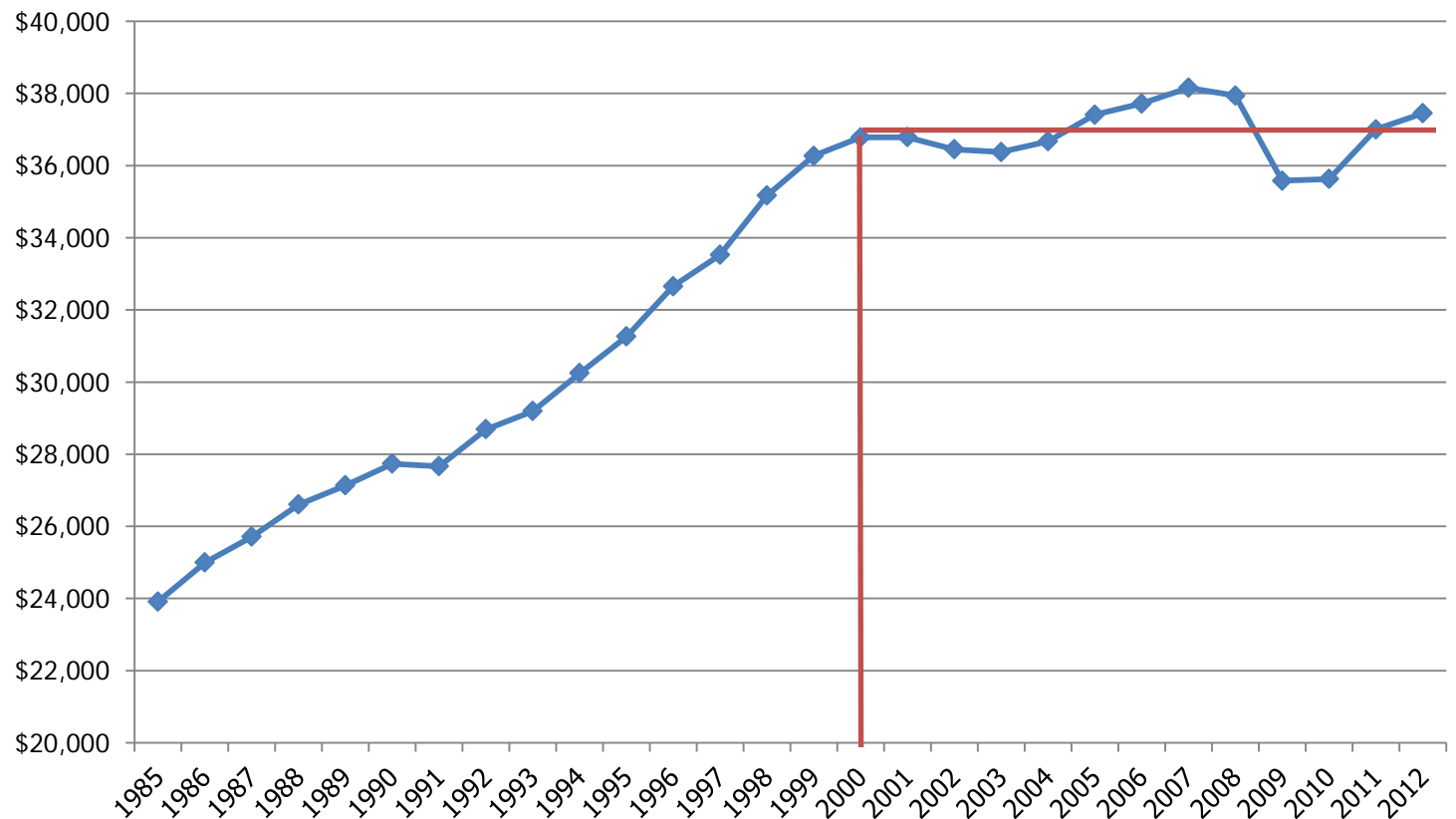
Data Sources: State Budgets/Budget in Brief FY13A-FY14

Real State Tax and Fee Revenues Per Capita (2012 Dollars)



Data Sources: State Budgets/Budget in Brief, Bureau of Economic Analysis GDP Deflator

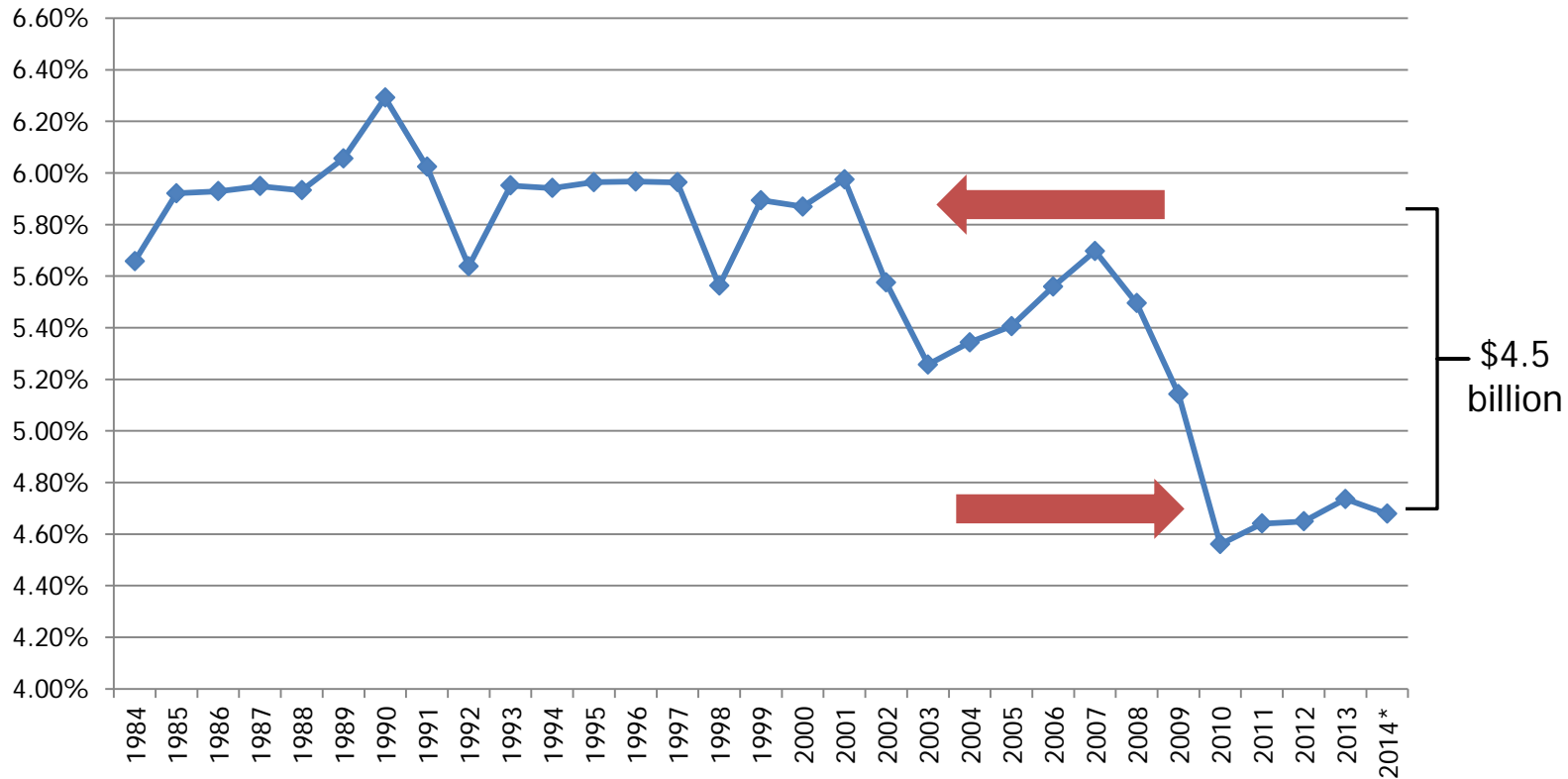
Inflation Adjusted Personal Income Per Capita (2012 Dollars)



- Georgia's economy saw significant real per capita income growth from 1985 to 2000, i.e., Georgians grew wealthier.
- In 2000 (or perhaps earlier), something changed and Georgia has never recovered.
- This period coincides with the loss of significant manufacturing jobs. Between 2000 and 2009, Georgia lost 181,000 manufacturing jobs or 33% of its jobs in this sector.

Data Sources: Bureau of Economic Analysis, GDP Deflator. For more discussion of these issues see: FRC Reports #263 and #253.

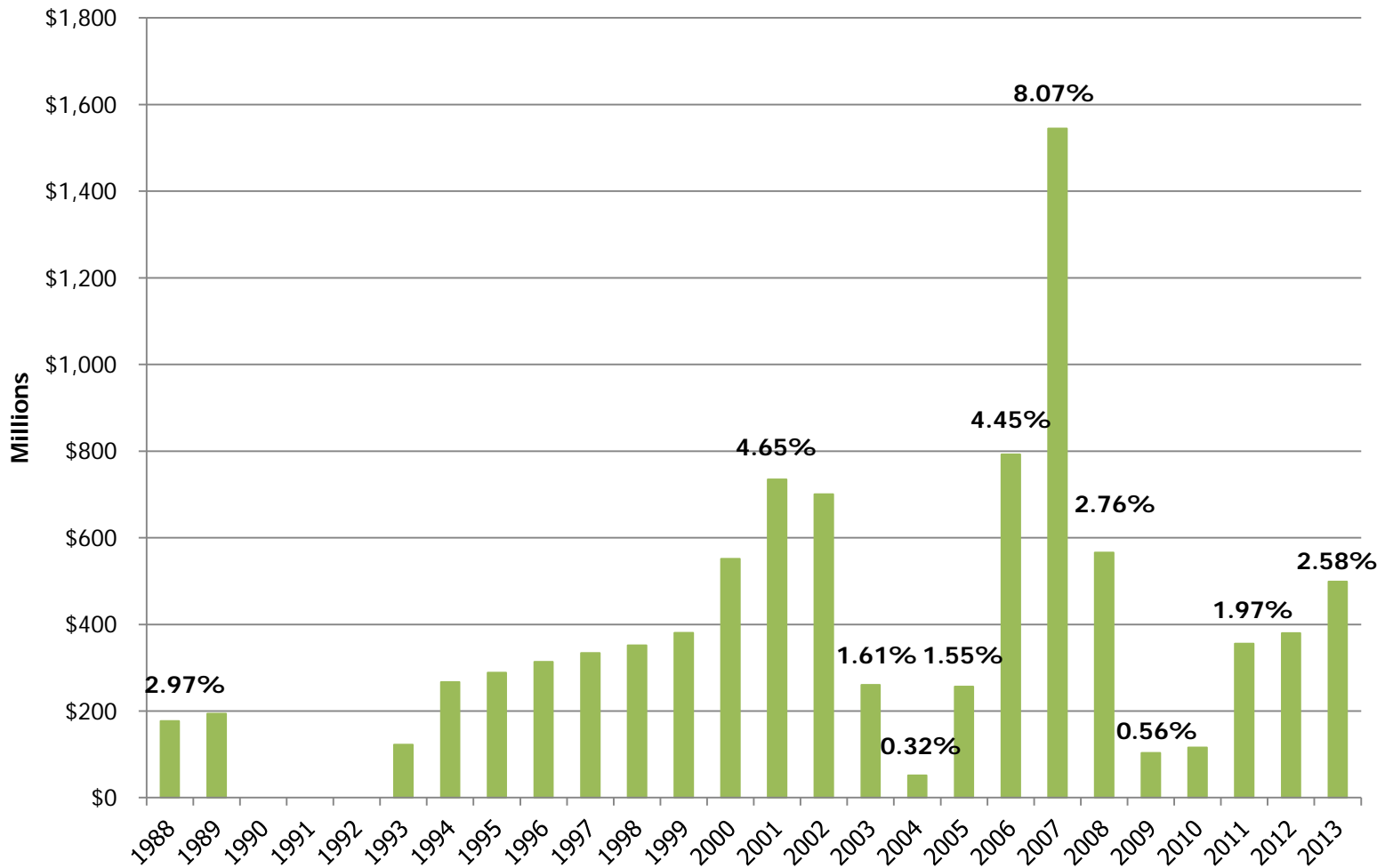
Georgia State Taxes as % of Personal Income



- Georgia's revenue issues are not entirely related to the economy, Georgia's tax system now captures a much smaller percentage of the state's "wealth" than it did in prior decades.
 - Between 1984-2000, Georgia taxed 5.9% of personal income on average.
 - Between 2000-2008, Georgia taxed 5.1% of personal income on average.
 - Between 2009-2014, Georgia is taxing around 4.75% of personal income on average.
 - If Georgia increased taxes to capture 5.9% of personal income = \$4.5 billion in additional revenues in FY13.
 - If Georgia increased taxes to capture 5.1% of personal income = \$1.4 billion in additional revenues in FY13.

Data Sources: OPB Budget in Brief, Bureau of Economic Analysis, Author's calculations

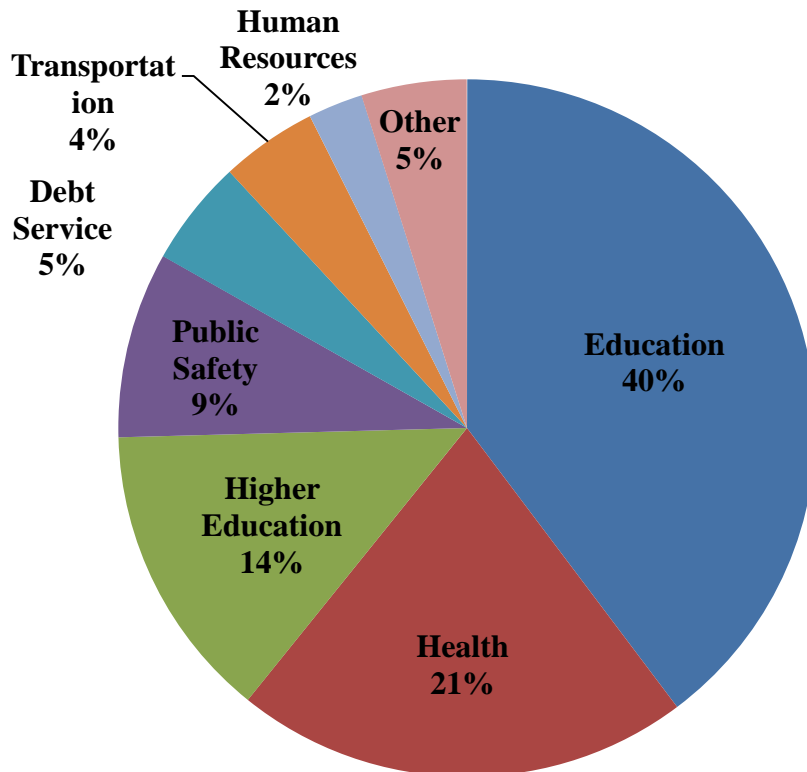
Georgia's Reserves: Totals and as % of Budget



- Georgia is rebuilding its reserves, but the amount is still well below the cushion that the state carried in 2007.

State Fund Expenditures 2013

(Includes State General Fund, Motor Fuel, Lottery, Tobacco)

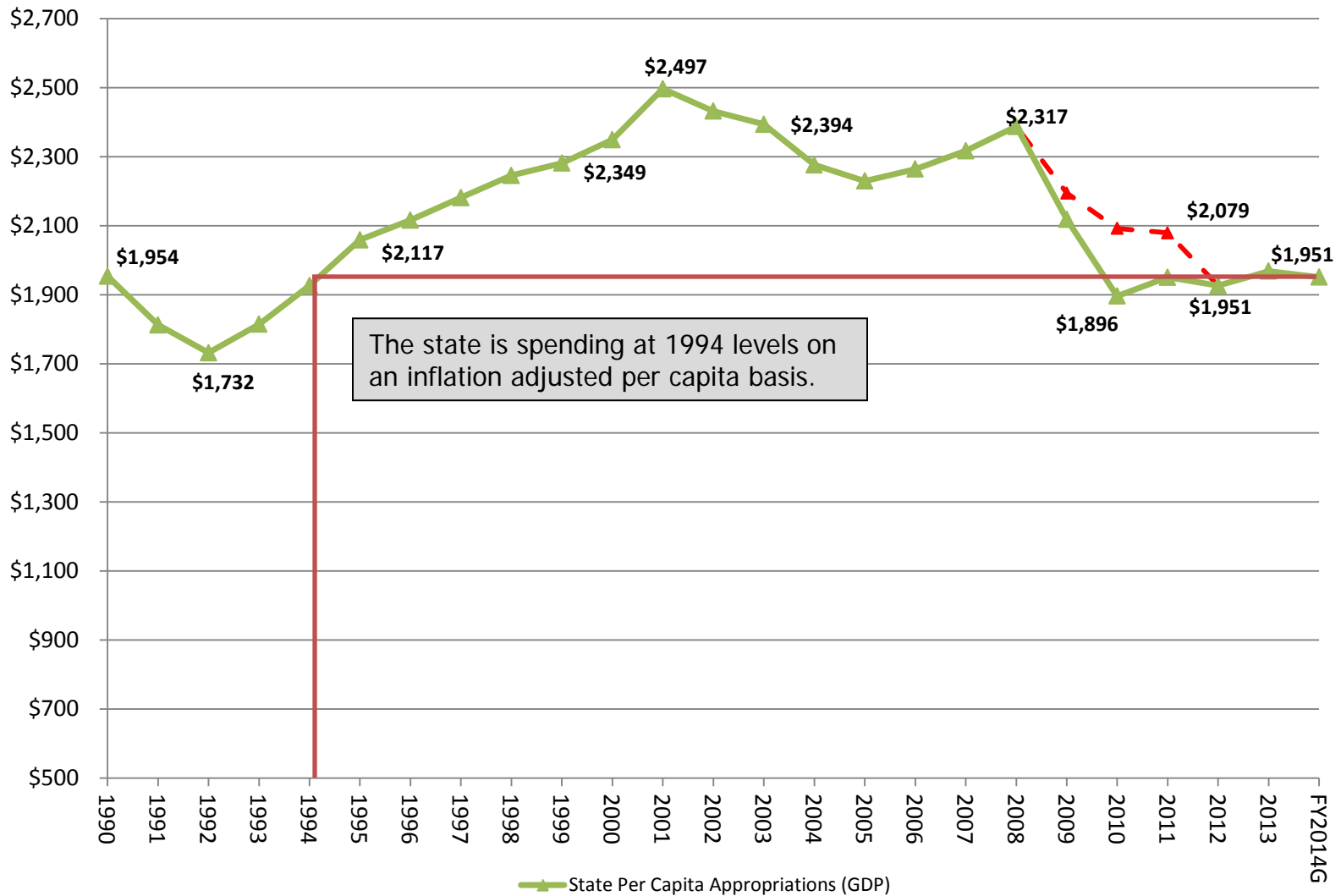


Georgia's state spending is dominated by education – both K12 and higher education.

Most analysts expect states to continue to experience pressure on the budget from Medicaid as well as from pensions and other long term liabilities (such as health care obligations for retirees).

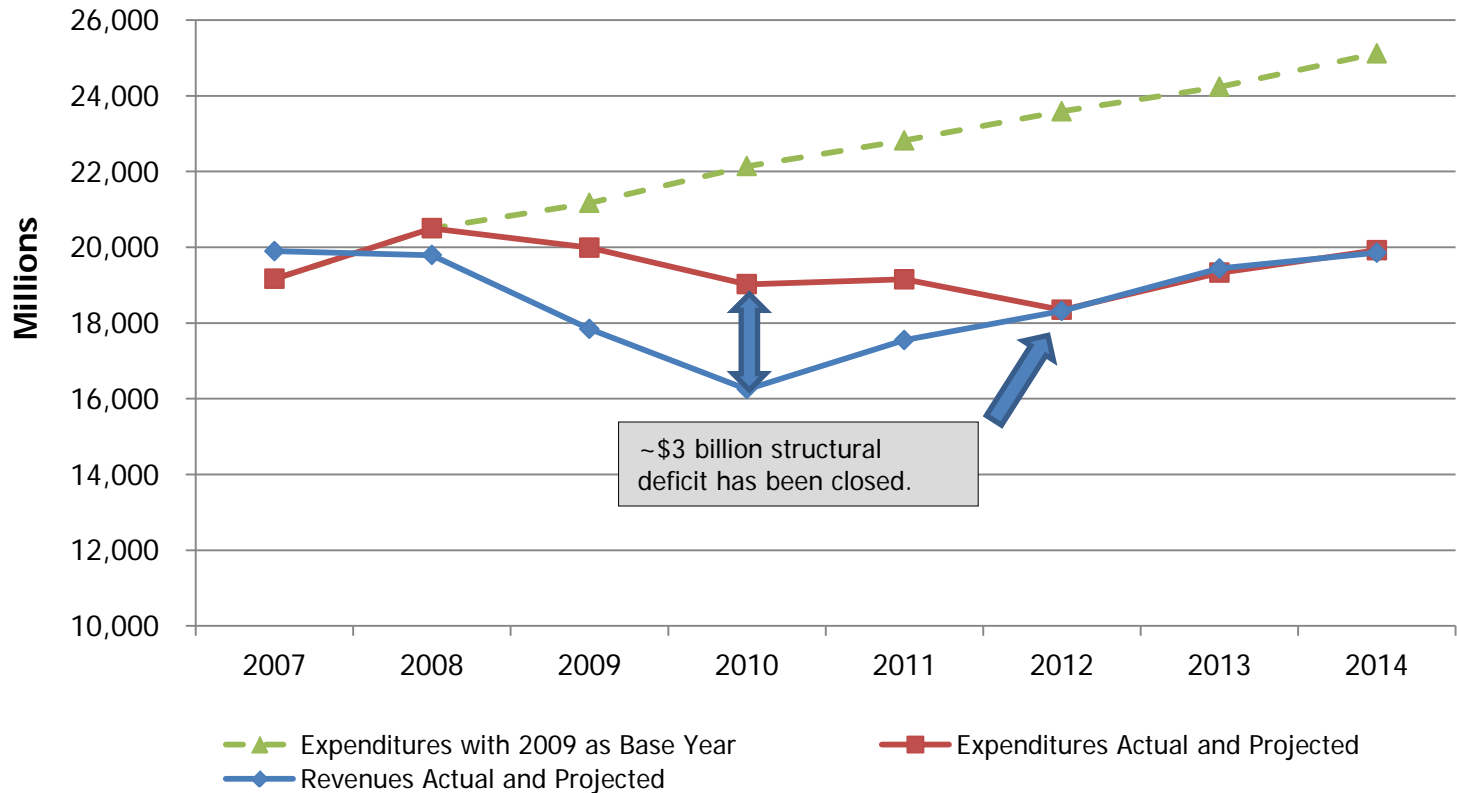
Often overlooked, Georgia has an unfunded \$14.7 billion OPEB liability.

Per Capita State Appropriations Adjusted Using GDP



Source: Selected Summary Financial Information; Inflation Index Used: Gross Domestic Product-NIPA Table 1.1.9

Comparison of Expenditures and Revenues Relative to 2009 Baseline Expenditure Projections



- Between 2010 and 2012, Georgia closed a \$3 billion structural deficit.
- Overall Georgia has reduced *annual* spending by \$5 billion below what one would have projected in 2009 based on population and inflation growth (using GDP as a measure if inflation).
- In response to the recession, Georgia also increased revenues through user fees (\$100 million in FY11) and a hospital net revenue tax (\$215 million in FY11 and \$241 million in FY14) which is not reflected in this graph.

Per Capita Inflation-Adjusted Growth by Policy Area (Includes All State Funds)

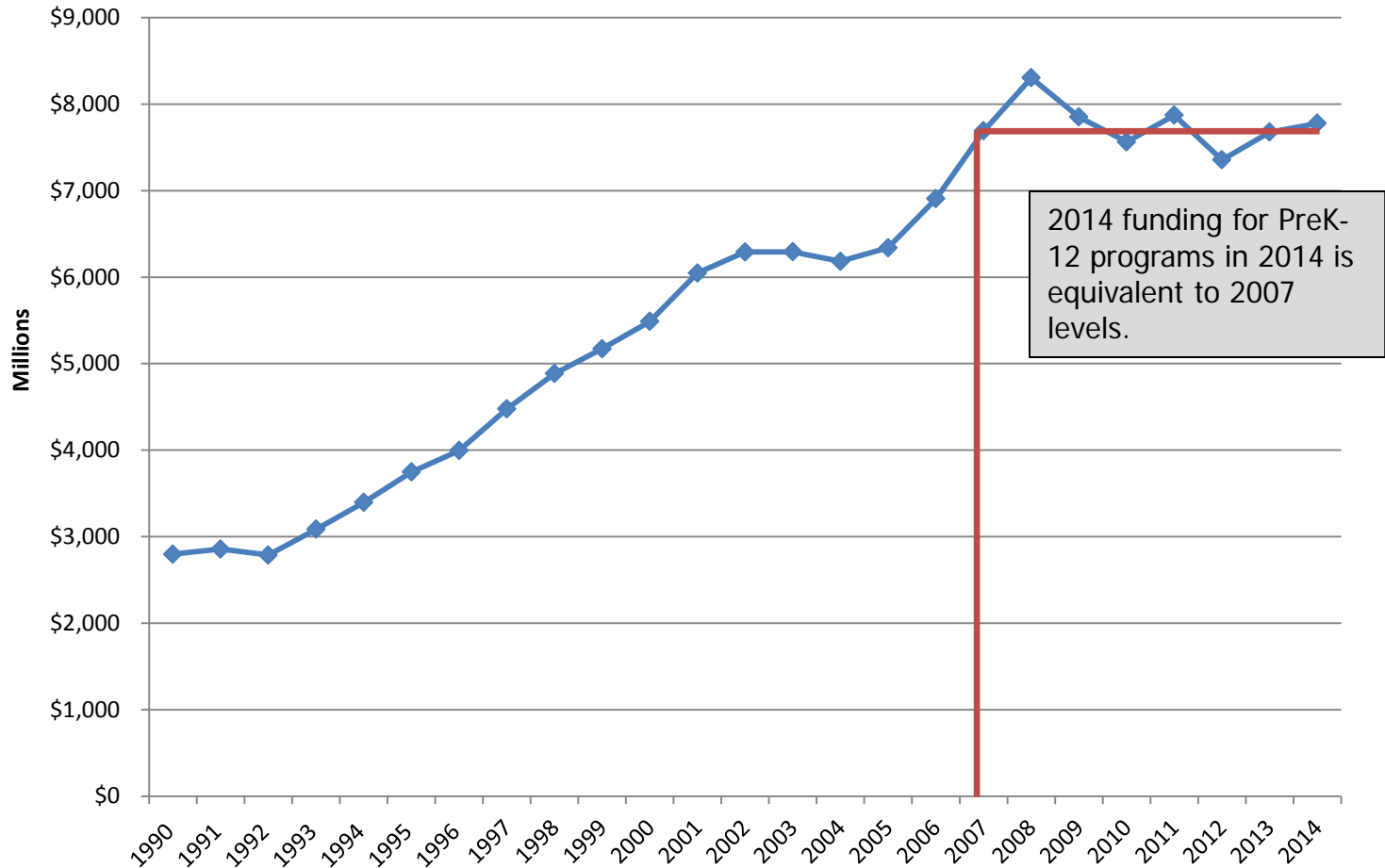
	2002	2008	2013	2014	Change 2002-2014	% Change 2008-2014	% Change 2002-2014
Agriculture	\$7.00	\$5.38	\$4.03	\$3.93	(\$3.07)	-27%	-44%
Debt Service on Bonds	\$113.38	\$112.95	\$96.81	\$114.69	\$1.31	2%	1%
Health and Human Services	\$463.55	\$477.84	\$468.15	\$453.07	(\$10.49)	-5%	-2%
Corrections	\$189.65	\$172.75	\$149.42	\$145.57	(\$44.08)	-16%	-23%
Economic Development	\$19.73	\$26.53	\$7.94	\$9.85	(\$9.88)	-63%	-50%
Education	\$963.89	\$967.30	\$782.00	\$761.86	(\$202.04)	-21%	-21%
General Government	\$93.13	\$94.16	\$39.41	\$41.12	(\$52.02)	-56%	-56%
Higher Education	\$377.95	\$355.86	\$271.15	\$277.35	(\$100.60)	-22%	-27%
Judicial	\$20.49	\$23.62	\$20.75	\$20.52	\$0.03	-13%	0%
Natural Resources	\$30.44	\$20.75	\$12.48	\$12.30	(\$18.14)	-41%	-60%
Public Safety	\$29.38	\$26.37	\$22.29	\$23.26	(\$6.12)	-12%	-21%
Transportation	\$123.52	\$104.14	\$94.14	\$87.83	(\$35.69)	-16%	-29%
TOTAL	\$2,432	\$2,388	\$1,969	\$1,951	(\$480.78)	-18%	-20%

Sources: Budgets in Brief; Selected Summary Financial Information; FY14 Appropriations Act; Author's Calculations; Inflation Index Used: Gross Domestic Product-NIPA Table 1.1.9



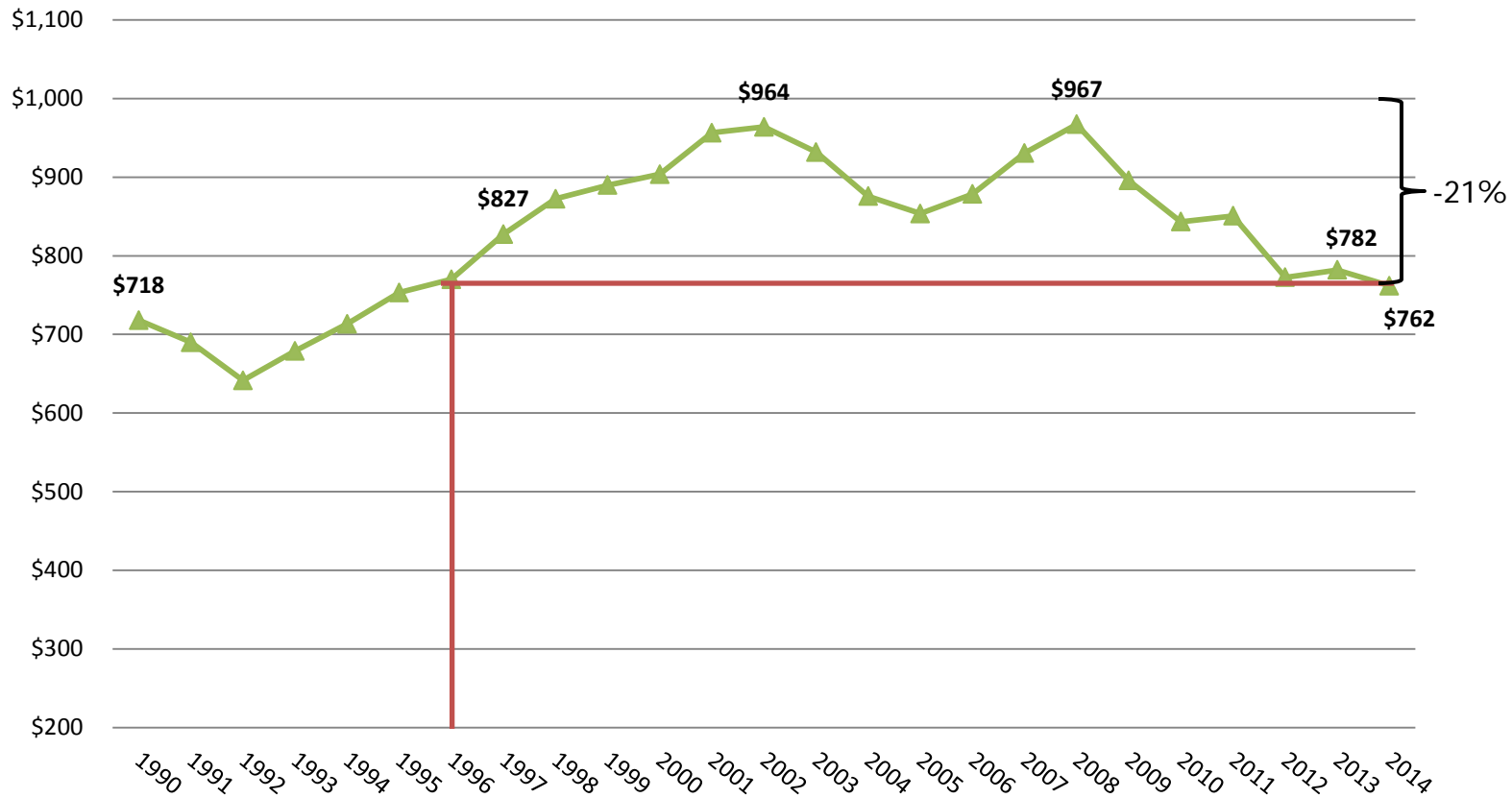
PRE K-12 EDUCATION

Nominal Pre-K to 12 Total Appropriations (not inflation adjusted)



Source: Selected Summary Financial Information
Inflation Index Used: Gross Domestic Product -NIPA Table 1.1.4

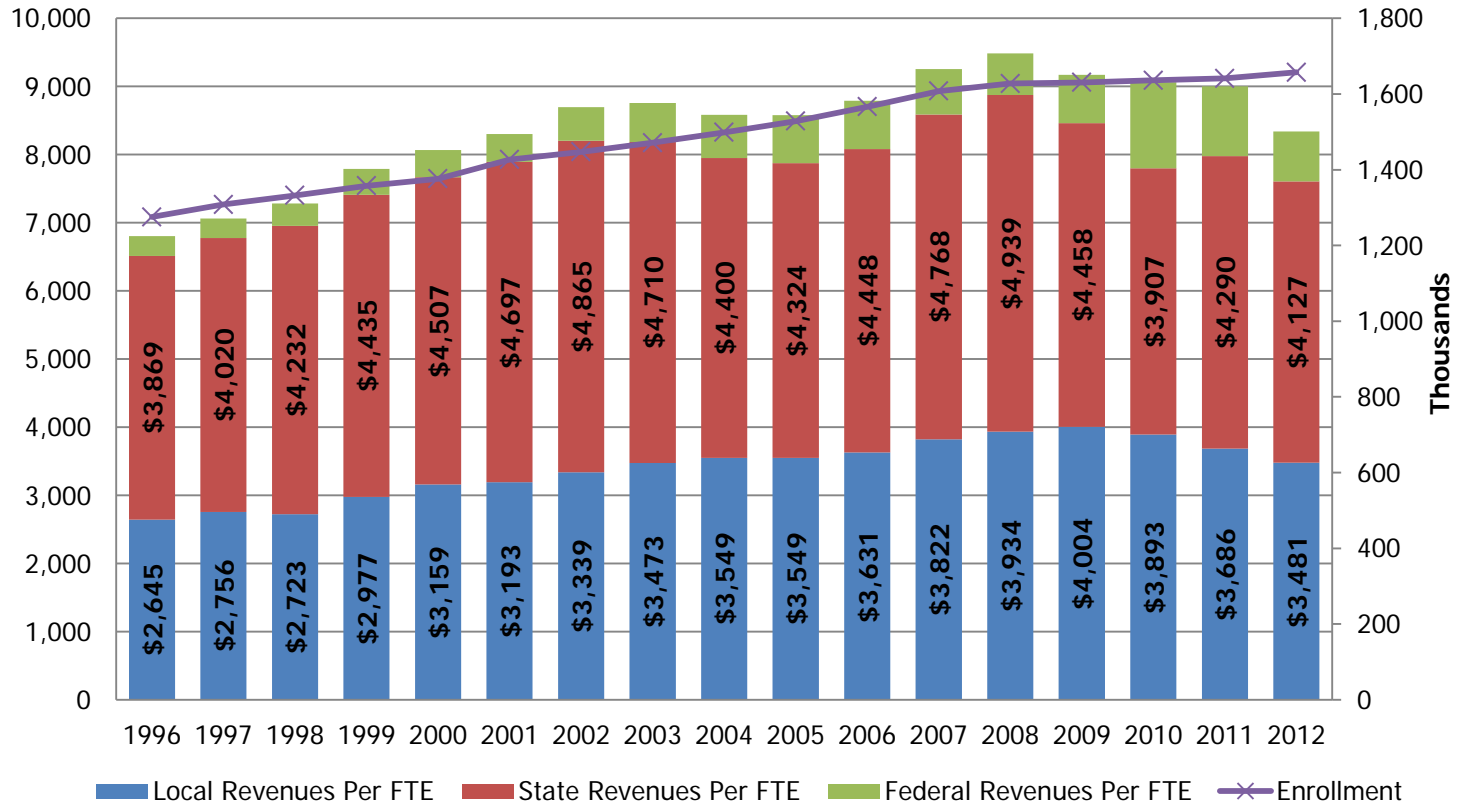
Per Capita Inflation Adjusted Education Funding Pre K-12 (All State Funds)



- On an inflation adjusted *per capita* basis, the state is currently spending at 1996 levels on preK-12 education programs in total.
- The change represents a 21% decline in funding.

Source: Selected Summary Financial Information; Inflation Index Used: Gross Domestic Product -NIPA Table 1.1.4

School District Operating Revenues per FTE and Enrollments 1996-2012 (2011 Dollars)



- Examining K-12 education operating funds on a per student basis shows total funding of \$8,340 in 2012, roughly equivalent to funding in 2001 and representing a 12% decline from 2008.
- State per FTE funding declined from \$4,939 in 2008 to \$4,127 in 2012, a 16% decline.

Real Per FTE K12 Education Revenues for the Average Southern State

(in 2011 Dollars)

Trend Between 2002 and 2011 in Per Pupil Revenues					
Revenue Level	2002	Share of Total	2011	Share of Total	Percent Change
Local	\$3,525	38.45%	\$4,029	38.33%	14.30%
State	\$4,767	52.00%	\$4,878	46.40%	2.32%
Federal	\$876	9.55%	\$1,605	15.27%	83.31%
Total	\$9,168		\$10,512		14.66%
Total Enrollment for SLC States	16,974,665		18,389,573		8.34%

Real Per FTE K12 Education Revenues for Georgia

(in 2011 Dollars)

Trend Between 2002 and 2011 in Per Pupil Revenues					
Revenue Level	2002	Share of Total	2011	Share of Total	Percent Change
Local	\$4,765	44.28%	\$4,964	45.87%	4.17%
State	\$5,249	48.78%	\$4,497	41.56%	-14.32%
Federal	\$747	6.94%	\$1,361	12.57%	82.29%
Total	\$10,760		\$10,822		0.57%
Total Enrollment for Georgia	1,470,634		1,666,039		13.29%

- These tables draw on US Census data to capture all revenues (including capital funds) for school districts in Georgia versus 14 other southern states.
- Importantly, overall Georgia *spends more* than the southern state average. However, it's state funds have declined sharply compared to the average of other southern states and local funds have not made up the difference.

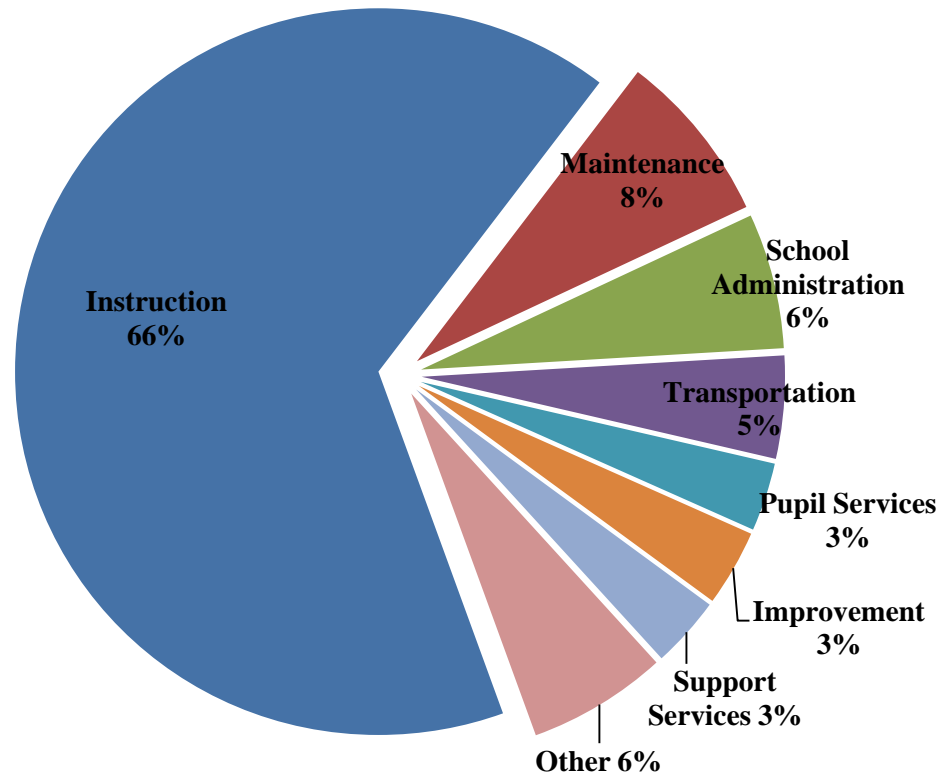
State Comparisons 2002-2011
(in 2011 Dollars)

State	Enroll- ment Growth	State Revenue Per FTE Growth	Local Revenue Per FTE Growth	Federal Revenue Per FTE Growth	Overall Revenue Per FTE Growth	Overall Revenue		Overall Rank in Revenue Per FTE		Change in Rank
						Per FTE 2002	Rank 2002	2011	Rank 2011	
Alabama	3%	6%	16%	70%	15%	8,567	11	9,876	12	-1
Arkansas	6%	23%	5%	94%	28%	8,504	13	10,885	6	7
Florida	5%	-17%	20%	109%	12%	8,998	8	10,034	10	-2
Georgia	13%	-14%	4%	82%	1%	10,760	1	10,822	7	-6
Kentucky	3%	8%	29%	92%	23%	8,568	10	10,557	9	1
Louisiana	-8%	16%	44%	101%	38%	8,751	9	12,063	2	7
Mississippi	0%	4%	25%	90%	23%	7,468	15	9,208	13	2
Missouri	-1%	-4%	11%	107%	11%	9,942	5	11,058	4	1
North- Carolina	12%	-7%	20%	94%	10%	9,081	7	9,951	11	-4
Oklahoma	6%	-9%	8%	52%	4%	8,524	12	8,866	14	-2
South- Carolina	6%	-9%	16%	64%	8%	10,125	4	10,894	5	-1
Tennessee	10%	17%	-4%	73%	13%	7,820	14	8,800	15	-1
Texas	17%	7%	-2%	88%	10%	9,678	6	10,629	8	-2
Virginia	8%	2%	14%	75%	13%	10,352	3	11,716	3	0
West-Virginia	0%	9%	21%	63%	19%	10,380	2	12,319	1	1

- In 2002, Georgia ranked first among southern states in per student revenues; in 2011, it had moved to 7th; this change was largely driven by cuts in state funding.
- In 2002, Georgia's state funding per FTE in the south was 4th (highest) and local funding was ranked 3rd. In 2011, local funding per FTE continued to rank 3rd in the south, but the state funding per FTE had fallen to 8th in rank.

Calculations from revenue figures provided by the US Census F-33 Financial Survey. Table uses national GDP price deflator to adjust for inflation.

**Figure 1. Real Education Expenditure Shares
(Avg. 2001 – 2012)**



- Education funding is dominated by spending on instruction at 66% of the total budget; instructional expenditures bore a higher share of funding cuts during the recent recession.
- The next slide shows instruction absorbing 73% of the total cuts in school funding per student.

Table 2. Nominal per FTE Recession Changes

	2008-2009	2009-2010	2010-2011	2011-2012	2008-2012
Total Expenditure	-\$129	-\$195	-\$170	-\$41	-\$535
Instruction	-\$84 (64.7%)	-\$123 (63.2%)	-\$146 (86.3%)	-\$36 (87.3%)	-\$389 (72.7%)
Maintenance	\$24 (-18.6%)	-\$37 (19.2%)	-\$2 (1.1%)	\$12 (-28.9%)	-\$3 (0.6%)
School Administration	-\$2 (1.5%)	-\$6 (2.9%)	-\$2 (1.3%)	-\$1 (1.8%)	-\$11 (2.0%)
Transportation	-\$7 (5.8%)	-\$36 (18.5%)	\$22 (-13.2%)	\$31 (-75.9%)	\$10 (-1.9%)
Pupil Services	\$8 (-6.0%)	\$3 (-1.4%)	-\$3 (2.0%)	-\$5 (12.9%)	\$2 (-0.3%)
Improvement	-\$3 (2.3%)	\$4 (-2.0%)	-\$12 (7.2%)	\$1 (-1.8%)	-\$11 (2.0%)
Support Services	-\$21 (16.4%)	\$24 (-12.3%)	-\$9 (5.1%)	-\$18 (43.6%)	-\$24 (4.5%)
General Administration	\$13 (-9.7%)	-\$6 (3.2%)	\$7 (-3.8%)	-\$2 (6.0%)	\$10 (-1.9%)
Media	-\$4 (3.0%)	-\$3 (1.5%)	-\$10 (5.8%)	-\$3 (6.4%)	-\$19 (3.6%)
Other Exp.	-\$52 (40.5%)	-\$14 (7.2%)	-\$14 (8.2%)	-\$20 (48.5%)	-\$100 (18.8%)

Figures are nominal year to year per FTE changes. The number in parenthesis represents that expenditure function's percent of total change. A positive percentage indicates that the function moved in the same direction as total expenditures and a negative percentage indicates that the function moved in the opposite direction of total expenditures. Source: FRC Report: School District Expenditure Response to the Great Recession (2013)

Table 3: Nominal per FTE Recession Changes within Instruction

	2008-2009	2009-2010	2010-2011	2011-2012	2008-2012
Instruction	-\$84	-\$123	-\$147	-\$36	-\$389
K-12 Teaching	-\$133	-\$459	\$53	\$181	-\$358
Associated ARRA	\$93	\$314	-\$208	-\$197	\$2
	(47.6%)	(117.8%)	(106.1%)	(42.6%)	(91.3%)
Disadvantaged	-\$19	\$5	\$0	\$13	-\$2
Associated ARRA	\$0	\$55	\$1	-\$35	\$21
	(22.7%)	(-48.4%)	(-0.9%)	(63.5%)	(-4.9%)
Special Ed	\$22	-\$54	\$8	\$69	\$44
Associated ARRA	\$1	\$61	\$3	-\$58	\$7
	(-27.1%)	(-5.2%)	(-7.6%)	(-30.6%)	(-13.2%)
CTAE	-\$9	-\$16	-\$14	\$0	-\$39
	(10.3%)	(13.4%)	(9.7%)	(-0.6%)	(10.1%)
Instruction Services	-\$47	-\$65	\$8	-\$16	-\$120
	(56.0%)	(52.7%)	(-5.6%)	(44.9%)	(30.8%)
Miscellaneous	\$8	\$37	\$3	\$7	\$55
	(-9.5%)	(-30.3%)	(-1.8%)	(-19.8%)	(-14.1%)

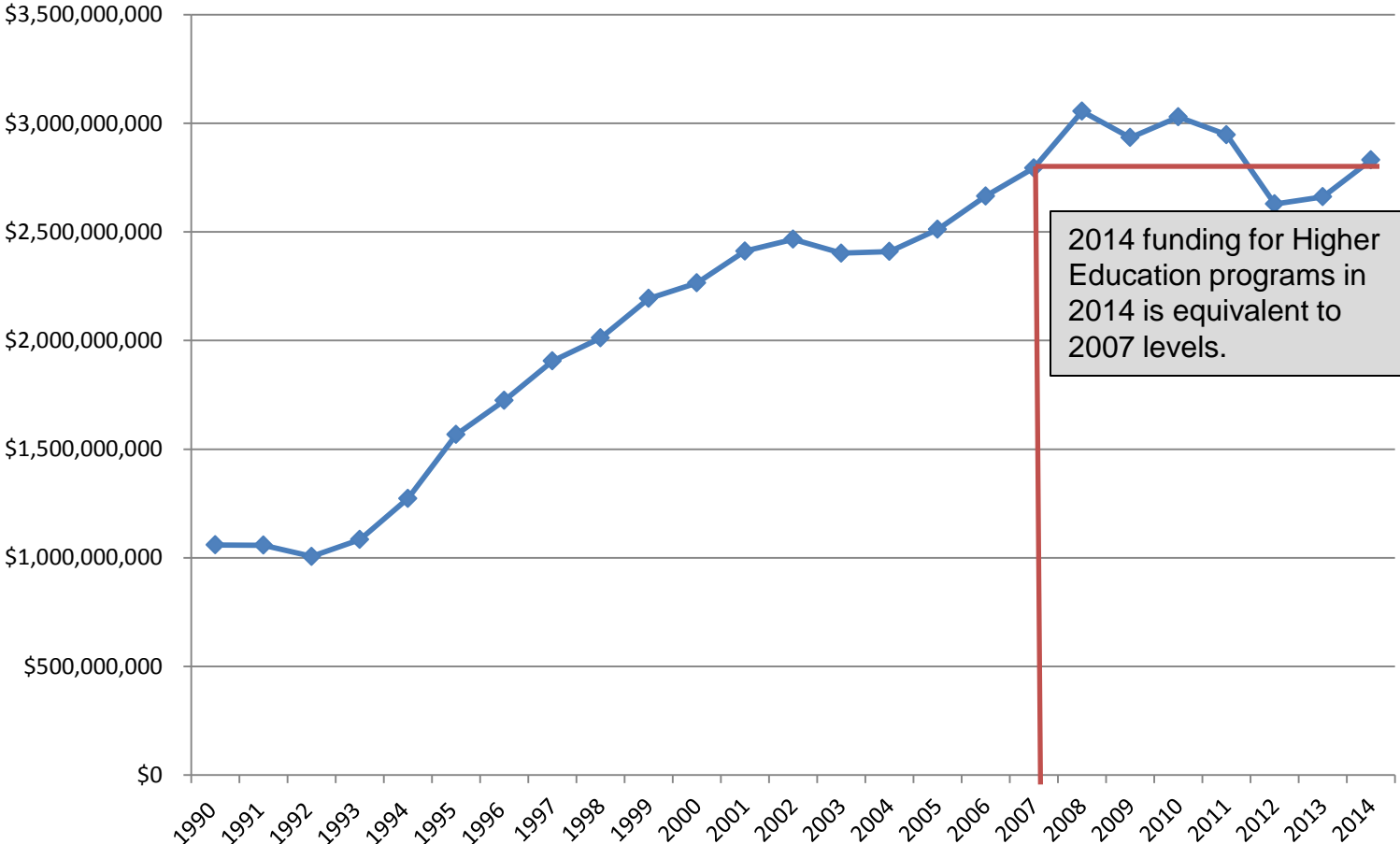
Figures are nominal year to year per FTE changes. The number in parenthesis represents that program grouping's change (including ARRA related Expenditures) as a percent of instruction change. A positive percentage indicates that the function moved in the same direction as instruction expenditures and a negative percentage indicates that the program grouping moved in the opposite direction as total expenditures. Source: FRC Report: School District Expenditure Response to the Great Recession (2013)

- K-12 Teaching represents 67% of expenditures within the Instruction category but this category bore 91% of the cut to Instruction.
- The impact of ARRA funds is visible in the 2009 and 2010 fiscal years; in 2011 and 2012, these funds declined but were not replaced by state or local funds.

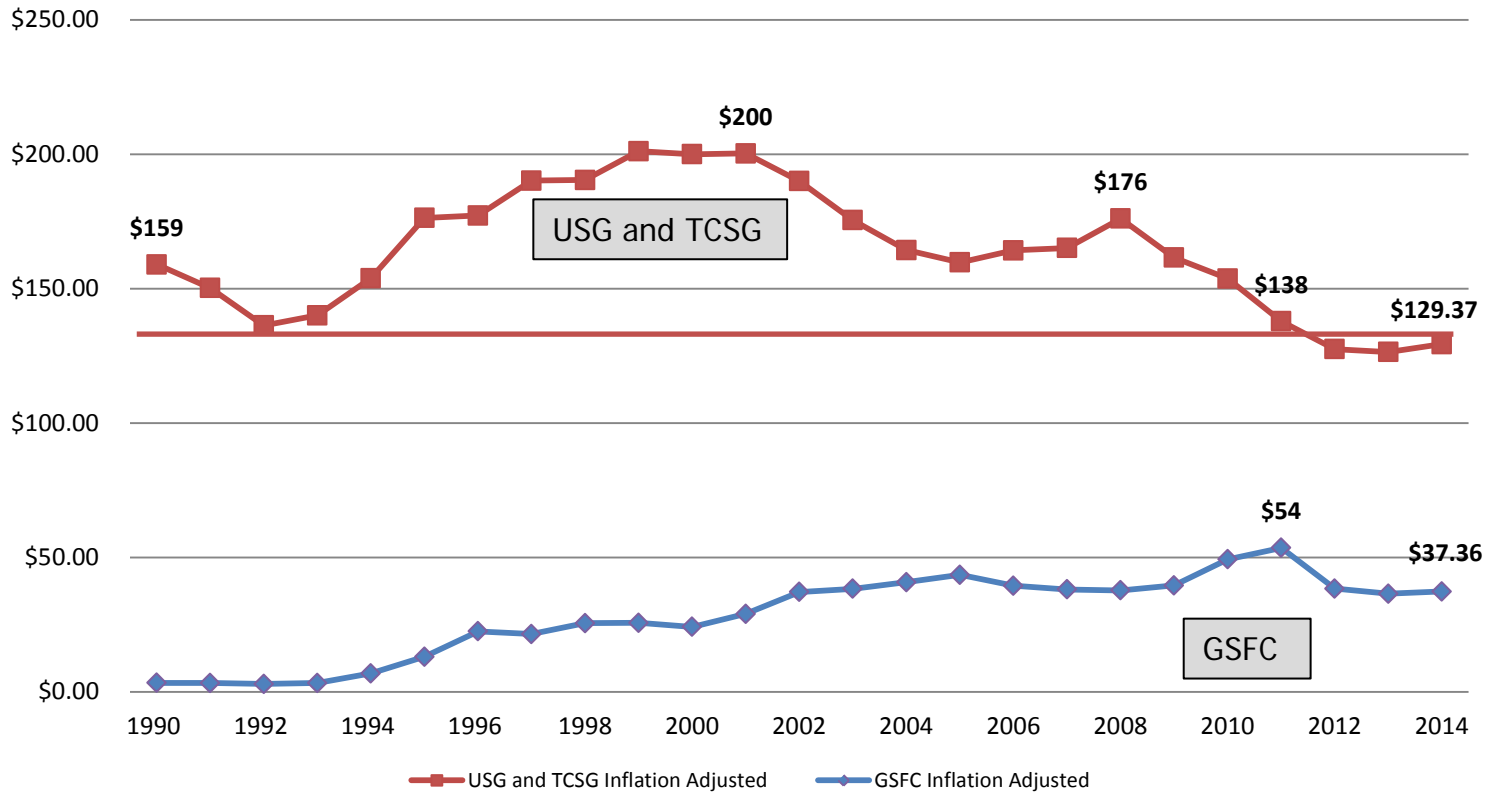


HIGHER EDUCATION

Nominal Appropriations for Higher Education (not inflation adjusted)

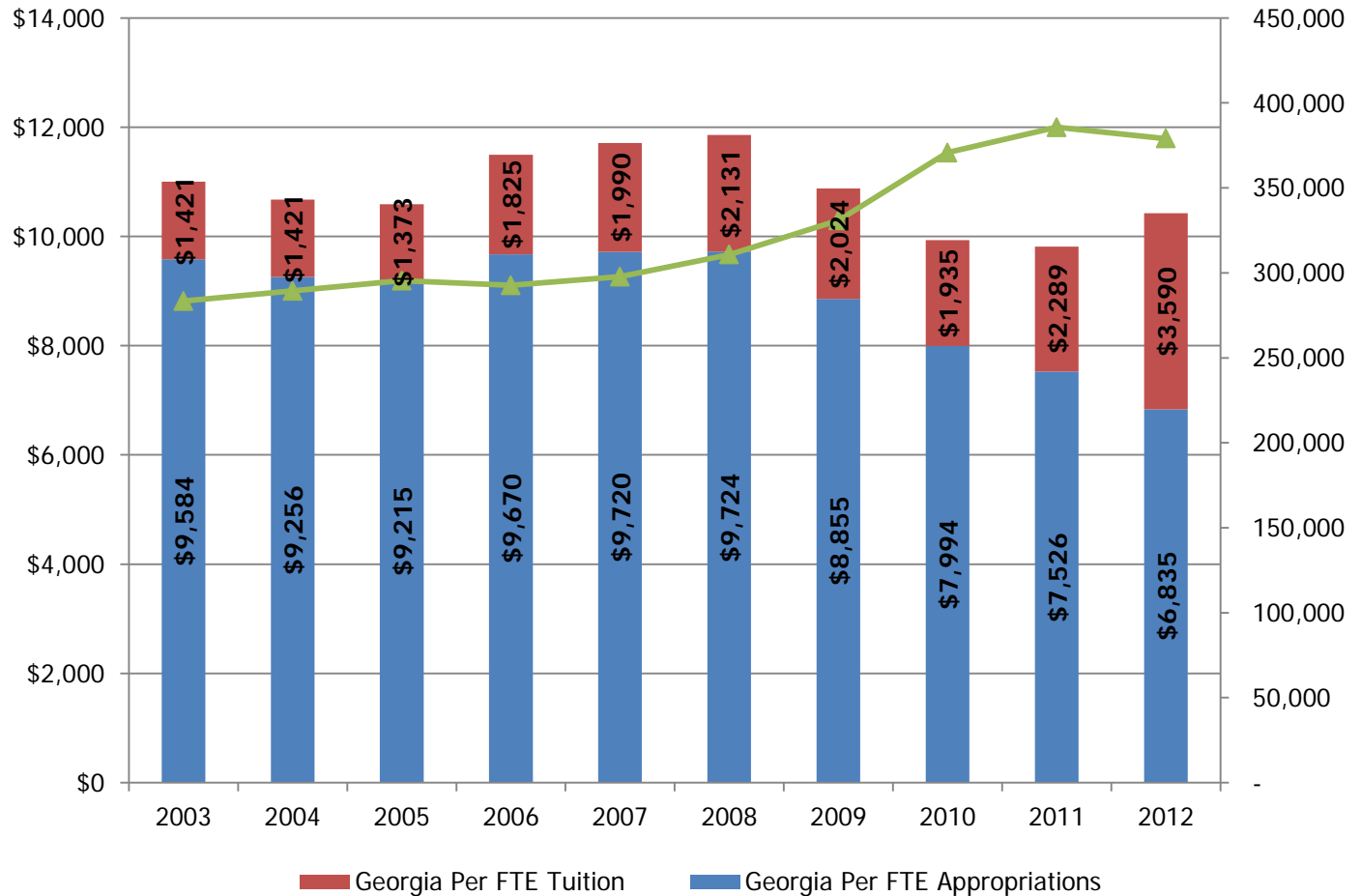


Per Capita Inflation Adjusted Appropriations for Higher Education (2014 Dollars)



- USG and TCSG funding levels are at historic lows on a real per capita basis. The decline represents a 55% decline from the peak year of 2000.
- Funding for HOPE and other lottery funded scholarships offset some of the real per capita declines during the early 2000s; however, recently this funding also declined with the restructuring of the HOPE scholarship.

Georgia Higher Education Revenues and Enrollment 2003-2012



- Georgia spent \$10,425 per FTE in 2012, down from \$11,855 in 2008, a 12% decline. HOPE and other state scholarship funding is included as part of state appropriations.
- Real state revenues per FTE declined by 30% during this period and revenues per FTE from tuition rose by 68%.

Real Per FTE Revenues for the Average SLC State

(in 2011 Dollars)

Trend Between 2003 and 2012

Fund Source	2003	Share of Total	2012	Share of Total	Percent Change
State/Local Appropriations	\$7,980	71.12%	\$6,304	57.48%	-21.01%
Tuition	\$3,241	28.88%	\$4,664	42.52%	43.88%
Total	\$11,222		\$10,968		-2.26%
<hr/>					
Total Enrollment in SLC States (millions)	3.45		4.35		25.82%

Real Per FTE Revenues for Georgia

Fund Source	2003	Share of Total	2012	Share of Total	Percent Change
State/Local Appropriations	\$9,584	87.09%	\$6,835	65.57%	-28.68%
Tuition	\$1,421	12.91%	\$3,590	34.43%	152.68%
Total	\$11,005		\$10,425		-5.27%
<hr/>					
Total Enrollment (millions)	0.28		0.38		33.74%

Revenue figures are from State Higher Education Executive Officers Association, State Higher Education Finance Report. Numbers are adjusted using a GDP Price Deflator to make them comparable to other budgetary numbers in this presentation. The numbers represent a per state average amount over 15 SE States (AL, AR, FL, GA, KY, LA, MS, MO, NC, OK, SC, TN, TX, VA, and WV).

Change in Real Revenues per Student 2003-2012
(in 2011 Dollars)

	State/ Local Appropriations per FTE	Tuition Per FTE	Overall Spending Per FTE	Student Growth	Overall Funding Per FTE 2000	Rank in 2003	Overall Funding Per FTE 2011	Rank in 2012	Change in Rank
Alabama	-9%	66%	19%	14%	\$12,150	3	\$14,454	1	2
Arkansas	-12%	2%	-8%	36%	\$10,752	12	\$9,878	13	-1
Florida	-31%	-9%	-25%	34%	\$10,891	10	\$8,181	15	-5
Georgia	-29%	153%	-5%	34%	\$11,005	9	\$10,425	10	-1
Kentucky	-22%	51%	-1%	13%	\$12,488	2	\$12,307	2	0
Louisiana	-17%	54%	-2%	2%	\$10,187	13	\$10,010	12	1
Mississippi	-17%	28%	-3%	27%	\$11,259	6	\$10,879	8	-2
Missouri	-29%	36%	-5%	18%	\$10,029	14	\$9,547	14	0
North Carolina	-8%	37%	1%	36%	\$11,773	4	\$11,893	4	0
Oklahoma	-16%	84%	6%	14%	\$10,005	15	\$10,576	9	6
South Carolina	-50%	58%	-14%	28%	\$12,930	1	\$11,071	6	-5
Tennessee	-18%	19%	-6%	21%	\$11,569	5	\$10,900	7	-2
Texas	-16%	11%	-8%	27%	\$11,250	7	\$10,389	11	-4
Virginia	-28%	76%	14%	28%	\$10,795	11	\$12,265	3	8
West Virginia	-15%	46%	4%	19%	\$11,243	8	\$11,738	5	3
US Avg	-22%	49%	0%	18%	\$10,976		\$10,989		

- Compared to other southern states, in 2003, Georgia ranked 1st (highest) in terms of state appropriations for higher education. In 2012, Georgia dropped to 5th in rank in terms of state support for higher education.
- In 2003, Georgia's tuition revenues per student was 15th (lowest) in the SE; in 2012, Georgia has risen to 11th. The net effect of these changes is that Georgia's overall rank in terms of revenue for higher education dropped by one place, from 9th to 10th.

Outlook for Georgia's FY14 Budget

- FY13 ended with 6% growth over 2012
- Growth projections: revenue estimate now based on 2.8% growth over FY13 (based on year end numbers)
 - Currently YTD coming in at 5.9% over FY13
 - Budgeted growth of \$503 million over FY12;
 - If continue at 5.9% would be equivalent to \$500 million in additional funds.

FY14 Demands

- FY14 Shortfalls include:
 - \$70 million CMO payment
 - \$33.2 million affordable care act
 - est. \$100 million for K-12 RSR Midyear Adjustment (\$183 million available)
- \$682 million in RSR (including K-12 Reserve)
 - About 3.7% of net revenues in FY13

FY15 Demands

- Assume 4.2% growth over current:
\$790 million
- Areas of Demand (Estimates)
 - \$153 million in Medicaid growth, including ACA
 - \$52 million in Behavioral Health
 - \$17 million Human Services
 - \$140 million education funding increase
 - \$53 million higher education
 - \$131 million retirement needs
 - \$546 million in required funds**
- Other: Pay Raises, OPEB Contributions, Education Formula Restoration?

Future Expectations

- State is finally in a position to start filling the holes left by the recession.

In the near term:

- OPB has asked agencies for budget proposals that are flat funded.
- Likely to be pressure to increase funding for K-12 education.
- Board of Regents enrollments declined by 2.74% - so funding generally flat.
- Next round of the federal sequester will affect education funds.

Long term:

- Goal is to ensure 60% of Georgia young adults receive some form of higher education, state currently at 42%.
- Estimated cost of this goal given current expenditure patterns would be over \$1 billion more annually.