

Senator Jack Hill, Chairman

Senate Appropriations Committee



FY12 Wrap Up



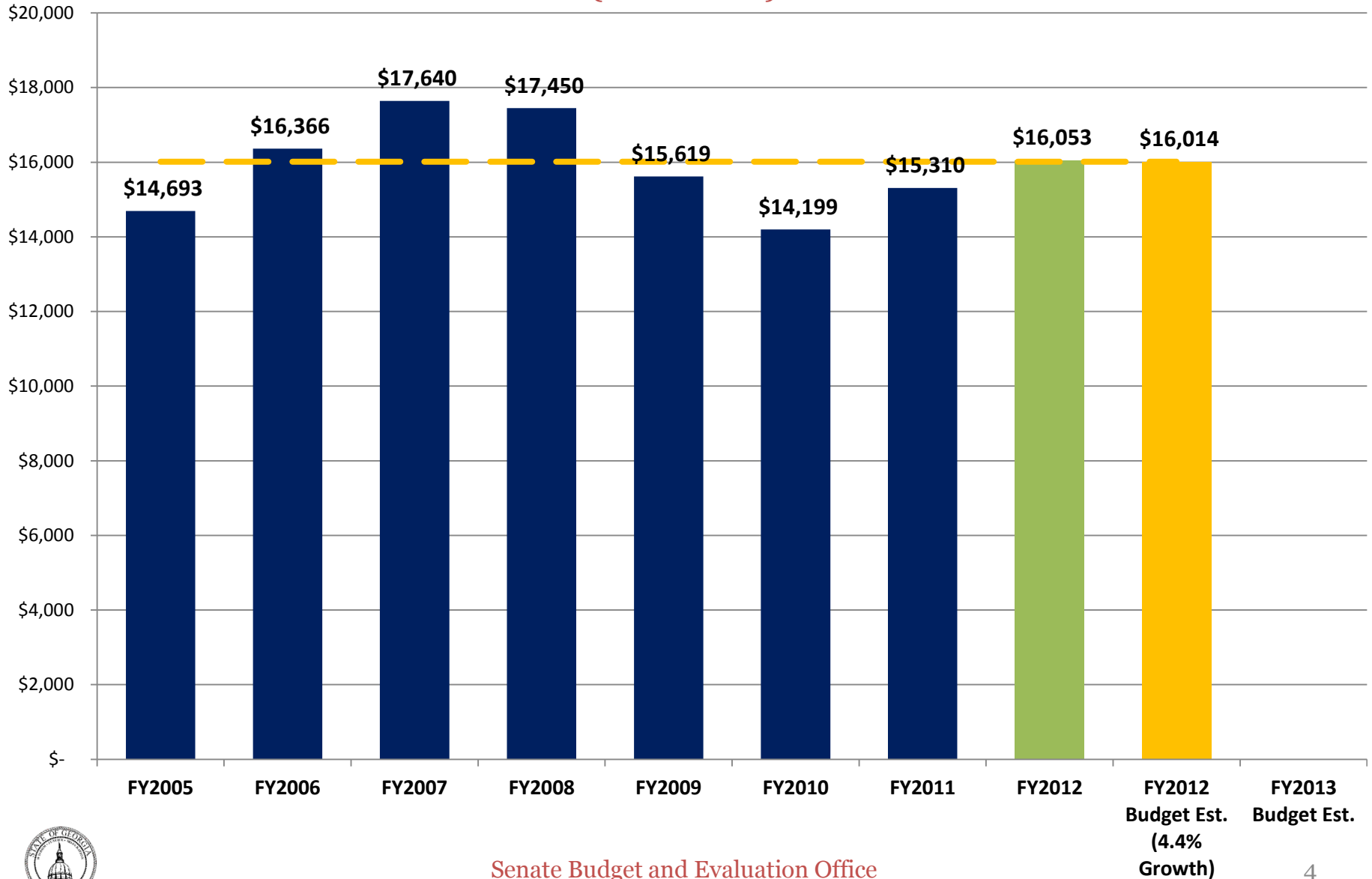
FY2012 Revenues

- One year ago, at the end of 1st quarter (July-Sept), Georgia revenues were growing by 7.2% over FY11
- By the end of the 2nd quarter, revenues had fallen off significantly and never really recovered
- **The failure of the last 3 quarters to match the first quarter of FY2012 laid the groundwork for the 3% cuts in FY2013 and FY2014**

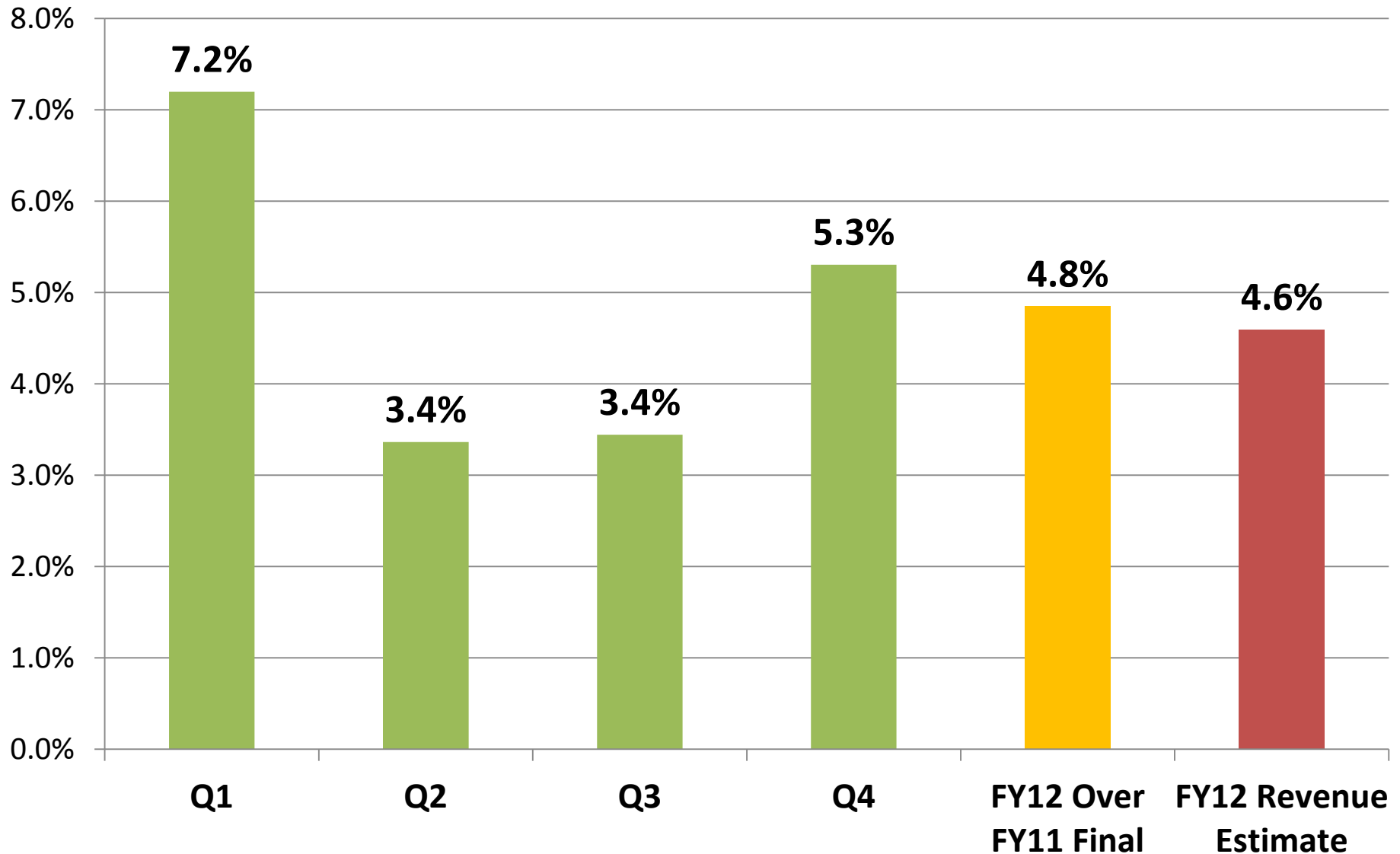


Tax Revenue Comparison

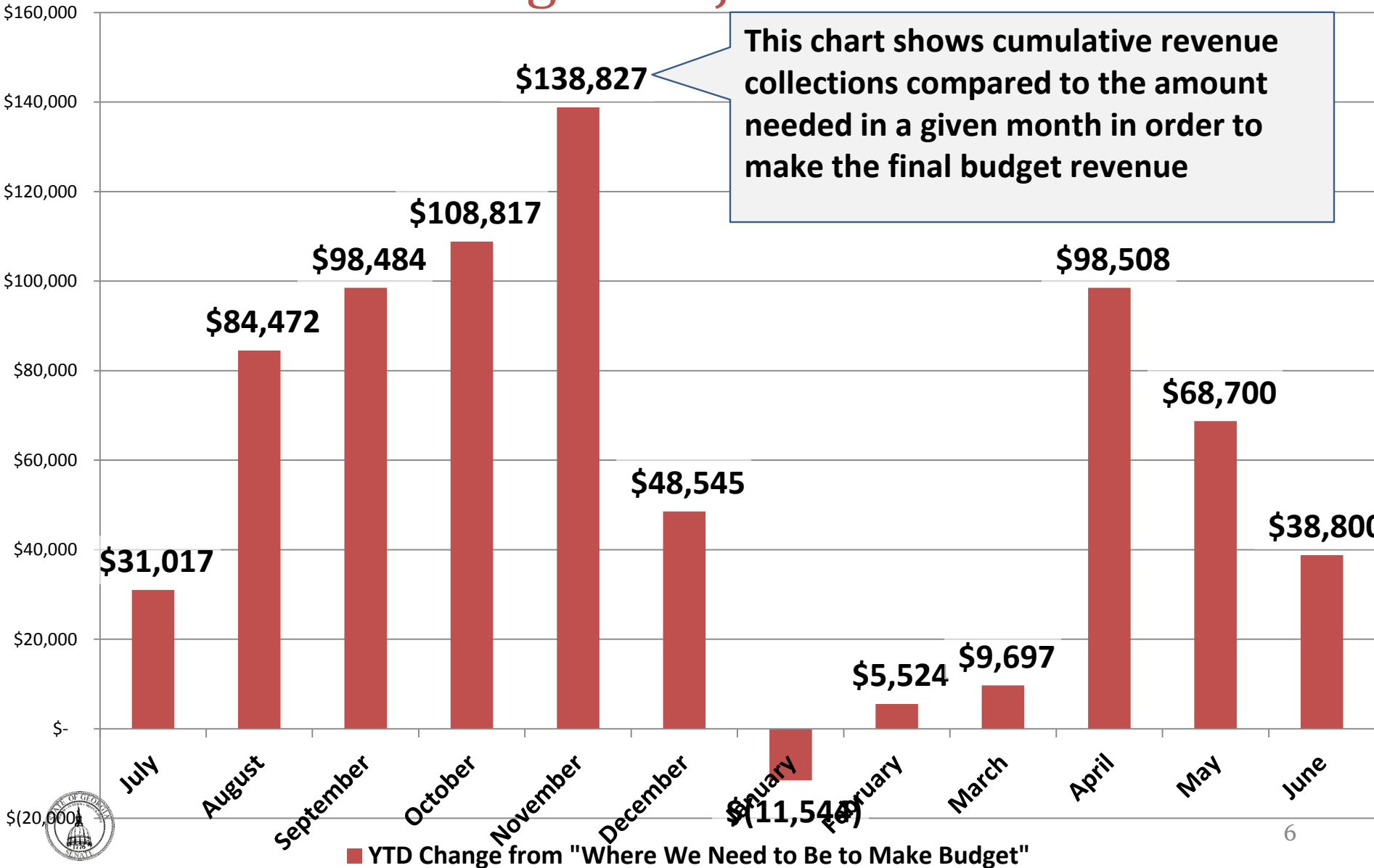
(in millions)



FY12 to FY11 Quarterly Comparison



FY2012: Were Monthly Revenues Meeting Budget Projections?

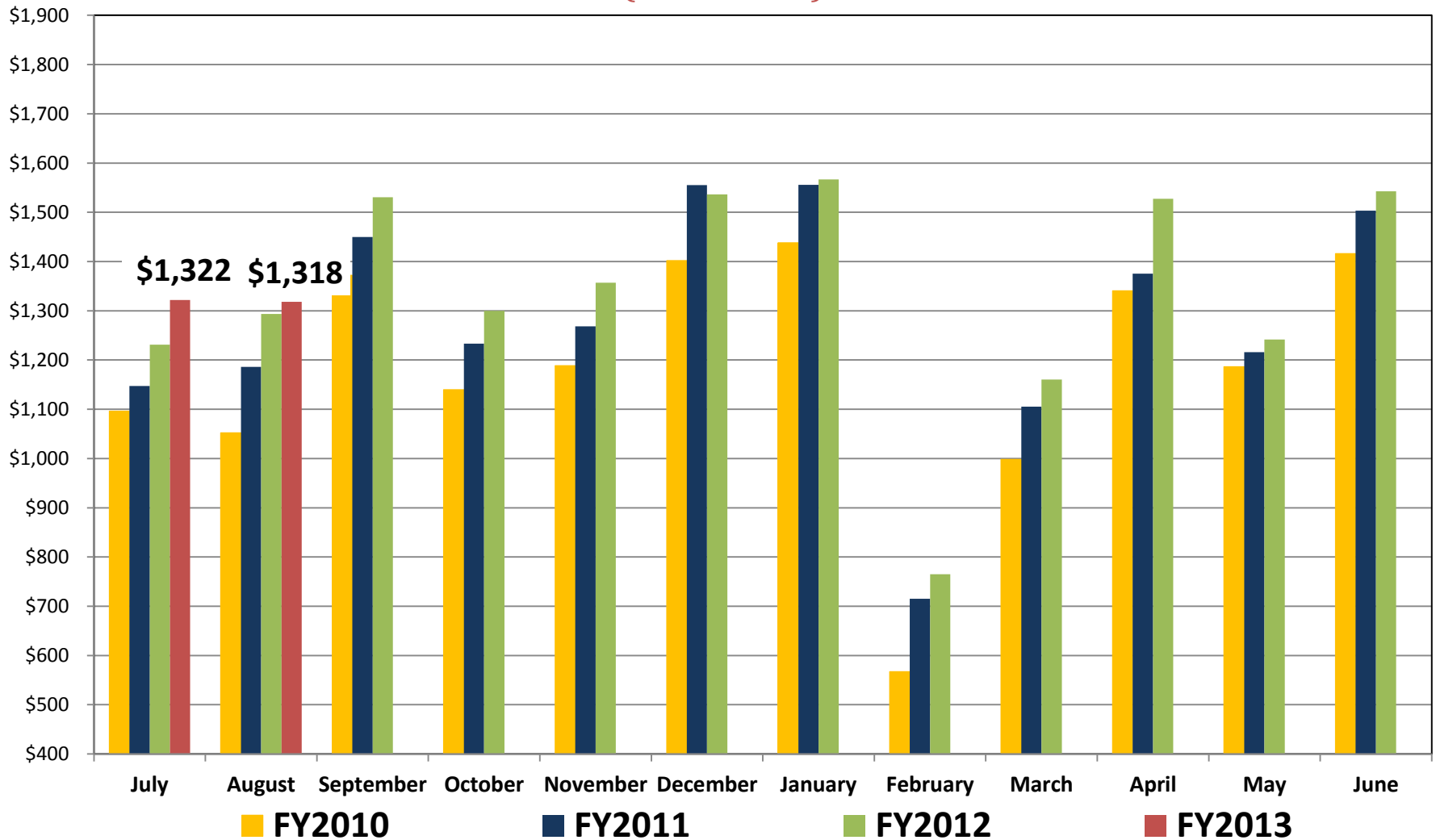


FY2013



Monthly Tax Revenue Comparison

(in millions)

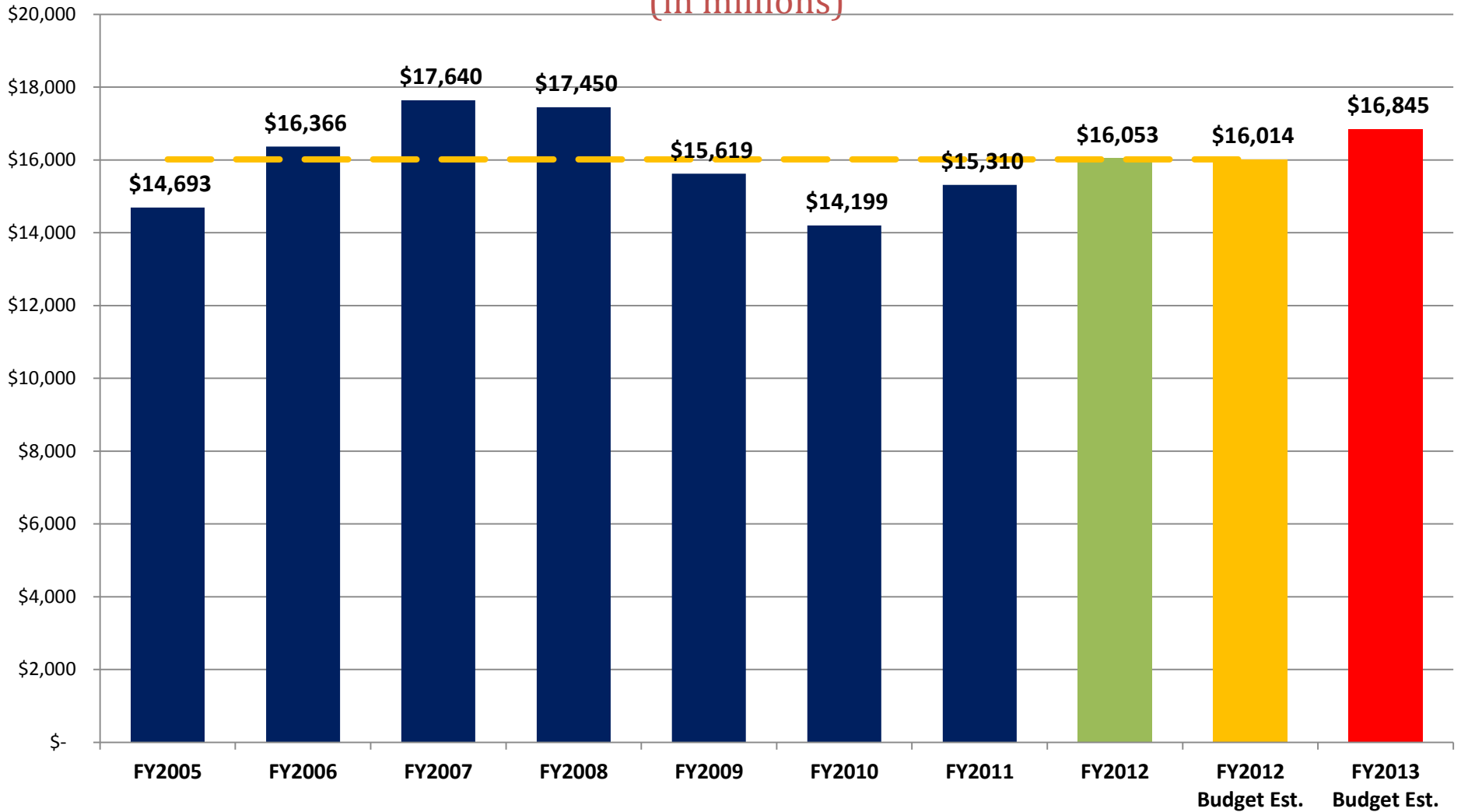


*Only compares revenues collected and reported by the Department of Revenue (primarily tax revenue). Other agency collections, such as insurance premium taxes, are not included.



Tax Revenue Comparison

(in millions)



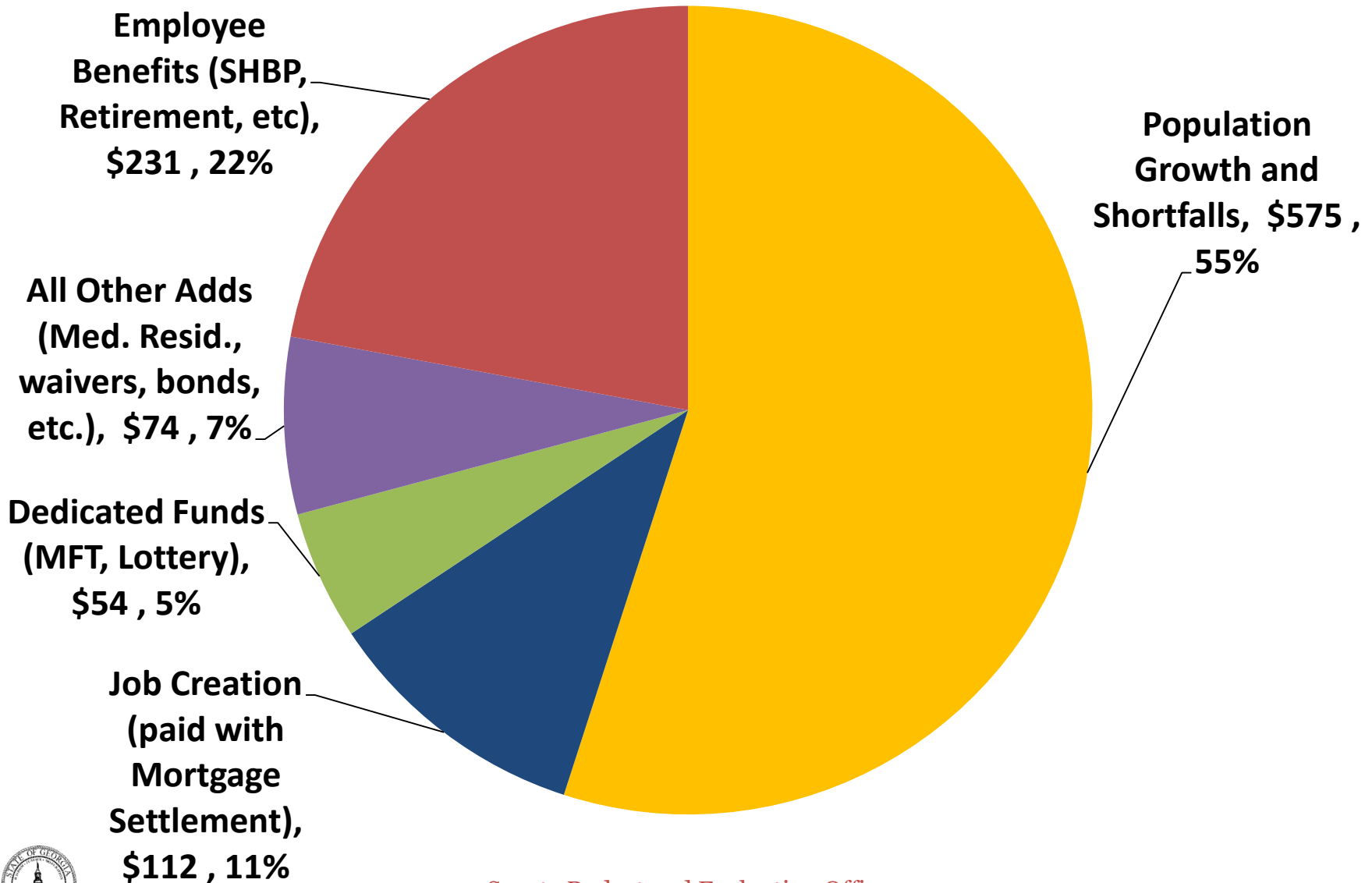
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(4.4% Growth)



Where the FY13 “New Money” Went

(in millions)



FY2013 Changes by Area

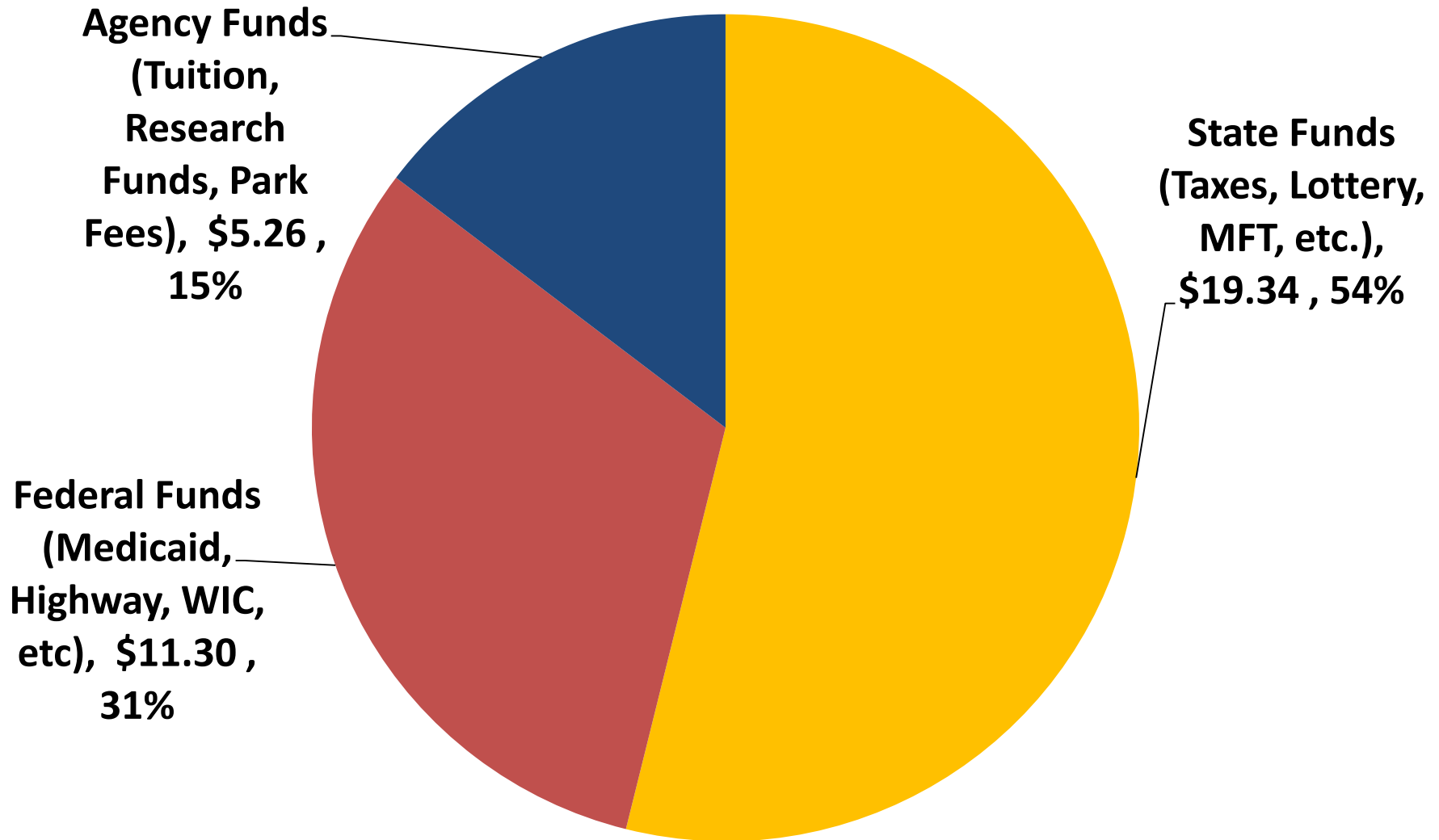
| (in millions of dollars)* | 2009 General | 2012 General | 2013 General | Area as % of Total Budget | Change from 2012 General | Change from 2009 General |
|------------------------------------------------------------------------------------|-----------------|-----------------|-----------------|------------------------------------|-----------------------------------|-----------------------------------|
| PreK-12 Education | \$8,545 | \$7,278 | \$7,531 | 38.94% | 3% | -12% |
| Higher Education | \$3,157 | \$2,633 | \$2,728 | 14.10% | 4% | -14% |
| Medicaid/PeachCare | \$2,516 | \$2,661 | \$2,930 | 15.15% | 10% | 16% |
| Corrections/Public Safety | \$2,019 | \$1,795 | \$1,912 | 9.89% | 7% | -5% |
| Health and Human Services (Mental Health, Foster Care, Labor, etc) | \$1,694 | \$1,410 | \$1,454 | 7.52% | 3% | -14% |
| Bonds | \$1,010 | \$1,065 | \$1,125 | 5.82% | 6% | 11% |
| Transportation | \$924 | \$781 | \$857 | 4.43% | 10% | -7% |
| General Government (Revenue, Sec of State, Driver Services, etc) ** | \$408 | \$379 | \$382 | 1.97% | 1% | -6% |
| Natural Resources | \$311 | \$217 | \$237 | 1.23% | 9% | -24% |
| Economic Development | \$150 | \$77 | \$186 | 0.96% | 142% | 24% |
| Grand Total | \$20,734 | \$18,297 | \$19,342 | 100% | 6% | -9% |



*Includes all state funds including lottery proceeds and motor fuel funds.

** FY2009 General does not include HTRG funding

Breakdown of the \$36 Billion Budget



2013 Amended/2014 General and Beyond



Issues for FY13 Amended

- **Agency cuts of 3% will cover most of the Medicaid shortfall of \$350+ million**
- **Mid year adjustment and debt service savings will hopefully cover rest of deficits that arose since passage of FY13 General Budget**
- **Need approximately 5% tax growth to cover budget estimate (as of August it is currently only 4.6%)**



Issues for FY14 General

Known Shortfalls:

- Medicaid: \$400+ million
- Enrollment Growth in Education/Higher Education: \$150 - \$200 million
- Retirement Systems: \$100- \$200 million

Governor's Instructions (All Cuts Taken) Yields: \$300 million

Unknown Fiscal Impact:

- Health Care Reform?
- Federal Budget Reductions Need State Funds?
- Hospital Provider Fee Renewal
 - 12% Cuts for Hospitals and \$150+ million budget deficit if not renewed
- Employee Health (SHBP) Shortfalls?



Other Topics



Volker-Ravitch State Budget Crisis Task Force

Paul Volker (former Fed Reserve Chairman) and Richard Ravitch (former Lt. Gov of NY) chaired a task force to look at challenges facing state budgets. The released 6 concerns for all states:

- 1. Medicaid Spending Crowding Out Other Needs**
- 2. Federal Deficit Reductions Impact on States**
- 3. Underfunded Retirements**
- 4. Eroding and Volatile Tax Bases**
- 5. Local Govt Issues Impact State Finances**
- 6. State Budget Laws and Practices Hinder Stability and Masks Imbalances**



Population Trends in Cost Driver Areas

| | 2008 | 2011 | % Change |
|-------------------------------------|------------------|------------------|------------|
| Georgia Population | 9,544,750 | 9,687,653 | 1% |
| Education | | | |
| K-12 FTEs | 1,627,660 | 1,650,981 | 1% |
| Regents FTEs | 235,186 | 276,109 | 17% |
| TCSG FTEs | 73,897 | 107,629 | 46% |
| Health | | | |
| Medicaid/PeachCare Enrollees | 1,520,750 | 1,696,839 | 12% |
| Corrections | | | |
| Inmates and Probationers | 208,051 | 215,756 | 4% |

Since the recession began in 2008, areas such as Higher Ed and Medicaid have seen significant growth.

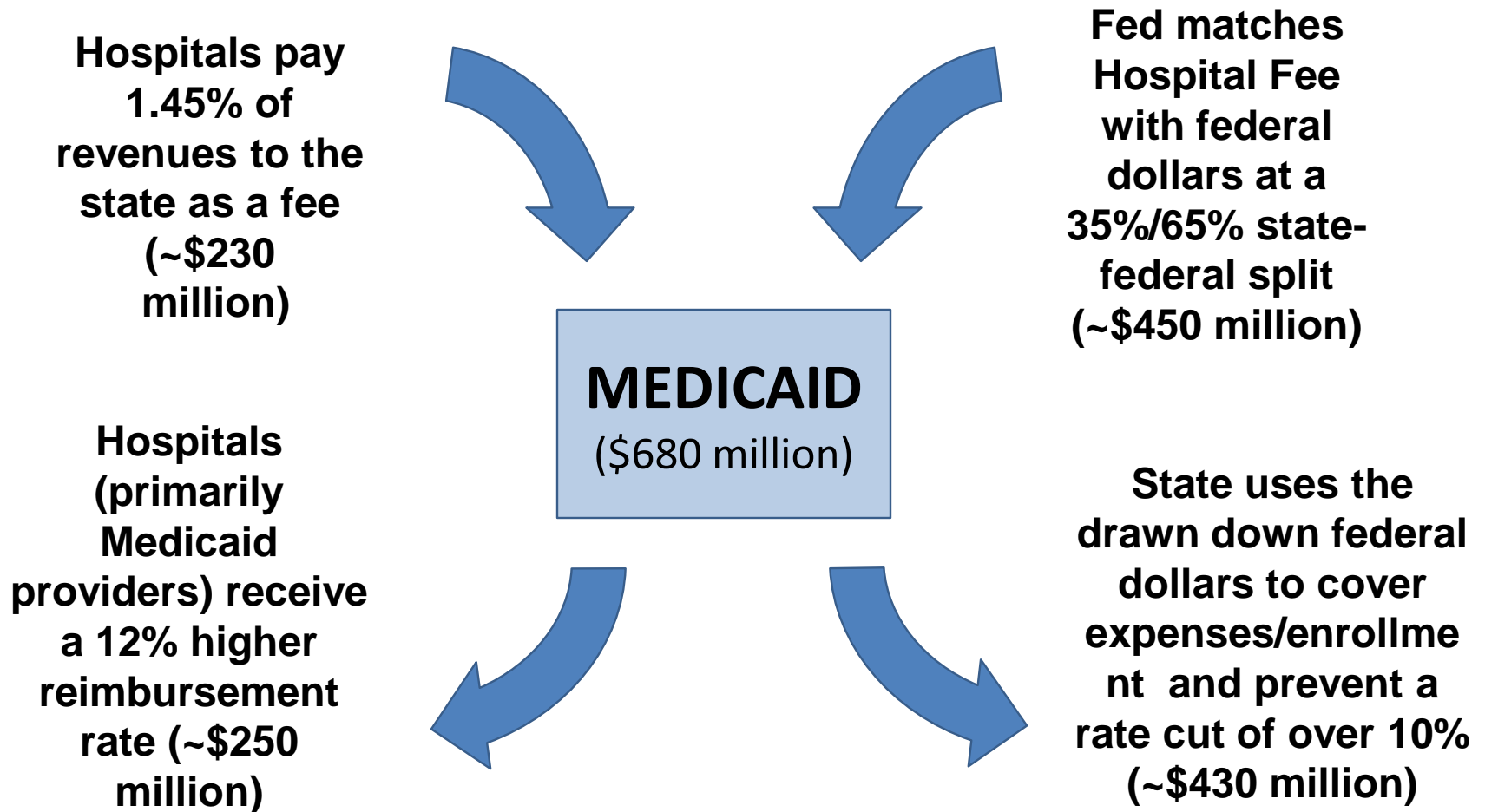


All State Employee Trends 2008-2011

| | FY2008 | FY2011 | Change |
|------------------------------------------------------|----------------|----------------|---------------|
| State Employees | 82,080 | 71,704 | -12.6% |
| Teachers | 118,913 | 114,446 | -3.8% |
| Non-Certs (Bus Drivers, Cafeteria, Admin) | 56,625 | 55,950 | -1.2% |
| Regents Faculty and Staff | 40,209 | 42,002 | 4.5% |
| Total | 297,827 | 284,102 | -4.6% |



Hospital Provider Fee Explanation



Hospital Provider Fee Issues

- In 2010, Georgia faced a \$600+ million Medicaid deficit. Governor Perdue proposed 3 options to solve:
 - Cut Medicaid provider reimbursements by 10.5% and remove sales tax exemption on non-profit hospitals
 - Cut provider reimbursements by 16.5%
 - Implement a hospital provider fee and increase hospital reimbursements by 12% (Chosen in the end)
- The fee is set to sunset on June 30, 2013. Impact if not renewed:
 - Hospitals lose the 12% reimbursement increase cited above. Hospitals in Georgia are struggling to stay open.
 - State will need to add \$150 million to Medicaid to draw down enough federal funds to cover the resulting gap. Medicaid currently faces a \$400 million deficit.



Hospital Provider Fee Issues

- **Hospital Provider Fee increase was offset by State Ad Valorem phase out and Senior Income Tax Exemption (Capped at \$65,000 in 2012)**



The Fiscal Cliff

- The federal Budget Control Act of 2011 mandated \$1.2 trillion in savings (Over 10 years)
- Most mandatory programs and a few discretionary programs are exempt. All other programs are subject to sequestration (withholding of appropriation by the US Treasury).
- Those programs sequestration will take an average cut of 10% of FY2011 grants
- Exact amounts not known until January 2013 but estimated at \$220 million for GA

| Top 10 Federal Grants in the State Budget | | |
|------------------------------------------------------------------------|--------------------------|---------------------------------------|
| Federal Fund Name | FY2011 Budgeted Receipts | Subject to Withholding/ Sequestration |
| Medical Assistance Program CFDA93.778 | \$5,757,705,745 | Exempt |
| Federal Highway Admin.-Planning & Construction CFDA20.205 | \$1,298,393,170 | Sequestered |
| National School Lunch Program CFDA10.555 | \$680,252,887 | Exempt |
| Grant to Local Educational Agencies CFDA84.010 | \$577,374,238 | Sequestered |
| Temporary Assistance for Needy Families | \$432,550,863 | Exempt |
| Special Education Grants to States CFDA84.027 | \$427,773,620 | Sequestered |
| Supplemental Nutrition -Women Infants & Children CFDA10.557 | \$295,095,769 | Sequestered |
| State Children's Insurance Program CFDA93.767 | \$246,587,299 | Exempt |
| Child Care & Development Block Grant CFDA93.575 | \$136,340,196 | Sequestered |
| CCDF Mandatory & Matching Funds CFDA93.596 | \$108,432,924 | Sequestered |



Federal Cuts Impact More Than Budget

Federal reductions will impact the state economy. Federal spending in Georgia in FFY2009:

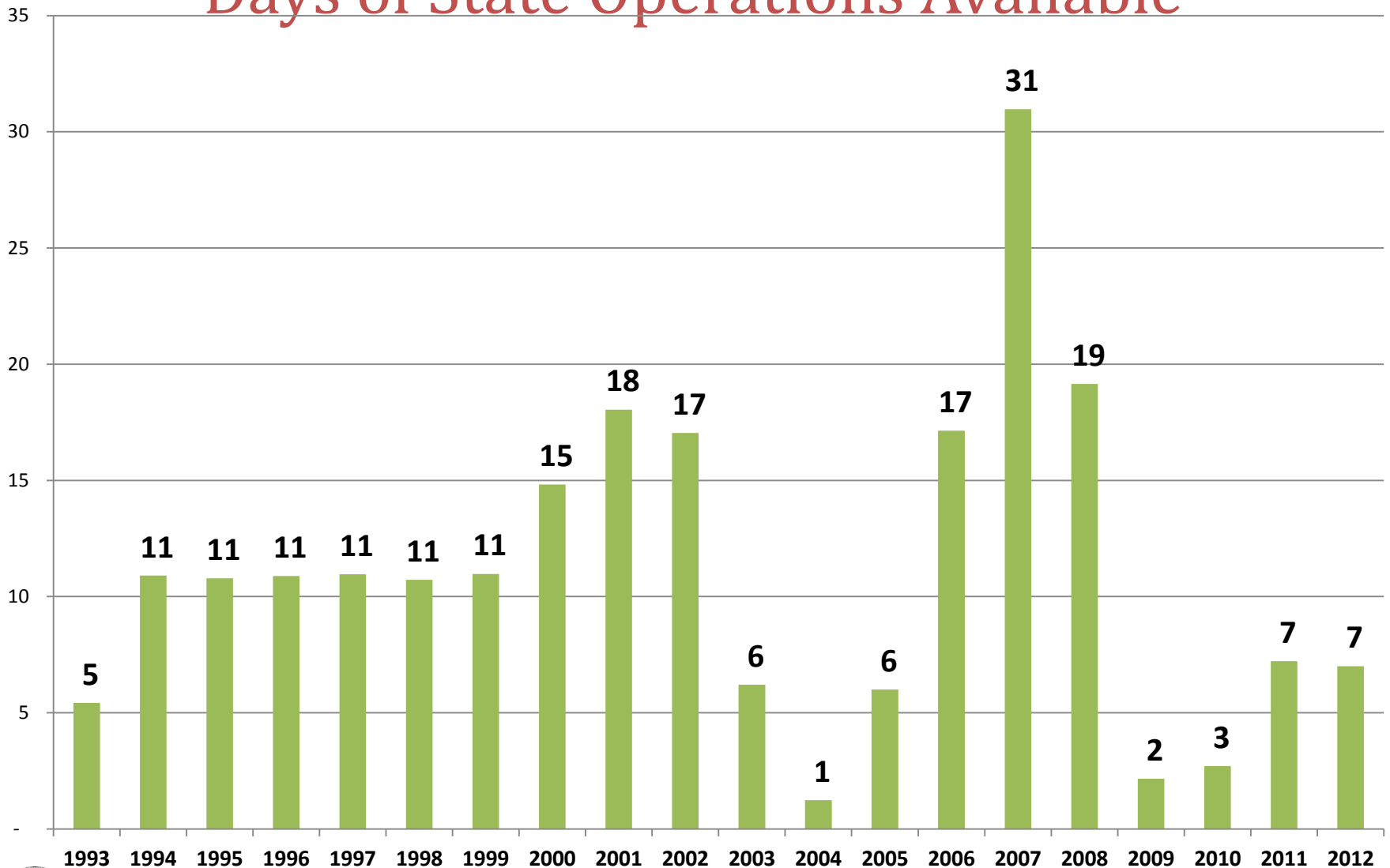
| | |
|---------------------------------------------------|---------------------|
| Grants to State, Locals, Non-Profits | \$19 billion |
| Social Security | \$16 billion |
| Other Retirement and Disability | \$10 billion |
| Medicare | \$10 billion |
| Food Stamps and Unemployment Insurance | \$4 billion |
| Procurement Contracts (incl. military) | \$11 billion |
| Federal Employee Salaries (incl. military) | \$14 billion |
| Other | \$5 billion |

FFY2009 Federal Spending in Georgia \$87 billion

Regardless of how you feel about the role of government, reductions will impact the state economy!



Revenue Shortfall Reserve (RSR): Days of State Operations Available



Bond Raters: GA is Strong But Must Be Cautious

Currently Georgia, along with 8 other states, enjoys the highest bond rating (Triple AAA). The bond rating agencies cited the following strengths and possible weaknesses.

Strengths

- Conservative fiscal management and prompt expenditure cuts when revenues decline (S&P, Fitch, Moody)
- History of rapid reserve (RSR) building after recessions (S&P, Fitch, Moody)
- Economy positioned to recover in medium term (S&P, Fitch)
- Pensions are well funded (Fitch, Moody)

What Could Cause a Downgrade

- RSR is very low (Moody)
- Revenue estimate assumes a higher rate of growth than forecast and may require the use of the RSR if it does not materialize (S&P)
- Economy and revenues are weak (Moody)
- Not addressing OPEB liability (Moody)
- Substantial deterioration of pension funded status (Moody)
- Relying on one-time fund sources (Moody)

Bond Raters assume \$800 million in new principal each year as an equivalent amount of old bonds are paid off.



Reasons to Be Optimistic

- **Triple A Bond Rating**
- **Retirement Systems Better than Most States**
- **Growth of Ports and Atlanta Airports**
- **Investments Expanding**
- **Georgia has strong university system and research capacity. This will yield high paying jobs**



Addendum

