Budget and Revenue Update

by

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The Big Question?

Question: We are seeing significant revenue growth every year, but why are/were agencies cut, good initiatives not funded, and employees not seeing pay raises?

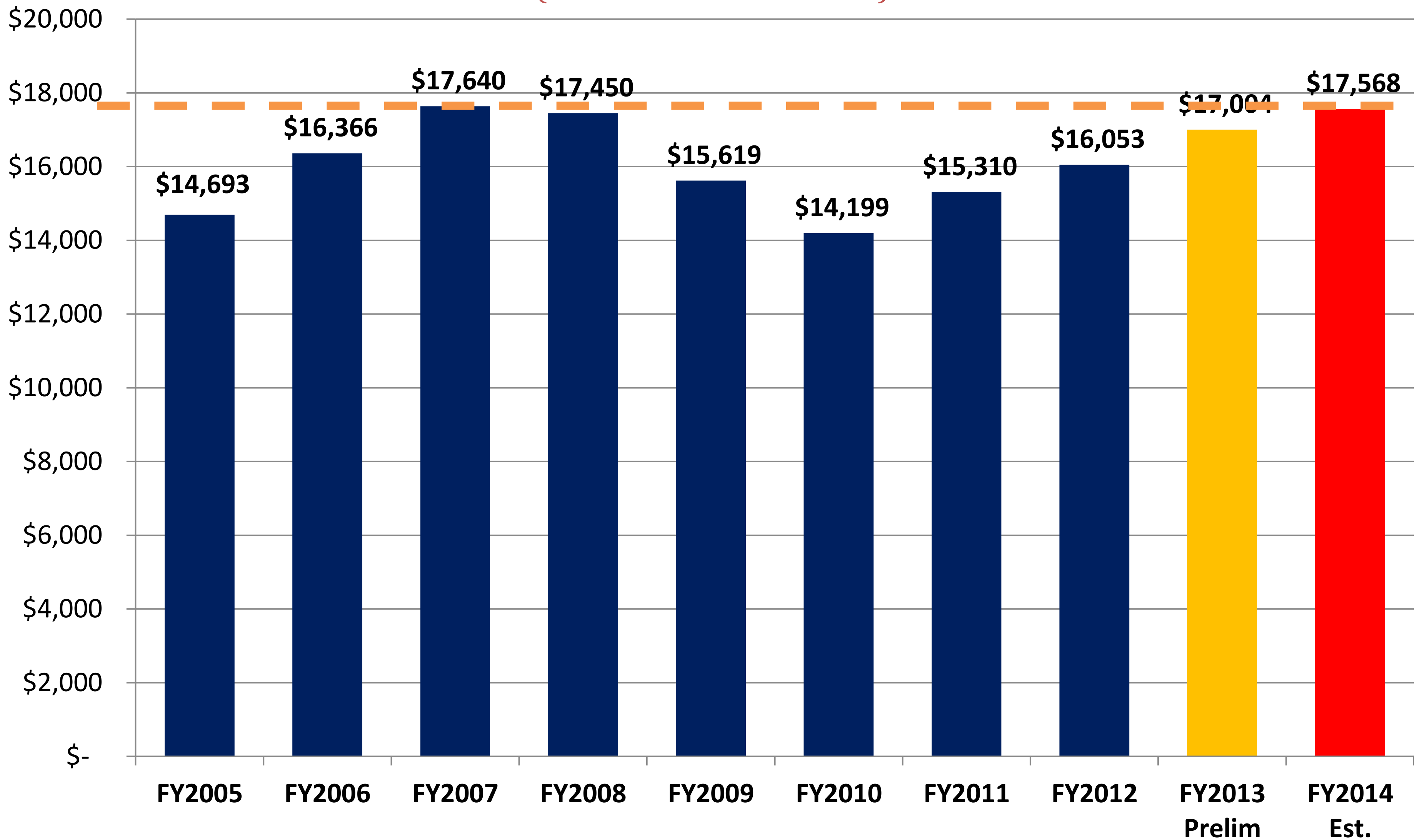
Answer: We are having to take new revenue (and if that isn't enough-agency cuts) to pay for things we HAVE to fund, NOT things we WANT to fund. Deficits in Medicaid, growth in education and higher ed, and shortfalls in retirement and SHBP are consuming all new (and some existing) dollars! Very little money left to do anything else.

Main Points

- Revenues, while increasing, remain at prerecession levels
- Revenues are barely covering population growth and deficits
- Increases in Medicaid, formula driven costs and employee benefits (retirement, SHBP, OPEB) drive the budget and new revenues
- RSR must increase

FY14 Revenue Estimate Less Than FY07 Collections

(Tax Revenue 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.

Budget Writers Hands Are Tied

- **Budget writers are having to put all new (and redirect some existing) funds to cover deficits, population growth or keep employee benefits solvent**. Main areas are Medicaid, K-12 and Higher Ed Growth, Retirement, and SHBP. We have very little control over the costs.
- Balanced budget requirements and little desire for tax increases **limits spending on important, but discretionary items** like employee pay raises, agency cut restorations, new initiatives, etc. Must rely on "whatever is left" for this.
- Next few slides will illustrate this trend

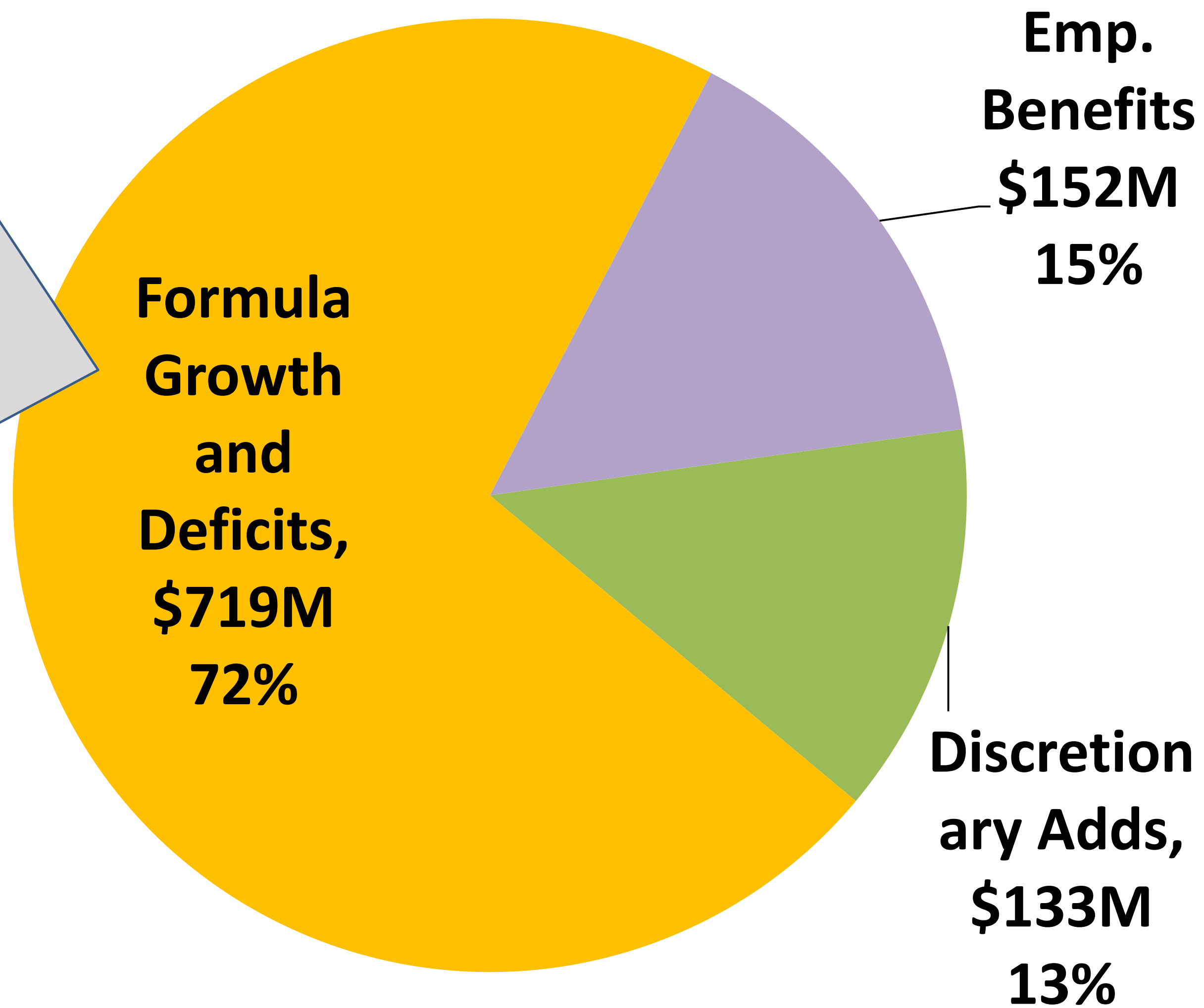
Where Does The "New Money" Go?

- SBEO did an analysis of all budget changes from 2010 to 2014 General (Approximately 14,000 changes)
- Grouped "Adds" (Funds from growing revenue collections and agency cuts) into 3 different categories:
  - **"Discretionary"**: **Legislators <u>have significant say</u> in amount and policy**; Ex: Bonds, Waiver Slots, medical residency slots, DJJ facilities, drug courts. Most would **not** consider this pork!
  - **Formula Growth and Deficits : Legislators <u>are generally bound to fund</u> because of legal, accounting, or solvency reasons**; Ex: Medicaid, K-12 and Regents growth and deficits
  - **Employee Benefits : Legislators <u>are generally bound to fund</u> because of legal and financial soundness reasons**; Ex: Retirement, SHBP, Workers Comp, etc.

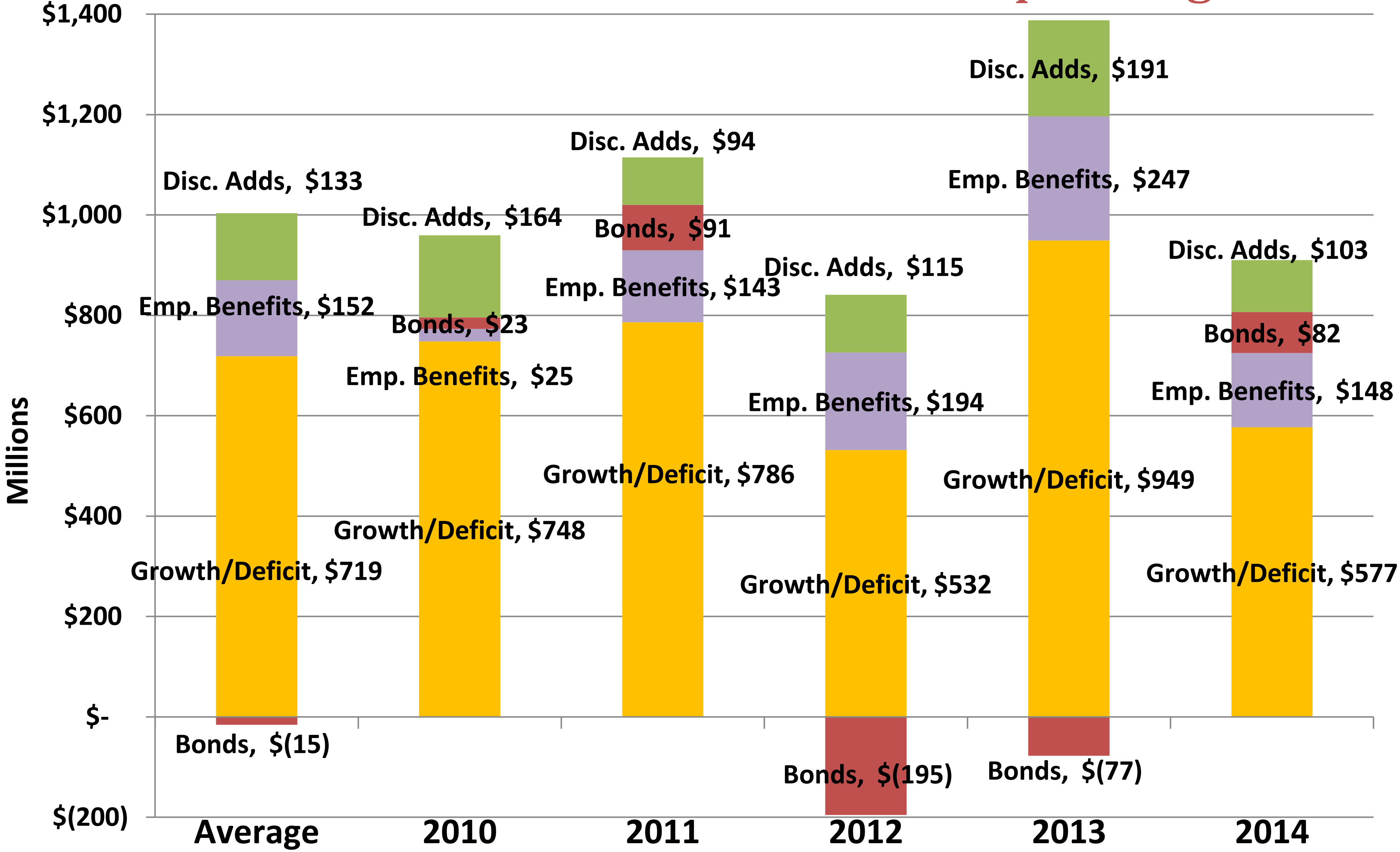
Where "New" Funds Are Spend in an Average Year (FY10 to FY14 General Average Annual Spending)

From FY10 to FY14, on yearly average of "new" funds spent:

- **87% or $871M went to cover areas <u>where there was no discretion in the amount</u>.** This includes Medicaid growth and deficits, education growth, retirement needs, SHBP needs, etc.
- **13% or $133m went to areas where legislators have significant say** in policy and amount like mental health slots, DJJ facilities, drug courts and bonds.

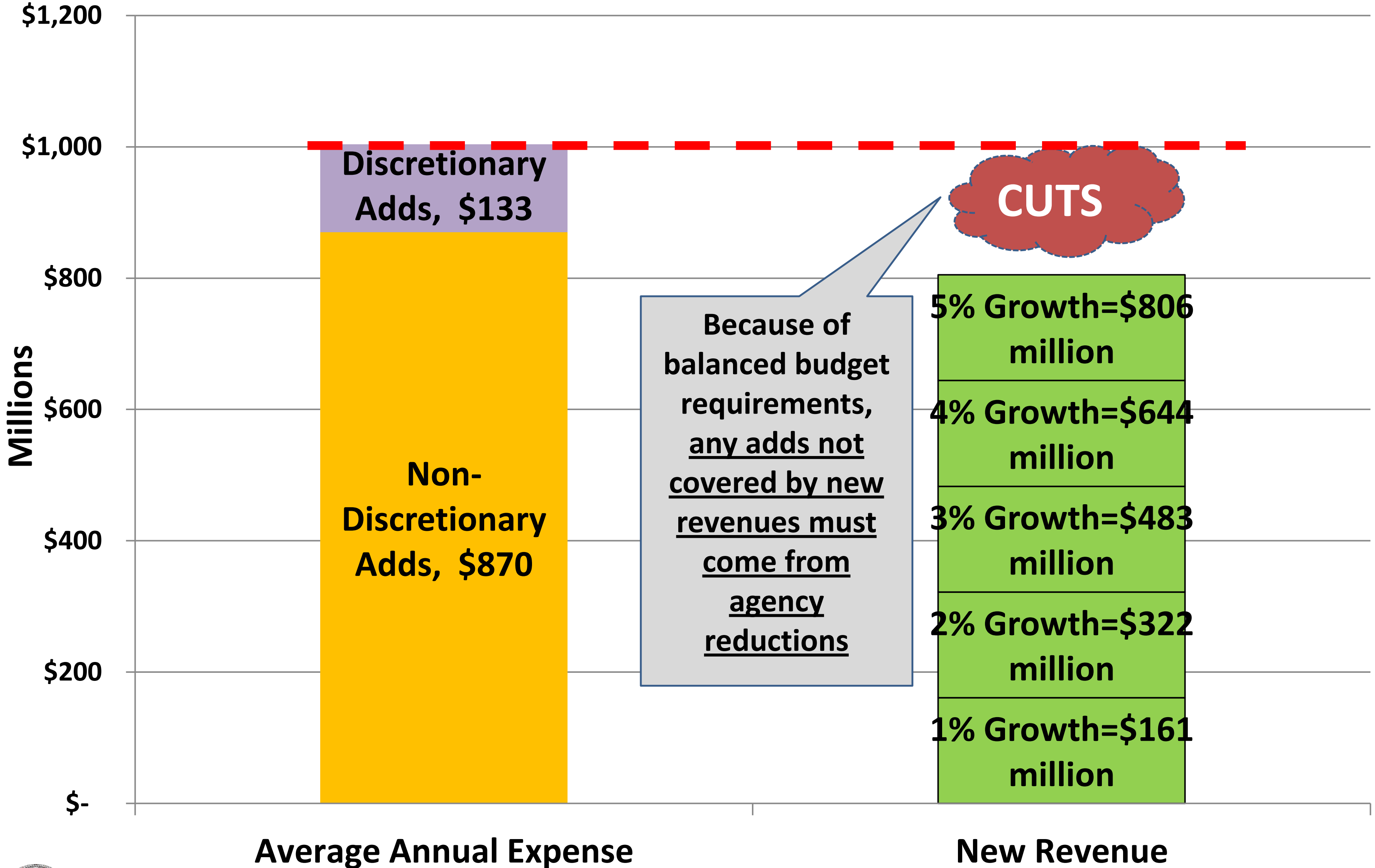


Annual Breakdown of New Fund Spending



* Does not include stimulus refills, dedicated fund sources like lottery/MFT or SHBP reserves. Negative amounts for bonds indicates debt service savings.

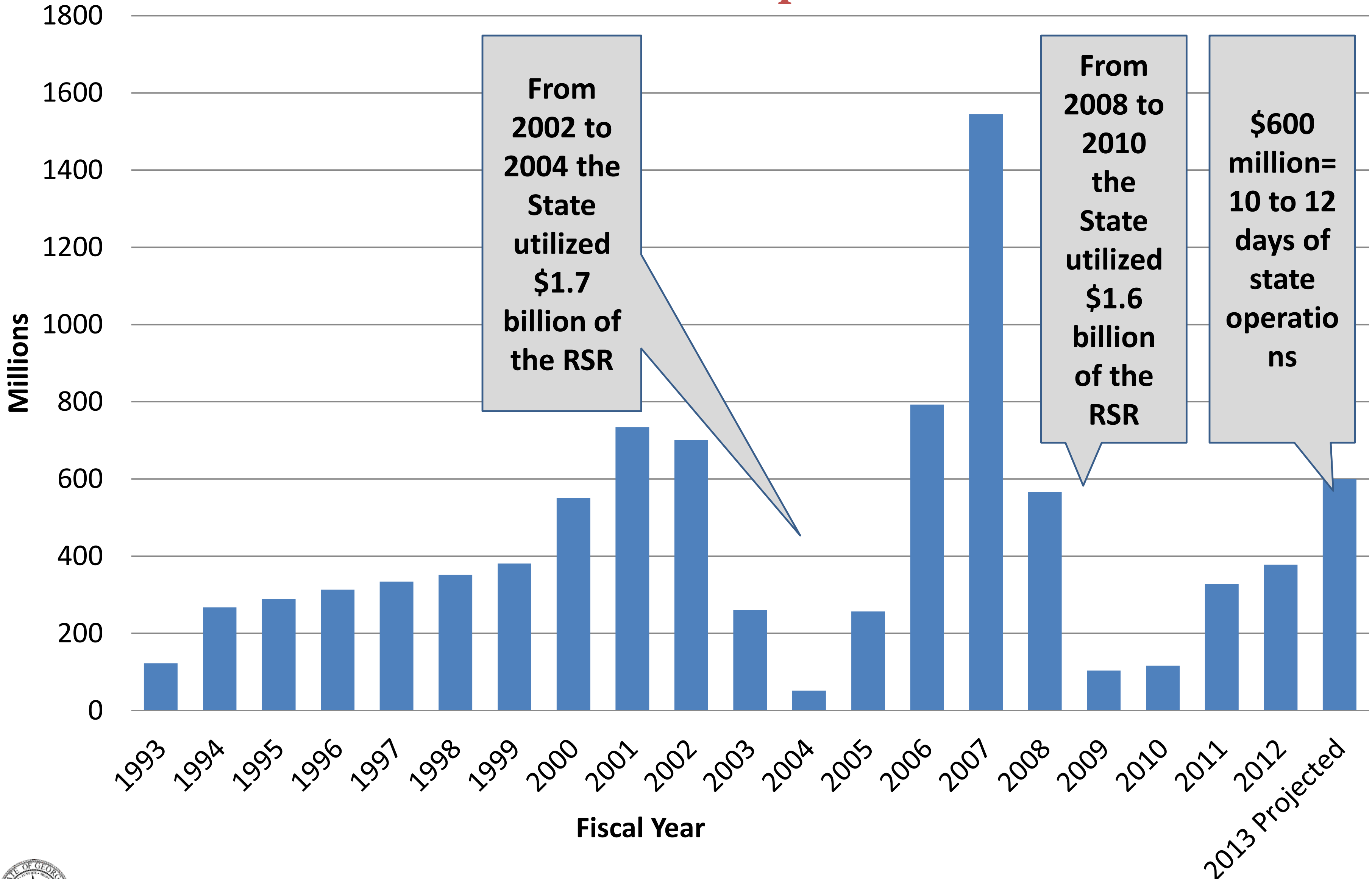
Implication: All New Revenues Spoken For



The Challenges

- **Medicaid (even without expansion) will continue to consume resources** because:
  - The individual mandate to have health insurance will cause those currently eligible but not enrolled to join Medicaid
  - Health Care Costs and Hospitals billings are increasing
- **Must Put Money in Revenue Shortfall Reserve** (RSR) to prepare for next recession and demonstrate soundness to bond underwriters
- **OPEB must be addressed**
- **Employee Benefits Pressure:** Less employees means less people to share costs in SHBP and retirement funding.
- **Federal Government?**
- **Georgia's Pressing Needs: Education, Infrastructure, Quality of Life**

RSR: Save or Spend?



Other Post Employment Benefits

- **State OPEB Fund –** The ARC for FY 2014 is $321.4M

- **School OPEB Fund –** The State Funding ARC for FY 2014 is $547.1M

Funding the state portion of the ARC for FY14 would cost $868.5M; currently we fund "PAYGO"

BOTTOM LINE: Bond Rating Agencies are looking for Georgia to make OPEB contributions; other AAA rated (Virginia, Utah and Maryland) are beginning payments.

Main Points Recap

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QUESTIONS?