



Senate Press Office

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Notes from the Senate

By Sen. Bill Heath



Entering the Fiscal Year 2010 budget, the state faces a very sobering reality. In the last session, the General Assembly cut \$3.1 billion from the FY10 state budget. This budget plan, adjusting for inflation and not counting federal stimulus dollars, brings per capita state spending to levels not seen since the mid 1990s. When the 2009 Legislative Session ended, we assumed that the budget, while painful, was decreased enough to weather the tough revenue collections. Unfortunately, this does not appear to be true.

While audited figures are still not in for the FY09 budget, last year's revenue collections were over a half billion dollars short of the projections, draining the reserve fund. Projections are made based on revenues collected the year before. In declining economic years, it is tough to make accurate predictions.

The Revenue Shortfall Reserve (RSR) is comprised of state general funds or motor fuel funds that remain unspent at the end of the state's fiscal year. There are two primary means by which funds are added to the RSR. First, the state may ultimately collect more in revenues than appropriated for that fiscal year. Any excess revenues, having not been appropriated, are automatically put into the RSR. Second, an agency may end a fiscal year having not spent the full amount of their state funds appropriation. Any unencumbered state funds remaining in an agency's budget at the end of the fiscal year do not carry forward into the next year, but instead lapse into the RSR.

That brings us to where we are currently. Even with \$3.1 billion cut from the budget, the FY10 budget proposes to spend more than the state collected in FY09. The question that we will examine this week is: Are the worst revenue collections behind us or do lawmakers need to reduce the budget even more? Because Individual Income Taxes and Sales Taxes make up about 84% of revenue collections, analyzing these two categories will help us to make some predictions.

INCOME TAXES

Individual income taxes make up half of total revenue collections. Fiscal Year 2009 saw income tax collections decline 12.2% from FY08 collections - a direct result of many people losing their jobs, the collapse of the home building industry and numerous other factors. In that period of one year, Georgia's unemployment rate has risen from 6.2% to 10.1% - a 63% increase. Most of this decline

occurred in the second half of the fiscal year. Average monthly income tax revenues were \$716.7 million from July through December but were \$583.5 million for January through June. Income tax revenues for July FY10 are down 8.4% from July FY09

Economists are projecting that the country will see the bottom of the recession in September or October, but job losses, which are a lagging indicator of economic recovery, will not turn around until mid-2010 in the most optimistic scenario.

These predictions all suggest that the revenue pattern of the last half of FY09 is likely to continue, if not decline somewhat, through FY10. A flat line projection, assuming no further decline, suggests income taxes alone in FY10 will be at least \$800 million below FY09.

SALES and USE TAXES

Sales and Use Taxes account for approximately one-third of revenue collections. Sales tax collections were down almost \$1 billion for local and state collections in FY09. Personal savings rates were at 4% in March compared to 1% two years ago. Consumer confidence remains low and consumption is not expected to level out until the second quarter of next year- again, the end of the 2010 fiscal year. So, there does not appear to be much of an increase in retail sales in the near future.

If the state brings in sales tax comparable to the last half of the year, this will create an additional \$200 million shortfall. Optimistically, if consumer confidence stabilizes and unemployment has no effect, the state might expect to bring in around the same amount as last year.

HOW IS THE STATE ADDRESSING THIS BUDGET CRISIS?

Any projection has to automatically add \$535 million to the total to account for the additional \$235 million in income tax refunds left over from FY09 and the \$300 million shortfall that occurs simply because the FY10 budget has exceeded FY09 actual revenues. The income tax and sales tax trends suggest optimistic shortfalls of \$800 million to \$1 billion. These projections also do not account for other state revenues which might also be affected by the economic situation. Adding in \$535 million suggests the state should be planning for a FY10 shortfall of at least \$1.3 to \$1.5 billion. So, what are we doing to address this?

Georgia is certainly not alone in the way the state is addressing its shortfall. Most other states are reducing salaries, or furloughing and laying off state employees as well as teachers. Most state agencies in Georgia were already furloughing many employees before the Governor's announcement of the three day statewide furlough. As legislators, we're doing our part by also taking a furlough day each month until the end of the calendar year, limiting travel, and reducing the number of meetings at the Capitol. All legislative staff has been furloughed and we encourage each office to find budget savings everywhere possible.

During the legislative session and throughout our budget discussions, we cut waste from everywhere possible and will build up the reserve fund as much as possible. Unfortunately, in a declining economy, any further cuts will affect everyone.

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Sen. Bill Heath serves as Chairman of the Retirement Committee and Governor Sonny Perdue's Floor Leader in the Senate. He represents the 31st Senate District which consists of Haralson and Polk counties and portions of Bartow and Paulding counties. He may be reached at 404.651.7738 or by email at bill.heath@billheath.net.