

The Fiscal Impact

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Georgia's Rank

	<u>Fiscal Capacity</u>		<u>Fiscal Need</u>		<u>Fiscal Comfort</u>		<u>Fiscal Effort</u>	
	1999	1987	1999	1987	1999	1987	1999	1987
Georgia	24	26	7	6	36	37	30	30

Source: Robert Tannenwald and Nicholas Turner, *State Tax Notes*, May 23, 2005: 585-598.

Georgia By the Numbers

Georgia is often touted based on numbers such as those that reflect strong population growth (6th largest population growth in the 1990s), long commutes (7th longest commute time), and a struggle to move up the ranks in terms of per capita income (current Georgia's per capita personal income ranks 30th among states). The fiscal condition of the state is likewise characterized by numbers such as state tax revenue per capita (\$1,548 versus a U.S. average of \$1,891), or taxes relative to personal income (37th highest in the nation). However, any single number can mask important information. For example, strong population growth may be accompanied by increases in expenditure pressure. Low taxes on average may reflect a growing budget gap issue.

Recently, Tannenwald and Turner calculated several fiscal indices for all states. An important index is *fiscal capacity*, which is a measure of the potential taxes that could be raised if the state imposed the average tax structures in the U.S. Comparing fiscal capacity and actual tax collections measures *tax effort*—a measure of how extensive the state is employing its fiscal capacity. Another important measure of a state's fiscal health is its *fiscal need*, which is a measure of the impact of various expenditure pressures (large school aged populations, large elderly population, etc.) on the necessary level of public expenditures. *Fiscal comfort* is the fiscal capacity relative to fiscal need.

Georgia's ranking relative to the other states on these four indices are presented above, where a ranking of 1 reflects the highest value of the index. As seen above, from 1987 to 1999, Georgia saw virtually no change in its relative position in terms of these fiscal measures. The fiscal capacity of the state (the potential to raise revenue), remains in the middle of the pack. Georgia ranks quite high in terms of fiscal need —suggesting that various pressures such as population growth and poverty increase the need for public expenditures in Georgia relative to other states. Georgia is ranked relatively low on fiscal comfort, meaning that Georgia faces more expenditure pressures relative to its fiscal capacity than do other states. Georgia also has a low fiscal effort index, showing that, according to this methodology, the state was not collecting as large a portion of its potential revenue as the average state.

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