

# Fiscal Research Program

**TWELVE YEARS OF BUDGET  
GROWTH : WHERE HAS THE  
MONEY GONE ?**

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# **Twelve Years of Budget Growth: Where Has the Money Gone?**

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# Twelve Years of Budget Growth: Where Has the Money Gone?

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## **Twelve Years of Budget Growth: Where Has the Money Gone?**

### **Executive Summary**

The general fund portion of the state budget grew 98.4 percent between fiscal years 1991 and 2003, from \$7.63 billion in Fiscal Year (FY) 1991 to \$15.14 billion in FY 2003. If the budget grew as fast as the increase in the cost of living and the increase in the population being served, the budget would have grown 83.2 percent since FY 1991, to a total of \$13.98 billion, or \$1.16 billion less than the actual FY 2003 budget. If you discount the \$377.5 million appropriated for the Homeowner Tax Relief Grant Program, which is in reality an appropriation for a property tax cut, then the FY 2003 budget is only \$780 million above what the budget would be if it had grown at the rate of inflation and population. This report identifies specific policy decisions that caused state agency FY 2003 budgets to increase faster than the increases in the cost of living and the population being served.

We refer to the budget amount that allows for the increase in the cost of living and the population being served as the Baseline budget. The difference between the FY 2003 Baseline budget and the FY 2003 actual budget is \$1.16 billion, or 8.3 percent (Table Ex-1). Education agencies (Regents, Board of Education, and the Department of Technical and Adult Education) account for \$984 million of this total difference. The Judicial branch and the Departments of Corrections and Juvenile Justice account for \$321 million of this total difference. Several agencies, including the Departments of Human Resources, Transportation, Natural Resources, Agriculture and Forestry, have smaller actual FY 2003 budgets than FY 2003 Baseline budgets.

The policy decision with the greatest impact on the general fund portion of the state budget was the decision to raise teacher salaries at rates considerably higher than the rate of inflation. In order to recruit and retain quality teachers employed by Boards of Education, the Board of Regents, and the Department of Technical and Adult Education, a policy decision was made to give salary increases above the rate of inflation for eight of nine years between FY 1995 and

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FY 2003. Approximately \$1.07 billion of the \$1.16 billion that the FY 2003 budget is above the Baseline budget can be accounted for by teacher salary increases being above the rate of inflation.

The policy decision with the next most significant impact on the budget was to have a greater number of juvenile and adult offenders entered and spent longer time in state institutions. The inmate population within the state prison system increased 112 percent between FY 1991 and FY 2003. This is considerably greater than the 31.5 percent overall state population increase. There are approximately 18,000 inmates above what would be expected if the number of inmates grew at the rate the state population increased. There was similar growth in the number of juveniles receiving services within the Department of Juvenile Justice.

In addition, inmates are getting older. In 1979 there were 570 inmates age 50 and older. The Department of Corrections estimates that there will be 6,200 inmates age 50 or older by 2007. The cost of housing an older inmate is estimated to be three times that of a younger, healthier inmate. Unless there is a change in criminal justice policy, the number of beds within the Department of Corrections will continue to grow and the inmate population will continue to age. This will have serious consequences on the state budget in upcoming fiscal years.

Between FY 1991 and FY 2003 the state general revenue portion of the state budget did grow slightly greater than inflation and population growth would account for. It is important to remember that the general revenue portion of the state budget would have increased at a greater rate if almost \$1 billion in tax cuts were not implemented over this 12-year period.

Allowing for inflation and population growth, the state general fund budget would have increased by 83.2 percent between FY 1991 and FY 2003. Most of the remaining growth in the budget can be attributed to the implementation of distinct policy choices by the Governor and General Assembly.

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## Introduction

The State of Georgia has been in the midst of a huge growth spurt over the past 12 years. From 1991 through 2003 the population of Georgia grew 31.5 percent<sup>1</sup>, making Georgia the fastest growing state in the Southeast and the 6<sup>th</sup> fastest growing state in the nation<sup>2</sup>. The state budget has grown correspondingly, from a total of \$7.66 billion in Fiscal Year (FY) 1991 (July 1, 1990 – June 30, 1991) to \$16.14 billion in FY 2003 (July 1, 2002 – June 30, 2003).<sup>3</sup> This report links changes in budgetary expenditures to distinct policy choices. This report is an update of previous Fiscal Research Program reports.<sup>4</sup>

For FY 2003 the state budget was funded from general fund revenues, lottery funds, Indigent Care Trust Fund, and tobacco settlement funds.

- General fund revenues consist of taxes and fees collected by the state. Approximately \$15.14 billion was appropriated from general fund revenues in FY 2003.
- The Indigent Care Trust Fund (ICTF) was established in 1991 in order to help hospitals serve those who are uninsured and who do not qualify for Medicaid. The ICTF is funded through voluntary intergovernmental transfers or contributions from participating public hospitals and other government entities. No general fund revenues are used for this purpose. The federal government matches these contributions on a 60:40 basis for benefit expenditures and on a 50:50 basis for administrative expenditures. The Department of Community Health distributes these funds to hospitals

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<sup>1</sup> United States Department of Commerce, Bureau of Census  
[www.census.gov/popest/data/counties/tables/co-est2002/co-est2002-01-13.php](http://www.census.gov/popest/data/counties/tables/co-est2002/co-est2002-01-13.php).

<sup>2</sup> United States Department of commerce, Bureau of Census  
[www.census.gov/prod/2003pubs/02statab/pop.pdf](http://www.census.gov/prod/2003pubs/02statab/pop.pdf).

<sup>3</sup> Federal Funds are not included in these figures. Some, though not all, federal funds are appropriated in the budget bill. Most of these funds are federal matching funds (i.e. Medicaid, transportation) and are treated as a pass through.

<sup>4</sup> This report is an update of both the FRP Report No. 46 “A Decade of Budget Growth: Where Has The Money Gone?” released in September of 2000 that presented an analysis of state budget growth between fiscal years 1991 and 2000 and an updated policy brief released in August of 2001 that included the FY 2001 budget in the analysis. While the FY 2004 budget has been adopted, it will be amended in the 2004 session of the General Assembly. Thus, we use FY 2003 actual budget to compare with FY 1991 actual budget.

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based on a formula that accounts for the amount of hospitals' uncompensated care. Over \$148.8 million was appropriated to the ICTF in FY 2003.

- Lottery funds were first appropriated in FY 1994. State law provides that lottery funds may be appropriated only for programs in four areas: voluntary pre-kindergarten for four-year-olds; scholarships and student loans; capital improvements for education; and costs of providing technology training for teachers and repairing and maintaining instructional technology. Over \$665 million was appropriated for lottery programs in FY 2003.
- Tobacco settlement funds were first appropriated in FY 2001. As a participating state in the master settlement agreement with five cigarette manufacturers, the State of Georgia is slated to receive over \$4.8 billion in payments over a 25-year period, or an average of \$192 million per year. These funds have been committed to rural economic development programs and healthcare programs. Over \$184 million was appropriated from tobacco settlement funds in FY 2003.

The general fund portion of the state budget grew 98.4 percent between fiscal years 1991 and 2003, from \$7.63 billion in FY 1991 to \$15.14 billion in FY 2003. Of this \$7.5 billion increase, \$6.34 billion can be attributed to population growth and inflation.

This report explores the reasons for the remaining \$1.16 billion increase. In particular, this report identifies specific policy decisions that caused state agency FY 2003 budgets to be above or below what can be accounted for by inflation and population growth. The budget is a policy document that reflects priorities. By studying changes in the budget, one is able to pinpoint changes in policy priorities. To get at the effect of policy changes on the budget, it is necessary to define a "Baseline" budget. A Baseline budget is defined as a budget that reflects inflation and population growth (i.e., would maintain constant real per capita spending). In other words, a Baseline budget is one that grows as fast as the increase in the cost of

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living and the increase in the population being served. Thus, in this report, we identify specific policy decisions that caused state agency general fund budgets to be above or below the Baseline.

The next section of this report contains a comparison of the budgets for FY 1991 and FY 2003, followed by a short discussion of a budget reform implemented in FY 1997 called “budget redirection.” A FY 2003 Baseline budget is then calculated using FY 1991 as a base year. The policy decisions that drive the agency budgets to fall above or below the Baseline budget are then highlighted.

## **Twelve Years of Budget Growth: Where Has the Money Gone?**

### **A Comparison of Fiscal Year 1991 and Fiscal Year 2003**

In FY 1991 the Georgia budget totaled \$7,667,693,946. Of this amount, \$35.5 million was appropriated from the Indigent Care Trust Fund, with the remainder (\$7,632,181,330) appropriated from general fund revenues. In FY 1991 both lottery and tobacco settlement funds did not exist. Over half the state budget funded through general fund revenues (51.4 percent) was spent for education purposes. Funding for the State Board of Education totaled 37.3 percent, funding for the Board of Regents totaled 11.9 percent, and funding for the Department of Technical and Adult Education totaled 1.7 percent of the general fund budget. Funding for social service related agencies totaled 21.8 percent of the general fund budget with the Department of Human Resources accounting for 12.3 percent and the Medicaid benefits budget through the Department of Medical Assistance accounting for 9.0 percent. Spending for criminal justice related activities accounted for 9.6 percent of the general fund budget, with the Department of Corrections totaling 5.7 percent. The Department of Transportation accounted for 6.6 percent, funding for debt service accounted for 4.6 percent, and funding for all other government activities accounted for 6.0 percent of the general funds budget.

In FY 2003 the Georgia budget totaled \$16,142,774,526. Of this amount \$148.8 million was appropriated from the Indigent Care Trust Fund, \$665 million was appropriated from lottery funds, \$184 million was appropriated from tobacco settlement funds, with the remainder (\$15,143,284,957) appropriated from general fund revenues. A shift in budget priorities can be seen by comparing the percentage of general revenue funds appropriated to specific agencies in FY 1991 and FY 2003. The percentage of general revenue funds appropriated for education purposes increased from 51.4 percent in FY 1991 to 52.8 percent in FY 2003 (Board of Education increasing to 39.6 percent, the Board of Regents decreasing to 11.0 percent and the Department of Technical and Adult Education increasing slightly to 1.8 percent), and the percentage of general revenue funds appropriated for criminal justice purposes increased from 9.6 percent in FY 1991 to 10.6 percent in FY 2003. The percentage of general revenue funds appropriated for social services decreased

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from 21.8 percent to 20.9 percent (Medicaid benefits increasing to 10.6 percent, while the percentage of the budget for the Department of Human Resources decreased to 9.3 percent). In addition, while no such funding was appropriated in FY 1991, 2.5 percent of general revenue funds are appropriated for a property tax cut in FY 2003.

Table 1 shows how general fund revenues were expended in both FY 1991 and FY 2003.

**TABLE 1. GENERAL FUND BUDGET**

	<b>Fiscal Year 1991</b>	<b>Fiscal Year 2003</b>
State General Funds	\$7,632,181,330	\$15,143,284,957
Education	51.4%	52.8%
Social Services	21.8%	20.9%
Criminal Justice	9.6%	10.8%
Transportation	6.6%	4.4%
General Government	4.2%	3.2%
Debt Service	4.6%	4.1%
Property Tax Cut		2.5%
Natural Resources	1.9%	1.3%

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### **Budget Redirection**

In FY 1997, Georgia began the use of a budget reform process called “redirection.” Redirection required agencies to downsize or eliminate existing programs in order to pay for new programs or the expansion of existing programs. Governor Miller ordered all department heads to present budget requests based on a reallocation of 5 percent of an agency’s prior year adjusted budget. The reallocated funds could be used for: the funding of ongoing services or enhancements within an agency; the funding of growth in formula and entitlement related services; and the funding of priority areas within state government as a whole. Once the redirected funding was identified and proposals for expending those funds were made, an agency was allowed to request additional “enhancement” funding. The request for enhancement funds were capped at 6.5 percent above the base year in fiscal years 1997 and 1998, 4.5 percent above the base in fiscal year 1999 and 4 percent in fiscal years 2000 and 2001. Redirection was discontinued in fiscal year 2002.

Although most of the redirect cuts that were offered up by the departments were taken by the Governor, there was no guarantee that the redirection requested improvements would be given to an agency. Huckaby and Lauth (1998)<sup>5</sup>, in a study of redirection during FY 1997 through FY 1999, found that \$215 million was redirected out of agencies in FY 1997, \$41 million was redirected out of agencies in FY 1998 and \$33 million was redirected out of agencies in FY 1999. The Governor used the redirect process to fund his priority programs, regardless of which agency the funds might have come from. Agencies were forced to fund new or expanded programs through the elimination of lower priority programs. Huckaby and Lauth found that most of the redirected funds remained within the agency. Douglas (1999)<sup>6</sup>, in a study of the impact of redirection found that “...agencies tended to make good faith efforts to reallocate resources from low to higher priorities; little agency

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<sup>5</sup> Huckaby, Henry M. and Lauth, Thomas P. 1998. “Budget Redirection in Georgia State Government” *Public Budgeting and Finance*, Winter:36-44.

<sup>6</sup> Douglas, John. 1999. “Agency Strategies and Determinants of Agency Success Under Redirection in Georgia” *State and Local Government Review*, 31:31-42.

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deception was discovered.” Redirection allowed the Governor to fund new and expanded programs without the need for additional revenues.

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### **Baseline Budget**

From 1991 through 2003 the population of Georgia grew 31.5 percent, making Georgia the fastest growing state in the Southeast region and the 6<sup>th</sup> fastest growing state in the nation. Over the same period the Consumer Price Index (CPI) grew by 36.3 percent.<sup>7</sup> We define a Baseline budget as what the FY 2003 budget would be if the FY 1991 budget increased at the rate of inflation and the growth in the population served.

The Baseline budget for each agency was calculated by dividing the FY 1991 budget by the July 1, 1991 population to get a FY 1991 per capita budget. The FY 1991 per capita budget was increased by the CPI rate of 36.27 percent, which was then multiplied by the estimated July 1, 2003 population to arrive at what the FY 2003 budget would have been if the FY 1991 budget had grown at the rate of population and CPI growth. In calculating the Medicaid Benefits Baseline budget the medical care component of the Consumer Price Index was used (66.8 percent).

A Baseline General Fund Budget for FY 2003, using FY 1991 as the base year, would have grown to a total of \$13.99 billion, or by 83.2 percent. The difference between the Baseline general fund budget and the actual FY 2003 general fund budget is \$1,157,849,883. While the actual budget increased by 98.4 percent over this period, the FY 2003 state general fund budget is only 8.3 percent greater than the Baseline budget.

Education agencies (Regents, Board of Education, and Department of Technical and Adult Education) general fund budgets between FY 1991 and FY 2003 rose approximately \$984.8 million more than inflation and population growth would account for. The Department of Corrections and the Department of Juvenile Justice general fund budgets combined rose approximately \$329 million more than inflation and population growth would account for. The Medicaid benefits general fund budget rose \$101 million more than inflation and population growth would account for. Many agency budgets have not kept up with inflation and population growth as

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<sup>7</sup> United States Department of Labor, Bureau of Labor Statistics  
[data.bls.gov/servlet/surveyoutputervlet](http://data.bls.gov/servlet/surveyoutputervlet).

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shown in Table 2. For example, the Department of Human Resources received \$275.6 million less than the Baseline budget, the Department of Transportation received \$229.2 million less, and the Departments of Agriculture, Forestry, and Natural Resources received \$65.4 million less.

The following section looks at individual agencies to explain why their budgets grew at the rate they did.

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**TABLE 2. BASELINE BUDGET COMPARED TO GENERAL FUND BUDGET**

	FY 1991 Budget	FY 2003 Budget	Baseline Budget	Difference Between FY 2001 and Baseline Budget	Difference as a Percentage of Baseline Budget
Total Budget	\$7,632,181,330	\$15,143,284,957	\$13,985,435,074	\$1,157,849,883	8.3%
Education	\$2,845,332,437	\$6,001,209,008	\$5,099,904,429	\$901,304,579	17.7%
Regents	\$909,857,468	\$1,665,559,739	\$1,630,806,323	\$34,753,416	2.1%
DTAE	\$127,838,855	\$277,871,777	\$229,135,244	\$48,736,533	21.3%
Corrections	\$437,152,821	\$927,037,519	\$783,542,049	\$143,495,470	18.3%
Juvenile Justice	\$72,809,211	\$272,089,291	\$130,501,453	\$141,587,838	108.5%
Judicial Branch	\$56,234,292	\$136,885,691	\$100,792,973	\$36,092,718	35.8%
Medicaid Benefits	\$687,460,289	\$1,609,241,220	\$1,508,246,859	\$100,994,361	6.7%
Human Resources	\$962,995,666	\$1,405,981,127	\$1,681,566,906	(\$275,585,779)	(-16.4%)
Transportation	\$500,037,860	\$667,076,123	\$896,255,659	(\$229,179,536)	(-25.6%)
Natural Resources	\$70,302,446	\$111,298,112	\$126,008,389	(\$14,710,277)	(-11.7%)
Agriculture	\$38,220,486	\$44,039,095	\$68,505,466	(\$24,466,371)	(-35.7%)
Forestry	\$34,417,892	\$35,460,912	\$61,689,790	(\$26,228,878)	(-42.5%)
Debt Service	\$351,257,589	\$625,421,301	\$629,585,531	(\$4,164,230)	(-0.7%)
Property Tax Cut		\$377,500,000		\$377,500,000	
PeachCare		\$60,873,226		\$60,873,226	
All Other Agencies	\$538,264,018	\$925,740,816	\$1,038,894,003	(\$113,153,187)	(-10.9%)

## **Twelve Years of Budget Growth: Where Has the Money Gone?**

### **State Agencies Above Baseline Budget**

#### **Education**

The policy decision that had the greatest impact on the growth of the state budget being above the Baseline budget was the decision to raise teacher salaries at rates considerably higher than the rate of inflation. In order to recruit and retain quality teachers employed by Boards of Education, the Board of Regents, and the Department of Technical and Adult Education, a policy decision was made to give salary increases that were above the increase in inflation for eight of nine years between FY 1995 and FY 2003. Over \$1.07 billion (92.9 percent) of the \$1.16 billion that the FY 2003 budget is above the Baseline budget can be accounted for by teacher salary increases being above the rate of inflation (see Table 3). Between FY 1996 and FY 2001, the average salary for a teacher in public elementary and secondary education in Georgia increased from \$34,002 to \$42,216. Georgia's ranking of average salary as compared to other states improved from 24<sup>th</sup> to 16<sup>th</sup>.<sup>8</sup> Between FY 1995 and FY 2002 the average salary for faculty at a public four-year college increased from \$44,869 to \$59,799. Georgia's ranking of average salary as compared to other states increased from 36<sup>th</sup> to 26<sup>th</sup>.<sup>9</sup>

If you disregard the salary increases, the budget for the Board of Regents would have actually decreased. Salary increases over the rate of inflation accounts for \$283 million. The Board of Regents budget only grew by \$34.7 million over the baseline budget. If you disregard the salary increases in excess of inflation, the Board of Regents' budget would have decreased by \$248 million as compared to the baseline budget. Without the salary increases, the budgets for Board of Education and the Department of Technical and Adult Education would have increased slightly, as compared to the baseline budget.

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<sup>8</sup> National Education Association, Estimates of School Statistics; and unpublished data. 2001.

<sup>9</sup> The National Education 1996 and 2002 Almanac of Higher Education, Faculty Salaries.

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**TABLE 3. EDUCATION AGENCIES**

	Difference Between FY 2003 and Baseline Budget	Salary Increase Above Inflation	Remainder of Difference
Board of Education	\$901,304,579	\$757,420,750	\$143,883,829
Board of Regents	\$34,753,416	\$282,981,795	(-\$248,228,379)
Technical and Adult Education	\$48,736,533	\$35,196,061	\$13,540,472
<b>TOTAL</b>	<b>\$984,794,528</b>	<b>\$1,075,598,607</b>	<b>(-\$90,804,078)</b>

### Criminal Justice

The FY 2003 budgets for the Department of Corrections, the Department of Juvenile Justice and the Judicial Branch are \$321.2 million over the baseline budget. The criminal justice policy decision with the most significant impact on the budget was to have a greater number of offenders enter and spend longer periods of time in state institutions. The Department of Corrections accounts for \$143.5 million (12.4 percent) of the \$1.16 billion that the FY 2003 budget is above the Baseline budget. Funding for the Department of Corrections is directly attributable to the increased numbers and aging of inmates. The inmate population within the state prison system increased 112 percent between FY 1991 and FY 2003. This is considerably greater than the 31.5 percent overall state population increase. There are approximately 18,000 inmates above what would be expected if the number of inmates grew at the rate the state population increased. In addition, the inmate population is getting older. According to a Department of Corrections report<sup>10</sup>, inmates age 29 and younger accounted for 64 percent of the Georgia inmate population in 1979. By 2002, that proportion had fallen to just 36 percent. In 1979, there were 570 inmates age 50 and older, but by June of 2003, Georgia housed 4,416 inmates 50 or older. The Department of Corrections estimates that there will be 6,200 inmates age 50 or older by 2007. The cost of housing an older inmate is estimated to be three times that of a younger, healthier inmate.

The increase in the prison population, and the aging of the prison population can be attributed to laws enacted in the late 80's and early 90's that mandated longer

<sup>10</sup> Georgia Department of Corrections. 2003. "Georgia Aging Inmate Population," processed.

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sentences. The culmination of these laws was the passage of Senate Bill 441 in 1994, which required that anyone convicted of any of seven serious violent felonies must serve a minimum of ten years in prison without parole. Anyone convicted of a second of the seven serious violent felonies must receive a mandatory sentence of life without parole. Since the enactment of Senate Bill 441, there have been 5,837 offenders sentenced to a minimum sentence of ten years without parole. The potentially paroleable inmate population has fallen from 96 percent of all inmates in 1996 to 87 percent of the inmates in 2002.

In addition, the Georgia Pardons and Parole Board instituted a policy requiring all inmates convicted of any of twenty additional violent crimes not covered under Senate Bill 441 serve a minimum of 90 percent of their sentence. On average, those inmates who fall under this policy will serve 2.3 years longer in prison than inmates sentenced for the same crimes prior to the implementation of the 90 percent policy. In 1991 the parole board granted early release to 16,772 inmates. In 2002 the parole board granted early release to 10,271.

A similar growth in the number of juveniles receiving services within the Department of Juvenile Justice (DJJ), as well as increased funding required by the Federal Justice Department as a result of legal action, accounts for the DJJ budget being \$141.6 million above the baseline budget (12.2 percent of the \$1.16 billion that the FY 2003 budget is above the Baseline budget).

The number of juveniles served by the Department of Juvenile Justice has increased greatly since FY 1991. In FY 2002, 22,424 juveniles were served in Regional Youth Development Centers (RYDC), an increase of 54 percent over the 14,574 served in FY 1991. In FY 2002, 2,646 juveniles were served in Youth Development Centers (YDC) long-term programs, an increase of 72 percent over the 1,538 served in FY 1991. In FY 2002, 3,114 juveniles were served in Youth Development Centers short-term 90-day programs, which did not exist in FY 1991. In addition, 48,308 juveniles were referred to the Department for court services in FY 2002, a 75 percent increase over the 27,597 juvenile referrals made in FY 1991.

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The major reason for the increase in the number of juveniles served was the passage of Senate Bill 440 during the 1994 session of the General Assembly. Among other provisions, Senate Bill 440 requires that juveniles between the age of 13 and 17 who commit certain violent crimes be tried as an adult and serve their time in facilities operated by the Department of Juvenile Justice. Senate Bill 440 increased the amount of time that a juvenile delinquent could be sentenced to a Youth Development Center from 18 months to 60 months. Senate Bill 440 also allows juvenile court judges to sentence a juvenile offender to a term in a Youth Development Center of up to 90 days; this 90-day program alone cost the state approximately \$40 million in FY 2002.

In March of 1998, the Department of Juvenile Justice entered into a memorandum of agreement (MOA) with the Office of the United States Attorney General in order to avoid legal action in regards to health and safety of juveniles within DJJ institutions. The MOA called for increases in staffing, increases in staff training, increases in space for the juveniles, better management information system, and an improved quality assurance system. The MOA also called for improvements in the DJJ education system, mental health services, and medical services. Over \$140 million has been invested in the Department as a result of the MOA. As of May 1, 2003, the DJJ is in full compliance in 90 of the 105 citations of the MOA. The remaining 15 citations are all in substantial compliance.

### **Medicaid Benefits**

The Medicaid benefits budget accounts for \$101 million (8.7 percent) of the \$1.16 billion that the FY 2003 budget is above the Baseline budget. It is important to look at the Medicaid benefit budget over two time periods as the growth in the Medicaid benefits budget has been recent. Between FY 1991 and FY 1999 the Medicaid benefit budget was \$28.2 million under the Baseline budget for that eight year time period. Between FY 1999 and FY 2003 the budget is \$142.6 million over the Baseline budget for that four year time period.

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The Medicaid benefits budget averaged double-digit increases throughout the late 80's and early 90's leading up to increases of 14.5 percent in FY 1992 and by 23.5 percent in FY 1993. Increases stayed between six and eight percent from FY 1994 through FY 1996. Beginning in FY 1997, the Department of Medical Assistance implemented cuts in various provider reimbursements that helped slow the rate of growth in the budget. In FY 1997, the Medicaid benefits budget decreased by 3.1 percent, and in FY 1998 and FY 1999 the budget increased less than one percent each year. At the same time that provider reimbursement cuts were implemented, the rate of growth of Medicaid recipients began to slow down. After double-digit recipient growth each year from FY 1991 through FY 1994, recipient growth slowed to 7.2 percent in FY 1995, 4 percent in FY 1996, 5.1 percent in FY 1997, and decreases of 0.5 percent in FY 1998, 1.9 percent in FY 1999, and 0.8 percent in FY 2000.

After three consecutive years (FY 1998 – FY 2000) of a decrease in the number of Medicaid recipients, the number of recipients increased in FY 2001 (5.7 percent) and FY 2002 (7.8 percent). The increase in recipients corresponds with an increase in the unemployment rate. Between July of 2000 and June of 2002 the unemployment rate in Georgia increased from 3.5 percent to 5.7 percent. A study by Holahan and Garrett (2001)<sup>11</sup> for the Urban Institute found that for every one percent increase in the unemployment rate there is a corresponding 3.6 percent increase in the number of Medicaid recipients.

Although healthcare costs are increasing nationally, Georgia's Medicaid costs have increased greater than the national average on a percentage basis (18.4 percent compared to a national average of 13 percent in FY 2002<sup>12</sup>). Controlling for enrollment growth, Georgia's Medicaid expenditures increased just slightly greater than the national average (8.4 percent in FY 2002 as compared to a national average of 7.7 percent<sup>13</sup>). According to a study commissioned by the Department of

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<sup>11</sup> Holahan, John and Garrett, Bowen. 2001. "Rising Unemployment and Medicaid" *Health Policy Online* No. 1. The Urban Institute.

<sup>12</sup> National Association of State Budget Officers. June, 2003. "Medicaid and Other State Healthcare Issues: Current Trends."

<sup>13</sup> State of Georgia Department of Community Health Request For Information. 2003.

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Community Health (2003)<sup>14</sup>, the biggest cost driver as far as state funds are concerned is the increase in enrollment, which since FY 2001, has increased greater than overall population growth.

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<sup>14</sup> State of Georgia Department of Community Health Request For Information. 2003.

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### **State Agencies Below Baseline Budget**

#### **Department of Human Resources**

The Department of Human Resources (DHR) budget is \$275 million less than the Baseline budget (see Table 4). The major causes of the slow growth of the DHR budget has been the decline in the number of welfare recipients due to welfare reform and the strong economy during the 1990's, as well as the downsizing of state hospitals. In regards to welfare reform, there were 139,523 families receiving cash assistance each month in 1995. By May of 2003 the number of families receiving cash assistance dropped to 57,575, a decline of 58 percent. The state budget for cash assistance decreased from \$136.4 million in FY 1991 to \$51.6 million in FY 2003 (\$193 million under the baseline). Much of the savings has been reinvested in employability programs (including transportation and drug treatment) and childcare. Funding for child care increased from \$16.4 in FY 1991 to \$56.3 in FY 2003 (\$26.8 million above the Baseline), county employability programs and benefits increased from \$2.7 million in FY 1991 to \$21.3 million in FY 2003 (\$16.4 million above the Baseline), and funding for community-based substance abuse increased from \$2.6 million in FY 1991 to \$48.2 million in FY 2003 (\$43.5 million above the Baseline).

The state also began implementing policies of downsizing state hospitals and increasing community services. In FY 1990, ten state hospitals served 23,458 adults with mental illness and mental retardation, and adults suffering from drug or alcohol crisis, compared with eight state hospitals serving 18,130 such adults in FY 2002. State expenditures for hospitals decreased from \$278.4 million in FY 1991 to \$209.6 million in FY 2003 (\$289 million under the Baseline) (Table 5). At the same time funding within the DHR budget for community mental health and mental retardation programs increased from \$141 million in FY 1991 to \$337 million in FY 2003 (\$84.2 million above the baseline).

The state also increased funding for foster care and adoption. Funding for foster care and adoption increased from \$26.2 million in FY 1991 to \$100.6 million in FY 2003 (\$53.4 million above the baseline).

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**TABLE 4. DIVISION OF FAMILY AND CHILDREN SERVICES FUNDING**

	FY 1991	FY 2003	Baseline Budget	Difference Between FY 2003 and Baseline Budget
DFACS	\$299,819,699	\$442,175,971	\$537,389,512	(\$95,213,541)
TANF Benefits	\$136,438,948	\$51,609,878	\$244,549,841	(\$192,939,963)
Eligibility	\$49,282,244	\$51,600,228	\$88,332,292	(\$36,732,064)
Employability	\$2,749,687	\$21,315,433	\$4,928,472	\$16,386,961
Day Care	\$16,415,983	\$56,316,937	\$29,423,607	\$26,893,330
Foster Care	\$22,893,743	\$74,967,676	\$41,034,187	\$33,933,489
Adoption	\$3,373,991	\$25,591,338	\$6,047,459	\$19,543,879
Social Services	\$14,865,328	\$62,483,698	\$26,644,251	\$35,839,447
All Other	\$53,799,775	\$98,290,783	\$96,429,403	\$1,861,380

**TABLE 5. DIVISION OF MENTAL HEALTH DEVELOPMENTAL DISABILITIES AND ADDICTIVE DISEASES FUNDING**

	FY 1991	FY 2003	Baseline Budget	Difference Between FY 2003 and Baseline Budget
Division	\$434,019,767	\$609,540,320	\$777,926,440	(\$168,386,120)
Hospitals	\$278,441,684	\$209,603,667	\$499,072,080	(\$289,468,413)
Community MR and MH	\$140,950,429	\$336,838,928	\$252,636,109	\$84,202,819
Substance Abuse	\$2,643,656	\$48,227,746	\$4,738,425	\$43,489,321
Administration	\$7,269,310	\$14,645,933	\$13,029,334	\$1,616,599
All Other	\$4,714,688	\$224,046	\$8,450,492	(\$8,450,492)

### Department of Transportation

The Department of Transportation (DOT) budget is \$229 million below the Baseline budget. Most of the general revenue funding for the DOT budget comes from the motor fuel tax. The tax is levied at a rate of 7.5 cents per gallon of motor fuel. In addition, the revenue generated by 3 percent of the regular 4 percent state sales tax rate that is levied on the sale of motor fuel is designated as the “second motor fuel tax.” The motor fuel tax is allocated by the Georgia Constitution for the exclusive use of the DOT for highway purposes.

The motor fuel tax grew slower than the rate of inflation and population, a result explained by a decrease in the consumption of gasoline. In spite of the growth in population, more fuel-efficient cars have led to a slower growth in the amount of

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gasoline sold. In that the motor fuel tax revenues are earmarked to the DOT for highways, this has caused the DOT general fund budget to grow at a slower rate.

### **Natural Resources, Agriculture and Forestry**

The budgets for the Departments of Natural Resources, Agriculture, and Forestry are \$65.4 million below the Baseline budget. Except for the Environmental Protection Division of the Department of Natural Resources, which grew \$7.9 million above the Baseline budget, most all of the programs within these departments did not keep up with inflation and population growth. Funding for these areas has become less of a priority over the past 12 years. Funding for the natural resources area decreased from 1.9 percent of the general fund budget in FY 1991 to 1.3 percent of the general fund budget in FY 2003.

### **Debt Service**

The budget for the General Obligation Bond Debt is \$4.1 million below the Baseline budget. The debt service owed on the bonds grew slower than the increase in the level of debt. The savings can be accounted for through the decrease in interest rates over the past 12 years. In the early 90's the state was paying interest of over 6 percent on its bonds. The interest rate dropped to between 4 and 5 percent in the late 90's and is now currently at about 3 percent. The lower interest rates have allowed the state to increase the level of debt without a corresponding increase in debt service.

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### **New Funding Not Budgeted in FY 1991**

There are two major programs that were not funded in FY 1991 that receive funds in the FY 2003 budget. The Homeowner Tax Relief Grant Program was first funded in FY 2000. This program reimburses counties and cities for state mandated property tax relief. The Homeowner Tax Relief Grant Program is budgeted at \$377.5 million in FY 2003.

The PeachCare for Kids Program began January 1, 1999. PeachCare for Kids is a comprehensive health care program for uninsured children through the age of 18 who do not qualify for Medicaid and live in households with incomes at or below 235 percent of the federal poverty level. The PeachCare for Kids Program is budgeted at \$60.8 million in FY 2003.

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### **Conclusion**

Over the past 12 years the state budget grew just 8.3 percent greater than population and inflation would account for. Although the general fund portion of the state budget grew 98.4 percent (\$7.5 billion) between FY 1991 and FY 2003, over \$6.3 billion of the \$7.5 billion increase can be attributed to population growth and inflation. Accounting just for population growth and inflation, the general fund portion of the state budget would have grown 83.2 percent (Baseline budget). The \$1.16 billion difference between the FY 2003 budget and the Baseline budget would be even less if the \$377 million for the Homeowner Tax Relief Grant Program was not considered; these funds are used to reimburse counties and cities for a legislatively mandated property tax cut.

The remaining \$780.3 million increase between FY 1991 and FY 2003 in the state budget above what population growth and inflation would account for can be attributed to two main policy decisions. The first policy decision that drove the budget growth was giving teachers salary increases substantially above the rate of inflation. Teacher salary increases above inflation during this period accounted for \$1.075 billion that the budget is above the Baseline budget.

The second policy decision that drove the budget growth was the decision to pass legislation and rules that put more adults and juveniles in state correctional institutions and to hold them for longer periods of time. The passage of Senate Bills 440 and 441 during the 1994 session, as well as a change in the policies of the Board of Pardons and Paroles led to the budgets of the Department of Corrections and the Department of Juvenile Justice to increase \$285 million above their Baseline budgets.

Most other state agency budgets decreased as compared to the Baseline budget, i.e., they did not keep up with inflation and population growth. The DHR budget is \$275 million under the Baseline budget, the Department of Transportation is \$229 million under the Baseline budget and the Departments of Agriculture, Forestry and Natural Resources are \$65 million under the Baseline budget. There was an obvious shift in policy priorities towards an increase in state funding for

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education and criminal justice purposes at the expense of most other state agency budgets.

Between FY 1991 and FY 2003 the state general revenue portion of the state budget did grow slightly greater than inflation and population growth would account for. It is important to remember that the general revenue portion of the state budget would have increased at a greater rate if almost \$1 billion in tax cuts were not implemented over this 12-year period.

Allowing for inflation and population growth, the state general fund budget would have increased by 83.2 percent between FY 1991 and FY 2003. Most of the remaining growth in the budget can be attributed to the implementation of distinct policy choices by the Governor and General Assembly.

## **Twelve Years of Budget Growth: Where Has the Money Gone?**

### **About the Author**

**Alan Essig** is a Senior Research Associate with the Fiscal Research Center of the Andrew Young School of Policy Studies at Georgia State University. He has previously worked as a Deputy Policy Director for the Governor of Georgia, Committee Aide for the Georgia State Senate and the House of Representatives Appropriations Committees, Assistant Commissioner of Policy and Government Services for the Georgia Department of Human Resources, Director of the Georgia State Senate Research Office, and as a legislative budget analyst for the New York State Senate Finance Committee. His primary research interests are state budget policy and process, and social welfare policies. He holds an M.P.A. from the State University of New York at Albany.

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