Fiscal Research Center

INTERGOVERNMENTAL FISCAL RELATIONS IN GEORGIA

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I. Introduction

Intergovernmental fiscal relations (IGFR) within a state is concerned with how state and local governments assign revenue sources and divide expenditure responsibilities, with how oversight of local governments by the state is conducted, and with the system of intergovernmental grants. The system of fiscal federalism in the United States is often hailed as one of the oldest decentralized fiscal system in the world. But not only are the intergovernmental fiscal relations that define the system unique to the U.S., each state has its own set of relationships between the state and sub-state governments, such as counties, cities, townships, school systems, and special districts.

This report provides a detailed account of the system of state and local fiscal relations in Georgia. The report surveys current practices, identifies significant trends in revenue and expenditure assignment, discusses patterns of intergovernmental grants, and identifies issues that affect intergovernmental fiscal relations (such as income distribution, demographic change, constitutional challenges to tax legislation, etc.). By highlighting current practice, we can shed light on practices that may be serving Georgia particularly well and those that might need reform.

The report proceeds as follows. The next section provides an overview of the state-local governmental structure in Georgia. Section III provides a summary of the legal basis of governance in Georgia. In Sections IV–VI, we present the details of the fiscal system in the state, considering expenditures, taxes, and intergovernmental grants, respectively. We then describe the landscape of the IGFR system in Georgia, providing in Section VII information on the state's demographics, economy, and politics, pointing out how these affect intergovernmental fiscal relations. A concluding section finalizes the report.

II. State - Local Governmental Structure in Georgia

Each Georgian receives public services from at least four governments: the federal government, state government, a county government, and a school district. In addition, many residents receive services from a municipal government and from one or more special-purpose districts.

Each type of local government has a particular purpose. County governments were created as extensions of state government. They are responsible for such functions as record keeping (for example, the recording of deeds), for public health, for welfare, and for courts and related functions that enforce state laws. Municipal governments are responsible for providing other services that citizens desire, for example, parks, police, water and sewer systems, zoning, trash removal, etc. However, since 1972 county governments in Georgia have been authorized by the Georgia Constitution to provide the same services that municipalities can provide, but counties provide those services in the unincorporated areas of the county, i.e., outside the boundaries of municipalities. Primary and secondary education is, according to the State Constitution, the responsibility of State government, but local school districts are given the responsibility for delivering education. In addition, special purpose districts, for example, the Metropolitan Atlanta Rapid Transit Authority (MARTA) and hospital authorities, have been created to provide special services.

A. Number of Governments

In 2002, there were 87,576 governmental units in the United States (Table 1). In addition to the Federal Government and the 50 state governments, there were 87,525 units of local government. Of these, 38,967 are general purpose local governments — 3,034 county governments and 35,933 non-county general purpose governments, i.e., municipalities, villages, and townships. The remainder, which is more than half the total number, includes 13,506 local school district governments and 35,052 special purpose districts. Special purpose districts are independent governmental units created for a special purpose. They have substantial fiscal independence and have administrative independence from general purpose governments. Local school districts are a type of special purpose

TABLE 1. STRUCTURE OF GOVERNMENT ENTITIES IN THE UNITED STATES AND GEORGIA, 2002

	United States	Georgia
States	50	1
Local	87,525	1448
General Purpose	38,967	687
County	3,034	159
Non-county	35,933	528
Special Purpose	48,558	761
School Districts	15,014	180
Special Districts	35,052	581

Source: U.S. Bureau of the Census, *2002 Census of Governments*.

government, but because of their importance they are grouped into a separate category.

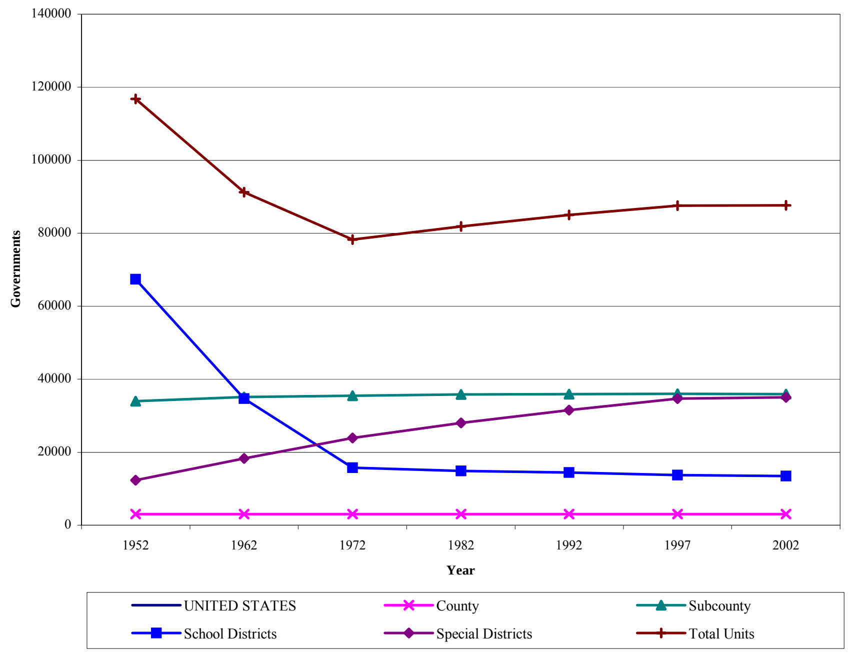
The number of governments in the U.S. declined from the mid-1950s through the early part of the 1970s due mainly to school system consolidations (Figure 1). Since 1972, the growth in governments in the United States has been fueled by the creation of special districts.

The state of Georgia is structured in a similar manner. As of 2002, Georgia had 159 county governments (including consolidated city-county governments), 528 municipal governments, 180 local school districts, and 581 special districts (Table 1). Unlike many other states, Georgia does not have township or village designations for local general purpose governments.

Over the past 50 years, the total number of local governments in Georgia increased due to the growth in special districts, from 154 in 1952 to 581 in 2002 (Figure 2). There were few changes in the number of other local governments. The number of school systems in Georgia fell as small city school districts merged with county systems; in 1962 there were 196 school districts in Georgia while currently there are 180 school districts. There was an increase in the number of municipalities between 1952 and 1962, but the number has since declined, from 561 in 1962 to 528 in 2002.[1] There were four consolidations of city and counties (see below).

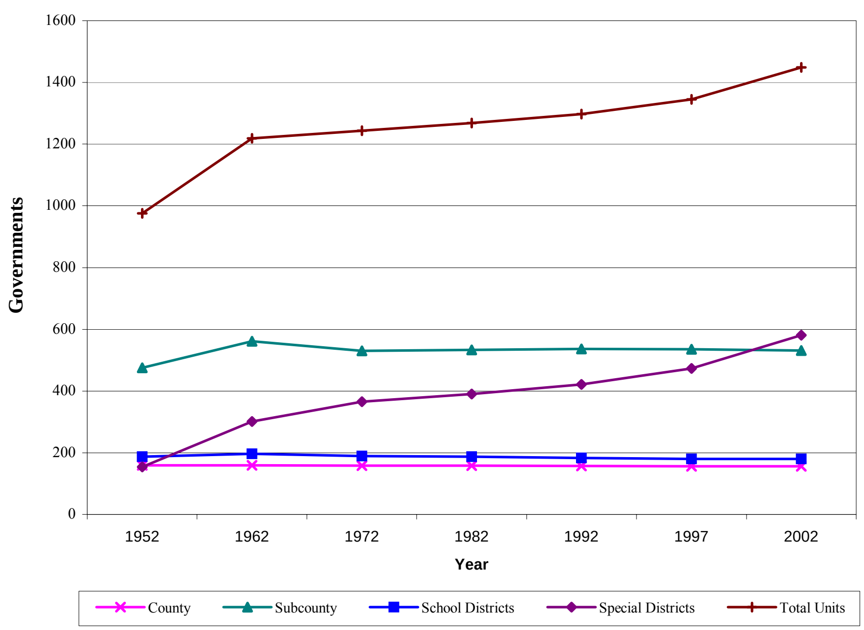
[1] In 1993, Georgia passed legislation that required that cities provide a minimum number of services. As a result several cities were de-incorporated.

FIGURE 1. NUMBER OF GOVERNMENT UNITS, U.S.



Source: U.S. Bureau of the Census, *2002 Census of Governments*.

FIGURE 2. GOVERNMENT UNITS, GEORGIA



Source: U.S. Bureau of the Census, *2002 Census of Governments*.

Relative to its neighboring states, on a per capita basis, Georgia has a large number of governments. Georgia has 19.1 governments for every 100,000 residents. Comparatively, Alabama has 15.1 governments for every 100,000 residents; South Carolina, 11.5; Tennessee, 16.2; and Florida, which has 4.1 governments for every 100,000 residents. The national average is 10.8; nearly half that of Georgia.

That Georgia's counties are smaller than average for the country can be seen from Table 2, which presents the distribution of counties by population size for the United States and for Georgia. Georgia has a smaller percentage of counties in the larger population size and a larger percentage in the smallest population size.

Georgia's municipalities are also smaller than average for the country. Table 3 presents the distribution of municipalities by population size for the United States and for Georgia. Again, Georgia has a smaller percentage of municipalities in the larger population size and a larger percentage in the smallest population size. There is an average of 3.3 municipalities in each county in Georgia. Gwinnett County has the most at 11, while Echols County has no municipalities. Thirty-four counties have only one municipality.

TABLE 2. DISTRIBUTION OF COUNTIES BY POPULATION SIZE

	-----------------------------------Population-----------------------------------			
	500,000 and more	**100,000-499,000**	**25,000-99,000**	**Less than 25,000**
United States	3.0%	12.6%	33.6%	50.8%
Georgia	2.5%	6.3%	29.6%	61.6%

Source: U.S. Bureau of the Census, *2002 Census of Governments*.

TABLE 3. DISTRIBUTION OF MUNICIPALITIES BY POPULATION SIZE

	-----------------------------------Population-----------------------------------			
	100,000 and more	**25,000-99,000**	**5,000-24,999**	**Less than 5,000**
United States	1.2%	5.2%	15.8%	77.8%
Georgia	0.9%	2.8%	15.6%	80.6%

Source: U.S. Bureau of the Census, *2002 Census of Governments*.

Of the 581 special purpose districts in Georgia, 483 are single purpose. Of these single purpose districts, there are 201 districts that are responsible for housing and community development, 134 that provide hospital and other health services, 54 that focus on environmental issues including soil and water conservation, 41 that operate utilities, and 25 that provide airports. The purposes for the other 28 districts include a variety of functions, including fire protection and industrial development.

Is this system of overlapping layers of government an appropriate design? Are the number and size of local governments efficient? Are public services provided at the appropriate governmental level? There is a substantial literature that addresses these questions, and although it is well beyond the scope of this report to answer these questions for Georgia, it is useful to point out that there are four basic concepts or principles that at least help frame the answers to these questions.

The first principle, the “correspondence principle,” suggests that the geographic size of a governmental entity should correspond to the area over which the benefits of the public services provided are enjoyed. Based on this principle, economists believe that, in general, expenditures on certain services are better left up to the higher level of government and others to the lower levels of government. How is that distinction made? It is based on the notion that if substantial benefits of a public service would spill over to residents of other jurisdictions, then that public service is better handled by a higher level of government. For example, national defense is thought to generate substantial positive benefits for the entire country. If each city were in charge of its own national defense, as a group they would likely not produce sufficient national defense to satisfy the entire nation. However, there are few services that are as clear-cut as to which level of government should be responsible for its provision.

The second principle is that a jurisdiction should be of a size (area and population) that minimizes the cost per capita of providing public services. It is commonly thought that there are economies of population size in the provision of public services. This implies that it is cheaper to produce many public services for larger populations. Therefore, larger and fewer governments are more cost efficient. However, there is not much empirical evidence that supports this assumption, due in part to the difficulties of measuring production processes for public services.

The third principle is that governments should satisfy citizens’ demand for public services. This principle suggests that if there are differences in the preferences among individuals regarding the level and mix of public services, then individuals need to be given a choice over the mix of public services they receive and pay for. The greater is the variation in preferences, the greater the importance of having a large number of local governments from which to choose. Related to this principle is the belief that lower levels of government are better able to discern the true needs and wants of their constituents. It would be tough for the state General Assembly to know how the citizens in the city of Valdosta differ from those in Harrelson County in terms of their preferences for, say, trash collection, or recreational activities. Also, the population of a small community may be more homogenous and therefore their residents may all demand similar types of public services, while large communities may have a population that is more diverse in its preferences for the level and mix of public services.

Finally, issues of equity arise if inter-governmental disparities exist among governments in terms of their ability to provide services. It would seem unfair that two equivalent households living in different jurisdictions could pay the same taxes, but receive substantially different level of services because one jurisdiction generates much less revenue.

Each of these four principles has some bearing on the decision about the number of jurisdictions, and consequently the size of each. However, each of the principles could suggest something different about the desirable number of jurisdictions—the economies of scale argument calling for larger jurisdiction, while the meeting of public's demand argument suggests smaller jurisdictions. Thus, the choice of number of local governments and the assignment of responsibility for service delivery requires making trade-offs between the four principles. The principles, however, do provide a reasonable way to evaluate the trade-offs when considering alternative sizes of government in Georgia.

B. City/County Consolidation

While Georgia has a relatively large number of governments, provisions exist in the Constitution to change the status of a jurisdiction. Over time several small municipalities have disbanded, and as a result the county has assumed responsibility for the services that were being provided by the municipality. But there have also been efforts at formal consolidations of municipalities and counties. Four counties in Georgia have merged with the county seat city government in an apparent effort to streamline costs and government operations. Despite attempts by several counties, this has been successful only in Columbus-Muscogee County in 1971, Athens-Clarke County in 1991, Augusta-Richmond County in 1995, and Cusseta-Chattahoochee County in 2003. This has not happened without turbulence, as taxpayers have feared rising tax rates and the overlapping of offices, such as the city police and county sheriff's departments.

Among the issues that arise in discussion of consolidations is concern by government employees that they will lose their jobs. For Muscogee County and the City of Columbus all city and county government employees were guaranteed that their job would not be cut, although the possibility of reassignment remained, which stirred frustration among employees. Between 1971 and 1985, the total number of employees decreased from 1,865 to 1,853 while the county began to offer new services.

Opposition to city/county proposals arise from residents of both the unincorporated areas and the municipalities. Residents in unincorporated areas may fear that taxes will increase in order to finance the new government and that the government that represented them will have to tackle the problems and burdens of the other government. However, the rationale for consolidating city and county governments is the same as that of a vertical merger – administrative costs can be saved and streamlined by combining government operations. For example, the city police can specialize in patrolling streets while the sheriff's department would concentrate on running the jail and court systems.

C. County Consolidation

The first 8 counties in Georgia were established in February 1777 and the last 5 counties to be formed were established in November 1920. Since 1932, when Milton and Campbell counties were merged with Fulton County, the number of counties has remained at 159. However, there have been proposals made to consolidate Georgia's 159 counties. Only one state, Texas, has more counties than

Georgia, but Georgia ranks 21st in land area, while Texas is the second largest state, suggesting that the number of counties in Texas may be more defensible on the grounds of service delivery. One, perhaps apocryphal, explanation for the size of Georgia's counties is that they were designed so county seats were no more than a day's horse buggy ride from any part of the county. Another explanation has it that cities lobbied for many counties because they saw being a county seat as an economic generator.

The Georgia Constitution limits the number of counties to no more than 159. Furthermore, the Constitution requires that changes in county boundaries (including consolidation of counties) must be approved by the voters in all affected counties.[2]

In 1986, the Georgia General Assembly proposed consolidating 48 of the least-populated counties into the larger 111 counties. Supporters of the legislation argued that county consolidation would increase government efficiency by decreasing the number of governmental units, and consequently saving tax dollars by increasing economies of scale. Also, the poorer counties could pool their resources with the more affluent one.

However, the proposal had its opponents. Some potentially affected residents had a strong sense of pride in their home county, and felt that their identity would be threatened by having their county dissolved into a larger county. Also, the residents in the larger counties to be merged did not want to be burdened with the smaller county's debts and fiscal problems. In the end, there was no consolidation of these counties.

D. Annexations

Unlike consolidations, municipal annexations in Georgia have been relatively common and have changed the face of governance in the state. From 1980 to 1990, there were 5,636 annexations in the state; from 1990-1998, there were 3,398 (Steinbauer et al, 2002). Municipalities annex land for a variety of reasons, for example, to expand their commercial property tax base. However, annexation allows municipalities to provide public services to areas of the county that become more

[2] Legislation has been introduced in the General Assembly to recreate Milton County.

developed and thus have a need for "urban" services such as police, parks, etc. Until counties were granted authority to provide these services, annexation (or the creation of new municipalities) was the principal way that new residential development outside the municipality was provided public services. Thus, annexation was a way to reduce duplication of public service providers and possibly reduce the cost of service delivery.

Annexation is one way of converting unincorporated areas to incorporated areas. But another way is to form new municipalities. Since 1980, there have been five new cities formed in Georgia. Register in Bulloch County was incorporated in 1982 and Graham in Appling County was incorporated in 1991. Recently Sandy Springs, Johns Creek, and Milton, all in north Fulton County, were incorporated. In 2007, referenda will be held regarding the possible incorporation of two municipalities in south Fulton County.

The rights and responsibilities of local governments are largely governed by the State Constitution and State statutes. The next section presents the legal setting for local governments in Georgia, which is important background for understanding the system of intergovernmental relations in the state. The legal authority granted to local governments determines the ability of governments to respond to their constituencies.

III. Legal Status of Local Governments

In this section we focus on the legal structure for counties and municipalities and its implications for intergovernmental fiscal relations in Georgia. The legal structure for local school systems is discussed at the end of the section.

In Georgia, there are two types of general purpose local governments, counties and municipalities. Counties and municipalities are political subdivisions of the state, and thus can only act on powers granted to them by the state Constitution (Section II of Article IX) and by state statutes. This is in contrast to the relatively unlimited autonomy of state governments under the U.S. Constitution, which provides states with all powers *not* expressly granted to the federal government by the U.S. Constitution.

The general powers of local governments, referred to as home rule, are determined by the Georgia Constitution and state statues, which set the legal framework for the various levels of government. Home rule authority differs between counties and cities and so we discuss each in turn. Home rule powers are important because the courts have ruled that if a local government has not been granted a power, it cannot act as if it did.

A. Home Rule for Counties

Home rule authority for counties is largely specified in the Georgia Constitution. The Constitution (IX, §II ¶1 (a)) provides the governing authority of each county with legislative power to adopt reasonable legislation, provided that it is consistent with the Constitution, and to regulate its property, affairs, and local government. The county government may not pass a statute that restricts the authority of the Georgia General Assembly to broaden or limit the power of local laws passed by the counties. However, the General Assembly cannot pass laws that supersede or modify actions taken by the county government under the county's own authority to do so.

In 1972, Georgia passed Amendment 19 of the Constitution, which granted counties the authority to provide the same set of services to the unincorporated area of the county that municipalities can provide within municipalities. These services are: fire and police protection, garbage/solid waste disposal, public health facilities, animal control, local street and road construction, parks and recreational areas, sewage collection and treatment facilities, water treatment, public housing authorities, public transportation, libraries, parking facilities, building codes, air quality control, and benefits packages for local government employees. In addition, general state law allows counties to adopt ordinances to protect the public health, safety and welfare of the unincorporated area of the county. These provisions allow counties to essentially act as municipalities within the unincorporated area of the county. Counties are allowed, but not required, to create service districts within unincorporated areas for the provision of services such as police and fire protection. The Constitution does prohibit a county from exercising these powers inside the city limits of a municipality without a contract, and vice versa.

Counties have constitutionally used home rule power (Paragraph I, Section II, Article IX) to amend their own laws. Ordinances can be adopted, amended, or repealed by the county governing body, or through public referendum. In the later case, a petition may be filed with the judge of the county probate court with signatures of at least 25 percent of the county's electors for counties with a population of less than 5,000, 20 percent in counties with between 5,000 and 50,000 people, and 10 percent for counties with a population over 50,000. The validity of the petition is verified by the probate judge, and should it be approved, the judge will set a date for the election.

Powers granted to counties are not considered to extend to the following: actions affecting any county elective office; actions affecting procedure for the election or compensation of the governing county authority; defining any criminal offense or punishment; any form of taxation beyond that authorized by law or the Constitution; action affecting the exercise of the power of eminent domain; actions affecting the court system; actions affecting the public school system; or actions extending regulation activity reserved to the Georgia Public Service Commission.

The Constitution goes to great length to specify that the power of county commissioners is strictly limited by the Constitution to only those powers granted to them. Because the home rule provision for counties specifically prohibits any attempt by a local governing authority to change or interfere with the operation of provisions of general law, it limits legislative actions by the board of commissioners on matters for which no provision has been made by local or general law. Authorities, on the other hand, must demonstrate that they are not operating arms of county or municipal governments and thus are not subject to the same home rule provisions.

Recent ratings of home rule list Georgia as one of nine "weak" home rule states (Geon and Turnbull, 2006). This suggests that Georgia's counties have less authority than counties in several other states. Louisiana and South Carolina are the closest neighbors that are classified as strong home rule states.

B. Home Rule for Municipalities

Unlike counties, home rule for municipalities is provided through legislation, not through the Constitution. The Constitution (IX, §II, ¶II) specifies that the General Assembly has the authority to provide for the self-government of municipalities. Thus, municipal governments have no Constitutional home rule authority. The intent of the Constitutional provision is to allow the General Assembly to adopt legislation that permits municipal governments to deal with local issues without action of the General Assembly.

The courts have ruled that municipal corporations in Georgia can exercise only those powers that are expressed in words, that can be necessarily or fairly implied, or that are essential (not just convenient) to the declared objects of the corporation. Municipal home rule powers are granted through general law and municipal charters, which are specific to each municipality and must be approved by the General Assembly.

The general powers granted to municipal governments by the General Assembly are set out in chapters 34 and 35 of Title 36 of the Georgia code. Chapter 34 provides authority regarding the administration of the municipal government, including establishing offices, providing merit systems, contracting for services, granting franchises, constructing water and sewage systems, and issuing financial obligations.

Chapter 35 provides that municipalities can adopt ordinance, rules, and regulations relating to its property, affairs and local government. (For counties, this authority is granted by the Constitution.) In addition, Chapter 35 allows municipalities to set compensation of employees and elected officials, to reapportion, and to amend their charter, subject to some limitations. Municipalities cannot: change the composition or form of or procedure for electing its governing body; define an offense which is already a criminal offense or impose a sentence in excess of 6 months or $1,000; adopt a tax that is not otherwise authorized; affect the exercise of the power of eminent domain; affect the court system; affect an independent public school system; extend regulation activity reserved to the Georgia Public Service Commission. Annexation is also included in the rights granted to cities.

Municipalities cannot grant themselves new powers—they can only receive and retain powers granted to them by the General Assembly. While the Constitution does not limit the power of the General Assembly to legislate to municipalities, it grants power to delegate those responsibilities that are best handled by municipalities, such as trash collection and park/recreation services. Furthermore, the Constitution is flexible in granting the power to the General Assembly in terms of granting new city charters – it provides for no uniform way upon which this act can be accomplish. The Constitution also grants the power to the General Assembly to revoke a city or county's charter.

The potential for overlap and duplication in service delivery between counties and municipalities was addressed in 1997 when the Georgia General Assembly passed HB 489, the Service Delivery Strategy Act. The bill was developed through negotiation between the Association of County Commissioners of Georgia and the Georgia Municipal Association.[3] The intent of the legislation is to increase local cooperation in service delivery and make the counties and cities accountable to the state for providing "a more rational approach to allocating delivery and funding" (Department of Community Affairs, 1998).

Municipalities can change size through annexation. There are three approaches to annexation, beyond local acts of the General Assembly. The "100 percent method" holds that municipal governments may annex adjacent unincorporated land "upon the written and signed applications of all owners of the property proposed to be annexed" (Steinbauer et al, 2002, page 36). The annexation

[3] See: http://www.legis.state.ga.us/legis/1997_98/house/hinfo/wrap_7.htm

laws were supplements in 1966 so that municipalities with a population of at least 200 could annex unincorporated land if: the application for annexation were signed by at least 60 percent of owners of property to be annexed, at least 60 percent of the electors sign the application, a plan was submitted for services in the area to be annexed, and a public hearing was held. This second method of annexation is referred to as the “60 percent method.” A third method for annexation was added in 1970, the “resolution and referendum method”. As the name suggests, this method requires the municipality to pass a resolution and then hold a referendum in the area proposed to be annexed. Steinbauer, et al. (2002) report that this is the most complicated means of annexation and is therefore not often used.

The annexation planning, coupled with HB 489, could provide a means to further encourage efficiency in public service provision, as outlined by Steinbauer, et al. based on the experiences of other states. They suggest that a long-term plan that incorporates future annexation plans into the service delivery agreements and streamlines the annexation process for such planned changes could enhance long-term planning and result in less ad hoc decisions regarding annexation (and, potentially, service delivery). A criticism of such a plan, however, is that it may be too difficult to develop a long-term plan for annexation that is actually viable under a referendum system.

C. Authority of Local School Systems

Local schools systems are responsible for providing elementary and secondary education, but cannot provide any other public service. The authority and responsibilities of local schools systems, which are spelled out in the Quality Basic Education Act, are highly circumscribed.

D. Power of Taxation

The powers of taxation are referenced in Article VII, Section I of the Constitution. The right to control taxation is under the exclusive authority of the State, and the State may not transfer that right elsewhere, or amend it in any way. Furthermore, a municipality’s right to tax can only be conferred through a statute or directly by the Constitution. This is in stark contrast to the taxing authority outlined in the U.S. Constitution, where the only major limitations on the taxing powers of the state relate to interstate commerce and custom duties.

The only limitation on taxation specified in the State Constitution is that the State government may not levy ad valorem taxes on tangible property that exceed one-fourth of a mill. The purpose of this restriction was to withdraw the state from the use of ad valorem taxes, and relegate this tax to local governments.

Local governments are allowed to levy a property tax. The basis of the property tax is generally fair market value, and all counties are required to use that basis.[4] However, the values of homestead exemptions are set by local legislation and thus differ across local governments. There are no state mandated restrictions on property taxes, either in the rate or levy, except for county school systems. For county school systems, but not independent systems, the Constitution specifies a maximum property tax rate of 20 mills.

Local governments are allowed to adopt various sales and use taxes, all of which are set at 1 percent, are set countywide, with one exception as noted below, and must be adopted by referendum. With the exception of Local Option Sales Taxes enacted after October 1, 1996, the base of the local sales taxes include food for home consumption, while the state sales tax exempts food for home consumption.[5] The revenue from the Local Option Sales Tax (LOST) is split between the county and municipal governments based on a distribution that is negotiated every 10 years. The revenue is used for property tax reduction and general services.

The Special Purpose Local Option Sales Tax (SPLOST) can be used for capital projects of the county and municipality and can be imposed for up to 5 years, but can be renewed. The county and municipalities must confer over the projects, but the county government does not have to include the municipal projects in the list of projects eligible for funding. The Education Special Purpose Local Option Sales Tax (EDLOST) is used by local school districts for capital improvements or debt reduction. Two counties have imposed a Homestead Option Sales Tax (HOST); at

[4] Note that Muscogee County allows homesteaded property to be taxed on the basis of the sales price with no adjustment for changes in value over time until a subsequent sale.
[5] Local sales taxes are also levied on sales of natural gas used for production of electricity, which is exempt at the state level.

least 80 percent of the HOST revenue must be used to fund increased homestead exemptions. Two counties have a local sales tax used to fund MARTA. The City of Atlanta has the only non-countywide local sales tax.[6] As of January 1, 2007, 154 counties had a LOST, 153 had a SPLOST, 153 had an EDLOST, and two had a HOST and two had a MARTA tax. One county had a regular one percent sales tax.

There is legislative authority for local governments to adopt a 1 percent local income tax. However, a county cannot have both a local sales tax and a local income tax, and the referendum for the local income tax requires at least a 50 percent voter turnout in a referendum that must being held in the first six months of the year. Consequently, no county has attempted to adopt it.

Municipal and county governments are authorized to impose an occupation tax. This tax is levied on entities engaged in an occupation, profession or businesses. The tax can be based on the number of employees or gross receipts. The tax rate can differ across entities based on national profitability ratios.

Municipal and county governments are also authorized to impose excise taxes on hotel and motel rooms and rental vehicles, although the revenue must be used for economic development, tourism or convention, recreation or sports facilities. In addition, municipal and county governments can levy taxes on alcoholic beverages, although the state limits the tax rates that can be imposed. Local governments are prohibited from imposing taxes on employment, or a tax or fee on airlines passengers.

This overview of the legal structure of local government in Georgia demonstrates that the county and municipalities in the state are afforded some flexibility in terms of consolidation and annexation. At the same time, the state maintains a relatively active hand (legally) in identifying the political and fiscal parameters under which the local governments work. We turn now to a more detailed discussion of the fiscal side of the intergovernmental story in Georgia.

[6] The base for the City of Atlanta sales tax exempts some goods taxed by the state.

IV. Expenditures

Intergovernmental fiscal relations are made real in terms of which level of government is responsible for expenditures, the assignment of revenue sources, and intergovernmental grants. In this section we focus on expenditures, while revenue and grants are considered in the two subsequent sections. The discussion provides insight into the level and structure of decentralization in the state.

The intergovernmental issue of expenditures is concerned with which level of government, state or local, is responsible for delivering which types of public services. A distinction is made between the financing of the public services and the direct provision of public services. For example, the state provides grants to local school districts, and therefore spends a substantial amount of money on K-12 education. However, it is the local school district that actually provides or delivers the education to the students. Total expenditures include spending on grants, while direct expenditures consider only the direct provision of public services.

Since our interest is with the delivery of service we consider the share of state and local direct expenditures made by the state government. The basic issue regarding expenditures is the allocation of responsibility for service provision, as measured by the share of state and local expenditures accounted for by state government. The greater this share, the more centralized the decision making on public services. Georgia has settled on a de facto distribution of expenditure responsibilities.

While the principles set out in the previous section provide some help in thinking about which public services should be provided by the state and which should be provided by local governments, there is substantial room for debate. Those principles suggest that expenditures that have impacts over a wide area are best handled by a higher level of government. Those expenditures that serve a relatively small area with little spillover to other jurisdictions are best handled at a very “local” level. Within this framework, there is much subjectivity to determining the “correct” distribution of expenditure responsibilities. Thus, we find substantial variation across states in the state share of direct expenditures; the share varies from 35.5 percent in Nevada to 78.2 percent in Hawaii.

Table 4 shows the state share of direct expenditures made by state and local governments for Georgia and for the United States for 1991-92 and 2003-04. For comparison we also show the state share of total expenditures. As can be seen, the state share of direct expenditures is slightly lower in Georgia than for the United States, but the state share increased over the decade for both Georgia and the United States. A similar pattern exists for total expenditures, although the state share of total expenditures is larger than for direct expenditures. This is to be expected since the state provides substantial funding for K-12 education (which is part of total expenditures), although it does not provide K-12 education and thus has no direct expenditures on K-12 education.

TABLE 4. STATE SHARE OF EXPENDITURES

	--------Direct Expenditures-------		--------Total Expenditures--------	
	1991-92	**2003-04**	**1991-92**	**2003-04**
Georgia	39.5%	42.5%	53.7%	58.5%
United States	43.3%	44.9%	60.6%	62.1%

Source: U.S. Bureau of the Census, *State and Local Government Finances*.

We now consider the state share of direct expenditure by expenditure categories. These categories are used by the Bureau of the Census in their reports of government finances data. Table 5 contains state and local spending per capita and the state share of direct expenditures for the U.S. and Georgia for 2003-04, the latest year of data available from the Census. We use Census data since it allows comparisons over time and across jurisdictions.

TABLE 5. STATE AND LOCAL GOVERNMENT DIRECT EXPENDITURES, 2003-2004

Category	--------------United States-------------			------------------Georgia-----------------		
	-------Per Capita-----			-------Per Capita------		
	State	Local	Percent State	State	Local	Percent State
Total	$3,475	$4,244	45.0	$2,788	$3,765	42.6
Education						
Higher Education	495	96	83.7	499	3	99.4
Elementary & Secondary	20	1,522	1.3	0	1,512	0
Other Education	103	0	100.0	143	0	100.0
Libraries	1	30	4.5	0	15	0.0
Social Services & Income Maintenance						
Public Welfare	998	148	87.1	958	16	98.3
Hospitals	137	193	41.4	77	316	19.6
Health	101	114	46.9	68	110	38.2
Other	21	0	100.0	22	0	100.0
Transportation						
Highways	247	157	61.1	156	117	57.2
Other Transportation	9	72	11.1	17	67	20.2
Public safety						
Police Protection	32	206	13.6	25	161	13.4
Fire Protection	0	97	0.0	0	80	0.0
Correction	126	67	65.4	141	66	68.3
Protective Inspection & Regulation	26	13	67.2	10	14	42.1
Environment and Housing						
Natural Resources	59	21	73.9	58	2	96.0
Parks & Recreation	16	88	15.0	16	59	21.0
Housing & Community Develop.	15	112	11.5	4	80	4.9
Sewerage	3	45	6.3	0	133	0.0
Solid Waste Management	10	59	14.5	3	56	4.5
Governmental Administration						
Financial	73	50	59.1	46	38	54.8
Judicial & Legal	52	60	46.4	21	67	23.5
General Public Buildings	9	31	23.6	10	30	25.0
Other Government Administration	14	54	20.0	6	70	8.0
Interest on General Debt	113	166	40.3	52	74	41.0
Other Direct Expenditures	118	224	34.3	82	130	38.7

Source: U.S. Bureau of the Census, *2003-04 State and Local Government Finances*.

A. Education and Libraries

It is commonly argued that the provision of elementary and secondary education and of libraries should be the responsibility of local governments because residents of the jurisdiction where the schools and libraries are located are best able to determine what is needed and those residents receive most of the benefit of these services. The state's role is to set standards and to help fund education. This is the pattern observed in the United States generally and in Georgia. In Georgia, 100 percent of the direct expenditures on elementary and secondary education and on libraries are made by local governments. This is the pattern for other states as well; the exception is Hawaii, where the state provides elementary and secondary education.

State governments provide funding through grants to local school systems. In Georgia, the state government provides more than half of the funding for elementary and secondary education. In addition, the state provides some grants for libraries.

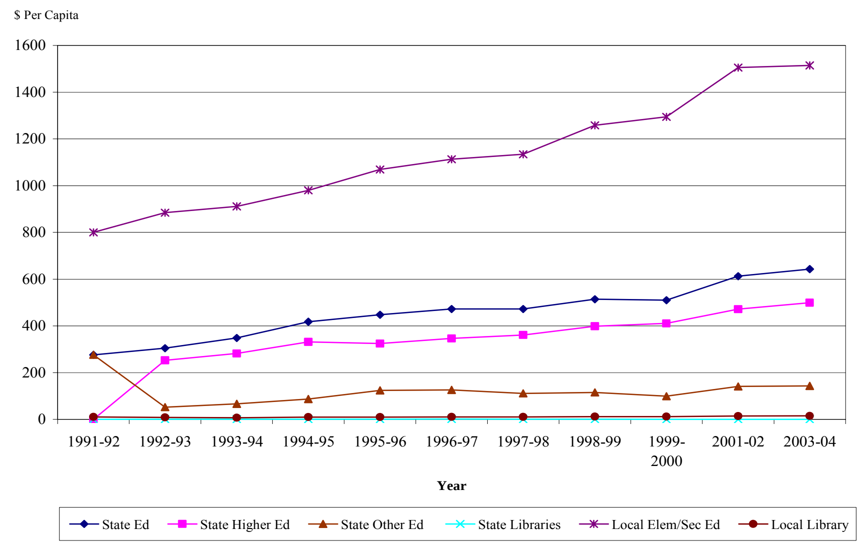
Higher education, on the other hand, is nearly 100 percent a state function in Georgia; local governments in Georgia account for less than 1 percent of the direct expenditures on higher education.[7] Nationally, some local governments provide higher education, for example, New York City. The rational for the state to have responsibility for providing higher education is that there are significant benefit spillovers beyond the borders of any one city or county as students come to community colleges, colleges and universities from a wider area than that covered by the local government. The "other education" category includes educational administration, tuition grants, aid to private schools, and special programs.

Overall, education accounts for 32.9 percent of total state and local government direct expenditures in Georgia. Whether this is the right allocation of expenditures in Georgia is not an easy question to answer.

For the United States, education accounts for 29.0 percent of total state and local direct expenditures. Expenditures per capita on education in Georgia have been rising since at least 1991 (Figure 3). In general, expenditures per capita for

[7] Higher education includes colleges and universities as well as adult vocational educational programs.

FIGURE 3. PER CAPITA EXPENDITURES ON EDUCATION: GEORGIA



Source: U.S. Bureau of the Census, *State and Local Government Finances*.

elementary and secondary education have been growing at a fast pace, while expenditures per capita on higher education have been rising slowly and expenditures per capita for libraries and other education have been relatively flat.

B. Social Services and Income Maintenance

In the area of social services and income maintenance, the largest expenditure category is public welfare.[8] In fact, public welfare is the largest single expenditure category for state governments in the U.S. and in Georgia.

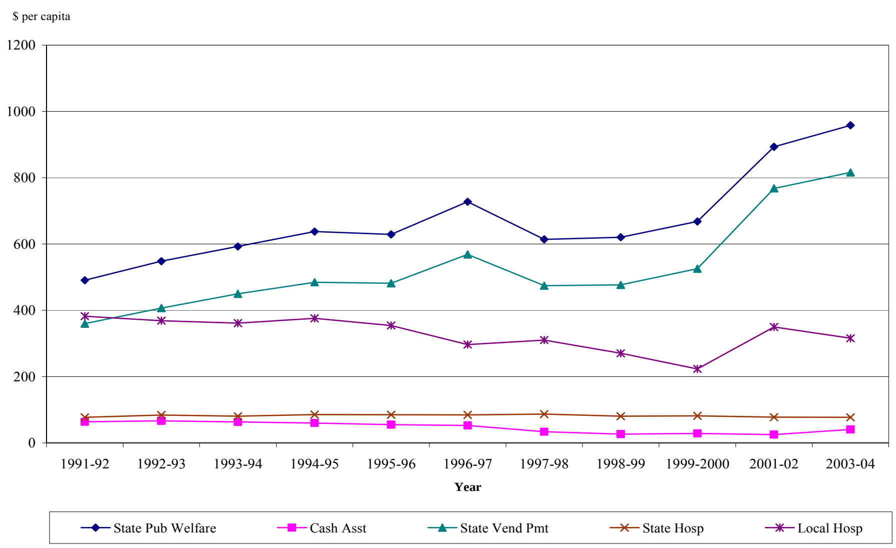
As can be seen in Table 5, public welfare is mainly a direct expenditure of the state government, both in Georgia and the United States. The hospitals and health categories refer to expenditures by government through its own hospitals and health agencies. In Georgia, hospitals are mainly a local function and much more so than is found in other states. Expenditures on health, for example public health agencies, are split between state and local governments, although this function is more local in Georgia than for the United States. The assignment of general welfare spending at

[8] Public welfare refers to assistance to needy person contingent on their need and includes direct payment such as TANF and payments for medical care.

the state level and more specific services (hospitals) at the local level is roughly in line with the correspondence principles outlined above.

Total direct expenditures per capita on social services and income maintenance have been relatively stable in the United States over the past 10 years. However, as shown in Figure 4, in Georgia spending on public welfare rose between 1992 and 1997, but fell sharply in 1998, and then regained its upward trend. The post-1997 drop is attributed to changes in the laws governing welfare payments, including welfare reform, and to a strong economy. The rise in public welfare expenditures post-2000 is related to the economic downturn and the continued increase in population of the state.

FIGURE 4. EXPENDITURES ON HUMAN DEVELOPMENT: GEORGIA



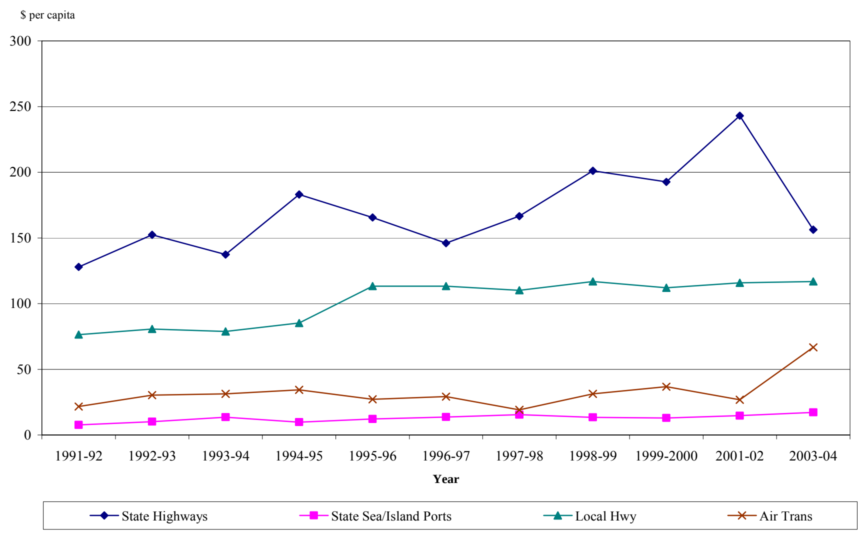
Source: U.S. Bureau of the Census, *State and Local Government Finances*.

C. Transportation

The highway category includes construction, maintenance, and operation of highways, streets, and related structures. State and local governments share this responsibility, although the state share is somewhat larger than the local share. This is to be expected given that the system of roads and highways can be used by a wide variety of individuals from various jurisdictions. Georgia has a state-local split that is similar to that for the United States as a whole. Other transportation, which includes air transportation, parking facilities, and transit subsidies, is largely a local function based on local usage. However, in Georgia, the state share is twice as large as the average for the United States.

In Georgia, state and local expenditures per capita on highways have increased since 1992, but expenditures per capita on other transportation has been virtually constant (Figure 5).

FIGURE 5. EXPENDITURES IN TRANSPORTATION: GEORGIA



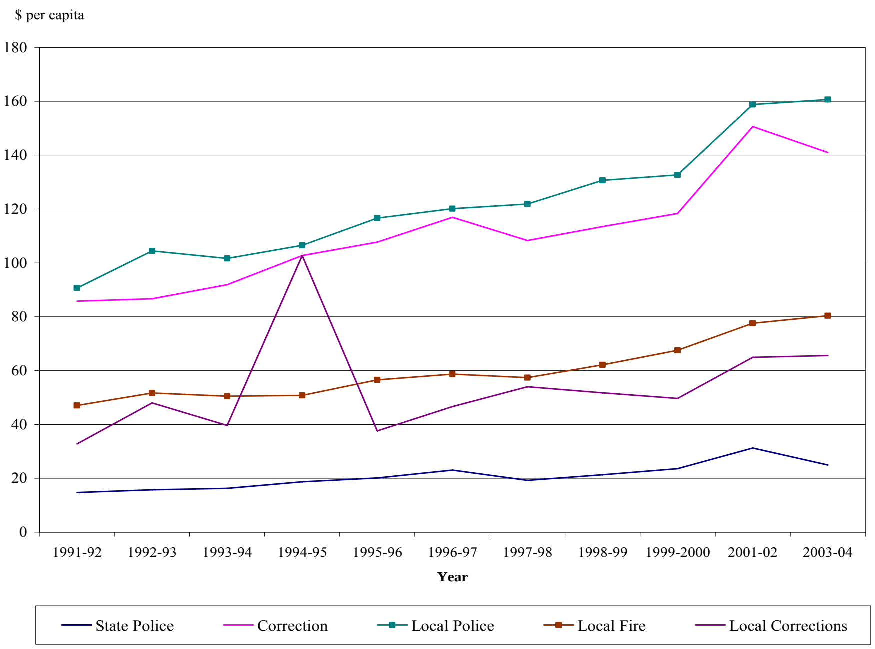
Source: U.S. Bureau of the Census, *State and Local Government Finances*.

D. Public Safety

Police and fire protection are largely local functions both in Georgia and in the United States as a whole. On the other hand, corrections are largely a state function. Protective inspection and regulation, which includes regulation of private enterprise for the protection of the public and inspection of hazardous activities, is much more a local function in Georgia than on average for the United States.

Expenditures per capita in this category have increased since 1992, and the mix of expenditures has changed somewhat (Figure 6). Local spending per capita on police protection and state spending on correction in Georgia increased steadily since 1992 relative to the other categories.

FIGURE 6. EXPENDITURES ON PUBLIC SAFETY: GEORGIA



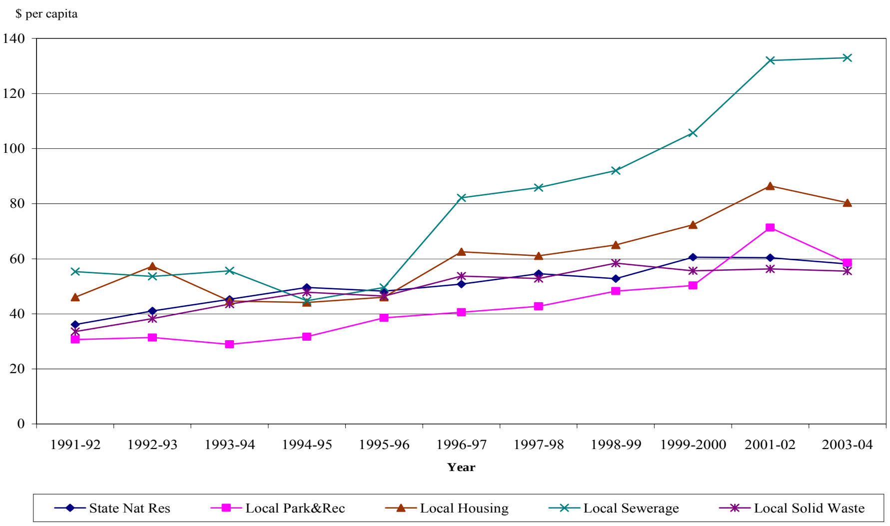
Source: U.S. Bureau of the Census, *State and Local Government Finances*.

E. Environment and Housing

Other than the natural resources category (which refers to the conservation, promotion, and development of natural resources), expenditures for environment and housing are made largely by local governments. And, other than parks and recreation, local governments in Georgia have a greater responsibility for these direct expenditures than do local governments throughout the United States. Once again, this distribution of expenditure responsibilities is roughly what is supported by the correspondence principle.

Expenditures per capita in this area have been rising slowly since 1992. The housing category is one area where the correspondence principle may be breached. Similar to welfare spending, parts of this category are aimed at redistribution and local spending may attract individuals to a locality so that they can receive these

FIGURE 7. EXPENDITURES ON ENVIRONMENT AND HOUSING: GEORGIA



Source: U.S. Bureau of the Census, *State and Local Government Finances*.

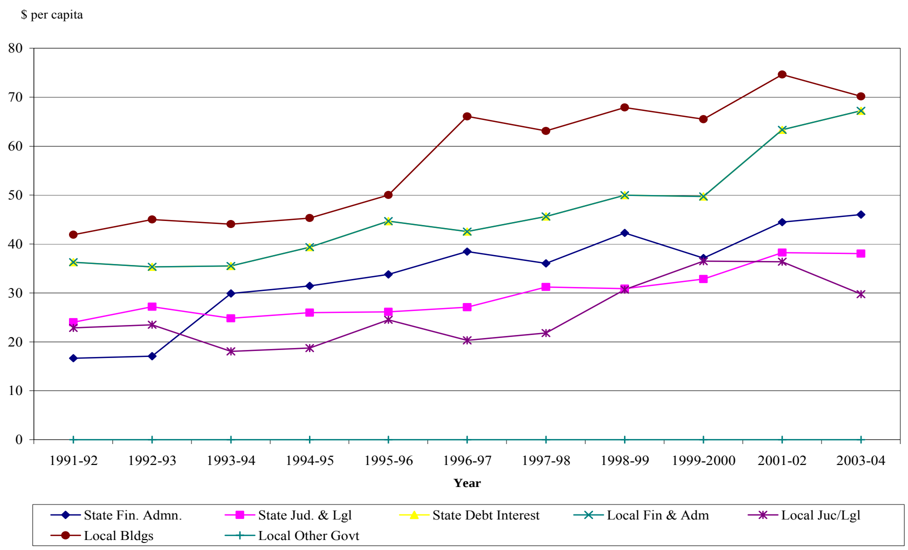
types of public benefits. However, much of the local housing authorities are funded through grants from higher levels of government, so the actual local discretion is not necessarily commensurate with the total level of expenditures made.

F. Government Administration

Financial administration is split between local and state governments, although the state share is larger than the state's share of total direct expenditures, but is close to the state's share to total expenditures. For the United States, state governments have a greater responsibility for judicial and legal function than is the case in Georgia. The other government administration category includes functions such as planning and zoning, and is largely a local function in Georgia, although states have a larger role in the rest of the United States.

Expenditures per capita on state financial administration have been growing, as has local judicial and legal expenditures (Figure 8). Spending per capita on other categories of expenditures in this area has remained more or less constant.

FIGURE 8: PER CAPITA EXPENDITURES FOR GENERAL GOVERNMENT



Source: U.S. Bureau of the Census, *State and Local Government Finances*.

G. Summary

The distribution of expenditures between the state and local governments and among expenditure categories in Georgia largely conforms to the policy norms of expenditure assignment. There are, however, some areas where the distribution of responsibilities in Georgia differs from the national average. These include categories for which Georgia state government per capita spending is substantially lower than the national average (hospitals, health, protective inspection and regulation, housing and community development, sewerage, judicial and legal, and other government administration), and greater than the national average (higher education, public welfare, and natural resources). Does this difference in concentration of expenditures mean the Georgia's intergovernmental finances are inappropriate? The answer to that question is not an easy yes or no. The expenditure categories for which the state has greater than average responsibility can be argued to be redistributive, or have an impact that extends beyond most local government borders. These categories are in line with the principles of expenditure assignment. The same correspondence holds for the categories for which the state of Georgia spends less—these types of expenditures tend to be more local in nature, with less spillover.

Then, why does Georgia allocate these responsibilities quite differently from the average U.S. state? One reason is simply history—an in-depth analysis of these categories may suggest that they have developed as more local or more state expenditures based on original budgetary allocations and preferences. Politics could be another reason—local legislators may have fought harder for control over public services that they could provide to their constituents. It may be that these public services simply have less (or more as the case may be) spillovers in Georgia—thus justifying the expenditure distribution between the state and local governments.

None of the expenditure responsibility distributions is so out of line with the principles of expenditure assignment to call for an immediate change. However, for those categories where Georgia is substantially different from the U.S. average, more careful analysis could be done to see if the spillovers are large enough (or small enough) to warrant reconsideration of the state-local share of expenditure assignment. This is important from the perspective of efficient public management. If, for instance, it was determined that hospital services supported by local government funds were actually used by a constituency that extended well beyond the boundaries of the local government, then it may be the case that local governments provide too little of the service (due to resource constraints). In such a case, a more efficient outcome may be to shift more responsibility to the state government. This type of judgment should only be made after careful study of the service area and clients of the specifically mentioned public services. In this section, we have simply highlighted expenditure responsibilities that might be studied further.

V. Revenue

Similar to the expenditure side of the story, there is also a set of principles that are used to evaluate a revenue source or revenue structure, including fairness, administrative feasibility, revenue sufficiency, and the impact of taxes on the behavior of firms and individuals. In addition, there are principles that help guide the decision regarding which revenue sources should be employed at the local and at the state level. A “good” local revenue source is one that yields a stable flow of revenue, i.e., does not fluctuate over the business cycle, can be administered at the local level at a reasonable cost, generally relates to the public services provided, and uses a base that is relatively geographically immobile.

The application of these principles yields different implications for state and local governments. For example, given the differences in their geographic size, the mobility of a tax base is less of a problem for state governments than for local governments. Thus, a property tax is more suitable for a local government than a sales tax. These principles also suggest that state and local taxes should not be very progressive since progressive taxes would induce high-income households to move to other jurisdictions. However, the likelihood that a progressive income tax will cause a family to move to another local jurisdiction is much higher than the likelihood that it will cause an inter-state move. Thus, it is more important for local governments to refrain from highly progressive taxes than for state governments.

In large part, the assignment of revenue between state and local governments in Georgia follows the principles outlined above, and is similar to the average for the United States. However, the mix of revenue sources differs between Georgia and the rest of the United States. Table 6 provides some detail on the types of revenue sources used by both levels of government. The state derives most of its revenues from the sales tax and income tax, while local governments use the property tax most heavily, which is in keeping with the general principles. For most of the revenue sources, either the state or local government in Georgia is the principal user of the revenue source, the major exceptions being the general sales tax and selective sales taxes.

TABLE 6. PER CAPITA STATE AND LOCAL GOVERNMENT REVENUE, 2003-2004

Category	United States Per Capita State	United States Per Capita Local	United States Percent State	Georgia Per Capita State	Georgia Per Capita Local	Georgia Percent State
Total general revenue	$4082	$3735		$3163	$3156	
Intergovernmental revenue	1349	1467		1020	1101	
From Federal Government	1281	174	88.2	1014	97	91.3
From State government	0	1293	0.0	0	1004	0.0
From local governments	68	0	100.0	6	0	100.0
General revenue from own sources	2733	2268	54.6	2143	2055	51.0
Taxes	2018	1432	58.4	1634	1243	56.8
Property	37	1049	3.4	7	872	0.08
General sales tax	1003	230	81.3	725	331	68.6
Motor fuel	115	4	96.6	85	0	100.0
Alcoholic beverage	16	1	92.1	17	13	56.2
Tobacco products	42	1	97.4	25	0	100.0
Public utilities	37	37	50.0	0	25	0.0
Other selective sales	116	26	81.4	46	49	48.7
Individual income	671	65	91.2	766	0	100.0
Corporate income	103	12	89.7	55	0	100.0
Motor vehicle license	59	5	92.7	31	0	100.0
Other taxes	145	72	66.7	48	39	55.2
Charges	393	593	39.8	509	812	38.5
Education	220	69	76.2	166	31	84.3
Hospitals	91	158	36.4	42	297	12.4
Other charges	82	366	18.3	60	253	19.2
Miscellaneous general revenue	322	242	57.0	241	231	51.0

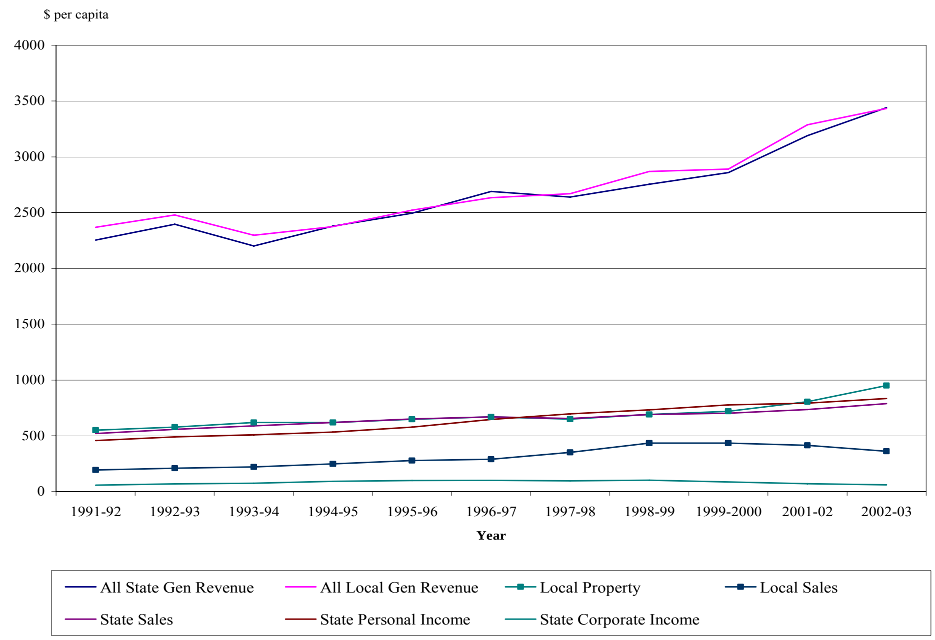
Source: U.S. Census Bureau, *2003-04 State and Local Government Finances*.

The differences between Georgia and the U.S. are in terms of the intensity of usage of certain revenue sources by the state and local governments. For example, for the United States, 81.3 percent of sales tax revenue is raised by state governments, while in Georgia only 68.6 percent is raised by the state, reflecting the importance of local sales taxes in Georgia. The other principal difference is in taxes on alcoholic beverages, with local governments in Georgia using this revenue source more intensively than for the United States as a whole.

For Fiscal year 2003-04 in Georgia, about 51.7 percent of the state's general revenue was raised through taxes, while only 39.4 percent of local government revenue came from taxes. The other revenue came from intergovernmental grants and from charges for services, such as college tuition at state colleges and universities, fees collected at parking facilities, school lunch sales, and sewerage fees collected from homeowners. A heavier fee-based revenue structure is not unusual for local governments.

Georgia's per capita tax collections have been on the rise since the early 1990s (Figure 9). Increases in local sales taxes are obviously explained by the adoption of local option sales taxes by counties and school districts. As of January 2007, 147 counties had a 3 percent local sales tax rate. Local property taxes per capita experienced a slow climb over the same period. The state individual income tax is the largest single revenue source, and its steady growth is attributed to the robust economy and the migration of upwardly-mobile individuals to Georgia. The remainder of this section provides more detailed analysis of the more important revenue streams of the state and local governments.

FIGURE 9. PER CAPITA STATE REVENUES



A. Income Taxes

The state relies heavily on the individual income tax to finance the state budget. The corporate income tax is also an important, albeit much smaller source of state revenue. As mentioned earlier, the state Constitution allows local income taxes, but they have not been used to this date in Georgia. Nationwide, the local income tax has not been utilized extensively; currently there are 11 states in which local governments impose the local income tax. Local income taxes can meet the criteria of a good local tax if they are imposed at relatively low and flat rates (thus reducing the incentive to move because of the tax).

At the state level, income taxes are used much more widely, and are currently in place in 44 states. Georgia's income tax is a mildly progressive income tax—with rates ranging from 0 to 6 percent of state taxable income. States may be able to use progressive income taxes when local governments are less able because the costs of moving from a state to escape the tax are typically larger than moving from one jurisdiction in a state to another. In general, Georgia's de facto assignment of income tax to the state level is an acceptable intergovernmental relationship based on the principles of revenue assignment.

B. Sales Tax

Sales taxes are a much more dynamic intergovernmental issue than other taxes in Georgia as well as other states. Over the years, more and more states have authorized local sales taxes. For example, in the early 1960s, 12 states authorized local government sales taxes, while more recently 33 states had such authorizations. In most cases, authorization by the state does not require that local governments adopt a local sales tax, but instead allows them to choose to adopt. This is the case of the local sales tax in Georgia.

In 1975, the Georgia state legislature granted permission to local governments to adopt a county-level local option sales tax (LOST). Adoption must be approved in a county referendum; revenues are distributed between the county government and municipalities in the county based on an agreed upon formula. Although several counties adopted a LOST virtually immediately, other counties waited years before adopting. To date, only five of the 159 counties have yet to adopt a LOST.

Similar to an income tax, a low sales tax rate could qualify as a decent fiscal tool for state and local governments. High differential tax rates at a local level encourage cross-border shopping and high tax rates increase competition among local governments for sales tax base. In addition, increased local rates, on top of the state rate, may encourage out-of-state shopping so that consumers avoid the entire sales tax—state plus local. As the average top state plus local rate has crept closer to 7 percent, the issue of out of state consumption becomes more real.[9]

C. Property Tax

The property tax is by far the most important local government tax in Georgia and in most other states. It is thought to be an efficient local tax—the land portion of

[9] The weighted average local sales tax rate is 2.8 percent.

the tax base is not mobile, and structures are not very mobile. This makes it difficult to escape the property tax, at least the real property component.

Most states treat the property tax as largely a local government tax, as does Georgia. There is no economic reason why the property tax should not be used by the state government. Rather the issue is more a matter of a providing a tax source that is almost solely just for local governments.

D. Excise Tax

In state and local fiscal systems, there are three widely taxed goods—alcohol, tobacco, and fuel. The taxes on alcohol and tobacco are often referred to as “sin taxes” in that they may be imposed to affect behavior that has costs to society (accidents and health problems related to drinking and smoking). Taxes on fuel are considered a benefit tax since the taxes paid are related to the use of roads.

There is some justification for either or both levels of government levying these taxes, particularly fuel taxes since both local and the state government build and maintain roads. In Georgia, tobacco and motor fuel taxes are completely state government taxes, while local governments can add an additional excise tax for alcohol. Most states treat these excises as state government revenue sources, so it is unusual for Georgia to allow the local component of the alcohol excise tax. However, as a share of total revenue, the local excise tax generates very little revenue.

E. Other Revenue

Other revenue of the state and local governments in Georgia provide much smaller amounts of funding. Other taxes include inheritance taxes, licenses, and transfer taxes, among others. The state share of these other taxes for Georgia is not out of line with the average U.S. state. Finally, Table 6 reports a category of miscellaneous general revenue, which includes fines, sales of property, and rents, to name a few. Again, Georgia’s split of these revenues between state and local government is congruent with other states.

F. Summary

From an intergovernmental perspective, Georgia's revenue structure is not out of line in terms of state versus local use of revenue sources, compared to the average U.S. state and in terms of the principles noted above. The most important differences in Georgia relate to the heavy use of general and selective sales tax by local governments.

V. Grants in Aid

The final piece of the intergovernmental fiscal story in Georgia revolves around grants—payments among levels of government. We now turn to that review.

Intergovernmental revenue consists of payments from one government to another, the largest component of which is intergovernmental grants. Grants may be for a specific use (earmarked or categorical grants) or for general use (block grants). Grants are a very important source of revenue to states and localities in Georgia, accounting for 32.2 percent of general revenue for the state and 34.9 percent for local governments. These shares are very similar for the average of all U.S. states. The federal government does not provide grant funds directly to local governments, rather, most federal grants to local governments flow through the state government to local government.

There are a number of important functions or purposes of intergovernmental grants:

1. Grants promote a national standard. State and local governments do not always have the necessary financial resources to meet certain goals of the federal or state governments. These may include levels of educational attainment, air quality, and job training. While local governments may be responsible for some of these expenditures, they may require additional revenue to carry out service responsibilities that may be more expensive due to federal government mandates, guidelines, etc.

2. Grants are a way of creating greater equalization among the states and municipalities. Grants are the main method of addressing differences in resource capacities among state and local governments.

3. Grants are also a way to encourage increased provision of certain public services (for example, interstate highways, which have substantial spillover benefits) and increased cooperation among governments in the delivery of certain public services.

The federal government plays an important intergovernmental role when we consider grants. Federal grants generally increased during the more modern period of the U.S. as the federal government assisted state and local government development. Currently, federal grants to state and local governments are about 3.4 percent of gross domestic product. As a comparison, total taxes (state and local) are about 30 percent of gross domestic product. The largest federal grants are for Medicaid, income security (including TANF and children's nutrition programs), transportation, education, training, employment, and social services. Many of these grants flow from the federal government to state agencies responsible for particular services. For instance, Medicaid funding from the federal government flows to the state Department of Community Health for reimbursements to providers, while some flows directly to local hospital authorities.

Most federal intergovernmental grants go to state governments; in Georgia 91.3 percent of Federal grants go to the State government. On the other hand, most grants to local governments come from the state. In Georgia, 91.2 percent of grants to local governments come from the State. However, much of the state grants to local jurisdictions are Federal pass-through grants, that is, the state receives a grant from the Federal government and then the state allocates those funds to local governments.

One of the key players in the local intergovernmental arena in Georgia is the Department of Community Affairs (DCA). DCA administers a variety of state and federal grant, loan, and tax incentive programs as well as several technical assistance and education programs. The following are three of the grant programs DCA administers that are funded by Federal grants.

- *Community Development Block Grant Program*. This is a federal government program administrated by the state that provides matching grant funds which can assist a wide range of eligible activities, including housing improvement projects, public facilities such as water and sewer lines, buildings such as local health centers or head start centers, and economic development projects.

- *Community HOME Investment Program (CHIP)*. Created by the National Affordable Housing Act of 1990, the Home Investment Partnerships (HOME) Program is the first federally funded block grant designed to address state and local affordable housing concerns.

- *Appalachian Regional Commission*. The Appalachian Regional Commission is an economic development program providing matching grant funds to eligible applicants for projects that benefit the entire 35-county area of Appalachian Georgia.

The State does not report the magnitude of the grants to local governments that are funded by State own-source funds, as opposed to Federal grants. Each agency is required to annually report to the Secretary of State's office all of the grants that the agency made during the year. These include grants made to local governments as well as other organizations such as non-profits. However, the agency does not report the source of the funds.

The largest state grant programs are for K-12 education, and the Department of Education does report the magnitude of these grants. The state funds about 55 percent of state and local spending on education. This is a slightly larger share than the average for the United States, 53 percent.

Most of Georgia's intergovernmental grants are categorical in nature, meaning that the funds have to be spent for specific purposes, versus block grants, which provide the local governments more discretion over the actual expenditure. We were able to obtain some information on grants to local governments funded by State funds from the Senate Budget and Evaluation Office. The following are non-educational state funded grants, as opposed to federal pass-through grants, that are available to local governments:

- Local Assistance grants. These are grants to local governments for specific purposes (appropriated $6,540,903 for FY07)

- OneGeorgia-Bridge grants. These are grants for publicly owned infrastructure based on the number of rural counties receiving new or enhanced high speed broadband services. ($88,600 worth of grants given out for Calendar Year 2006)

- OneGeorgia-Edge Fund grants. These grants are utilized when one rural Georgia community competes for business location and/or expansion with another community from outside the state. ($4,161,000 worth of grants given out for Calendar Year 2006)

- OneGeorgia-Equity Fund grants. These grants provide financial assistance to rural communities to help build the necessary infrastructure for economic development. ($7,533,625 worth of grants given out for Calendar Year 2006)

- Georgia Environmental Facilities Authority (GEFA) Grants. These grants are for environmental facilities. $200,000 is available to local governments for recycling and waste reduction. $500,000 is available for small communities that own or operate a water system to build or expand a public sewer system.

- Department of Transportation Local Road Assistance Program (LARP) grants. These grants provide contracts with local governments to assist in the construction and reconstruction of their local road, bridge, and street systems. (appropriated $124,900,000 for FY07)

- Local Law Enforcement and Fire Services State Grant Program-Criminal Justice Coordinating Council. These grants are for law enforcement and fire services to assist with regular operating expenses.(appropriated $500,000 for FY07)

- Local Community-Based Delinquency Prevention Grants-Children and Youth Coordinating Council. These grants are available for local governments, non-profit organizations, and school systems. (appropriated $500,000 for FY07)

- Georgia Public Library Service-Awards grants from the Public Library Fund. These grants are for providing library services for Georgians (Appropriated $34,878,668 for FY07).

- County Department of Family and Children Services (DFACS) grants. These grants support the operations of county DFACS offices. In 2006 these grants amounted to $417,193,923.

- County/District Health Department grants. These grants support public health activities. In FY 2006 total funds amounted to $208,509,626.

- State Economic Development funds. In FY 2007, these totaled $15,279,024.

- Special housing initiatives help to fund various housing programs. In FY 2007 these totaled $3,332,892.

The amounts of these grants are not reported on a consistent basis. Despite that, the total is $823 million, or about $88 per capita. As noted above, these grants are targeted grants, meant for specific types of expenditures. Georgia does not report a substantial number of block grants. The state-to-local intergovernmental grants in Georgia generally support expenditures that have significant spillovers, like education and health, and economic development. Once again, this fits the intergovernmental framework outlined earlier in this report.

Data do not exist that would allow a comparison of state-funded grants to non-school local governments between Georgia and the average for other states. However, some states do provide information on the extent of their state-funded non-education grants to local governments. Michigan's House Fiscal Agency provides an annual directory of state administered grants. The directory lists the grants, the department in charge of their administration, and the funding agency (state or federal or a combination) and amount (not broken down by funder in the case of multiple funders). The state administered $45 million in federal community development block grants in fiscal year 2005-06. In fiscal year 2005-06, the largest of the state-only grants to local governments in Michigan included grants in the following areas (excluding education), most of which are categorical in nature:

- Aging services: $13.2 million
- Community corrections: $40 million
- Courts: $90 million
- Economic development: $100 million
- Emergency management: $35 million
- Energy (including low income assistance): $61 million
- Environment: $24 million
- Health: $62 million
- Housing: $17.9 million
- Jobs training: $9.7 million
- Law enforcement: $28 million
- Library: $14 million
- Recreation: $57 million
- Revenue sharing: sales tax $693 million based on population plus $423 million based on a combination of population, property value, yield equalization
- Technology: $4.5 million
- Transportation: $1 billion
- Veterans: $5.5 million

These grants (excluding the sales tax revenue sharing) amount to $157.75 per person in 2006 in Michigan. New York State provides a variety of grants to local governments. The NYS Aid and Incentive to Municipalities (AIM) is a type of block grant that includes various criteria for eligibility including proof of a multi-year budgeting plan and a property tax relief plan for use of incremental AIM funds. For 2006-07 New York State plans expenditures of $976 million for these grants (including $327 million for New York City). These general grants are equivalent to $51.63 per person in New York. Wisconsin offers a comprehensive planning grant to local governments ($2 million funding in 2006), which is used for developing cooperation among local governments in planning for growth. Wisconsin has a grant program (shared revenue program) that provides general revenue assistance to municipal and county governments. The grant is allocated by formula that depends on such factors as population and taxable property wealth. In FY 2006, the grants amounted to $1.6 billion or about $294 per capita.

From these examples we can see that comparing the level and type of grants from state to local governments across the U.S. is difficult. In addition, from state-to-state, local governments have different expenditure responsibilities and some of those responsibilities require more intergovernmental financing. The detailed example of Michigan and the information for New York and Wisconsin may serve to demonstrate the type and level of grants that other states make available to local governments. The differences in the level of grants from state to state may be somewhat mitigated by the level of taxing power given to local governments. In Georgia, local governments have substantial sales tax options in terms of local option sales tax rates.

VI. The Landscape

Intergovernmental fiscal relations is reflected in the assignment of revenue sources and public service responsibilities, and the financial relationships between governments, largely reflected by the system of intergovernmental grants and service agreements. Intergovernmental fiscal relations, whether they are between state and local governments or between local governments, depend on the legal framework that regulates these relationships and on the degree of homogeneity of the population.

How governments behave towards one another also depends on the degree of similarity in the population. If the population is homogeneous, then agreement and cooperation is easier to obtain. If there are major differences in the nature of the population in terms of public service needs, available resources, and views of the role of government, then agreement is harder to obtain and there will likely be more conflicts. The legal structure can help or hinder the ability to reach agreement, but of course the setting of the legal structure is the result of a political process that is affected by the level of homogeneity of the population.

A. Population

Georgia's population has boomed over the past three and a half decades, nearly doubling between 1970 and 2006. In 1990, Georgia was the 11th most populous state, and by 2006 it rose to the 9th most populous state, with a population of 9,363,941—the result of a 44.6 percent increase in population from 1990-2006.

While Georgia is one of the fastest growing states, its population growth has not been uniform across the state. The metro Atlanta area and surrounding counties have posted some of the largest population growth. Of the increase in the state's population during the 1990s, 67.4 percent of it located in the Atlanta Metropolitan Statistical Area (MSA). As of 2000, 50.3 percent of the state's population resided in the Atlanta MSA.

On the other hand, the more rural, southern region of Georgia has seen much slower population growth and even an absolute decline in population in certain counties. Between 1980 and 1990, 42 Georgia counties lost population, while between 1990 and 2000, 8 counties lost population. Six of these 8 counties were in southwest Georgia, and only one of them was in an urban area (Dougherty County). Between 1990 and 2000, the urbanized population increased by 43 percent, while the non-urban area lost 2.6 percent of its population. The urbanized population increased from 63.2 percent in 1990 to 71.7 percent in 2000.

The differential population growth across regions in Georgia may have affected the ability to make policy related to public finances, schools, and service delivery because of the different needs of urban and rural areas. These regions, by their nature, have different concerns and often times different resources available for dealing with their concerns.

A significant component of population growth in Georgia is due to migration from other states, many of whom located in the metro Atlanta area. This is an added dimension to policy development—individuals who move into the state may have different demands of the public sector than those who originally grew up in the state. This leads to conflicts over policy between long-time residents and more recent arrivals.

Georgia is a relatively young state: 7.3 percent of the population is under the age of 5, while the national average is 6.8 percent. But both the younger (those under 18) and older (those over 65) segments of the population showed the largest percent growth over the past two decades. The percentage of the population under 18 is still higher in the southern counties of the state, but there has been an increase in the share of this age group in the urban centers of the state. These population shifts represent another source of pressure to the state—the growth in the number of young will call for more education funding, while the growth in the number of elderly will create a push for more spending on programs such as health care.

According to the 2000 Census, Georgia's racial make-up was 65.1 percent white, while the U.S. average was 75.1 percent white, non-Hispanic. In 1990, whites comprised 71.0 percent of the population. Blacks are heavily concentrated in the core of urban areas; 10 urban counties contain 61.5 percent of the state's black population. There are 17 counties in which blacks are a majority, but 31 counties in which the percentage black is less than 10 percent.

The Hispanic population increased by nearly 300 percent during the 1990s, and now comprises over 5.3 percent of Georgia's population. Although there are 7 counties in which the percentage of Hispanics exceeds 10 percent, 54.9 percent of Hispanics reside in just 5 counties, which are located in the central and northeast sector of the Atlanta MSA.

Because there are racial differences in the needs and preferences for government services and in the view of the role of government, and because of racism, the growing racial diversity of the state's population probably makes it more difficult for governments to agree on intergovernmental fiscal issues.

B. Employment

Population and employment growth are highly related, and it is commonly believed that employment growth is the major catalyst of population growth; without jobs, people migrate to other areas. Population and economic growth outside of the Atlanta Metropolitan Statistical Area has been relatively flat, while counties lying in the Atlanta metro area have shown marked gains in population and income. The Atlanta metro area is home to thriving industries, which have drawn upwardly mobile migrants from across the country. The agricultural economies of South Georgia have been less able to attract affluent individuals.

From December 1990-December 2005, total non-farm employment growth in Georgia averaged 2.34 percent per year, while the national rate was 1.29 percent over the same period. In the Southeast region of the U.S., Florida's employment growth is almost identical to Georgia's growth, but all of the other Southeast states grew at much slower rates. The employment growth over the last two decades came largely in the service sector, as is true in most states in the United States. During the economic downturn in 2000-2002, Georgia's relative position of employment strength faltered. In 1999, Georgia's unemployment rate was 84 percent of that of the nation as a whole; in 2002, it was 104 percent of the nation's unemployment rate, while in December 2006 it was essentially the same as the nation's unemployment rate.

Similar to what we've seen in population growth, the growth in employment has not been uniform across the state. The largest employment gains came in the Atlanta metropolitan region, thus exacerbating other economic and demographic trends. There are 17 non-urban counties that experienced employment loss over the period 1988-1997. Part of the explanation for this geographic difference in employment is the changing nature of the Georgia economy. Over the past several decades Georgia's economic base has changed from a concentration in manufacturing, non-durable goods and agriculture to retail trade, wholesale trade, and services. The former industries were more likely to be located in rural areas, while the later are more likely to be found in urban areas.

C. Income

Accompanying the population growth of the state has been an increase in per capita income. Georgia has had the second fastest per capita income growth in the country since 1969 (Colorado has seen the fastest growth in relative terms). In 2005, Georgia ranked 34th in the nation in per capita income with a mean household income of $31,191. This is somewhat less than the national mean of $34,395.

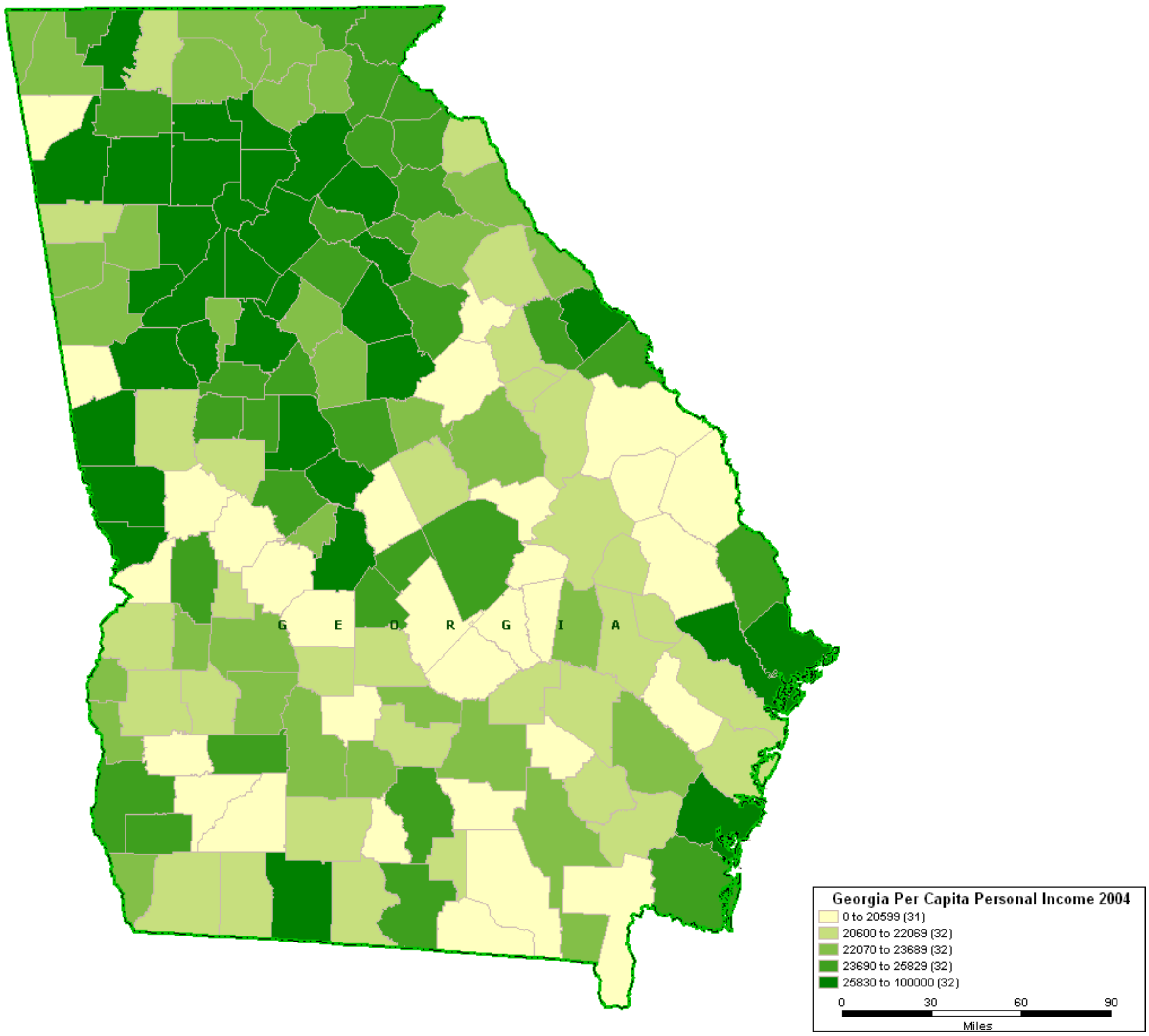
Per capita income is a way to measure the differences in underlying economic capacity or strength of each county. Table 7 compares the wealth of Georgia's urban areas in 2004, Figure 14 shows the how income per capita differs across all 159 counties of Georgia. As shown below, the per capita personal income in Georgia's metropolitan areas is 29 percent higher than incomes in rural Georgia.

TABLE 7: REGIONAL COMPARISON OF PER CAPITA PERSONAL INCOME, 2004

Area	PCPI	U.S. Rank	%Chg 2003-04
Atlanta-Sandy Springs-Gainesville, GA	$31,485	39	6.1
Savannah-Hinesville-Fort Stewart, GA	$27,489	105	6.9
Augusta-Richmond County, GA	$26,329	129	5.5
Columbus-Auburn-Opelika GA-AL	$26,132	132	5.5
Macon-Warner Robbins-Fort Valley, GA	$25,330	151	5.1
Albany, GA	$22,354	177	4.0
Georgia Statewide	$29,737	37	5.9
Georgia-Metropolitan	$31,534		6.0
Georgia-Non Metropolitan	$22,497		5.5

Source: U.S. Department of Commerce, Bureau of Economic Accounts.

FIGURE 14. PER CAPITA PERSONAL INCOME BY GEORGIA COUNTY, 2004



Source: Bureau of Economic Analysis, Regional Economic Accounts. http://www.bea.gov/bea/regional/reis.

D. Intra-State Disparities

The five counties in Georgia with the highest per capita personal income in 2004 are Fulton, Fayette, Cobb, DeKalb, and Harris, in descending order. The five counties with the lowest per-capita income are Charlton, Telfair, Hancock, Echols, and Wheeler. Four of the five most affluent counties (Fulton, Fayette, Cobb, and

DeKalb) are the core of Metropolitan Atlanta, while Harris County, in west central Georgia, is part of the Columbus Metropolitan Statistical Area. Meanwhile, the counties with the lowest incomes are scattered through the most rural areas the state: Charlton, Telfair, Echols, and Wheeler are spread throughout southeast Georgia, while Hancock County lies in east central Georgia.

The disparities in income are matched, in general, with voting power in terms of population. The higher income counties tend to have larger populations (and population growth), while the lower income counties cannot count on large constituencies to push their agenda forward.

The information presented above paints a picture of Georgia as a fast growing state in terms of both population and income, but also of great diversity across the state. The economic diversity has implications for local governments in Georgia. Across the state, local governments face very different pressures for services and have different revenue raising abilities due to the difference in the level and growth of income, population, and employment.

Table 8 presents several measures for 10 counties that summarize the wide variation in fiscal abilities of counties in Georgia to meet the needs of their constituents. The relatively low levels of income, high unemployment and low property values in Charlton, Telfair, Hancock, Echols, and Wheeler counties relative to the average for the state and the high income counties mean that these counties have less fiscal capacity to produce own-source revenues. High levels of poverty call for different levels (and types) of public services in the various counties. Even in high-income Fulton County there are obvious disparities among the population as reflected in the county's poverty rate, which is higher than that of the state as a whole.

TABLE 8: SUMMARY STATISTICS FOR HIGH AND LOW INCOME COUNTIES

County	Income Rank	Population (2005 estimate)	2004 Per Capita Federal Spending	2004 Average earnings per job	2004 Per Capita Personal Income Transfers
Statewide	n/a	9,072,576	$6,079.08	$43,159	$3,974
Fulton	1	915,623	$10,379.55	$65,257	$3,259
Fayette	2	104,248	$3,678.55	$32,334	$3,119
Cobb	3	663,818	$4,488.54	$47,730	$2,816
Dekalb	4	677,659	$4,294.02	$48,048	$3,554
Harris	5	27,779	$3,873.90	$20,721	$3,606
Charlton	155	10,790	$5,196.48	$26,329	$5,052
Telfair	156	13,208	$7,933.00	$24,929	$6,220
Hancock	157	9,643	$8,518.93	$23,739	$5,970
Echols	158	4,253	$2,432.17	$15,170	$2,923
Wheeler	159	6,706	$5,726.81	$27,796	$4,683

Sources: Census Quickfacts (Population Estimate), 2004 Consolidated Federal Funds Report (Federal Spending), Bureau of Economic Accounts Regional Economic Profiles (Earnings per job and income transfers).

E. Political Environment

Changes in the socioeconomic characteristics of the state get reflected in the political orientation of the population. The state had remained largely a one-party state throughout its post-Civil War history; the Democratic Party had control of the governorship and the General Assembly for the longest run of any U.S. state, remaining in power since Reconstruction. In the past 25 years, Republicans have significantly increased their presence in the General Assembly, finally gaining control of the Governor's mansion after the 2002 gubernatorial election. The rise of the Republication Party in Georgia is clearly evident in Table 9, which shows the political party composition of the General Assembly over the past 25 years.

TABLE 9. PARTY COMPOSITION OF GEORGIA LEGISLATURE

	------------------------Senate------------------------		
Year	**Democrats**	**Republicans**	**% Republicans**
1979-80	52	4	7.1
1989-90	45	11	19.6
1999-00	34	22	39.3
2005-06	22	34	60.7
2007-08	22	34	60.7
	------------------------House------------------------		
Year	**Democrats**	**Republicans**	**% Republicans**
1979-80	160	20	11.1
1989-90	144	36	20.0
1999-00	102	78	43.3
2005-06	80	99	55.0
2007-08	74	106	58.9

Note that in 2005-06 there was one independent.
Source: Georgia Secretary of State.

VIII. Conclusions and Future Agenda

Georgia's system of expenditure and revenue assignment generally fits well with the norms of good policy. However, the level of disparities within the state in population, income, and employment, along with the increasing immigration, merits a dynamic intergovernmental system necessary to meet the needs of the population.

There are some outliers in Georgia's intergovernmental system. On the expenditure side, local governments in Georgia support a larger share (relative to the state) of hospitals, health, protective inspection and regulation, housing and community development, sewerage, judicial and legal, and other government administration expenses and a smaller share on higher education, public welfare, and natural resources. It may very well be that given the disparities in income in the state, there is less demand on local government to provide certain public services. As the economy of the state continues to expand, the local demand mix may change the relative shares of these expenditure items.

On the revenue side, the local government share of sales tax is substantially higher than that of other states. Given the potential for encroachment on property tax growth (due to limitations on assessments and other possible reforms), sales tax is a vulnerable revenue source. Some local governments may be better able to afford increases in sales tax usage (due to higher incomes), while other localities may not be able to scratch out as much from an increased sales tax. Intergovernmental grants may be an option to help mitigate the costs of increased sales taxes, but the state and local governments would need to analyze such an option together—which may not be an easy political feat.

Overall, it is not obvious that Georgia's intergovernmental system has any major flaws in its expenditure or revenue assignment that will cause long-term harm to the state and local governments of Georgia.

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