

Fiscal Research Center policybrief

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ECONOMIC LANDSCAPE FOR THE 2017 LEGISLATIVE SESSION

Georgia's upcoming legislative session may be overshadowed by the natural uncertainties that come with a new federal administration. At the federal level, policy decisions regarding the Affordable Care Act, federal tax reform, infrastructure investment, and school vouchers, among others, can have direct implications for the state's budget. It will be several months or longer before the legislature has clarity on those policies. This brief focuses on the economic landscape for Georgia as best we know it, as we head into the 2017 legislative session.

On the fiscal side, Georgia's real per capita state revenues remain among the lowest in the country. Comparative national data are only available through fiscal year (FY) 2013, and they demonstrate that Georgia's real own source per capita state revenue was ranked 50th in the country; the individual income tax was 28th, corporate income tax was 41st, and general sales tax was also 41st. Adding in local revenue share increases Georgia's rank of the total real per capita own-source revenues to 49th and sales tax to 26th (Bourdeaux, 2016). Georgia's real per capita general fund revenues are now at levels equivalent to 1997. Figure 1 demonstrates the trend in overall revenue on a real per capita basis. The figure shows that the last two recessions have taken their toll on revenue growth, with the 2008 recession being particularly devastating.

Most recently, Georgia has seen strong growth in withholding payments for income tax, which suggests underlying growth in economic activity. Refunds have been larger than expected — some of which is attributed to tax fraud schemes that have hit Georgia hard over the past two years. The expectation is that those refunds should be

“out of the system” in FY 2018 and that refund levels will return to normal. Sales tax revenues have shown strong growth at the state level, which is somewhat unexpected and will be closely watched. There will be a downward adjustment to the state's share of the title ad valorem tax as required by law given recent distributions.

Georgia's economic landscape continues to strengthen in terms of job and personal income growth. While Georgia's October 2016 unemployment rate of 5.2 percent is slightly higher than the U.S. average of 4.9 percent, the state has posted higher than average gains in employment throughout the year. Personal income per capita grew 9.46 percent between the first quarter of 2014 and the second quarter of 2016, compared to 7.93 percent over the same period for the United States as a whole. In regard to per capita income, Georgia weighs in at 84.7 percent of the U.S. average. Population growth is also higher in Georgia than we find across the United States, and the median age of the population continues to be among the youngest in the country. However, the aging trend is gaining steam. In terms of these general economic and demographic indicators, in the last two years (2014 to 2015), Georgia has gained relative to the average U.S. state and among a number of its regional peers.

Throughout the last three decades, the composition of employment has moved decidedly toward services, with declines in manufacturing (Figure 2). These trends are similar to those seen across the United States. Employment growth has been particularly strong in education and the health sector, and the state has seen recent gains in higher wage professional and business services.

These recent trends are positive but the personal income figures noted above underscore that income in Georgia has not fully recovered from the last two recessions. Figure 3 shows which sectors of the economy were hit hardest. The largest employment losses over the 2000-14 period were in manufacturing and construction, and expansions were seen in health care, accommodation and food, and education services. Retail, wholesale, and transportation had relatively neutral outcomes in terms of employment change over the same period. The Georgia Department of Labor (2016) projects that many health care-related jobs will be among the fastest growing occupations in the state.

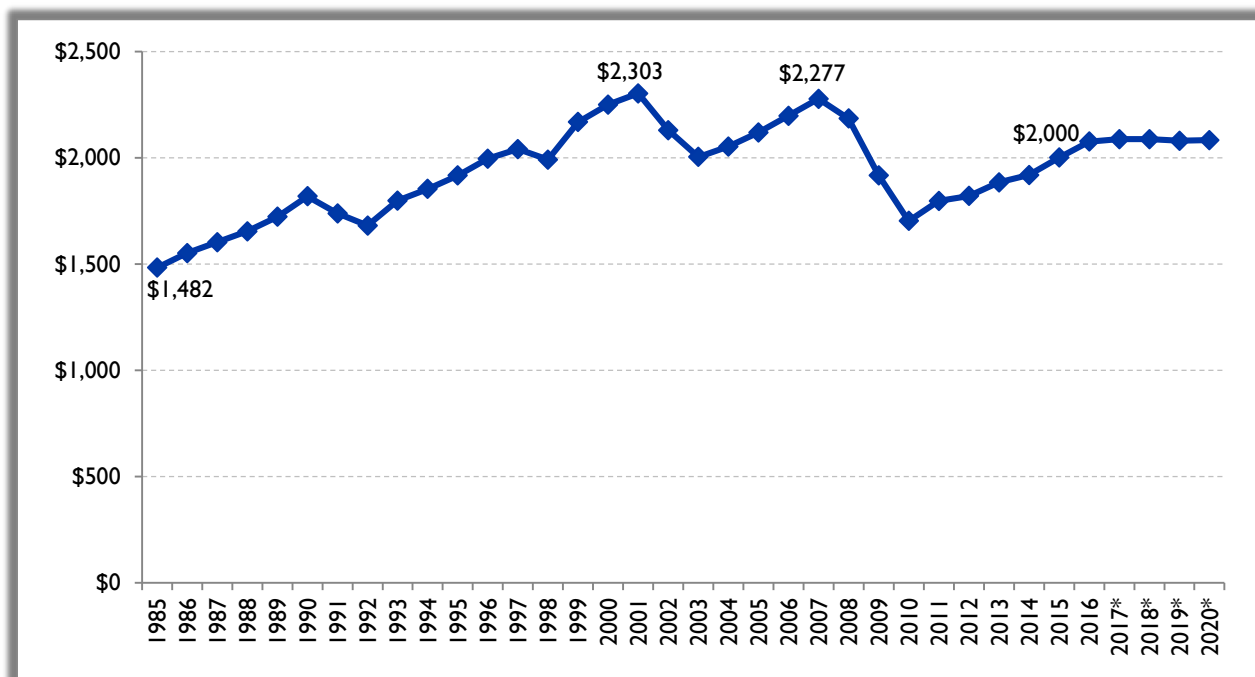
Demographic changes in Georgia and across the United States are important factors to consider for the coming legislative session as the General Assembly vets expenditure and revenue decisions. Georgia is a relatively young state, but aging of the population and migration will yield a boom in the state's elderly population. The elderly population in Georgia (65 or older) is expected to grow by 143 percent from 2000 to 2030. Georgia is among the 10 states with the highest projected growth in this population, and it joined the list of 11 states with more than 1 million elders in 2010. This demographic trend may affect state revenues due to the elderly's unique spending and income-generating portfolio. On the revenue side, the

elderly spend a larger portion of their income on non-taxable medical and health services and receive more of their income in non- (or less-) taxed pensions and other retirement forms of income. These trends will decrease the natural growth in the sales and income tax bases.

As noted in previous studies (Buschman 2015; Wallace 2015), in addition to the changing composition of spending by the elderly, the spending behavior of individuals and households across the United States has moved toward more intensive consumption of services. Many services are exempt from the sales tax in Georgia (and in other states), and the increased consumption of services naturally erodes the sales tax base. Balancing the needs of an expanding population with polar pulls of the elderly (and demands for health care, pension support, and unique transportation needs) and the young (and demands for education and infrastructure) as revenues continue to recover will be a challenge.

This brief overview of the economic trends in Georgia demonstrates that the state has shown signs of recovery in terms of employment, income and revenue growth. Real per capita revenues are at 1997 levels while population growth continues. With the growth of the elderly population, there will be some drag on the natural growth of consumption and income taxes. Strong employment growth may mitigate those effects somewhat.

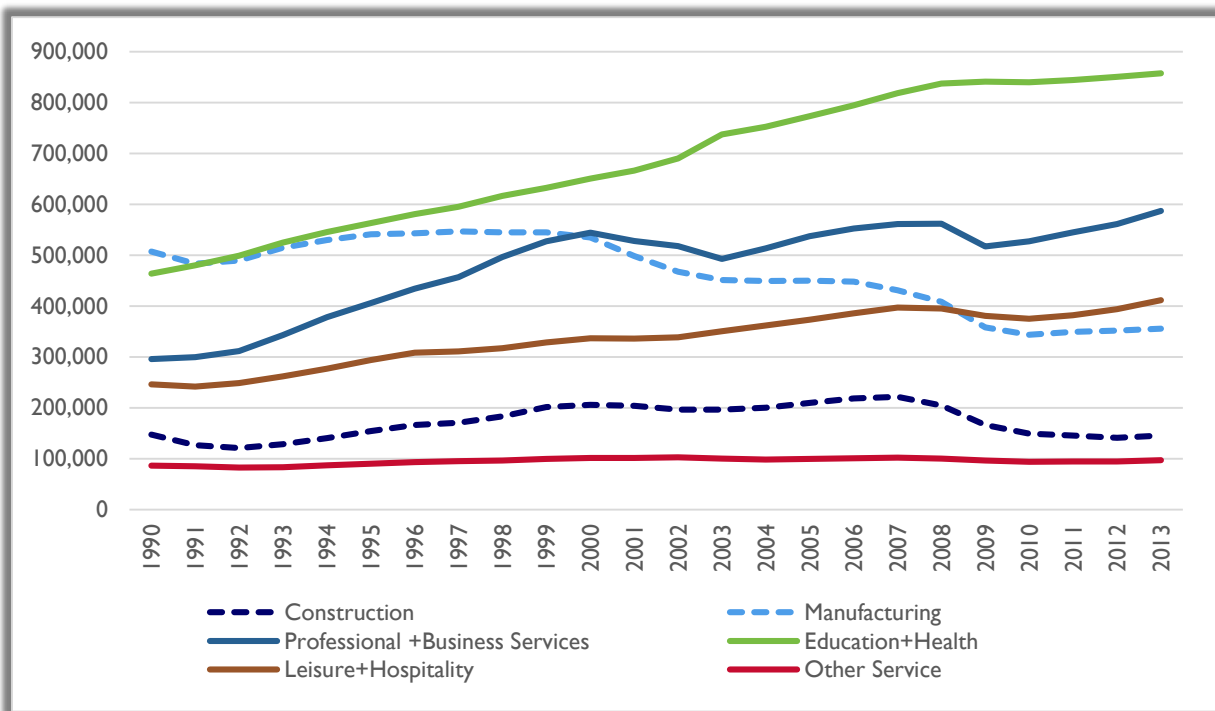
Figure 1. Georgia's General Fund Revenues Per Capita (2015 Dollars)



Source: Bourdeaux (2016)

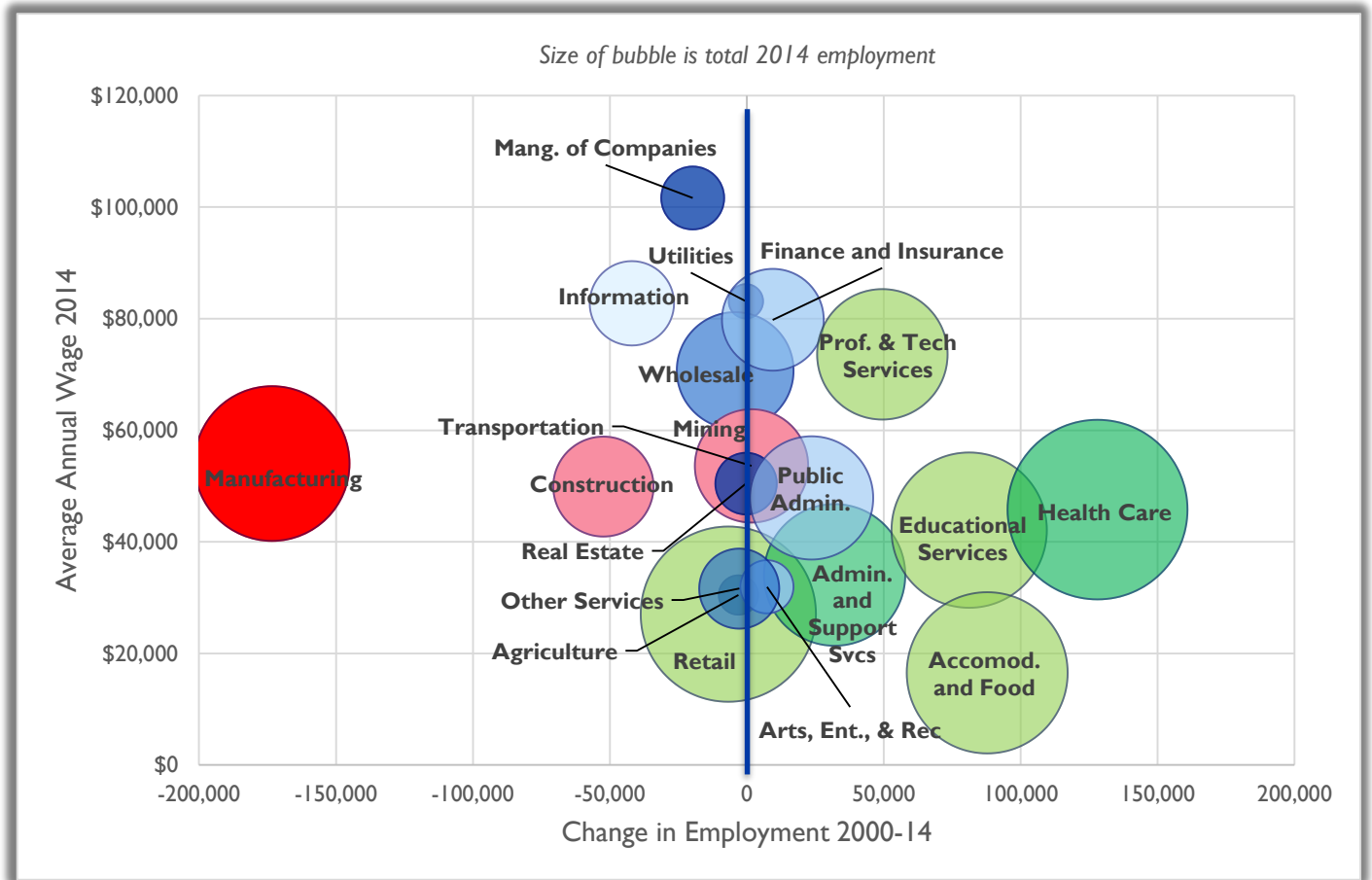
Note: *Forecasted amounts for 2017-20.

Figure 2. Annual Average Employment in Manufacturing and Service Sectors, Georgia, 1990-2013



Source: Bureau of Labor Statistics, Pathak and Wallace (2016)

Figure 3. Georgia Employment Growth and Wages



Source: Bourdeaux (2016)

Recent related reports

Bourdeaux, Carolyn. 2016, November 15. "A Briefing on Georgia's Budget: The Big Picture." Center for State and Local Finance Presentation. Andrew Young School of Policy Studies, Georgia State University.

Buschman, Robert. 2015, October 6. "Georgia's Incredible Shrinking Sales Tax Base." Fiscal Research Center Report. Andrew Young School of Policy Studies, Georgia State University.

Georgia Department of Labor. "Occupational Outlooks." Accessed on December 13, 2016 from explorer.gdol.ga.gov/gsipub/index.asp?docid=389.

Pathak, Rahul, and Sally Wallace. 2016, December. "The Fiscal Architecture of Georgia: Structural Changes and Future Implications." Fiscal Research Center. Andrew Young School of Policy Studies, Georgia State University.

Wallace, Sally. 2015, December. "Economic Landscape for the 2016 Legislative Session." Fiscal Research Center Brief. Andrew Young School of Policy Studies, Georgia State University.

About the Authors

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