



Executive budget recommendation: \$370 million in cuts to already strained budget
Balanced approach that includes revenues needed to maintain critical services

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Key Takeaway: Governor Barbour's recently released Executive Budget Recommendation for FY 2011 includes \$370 million in reductions over already tight FY2010 spending. Most budget categories received a 12 percent cut. Some were cut much less than 12 percent, including Department of Corrections, Mississippi Development Authority, and the Department of Public Safety. Some individual agencies were cut more than 12 percent, including the Office of the Attorney General and the Library Commission. Others were recommended to be consolidated with other agencies, including some universities, the Department of Wildlife and Fisheries, Soil and Water Conservation and others. Four mental health facilities and six mental health crisis centers were recommended for elimination. Of the \$370 million in reductions, \$235 million (64 percent) in recommended reductions is from the public education budget. In light of the harm the recession is inflicting on Mississippi's economy, including unemployment and an increase in demand for state services, a balanced approach that includes raising revenues is needed to maintain critical state services.

Governor's Budget Recommendation

The Governor's budget recommendation is required by law to be submitted to the Legislature in advance of the legislative session. The Joint Legislative Budget Committee will also submit a recommendation that will be used as the starting point for FY 2011 appropriations debates.

Due to the recession, state revenues declined from last year to this year. Next year, FY2011, revenue is also projected to decline under the current appropriation levels. Revenue estimates are not available yet for 2012 and beyond, but state revenues are not likely to recover by then and current federal stimulus funds will no longer be available. While state revenue is declining, the need for funding for state services is increasing as the costs of state services are increasing and more working families depend on those limited state services.

The state is required to have a balanced budget, meaning that spending cannot exceed revenue. The Executive Budget Recommendation recommends limited use of reserve funds (\$78 million), and relies heavily on cuts (\$370 million). A cuts-only strategy hurts working families, hurts the economy, and limits our ability to invest in the state's people.

The table below shows the Governor's recommendation for FY 2011 state funds, including ARRA (fiscal stimulus) funds compared with FY2010 appropriations by budget categories.

Table 1: Summary of FY 2011 Executive Budget Recommendation

Budget Category/Agency	FY 2010 Total State Funds Appropriated Including ARRA	FY 2011 State Funds Recommendation including ARRA	Difference	%
Agriculture and Commerce	\$ 11,169,605	\$ 27,235,226	\$ 16,065,621	143.8%
IHL Agricultural Units	\$ 81,295,868	\$ 69,101,488	\$ (12,194,380)	-15.0%
Economic Development	\$ 25,198,524	\$ 22,597,640	\$ (2,600,884)	-10.3%
Conservation	\$ 55,652,628	\$ 31,215,958	\$ (24,436,670)	-43.9%
Corrections	\$ 324,556,678	\$ 305,083,277	\$ (19,473,401)	-6.0%
Debt Service	\$ 347,187,030	\$ 372,187,030	\$ 25,000,000	7.2%
Executive and Administrative	\$ 3,556,637	\$ 3,138,640	\$ (417,997)	-11.8%
Fiscal Affairs	\$ 98,240,049	\$ 73,170,382	\$ (25,069,667)	-25.5%
Higher Education	\$ 946,671,429	\$ 850,191,625	\$ (96,479,804)	-10.2%
Hospitals and Hospital Schools	\$ 272,072,096	\$ 254,072,096	\$ (18,000,000)	-6.6%
Judiciary / Justice	\$ 61,485,725	\$ 58,810,981	\$ (2,674,744)	-4.4%
Legislative	\$ 26,004,726	\$ 22,884,159	\$ (3,120,567)	-12.0%
Local Assistance	\$ 84,150,000	\$ 74,052,000	\$ (10,098,000)	-12.0%
Military Police and Veterans	\$ 96,857,212	\$ 90,004,944	\$ (6,852,268)	-7.1%
Mississippi Arts Commission	\$ 1,907,411	\$ 1,678,522	\$ (228,889)	-12.0%
Public Education	\$ 2,495,279,190	\$ 2,259,816,063	\$ (235,463,127)	-9.4%
Public Health	\$ 61,110,120	\$ 54,753,108	\$ (6,357,012)	-10.4%
Social Welfare	\$ 858,116,806	\$ 929,379,105	\$ 71,262,299	8.3%
Windpool Appropriation	\$ 20,000,000		\$ (20,000,000)	-100.0%
Health Insurance Exchange		\$ 1,500,000	\$ 1,500,000	100.0%
Total	\$ 5,870,521,734	\$ 5,500,872,244	\$ (369,649,490)	-6.3%

Source: Executive Budget Recommendation Fiscal Year 2011

While some cuts, such as consolidating administrative functions and limiting expenses, are designed to create efficiencies, those recommendations only go so far. For example, the cuts to K-12 education total \$235 million. The proposed consolidation of school districts is estimated to save only \$65 million. With the proposed cuts, the quality of state services, such as education and healthcare, cannot be maintained. The cuts will mean reductions in already limited services and layoffs of state employees. Additional revenue through updating both the sales tax and the income tax would not only help with short-term budget issues, it would also address long-term structural revenue problems. While additional state revenue is necessary, more short-term help is also needed from expanded federal stimulus to aid states beyond FY 2011.

Revenue Options

The following recommendations provide options for raising revenues:

- **Update the Income Tax – Per Capita**, Mississippians pay less personal income tax than in most states with an income tax. By adding another bracket and increasing exemptions and deductions, the state would generate additional revenue while taking into consideration the ability of working families to pay the tax.
- **Update the Sales Tax** – Mississippi’s sales tax is currently structured to capture the purchase of goods. As the economy has evolved, more Mississippians buy services. By expanding the sales tax to include more services, the state would generate additional revenue and spread out the tax burden.
- **Incentive reduction** – Much like appropriations, tax incentives constitute another type of spending by reducing the money available for funding state services. Similar to budget cuts, tax incentives could be reduced by a percentage to increase money available in the General Fund.

Why Support Tax Increases During a Recession?

State services not only do good for state residents directly, they also mean money for local economies through salaries of state employees and payments to vendors and contractors. According to Nobel Prize winner Joseph Stiglitz and Peter Orszag, director of the Office of Management and Budget, during a recession spending cuts could be more harmful for a state’s economy than tax increases. This is true because spending cuts remove money from the economy dollar for dollar. Tax increases, especially on high income earners, do not pull money from the economy on a dollar for dollar basis because some of the money used to pay taxes would come from discretionary income that would have likely been saved and not entered the economy in the first place.

A balanced approach, including the use of reserve funds, federal stimulus funds and revenue raised through increased taxes is important to ensure that the state weathers the current budget crisis and is poised to take advantage of the recovering economy.