



July 29, 2009

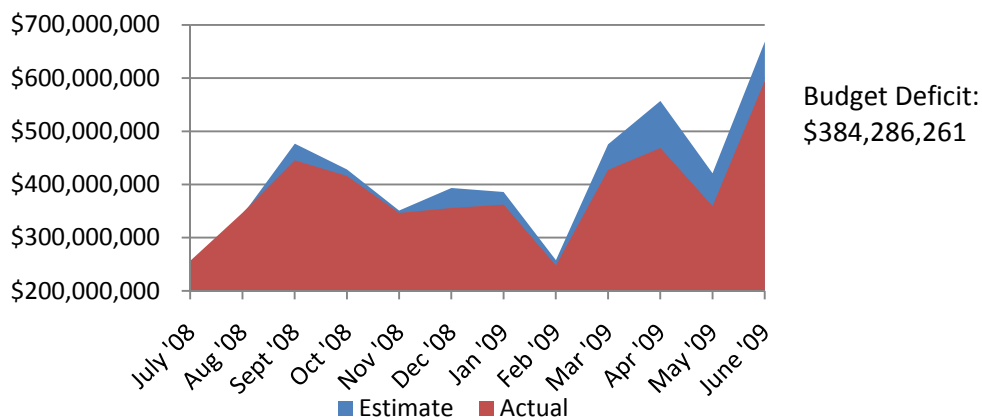
**STATE ENDS FISCAL YEAR WITH BELOW ESTIMATE REVENUE COLLECTIONS
BUDGET CUTS, TAX INCREASES AND ECONOMIC STIMULUS FUNDS FILL IN THE GAP**

Key Takeaway: For Fiscal Year 2009 (FY09), General Fund revenue collections came in \$384 million below estimate. The deficit was addressed through a combination of budget cuts, a tax increase and funds made available through the American Recovery and Reinvestment Act (ARRA).

The FY09 Budget Deficit

In preparation for each upcoming fiscal year, the state Revenue Estimating Committee estimates the amount of revenue that the state will generate. The revenue estimate serves as the benchmark against which the state budget is developed. Monthly revenue collections for FY09 came in below the initial revenue estimate in every month following September contributing a cumulative budget deficit of more than \$384 million. Chart 1 illustrates the cumulative effects of below estimate revenue collections from month to month.

**Chart 1
Monthly General Fund Transfers Compared with
Monthly Revenue Estimates FY09**



Source: Mississippi State Tax Commission

Most of the deficit was due to below estimate corporate income tax, personal income tax and sales tax collections. Through June, corporate income, personal income and sales tax collections were \$106.4 million, \$142.2 million and \$97.7 million below respective estimates, accounting for more than 90% of the deficit. Below estimate revenue collections were attributed to the recession, which has negatively affected businesses and workers.

As demand falls for goods and services, businesses must find ways to reduce costs. One way to reduce costs is to make personnel changes through layoffs, hiring freezes or wage reductions. As business revenues decrease and people lose their jobs or experience wage reductions, corporate and personal income tax collections fall. Likewise, as businesses and individuals have less money to spend on equipment, goods and services, sales tax collections fall – ultimately contributing to reduced revenue to fund state services through the state general fund.

Policy Response – Budget Cuts

To address revenue shortfalls, targeted budget cuts were made in October 2008 and January 2009. By January, nearly every state agency experienced a 5% budget reduction, cutting \$200 million from the FY09 budget. The Mississippi Adequate Education Program funding formula and higher education received budget reductions of less than 5%. Medicaid services also did not receive reductions.ⁱ

Policy Response – Tax Increase

In May 2009, the Mississippi Legislature passed and the Governor signed into law a \$0.50 increase in the excise tax on cigarettes. According to estimates provided by the Mississippi State Tax Commission, the increase could bring in an additional \$30,740,000 in revenue for FY09.ⁱⁱ

Policy Response – ARRA

The American Recovery and Reinvestment Act played a role in addressing fiscal shortfalls for FY09. Specifically, the increase in the Medicaid FMAP and the State Fiscal Stabilization Fund provided resources to fund state services. The Office of Medicaid expended \$100,275,305 in ARRA funds for the provision of medical care for eligible individuals. Additionally, State Fiscal Stabilization Funds were used to restore \$15,170,308 in cuts made to the Department of Corrections to cover medical expenses and expenses at local, regional and private corrections facilities and prisons. An additional \$1,483,962 in ARRA funds were used to restore cuts made to the Office of Medicaid.ⁱⁱⁱ

Mississippi addressed its fiscal shortfalls for FY09 through a combination of budget cuts, a tax increase and the use of ARRA funds. In setting the budget for FY10, a similar approach was taken, along with the use of some of the state's reserve funds. Moving through FY10 and in preparation for FY11 budget negotiations, targeted budget reductions, use of the Rainy Day Fund, tax increases and ARRA funding serve as important strategies to balance the budget while funding state services that are critical to Mississippians.

ⁱ DFA Office of Budget and Fund Management Budget Revisions Worksheet as of January 15, 2009. Released as an attachment to the January 14, 2009 e-mail communication from the Office of the Governor titled "Governor Barbour Orders Further Budget Revisions."

ⁱⁱ House Bill 364 (as sent to Governor). <http://billstatus.ls.state.ms.us/documents/2009/html/HB/0300-0399/HB0364SG.htm> Line 29. Accessed on 7/22/09.

ⁱⁱⁱ Mississippi Management and Reporting System <https://merlin.state.ms.us/merlin/merlin.nsf/Navigation?OpenForm&Stimulus> accessed on 7/22/09.