

State Shortfalls and Revenue Short and Long-term Solutions

MEPC Conference

October 23, 2009



FY 2009 Deficit

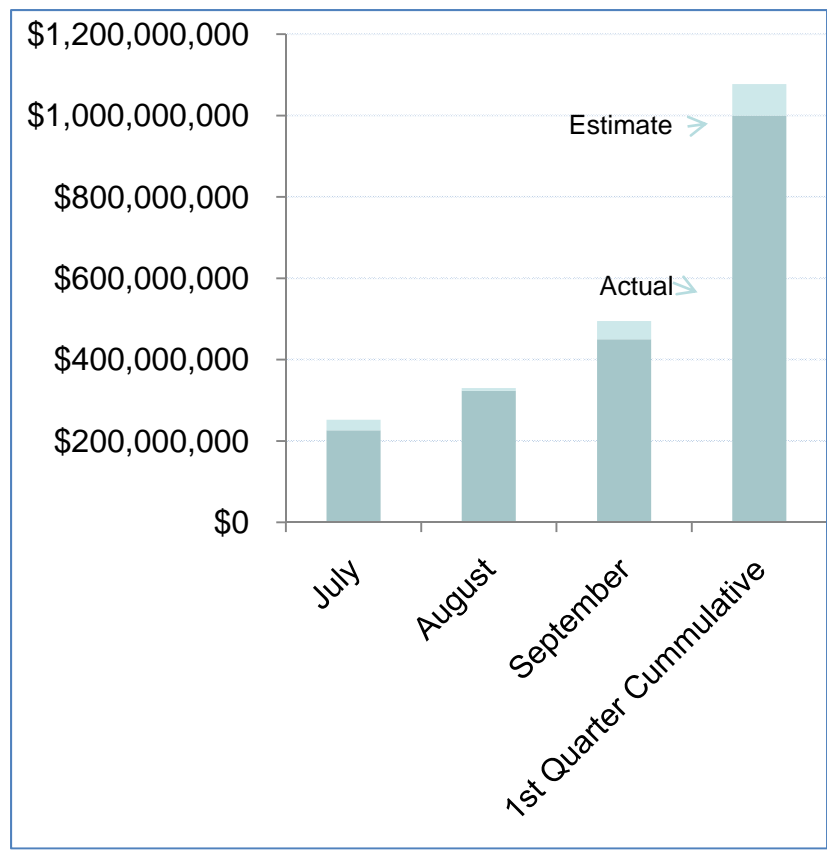
- General fund came in \$384 below estimate
- Cuts made \$200 Million; most agencies cut 5%
 - Excludes Medicaid, MAEP cut below 5%
- Revenue increase
 - Increase cigarette tax
 - Estimate 30 Million for FY 2009
- ARRA—Federal Fiscal Stimulus Funds

FY 2010 Budget

- Budget is 5.3% below previous year's general fund appropriations
- Includes \$445 M allocated ARRA funds
- First quarter shortfall of \$77 M
- Budget cuts of \$172 M announced
- More cuts likely



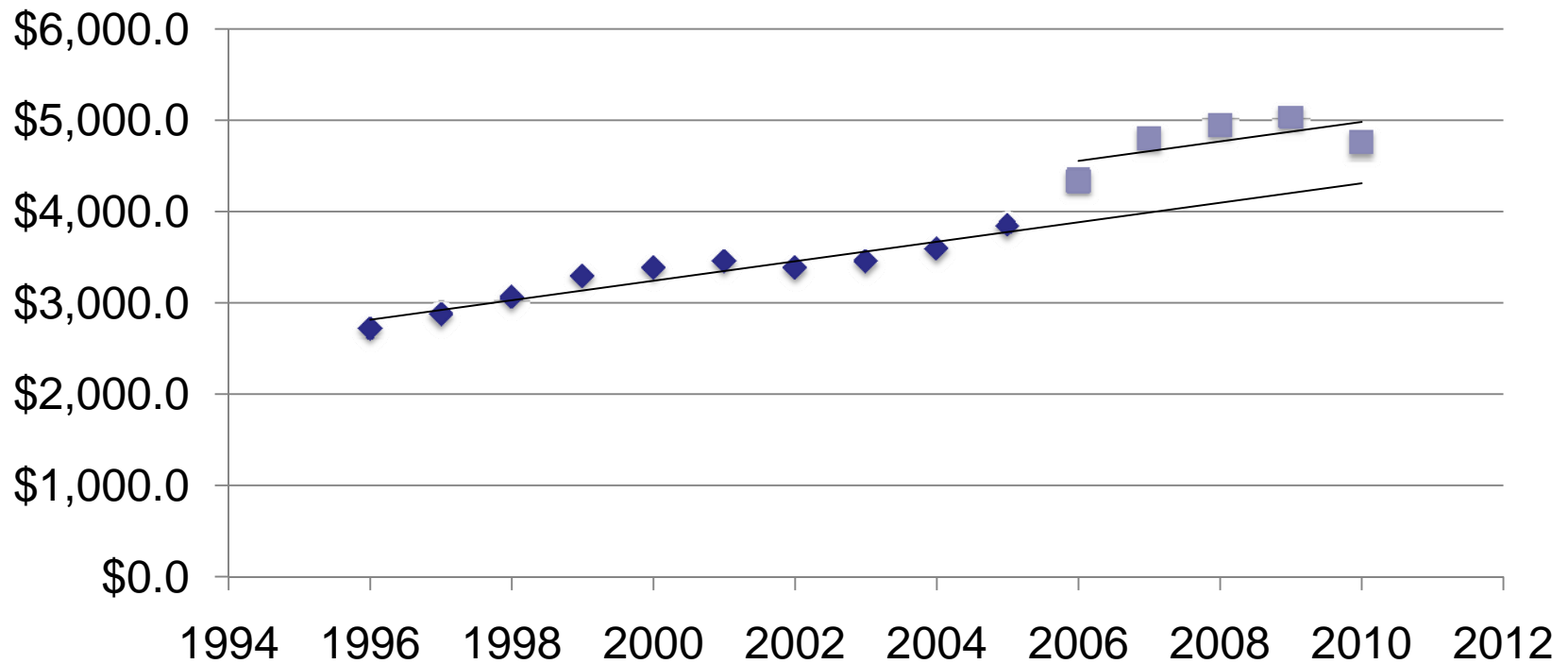
MS FY 2010 First Quarter Revenue Estimates and Actual Collections



	1st Quarter Revenue
Estimate	\$999,871,313
Actual	\$922,461,539
Difference	\$77,409,774
% shortfall	7.74%

Short Term and Long Term Concerns

MS General Fund Revenue Trends Before and After Katrina





Revenue in a Recession?

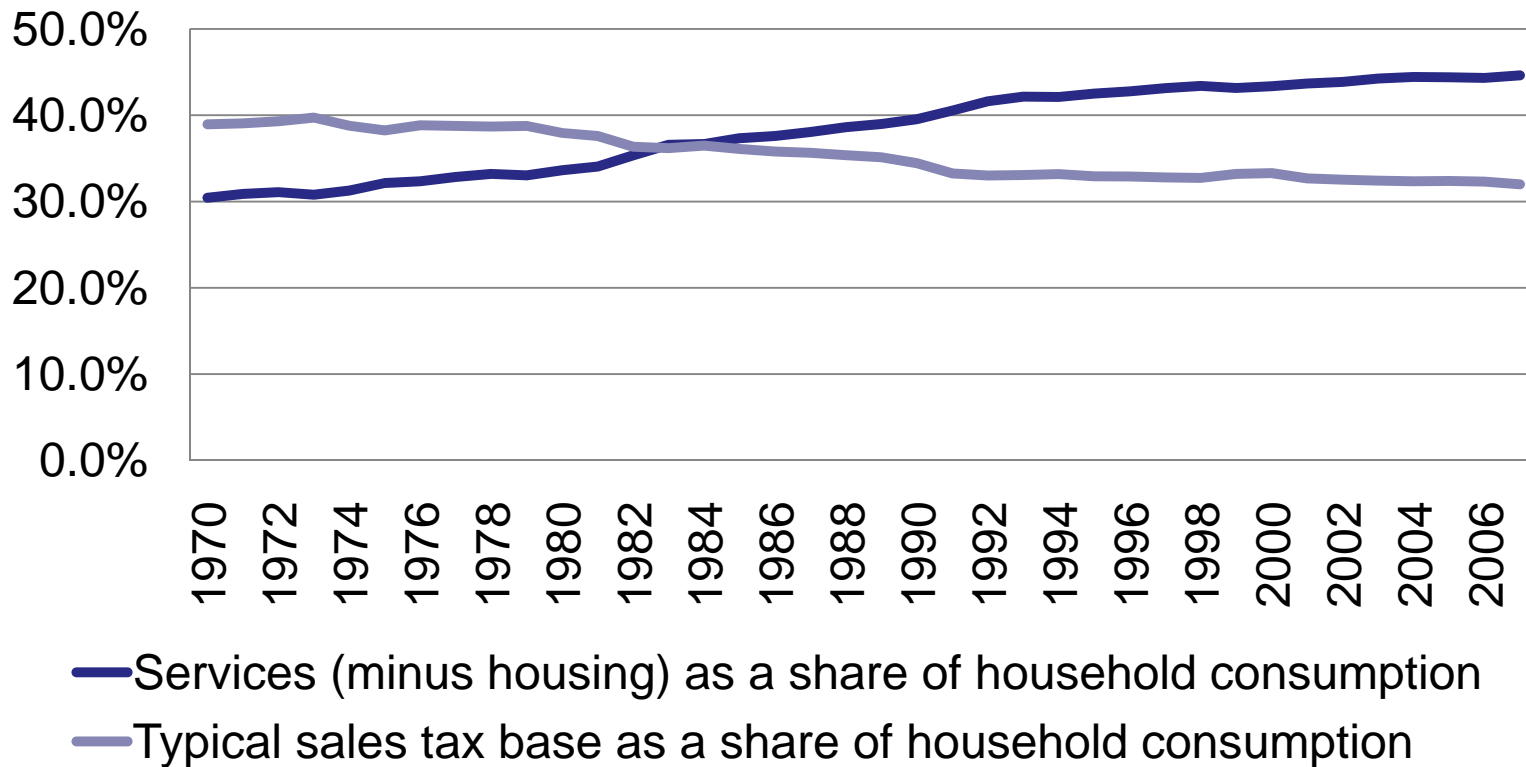
- 32 states raised revenue this year
- History of raising revenue during downturns
- Not as harmful as budget cuts
- Allow for investment necessary for full recovery
- Address long term as well as short term concerns



Revenue Options

- Broaden sales tax base to include more services
- Update income tax
 - 6% bracket over \$45,000 taxable income
- Temporarily reduce tax incentives
- Increase fees more in line with costs or services/fees of other states

Trends in Services vs Traditional Sales Tax Base in Last 30 Years

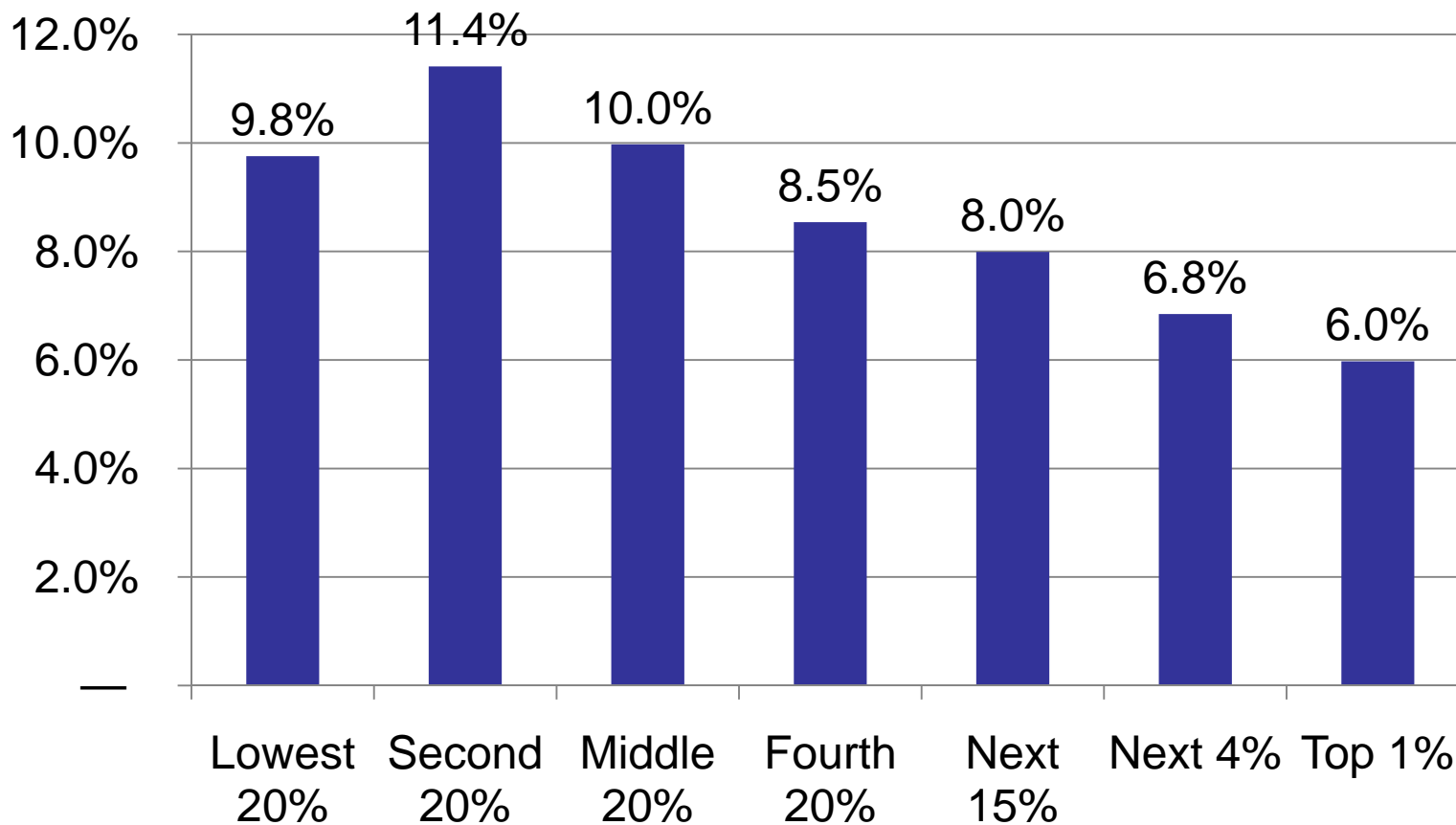




Proposed New Services Taxed

- Recommended by the Governor's Tax Study Commission
- Examples include: membership to health clubs, beauty salon and spa services, pet grooming, motor vehicle towing, photographic services, interior design services, carpet and upholstery cleaning, janitorial services, graphic design services
- Estimate revenue almost \$80 M

Taxes Paid as % of Income by MS Family Income Group



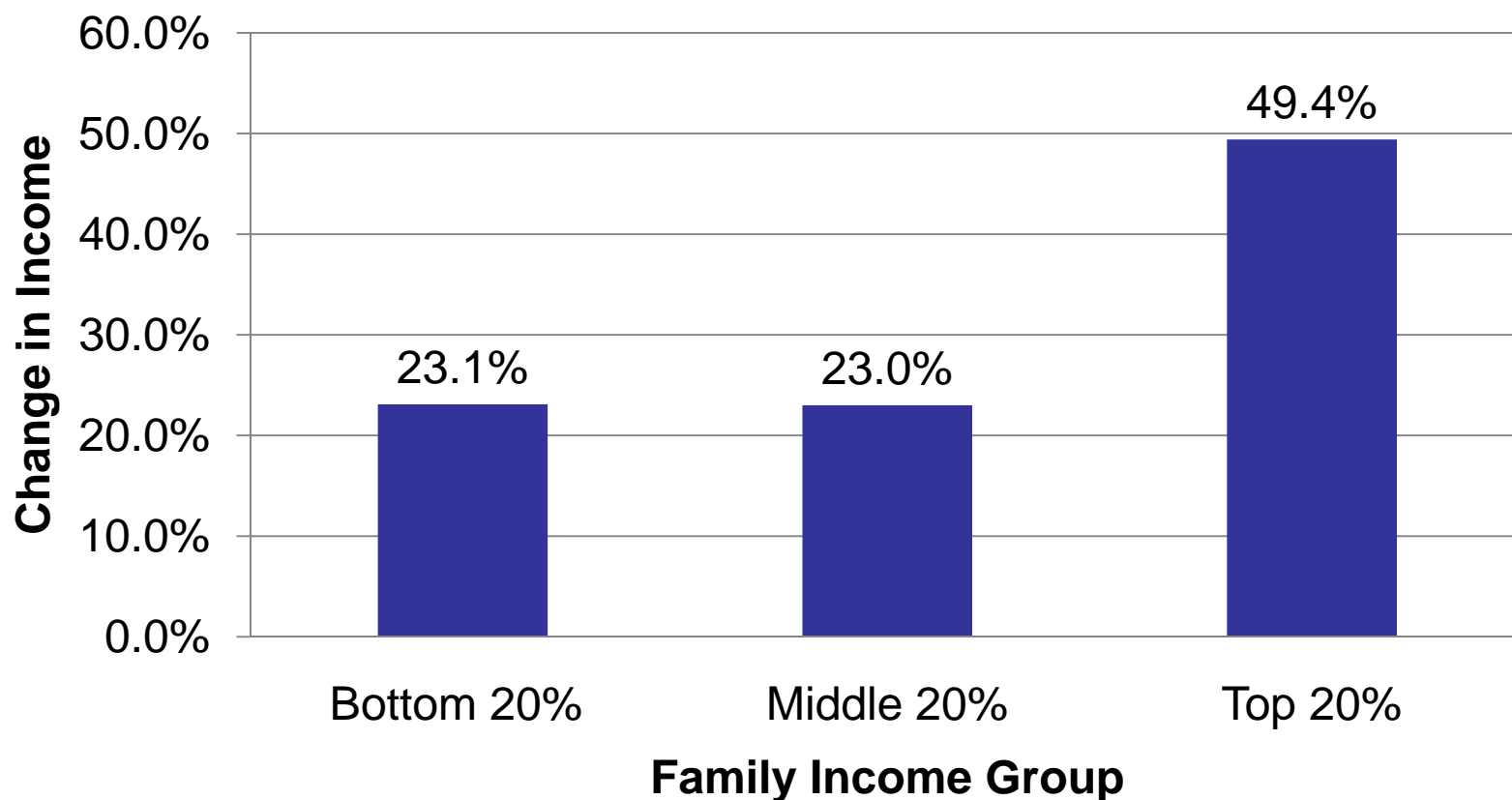
Income: <\$13,000 \$13-23,000 \$23-37,000 \$37-64,000 \$64-120,000 \$120-298,000 >\$298,000

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Income Change of MS Families by Income Group in Last 2 Decades



Proposed New Bracket

Who would be included?

Family Type	Taxable Income	Standard Exemptions and Deductions	Income Threshold for Top Bracket
Married Couple with Two Children	\$45,000	\$19,600	\$64,600
Single Parent with One Child	\$45,000	\$12,900	\$57,900
Single Person	\$45,000	\$9,400	\$54,400

Note: Assumes families taking standard deductions and exemptions

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Reduce Tax Incentives

- Tax incentives are state spending
- Temporary reduction of 10% could save state \$9.5 M; 25% would save \$23.6 M
- For many tax incentives, effectiveness information not available
- Governor's Tax Study Commission recommended reviewing effectiveness of tax incentives regularly



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Revenue Summary

Revenue Proposal	Estimated Annual Revenue
Broaden Sales Tax Base	\$80,000,000
New 6% income tax bracket at \$45,000	\$70,000,000
Decrease tax incentives 10%	\$9,500,000
Increase Fees	No estimate available
Total	\$159,500,000 plus