



REVENUE ESTIMATE UPDATE: REVENUE GROWTH SLOWS – STATE SERVICE CUTS EXPECTED

Key Takeaway: While the state saw substantial growth in General Fund revenues in FY 2006 and FY 2007, estimates for the remainder of FY 2008 and FY 2009 project much slower growth. Sales and Use taxes generated almost half of the state's general fund revenue. In the absence of changes to the state's tax system state services will likely be cut to balance the budget.

What is a Revenue Estimate?

Each year the Governor and the Joint Legislative Budget Committee must adopt an estimate of all the general funds that the state expects to receive from taxes and selected fees for the upcoming year. The estimates are developed by the Revenue Estimate Committee. This committee includes the State Economist, the State Fiscal Officer, the State Treasurer, the Chairman of the State Tax Commission, and the Director of the Legislative Budget Office. Their estimates are based on current economic indicators and their opinion about the economy's growth potential. Given that state law requires that the budget must be balanced, the work of the Revenue Estimating Committee underscores one of most important attributes of the state budget process – determining how much money the state has to spend in the upcoming fiscal year.

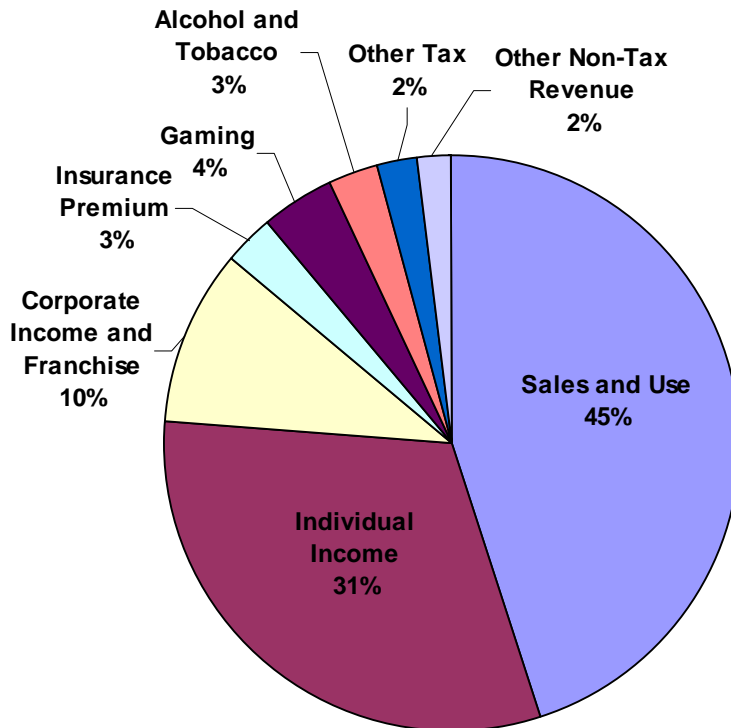
How much will the State Have to Spend in FY 2009?

The legislative session beginning in January 2008 determines how the state will spend its money in FY 2009 (which starts July 1, 2008). The Revenue Estimating Committee projects that under the current revenue system, general fund revenue collections in FY 2009 will total \$5,076,000,000. That would be a \$150 million dollar increase over general fund appropriations for FY 2008.

In September, state agencies presented their budget requests for FY 2009 and in total requested hundreds of millions of dollars more than the amount of revenue estimated to be available. Additionally, some FY 2009 revenue will have to be used to cover deficit appropriations for the previous year. Deficit appropriations occur when a state agency requires additional funds to pay for state services provided over and above what the original appropriation would cover. For example, the Office of Medicaid has requested an \$86 million deficit appropriation.

Almost half (45%) of all revenues are expected to be raised through sales and use taxes. The second highest expected revenue source is the individual income tax at 31% (Figure 1).

Figure 1
Projected FY 2009 General Fund Revenue Sources



Source: State General Fund Revenue Estimate Revised FY 2008 and Estimate FY 2009 Recommendation of the Revenue Estimating Group, November 13, 2007, MEPC Calculations

How does this compare to previous years?

The projected growth for FY 2009 is smaller than the previous years. For FY 2008 and FY 2009, projected revenue growth over the previous year is 3.0% and 2.9% respectively. Because of Hurricane Katrina rebuilding, General Fund revenues in FY 2006 and 2007 grew by 12.9% and 10%. While the state is currently maintaining the higher level of revenue since Katrina, the growth is leveling off and will likely be difficult to maintain long-term.

With the slow down in General Fund revenue growth, budget cuts for state services are likely. At the same time, Mississippi's population continues to increase and costs for providing education, public safety and economic development continue to rise with inflation. In the absence of changes to the state's system of generating tax revenue, similar budget years could lie ahead.

For more information, visit the Mississippi Economic Policy Center website at www.mepconline.org where you can find more state budget and tax information and sign up for email updates.