

THE  
NUTS & BOLTS  
OF THE  
MISSISSIPPI  
BUDGET

## *About the Mississippi Economic Policy Center*

The Mississippi Economic Policy Center (MEPC) is a nonprofit, nonpartisan organization that conducts independent research on public policy issues affecting working Mississippians. Through public outreach efforts, policymaker education and engaging the media, MEPC uses its analysis to ensure that the needs of low- and moderate-income Mississippians, in particular, are considered in the development and implementation of public policy, with the ultimate goal of improving access to economic opportunity.

MEPC is managed by Hope Enterprise Corporation (HOPE), a regional financial institution and community development intermediary dedicated to strengthening communities, building assets and improving lives in economically distressed areas throughout the Mid South.

To read more about MEPC, go to [www.mepconline.org](http://www.mepconline.org)

To read more about HOPE, go to [www.hope-ec.org](http://www.hope-ec.org)

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# Introduction

## Why Is Our State Budget Important?

Budget decisions directly influence the quality of education that our children receive, the condition of the roads that we travel, the safety of our communities and the level of trust we can place in professionals such as doctors, dentists, pharmacists and nurses.

Each of these services—education, road maintenance, and public health and safety—comes at a price and must be paid for through taxes, fees or borrowed funds. Our state needs strong fiscal systems to ensure that the necessary funds are available to cover the costs of the services that all Mississippi residents depend on everyday.

The Mississippi budget provides a blueprint for how our state government funds services for millions of residents. There are many stages in the state budgeting process, many players that affect the outcome of budget debates and many sources of revenue—to name just a few complexities.

### Importance of the State Budget:

- Nearly **500,000** students are educated through our state’s network of public schools<sup>1</sup>
- More than **250,000** students are educated through our state’s community college system<sup>2</sup>
- Over **29,000** miles of roads and bridges in all **82** counties are maintained<sup>3</sup>
- Nearly **711,000** individuals receive health insurance coverage<sup>4</sup>
- More than **700,000** infants, children and adults are immunized<sup>5</sup>
- Nearly **24,000** inmates are housed in the state’s correctional system<sup>6</sup>
- More than **9,000** physicians, **3,700** pharmacists and **52,000** nurses are licensed by state boards<sup>7</sup>

This report offers a simple overview of how the Mississippi budget is created, how our state spends its money and how our state generates revenue:

Chapter 1 begins with a brief introduction outlining the importance of our state budget;

Chapter 2 focuses on how our state spends (or appropriates) funds;

Chapter 3 provides an overview of how our state raises revenue to pay for state services funded by appropriations;

Chapter 4 introduces some key concepts to be used when evaluating a state tax system and examines the key characteristics of Mississippi’s set of taxes; and

Chapter 5 includes suggestions for how Mississippians can get involved in the budget-making process.

The goal of the report is to raise understanding of the state budget process.

# Executive Summary

*The Nuts and Bolts of the Mississippi Budget* serves as a guide to Mississippi's budget and tax systems.

Divided into five chapters, the guide provides information on:

- ☉ The budget process;
- ☉ State spending decisions made during the 2012 Legislative Session;
- ☉ How the state generates revenue through taxes, fees and the federal government;
- ☉ How to evaluate Mississippi's tax system; and
- ☉ How Mississippians can get involved in the budget process.

In providing a simple overview, the goal of the report is to raise understanding of the state budget process.

## Chapter 1: The Budget Process

Chapter 1 provides an overview of the Budget Appropriation Process, through which the State Legislature and Executive Branch work to identify the state's needs and designate money to fund state services in the next fiscal year.

Key points about the budget process include:

- ☉ State services are funded through three primary sources:
  1. **General Fund dollars**—generated largely through state income and sales taxes;
  2. **Special Fund dollars**—raised through fees and special taxes; and
  3. **Federal Fund dollars**—sent to the state and earmarked to fund specific programs.
- ☉ Leading up to the Legislative Session, the following groups inform the budget-making process:
  - ☞ The Joint Legislative Budget Committee—hears agency requests in September and submits a budget recommendation to the Legislature in December;
  - ☞ The Revenue Estimating Committee—examines economic trends and estimates the amount of revenue that the state will collect in the next fiscal year; and
  - ☞ The Office of the Governor—submits a budget recommendation to the Legislature by November 15.
- ☉ All budget recommendations and the final enacted budget must be balanced and cannot exceed 98% of the state's projected revenue without further legislative action.

## Chapter 2: A Detailed Look at State Spending

Chapter 2 highlights the budget decisions made for Fiscal Year (FY) 2013 and examines some trends in state spending.

Highlights include:

- ☉ The Mississippi Legislature appropriated \$18.2 billion for FY 2013;
- ☉ Federal Funds accounted for 46% of all the appropriations;
- ☉ Most of the appropriations (70%) were for Medicaid, K-12 education, colleges and universities, agriculture and economic development and highways;
- ☉ Different state services are funded through different sources.
  - For example:
    - ☞ The majority of services funded through Medicaid are funded with federal dollars;
    - ☞ K-12 education is primarily funded through Mississippi tax revenues; and
- ☉ Over the last 10 years, state spending has remained stable—increases or decreases in spending have been in line with the state's economy.

## Chapter 3: A Look at State Revenue

In order to make our government work, the state collects revenue from residents and businesses in the form of taxes, fees and funds received from the federal government. Chapter 3 shows how the state generates its revenue.

Key points about state revenue include:

- In FY 2011, residents, businesses and the federal government contributed \$16.1 billion;
- Most (49%) of our state's state tax revenue came from sales and use tax collections—an amount of \$ 2,916,298,000 in FY 2011;
  - ❗ Mississippi ranked 16<sup>th</sup> in the country in the amount of general sales taxes paid per resident in FY 2009 (\$1,025).
- Our state collected \$1,409,473,000 in personal income taxes—this represents 24% of our state's tax revenues in FY 2011;
  - ❗ Mississippi ranked 39<sup>th</sup> out of 43 states in the amount of income taxes paid per person (\$503) in FY 2009.
- Mississippi receives a large share of its annual revenue from federal funds—53%, or \$8.1 billion, of state revenues came from the federal government in FY 2011; and
  - ❗ Over the last 10 years, the share of federal revenues as a percentage of all Mississippi revenues has risen from 35.3% in 2000 to 52.9% in 2011.

## Chapter 4: Evaluating Mississippi's Tax System

Chapter 4 introduces some key concepts to be used when evaluating a state tax system and examines key characteristics of Mississippi's set of taxes.

Specifically:

- Healthy tax systems generate enough revenue to pay for services, collect taxes based on one's ability to pay and are transparent.
  - Mississippi's tax system is regressive:
    - ❗ The top 20% of income earners (individuals earning an average of \$361,800) pay the lowest percentage of their income toward state and local taxes, paying an estimated 7.3% of their income. The bottom 20% of earners (who earn an average of \$9,100) pay 10.8% of their income and the next 20% of earners (with average earnings of \$19,000) pay 10.7% of their income;
    - ❗ Sales taxes are regressive because low-income working families pay a higher proportion of their incomes on taxes than people with higher incomes;
    - ❗ Mississippi relies heavily on the sales tax to generate revenue;
    - ❗ Mississippi's sales tax is more regressive than in other states because it taxes groceries—an item that low-income working families cannot avoid purchasing;
    - ❗ Mississippi's personal income tax functions more like a flat tax—people earning \$30,000 a year are in the same tax bracket as people earning \$300,000 or \$3,000,000 a year; and
    - ❗ Working families with wages below the federal poverty line are subject to the state income tax.

## Chapter 5: Getting the Gears Moving—

### How Mississippians Can Get Involved

While the Legislature and the Governor make and approve spending decisions, residents can play an important role in the processes for developing the budget and informing Mississippi's set of taxes.

Some ways to get involved include:

- **Keep Current**—Reading the newspaper and watching the news with an eye toward stories and editorials on state spending and taxes is a good first step;
- **Enhance Your Knowledge**—If a news story catches your interest, there are several places to gather additional information on budget and tax topics, including publications released by the Center for Policy Research and Planning at the Institutions for Higher Learning and the Mississippi Economic Policy Center; and
- **Engage Others**—Connect with other people and organizations engaged in budget and tax work. There are multiple nonprofit organizations in Jackson and around the state that can provide updates on key people, events and votes. These nonprofits can also provide avenues to participate in the process.

This guide provides an overview of Mississippi's budget and tax systems. Given the importance of strong fiscal systems and the funding of vital state services, it is important to understand how the system functions to ensure that it is efficient and effective.

# What Is the State Budget?

The state budget is the collection of laws which determine how the state collects and spends resources. It is passed each year by the State Legislature and includes spending decisions for each service that the state provides and revenue decisions affecting every state resident.

## Key Terms

**Appropriation** – A law that allows the state to spend money. State appropriations pay for various state services including: education, highways and public health. Each year the state enacts around 120 appropriations bills.

An **appropriation** is a law that allows the state to spend money. State appropriations pay for services like education, criminal justice and public health. Appropriations are distributed among state agencies with responsibilities for certain services. For example, appropriations for education are allocated to the Department of Education and appropriations for highway construction are allocated to the Department of Transportation. Each year the state enacts around 120 appropriations bills.<sup>8</sup>

For Fiscal Year (FY) 2013, the Legislature appropriated \$18.2 billion.<sup>9</sup> This money comes from three types of funds:

- 1 General Funds
- 1 Special Funds
- 1 Federal Funds

## General Funds

General Funds come from general state tax collections and pay for key services provided by the state, including K-12 education, colleges and universities and corrections. The Legislature has significant discretion about how these funds are spent. During strong economic times, the Legislature may use General Funds to cover costs associated with new or expanded programs. During weak economic times, General Fund appropriations could be cut or held steady to achieve a balanced budget. When the Legislature meets in January, the budget debates that appear in the news mostly revolve around these appropriations.

## Special Funds

Special Funds are established through state statute or constitutional provisions that earmark funds for a specific purpose. Like General Funds, they must be appropriated annually, but they are not generally subjected to the same level of debate.

Some Special Funds are supported by fees, fines or assessments. Others can be funded through special taxes. For instance, regulatory/licensing agencies charge licensing fees and assess fines which go to support their operation. The Medical Licensure Board and the Board of Dental Examiners are two agencies that receive funding through licensing fees. The Department of Transportation is an example of a Special Fund agency that derives some of its funding through a tax on fuel. Many Special Fund agencies, like the Medical Licensure Board, receive all of their funding from Special Funds.<sup>10</sup> Other agencies, like the Department of Human Services, receive funding from a combination of Special Funds, General Funds and/or Federal Funds.

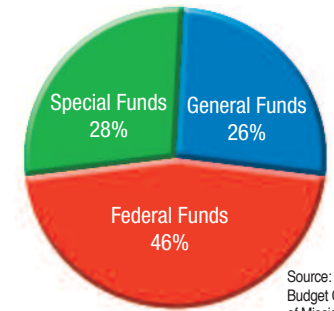
## Federal Funds

Federal Funds are earmarked by the U.S. government for specific state programs. They are appropriated annually by the Mississippi Legislature but must be spent in keeping with federal rules. Depending on the rules associated with each program, the Legislature may have more or less flexibility in how the funds are spent.

Figure 1 displays state appropriations by fund type.

The appropriations for FY 2013 include \$4.7 billion in General Funds, \$5.2 billion in state-funded Special Funds, and \$8.3 billion in federally-funded Special Funds.

Figure 1: Total Appropriations (\$18.2 Billion) in State and Federal Funds FY 2013



Source: Joint Legislative Budget Committee State of Mississippi Budget FY 2013 Enacted Budget

## State Support Funds

Another way to classify funds is by state support. State Support Funds include both State General Funds and State Special Funds. However, Federal Funds and agency-generated Special Funds are not included in this category.

Significant State Support Special Funds:<sup>11</sup>

- Budget Contingency Fund:** This fund was formed to receive transfers from other fund sources (Special and General). FY 2002 marked the first use of the Budget Contingency Fund to supplement the State General Fund. Any funds spent from the Budget Contingency Fund are considered non-recurring. A *non-recurring fund transfer* is a transfer of funds for a one-time expense that is unlikely to happen again.
- Health Care Expendable Fund:** The Health Care Expendable Fund was created to receive transfers from the Health Care Trust Fund that are authorized by state statute. As a result of the lawsuit won against tobacco manufacturers, the Health Care Trust Fund receives the court-ordered payments due to our state. These funds can only be appropriated for health-related purposes.
- Education Enhancement Fund:** The Education Enhancement Fund was created for the supplemental support of K-12, Two-Year Colleges and Four-Year Institutions of Higher Learning. State statute requires that a percentage of state sales tax collections be deposited into the Education Enhancement Fund. These funds are then allocated based on a statutory formula to K-12 Education, Two-Year Colleges and Four-Year Institutions of Higher Learning.
- Tobacco Control Fund:** This fund was created for the support of our state's tobacco cessation programs. It began as a result of the lawsuit won against tobacco manufacturers and receives a portion of the court-ordered payments due to our state.

Recently, the American Recovery and Reinvestment Act (ARRA) Funds were also considered state source funds as they were used in a manner similar to General Funds for FY 2009, FY 2010 and FY 2011.

## Key Terms

**Fiscal Year (FY)** – The yearly accounting period for which budget decisions are made. The fiscal year for the state of Mississippi extends from July 1 of one year to June 30 of the next. A fiscal year is referred to by the calendar year in which it ends. For example, FY 2012 began on July 1, 2011 and ended on June 30, 2012.

**Budget Appropriation Process** – The process through which the State Legislature and Executive Branch work together to:

- Identify the state’s needs for the upcoming year;
- Determine how much money is available; and
- Designate projected money available for the funding of state services for the next fiscal year.

## How Is Our State’s Budget Created?

Each year, the Mississippi Legislature comes together to make decisions about how state funds will be spent in the upcoming **fiscal year**. This process is called the **Budget Appropriation Process**. *Figure 2* illustrates the steps in the timeline of the budget process.

Key steps of this process include:

- Budget Hearings,
- Revenue Estimate,
- Governor’s Budget Recommendation,
- Joint Legislative Budget Committee Budget Recommendation,
- Legislative Session/Appropriations, and
- Budget Actions After Budget Adoption.

### Budget Hearings:

Agencies must make decisions about their budget needs and priorities and submit their budget requests for approval by the Legislative Budget Office (LBO) and the Governor by August 1st. In September, the **Joint Legislative Budget Committee (JLBC)** conducts hearings to discuss all of the agency budget requests. Budget hearings give committee members a chance to ask specific questions of agency directors. Hearings are open to the public and usually take place two to three weeks after Labor Day.

### Revenue Estimate:

In October, the **Revenue Estimating Committee** examines economic trends and develops an estimate of the amount of revenue the state will collect from existing sources in the next fiscal year. Its assumptions are based on current economic indicators and its opinion about the economy’s growth potential. The committee submits the estimate for approval by the Governor and the JLBC. If adopted, the revenue estimate serves as the baseline for all appropriations in the upcoming fiscal year. The final budget must be balanced.

### Governor’s Budget Recommendation:

The Governor submits a balanced budget recommendation for the upcoming year to the Legislature and agency heads by November 15th. This budget must not exceed 98% of the jointly adopted General Fund revenue estimate plus any balance that will remain from the current year’s budget.

### Joint Legislative Budget Committee Budget Recommendation:

The JLBC must submit its balanced budget recommendation to the Legislature and to agency heads by December 15th. Like the Governor, the Committee can consider only 98% of revenue forecast plus surplus amounts. The JLBC’s recommendation is used as the starting point for debate on appropriations bills.

**Figure 2: Mississippi State Budgeting Process Annual Timeline**

June	August	September	October	November	December	January - March/April	April/May
Automated Budget Request System (ABRS) program released for download.	Agency Budget Request due to the Legislative Budget Office (LBO) and Department of Finance and Administration (DFA) by August 1 <sup>st</sup> .  Five year plans are due August 15 <sup>th</sup> .	Joint Legislative Budget Committee (JLBC) holds Budget Hearings to consider agency budget requests and state revenue estimates.	Revenue Estimating Committee examines economic trends and develops revenue estimate.  Governor and JLBC adopt revenue estimate.	JLBC meets to finalize the Legislative Budget Recommendation (LBR).  Governor’s Budget Recommendation is due.  Revenue estimate is released by the Revenue Estimating Committee.	JLBC meets to adopt LBR.  Legislative Budget Book published.	Legislative Session convenes during the first week of January and closes around April 1 <sup>st</sup> .  Appropriations bills adopted near end of Session.	Post Session LBO Bulletin published.

Source: Mississippi Legislative Budget Office, Budget Process Cycle, 2012

### *Legislative Session/Appropriations:*

The Legislative Session convenes during the first week of January and closes around April 1st. Draft bills are divided between the House and Senate Appropriations Committees and further divided by subcommittee, usually by agency function. During the Legislative Session, the Legislature may decide to suspend the law requiring the 2% be set aside. Then, both houses must adopt the conference reports on the appropriations bills (generally five to six days before the end of the session). If approved, the bills are sent to the Governor for his signature.

### *Budget Actions After Budget Adoption:*

If, after the Legislative Session is over and appropriations laws have been passed, it becomes apparent that expenditures will exceed revenues—that a deficit exists—the Governor may cut state spending to bring the current year back into balance. The State Fiscal Officer, appointed by the Governor, may cut up to 5% in any manner, but any cuts above 5% of the enacted budget must be executed as a uniform percentage of all General Funds.

The work of the Revenue Estimating Committee underscores one of the most important attributes of the state budget process: *spending can only occur to the extent that funds are available.*

Based on the revenue estimate, the Governor must submit a balanced budget recommendation to the Legislature by November 15. The Joint Legislative Budget Committee must respond with its own balanced budget recommendation by December 15. This Committee's recommendation is used as the starting point for appropriations bills when the Legislative Session convenes in January. The House of Representatives and the Senate spend the next few months debating, amending and voting on budget bills. Appropriations bills in their final form must be passed by a deadline established in the legislative calendar (usually five to six days prior to the end of the Legislative Session).<sup>12</sup> Upon their passage in the Legislature, the appropriations bills are sent to the Governor who signs them into law.

## **Key Terms**

### **Joint Legislative Budget Committee**

The Joint Legislative Budget Committee (JLBC) is composed of 14 legislators, half from the Senate and half from the House of Representatives. The Committee is chaired by either the Lieutenant Governor or the Speaker of the House of Representatives and the chairmanship alternates between them on an annual basis. In the Senate, the Chairman of the Senate Finance Committee, the President Pro Tempore and the Chairman of the Senate Appropriations Committee are standing members of the JLBC. The Lieutenant Governor names three additional members of the Senate to the Committee. In the House, the Chairman of the Ways and Means Committee and the Chairman of the Appropriations Committee are standing members. The Speaker of the House appoints four additional members of the House to the Committee. The staff of the JLBC is called the Legislative Budget Office (LBO).

### **Revenue Estimating Committee**

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 Estimating Committee. This Committee includes the State Economist, the State Fiscal Officer, the State Treasurer, the Commissioner of Revenue of the Department of Revenue and the Director of the Legislative Budget Office. Its estimates are based on current economic indicators and its opinion about the economy's growth potential.



As in most other states, Mississippi's budget is required to be balanced. This means the Legislature is required by state law to pass a budget with the expectation that spending will not exceed revenues for the coming fiscal year. Specifically, proposed budgets of the Governor and the Joint Legislative Budget Committee and the final enacted budget cannot exceed 98% of projected revenues in a given year. The rule can be set aside if the law is amended, as it was for FY 2012, allowing total General Fund appropriations to equal 100% of projected revenues.

Throughout the process, budget recommendations and final decisions are published in a number of key documents that are available to the public. These documents are listed in the box below:

### Key Budget Documents

**Agency Budget Requests:** Agency Budget Requests are prepared by each state agency for consideration by the Joint Legislative Budget Committee. Agency requests contain the mission of the agency, a description of the duties and responsibilities of the agency and a five-year strategic plan for the agency that includes performance objectives and achievements. The request also contains the agency's financial data for the prior and current years as well as their request for the upcoming fiscal year. Depending on its complexity, an agency's budget request can range in length from around 15 pages to several hundred pages. Agency budget requests can be viewed in print by contacting the Legislative Budget Office ([www.lbo.ms.gov/index.htm](http://www.lbo.ms.gov/index.htm)).

**Executive Budget Recommendation:** Prepared by the Office of Budget and Fund Management, this book gives the Governor's recommendation for a balanced budget for the upcoming fiscal year. It usually includes a letter to the Legislature that explains the Governor's priorities for the budget. In some states, the Governor's budget is the basis for the budget later enacted by the Legislature. In Mississippi, the Governor's budget is advisory. The FY 2013 Governor's Budget is 22 pages long. This document is available in print and a summary of the FY 2013 Governor's Budget is available online at Governor Bryant's website ([www.governorbryant.com](http://www.governorbryant.com)).

**The Legislative Budget Report:** Prepared by the Joint Legislative Budget Committee, this book gives the Committee's recommendation for a balanced budget for the upcoming year. It is generally used as the starting point for the appropriations bills that will be debated by the Legislature in January. For each General and Special Fund agency, it includes appropriations numbers for three fiscal years:

1. The amount spent during the most recently completed fiscal year,
2. The amount appropriated for the current fiscal year, and
3. The amount the agency and the committee request for the upcoming fiscal year.

This format gives the reader a good picture of each agency's recent spending history. The FY 2013 Legislative Budget Report is 672 pages long. This document is available in print from the Legislative Budget Office.

**Enacted Budget Bulletin:** Prepared by the Legislative Budget Office, this book is a summary of what the Legislature appropriated to each agency during the Legislative Session. The appropriations listed were passed by the Legislature and have been signed into law by the Governor. The FY 2013 Enacted Budget is 27 pages long. This document is available in print from the Legislative Budget Office and online on the Department of Finance and Administration website ([www.dfa.state.ms.us](http://www.dfa.state.ms.us)).

## The Nuts and Bolts of the Budget Process

- ☉ State services are funded through three primary sources:
  1. **General Fund dollars**—generated largely through state income and sales taxes;
  2. **Special Fund dollars**—raised through fees and special taxes; and
  3. **Federal Fund dollars**—sent to the state and earmarked to fund specific programs.
- ☉ Through the Budget Appropriations Process, the Legislature determines how the state's money is spent. The process occurs throughout the year and includes steps that gather input through state agency budget requests and recommendations by the Office of the Governor.
- ☉ Budget requests and recommendations are informed by reports from the Revenue Estimating Committee, which forecasts the amount of revenue that the state will have available to pay for state services in the upcoming fiscal year.
- ☉ All of the budget recommendations and the final enacted budget must be balanced and expenditures cannot exceed 98% of the state's projected revenue unless legislative action occurs.

# How Are Our State Dollars Spent?

This section provides an overview of the funding decisions the Legislature has made recently and over time.

For FY 2013, Mississippi appropriated \$18.2 billion in State and Federal Funds. *Figure 3* illustrates how this money was distributed.

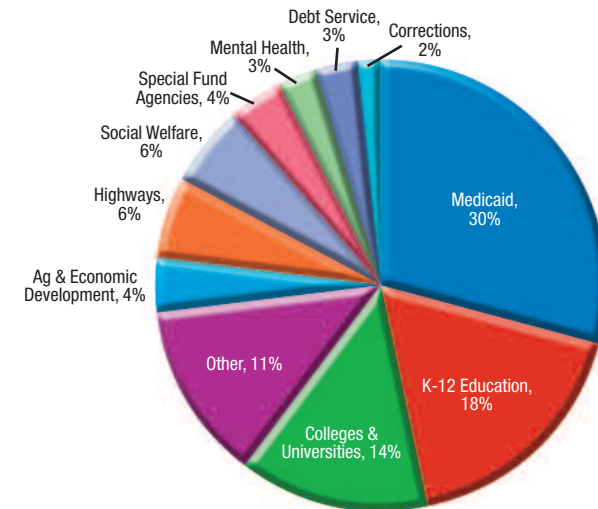
Of the \$18.2 billion appropriated, over 70% was devoted to five major categories: Medicaid, K-12 education, colleges and universities, agriculture and economic development and highways.

The services and programs shown in *Figure 3* are funded with a combination of the three types of funds, with some paid for entirely by General Funds and others funded primarily by Special Funds or Federal Funds.

*Figure 4* shows the breakdown of General Fund, Federal Fund and other State Special Fund appropriations for FY 2013.

As *Figure 4* indicates, Public Education and Higher Education, combined, will receive over half (62%) of every General Fund dollar and only 11 cents of every Federal Fund dollar. In contrast, Medicaid will receive 4 cents of every General Fund dollar and 46 cents of every Federal Fund dollar.

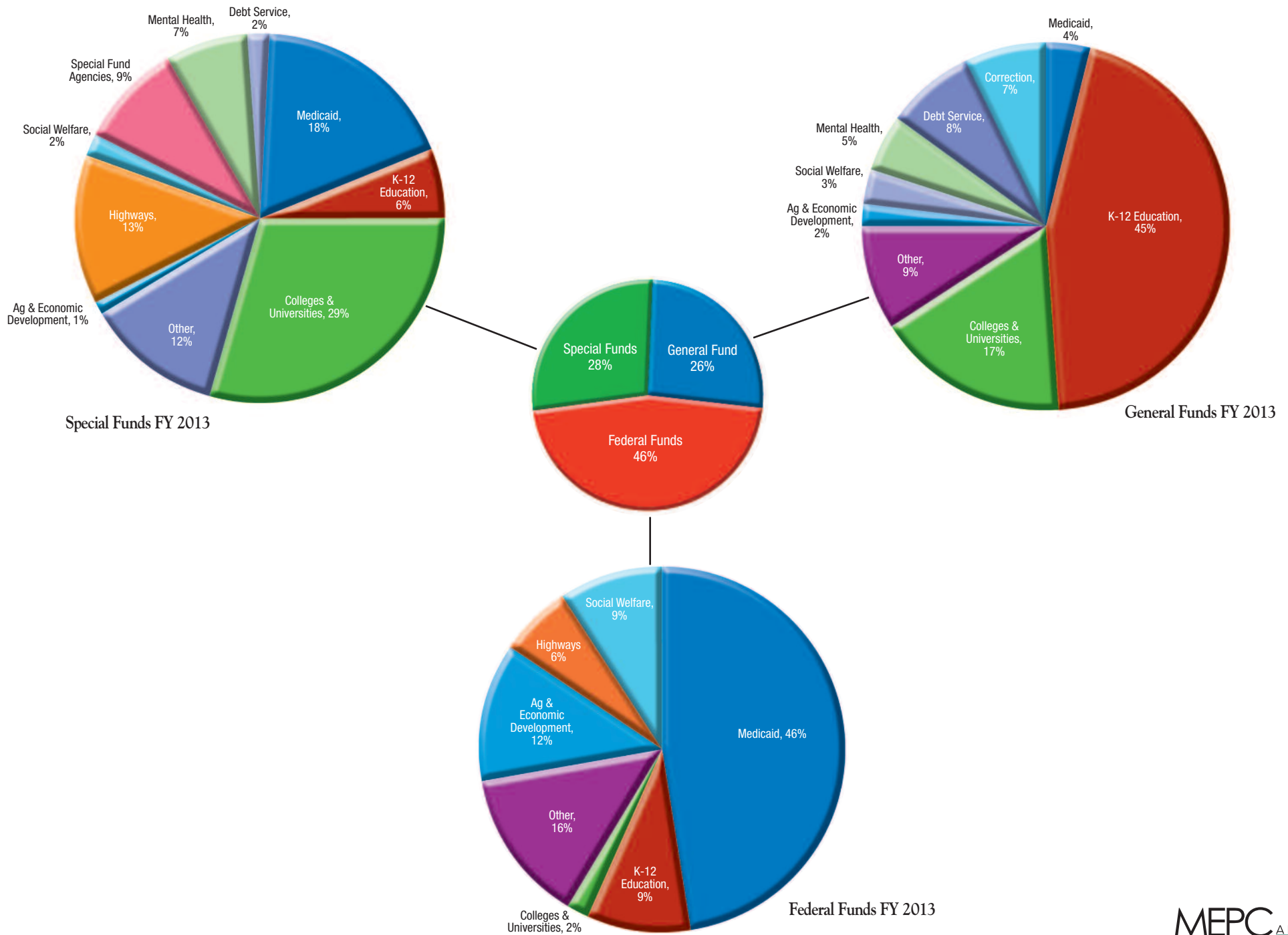
**Figure 3: Total Appropriations (\$18.2 Billion) in State and Federal Funds Approved by the Legislature FY 2013**



Source: Legislative Budget Office, Budget Summary 2012 Legislative Session: State of Mississippi Enacted Budget FY 2013

**Figure 4: Appropriations by Fund Type FY 2013**

Source: MEPC Analysis of Enacted Budget



## How Has Our State Spending Changed Over Time?

When you look at the dollar amounts of state appropriations today in comparison with years past, it looks as if these amounts have increased dramatically. However, when the increase in prices and size of the economy are considered, the picture is a little different.

On average, prices increase every year on all goods (such as schoolbooks) and services (for example, health care) that our state buys. A dollar buys less today than it did in 2000. Additionally, population changes and the size of the economy affect state spending.

The **State Gross Domestic Product (GDP)** is a measure of our state's total economy, and is an important indicator of how much our state can afford to spend on public priorities. *Figure 5* shows the trends in total Federal Fund and State Fund appropriations as a percentage of State GDP.

### Key Terms

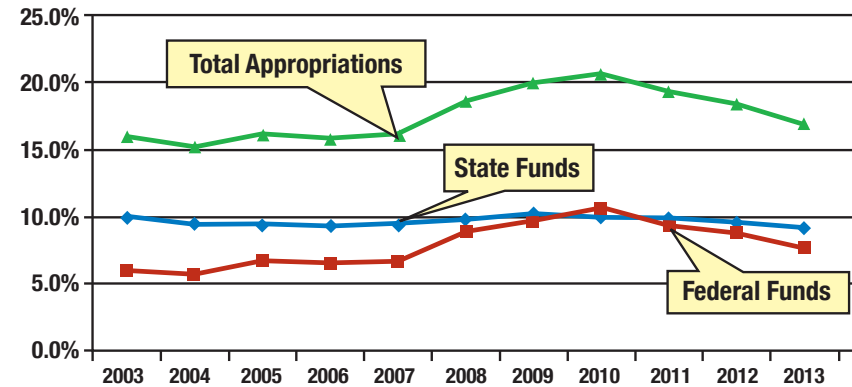
**State Gross Domestic Product (GDP)** – As a measure of Mississippi's income, State GDP is useful for determining how much our state can afford to spend on public priorities. State Gross Domestic Product is a measure of the total income produced in our state in a given year, including salaries, dividends and interest.

*Figure 5* shows that between 2003 and 2013, State Fund spending as a share of our state's economy held relatively steady, declining slightly through 2006, marginally increasing from 2007 through 2009, and decreasing from 2009 on. In 2003, State Fund spending represented 9.9% of the State Gross Domestic Product. By 2006, these appropriations had fallen to 9.2% of the state GDP. Between 2006 and 2009 State Fund spending rose from 9.2% to 10.2% of State GDP; however, since that time, State Fund spending has fallen to 9.2% in 2013.

While State Fund spending held relatively steady as a share of our state's economy over the last several years, the state benefited from increases in Federal Funds. Federal appropriations as a share of Mississippi's economy rose from 6.0% in 2003 to 6.6% in 2007. Hurricane Katrina Recovery played a part in the increase in federal appropriations following 2007.

From 2008 to 2010, our state experienced significant declines in revenue collections as unemployment rose and workers experienced cuts in wages in hours. Federal recovery dollars played an important role in the development and stabilization of budgets for the provision of state services. After 2007, federal appropriations as a share of Mississippi's economy rose from 6.6% to 8.9% in 2008, 9.7% in 2009 and 10.6% in 2010. Since that time, federal appropriations as a share of Mississippi's economy has fallen to 7.7%. In the budgets developed for Fiscal Years 2009-2011, over \$900 million in federal American Recovery and Reinvestment Act (ARRA) dollars were allocated to address shortfalls.

**Figure 5: Total Appropriations, Federal and State Appropriations as a Share of the State's Total Economy (FY 2003-2013)**

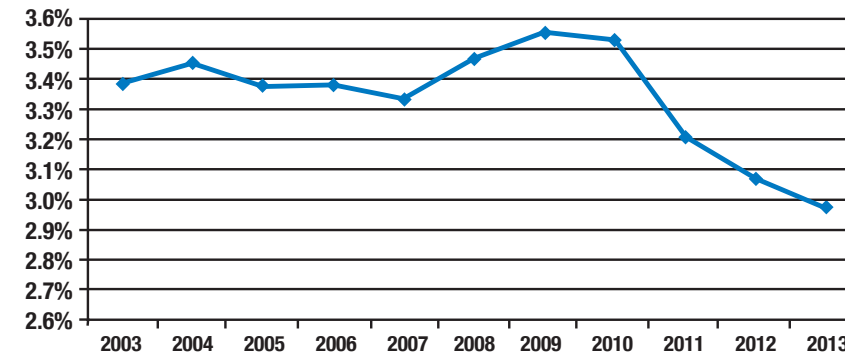


Sources: Mississippi Joint Legislative Budget Committee, State of Mississippi Enacted Budgets 2003-2013 Schedule IV; Mississippi Economic Review and Outlook, Gross State Product Data, Economic Forecast Values Table 7A, Historical Values 7A, June 2011

## What About Large Budget Items?

As discussed above, a meaningful way to look at changes in spending over time is as a percentage of State GDP. An analysis of large budget items, including public education, higher education and corrections, shows that spending in these areas has remained relatively steady over the past decade. As the largest General Fund item, public education expenditures serve as a good example of this trend. Public education spending as a share of the state's economy stayed fairly constant through 2009 (*Figure 6*); however, since 2010, public education has experienced a 0.5% decline and is at its lowest level since 1999.

**Figure 6: Public Education Expenditures as a Share of the State's Economy (1996 - 2012)**



Sources: State of Mississippi Enacted Budgets 2003-2013 Schedule IV; Mississippi Economic Review and Outlook, June 2011

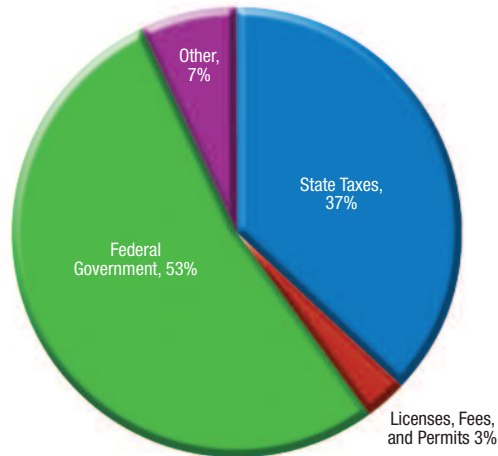
## The Nuts and Bolts of State Spending

- For FY 2013, the Mississippi State Legislature appropriated over \$18 billion. The appropriations included State and Federal Funds.
- The biggest overall expenditure was Medicaid, which was primarily funded with earmarked federal dollars. The largest General Fund appropriations were made for education, both K-12 and colleges and universities.
- General Fund spending, as a percentage of State GDP, has been relatively stable, suggesting that increases or decreases in spending are in line with the growth and decline of the state's economy.

# From Where Does Our State Get Its Money?

After seeing how state funds are used, a natural question is, “How does the state pay for our programs and services?” In order to fund our government’s work, state residents and businesses pay taxes and fees. The federal government also provides money to assist in providing certain state services (Figure 7).

Figure 7: State of Mississippi Governmental Fund Revenues by Source, FY 2011



Total = \$16,070,814,000

Source: Mississippi Comprehensive Annual Financial Report

In FY 2011, residents, businesses and the federal government contributed \$16.1 billion in combined state revenues.<sup>13</sup> Of each dollar collected by the state of Mississippi, 37 cents came from state taxes; 53 cents came from the federal government; and 10 cents came from licenses, fees, interest, court settlements and other sources.

## State Taxes

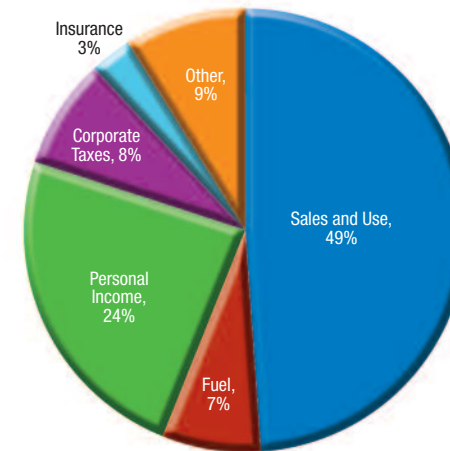
Individuals and businesses within our state contribute to the state’s funds by paying taxes. State taxes include:

- 1. *Sales taxes*, which are a percentage of the price of goods and services purchased in the state;
- 2. *Use taxes*, which are a percentage of the price of goods purchased outside of Mississippi for use in our state;
- 3. *Income taxes*, which are a percentage of individual and business income; and
- 4. *Special taxes on certain businesses*, such as casinos, and certain goods, like gasoline.

In FY 2011, we supported our state with \$5,901,128,000 in state taxes. Figure 8 shows Mississippi’s tax revenue collections by source in FY 2011.

As shown in Figure 8, sales and use taxes made up the largest portion of state tax revenue in FY 2011 at 49%. The second largest revenue stream was the personal income tax, which made up 24% of state revenues. The corporate income tax made up only 8% of state tax revenue.

Figure 8: Mississippi State Tax Revenue by Source FY 2011



Total = \$5,901,128,000

Source: Mississippi Comprehensive Annual Financial Report FY 2011, p. 32

## Sales and Use Tax

Mississippi generated most of its state tax revenue, (\$2,916,298,000 or 49%) from sales and use taxes.<sup>14</sup> According to an analysis of U.S. Census data, Mississippi ranked 16<sup>th</sup> in the country in the amount of general sales taxes paid per resident in FY 2009 (\$1,025).<sup>15</sup>

Traditionally, sales taxes are charged on the purchase of goods. Mississippi taxes most goods at a rate of 7%. Our sales tax on goods includes all retail purchases of tangible personal property including, but not limited to groceries, clothes, toiletries and over-the-counter medications. The state also charges a 5% sales tax on automobiles.<sup>16</sup>

Every state with a sales tax also has a use tax. This tax applies to items that are purchased outside of Mississippi for use in our state. The use tax is designed to prevent state residents from avoiding the sales tax by purchasing goods in other states. Residents who purchase goods in other states are legally required to report and pay tax on those purchases.

Mississippi also taxes some services at the rate of 7%. For example, the installation of air conditioning systems and electrical work are taxable services. However, some services are not taxed, including many professional services, such as: legal services, accounting services and other services like pet grooming or massage therapy.

Of the \$2.9 billion in sales taxes collected in FY 2011, about half of the collections came from taxing food, vehicles and general merchandise (including clothes).<sup>17</sup> The tax on food is notable because our state charges one of the highest sales tax rates on groceries in the nation. Only Mississippi and Alabama still extend their full sales tax rate to groceries. Other states with a sales tax on groceries provide a rebate or credit that offsets some of the sales taxes paid on groceries by some residents.<sup>18</sup>

Mississippi—as required of all states by federal law—does exempt food purchases made through the **Supplemental Nutritional Assistance Program (SNAP)** and through the Women, Infant and Children’s (WIC) Program from sales tax. Nonetheless, most recipients have to make other food purchases to supplement their food assistance and these purchases are still subject to the full sales tax.

### Personal Income Taxes

In FY 2011, the personal income tax was our state’s second largest source of tax revenue. Mississippi collected 24% of its tax revenues (or \$1,409,473,000) from individual income taxes.<sup>19</sup> Of the 43 states that have an income tax, our state ranked 39<sup>th</sup> in the amount of income taxes paid per person (\$503), according to an analysis of FY 2009 U.S. Census data.<sup>20</sup>

Mississippi’s income tax is relatively flat, meaning that most taxpayers pay a similar effective tax rate. There are three tax brackets—3%, 4% and 5%—and everyone with more than \$10,000 in taxable income pays at the top (5%) rate.<sup>21</sup> Taxable income is total income minus a number of exemptions and deductions, which adds up to about \$20,000 for a typical family of four, but can be more if the taxpayer itemizes deductions.<sup>22</sup>

### Corporate Income Taxes

The **corporate income tax** is a tax on business profits. Only about 8% of the state’s revenue in FY 2011 came from taxing businesses through the corporate income tax. As with the personal income tax, corporate income tax rates are 3%, 4% and 5% depending on income.<sup>23</sup>

A corporation’s income tax liability may be reduced by one of the state’s many corporate tax credits. Tax credits lower the tax owed by the corporation by the amount of the tax credit. In Mississippi, tax credits are provided to corporations for a wide variety of actions, including creating new jobs, providing child/dependent care for employees, and producing motion pictures in the state.<sup>24</sup>

Mississippi also charges a **franchise tax** on businesses operating in the state at a rate of \$2.50 per \$1,000 of the value of resources invested in the state.<sup>25</sup> The minimum franchise tax to be paid by corporations in our state is \$25. Corporations pay the franchise tax on top of their corporate income tax liability.

In FY 2011, our state collected \$395,054,012 in corporate income and franchise taxes after granting \$46,772,050 in tax credits to corporations.<sup>26</sup> The collections in 2011 amounted to \$110 per capita, for a ranking of 25<sup>th</sup> out of the 47 states with corporate income tax collections.<sup>27</sup>

### Other State Taxes

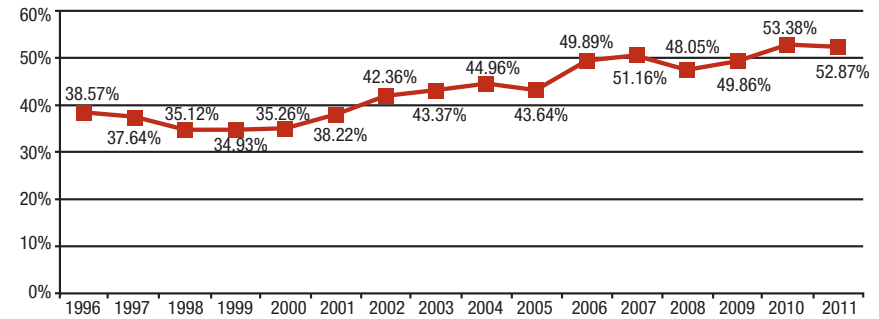
The remaining 19% of our state’s tax revenue came from a number of other taxes including: cigarette taxes, taxes on gaming establishments, and taxes on fuel and insurance.<sup>28</sup>

## Other Revenue Sources

### Federal Funds

As shown in *Figure 7*, 53%, or \$8.5 billion, of state revenues came from the federal government in FY 2011. The federal government provides money to states to help pay for specific programs. Often, the state is required to pay a portion of the program costs by matching federal dollars. For example, in FY 2011, the state’s federal Medicaid match rate was 75%, meaning that for each dollar of Medicaid spending, 25 cents were paid by the state and 75 cents were paid by the federal government.<sup>29</sup> Over the last several years, Mississippi has experienced an increase in the share of total state revenues it receives from the federal government (*Figure 9*). Federal Medicaid payments to cover the rising cost of health care account for a large portion of the increase.

**Figure 9: Federal Revenues as a Share of Total Governmental Fund Revenues FY 1996 – FY 2011**



Source: Mississippi Comprehensive Annual Financial Reports, FY 2003 – FY 2011

# How Does One Evaluate a Tax System?

There are a number of factors used to evaluate a tax system. While opinions on what qualifies as a good tax system differ, there is general agreement that some of the most important factors are adequacy, fairness and transparency.<sup>30</sup>

## Adequacy

A tax system is considered adequate if it collects enough revenue to pay for the services required by residents and policymakers. One threat to the adequacy of a tax system is a structural deficit. In states with a **structural deficit**, revenues do not grow at the same rate as the costs of providing government services. If revenues do not keep up with these increased costs, the state must either raise taxes or cut services.

### Key Terms

**Structural Deficit** – A situation in which a government's tax structure is not designed to collect increased revenue to pay for increased costs of services.

**Ability to Pay Principle** – A fair tax system asks citizens to contribute to the cost of government services based on their ability to pay. This principal suggests that persons with higher incomes, or greater ability to pay, should pay more in taxes than those with lower incomes.

## Fairness

The main area of thought on **tax fairness** is the **ability to pay principle**. Based on this principle, taxes can be categorized into three types:

- 1. **Progressive:** A tax system is progressive if persons with higher incomes pay a greater percentage of their income in taxes than those with lower incomes. Most income taxes, including the federal income tax, are designed to be progressive.
- 2. **Proportional:** A tax system is proportional if all persons, regardless of income level, pay the same percentage of their income in taxes. Flat taxes are proportional.
- 3. **Regressive:** A tax system is regressive if persons with lower incomes pay a higher percentage of their income in taxes than those with higher incomes. Sales taxes are generally regressive, because families with lower incomes tend to spend a larger fraction of their income on taxed goods than do higher-income families.

## Transparency

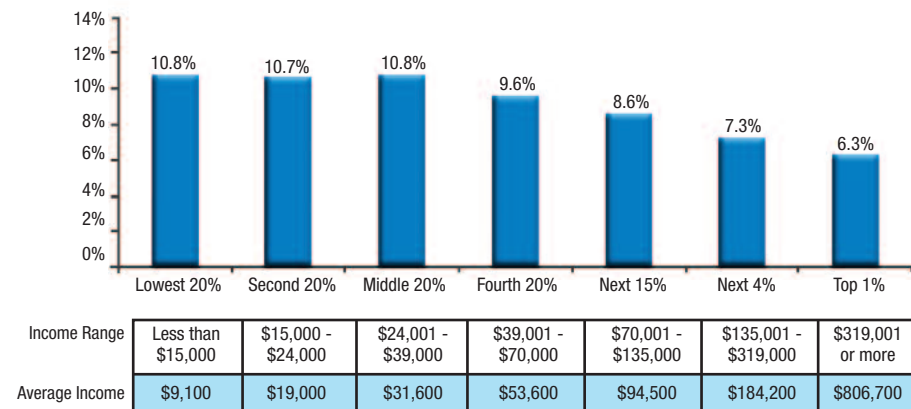
The transparency of a tax system indicates whether or not information about the tax system is easy to obtain. Available information should include who and what is taxed, the process for making tax decisions and how the funds collected are spent. Some states with high transparency use tools like fiscal notes and tax incidence analysis. **Fiscal notes** provide an estimate of the revenues gained or lost for a proposed change in law. **Tax incidence analysis** provides an estimate of how different income groups are affected by a tax or proposed tax change.

## Evaluating Mississippi's Taxes

Our state's bundle of taxes has some progressive elements and some regressive elements.

As a whole, Mississippi's state tax policies are regressive. This is due to the fact that the top 20% of income earners pay the lowest percentage of their income toward state and local taxes, while the bottom 40% pay the highest percentage of their income toward state and local taxes (*Figure 10*).

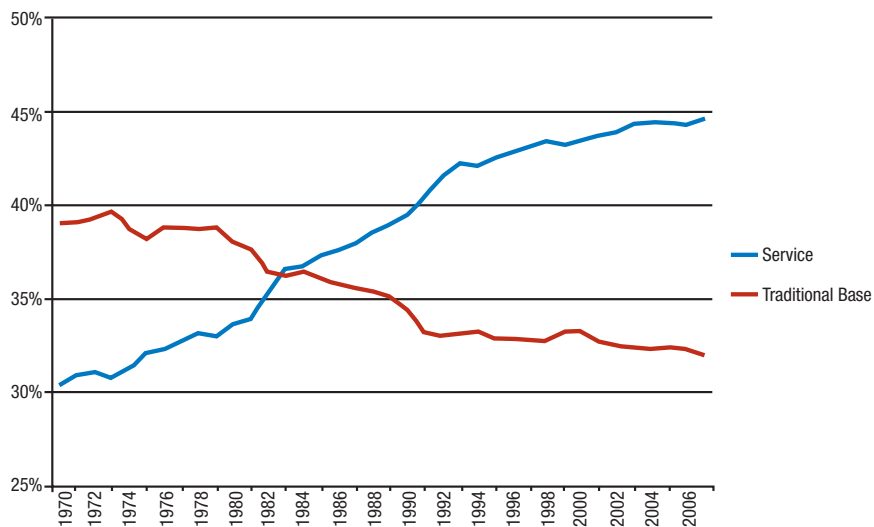
Figure 10: Total Taxes Paid as a Percentage of Income by Income Groups in 2007



Source: MEPC Analysis of data from the Institute of Taxation and Economic Policy

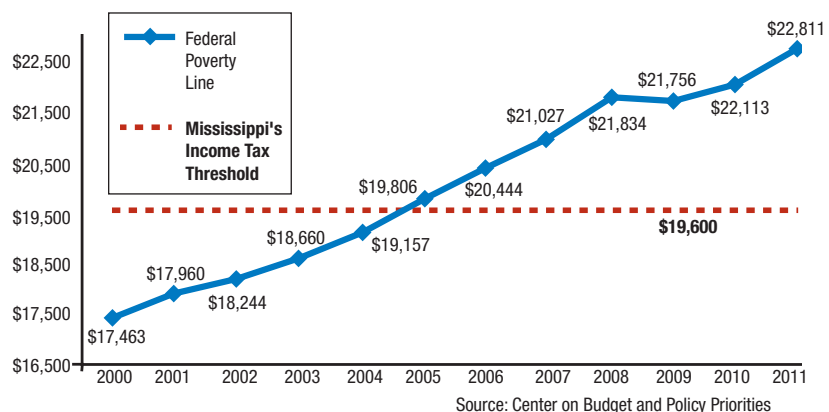
The following analysis of Mississippi's sales and income taxes illustrates some of the strengths and weaknesses of Mississippi's tax system.

**Figure 11: Household Consumption of Items Composing Traditional State Sales Tax Base vs. Household Consumption of Services 1970 – 2007**



Source: MEPC Analysis of data from the Institute of Taxation and Economic Policy

**Figure 12: State Income Tax Threshold and Federal Poverty Line for a Family of Four with Two Children (2000-2011)**



Source: Center on Budget and Policy Priorities

### Mississippi Sales Tax

As seen in *Figure 8*, our state's sales and use tax represents nearly half of state tax revenues. States with a strong emphasis on a sales tax tend to have more regressive tax systems because people with low incomes pay a higher proportion of their income on taxed items—for example, groceries and clothing—than people with high incomes.

Sales taxes can be made more or less regressive depending on what goods or services are taxed. *Figure 11* shows our state's trend in household consumption of traditional sales tax base items versus household consumption of services.

Mississippi's sales tax is more regressive than other states because Mississippi taxes food at the full 7%. With Arkansas' reduction of sales tax on groceries in July of 2007, Mississippi is now one of only two states to fully tax food without any offsets.<sup>31</sup>

### Mississippi Individual Income Tax

Mississippi's individual income tax is progressive but only slightly so. The top tax rate of 5% starts at \$10,000 of taxable income or \$29,600 of gross income for a family of four. Thus, a family of four that earns \$30,000 pays the same marginal tax rate as a family of four earning \$300,000 or \$3,000,000. In reality, Mississippi's personal income tax operates more like a proportional, or flat, tax than a progressive tax.

Additionally, since 2005, Mississippi has collected taxes on the income of families below the federal poverty line (*Figure 12*). The poverty line is adjusted each year for inflation. Whereas the poverty line for a family of four was \$21,834 in 2008, the poverty line rose—along with the costs of living expenses, like food and gas—to \$22,811 in 2011.

During the same period, Mississippi's tax threshold—the amount of income on which Mississippians start paying income taxes—remained the same at \$19,600. A family's tax threshold is determined by calculating how much income they can earn without paying taxes via standard exemptions and deductions. Without adjustment, the number of families in poverty subject to state income taxes will increase each year, as the federal poverty level increases, but the tax threshold remains the same.

### Mississippi's Corporate Income Tax

Our state currently offers a range of corporate tax breaks to stimulate economic development. The different types of breaks are also called **tax expenditures**. Tax expenditures allow persons and or businesses to pay less in tax—in essence providing them with resources without using direct appropriations. Tax expenditures are usually less visible than other types of public spending and are not required to be reviewed annually like direct appropriations. This makes it harder for policymakers and the public to evaluate them.

### Key Terms

**Tax Expenditure:** A targeted tax cut provided to particular groups of individuals or businesses.

**Annual Tax Expenditure Report:** A list of tax breaks and their costs.



For example, the **Annual Tax Expenditure Report** estimates that employers will claim Job Tax Credits of about \$6,000,000 against their corporate income tax in 2012.<sup>32</sup> However, there is no way to answer questions about the number of jobs that are created through the credit because of the way it is reported through the tax filing system. A system of making the incentive impact information publicly available and easily accessible would increase accountability to ensure the overall effectiveness of the incentive program.

### *Mississippi's taxes and business climate*

You often hear that in order to be competitive states must cut their business taxes. However, other factors like education, public safety and workforce development are also important to a state's economic competitiveness and require adequate state revenue.

## Putting the Parts Together– Evaluating Mississippi's Tax System

- ☉ While Mississippi's tax system has some progressive elements and some regressive elements, it is regressive overall because of its heavy reliance on the sales tax.
- ☉ The Mississippi sales tax is regressive. People with low incomes pay a higher proportion of their income towards the tax than people with high incomes. Mississippi's sales tax is especially regressive because it fully taxes groceries—an expenditure that low-income working families cannot avoid making.
- ☉ The income tax is structured to be progressive, but a large proportion of taxpayers pay the tax at the top rate. Additionally, in 2013, some families in poverty will pay income taxes due to tax thresholds that have not been updated in several years.
- ☉ Taken together, the bundle of state tax policies is not as fair as it might be: The top 20% of income earners pay the lowest percentage of their income toward state taxes, while the bottom 40% pay the highest percentage of their income toward state taxes.

# How Mississippians Can Get Involved

Although the Legislature and Governor make spending decisions, residents also have an important role in the budget process. Residents have the responsibility to ensure that the state budget meets the combined needs and reflects the collective values of all the state's people. There are many ways to track and influence the budget-making process:

## Step #1—Keep Current

The most direct way to be involved is to know what is going on. A great first step is watching the news and reading the newspaper. In addition to the stories that run on the front page and in local sections, the Sunday paper often includes editorials that comment on tax and budget issues.

## Step # 2—Enhance Your Knowledge

If a newspaper article or TV news story piques your interest, there are several good sources for additional information:

- ☉ The Center for Policy Research and Planning at the Mississippi Institutions of Higher Learning publishes the *Annual Tax Expenditure Report* (available online),<sup>33</sup> which includes information on how much the state spends on corporate tax credits. The Center also produces a publication called the *Mississippi Economic Outlook and Review*.
- ☉ The Legislative Budget Office publishes several documents on their website ([www.lbo.ms.gov](http://www.lbo.ms.gov)), including the Joint Legislative Budget Recommendation, the Legislative Appropriations Bulletin and Monthly State General Revenue Reports.
- ☉ Likewise, the Mississippi Economic Policy Center (MEPC) conducts budget and tax analyses and posts them online at [www.mepconline.org](http://www.mepconline.org). You can sign up for e-mail updates on the MEPC website as well.

## Step #3—Engage Others

The easiest way to get involved is to contact an organization that is already working on an issue that you find interesting. Many nonprofit organizations have an understanding of the budget process and can tell you how to get involved. This can be in any form—from writing a letter to a legislator to having a face-to-face meeting with a government official.

Nonprofit advocacy organizations can also help keep you updated on key people and events influencing the legislative process. For example, nonprofit organizations often know which legislators are important to contact on issues you care about. The organizations can also alert you about special hearings or provide summaries of the hearings if you are unable to attend.

## Looking Ahead

We hope that Mississippi's budget and tax systems have become a little less overwhelming to you after reading this text. Budget decisions directly influence the quality of education that our children receive, the condition of the roads that we travel, the safety of our communities and the level of trust we can place in professionals such as doctors, dentists, pharmacists and nurses. All of these services—education, road maintenance and public health and safety—have a price tag and must be paid for through taxes or fees.

Strong fiscal systems are needed to ensure that the funds are available—in a good economy or in a slow economy—to cover the costs of the services that Mississippi residents depend on everyday. It is important to know how the system works to ensure that it works efficiently, effectively and equitably.

# Glossary of Terms

**Ability to Pay Principle:** A fair tax system asks citizens to contribute to the cost of government services based on their ability to pay. This principle suggests that persons with higher incomes, or greater ability to pay, should pay more in taxes than those with lower incomes.

**Adequacy:** A tax system is considered adequate if it collects enough revenue to pay for the services required by residents and policymakers. One threat to the adequacy of a tax system is a structural deficit.

**Agency Budget Requests:** Agency Budget Requests are prepared by each state agency for consideration by the Joint Legislative Budget Committee. Agency requests contain the mission of the agency, a description of the duties and responsibilities of the agency and a five-year strategic plan for the agency that includes performance objectives and achievements. The request also contains the agency's financial data for the prior and current years as well as their request for the upcoming fiscal year. Depending on its complexity, an agency's budget request can range in size from around 15 pages to several hundred pages.

**Annual Tax Expenditure Report:** A list of tax breaks and their costs. Published annually by The Center for Policy Research and Planning at the Mississippi Institutions of Higher Learning.

**Appropriation:** A law that allows the state to spend money. State appropriations pay for various state services including: education, highways and public health. Each year the state enacts around 120 appropriations bills.

**Budget Appropriation Process:** The process through which the State Legislature and Executive Branch work together to:

- Identify the state's needs for the upcoming year;
- Determine how much money is available; and
- Designate projected money available for the funding of state services for the next year.

**Budget Contingency Fund:** This fund was formed to receive transfers from other fund sources (Special and General). FY 2002 marked the first use of the Budget Contingency Fund to supplement the State General Fund. Any funds spent from the Budget Contingency Fund are considered non-recurring.

**Budget Hearings:** Agencies must make decisions about their budget needs and priorities and submit their budget requests for approval by the Legislative Budget Office and the Governor by August 1. In September, the Joint Legislative Budget Committee conducts hearings to discuss all of the agency budget requests. Budget hearings give committee members a chance to ask specific questions of agency directors. Hearings are open to the public and usually take place two to three weeks after Labor Day.

**Corporate Income Tax:** The corporate income tax is a tax on business profits. As with the personal income tax, corporate income tax rates are 3%, 4% and 5% depending on income.

**Corporate Tax Credits:** Tax credits lower the tax owed by the corporation by the amount of the tax credit. In Mississippi, tax credits are provided to corporations for a wide variety of actions, including creating new jobs, providing child/dependent care for employees and producing motion pictures in the state.

**Education Enhancement Fund:** This fund provides supplemental support of K-12, Two-Year Colleges and Four-Year Institutions of Higher Learning. State statute requires that a percentage of state sales tax collections be deposited into the Education Enhancement Fund. These funds are then allocated based on a statutory formula to K-12 Education, Two-Year Colleges and Four-Year Institutions of Higher Learning.

**Enacted Budget Bulletin:** Prepared by the Legislative Budget Office, this book is a summary of what the Legislature appropriated to each agency during the Legislative Session. The appropriations listed were passed by the Legislature and have been signed into law by the Governor.

**Executive Budget Recommendation:** Prepared by the Office of Budget and Fund Management, this book gives the Governor's recommendation for a balanced budget for the upcoming fiscal year. It usually includes a letter to the Legislature that explains the Governor's priorities for the budget. In some states the Governor's budget is the basis for the budget later enacted by the Legislature. In Mississippi, the Governor's budget is advisory.

**Federal Funds:** Federal Funds are earmarked by the U.S. government for specific state programs. They are appropriated annually by the Mississippi Legislature, but must be spent in keeping with federal rules. Depending on the federal rules associated with each program, the Legislature may have more or less flexibility in how the funds are spent.

**Fiscal Note:** Fiscal notes provide an estimate of the revenues gained or lost for a proposed change in law.

**Fiscal Year:** The yearly accounting period for which budget decisions are made. The fiscal year for the state of Mississippi extends from July 1 of one year to June 30 of the next. A fiscal year is referred to by the calendar of the year in which it ends. For example, FY 2011 began on July 1, 2010 and ended on June 30, 2011.

**Franchise Tax:** Mississippi charges a franchise tax on businesses operating in the state at a rate of \$2.50 per \$1,000 of the value of resources invested in the State. The minimum franchise tax to be paid by corporations in our state is \$25. Corporations pay the franchise tax on top of their corporate income tax liability.

**Governor's Budget Recommendation:** The Governor submits a balanced budget recommendation for the upcoming year to the Legislature and agency heads by November 15. This budget must not exceed 98% of the jointly adopted General Fund revenue estimate plus any balance that will remain from the current year's budget.

**Health Care Expendable Fund:** The Health Care Expendable Fund was created to receive transfers from the Health Care Trust Fund that are authorized by state statute. As a result of the lawsuit won against tobacco manufacturers, the Health Care Trust Fund receives the court-ordered payments due to our state. These funds can only be appropriated for health-related purposes.

**Individual Income Tax:** See *Personal Income Tax*

**Joint Legislative Budget Committee:** The Joint Legislative Budget Committee (JLBC) is composed of 14 legislators, half from the Senate and half from the House of Representatives. The Committee is chaired by either the Lieutenant Governor or by the Speaker of the House of Representatives and the chairmanship alternates between them on an annual basis.

- In the Senate, the Chairman of the Senate Finance Committee, the President Pro Tempore and the Chairman of the Senate Appropriations Committee are standing members of the JLBC. The Lieutenant Governor names three additional members of the Senate to the Committee.
- In the House, the Chairman of the Ways and Means Committee and the Chairman of the Appropriations Committee are standing members. The Speaker of the House appoints four additional members of the House to the Committee. The staff of the JLBC is called the Legislative Budget Office (LBO).

**Joint Legislative Budget Committee Recommendation:** The JLBC must submit its balanced budget recommendation to the Legislature and to agency heads by December 15. Like the Governor, the Committee can consider only 98% of revenue forecast plus surplus balances. The JLBC's recommendation is used as the starting point for debate on appropriations bills.

**Legislative Budget Report:** Prepared by the Joint Legislative Budget Committee, this book gives the Committee's recommendation for a balanced budget for the upcoming year. It is generally used as the starting point for the appropriations bills that will be debated by the Legislature in January. For each General and Special Fund agency, it includes appropriations numbers for three fiscal years:

1. It indicates how much was spent during the most recently completed fiscal year,
2. The amount appropriated for the current fiscal year, and
3. The amount the agency and the committee request for the upcoming fiscal year.

**Legislative Session:** The Legislative Session convenes during the first week of January and closes around April 1. Draft bills are divided between the House and Senate Appropriations Committees and further divided by subcommittee, usually by agency function. During the Legislative Session, the Legislature may decide to suspend the law requiring the 2% be set aside. Then both houses must adopt the conference reports on the appropriations bills (generally 5-6 days before the end of the session). If approved, the bills are sent to the Governor for his signature.

**Non-Recurring Fund Transfer:** A non-recurring fund transfer is a transfer of funds for a one-time expense that is unlikely to happen again.

**Personal Income Tax (Individual Income Tax):** The personal income tax is a tax on individual income. Tax rates in Mississippi are 3%, 4% and 5% depending on income.

**Progressive Tax System:** A tax system is progressive if persons with higher incomes pay a greater percentage of their income in taxes than those with lower incomes. Most income taxes, including the federal income tax, are designed to be progressive.

**Proportional Tax System:** A tax system is proportional if all persons, regardless of income level, pay the same percentage of their income in taxes. Flat taxes are proportional.

**Regressive Tax System:** A tax system is regressive if persons with lower incomes pay a higher percentage of their income in taxes than those with higher incomes. Sales taxes are generally regressive because families with lower incomes tend to spend a larger fraction of their income on taxed goods than do higher-income families.

**Revenue:** The state's income from any source. Mississippi revenue includes: tax collections, fees and intergovernmental grants.

**Revenue Estimate:** The Revenue Estimating Committee examines economic trends and develops an estimate of the amount of revenue the state will collect from existing sources in the next fiscal year. Its assumptions are based on current economic indicators and their opinion about the economy's growth potential. The Committee submits the estimate for approval by the Governor and the Joint Legislative Budget Committee. If adopted, the revenue estimate serves as the baseline for all appropriations in the upcoming fiscal year.

**Revenue Estimating Committee:** Examines economic trends and estimates the amount of revenue that the state will collect in the next fiscal year.

**Sales Taxes:** Sales taxes are charged on the purchase of goods. Mississippi taxes most goods at a rate of 7%. Our sales tax on goods includes all retail purchases of tangible personal property including, but not limited to groceries, clothes, toiletries and over-the-counter medications. The state also charges a 5% sales tax on automobiles.

**Special Taxes:** Special taxes are placed on certain businesses, such as casinos, and certain goods, like gasoline. Some Special Funds are supported through special taxes. For instance, regulatory/licensing agencies charge licensing fees and assess fines, which go to support their operation. The Medical Licensure Board and the Board of Dental Examiners are two agencies that receive funding through licensing fees. The Department of Transportation is an example of a Special Fund agency that derives some of its funding through a tax on gasoline.

**State General Funds:** General Funds come from general state tax collections (mainly income and sales taxes) and pay for many key services provided by the state, including K-12 education, colleges, universities and corrections. The Legislature has significant discretion about how these funds are spent.

**State Gross Domestic Product (State GDP):** A measure of the total income produced in our state in a given year, including salaries, dividends and interest. As a measure of Mississippi's income, State GDP is useful for determining how much our state can afford to spend on public priorities.

**State Special Funds:** Special Funds are established through state statute or constitutional provisions that earmark funds for a specific purpose.

**State Support Funds:** These funds include both State General Funds and State Special Funds.

**Structural Deficit:** A situation in which a government's tax structure is not designed to collect increased revenue to pay for increased costs of services. In states with a structural deficit, revenues do not grow at the same rate as the costs of providing government services. If revenues do not keep up with these increased costs, the state must either raise taxes or cut services.

**Supplemental Nutritional Assistance Program (SNAP):** SNAP is a federal nutrition program that helps low-income households pay for food. SNAP was formally known as the Food Stamp Program. SNAP benefits can be used to purchase food at grocery stores, convenience stores and some farmer's markets and co-op food programs.

**Tax Expenditure:** A targeted tax cut provided to particular groups of individuals or businesses.

**Tax Fairness:** The main area of thought on tax fairness is the ability to pay principle. Based on this principle, taxes can be categorized into three types:

- **Progressive:** A tax system is progressive if persons with higher incomes pay a greater percentage of their income in taxes than those with lower incomes. Most income taxes, including the federal income tax, are designed to be progressive.
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**Tax Incidence Analysis:** Provides an estimate of how different income groups are affected by a tax or proposed tax change.

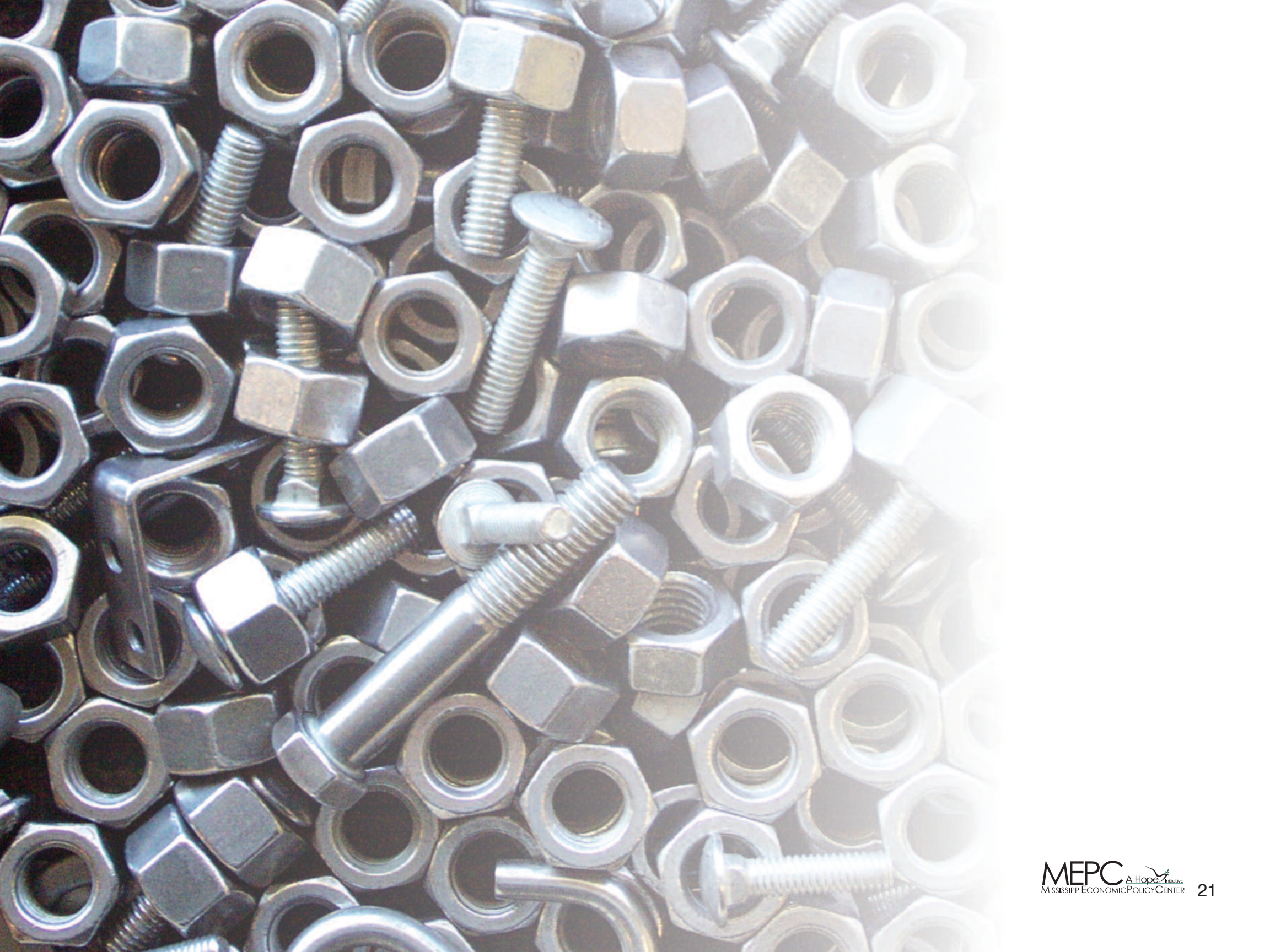
**Tobacco Control Fund:** This fund was created for the support of our state's tobacco cessation programs. It began as a result of the lawsuit won against tobacco manufacturers and receives a portion of the court-ordered payments due to our state.

**Transparency:** The transparency of a tax system indicates whether or not information about the tax system is easy to obtain. Available information should include who and what is taxed, the process for making tax decisions and how the funds collected are spent. Some states with high transparency use tools like fiscal notes and tax incidence analysis.

**Use Taxes:** This tax applies to items that are purchased outside of Mississippi for use in our state. The use tax is designed to prevent state residents from avoiding the sales tax by purchasing goods in other states. Residents who purchase goods in other states are legally required to report and pay tax on those purchases. Every state with a sales tax also has a use tax.

# End Notes

- 1 Mississippi Department of Education, *2010 State Superintendent of Education's Annual Report*
- 2 Mississippi Community College & Junior Colleges, *Legislative Budget Requests: Fiscal Year 2013*
- 3 Mississippi Department of Transportation, *Annual Report for Fiscal Year 2010*
- 4 Mississippi Division of Medicaid, Medicaid Legislative Briefing February 1, 2012
- 5 Mississippi Department of Health, *2011 Annual Report*
- 6 Mississippi Department of Corrections, *2011 Annual Report*
- 7 Mississippi State Board of Medical Licensure, *2011 Statistical Information Table I: Physicians Licensed*; Mississippi Performance Evaluation and Expenditure Review, *A Review of the Board of Pharmacy, July 21, 2010*; *Mississippi Board of Nursing 2010 Annual Report*
- 8 National Conference for State Legislators, Average Number of Appropriations Bill(s)
- 9 Mississippi Legislative Budget Office, *Budget Summary 2012 Legislative Session*
- 10 A complete list of Special Fund Agencies can be found in the most recent enacted state budget available on the website for the Mississippi Department of Finance and Administration: [www.dfa.state.ms.us/Offices/OBFM/Forms/FY2012Budget.pdf](http://www.dfa.state.ms.us/Offices/OBFM/Forms/FY2012Budget.pdf)
- 11 Legislative Budget Office website [www.lbo.ms.gov/index.htm](http://www.lbo.ms.gov/index.htm)
- 12 Every fourth year, coinciding with the inauguration of an elected Governor, the regular 90-day session is extended to 125 days, and the session does not end until around May 11th. This is the case for the 2012 Legislative Session.
- 13 Please note that revenue numbers are reported by both the Mississippi Department of Revenue and the Mississippi Department of Finance Administration. This report uses data from the *2011 Comprehensive Annual Financial Report* published by The Department of Finance Administration.
- 14 Mississippi Comprehensive Annual Financial Report FY 2011, p. 32
- 15 MEPC Analysis of data from the U.S. Census Bureau
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- 24 Mississippi Department of Revenue, *Mississippi Tax Incentives, Exemptions and Credits, October 1, 2011*
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- 26 *Mississippi Department of Revenue Annual Report FY 2011*, pp. 50-52
- 27 MEPC Analysis of data from the U.S. Census Bureau
- 28 *Mississippi Department of Revenue Annual Report FY 2011*
- 29 Kaiser Family Foundation, *Federal Medical Assistance Percentage (FMAP) for Medicaid and Multiplier FY 2011*
- 30 Institute on Taxation and Economic Policy, *Guide to Fair State and Local Taxes 2011*
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