



MISSISSIPPI'S KATRINA EFFECT: SHORT TERM BUDGET GAINS RAISE LONG TERM CONCERNS

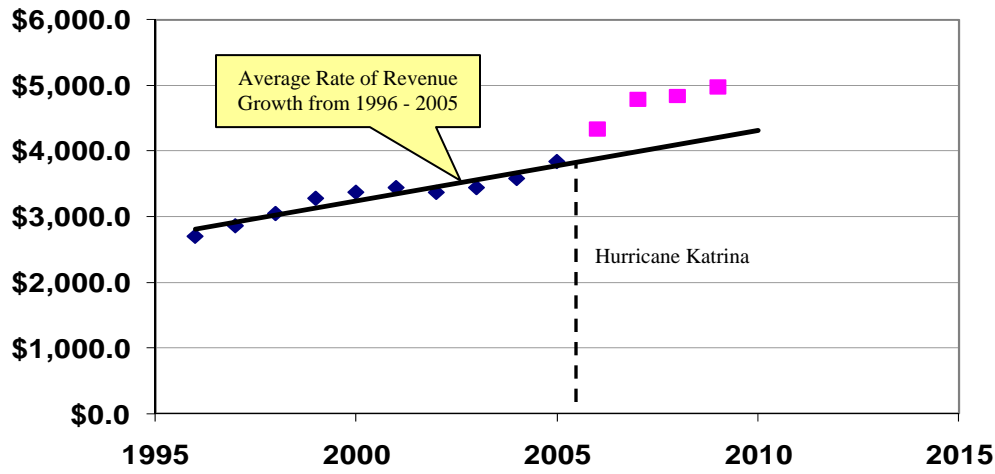
Key Takeaway: Following Hurricane Katrina rapid growth in sales tax collections associated with rebuilding and the federal funding of typically state funded Medicaid expenses resulted in a pair of strong general fund budgets. As revenue growth projections slow, concerns around the fiscal stability of the budget include whether or not gains made funding state services during the past two years were funded with one time money generated from the disaster. Moving forward, discussions about the state's revenue system should cover options to identify new revenue sources and/or possible budget cuts that preserve gains made by policies that strengthen working families through education over the last two years.

Short Term Budget Gains Raise Long Term Concerns

Not long after Hurricane Katrina made landfall in August of 2005, Gulf Coast families, business owners and churches began to rebuild their communities. As people purchased drywall, lumber, appliances and furniture, they contributed to both the local recovery and to growth in state sales tax revenues. The growth in sales tax revenues strengthened efforts to build statewide K-12 public education systems, to enroll the single largest class of students in Mississippi's Institutions of Higher Learning and to connect children and seniors to quality health care.

As a result of the revenue growth – largely associated with rebuilding – state General Fund tax collections in the two fiscal years following the hurricane increased at rates not seen in the last decade. Figure 1 shows the general fund tax collections for the 10 years prior to Hurricane Katrina (blue diamonds) and the four years since the storm (pink squares). The trend line illustrates possible revenue collections that may have occurred from FY 2006 through FY2009 if revenue had continued to grow at the pre-hurricane rate.

Figure 1
General Fund Revenues Following the Hurricane Grew Faster than at any Time in the Previous Ten Fiscal Years

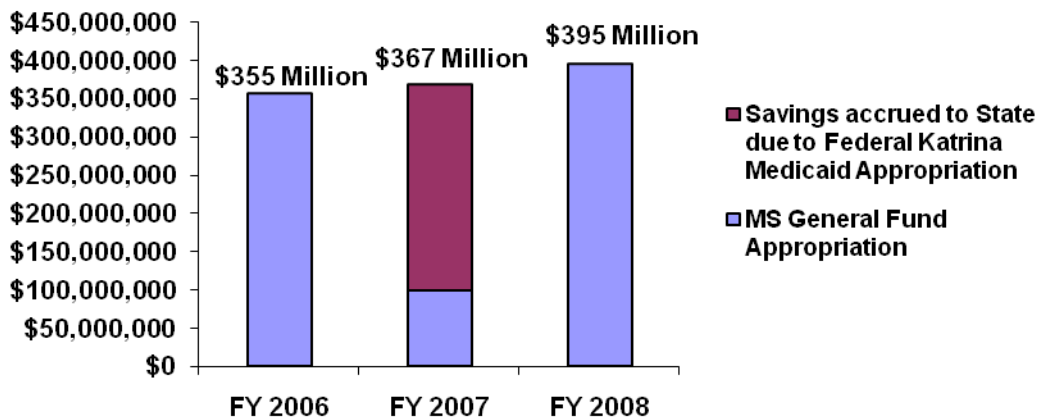


Source: State General Fund Revenue Estimate Revised FY 2008 and Estimate FY 2009 Recommendation of the Revenue Estimating Group. MEPC Calculations.

Figure 1 causes concern because some services requiring annual, recurring appropriations were funded with revenues generated from the recovery of the hurricane. Given the state's current revenue structure, the state may encounter challenges generating enough revenue to maintain the level of spending that the post-hurricane recovery, i.e. the Katrina Effect, made possible.

To further stretch the long term budget outlook, Mississippi received a significant federal Medicaid appropriation of \$268 million to cover Medicaid expenses typically paid for by the state General Fund. Figure 2 illustrates the savings accrued to the state by receiving federal money to cover state Medicaid expenses in FY 2007.

Figure 2
General Fund Appropriations for the Office of Medicaid FY 2006 - FY 2008



Source: State of Mississippi Enacted Budget 2007 and 2008. MEPC Calculations.

In December, the Legislative Budget Office released their budget recommendations for FY 2009. Given the estimated slow down in revenue growth, the recommendations amounted to a reduction in General Fund appropriations. Services affected could include less health care for seniors and children, fewer resources for higher education to address the potential workforce shortage and a reduction in the repayment of the state's long term debt obligations. In light of the "Katrina Effect" subsequent years of cuts may be on the horizon in the absence of changes to the adequacy of Mississippi's system of taxes.

As calls for a review of the state's tax structure increase, efforts must be made to examine ways to strengthen the adequacy of the state's revenue structures to pay for the services that Mississippi families count on every day.