Remarks for the
Association of Governmental Accountants
May 21, 2003

I appreciate the opportunity to be here to share with you some information on the state and national fiscal affairs. I bring you greetings on behalf of Governor Musgrove and Gary Anderson. I will spend a little time this afternoon sharing with you how the budget is crafted from the Executive perspective and where we are to date as it relates to our current budget. I will also share with you some of the accomplishments of the Musgrove Administration. At the conclusion of my remarks, we will divide into groups and debate a veto message from the Governor.

REVENUE PROJECTION OVERVIEW:

The State Economist, the State Fiscal Officer, the State Treasure, the Tax Commissioner, and the Legislative Budget Office Director meet around October to discuss the state's fiscal condition and to determine what the revenue growth will be for the next fiscal year. They examine each category of tax collections and determine the growth rate for next year. After this group has determined the overall growth rate, they make a recommendation to the Joint Legislative Budget Committee. The committee, which is chaired by the Speaker of the House or the Lieutenant Governor, then votes to accept or change the revenue recommendation. This growth rate translates into the projected revenue for the next year and 98% of this projected revenue and beginning cash is then appropriated to the general fund agencies.
The problem for the past three years has been that the projections were overly optimistic. By law, if by the end of October the actual revenue collections fall below 98% of the estimate, budget adjustments must be made by the Executive branch to bring the budget in balance. The Governor is fiscally conservative, and each year he has cautioned the legislature about being overly optimistic in the revenue projections and to be more conservative so that budget adjustments would not be necessary. Unfortunately, the more rosy projections were adopted and budget adjustments have been necessary for the past three years. Because the Governor strongly believed that the revenue estimates were too high, as a management tool, he has asked for the past two years for the agencies to budget 45/55. This would give the agencies the entire year to prepare for a possible 5% adjustment down in their budget. Unfortunately, the 5% adjustment had to be made each year.

Tax Collections to date:

As of April 30, 2003, General Fund Tax Collections are $108.7M (3.67%) below the estimate and $12.8M (.5%) above prior year. So you can see that we are way below the estimate and flat growth to same time last year. The estimate for 2003 is based on 3.8% growth over 2002. Next year (04) estimate is based on 3% growth over 2003.

National Economy and Other States:

The weak economy compounded by the events of September 11, 2001 and a declining Stock market severely strained state budgets in fiscal 2002. In most states, conditions are worse in fiscal year 2003. Economic growth is wavering, revenues are faltering, costs for healthcare (particularly Medicaid) and new homeland security continue to rise—further exacerbating fiscal problems that plagued nearly every state in fiscal 2002. Most states instituted yet another round of belt-tightening actions to deal with budget problems in fiscal 2003. Many of the actions are one-time-only measures (such as the tobacco settlement funds), further exhausting the options available to bring budgets back into balance and making decisions in the near future more difficult.

When revenue growth declines, states rely heavily on several standard budget adjustments tools. In fiscal year 2002, 26 states used across-the-board cuts, 26 states tapped rainy day funds, 15 states laid off employees, five states offered early retirement, and 13 states reorganized programs. Thirty-one states implemented a variety of other methods, such as delaying expenditures, reducing travel, imposing hiring freezes, and in some cases, increasing taxes (particularly "sin" taxes) and fees to address shortfalls. Since revenue increases are difficult to enact midyear, states rely on budget cuts and other strategies to generate short-term savings. Making cuts to enacted budgets is the most widely used strategy in states and has the greatest immediate impact. Thirty-seven states cut more than $12.6 billion from their fiscal year 2002 budgets. This represents the highest number of states (and the largest amount in terms of dollars) to have made cuts to enacted budgets in any given year.

To date, MS 2003 budget has been reduced by $64M, of which $48M has come from reduction in GF agency budgets. Education has been excluded from these downward adjustments. In spite of a very weak economy, we have not had to lay state employees off or increase taxes.

Governor's Accomplishments:

Governor Musgrove's priorities have focused on education, jobs, health care, and public safety. In each of these areas, the Governor has made tremendous strides. In July 2001, Governor Musgrove signed legislation he championed clearing the way for a historic teacher pay raise for Mississippi teachers. His plan, when fully implemented, will raise the average teacher pay in the state from 49th to 19th in the nation. The Governor created the Taskforce on Classroom Technology, which placed an internet accessible computer in every public school classroom. Mississippi was the first state in the nation to do this. An additional 52,000 children now have access to healthcare, thanks to the Governor's plan of action. During the Musgrove Administration the state has seen the opening and expansion of 2,200 new facilities investing nearly $15B through Feb and bringing 53,000 new jobs to Mississippi, inspite of a National Recession.