

MEMORANDUM

TO: Bill Renick
Phillip Kinney
Michael Boyd
Peyton Prospere

FROM: LAM

RE: Local option sales tax &
Municipal reimbursement of homestead exemption

DATE: 062403

Here's a try on both issues. Also, background info on each.

- Unfunded mandates hurt each of you as a way of doing business.
- We have felt the impact of the unfunded mandates from Washington.
- As Senator and Lt. Gov. and Governor, I met with many of you regarding local option sales tax.
- In 2000, we included a provision in our Advantage Mississippi package.
- I have also heard from many business owners who have represented the other side of the argument.
- It's my job as Governor to make those tough decisions about what helps our communities and our people.
- We had a great time in the 90's when the national economy was rolling. We were able to put money away.
- When I left office as Lt. Governor, and head of LBO, we indeed had a surplus that we created. Well, times are now tough.
- We have had to make the difficult choices of cutting the fat and of prioritizing our investment in the people of Mississippi.
- It is no secret that my approach has been in jobs and education. There are those who have faulted me for that.
- I will not apologize for our investment in our people. There are many communities represented here today that have received the benefit of our programs.
- There are new water systems and new sewer systems across the state that I'm not going to apologize for. There are new roads and new bridges that will help attract companies and new jobs.
- Now is not the time to raise taxes. While I know that many of you say a local option sales tax is not a tax, it is for those people who pay for the increased purchase price.

Background

1. Local option sales tax

- Supported by the municipalities and the supervisors. Opposed by legislators and some business people and people from rural areas.
- 2003 session – “MOST” the Mississippi Optional Sales Tax. Mayors and supervisors lobbied for a ¾ cent local sales tax to pay for projects such as convention centers or new water and sewer lines. Would require a 60% vote for passage and would be collected only for a specific amount of time, as long as it takes to pay for a particular project.
- Municipal Association – Jeannie Smith “local sales tax as a city’s right to determine their own destiny and a common-sense approach to local government finance that maximizes taxpayer funds for issues they decide is important for their communities. And “local option tax “a right-to-vote issue, not a tax increase. This is to let us vote on our own destiny.” Also, the MOST would not apply to hotel rooms and restaurant meals.
- Municipal League estimate on the proposal - \$28 million to Jackson, \$9 million to Biloxi, \$12 million to Gulfport, and \$11 million to Hattiesburg.
- Current process is trip to the legislature to get a local and private bill passed and then election with a 60% vote requirement for passage.
- Supporters want a blanket authority to have a referendum without the legislative requirement.
- In August of 2000, the original Advantage Mississippi Initiative (AMI) legislation had a controversial LOST provision, pushed by the Tourism officials and MDA. This provision would let cities and counties seek voter approval of a local sales tax of up to 1½ cents that would apply to groceries, clothing, and other essentials (in addition to the 7 cents sales tax) and would fund economic development projects. Legislature took out the provision.
- Legislative arguments:
 - Major shift in policy that would transfer the power to tax out of the Legislature’s hands, lawmakers should have final say over any changes in sales taxes
 - Some fear allowing cities and counties to have their own sales tax would make it tough for the Legislature to raise the overall state sales tax in the future.
 - Excessive taxes – some oppose because when combined with the state sales tax and county tourism taxes, visitors could pay more than 10 cents for hotel rooms. Hotel rooms in Harrison County have a 10 cent tax.
 - Lower taxes – some can’t justify letting cities and counties charge their own sales tax at a time when the Legislature should consider reducing the state sales tax – or at least consider exempting groceries and over-the-counter drugs from the tax.
 - Unfair to people who don’t live in the cities and counties who would still have to pay to shop and eat there.

- In the 2003 legislative session, Jackson was denied the opportunity for a local option vote on a convention center and infrastructure improvements. In 1989, Tupelo was given the option to pay for half of a \$21 million 20-year water district bond program with Lee County.
- Senator Hob Bryan “It is absolutely horrible public policy. The problem is when you return sales tax to the point of collection, you make the wealthy trade centers wealthier at the expense of the poorer areas of the state. The reason it’s popular with the mayors is they get to impose the tax on those who can’t vote on the tax...I’ll believe the people who pay the tax are voting on it when they set up voting booths at Northpark mall and let the shoppers vote on it.”
- GRM most recent question on this issue came from Meridian radio talk show. His response – “I would be glad to work with the municipalities but I’m opposed to a tax increase.”
- Other than the “tax increase” angle, GRM vetoed a bill in 2002 that would have prohibited local ordinances from restricting the use of cell phones in cars. His veto statement included “I am vetoing HB 1551 because it imposes a State prohibition on a local concern. It is accepted wisdom that government closest to the people governs best. This action usurps the power of local governments to make decisions they deem is in the best interest of their community.”

2. Municipal reimbursement of homestead exemption

- The State Tax Commission recommends a homestead exemption reimbursement request each year as part of the appropriations process. This is a subsidy to the municipalities and the counties, or local aid, based on the loss of revenue due to homestead exemption.
- For example, the FY '03 requested amount from the State Tax Commission for homestead exemption reimbursement to the municipalities and the counties was \$79.500 million in general funds, and the appropriated amount passed by the legislature was \$75,377,073 in general funds.
- FY '04 Tax Commission request was \$80.800 million and the legislative appropriated amount was \$75,377,073 in general funds, or level funded from '03.
- During FY'03, the Governor was required, by law, to make cuts to state government because revenues were not coming in based on the estimate passed by the legislature. He cut a total of \$3,015,084 or 4% out of the homestead reimbursement to municipalities and counties during FY '03. (out of \$75,377,073) If you were to use a crude average estimate of the \$3 million divided by the 82 counties, it’s an average of \$36,000 cut to each county.
- July, 2002 – Mississippi Association of Supervisors requested consideration of full reimbursement of the lost homestead exemption revenues. “According to Joel Yelverton, MAS, every county had budget shortfalls last year because the state failed to provide the full reimbursement mandated by state statute.” Hattiesburg American “... raising taxes was an option for counties facing the shortfall. (In 2001, county officials stated there was a \$93 million difference.)
- Feb. 02 – for FY 02, local assistance/homestead exemption cut \$3.6 million out of \$76.3 million

- In September 2000, or FY 01, GRM exempted homestead exemption from budget cuts.
- On the other hand, by fully funding education, municipalities and counties were spared from having to find funding for local public schools, which is required by law and could have included tax increases.