



THE VIEW

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A SEASON OF LESSONS IN FISCAL FEDERALISM

BY

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The headlines accompanying many news stories lately have included an implied question mark when the topic relates to the recently passed federal stimulus package and its implementation and impact in the states. The recession and accompanying explosion of bailouts and stimulus packages are bringing about a level of confusion the likes of which we have never seen before. Taxpaying citizens are pretty reliable about cussing the tax-consuming government but lately it appears there is confusion over which level of government would make the best target for their tirades.

Even the Mississippi legislature appears to be on the verge of yelling “time out” in their efforts to top peg a revenue estimate upon which to base a budget. Consider the following scenario: Recent news from the state’s experts in fiscal prognostication indicate that Mississippi may see a dip of some \$600 million in revenue generation by the time the economy turns upward in 2011. The consequences of such a shortfall in this, one of the nation’s poorest states, are almost unthinkable. But, might it be possible to say “stimulus package to the rescue?” The legislature is quite correctly poised to take advantage of any “fungibility” opportunities available in the stimulus package. By that I mean they are asking the question, “What federal stimulus money will be allowed to flow toward state agencies and programs that will free up Mississippi generated dollars that can go toward mitigating the level of shortfall predicted by the state economist and other experts?” It indeed may be worth the legislature taking the time to understand how maximum advantage can be gained from this, dare we say, windfall of federal dollars being made available from the often maligned stimulus package.

To be sure, there are other issues related to efforts to finance government at all levels of our federal system. Many will remember that shortly after a candidate was almost elected governor of Mississippi on a platform of guaranteeing a \$10 car tag the legislature passed a bill to significantly cut the taxes paid at the county level by the purchaser of an automobile license plate. The amount of reduction is referred to as the legislative credit. This amount would be lost revenue to the county except that the legislature built in a formula to make counties and other local governments whole by reimbursing the money from the state

treasury. Had the legislature not done so, there would have been a millage rate increase to make up for the lost revenue. Now comes the news that the state could only cover 57 percent of the reimbursement amount in a recent month. This is similar to the local government predicament that evolved following property reappraisal in the 1980's when there was a large increase in state obligations to reimburse homestead exemption losses to the counties, and the funds to make those reimbursements did not materialize. Now the legislature appears on the verge of developing a good and workable solution to reduce significantly or even eliminate the business-stifling tax on inventories. Once again this is a tax whose avails go into the county, municipal, and school district treasuries. If this tax goes away without any other provision for its loss the millage rate in these local governing units would have to increase on the remainder of the taxpayers to cover the short fall. The legislature wisely made this tax cut workable by establishing once again a means of formula reimbursement to local government. Can the reimbursement dollar be stretched far enough to keep local government whole and provide for this needed tax cut? Is there any wonder that once again we are considering the revenue generating possibilities of the tobacco tax?

Perhaps a little sorting out of this discussion is in order. This may help the taxpayer get his/her bearings as to who needs cussing over taxes or it may prove to them that we are all rowing this boat together. First, demands to cut taxes and programs at the federal level are always going to be heard but keep in mind that Mississippi is often at or near the top of the heap as a net gainer from Washington. For every dollar we send to Washington we receive roughly \$2.00 in return. A hundred percent return on investment during these trying times would seem to be pretty good. Such a cut would mean we raise taxes at the state level or drastically cut programs like transportation and education. Similarly cut the most offensive taxes at the local level and the millage rate must go up on the remainder of the tax base or the programs are cut. When state coffers can't contribute their part then taxes must go up or program cutbacks follow.

In the today's climate the legislature faces a task akin to "nailing jelly to a tree", when it comes to pegging the current and out year budgets. Knowing what we know now, or perhaps more accurately what we don't know now, the legislature's potential decision to delay finalizing a budget until the smoke clears appears to be quite prudent. There is a job none of us would envy right now.



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