

January 18, 2006

TO THE MISSISSIPPI STATE SENATE:

GOVERNOR'S VETO MESSAGE FOR SENATE BILL 2310

I am returning Senate Bill 2310: "AN ACT TO AMEND SECTION 27-69-13, MISSISSIPPI CODE OF 1972, TO INCREASE THE EXCISE TAX ON CIGARETTES, TO PROVIDE THAT THERE SHALL BE A DISCOUNT OF 1% ON THE ADDITIONAL FACE VALUE OF STAMPS PURCHASED TO COMPLY WITH SUCH INCREASE AND TO REMOVE THE TAXATION OF SNUFF AND OTHER TOBACCO PRODUCTS FROM THE SECTION OF LAW THAT LEVIES THE EXCISE TAX ON DEALERS IN CIGARETTES; TO CREATE NEW SECTION 27-69-13.1, MISSISSIPPI CODE OF 1972, TO LEVY THE EXCISE TAX ON DEALERS IN SNUFF; TO CREATE NEW SECTION 27-69-13.2, MISSISSIPPI CODE OF 1972, TO LEVY THE EXCISE TAX ON DEALERS IN CIGARS, STOGIES, CHEWING TOBACCO, SMOKING TOBACCO AND ALL OTHER TOBACCO PRODUCTS, EXCEPT CIGARETTES AND SNUFF; TO AMEND SECTION 27-69-75, MISSISSIPPI CODE OF 1972, TO REQUIRE A PORTION OF THE MONTHLY TOBACCO TAX REVENUE TO BE DEPOSITED IN THE MUNICIPAL TOBACCO TAX DIVERSION FUND, THE EDUCATION ENHANCEMENT FUND AND THE SCHOOL AD VALOREM TAX REDUCTION FUND; TO CREATE THE MUNICIPAL TOBACCO TAX DIVERSION FUND AND REQUIRE THAT MONEY IN THE FUND BE DISTRIBUTED MONTHLY TO MUNICIPALITIES IN THE PROPORTION THAT SALES TAX COLLECTIONS FOR GROCERIES DURING THE PRECEDING MONTH IN EACH MUNICIPALITY BEAR TO THE TOTAL SALES TAX COLLECTIONS FOR GROCERIES DURING THE PRECEDING MONTH IN ALL THE MUNICIPALITIES OF THE STATE; TO AMEND SECTIONS 27-69-27 AND 27-69-31, MISSISSIPPI CODE OF 1972, IN CONFORMITY THERETO; TO CREATE A NEW SECTION 27-65-26, MISSISSIPPI CODE OF 1972, TO IMPOSE A SEPARATE SALES TAX LEVY ON RETAIL SALES OF CERTAIN FOOD FOR HUMAN CONSUMPTION AND TO REDUCE THE SALES TAX RATE ON SUCH FOOD EACH FISCAL YEAR THROUGH JULY 1, 2014; TO AMEND SECTION 27-65-17, MISSISSIPPI CODE OF 1972, IN CONFORMITY THERETO; TO AMEND SECTION 27-65-111, MISSISSIPPI CODE OF 1972, TO EXEMPT FROM SALES TAXATION, EFFECTIVE JULY 1, 2014, RETAIL SALES OF CERTAIN FOOD FOR HUMAN CONSUMPTION; AND FOR RELATED PURPOSES." without my approval, and assign the following reasons for my veto.

After full consideration, I am vetoing Senate Bill 2310, which proposes to eliminate the sales tax on groceries and increase the tax on cigarettes. Since cities and the state split the revenue generated by the grocery tax, this will be devastating to both the State budget and to towns which depend on those funds to maintain basic functions of government, such as fire and police protection. Despite the initial claims that this proposal is simple and revenue neutral, this bill shortchanges our towns and cities which are already strapped in post-Katrina times and destroys our ability to increase needed funding for education and other priorities in the future.

The bill will result in a \$1.5 billion loss of revenue to the state over nine years (an average loss of nearly \$170 million per year); will cut sales tax revenues to municipalities by \$166 million over nine years; and inevitably lead to lower funding for education and basic services as well as to tax increases, ranging from municipal ad valorem taxes to sales taxes on products other than groceries to higher income taxes.

Not only is Senate Bill 2310 the wrong policy, it is being considered at the wrong time. Just as we had almost gotten back to a balanced budget, Katrina struck, leaving much uncertainty about its impact on tax revenues and future budget needs as South Mississippi is rebuilt. When the state fiscal situation is murky at best, and the state and federal governments are loaning money to local governments to keep them afloat, it is irresponsible to set up a new scheme to change how state and local governments are financed.

From September till December I met with Congress and President Bush to ask them to help Mississippi in our time of desperate need. Senator Cochran, Senator Lott, the Congressional delegation, we all fought to get federal help to recover and rebuild. Congress responded with an additional \$10 billion to help Mississippi get through our crisis.

Now the Legislature has voted to cut our state revenue by \$1.5 billion effectively saying, "We don't need it". The Legislature is wrong, and I wonder what those people who helped us in our hour of desperation will think. They give \$10 billion to help us and we cut our own effort to help ourselves by \$1.5 billion. What kind of shell game must they think we're trying to pull?

The package was rushed through in such haste that there was not enough time for the figures given to the Legislature to be properly researched, and many not only proved to be wrong but were admitted to be wrong during the process. When Legislators voted for this proposal, they were told that cities and towns were protected from a loss of revenue. However, according to the Mississippi Tax Commission, the original estimate of the amount of grocery tax collected in municipalities was incorrect, likely by 20%. Therefore, even the proposed fund set up to reimburse the municipalities is not funded at a high enough level in the legislation. The House's action today simply confirms that.

Correcting that estimate makes the state revenue reduction even worse.

The Tax Commission does not know how much revenue is collected each year from grocery taxes. The estimate is \$345 million for the current fiscal year, but that is nothing more than an educated guess. If that estimate is wrong, all the estimates on the impact on municipalities and the state General Fund are wrong, and the negative impact will likely be more than what was described to Legislators.

For all these reasons, I urge the members to sustain the veto and reject Senate Bill 2310.

Respectfully submitted,

Haley Barbour
Governor