

# PAYCHECK and POLITICS

Amy L. Rossi, Executive Director  
Rhonda Sanders,  
Coordinated Systems Liason

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## Summary

State agencies came to the table in January 2003 with budgets that were already cut by \$362 million. They sought approval for budgets that were higher than the current FY2003, but still lower than the approved budget from the 2001 session. Falling revenues during 2002 and 2003 caused extensive cuts to be made by all state agencies. Approving a budget without any restitution of previous cuts would have resulted in elimination of essential services to the citizens of Arkansas.

When the special session began on May 5, 2003 state agencies had placed requests for \$3.5 billion dollars in FY 2004 and \$3.6 billion dollars in FY 2005 into the budget process. The dilemma faced by legislators was that revenue projections for FY2004 and FY2005 fell far short of that amount.

The shortfall amounts for FY 2004 and FY 2005 are reflected in the table. Legislators were looking to either raise taxes or identify sources of one time money to alleviate the shortfall. Several solutions were pieced together to provide the funds needed for the state budget. Part of the solution was voted on in the regular session and part of it was approved during the special session. The second table reflects how the dollars were raised.

## How the State Budget Was Funded

### Shortfall Amounts Fiscal Years 2004 and 2005

<b>Requested funds FY 2004</b>	<b>\$3,525,966,223</b>
<b>Projected Revenues FY 2004</b>	<b>\$3,376,500,000</b>
<b>Shortfall FY 2004</b>	<b>\$ 149,466,223</b>
<b>Requested funds FY 2005</b>	<b>\$3,623,775,807</b>
<b>Projected Revenues FY 2005</b>	<b>\$3,503,600,000</b>
<b>Shortfall FY 2005</b>	<b>\$ 120,175,807</b>

### Things to note about the revenue schedule

- ▶ The Working Taxpayer Credit was repealed during the regular session by ACT 1724.
- ▶ The Property Tax Relief Fund will be drained after FY2005. It will take several years for it to replenish.
- ▶ The Unclaimed Property Fund will only be available the first year.
- ▶ HB1039 is made up of three taxes
  - An additional 25 cent a pack tax on cigarettes
  - A 7 percent tax on all other tobacco products
  - A 3 percent surcharge on income tax liability for both individuals and corporations (this is not a 3 percent increase in income taxes. It only amounts to about a .21 percent increase in income taxes.)

The new revenues are going to fund Medicaid, prisons, public schools and higher education as these services were the ones slated to be cut if revenues were short. Medicaid will receive approximately 44 percent of the new revenues and prisons, schools and higher education will receive between 13 percent and 15 percent each. The challenge for the next two years is that these services will receive the largest budget cuts if revenues do not come in as projected.

### Schedule of Additional Revenues FY 2004 & 2005

	<b>FY 2004</b>	<b>FY 2005</b>
Working Taxpayer Credit repealed	\$23 million	\$23 million
Property Tax Relief Fund	\$25 million	\$25 million
Unclaimed Property Fund	\$14 million	\$ 0
HB1039 (new taxes)	\$94.7 million	\$106 million
Total revenue raised	\$156.7 million	\$154 million