



Michigan REVENUE REPORT

December revenue collections (November activity) were stronger than expected, but the underlying economic activity continued to be weak, suggesting that the strength is the result of a temporary change in the collection pattern. We expect January collections to be very weak.

Personal income tax withholding collections for December increased 14.5 percent above the year-ago level; however, there were five Fridays (paydays) this November and four in November 1989. Adjusted for this difference, collections were an estimated 7 percent above the 1989 level. This increase overstates the strength in the economy and almost certainly is due to a one-time factor.

Sales and use tax collections increased 3.2 percent in December, despite only a 0.7 percent increase in motor vehicle collections. This increase also appears to overstate the strength of the economy. A better indication is the 1.3 percent increase for the last three months.

Single business tax (SBT) collections increased 19.9 percent in December. However, this is not very significant, as the amount of revenue collected in December is small. Collections for the last three months increased 3.4 percent; however, much of this revenue is accrued back to fiscal year 1989-90. Recent reports of large losses by the motor vehicle manufacturers portend substantial weaknesses in SBT collections in the next few quarters.

Lottery collections continued weak, declining 3.7 percent in November and 2.6 percent in December, the third and fourth consecutive monthly declines.

Table 1. Monthly Tax Collections

Dollars in Thousands

Type of Revenue	Preliminary December 1990	% Change from Last Year	Past 3 Months' Collections	% Change from Last Year	FY 1990-91 Year-to-Date	% Change from Last Year
Personal Income Tax:						
Withholding	\$364,845	7.0% ^a	\$1,039,318	3.2%	\$696,455	5.0% ^a
Quarterly and Annual Payments	28,993	-17.3	49,896	-11.1	34,929	-15.3
Gross Personal Income Tax	393,838	4.8 ^a	1,089,214	2.5	731,384	3.8 ^a
Less: Refunds	-17,378	84.6	-35,845	-5.4	-27,126	54.5
Net Personal Income Tax	376,460	2.7 ^a	1,053,369	2.8	704,258	2.5 ^a
Sales and Use Taxes	259,956	3.2	796,543	1.3	524,794	2.9
Motor Vehicles	36,475	0.7	119,027	-5.3	74,995	2.6
Single Business Tax	75,416	19.9	450,433	3.4	294,679	4.8
Cigarette Tax	21,379	-5.6	65,025	-3.9	44,211	0.1
Public Utility Taxes	55,637	2.4	71,648	79.7	71,648	79.7
Oil and Gas Severance	4,703	28.4	14,420	14.9	9,803	20.8
Lottery ^b	37,862	-2.6	115,743	-4.5	115,743	-4.5
Penalties and Interest	515	NM	13,726	4.5	6,246	-11.5
SUW ^c —Annuals and Undistributed	11,199	-4.7	13,933	31.0	12,495	16.4
Other Taxes ^d	37,580	38.6	90,247	23.8	55,898	20.1
TOTAL TAXES (GF & SAF)^e	\$880,707	4.8%^a	\$2,685,087	3.9%	\$1,839,775	4.7%^a
Motor Fuel Tax ^f	\$50,896	-3.9%	\$167,254	-1.6%	\$108,811	-2.1%

SOURCE: Data supplied by Michigan Department of Treasury.

NM=not meaningful

^aAdjusted to reflect difference in number of Fridays (paydays).

^bThe state share of lottery collections is estimated to be 40.7 percent, based on the average profit to the state for fiscal year 1989-90. The previous year's figures are adjusted to the current year's profit margin; the percentage change reflects the increase in ticket sales.

^cThese revenues are distributed to the sales, use, and withholding (SUW) accounts when final numbers for the month are reconciled.

^dIncludes intangibles, inheritance, foreign insurance premium, corporate organization, and industrial and commercial facilities taxes.

^eExcluded are beer and wine, liquor, and horse racing taxes, which are not collected by the Department of Treasury.

^fThe motor fuel tax is restricted to the Transportation Fund.

Year-End Balance, FY 1989-90 Budget

In its November 14, 1990, report to the Senate Appropriations Committee, the Senate Fiscal Agency (SFA) projected that the FY 1989-90 budget was out of balance by \$373 million. Public Sector Consultants also projected red ink of more than \$300 million. However, in his final financial report to the appropriations committees, budget director Shelby Solomon reported a year-end balance of \$7.8 million. This large change does not indicate that the estimates by the Senate Fiscal Agency and PSC were in error. The change from a large deficit to a small surplus was achieved by a number of actions that would not normally be taken.

The adjustments made to the FY 1989-90 budget are enumerated in Table 2. These total \$473.1 million. Of this amount, however, \$78.2 million were lapses of unexpended appropriations; the SFA had included lapses of \$105.4 million in its estimate. The adjustments also include the booking of \$136.3 million in federal revenue that had not been anticipated. The tax credit accrual of \$101.9 was a creative adjustment that involved treating income tax refunds for taxpayers without a tax liability as an expenditure rather than a revenue item. Also, collections from several taxes, amounting to \$73.7 million, were accrued for the first time (these are payments received in FY 1990-91 that are credited back to FY 1989-90).

The Budget Stabilization Fund transfer previously had been reflected in all estimates. After the preliminary book closing it was discovered that \$25.3 million in single business tax payments were accrued in error. As a result, the FY 1989-90 budget is currently in deficit by \$17.5 million. This could be covered by another adjustment or dealt with in the FY 1990-91 budget. The Engler administration will be reviewing the book closing adjustments, and some changes could be made.

Table 2. Fiscal Adjustments, FY 1989-90 Budget

Management Efficiencies (includes lapses in GF/GP and other funds)		Aggressive pursuit of federal revenues	
Lapses		Matching rate reimbursements	\$86.4
General lapses	\$13.8	U of M hospital/State Building Authority rent reimbursement	22.5
Campaign fund	2.2	Department of Social Services operations reimbursement	18.9
Special election	0.9	Adult worker settlement with federal government	8.5
Community corrections	6.6	Subtotal federal	\$136.3
Youth Corps	3.8		
Michigan Information Technology Network	4.0	Tax credit accrual procedural improvements	\$101.9
Corrections bonus deferral	2.0		
Capital outlay	2.9	Tax collection accrual error corrections/improvements	
State Building Authority rent	28.7	Inheritance tax	\$12.7
Department of Social Services operations	2.3	Industrial facilities tax/Commercial facilities tax	3.7
Hiring freeze	5.0	Intangibles	2.1
Purchasing deferral	4.0	Individual income tax extensions	8.6
Voluntary pay plan	2.0	Individual income tax delinquent quarterlies	9.5
Subtotal lapses	\$78.2	Single business tax delinquent quarterlies	37.1
Transfers from other funds		Subtotal collections	\$73.7
Liquor bailment and other efficiencies	\$28.0		
Lottery excess retained earnings to School Aid Fund	5.8	Budget Stabilization Fund transfer per legislative authorization	\$69.9
Michigan State Industries debt repayment	5.0		
Institutional roads reimbursement	5.0		
Escheats due from probate courts	10.1		
Subtotal transfers	\$53.9		
Other efficiencies			
Wayne County loan restructuring	\$6.0		
State Building Authority interest reimbursement	13.1		
Subtotal other	\$19.1		
Total management efficiencies	\$151.2		

SOURCE : Department of Management and Budget.