



Michigan REVENUE REPORT

January revenue collections (December activity) were very strong, but the good news is likely to be short lived. The Michigan unemployment rate jumped from 7.2 percent in November to 8.7 percent in December and to 10.2 percent in January, which will dampen revenue growth for at least the next few months. Personal income tax withholding collections increased 14.6 percent in January, a much larger gain than justified by economic activity. This large increase likely was due to a temporary change in the collection pattern; collections probably will decline in February as a result.

Sales and use tax collections increased 4.5 percent despite a 0.5 percent decline in motor vehicle related collections. Christmas sales were a little stronger than anticipated, indicating that the stock market crash did not dampen the economy as much as expected. Single business tax collections increased 7.1 percent above the year-ago level, continuing the recent pattern of renewed strength. Lottery sales increased 27.3 percent in December, and January sales will be even stronger due to the record Lotto jackpot.

(over)

Table 1. Monthly Tax Collections

Dollars in Thousands

Type of Revenue	Preliminary January 1988	% Change from Last Year	Past 3 Months Collections	% Change from Last Year	FY 1987-88 Year-to-Date	% Change from Last Year
Personal Income Tax						
Withholding ^a	\$372,965	14.6%	\$966,516	6.3%	\$966,516	6.3%
Quarterly and Annual Payments	100,000	2.6	149,095	0.5	149,095	0.5
Gross Personal Income Tax	472,965	11.8	1,115,611	5.5	1,115,611	5.5
Less: Refunds	-11,912	-55.6	-33,296	-41.9	-33,296	-41.9
Net Personal Income Tax	461,053	16.4	1,082,315	8.2	1,082,315	8.2
Sales and Use Taxes	282,808	4.5	736,363	4.8	736,363	4.8
-Motor Vehicles	34,363	-0.5	99,946	-0.9	99,946	-0.9
Single Business Tax	101,608	7.1	410,968	23.2	410,968	23.2
Cigarette Tax	23,378	10.7	61,989	3.6	61,989	3.6
Public Utility Taxes	0	—	61,236	4.5	61,236	4.5
Oil and Gas Severance	4,294	8.8	12,362	4.6	12,362	4.6
Lottery ^b	38,840	27.3	106,760	4.6	106,760	4.6
Penalties and Interest	194	NM	13,750	86.9	13,750	86.9
SUW—Annuals and Undistributed ^c	5,303	-34.0	3,348	NM	3,348	NM
Other Taxes ^d	20,694	-5.5	54,099	-22.6	54,099	-22.6
TOTAL TAXES (GF & SAF)^e	\$938,172	10.7%	\$2,596,565	10.4%	\$2,596,565	10.4%
Motor Fuel Tax ^f	\$52,344	6.2%	\$165,563	2.6%	\$165,563	2.6%

SOURCE: Data supplied by Michigan Department of Treasury.

NM = Not meaningful

^aWithholding is adjusted to reflect the difference in number of Fridays (paydays) in a month.

^bLottery collections run one month behind other tax collections due to a reporting lag. Therefore, December lottery collections are included in this month's report. The percentage change is calculated on gross sales for the month.

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

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

^eExcluded are beer and wine, liquor, horse racing, and insurance premium taxes, which are not collected by the Department of Treasury. These taxes account for less than 3 percent of GF-GP and SAF revenue and have usually shown little growth in recent years.

^fThe motor fuel tax is restricted to the Transportation Fund

**Revenue Estimates,
FY 1987-88 and FY 1988-89**

The Department of Management and Budget (DMB) is estimating general fund/general purpose (GF/GP) revenue at \$6,529.5 million for FY 1987-88 and \$6,651.0 million for FY 1988-89. The FY 1987-88 estimate is \$65.2 million higher than the governor's executive budget projections of one year ago. The reason is the addition of \$171 million in new revenues (\$131 million in one-time revenues) not anticipated a year ago. These additional revenues offset reduced estimates for sales and single business tax revenues. The FY 1987-88 school aid fund estimate of \$1,984.9 million is \$136.8 million below the executive budget projections made one year ago because the estimates for lottery and sales tax revenue have been reduced approximately \$69 million and \$68 million, respectively.

On an unadjusted basis, FY 1987-88 GF/GP revenue is forecast to increase 4 percent above the previous year. For FY 1988-89, it is forecast to increase 1.9 percent above the FY 1987-88 estimate. However, when adjusted for noneconomic factors such as increased taxes for insurance companies, revenue from federal tax reform, and one-time payments, FY 1987-88 GF/GP revenues are projected to increase 2.3 percent and FY 1988-89 revenues, 3.5 percent.

The FY 1987-88 revenue projections reported by the Senate Fiscal Agency (SFA) in their budget status report of January 22, 1988, are about \$153 million below the DMB estimate. About one-third of this difference is related to a one-time revenue item included by DMB but not by the SFA; the remainder is due to different economic assumptions. The two agencies are in close agreement on the school aid fund estimate. The University of Michigan (U of M) GF/GP revenue estimate is about \$87 million below that of the Senate Fiscal Agency, largely because the U of M is assuming weaker economic growth in 1988. (See Table 2.)

For FY 1988-89 there is closer agreement among the three estimates, although the U of M is much more optimistic about the economy in 1989 than either the DMB or the SFA. While its revenue estimate is only \$20 million above that of the DMB, the U of M projects a higher growth rate than does DMB: 6 percent compared to 3.5 percent. The SFA is assuming about the same growth rate as DMB, but its revenue figure is \$45 million lower due to a lower FY 1987-88 estimate.

Public Sector Consultants believes that the FY 1987-88 GF/GP revenue estimate may be about one percent too high; most of the shortfall will be in single business tax revenues. The shortfall will be larger if one-time revenue gains, such as the anticipated \$49 million payment from Wayne County, are not realized. The FY 1988-89 estimates made by the DMB assume very modest economic growth, but there is a strong likelihood of a recession within the next year. Even a recession of moderate severity would result in a combined GF/GP and school aid fund shortfall of about \$200 million in FY 1988-89.

**Table 2. General Fund/General Purpose and School Aid Fund Estimates
Fiscal Years 1986-87, 1987-88, and 1988-89
(dollars in millions)**

	FY 1986-87		FY 1987-88		FY 1988-89	
	GF/GP	SAF	GF/GP	SAF	GF/GP	SAF
Management and Budget	\$6,158.0 ^a	\$2,026.2 ^a	\$6,529.5	\$1,984.9	\$6,651.0	\$2,078.7
Senate Fiscal Agency	6,147.8 ^b	1,983.9 ^b	6,376.8	1,982.4	6,606.2	2,089.6
University of Michigan	NA	NA	6,290.0	NA	6,671.0	NA
Actual Collections	6,275.3	1,935.4	—	—	—	—

^aEstimate in FY 1987-88 executive budget, issued January 1987.

^bEstimate presented in *Budget Status Report*, issued January 22, 1987.