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Public Sector Reports

Michigan ECONOMIC BULLETIN

The Good News

➤ Despite a lackluster performance in the first ten days, January **auto sales** hit their highest mark since December 1990. Domestically produced cars sold at an annual rate of 7.6 million units compared to 6.5 million units in the year-ago period; the month's **truck sales** stood at 4.8 million units, up from last year's 3.7 million. Overall, sales were up 9.7 percent from the January 1992 level.

➤ Sales gains by Chrysler and Ford, coupled with the drop off in sales of the Honda Accord, allowed the Big Three to post **market share** gains in January. Chrysler increased its share of total vehicle sales to 10.7 percent (from 8.5 percent last January), and Ford's share rose to 23.5 percent (from 21 percent last year). The Japanese portion declined to 27 percent from 30 percent in the year-ago period. Despite GM's decline in market share (from 35.3 percent to 33 percent), the Big Three held 67.2 percent of the U.S. market, up from 64.8 percent in 1992.

➤ In early February the U.S. Census Bureau reported that **durable goods** orders rose $11.2 billion (9.1 percent) in December to $134.5 billion, the largest gain since July 1991. This follows a 1.6 percent decrease in November and a 4.6 percent increase in October.

➤ According to the preliminary estimate, the fourth-quarter real **gross domestic product** rose at an annual rate of 3.8 percent. Consumption spending and investment made positive contributions to the year-end quarter, while net exports, government spending, and business inventories were negative contributors.

➤ Led by advances of nine of its eleven components, the preliminary estimate of December's **index of leading indicators**—designed to foretell the state of the economy in the coming six months—rose by 1.9 percent to 153 (1982=100) following revised gains of 0.5 percent in October and 0.7 percent in November.

➤ In 1992 **personal income** increased 4.7 percent nationally, compared with an increase of 3.5 percent in 1991; the national savings rate was 4.8 percent, up from the 1991 figure of 4.7 percent.

➤ **Sales of new single-family homes** rose to 656,000 (seasonally adjusted annual rate) in December, up 6.7 percent from the revised November figure and 13.5 percent higher than the level posted in December 1991.

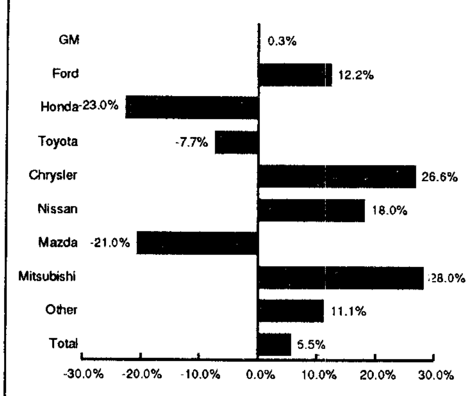
The Bad News

➤ The Congressional Budget Office reports that, despite the recovery, economic growth will be insufficient to reduce the **national budget deficit**, which, under current budget policies, they estimate will total $310 billion in 1993, $357 billion by 1998, and $650 billion in 2003.

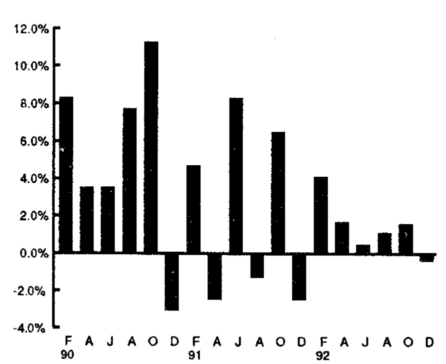
IN THIS ISSUE

MICHIGAN ECONOMIC INDICATORS

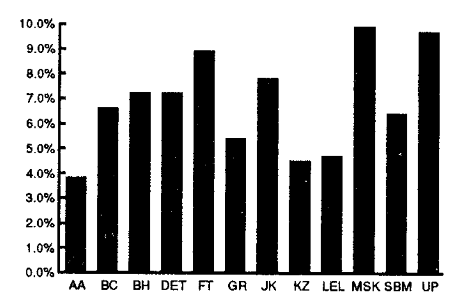
January Sales of Cars and Light Trucks (percentage change from last year)



Detroit–Ann Arbor CPI, Percentage Change from Two-Month Ago Period



Unemployment Rates in Major Michigan Labor Markets, December 1992



AA: Ann Arbor; BC: Battle Creek; BH: Benton Harbor; DET: Detroit; FT: Flint; GR: Grand Rapids; JK: Jackson; KZ: Kalamazoo; LEL: Lansing/East Lansing; MSK: Muskegon; SBM: Saginaw/Bay City/Midland; UP: Upper Peninsula

SOURCE: *Automotive News*, Bureau of Labor Statistics, and Michigan Employment Security Commission.

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Many States Avert Tax Hikes in FY 1993

EXHIBIT 1

FY 1993 Tax Changes as a Percentage of 1991 Tax Collections

State	Net Tax Change (millions)	Percent of 1991 Selected States Tax Collections
New England		+
Connecticut	$37.0	0.7%
Massachusetts	-211.5	-2.2
Rhode Island	50.2	4.0
Vermont	6.1	0.9
Middle Atlantic		
Delaware	-2.0	-0.2
District of Columbia	28.3	1.2
Maryland	393.5	6.1
New Jersey	-609.0	-5.2
New York	1,427.0	5.0
Pennsylvania	-459.6	-3.5
Great Lakes		
Illinois	332.0	2.5
Indiana	80.0	1.3
Michigan	-30.0	-0.3
Ohio	55.8	0.5
Wisconsin	29.5	0.4
Plains		
Iowa	257.5	7.5
Kansas	352.6	12.6
Minnesota	142.5	2.0
Missouri	137.0	2.7
Nebraska	7.5	0.4
North Dakota	-0.4	-0.1
Southeast		
Alabama	121.9	3.1
Florida	405.3	2.9
Georgia	-28.0	-0.4
Kentucky	23.6	0.5
Louisiana	465.0	10.8
Mississippi	166.0	6.7
South Carolina	7.0	0.2
Tennessee	529.3	12.3
Virginia	10.7	0.2
West Virginia	115.3	5.0
Southwest		
Arizona	-14.5	-0.3
New Mexico	-2.2	-0.1
Rocky Mountain		+
Colorado	56.5	1.8
Idaho	2.9	0.2
Montana	41.3	5.1
Wyoming	-0.4	-0.1
Far West		+
Washington	-2.3	*
National total	3,921.4	1.3%

SOURCE: NCSL survey of legislative fiscal officers, July 1992, for FY 1993 tax changes; U.S. Census Bureau, *State Tax Collections in 1991* for 1991 tax collections. Reprinted from *State Tax Notes*, November 16, 1992, p. 722.

NOTE: *Net tax change* is projected for FY 1993 resulting from 1992 enactments.

*Less than one-tenth of one percent.

State Tax Notes (November 16, 1992) recently examined changes in tax collections in all 50 states. Exhibit 1 shows net changes in FY 1993 tax collections by state. (States not included in this exhibit had no change.) Twenty-seven states had net tax increases, 10 states enacted decreases, and 13 states had no change. Changes ranged from a 12.6 percent increase in Kansas to a 5.2 percent decrease in New Jersey. Of the ten states with declines, Michigan had the fifth largest (0.3 percent). Nationwide, increases in net tax collections totaled about $3.9 billion in FY 1993, or 1.3 percent of total collections. This is greater than the 1992 increase of 0.3 percent but considerably less than that of 1991 (4.8 percent) and 1990 (3 percent).

Exhibit 2 shows tax increases for the nation as a whole by type of tax. Nationwide, net increases in tax collections (tax increases minus tax decreases) from health care-related taxes, sales and use taxes, and motor fuel taxes were the highest. For the most part, states imposed health care taxes to gain more federal Medicaid matching funds. The large increase was caused by enactment of a new federal law limiting state's ability to extract voluntary contributions from hospitals or levy limited provider taxes in order to obtain more federal Medicaid funds.

Of the major taxes, the largest increase was for sales and use taxes. Four states increased their tax rates, and four states plus the District of Columbia expanded the base of the tax. Significant expansions occurred in Maryland, Iowa, and Kansas; the latter two also raised the rates. Collections from rooms and meals, alcoholic beverages, and cigarettes increased by the smallest amount.

EXHIBIT 2

FY 1993 Net State Tax Increases, by Type of Tax

Tax	Net Amount (millions)
Personal Income	$340.4
Corporation income	296.3
Sales and use	531.8
Motor fuel/motor vehicle excise	458.5
Cigarette and tabacco	141.6
Alcoholic beverage	4.6
Waste and environmental	99.5
Rooms and meals	0.4
Health care-related	1,783.0
Miscellaneous	265.3
Net increase	$3,921.4

SOURCE: NCSL survey of legislative fiscal officers, July 1992. Reproduced from *State Tax Notes*, November 16, 1992, p. 722.

Senate and House Activity; Property Tax Proposals

Once in session, both the Senate and the House hit the ground running, introducing 139 and 127 bills, respectively, during their first working days. The legislation that will be considered this session include the bills discussed below.

Senate Activity: Labor Law

A package of Senate bills (SBs 91–95) would repeal the Michigan Occupational Safety Health Act (MIOSHA), the state's counterpart to federal OSHA laws, and the prevailing wage act (requiring workers employed in construction of state buildings to be paid a minimum rate based on wages within given regions); limit to 5 percent employers' contributions to the unemployment benefit fund; and eliminate the indexing and proration of unemployment benefits to the rate of inflation. One bill in the package serves somewhat as a counterbalance; it would prevent employers from hiring strikebreakers.

Other labor bills include SB 113, which would allow Michigan to become a right-to-work state and prohibit the deduction of union dues, fees, or assessments from paychecks without employees' written consent, and SBs 120 and 121 (tie-barred to SB 113), which would prohibit private sector, closed-shop agreements and expunge current law allowing contracts that require nonunion employees to pay service fees to the bargaining representative. SB 2 would decrease benefit levels and limit accessibility to unemployment assistance.

House Activity: A Mixed Bag

Bills introduced in the House include those that would increase allowable deductions against intangible tax liability (HB 4004), extend the use tax to mail order sales (HB 4084), reduce the assessment ratio on property from 50 to 45 percent of state equalized value (HB 4087), and establish a permanent point system for determining retirement eligibility of state employees (HB 4100).

In the education arena, House joint resolutions (HJRs) A and C would expand equal funding and access to K-12 education, HJR B would limit annual tuition increases at higher education institutions to the rate of inflation, and HB 4083 would establish a college savings bond program.

Finally, if enacted, HBs 4020–4022 would allow all forms of insurance to be sold by financial institutions.

Property Tax Proposals

Property tax reduction is still a hot topic. Several plans were announced, including those of the Michigan Education Association (MEA) and Governor Engler.

➤ *MEA Plan* The state's largest teachers' union has proposed to cap the millage rate on property taxes for school operating purposes at 30 mills (to be phased in over five years), with any lost local revenues to be funded by the state with an as yet unspecified tax increase. The plan also proposes to reorganize the state's current 563 K-12 school districts to form 14 regional administrative units and make social services available through local schools. The proposal could be implemented by an act of the legislature, which the MEA feels is the proper course of action.

The MEA estimates that it would cost the state an additional $1 billion to bring funding of 13 of the newly defined districts up to 90 percent of the level of local support in the remaining district, which would contain Oakland County. The plan does not propose to eliminate local school boards, but most of their administrative functions would be taken over by the regional districts.

➤ *Governor Engler's Plan* The governor's proposal calls for a 20 percent cut over three years in property assessments applying to taxes for school operating purposes (reducing SEV to 45 percent of market value in the first year, 42.5 percent in the second, and 40 percent in the third) and, in ensuing years, limiting statewide average assessments to the average inflation rate in Michigan.

In addition, taxes would be based on assessments made more than a year before taxes fall due. Under current law, tax payments, for 1993 are based on assessments made in December 1992; under the governor's proposal, taxes would be based on assessments made in December 1991. This would effectively freeze assessments in the first year of the plan's implementation (1994). The rationale for this feature is that it would allow taxpayers a year to appeal assessment increases before the tax payment on those increases falls due.

The rise in tax assessments will not necessarily increase tax payments as the Headlee amendment provides for automatic millage rollbacks if average assessments in a district rise by more than inflation during the year. The Department of Treasury has estimated that if one-third of all districts experiencing assessment gains were to override such rollbacks, property taxes would be reduced by $346 million under the governor's plan.

Michigan Revenue Report

The Christmas spending binge contributed to improved sales tax collections in January (December activity), but total collections were not as strong as expected.

Sales and use tax collections jumped 9.6 percent, led by a 25.3 percent gain in motor vehicle collections, the largest monthly increase in years. Without motor vehicles, sales tax collections increased 7.7 percent and use tax collections gained 9.3 percent.

January personal income tax collections (December and January activity) increased 14.3 percent. Adjusted for extra paydays this year, however, the increase was only 3.4 percent.

Single business tax collections jumped 19 percent due to a sharp decline in refunds. Last year, refunds were inflated as some from previous years were processed and a large share was credited to FY 1990–91. Adjusted for noneconomic factors, collections declined 22.3 percent below the year-ago month.

After several strong months, lottery sales (preliminary) declined 2.8 percent from the year-ago level.

Total collections increased 10.6 percent, but adjusted for the special factors affecting the income and single business taxes, the increase was only 1.7 percent.

MONTHLY TAX COLLECTIONS (dollars in thousands)

Type of Revenue	Preliminary January 1993	% Change from Last Year	Past 3 Months' Collections	% Change from Last Year	FY 1992–93 Year-to-Date	% Change from Last Year
Personal Income Tax						
Withholding	$482,488	14.3%	$1,280,180	9.7%	$1,280,180	9.7%
Quarterly and Annual Payments	113,710	4.6	157,002	8.9	157,002	8.9
Gross Personal Income Tax	596,198	12.3	1,437,182	9.6	1,437,182	9.6
Less: Refunds	–10,332	–57.8	–40,440	–28.2	–40,440	–28.2
Net Personal Income Tax	585,866	15.7	1,396,738	11.3	1,396,738	11.3
Sales and Use Taxes	335,640	9.6	875,450	6.6	875,450	6.6
Motor Vehicles	36,736	25.3	110,578	12.9	110,578	12.9
Single Business Tax	103,269	19.0	412,195	14.1	412,195	14.1
Cigarette Tax	22,232	8.3	62,956	–0.9	62,956	–0.9
Public Utility Taxes	0	0.0	72,887	NM	72,887	0.6
Oil and Gas Severance	3,520	1.1	9,901	–11.6	9,901	–11.6
Lottery[a]	39,921	0.0	126,156	0.0	169,214	0.0
Penalties and Interest	1,911	157.9	25,554	78.5	25,554	78.5
SUW—Annuals and Undistributed[b]	–3,013	–133.7	–3,050	–130.7	–3,050	–130.7
Other Taxes[c]	38,602	–15.3	56,003	–42.7	56,003	–42.7
TOTAL TAXES (GF & SAF)[d]	$1,127,948	10.6%	$3,034,790	7.4%	$3,077,848	7.4%
Motor Fuel Tax[e]	$58,202	0.6%	$119,610	–30.8%	$119,610	–30.8%

SOURCE: Data supplied by Michigan Department of Treasury.
NM = Not meaningful
[a]The state share of lottery sales is 40 percent (FY 1992).
The previous year's figures are adjusted to the current year's profit margin; the percentage change reflects the change in ticket sales.
[b]These revenues are distributed to the sales, use, and withholding (SUW) accounts when final numbers for the month are reconciled.
[c]Includes intangibles, inheritance, foreign insurance premium, corporate organization, and industrial and commercial facilities taxes.
[d]Excluded are beer and wine, liquor, and horse racing taxes.
[e]The motor fuel tax is restricted to the Transportation Fund.