



Revenue collections slowed modestly in February (January activity) but were still strong. Personal income tax withholding increased 4 percent above the year-ago level, adjusted for one less payday (Friday) in January 1989 than in January 1988.

Sales and use tax collections increased 6 percent above the February level, sparked by a 22.6 percent increase in motor vehicle collections. One possible indicator of future weakness is that, excluding motor vehicles, sales increased only 3.1 percent, and motor vehicle sales have slowed markedly in recent weeks.

Single business tax collections increased 21.4 percent in February, continuing the recent trend. The quarterly payment due in January was much stronger than expected. Unless collections slow sharply in the next few months, revenues for FY 1988-89 are likely to exceed the 2.5 percent increase currently projected by the Department of Management and Budget.

January 1989 lottery collections fell 28.9 percent from the year-ago level, as January 1988 sales were inflated by a huge Lotto jackpot. Preliminary data for February indicate that month's sales declined about 12.5 percent. Year-to-date sales are and likely will remain below the year-ago level until there is another exceptionally large Lotto jackpot.

(over)

Table 1. Monthly Tax Collections

Dollars in Thousands

Type of Revenue	Preliminary February 1989	% Change from Last Year	Past 3 Months' Collections	% Change from Last Year	FY 1988-89 Year-to-Date	% Change from Last Year
Personal Income Tax						
Withholding	\$311,979	4.0% ^a	\$1,054,051	8.2%	\$1,363,031	7.3% ^a
Quarterly and Annual Payments	8,882	-30.6	162,355	3.6	167,483	2.1
Gross Personal Income Tax	320,861	2.6 ^a	1,216,406	7.6	1,530,515	6.7 ^a
Less: Refunds	-107,185	-18.4	-137,984	-11.6	-142,856	-13.3
Net Personal Income Tax	213,676	16.2 ^a	1,078,422	10.7	1,387,659	9.3 ^a
Sales and Use Taxes	220,367	6.0	770,286	9.6		
-Motor Vehicles	37,675	22.6	109,706	13.6	144,661	10.7
Single Business Tax	243,866	21.4	457,040	21.1	712,315	16.0
Cigarette Tax ^b	19,659	32.2	64,129	9.5	88,851	12.9
Public Utility Taxes	0	--	49,193	2.4	64,647	5.6
Oil and Gas Severance	2,021	-52.9	9,110	-19.9	11,772	-22.9
Lottery ^c	36,926	-28.9	114,231	-3.9	152,374	-0.3
Penalties and Interest	354	NM	10,538	-12.6	13,698	-26.1
SUW—Annuals and Undistributed ^d	7,817	132.9	10,078	35.7	9,921	88.6
Other Taxes ^e	13,795	16.7	59,288	10.9	90,860	37.7
TOTAL TAXES (GF & SAF) ^f	\$758,481	12.0% ^a	\$2,622,315	10.9%	\$3,539,586	9.8% ^a
Motor Fuel Tax ^g	\$50,042	4.5%	\$163,822	6.1%	\$218,225	1.8%

SOURCE: Data supplied by Michigan Department of Treasury.

NM = Not meaningful

^aWithholding is adjusted to reflect difference in number of Fridays (paydays) in a month.^bAdjusted for the 4-cent increase on January 1, 1988, the percentage changes are: February, 11.1 percent; past three months, -8.0 percent; year-to-date, -5.2 percent. The large increase in February is due to the falloff in sales one year ago after advance buying in December 1987 to beat the tax increase.^cLottery collections run one month behind other tax collections due to a reporting lag. Therefore, January lottery collections are included in this month's report. The figure reported here is the state's estimated profit, not total sales. The state share of lottery collections is estimated to be 38.8 percent, based on the average profit to the state for the fiscal year period ending October 31, 1988. The previous year's figures are adjusted to the current year's profit margin; the percentage change reflects the increase in ticket sales.^dThese revenues are distributed to the sales, use, and withholding (SUW) accounts when final numbers for the month are reconciled.^eIncludes intangibles, inheritance, corporate organization, and industrial and commercial facilities taxes.^fExcluded 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 and SAF revenue and usually have shown little growth in recent years.^gThe motor fuel tax is restricted to the Transportation Fund.

**Revenue Estimates,
FY 1988-89 and FY 1989-90**

The Department of Management and Budget (DMB) is estimating general fund/general purpose (GF/GP) revenue at \$6,817.4 million for FY 1988-89 and \$6,992.0 million for FY 1989-90. The FY 1988-89 estimate is \$166.4 million higher than the executive budget projections made one year ago. The main reason for the upward revision is that FY 1987-88 revenues exceeded the projection made last January by \$161.9 million. The estimates for personal income and single business taxes were increased by a total of \$303 million. This was offset partially by a downward revision of about \$117 million in revenue from insurance premiums and nontax revenue.

The school aid fund (SAF) is estimated at \$2,124.5 million for FY 1988-89 and \$2,230 million for FY 1989-90. The SAF estimate for FY 1988-89 is \$45 million higher than the estimate made by the DMB one year ago. The upward revision is due mainly to higher sales tax and lottery collections in FY 1987-88 than originally projected.

On an unadjusted basis, FY 1988-89 GF/GP revenue is forecast to increase 1.9 percent above the FY 1987-88 level. The projected increase for FY 1989-90 is 2.6 percent. When adjusted for noneconomic factors such as tax policy changes and one-time revenues, however, FY 1988-89 GF/GP revenues are projected to increase 4.7 percent and FY 1989-90 revenues, 3.3 percent.

The FY 1988-89 GF/GP and SAF revenue projections reported by the Senate Fiscal Agency (SFA) in their budget status report of February 1, 1989, are about \$116 million above the DMB estimate. The major differences are in the income tax and lottery estimates. The University of Michigan (U of M) GF/GP revenue estimate is almost exactly the same as the SFA's. (The U of M does not forecast SAF revenues.) (See Table 2.)

The estimates for FY 1989-90 diverge a little more. The SFA combined estimate of GF/GP and SAF revenue is \$153.4 higher than the DMB estimate (\$103.3 million GF/GP and \$50.1 million SAF). The U of M's GF/GP revenue forecast for FY 1989-90 is about \$97 million higher than the SFA projection and \$200 million higher than that of the DMB. The U of M's economic forecast does not differ significantly from the DMB (or SFA) forecast. Unlike the DMB, however, the U of M is estimating significantly higher personal income tax withholding collections and significantly lower income tax refunds, due apparently to differing assumptions about the effect on revenue of tax policy changes.

Public Sector Consultants believes that the DMB's GF/GP estimate for FY 1988-89 is about \$75 million to \$100 million low, due to underestimates of income and single business tax revenues. The SAF estimate appears accurate. Our GF/GP estimate for FY 1989-90 is about \$100-125 million higher than that of the DMB but there is little difference in our SAF estimate. The FY 1989-90 estimate assumes that the current economic recovery will continue through mid-1990. We do not expect a recession in 1989 or 1990 but are becoming a little apprehensive about 1990 due to the recent surge in inflation and the Federal Reserve Board's tight money response.

**Table 2. General Fund/General Purpose and School Aid Fund Estimates
Fiscal Years 1987-88, 1988-89, and 1989-90**

	FY 1987-88		FY 1988-89		FY 1989-90	
	GF/GP	SAF	GF/GP	SAF	GF/GP	SAF
Management and Budget	\$6,329.5 ^a	\$1,985.7	\$6,817.4	\$2,124.5	\$6,992.0	\$2,230.0
Senate Fiscal Agency	6,376.8 ^b	1,982.4 ^b	6,863.5	2,194.0	7,095.3	2,280.1
University of Michigan	6,428.0 ^c	NA	6,860.0	NA	7,192.0	NA
Actual collections	\$6,691.4	\$2,084.2	--	--	--	--

^aEstimate in *The State of Michigan Executive Budget, 1988-89 Fiscal Year*, issued January 1988.

^bEstimate presented in *Budget Status Report*, issued January 22, 1988.

^cEstimate released March 17, 1988.