

## GOOD news

### Durable goods orders

rose 4.0 percent in January (from December) after falling 1.8 percent in December and 1.7 percent in November, indicating renewed growth in the manufacturing industry. Orders for durable goods (big-ticket items such as appliances and automobiles) were led by those for computers and cars. Excluding the volatile orders for aircraft and other transportation items, big-ticket item orders rose 3.6 percent in January.

◆ The **U.S. unemployment rate** fell to 5.3 percent in February from 5.4 percent in January. February job growth was the strongest since last May, with 339,000 new jobs added to the economy. Much of the growth is explained by improved weather, which boosted construction hiring; the construction industry added 109,000 of the new jobs. The service sector also enjoyed healthy growth, adding 80,000 new positions.

◆ The U.S. Department of Commerce recently announced that **housing starts**, a primary measure of growth in the national housing industry, rose at a seasonally adjusted annual rate of 1,528,000 in February. This is 12 percent above the revised January rate of 1,362,000 and 1 percent above the February 1996 rate of 1,520,000. The increase, which followed a 10 percent decline in January, is due largely to improved weather.

◆ The Conference Board announced that the **index of leading economic indicators**, designed to foretell the state of the economy in the coming six months, rose 0.3 percent in January after a 0.1 percent increase in December. The increase indicates that moderate economic expansion will continue in the coming months, supporting the current view of most economists.

## BAD news

### February light vehicle

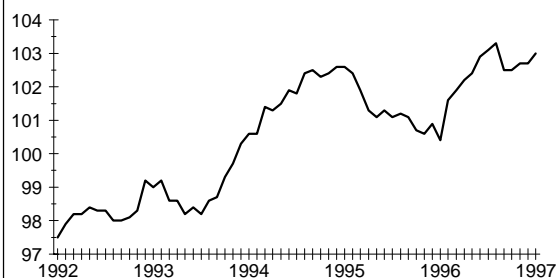
**sales** fell 4.8 percent from the year-ago level after rising 6.3 percent in January.

The drop is largely explained by the fact that last February's sales were the strongest of the entire year, making this year's sales

seem lackluster. On a seasonally adjusted annual basis, sales were a solid 15.4 million units, up from about 15 million units in January. Both car and truck sales declined; car sales were off 6.1 percent and truck sales fell 3.1 percent. Japan continued to increase its market share, capturing 23 percent of the market, up from 20.7 percent last February.

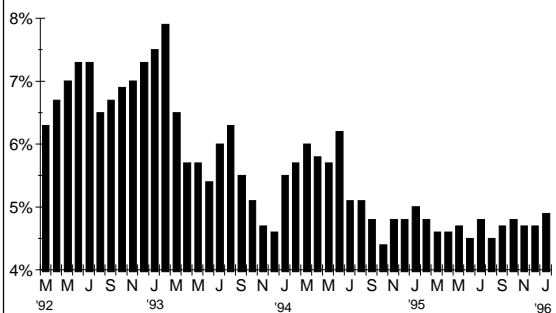
◆ The **Michigan unemployment rate** rose in January to 4.9 percent from 4.8 percent in December. The rise was due, however, to an increase in the labor force; the number of jobs actually increased by 42,000 in January. January's rate also was lower than the national rate of 5.4 percent and better than the January 1996 rate of 5.0 percent.

### Index of Leading Economic Indicators



SOURCE: The Conference Board.

### Michigan Monthly Unemployment Rates (seasonally adjusted)



SOURCE: Michigan Employment Security Commission.

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**SPECIAL INSERT: ECONOMIC FORECAST**



## MONTHLY FOCUS

### COPING WITH THE TUITION CRUNCH

A recent edition of State Policy Reports explored state efforts to make college more affordable.<sup>1</sup> As the exhibit indicates, state appropriations for higher education have been rising—an average of 9 percent nationwide between FY 1995 and FY 1997. The article points out that, in response to these rising costs, state and federal governments are trying new ways to make a college education more affordable, including those described below.

#### Prepaid Tuition Plans

Many states are expected to pass prepaid tuition plans in the coming year. (Michigan already has one such plan, the Michigan Education Trust or “MET” plan.) While there are many possible variations of these plans, they usually entail allowing parents to invest a lump sum of money when a child is born in return for the child receiving four years of public university education when s/he is grown. States then invest this money until the child is ready to enter college. These programs have a couple of shortcomings: (1) It is very difficult to predict future tuition costs and, therefore, how much to invest; and (2) the plans do little to make a college education affordable for children in low-income families.

<sup>1</sup>State Policy Research, *State Policy Reports* (Columbus, Ohio: SPR), Vol. 14, Issue 23, December 1996.

#### Loan Forgiveness Programs

These small state and federal programs offer financial aid (loans or scholarships) that does not have to be paid back if recipients perform some predetermined community service. The lack of popularity of these programs likely is due to the costs to state and federal governments of providing loans that, in some cases, will not be repaid.

#### Tax Credits and Deductions

President Clinton’s budget proposal recommends a plan in which taxpayers can take a 100 percent credit of up to \$1,500 against federal income taxes. Some states are considering or have passed similar policies to give tax relief for tuition payments. Michigan has a state college tuition tax credit, which may be raised from \$250 to \$500 per student this spring. Massachusetts also has enacted a deduction for undergraduate tuition that is based on a ratio of the amount of tuition paid to the income of the payer, benefiting low-income students.

#### The Georgia HOPE Plan

The Georgia HOPE plan uses state lottery funds to pay the tuition of 100,000 college and university students. Only those students who have graduated from high school with a B average or higher are eligible to receive the credit, and students must maintain this grade average throughout college. The limited use of lottery funds to finance higher education may be due in part to concerns that this approach will not raise sufficient revenue.

#### Conclusion

In recent years, higher education has taken a fiscal backseat to prisons and other budgetary concerns, and we see no compelling signs that this will change in the near future. None of the above plans directly seeks to lower the cost of tuition. While such programs are valuable in that they help make tuition more affordable for some students and their families, the fact is that as long as tuition continues to soar, financing a college education will remain a struggle for most American families.

### Selected Higher Education Finance Statistics, Great Lakes States

	Percentage Change in State Appropriations FY 1995 to FY 1997	U.S. Rank	Average Tuition and Fees at Public Universities	U.S. Rank
Illinois	12%	11	\$3,352	31
Indiana	12	12	3,037	35
<b>Michigan</b>	<b>9</b>	<b>24</b>	<b>3,895</b>	<b>24</b>
Ohio	12	13	3,603	28
Wisconsin	-1	46	2,614	41
Great Lakes Average	6	NA	3,300	NA
U.S.	9	NA	2,848	NA

NA = Not applicable.

SOURCE: *State Policy Reports*, December 1996.





## NEWS FROM THE STATE CAPITOL

### TAX CUT PACKAGE PASSES HOUSE

The Michigan House passed a package of bills to provide \$141 million in tax relief for low- and middle-income families. One bill (HB 4180) provides a \$5,000 tax credit to working parents who earn less than \$100,000 for employment-related child-care expenses. Another (HB 4189) creates a state version of the federal earned-income tax credit. Those eligible for the federal credit—about 550,000 Michigan taxpayers—will receive a state credit equal to 10 percent of the federal credit.

HB 4214 provides a tax credit to taxpayers who rent their home. The credit will be a percentage of the annual rent paid: 3 percent in 1997, 4 percent in 1998, 6 per-

cent in 1999, 8 percent in 2000, and 10 percent thereafter. HB 4042 permits low-income senior citizens to defer property taxes.

These bills face an uncertain future in the legislature. The Democrat-sponsored bills passed the House with relative ease but may face more opposition in the Senate.

### MINIMUM WAGE INCREASES

After months of debate, the legislature agreed to raise the state's minimum wage for the first time in 16 years. HB 4177 and SB 1, both signed by the governor, will raise the minimum wage from \$3.35 per hour to \$4.75 per hour on May 1 and to \$5.15 on September 1. Beginning this fall, workers who receive tips will make \$2.65 an hour, up from \$2.52, as long as their base pay and tips add up to at least the minimum wage. The law allows employers to pay a reduced wage of \$4.25 to youth trainees for the first 90 days they are employed.

The higher wage, initiated in part to make the state's minimum wage consistent with the new federal wage, will affect 100,000 Michigan workers.

### TOBACCO STAMP BILL STALLS

In an attempt to quell tobacco smuggling, the House Tax Policy Committee Wednesday reported out SB 101 to the full chamber. The bill requires cigarette wholesalers to affix tobacco stamps to all cigarette packages in the hope of curtailing smuggling, estimated to have cost the state school aid fund between \$20 million and \$140 million. The measure was debated on the floor, then returned to the House committee Thursday when eleventh-hour changes were suggested by the governor. The changes involve having packages tax-stamped at the point of manufacture instead of by Michigan wholesalers and appropriating less money for wholesaler tax-collecting administrative costs.

The Economic Bulletin is written by Robert J. Kleine and Laurie A. Cummings.

PUBLIC  
SECTOR  
CONSULTANTS  
OF  
INTEREST

**Citizens Research Council of Michigan. *Ad Valorem Special Assessments in Michigan* (Farmington Hills, MI: CRC). January 1997. 810/474-0044.**

This 22-page report examines special property tax assessments, the purpose of which is to finance special projects, such as the construction and maintenance of streets, sewers, and lighting. It describes the differences between special assessments and general property taxes, discusses the constitutional and statutory restrictions on special assessments, and points out that special assessments are not subject to the assessment cap created under Proposal A. It also discusses some of the problems and abuses of special assessments and some potential remedies.

**Joint Legislative Work Group on Program Performance Assessment. *Program Performance Assessment* (Lansing, MI). February 1997. 517/373-2768 or 517/373-8080.**

This 92-page report is the outcome of language in a FY 1996–97 appropriations act that required a joint House-Senate effort to set assessment requirements for the Michigan departments of Agriculture, Corrections, Environmental Quality, Natural Resources, and Transportation, as well as General Government and the Judiciary. The report discusses funding, employment, objectives, measures of demand, work loads, and outcomes for selected programs in each of these areas. The report's purpose is to facilitate legislative oversight of state government agencies, document the results of government spending, and increase accountability.



# MICHIGAN REVENUE REPORT

State revenue collections continued strong in February—collections of the 11 major taxes covered in this report increased 7.7 percent. For the first four months of FY 1996–97, collections are up 6.4 percent, about 2 percentage points above the estimate for the

fiscal year. If the current growth rate continues for the remainder of the fiscal year, collections will exceed the consensus revenue estimate by about \$300 million. Although we expect revenue growth to slow in the second half of the fiscal year, revenues are still likely to exceed the consensus estimate.

Results for the major revenue sources were mixed in February. Income tax withholding collections jumped 12.8 percent, use tax collections rose 13.5 percent, and SBT (and insurance) collec-

tions were up 7.2 percent. Sales tax collections, however, increased only 1.4 percent due in part to a 9.1 percent decline in motor vehicle collections. All other collections rose a modest 3.3 percent.

Lottery sales continued strong, increasing 9.8 percent above the year-ago level. Year-to-date collections are up 12.2 percent and March collections also are expected to be strong due to the largest Lotto jackpot in several years.

## February 1997 Revenue Collections (millions)

Source	February Collections	% Change Year-ago	% Change Year-to-date	February 1996 Actual	FY 1996–97 Consensus Est. Less Tax Cuts (% Change)
Income tax					
Withholding	\$471.6	12.7%	7.8%	\$418.4	5.8%
Quarterly	3.4	30.8	6.6	2.6	5.7
Annual	6.4	-14.7	-31.2	7.5	9.5
Subtotal: gross income tax	481.4	12.3	7.1	428.5	6.0
Sales tax	372.7	1.4	5.3	367.6	4.5
Motor vehicles	52.1	-9.1	-0.5	57.3	—
Other	320.6	3.3	6.2	310.3	—
Use tax	83.9	13.5	10.7	73.9	1.6
Subtotal: sales/use/withholding	928.2	8.0	7.0	859.7	—
Cigarette tax	41.4	-10.4	-5.8	46.2	-2.5
SBT	221.6	7.1	3.5	207.0	6.2
Insurance	24.9	8.3	-10.9	23.0	0.2
Subtotal: SBT + insurance	246.5	7.2	0.4	230.0	5.6
State education property tax	189.1	11.5	23.8	169.6	3.6
Real estate transfer tax	14.6	24.8	24.9	11.7	-0.7
Estate/inheritance tax	3.5	12.9	7.4	3.1	0.3
Intangibles tax	1.1	-42.1	-48.1	1.9	-18.1
Severance tax	3.4	13.3	41.2	3.0	4.1
TOTAL	\$1,437.6	7.7%	6.4%	\$1,335.3	4.5%
Gross lottery sales (prel.)	\$121.6	9.8%	12.2%	\$110.7	1.0%

SOURCE: Senate Fiscal Agency.

NOTE: November is the first month of the new fiscal year for all revenue sources except the lottery.