Gerald Faverman, Ph.D. • *Chairman of the Board*
Robert J. Kleine and Frances Spring • *Editors*
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Public Sector Reports

Michigan ECONOMIC BULLETIN

The Good News

➤ The **U.S. merchandise trade deficit** declined to its lowest mark in nine years in February, to a seasonally adjusted $3.38 billion from January's mark of $5.95 billion. Exports—which during the first two months of the year were 8.1 percent above the level for the same period last year—rose by 6.8 percent, led by sales of aircraft (up 30.3 percent) and autos (12.8 percent higher).

➤ The industrial sector continues to exhibit signs, albeit meager, of increased activity: **Factory goods orders** and **industrial production** both experienced their second consecutive monthly rise. Orders posted a slight gain in February (0.5 percent), with the revised figure showing orders for durable goods up 1.4 percent. Production was up a slight 0.2 percent in March, led by gains in output of consumer goods (4.1 percent) and nondurable manufacturing goods (3.7 percent).

➤ **Personal income** rose a healthy 1.1 percent in February, to $4,972.4 billion. After adjusting for inflation, after-tax income rose 0.7 percent.

➤ **Consumer spending** rose 0.6 percent in February, indicating that buyers could be less apprehensive about the economy.

➤ **Residential housing permits** authorized in Michigan, which are usually a gauge of future housing construction, rose to 2,814 permits in February, 92.7 percent above the number of permits issued in February of last year.

The Bad News

➤ The spring thaw in **auto sales** failed to materialize as early April car sales fell to a seasonally adjusted 5.8 million units from March's rate of 6 million units. Car sales were up only 0.4 percent from the same period last year when sales were abnormally low due to the Gulf War. Buoyed by sales of light trucks, however, total domestic vehicle sales rose 3.4 percent during the period.

➤ In its first monthly drop in four months, **retail sales** declined by 0.4 percent in March, to $157.11 billion, from the figure posted in February. Sales were down at general merchandise and clothing stores (by 3 percent and 2.5 percent, respectively), as were sales of building materials.

➤ Nationally, March **consumer prices** rose a hefty 0.5 percent, or at an annual rate of 6 percent. Gains were posted in nearly all sectors, with the largest registered for food, transportation, apparel, and medical care. Although some economists are calling the change an aberration, it could result in increased caution among Federal Reserve Board members toward lowering interest rates.

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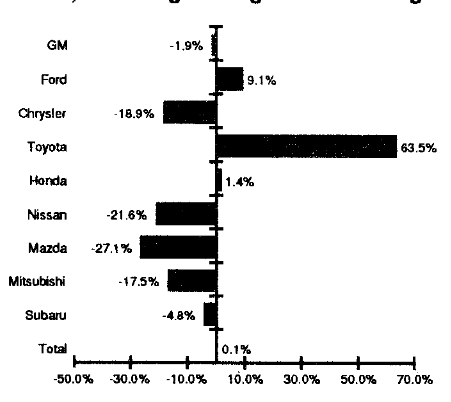
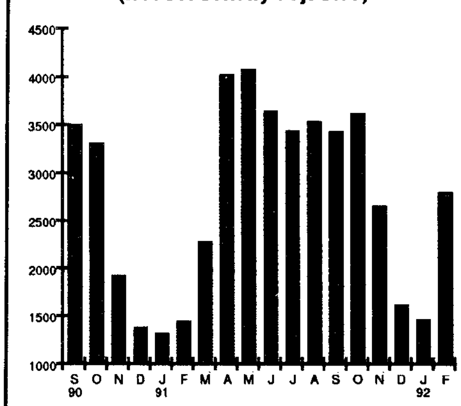
MICHIGAN ECONOMIC INDICATORS

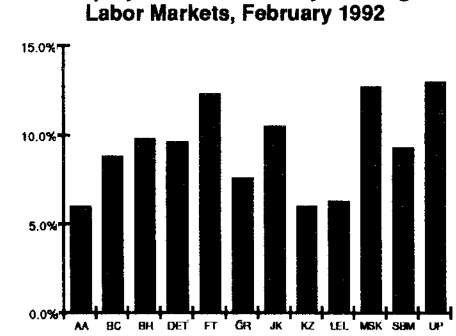
Early April Sales of Domestically Produced Cars, Percentage Change from a Year Ago



Housing Permits Authorized in Michigan (not seasonally adjusted)



Unemployment Rates in Major Michigan Labor Markets, February 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.

SOURCES: *Wall Street Journal*, Bureau of the Census, and Michigan Employment Security Commission.

Public Sector Consultants, Inc.
Knapp's Centre • 300 S. Washington Sq • Suite 401
Lansing, MI 48933-2134 • (517) 484-4954

Existing Property Tax Relief: Michigan's Well-kept Secret

The election of John Engler once again focused statewide attention on the issue of property tax relief. Little mention, however, is given to relief already provided in the state's tax code through the Homestead Property Tax Credit. Most Michigan residents know that the property tax burden in this state is high, but many may be astonished to learn that Michigan ranks second nationally in the level of per capita property tax relief provided to taxpayers. (See exhibit.)

Background

An article by Scott Mackey of the National Conference of State Legislatures (NCSL), recently published in *State Tax Notes*, summarizes property tax relief programs in the fifty states and the District of Columbia (DC). He notes that homestead credits are the most common type of property tax relief program. Currently, 18 states have an income requirement for all of their property tax relief programs. Michigan and 27 other states have at least some form of homestead credit that has no income requirement. (Michigan's only such program exempts disabled veterans.) One state, North Dakota, has both types of programs. Michigan's homestead program includes circuit-breaker provisions, or programs that target low-income residents for relief, although all homeowners are eligible for the credit.

For both homeowners and renters, Michigan has the highest level of maximum household income ($82,650) under which one can qualify for property tax relief and the third highest maximum benefit payment level ($1,200). As mentioned above, the state ranks second among the states and DC (New Jersey ranks first) in the level of per capita relief ($76.43) provided by its homestead credit.

Issues

The major reason for lack of knowledge about Michigan's homestead tax credit is that the public sees no direct connection between the tax and the tax credit. This is because tax payments are made to local governments, while credits are issued by the state. The problem is compounded by the fact that the administration of the tax by the state is in conjunction with the state's income tax program, causing taxpayers to view the credit as an income tax credit rather than a property tax credit. To remedy the situation, some favor having credits directly calculated and subtracted from property tax payments at the local level; the state then would reimburse local governments for the amount credited. Opponents of this idea say that this policy would allow the state to pass on the cost of the program to locals if the reimbursement rate and/or levels were reduced or eliminated. In addition, administration costs likely would be greater than under the current centrally administered program.

Some are opposed to any property tax credit program that involves state reimbursement. They assert that such credits make it easier to gain approval of millage increases in local elections. Credits induce voters to pass millages because their net tax burden (taxes less credits) is lower than it would be if there were no credit program. This assertion, however, is still a point of contention in the current debates surrounding tax policy.

Cost of State Circuit-breaker Programs

State	Year	Per Capita Cost	Rank
Alaska	CY 1990	$1.35	27
Arizona	FY 1988	7.80	13
Arkansas	CY 1990	1.69	26
California[a, b]	FY 1991	20.04	6
Colorado	FY 1990	4.91	16
Connecticut	FY 1991	7.04	14
DC[b]	FY 1989	14.42	9
Hawaii	CY 1989	5.13	15
Idaho	CY 1991	4.47	17
Illinois	CY 1990	8.85	12
Iowa	FY 1991	3.88	19
Kansas	CY 1991	3.45	20
Maine[b]	FY 1991	15.73	7
Maryland[b]	FY 1991	9.50	11
Michigan[b]	**FY 1990**	**76.43**	**2**
Minnesota[b]	FY 1991	29.45	4
Missouri	FY 1990	3.20	21
Montana	FY 1992e	4.38	18
Nevada	FY 1991	1.08	28
New Jersey[b]	FY 1992e	91.85	1
New Mexico	1990	na	NA
New York	CY 1989	2.69	22
North Dakota	FY 1990	0.31	30
Oklahoma	CY 1990	0.13	31
Oregon[b]	CY 1989	14.61	8
Pennsylvania	FY 1990	13.25	10
Rhode Island	FY 1991	0.60	29
South Dakota	FY 1991	2.00	23
Tennessee	FY 1990	1.92	24
Utah	FY 1990	1.86	25
Vermont[b]	FY 1991	37.17	3
West Virginia	CY 1990	[c]	32
Wisconsin[b]	FY 1990	21.86	5

CY: Calendar year
FY: Fiscal year
e: Estimated cost
na: Not available
NA: Not applicable

SOURCE: Scott Mackey, National Conference of State Legislatures (NCSL), "State Property Tax Relief Programs for Homeowners and Renters," *State Tax Notes* (Arlington, Va.: Tax Analysts, April 6, 1992), p. 486. (Based on a survey by NCSL.)
[a]Includes the circuit-breaker and renter credit.
[b]All homeowners and renters are eligible.
[c]Total cost of less than $100,000 per capita cost not meaningful.

Economic Forecast

Introduction

We may be out of the recession, but you can hardly tell. Nationally, economic growth rose a meager 0.4 percent in the fourth quarter of 1991, and first-quarter figures for 1992 are not expected to be much better. Both national and statewide unemployment rates grew from the levels posted in the final quarter of the year. Bright spots are the housing and construction sectors—which appear to be responding to lower interest rates—and the export market, which in February posted its best showing in nine years. Growth is expected to mirror the tortoise's slow and steady race plan, with rates of increase below one percent in the first half of the year.

Gross Domestic Product

Continuing economic stagnation was apparent in fourth-quarter statistics for gross domestic product (GDP). GDP remained flat during the quarter, rising at a revised annual rate of only 0.4 percent; for the entire year, GDP declined by 0.7 percent. Although the figures indicate further economic weakness, there were some positive indicators. Led by a $12.8-billion rise in exports, net exports rose at an annual rate of 12.6 percent during the quarter, lowering the deficit from $31.1 billion to $21.3 billion, and fixed residential investment increased by 11.8 percent, from $176.5 billion to $181.7 billion. The remainder of the news was less encouraging, especially in light of the fact that much of the quarter's increase was the result of a whopping increase in inventories (from $0.1 billion to $7.6 billion). Government spending was down 5.5 percent, nonresidential fixed investment declined by 3.6 percent, and consumer spending remained unchanged.

OUTLOOK In our last forecast we predicted 1992 GDP growth of 1.8 percent, which we still anticipate. A good performance by the export sector and improved consumer spending is expected to prevent GDP from slipping during the first quarter. Unless lower interest rates stimulate consumer spending and construction during the second quarter, we do not expect any significant growth until the second half of the year.

Employment and Income

U.S. employment continued weak in the first quarter, as the number of nonfarm jobs declined a seasonally adjusted 95,000 below the previous quarter, 0.3 percent below the year-ago level. The weakest sectors continued to be manufacturing and construction, which lost 90,000 and 28,000 jobs, respectively. Retail trade employment was flat, while the service and government sectors added 50,000 and 44,000 jobs, respectively. For all of 1991 employment declined by 992,000 or one percent from 1990. There were job losses of 685,000 in manufacturing, 440,000 in construction, and 338,000 in retail trade. These losses were partially offset by gains in the service and government sectors. In March employment increased only 19,000.

The **U.S. civilian unemployment rate** averaged 7.2 percent in the first quarter, up from 6.9 percent in the fourth quarter of 1991. The unemployment rate in March was 7.3 percent. For all of 1991 the unemployment rate averaged 6.7 percent, up from 5.5 percent in 1990.

U.S. personal income has shown some strength in recent months, rising in the first two months of 1992 at an annual rate of 5.7 percent compared with a fourth-quarter increase of 3.7 percent and 3.3 percent for all of 1991. Almost 80 percent of the 1992 gains were accounted for by transfer payments (social security, welfare, and unemployment benefits).

Michigan wage and salary employment improved modestly in the first quarter of 1992, increasing 1.1 percent above the year-ago quarter and compared to a 1.8 percent decline in the fourth quarter of 1991. The improvement was due mainly to a better performance in the manufacturing sector. Motor vehicle employment was up 3.5 percent, but the first-quarter gain is misleading as the year-ago period was depressed due to the Gulf War. The strongest sector was services (up 1.1 percent), while the weakest were construction (down 3.4 percent), mining (down 2.6 percent), and trade (down 1.6 percent). For all of 1991 Michigan wage and salary employment fell by 95,000 jobs or 2.4 percent. Every major sector declined from the 1990 level (see Exhibit 1), with the sharpest declines registered in construction, manufacturing, and trade.

The **state unemployment rate** averaged 9.1 percent in the first quarter, up from 8.7 percent in the fourth quarter of 1991. The March unemployment rate was 9.3 percent (the highest rate among the eleven largest states), while the number of unemployed persons totaled 433,000. The average unemployment rate for 1991 was 9.2 percent, up from 7.5 percent in 1990.

Michigan personal income increased at a seasonally adjusted rate of 5.3 percent in the third quarter of 1991 (latest data available) from the previous quarter but was

EXHIBIT 1

Michigan Wage and Salary Employment, by Major Sector, 1990 and 1991 (employment in thousands)

Sector	1990	1991	Percentage Change
Services	941.7	933.6	-0.9%
Trade	949.4	926.8	-2.4
Manufacturing	943.6	899.0	-4.7
Government	633.9	631.7	-0.3
State	166.2	164.1	-1.3
FIRE	191.0	188.9	-1.1
TCU	158.4	156.9	-0.9
Construction	142.3	128.8	-9.5
TOTAL	3,969.6	3,874.8	-2.4

SOURCE: Michigan Employment Security Commission. Calculations by Public Sector Consultants, Inc.

only 2.2 percent above the year-ago quarter. (See Exhibit 2.) Wages and salaries rose a robust 9.2 percent, but this likely is overstated. The third-quarter increase in Michigan personal income was about double the national increase of 2.6 percent.

The reported strength in the third quarter of 1991 was entirely in manufacturing earnings, which rose $2.6 billion compared with an overall gain of $2.3 billion. Except services earnings, almost every other major component was either flat or declined.

OUTLOOK While there are signs of recovery, the improvement in labor markets will be slow, as firms will be reluctant to increase employment until there is evidence of solid advancement. In 1992 we expect national employment to increase about one to 1.5 percent, a significant improvement over 1991, but no better than 1990, and well below the average 1983–89 gain of 3.1 percent. The unemployment rate will average about 7 percent in 1992, falling to about 6.5 percent by year-end. U.S. personal income is projected to increase from 5 to 5.5 percent.

We expect slower growth in Michigan than in the nation due mainly to weakness in the manufacturing sector here. The announced reductions by General Motors will keep downward pressure on employment. As a result, our forecast is for a 0.5 to one percent increase in wage and salary employment, but this may be optimistic. The unemployment rate will average about 9 percent in 1992 (compared with 9.2 percent in 1991), falling to slightly below 8.5 percent by the last quarter of the year.

Based on data for the first three quarters, Michigan personal income will increase an estimated 2 percent in 1991 (the smallest rise since 1982 and the second smallest since 1960), while wages and salaries are estimated to increase only 0.5 percent. Fortunately, the outlook is a little brighter for 1992. With the economy expected to improve in the second half of the year (due mainly to improved consumer confidence and lower interest rates), we are forecasting a 4 to 4.5 percent gain in personal income in 1992 (down slightly from the 4 to 5 percent estimate in our last quarterly forecast). Income growth will be moderately constrained by lower interest rates (which will reduce interest income), but transfer payments should continue to provide a stimulus to income growth. We expect wage and salary income to grow slightly faster than personal income.

Prices

The U.S. consumer price index (CPI-U) increased at an annual rate of only 3.5 percent in the first quarter of 1992 and rose only 2.8 percent from the year-ago period; excluding the volatile food and energy components, prices were up 4.8 percent. Gains were moderate for all major components except medical care (up 8.3 percent) and apparel (9.9 percent higher). Transportation prices rose only one

EXHIBIT 2

Michigan Personal Income, Selected Components, by Quarter, 1989, 1990, and 1991 (dollars in millions)

Quarter	Total Personal Income	Wages and Salaries	Manufacturing Wages	Services Wages	Transfer Payments	Dividends, Interest, and Rent
1989 I	160,248	97,206	34,911	18,711	24,051	25,400
II	162,216	97,750	34,543	19,350	24,330	26,551
III	164,283	99,019	34,591	19,969	24,793	27,076
IV	166,330	99,902	34,333	20,248	25,330	27,642
1990 I	167,022	99,098	32,501	20,662	26,369	27,523
II	170,796	102,407	34,579	21,066	26,519	27,729
III	172,804	103,798	35,101	21,630	26,890	28,010
IV	173,392	103,326	34,475	21,601	27,680	28,120
1991 I	191,135	100,223	31,467	21,663	29,042	27,927
II	174,307	102,376	33,064	21,889	29,892	27,635
III	176,614	104,730	35,241	22,146	29,648	27,480
Percentage Change, 1990 III to 1991 III	2.2%	1.4%	0.4%	2.4%	10.3%	-1.9%

SOURCE: Bureau of Economic Analysis, U.S. Department of Commerce. Calculations by Public Sector Consultants, Inc.

percent, due mainly to a 6.8 percent decline in motor fuel prices. Consumer prices increased at an annual rate of 6 percent in March, but this was due to several increases that are not likely to be repeated in the coming months.

Producer prices, which generally foreshadow changes in consumer prices, have generally been flat in recent months: Prices for finished goods increased at an annual rate of 0.3 percent in the first quarter, held down by the energy and food components; excluding these, producer prices increased at an annual rate of 1.8 percent from the previous quarter. March producer prices increased at an annual rate of 2.4 percent but were only 0.9 percent higher than in March 1991; excluding food and energy, March prices were up 2.4 percent above one year ago.

In February Michigan consumer prices (as measured by the Detroit-Ann Arbor CPI, released every two months) increased at an annual rate of 4.2 percent (from December). Excluding energy—which rose at an annual rate of 8.4 percent—prices increased only 3.6 percent. As shown in Exhibit 3, sharp rises in the prices of apparel, medical care, and housing were offset by a 10.8 percent decline in transportation costs.

Michigan consumer prices in the first quarter were only 2 percent higher than they were one year ago. Excluding energy (which fell 4.2 percent), prices were up only 2.6 percent. Large increases in costs for medical care and other goods and services were offset by small changes in prices for housing, apparel, entertainment, and transportation. In 1991 consumer prices (December to December) rose 2.1 percent. Excluding energy, prices increased 3.4 percent, which is close to the underlying rate of inflation.

OUTLOOK Inflation remains under control, as evidenced by the stability in producer prices, and we see no reason to change our forecast. With the economy expected to grow only moderately in 1992 and with energy prices expected to remain flat, we are forecasting a 3.5 to 4 percent increase for the United States and a 3 to 3.5 percent increase for Michigan.

Monetary and Fiscal Policy

Short-term interest rates fluctuated slightly at the beginning of the first quarter but flattened out by the end. Three-month Treasury bills gained about a quarter percent but have held steady at 4 percent since the end of February; the federal funds rate (the rate charged by member banks on loans made to one another), which fell from an average of 4.2 percent at the beginning of the quarter, fluctuated around the 4-percent mark until late February, where it held steady until the end of March when the Federal Reserve (Fed), which had been divided on the issue of further monetary expansion, acted to bring down the rate to about 3.9 percent. By the beginning of April national mortgage rates had dropped for the third consecutive week, falling to 8.89 percent (for a 30-year fixed rate home mortgage). While the action of the Fed was seen by some as an attempt to stimulate the economy, it was more likely the result of a decrease in the money stock, both the M-1 and M-2 components of which have experienced declines since early February.

In current dollar terms, federal spending rose at a revised annual rate of 8.8 percent in the fourth quarter, led by a 13.3-percent gain in transfer payments and a 12-percent rise in purchases; interest payments increased 5.3 percent. Reflecting overall economic sluggishness, personal tax and nontax receipts rose a meager 0.8 percent. A positive note was the 12.7 percent gain in indirect business tax and nontax collections, which could indicate elevated activity in the private sector. (Data for federal revenues from all sources are not yet available.)

OUTLOOK The Fed is not likely to make any substantial move to bring down interest rates. Consumer spending in the short term is not affected by such action but rather by

EXHIBIT 3

Detroit-Ann Arbor Consumer Price Index, February 1992

Component	Index	Percentage Change from December 1991 (annual rate)	Percentage Change from February 1991 (annual rate)	Addendum: Percentage Change December 1990 to December 1991
Medical care	179.2	12.6%	6.4%	6.7%
Other goods and services	168.8	3.0	8.1	8.8
Food and beverage	133.6	3.0	3.6	4.0
Apparel	131.7	15.6	1.6	-0.5
Housing	130.7	9.0	1.2	1.3
Entertainment	130.5	6.0	-1.9	-1.8
Transportation	128.5	-10.8	0.2	0.3
Motor Fuel	89.0	-46.8	-7.4	-14.5
All items	134.9	4.2	2.0	2.1
Energy	99.3	8.4	-4.2	-11.2
All items less energy	140.0	3.6	2.6	3.4

SOURCE: U.S. Department of Labor, Bureau of Labor Statistics.

credit card rates, which banks have not reduced. New construction is a function of long-term rates, which although influenced by Fed policy, also are influenced by anticipated inflation rates. If the most recent (March) inflation report is any indicator, prices could rise by more than previously had been anticipated, which would force the Fed to steer clear of easing monetary policy. We expect short-term rates to bottom out during the second quarter and gradually rise during the second half of the year.

The Bush administration estimates the on-budget federal budget deficit (which does not include monies in a variety of funds, including the Social Security Trust Fund) will reach $449 billion in FY 1992 (which ends September 30), including a cost of about $67 billion for the savings and loan bailout. Including the trust funds, the official deficit is estimated to total *only* $400 billion, due to a large surplus in the Social Security Trust Fund. We agree with the administration's target. The gross national debt (the total of all past accumulated deficits not yet paid off) will exceed $4 trillion in FY 1992.

Motor Vehicle Sales and Production

Motor vehicle sales (excluding heavy duty trucks) improved slightly in the first quarter of 1992, rising 4 percent above the year-ago quarter. This increase is misleading, however, as sales were depressed a year ago due to the Gulf War. Most of the strength was concentrated in truck sales, which rose 9.7 percent, while passenger car sales increased only 1.3 percent. One encouraging sign is that Big Three motor vehicle sales increased 5.2 percent compared with a 1.8 percent increase for Japanese vehicles. The best-selling American nameplate was Ford, which saw sales rise 9.3 percent. March motor vehicle sales increased 2.3 percent, with light truck sales up 9.8 percent and passenger car sales down 1.4 percent.

For 1991, motor vehicle sales totaled 12.335 million units, down 11.2 percent from 1990 and the lowest total since 1983. Passenger car sales by domestic manufacturers fell an even sharper 14.6 percent. The domestic share of the car market fell from 62.2 percent in 1990 to 60.5 percent in 1991. Imports declined about 14 percent, but transplants (cars produced in America by foreign manufacturers) increased 5.9 percent. Light truck sales dropped 9.4 percent.

The improved sales outlook was accompanied by an increase in production, which jumped in the first quarter to about 2.4 million units, 12.3 percent above the year-ago quarter. Truck production increased 32 percent, but passenger car production was up only 1.7 percent.

One troubling development is that Michigan's share of U.S. motor vehicle production has fallen to about 23 percent from about 28 percent one year ago. In the 1990 model year Michigan's share was 27.7 percent. This decline is due partly to the rapid increase in production at transplant facilities, only one of which is located in Michigan (see Exhibit 4).

OUTLOOK In our last quarterly forecast we predicated an improvement in 1992 motor vehicle sales due to increasing consumer confidence and improving disposable incomes. We also noted that introduction of a number of attractive, well-designed models would generate more showroom traffic and, it is hoped, more sales. This appears to be happening, although passenger car sales were a little weaker in the first quarter than we expected. We see no reason, however, to change our forecast at this time.

We expect motor vehicle sales to increase 5.4 percent in 1992, to 13.05 million units, including 8.65 million passenger cars and 4.4 million trucks. Sales of transplants will continue to increase faster than total sales, and the Japanese share of passenger car sales (transplants and imports) will continue to climb, exceeding 36 percent in 1992. It is possible that the rising tide of anti-Japan sentiment will slow the increase in the Japanese market share.

EXHIBIT 4

Car and Light Truck Sales, 1986–91 (actual), and 1992 (estimated) (sales in thousands)

Year	Domestic Big 3	Transplants	Imports	Total	Light Truck Sales	Total Motor Vehicles[a]
1986	7,846	369	3,249	11,466	4,618	16,048
1987	6,538	544	3,144	10,226	1,681	14,907
1988	6,910	616	3,069	10,595	4,878	15,476
1989	6,236	779	2,698	9,713	4,779	14,492
1990	5,792	1,061	2,453	9,306	4,591	13,897
1991	4,948	1,124	2,104	8,176	4,159[b]	12,335
1992 (est.)	5,180	1,220	2,250	8,650	4,400	13,050

SOURCE: *Automotive News*. Calculations by Public Sector Consultants, Inc.
[a]Excludes heavy duty truck sales of about 300,000 annually.
[b]Includes transplant sales of 203,000; transplants and imports account for about 17 percent of total sales.

Executive Orders; the Headlee Tax Cut Initiative

Executive Orders

On April 16, Governor John Engler presented three executive orders (EOs) totaling $795.8 million to a joint meeting of the Senate and House appropriations committees. The governor's plan includes four major elements:

- Resubmission of $218.1 million in changes agreed to by the administration and legislature in the budget compromise at the end of the last fiscal year. Included are the accrual of the inheritance tax (not included in the executive order, but already passed by the Senate) and changes in funding for the State Employees Retirement Fund.
- Transfer of $150 million from the Budget Stabilization Fund, leaving a balance of about $45 million.
- Reductions, unallotments (not spending monies appropriated but not spent), and negative supplementals totaling $128 million. Only about $26 million in department operations are affected, however, and no layoffs are included. Most of the savings are to be achieved by reducing capital outlay or unexpended fund balances.
- Financing shifts of $300 million, including (1) delay until the next fiscal year of about $111 million in revenue sharing payments to local governments (this change will be permanent), and (2) $188 million taken from (or not contributed to) the Public School Employees Retirement System Health Benefits Retirement Fund.

The committees have ten days to accept or reject the governor's EOs, which cannot be amended. While they may reject one or more, agreement probably will be reached with the administration on revised, but similar, versions.

Headlee Tax Cut Initiative

After its case was turned down by the Michigan Court of Appeals and denied a hearing by the Michigan Supreme Court, Taxpayers United for Assessment Cuts has filed suit in U.S. District Court for the right to have its property tax cut initiative—better known as the Headlee proposal—placed on the November ballot. In the suit, plaintiffs contend that the constitutional rights of Michigan residents whose signatures on the petition were ruled invalid by the State Board of Canvassers have been denied.

The Headlee plan proposes to cut property assessments by 20 percent over two years and would require the state to reimburse local governments for lost revenues at an estimated cost of $750 million in the first year and $1.7 billion in each successive year. In May 1991 the State Board of Canvassers failed to certify enough valid signatures to place the petition on the November 1992 ballot. Acting in response to an order issued the following September by the Michigan State Court of Appeals, the board reevaluated the signatures and in November again denied the petition. [The Board first ruled that 197,905 of the 224,048 signatures submitted were valid (the constitution requires 191,726 valid signatures); of those, 15,540 signatures then were ruled invalid because they were on petitions that differed in format from those earlier approved by the board.] Taxpayers United then appealed to both the state appeals and supreme courts, which denied its requests. It is not known at this time when the district court will make a decision on whether to hear the case.

PUBLICATIONS OF INTEREST

Among its February publications, the Congressional Budget Office (CBO) (the nonpartisan fiscal agency of the U.S. Congress) issued its annual report on the deficit and two studies relating to the budget.

Reducing the Deficit: Spending and Revenue Options (Washington, D.C.: the CBO, February 1992).

The annual report provides options for reduced spending and revenue increases by examining specific programs within all general budget areas and providing both sides of the case for reductions. In keeping with the CBO's mandate for nonpartisan reporting, no endorsement or recommendation for any of the options is provided.

Effects of Adopting a Value-Added Tax (Washington, D.C.: the CBO, February 1992).

This study analyzes the benefits and costs of adopting a value-added tax (VAT), rather than the current income tax, for raising revenue. The report explains what a VAT is and how it works (including measurement of the base), analyzes who bears the burden of the tax (in both annual and lifetime terms), explores the economic effects of the levy (including on national saving and investment and in terms of economic efficiency), and estimates the tax's costs (including those for administration, implementation, and compliance).

The Economic Effects of Reduced Defense Spending (Washington, D.C.: the CBO, February 1992)

Examines the economic effects on national, state, and selected local economies of defense cuts that have occurred and will continue to occur as a result of continuing worldwide political change.

Michigan Revenue Report

March revenue collections appeared very strong, but this is misleading as year-ago collections were sharply depressed due to the Gulf War. Total tax collections increased 4.1 percent, the best result in more than a year. Personal income withholding collections were up 10 percent. Adjusted for accelerated withholding, however, the increase is an estimated 3.5 percent.

Sales and use tax collections increased a robust 8.2 percent above the depressed year-ago level. Motor vehicle collections increased 23 percent, as no one was buying automobiles last year during the Gulf War. Excluding motor vehicles, sales and use tax collections increased 6.2 percent.

Single business tax collections continued weak, declining 23.2 percent due to another large increase in refunds. (See last month's *Bulletin.*)

March lottery sales fell 2.5 percent below the March 1991 level, the first decline since October 1990.

Although March collections do not necessarily indicate that an upsurge in revenue collections is under way, there is some reason to be encouraged. Employment numbers are still weak, but housing is strong and consumer confidence is rising. In addition, the relatively large increase in March improves the likelihood that, for the first time in a number of months, the latest revenue estimates will not have to be reduced.

MONTHLY TAX COLLECTIONS (dollars in thousands)

Type of Revenue	Preliminary February 1992	% Change from Last Year	Past 3 Months' Collections	% Change from Last Year	FY 1991–92 Year-to-Date	% Change from Last Year
Personal Income Tax						
Withholding	$335,109	10.0%	$1,158,416	1.0%	$1,511,600	2.2%
Quarterly and Annual Payments	28,980	16.8	147,446	-11.5	152,555	-11.6
Gross Personal Income Tax	364,089	10.5	1,305,862	-0.6	1,664,155	0.8
Less: Refunds	-290,388	13.6	-191,065	-8.5	-206,674	-5.4
Net Personal Income Tax	73,701	-0.2	1,114,797	0.0	1,457,481	1.7
Sales and Use Taxes	232,058	8.2	806,895	0.2	1,060,613	-0.9
Motor Vehicles	31,216	23.0	96,152	2.9	132,851	0.7
Single Business Tax	40,707	-23.2	298,986	-23.7	505,551	-17.4
Cigarette Tax	18,150	-4.2	60,382	-3.5	84,003	-1.8
Public Utility Taxes	12	0.0	65,156	17.1	72,477	1.1
Oil and Gas Severance	3,941	5.0	10,803	-18.6	14,439	-21.4
Lottery[a]	40,292	-2.5	119,469	1.3	236,376	2.0
Penalties and Interest	307	-87.9	15,879	11.1	22,220	10.9
SUW—Annuals and Undistributed[b]	21,402	493.7	3,354	-46.8	11,816	57.5
Other Taxes[c]	48,303	-0.1	100,299	1.1	134,931	14.8
TOTAL TAXES (GF & SAF)[d]	$478,873	4.1%	$2,122,728	-3.3%	$3,363,531	-2.1%
Motor Fuel Tax[e]	$49,638	8.6%	$183,647	11.3%	$230,160	3.3%

SOURCE: Data supplied by Michigan Department of Treasury.
NM = Not meaningful
[a]The state share of lottery sales in 40.1 percent (FY 1991). The previous year's figures are adjusted to the current year's profit margin; the percentage change reflects the increase 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.

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