



# Michigan REVENUE REPORT

The revenue picture improved in May (April activity); all the major revenue sources recorded above-average gains. Personal income tax withholding increased 7.5 percent above the year-ago level, the largest increase since June 1986. This may be due, however, to an unusual collection pattern that resulted when the income tax rate was reduced to 4.6 percent on April 1, 1986. It is unlikely that collections in the next few months will be this strong.

Sales and use tax collections increased 4.7 percent above the May 1986 level despite a 2.7 percent decline in motor vehicle collections. June collections may be weaker because motor vehicle sales fell sharply in May.

Single business tax collections increased 5.7 percent in May, but year-to-date collections are still slightly below the previous year's. Lottery revenues continue to be very weak. April sales were 4.2 percent below the year-ago level, and the sales for the first four weeks of May were about 5 percent below the May 1986 level.

Despite the improved May revenue performance, the overall revenue outlook for the state has not changed appreciably since last month. Public Sector Consultants continues to predict a significant budget shortfall. We project that the original executive budget estimates are too high by \$75-90 million for the single business tax; \$75-80 million for the lottery; and \$20-30 million for sales and use taxes. These shortfalls may be partially offset by a \$25-50 million increase in income tax revenues and a \$20-30 million increase in other revenues. In its latest financial report to the legislature, the Department of Management and Budget reduced its lottery estimate by \$40 million, but increased the quarterly and annual income tax estimate by \$25 million, the nontax revenue estimate by \$16 million, and the inheritance tax estimate by \$10 million.

(over)

**Table 1. Monthly Tax Collections**

*Dollars in Thousands*

Type of Revenue	Preliminary May 1987	% Change from Last Year	Past 3 Months Collections	% Change from Last Year	FY 1986-87 Year-to-Date	% Change from Last Year
Personal Income Tax						
Withholding	\$280,204	7.5%	\$853,538 <sup>a</sup>	6.0%	\$2,084,123 <sup>a</sup>	5.0%
Quarterly and Annual Payments	72,358	10.8	238,795 <sup>a</sup>	6.0	400,580 <sup>a</sup>	27.3
Gross Personal Income Tax	352,562	8.2	1,092,333 <sup>a</sup>	6.0	2,484,703 <sup>a</sup>	8.0
Less: Refunds	-125,783	-38.3	-682,130	6.4	-919,701	9.4
Net Personal Income Tax	226,779	85.7	410,203 <sup>a</sup>	5.3	1,565,002 <sup>a</sup>	7.3
Sales and Use Taxes	228,911	4.7	634,872	4.5	1,534,311	2.9
-Motor Vehicles	44,068	-2.7	111,079	0.4	242,785	1.1
Single Business Tax	276,406	5.7	492,925	-0.6	938,445	-0.9
Cigarette Tax	19,169	-4.1	55,250	-1.3	132,526	-2.8
Public Utility Taxes	0	0	15	NM	58,635	6.6
Oil and Gas Severance Tax	4,251	15.5	11,869	-10.5	27,361	-26.9
Lottery <sup>b</sup>	33,225	-4.2	101,560	-3.5	242,050	-2.4
Penalties and Interest	-161	NM	11,481	42.7	27,218	19.1
SUW—Annals and Undistributed <sup>c</sup>	8,438	86.5	11,150	41.3	21,857	68.7
Other Taxes <sup>d</sup>	30,708	7.6	106,624	7.8	183,863	17.4
<b>TOTAL TAXES (GF &amp; SAF)<sup>e</sup></b>	<b>\$830,951</b>	<b>26.1%</b>	<b>\$1,772,949</b>	<b>3.2%</b>	<b>\$4,731,268</b>	<b>3.6%</b>
Motor Fuel Tax <sup>f</sup>	\$51,452	0.3%	\$159,002	3.7%	\$372,353	2.9%

NM = Not meaningful

<sup>a</sup>Adjusted to reflect changes in tax rates. Withholding is also adjusted to reflect difference in number of Fridays (paydays) in a month.

<sup>b</sup>Lottery collections run one month behind other tax collections due to a reporting lag. Therefore, April lottery collections are included in this month's report. The State share of lottery collections is estimated to be 41.9 percent, based on the average profit to the State for fiscal year 1985-86. The percentage change is calculated on gross sales for the month. The numbers in this table include only ticket sales; an additional \$6.5 million has been received from interest and other sources as of March 31, 1987.

<sup>c</sup>These revenues are distributed to the sales, use, and withholding (SUW) accounts when final numbers for the month are reconciled.

<sup>d</sup>Includes intangibles, inheritance, corporate income, and industrial and commercial facilities taxes.

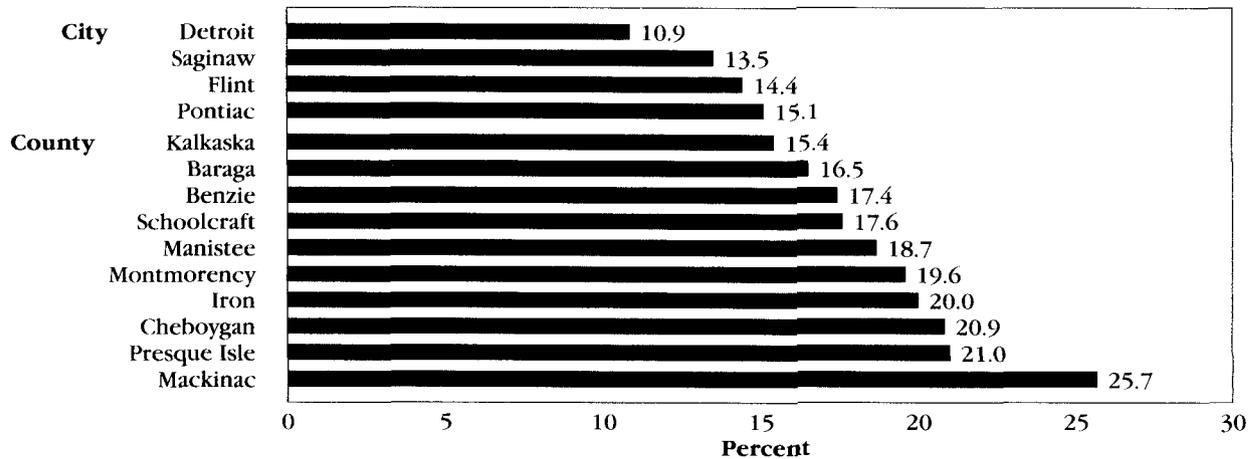
<sup>e</sup>Excluded are beer and wine, liquor, horse racing, and insurance premium taxes, which are not collected by the Department of Treasury. These taxes account for less than 3 percent of GF-GP and SAF revenue and have usually shown little growth in recent years. One exception is the insurance premiums tax, which increased 27 percent in fiscal year 1985-86 and 13.1 percent in the previous fiscal year.

<sup>f</sup>The motor fuel tax is restricted to the Transportation Fund.

Regional Unemployment

Although the Michigan unemployment rate declined from 15.5 percent in 1982 to 8.8 percent in 1986, pockets of high unemployment remain, principally in agricultural areas and the Upper Peninsula. Unemployment also continues to be high in central cities heavily dependent on manufacturing, namely Saginaw, Flint, Detroit, and Pontiac.

**Figure 1. Counties with Unemployment Rates of 15 Percent or More and Major Cities with Unemployment Rates of 10 Percent or More, 1986 (State Average—8.8%)**



SOURCE: Michigan Employment Security Commission, Bureau of Research and Statistics.

A county's economy is considered to be agricultural if agricultural labor and proprietors' earnings are 7 percent or more of total labor and proprietors' earnings. Using 1984 data (the latest available), 18 Michigan counties can be characterized as agricultural. In 11 of the 18, the unemployment rate exceeded 10 percent. In only 2 of the 18 counties was the unemployment rate below the 1986 state average, and 1 of these counties, Clinton, is located in the stable Lansing labor market. (See Table 2.)

**Table 2. Unemployment Rates in Major Agricultural Counties, 1986 and March 1987**

County	Agricultural Earnings As Percentage of Total Earnings, 1984	Unemployment Rate	
		1986	March 1987
Missaukee	20.1%	13.7%	NA
Leelanau	16.7	9.4	NA
Oceana	12.5	13.3	NA
Sanilac	12.0	10.6	12.1%
Cass	11.9	8.0	7.7
Clinton	11.2	6.6	7.1
Huron	11.1	11.6	12.4
Barry	10.6	8.9	8.1
Hillsdale	9.9	10.2	8.3
Arenac	8.8	10.9	NA
Tuscola	8.4	12.5	12.4
Alcona	8.3	17.0	NA
Branch	8.2	9.6	7.7
Ionia	8.1	13.9	12.2
Newaygo	8.1	12.4	11.5
St. Joseph	7.9	9.1	7.8
Allegan	7.8	8.8	6.2
Gratiot	7.0	10.6	13.9
STATE AVERAGE	1.0%	8.8%	8.4%

NA = Not available

SOURCE: Michigan Employment Security Commission, Bureau of Research and Statistics and Michigan Statistical Abstract 1986-87, Wayne State University, Detroit, p. 311.

None of the 18 agricultural counties is located in the Upper Peninsula. In 1986, the average unemployment rate was 13.4 percent. Because of the seasonal nature of most employment in the Upper Peninsula, unemployment in that area will remain well above the state average for the foreseeable future. The problems of the agricultural sector appear to have peaked; relative improvement in unemployment in the state's agricultural areas is likely in the next year or two.