



## GOOD NEWS

The **U.S. unemployment rate** fell to 4.8 percent in May from April's 4.9 percent rate, making May's rate the lowest in nearly 24 years. Since the beginning of the year, an average of 229,000 jobs per month have been created, compared with 1996's average of 212,000. **Average hourly earnings** rose 3.8 percent to \$12.19 in May, fueling fears that rising wages due to the tight labor market may lead to inflation.

◆ The housing market continued strong in April. The National Association of Realtors announced that although **existing home sales** fell slightly in April, they were still at a near-record high. Existing homes sold at a seasonally adjusted annual rate of 4.06 million in April, following rates of 4.16 million in March and 4.23 million in April 1996. **New home sales** also remained strong, with a seasonally adjusted annual rate of 772,000 in April, up 4 percent from April 1996.

◆ The **producer price index** surprised most observers by falling in May, as wholesale prices had been expected to increase slightly due to the robust economy. The index, which foretells inflation in coming months, fell 0.3 percent in May, following a 0.6 percent drop in April and declines in the previous three months. May's decline marked the first time since 1952 that the index has fallen for five consecutive months.

## BAD NEWS

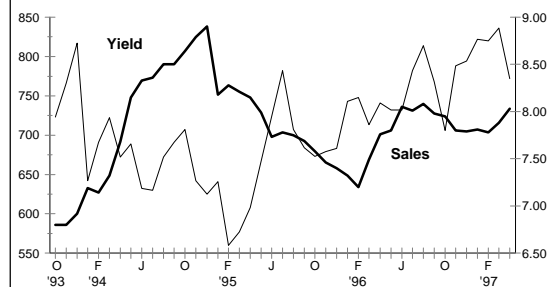
The Michigan Employment Security Agency (MESA) announced that **Michigan's unemployment rate** rose slightly to a seasonally adjusted 4.4 percent in April from 4.3 percent in March, before declining to 4.0 percent in May—a record low. MESA officials blamed the April increase primarily on layoffs in the manufacturing industry.

◆ Light **motor vehicle sales** fell 5.8 percent in May (from May 1996), as an 11.4 percent decline in car sales offset a 2.2 percent gain in truck sales. Sales have declined in three of the last four months. One positive note is that the annual sales rate was 15.05 million units, up from 14.7 million in April.

The outlook is not as bright as it was several months ago, but 1997 sales should at least match the 1996 total of 15.1 million units.

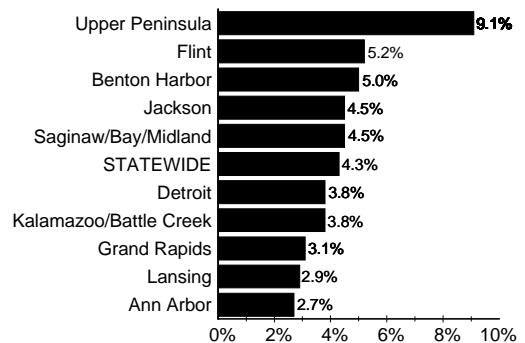
◆ The U.S. Department of Commerce reported that **retail sales** fell 0.1 percent in May, after falling 0.9 percent in April and 0.3 percent in March. The decline was attributed primarily to slowing sales of autos and other big-ticket goods. While the report was bad news for retailers, it should not be read as a signal of economic hard times ahead—buoyed consumer confidence and low unemployment should help sustain retail sales in coming months.

### New Single-Family Houses Sold and Mortgage Yields



SOURCE: U.S. Bureau of Census and Federal Housing Finance Board.

### Unemployment Rates in Major Michigan Labor Markets, April 1997 (unadjusted rates)



SOURCE: Michigan Employment Security Agency.

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# MONTHLY FOCUS

## K-12 SPENDING RISES

The Center for the Study of the States (CSS) recently released a report on governors' proposed FY 1998 K-12 education budgets nationwide.<sup>1</sup> It found that total K-12 budgets and per-pupil spending are proposed to increase an average of 5.9 percent and 4.5 percent, respectively, in FY 1997-98.

The exhibit shows proposed per-pupil spending for all states. Governors in the Great Lakes region have proposed spending an average of \$3,204 per pupil, about 4.0 percent above the national average. According to the CSS, Michigan's proposed per-pupil spending is \$5,402, a 5.6 percent increase over FY 1996-97 recommended spending. (This amount far exceeds the average for the Great Lakes states due to the fact that Proposal A greatly increased the state share of K-12 school funding.) It should be noted that

the foundation grant, the minimum amount of per-pupil funding that Michigan school districts will eventually receive, is scheduled to increase only 3.0 percent between FY 1996-97 and FY 1997-98.

<sup>1</sup>David S. Liebschutz, et al. *State Fiscal Brief: Governors' FY 1998 Education Budgets Focus on Property Tax Cuts and Enrollment Changes*. Nelson A. Rockefeller Institute of Government (Albany, NY: Rockefeller Institute), No. 43, May 1997.

### K-12 Per-Pupil<sup>1</sup> Spending Growth by State, FY 1997 to FY 1998

	FY98	Percentage Change FY97-FY98	Rank		FY98	Percentage Change FY97-FY98	Rank
<b>United States</b>	<b>\$3,208</b>	<b>4.5%</b>		Kentucky <sup>a</sup>	3,779	2.9	31
<b>New England</b>	<b>2,714</b>	<b>5.5</b>		Louisiana	2,565	3.3	27
Connecticut <sup>a</sup>	2,883	0.9	46	Mississippi	2,227	2.8	32
Maine <sup>a</sup>	3,395	3.7	24	North Carolina <sup>a</sup>	3,833	7.5	8
Massachusetts	2,996	9.4	6	South Carolina	2,123	3.1	29
New Hampshire <sup>a*</sup>	297	27.3	1	Tennessee	2,540	6.7	9
Rhode Island	3,056	1.6	41	Virginia <sup>a</sup>	2,636	2.2	34
Vermont	1,957	1.3	43	West Virginia <sup>*</sup>	4,448	4.9	16
<b>Mid-Atlantic</b>	<b>3,458</b>	<b>2.0</b>		<b>Southwest</b>	<b>2,680</b>	<b>10.6</b>	
Delaware	4,942	4.2	20	Arizona	2,604	4.1	22
Maryland <sup>*</sup>	3,034	2.9	30	New Mexico	3,752	0.0	49
New Jersey	4,014	1.7	38	Oklahoma <sup>*</sup>	2,605	5.4	12
New York	3,650	1.8	37	Texas <sup>a</sup>	2,609	14.6	4
Pennsylvania	2,879	2.0	35	<b>Rocky Mountain</b>	<b>2,772</b>	<b>3.0</b>	
<b>Great Lakes</b>	<b>3,333</b>	<b>4.0</b>		Colorado	2,802	5.0	14
Illinois	2,214	4.3	19	Idaho	2,883	1.4	42
Indiana <sup>**a</sup>	2,623	-0.1	50	Montana <sup>a</sup>	2,793	0.8	47
Michigan	5,402	5.6	11	Utah	2,977	1.7	39
Ohio <sup>a</sup>	2,627	3.8	23	Wyoming <sup>a</sup>	1,286	5.0	15
Wisconsin <sup>a</sup>	4,176	3.5	26	<b>Far West</b>	<b>3,656</b>	<b>4.1</b>	
<b>Plains</b>	<b>3,263</b>	<b>4.5</b>		Alaska	5,014	0.0	48
Iowa	3,642	4.8	17	California	3,579	4.2	21
Kansas	3,746	7.5	7	Hawaii <sup>a</sup>	3,348	1.6	40
Minnesota <sup>a</sup>	3,920	1.3	44	Nevada <sup>a</sup>	1,975	2.7	33
Missouri	2,982	4.6	18	Oregon <sup>a</sup>	3,462	15.3	3
Nebraska <sup>a</sup>	2,017	3.2	28	Washington <sup>a</sup>	4,635	1.0	45
North Dakota <sup>a</sup>	1,996	9.5	5				
South Dakota	1,811	24.0	2				
<b>Southeast</b>	<b>3,050</b>	<b>4.1</b>					
Alabama <sup>*</sup>	3,255	5.6	10				
Arkansas <sup>**a</sup>	2,917	5.1	13				
Florida	3,075	3.6	25				
Georgia	3,307	1.9	36				

SOURCE: Center for the Study of the States.

<sup>1</sup>Based on state general fund FY97 estimates and FY98 recommendations divided by enrollment projections.

<sup>\*</sup>FY98 and FY97 expenditure numbers from *Education Week*.

<sup>a</sup>States with biennial budgets. Single-year appropriation amounts were derived from the state's budget or from amounts provided by the state's department of education.

# NEWS FROM THE STATE CAPITOL

## LEGISLATURE GRAPPLES WITH CASINO REGULATION

Last November, voters approved proposal E, which allows the operation of up to three casinos in Detroit. The proposal did not include details on regulating casinos, however, so lawmakers are now grappling with this issue. The Senate is debating a package of 21 bills that would regulate the three casinos to be built in Detroit.

While some lawmakers believe Michigan should have the strictest casino regulation in the nation, others claim that some of the proposed regulations are so strict as to be a veiled attempt to prevent casinos from opening in the first place. One major disagreement has centered on a pro-

posal that would require union officials to register with the state and be subject to background checks in order to hold an interest in a casino.

Another major disagreement involves the amount and type of reimbursement that casinos should make to the state to cover regulatory costs. Adding fuel to the debate, a recent Michigan Department of Treasury cost-benefit analysis estimates that the Detroit casinos will cost state government \$21.9 million in revenue due primarily to an estimated 10 percent drop in lottery sales. (We feel that this prediction is much too high; the experience of other states indicates that a moderate decrease, if any, would occur. Also, Indian casinos did not have a negative effect on Michigan's lottery sales.) The Treasury report has intensified the debate over casino taxation, since lawmakers want casinos to reimburse the state for all casino-related costs and lost state revenue.

At the time of writing, Senate negotiation on the bills was

underway. The House also will take up a package of gaming regulation bills. Since some of the bills amend a voter-approved proposal, each chamber must win a two-thirds majority vote to pass them.

## PART OF BUILD MICHIGAN II PASSES SENATE

Part of the governor's transportation package has passed the Senate: SB 581, which increases registration fees on commercial trucks, and SB 580, which eliminates minimum cost requirements to qualify for workers' compensation insurance. Together, these two bills are expected to contribute \$60 million for road repairs out of the \$400 million proposed by the governor. The most controversial proposals have yet to win legislative approval from either chamber. These include a four-cents-per-gallon increase in the state gasoline tax and state takeover of local road administration.

INTEREST  
OF  
INFORMATION

### Michigan Links:

<http://www.motor-city/links.html>

This website contains links to web pages in Michigan, with an emphasis on those in the Detroit Metro area. It contains links to newspapers and other periodicals, such as the *Detroit News* and *Crain's Detroit Business*, and to radio stations in the Metro area. It also includes links to education organizations (including the Michigan Department of Education), the Wayne County Regional Educational Service Agency, state universities, and others. Also of interest to policy researchers are links to selected state agencies, the Southeast Michigan Council of Governments, the Rural Business Cooperative Service, and Lawsite, a web site for Michigan Environmental Law related to the redevelopment of contaminated sites.

United States General Accounting Office. *School Finance: State Efforts to Reduce Funding Gaps Between Poor and Wealthy Districts*, (Washington, D.C.: GPO), February 1997. (202) 512-1800.

This 319-page report attempts to determine the size of the funding gap between poor and wealthy school districts for each state. It also identifies the key factors that affect the size of funding gaps between poor and wealthy students and discusses the effect of states' school finance policies on the gap. It contains a profile of each state describing funding distribution, demographic factors, and a description of state and local funding. (Unfortunately, the book uses data from the 1991-92 school year and, therefore, does not capture the effects of Michigan's new funding system.)

# MICHIGAN REVENUE REPORT

State revenue collections weakened for the second consecutive month, as receipts for the 11 major taxes covered in this report increased only 1.8 percent, compared with a 5.5 percent gain in April. For the first seven months of FY 1996-97, collections are up 5.4 percent, slightly below the recently revised consensus estimate of 6.2 percent.

Personal income tax withholding collections increased 4.6 percent above the year-ago level, compared with a 5.1 percent decline in April. The two months together were down 0.4 percent from April and May of 1996.

Sales tax collections increased only 2.2 percent, down from 5 percent in April. Motor vehicle sales declined 3.6 percent, while all other collections were up 3.4 percent from the year-ago level. This slowing growth is consistent with a nationwide weakness in retail sales in recent months. Use tax collections fell 0.9 percent from the year-ago level, excluding a one-time audit

payment of \$23.1 million in May 1996.

Single business tax collections rose 3.3 percent in May. Collections year-to-date are up only 1.2 percent, still well below the revised consensus estimate of 5.5 percent.

Lottery sales continued strong in May, increasing 13.5 percent above May 1996. Year-to-date collections are up 15.9 percent. Last month the consensus estimate for FY 1996-97 was increased from \$552 million to \$564 million, but if the current strength continues, this revised estimate will be too low.

## May 1997 Revenue Collections (millions)

Source	May Collections	% Change Year-ago	% Change Year-to-date	May 1996 Actual	FY 1996-97 Consensus Est. Less Tax Cuts (% Change)
Income tax					
Withholding	\$441.4	4.6%	5.3%	\$421.8	6.3%
Quarterly	7.0	25.0	12.1	5.6	9.4
Annual	37.2	61.7	35.4	23.0	33.0
Subtotal: gross income tax	485.6	7.8	8.6	450.4	6.1
Sales tax	433.9	2.2	3.3	424.7	4.2
Motor vehicles	71.8	-3.6	-1.1	74.5	—
Other	362.1	3.4	4.1	350.2	—
Use tax	90.4	-0.9	11.3	91.2	5.4
Subtotal: sales/use/withholding	965.7	3.0	4.9	937.7	—
Cigarette tax	41.6	-12.6	-6.6	47.6	-4.4
SBT	328.4	3.3	1.2	318.0	5.5
Insurance	5.3	-63.4	-9.2	14.5	-2.9
Subtotal: SBT + insurance	333.7	0.4	0.3	332.5	4.8
State education property tax	24.2	-23.4	12.7	31.6	5.0
Real estate transfer tax	12.8	-6.6	18.0	13.7	15.4
Estate/inheritance tax	9.3	-4.1	13.5	9.7	-3.4
Intangibles tax	24.4	-22.8	-28.9	31.6	-23.1
Severance tax	3.3	-15.4	15.2	3.9	19.6
<b>TOTAL</b>	<b>\$1,459.2</b>	<b>1.6%</b>	<b>5.4%</b>	<b>\$1,436.9</b>	<b>6.2%</b>
Gross lottery sales (prel.)	\$140.2	13.5%	15.9%	\$123.5	1.0%

SOURCE: Senate Fiscal Agency.

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