



Michigan REVENUE REPORT

Revenue collections showed no sign of strengthening in June. As predicted last month, personal income tax withholding weakened, a 1.9 percent decline from the year-ago level, after a strong gain last month. However, because of a drop in refunds due to faster processing this year than last, net personal income tax collections increased 11.1 percent. Sales and use tax collections fell 0.5 percent due, in large part, to a 15.6 percent decline in motor vehicles collections. Lottery revenues fell 5.8 percent in May, the fifth consecutive monthly decline, but jumped 10.9 percent above the depressed year-ago level in June. (June sales are not included in this report.) Single business tax collections were a bright spot, increasing 36.7 percent above the year-ago level.

In their June 29 financial report to the legislature, the Department of Management and Budget (DMB) reduced the estimate for lottery revenue by \$55 million (following a \$40 million reduction last month) and for single business tax revenue by \$40 million (following a \$10 million reduction earlier). (Estimates for several other revenue sources have been increased by about \$76 million in recent months.) However, the DMB is still forecasting a surplus of \$27.3 million for the year due to two financial adjustments. First, the state building authority is expected to pay back \$47.2 million to the general fund. These are funds that were allocated for prison construction, but will now be replaced by bond financing. Second, the method for valuing the pension funds has been changed, allowing a \$95.1 million reduction in the state contribution.

(over)

Table 1. Monthly Tax Collections

Dollars in Thousands

Type of Revenue	Preliminary June 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	\$294,207	-1.9%	\$874,480 ^a	3.4%	\$2,383,940	4.1%
Quarterly and Annual Payments	65,072	9.2	287,683 ^a	12.7	467,938	23.1
Gross Personal Income Tax	359,279	-1.1	1,162,163 ^a	5.6	2,851,878	6.8
Less: Refunds	-23,797	-61.2	-397,991	-20.4	-943,901	4.6
Net Personal Income Tax	335,482	11.1	764,172 ^a	27.1	1,907,977	7.9
Sales and Use Taxes	229,327	-0.5	668,249	1.8	1,756,485	2.0
-Motor Vehicles	41,045	-15.6	126,255	-2.2	283,783	-1.7
Single Business Tax	67,089	36.7	442,340	1.7	999,658	0.1
Cigarette Tax	19,551	0.9	57,855	-0.9	152,089	-2.3
Public Utility Taxes	260	22.1	260	20.9	58,896	6.6
Oil and Gas Severance Tax	3,909	2.4	11,789	1.6	31,270	-24.2
Lottery ^b	34,232	-5.8	103,905	-4.0	276,290	-2.8
Penalties and Interest	-1,041	NM	8,961	44.7	30,781	19.3
SUW—Annuals and Undistributed ^c	8,851	60.8	11,946	124.1	25,429	78.3
Other Taxes ^d	8,631	23.2	87,503	12.0	195,003	19.1
TOTAL TAXES (GF & SAF) ^e	\$706,291	8.1%	\$2,156,989	10.0%	\$5,433,878	3.9%
Motor Fuel Tax ^f	\$53,190	1.1%	\$162,452	0.8%	\$427,978	2.4%

NM = Not meaningful

^aAdjusted to reflect changes in tax rates. Withholding is also adjusted to reflect difference in number of Fridays (paydays) in a month.

^bLottery collections run one month behind other tax collections due to a reporting lag. Therefore, May 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 estimated \$7.9 million has been received from interest and other sources as of April 31, 1987.

^cThese revenues are distributed to the sales, use, and withholding (SUW) accounts when final numbers for the month are reconciled.

^dIncludes intangibles, inheritance, corporate organization, and industrial and commercial facilities taxes.

^eExcluded 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 about 27 percent in fiscal year 1985-86 and 13.1 percent in the previous fiscal year.

^fThe motor fuel tax is restricted to the Transportation Fund.

The Senate Fiscal Agency has recently issued a report projecting a deficit of \$51 million for fiscal year 1986-87. This appears to be a reasonable estimate as Public Sector Consultants believes that the current DMB estimate for sales and use tax revenue is \$45 million to \$50 million too high. Small shortfalls in several other revenue sources are also possible. On the positive side, there is a chance that income tax refunds could fall as much as \$20 million below the current budget estimate.

Monthly Focus: State Unemployment Rates

In April, the Michigan unemployment rate was 8.5 percent, ranking the state tenth in the nation and highest among the Great Lakes states (see Table 2). The Michigan unemployment rate has declined 0.6 percentage points from April 1986, but is 0.4 percentage points above the October 1986 rate.

Michigan employment growth has been modest, increasing only 1.8 percent above the year-ago level, due mainly to weakness in manufacturing, particularly in the motor vehicle sector. The strongest sectors have been construction; finance, insurance, and real estate; and trade. Employment in the services sector has weakened slightly in recent months and is only 2.8 percent above the year-ago level (see Table 3).

The outlook for the remainder of 1987 and 1988 is for a slowing in the rate of growth in employment and an increase in the Michigan unemployment rate. The University of Michigan is projecting a 1.3 percent increase in wage and salary employment in 1987 and a 0.7 percent decline in 1988, with an average unemployment rate of 8.7 percent in 1987 and 10 percent in 1988. This forecast may be a little pessimistic, but, if accurate, it foreshadows serious fiscal problems for the state.

Table 2. Unemployment Rates for Selected States, April 1987

State	Rate	Percentage Point Change From April 1986
Louisiana	12.0	-0.7
Alaska	11.5	0.7
West Virginia	10.0	-2.2
Kentucky	9.6	0.3
Idaho	9.3	—
Mississippi	9.3	-2.1
Wyoming	9.1	-0.6
Colorado	8.9	1.3
New Mexico	8.8	-0.4
MICHIGAN	8.5	-0.6
Texas	8.3	0.1
Washington	8.3	-0.1
Illinois	8.2	—
Ohio	7.1	-0.8
Indiana	6.2	-0.5
Wisconsin	6.1	-1.5
Connecticut	3.2	-0.5
Delaware	2.9	-1.6
New Hampshire	2.3	-0.6
U.S.	6.2	-0.8

SOURCE: U.S. Department of Commerce, Bureau of Labor Statistics, *News*, Washington, D.C.: June 16, 1987.

Table 3. Michigan Wage and Salary Employment, by Industry

Industry	April 1986 (thousands)	April 1987 (thousands)	% Change
Construction	109	122	11.9
Manufacturing	1,005	982	-2.3
-Motor Vehicles and Equipment	341	325	-4.7
Transportation, Communications, and Public Utilities	147	149	1.4
Trade	794	826	4.0
Finance, Insurance, and Real Estate	167	177	6.0
Services	780	802	2.8
Government	609	617	1.3
TOTAL	3,622	3,687	1.8
Civilian Labor Force	4,332	4,451	2.7
Numbers Unemployed	394	379	-3.8

SOURCE: Michigan Employment Security System, *Michigan Labor Market Review*, April 1987.