

GOOD NEWS

The **U.S. unemployment rate** inched down 0.1 percent for the second month in a row, falling from 5.7 percent in May to 5.6 percent in June. **Payroll employment** rose 215,000, although manufacturing jobs declined by 40,000. Construction and service industries led the employment growth.

◆ June **U.S. vehicle sales** totaled 1.44 million units, representing a seasonally adjusted annual sales rate of 15.2 million and only 0.5 percent behind last year's 1.45 million; but sales for the first six months of 1995 still lag 3.1 percent behind last year's strong sales during the same period.

◆ The Federal Reserve Bank lowered the short-term **federal funds interest rate**, the rate at which banks lend to each other, by 0.25 percentage points to 5.75 percent at its July 6 policy meeting. The first rate reduction in almost three years signalled the Fed's satisfaction that its record string of consecutive hikes in the last year and a half succeeded in dampening inflationary expectations. Major banks responded by lowering their prime lending rates by a quarter point.

◆ Spending on **durable goods**, items expected to last more than three years, increased by 2.5 percent in May after falling for three consecutive months. Defense and capital goods orders were particularly strong.

BAD NEWS

Michigan's unemployment rate climbed from 5.7 percent in May to 6.2 percent in June. Temporary layoffs in the auto industry, caused by weaker than expected auto sales in the first half of the year, had a significant effect on the unemployment rate. Michigan and Pennsylvania tied with fourth highest rate.

◆ The **index of leading economic indicators** fell for the fourth consecutive month in May, down 0.2 percent from April.

◆ The Conference Board's **consumer confidence index** sank from 102 in May to 92.8 in June. Unlike last month, when consumers' longer-term expectations remained strong despite a drop in the index, expectations of future conditions fell by even more than the index.

◆ Adjusted for inflation, **personal income** fell 0.2 percent in May, the first decline in more than a year. **Disposable personal income**, also adjusted for inflation, rose 0.6 percent.

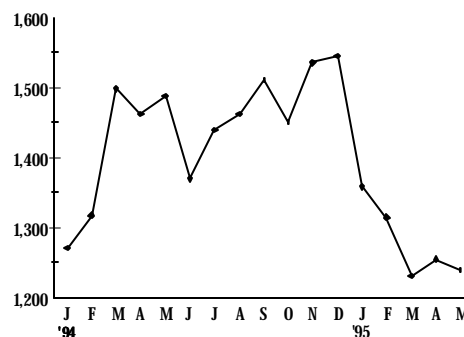
◆ **Construction spending**, falling for the second month in a row, plummeted 1.5 percent from April to May, the biggest drop in four years. Contributing to the decline, **new housing starts** fell 1.3 percent. Also in May, **spending on single-family home sales** fell 2.5 percent.

Michigan Monthly Unemployment Rates (seasonally adjusted)



SOURCE: Michigan Employment Security Commission.

U.S. Housing Starts, Seasonally Adjusted Annual Rate (thousands)



SOURCE: U.S. Commerce Department.

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M O N T H L Y F O C U S

SCHOOLS NOT READY FOR THE FUTURE

The General Accounting Office (GAO) released a report this April entitled *School Facilities: America's Schools Not Designed or Equipped for 21st Century*.¹ The GAO examined the extent to which schools have the physical capacity to educate in the next century. The GAO concluded that while some schools, especially newly constructed ones, are capable of meeting future needs, the majority lack the requisite communications technology and infrastructure to effectively prepare students for the 21st century work force.

Insufficient Technology

Overall, schools make the grade in areas such as teacher planning, library/media centers, and the capacity for small-group instruction. In technology, however, a critical aspect of preparing students to function in the next

century's marketplace, schools are ill-prepared for the future.

- While most schools own enough computers and televisions, they do not have adequate building infrastructure (such as electrical outlets) to fully use them.
- A majority of schools have not networked their computers to each other or to the information superhighway to realize all the potential benefits. Benefits include access to vast data sources on the Internet, computer communications (e-mail), and on-line interaction between students and faculty.
- Only 5 percent of schools report "very sufficient" modem capabilities.
- One-third of schools lack sufficient electrical power to run computer and communication technology and 46 percent do not have the proper electrical wiring.

Michigan's Schools Get an "F"

Michigan's schools rank near the bottom of the fifty states in technological capabilities. (See exhibit.) Michigan ranks forty-fifth of all states and the District of Columbia in the average number of students per computer, 19.9. In only ten other states do a greater

percentage of schools report insufficient modems. The state ranks fortieth in sufficiency of networks.

Michigan needs to improve its technological capabilities to educate for the future. Toward that end, Governor Engler recently announced plans to create the Michigan information network, which would electronically connect schools, universities, and libraries across the state. It would allow all public learning institutions in the state to be connected via computer and eventually interactive video.

Conclusion

As the Information Age continues to supplant the Industrial Age, employers will increasingly require a larger share of students with ever superior computer skills. To provide children with the technological abilities and education that the 21st century economy will demand, schools must first invest significantly in technology, including the equipment, cables, lines, and networks needed to support modern technology. While the investment may be costly, the state and local communities can and must work to find the necessary funds.

¹United States General Accounting Office, *America's Schools Not Equipped for 21st Century*, April 1995. To order, call 202/512-6000.

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Michigan Schools' Technological Capabilities

	Percent Reporting Insufficient Technology	Rank Among States
Computers	36.9	44
Modems	64.1	41
Printers	38.8	41
Networks	63.3	40
Cable conduits	68.7	39
Electric wiring	51.0	37
Electric power	38.3	36
Fiber optic cable	85.6	19

SOURCE: United States General Accounting Office.

NEWS FROM THE STATE CAPITOL

ENGLER VETOES EXTRA SCHOOL MONEY...

Gov. John Engler has vetoed additional funding appropriated for several schools in the FY 1995-96 budget. Engler argues that the new school finance system, the result of last year's Proposal A, is working well and is fairer to all schools than the previous system, calling the legislature's special provisions for certain districts a return to "a complicated and unfair formula."

The vetoes include \$400,000 for Walled Lake, which is not getting enough funding to keep up with its substantial pupil growth; \$118,000 for Chesaning, to correct for the district's failure to collect all the millage voters approved before Proposal A was enacted (which resulted in the state calculating the district's allowance from a lower base); and \$100,000 for Oscoda, to assist in coping with the loss of a military base in 1993. The governor also has vetoed \$2 million for professional development for teachers, which he believes was not well spent in the current fiscal year.

...AND ENDS FUNDING FOR A COMMUNITY COLLEGE

In signing the community college budget, Governor Engler has vetoed all \$6.2 million appropriated for Highland Park Community College. The governor originally

proposed eliminating funding for the school, saying its continued operation was no longer economically feasible. He later agreed to a legislative proposal to provide more than \$4 million to convert Highland Park to a four-year technical charter school, but the legislature had to scrap the proposal to gain passage of the community college budget.

Although the school's officials have vowed to find a way to stay open, the college will most likely have to close unless a new agreement is reached.

HOUSE COMMITTEE WORKS ON SBT REFORM

The House Tax Policy Committee is holding special meetings to develop a package of bills to reapportion Michigan's single business tax (SBT) in a way that is acceptable to Governor Engler. In early June the Senate passed SB 342, which proposes to shift the SBT base to 100 percent of sales by 2000. Under current law a firm's in-state activity, as calcu-

lated for the purpose of the SBT, consists of 50 percent of its Michigan sales, 25 percent of its payroll in Michigan, and 25 percent of its property in Michigan. The Engler administration does not support the Senate measure because when fully implemented it could decrease SBT revenues by at least \$200 million.

Rep. Charles Perricone (R) is working on legislation by which the revenue lost from SBT reapportionment will be minimized and other revenue will be increased. The lead bill in Perricone's package is HB 4594, which, on an in-state company's business activity, levies 70 percent of the SBT on sales, 15 percent on property, and 15 percent on payroll. Michigan Department of Treasury officials estimate that the change will diminish SBT revenue by \$50-95 million. To recapture some of the lost revenue, the package also includes bills that propose increasing taxation of out-of-state firms.

PUBLICATIONS OF INTEREST

Senate Fiscal Agency, *Estimated State Spending and State Tax Collections by County: Fiscal Year 1992-93* (Lansing, Mich.: SFA, March 1995).

This publication summarizes total state spending by county, divided into departmental or budget area allocations, for FY 1992-93 in 37 tables. Another seven tables contain state revenue estimates by county for major tax categories. Selected socioeconomic characteristics of each county are included. To order, contact the SFA at P.O. Box 30036, Lansing, MI 48909-7536; 517/373-2767.

Congressional Budget Office, Congress of the United States, *Reducing Entitlement Spending* (Washington, D.C.: Government Printing Office, September 1994).

This 70-page report outlines the current state of entitlement spending and proposes three alternatives to reduce its growth and magnitude. Included are tables detailing the money spent on different entitlement programs and who receives the benefits, broken down by income and family type. The effects of global reforms, including taxing benefits, reducing benefits to middle- and high-income recipients, and denying benefits to high-income recipients, on the amount spent on and distribution of entitlement benefits and on the budget are projected. To order, call 202/226-2809.

M I C H I G A N

R E V E N U E

R E P O R T

State revenue collection continued strong in June. Personal income tax withholding collections jumped 17.5 percent above the year-ago level. This is likely due to a change in the timing of collections, as economic activity is not strong enough to support such a large increase. Quarterly and

annual payments have also been very strong in recent months. Some of this strength is likely due to the reduction in property tax credits as a result of the 1994 school finance reform program, which increases the tax due.

Sales and use tax collections continue to lag estimates. Sales tax collections increased 4.9 percent in June and use tax collections rose only 3.7 percent.

SBT collections jumped sharply in June, due largely to a change in the timing of collections. Collections have been strong for a number of months,

however, and the fiscal year total will be well above the consensus estimate.

Recent changes in cigarette tax collections have been distorted by advance buying last year before the 50-cent-per-pack tax increase. Adjusted year-to-date collections are down 15.4 percent, a smaller drop in consumption than expected.

Lottery sales fell 7 percent in June (preliminary) from the strong year-ago level, the first decline since October.

June 1995 Revenue Collections (preliminary, dollars in millions)

June 1995 Tax Revenue	June 1995			Percentage Change from Yr. Ago (baseline)	Percentage Change FY-to-Date (baseline)	FY 1994-95 Consensus Est. Base % Chg. (5/15/95)	June 1994 (baseline)
	Gross	New	Baseline				
Income Tax							
Withholding	\$431.4	-\$24.4	\$455.8	17.5% ^a	10.8%	8.8%	\$387.8
Quarterly	96.7	-5.2	101.9	15.3	9.2	3.8	88.4
Annual	17.1	-0.6	17.7	6.6	23.0	13.9	16.6
Subtotal Gross Income Tax	545.2	-30.2	575.4	16.8 ^a	11.6	8.7	492.8
Sales Tax	419.5	136.8	282.7	4.9	4.6	6.2	269.4
Use Tax	86.0	31.7	54.3	24.3	3.7	5.4	43.7
Cigarette Tax	55.4	36.9	18.5	86.9	-15.4	-19.0	9.9
SBT	143.7	-6.7	150.4	192.0	24.0	9.4	51.5
Insurance	0.6	0.0	0.6	-200.0	5.0	3.0	-0.6
Subtotal SBT + Insurance	144.3	-6.7	151.0	196.7	21.7	8.9	50.9
State Education Property Tax	36.4	36.4	0.0	—	—	—	—
Real Estate Transfer Tax	1.9	1.9	0.0	—	—	—	—
Estate/Inheritance Tax	5.3	0.0	5.3	657.1	83.6	36.8	0.7
Intangibles Tax	1.8	0.0	1.8	38.5	7.8	6.1	1.3
Severance Tax	3.3	0.0	3.3	26.9	8.5	-7.5	2.6
TOTAL	1,299.1	206.8	1,092.8	25.4^a	10.5	8.3	871.3
S-U-W	936.9	144.1	792.8	8.3 ^a	8.2	7.6	700.9
Sales Tax - SOS	75.7	25.3	50.4	2.3	4.2	—	49.3
Sales Tax - All Other	343.8	111.5	232.3	12.1	4.7	—	207.2

^aNo extra Thursday or Friday either year in June, so no adjustment is needed.

SOURCE: Senate Fiscal Agency.

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