



# Michigan ECONOMIC BULLETIN

## The Good News

► The U.S. Department of Labor reports that nonfarm labor productivity rose at a seasonally adjusted rate of 1.9 percent during the second quarter, following a revised first quarter decline of 1.1 percent. The April-June hike was the result of a combined rise in output and a decline in the number of hours worked.

● Nationally, consumer prices rose a meager 0.2 percent (seasonally adjusted) during June, resulting in a 4.7 percent rate of increase for the first six months of the year. The Detroit-Ann Arbor consumer price index increased 1.4 percent from two months ago, a 4.5 percent gain from June 1990 (see graph below).

► Apparently in response to a sluggish economy, the Federal Reserve moved to reduce the federal funds rate (the interest rate charged by member banks on overnight loans to one another) from 5.75 percent to 5.5 percent; this is unlikely to affect consumer or business loan rates, but it could lead to reduced costs for mortgage loans, further stimulating the housing and construction sector.

► Personal income and personal spending both rose at an annual rate of 0.5 percent in June. The personal income gain matches the May rise, the largest yet this year.

● The Commerce Department's index of leading indicators—designed to foretell the state of the economy in the coming six months—rose 0.5 percent in June, the sixth consecutive rise in the figure.

● The Michigan unemployment rate posted a substantial decline in July, dropping to 8.6 percent from 9.2 percent in June. The news was mixed however; the number of unemployed declined by 33,000, but this was matched by

an equal decline in the number of workers employed. An additional 65,000 workers left the labor force.

● During the second quarter, GNP rose at a seasonally adjusted rate of 0.4 percent, held down by a decline in net earnings from abroad. Excluding foreign earnings, the increase was 1.2 percent, with gains registered in consumer spending and residential investment.

## The Bad News

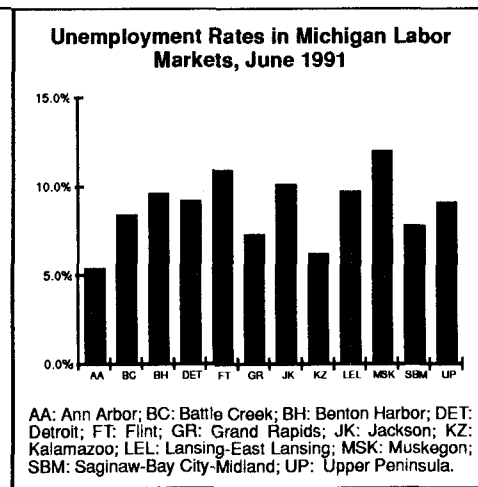
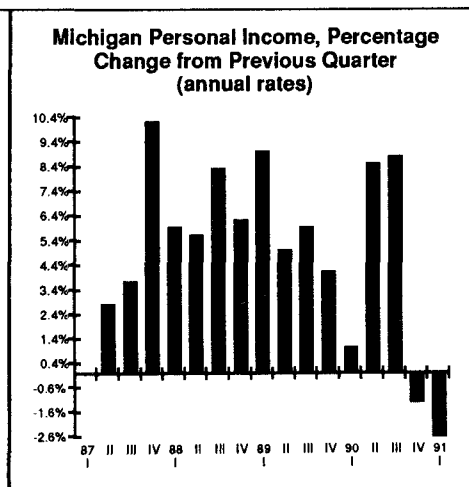
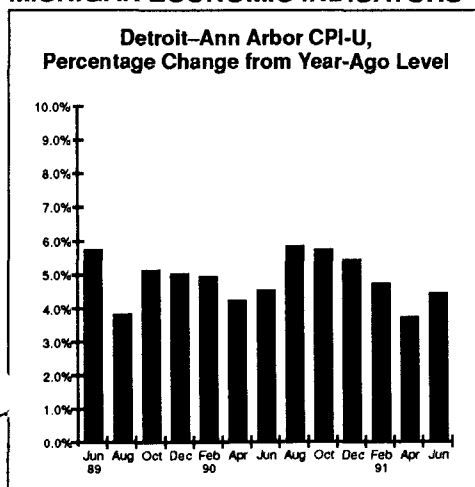
● Consumers appear to be wary about the economy: The Federal Reserve reported that the 3 percent decline in consumer credit in June was its largest monthly drop since the onset of the Persian Gulf War in January. The \$1.8 billion drop in credit followed a 2.2 percent, \$1.3 billion decline in May.

● Although July's national unemployment rate fell to 6.8 percent from June's 7 percent mark, the employment picture was not overly encouraging: Much of the decrease in the unemployment rate resulted from an exodus of 415,000 workers from the labor force, while jobs were reduced by 55,000 positions. One positive note was a slight rise in the number of manufacturing jobs.

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### MICHIGAN ECONOMIC INDICATORS



SOURCE: Bureau of Labor Statistics, Bureau of Economic Analysis, and MESC.

## Michigan Revenue Report: June

Revenues continued to be weak in June (May activity), but they were slightly stronger than in the previous month. Personal income tax withholding collections increased 9.2 percent in June; however, there were five Fridays (paydays) this year, compared with four in May 1990. Adjusted for the difference in the number of paydays, collections increased only 1.7 percent. Quarterly and annual payments also continued to be weak, declining 6.6 percent.

Sales and use tax collections fell 1.3 percent below the year-ago level, due mainly to an 18.4 percent decline in motor vehicle related collections. One encouraging sign is that nonautomotive collections increased 2.7 percent.

Single business tax (SBT) collections fell 17.4 percent below June 1990, and second quarter collections were down 23.3 percent from the year-ago level. Much of the decline was due to the appeals court ruling expanding the

capital acquisition deduction to out-of-state investment. The legislature has enacted a law, however, that will narrow the application of the deduction. As a result, SBT revenues should be stronger for the remainder of the fiscal year.

Lottery sales (preliminary) were roughly unchanged in June, following two strong months.

The Senate Fiscal Agency recently revised downward its May revenue estimates. The combined GF/GP and school aid fund estimate has been lowered by \$155.6 million to \$9,330.9 million for FY 1990-91, and by \$169 million to \$9,842.9 million for FY 1991-92. The major revisions were in the personal income tax (reduced \$118 million and \$120.9 million, respectively) and gross sales tax (reduced \$36 million and \$48.1 million, respectively) categories. The fiscal agency estimates differ little from the Engler administration's revised revenue estimates.

### MONTHLY TAX COLLECTIONS (dollars in thousands)

Type of Revenue	Preliminary June 1991	% Change from Last Year	Past 3 Months' Collections	% Change from Last Year	FY 1990-91 Year-to-Date	% Change from Last Year
Personal Income Tax						
Withholding	\$360,024	1.7% <sup>a</sup>	\$1,023,119	-1.8% <sup>a</sup>	\$2,816,851	1.7% <sup>a</sup>
Quarterly and Annual Payments	89,133	-6.6	412,969	-12.5	614,407	-8.9
Gross Personal Income Tax	449,157	0.0 <sup>a</sup>	1,436,088	-5.1 <sup>a</sup>	3,431,258	-0.4 <sup>a</sup>
Less: Refunds	-37,166	28.2	-548,848	1.4	-1,023,527	5.0
Net Personal Income Tax	411,911	-2.0 <sup>a</sup>	887,240	-8.7 <sup>a</sup>	2,407,731	-2.5 <sup>a</sup>
Sales and Use Taxes	272,766	-1.3	768,272	-2.0	2,053,090	-0.3
Motor Vehicles	43,067	-18.4	118,543	-15.0	275,860	-11.5
Single Business Tax	44,589	-17.4	408,482	-23.3	1,073,183	-12.0
Cigarette Tax	23,107	-1.5	64,167	-3.7	168,527	-1.0
Public Utility Taxes	39	NM	45	NM	71,711	2.5
Oil and Gas Severance	3,739	19.0	11,871	11.0	34,005	13.2
Lottery <sup>b</sup>	37,506	0.1	116,757	4.4	347,311	-0.7
Penalties and Interest	407	NM	16,087	27.2	54,311	27.5
SUW—Annuals and Undistributed <sup>c</sup>	2,294	NM	3,836	NM	25,423	72.3
Other Taxes <sup>d</sup>	9,006	-53.6	177,968	22.6	336,291	19.6
<b>TOTAL TAXES (GF &amp; SAF)<sup>e</sup></b>	<b>\$805,444</b>	<b>-3.3%</b>	<b>\$2,454,717</b>	<b>-6.9%<sup>a</sup></b>	<b>\$6,571,503</b>	<b>-2.0%<sup>a</sup></b>
Motor Fuel Tax <sup>f</sup>	\$55,971	-1.1%	\$168,524	-0.6%	\$445,100	-1.3%

SOURCE: Data supplied by Michigan Department of Treasury.

NM = Not meaningful

<sup>a</sup>Adjusted to reflect difference in number of Fridays (paydays).

<sup>b</sup>The state share of lottery collections is estimated to be 40.7 percent, based on the average profit to the state for fiscal year 1989-90. The previous year's figures are adjusted to the current year's profit margin; the percentage change reflects the increase in ticket sales.

<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, foreign insurance premium, corporate organization, and industrial and commercial facilities taxes.

<sup>e</sup>Excluded are beer and wine, liquor, and horse racing taxes, which are not collected by the Department of Treasury.

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

## Regional Economic Forecasts

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### Background

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The U.S. economy still is recovering from the recession that likely bottomed out in May. Gross National Product (GNP) declined in both the last quarter of 1990 and the first quarter of 1991 before posting a modest 0.4 percent gain in the second quarter.

Positive signs include seven continuous rises in both the U.S. Commerce Department index of leading indicators and the National Association of Purchasing Management index, improved vehicle sales from depressed winter levels, and gains in personal income and consumer spending and confidence.

Hampering the recovery have been high long-term interest rates and the federal deficit, which continues to drain capital from the private sector. The deficit, rising state and local taxes, and spending cuts at all levels have reduced the possibility of growth being stimulated by the public sector. The value of the dollar has risen, making U.S. goods more expensive overseas and dampening our export drive.

The Michigan economy appears to be on the mend. The number of nonfarm wage and salary jobs jumped from April to May by 24,000, and in June total civilian employment rose slightly and the unemployment rate slipped. The hike in automotive production in the months ahead likely will sustain Michigan's recovery.

The national recovery appears to be weaker than the post-war average: For 1991 GNP likely will grow by slightly less than 1 percent; in 1992 by about 2.5 percent. Vehicle sales are estimated at 12.5 million units in 1991, down 12 percent from 1990 and 23 percent from the 1986 peak of 16.3 million. For 1992 vehicle sales are expected to total 14.8 million.

### Regional Forecasts

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The following analysis of the economy in Michigan's seven regions—shown in Exhibit 1—is based on interviews with experts in the regions and the author's observation of previous recoveries. Because of manufacturing's vital role in the state economy, Exhibit 1 shows the expected rate of change in manufacturing employment from 1989 to 1992.

**UPPER PENINSULA** The recent completion of the new Champion pulp and paper mill at Quinnesec produced new jobs in the U.P. wood products industries but reduced construction employment. The departure of construction workers (whose numbers peaked at 2,500) resulted in Dickinson County experiencing the highest job loss rate in the state in 1991. Elsewhere in the region, assembly of the new Great Lakes Transmission pipeline—which will run from Alberta, Canada, to Detroit—continues to employ 300–400 construction workers.

Other notable changes in the U.P. economy are the closings of the Frigo Cheese plant in Menominee, the Lakeshore plant in Marquette (a mining equipment manufacturer), two of the Freudenberg plants in Escanaba (automotive torsion bar dampers), and the Callahan gold mine in Calumet. A third Freudenberg plant (custom machine parts) was sold to a local group and will continue production. Around Munising the economy has been boosted by the presence of a new state prison.

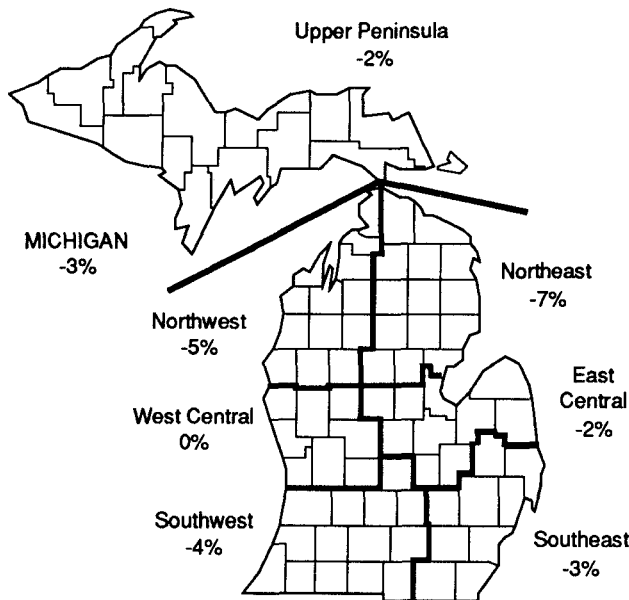
K.I. Sawyer Air Force Base near Marquette, the Veterans Hospital at Iron Mountain, Corps of Engineers operations at Sault Ste. Marie, and other activities make the federal government a major U.P. employer. There are three public universities in the Upper Peninsula, the state operates numerous other institutions there, and local government is oversized compared with the rest of the state, making this region's economy more dependent on government than any other in the state. In 1990 the civilian employees of federal, state, and local government accounted for a quarter of total civilian employment.

Mining also is more vital to this region's economy than to the others. Taconite is produced in the Marquette area, copper in White Pine, and limestone in the eastern part of the peninsula. Upper Peninsula growth industries include health care, tourism, and wood products.

**Outlook** The changes taking place in the Upper Peninsula from 1990 to 1991 have resulted in a net annual average job loss of about 5,000 wage and salary workers. In 1992, however, economic recovery is expected to produce about 2,000 new jobs (over the 1991 level). Mainstays of the recovery are retail trade and continued growth of services. Although the Upper Peninsula's recovery rate through 1992 is expected to be slightly above the statewide average, this is the only region where wage and salary employment is expected to be below the 1990 figure.

## EXHIBIT 1

### Percentage Change in Manufacturing Employment in Michigan Regions, 1989-92



SOURCE: Michigan Employment Security Commission (special release) and estimates by the author.

**NORTHEAST** As the result of the new state prison near Standish, Arenac County experienced the state's highest job growth rate. Gladwin, Clare, Otsego, and Ogemaw also were among the state's top growth counties. On the other hand, this region also includes Montmorency and Cheboygan counties, which experienced the highest rates of job loss this year outside of Dickinson County.

Wurtsmith Air Force Base is the area's largest employer, and the Coast Guard has an operation at Cheboygan. These activities, plus those of numerous state and local government units, make this region third, behind the Upper Peninsula and southwest Michigan, in its dependence on government as a job provider.

Proctor and Gamble will close its Cheboygan plant at the end of this year, eliminating 350 jobs; the production of Pampers will be transferred to Ontario, North Carolina, and California to be closer to markets. Hi Q (wiring harnesses for cars) closed plants in Atlanta and Pellston (in northwest Michigan) this year.

Alpena is home to Besser Corporation (machinery for the manufacture of concrete blocks) and Fletcher Paper. Other major manufacturers are Lafarge Corporation (cement) and Abitibi Price (hardboard), both of which are foreign owned and recently committed large investments to update their operations.

This region hosts a large number of small, automotive-related machine shops and metal fabricators, which generally have been declining since the mid-1980s. Forest-based industries and limestone mining also are important to the region's economy, although their employment has declined in recent years.

Growth in this region is occurring in tourism-related activities and health care. Retirees—either moving to the area or visiting—have brought in dollars. New golf courses, restaurants, and motels draw visitors from the industrial cities of Michigan, Ohio, and Indiana. Alpena has become a regional health care center as a result of hospital expansion and the employment of additional medical specialists.

A large proportion of the region's small machine shops, logging operations, grocery stores, motels, and other operations are family businesses. Consequently, this region, more than any other, relies on local entrepreneurship to support the economy.

**Outlook** Notwithstanding sound growth in health care, tourism, retail trade, and other services, northeast Michigan is expected to lag behind the statewide average in 1992. The closure of Wurtsmith Air Force Base, scheduled for 1993, further dims the extended regional outlook.

**NORTHWEST** Osceola County and the Traverse City, Cadillac, and Petoskey areas are among this year's job gainers, while Frankfort, Manistee, Ludington, and Boyne City are losers. Like northeast Michigan, in recent years this region has experienced a steady erosion in its manufacturing base. A number of small shops have been affected by the slide in automotive production, and at the end of this year a metal stamping plant in Boyne City will close.

Traverse City is the hub of all northern Michigan, providing the infrastructure of banking, insurance, wholesaling, and communication services vital to the area economy. The greater Traverse City area also is a major convention center. The city has a momentum all its own and is far less dependent than the rest of northern Michigan on southern Michigan and northern Ohio.

**Outlook** For northwest Michigan, growth in retailing and services (lead by tourism and travel) is expected to produce an overall growth rate that will match the 1992 statewide average. Some recovery also is expected in manufacturing employment.

**WEST CENTRAL** Such firms as Steelcase, Herman Miller, Haworth, American Seating, and Westinghouse make west central Michigan the national manufacturing capital for office furniture and fixtures. In addition, Ada is

headquarters for Amway Products. These several companies have played a major role in making western Michigan a rapid growth area. Several automotive suppliers also are located in the region, but they depress rather than stimulate the economy; one, McInerney Spring and Wire, has closed.

Grand Rapids—the economic capital of western Michigan—also is the region's hub. Office space in the downtown area is increasing to meet growing demand.

Muskegon has not experienced the sharp employment decline that had been typical in past recessions. Furthermore, Teledyne has won a contract that promises to bring new jobs to the city, adding modestly to its overall level of employment in the year ahead.

The Greenville area is experiencing some employment declines this year resulting from ups and downs at its major employer, White Consolidated (appliance producer). However, White recently completed a \$60 million renovation project, virtually guaranteeing the jobs of some 2,400 wage and salary workers, and K-Mart has started construction of a new store on the west side of town. Western Montcalm County is experiencing an influx of new residents from the Grand Rapids area, partly as a result of booming home prices there.

**Outlook** Every major economic sector in the west central region, including government, is expected to post job gains in 1992. Overall job growth is projected at 2.6 percent, fastest among the regions.

**SOUTHWEST** Three counties in this region have experienced employment gains in 1991: Barry (4.7 percent), Van Buren (2.6 percent), and Allegan (0.1 percent). Branch is unchanged; all others have experienced declines, with St. Joseph and Jackson counties being the big losers.

The city of Jackson has experienced sagging fortunes for a number of years. This year Wyman Gordon (automotive supplies) closed, costing the area 225 jobs. Consumers Power is laying off 235 of its salaried workers, and another 225 have taken early retirement. The city has, however, attracted a Japanese automobile compressor manufacturer and another that is building an automotive components supply factory. Together, these two firms will provide 350 jobs. Retailing and travel-related businesses are expanding, and other service industries also are adding new jobs.

Nearby Battle Creek hosts a new Kellogg plant, perhaps the most high-tech cereal plant in the world; although the increased productivity in food processing will mean fewer jobs, it guarantees those that remain. The city also is home to the Fort Custer Industrial Park, in which two Japanese firms, Nippondenso and I.I. Stanley (automotive supplies), are expanding.

Kalamazoo hosts the Upjohn Company, which is scaling back its management team through attrition. Several paper companies also are cutting back for one reason or another.

Benton Harbor, like Jackson, has experienced several plant closures and cutbacks. Manufacturing employment is down again this year, and the old Zenith factory may be in trouble. Some time ago Zenith was purchased by a French computer firm (Group Bull), which currently is reducing its worldwide operations due to overcapacity and fierce competition in minicomputers.

The Lansing area is showing a modest gain in manufacturing employment, spurred by production at the General Motors plants and their suppliers. Overall area employment is unchanged from the 1990 level.

**Outlook** Manufacturing in southwest Michigan is expected to recover somewhat in 1992 (although not to the 1990 level), while retailing and services will add to the job base. State budget problems will dampen growth in government employment. The region will post 1992 job growth of slightly below one percent, the state's slowest.

**EAST CENTRAL** The Saginaw area (Bay, Midland, and Saginaw counties) has added more than 4,000 jobs so far this year, more than any other of the state's labor markets. Wage and salary employment has risen 2.7 percent, and total civilian employment is up nearly 2 percent. Gains were scored across a broad range of activities—including manufacturing—although government employment declined slightly.

Lead by manufacturing, Isabella is another of this year's fastest growing counties. Although manufacturing employment fell sharply in Flint (in Genesee County), the market still posted overall job gains; this also held for Gratiot, Sanilac, and Tuscola counties, although Evans Products, an automotive supplier in Gagetown, has closed.

Huron and Shiawassee counties both experienced sharp declines in manufacturing employment, resulting in their being among the big losers in their total number of wage and salary jobs in 1991.

**Outlook** For 1992, economic growth in east central Michigan is expected to be better than 1991's anemic rate, although it is unlikely that overall growth will match the statewide average.

**SOUTHEAST** Between 1990 and 1991 wage and salary employment in the seven-county Detroit area is projected to drop by about 2 percent (28,000 jobs), three-quarters of the total statewide job decline. About 20,000 of the jobs will be in manufacturing, which in this area is expected to decline by about 7 percent.

The region's other two labor markets—Ann Arbor and Lenawee County—have experienced manufacturing employment declines of approximately 6 percent in 1991. Ann Arbor, however, enjoyed sharp gains in government employment, likely due to additions at the University of Michigan (reported as a government employer in Michigan Employment Security Commission data). Consequently, Ann Arbor is experiencing gains in overall wage and salary employment, following only Saginaw among the major areas in 1991 job growth. Jobs in Lenawee County, however, have declined by about 1 percent.

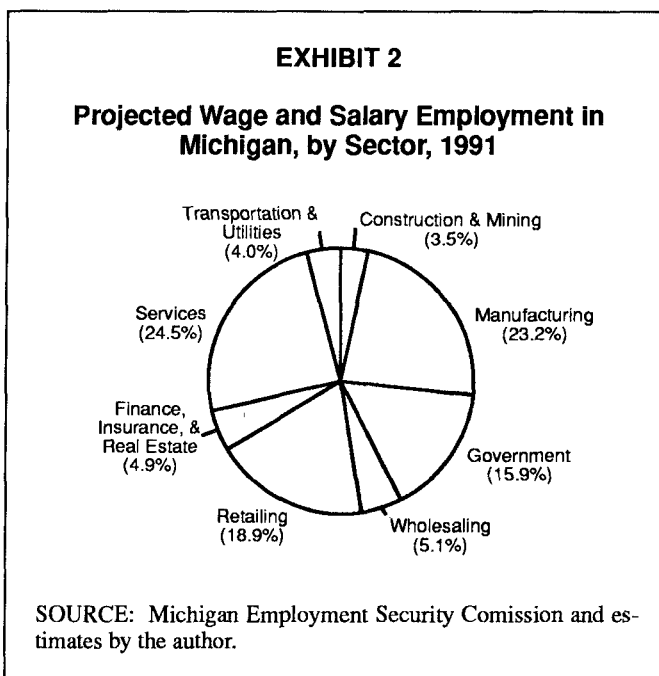
**Outlook** Lead primarily by increased automotive manufacturing, 1992 employment in southeast Michigan is expected to rebound at least to the 1990 level. Respectable growth in services and wholesale and retail trade will provide additional impetus, resulting in overall job growth at slightly above the statewide average.

## Conclusions

Conversations with bankers and other experts around the state make it very clear that most of Michigan still is very dependent on the automotive industry, although the data clearly indicate that this dependence has diminished considerably during the past decade. While this industry is far more resilient now than ten years ago, many factories will be vulnerable in the next downturn (in 1995 or 1996). Downsizing in the automotive industry has affected nearly every region except perhaps the western Upper Peninsula, and there is every reason to believe that job attrition will continue even after the recovery has leveled off.

Travel, outdoor recreation, and related industries are being counted on to take the place of dwindling manufacturing and mining jobs, particularly in the northern part of the state. Statewide, the service sector continues to enlarge its role in the economy. (See exhibits 2 and 3.) A sizeable expansion in the retail sector (at Meijer, K-Mart, and

Wal-Mart stores in particular) is underway, especially on the outskirts of smaller communities. (This development raises the issue of the viability of small downtowns, however, with their dependence on family retail and service businesses.) Health care, focused on the needs of the burgeoning senior population, also is one of the state's fast-growth industries. In addition, it seems likely that government will expand in the coming years, providing for the needs of the elderly and children and repairing our decaying public infrastructure.



## EXHIBIT 3

**Projected Regional Wage and Salary Employment in Services, Manufacturing, and Total Employment, 1991 and 1992 (in thousands)**

Region	Services		Manufacturing		Total	
	1991	1992	1991	1992	1991	1992
Upper Peninsula	20.8	22.1	15.2	15.5	108.2	110.3
Northeast	14.3	14.9	10.6	10.7	72.9	73.9
Northwest	25.7	26.2	21.1	21.8	108.2	110.0
West Central	103.4	107.0	129.4	135.0	469.8	482.1
Southwest	128.3	129.3	150.7	155.5	622.2	627.8
East Central	93.2	94.0	108.6	113.2	419.6	425.5
Southeast	570.3	579.6	471.6	492.1	2,110.6	2,148.6
<b>TOTAL</b>	<b>956.0</b>	<b>973.1</b>	<b>907.2</b>	<b>943.8</b>	<b>3,911.5</b>	<b>3,978.2</b>

SOURCE: Michigan Employment Security Commission (special release) and estimates by the author.



## Michigan Revenue Report: July

The recession may be over, but one would not know it from state revenue collections. July tax receipts (June activity) were 4.3 percent (adjusted) below the year-ago level.

Personal income tax withholding collections in July were down 1.6 percent, adjusted for one fewer Friday (payday) this June than last. Net personal income tax collections were down 9.2 percent due to a large increase in income tax refunds. Sales and use tax collections rose a robust 0.7 percent, the first increase since December collections. Motor vehicle collections continued to be very weak, declining 14 percent from the year-ago level. Excluding motor vehicles, collections increased 3.7 percent, a glimmer of hope for better months ahead.

Single business tax collections continue to be a major concern: July collections declined 23.4 percent. It is hoped

that this is due to slower payments this year (the tax was due July 31) and not to legal or economic problems.

July lottery sales declined an estimated 14 percent from the level of one year ago, when a large Lotto jackpot stimulated strong sales.

Unless revenues improve quickly, it is likely that the current FY 1990-91 GF/GP and school aid fund revenue estimate of \$9,248, which was revised downward by about \$235 million in May and \$98 million in July, still will be a little too high. (The major downward revisions in July were \$32 million in income tax revenues, \$20 million in the SBT, \$18 million in the lottery, and \$10 million in the use tax.) This also will translate into lower revenues for FY 1991-92, and we already believe that the estimate for next year is about \$100 million too high.

### MONTHLY TAX COLLECTIONS (dollars in thousands)

Type of Revenue	Preliminary July 1991	% Change from Last Year	Past 3 Months' Collections	% Change from Last Year	FY 1990-91 Year-to-Date	% Change from Last Year
Personal Income Tax						
Withholding	\$338,770	-1.6% <sup>a</sup>	\$1,012,515	0.3%	\$3,157,610	1.4%
Quarterly and Annual Payments	9,168	1.9	150,147	-43.2	625,513	-8.5
Gross Personal Income Tax	347,938	-1.5 <sup>a</sup>	1,162,662	-8.5	3,783,303	-0.4
Less: Refunds	-48,429	107.6	-315,161	4.7	-1,079,015	8.1
Net Personal Income Tax	299,509	-9.2 <sup>a</sup>	847,501	-12.6	2,704,288	3.4
Sales and Use Taxes	284,571	0.7	801,764	-1.5	2,332,917	-0.4
Motor Vehicles	41,001	-14.0	124,967	-14.6	316,854	-11.8
Single Business Tax	146,445	-23.4	429,709	-23.5	1,222,535	-13.5
Cigarette Tax	20,599	-5.1	64,868	-2.0	189,129	-1.5
Public Utility Taxes	17,932	87.8	17,971	85.6	89,642	12.7
Oil and Gas Severance	3,859	14.9	11,607	14.3	37,864	13.4
Lottery <sup>b</sup>	37,755	-14.2	161,249	-0.3	391,803	-2.8
Penalties and Interest	786	NM	15,598	16.4	61,669	25.8
SUW—Annuals and Undistributed <sup>c</sup>	9,291	181.2	11,355	450.1	33,094	83.3
Other Taxes <sup>d</sup>	39,539	208.8	138,935	72.0	376,982	28.7
<b>TOTAL TAXES (GF &amp; SAF)<sup>e</sup></b>	<b>\$859,286</b>	<b>-4.3%<sup>a</sup></b>	<b>\$2,500,557</b>	<b>-7.0%</b>	<b>\$7,439,923</b>	<b>-2.3%</b>
Motor Fuel Tax <sup>f</sup>	\$58,767	-1.0%	\$171,560	-0.9%	\$507,335	-1.2%

SOURCE: Data supplied by Michigan Department of Treasury.

NM = Not meaningful

<sup>a</sup>Adjusted to reflect difference in number of Fridays (paydays).

<sup>b</sup>The state share of lottery collections is estimated to be 40.7 percent, based on the average profit to the state for fiscal year 1989-90. The previous year's figures are adjusted to the current year's profit margin; the percentage change reflects the increase in ticket sales.

<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, foreign insurance premium, corporate organization, and industrial and commercial facilities taxes.

<sup>e</sup>Excluded are beer and wine, liquor, and horse racing taxes, which are not collected by the Department of Treasury.

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

## Revenue Sharing, Furloughs, and Advertising Taxation

● **Revenue Sharing** Under the recent agreement on FY 1991-92 budget targets, a \$45 million savings would result from a one-year freeze of revenue sharing payments to local governments. (Refer also to our memorandum of August 5.) The freeze would hit local government especially hard because property tax assessments already are slated to be frozen in 1992. Revenue sharing and property taxes are the main source of income for local governments.

To freeze revenue sharing payments will require a change in state tax law; current law requires that local governments receive from the state (1) a fixed percentage of income tax revenues, (2) \$9.5 million in intangibles tax revenues, and (3) a proportion of SBT revenues. A percentage of sales tax revenues also is earmarked for locals, but tampering with this arrangement would require a constitutional amendment, and thus voter approval, which is highly unlikely.

Also associated with the revenue sharing freeze is the constitutional requirement (the so-called Headlee amendment) that 41.6 percent of total state spending be returned to local governments. One recently settled court case obliges the state to reimburse \$400 million to locals (beginning in FY 1992-93) for payments incorrectly counted as local spending. Despite this, the administration apparently is confident that planned FY 1991-92 spending will meet the 41.6 percent constitutional requirement even if revenue sharing is frozen. An interesting point is that if a property tax relief plan is implemented (after FY 1991-92) that reimburses locals for lost property tax revenues, the state likely would count the reimbursements toward the 41.6 percent requirement. Assuming no total change in revenue sharing (from current levels), this implies that property tax relief exceeding \$400 million would come at the expense of local programs currently funded with state (revenue sharing) dollars.

In addition, some revenue sharing payments are based on population, and the freeze would occur at the same time payments are being adjusted for changes associated with the 1990 census. Urban areas that have lost population would suffer doubly.

Nothing about the revenue sharing issue has yet been written in stone; in fact, the entire target agreement is still pending agreement on the power of the State Administrative Board.

● **Furloughs** State workers in eleven departments now have an alternative to the four-day furlough plan announced several weeks ago by the administration as part of the budget-balancing agreement reached in June. Originally, most workers were slated to take unpaid leave on four consecutive work days (August 15, 16, 19, and 20).

Under agreements reached among individual departments, labor unions, the Department of Management and Budget, and the Office of the State Employer, employees now have more flexibility as to when days are taken; many may schedule the appropriate number of hours any time between now and September 30, the end of the fiscal year. The new plan will save the state \$1 million more than the estimated \$13 million associated with the consecutive-day plan, but this still falls short of the \$15 million savings projected in the June budget agreement.

● **Taxing Direct Mail Advertising** The Michigan Supreme Court has refused to hear a case regarding exemption from taxation of direct mail advertising packages. Advo-System asserted that its mailings—which contain coupons and advertising as well as a card with information on missing children—are “publications” and thus, exempt from the Michigan sales and use tax. The Department of Treasury, the trial court, and the appeals court all disagreed. Struck down has been Advo’s contention that mailings need not carry news, information, or commentary to be considered a publication and thus qualify for tax exemption.

### PUBLICATIONS OF INTEREST

The Michigan Department of Treasury has released several reports that provide extensive data on the Michigan tax system.

**Tax Expenditure Appendix, Fiscal Years 1988-89 and 1989-90, Supplement to the Executive Budget.** Provides estimates of the revenue loss from the various tax credits, deductions, and exemptions.

**Property Taxes in Michigan: Rates, Revenue and Relief, 1988-89 (December 1990).** Provides a comprehensive overview of the Michigan property tax including county data for the various SEV classes and property tax credits.

**Income, Income Tax, and Property Tax Credit Data by School District, 1989 (June 1991).** Data for tax year 1989, the most current on the income tax.

**Analysis of the Michigan Individual Income Tax for 1987 (December 1990).** Provides a comprehensive analysis of the income tax; much of the data are provided by income class.

**Census Data** Detailed data from the 1990 Census for counties, townships, and cities may be ordered and more information obtained from the Demographic and Statistics Unit, Michigan Information Center, Michigan Department of Management and Budget, P.O. Box 30026, Lansing, MI 48909, or by calling 517/373-7910.