



Michigan REVENUE REPORT

Most revenue sources performed as expected in August (July activity). Personal income tax withholding collections increased 4.2 percent, slightly above the year-to-date increase. August sales and use tax collections rose 3.3 percent above the year-ago level, well above the year-to-date increase. However, indications are that September collections will be very weak.

Single business tax (SBT) collections continued weak, as expected, declining 14.1 percent below the year-ago level. July and August collections together, which provide a more accurate picture of economic activity, declined 4.2 percent compared to the year-to-date decline of 5.4 percent. Our current estimated range of SBT collections—\$1,740 million to \$1,760 million (gross)—appears to be about \$10 million too low.

Lottery sales have been stronger than expected in recent weeks due to two large Lotto jackpots. July sales rose 28.1 percent, and preliminary data indicates that August sales increased about 40 percent. We have been estimating profits at \$485–490 million for FY 1989–90, but \$495 million now seems more likely.

Total general fund and school aid fund taxes increased only 1.1 percent above the year-ago level. In last month's *Revenue Report* we estimated that FY 1989–90 revenues would fall about \$200 million below the administration's current estimates. That number still appears accurate despite small upward revisions in the estimates for lottery and SBT revenues, as several other revenue sources are expected to be weaker than estimated.

Table 1. Monthly Tax Collections

Dollars in Thousands

Type of Revenue	Preliminary August 1990	% Change from Last Year	Past 3 Months' Collections	% Change from Last Year	FY 1989–90 Year-to-Date	% Change from Last Year
Personal Income Tax						
Withholding	\$309,967	4.1%	\$1,012,061	3.7%	\$3,427,429	3.4%
Quarterly and Annual Payments	11,157	-7.9	120,955	2.9	697,402	1.6
Gross Personal Income Tax	321,124	3.7	1,133,016	3.6	4,124,831	2.9
Less: Refunds	-22,189	38.6	-74,673	36.3	-1,020,475	10.8
Net Personal Income Tax	298,935	1.8	1,058,343	1.8	3,104,356	0.5
Sales and Use Taxes	270,623	5.5	825,859	3.5	2,608,810	3.8
Motor Vehicles	46,178	2.3	146,495	-1.3	405,319	-2.6
Single Business Tax	174,653	-14.2	423,724	-1.7	1,588,678	-5.4
Cigarette Tax	21,753	-5.5	67,015	-3.6	213,839	-2.9
Public Utility Taxes	62,677	16.9	72,353	2.6	142,223	5.2
Oil and Gas Severance	3,498	-8.7	10,003	-16.2	36,893	4.4
Lottery ^a	44,809	28.1	121,457	9.5	405,219	2.9
Penalties and Interest	711	NM	12,598	6.7	54,645	7.6
SUW—Annuals and Undistributed ^b	3,755	-17.7	6,475	13.6	22,620	10.9
Other Taxes ^c	15,239	22.7	46,705	-1.1	306,924	-5.9
TOTAL TAXES (GF & SAF)^d	\$896,653	1.1%	\$2,644,532	1.9%	\$8,484,207	0.2%
Motor Fuel Tax ^e	\$57,516	0.2%	\$178,860	1.0%	\$573,413	0.7%

SOURCE: Data supplied by Michigan Department of Treasury.

NM=not meaningful

^aLottery collections run one month behind other tax collections due to a reporting lag; July lottery collections are included in this month's report. The state share of lottery collections is estimated to be 41.1 percent, based on the average profit to the state for fiscal year period ended June 30, 1990. The previous year's figures are adjusted to the current year's profit margin; the percentage change reflects the increase in ticket sales.

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

^cIncludes intangibles, inheritance, foreign insurance premium, corporate organization, and industrial and commercial facilities taxes.

^dExcluded are beer and wine, liquor, and horse racing taxes, which are not collected by the Department of Treasury.

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

State Cash Balances

One consequence of the slowdown in revenue growth and the state's annual overspending is a deterioration in the general fund/general purpose and school aid fund cash balances. As shown in Table 2, in FY 1989-90 the state has run a negative average monthly cash balance of \$332 million, compared to a negative average monthly balance of \$144 million in FY 1988-89. The negative balance in the current year is approaching the levels of the early 1980s, which precipitated heavy short-term borrowing. A negative cash balance adversely affects the general fund/general purpose budget because it reduces the GF/GP interest earnings. This can result in negative earnings as the general fund is required to pay interest on monies borrowed from other funds. The general fund, which has earned little interest in recent years, earned as much as \$70 million in FY 1985-86, when the average monthly cash balance was a positive \$456 million.

The negative cash balance is another sign of the state's weakening fiscal situation and may, at some point, force it into short-term borrowing.

*Table 2. General Fund/General Purpose and School Aid Fund
Cash Balances and Short-Term Borrowing
(dollars in millions)*

Fiscal Year	Monthly Average	Year-end (9/30)	Amount of Notes Issued
1980-81	-\$456.3	-\$576.1	\$500.0 ^a
1981-82	-504.4	-622.1	500.0
1982-83	-350.7	-482.9	500.0 ^a
1983-84	150.0	318.6	500.0
1984-85	299.7	501.1	450.0
1985-86	455.8	539.5	350.0
1986-87	-83.4	256.3	0
1987-88	-349.2	180.2	0
1988-89	-143.9	288.4	0
1989-90 (10 months)	-331.5	NA	0

NA = not available

SOURCE: Michigan Department of Treasury.

^aAn additional \$100 million was borrowed for two weeks.