

# Michigan ECONOMIC BULLETIN

## The Good News

- September U.S. vehicle sales rose 6 percent from the same period last year to a seasonally adjusted annual rate of 13.2 million units. Light truck sales increased by 8.7 percent, while car sales edged up 4.4 percent. For the 1993 model year that ended September 30, the Big Three increased their market share by one point to 73 percent. Japanese market share continues to fall. Analysts attributed this turnaround to the surging yen and the American makers' success with "value pricing" programs.
- The U.S. Commerce Department announced that housing starts increased to an annual rate of 1.323 million units in August, the highest level since February 1990. The 7.8 percent August increase follows a revised 1.7 percent decline in July. All regions except the Northeast saw increases. Continued low interest rates were seen as the impetus for an 11 percent rise in starts of single-family housing units.
- Business inventories fell 0.5 percent in July, the first decline in ten months and the largest since March 1991. Auto inventories fell 4.9 percent, while the entire retail sector recorded a 1.3 percent drop. Falling inventories generally lead to increased production, which can lead to employment gains.

## The Bad News

- The U.S. unemployment rate remained at 6.7 percent in September. The economic expansion continued slow

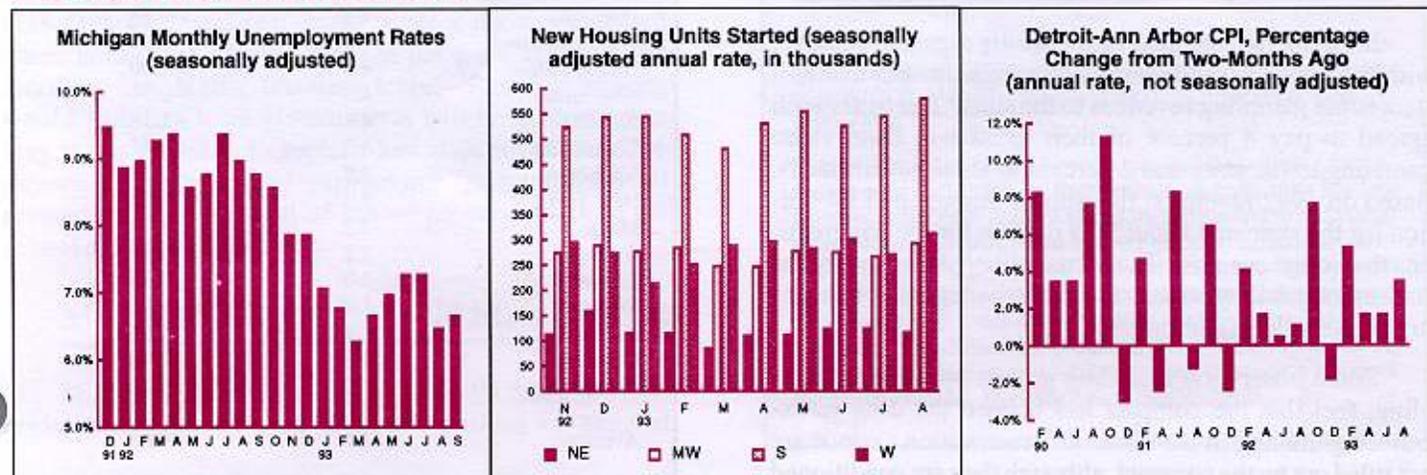
and steady, adding 156,000 jobs. Factory payrolls dropped 18,000 workers, marking the seventh straight month of declines; a total of 455,000 factory jobs have been lost since February 1992, while the overall employment market has added 2.4 million jobs. The temporary services industry, which has been strong for the past two years, failed to produce any new jobs in September. Retailers added 41,000 jobs.

- Michigan's unemployment rate rose in September to a seasonally adjusted 6.7 percent, bringing the state up to the national average. The September rate was 0.2 percentage points above the August rate but 2 points below the year-ago jobless rate. Employment fell by 29,000 to 4.35 million, and the labor force fell by 23,000. Most losses were seasonal, tourism-related jobs. Michigan posted the fourth lowest jobless rate of the nation's 11 top industrial states.
- The Conference Board's business confidence survey of 350 CEOs found that only 29 percent of the company heads expected the economy to pick up in the next six months. Last quarter, 50 percent expected the economy to pick up; the index fell from 57 to 50. The Conference Board also reported that consumer confidence slipped again in August, wiping out all gains made since the 1992 election.

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### MICHIGAN ECONOMIC INDICATORS



SOURCES: Michigan Employment Security Commission, U.S. Census Bureau, and Bureau of Labor Statistics.

# States Lose Their Reservations About Gambling

A recent article by State Policy Research, Inc. [*State Policy Reports*, vol. 11, no. 18 (Columbus, Ohio: September 1993)] reports that tight state budgets, antitax sentiments, and a lackluster economy are pushing the search for state revenues in a new direction. Many states are beginning to eye gambling revenues as a potential way to ease the strain on state budgets.

## State Lotteries

State lotteries, one of the more common forms of gambling, are already found in most states. The exhibit shows the share of state revenues contributed by lottery proceeds for those states with a lottery in 1985. Nationwide, lotteries contributed 3.5 percent of state revenues and grew a meager 0.6 percent on average between 1985 and 1991. Stagnant lottery revenues have induced states to turn to alternative forms of gaming, such as casinos, Keno, and a relative newcomer to the gaming world, video or electronic gambling.

The popularity of casinos, in particular, is spreading. Most of the states that border the Mississippi River have riverboat gambling. Louisiana is building a state-sponsored casino in New Orleans that is expected to be the largest in the world. Rumors abound that efforts to build casinos in Detroit and Chicago may bear fruit within the next year or two. The governor of Massachusetts has voiced support for floating casinos in his state. Mississippi just concluded its first year of casino gambling, which boosted the state purse by over \$52 million and added almost 12,000 jobs. Casinos on Indian lands continue to prosper and some state-recognized tribes are trying to join federally recognized tribes in enjoying the profits.

## The Situation in Michigan

In Michigan, the governor recently signed a compact with the state's seven federally recognized tribes that will steer some gambling revenues to the state. The tribes each agreed to pay 8 percent of their gross win from video gambling to the state and 2 percent to local governments. Based on 1992 revenues, this should amount to \$3.4 million for the state and about \$0.9 million for the communities that lodge casinos. The tribes will continue to pay the state as long as they possess the exclusive right in Michigan to operate video gambling.

Some observers, including groups opposed to gambling, feel that the compact has opened the door to expanded gambling in the state. Off-reservation casinos are not ruled out by the compact, although they are conditioned on a revenue-sharing agreement among the tribes.

Some Michigan businesses contend that it is unfair to give tribes the exclusive right to casinos and have requested the right to operate casinos themselves. Although Michigan is not slated to become another Las Vegas, the newfound possibilities for off-reservation tribal casinos and privately owned casinos boost the potential for a "gambling sector" in the state.

## Too Good to Be True?

Is gambling the solution to the states' fiscal problems? According to State Policy Research, Inc., the answer is probably "no." All states may not be able to match Mississippi's impressive gambling revenues. As the number of casinos grows, so does competition between states. One of the reasons that state lottery revenues are stagnant is because competition cut into revenues as lotteries became standard fare. (Casinos, which offer much better odds than state lotteries, are sure to cut further into lottery revenues.) Some states have also lost horse racing revenues because of growing competition.

For the moment, most casinos are good money makers for states. However, as more and more states turn to gaming to solve fiscal problems, payoffs will become less certain. As in any industry, competition will breed winners and losers, and states must be cautious about perceiving gambling as a sure thing.

State	Percent of Total State Revenue in 1991	Increase Between 1985 and 1991
Ohio	5.5%	1.61%
New Hampshire	5.4	4.46
Maryland	5.2	-0.86
Massachusetts	4.9	1.26
Pennsylvania	4.6	-1.00
New Jersey	4.5	-0.51
Illinois	4.4	-1.18
Connecticut	4.0	0.31
<b>Michigan</b>	<b>3.9</b>	<b>-0.27</b>
New York	3.3	0.58
Maine	2.2	1.77
Delaware	2.2	0.47
Rhode Island	2.0	-0.08
Vermont	1.8	1.64
Arizona	1.8	1.05
Colorado	1.8	0.48
Washington	1.2	0.21
Average	3.5	0.60

Source: *State Policy Reports*, vol. 11, no. 18 (Columbus, Ohio: September 1993).

## Governor Proposes Major Education Reform; Michigan Enacts 1993-94 State Budget

### Governor Proposes Major Education Reform

On October 5, Governor Engler presented his long-awaited school finance/education reform proposal. (For an in-depth analysis see PSC's upcoming *Commentary* on school finance reform.) As anticipated, the governor proposed instituting schools of choice and charter schools, two controversial new approaches to education reform. The plan urges replacement of the school aid formula with a per-pupil grant that students can use at the school of their choice. No district would be required to accept students from other districts; however, incentives would be strong to do so, because funding levels would be tied to enrollment. Another component of the governor's plan is charter schools, which could be started by groups of parents or teachers, businesses, or any public entity. Charter schools would be exempt from some state regulations and would specialize in a particular curriculum.

The governor proposed several sources of replacement revenue for the repealed property taxes. Under the plan taxpayers can expect a net property tax cut of about \$4 billion and an overall net state and local tax cut of about \$303 million. Taxpayers, however, will probably break even after accounting for higher federal income taxes due to loss of property tax deductions. The cornerstone of the financing plan is a two-cent rise in the sales tax requiring voter approval. Critics call this a weakness of the plan, because Michigan voters defeated a similar proposal earlier this year and several times in the past, and the governor has proposed no alternative if it fails once again.

Other key components include a 16-mill tax on non-homestead properties (such as second homes and businesses), a 4-percent real estate transfer tax (to be levied when homes are sold), a 50-cent per pack cigarette tax increase, and higher business taxes. Revenue sharing would end, and local governments will be authorized to levy up to six mills to replace lost state revenues. The governor also proposed earmarking (guaranteeing) all revenues from the repeal of school property taxes to the school aid fund (SAF).

### Michigan Enacts 1993-94 State Budget

Michigan finally has a FY 1993-94 budget. The legislature appropriated \$7914.1 million in general

fund/general purpose (GF/GP) funding, only 1.6 percent higher than FY 1992-93 projected spending. The departments that received the largest increases in GF/GP appropriations were Corrections (13.1 percent), Public Health (9.1 percent), and Mental Health (8.6 percent). Total appropriations for schools are 6.3 percent higher than FY 1992-93 expenditures.

The budget assumes that GP/GP and SAF revenues combined will be 4.7 percent higher in FY 1993-94 than in FY 1992-93. The budget includes about \$395 million in one-time revenue items, including a transfer from the Public School Employees Retirement System, a reduction in state revenue sharing, collection of delinquent taxes, an increase in the markup on liquor prices, and excess lottery revenue.

State government employment will be up slightly in the coming fiscal year. After declining by about 4,300 workers in FY 1992-93, the number of full-time equivalent employees (the total number of employees divided by 2,080 hours) will increase by about 1,800 in FY 1993-94. The state still has a hiring freeze in place, and employment in most departments is below authorized levels and down from FY 1989-90 levels.

Not only does this year's budget show a new degree of spending discipline, but also the state is becoming more adept at sticking to its budgets. Michigan's government overspent an average of \$169 million from FY 1986 to FY 1990; it overspent less than \$75 million in FY 1991 and FY 1992. Fiscal year 1993 spending is expected to be even closer to the mark.

#### Publication of Interest

National Conference of State Legislatures, *State Programs to Assist Distressed Local Governments* (Washington, D.C.: NCSL, March 1993). Legislative Finance Paper #86.

This report looks at state programs that help local governments deal with potential fiscal crises. It compares the key policies in states that have statutory provisions to help local governments or that have helped through special legislative acts. It also discusses some of the reasons why local governments face severe fiscal problems and compares the situation of local governments in different states and regions. In addition, it presents the results of a NCSL survey of the states and a bibliography of studies on local fiscal conditions. To order call 303/830-2200.

# Michigan Revenue Report

Revenue collections remained strong in September, as economic growth in Michigan continued to outpace the national rate. Personal income tax withholding collections rose 5 percent above the year-ago level, little changed from recent months.

Sales and use tax collections have been unusually strong in recent months and increased a robust 10.8 percent in September, due in part to an 18.9 percent increase in motor vehicle collections. The three-month and year-to-date increases are overstated, however, because of the accelerated collection of taxes begun in July; the adjusted year-to-date increase is about 6 percent.

Single business tax collections increased 13.2 percent, but September is an off month for SBT payments.

Inheritance tax collections totaled \$38 million in September due to several large payments, one of \$18 million.

Collections for the year will exceed the estimate by about \$40 million.

Lottery sales continued weak in September, falling 10.4 percent below the year-ago level. The Lottery Bureau has announced that the unsuccessful new Lotto game will be gone by the end of the year. In addition to weak sales, the profit on the new game has been quite low because the payoff is not directly tied to ticket sales. As a result, it now appears that Lottery revenues will fall \$15–20 million below the June consensus estimate and \$35–40 million below the original budget estimate.

With one month left for FY 1992–93 revenues (October collections are accrued to the previous fiscal year), we are estimating that revenues will exceed the consensus revenue estimate by \$75–100 million. This will increase the balance in the Budget Stabilization Fund, as any surplus in excess of \$26 million is transferred to the fund.

## MONTHLY TAX COLLECTIONS (dollars in thousands)

Type of Revenue	Preliminary September 1993	% Change from Last Year	Past 3 Months' Collections	% Change from Last Year	FY 1992–93 Year-to-Date	% Change from Last Year
Personal Income Tax						
Withholding	\$352,137	5.0%	\$1,136,752	5.2%	\$4,257,513	5.9%
Quarterly and Annual Payments	109,583	4.3	133,688	4.1	743,128	3.3
Gross Personal Income Tax	461,720	4.9	1,270,440	5.1	5,000,641	5.5
Less: Refunds	-23,819	11.6	-101,458	21.9	-1,258,412	2.2
Net Personal Income Tax	437,901	4.5	1,168,982	3.8	3,742,229	6.7
Sales and Use Taxes	309,299	10.8	1,018,480	19.8	3,204,043	9.3
Motor Vehicles	48,964	18.9	157,968	13.1	470,093	8.3
Single Business Tax	55,640	13.2	426,190	12.9	1,614,408	14.6
Cigarette Tax	20,993	7.7	64,844	0.8	223,112	-0.9
Public Utility Taxes	56,645	0.0	131,977	NM	205,574	40.1
Oil and Gas Severance	3,338	-16.2	9,951	-9.3	36,539	-5.5
Lottery <sup>a</sup>	31,798	-10.4	110,392	-0.5	435,900	2.1
Penalties and Interest	1,651	108.5	16,423	33.9	89,952	24.3
SUW—Annuals and Undistributed <sup>b</sup>	3,136	-418.7	-1,611	-75.6	29,991	65.3
Other Taxes <sup>c</sup>	37,180	-16.8	109,516	-14.5	455,322	-7.3
<b>TOTAL TAXES (GF &amp; SAF)<sup>d</sup></b>	<b>\$957,581</b>	<b>12.5%</b>	<b>\$3,055,144</b>	<b>11.2%</b>	<b>\$10,037,070</b>	<b>8.3%</b>
Motor Fuel Tax (e)	\$63,716	3.3%	\$195,473	4.6%	\$672,501	4.5%

SOURCE: Data supplied by Michigan Department of Treasury.

NM = Not meaningful

<sup>a</sup>The state share of lottery sales is 40 percent to 33 percent (FY 1992). The previous year's figures are adjusted to the current year's profit margin; the percentage change reflects the increase in ticket sales.

<sup>b</sup>These revenues are distributed to the sales, use, and withholding (SUW)

accounts when final numbers for the month are reconciled.

<sup>c</sup>Includes intangibles, inheritance, foreign insurance premium, corporate organization, and industrial and commercial facilities taxes.

<sup>d</sup>Excluded are beer and wine, liquor, and horse racing taxes.

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

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