

MONTHLY REVENUE REPORT

September 2002

Michigan's major General Fund and School Aid Fund earmarked taxes generated \$1.8 billion in revenue in September, which topped the year-ago level by a strong 7.3%. This increase marks the second time in the past three months that tax collections have topped year-ago levels. During the first six months of 2002, tax collections were consistently below year-ago levels. Using a three-month moving average to help smooth out monthly fluctuations, tax collections for the three months ending in September were up 2.6%, which marked the strongest increase for a three-month period since July 2000. The relatively sharp increase in September collections was due in part to the 50-cent-per-pack increase in the cigarette tax, which generated an estimated \$24 million in September. Excluding the revenue from the cigarette tax increase, tax collections were still up 5.9% in September. Despite the strong growth in September tax collections, fiscal year-to-date collections continue to trail revenue projections. So far in FY 2001-02, the revenue collected from these major taxes is down 2.0% from last year at this time, which compares with the 1.5% decline estimated for FY 2001-02, at the May 2002 Consensus Revenue Estimating Conference. While FY 2001-02 ended on September 30th, the tax revenue collected in October and November that is based on activity that occurred before the end of September, will be accrued back to FY 2001-02.

Gross income tax collections totaled \$692 million in September, which was down 1.3% from last year's level. Without the cut in the tax rate, which is currently 4.1% compared with 4.2% last year at this time, income tax collections would have been up about 1.0% in September. Particularly encouraging is the fact that income tax withholding payments were up 3.8% in September. This marks the strongest monthly gain in withholding collections so far in calendar year 2002. Quarterly payments were down 16.3%, which can be attributed to a drop in capital gains due to the slumping stock market. On a fiscal year-to-date basis, gross income tax collections are down 6.4%, which is below the 4.9% decline estimated for FY 2001-02.

Sales tax collections totaled \$586 million in September, which was up 19.2% from last year. This strong rate of growth does not reflect a sharp increase in retail sales, but is largely due to an aberration in the timing of monthly sales tax collections. In addition, sales tax collections last year in September were lower than they otherwise would have been due to the September 11th tragedy. Sales tax collections from motor vehicle transactions were up 32.5% in September, which marks the strongest monthly rate of growth since last fall when motor vehicle manufacturers began offering zero percent financing. Sales tax collections from all other taxable retail sales were up a strong 16.9% in September. So far this fiscal year, motor vehicle sales tax collections are up 14.4%, all other sales tax collections are down 0.5%, and total sales tax collections are up 1.7%. The consensus estimate is that sales tax collections will be up 2.2% in FY 2001-02.

Single business and insurance tax collections totaled \$101 million in September, which was up 27.7% from a year ago. Given that these business tax collections were down 32.4% in August, the sharp gain in September does not reflect a rebound in business activity, but primarily reflects monthly fluctuations in the timing of quarterly tax payments. On a fiscal year-to-date basis, single business and insurance tax collections are down 4.0%, which is right on target with the consensus estimate for FY 2001-02.

The table on the back of this report identifies the 12 major taxes included in this report, and provides their respective revenue levels and growth rates for September 2002, along with their fiscal year-to-date revenue collections and growth rates. Also presented are the FY 2001-02 consensus revenue estimates adopted at the May Consensus Revenue Estimating Conference.

Jay Wortley, Senior Economist

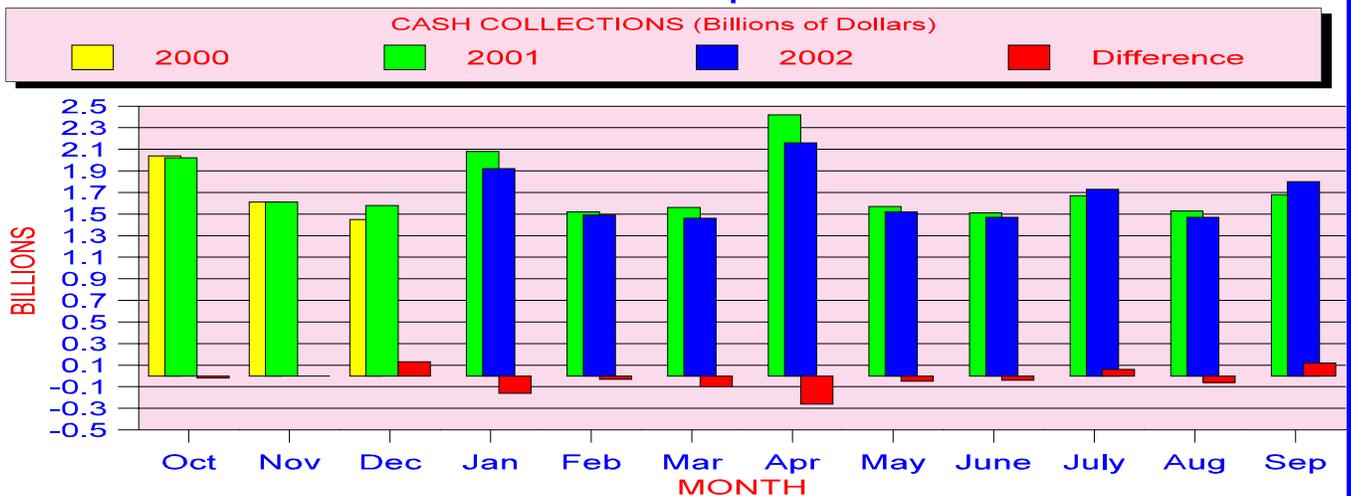


**MICHIGAN REVENUE UPDATE
SEPTEMBER 2002
(dollars in millions)**

Type of Revenue	September Collections		FY 2001-02 to Date ²⁾		FY 2001-02 Estimate ³⁾	
	Total ¹⁾	% Change From Year Ago	Total ¹⁾	% Change From Year Ago	Total ¹⁾	% Change From Year Ago
Income Tax						
Withholding	\$537.0	3.8%	\$5,895.0	(2.6)%	\$6,508.6	(1.3)%
Quarterly Payments	144.4	(16.3)	625.1	(19.1)	661.5	(15.5)
Annual Payments	10.3	(2.8)	497.3	(25.7)	509.4	(26.6)
Gross Income Tax	\$691.7	(1.3)%	\$7,017.4	(6.4)%	\$7,679.5	(4.9)%
Sales Tax	585.5	19.2	5,862.4	1.7	6,494.0	2.2
Motor Vehicles	96.2	32.5	973.1	14.4	---	---
All Other Sales Tax	489.3	16.9	4,889.3	(0.5)	---	---
Use Tax	109.6	(7.4)	1,197.9	(1.2)	1,368.0	2.6
Tobacco Tax	74.3	(2.9)	574.6	4.5	589.0	(1.2)
Single Business & Insurance Taxes	101.3	27.7	1,943.4	(4.0)	2,133.4	(4.0)
State Education Property Tax	201.7	20.1	1,235.5	11.0	1,558.0	4.6
Real Estate Transfer Tax	25.9	(2.3)	232.8	0.0	241.0	(4.7)
Estate/Inheritance Tax	6.6	(53.2)	123.9	(13.8)	127.0	(18.3)
Oil & Gas Severance Tax	2.6	8.3	29.1	(47.0)	33.0	(45.1)
Total	\$1,799.2	7.3%	\$18,217.0	(2.0)%	\$20,222.9	(1.5)%
Addendum:						
Gross Lottery Sales ⁴⁾	\$127.4	18.6%	\$1,688.1	4.5%	\$1,654.2	3.1%
Net Lottery to School Aid ⁴⁾	\$ 57.8	53.8%	\$ 617.7	5.4%	\$ 605.0	3.1%

- 1) Total collections are unadjusted cash collections unless otherwise noted.
- 2) FY 2001-02 year-to-date collections begin with November 2001 collections to reflect accrual accounting.
- 3) Consensus revenue estimates adopted at the May 16, 2002, Consensus Revenue Estimating Conference.
- 4) Lottery revenue is not accrued, so FY 2001-02 lottery revenue will include October 2001 to September 2002.

**Actual Revenue Collections for 12 Major State Taxes*
October 2000 to September 2002**



*Comparison of actual collections. The 12 taxes include the income (withholding, quarterly payments and annual payments), sales, use, tobacco, SBT, insurance retaliatory, estate, oil and gas severance, State education, and real estate transfer taxes.