

State and Local Government Fiscal Position in 1998

By Janet H. Kmitch and Bruce E. Baker

THE CURRENT surplus of State and local governments, which is a measure of the net saving by these governments, increased \$16.1 billion, to \$150.2 billion, in 1998 from \$134.1 billion in 1997 (table 1, chart 1).¹ As in recent years, the increase was mainly accounted for by a larger increase in receipts than in current expenditures; the increase in receipts mainly reflected an increase in “general own-source receipts.”

The increase in the current surplus came about despite a decline in the social insurance fund surplus. The “other funds” surplus increased \$16.5 billion, to \$82.5 billion, while the social insurance funds surplus decreased \$0.5 billion, to \$67.6 billion.²

Receipts

State and local government receipts increased 4.9 percent, to \$1,148.1 billion, in 1998 after increasing 4.7 percent in 1997 (table 2). General own-source receipts—that is, receipts excluding contributions for social insurance and Federal grants-in-aid—increased 5.8 percent in 1998, compared with a 5.4-percent increase in 1997. All of the major components of receipts except corporate profits tax accruals, contributions to social insurance, and Federal grants-in-aid increased.

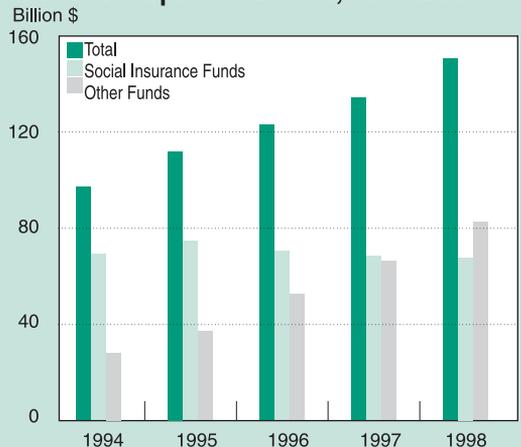
1. Since its introduction in January 1996, current expenditures has included (1) consumption of fixed capital for general government in consumption expenditures, and (2) consumption of fixed capital for government enterprises as an expense in the calculation of the current surplus of government enterprises. Gross investment in fixed assets by general government and government enterprises is an expenditure over the service life of the asset. Before 1996, no distinction was made between current expenditures and government investment. See “Preview of the Comprehensive Revision of the National Income and Product Accounts: Recognition of Government Investment and Incorporation of a New Methodology for Calculating Depreciation,” SURVEY OF CURRENT BUSINESS 75 (September 1995): 33–41 and Florence H. Campi, “State and Local Government Fiscal Position, 1995,” SURVEY 76 (September 1996): 42–47.

2. Social insurance funds are funds administered by State and local government to provide benefits from compulsory payments that are called contributions. The social insurance fund surplus is calculated as the sum of receipts from personal contributions and employer contributions for social insurance plus interest and dividends received less transfer payments and administrative expenses (consumption expenditures) of social insurance funds. The detailed estimates of social insurance funds receipts and current expenditures are shown annually in NIPA table 3.14, most recently in the August 1998 SURVEY.

Personal tax and nontax receipts.—Personal tax and nontax receipts, which accounted for about 21 percent of total State and local government receipts, increased 9.3 percent, to \$240.3 billion in 1998, an acceleration from an 8.0-percent increase in 1997. Personal income tax receipts increased 9.9 percent, to \$180.7 billion, after an 8.2-percent increase, while personal income decelerated to a 5.0-percent increase from a 5.6-percent increase. The acceleration in personal income taxes and the deceleration in personal income is within the normal range of variation and may reflect

CHART 1

State and Local Government Current Surplus or Deficit, NIPA Basis



U.S. Department of Commerce, Bureau of Economic Analysis

Table 1.—State and Local Government Receipts, Current Expenditures, and Current Surplus or Deficit, NIPA Basis
[Billions of dollars]

	Calendar years				
	1994	1995	1996	1997	1998
Receipts	949.2	997.7	1,045.2	1,094.3	1,148.1
Current expenditures	852.3	866.0	922.6	960.1	997.9
Current surplus or deficit (-)	96.8	111.7	122.6	134.1	150.2
Social insurance funds	68.9	74.6	70.4	68.1	67.6
Other funds	27.9	37.0	52.2	66.0	82.5

NOTE.—The estimates for 1997–98 are in NIPA table 3.3 of this issue of the SURVEY OF CURRENT BUSINESS; the estimates for 1994–96 are in NIPA table 3.3 of the August 1998 issue. NIPA National income and product accounts

increases in taxes on other types of income, such as capital gains. State legislative actions reduced income tax receipts by \$3.6 billion in 1998; excluding these actions, income tax receipts would have increased 12.1 percent.

Personal nontax receipts (mainly fines, donations, and unclaimed bank deposits) increased 8.1 percent after an 8.3-percent increase. "Other"

personal tax receipts increased 6.2 percent after a 6.6-percent increase.³

Corporate profits tax accruals.—Corporate profits tax accruals, which accounted for about 3 percent of total receipts, decreased 2.4 percent in 1998 af-

3. The detailed estimates of personal tax and nontax receipts are shown annually in NIPA table 3.4, most recently in the August 1998 SURVEY.

Table 2.—State and Local Government Receipts, NIPA Basis

	Calendar years									
	Billions of dollars					Percent change				
	1994	1995	1996	1997	1998	1995	1996	1997	1998	
Receipts	949.2	997.7	1,045.2	1,094.3	1,148.1	5.1	4.8	4.7	4.9	
General own-source receipts	676.5	709.3	748.5	789.3	834.9	4.8	5.5	5.5	5.8	
Personal tax and nontax receipts	176.8	188.9	203.5	219.9	240.3	6.9	7.7	8.0	9.3	
Income taxes	131.2	140.4	151.9	164.3	180.7	7.0	8.2	8.2	9.9	
Nontaxes	24.8	27.1	29.5	32.0	34.5	9.5	8.9	8.3	8.1	
Other	20.8	21.4	22.1	23.6	25.0	2.5	3.5	6.6	6.2	
Corporate profits tax accruals	29.9	31.7	33.1	36.0	35.2	5.8	4.4	9.0	-2.4	
Indirect business tax and nontax accruals	469.8	488.7	511.9	533.4	559.4	4.0	4.8	4.2	4.9	
Sales taxes	228.2	239.5	252.0	261.5	271.6	4.9	5.2	3.8	3.9	
Property taxes	191.4	196.9	202.7	209.1	217.4	2.9	3.0	3.2	4.0	
Other	50.2	52.3	57.2	62.8	70.4	4.2	9.3	9.8	12.0	
Contributions for social insurance	73.4	76.5	77.8	79.9	82.1	4.3	1.7	2.8	2.7	
Federal grants-in-aid	199.2	212.0	218.9	225.0	231.1	6.4	3.2	2.8	2.7	

NIPA National income and product accounts

State Tobacco Settlements

During the mid-1990's, 40 States filed suits against the tobacco industry. Four States—Mississippi, Florida, Texas, and Minnesota—reached out-of-court settlements with the tobacco companies. In mid-1997, Mississippi and Florida reached out-of-court settlements, and each received its first payment in the third quarter of 1997. Over the next 25 years, Mississippi will receive total payments of \$3.4 billion and Florida will receive total payments of \$13.0 billion.¹

In January 1998, Texas reached an out-of-court settlement and received a first payment in the first quarter of 1998. Texas will receive total payments of \$15.3 billion over 25 years.¹

In May 1998, Minnesota reached an out-of-court settlement and received a first payment in the third quarter of 1998. Minnesota will receive total payments of \$6.1 billion over the next 25 years.¹ The settlement also provided that Blue Cross and Blue Shield of Minnesota will receive payments of \$469 million over the next 5 years.

In November 1998, attorneys general of eight States reached a tentative settlement, the Master Settlement Agreement, with the tobacco companies, and the terms of this settlement were accepted by the remaining 38 States and by Puerto Rico, the U.S. Virgin Islands, Guam, the Northern Mariana Islands, and the District of Columbia. The payments will total \$206 billion over the next 25 years; additional payments include \$1.5 billion for a national public education campaign, \$0.3 billion for a foundation dedicated to the reduction of teen smoking, and \$3.6 billion for a strategic fund. Under the terms of this agreement, the States that sued the tobacco companies dropped their lawsuits, and the other States received approvals of this

settlement agreement from their State courts by the end of December 1998.

In implementing this agreement, the National Association of Attorneys General established a general escrow account. In December 1998, the tobacco companies made an "up front" payment of \$2.4 billion to the account. Distributions from the escrow account to each State will be based on formulas established in the agreement.

Total Payments to the States

1997	\$0.9 billion
1998	\$4.2 billion
1999	\$1.0 billion
2000	\$7.8 billion
2001	\$8.6 billion
2002	\$10.0 billion
2003	\$9.9 billion
2004–2007	\$9.3 billion per year
2008–2017	\$9.4 billion per year
2018–2025	\$10.3 billion per year

In the national income and product accounts (NIPA's), these payments are classified as business nontaxes, a component of receipts that includes rents and royalties, regulatory and inspection fees, special assessments, fines, and miscellaneous payments, such as awards to State and local governments from the settlement of civil lawsuits. The payments through the end of 1998 from the tobacco settlements have been deducted in the calculation of corporate profits in the NIPA's. Business nontaxes are chargeable to business expenses in the calculation of profit-type incomes in the NIPA's.

1. The payments exclude annual adjustments that are equal to the greater of the percentage change in the consumer price index or 3 percent.

ter a 9.0-percent increase in 1997. The downturn reflected the pattern of corporate profits before tax, which decreased 2.3 percent after increasing 8.0 percent.

Indirect business tax and nontax accruals.—Indirect business tax and nontax accruals, which accounted for about 49 percent of total receipts, accelerated in 1998; they increased 4.9 percent, to \$559.4 billion, after an increase of 4.2 percent in 1997.⁴ Sales taxes, which accounted for about 49 percent of indirect business tax and nontax accruals, increased 3.9 percent, about the same rate as in 1997. All the components of sales taxes except taxes on gasoline and on tobacco increased. Tobacco and gasoline sales taxes each decreased \$0.5 billion in 1998. Legislative actions reduced sales taxes \$0.4 billion in 1998.

Property taxes, which accounted for about 39 percent of indirect business tax and nontax accruals, accelerated in 1998. They increased 4.0 percent, to \$217.4 billion, following an increase of 3.2 percent.

“Other” indirect business tax and nontax accruals increased 12.0 percent, to \$70.4 billion, in 1998 after increasing 9.8 percent in 1997. The acceleration was in indirect business nontax accruals, which increased 20.4 percent, to \$30.1 billion, in 1998 after an increase of 13.1 percent in 1997. The acceleration in nontaxes was attributable to \$4.2 billion in payments to States

by tobacco companies as a result of out-of-court settlements of lawsuits, after payments of \$0.9 billion in 1997 (see the box “**State Tobacco Settlements**”). “Other” indirect business taxes increased 6.5 percent in 1998 after an increase of 7.7 percent in 1997; these taxes include severance taxes and motor vehicle licenses.

Contributions for social insurance.—Contributions for social insurance, which accounted for about 7 percent of total receipts, increased 2.7 percent in 1998, about the same as in 1997. A deceleration in employer contributions, which increased 1.4 percent in 1998 after an increase of 2.8 percent in 1997, was offset by an acceleration in employee contributions, which increased 6.0 percent in 1998 after an increase of 2.7 percent in 1997. The deceleration in employer contributions was largely due to a deceleration in contributions to employee retirement systems, and the acceleration in employee contributions was largely due to an acceleration in contributions for temporary disability insurance.

Federal grants-in-aid.—Federal grants-in-aid to State and local governments, which accounted for about 20 percent of total receipts, increased 2.7 percent in 1998, about the same as in 1997. Most categories of grants—including education, Medicaid, and community development—increased, but grants for cash benefits and social benefits

4. The detailed estimates of indirect business tax and nontax accruals are shown annually in NIPA table 3.5, most recently in the August 1998 SURVEY.

Table 3.—State and Local Government Current Expenditures, NIPA Basis

	Calendar years								
	Billions of dollars					Percent change			
	1994	1995	1996	1997	1998	1995	1996	1997	1998
Current expenditures	852.3	866.0	922.6	960.1	997.9	1.6	6.5	4.1	3.9
Consumption expenditures	663.8	695.2	724.7	758.8	789.1	4.7	4.2	4.7	4.0
Transfer payments to persons	264.3	281.2	293.5	304.1	317.4	6.4	4.4	3.6	4.4
Benefits from social insurance funds	71.1	77.3	82.7	89.4	95.3	8.7	7.0	8.1	6.6
Medical care	141.7	151.3	159.9	165.1	174.1	6.7	5.7	3.3	5.4
Family assistance	24.3	23.3	21.6	19.7	17.6	-4.2	-7.2	-8.8	-10.5
All other	27.2	29.3	29.3	29.9	30.4	7.9	.1	1.8	1.7
Net interest paid	-55.1	-68.2	-71.3	-77.4	-83.0	.....	.....	.....	.....
Interest paid	63.7	63.9	63.3	63.3	63.9	.3	-9	0	1.0
Less: Interest received by government	118.8	132.0	134.5	140.6	146.9	11.1	1.9	4.5	4.4
Social insurance funds	61.4	69.9	69.3	71.1	73.9	13.9	-9	2.5	3.9
Other	57.4	62.1	65.2	69.5	73.0	8.1	5.0	6.6	5.0
Less: Dividends received by government	11.4	12.5	13.7	14.8	16.1	9.5	9.5	8.2	8.8
Social insurance funds	11.2	12.3	13.5	14.6	15.9	9.6	9.7	8.3	8.8
Other .....	.2	.2	.2	.2	.2	1.6	1.5	3.0	2.0
Subsidies less current surplus of government enterprises	-9.3	-9.7	-10.7	-10.6	-9.5	.....	.....	.....	.....
Subsidies .....	.4	.3	.4	.4	.4	-5.1	5.7	5.4	3.0
Less: Current surplus of government enterprises	9.7	10.1	11.0	10.9	9.9	4.4	9.6	-1.1	-9.4
Less: Wage accruals less disbursements	0	0	0	0	0	.....	.....	.....	.....

(public assistance), highways, and mass transit decreased.⁵

Current expenditures

Current expenditures increased 3.9 percent, to \$997.9 billion, in 1998 after an increase of 4.1 percent in 1997 (table 3). Consumption expenditures slowed and transfer payments to persons stepped up.

Consumption expenditures.—Consumption expenditures increased 4.0 percent, to \$789.1 billion, in 1998 after increasing 4.7 percent in 1997 (table 4). The deceleration was largely due to a downturn in expenditures for nondurable goods

that largely reflected decreases in the prices of petroleum and of drugs and pharmaceuticals.

Compensation of general government employees, which accounted for about 75 percent of consumption expenditures, increased 4.3 percent in 1998, about the same as in 1997 (table 4). Within compensation, wages and salaries increased 4.7 percent in 1998 and 4.6 percent in 1997, and supplements decelerated.⁶ Education employment increased 2.1 percent after an increase of 1.9 percent, and noneducation employment increased 1.4 percent after an increase of 0.5 percent.

Government sales, which are subtracted in the estimation of consumption expenditures, in-

5. The detailed estimates of Federal grants-in-aid are shown annually in NIPA table 3.16, most recently in the October 1998 SURVEY. See also Kurt S. Bersani and Laura M. Belenki, "Federal Budget Estimates, Fiscal Year 2000," SURVEY 79 (March 1999): 12-21.

6. Supplements include employer contributions for social insurance, unemployment compensation, other retirement plans, workers' compensation, and other labor income. Other labor income includes employer payments to private pensions, group health insurance and group life insurance and several minor categories of employee compensation, such as compensation of prison inmates and judicial fees to jurors and witnesses.

Table 4.—State and Local Government Consumption Expenditures and Gross Investment, NIPA Basis

	Calendar years									
	1994	1995	1996	1997	1998	1995	1996	1997	1998	
	Billions of dollars					Percent change				
Consumption expenditures and gross investment	802.8	847.3	886.8	934.4	966.5	5.6	4.7	5.4	3.4	
Consumption expenditures	663.8	695.2	724.7	758.8	789.1	4.7	4.2	4.7	4.0	
Durable goods	13.9	14.8	15.6	16.2	16.8	6.6	4.9	3.8	4.2	
Nondurable goods	67.8	72.7	77.7	79.7	78.1	7.3	6.9	2.5	-1.9	
Services	582.1	607.7	631.4	662.9	694.2	4.4	3.9	5.0	4.7	
Compensation of general government employees except force-account construction ¹	502.6	524.0	542.9	566.7	590.9	4.2	3.6	4.4	4.3	
Consumption of general government fixed capital	51.3	54.4	57.4	60.5	63.5	6.0	5.5	5.4	5.0	
Other services	28.1	29.3	31.1	35.7	39.8	4.2	6.0	15.0	11.3	
Gross investment	138.9	152.1	162.1	175.6	177.4	9.5	6.6	8.3	1.0	
Structures	113.4	123.1	130.9	142.4	141.9	8.6	6.3	8.8	-4	
Equipment	25.6	29.0	31.2	33.2	35.5	13.2	7.6	6.4	7.0	
	Billions of chained (1992) dollars									
Consumption expenditures and gross investment	765.7	783.9	802.7	827.1	843.8	2.4	2.4	3.1	2.0	
Consumption expenditures	633.4	644.0	656.8	672.3	689.3	1.7	2.0	2.4	2.5	
Durable goods	13.6	14.0	14.6	15.1	15.6	3.0	4.3	3.5	3.4	
Nondurable goods	67.4	69.0	71.1	73.4	75.7	2.3	3.1	3.3	3.2	
Services	552.5	561.1	571.3	583.9	598.1	1.6	1.8	2.2	2.4	
Compensation of general government employees except force-account construction ¹	471.6	477.8	484.5	492.8	501.9	1.3	1.4	1.7	1.8	
Consumption of general government fixed capital	49.4	50.9	52.7	54.8	57.0	3.1	3.6	3.9	4.0	
Other services	32.1	33.1	35.0	37.7	41.2	3.0	5.8	7.7	9.3	
Gross investment	132.2	139.9	145.8	154.8	154.4	5.8	4.2	6.2	-2	
Structures	107.1	111.5	114.9	121.0	117.5	4.1	3.1	5.2	-2.9	
Equipment	25.2	28.6	31.1	34.3	38.3	13.7	8.8	10.1	11.6	
Residual	-6	-9	-1.3	-1.9	-3.3					
	Index numbers, 1992=100									
Addenda: ²										
Consumption expenditures:										
Quantity index	104.94	106.69	108.82	111.38	114.20	1.7	2.0	2.4	2.5	
Price index	104.80	107.96	110.33	112.86	114.48	3.0	2.2	2.3	1.4	
Gross investment:										
Quantity index	100.06	105.87	110.31	117.11	116.84	5.8	4.2	6.2	-2	
Price index	105.06	108.70	111.18	113.46	114.88	3.5	2.3	2.1	1.3	

1. Compensation of government employees engaged in new force-account construction and related expenditures for goods and services are classified as investment in structures.

2. Quantity and price indexes are chain-type indexes. The indexes are shown in NIPA table 7.11. For a discussion of the indexes, see "Preview of the Comprehensive Revision of the National Income and Product Accounts: BEA's New Featured Measures of Output and Prices," in the July 1995 Survey.

NOTES.—The current-dollar estimates are shown in NIPA table 3.7.

Real estimates are expressed in chained (1992) dollars, which are shown in NIPA table 3.8. Chained (1992) dollar series are calculated as the product of the chain-type quantity index and the 1992 current-dollar value of the corresponding series, divided by 100. Because the formula for the chain-type quantity indexes uses weights of more than one period, the corresponding chained-dollar estimates are usually not additive. The residual line is the difference between the first line and the sum of the most detailed lines.

NIPA National income and product accounts

creased 4.9 percent, about the same rate in 1998 as in 1997.⁷

Consumption of general government fixed capital—a measure of the value of the services of general government fixed assets—increased 5.0 percent in 1998, compared with a 5.4-percent increase in 1997.

In real terms, consumption expenditures increased 2.5 percent in 1998 after increasing 2.4 percent in 1997 (table 4). Services increased 2.4 percent after an increase of 2.2 percent.

Transfer payments to persons.—Transfer payments to persons increased 4.4 percent, to \$317.4 billion, in 1998 after increasing 3.6 percent in 1997 (table 3). The acceleration was largely due to payments from social insurance funds and medicaid.

Benefits from social insurance funds—which consist of payments for employee retirement, temporary disability insurance, and workers compensation funds—increased 6.6 percent, to \$95.3 billion, in 1998 after an 8.1-percent increase in 1997. State and local government employee retirement payments increased 7.3 percent after an increase of 9.2 percent, workers' compensation payments increased 2.8 percent after increasing 1.0 percent, and temporary disability insurance payments decreased 2.9 percent after declining since 1995. Medical care transfer payments (primarily medicaid), which accounted for about 55 percent of transfer payments to persons, increased 5.4 percent, to \$174.1 billion after increasing 3.3 percent.⁸ Family assistance, which has been decreasing since 1994, decreased 10.5 percent, to \$17.6 billion, in 1998.⁹ By 1998, all States had phased out Aid to Families with Dependent Children and were operating under the new Temporary Assistance for Needy Families program.

Net interest paid.—Net interest paid (interest paid by State and local governments less interest received) has become more negative each year since 1995 because interest received has increased more than interest paid. In 1998, interest received increased 4.4 percent, and interest paid increased 1.0 percent. Interest received by social insurance

funds increased 3.9 percent; general government interest received increased 5.0 percent. Dividends received, primarily by State and local government pension funds, increased 8.8 percent after an increase of 8.2 percent.

The current surplus of government enterprises.—The current surplus of government enterprises decreased to \$9.9 billion in 1998.¹⁰ The decrease reflected a decrease in Federal subsidies that were paid to housing and urban renewal enterprises and to public transit enterprises.¹¹ Other enterprise revenues and current expenditures decreased in 1998, compared with those in 1997.

Gross investment

In the NIPA's, government expenditures for structures and equipment are treated as "gross investment" (see footnote 1), and they are included in the calculation of gross domestic product. State and local government gross investment increased 1.0 percent, to \$177.4 billion, in 1998 after an increase of 8.3 percent in 1997 (table 4).¹² The deceleration reflected a downturn in investment in structures that was partly offset by an acceleration in investment in equipment.

Gross investment in structures decreased 0.4 percent, to \$141.9 billion, in 1998 after an 8.8-percent increase in 1997. All components contributed to the downturn. Construction of buildings, which accounted for about 41 percent of total State and local construction, increased 0.8 percent in 1998 after increasing 10.7 percent. The sharp deceleration was primarily accounted for by the construction of educational buildings, which increased 0.1 percent after increasing 12.2 percent; construction of hospitals decreased 2.4 percent after increasing 3.6 percent.

Investment in highways and streets, which accounted for about 35 percent of total State and local construction, increased 0.4 percent, to \$48.3 billion, after increasing 9.6 percent. Construction of water systems, which accounted for about 6 percent of total State and local construction, increased 2.4 percent after increasing 7.1 percent.

7. In the NIPA's, consumption expenditures are recorded net of receipts for certain goods and services that are defined as government sales; the largest components of government sales are tuition charges and health and hospital charges. The detailed estimates of government sales are shown annually in NIPA table 3.9, most recently in the August 1998 SURVEY.

8. The detailed estimates of government transfer payments to persons are shown annually in NIPA table 3.12, most recently in the August 1998 SURVEY.

9. Through 1995, family assistance consists of aid to families with dependent children; beginning in 1996, it also includes additional programs under the Federal Personal Responsibility and Work Opportunity Reconciliation Act of 1996.

10. Government enterprises are certain government agencies that cover a substantial proportion of their operating costs by selling goods and services to the public, such as water and sewerage facilities, public utilities, lotteries, and public transit. The detailed estimates of current surplus of government enterprises are shown annually in NIPA table 3.13, most recently in the August 1998 SURVEY.

11. In the NIPA's, the Federal Government subsidy payments to State and local government enterprises are included in enterprise revenues.

12. The detailed estimates of gross government investment by type are shown annually in NIPA tables 5.14 and 5.15, most recently in the August 1998 SURVEY.

Most of the other components of structures decreased; the largest decreases were in conservation and development (natural resources and water transport), and other construction (which consists primarily of airfields, parks and recreation, and parking).

Gross investment in equipment increased 7.0 percent, to \$35.5 billion, in 1998 after a 6.4-percent increase in 1997. The acceleration largely reflected increased expenditures for computers, which increased 35.5 percent, and for motor vehicles, which increased 18.2 percent.

In real terms, gross investment decreased 0.2 percent in 1998 after an increase of 6.2 percent in 1997. Real investment in structures decreased 2.9 percent after an increase of 5.2 percent. Real investment in equipment increased 11.6 percent after an increase of 10.1 percent.

Fiscal position in 1999

The first quarter of each year, BEA prepares projections of the State and local government fiscal position for that year.¹³ In 1999, a major factor affecting the State and local fiscal position will be the pace of overall economic activity. In the *Economic Report of the President*, real gross domestic product is projected to grow about 2 percent in 1999, a slowdown from the 3.9-percent growth in 1998. In addition, the unemployment rate is projected to rise slightly, and the rate of inflation, to step up slightly.¹⁴

Receipts.—In State and local government receipts, the growth of the economy will have the largest effect on personal income taxes, corporate profits tax accruals, and sales taxes, which together account for about two-fifths of total receipts. Federal grants-in-aid, which account for about one-fifth of total receipts, are determined by the Federal Government.¹⁵ Property taxes account for about one-fifth of total receipts, and other taxes, nontaxes, and contributions for social insurance account for the remaining one-fifth.

13. These projections—which are prepared by BEA from economic forecasts in the *Economic Report of the President*, budget projections, industry sources, information on changes in tax laws, and judgmental trends—provide users with insights into likely developments in the State and local sector of the NIPA's in 1999. BEA also uses some of these projections to prepare the NIPA estimates of a number of components of State and local government receipts and expenditures for which source data are not available at the time the estimates are prepared. For these components, estimates are prepared using indicator series or judgmental trends that are partly based on the projections described in this article. For more information, see Eugene P. Seskin and Robert P. Parker, "A Guide to the NIPA's," SURVEY 78 (March 1998): 56–61.

14. *Economic Report of the President* (Washington, DC: U.S. Government Printing Office, February 1999).

15. Grants-in-aid have been appropriated for fiscal year 1999 and estimated for fiscal year 2000; see the *Budget of the United States Government, Fiscal Year 2000: Appendix* (Washington DC: U.S. Government Printing Office, 1999) and Bersani and Bilenki, "Federal Budget Estimates."

Total receipts in 1999 are expected to increase about \$45 billion, to about \$1,195 billion, a deceleration from 1998.¹⁶ Slower projected growth in nominal GDP is expected to reduce the growth rate of personal income taxes. State tax law changes that have already been enacted are expected to reduce receipts less in 1999 than they had in 1998, partly offsetting the effects of the slower economic growth. Other personal taxes—which include estate and gift taxes, personal property taxes, and motor vehicle licenses—and personal nontaxes are less sensitive to the economy and are projected to increase at about the same rate as in 1998. Sales tax receipts are expected to decelerate slightly in 1999; tax law changes that have already been enacted are expected to have little effect on the change in receipts in 1999. Corporate tax accruals are expected to decrease again in 1999. Property tax accruals, which are affected by property values and by changes in investment and in the national economy, are expected to increase at about the same rate as in 1998. Indirect business nontaxes are expected to decrease; payments of out-of-court settlements by tobacco companies, which were \$4.2 billion in 1998, are expected to be \$1.0 billion in 1999. Reflecting all these changes, general own-source receipts are expected to decelerate in 1999.

Federal grants-in-aid are expected to increase about 10 percent in 1999, according to the Federal budget transmitted to Congress in early February 1999. This increase represents an acceleration after 2 years of deceleration. Almost all of the grants programs are expected to increase; the largest increases are expected in the programs for public assistance, highways, health-care, education, and "all other."¹⁷ State and local contributions for social insurance are assumed to increase at about the same rate in 1999 as in 1998.

Current expenditures.—Evidence from State and local budgets suggests that expenditures for current operations will accelerate in 1999. Current expenditures are likely to increase about \$45 billion, to about \$1,045 billion. Consumption expenditures are likely to accelerate; the acceleration is expected to be widespread among

16. Forecasting is an inherently risky process. Unforeseen economic developments, new legislation, weather, and other factors could cause forecasts to miss their targets. The projections of receipts and expenditures presented here could be in error by more than 1 percent.

17. "All other" grants consists of a variety of programs; the largest programs are human development services, employment training, unemployment insurance trust fund administrative expenditures, disaster relief, justice assistance, and atomic energy defense activities.

the components. Investment in structures is expected to increase in 1999.

Transfer payments, which are partly funded by Federal grants-in-aid, are likely to accelerate because payments for medical care are projected to grow more quickly than in 1998. Other transfer payments are expected to accelerate because the decline in family assistance payments is expected to stop and because benefits for social insurance funds are likely to accelerate.

Net interest paid in 1999 will be affected by the refinancing of debt and by the new borrowing at lower rates. Overall, interest paid and interest received are likely to again increase slowly; dividends received are likely to increase at a slightly slower rate than in 1998.

Current surplus or deficit.—These changes in receipts and in current expenditures would result

in a NIPA surplus of about \$150 billion in 1999, the same as in 1998. The social insurance funds surplus and the “other funds” surplus are both expected to remain about the same.

Gross investment.—Gross investment is expected to increase in 1999. New borrowing by State and local governments, which is used to finance gross investment, increased in 1998. Most categories of structures are expected to turn around in 1999. The largest increases are expected in highways. The Transportation Equity Act of the 21st Century was signed into law in 1998 and will increase Federal funding for State and local government investment in transportation facilities, including highways and mass transit. Educational and “other” buildings (including offices, police and fire stations, courthouses, and prisons) and water and sewer facilities are likely to increase. Investment in equipment is expected to accelerate. 