

State and Local Government Fiscal Position in 1999

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 \$9.3 billion, to \$51.0 billion, in 1999 from \$41.7 billion in 1998 (table 1, chart 1). Current receipts increased more than current expenditures, boosting the current surplus. The increase in current receipts mainly reflected an increase in "general own-source current receipts."¹ The increase in current expenditures mainly reflected an increase in consumption expenditures, primarily for nondurable goods.

1. General own-source current receipts consist of receipts for personal tax and nontax receipts, corporate profits accruals, and indirect business tax and nontax accruals.

Table 1.—State and Local Government Current Receipts, Current Expenditures, Current Surplus or Deficit and Net Lending or Net Borrowing, NIPA Basis

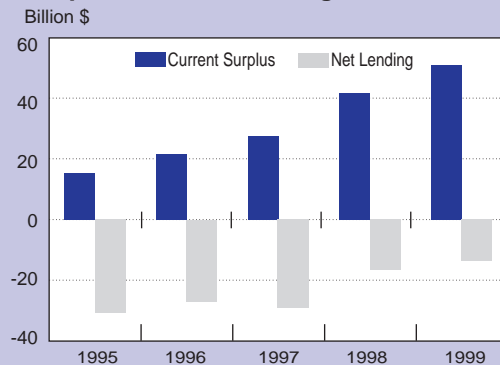
[Billions of dollars]

	1995	1996	1997	1998	1999
Current receipts	917.9	960.4	1,009.0	1,070.4	1,140.2
Current expenditures	902.5	939.0	981.5	1,028.7	1,089.2
Current surplus or deficit (-)	15.4	21.4	27.5	41.7	51.0
Addendum:					
Net lending or net borrowing (-)	-30.9	-27.0	-29.1	-16.8	-13.8

NIPA National income and product accounts

CHART 1

State and Local Government Current Surplus and Net Lending, NIPA Basis



The level of the 1998 surplus is substantially lower than the previously published level of \$150.2 billion.² The estimates presented in this article reflect the incorporation of the results of the most recent comprehensive revision of the national income and product accounts (NIPA's) that were released in October 1999. As part of the revision, government employee retirement plans are no longer classified as social insurance funds within the government sector, and the surpluses of these funds are now recorded as private savings. In addition, estate and gift taxes and Federal investment grants for highways, transit, air transportation, and water treatment are now classified as capital transfers; previously, they were classified as current receipts. (See the box "Comprehensive NIPA Revision: Definitional and Classificational Changes.")

This article briefly describes the source data for the estimates and discusses changes in current receipts and current expenditures by component. The article also looks at net lending and gross investment by State and local governments and the expected fiscal position in the year 2000.

Data sources

The major data sources for the NIPA estimates for the State and local government sector are the Census Bureau's quinquennial *Census of Governments* survey and the related *Government Finances* annual survey. Typically, these data for State governments are complete 3 years after the survey; and those for local governments, 4 years after the survey. Data from other sources are also used for the estimates, including data from several other Federal agencies.

The preliminary 1999 estimates are based on the available survey and other source data and on trend estimates for components for which the data are not yet available. For current receipts, the estimates of most of the major types of taxes are based on current Census Bureau survey data. Income taxes are based on BEA estimates of wages and

2. Janet H. Kmitch and Bruce E. Baker, "State and Local Government Fiscal Position in 1998," SURVEY OF CURRENT BUSINESS 79 (April 1999): 11-17.

salaries, and sales taxes are based on data from the Census Bureau's survey of retail trade sales. Property taxes and some "other" types of taxes are based on the Census Bureau's survey Quarterly Summary of State and Local Tax Revenue. Federal grants-in-aid are based on the monthly data from the Department of the Treasury that are used to prepare BEA's estimates for the Federal Government sector.

In current expenditures, compensation, which accounted for 57 percent of current expenditures in 1999, is based on survey data on employment and compensation from the Bureau of Labor Statistics (BLS), and transfers, which accounted for 22 percent, are mainly based on data from other Federal agencies.

Gross investment in structures is based on monthly data for construction from the Census Bureau.

The estimates of most other components of current receipts, current expenditures, and gross investment are based on extrapolations of past trends with judgmental modifications. In many cases, the trends in real expenditures are estimated by extrapolating quantity indexes, and current-dollar expenditures are obtained by multiplying the real expenditures by price indexes that are based

on data from the BLS consumer and producer price index programs.³

Current receipts

State and local government current receipts increased 6.5 percent, to \$1,140.2 billion, in 1999, after increasing 6.1 percent in 1998 (table 2). General own-source current receipts increased 6.3 percent in 1999, compared with a 6.0-percent increase in 1998. Except for personal tax and nontax receipts, all the major components of current receipts accelerated in 1999.

Personal tax and nontax receipts.—Personal tax and nontax receipts, which accounted for about 25 percent of total current receipts in 1999, decelerated; these receipts increased 6.3 percent, to \$251.9 billion, after a 9.0-percent increase in 1998 (table 2). Personal income tax receipts decelerated in 1999; they increased 6.6 percent, to \$196.8 billion, after a 10.0-percent increase. State legislative actions reduced income tax receipts \$5.1 billion in 1999 after a reduction of \$3.6 billion in 1998; excluding the 1999 actions, income tax receipts would have increased 9.3 percent. In 1999, several States

3. For additional information, see "Updated Summary NIPA Methodologies," SURVEY 78 (September 1998): 14–35; and *Government Transactions*, NIPA Methodology Paper No. 5 (1988).

Comprehensive NIPA Revision: Definitional and Classificational Changes

As part of the comprehensive revision of the national income and product accounts (NIPAs) that was released in October 1999, several definitional and classificational changes were made that affected the State and local government sector.¹ The major changes are as follows.

Government employee retirement plans, which were previously classified as social insurance funds in the government sector, are now treated similarly to private pension plans. Employer contributions to the plans are now classified as personal income (other labor income); previously, they were classified as government current receipts (contributions to social insurance). Benefits paid by the plans are now treated as transactions within the personal sector; previously, they were classified as government current expenditures (transfer payments to persons). Government interest received and dividends now exclude interest and dividends received by government employee retirement plans. Currently, no dividends are received by

social insurance funds, because the only social insurance funds that received dividends were State and local government employee retirement plans.

Certain transactions that mainly represent transfers of existing assets have been removed from government current receipts and expenditures and are now reclassified as capital transfers. These transactions include certain investment grants-in-aid to State and local governments and estate and gift taxes.

Government expenditures for software are now recognized as fixed investment; previously, all these expenditures except those for bundled software were treated as current expenditures.

Some State and local government contributions and transfer payments were reclassified. Payments for the food-cost portion of the Special Supplemental Nutrition Program for Women, Infants, and Children were reclassified as a transfer payments to persons and added to personal consumption expenditures; previously, they were classified as consumption expenditures. Payments for foster care and for adoption assistance were reclassified as "other" public assistance; previously, the federally funded portion of these payments was treated as "family assistance," and the State-funded portion of foster care assistance was treated as "other" transfer payments.

1. For a detailed discussion of these changes, see Brent R. Moulton, Robert P. Parker, and Eugene Seskin, "A Preview of the 1999 Comprehensive Revision of the National Income and Product Accounts: Definitional and Classificational Changes," SURVEY 79 (August 1999): 7–20. For estimates of the effects of these changes, see Eugene P. Seskin, "Improved Estimates of the National Income and Product Accounts for 1959–98: Results of the Comprehensive Revision," SURVEY 79 (December 1999):29–30.

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

	Billions of dollars					Percent change			
	1995	1996	1997	1998	1999	1996	1997	1998	1999
Current receipts	917.9	960.4	1,009.0	1,070.4	1,140.2	4.6	5.1	6.1	6.5
General own-source current receipts	719.8	757.5	802.4	850.4	903.7	5.2	5.9	6.0	6.3
Personal tax and nontax receipts	186.5	199.6	217.4	236.9	251.9	7.0	8.9	9.0	6.3
Income taxes	142.5	152.9	168.0	184.7	196.8	7.3	9.8	10.0	6.6
Nontaxes	27.1	29.2	31.3	33.2	35.3	8.0	7.0	6.2	6.5
Other	17.0	17.5	18.2	19.0	19.7	2.8	4.0	4.6	3.7
Corporate profits tax accruals	31.7	33.0	34.0	33.8	37.0	4.3	3.1	-0.8	9.5
Indirect business tax and nontax accruals	501.6	524.9	550.9	579.6	614.8	4.6	5.0	5.2	6.1
Sales taxes	243.6	255.6	269.3	284.3	307.2	4.9	5.4	5.6	8.1
Property taxes	203.5	211.4	218.7	225.5	234.5	3.8	3.5	3.1	4.0
Other	54.5	58.0	62.9	69.8	73.2	6.4	8.5	11.0	4.8
Contributions for social insurance	13.6	12.5	11.0	10.7	11.1	-8.4	-11.6	-2.5	3.0
Federal grants-in-aid	184.5	190.4	195.7	209.3	225.5	3.2	2.8	7.0	7.7

NIPA National income and product accounts

that had excess revenue paid one-time rebates to taxpayers.

Personal nontax receipts (mainly fines, donations, and unclaimed bank deposits) increased 6.5 percent after a 6.2-percent increase in 1998. "Other" personal tax receipts decelerated in 1999; they increased 3.7 percent after a 4.6-percent increase.

Corporate profits tax accruals.—Corporate profits tax accruals, which accounted for about 3 percent of current receipts in 1999, increased 9.5 percent after decreasing 0.8 percent in 1998. The turnaround reflected the pattern of corporate profits before tax, which increased 8.5 percent after decreasing 1.8 percent.

Indirect business tax and nontax accruals.—Indirect business tax and nontax accruals, which accounted for about 54 percent of current receipts in 1999, accelerated; these receipts increased 6.1 percent, to \$614.8 billion, after increasing 5.2 percent in 1998. Sales taxes, which accounted for about 50 percent of indirect business tax and nontax accruals, accelerated in 1999; they increased 8.1 percent after increasing 5.6 percent. All the components of State and local sales taxes—including general sales taxes and sales taxes on alcohol, tobacco, and gasoline—increased, reflecting an acceleration in consumer spending from 5.9 percent in 1998 to 7.0 percent in 1999. The increase in sales taxes was moderated by the effects of legislative actions, which reduced sales taxes \$1.4 billion in 1999 after a reduction of \$0.4 billion in 1998.

Property taxes, which accounted for about 40 percent of indirect business tax and nontax accruals, accelerated in 1999; they increased 4.0 percent, to \$234.5 billion, after an increase of 3.1 percent.

"Other" indirect business tax and nontax accruals decelerated in 1999; they increased 4.8 percent, to \$73.2 billion, after increasing 11.0 percent in 1998. The deceleration was partly attributable to a decrease in the payments to States by tobacco companies as a result of out-of-court settlements of lawsuits; these payments were \$3.5 billion in 1999, \$4.2 billion in 1998, and \$0.9 billion in 1997.

Contributions for social insurance.—Contributions for social insurance, which accounted for about 1 percent of current receipts, increased 3.0 percent after decreasing 2.5 percent in 1998. The upturn reflected increases in employer contributions for workers compensation.

Federal grants-in-aid.—Federal grants-in-aid to State and local governments, which accounted for about 20 percent of current receipts, accelerated in 1999; they increased 7.7 percent after increasing 7.0 percent in 1998. Most categories of grants—including health, the largest category—increased.⁴

Current expenditures

Current expenditures increased 5.9 percent, to \$1,089.2 billion, in 1999 after an increase of 4.8 percent in 1998 (table 3). The increase was largely accounted for by an increase in consumption expenditures.

Consumption expenditures.—Consumption expenditures accelerated in 1999; they increased 6.2 percent, to \$857.4 billion, after increasing 5.4 percent in 1998 (table 4). The acceleration was

4. The detailed estimates of Federal grants-in-aid for 1999 and the projections for 2000 are shown in Laura M. Beall and Sean Keehan, "Federal Budget Estimates, Fiscal Year 2001," SURVEY 80 (March 2000): 16-25.

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

	Billions of dollars					Percent change			
	1995	1996	1997	1998	1999	1996	1997	1998	1999
Current expenditures	902.5	939.0	981.5	1,028.7	1,089.2	4.0	4.5	4.8	5.9
Consumption expenditures	694.7	726.5	765.9	807.5	857.4	4.6	5.4	5.4	6.2
Transfer payments to persons	217.8	224.3	227.9	234.8	244.7	3.0	1.6	3.0	4.2
Benefits from social insurance funds	10.7	10.9	10.9	10.8	10.9	1.9	-5	-1.1	1.7
Public assistance	195.8	201.9	205.2	211.2	219.7	3.1	1.7	2.9	4.0
Medical care	155.0	163.6	168.7	174.0	182.5	5.6	3.1	3.1	4.9
Family assistance	22.6	20.3	17.6	17.1	15.9	-10.2	-13.5	-2.5	-7.2
All other	18.1	17.9	18.9	20.1	21.3	-1.3	5.7	6.4	5.9
Education	8.7	9.1	9.1	9.8	10.7	3.9	.8	7.8	8.5
Employment and training	1.1	.9	1.0	1.1	1.3	-15.9	11.8	8.1	21.1
Other	1.5	1.6	1.7	1.8	2.0	5.1	7.4	8.8	8.9
Net interest paid .....	.5	.9	-6	-2.0	-7				
Interest paid	67.8	70.4	70.6	70.7	71.3	3.8	.3	.1	.9
Less: Interest received by government	67.3	69.5	71.2	72.7	72.1	3.3	2.4	2.1	-8
Social insurance funds	3.4	3.6	3.7	3.9	3.9	5.6	2.8	6.4	-1.8
Other	63.9	65.9	67.5	68.8	68.2	3.1	2.4	1.8	-8
Less: Dividends received by government .....	.3	.3	.3	.3	.3	19.4	10.6	1.8	2.1
Subsidies less current surplus of government enterprises	-10.2	-12.5	-11.4	-11.3	-11.8				
Subsidies .....	.3	.3	.4	.5	.5	6.1	22.5	16.1	4.9
Less: Current surplus of government enterprises	10.5	12.8	11.8	11.7	12.3	22.0	-8.0	-4	4.7
Less: Wage accruals less disbursements	0	0	0	0	0				

NIPA National income and product accounts

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

	1995	1996	1997	1998	1999	1996	1997	1998	1999
	Billions of dollars					Percent change			
Consumption expenditures and gross investment	850.5	890.4	943.2	991.0	1,059.4	4.7	5.9	5.1	6.9
Consumption expenditures	694.7	726.5	765.9	807.5	857.4	4.6	5.4	5.4	6.2
Durable goods	12.7	13.1	14.0	15.2	16.2	2.8	7.4	7.9	6.9
Nondurable goods	72.9	79.9	84.4	86.3	95.3	9.5	5.6	2.3	10.4
Services	609.0	633.6	667.5	706.1	746.0	4.0	5.3	5.8	5.6
Compensation of general government employees except own-account investment ¹	523.1	542.3	565.4	592.6	621.9	3.7	4.3	4.8	4.9
Consumption of general government fixed capital	64.4	68.2	72.2	76.0	81.2	6.0	5.8	5.3	6.8
Other services	21.5	23.0	29.8	37.5	42.8	7.2	29.4	25.7	14.4
Gross investment	155.8	163.8	177.3	183.5	202.0	5.1	8.2	3.5	10.1
Structures	117.3	122.5	132.8	135.2	149.7	4.4	8.4	1.8	10.7
Equipment and software	38.6	41.3	44.5	48.3	52.3	7.2	7.6	8.5	8.4
Chain-type quantity indexes (1996=100)									
Consumption expenditures and gross investment	97.71	100.00	103.66	107.00	111.54	2.3	3.7	3.2	4.2
Consumption expenditures	97.91	100.00	103.05	106.52	110.11	2.1	3.0	3.4	3.4
Durable goods	96.94	100.00	108.04	116.86	125.34	3.2	8.0	8.2	7.3
Nondurable goods	94.63	100.00	106.41	114.37	121.83	5.7	6.4	7.5	6.5
Services	98.34	100.00	102.53	105.37	108.43	1.7	2.5	2.8	2.9
Compensation of general government employees except own-account investment	98.92	100.00	101.51	102.82	104.82	1.1	1.5	1.3	1.9
Consumption of general government fixed capital	95.67	100.00	104.69	109.89	115.73	4.5	4.7	5.0	5.3
Other services	92.59	100.00	119.50	150.59	171.19	8.0	19.5	26.0	13.7
Gross investment	96.82	100.00	106.40	109.14	117.95	3.3	6.4	2.6	8.1
Structures	98.70	100.00	104.86	104.06	111.34	1.3	4.9	-0.8	7.0
Equipment and software	91.42	100.00	111.08	125.33	139.29	9.4	11.1	12.8	11.1
Chain-type price indexes (1996=100)									
Consumption expenditures and gross investment	97.77	100.00	102.19	104.03	106.67	2.3	2.2	1.8	2.5
Consumption expenditures	97.66	100.00	102.30	104.35	107.17	2.4	2.3	2.0	2.7
Durable goods	100.40	100.00	99.45	99.18	98.87	-0.4	-0.5	-0.3	-0.3
Nondurable goods	96.49	100.00	99.25	94.44	97.80	3.6	-0.7	-4.8	3.6
Services	97.75	100.00	102.75	105.77	108.58	2.3	2.8	2.9	2.7
Compensation of general government employees except own-account investment	97.51	100.00	102.71	106.28	109.40	2.6	2.7	3.5	2.9
Consumption of general government fixed capital	98.64	100.00	101.08	101.39	102.86	1.4	1.1	0.3	1.4
Other services	100.73	100.00	108.28	107.98	108.56	-0.7	8.3	-0.3	0.5
Gross investment	98.25	100.00	101.72	102.63	104.53	1.8	1.7	0.9	1.9
Structures	97.02	100.00	103.40	106.09	109.73	3.1	3.4	2.6	3.4
Equipment and software	102.00	100.00	96.89	93.19	90.89	-2.0	-3.1	-3.8	-2.5

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

NOTE.—The current-dollar estimates are shown in NIPA table 3.7. The quantity and price indexes are shown in NIPA table 7.11.

NIPA National income and product accounts

largely due to an acceleration in expenditures for nondurable goods that largely reflected increases in the prices of petroleum products.

Compensation of general government employees except own-account investment, which accounted for about 75 percent of consumption expenditures, increased 4.9 percent in 1999, about the same as in 1998.⁵ Within compensation, wages and salaries increased 5.3 percent, about the same as in 1998; supplements to wages and salaries, which accounted for about 20 percent of compensation in 1999, accelerated slightly.⁶ Employment in the State and local government sector accelerated in 1999; it increased 2.1 percent after increasing 1.6 percent.

Government sales, which are subtracted in the estimation of consumption expenditures and gross investment, accelerated in 1999; they increased 6.7 percent after increasing 6.4 percent in 1998.⁷ The largest components of government sales—tuition charges and health and hospital charges—accounted for about 60 percent of government sales in 1999.

Consumption of general government fixed capital, a partial measure of the value of the services of general government fixed assets, accelerated; it increased 6.8 percent after a 5.3-percent increase.

Real consumption expenditures, measured by the chain-type quantity index, increased 3.4 percent, about the same as in 1998 (table 4). Services increased 2.9 percent, about the same as in 1998. The price index for State and local government consumption expenditures increased 2.7 percent after increasing 2.0 percent. Services decelerated in 1999; they increased 2.7 percent after increasing 2.9 percent in 1998.

Transfer payments to persons.—Transfer payments to persons accelerated in 1999; they increased 4.2 percent, to \$244.7 billion, after an increase of 3.0 percent in 1998 (table 3). Most of the acceleration was accounted for by medical care payments (primarily medicaid), which accounted for about 75 percent of transfer payments in 1999.

5. In the distribution of government expenditures by type of products (that is, goods, services, and structures), compensation of government employees engaged in own-account investment activities, such as writing software or construction, and related expenditures are classified as gross investment and not in the compensation component of consumption expenditures. (For other NIPA aggregates, such as compensation of employees, the compensation of own-account employees are classified as compensation.)

6. These supplements consist of employer contributions for social insurance funds (mainly social security, unemployment insurance, and workers' compensation) and "other labor income" (mainly employer contributions to private and government pension plans, private workers' compensation, and group health and group life insurance).

7. In the NIPAs, consumption expenditures are recorded net of receipts for certain goods and services that are defined as government sales. Sales to persons also are recorded in personal consumption expenditures.

Benefits from social insurance funds, which consist of payments for temporary disability insurance and of workers compensation funds, increased 1.7 percent, to \$10.9 billion, in 1999 after a 1.1-percent decrease in 1998.

Public assistance accelerated; it increased 4.0 percent, to \$219.7 billion, after an increase of 2.9 percent. Medical care payments (primarily medicaid) accelerated; they increased 4.9 percent, to \$182.5 billion, after increasing 3.1 percent. The acceleration was partly attributable to the increases in the mandated State Children's Health Insurance Plan. Family assistance, which accounted for about 10 percent of public assistance, has declined since 1995; it decreased 7.2 percent, to \$15.9 billion in 1999 after decreasing 2.5 percent in 1998. The number of welfare recipients continued to decline as a result of the Federal Personal Responsibility and Work Opportunity Reconciliation Act of 1996 and the strong economy.⁸ Education assistance increased 8.5 percent, to \$10.7 billion, after an increase of 7.8 percent.

Net interest paid.—Net interest paid (interest paid by State and local governments less interest received) was $-\$0.7$ billion in 1999, compared with $-\$2.0$ billion in 1998 and $-\$0.6$ billion in 1997. Interest paid increased 0.9 percent, to \$71.3 billion, after little change. Interest received by government turned down; it decreased 0.8 percent, to \$72.1 billion, after an increase of 2.1 percent. Interest received by social insurance funds decreased 1.8 percent; "other" interest received by government decreased 0.8 percent. Dividends received by government increased 2.1 percent after an increase of 1.8 percent.

Subsidies less current surplus of government enterprises.—The current surplus of government enterprises turned up in 1999; it increased 4.7 percent, to \$12.3 billion, after decreasing 0.4 percent.⁹

Net lending or net borrowing

As part of the comprehensive revision, "net lending or net borrowing(-)" was introduced as an alternative measure of the fiscal position. Net lending is the financing requirement of the sector, whereas the current surplus is the balance of current receipts and expenditures, a measure of net saving by

8. Family assistance consists of Aid to Families with Dependent Children and beginning in 1996, of assistance programs operating under the Federal Personal Responsibility and Work Opportunity Reconciliation Act of 1996.

9. 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.

government. In addition to current receipts and current expenditures, net lending reflects financing requirements for gross investment and purchases of land and the receipts of capital transfers, and it excludes consumption of fixed capital. Net lending has increased each year since 1997, reflecting the effects of a strong economy and the resulting strong fiscal position of the States, which has reduced the need to borrow to fund capital projects (table 1, chart 1).

Capital transfers accelerated in 1999; they increased 16.0 percent, to \$42.0 billion, after increasing 2.5 percent in 1998. The acceleration was partly attributable to an acceleration in Federal investment grants, which increased 17.4 percent after little change.

Gross investment.—State and local government gross investment increased 10.1 percent, to \$202.0 billion, in 1999 after an increase of 3.5 percent in 1998 (table 4). The acceleration was more than accounted for by an acceleration in investment in structures.

Gross investment in structures accelerated in 1999; it increased 10.7 percent, to \$149.7 billion, after a 1.8-percent increase in 1998. Investment in buildings, which accounted for about 45 percent of investment in structures, increased 8.1 percent after increasing 4.1 percent; the acceleration reflected a turnaround in construction of hospitals, which increased 14.0 percent after decreasing 8.7 percent, and an acceleration in construction of educational buildings, which increased 13.8 percent after increasing 3.5 percent; these two categories accounted for about 25 percent of investment in structures. Investment in “other” buildings (such as prisons and offices) decelerated; residential buildings declined. Investment in highways and streets, which accounted for about 35 percent of investment in structures, accelerated; it increased 13.3 percent, to \$50.4 billion, after increasing 0.9 percent. In “other” structures, the largest increases were 18.2-percent increases in both “other” new structures (consisting primarily of airfields, parks and recreation, and parking) and electric supply systems and a 14.5-percent increase in conservation and development (natural resources and water transport).

Gross investment in equipment and software increased 8.4 percent, to \$52.3 billion, in 1999, about the same as in 1998.

Net purchases of existing structures by State and local governments decelerated in 1999; they increased 4.2 percent after increasing 12.4 percent in 1998.

Real gross investment increased 8.1 percent in 1999 after an increase of 2.6 percent. Real investment in structures increased 7.0 percent after a decrease of 0.8 percent. Real investment in equipment and software decelerated; it increased 11.1 percent after increasing 12.8 percent in 1998 (table 4).

The price index for State and local government gross investment increased 1.9 percent in 1999 after increasing 0.9 percent in 1998. The price index for structures increased 3.4 percent after increasing 2.6 percent, and the price index for equipment and software decreased 2.5 percent after decreasing 3.8 percent.

Fiscal position in 2000

During each year’s annual revision, the Bureau of Economic Analysis prepares projections of the State and local government fiscal position for the next year.¹⁰ In 2000, a major factor affecting the State and local government fiscal position will be the pace of economic activity. In the *Economic Report of the President*, real gross domestic product is projected to grow about 3.0 percent in 2000 (that is, from the fourth quarter 1999 to the fourth quarter 2000), a slowdown from the 4.2-percent growth in 1999. In addition, the unemployment rate is projected to rise slightly, and the rate of inflation, to remain stable.¹¹ The BEA projections will be updated during the annual NIPA revision, when newly available data from the Census Bureau will be incorporated.

Current receipts.—In current receipts, the rate of economic growth will have the largest effect on personal income taxes, corporate profits tax accruals, and sales taxes, which together account for about 50 percent of current receipts. Federal grants-in-aid, which account for about 20 percent of current receipts, are determined by the Federal Government.¹² Property taxes and other taxes, nontaxes, and contributions for social insurance account for the remaining 30 percent.

10. These projections—which are prepared 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 government sector of the NIPAs in 2000. BEA also uses some of these projections to prepare the NIPA estimates of several components of State and local government receipts and expenditures for which source data are not available when 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 NIPAs,” SURVEY 78 (March 1998): 56–61.

11. *Economic Report of the President* (Washington, DC: U.S. Government Printing Office, February 2000): 87.

12. Grants-in-aid have been appropriated for fiscal year 2000 and have been estimated for fiscal year 2001; see the *Budget of the United States Government, Fiscal Year 2001: Appendix* (Washington DC: U.S. Government Printing Office, 2000), and Beall and Keehan, “Federal Budget Estimates.”

Current receipts in 2000 are expected to increase about \$45 billion, to about \$1,185 billion.¹³ A projected slowdown in the growth in current-dollar gross domestic product (GDP) is expected to reduce the growth rate of personal income taxes. State tax law changes that have already been enacted and new tax law changes are expected to continue to reduce receipts in 2000, and rebates are expected to decrease in 2000. "Other" personal tax and nontax receipts, which are less sensitive to economic growth, are projected to increase at about the same rate as in 1999. Sales tax receipts are expected to decelerate in 2000 as a result of projected slower growth in nominal GDP. Corporate profits tax accruals are expected to increase slightly in 2000. Property tax accruals, which are affected by property values and by changes in new investment, are expected to decelerate slightly in 2000 as a result of legislative changes. Indirect business nontaxes are expected to increase; payments of out-of-court settlements by tobacco companies, which were \$3.5 billion in 1999, are expected to be \$5.5 billion in 2000. Reflecting all these changes, general own-source current receipts are expected to decelerate in 2000.

Federal grants-in-aid are expected to increase at about the same rate in 2000 as in 1999, according to the Federal budget transmitted to Congress in early February 2000. Almost all of the grants programs are expected to increase; the largest increases are expected in the programs for health and income security. State and local government contributions for social insurance are assumed to increase slightly in 2000.

13. 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 current receipts and expenditures presented here could be in error by more than 1 percent.


Current expenditures.—Evidence from State and local budgets suggests that expenditures for current operations will increase in 2000. Current expenditures are likely to increase about \$35 billion, to about \$1,125 billion. Consumption expenditures are likely to accelerate; the acceleration is expected to be widespread among the components.

Transfer payments to persons, 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 1999. Transfer payments for education and public assistance are likely to accelerate.

Net interest paid in 2000 will be affected by the refinancing of debt. Overall, interest paid, interest received, and dividends are likely to decelerate in 2000.

Current surplus or deficit.—The projected changes in current receipts and in current expenditures would result in a current surplus of about \$60 billion in 2000.

Net lending.—Net lending is expected to decline from $-\$13.8$ billion to about $-\$10$ billion. Capital transfers are projected to increase, according to the Federal budget.

Gross investment.—Gross investment is expected to increase in 2000. Most categories of structures are expected to continue to increase. The increases in highways are expected to moderate slightly. Construction of schools and hospitals are expected to continue to increase. Investment in "other" buildings (including offices, police and fire stations, courthouses, and prisons) is likely to increase. Investment in equipment and software is expected to continue at the current pace. 

Availability of NIPA Estimates for State and Local Governments

Detailed estimates of several components in the State and local government sector are published annually. The estimates for 1998, the most recent year for which data are available, were published in the April 2000 SURVEY. The historical estimates for most of the NIPA tables are available on BEA's Web site at <www.bea.doc.gov> and on STAT-USA's Web site at <www.stat-usa.gov>. Revised estimates for 1999 will be released on July 28, 2000, as part of the annual NIPA revision, and will be published in the August 2000 SURVEY. The detailed estimates for the State and local government sector are available in the following tables.

Number	Title
3.3	State and Local Government Current Receipts and Expenditures
3.4	Personal Tax and Nontax Receipts
3.5	Indirect Business Tax and Nontax Accruals
3.6	Contributions for Social Insurance
3.7	Government Consumption Expenditures and Gross Investment by Type
3.8	Real Government Consumption Expenditures and Gross Investment by Type
3.9	Government Consumption Expenditures Gross and Net of Sales by Type
3.12	Government Transfer Payments to Persons
3.13	Subsidies Less Current Surplus of Government Enterprises
3.14	Social Insurance Funds Current Receipts and Expenditures
3.15	Government Expenditures and Gross Investment by Function ¹
3.16	Government Current Expenditures by Function ¹
3.17	Selected Government Current Expenditures by Function ¹
3.19	Relation of State and Local Government Current Receipts and Expenditures in the National Income and Product Accounts to Bureau of Census <i>Government Finances</i> Data, Fiscal Years
5.14	Gross Government Fixed Investment by Type
5.15	Real Gross Government Fixed Investment by Type
7.11	Chain-Type Quantity and Price Indexes for Government Consumption Expenditures and Gross Investment by Type
7.13	Chain-Type Quantity and Price Indexes for Gross Government Fixed Investment by Type
8.29	Capital Transfers (Net)

1. An article that introduces a new presentation of these government-by-function tables is scheduled to be published in the June 2000 issue of the SURVEY.