

# State and Local Government Fiscal Position in 1993

By David F. Sullivan

**T**HE SURPLUS of State and local governments measured on a national income and product accounts (NIPA) basis was \$1.9 billion in 1993, \$5.3 billion less than in 1992 (table 1). This deterioration in the overall fiscal position was the result of a \$0.8 billion decrease in the surplus of social insurance funds, to \$58.6 billion, and a \$4.5 billion increase in the "other funds" deficit, to a record \$56.7 billion (chart 1).

The deterioration in the fiscal position in 1993 resulted from a larger increase in expenditures than in receipts; both receipts and expenditures decelerated, but the deceleration in receipts was sharper. In 1992, the surplus changed little because both receipts and expenditures increased about the same amount; receipts accelerated, while expenditures decelerated.

## Receipts

State and local government receipts increased 6.0 percent in 1993, 1.3 percentage points less than in 1992 (table 2). General own-source receipts—that is, receipts excluding contributions for social insurance and Federal grants-in-aid—increased 5.5 percent in 1993, 0.8 percentage point less than in 1992. The deceleration is traceable to the effect of tax law changes on personal and indirect business taxes; these changes resulted in modest increases in 1993 after large increases in 1992. Excluding the effects of tax legislation, general own-source receipts would have accelerated somewhat in 1993.

**Table 1.—State and Local Government Receipts, Expenditures, and Surplus or Deficit, NIPA Basis**

[Billions of dollars]

	Calendar years				
	1989	1990	1991	1992	1993
Receipts .....	681.5	730.0	780.5	837.8	888.1
Expenditures .....	636.7	704.9	773.2	830.6	886.2
Surplus or deficit (-) .....	44.8	25.1	7.3	7.2	1.9
Social insurance funds .....	62.3	60.7	58.5	59.4	58.6
Other funds .....	-17.5	-35.6	-51.2	-52.2	-56.7

NOTE.—The estimates for 1992 and 1993 are in table 3.3 of the "Selected NIPA Tables" in this issue; the estimates for 1989-91 are in table 3.3 in "National Income and Product Accounts Tables" in the August 1993 SURVEY OF CURRENT BUSINESS.

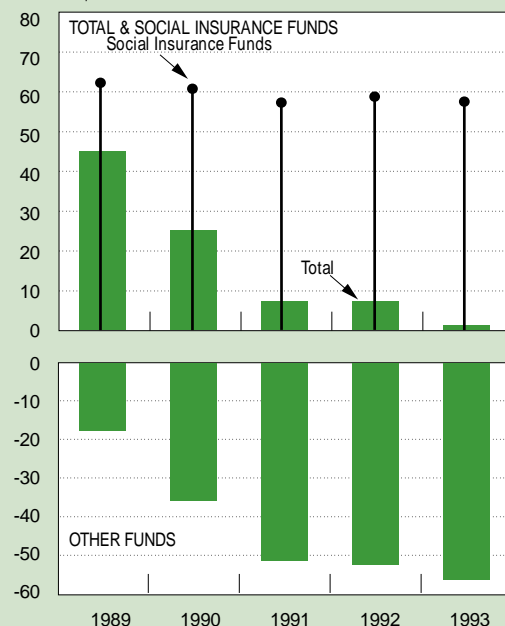
Personal tax and nontax receipts increased 4.1 percent in 1993 after a 5.8-percent increase in 1992. Personal income taxes increased 3.5 percent after increasing 5.7 percent. Legislative actions reduced income taxes by an estimated \$0.6 billion in 1993 after adding \$3.1 billion in 1992. Excluding legislative actions, personal income taxes would have increased 4.2 percent in 1993 and 3.0 percent in 1992. Personal nontax payments decelerated in 1993. Personal taxes other than income taxes accelerated as the result of a turnaround in estate and gift taxes.

Corporate profits tax accruals increased 19.1 percent in 1993, following a 14.5-percent increase in 1992. The acceleration reflected growth in corporate profits before tax, which increased 13.8 percent after a 9.1-percent increase. (Dollar lev-

CHART 1

## State and Local Government Surplus or Deficit, NIPA Basis

Billion \$



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

els are found in table 1.14 of the "Selected NIPA Tables.")

Indirect business tax and nontax accruals increased 5.1 percent in 1993, down from a 6.0-percent increase in 1992. Sales taxes increased 5.4 percent after a 5.9-percent increase. Legislative actions added only about \$1.0 billion to sales taxes in 1993 after adding \$4.0 billion in 1992. Excluding legislative actions, sales taxes would have increased 5.4 percent in 1993 and 4.1 percent in 1992. Property taxes decelerated to a 5.2-percent increase from a 6.0-percent increase. "Other" indirect business tax and nontax accruals decelerated to a 3.6-percent increase from a 6.9-percent increase. The deceleration is most marked in indirect business nontaxes, which included receipts resulting from settlements of lawsuits by several petroleum firms in 1992; excluding these unusual items, which are included in rents and royalties and in fines, "other" indirect business tax and nontax accruals increased 4.7 percent in 1993 and 5.8 percent in 1992.<sup>1</sup>

Contributions for social insurance increased 4.0 percent in 1993, down from a 5.2-percent increase in 1992; the deceleration was widespread among social insurance programs.

Federal grants-in-aid decelerated in 1993, following a deceleration in 1992; they increased 8.6 percent in 1993, 12.0 percent in 1992, and 15.7 percent in 1991. Despite the deceleration, Federal grants-in-aid was the second-fastest growing component of receipts (after corporate profits taxes) in 1992 and 1993. The 1993 deceleration was largely accounted for by grants for medicaid, which increased 13.4 percent after a 21.0-percent increase. Grants for highways and for aid to families with dependent children also contributed to the 1993 deceleration.

**Expenditures**

State and local government expenditures decelerated in 1993 for the third consecutive year; expenditures increased 6.7 percent in 1993, 7.4 percent in 1992, and 9.7 percent in 1991 (table 3). Most of the 1993 deceleration was attributable to transfer payments.

**Purchases.**—Purchases increased 4.6 percent in 1993, about the same as in 1992. Compensation of employees and "other" purchases both accelerated; purchases of structures decelerated.

Compensation of employees increased 5.0 percent in 1993, up from 4.8 percent in 1992. The acceleration reflects growth in employment: Full-time-equivalent employment for State and local general government increased 1.5 percent,

1. The detailed estimates of indirect business tax and nontax accruals for 1989-92 are shown in table 3.5 of the NIPA tables in the August 1993 SURVEY OF CURRENT BUSINESS.

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

	Calendar years								
	Billions of dollars					Percent change			
	1989	1990	1991	1992	1993	1990	1991	1992	1993
<b>Receipts</b> .....	<b>681.5</b>	<b>730.0</b>	<b>780.5</b>	<b>837.8</b>	<b>888.1</b>	<b>7.1</b>	<b>6.9</b>	<b>7.3</b>	<b>6.0</b>
<b>General own-source receipts</b> .....	<b>508.5</b>	<b>539.4</b>	<b>565.7</b>	<b>601.5</b>	<b>634.5</b>	<b>6.1</b>	<b>4.9</b>	<b>6.3</b>	<b>5.5</b>
Personal tax and nontax receipts .....	131.4	138.9	145.5	154.0	160.3	5.7	4.7	5.8	4.1
Income taxes .....	101.4	106.3	110.4	116.7	120.8	4.8	3.9	5.7	3.5
Nontaxes .....	14.1	15.3	16.7	18.3	19.7	8.6	9.0	9.5	7.5
Other .....	15.9	17.3	18.4	19.0	19.9	8.6	6.3	3.3	5.0
Corporate profits tax accruals .....	24.2	22.3	22.7	26.0	31.0	-8.1	2.1	14.5	19.1
Indirect business tax and nontax accruals .....	352.8	378.2	397.5	421.5	443.1	7.2	5.1	6.0	5.1
Sales taxes .....	172.3	183.3	189.6	200.8	211.7	6.4	3.5	5.9	5.4
Property taxes .....	143.5	155.5	167.6	177.7	186.9	8.4	7.8	6.0	5.2
Other .....	37.0	39.5	40.2	43.0	44.5	6.6	1.8	6.9	3.6
<b>Contributions for social insurance</b> .....	<b>54.8</b>	<b>58.3</b>	<b>61.7</b>	<b>64.9</b>	<b>67.4</b>	<b>6.4</b>	<b>5.9</b>	<b>5.2</b>	<b>4.0</b>
<b>Federal grants-in-aid</b> .....	<b>118.2</b>	<b>132.3</b>	<b>153.0</b>	<b>171.4</b>	<b>186.2</b>	<b>11.9</b>	<b>15.7</b>	<b>12.0</b>	<b>8.6</b>
<b>Addendum—Receipts excluding selected law changes:<sup>1</sup></b>									
Total .....	679.2	723.1	764.7	815.0	865.0	6.5	5.8	6.6	6.1
General own-source receipts .....	506.2	532.5	549.9	578.7	611.3	5.2	3.3	5.2	5.6

1. Estimates of the effect on receipts of law changes are calculated as follows. For changes of which BEA is aware (hence the use of "selected" in the line title in the table), the estimate is of the amount of the change over the 12-month period after the change is introduced. For personal taxes, the change is introduced when the tax is paid/refunded or when withholding is changed. For indirect business taxes, the change is introduced to coincide with the transaction affected. The calculations are made by months for personal taxes and nontaxes (because they are used to prepare monthly estimates of disposable personal income) and by quarters for other taxes. Two characteristics of the resulting estimates should be noted. First, aggregation of the monthly or quarterly estimates to calendar years may give results that appear anomalous. For example, a sales tax imposed for 1 year beginning July 1 would be recorded as follows: (a) For quarters, an increase in receipts by the amount of the 12-month yield in the third quarter of that

year and a decrease by the same amount in the third quarter of the following year, and (b) for calendar years, an increase in receipts by the amount of the 12-month yield divided by 2 in the year that the increase takes place, no change in receipts in the following year, and a decrease by the amount of the 12-month yield divided by 2 in the year after that (i.e., 2 years after the increase). Second, a law change after July, which is the beginning of the fiscal year for many States, would have more impact on receipts of the next calendar year than on those of the calendar year in which it occurs.

The effects of tax law changes that are excluded from receipts to derive the addenda items in the table cover the changes beginning with those introduced in 1988. The 12-month effects, recorded for calendar years as described above, are cumulated.

following a 0.6-percent increase (the smallest increase since 1983). Compensation per employee increased 3.5 percent, following a 4.1-percent increase.

"Other" purchases increased 2.0 percent in 1993 after a 1.3-percent increase in 1992. Purchases of durable goods increased 4.6 percent after a 4.2-percent increase, nondurable goods increased 3.3 percent in both years, and purchases of services other than employee compensation decreased 4.3 percent after a 6.2-percent decrease. In the NIPA's, purchases are net of receipts for certain goods and services provided by government that are defined as government sales. Net purchases of services other than employee compensation have decreased in recent years, as sales of services—which include large amounts of tuition and related educational charges and health and hospital charges—have increased faster than gross purchases of services other than employee compensation.<sup>2</sup>

Purchases of structures increased 6.4 percent in 1993, following a 7.8-percent increase in 1992. The deceleration was more than accounted for by construction of highways and of "other" buildings (such as prisons and offices). Highway construction increased 4.1 percent after a 9.1-percent

increase; "other" buildings decreased 1.7 percent after a 9.6-percent increase. Excluding highways and "other" buildings, structures accelerated to a 10.9-percent increase from a 6.2-percent increase. The acceleration was in housing, educational buildings, conservation and development, and water supply.

Measured in constant (1987) dollars, State and local government purchases increased 2.1 percent in 1993, following a 2.2-percent increase in 1992 (table 4). Among the components of State and local government purchases, compensation of employees increased 1.4 percent after a 0.6-percent increase; structures increased 2.9 percent after an 8.8-percent increase; and "other" purchases increased 3.5 percent after a 2.6-percent increase, reflecting acceleration in most categories.

*Transfer payments to persons.*—Transfer payments to persons increased 11.1 percent in 1993, following a 14.8-percent increase in 1992; most components of transfer payments contributed to the deceleration. Medical care (primarily medicaid)—which accounts for about three-fourths of public assistance—decelerated, but continued to grow at a high rate—14.3 percent after a 20.3-percent increase. Transfer payments excluding medical care increased 7.5 percent, following a 9.2-percent increase.<sup>3</sup>

2. For a description of the NIPA treatment of government sales, see Robert P. Parker, "A Preview of the Comprehensive Revision of the National Income and Product Accounts: Definitional and Classificational Changes," SURVEY OF CURRENT BUSINESS 71 (September 1991): 24. Estimates of gross purchases and sales of services for 1989–92 are shown in table 3.9B of the NIPA tables in the August 1993 SURVEY.

3. The detailed estimates of government transfer payments to persons for 1989–92 are shown in table 3.12 of the NIPA tables in the August 1993 SURVEY.

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

	Calendar years								
	Billions of dollars					Percent change			
	1989	1990	1991	1992	1993	1990	1991	1992	1993
<b>Expenditures</b> .....	<b>636.7</b>	<b>704.9</b>	<b>773.2</b>	<b>830.6</b>	<b>886.2</b>	<b>10.7</b>	<b>9.7</b>	<b>7.4</b>	<b>6.7</b>
<b>Purchases</b> .....	<b>573.6</b>	<b>620.9</b>	<b>653.4</b>	<b>683.0</b>	<b>714.6</b>	<b>8.3</b>	<b>5.2</b>	<b>4.5</b>	<b>4.6</b>
Compensation of employees .....	379.8	412.7	436.5	457.3	480.1	8.7	5.8	4.8	5.0
Structures .....	80.9	87.1	92.6	99.8	106.2	7.7	6.3	7.8	6.4
Other .....	113.0	121.2	124.3	125.9	128.4	7.3	2.6	1.3	2.0
<b>Transfer payments to persons</b> .....	<b>143.6</b>	<b>165.4</b>	<b>199.2</b>	<b>228.6</b>	<b>254.1</b>	<b>15.2</b>	<b>20.4</b>	<b>14.8</b>	<b>11.1</b>
Benefits from social insurance funds .....	44.6	49.6	55.2	61.1	67.2	11.3	11.2	10.7	9.9
Public assistance .....	91.3	107.0	134.4	156.8	175.5	17.3	25.5	16.7	11.9
Other .....	7.7	8.7	9.7	10.7	11.4	12.7	10.7	10.7	6.6
<b>Net interest paid</b> .....	<b>-52.3</b>	<b>-51.3</b>	<b>-47.1</b>	<b>-46.0</b>	<b>-45.3</b>				
Interest paid .....	57.6	60.4	63.5	66.1	68.7	4.9	5.1	4.2	3.8
Less: Interest received by government .....	109.9	111.7	110.5	112.1	113.9	1.6	-1.0	1.4	1.6
Social insurance funds .....	47.3	46.8	46.8	50.3	53.1	-1.0	0	7.4	5.6
Other .....	62.6	64.8	63.7	61.8	60.8	3.6	-1.8	-2.9	-1.6
<b>Less: Dividends received</b> .....	<b>8.1</b>	<b>9.0</b>	<b>9.5</b>	<b>10.2</b>	<b>10.7</b>	<b>11.7</b>	<b>5.4</b>	<b>7.3</b>	<b>4.9</b>
Social insurance funds .....	7.9	8.8	9.3	10.0	10.5	11.9	5.5	7.4	5.0
Other .....	.2	.2	.2	.2	.2	2.3	1.7	2.2	.5
<b>Subsidies less current surplus of government enterprises</b> .....	<b>-20.1</b>	<b>-21.1</b>	<b>-22.9</b>	<b>-24.8</b>	<b>-26.5</b>				
Subsidies .....	.4	.4	.4	.4	.5	-5	8.5	6.1	5.1
Less: Current surplus of government enterprises .....	20.5	21.5	23.3	25.2	27.0	4.8	8.2	8.5	6.8
<b>Less: Wage accruals less disbursements</b> .....	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>				
<b>Addendum:</b>									
Government sales .....	91.7	101.6	113.2	124.8	136.3	10.8	11.4	10.3	9.2

*Other expenditures.*—Net interest paid increased less in 1993 than in 1992. Interest paid decelerated again, reflecting the low level of interest rates during the year and a sharp increase in refinancing of debt by State and local governments. Interest received increased at about the same rate in both years. Dividends received, primarily by State and local government pension funds, increased considerably less than in 1992.

**Outlook for fiscal position in 1994**

A major factor in the outlook for the State and local fiscal position in 1994 will be the pace of economic activity. This discussion is based on the administration's forecast of 3.1-percent growth in real gross domestic product in 1994, which would be about the same as that recorded in 1993. The discussion of receipts also incorporates tax law changes that have already been enacted and that become effective in 1994; it does not attempt to predict additional changes that might be made during the year. Among the legislation recently approved, the following changes in Michigan's tax system will have a particularly large effect on taxes in 1994: Local property taxes and State income taxes will be cut; State property, general sales, and tobacco taxes will be increased; and a real estate transfer tax will be imposed.

Total receipts are likely to increase about \$55-\$60 billion, to about \$945-\$950 billion, in 1994. Personal tax and nontax receipts are likely to increase slightly faster than in 1993, because tax law changes, which accounted for the deceleration in 1993, are expected to have less impact in 1994. Sales taxes are likely to accelerate be-

cause tax legislation already enacted is likely to add considerably more to sales taxes in 1994 than in 1993. Excluding the effects of tax law changes, personal income taxes and sales taxes are likely to increase at about the same pace as in 1993. Property tax accruals are likely to decelerate again, reflecting decreases due to tax legislation; excluding the effects of tax law changes, property tax accruals are likely to increase about as much as in 1993. Further assuming another sizable increase in corporate profits tax accruals in 1994, general own-source receipts are likely to increase at about the same rate as in 1993.

Federal grants-in-aid are expected to increase 12.0 percent in 1994, as indicated by the Federal budget transmitted to Congress in early February 1994. Expected large increases are widespread among grant programs. Contributions for social insurance are assumed to increase at about the same rate as in 1993.

Total expenditures are likely to increase about \$55-\$60 billion, to about \$940-\$945 billion, in 1994. Purchases are likely to accelerate slightly. Evidence from proposed State and local government budgets suggests slight accelerations in compensation of employees and "other" purchases. Purchases of structures are likely to increase at about the same rate as in 1993; new borrowing by State and local governments decreased in 1993, but expected increases in Federal grants for capital purposes in 1994 and expected State and local government construction in the wake of January's earthquake in Northridge, California, make another sizable increase in construction likely.

**Table 4.—State and Local Government Purchases**

	Calendar years								
	1989	1990	1991	1992	1993	1990	1991	1992	1993
	Billions of 1987 dollars					Percent change			
<b>State and local government purchases</b> .....	528.3	548.5	559.7	572.2	584.0	3.8	2.0	2.2	2.1
Compensation of employees .....	342.7	353.3	357.0	359.0	363.9	3.1	1.0	.6	1.4
Structures .....	75.0	79.4	83.7	91.1	93.8	5.9	5.4	8.8	2.9
Other .....	110.6	115.7	119.0	122.1	126.3	4.7	2.8	2.6	3.5
	Index numbers, 1987=100								
<b>Addenda:</b>									
Fixed-weighted price index, total purchases .....	108.6	113.2	116.8	119.6	122.8	4.2	3.2	2.5	2.6
Quantity indexes, total purchases: <sup>1</sup>									
Fixed 1987 weights .....	106.4	110.5	112.7	115.2	117.6	3.8	2.0	2.2	2.1
Chain-type annual weights .....	106.4	110.5	112.7	115.0	117.3	3.9	2.0	2.1	2.0
Benchmark-years weights .....	106.4	110.5	112.7	115.1	117.4	3.9	2.0	2.1	2.0

1. The indexes and percent changes for 1992 and 1993 are shown in tables 7.1 and 8.1, respectively, in the "Selected NIPA Tables" in this issue; the estimates for 1989-92 are in tables 7.1 and 8.1 in "Quantity and Price Indexes, 1988-92" in the September 1993 SURVEY. For a discussion of the indexes, see "Alternative Measures of Change in Real Output and Prices, Quarterly Estimates for 1959-92" in the March 1993 SURVEY.

NOTE.—The constant-dollar estimates for 1992 and 1993 are in table 3.8B of the "Selected NIPA Tables" in this issue; the estimates for 1989-92 are in table 3.8B in "National Income and Product Accounts Tables" in the August 1993 SURVEY.

Transfer payments are likely to increase somewhat less in 1994 than in 1993. The largest component of transfer payments, payments for medical care, is likely to register a slightly smaller increase than in 1993. The other categories of transfer payments are assumed to increase at about the same rate as in 1993.

Net interest paid is likely to increase somewhat less than in 1993. Interest paid is likely to decelerate again; as noted earlier, refinancing of debt by State and local governments increased sharply

in 1993. Interest received is likely to accelerate slightly in 1994, as interest rates are likely to increase. The other categories of expenditures are assumed to increase at about the same rate as in 1993.

The changes in receipts and expenditures just discussed would result in a NIPA surplus of \$5 billion or less in 1994. The social insurance funds surplus is likely to decrease about \$1 billion, and the "other funds" deficit is likely to improve modestly, to the \$50-\$55 billion range of 1991 and 1992. 