

# State and Local Government Fiscal Position, 1995

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THE CURRENT surplus of State and local governments measured on a national income and product accounts (NIPA) basis decreased to \$95.0 billion in 1995 from \$99.7 billion in 1994 (table 1, chart 1).<sup>1</sup> This decrease is largely accounted for by the social insurance funds surplus, which dropped to \$58.2 billion in 1995 from \$62.9 billion in 1994, mainly as a result of a continuing deceleration of social insurance fund receipts.<sup>2</sup> The "other" funds surplus was about the same in 1995 as in 1994.

## Receipts

State and local government receipts increased 5.3 percent, or \$49.7 billion, in 1995, after increasing 5.5 percent in 1994 and 6.3 percent in 1993

1. Effective with the comprehensive revision of the NIPA's released in January 1996, government expenditures for structures and equipment have been reclassified as investment. Gross investment does not enter into the calculation of the current surplus (or deficit). Consumption of fixed capital, or depreciation, is included in government consumption expenditures as a partial measure of the value of the services of general government fixed assets; use of consumption of fixed capital assumes a zero net return on these assets. Consumption of general government fixed capital thus enters into the calculation of the current surplus (or deficit). For more information, 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.

2. The social insurance funds surplus is calculated as the sum of receipts from personal and employer contributions for social insurance plus interest and dividends received less transfer payments to persons and administrative expenses (consumption expenditures) of social insurance funds. The detailed estimates of social insurance funds receipts and current expenditures for 1991-94 are shown in NIPA table 3.14 in the January/February 1996 SURVEY.

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

[Billions of dollars]

	Calendar years				
	1991	1992	1993	1994	1995
Receipts .....	784.2	844.3	897.1	946.4	996.1
Current expenditures .....	708.4	758.0	802.2	846.6	901.1
Current surplus or deficit (-) .....	75.8	86.3	94.9	99.7	95.0
Social insurance funds .....	64.3	68.0	66.9	62.9	58.2
Other funds .....	11.5	18.3	28.0	36.9	36.8

NIPA National income and product accounts

NOTE.—The estimates for 1994-95 are in NIPA table 3.3 of this issue of the SURVEY OF CURRENT BUSINESS; the estimates for 1992-93 are in NIPA table 3.3 of the August 1996 issue; and the estimates for 1991 are in NIPA table 3.3 of the January/February 1996 issue.

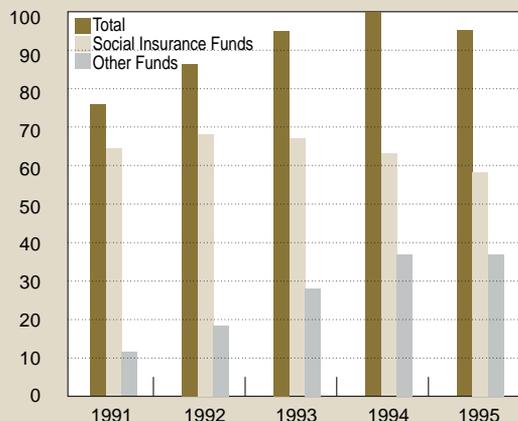
(table 2). General own-source receipts—that is receipts excluding contributions for social insurance and Federal grants-in-aid—increased 5.5 percent in 1995, compared with 5.7 percent in 1994. All the components of receipts except personal income taxes decelerated.

*Personal tax and nontax receipts.*—Personal tax and nontax receipts increased 5.5 percent in 1995 after a 2.3-percent increase in 1994. Personal income tax receipts increased 6.2 percent after a 1.9-percent increase. The acceleration in personal income taxes, which accounted for 13.4 percent of total State and local government receipts in 1995, reflected an acceleration in personal income to a 6.1-percent increase from a 4.9-percent increase. Personal nontax receipts (largely fines, donations, and unclaimed bank deposits) increased 2.1 percent, about the same as in 1994. "Other" personal tax receipts increased 5.3 percent; within this component, motor vehicle license receipts increased 6.8 percent, property taxes decreased 2.9 percent, and other taxes (largely hunting, fish-

**CHART 1**

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

Billion \$



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

ing, and other personal licenses) increased 9.4 percent.<sup>3</sup>

*Corporate profits tax accruals.*—Corporate profits tax accruals increased 11.3 percent in 1995, following a 17.5-percent increase in 1994. The deceleration reflected a deceleration in corporate profits. Corporate profits tax accruals accounted for 3.5 percent of State and local government receipts in 1995.

*Indirect business tax and nontax accruals.*—Indirect business tax and nontax accruals continued to decelerate, increasing 5.1 percent in 1995 after increases of 6.2 percent in 1994 and 6.6 percent in 1993.<sup>4</sup> Sales taxes, which accounted for 23.9 percent of State and local government receipts in 1995, increased 4.8 percent in 1995 after increases of 6.8 percent in 1994 and 5.3 percent in 1993. Legislative actions added \$0.7 billion to sales taxes in 1995 after having added \$1.8 billion in 1994; excluding the legislative actions, State and local sales taxes would have increased 4.7 percent in 1995 and 6.3 percent in 1994.

Property taxes decelerated to an increase of 5.5 percent in 1995, following increases of 5.6 percent in 1994 and 9.4 percent in 1993. The changes to Michigan's property tax law that took effect

in 1994 reduced local property taxes and raised State property taxes in 1994; the net effect was a reduction in property tax liabilities of \$3.4 billion. Excluding these law changes, property taxes would have decelerated to an increase of 5.4 percent from an increase of 7.4 percent.<sup>5</sup> Property taxes accounted for 22.0 percent of receipts in 1995.

“Other” indirect business tax and nontax accruals increased 4.9 percent in 1995 after increasing 5.8 percent in 1994 and 1.8 percent in 1993. The deceleration was primarily in motor vehicle license taxes and severance taxes.

*Other receipts.*—Contributions for social insurance increased 3.2 percent in 1995, a deceleration from the 4.2-percent increase in 1994; these contributions accounted for 7.2 percent of total receipts in 1995. Personal contributions for all categories of social insurance increased 2.3 percent in 1995, following a 5.1-percent increase in 1994; the deceleration reflected a deceleration in State and local government full-time equivalent employment. Retirement contributions, which accounted for about four-fifths of contributions for social insurance in 1995, decelerated slightly; employer retirement contributions increased

3. The detailed estimates of personal tax and nontax receipts for 1991–94 are shown in NIPA table 3.4 in the January/February 1996 SURVEY.

4. The detailed estimates of indirect business tax and nontax accruals for 1991–1994 are shown in NIPA table 3.5 in the January/February 1996 SURVEY.

5. In the NIPA's, owner-occupied housing is treated as a business, so all property taxes in this case are treated as indirect business taxes, whether imposed on owner-occupied housing or other business property. Taxes on personal property that is not real property are treated as personal taxes.

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

	Calendar years								
	Billions of dollars					Percent change			
	1991	1992	1993	1994	1995	1992	1993	1994	1995
<b>Receipts</b> .....	<b>784.2</b>	<b>844.3</b>	<b>897.1</b>	<b>946.4</b>	<b>996.1</b>	<b>7.7</b>	<b>6.3</b>	<b>5.5</b>	<b>5.3</b>
General own-source receipts .....	569.9	607.8	644.3	680.8	718.1	6.7	6.0	5.7	5.5
Personal tax and nontax receipts .....	147.8	159.7	166.2	170.0	179.4	8.1	4.1	2.3	5.5
Income taxes .....	110.4	118.1	123.4	125.7	133.5	7.0	4.5	1.9	6.2
Nontaxes .....	19.2	22.5	22.9	23.4	23.9	17.2	1.8	2.2	2.1
Other .....	18.2	19.1	19.9	20.9	22.0	4.9	4.2	5.0	5.3
Corporate profits tax accruals .....	23.6	24.4	26.3	30.9	34.4	3.4	7.8	17.5	11.3
Indirect business tax and nontax accruals .....	398.4	423.7	451.8	479.9	504.3	6.4	6.6	6.2	5.1
Sales taxes .....	190.0	202.2	212.9	227.4	238.3	6.4	5.3	6.8	4.8
Property taxes .....	167.6	177.5	194.2	205.1	216.3	5.9	9.4	5.6	5.5
Other .....	40.8	44.0	44.8	47.4	49.7	7.8	1.8	5.8	4.9
Contributions for social insurance .....	60.9	64.3	66.9	69.7	71.9	5.6	4.0	4.2	3.2
Federal grants-in-aid .....	153.4	172.2	185.7	195.9	206.1	12.3	7.8	5.5	5.2
Addenda—Receipts excluding selected law changes: <sup>1</sup>									
Total .....	775.9	829.0	881.4	933.1	982.8	6.8	6.3	5.9	5.3
General own-source receipts .....	561.6	592.5	628.7	667.4	704.8	5.5	6.1	6.2	5.6

NIPA National income and product accounts  
 1. Estimates of the effect of law changes on receipts 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 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 the 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 1990. The 12-month effects, recorded for calendar years as described above, are cumulated.

3.0 percent after increasing 2.6 percent, but personal retirement contributions increased 4.7 percent after increasing 5.8 percent. The other categories of contributions for social insurance decelerated, but the deceleration was most marked in personal contributions for temporary disability insurance and in government contributions for workers' compensation.

Federal grants-in-aid to State and local governments increased 5.2 percent in 1995, compared with a 5.5-percent increase in 1994; grants accounted for 20.7 percent of total State and local government receipts in 1995. The deceleration reflected decelerations in all major components except medicaid and health care. Medicaid, which accounted for 43.4 percent of grants-in-aid in 1995, increased 7.6 percent after increasing 5.7 percent.

### Current expenditures

Current expenditures increased 6.4 percent, or \$54.5 billion, in 1995 (table 3). The increase was more than accounted for by increases in consumption expenditures and transfer payments to persons.

*Consumption expenditures.*—Consumption expenditures increased 4.7 percent in 1995, an acceleration after 2 years of deceleration.

Compensation of general government employees, which accounted for 57.3 percent of current expenditures in 1995, increased 4.0 percent; the 1995 increase was the same as in 1994 and followed 2 years of deceleration (table 4). Full-time

equivalent employment in State and local government increased 1.4 percent, compared with a 1.9-percent increase. In contrast, compensation per full-time-equivalent employee accelerated to a 2.6-percent increase from a 2.0-percent increase.

In the NIPA's, consumption expenditures are net of receipts for certain goods and services that are defined as government sales and that are subtracted in the estimation of consumption expenditures. Government sales decelerated in 1995 and 1994, reflecting a deceleration in sales of services.<sup>6</sup>

Consumption of general government fixed capital accelerated to a 5.4-percent increase in 1995. In 1992–94, the increase ranged from 4.7 percent to 4.9 percent.

Real consumption expenditures decelerated to a 1.6-percent increase in 1995 from a 2.3-percent increase in 1994 (table 4).<sup>7</sup> Compensation of general government employees increased 0.9 percent in 1995. Consumption of general government fixed capital decelerated to a 3.0-percent increase from a 3.7-percent increase.

*Transfer payments to persons.*—Transfer payments to persons accelerated to an increase of 9.1 percent in 1995, following increases of 8.3 percent in 1994 and 8.6 percent in 1993. Most of the acceleration was accounted for by medical care (primarily medicaid), which increased 10.5 percent in 1995 after increasing 8.3 percent

6. The detailed estimates of government sales for 1991–94 are shown in NIPA table 3.9B in the January/February 1996 SURVEY.

7. Real estimates are expressed in chain-type quantity indexes and in chained (1992) dollars. For additional information, see the footnote to table 4.

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

	Calendar years								
	Billions of dollars					Percent change			
	1991	1992	1993	1994	1995	1992	1993	1994	1995
<b>Current expenditures</b> .....	<b>708.4</b>	<b>758.0</b>	<b>802.2</b>	<b>846.6</b>	<b>901.1</b>	<b>7.0</b>	<b>5.8</b>	<b>5.5</b>	<b>6.4</b>
Consumption expenditures .....	579.4	603.6	627.9	651.7	682.6	4.2	4.0	3.8	4.7
Transfer payments to persons .....	199.0	227.2	246.8	267.4	291.6	14.2	8.6	8.3	9.1
Benefits from social insurance funds .....	55.1	61.0	65.7	73.1	80.4	10.7	7.7	11.3	10.0
Medical care .....	100.2	119.7	132.5	143.5	158.5	19.5	10.7	8.3	10.5
All other .....	43.7	46.5	48.6	50.8	52.7	6.4	4.5	4.5	3.7
Net interest paid .....	-53.3	-54.7	-51.9	-49.8	-47.4				
Interest paid .....	63.5	64.8	64.4	64.2	64.0	2.0	-6	-3	-3
Less: Interest received by government .....	116.8	119.4	116.3	114.0	111.4	2.2	-2.6	-2.0	-2.3
Social insurance funds .....	53.1	59.2	60.4	60.8	60.6	11.5	2.0	7	-3
Other .....	63.7	60.2	55.9	53.2	50.8	-5.5	-7.1	-4.8	-4.5
Less: Dividends received by government .....	9.5	10.1	10.5	11.4	12.6	6.3	4.0	8.6	10.5
Social insurance funds .....	9.3	9.9	10.3	11.2	12.4	6.5	4.0	8.7	10.7
Other .....	.2	.2	.2	.2	.2	0	0	0	0
Subsidies less current surplus of government enterprises .....	-7.2	-8.0	-10.1	-11.2	-13.1				
Subsidies .....	.4	.4	.3	.4	.4	0	-25.0	33.3	0
Less: Current surplus of government enterprises .....	7.6	8.4	10.5	11.6	13.5	10.5	25.0	10.5	16.4
Less: Wage accruals less disbursements .....	0	0	0	0	0				

in 1994; medical care accounted for 54.4 percent of transfer payments in 1995.<sup>8</sup> Benefits from social insurance funds increased 10.0 percent, following an increase of 11.3 percent. State and local employee retirement payments and workers' compensation payments both decelerated. Temporary disability insurance increased 8.8 percent after a decrease of 3.9 percent. Aid to families with dependent children, which has decelerated in recent years, decreased 3.8 percent.

*Other current expenditures.*—Net interest paid (interest paid by State and local governments less interest received by them) has become less negative each year since 1992, because interest received has decreased more than interest paid. "Other" interest received decreased 4.5 percent; interest received by social insurance funds decreased

0.3 percent. Dividends received, primarily by State and local government pension funds, increased 10.5 percent after increases of 8.6 percent in 1994 and 4.0 percent in 1993.

The current surplus of government enterprises increased to \$13.5 billion in 1995. The 1995 increase was largely attributable to a sizable increase in lottery sales.

**Gross investment**

Government expenditures for structures and equipment, which was included in "government purchases" prior to the comprehensive revision of the NIPA's (see footnote 1), is now classified as "gross investment" and no longer enters into the calculation of the NIPA current surplus (or deficit). Although it no longer directly affects the NIPA current surplus (or deficit), it

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

	Calendar years									
	1991	1992	1993	1994	1995	1992	1993	1994	1995	
	Billions of dollars					Percent change				
<b>Consumption expenditures and gross investment</b> .....	<b>703.4</b>	<b>735.8</b>	<b>767.8</b>	<b>798.4</b>	<b>841.7</b>	<b>4.6</b>	<b>4.3</b>	<b>4.0</b>	<b>5.4</b>	
Consumption expenditures .....	579.4	603.6	627.9	651.7	682.6	4.2	4.0	3.8	4.7	
Durable goods .....	11.7	12.4	13.1	13.8	14.7	6.0	5.6	5.3	6.5	
Nondurable goods .....	58.4	60.9	63.8	66.8	72.8	4.3	4.8	4.7	9.0	
Services .....	509.4	530.3	551.0	571.2	595.1	4.1	3.9	3.7	4.2	
Compensation of general government employees, except force-account construction <sup>1</sup> .....	434.8	456.7	477.5	496.4	516.2	5.0	4.6	4.0	4.0	
Consumption of general government fixed capital .....	44.7	46.6	49.0	51.4	54.2	4.7	4.7	4.9	5.4	
Other services .....	29.9	27.0	24.6	23.4	24.7	-9.7	-8.9	-4.9	5.6	
Gross investment .....	123.9	132.2	139.9	146.6	159.1	6.7	5.8	4.8	8.5	
Structures .....	100.5	108.1	113.9	119.0	130.0	7.6	5.4	4.5	9.2	
Equipment .....	23.4	24.0	25.9	27.7	29.1	2.6	7.9	6.9	5.1	
	Billions of chained (1992) dollars									
<b>Consumption expenditures and gross investment</b> .....	<b>718.7</b>	<b>735.8</b>	<b>751.8</b>	<b>770.5</b>	<b>788.6</b>	<b>2.4</b>	<b>2.2</b>	<b>2.5</b>	<b>2.3</b>	
Consumption expenditures .....	593.8	603.6	614.6	629.0	639.1	1.7	1.8	2.3	1.6	
Durable goods .....	11.8	12.4	13.0	13.5	14.1	5.1	4.8	3.8	4.4	
Nondurable goods .....	58.2	60.9	63.6	66.4	69.2	4.6	4.4	4.4	4.2	
Services .....	523.8	530.3	538.1	549.0	556.0	1.2	1.5	2.0	1.3	
Compensation of general government employees, except force-account construction <sup>1</sup> .....	452.0	456.7	463.9	472.3	476.4	1.0	1.6	1.8	.9	
Consumption of general government fixed capital .....	44.9	46.6	48.4	50.2	51.7	3.8	3.9	3.7	3.0	
Other services .....	26.9	27.0	25.8	26.6	28.1	.4	-4.4	3.1	5.6	
Gross investment .....	124.9	132.2	137.2	141.5	149.4	5.8	3.8	3.1	5.6	
Structures .....	101.3	108.1	111.5	114.4	121.1	6.7	3.1	2.6	5.9	
Equipment .....	23.6	24.0	25.7	27.1	28.4	1.7	7.1	5.4	4.8	
Residual .....	0	.1	-.1	0	-4					
	Index numbers, 1992=100									
<b>Addenda:<sup>2</sup></b>										
Consumption expenditures										
Quantity index .....	98.4	100.0	101.8	104.2	105.9	1.6	1.8	2.4	1.6	
Price index .....	97.6	100.0	102.2	103.6	106.8	2.5	2.2	1.4	3.1	
Gross investment										
Quantity index .....	94.5	100.0	103.8	107.1	113.1	5.8	3.8	3.2	5.6	
Price index .....	99.2	100.0	101.9	103.6	106.5	.8	1.9	1.7	2.8	

NIPA National income and product accounts

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 and are shown in NIPA table 7.11B. 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.

NOTE.—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.

remains an important activity of State and local governments.

State and local government gross investment increased 8.5 percent in 1995 after increasing 4.8 percent in 1994.<sup>9</sup> This acceleration follows 2 years of deceleration.

Gross investment in structures increased 9.2 percent in 1995 after increasing 4.5 percent in 1994. Investment in buildings accelerated, reflecting large increases in educational buildings, residential buildings, and "other" buildings (such as prisons and offices); hospitals were unchanged. In structures other than buildings, the largest increases were a 22.7-percent increase in water systems, a 21.3-percent increase in "other" new structures (consisting primarily of electric and gas facilities, transit systems, and airfields), and a 15.0-percent increase in conservation and development. Investment in highways and streets and in sewer systems decelerated.

Gross investment in equipment decelerated again in 1995, increasing 5.1 percent after increases of 6.9 percent in 1994 and 7.9 percent in 1993.

In real terms, both gross investment and its structures component accelerated sharply in 1995, increasing 5.6 percent and 5.9 percent, respectively, following 2 years of deceleration. Real investment in equipment decelerated again in 1995, increasing 4.8 percent.

### *Fiscal position in 1996*

Estimates of State and local government receipts and expenditures have been published for the first half of 1996; in some cases, the estimates are based on indicator series or judgmental trends.<sup>10</sup> This section provides an assessment of the likely trends for the fiscal position for the full year 1996.

A major factor affecting the State and local fiscal position in 1996 will be the pace of overall economic activity for the remainder of the year. The *Mid-Session Review of the 1997 Budget* assumes 2.2-percent growth in real gross domestic product in 1996, up slightly from the 2.0-percent growth

recorded in 1995.<sup>11</sup> Receipts also reflect the effects of State tax law changes that have already been enacted and that become effective in 1996; it does not reflect additional changes that might be made during the rest of the year. A source of uncertainty is the effect of recently enacted Federal legislation on public welfare (*Personal Responsibility and Work Opportunity Reconciliation Act of 1996*, H.R.3734); however, this legislation is likely to have a larger impact on components of transfer payments and Federal grants-in-aid in 1997 than in 1996.

The types of State and local government receipts that are affected by the growth of the economy are personal income taxes, corporate profits tax accruals, and sales taxes, which together account for approximately two-fifths of receipts. Federal grants-in-aid, which are affected by the Federal Budget, account for approximately one-fifth of State and local government receipts. Grants-in-aid have been appropriated for fiscal year 1996 and estimated for fiscal year 1997 in the *1997 Budget Appendix of the United States*. Business and personal property taxes account for approximately one-fifth of receipts, and other personal and business taxes and nontaxes and contributions for social insurance, which are influenced by individual State and local government fiscal policy and by changes in demographics, account for the remaining one-fifth.

Total receipts in 1996 are likely to increase about \$60-\$64 billion to about \$1,056-\$1,060 billion. Personal tax and nontax receipts are likely to accelerate slightly; State tax law changes, which reduced the growth in 1994 and 1995, are expected to have a smaller impact on the change in receipts in 1996. Sales tax receipts excluding tax law changes are expected to accelerate slightly in 1996, but tax legislation already enacted will add less to sales tax receipts in 1996 than in 1995. Corporate profits tax accruals in 1996 are unlikely to match the very large increases in 1994 and 1995. Property tax accruals, which are related to property values and to changes in investment rather than directly to the national economy, are likely to increase at about the same rate as in 1995. As a result of these changes, general own-source receipts is expected to increase slightly less in 1996 than in 1995.

Federal grants-in-aid are expected to increase about 10 percent in 1996. This increase represents

9. The detailed estimates of gross government investment by type for 1992-1995 are shown in NIPA tables 5.14 and 5.15 in the August 1996 SURVEY.

10. NIPA estimates (seasonally adjusted at annual rates) for the first two quarters of 1996 appear in the "Selected NIPA Tables" in this issue. For a discussion of the methodology for the State and local government estimates, see *Government Transactions*, Methodology Paper Series MP-5, U.S. Department of Commerce, Bureau of Economic Analysis (Washington, DC: U.S. Government Printing Office, 1988). For discussions of updates to the methodology, see "A Preview of the Comprehensive Revision of the National Income and Product Accounts: Definitional and Classificational Changes" in the September 1991 SURVEY and "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" in the September 1995 SURVEY.

11. Percent changes, year over year, from *Mid-Session Review of the 1997 Budget*, Executive Office of the President, Office of Management and Budget (July 16, 1996).

an acceleration after 2 years of deceleration. The largest increases are expected in medicaid, about 11 percent, and in food and nutrition, about 16 percent. All other grant programs except Aid to Families With Dependent Children and community development are expected to increase. Contributions for social insurance are expected to increase slightly more than in 1995.

Evidence from State and local government budgets suggests a slight deceleration in expenditures for current operations in 1996. Current expenditures are likely to increase about \$49-\$53 billion, to about \$950-\$954 billion. Consumption expenditures are likely to decelerate slightly in 1996; the deceleration is likely to be widespread among the components of consumption expenditures.

Transfer payments, which are partly funded by Federal grants-in-aid, are likely to increase less than in 1995. Benefits from social insurance are likely to decelerate.

Net interest paid in 1996 will be affected by refinancing of debt and new borrowing at lower rates. Interest paid and interest received are likely to decrease again in 1996. Interest received by social insurance funds is likely to change little; dividends received is likely to decelerate.

These changes in receipts and expenditures would result in a NIPA surplus of about \$103-\$109 billion in 1996. The social insurance funds surplus is expected to decrease about \$2 billion, and the "other funds" surplus is likely to increase about \$11 billion.

Gross investment is likely to increase \$12-\$15 billion in 1996, about the same as in 1995. Building permits issued in 1995 for hospitals and other public buildings has increased. Decelerations are likely in investment in educational buildings, conservation and development, sewer systems, water supply, "other" structures, and equipment. Accelerations are likely in investment in hospitals and highways. 