

State Notes

TOPICS OF LEGISLATIVE INTEREST

January/February 2008



Federal Expenditures in Michigan

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Each fiscal year, the Federal government allocates a significant portion of the overall Federal budget to expenditures that have a direct impact on the states. The United States Bureau of the Census annually reports on these Federal expenditures to the states in its report entitled, "Consolidated Federal Funds Report". The most recent Consolidated Federal Funds Report is for fiscal year (FY) 2005.

The Census Bureau report covers five broad categories of Federal expenditures received by states. These categories are: retirement and disability payments to individuals, other direct payments to individuals, Federal salaries and wages, procurement, and grants to state and local governments. Retirement and disability payments include such large Federal programs as Social Security payments and pension payments to retired Federal employees. Other direct payments to individuals include the Medicare program, food stamps, and unemployment compensation payments. Federal salaries and wages measure the amount spent in each state on the base salary and overtime costs of Federal employees located within the state. Procurement is the amount spent in each state for direct purchases by the Federal government of either goods or services. Grants to state and local government are direct Federal aid programs and include such programs as Federal transportation aid, job training aid, education spending, and the Medicaid program.

Historically, Michigan's share of Federal expenditures has lagged behind the amount of most other states. As measured on a per-capita basis, in FY 2005 total Federal expenditures in Michigan equaled \$6,414. The national average for all states on a per-capita basis was \$7,706. Table 1 provides a summary of Federal expenditures in Michigan during FY 2005. Michigan's total per-capita expenditures ranked 43rd among the states. The only two broad categories of Federal expenditures in which Michigan was close to the national average were the categories of retirement and disability payments to individuals and other direct payments to individuals. Michigan ranked 28th and 24th on a per-capita basis for these types of Federal expenditures. Michigan's rank was 49th among the states in Federal salaries and wages, 40th among the states in procurement, and 39th among the states in grants to state and local governments.

Table 1

Distribution of Federal Funds Fiscal Year 2005 (Millions of Dollars)						
	National Amount	Michigan Amount	Mich. as % of Nat'l Total	National Per Capita	Michigan Per Capita	Mich. Rank
Retirement & Disability Payments to Individuals	\$702,758	\$24,369	3.5%	\$2,348	\$2,413	28
Other Direct Payments to Individuals	499,928	17,533	3.5%	1,676	1,736	24
Federal Salaries and Wages	231,511	3,722	1.6%	781	368	49
Procurement	380,984	5,849	1.5%	1,285	579	40
Grants to State & Local Governments	469,579	13,313	2.8%	1,584	1,318	39
Total	\$2,284,760	\$64,786	2.8%	\$7,706	\$6,414	43
Resident Population	296,507,061	10,100,833	3.4%			

Source: United States Bureau of Census, Federal Expenditures by State for Fiscal Year

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An analysis of the Census Bureau data leads to the conclusion that the citizens of Michigan are receiving much less than their fair share of Federal expenditures if the expenditures were simply distributed on a per-capita basis. Table 2 provides a summary of the actual amount of Federal expenditures received in Michigan for the period FY 1985 through FY 2005 versus the amount that Michigan would have received if Federal expenditures had equaled Michigan's percentage of the total United States population. In FY 2005, this Federal funding shortfall equaled \$13.0 billion.

Table 2

Michigan's Federal Funding Shortfall (Millions of Dollars)			
Fiscal Year	Actual Federal Expenditures in Michigan	Federal Expenditures in Michigan on a Per-Capita Basis	Michigan's Expenditure Shortfall
1985	\$22,384	\$29,844	\$(7,460.8)
1986	23,342	31,398	(8,055.5)
1987	23,283	31,814	(8,530.4)
1988	23,887	33,207	(9,320.3)
1989	26,109	34,735	(8,625.3)
1990	29,433	37,438	(8,005.6)
1991	31,968	41,292	(9,323.4)
1992	36,137	44,998	(8,860.3)
1993	37,238	46,845	(9,607.2)
1994	39,485	49,021	(9,536.4)
1995	39,569	49,055	(9,486.5)
1996	39,633	50,062	(10,429.2)
1997	40,651	51,441	(10,789.7)
1998	41,917	53,905	(11,988.6)
1999	44,128	55,355	(11,227.5)
2000	46,851	58,242	(11,390.9)
2001	51,722	62,986	(11,264.3)
2002	55,910	67,566	(11,656.2)
2003	57,870	71,455	(13,584.8)
2004	60,488	74,460	(13,971.8)
2005	64,786	77,833	(13,046.8)

Source: United States Bureau of the Census, Senate Fiscal Agency calculations

The \$13.0 billion shortfall in FY 2005 represents a decline from Michigan's Federal funding shortfall in FY 2004 of \$14.0 billion. Michigan moved from a per-capita ranking of 46th among the states in FY 2004 to 43rd in FY 2005. This movement up for Michigan in the national per-capita rankings can be attributed to Michigan's recent economic problems compared with those of other states. The economic situation in Michigan has led to increased payments in such programs as unemployment compensation and Medicaid. Spending on these programs tends to increase in a state experiencing severe economic problems, such as Michigan.

The Federal funding shortfall in Michigan can be attributed to two major factors. First is that Michigan has a smaller proportion of Federal employees compared with other states. The second is the lack of major defense facilities or major defense contractors within Michigan. This accounts for Michigan's ranking of 49th among the states in per-capita Federal procurement.