

State Notes

TOPICS OF LEGISLATIVE INTEREST

May/June 2009



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) 2007.

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 governments 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 2007 total Federal expenditures in Michigan equaled \$7,114. The national average for all states on a per-capita basis was \$8,339. [Table 1](#) provides a summary of Federal expenditures in Michigan during FY 2007. Michigan's total per-capita expenditures ranked 45th 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 26th and 27th on a per-capita basis for these types of Federal expenditures. Michigan's rank was 49th among the states in Federal salaries and wages, 38th among the states in procurement, and 41st among the states in grants to state and local governments.

Table 1

Distribution of Federal Funds Fiscal Year 2007 (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	\$782,843	\$27,323	3.5%	\$2,571	\$2,704	26
Other Direct Payments to Individuals	584,557	18,679	32%	1,926	1,855	27
Federal Salaries and Wages	252,594	4,127	1.6%	825	409	49
Procurement	440,377	7,765	1.8%	1,393	771	38
Grants to State & Local Governments	495,842	13,848	2.8%	1,624	1,280	41
Total	\$2,556,213	\$71,652	2.8%	\$8,339	\$7,114	45
Resident Population	\$301,621,157	\$10,071,822	3.3%			

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



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 expenditure distributions are viewed simply 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 2007 versus the amount that Michigan would have received if Federal expenditures had equaled Michigan's percentage of the total United States population. In FY 2007, this Federal funding shortfall equaled \$13.7 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)
2006	67,352	82,782	(15,429.9)
2007	71,652	85,358	(13,705.8)

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

The \$13.7 billion shortfall in FY 2007 represents a decrease from Michigan's Federal funding shortfall record in FY 2006 of \$15.4 billion. Nevertheless, Michigan moved from a per-capita Federal expenditure ranking of 44th among the states in FY 2006 to 45th in FY 2007. In 1998 Michigan ranked 48th in the country for Federal expenditures and climbed to 43rd during the early part of the current decade as economic conditions within the State deteriorated, raising Federal expenditures in Michigan on programs such as unemployment compensation and Medicaid. The decline to 45th in 2007 occurred in spite of an increase in Federal funding of \$2.5

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billion to the State. Michigan fell in the rankings of retirement and disability payments from 26th to 27th, in addition to experiencing a decline in other direct payments from 21st to 27th. The State climbed in the ranking for grants and procurement. As economic conditions throughout the country deteriorate, other states also will be receiving increased funding from the Federal government, thus eroding this State's percentage gain over time and lowering Michigan's overall ranking compared with other states.

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, resulting in a ranking of 49th in Federal salaries and wages. The second is the lack of major defense facilities or major defense contractors within Michigan. This accounts for Michigan's ranking of 38th among the states in per-capita Federal procurement.