

# State Notes

## TOPICS OF LEGISLATIVE INTEREST

Fall 2010



### 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) 2009.

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 2009 total Federal expenditures in Michigan equaled \$9,228. The national average for all states on a per-capita basis was \$10,396. Table 1 provides a summary of Federal expenditures in Michigan during FY 2009. Michigan's total per-capita expenditures ranked 39<sup>th</sup> among the states. The only two broad categories of Federal expenditures in which Michigan exceeded the national average were the categories of retirement and disability payments to individuals and other direct payments to individuals. Michigan ranked 20<sup>th</sup> and 18<sup>th</sup>, respectively, on a per-capita basis for these types of Federal expenditures. Michigan's rank was 50<sup>th</sup> among the states in Federal salaries and wages, 30<sup>th</sup> among the states in procurement, and 36<sup>th</sup> among the states in grants to state and local governments.

Table 1

| Distribution of Federal Funds<br>Fiscal Year 2009<br>(Millions of Dollars) |                    |                    |                                 |                           |                           |               |
|--|--------------------|--------------------|---------------------------------|---------------------------|---------------------------|---------------|
|  | National<br>Amount | Michigan<br>Amount | Mich. as<br>% of Nat'l<br>Total | National<br>Per<br>Capita | Michigan<br>Per<br>Capita | Mich.<br>Rank |
| Retirement & Disability Payments to<br>Individuals                         | \$881,105          | \$30,851           | 3.5%                            | \$2,843                   | \$3,095                   | 20            |
| Other Direct Payments to Individuals                                       | 762,924            | 26,237             | 3.4                             | 2,469                     | 2,632                     | 18            |
| Federal Salaries and Wages   | 299,413            | 4,478              | 1.5                             | 963                       | 449                       | 50            |
| Procurement  | 550,803            | 9,316              | 1.7                             | 1,727                     | 934                       | 30            |
| Grants to State & Local Governments  | 744,115            | 21,120             | 2.8                             | 2,394                     | 2,118                     | 36            |
| <b>Total</b>   | 3,238,360          | 92,002             | 2.8%                            | 10,396                    | 9,228                     | 39            |
| Resident Population  | 307,006,550        | 9,969,727          | 3.2%                            |                           |                           |               |

**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 residents of Michigan are receiving much less than their fair share of Federal expenditures if the expenditures are considered simply on the basis of a per-capita distribution. Table 2 provides a summary of the actual amount of Federal expenditures received in Michigan for the period FY 1985 through FY 2009 versus the amount that Michigan would have received if Federal expenditures had equaled Michigan's percentage of the total United States population. In FY 2009, this Federal funding shortfall equaled \$13.2 billion.

**Table 2**

| <b>Michigan's Federal Funding Shortfall<br/>(Millions of Dollars)</b> |  |   |   |
|---|--|---|---|
| <b>Fiscal Year</b>  | <b>Actual Federal Expenditures in Michigan</b> | <b>Federal Expenditures in Michigan on a Per-Capita Basis</b> | <b>Michigan's Expenditure Shortfall</b> |
| 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  | 67,332   | 82,677  | (15,344.7)                              |
| 2007  | 71,652   | 85,192  | (13,539.8)                              |
| 2008  | 82,933   | 91,772  | (8,838.9)                               |
| 2009  | 92,003   | 105,162   | (13,159.5)                              |

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

The \$13.2 billion shortfall in FY 2009 represents a decrease from Michigan's record Federal funding shortfall in FY 2006 of \$15.4 billion. However, Michigan moved from a per-capita Federal expenditure ranking of 33<sup>rd</sup> among the states in FY 2008 to 39<sup>th</sup> in FY 2009. In FY 2000, Michigan was ranked 45<sup>th</sup> in the country for total Federal expenditures but climbed to 33<sup>rd</sup> toward the end of the decade. This was due to poor economic conditions within the State, exacerbated by a national recession, which raised Federal expenditures in the State for programs such as unemployment compensation and Medicaid. The decline to 39<sup>th</sup> in 2009



occurred in spite of an increase in Federal funding of \$13.4 billion to the State. The State rose in the rankings for retirement and disability payments from 22<sup>nd</sup> to 20<sup>th</sup>, for direct payments from 20<sup>th</sup> to 18<sup>th</sup>, and for procurement from 33<sup>rd</sup> to 30<sup>th</sup>. Meanwhile, the State experienced a decline in the rankings for grants from 20<sup>th</sup> to 36<sup>th</sup> and Federal salaries and wages from 49<sup>th</sup> to 50<sup>th</sup>. As economic conditions throughout the country continue to 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.

Table 3 summarizes the history of Michigan's Federal funding shortfall. Michigan's funding as a percentage of the United States total has declined from 2.97% in FY 2008 to 2.84% in FY 2009. Michigan now receives the same share of Federal funding as it did in 2005. 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 50<sup>th</sup> in Federal salaries and wages. The second factor is a decline in Federal grants awarded to Michigan for health and human services programs. This accounts for Michigan's ranking of 36<sup>th</sup> among the states in grants.

**Table 3**

| <b>Michigan's Federal Funding Shortfall<br/>(Millions of Dollars)</b> |                                     |                                      |   |
|---|-------------------------------------|--------------------------------------|---|
| <b>Fiscal Year</b>  | <b>Expenditures<br/>in Michigan</b> | <b>Expenditures<br/>to All State</b> | <b>Michigan as % of<br/>United States Total</b> |
| 1985  | \$22,384                            | \$788,793                            | 2.84%   |
| 1986  | 23,342                              | 829,844                              | 2.81  |
| 1987  | 23,283                              | 849,877                              | 2.74  |
| 1988  | 23,887                              | 887,094                              | 2.69  |
| 1989  | 26,109                              | 937,409                              | 2.79  |
| 1990  | 29,433                              | 1,010,376                            | 2.91  |
| 1991  | 31,968                              | 1,107,741                            | 2.89  |
| 1992  | 36,137                              | 1,207,161                            | 2.99  |
| 1993  | 37,238                              | 1,272,798                            | 2.93  |
| 1994  | 39,485                              | 1,331,933                            | 2.96  |
| 1995  | 39,569                              | 1,368,571                            | 2.89  |
| 1996  | 39,633                              | 1,396,673                            | 2.84  |
| 1997  | 40,651                              | 1,428,819                            | 2.85  |
| 1998  | 41,917                              | 1,484,177                            | 2.82  |
| 1999  | 44,128                              | 1,555,651                            | 2.84  |
| 2000  | 46,851                              | 1,650,788                            | 2.84  |
| 2001  | 51,722                              | 1,794,907                            | 2.88  |
| 2002  | 55,910                              | 1,937,278                            | 2.89  |
| 2003  | 57,870                              | 2,061,486                            | 2.81  |
| 2004  | 60,488                              | 2,162,203                            | 2.80  |
| 2005  | 64,786                              | 2,284,760                            | 2.84  |
| 2006  | 67,332                              | 2,448,484                            | 2.75  |
| 2007  | 71,652                              | 2,556,217                            | 2.80  |
| 2008  | 82,933                              | 2,792,611                            | 2.97  |
| 2009  | 92,003                              | 3,238,360                            | 2.84  |

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