

State Notes

TOPICS OF LEGISLATIVE INTEREST

September/October 2006



Federal Expenditures in Michigan By Gary S. Olson, Director

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) 2004.

The Census Bureau report covers four broad categories of Federal expenditures received by states. These categories are: direct payments to individuals, Federal salaries and wages, procurement, and grants to state and local governments. Direct payments to individuals include such large Federal programs as Social Security, Medicare, Federal retirement and disability payments, student loans, workers' compensation payments, and food stamps. Federal salaries and wages measure the amount spent on the base salary and overtime of Federal employees in each 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 large 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 2004 total Federal expenditures in Michigan equaled \$5,982. The national average of all states on a per capita basis was \$7,362. Table 1 provides a summary of Federal expenditures in Michigan during FY 2004. Michigan's total per-capita expenditures ranked 46th among the states. The only broad category of Federal expenditures in which Michigan was close to the national average was the area of direct payments to individuals, where Michigan's share ranked 28th among the states. Michigan's rank in Federal salaries and wages was 49th among the states, Michigan's rank in procurement was 46th among the states, and Michigan's rank in grants to state and local governments was 40th among the states.

Table 1

| | Distribution of Federal Funds Fiscal Year 2004 | | | | | |
|--|---|--------------------|--|-----------------------------|------------------------|------------------|
| | Total Federal Funds (millions of dollars) | | | Per Capita Federal Funds | | |
| | National Amount | Michigan Amount | Michigan as Percent of National Total | National Per Capita | Michigan Per Capita | Michigan Rank |
| Direct Payments for Individuals | \$1,136,769 | \$39,532 | 3.5% | \$3,871 | \$3,909 | 28 |
| Federal Salaries and Wages | 225,601 | 3,610 | 1.6% | 768 | 357 | 49 |
| Procurement | 339,681 | 4,119 | 1.2% | 2,168 | 407 | 46 |
| Grants to State and Local Governments | 460,152 | 13,227 | 2.9% | 1,567 | 1,308 | 40 |
| Total | \$2,162,203 | \$60,488 | 2.8% | \$7,362 | \$5,982 | 46 |
| Resident Population | 293,655,404 | 10,112,620 | 3.4% | | | |

Source: United States Bureau of the 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 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 2004 versus the amount that Michigan would have received if Federal expenditures had equaled Michigan's percentage of the total United States population. In FY 2004, this Federal funding shortfall equaled \$14.0 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 Expenditures 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) |

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

This Federal funding shortfall in Michigan can be attributed to several factors. First is that Michigan has a smaller proportion of Federal direct employees compared with other states. The second is the lack of major defense facilities or major defense contractors within Michigan. The third major factor influencing the distribution of Federal funds is that numerous Federal funds have formulas that take into account income levels. This type of formula does not generally benefit Michigan compared with many other states. These factors and others account for the long-term distribution of Federal funds and affect the amount of Federal funds received in Michigan.