Net Flow of Funds to States and Counties

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Skidmore, M. State-by-State Analysis of Federal Government Transfers Net of Taxes Paid. *Journal of Regional Analysis & Policy*, *54*(2), 17-35.

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Hicks, M. J. (2024). Federal Fiscal Exposure of US Counties. *Journal of Regional Analysis & Policy*, *54*(2), 36-48.

Motivation

- Federal Government Debt = $38 Trillion (Unsustainable Trajectory)
- Deficit in FY2025 = $1.8 Trillion
- Total Federal Revenues = ~$4.6 trillion
- Interest Expense Could Rise to $1.4 Trillion or More

Are State/Local Governments and Economies Resilient?

How Will States Manage if/when Deficits Return to Sustainable Levels?

Objectives

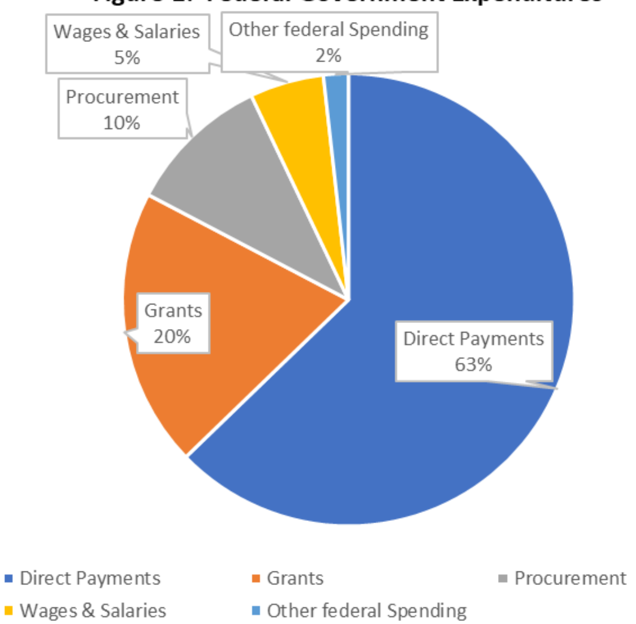
- Examine state reliance on net inflow of federal resources to states/counties (federal expenditures minus federal taxes)
- Identify factors associated with net inflow of federal resources
- Consider strategies for increasing resilience
  - Can states reduce reliance of federal inflow?

Background

- **Federal Deficit 2025: $1.8 Trillion**
- Outflow = Federal Taxes Paid by State
- Inflow = Federal Expenditures Received by State
  - Direct Payments (Social Security, Medicare, Other Direct Payments)
  - Grants (Medicaid, Comm/Economic Development, Education/Training, Family/Social Services, Nutrition, Transportation, Etc.)
  - Procurement (Military and Other Contracts)
  - Wages and Salaries

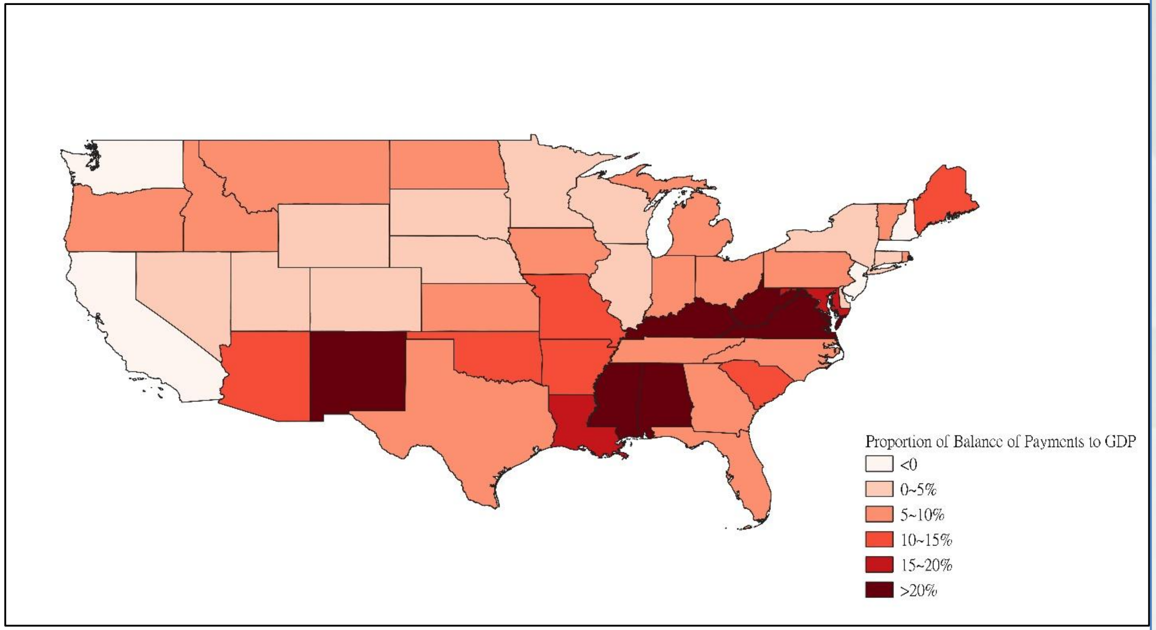
Balance of Payments = Inflow - Outflow

Figure 1: Federal Government Expenditures



Balance of Payments Per GDP

Figure 2: Map of Federal Balance of Payments as Proportion of GDP



Per Capita:

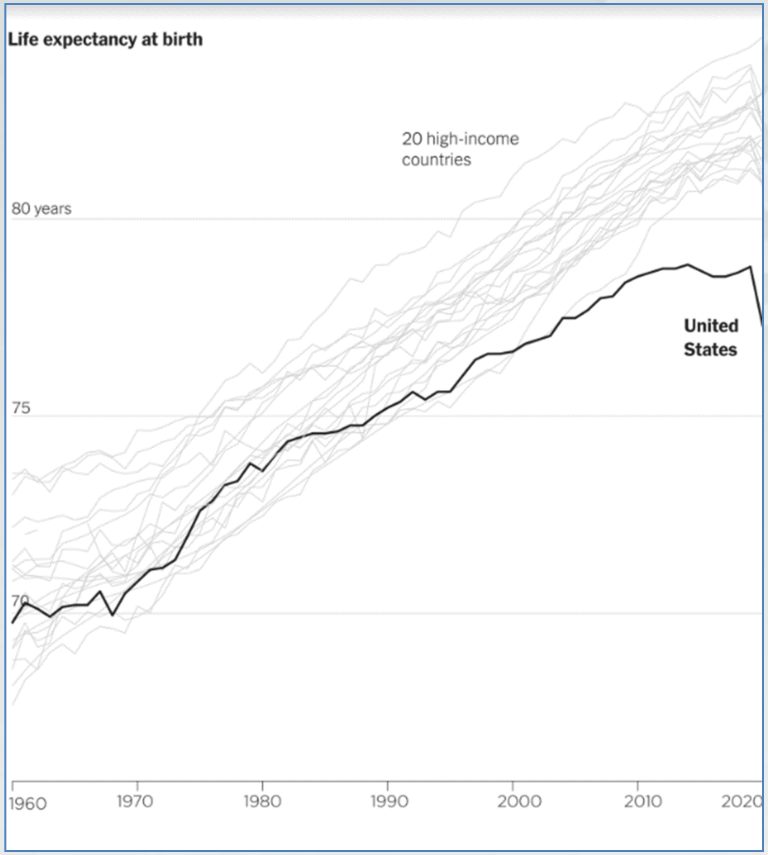
- Nat. Ave. $ 3,916
- Low $ -2,392 (MA)
- High $17,052 (NM)
- $78,709 (DC)
- **Michigan $ 5,076 (MI)**

Hypotheses & Key Findings

- Balance of Payments/GDP Is Determined by:
  - Median Household Income (-)
  - DC (+)
  - Military Expenditure (+)
  - Elderly (+)
  - **Poverty (+)**
  - **Disability (+) (proxy for overall health/well-being)**

  - Elderly, Poverty, and Disability Are Correlated
    - Disability and Elderly (0.45)
    - Disability and Poverty (0.78)
  - Disability Rate Increased from 12.5% (2011) to 14% (2022)
    - Reducing Disability (Improving Health) Could Substantially Reduce State Reliance on the Federal Government and Reduce Federal Deficits

Leading Causes of Disability



Disability	
1) Arthritis	6) Stroke
2) Back Pain	7) Alzheimer's
3) Heart Disease	8) Chronic Obstructive Pulmonary Disease (COPD)
4) Depression	9) Diabetes
5) Cancer	10) Kidney Disease

What lifestyle choices influence the likelihood of these disabilities?

Diet, Obesity, Diabetes, Excessive Alcohol/Drugs Use, Tobacco Use, Physical Activity

Summary

- Poverty and disability (health) are the most important determinants of the balance of payments in this statewide evaluation
- Reducing disability (improving health) can substantially reduce balance of payments and federal deficits
  - Reducing disability would likely reduce poverty too
- It is feasible to move the needle on disability/health (but it takes time)
- States could consider scenario planning activities in preparation for federal deficit reduction

County Level Analysis (very similar to Mark's state level work)

- Hicks, M. J. (2024). Federal Fiscal Exposure of US Counties. *Journal of Regional Analysis & Policy*, *54*(2), 36-48. https://jrap.scholasticahq.com/article/127868-federal-fiscal-exposure-of-us-counties

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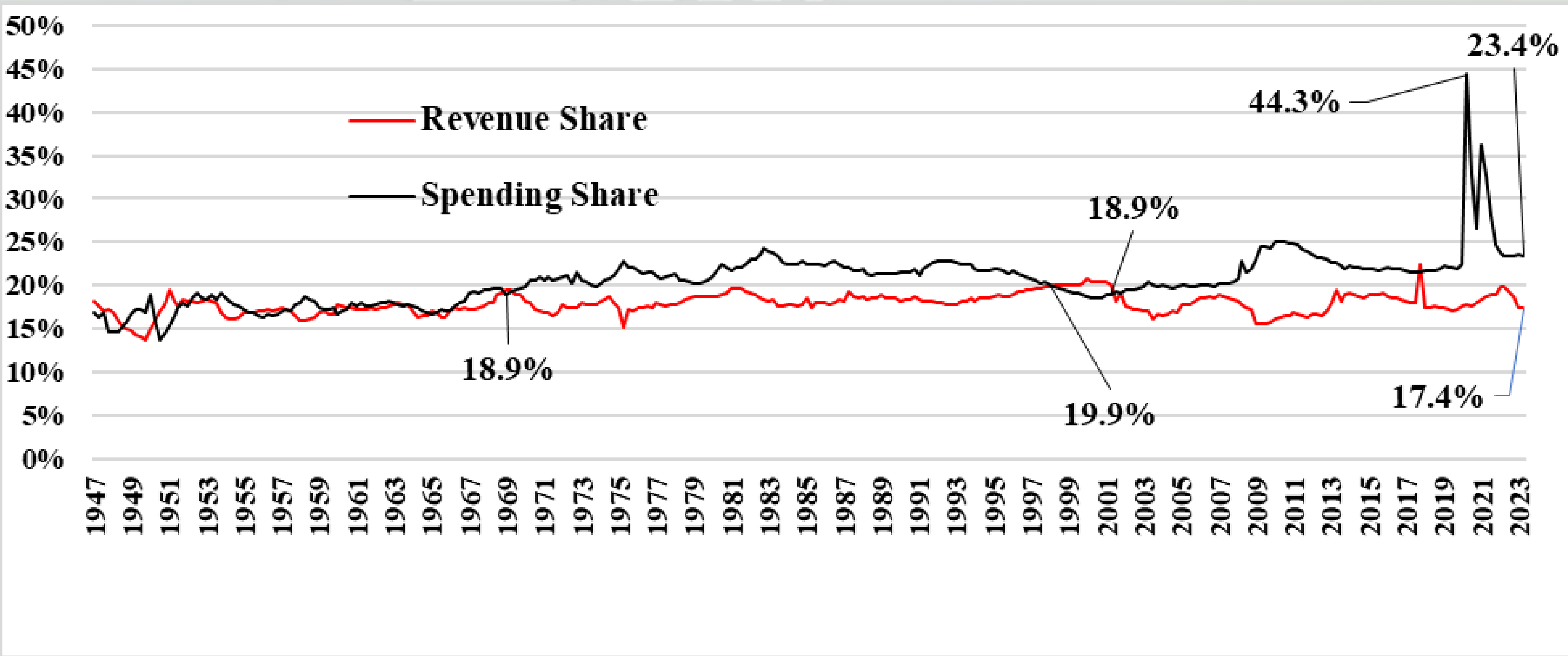
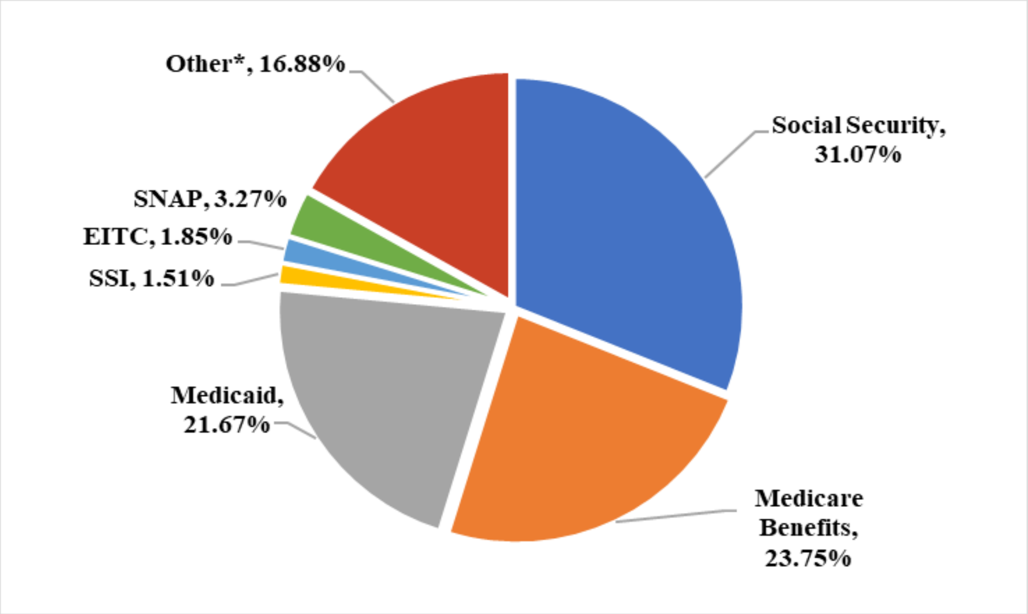
Spending Historically High, Tax Revenue Historically Low



Distribution of Transfer Payments



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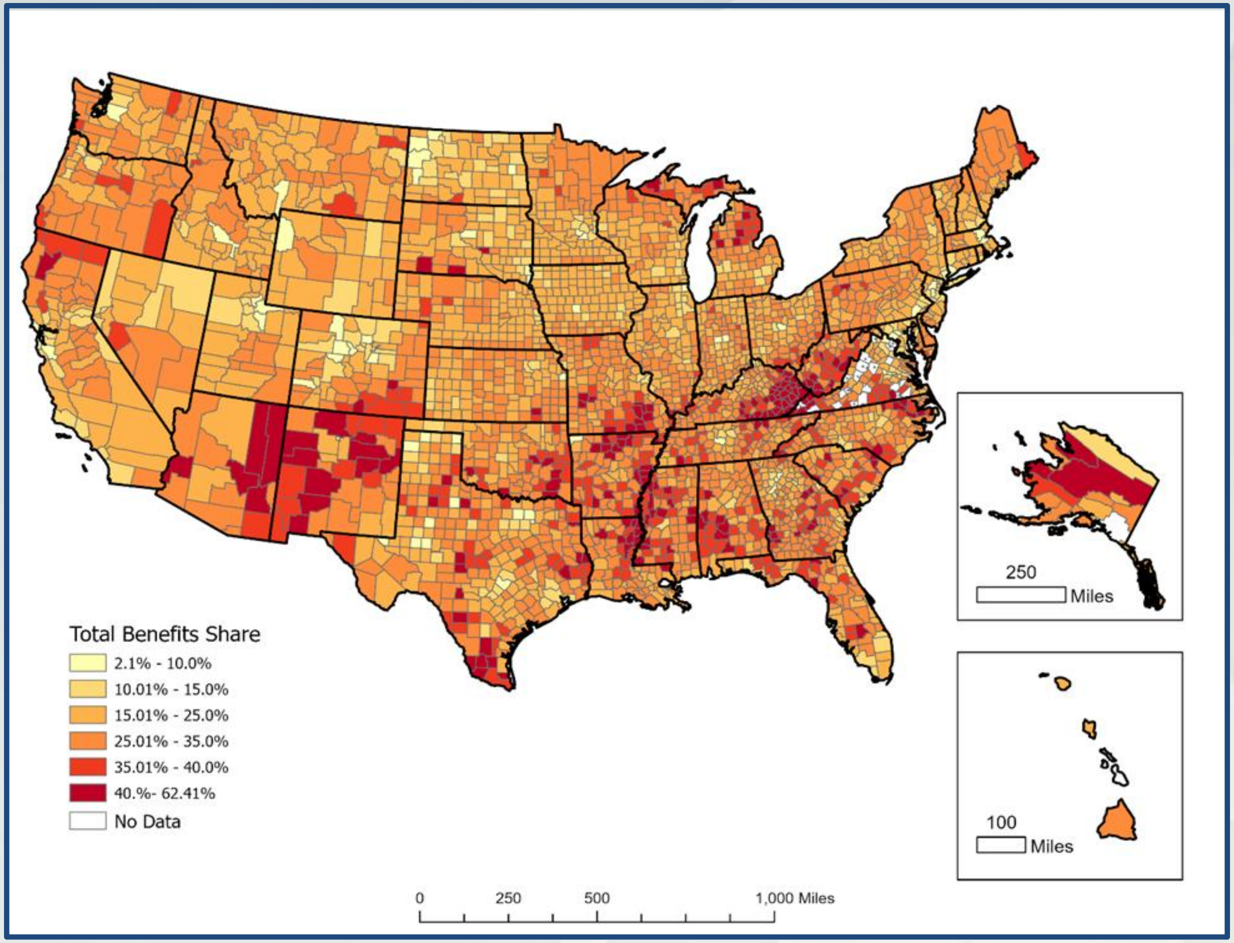
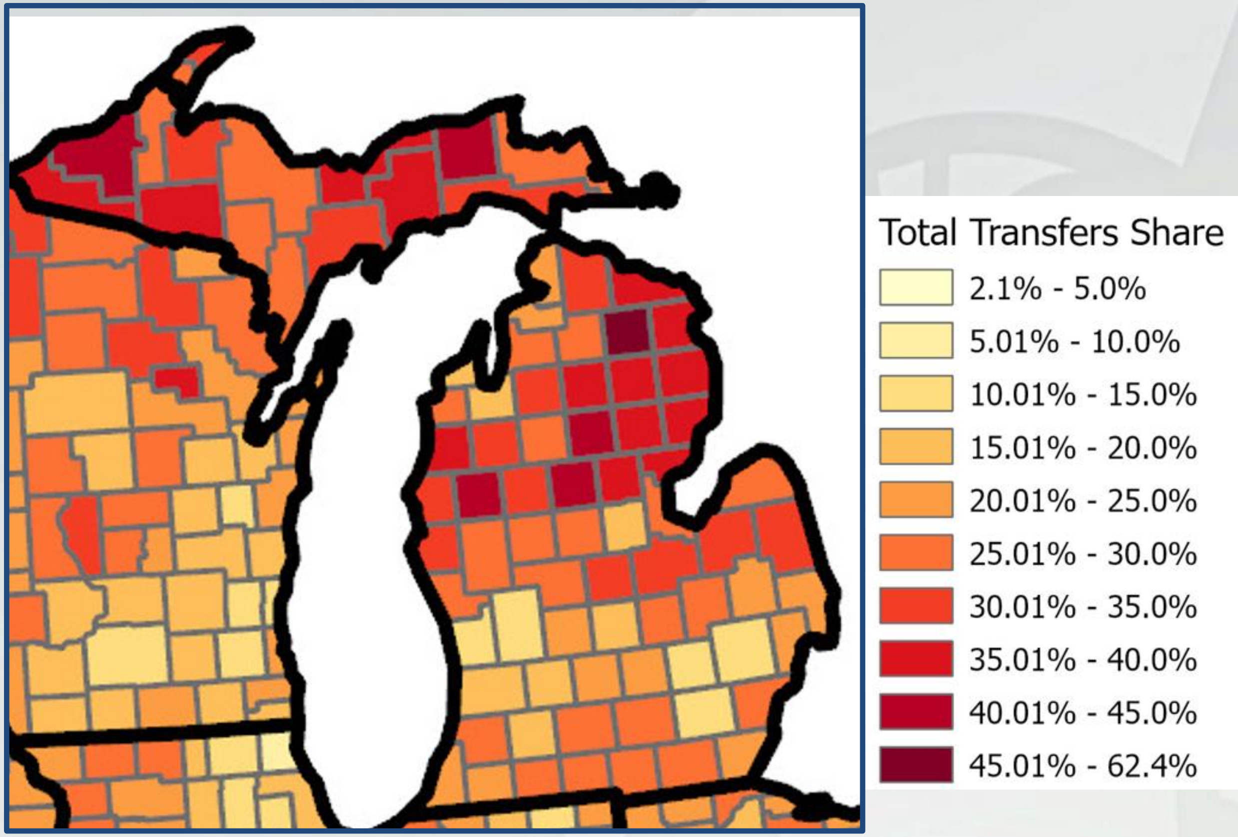


Total Benefits Share

- **Transfer Payments include SSI, SSI Disability, Medicare, Medicaid, SNAP and misc.**



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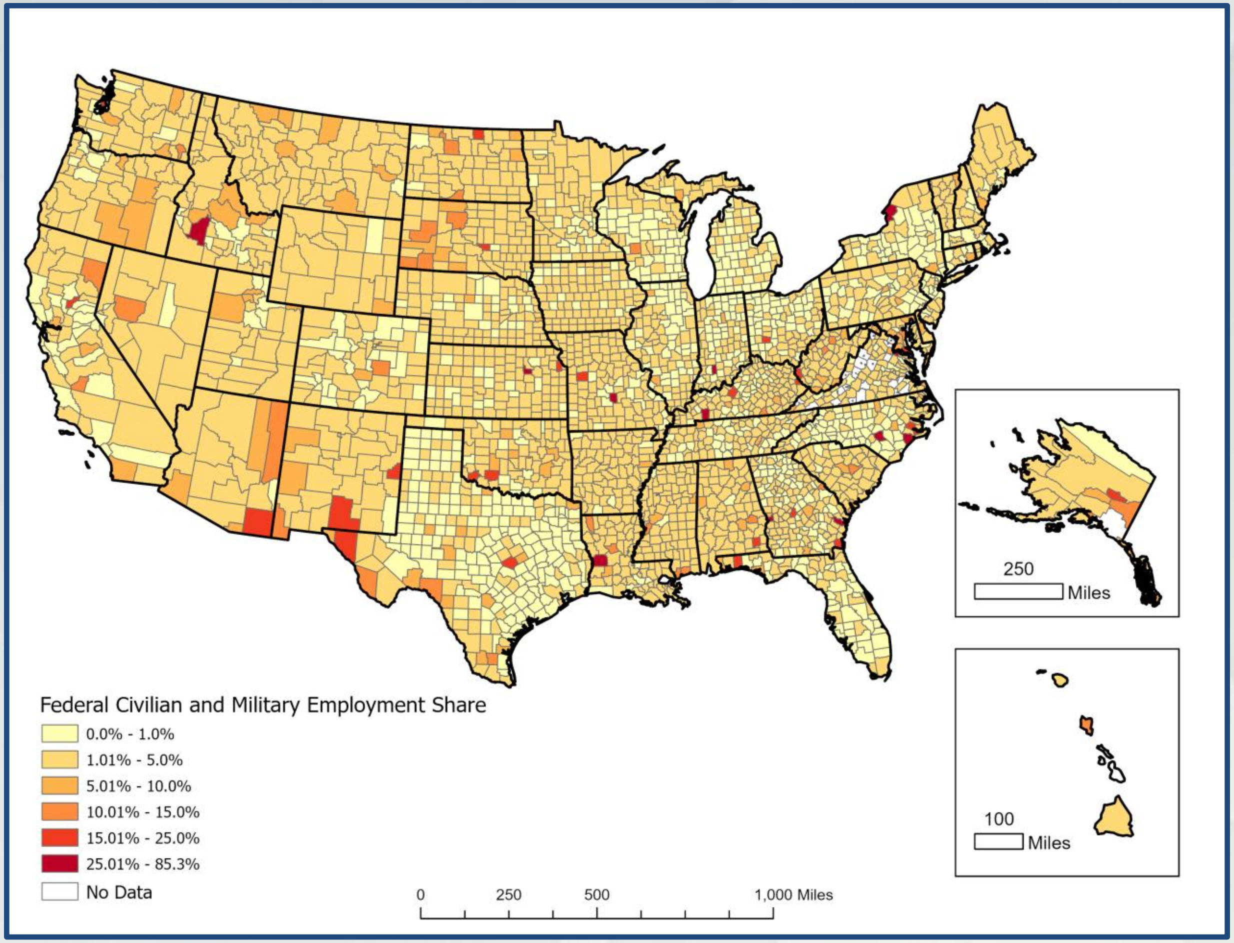
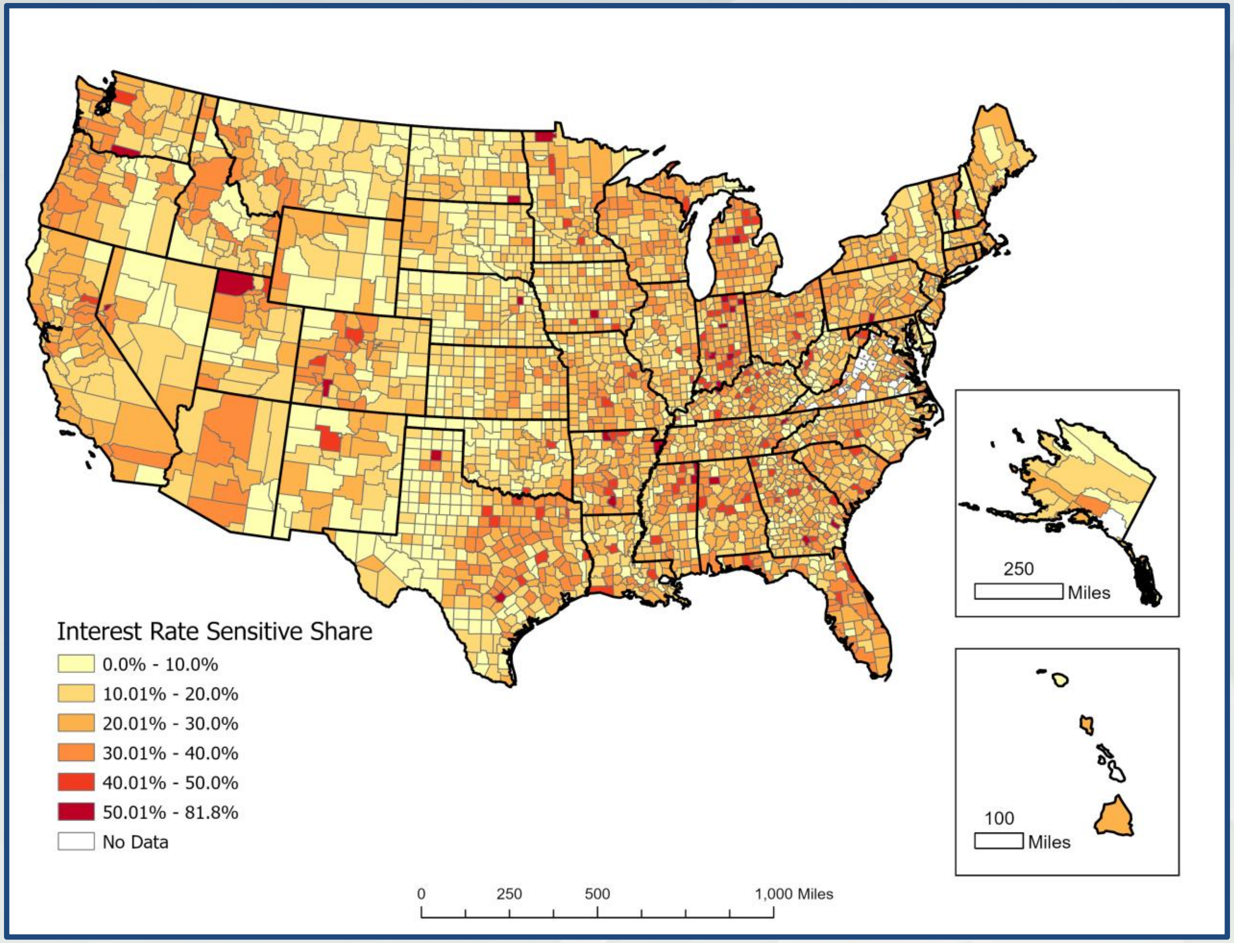
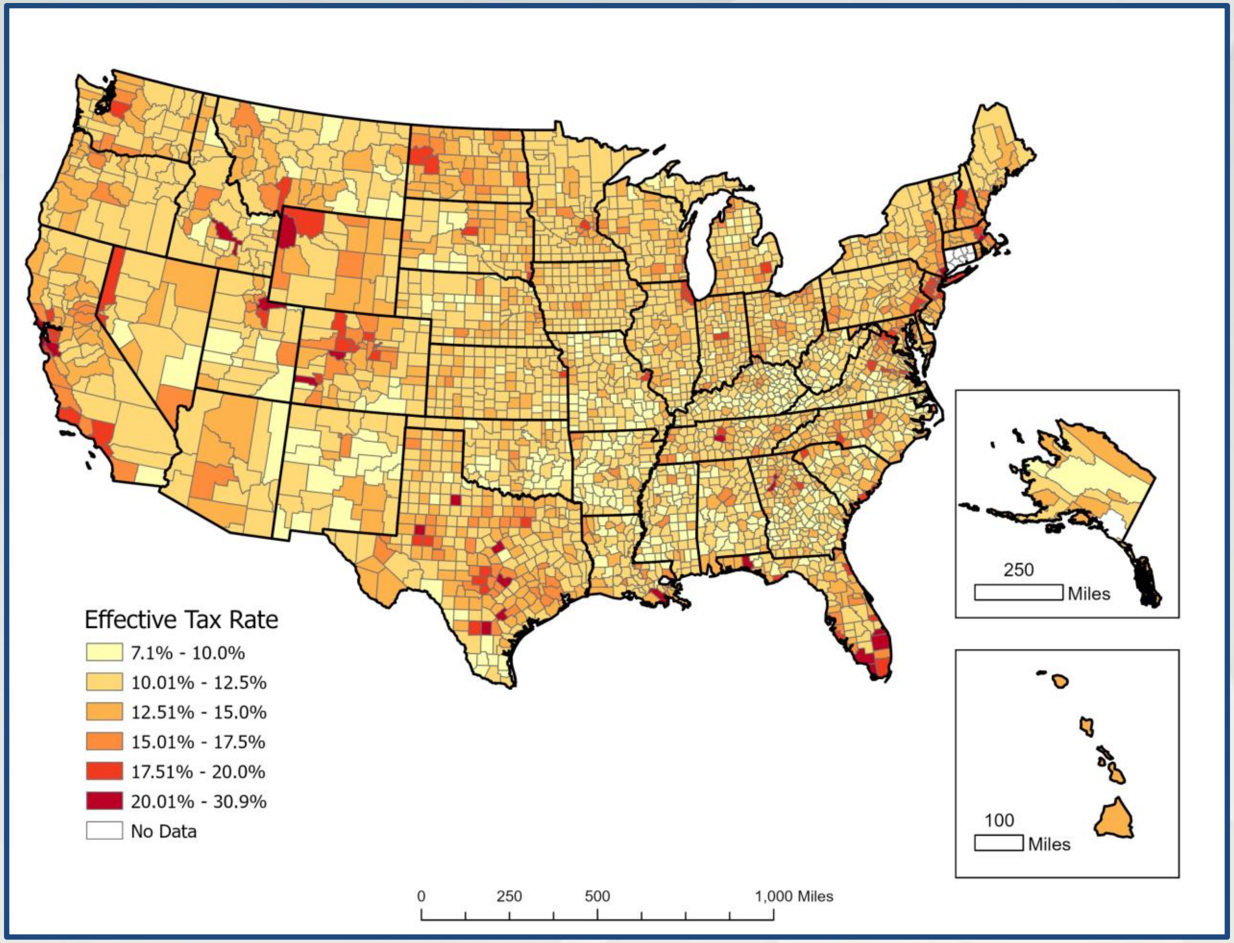
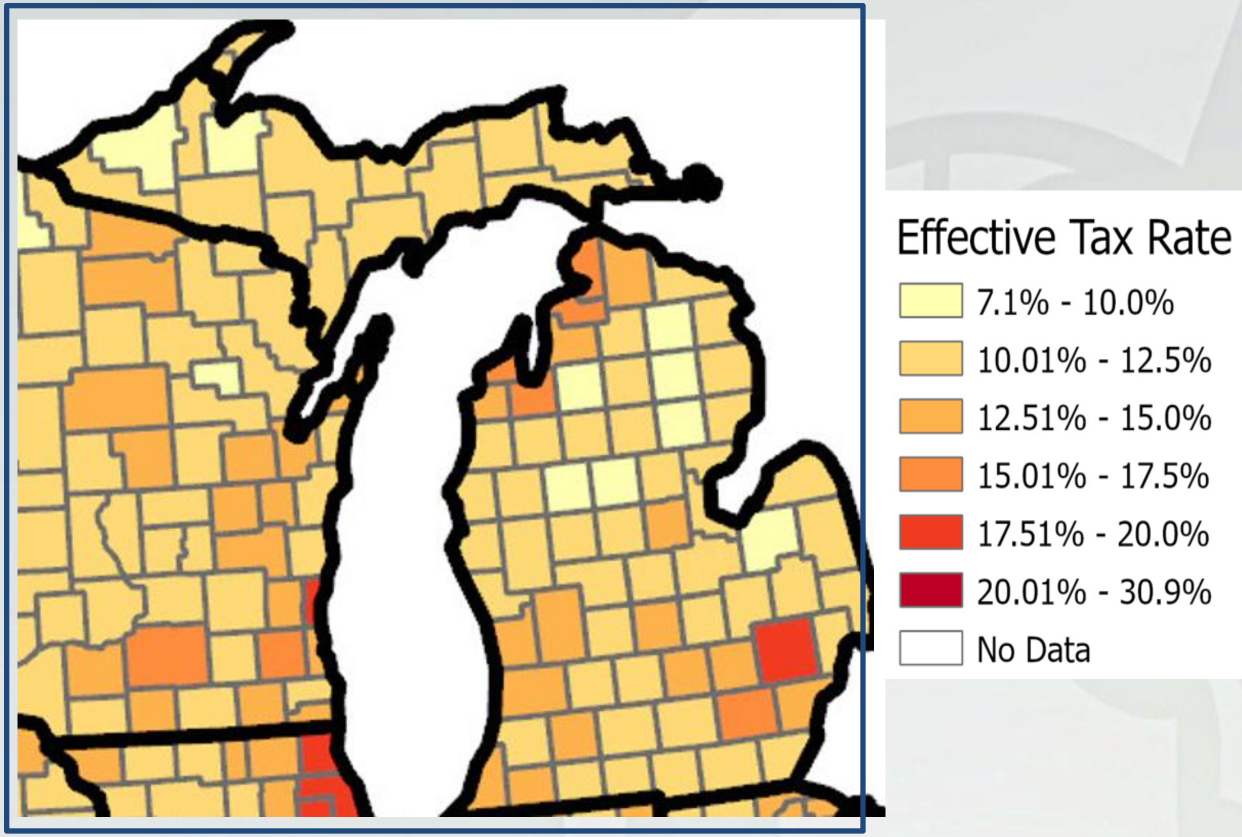


Michigan has a modest share of Federal military and civilian employment

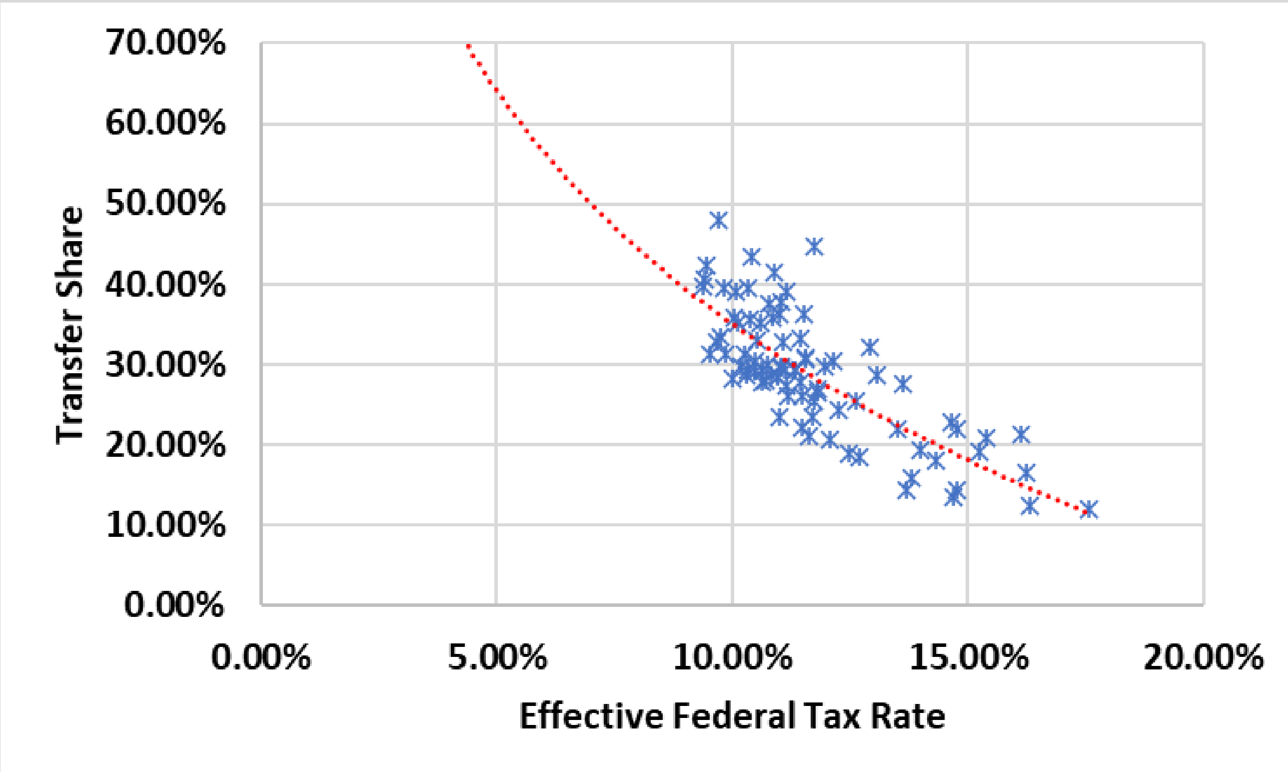


- A world of steady deficits also has costs – Michigan’s share of industries that are sensitive to interest rates (mortgage, auto loan, etc.) is especially high.


Effective Tax Rate
7.1% - 10.0%
10.01% - 12.5%
12.51% - 15.0%
15.01% - 17.5%
17.51% - 20.0%
20.01% - 30.9%
No Data
0
250
500
1,000 Miles
250
Miles
100
Miles



- **Taxes and transfers are nearly a mirror image of one another**



Tax share and transfer share by Michigan County

- **Wealthier places have higher effective tax rates, and lower transfer payment shares.**
- **Urban places are wealthier than rural places**

Michigan's non-Metropolitan counties are far more dependent on Federal Government employment and transfers than MSA counties.

	Federal Government	Effective tax Rate	Interest Rate Sensitive Share	Total Transfer Share
non-Metro	1.4%	11.2%	27.6%	31.9%
Metro	1.1%	13.0%	24.8%	22.1%

Michigan's Metropolitan pay substantially higher Federal taxes than do non-Metro counties.

Taxes and Spending Changes . . .

- Medicaid was reduced by 15% in the OBBBA (direct payments to states and ACA expansion funding)
- SNAP enrollment changes would reduce enrollment by almost 6% (2.4 million recipients).
- Uncertain Federal personnel cuts (military and civilian)
- Tax changes that reduce progressivity of current income tax system.
- Fairly substantial reductions in inter-governmental transfers across most agencies.
- A focus on one place (Genesee County, Michigan)

Genesee County, Michigan			
Agency	FY25 Funding	Share of Funding	Projected Cuts
Dep't of Agriculture	$ 96,963	-42.4%	$ (41,160)
Dept' Of Education	$ 5,721,275	-20.4%	$ (1,167,622)
Housing and Urban Development	$ 2,953,021	-0.8%	$ (24,164)
Dep't of Justice	$ 2,705,135	-31.5%	$ (851,360)
Dep't of Labor	$ 134,139	0.0%	$ -
Dep't of Transportation	$ 825,023	0.0%*	$ -
Nat'l Endowment for the Humanities	$ 15,000	0.0%*	$ -
Dep't of Energy	$ 495,594	0.0%	$ -
Health and Human Services	$ 27,817,873	-7.8%	$ (2,157,949)
Dep't of Homeland Security	$ 101,996	0.0%	$ -
Dep't of the Treasury	$ 34,490,617	-100.0%	$ (34,490,617)
Total	$ 75,356,636	-51.4%	$ (38,732,871)

*could not be determined from the OBBBA literature.

Summary

- US Federal Debt is large, and every policy choice has costs and benefits.
- There is substantial geographic variation in transfer payments, federal employment, effective tax rates and distribution of interest rate sensitive sectors – this is a complicating factor.
- Metro counties pay more taxes and use fewer federal transfers than do non-metro places, and the differences are substantial.
- Cuts will affect individuals and families (Medicaid, SNAP, employment)
- Tax changes will affect individuals and families (income, capital gains, etc.)
- Cuts will also affect state and local government budgets through a variety of programs.
- Cuts are currently a large share of local budgets (as Genesee example illustrates).

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