

Net Flow of Federal Funds to States and Counties w/ a Case Study of Genesee County

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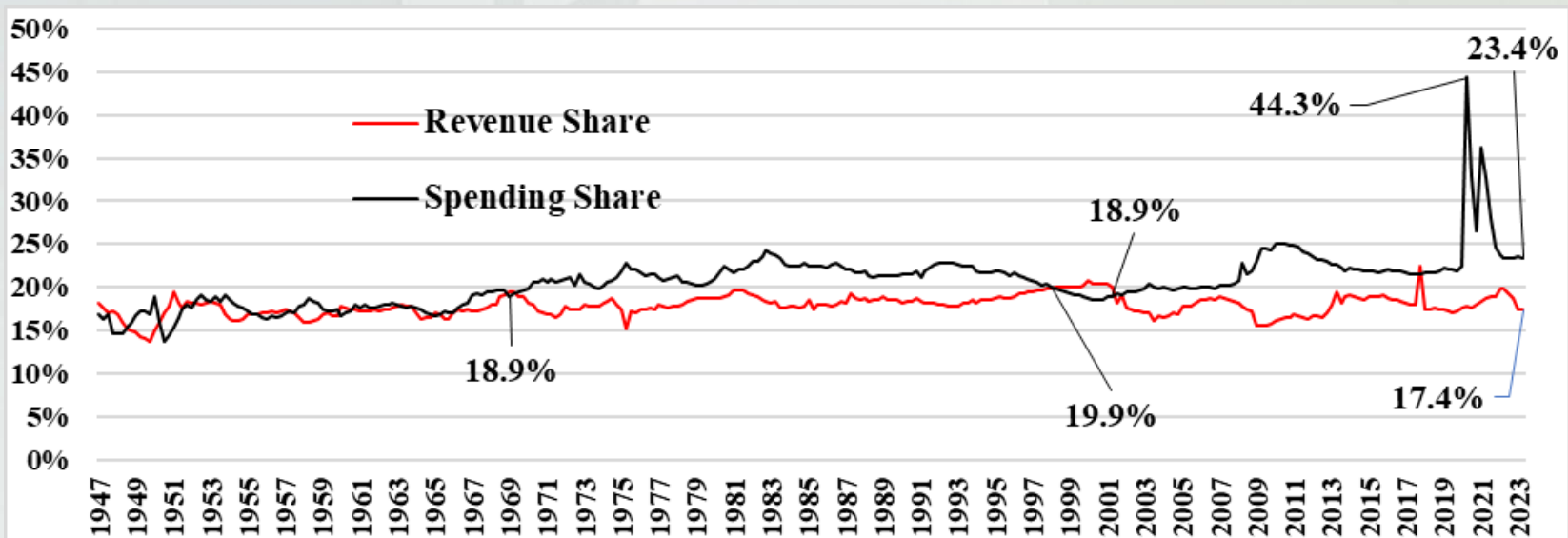
Hicks, M. J. (2024). Federal Fiscal Exposure of US Counties. *Journal of Regional Analysis & Policy*, 54(2), 36-48.

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
- Spending Historically High, Tax Revenue Historically Low

Are State/Local Governments and Economies Resilient?

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



Objectives

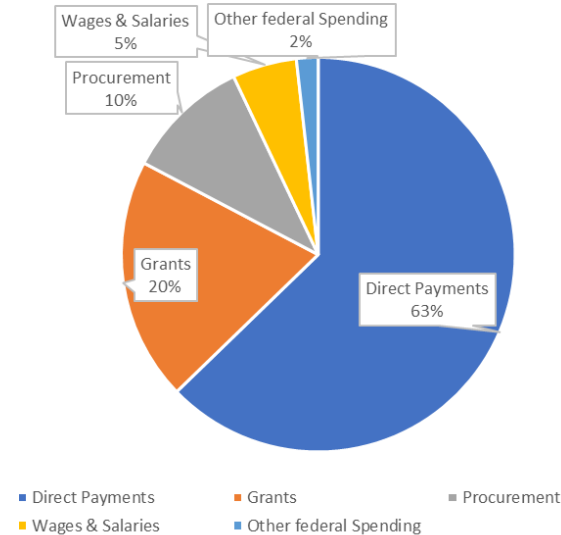
- Examine state reliance on net inflow of federal resources to states/counties (federal expenditures minus federal taxes)
- Identify factors associated with net inflow of federal funds
- Consider strategies for increasing resilience
- Consider implications for state and local government budgets
 - Case: Genesee County

Federal Expenditures and Deficits

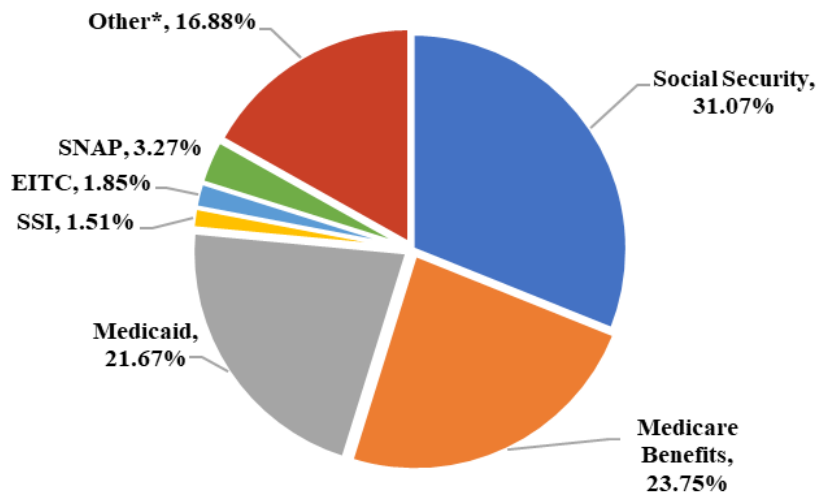
- Outflow = Federal Taxes Paid by State
- Inflow = Federal Expenditures Received by State
 - Direct Payments (Social Security, Medicare, Other Direct Payments)
 - Grants (Medicaid, Comm/Economic Development, Education/Training, Family/Social Services, Nutrition, Transportation, Etc.)
 - Procurement (Military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

**Balance of Payments =
Inflow - Outflow**

Figure 1: Federal Government Expenditures

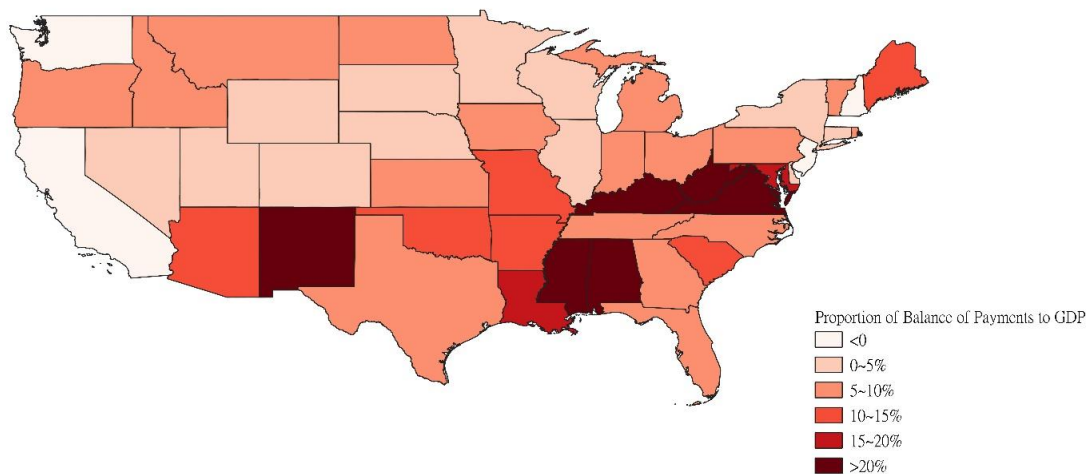


Distribution of Transfer Payments



Balance of Payments as a Proportion of State GDP & Per Capita

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



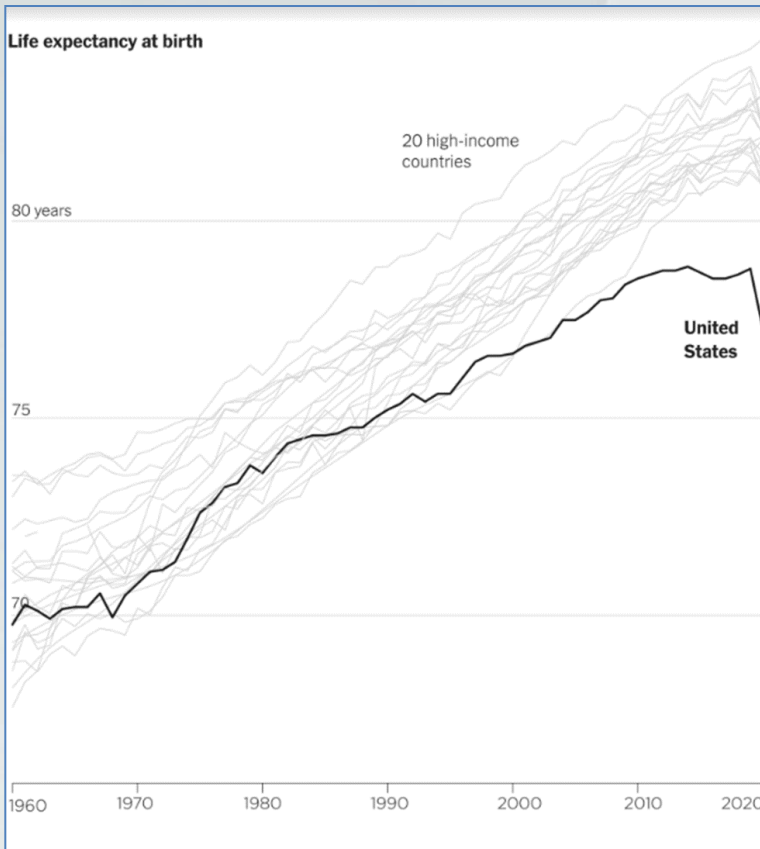
Per Capita

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

Hypotheses & **Key Findings** for State Level Analysis

- 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, Increase Tax Revenue, and Reduce Federal Deficits

Leading Causes of Disability



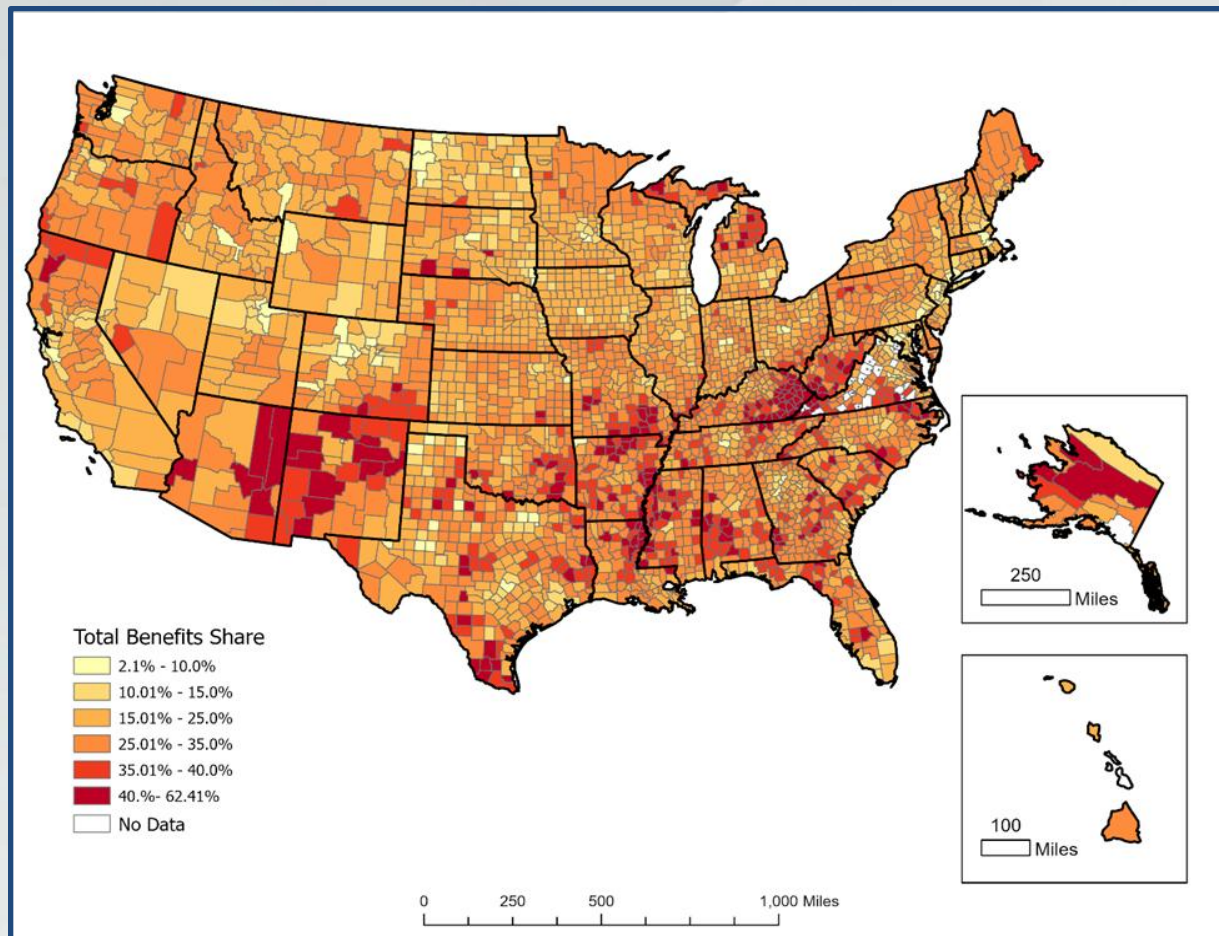
Disability	
1) Arthritis	6) Stroke
2) Back Pain	7) Alzheimer's
3) Heart Disease	8) Chronic Obstructive Pulmonary Disease (COPD)
4) Depression	9) Diabetes
5) Cancer	10) Kidney Disease

What lifestyle choices influence the likelihood of these disabilities?

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

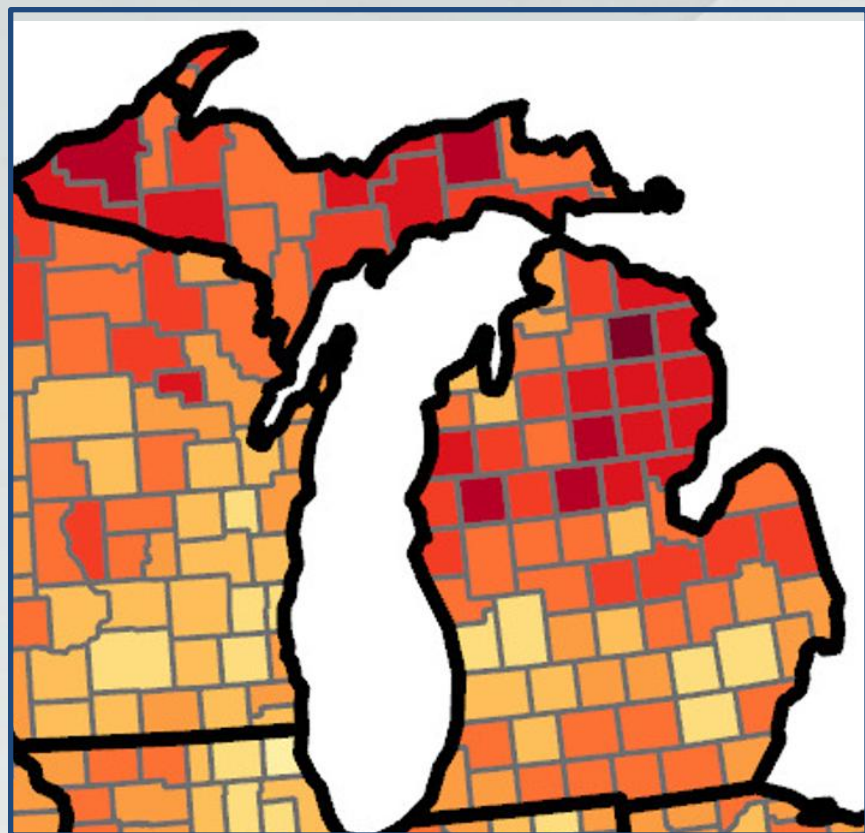
County Level Analysis

- 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>
 - Limit Discussion to Transfer Payments and Taxes



Total Benefits/Income (Transfer Share)

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

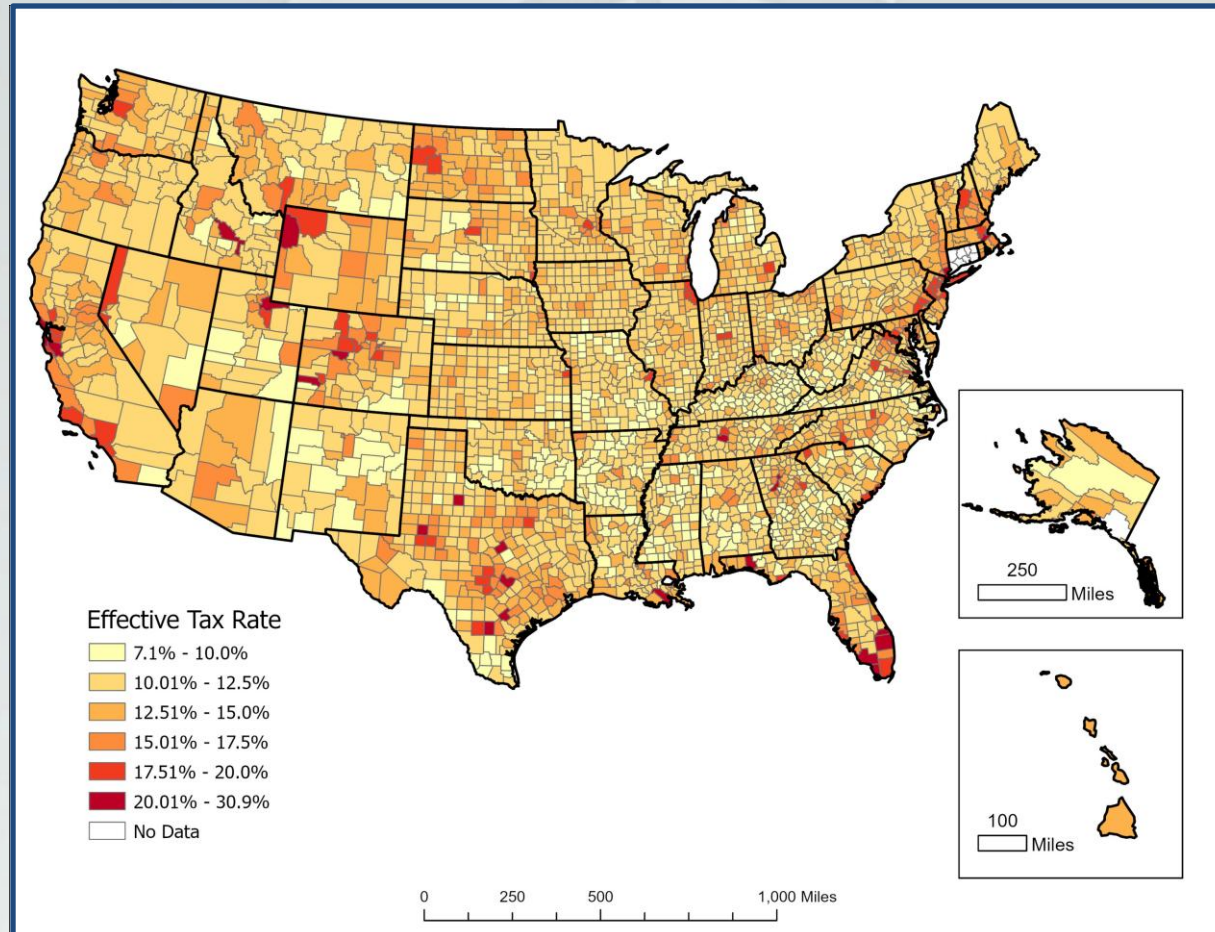


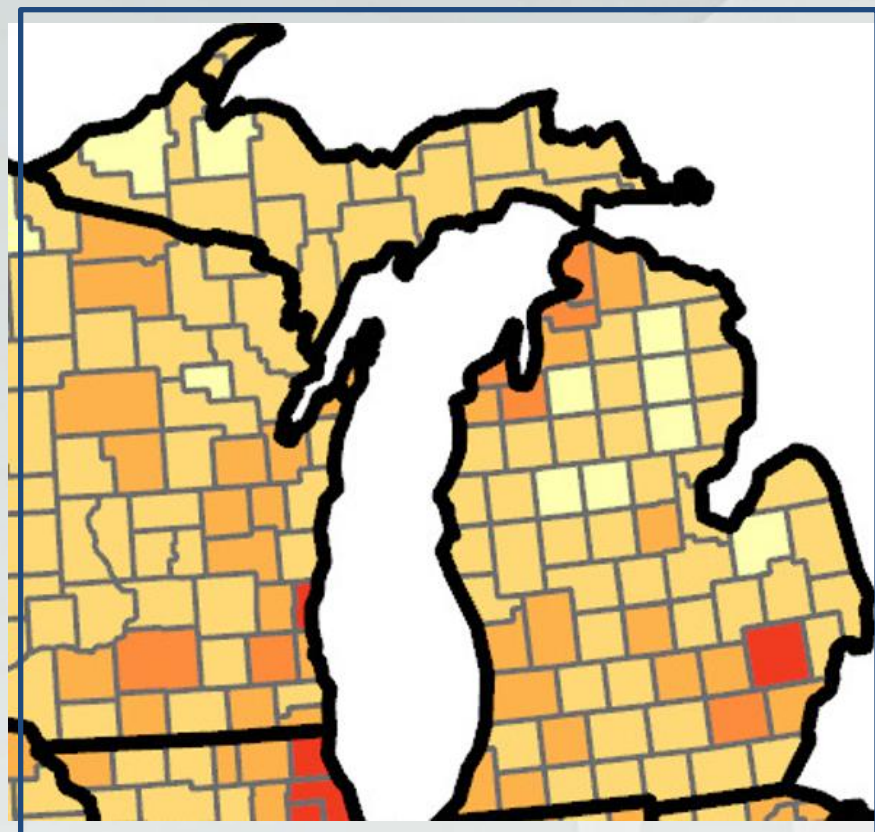
Total Transfers Share



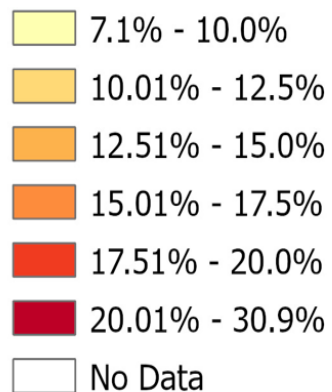
Transfer Payments include SSI, SSI Disability, Medicare, Medicaid, SNAP and Misc.

Tax Payments/Income (Effective Tax Rates)

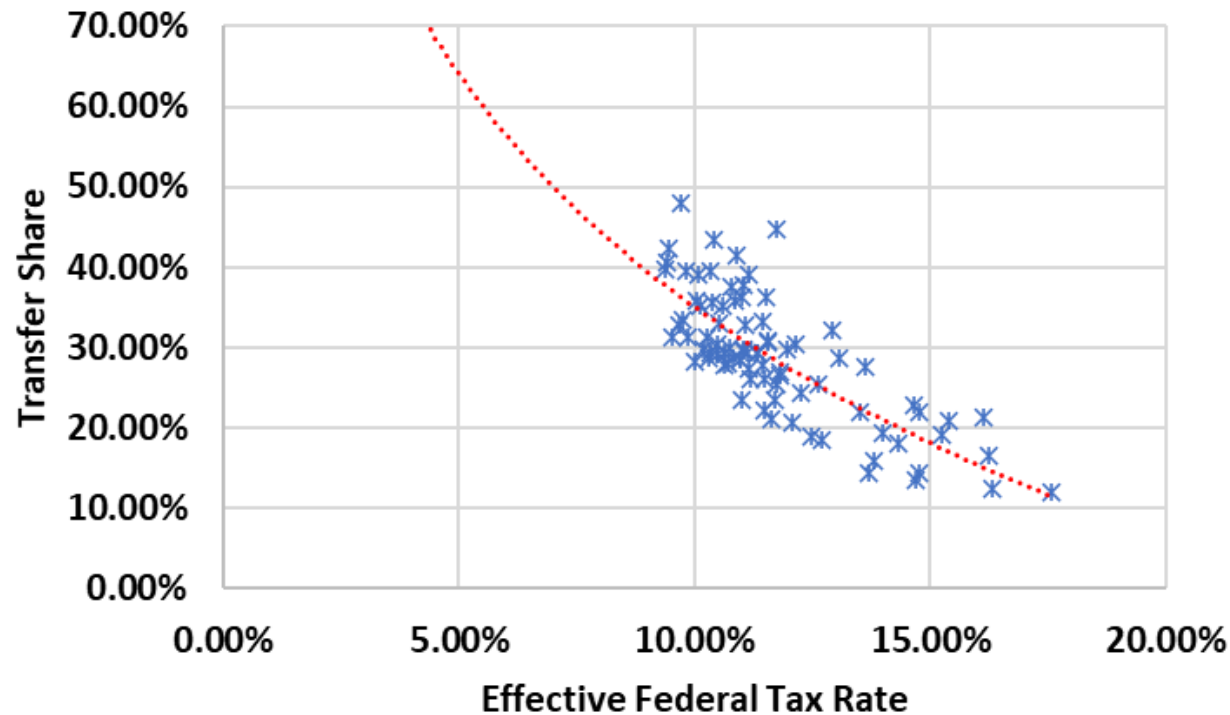




Effective Tax Rate



- **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 transfers than MSA counties.

	Effective tax Rate	Total Transfer Share
non-Metro	11.2%	31.9%
Metro	13.0%	22.1%

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

Taxes and Spending Changes . . .

- **Medicaid was reduced by 15% in the One Big Beautiful Bill Act (OBBBA)**
 - Direct payments to states
 - Affordable Care Act expansion funding
- **SNAP enrollment changes would reduce enrollment by almost 6% (2.4 million recipients).**
- **Tax changes that reduce progressivity of current income tax system.**
- **Reductions in inter-governmental transfers across most agencies.**

Genesee County, Michigan			
Agency	FY25 Funding	Estimated Percentage Reduction	Projected Cuts
Dep't of Agriculture	\$ 8,165,799	-3.0%	\$ (242,747)
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%	\$ (37,766,837)

*Could not be determined from the OBBBA literature.

Summary

- Substantial geographic variation in transfer payments and effective tax rates
- Metro counties pay more taxes and use fewer federal transfers than do non-metro places, and the differences are substantial
- Expenditure changes affect households (Medicaid, SNAP, employment)
- Tax changes affect households (income, capital gains, etc.)
- Cuts also affect state and local government budgets
- Cuts are a large share of local budgets
- Poverty and disability (health) are the most important determinants of the balance of payments in statewide and county-level evaluations
 - Reducing disability (improving health) can substantially reduce balance of payments and federal deficits
- State and local governments could consider scenario planning activities in preparation for federal deficit reduction