

Federal Expenditure Increase in Maryland Exceeds U.S. in FY 2008 First major increase in four years

Federal spending in Maryland increased by its largest amount in four years in FY 2008, according to a report by the U.S. Census Bureau.¹ Federal expenditures and obligations to Maryland totaled an inflation-adjusted \$64.07 billion in fiscal year 2008, an increase of \$4.05 billion (6.7%) from FY 2007. This inflation-adjusted increase follows smaller gains of \$0.14 billion in FY 2007 and \$0.08 billion in both FY 2005 and FY 2006. The growth in the most recent year marks a return to the strong increases seen in FY 2002-FY 2004 when the average annual gain to Maryland was \$4.13 billion per year – the strongest period of growth going back to the beginning of the data base in FY 1983 (See [Table 1](#) and [Chart 1](#) and [Chart 2](#)).²

Nationally, total federal expenditures increased by 5.7 percent, significantly more than the 1.8 percent seen in FY 2007 and the largest gain since FY 2002 but below Maryland's increase (See [Chart 2](#)). With the State exceeding the federal growth rate for the first time in four years, Maryland's share of total federal expenditures rose to 2.79 percent of the national total, up slightly from 2.76 percent in FY 2007. This reverses a three-year decline in share and edges the state closer to its 2.99 percent share of national expenditures in FY 2004, the highest in the data series (See [Chart 3](#) and [Table 1](#)).³

Maryland Exceeds U.S. Per Capita Expenditures by a Wide Margin

Federal expenditures in Maryland played a disproportionately positive role in the State's economy in FY 2008 as they have done every year compared to the overall U.S. economy. For Maryland, total federal expenditures amounted to (an inflation-adjusted) \$11,373 per person, or \$3,820 (50.6%) more per person than the U.S. national average of \$7,553, and was ranked second nationally behind Virginia (\$12,546), and came in ahead of third-ranked Alaska (\$11,291) (See [Table 1](#) for U.S. and Maryland data and [Chart 4](#) for all states).

The difference in per capita federal expenditures between Maryland and the U.S. has varied over the last several years (See [Chart 5](#)). Historically, per capita expenditures in Maryland were \$2,000 to \$2,400 higher than the U.S. between FY 1983 and FY 1997. Since FY 1998, this gap has steadily widened, with Maryland peaking at \$3,970 higher by FY 2004. In subsequent years, this difference has declined steadily, falling to \$3,473 by FY 2007, before increasing to \$3,819 in FY 2008, making this the second-highest year since 1983.

Another indication of the importance of federal expenditures to an economy is as a share of total personal income. Here, too, Maryland stands out with the FY 2008 federal expenditures and obligations comprising 28.7 percent of total personal income, up from FY 2007's 27.0 percent and still well above the 23.1 percent share for the U.S. as a whole (See [Table 1](#)).

¹ *Consolidated Federal Funds Report for FY 2008*, released July 2009 by the U.S. Bureau of the Census.

² All data in this analysis is reported in constant 2000 dollars.

³ [Table 1](#) expresses the expenditure data in constant \$2000 so that comparisons can be made over time with the effects of inflation taken out. [Table 2](#) has the data in current dollars. Also [Tables A, B & C](#) have national, state and jurisdiction data in constant 2000 \$ back to 1983. [Tables F, G & H](#) has the same data in current dollars.

Generally, these shares rise during economic downturns (such as the early 1990s and the beginning of this decade) and will decline with broad economic expansions such as the one that occurred in the late 1990s. However, the share increases since FY 2001 for Maryland (when it was 25.2%) also has to do with the sheer volume of the federal expenditure increase tied to a post 9/11 world.

Four Major Categories of Expenditures

Federal expenditures are reported in four major categories: *salaries & wages*, *procurement*, *direct payments*, and *grants*. Funding amounts reported for *salaries & wages* and *direct payments* represent actual expenditures, while funding for the *grants* and *procurement* categories represent the obligations incurred at the time the monies are awarded. These monies are not always spent in the fiscal year awarded or are sometimes deobligated if the funds are not used in the appropriate time frame, and are shown as negatives in the data.

The first two categories, *salaries & wages* and *procurement*, are self-explanatory. The third category, *direct payments*, includes “payments to individuals,” principally for retirement and disability (including social security), but also for Medicare and for various social service programs like food stamps, unemployment compensation, rental and housing assistance. This category also includes payments “other than for individuals,” including agricultural conservation programs, crop and flood insurance, agricultural production stabilization and some housing and postal service categories. The *grants* category covers a wide variety of programs including Head Start, medical research, highway & transit planning and construction, school lunch programs, medical assistance and public housing. (See spreadsheet [Maryland_2008](#) for detailed federal expenditures data by type for Maryland in FY 2008.)

Largest Gains Seen in Procurement

Procurement obligations in Maryland have increased significantly in FY 2008, growing by \$3.12 billion (17.4%) over FY 2007, the second largest dollar increase in procurement obligations since 1983. This is a change from the previous three years when inflation-adjusted procurement obligations in Maryland declined, dropping \$0.56 billion (-2.9%) in FY 2006 and suffering a larger \$1.08 billion (-5.7%) drop in FY 2007 (See [Table 1](#)). The large FY 2008 increase matches the large gains seen in FYs 2002-2004, which averaged \$2.89 billion per year.

Total federal procurement spending in Maryland in FY 2008 (\$21.05 billion) comprised 32.9 percent of all federal spending and obligations in Maryland, the highest share since 1983 (See [Chart 6](#) and [Chart 7](#)).

Nationally, procurement spending grew by \$48.52 billion (13.0%), a significantly larger increase than that seen in FY 2007 (\$17.80 billion, or 5.0%) and the largest dollar and percentage increase in procurement since 1983 (See [Table 1](#)). Even with this increase, the procurement share of total federal spending nationally in FY 2008 (18.4%) is well below the proportion in Maryland (32.9%), although the national share is at its highest since FY 1991 (See [Chart 8](#)).

Defense Procurement Accelerates

Procurement spending can be separated into two major categories: defense and nondefense. In FY 2008, both non-defense and defense spending increased substantially in Maryland, with non-defense spending rising by \$1.59 billion (17.6%) to \$10.62 billion, and defense spending growing by \$1.53 billion (17.2%) to \$10.44 billion.

Both categories have experienced significant increases in Maryland in FY 2008. Over the previous three years, both non-defense and defense procurement have been up and down, with non-defense procurement obligations declining in FY 2005 (-\$0.87 billion), increasing in FY 2006 (\$0.26 billion), and declining again in FY 2007 (-\$1.05 billion) while defense procurements rose in FY 2005 (\$1.26 billion), fell in FY 2006 (-\$0.83 billion), and remained essentially flat in FY 2007 (-\$0.03 billion).

The similar rates of increase in defense and non-defense procurement retained the nearly even split between non-defense and defense spending that was achieved in FY 2007. In previous years, the split has favored non-defense spending, with defense spending making up as little as 44.2 percent of all procurement in FY 2003 (See [Table 1](#)).

Nationally, a much larger share of procurement dollars go for defense purposes (69.0% in FY 2008), the highest share since FY 1993. The increased national share spent on defense is likely due to increased funding needs caused by the Iraq and Afghanistan conflicts.

Maryland's success in being awarded procurement contracts led to a peak in national procurement share in FY 2004, when Maryland's share of procurement funding rose to 9.0 percent of U.S. non-defense procurement dollars and to 4.4 percent for defense funding, with both shares the highest in the data series. However, over the last three years, these shares have dropped back closer to previous levels, with the most recent year at 8.1 percent for non-defense procurement and 3.6 percent for defense procurement.

Unlike most federal expenditure categories that have had relatively smooth changes over time, the procurement sector has proven to be particularly volatile. Procurement spending in Maryland has ranged from a high of \$21.05 billion in FY 2008 to a low of \$8.09 billion in FY 1989 (See [Chart 6](#)). This volatility is due to changing national budget priorities and the success of local firms in winning major federal contracts.

Small Gain in Direct Payments

Direct payments showed a small inflation-adjusted gain of \$0.27 billion (1.1%) in Maryland between FYs 2007 and 2008, in contrast to the previous year's change of \$1.08 billion (4.6%), the ninth straight year of fairly steady gains. The largest share of direct payments (47.3%) is for retirement benefits (including federal retirement and disability and social security) but also include Medicare payments (26.5%). Mostly because of the retirement payments, direct payments were the largest portion of federal expenditures in Maryland in FY 2008 (38.6%), which has been the case since the beginning of the data series (See [Chart 7](#) and [Chart 8](#)).

However, the total share for direct payments has eroded somewhat since the peak of nearly 46 percent in the late 1990s due to the growth in other categories, particularly procurement.

Nationally, federal expenditures for direct payments grew by \$30.20 billion (2.6%) in FY 2008, well below the \$63.60 billion (5.9%) increase in FY 2006 but almost a third larger than the \$20.68 billion increase in FY 2007. National direct payments share of the total federal expenditures and obligations was 51.9 percent in the most recent year, the lowest share since 1989 (See [Table 1](#). Also see [Tables A, B & C](#) for historical values, change and percent change from 1983-2008 for U.S., Maryland and Maryland's jurisdictions. [Tables D](#) has the expenditure shares within the U.S, Maryland and Maryland's jurisdictions. [Table E](#) has the jurisdiction shares within Maryland).

Salaries and Wages Fall for Fourth Time in Five Years

Federal expenditures for salaries and wages decreased slightly (\$-0.09 billion, or -1.0%) in Maryland for FY 2008, as they did for four out of the last five years. The most recent decrease brought total wages and salaries paid in FY 2008 to \$9.65 billion, the lowest level since FY 2002 (\$9.33 billion) (See [Table 1](#)). This change brought this category's share of total federal expenditures down to 15.1 percent from 16.2 percent in FY 2007, making it the lowest share in the 26 years of the data series. In general, this category has been on a downward trend over the time series as federal government employment has declined. At its peak, salaries and wages comprised 23.9 percent of total federal expenditures in FY 1984 (See [Chart 7](#)).

Nationally, salary and wage expenditures decreased by \$5.83 billion (-2.7%) as compared to the \$2.36 billion increase in FY 2007. Both years are in contrast to the very robust three year period between FY 2002 and FY 2004 when salaries and wages averaged an annual gain of \$8.0 billion, the highest three-year period by far in the data series. These changes correlate well with the changes in federal civilian and military employment. Altogether, expenditures for salaries and wages comprised a much smaller share of total federal expenditures nationally (9.1%) than in Maryland (15.1%) due to Maryland's relatively high concentration of federal jobs.⁴ The national share has been declining steadily over the years and the FY 2008 is the smallest in the data series (See [Chart 8](#) and [Chart 9](#)).

Funding for Grants Rises Significantly

Maryland's grants increased by an inflation-adjusted \$0.75 billion (9.5%) in FY 2008 to \$8.66 billion, the second year of increases and a reversal of a four-year trend from FY 2003 to FY 2006 of real declines totaling just over \$1.0 billion (-11.7%). Prior to these declines, Maryland experienced six consecutive years of gains in grants (FY 1997 to FY 2002) that peaked at \$8.73 billion, the highest total in the data series (See [Chart 10](#)). FY 2008's total of \$8.66 billion in grants makes it the second highest value in the data series, as well as the largest percentage increase since FY 2000. Medicaid payments – treated as a grant – made up the largest share (29.3%) of total grants to Maryland, with highway planning and construction grants

⁴ Federal civilian and military jobs comprised 7.4 percent of all wage & salary jobs in Maryland in 2007 compared to 3.3 percent for the nation as a whole. Source: U.S. BEA, Table SA27N

making up an additional 4.8 percent and funding for allergy, immunology and transplantation research making up 4.4 percent. (See Spreadsheet file [Maryland_2008](#)).

The grant share of total federal expenditures in Maryland has started climbing after years of declines. In FY 2008, federal grants comprised 13.5 percent of total federal expenditures and obligations in Maryland, up slightly from 13.2 percent in the prior year, but still well below the peak share of 17.4 percent in FY 2001 (See [Chart 7](#)).

In the U.S., grants increased by \$51.17 billion (12.1%) in FY 2008, a reversal of the trend of the last four years of small increases and declines resulting in a cumulative four-year increase of only \$3.76 billion. The latest increase is by far the largest in the data series, significantly more than the second-largest increase of \$38.96 billion (10.8%) in FY 2002. At their high point in FY 2003 and FY 2004, grants made up just over one fifth (21.4%) of all federal expenditures and obligations before declining to a low of 19.4 percent in FY 2007. The most recent increase reverses that decline, making the grants share of funding 20.6 percent in FY 2008 (See [Table 1](#)).

Federal Expenditures & Obligations Concentrated in Handful of Maryland Jurisdictions

Jurisdictions receiving the largest totals of federal expenditures in FY 2008 were Montgomery County (\$14.03 billion), Prince George's County (\$9.91 billion), Baltimore City (\$9.65 billion), Baltimore County (\$6.05 billion) and Anne Arundel County (\$5.50 billion)⁵ (See [Table 3A](#)). Combined, these five jurisdictions comprised 70.5 percent of total federal expenditures and obligations in Maryland in FY 2008, slightly below the 73.8 percent share that they had in FY 2000.

The jurisdictions receiving the least amount of funds were Queen Anne's (\$0.21 billion), Garrett (\$.018 billion), Caroline (\$0.18 billion), Somerset (\$0.16 billion) and Kent (\$0.14 billion) counties (See [Chart 11](#)).

The concentration among jurisdictions for particular types of federal expenditures is even higher. For instance, in FY 2007 Montgomery (34.0%) and Prince George's (22.1%) had well over one-half (56.1%) of salaries and wages paid in Maryland, although this is a reduction from the 57.1 percent share at the beginning of the decade in FY 2000. Similarly, there was a strong concentration in procurement expenditures, with Montgomery the recipient of 31.1 percent of statewide totals while Prince George's had 19.5 percent and Anne Arundel had 11.8 percent.⁶

Several jurisdictions experienced dramatic percentage increases in funding between FY 2000 and FY 2008, including: Howard (144.0%), Frederick (127.0%), Anne Arundel (59.7%), and Harford (56.7%) counties. The large percentage (and absolute) gain for Howard County was due, for the most part, to procurement contracts, which went from \$0.33 billion in FY 2000 to \$1.43 billion in FY 2008. In FY 2008, \$0.88 billion (61.5%) of Howard County's procurement was related to defense expenditures.

⁵ Anne Arundel County expenditures most likely do not include expenditures for the National Security Agency.

⁶ See [Table E](#) for jurisdiction share within state by type of federal expenditure/obligation over 1984-2008 time period

The largest absolute gains over this eight-year time period were in Montgomery (\$3.65 billion), Prince George's (\$2.57 billion), Anne Arundel (\$2.06 billion) Baltimore County (\$1.97 billion), and Baltimore City (\$1.44 billion) counties. Combined, these five jurisdictions made up 62.5 percent of the statewide increase of \$18.70 billion (See **Table 3A**).⁷ Despite having the largest gain over the six-year period, Montgomery did experience some year-to-year declines from FY 2005 to FY 2008 due to declines in procurement (See **Table 3B**).

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⁷ **Table 3A and Table 3B** express the expenditure data in constant \$2000 so that comparisons can be with the effects of inflation taken out. **Table 4A** and **Table 4B** show the data in current dollars.