

## **FY 2010 Federal Expenditures Decrease Slightly for Maryland** *Small pull back from record growth in the prior year*

After increasing by a record amount in FY 2009, federal spending in Maryland fell in FY 2010 for the first time in 14 years according to a recently released report from the U.S. Census Bureau.<sup>1</sup> Federal expenditures and obligations to Maryland totaled an inflation-adjusted \$86.63 billion in fiscal year 2010, a decrease of \$1.37 billion (-1.6%) from FY 2009. This inflation-adjusted decrease was the first since FY 1996. In contrast to FY 2010, the record increase in FY 2009 was so large that it even exceeded the combined gains of the previous 10 years. (See [Table 1](#) and [Chart 1](#) and [Chart 2](#).)<sup>2</sup> The relatively small decline in FY 2010 from the historic 2009 levels was due to very modest declines in procurements, direct payments and grants. The increase in FY 2009 was primarily the result of a record increase in direct payments, including growth in social services spending (such as unemployment insurance, Medicaid, welfare programs, etc) that expanded during the Great Recession and also from the direct spending that was part of the American Recovery and Reinvestment Act (ARRA) of 2009 designed to aid the budgets of States which were being devastated by declining revenues.

Since the declines between FY2009 and FY 2010 were relatively modest, the FY 2010 levels for three of the four major categories – procurement, direct payments and grants, are only exceeded by the 2009 levels in the data series that goes back to FY 1983. And, wages & salaries, which did not decrease in FY 2010, are at a record level.

Among Maryland's jurisdictions, most did see relatively small decreases, but six did have gains in FY 2010 – the largest of which was in Howard County.

### **National expenditures do not decline**

Nationally, total federal expenditures and obligations increased by \$16.60 billion (0.6%) in FY 2010, down from the record \$368.79 billion (14.4%) in FY 2009 and the smallest increase in 14 years. The slowdown in total federal expenditures and obligations was due to declines in procurements and grants. Since national expenditures grew while Maryland's declined, the State's share of total federal expenditures declined for the first time in two years, to 2.94 percent, down from the record 3.00 in FY 2009, and still the third highest share in the data series. (See [Chart 3](#) and [Table 1](#)).<sup>3</sup>

### **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 2010 as they have done every year compared to the overall U.S. economy. For Maryland, total federal expenditures amounted to (an inflation-adjusted) \$15,005 per person, or \$5,473 (57.4%) more per person than the U.S. national average of \$9,532, and was ranked third

<sup>1</sup> *Consolidated Federal Funds Report for FY 2010*, released September 27, 2011 by the U.S. Bureau of the Census.

<sup>2</sup> All data in this analysis is reported in constant 2005 dollars unless otherwise stated.

<sup>3</sup> [Table 1](#) expresses the expenditure data in constant \$2005 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 2005\$ back to 1983. [Tables F, G & H](#) has the same data in current dollars.

nationally behind only Alaska (\$15,986) and Virginia (\$15,307). (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 decades. (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 1997 this gap has generally widened, with the last two years (\$5,799 in FY 2009 and \$5,473 in FY 2010) the largest differences in the data series.

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 2010 federal expenditures and obligations comprising 33.9 percent of total personal income, down slightly from FY 2009's 34.9 percent but well above the 26.5 percent share for the U.S. as a whole (See [Table 1](#)). Generally, these shares rise during economic downturns (such as the early 1990s and the beginning of the 2000s) and will decline with broad economic expansions such as the one that occurred in the late 1990s. The unique double whammy of the Great Recession on personal income growth, combined with increased federal expenditures and obligations specifically targeted to prevent the total collapse of the economy, made FY 2009's share the largest on record, as well as making the rise in share over FY 2008 (6.5 percentage points) the largest in the data series.

#### **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\\_2010](#) for detailed federal expenditures data by type for Maryland in FY 2010.)

#### **Procurement Declines in Maryland**

Procurement obligations in Maryland declined by \$1.22 billion (-4.9%) in FY 2010, compared to a \$1.59 billion (6.8%) increase in FY 2009. Procurement spending in Maryland has now declined in three out of the last five years. Even so, the procurement total in FY 2010

(\$23.87 billion) is the second highest in the data series after FY 2009. (See [Table 1](#)). The 2010 procurement total comprised 27.6 percent of total federal spending in Maryland, down from the historic high of 32.9 percent in FY 2008. (See [Chart 6](#) and [Chart 7](#)).

Nationally, procurement spending fell by \$11.20 billion (-2.4%), the first decrease since 1997 and two years removed from the record \$54.49 billion gain in FY 2008. (See [Table 1](#)). Even with the national increase and the decline in Maryland, the procurement share of total federal spending nationally in FY 2010 (15.8%) is well below the share in Maryland (27.6%). See [Chart 8](#).

### **Defense Procurement Falls Nationally and in Maryland**

Procurement spending can be separated into two major categories: defense and nondefense. In FY 2010, defense spending fell both nationally and in Maryland after substantial increases in the prior year. Non-defense spending fell slightly in Maryland while increasing slightly nationally. Nationally, non-defense spending in FY 2010 is the largest in the data series, while it is second only to FY 2009 for Maryland.

In FY 2010, defense procurement made up 45.3 percent of total procurement spending in Maryland, down from 47.3 percent in FY 2009 and from nearly 50 percent in FYs 2007 and 2008. In recent years, defense spending has been as little as 44.2 percent of total procurement contracts in FY 2003; with the all-time low in the data series of 38.4 percent in FY 1997. (See [Table 1](#)).

Nationally, defense spending typically dominates total federal procurement, reaching a high (since 1993) of 69.0 percent in FY 2008. The defense procurement share has been over 60.0 percent in each year since FY 2002 due to the war in Afghanistan, and then both Iraq and Afghanistan. National defense spending fell in FY 2010 by \$11.87 billion (-3.8%), the second consecutive decline, leaving total defense procurement spending in FY 2010 (\$298.10), some \$27.7 billion below the peak totals in FY 2008. The decline in FY 2009 was the first drop in a dozen years. With these declines over the last two years, the defense sector's share of procurement has fallen to 64.1 percent of all procurement, 4.9 percentage points below the record share of FY 2008.

### **Direct Payments Fall in Maryland but Grow Nationally**

Direct payments dropped by an inflation-adjusted \$0.92 billion (-2.5%) in Maryland between FY 2009 and FY 2010, the first decline in 11 years, but this drop followed a record increase in FY 2009. The increase in FY 2009 (\$9.58 billion, or 34.8%), was by far the largest in the data series and exceeded the combined gains from the beginning of the data series in 1983 through FY 2008. The largest share of direct payments in FY 2010 is for retirement benefits, including social security (18.4%) and federal retirement and disability for civilians and military (14.5%). Medicare prescription drug coverage (15.4%), hospital insurance and medical supplemental insurance (20.7%), social security survivors and disability insurance (9.8%) and federal employee life/health insurance payments (7.5%) are the other large direct payment

programs. Combined, these programs total 86.3 percent of all of the direct payments.<sup>4</sup> (See [File Maryland 2010](#).) Mostly because of the retirement payments, direct payments have been the largest portion of federal expenditures in Maryland from the beginning of the data series. This category's share peaked at nearly 46 percent in the late 1990s, but had eroded somewhat since then due to the growth in other categories, particularly procurement. However, the \$7.2 billion increase in the Medicare prescription drug coverage between FY 2008 and FY 2009 (unadjusted for inflation) helped boost the direct payment share to back over 42 percent in FY 2009, the highest in 11 years. The small decline in FY 2010 brought the share to just below 42 percent, but is still the highest of any major expenditure category in Maryland. (See [Chart 7](#) and [Chart 8](#)).

Nationally, federal expenditures for direct payments grew by \$29.37 billion (1.9%) in FY 2010. This gain was well below the record \$199.84 billion (15.0%) increase in FY 2009. As with Maryland, a big chunk of the increase between FYs 2008 and 2009 was due to the costs associated with the Medicare prescription drug coverage (\$42.40 billion, unadjusted for inflation). This program increased by an additional \$4.26 billion in FY 2010. In general, the largest direct programs nationally are similar to what they are in Maryland (e.g. social security and Medicare), but because of Maryland's concentration of federal employment, federal retirement payments are a larger proportion in Maryland than nationally. Nationally, direct payments make up over one-half (52.9%) of total federal expenditures, well above the Maryland share of (41.8%) as Maryland has a higher proportion of federal wages & salaries and procurement. (See [Table 1](#).)

### **Record Gains in Salaries and Wages**

Federal expenditures for salaries and wages in Maryland increased by a \$1.42 billion (11.7%) in FY 2010, a record numeric increase for the second year in a row. Growth in salaries and wages in Maryland over the last two fiscal years (\$2.76 billion) was not far below the accumulated total over the FY 1983 thru FY 2008 period (\$3.24 billion). This two-year boost is partly the result of the U.S. Census Bureau gearing up for, and administrating, the 2010 Census. Hiring for the Census, as well as for other federal agencies during the first two years of the new administration, boosted federal civilian jobs in Maryland by 13,300 (8.4%), a record for a two-year period in the 41 years of the jobs by place of work data base.<sup>5</sup> Prior to FY 2009, inflation-adjusted growth in federal wage and salaries in Maryland had been weak with declines in four of the previous five years before FY 2008. (See [Table 1](#)). As a result, even with the record increases in FYs 2009 and 2010, the wage & salary share of total federal expenditures in Maryland stood at 15.6 percent, third lowest on record (after FY 2008 and FY 2009). In general, this category has been on a downward trend over the length of the time series as federal government employment was generally declining before the increases in the last two years. At its peak, salaries and wages comprised 23.9 percent of total federal expenditures in FY 1984 (See [Chart 7](#)).

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<sup>4</sup> These percent calculations are based on the total of all payments, including "direct," "other direct payments for individuals," and "direct payments other than for individuals." In the [File Maryland 2010](#), however, the shares shown are within each category.

<sup>5</sup> See file MDJOBS.xls in Annual Jobs by Place of Work for States and Regions of the U.S. Through 2010.)

Nationally, salary and wage expenditures also increased substantially with the \$34.37 billion (12.5%) gain, the second largest in the data series and lower only than the \$41.15 billion (17.7%) increase in FY 2009. The magnitude over the last two fiscal years is illustrated by the fact that the combined increase over FYs 2008 and 2009 of \$75.52 billion was 51.9 percent larger than the total gain between FYs 1983 and 2008. Prior to FY 2009, federal wages and salaries had been growing very slowly, with declines in two of the previous four years. Altogether, expenditures for salaries and wages in FY 2010 comprised a much smaller share of total federal expenditures nationally (10.5%) than in Maryland (15.6%) due to Maryland's relatively high concentration of federal jobs.<sup>6</sup> The national share has been declining steadily over the years and even with the record increases over the last two years the FY 2010 national share is just above historic lows. ([Chart 8](#) and [Chart 9](#)).

### **Small Decline in Grants Due to Ending of ARRA**

Maryland's grants decreased by \$0.64 billion (-4.7%) in FY 2010, the first drop in four years. However, this decrease followed a record \$3.98 billion (41.1%) increase in FY 2009. Although the value of grants can rise and fall from one year to the next, the FY 2009 increase was greater than the cumulative total from the previous 10 years. (See [Chart 10](#)). By far, Medicaid payments – treated as a grant – made up the largest share (30.5%) of total grants to Maryland, with highway planning and construction grants (4.2%), US aid for overseas assistance (4.1%), Section 8 Housing Choice vouchers (3.2%), state children's insurance program (3.2%) and funding for allergy, immunology and transplantation research making (3.0%) were other large categories in FY 2010. (See Spreadsheet file [Maryland\\_2010](#)). Not appearing in FY 2010 are the State Fiscal Stabilization Funds, part of the American Recovery and Reinvestment Act of 2009 (ARRA) that were designed to help state and local governments avert budget cuts leading to layoffs of employees. Maryland's grants under this program totaled \$588.4 million in FY 2009 (\$642.3 million in current dollars), three-quarters of which went for local education.<sup>7</sup> This program was no longer in affect in FY 2010, and thus accounted for the bulk of the decline in grants between FYs 2009 and 2010.

The grant share of total federal expenditures in Maryland has generally been on a downward path since early on in the decade before the bump up in FY 2009. In FY 2010, federal grants comprised 15.0 percent of total federal expenditures and obligations in Maryland, down from the 15.5 percent in the prior year, and below the peak share of 17.4 percent in FY 2001 (See [Chart 7](#)).

The U.S. also experienced a drop in grants between FYs 2009 and 2010 (-\$35.93 billion or -5.5%). This drop followed the \$123.47 (23.4%) billion increase in FY 2009, by far the largest absolute and percentage gain in the data series as the growth in FY 2009 was greater than the combined gains in the prior nine years (FY 2000 to FY 2008). As a result of the record large increase in FY 2009 (also due to ARRA funding), grants made up a record 22.2 percent of all

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<sup>6</sup> Federal civilian and military jobs comprised 8.3 percent of all wage & salary jobs in Maryland in 2010 compared to 3.8 percent for the nation as a whole. Source: U.S. BEA, Table SA27N

<sup>7</sup> Program codes 84.394 and 84.397.

federal expenditures and obligations to the states in that year, but fell to 20.9 percent in FY 2010, generally a bit below the peak shares earlier in the decade. (See [Table 1](#)).

### **Federal Expenditures & Obligations Concentrated in Handful of Maryland Jurisdictions**

Jurisdictions receiving the largest totals of federal expenditures in FY 2010 were Montgomery County (\$16.74 billion), Baltimore City (\$13.82 billion), Prince George's County (\$11.24 billion), Baltimore County (\$7.43 billion) and Anne Arundel County (\$6.65 billion).<sup>8</sup> (See [Table 3A](#).) Combined, these five jurisdictions comprised nearly two-thirds (64.5%) of total federal expenditures and obligations in Maryland in FY 2010, the lowest share during the FY 2000 to FY 2010 period.<sup>9</sup>

The jurisdictions receiving the least amount of funds were Kent (\$0.18 billion), Somerset (\$0.23 billion), Garrett (\$0.24 billion), Queen Anne's (\$0.26 billion), and Talbot (\$0.36 billion), counties (See [Chart 11](#)). All are rural counties without major federal facilities.

The concentration among jurisdictions for particular types of federal expenditures is even higher. For instance, in FY 2010 Montgomery (30.7%) and Prince George's (18.8%) had nearly one-half (49.5%) of federal 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 16.7 percent and Anne Arundel had 7.2 percent in FY 2010.<sup>10</sup>

### **Most Jurisdictions See Losses from FY 2009**

With an overall reduction in Maryland's federal government expenditures and obligations between FY 2009 and FY 2010, almost all jurisdictions also experienced a decline. Bucking this trend were Howard (+\$280 million), St. Mary's (+\$160 million), Baltimore (+\$7 million), Dorchester (+\$7 million), Prince George's (+\$2 million) and Caroline (+\$1 million) counties. (See [Table 3B](#)). Of the two largest increases – Howard and St. Mary's counties – virtually all of the increase was in procurement.

### **Howard Top Percentage Gain, Montgomery Largest Absolute Gain Since 2000**

Several jurisdictions experienced dramatic percentage increases in funding between FY 2000 and FY 2010, including: Howard (172.1%), Caroline (131.1%), Frederick (112.4%), Anne Arundel (73.6%) and Dorchester (72.9%). The large percentage gain for Howard County was

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<sup>8</sup> Anne Arundel County expenditures most likely do not include expenditures for the National Security Agency.

<sup>9</sup> It should be noted that jurisdiction shares are measured against statewide totals which include expenditures that cannot be assigned to specific jurisdictions. Over the last decade, this share has increased, from about 5 percent of totals in FY 2000 to 15 percent of totals in FY 2010.

<sup>10</sup> See [Table E](#) for jurisdiction share within state by type of federal expenditure/obligation over FY1983-FY2010 time period

due for the most part to the increase in procurement contracts, which went from \$0.37 billion in FY 2000 to \$1.76 billion in FY 2010.<sup>11</sup> In FY 2010, nearly three-quarters (72.6%) of Howard County's procurement was related to defense expenditures.

The largest absolute gains in federal expenditures and obligations over the FY 2000 to FY 2010 period were in Montgomery (\$5.18 billion), Baltimore City (\$4.68 billion), Prince George's (\$3.07 billion), Baltimore County (\$2.89 billion) and Anne Arundel (\$2.82 billion). Combined, these five jurisdictions made up just over one-half (51.6%) of the statewide increase of \$36.13 billion (See **Table 3A**).<sup>12</sup> However, there were many year-to-year fluctuations among these and the other jurisdictions in Maryland. (See **Table 3B** and **Table 3C** for annual change and percentage change data).

For more information, contact Mark Goldstein at [mgoldstein@mdp.state.md.us](mailto:mgoldstein@mdp.state.md.us)

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<sup>11</sup> See **Table B**.

<sup>12</sup> **Table 3A** and **Table 3B** express the expenditure data in constant \$2005 so that comparisons can be with the effects of inflation taken out. **Table 4A** and **Table 4B** show the data in current dollars.