

Council Comments:

Citizens Research Council of Michigan

625 SHELBY STREET, SUITE 1B, DETROIT, MI 48226-3220

(313) 961-5377 • FAX (313) 961-0648

1502 MICHIGAN NATIONAL TOWER, LANSING, MI 48933-1738

(517) 485-9444 • FAX (517) 485-0423

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STATE AND LOCAL GOVERNMENT EXPENDITURES AND REVENUES IN THE 15 MOST POPULOUS STATES

Data recently released by the U.S. Bureau of the Census for fiscal 1987-88 show that state and local governments in Michigan had both relatively high revenues and high expenditures compared with the national average and the average of the 15 states with populations of over five million people. The 15 most populous states are California, New York, Texas, Florida, Pennsylvania, Illinois, Ohio, Michigan, New Jersey, North Carolina, Georgia, Virginia, Massachusetts, Indiana, and Missouri.

Among the 50 states, the overall responsibilities (i.e., public health, safety, welfare, etc.) of state and local governments are generally the same, but the division of responsibility between the state government and the local governments within the state for the financing and delivery of services may vary widely. Therefore, combined state and local government revenues and expenditures are used in this comparison. The highlights of the comparison for 1987-88 show that:

- Michigan state and local government general revenue was fifth highest per capita and second highest per \$1,000 personal income among the 15 major states. Per capita general revenue in Michigan was 3% higher than the 15-state average and 5% higher than the national average.
- Michigan state and local spending was also fifth highest per capita and second highest per \$1,000 personal income among the 15 major states. Per capita expenditures in Michigan were 7% higher than the average of the 15 most populous states and 9% higher than the national average.
- Since 1979, both total revenues and total expenditures per capita increased in real terms in Michigan, but the increases have been below the pace of growth of the 15-state average and the national average.

In 1988, per capita personal income in Michigan (\$15,393) ranked eighth highest among the 15 most populous states, which was less than the average per capita personal income of all states (\$15,481) and the 15 largest states (\$16,185). Since 1979, per capita personal income in Michigan increased 11% in real terms, compared to the 15-state average increase of 23% and the increase of the national average of 21%.

State And Local Government General Revenue By Source

In 1987-88, total state and local government revenues per capita in Michigan (\$3,107) ranked fifth highest among the 15 most populous states (see **Chart 1**). While total per capita revenues

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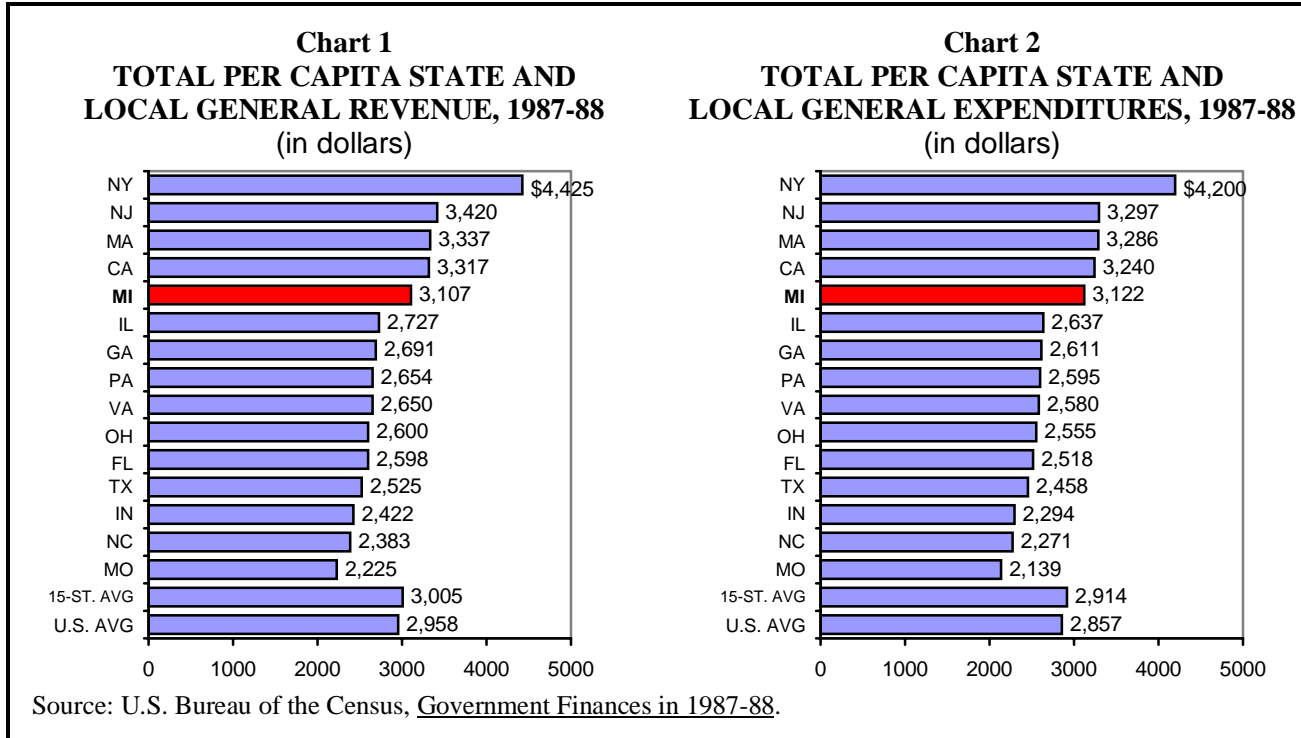
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in Michigan experienced an increase since 1979 of 9% in real terms. the 15-state average of total revenues increased 17% and the national average increased 16% in real terms (see **Table 1**). Dollars in “real terms” are the amounts adjusted for inflation as measured by the United States consumer price index.



Michigan collected more revenue than the average of the 15 most populous states and more than the national average from most of the major revenue sources. The state ranked high in four of five major revenue sources. With revenue from two sources -- property taxes and income taxes - - accounting for 71% of the total Michigan tax revenue (see Chart 3 on p. 6).

Property Taxes Property taxes have been consistently the largest source of state and local government revenue in Michigan, comprising 38% of total tax revenue in 1988. The 15 major states on average received 31% of their total tax revenue from property taxes in 1988 (see Charts 3 & 4 on p. 6). In Michigan, revenues from property taxes of \$716 per capita were third highest of the 15 largest states, and were 25% higher than the 15-state average (\$575). These revenues have increased from \$376 in 1979 to \$716 per capita in 1988, an increase of 17% in real terms (see Table 1).

Sales Taxes Michigan relied less heavily on revenue collected from sales taxes and gross receipts than any of the other most populous states in 1988. Revenue from this source contributed 24% to total tax revenue in Michigan, while both the U.S. and the 15-state average revenue from sales taxes comprised about 35% of total tax revenue. Per capita sales tax receipts in the state (\$445) were 30% less than the average of the 15 most populous states (\$639), ranking Michigan 15th, or last (see Table 1).

Table 1
Per Capita State and Local Revenue in 1987-88
By Major Source & Percent Change over 1978-79 in Real Terms

CATEGORY	---- Michigan ----		----15-State Average ----			----- U.S. Average -----		
	Amount	Percent Change (Real)	Amount	Michigan Rank	Percent Change (Real)	Amount	Michigan Rank	Percent Change (Real)
Property Taxes	\$716	+16.7%	\$575	[3]	+11.0%	\$538	[10]	+11.7%
Sales Taxes	445	- 3.8%	639	[15]	+15.7%	636	[46]	+14.4%
General Sales	(316)	(+4.3%)	(435)	[14]	(+25.3%)	(428)	[40]	(+22.8%)
Selective Sales Individual & Corp.	(130)	(-19.2%)	(205)	[14]	0.5%)	(208)	[49]	(+0.3%)
Income Taxes	629	+12.2%	502	[3]	+29.2%	456	[8]	+24.2%
Other Taxes	93	+22.8%	136	[11]	+20.7%	143	[38]	+18.7%
TOTAL TAXES	\$1,884	+ 9.9%	\$1,852	[5]	+17.8%	\$1,772	[13]	+16.3%
Current Charges	428	+18.2%	380	[4]	+53.5%	385	[16]	+30.3%
Other Sources	301	+69.2%	309	[7]	-47.5%	323	[26]	+90.9%
“OWN SOURCE” REVENUE	\$2,614	+16.0%	\$2,541	[5]	+25.2%	\$2,480	[13]	+24.7%
Federal Funding	493	-18.2%	464	[4]	-14.9%	478	[21]	-14.2%
TOTAL REVENUE	\$3,107	+ 8.8%	\$3,005	[5]	+16.7%	\$2,958	[14]	+16.2%

* includes the Single Business Tax in Michigan.

Income Taxes Michigan ranked third highest among the 15 largest states in 1988 per capita revenues from individual and corporate income taxes, including the Single Business Tax in Michigan (\$629), and was 25% higher than the 15-state average (\$502). Corporate and individual income taxes in Michigan comprised 33% of total tax revenue, higher than the 15-state average of 27% (see **Charts 3 & 4** on p. 6). Income tax revenues in Michigan have grown at about 12% in real terms, while the 15-state average increased by 29% from 1979 to 1988.

Current Charges Michigan (\$428) ranked fourth among the 15 largest states in the amount of revenues per capita collected from current charges, which includes fees, assessments and reimbursements collected from individuals for a specific service that benefits the person charged.

Federal Source Revenue While per capita revenues from the federal government to state and local governments in Michigan have experienced a 34% nominal increase since 1979 from \$369 to \$493 per capita in 1988, such revenues declined 18% in real terms over this period. In Michigan, money from federal funding has decreased from contributing 21% to total revenue in 1979 to contributing 16% in 1988. Federal funding to the 15 most populous states as a percent of total revenues also decreased over this period.

State and Local Government General Expenditures By Function

In 1987-88, total state and local government expenditures per capita in Michigan (\$3,122) ranked fifth highest among the 15 most populous states (see **Chart 2**). Total expenditures in Michigan have increased 15% in real terms since 1979, while the average of the 15 states increased 19% in real terms and the U.S. average increased 18% (see **Table 2**).

Table 2

**Per Capita State and Local General Expenditures in 1987-88
By Major Functional Area & Percent Change over 1978-79 in Real Terms**

CATEGORY	---- Michigan ----		----15-State Average ----			----- U.S. Average -----		
	Amount	Percent Change (Real)	Amount	Michigan Rank	Percent Change (Real)	Amount	Michigan Rank	Percent Change (Real)
Total Education	\$1,189	+14.8%	\$990	[2]	+12.9%	987	[6]	+11.4%
Local Schools	(783)	(+10.4%)	(707)	[3]	(+12.6%)	(690)	[9]	(+11.6%)
Higher Education	(375)	(+36.9%)	(244)	[1]	(+19.0%)	(255)	[6]	(+14.4%)
Other Education	(31)	(-40.9%)	(39)	[10]	(-10.7%)	(42)	[39]	(-5.9%)
Public Welfare	476	+13.5%	376	[3]	+15.5%	352	[9]	+17.3%
Health & Hospitals	316	+24.8%	263	[3]	+21.1%	252	[8]	+20.4%
Transportation	201	+ 1.8%	231	[11]	+ 8.5%	248	[46]	+10.2%
Public Safety	236	+22.6%	253	[7]	+39.6%	232	[13]	+36.6%
Police & Fire	(153)	(+1.7%)	(168)	[7]	(+21.3%)	(155)	[19]	(+20.2%)
Corrections	(83)	(+97.0%)	(85)	[4]	(+99.0%)	(77)	[9]	(+87.9%)
Environment & Housing	212	- 1.0%	249	[9]	+19.0%	241	[28]	+18.8%
Government Admin.	151	+ 6.5%	155	[7]	+24.9%	152	[25]	+22.3%
Debt Interest	122	+40.4%	175	[11]	+76.6%	180	[42]	+87.2%
All Other	219	+17.3%	222	[5]	+11.3%	212	[16]	+ 3.8%
TOTAL DIRECT EXPENDITURES	\$3,122	+14.5%	\$2,914	[5]	+19.2%	\$2,857	[11]	+18.1%

Michigan spent more than the average of the 15 most populous states and more than the national average for most of the major expenditure functions. The state ranked high in five of the nine major functions, with two functions – total education and public welfare – accounting for more than one-half (53%) of the total Michigan expenditures (see **Chart 5** on p. 6).

Education Per capita spending by Michigan state and local governments on total education (\$1,189) ranked second highest among the 15 major states, and was 22% higher than the 15-state average (\$990). Education expenditures accounted for 38% of all general expenditures in Michigan, a larger proportion of the total than the 15-state average (34%) (see **Charts 5 & 6** on p. 6).

Local school spending comprised 65% of all education expenditures in Michigan, compared to 71% of total education expenditures for the average of the 15 largest states. Expenditures for local education have increased 11% since 1979, while the 15-state average increased 13% and the national average increased 12% in real terms (see **Table 2**).

Per capita spending on higher education¹ in Michigan (\$375) exceeded expenditures for that purpose by any of the other 14 largest states, and was 54% greater than the 15-state average (\$244). Higher education expenditures consumed 32% of all education expenditures in Michigan, compared to 25% for the average of the 15 largest states (see **Charts 5 & 6** on p. 6). Expenditures

¹ Higher Education expenditures cover all facilities and activities except agricultural extension and hospital s. Gross counts for cafeterias, dormitories, athletic events and other auxiliary services are included.

on higher education in Michigan increased 37% in real terms from 1979 to 1988. while the 15-state average increased 19% and the U.S. average increased 15%.

Only expenditures for corrections and interest on the debt grew faster in Michigan (see **Table 2**).

Public Welfare This function includes expenditures for cash assistance (e.g. Old Age Assistance, AFDC, Aid to the Blind and the Disabled). vendor payments made to private purveyors of welfare programs (e.g. Medicaid). and the provision and operation by the government of welfare institutions. Per capita public welfare expenditures in Michigan (\$476) were the third highest of the 15 largest states. and were 27% larger than the 15-state average (\$376).

Corrections Expenditures for corrections in Michigan as well as the 15-state average grew faster than any other function from 1979 to 1988. In Michigan. corrections expenditures grew from \$26 per capita in 1979 to \$83 per capita. a 97% increase in real terms. During this same period. the average corrections expenditure of the 15 most populous states increased 99% and the national average increased 88% in real terms (see **Table 2**). Corrections expenditures in Michigan grew from 1.6% of the total state and local government expenditures in 1979 to 2.7% in 1988.

Other Functions The “environment and housing” function includes expenditures on natural resources, parks and recreation, housing and community development, sewerage, and solid waste management. The “government administration” function includes expenditures for financial administration, judicial and legal purposes, public buildings, and other governmental administration purposes.

Michigan ranked 11th highest among the 15 most populous states in state and local general debt per capita (\$2,122) and in per capita interest on debt (\$122).

Conclusion

Michigan state and local total expenditures and total revenues both dropped from being ranked third among the 15 most populous states in 1979, after New York and Massachusetts, to fifth in 1988.

Michigan collected above average amounts compared to the 15 most populous states of federal source revenue, property tax collections, income tax collections, and current charge revenues. The state collected below average amounts of sales tax revenues.

Michigan was spending above average amounts compared to the 15 largest states on local schools, higher education, public welfare, and health and hospitals, and was spending below average amounts on transportation, police and fire, environment and housing, and interest paid on government debt.

Michigan experienced high growth in revenues for current charges, property taxes, and individual and corporate income taxes, as well as in expenditures for corrections, interest on state and local government debt, higher education, and local schools. Revenues from the federal government and from selective sales taxes, as well as expenditures for the environment and housing, experienced a decline in real terms over this period.

COMPARISON OF TAX REVENUES BY SOURCE – 1988

Chart 3
MICHIGAN

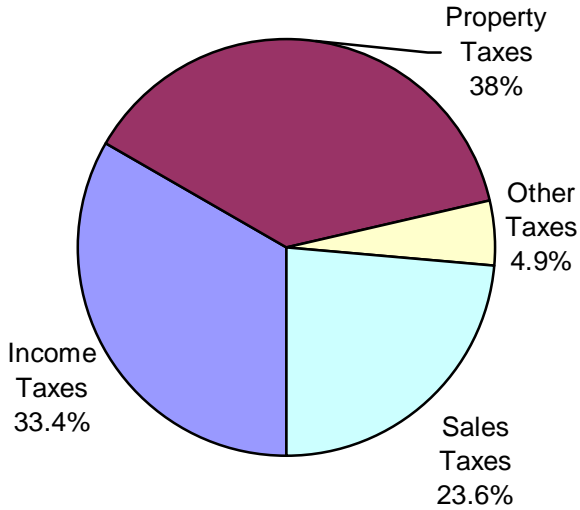
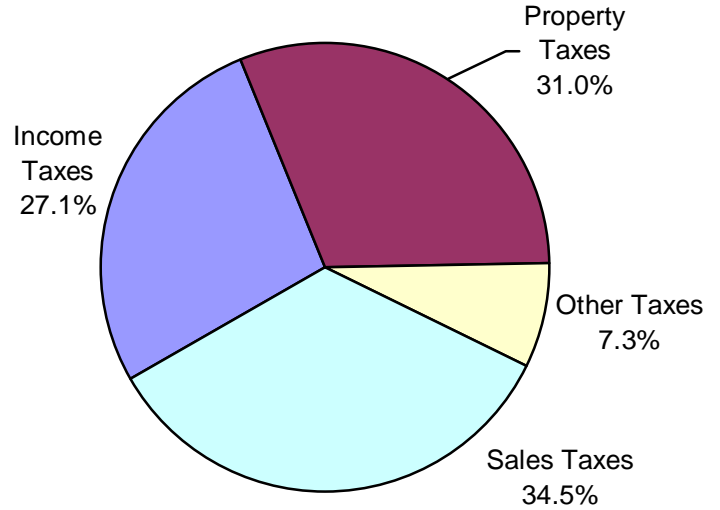


Chart 4
15-STATE AVERAGE



COMPARISON OF EXPENDITURES BY FUNCTION – 1988

Chart 5
MICHIGAN

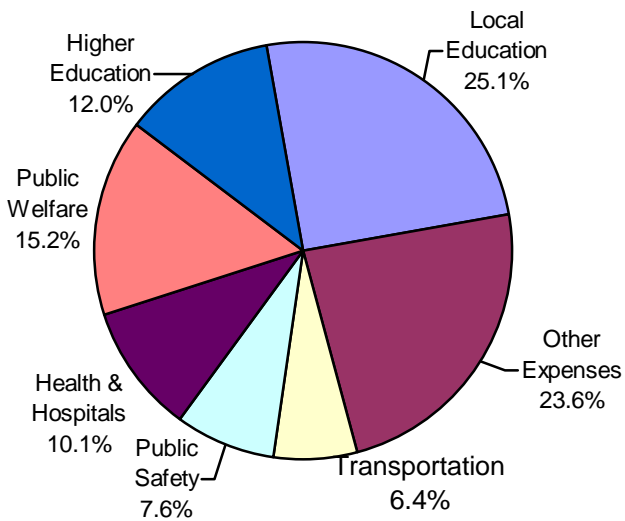
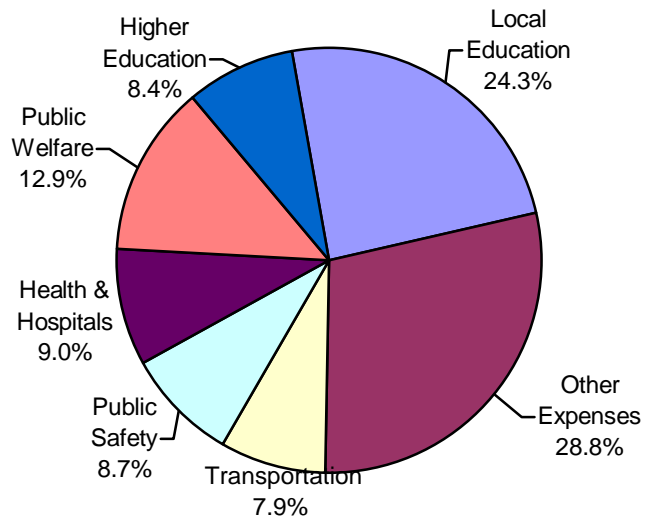


Chart 6
15-STATE AVERAGE



Source: U.S. Bureau of the Census, Government Finances in 1987-88.