The Northeast-Midwest Institute supplies contributing states and Northeast-Midwest Coalition members with detailed, state-specific data on the flow of federal funds. That full report, not available online, includes state-specific amounts and comparative statistics for every federal program included in the Consolidated Federal Funds Report. The Northeast-Midwest Institute also produces an annual series of tables that show federal spending and taxation patterns by state and region. What follows is an explanation of the data, data sources, and calculations used for those tables.

Note of Caution

The consistency of federal spending, taxation, and return on dollar trends over time points to the stubborn nature of what determines the federal balance of payments for a state or region. An elected official has limited control over the flow of federal funds into and out of a state, and little opportunity to spur dramatic changes from one year to the next. Factors that influence federal spending and taxation patterns include the following:

- **Demographics**
  A state's share of residents aged 65 or older and under 18 helps determine spending levels for many federal programs designed to assist the elderly and children.
- **Economic well-being**
  High poverty rates and low income levels in a state increase the likelihood of federal spending on assistance programs, while high incomes reduce the likelihood of such federal spending and increase the federal tax burden.
- **Industry mix**
  A concentration of defense industries boosts federal procurement dollars, and a concentration of farming increases federal expenditures for agricultural assistance.
- **Federal facilities**
  The location of federal facilities, ranging from military bases to offices to research labs, determines state-by-state federal spending on employee benefits, wages, and salaries, among other items.
- **Emergency situations**
  targeted federal spending helps offset the impact of unexpected and adverse developments, including natural disasters and human catastrophes.

Return on Dollar Calculations

A state's return on each federal tax dollar is a rough and imprecise measure of federal spending and taxation patterns. It is determined by dividing an adjusted level of federal spending by an estimated level of federal tax burden. The result is an estimated amount of federal spending returned to each state or region for $1 in federal taxes. The estimated levels for state and regional return on each federal tax dollar are of less analytical interest than are the indications of magnitude and the issue of whether the return on the federal dollar is positive (above $1) or negative (below $1).

For return-on-dollar calculations, the Northeast-Midwest Institute adjusts federal expenditures upward in each state and nationwide. This adjustment, which makes spending equal to taxes, is carried out in order to account for federal spending not included in the Census Bureau data on expenditures by state and to adjust for budget surpluses or deficits. Specifically, the Northeast-Midwest Institute calculates the adjusted federal spending amounts for the fiscal year by multiplying the Census Bureau's state-specific federal spending levels by the ratio of the total 50-state tax burden amount to the total 50-state federal spending amount. In this way, the federal spending levels for all states are adjusted upward by the same percentage. State return-on-dollar levels are then calculated by dividing the adjusted federal spending levels by the estimated federal tax amounts.

Per Capita Levels and State Per Capita Levels as Percentages of U.S. Per Capita Amounts

The Northeast-Midwest Institute's flow of federal funds tables show per capita levels, and state and regional per capita levels as percentages of U.S. per capita amounts. Federal spending levels are divided by population to determine per capita amounts. The report compares state and regional per capita amounts to per capita totals for all 50 states combined, and presents the state and regional per capita levels as percentages of the 50-state per capita mark. A level above 100 percent indicates that the total program dollars distributed to a state or region exceeded the 50-state norm, adjusted for population, while a level below 100 percent indicates that the total program dollars distributed to a state or region lagged behind the 50-state norm, adjusted for population. These comparisons indicate where the state or region stands in relation to national spending levels while controlling for population size, overall increases or decreases in federal spending, and inflation over time.

No Adjustment Made for Regional Differences in the Cost of Living

The data found in the Northeast-Midwest Institute tables do not take into account the higher costs of living in some states and regions. In high-cost areas, including much of the Northeast and some parts of the Midwest, a dollar of federal spending is worth less than in low-cost areas. The use of federal spending data, unadjusted for regional cost-of-living differences, overstates the value of that spending in high-cost areas.

Data Sources

Data on federal spending by state come from the "Consolidated Federal Funds Report," released each April by the Census Bureau of the U.S. Department of Commerce. The full reports are available athttp://www.census.gov/govs/www/cffr.html. Census Bureau data on federal expenditures by state exclude dollars that could not be distributed by state. Such amounts include interest payments on the national debt, international payments and foreign aid, other foreign outlays, legislative and judicial procurement, expenditures for selected agencies such as the Central Intelligence Agency and the National Security Agency, and expenses other than salaries and wages for the Federal Deposit Insurance Corporation, the National Credit Union Administration, and the Federal Savings and Loan Insurance Corporation. The data also exclude some federal procurement, travel, and other expenditures in cases where they are not covered by contractual agreements. Northeast-Midwest Institute tables and calculations use Census Bureau data on federal spending for the most recent fiscal year, as published each April. It is not uncommon for the Census Bureau to revise some data in subsequent years.

Data on federal taxation come from the Tax Foundation's special report, *Federal Tax Burdens and Expenditures by State*, released each year in June or July. The private, nonprofit Tax Foundation bases its tax burden estimates on tax collection data from the U.S. Treasury Department but adjusts the state level numbers using definitions and data from the National Income and Products Accounts (NIPA) of the U.S. Commerce Department's Bureau of Economic Analysis. The Tax Foundation methodology attempts to allocate taxes collected in one state but effectively paid by residents or entities in other states. For example, federal corporate income taxes collected in one state are distributed more broadly under the assumption that a corporation's consumers, workers, and shareholders nationwide bear that tax burden. Similarly, the Tax Foundation does not assign excise taxes on oil solely to the states where those taxes are collected but distributes them more broadly under the assumption that consumers throughout the nation bear that tax.

Data Exclude the District of Columbia, Puerto Rico, and the U.S. Territories

The Northeast-Midwest Institute data exclude federal spending and taxation amounts for the District of Columbia, Puerto Rico, and the U.S. territories. The District of Columbia is excluded because high levels of federal spending there distort regional differences in federal spending patterns. References to the U.S. and national levels in the Northeast-Midwest tables refer to 50-state totals.

Federal Spending Categories

The Census Bureau categorizes federal spending using the following five major "object" categories:

- **Retirement and Disability** (by far the largest of the five federal spending categories)
  Includes fiscal year obligations for Social Security payments of all types, federal employee retirement and disability payments, veterans benefits, and other related federal expenditures.
- **Other Direct Payments**
  Includes spending (usually fiscal year obligations) for Medicare, federal unemployment insurance benefits, refunded Earned Income Tax Credits, agricultural assistance, Food Stamps, education grants, federal employee benefit premiums, rent supplements and assistance, disaster assistance, and other direct federal payments to entities and individuals (aside from retirement and disability payments).
- **Grants**
  Consists of grant payments (usually obligations incurred at the time the grant is awarded) to state and local governments and nongovernmental recipients for

block grants, formula grants, project grants, and cooperative agreements from all major departments and agencies of the federal government and for a wide variety of programs and purposes, including Medicaid, highways and transit, education, food and nutrition services, community development, employment and training, energy assistance, environmental protection, low-income housing operation and rehabilitation, parks, airports, and other issues.

- **Procurement**
  Includes spending for the government's purchase of goods and services based on actual outlays in the case of the U.S. Postal Service and based on the value of obligations (rather than outlays) for contract expenditures in the case of the Defense Department and all other federal agencies. For contract obligations, the data generally include only the current year actions, although the obligations may include amounts from multiple years for contract actions that cover less than three years total. Most contract actions of less than $25,000 are excluded. The spending data are assigned to states based on the reported principal place of performance. If more than one location is involved, place of performance becomes the location involved in largest dollar share of a contract. In some cases, the procurement amount is assigned to the billing or home office location of the contractor. Federal procurement accounting includes spending on utilities, building leases, and other services entered into via contractual agreement. For some Defense Department contracts, the place of performance is classified information.
- **Salaries and Wages**
  Includes fiscal year outlays for pay to both civilian and military employees of the federal government. The amounts are distributed to the states based on place of employment rather than place of residence. For all federal employees except uniformed personnel, geographical estimates are used to distribute salaries and wages among the states.