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REPORTS

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The U.S. Census Bureau has released its report for fiscal year (FY) 2010 that tracks the flow of federal funds by state. States can use data in the report to assess how they fare in their fiscal relationship with the federal government, an especially relevant issue in an era of federal budget cutting. Sadly, this report may itself become the victim of federal budget cutting, making future analyses of federal spending in the states more difficult to conduct.

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Federal Spending Traceable to States

In a typical year, federal funds play an important role in state budgets. However, the American Recovery and Reinvestment Act of 2009 (ARRA; P.L. 111-5) significantly increased the federal government’s contribution to state revenues and spending. Reflecting this large infusion of dollars, the federal funds portion of state budgets jumped from an estimated 25.5% in FY 2000 to 29.5% in FY 2009 and 34.7% in FY 2010, according to the National Association of State Budget Officers (NASBO).

This issue of *Reports* provides detail from the Census Bureau’s latest annual *Consolidated Federal Funds Report* (CFFR), which catalogs federal spending by state in FY 2010. ARRA funding is included in this report and per capita figures reflect April 1, 2010, population counts from the 2010 Census. This issue also looks back at changes in federal spending since FY 2000, shedding light on some spending trends that have taken place over the decade.

Federal spending traceable to states has increased by 56.8% in real terms since FY 2000. The next table lists the four main flows of federal funds covered by the CFFR in FYs 2000 and 2010, and indicates the share of the total represented by each.

Distribution of Federal Domestic Spending (amounts in billions)				
Category	FY 2000 (2010 dollars)		FY 2010	
	Amount	% of Total	Amount	% of Total
Direct Payments	\$1,124	53.8%	\$1,733	52.9%
Grants	433	20.7%	683	20.9%
Procurement	300	14.3%	517	15.8%
Salaries and Wages	234	11.2%	343	10.5%
Total	\$2,090	100.0%	\$3,276	100.0%

A quick way to assess how states are doing in their fiscal relationship with the federal government is to calculate the share of each of the above four categories that each state receives. If the share is roughly equivalent to each state’s share of the national population, a rough measure of parity has been satisfied.

The next table shows this calculation for each state. The first column lists each state’s share of the national population. The next column lists its share of total federal spending, which is then broken out into its components. **South Dakota** provides a good example of a state with an “average” performance, with 0.3% of the national population and a similar share of each of the components of federal spending. In contrast, federal funding is concentrated more heavily in a particular component for **Virginia** (procurement) and **New York** (grants).

State Share of Federal Spending by Category, FY 2010

State	Population	Total Federal Spending	Direct Payments		Grants	Procurement	Salaries and Wages
			Retirement/ Disability	Other			
Alabama	1.5%	1.7%	2.0%	1.6%	1.4%	2.0%	1.6%
Alaska	0.2	0.4	0.2	0.1	0.5	0.5	1.2
Arizona	2.0	2.0	2.0	1.7	2.1	2.5	1.5
Arkansas	0.9	0.9	1.1	0.9	1.0	0.3	0.7
California	11.9	10.2	9.3	10.7	11.5	11.1	7.2
Colorado	1.6	1.5	1.4	1.1	1.3	2.0	2.5
Connecticut	1.1	1.7	1.1	2.9	1.2	2.3	0.6
Delaware	0.3	0.2	0.3	0.2	0.3	0.1	0.2
Florida	6.0	5.7	7.0	7.7	4.1	3.5	3.8
Georgia	3.1	2.8	2.8	2.4	2.5	2.4	5.1
Hawaii	0.4	0.6	0.5	0.3	0.4	0.5	2.3
Idaho	0.5	0.4	0.5	0.3	0.4	0.5	0.4
Illinois	4.1	3.4	3.7	4.0	3.5	2.2	2.3
Indiana	2.1	1.8	2.2	2.1	1.8	1.1	1.3
Iowa	1.0	0.9	1.0	1.0	0.9	0.5	0.6
Kansas	0.9	0.9	0.9	0.8	0.7	0.6	1.7
Kentucky	1.4	1.7	1.6	2.0	1.4	1.4	2.7
Louisiana	1.4	1.6	1.4	1.6	2.2	1.4	1.4
Maine	0.4	0.4	0.5	0.4	0.6	0.3	0.3
Maryland	1.8	2.9	2.1	2.6	2.1	5.1	4.4
Massachusetts	2.1	2.5	2.0	2.6	3.3	3.1	1.3
Michigan	3.2	2.8	3.5	3.3	3.0	1.3	1.4
Minnesota	1.7	1.4	1.6	1.6	1.5	0.6	1.0
Mississippi	0.9	1.0	1.1	1.0	1.2	0.5	0.9
Missouri	1.9	2.1	2.1	2.1	2.0	2.5	2.1
Montana	0.3	0.3	0.4	0.3	0.4	0.2	0.3
Nebraska	0.6	0.5	0.6	0.5	0.5	0.3	0.5
Nevada	0.9	0.6	0.8	0.5	0.5	0.5	0.6
New Hampshire	0.4	0.3	0.5	0.3	0.3	0.3	0.3
New Jersey	2.8	2.5	2.7	3.0	2.3	2.0	1.6
New Mexico	0.7	0.9	0.7	0.5	1.0	1.5	0.8
New York	6.2	6.2	5.9	7.0	9.2	2.7	4.1
North Carolina	3.0	2.8	3.2	2.4	2.9	1.2	4.5
North Dakota	0.2	0.3	0.2	0.3	0.3	0.1	0.3
Ohio	3.7	3.2	3.8	3.8	3.6	1.7	2.0
Oklahoma	1.2	1.2	1.4	1.1	1.1	0.7	1.6
Oregon	1.2	1.0	1.3	1.0	1.3	0.4	0.7
Pennsylvania	4.1	4.5	4.8	5.5	4.3	3.7	2.6
Rhode Island	0.3	0.4	0.4	0.4	0.5	0.2	0.3
South Carolina	1.5	1.4	1.7	1.2	1.2	1.6	1.3
South Dakota	0.3	0.3	0.3	0.3	0.3	0.2	0.3
Tennessee	2.0	2.1	2.3	2.4	2.1	2.0	1.1
Texas	8.0	6.9	6.6	6.1	6.5	7.9	8.7
Utah	0.9	0.7	0.7	0.7	0.7	0.7	0.9
Vermont	0.2	0.2	0.2	0.2	0.3	0.2	0.2
Virginia	2.6	4.2	3.1	2.0	1.8	11.3	6.2
Washington	2.1	2.1	2.2	1.7	2.2	1.9	3.4
West Virginia	0.6	0.7	0.8	0.6	0.7	0.3	0.6
Wisconsin	1.8	1.7	1.8	1.6	1.8	1.9	0.9
Wyoming	0.2	0.2	0.2	0.1	0.3	0.1	0.2
United States	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Note: Numbers may not add to 100 because of the exclusion of DC and outlying areas.

This type of analysis is most useful for grants, because many grant formulas rely on some variation of population data to distribute funds.

Total Federal Spending

The next table lists total federal spending relative to population for each state. States at the top of the table received more than twice as much per capita federal spending as bottom-ranking states. Despite a significant decline in its federal procurement dollars (after a spike in FY 2009), **Alaska** received the highest per capita federal spending for a second consecutive year in FY 2010. **Virginia** and **Maryland**, which always rank high in per capita spending due to significant federal procurement contracts and high numbers of federal government employees, also maintained positions near the top.

Per Capita Federal Spending
FY 2010

Rank	State	Amount	Rank	State	Amount
1	Alaska	\$17,762	26	Kansas	\$10,180
2	Virginia	17,008	27	Arizona	10,079
3	Maryland	16,673	28	South Carolina	10,070
4	Connecticut	15,662	29	Florida	9,930
5	Hawaii	15,331	30	Arkansas	9,912
6	New Mexico	13,578	31	Colorado	9,880
7	Kentucky	13,198	32	Wisconsin	9,648
8	North Dakota	12,930	33	Georgia	9,537
9	Massachusetts	12,593	34	North Carolina	9,516
10	Vermont	11,834	35	Iowa	9,316
11	Alabama	11,820	36	Ohio	9,227
12	Missouri	11,746	37	New Jersey	9,212
13	Louisiana	11,738	38	Michigan	9,199
14	South Dakota	11,676	39	Idaho	9,092
15	West Virginia	11,609	40	Nebraska	9,052
16	Pennsylvania	11,489	41	Indiana	9,038
17	Rhode Island	11,172	42	Delaware	8,994
18	Maine	11,024	43	Texas	8,977
19	Wyoming	11,019	44	California	8,960
20	Montana	10,874	45	Oregon	8,868
21	Tennessee	10,852	46	New Hampshire	8,610
22	Mississippi	10,588	47	Illinois	8,571
23	Washington	10,475	48	Utah	8,519
	United States	10,460	49	Minnesota	8,367
24	New York	10,438	50	Nevada	7,321
25	Oklahoma	10,256			

The next two tables look at the relative importance of the four spending categories in each state, the first by listing the share of each state's total accounted for by a particular category, and the second by listing the per capita funding for each state in each of the four categories.

Percent Distribution of Federal Spending, FY 2010

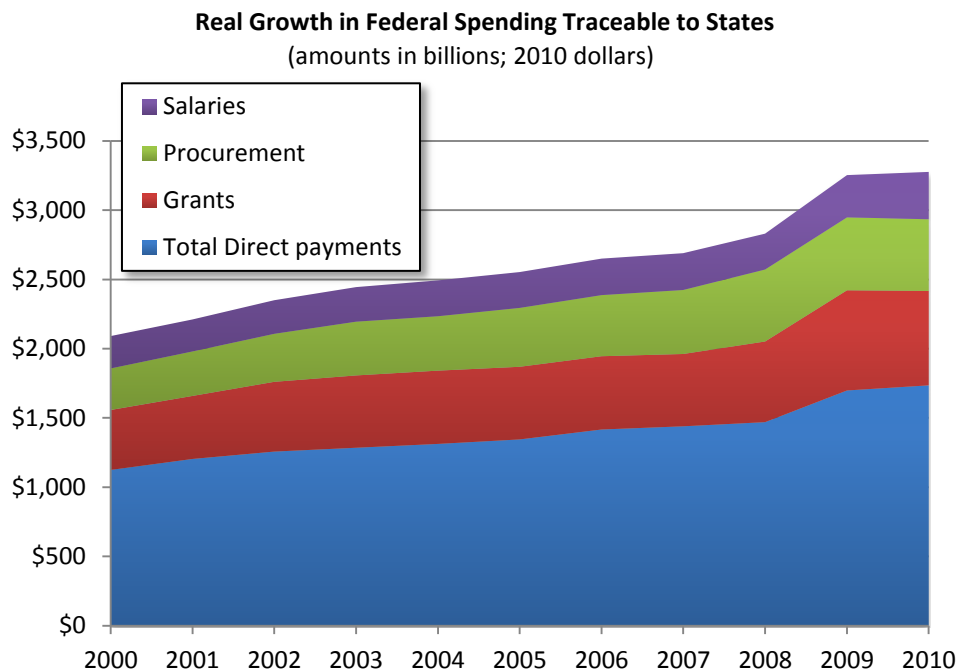
<i>State</i>	Direct Payments					
	<i>Total</i>	<i>Retirement/ Disability</i>	<i>Other</i>	<i>Grants</i>	<i>Procurement</i>	<i>Salaries/Wages</i>
Alabama	100.0%	31.8%	23.3%	16.4%	18.6%	9.9%
Alaska	100.0	12.6	8.2	27.5	19.5	32.1
Arizona	100.0	28.8	21.3	22.3	19.9	7.7
Arkansas	100.0	35.9	26.0	23.7	6.1	8.4
California	100.0	25.4	26.4	23.6	17.2	7.4
Colorado	100.0	25.8	18.5	17.7	20.9	17.1
Connecticut	100.0	18.1	42.3	14.8	21.4	3.4
Delaware	100.0	37.8	23.5	25.4	4.5	8.8
Florida	100.0	34.5	33.9	15.0	9.6	6.9
Georgia	100.0	28.2	21.4	18.1	13.5	18.8
Hawaii	100.0	20.9	13.5	14.5	13.2	37.9
Idaho	100.0	32.0	19.9	20.9	18.5	8.7
Illinois	100.0	30.8	29.6	21.9	10.5	7.2
Indiana	100.0	33.6	29.2	20.4	9.4	7.4
Iowa	100.0	33.3	29.1	22.5	8.4	6.7
Kansas	100.0	29.6	23.6	16.3	10.5	20.0
Kentucky	100.0	25.9	28.4	16.6	13.1	16.1
Louisiana	100.0	24.5	24.6	28.4	13.7	8.8
Maine	100.0	33.4	21.1	25.9	11.9	7.7
Maryland	100.0	19.9	22.0	15.0	27.6	15.6
Massachusetts	100.0	22.3	25.7	27.1	19.4	5.5
Michigan	100.0	35.6	29.3	22.6	7.1	5.3
Minnesota	100.0	32.2	29.9	23.7	6.6	7.6
Mississippi	100.0	31.1	25.7	25.1	8.5	9.6
Missouri	100.0	27.3	23.9	19.9	18.5	10.4
Montana	100.0	31.6	22.3	27.3	7.6	11.1
Nebraska	100.0	33.0	27.1	21.2	7.9	10.8
Nevada	100.0	36.6	22.6	18.7	12.2	9.8
New Hampshire	100.0	38.0	21.2	20.4	12.7	7.8
New Jersey	100.0	30.7	30.7	19.1	12.6	6.9
New Mexico	100.0	23.7	15.5	24.0	26.8	9.9
New York	100.0	26.6	28.4	31.2	6.9	6.9
North Carolina	100.0	32.6	21.6	22.2	6.7	16.9
North Dakota	100.0	25.4	28.6	25.7	7.9	12.5
Ohio	100.0	33.0	29.2	22.9	8.3	6.6
Oklahoma	100.0	32.7	23.6	20.4	8.8	14.5
Oregon	100.0	35.6	25.3	25.6	6.0	7.6
Pennsylvania	100.0	29.8	30.8	20.2	13.3	6.0
Rhode Island	100.0	28.3	27.9	26.8	8.5	8.5
South Carolina	100.0	34.2	20.7	17.6	17.5	9.9
South Dakota	100.0	27.6	28.3	23.7	9.6	10.8
Tennessee	100.0	30.7	28.6	20.5	14.7	5.6
Texas	100.0	26.8	22.2	19.8	18.0	13.3
Utah	100.0	25.6	23.7	21.2	16.0	13.6
Vermont	100.0	27.1	18.4	32.1	12.6	9.8
Virginia	100.0	20.8	11.8	9.0	42.9	15.5
Washington	100.0	29.1	19.4	20.9	14.3	16.4
West Virginia	100.0	36.0	23.6	23.1	8.3	9.0
Wisconsin	100.0	30.7	24.3	21.9	17.9	5.3
Wyoming	100.0	26.5	16.6	36.3	9.2	11.4
United States	100.0%	28.1%	25.2%	20.9%	15.3%	10.5%

Per Capita Distribution of Federal Spending, FY 2010

State	Total	Direct Payments	Grants	Procurement	Salaries/Wages
Alabama	\$11,820	\$6,512	\$1,940	\$2,193	\$1,174
Alaska	17,762	3,704	4,879	3,470	5,710
Arizona	10,079	5,049	2,247	2,005	779
Arkansas	9,912	6,136	2,347	600	829
California	8,960	4,639	2,117	1,544	660
Colorado	9,880	4,376	1,748	2,061	1,694
Connecticut	15,662	9,463	2,322	3,345	532
Delaware	8,994	5,514	2,289	404	788
Florida	9,930	6,792	1,493	956	690
Georgia	9,537	4,728	1,729	1,286	1,793
Hawaii	15,331	5,284	2,224	2,018	5,806
Idaho	9,092	4,717	1,901	1,680	794
Illinois	8,571	5,172	1,875	904	620
Indiana	9,038	5,673	1,845	848	672
Iowa	9,316	5,813	2,099	779	624
Kansas	10,180	5,409	1,660	1,072	2,039
Kentucky	13,198	7,162	2,190	1,725	2,121
Louisiana	11,738	5,765	3,328	1,608	1,037
Maine	11,024	6,012	2,851	1,307	854
Maryland	16,673	6,972	2,501	4,594	2,605
Massachusetts	12,593	6,049	3,414	2,442	688
Michigan	9,199	5,977	2,082	654	485
Minnesota	8,367	5,190	1,985	556	635
Mississippi	10,588	6,021	2,653	898	1,017
Missouri	11,746	6,015	2,338	2,171	1,222
Montana	10,874	5,867	2,971	828	1,207
Nebraska	9,052	5,440	1,920	715	976
Nevada	7,321	4,340	1,371	891	719
New Hampshire	8,610	5,096	1,755	1,090	668
New Jersey	9,212	5,655	1,758	1,164	634
New Mexico	13,578	5,328	3,264	3,642	1,344
New York	10,438	5,746	3,256	716	719
North Carolina	9,516	5,159	2,108	639	1,610
North Dakota	12,930	6,974	3,326	1,019	1,611
Ohio	9,227	5,742	2,115	765	605
Oklahoma	10,256	5,777	2,094	900	1,486
Oregon	8,868	5,394	2,269	534	670
Pennsylvania	11,489	6,957	2,315	1,524	693
Rhode Island	11,172	6,279	2,995	951	947
South Carolina	10,070	5,530	1,775	1,767	998
South Dakota	11,676	6,526	2,764	1,121	1,266
Tennessee	10,852	6,428	2,221	1,598	605
Texas	8,977	4,398	1,775	1,614	1,190
Utah	8,519	4,199	1,804	1,360	1,156
Vermont	11,834	5,384	3,803	1,489	1,157
Virginia	17,008	5,550	1,528	7,291	2,639
Washington	10,475	5,076	2,190	1,493	1,716
West Virginia	11,609	6,919	2,682	962	1,045
Wisconsin	9,648	5,300	2,109	1,724	515
Wyoming	11,019	4,751	3,999	1,010	1,258
United States	\$10,460	\$5,569	\$2,187	\$1,605	\$1,099

It's easy to see that some states diverge from national averages, relying more heavily on one or two types of funding. For instance, 38.0% of federal spending in **New Hampshire** came in the form of retirement/disability payments, compared to the national average of 28.1%. **Connecticut** provides another example, where 42.3% of federal spending the state received was delivered as direct payments other than for retirement and disability (primarily consisting of Medicare benefits, unemployment compensation and nutrition assistance). **Wyoming** received more than 36.3% of its federal funding the form of grants. In **Virginia**, 42.9% of federal spending was related to federal procurement contracts. Finally, **Hawaii** led the salaries and wages category; this type of federal spending constituted 37.9% of its total federal funding.

The following graph shows a decade of federal spending traceable to states in inflation-adjusted 2010 dollars. Real total federal funding increased 56.8% over the period. Each spending category grew every year with two exceptions: grant and procurement spending in FY 2010. Grant funding fell -5.4% and procurement spending fell -2.2% relative to FY 2009, due partly to reductions in ARRA funding and a troop reduction in Iraq.



Procurement spending grew at the fastest rate since FY 2000, increasing 72.5%. This reflects increased federal emphasis on competitive contracting, the purchase of goods and services for homeland security, and the wars in Iraq and Afghanistan.

In addition, grant spending rose 57.8%, direct payments were up 54.3%, and salary and wage spending climbed 46.8%.

The next table lists the percent change in state per capita federal funding between FYs 2000-2010, adjusted for inflation. Total national per capita spending increased \$3,193 over this period, a 43.9% rise. Growth in direct payments accounted for almost half the change; however, per capita procurement spending grew at the fastest rate.

All states recorded per capita growth, with **Connecticut** far outstripping other states. However, Connecticut's federal spending growth largely reflects an unusual spike in FY 2010 Medicare prescription drug payments, which will be discussed further in the direct payments section.

Two trends emerge from these data. First, several of the states near the top of this list have considerable military and/or defense contracting presences, including **Connecticut, Kentucky, Wisconsin, Hawaii, Maryland, Michigan** and **Virginia**.

**Percent Change in Real Per Capita Federal Spending
FY 2000 to FY 2010**

<u>Rank</u>	<u>State</u>	<u>Percent</u>	<u>Rank</u>	<u>State</u>	<u>Percent</u>
1	Connecticut	115.9%	26	South Carolina	43.1%
2	Kentucky	72.4	27	Alabama	42.1
3	Vermont	69.3	28	New York	41.8
4	Wisconsin	68.2	29	Maine	41.4
5	Hawaii	62.7	30	Minnesota	41.4
6	Louisiana	59.6	31	West Virginia	41.3
7	Maryland	54.7	32	Arkansas	41.2
8	Massachusetts	54.7	33	New Jersey	40.9
9	Michigan	54.2	34	Delaware	40.6
10	Virginia	51.6	35	Illinois	40.1
11	Kansas	51.6	36	Arizona	39.7
12	Pennsylvania	51.2	37	Texas	38.8
13	Indiana	51.1	38	California	36.4
14	Utah	49.7	39	Oklahoma	35.6
15	Alaska	47.7	40	South Dakota	35.5
16	Colorado	46.5	41	Florida	35.1
17	North Carolina	46.3	42	New Mexico	34.8
18	Iowa	46.0	43	Rhode Island	34.5
19	Missouri	45.5	44	Nevada	34.0
20	Tennessee	45.3	45	Wyoming	33.5
21	Georgia	45.2	46	Idaho	32.6
22	New Hampshire	44.9	47	Montana	31.0
23	Oregon	44.8	48	Mississippi	29.6
24	Ohio	44.3	49	Nebraska	27.3
	United States	43.9	50	North Dakota	25.1
25	Washington	43.9			

New homeland security and defense-related spending accounted for a significant portion of the rapid growth in federal support in these states. Second, two other states near the top of this list, **Vermont** and **Massachusetts**, enacted significant health care reform in the last decade, resulting in higher federal reimbursements for health care.

Direct Payments

Direct payments, or payments to individuals, are funds that go directly from the federal treasury to someone’s bank account or mailbox. The most obvious of these is Social Security, but they also include federal retirement and disability payments, veterans’ benefits, Medicare, unemployment compensation, food stamps, housing assistance, farm payments and payments for the federal Earned Income Tax Credit.

The next table shows the per capita spending attributable to direct payments in each state in FY 2010. Of the total shown on page 4 (\$10,460), more than half was accounted for by direct payments. The range is wide, with top-ranking **Connecticut** receiving more than two-and-a-half times per capita than bottom-ranking **Alaska**.

**Per Capita Federal Spending on Direct Payments
FY 2010**

Rank	State	Amount	Rank	State	Amount
1	Connecticut	\$9,463	26	Virginia	\$5,550
2	Kentucky	7,162	27	South Carolina	5,530
3	North Dakota	6,974	28	Delaware	5,514
4	Maryland	6,972	29	Nebraska	5,440
5	Pennsylvania	6,957	30	Kansas	5,409
6	West Virginia	6,919	31	Oregon	5,394
7	Florida	6,792	32	Vermont	5,384
8	South Dakota	6,526	33	New Mexico	5,328
9	Alabama	6,512	34	Wisconsin	5,300
10	Tennessee	6,428	35	Hawaii	5,284
11	Rhode Island	6,279	36	Minnesota	5,190
12	Arkansas	6,136	37	Illinois	5,172
13	Massachusetts	6,049	38	North Carolina	5,159
14	Mississippi	6,021	39	New Hampshire	5,096
15	Missouri	6,015	40	Washington	5,076
16	Maine	6,012	41	Arizona	5,049
17	Michigan	5,977	42	Wyoming	4,751
18	Montana	5,867	43	Georgia	4,728
19	Iowa	5,813	44	Idaho	4,717
20	Oklahoma	5,777	45	California	4,639
21	Louisiana	5,765	46	Texas	4,398
22	New York	5,746	47	Colorado	4,376
23	Ohio	5,742	48	Nevada	4,340
24	Indiana	5,673	49	Utah	4,199
25	New Jersey	5,655	50	Alaska	3,704
	United States	5,569			

States near the top of the table are often those from which young people have emigrated (leaving an elderly population that receives Social Security and Medicare benefits), or retiree destinations.

Connecticut and **Kentucky** leapt to the top of per capita direct payment spending in FY 2010, after ranking #29 and #17 in FY 2009. According to the CFFR, both states benefited from very large increases in payments for Medicare prescription drug coverage. In fact, such payments account for a substantial portion of total direct payments in many of the states near the top of this list, including **Maryland**, **Pennsylvania**, **Florida** and **Tennessee**. (Last year’s report showed **Hawaii** and **Kansas** experiencing similar jumps in prescription drug payments, which returned to more typical levels in FY 2010.) These large fluctuations in the Medicare prescription drug program may stem from data reporting issues rather than extraordinary increases or decreases in funding.

North Dakota and **South Dakota** benefit from agricultural subsidies. **West Virginia** and **Alabama** are in the top 10 because their per capita Social Security payments are among the highest in the nation.

The next table lists the percent change in inflation-adjusted per capita direct payments from FY 2000 to FY 2010.

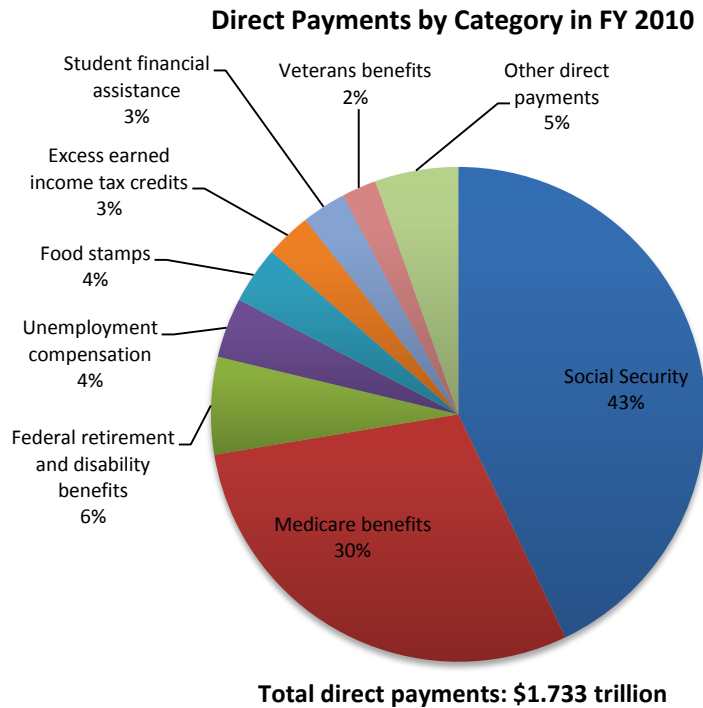
**Percent Change in Real Per Capita Federal Spending on Direct Payments
FY 2000 to FY 2010**

<u>Rank</u>	<u>State</u>	<u>Percent</u>	<u>Rank</u>	<u>State</u>	<u>Percent</u>
1	Connecticut	123.5%	26	West Virginia	33.1%
2	Kentucky	60.0	27	Louisiana	33.0
3	Maryland	58.1	28	Colorado	32.8
4	Utah	55.2	29	North Carolina	32.5
5	Tennessee	50.9	30	Georgia	32.1
6	Michigan	50.3	31	Washington	31.7
7	Vermont	44.5	32	Idaho	31.6
8	Indiana	41.8	33	Illinois	31.5
9	Minnesota	41.5	34	Missouri	31.2
10	Pennsylvania	41.0	35	California	30.8
11	Wisconsin	40.5	36	Virginia	30.7
12	New Hampshire	39.3	37	Kansas	30.6
13	Oregon	38.9	38	Rhode Island	30.1
14	Alaska	38.7	39	Oklahoma	29.7
15	Ohio	38.4	40	Hawaii	27.7
16	Maine	37.0	41	Wyoming	27.2
17	New Mexico	36.4	42	Texas	27.0
	United States	36.3	43	Arkansas	26.0
18	South Carolina	36.1	44	Nevada	25.1
19	Alabama	36.0	45	Arizona	24.8
20	New Jersey	35.5	46	South Dakota	22.1
21	Iowa	35.3	47	Mississippi	21.4
22	New York	34.6	48	Montana	20.6
23	Florida	34.2	49	Nebraska	15.4
24	Massachusetts	33.9	50	North Dakota	7.5
25	Delaware	33.8			

National per capita federal spending on direct payments rose 36.3% from FY 2000 to FY 2010. Again, several states with the highest direct payments growth are those recorded as having received large Medicare prescription drug coverage payment increases in FY 2010. In addition, the table shows that direct payments in a number of midwestern states have grown particularly fast over the decade.

The Largest Components

Social Security and Medicare are a large source of federal spending in the states, accounting for about 73% of total direct payments and 38% of total federal spending. The following graph displays the major components of federal direct payments, demonstrating the scale of Social Security and Medicare spending relative to other direct payments.



Grants

Grants are the second-largest source of federal funds. ARRA continued to provide large funding increases for states and nongovernmental entities in FY 2010 in the form of new grants and increased support for existing programs. Many of the states with the highest federal grant spending in FY 2010 continued to be those with significant natural resources extracted from their public lands, especially when measured against relatively small populations (including **Alaska, Wyoming, Louisiana, North Dakota** and **New Mexico**). The table on the next page shows the detail.

Alaska maintains its hold on the top spot in per capita federal grants, while **Nevada** retains its long-standing #50 ranking.

Lest the table be used to assess states' "success" at maximizing federal funds, some caveats are necessary. First and foremost, how a state fares on the table is determined largely by 1) formula, 2) natural resources over which the state has little control and 3) how much a state chooses to spend on Medicaid. While there are hundreds of competitive grants for which states can and do compete, their value is small compared to the large formula grant programs for health care, education and transportation.

Second, states are not the only recipients of the funds included in the figures in the table. Funds that go directly or ultimately to local governments are included, as are funds that are awarded to non-governmental entities.

Per Capita Federal Spending on State & Local Grants*
FY 2010

Rank	State	Amount	Rank	State	Amount
1	Alaska	\$4,879		United States	\$2,187
2	Wyoming	3,999	27	California	2,117
3	Vermont	3,803	28	Ohio	2,115
4	Massachusetts	3,414	29	Wisconsin	2,109
5	Louisiana	3,328	30	North Carolina	2,108
6	North Dakota	3,326	31	Iowa	2,099
7	New Mexico	3,264	32	Oklahoma	2,094
8	New York	3,256	33	Michigan	2,082
9	Rhode Island	2,995	34	Minnesota	1,985
10	Montana	2,971	35	Alabama	1,940
11	Maine	2,851	36	Nebraska	1,920
12	South Dakota	2,764	37	Idaho	1,901
13	West Virginia	2,682	38	Illinois	1,875
14	Mississippi	2,653	39	Indiana	1,845
15	Maryland	2,501	40	Utah	1,804
16	Arkansas	2,347	41	South Carolina	1,775
17	Missouri	2,338	42	Texas	1,775
18	Connecticut	2,322	43	New Jersey	1,758
19	Pennsylvania	2,315	44	New Hampshire	1,755
20	Delaware	2,289	45	Colorado	1,748
21	Oregon	2,269	46	Georgia	1,729
22	Arizona	2,247	47	Kansas	1,660
23	Hawaii	2,224	48	Virginia	1,528
24	Tennessee	2,221	49	Florida	1,493
25	Washington	2,190	50	Nevada	1,371
26	Kentucky	2,190			

*Includes grants to governmental and non-governmental entities.

Despite continued ARRA support for grant programs in FY 2010, total federal grant funding declined -5.4% in real terms compared to FY 2009, when grant funding peaked. Education, transportation, housing and homeland security grants fell the most substantially due to ARRA funding drop-offs.

The following table shows the inflation-adjusted change in per capita federal grant funding in each state compared to FY 2000. As shown, national per capita federal spending on grants rose 59.7% over the decade. **Vermont** and **Massachusetts** are notable in this category because both enacted health care expansions during the decade, which led to higher Medicaid caseloads and more federal grant funding. The growth in federal grants in **Louisiana** was largely driven by disaster relief funding. The higher levels of grant funding in these three states have pushed them close to the top of the percent change in overall federal per capita spending, shown on page 8.

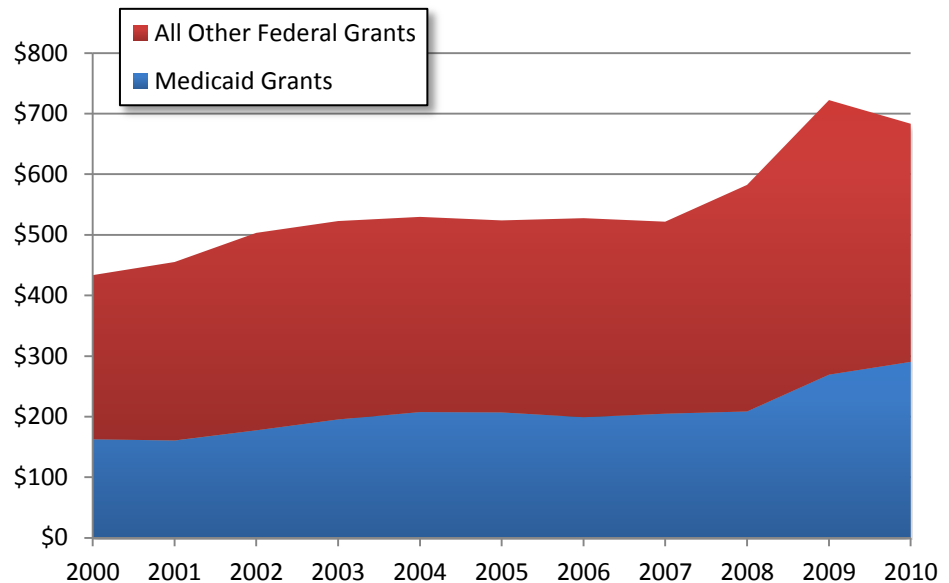
Percent Change in Real Per Capita Federal Spending on Grants*
FY 2000 to FY 2010

Rank	State	Percent	Rank	State	Percent
1	Louisiana	121.7%	26	Rhode Island	57.6%
2	Vermont	96.8	27	North Carolina	57.3
3	Arizona	93.6	28	California	57.0
4	Massachusetts	88.8	29	Tennessee	56.6
5	Iowa	78.8	30	Florida	55.1
6	Arkansas	78.4	31	Connecticut	54.9
7	Ohio	77.8	32	New Mexico	54.7
8	Missouri	74.0	33	New York	54.6
9	Indiana	73.5	34	Utah	54.2
10	Wisconsin	70.0	35	North Dakota	53.3
11	Mississippi	69.5	36	Idaho	53.0
12	Delaware	69.1	37	Wyoming	52.6
13	Oregon	66.5	38	Kansas	51.8
14	Virginia	65.5	39	Maryland	51.4
15	Colorado	65.4	40	South Dakota	51.4
16	Illinois	63.8	41	Nebraska	50.9
17	Minnesota	62.3	42	Kentucky	49.2
18	Maine	62.3	43	Georgia	48.7
19	Michigan	61.7	44	New Jersey	48.4
20	Nevada	61.5	45	Montana	43.7
21	Pennsylvania	61.1	46	Alabama	41.0
22	Washington	60.7	47	West Virginia	40.4
	United States	59.7	48	New Hampshire	38.4
23	Texas	59.3	49	South Carolina	35.1
24	Oklahoma	59.3	50	Alaska	11.1
25	Hawaii	57.9			

*Includes grants to governmental and non-governmental entities.

Medicaid From FY 2000 to FY 2010, Medicaid grants to states averaged 37.9% of total federal grant spending. The following graph displays the growth in Medicaid grants relative to all other federal grants since FY 2000 in inflation-adjusted terms. As total grant spending spiked in FY 2009 under ARRA, Medicaid grants followed suit. However, while most ARRA grant funding declined in FY 2010, Medicaid grants continued to grow. During FY 2010, Medicaid grants made up 42.5% of total federal grant spending.

Real Growth in Federal Grant Spending
(amounts in billions; 2010 dollars)



The sheer size of Medicaid can cause big shifts in how a state fares in its relationship with the federal government. While total Medicaid spending is on the rise, a given state could experience a smaller-than-average increase in federal spending if its federal Medicaid matching rate declines. Conversely, a state experiencing an increase in its federal matching rate could see a disproportionate rise in federal grants.

Compared to FY 2009, 25 states saw increases in their base federal Medicaid matching rates and 14 had reductions in FY 2010. **Michigan** recorded the largest base rate increase, while **Louisiana** registered the largest decrease.

However, ARRA provided significant additional funding for states in FYs 2009, 2010 and 2011. ARRA included a hold-harmless provision, a 6.2 percentage-point across-the-board matching rate increase and quarterly bonuses related to the change in a state's unemployment rate. As a result, all 50 states experienced increased federal matching rates in FY 2010.

Seventeen states benefited from the hold-harmless provision in FY 2010, with **Louisiana, Oklahoma, Nevada** and **Hawaii** seeing more than a two percentage-point gain. In addition, every state but **North Dakota** received a bonus based on high unemployment levels. Overall—including the base matching rate changes and ARRA’s effects—the most significant rise in FY 2010 Medicaid matching rates relative to FY 2009 was seen in **Louisiana** and the smallest was in **North Dakota**.

The next table shows per capita Medicaid grants in FY 2010. It includes the federal share of all Medicaid program costs, as reported by the Centers for Medicare and Medicaid Services. For most states, Medicaid rankings approximate overall grant rankings, except those that receive extraordinary minerals payments or disaster assistance in a given year.

**Per Capita Federal Medicaid Spending
FY 2010**

Rank	State	Amount	Rank	State	Amount
1	New York	\$1,749	26	California	\$823
2	New Mexico	1,431	27	Oregon	809
3	Vermont	1,413	28	Montana	805
4	Maine	1,396	29	Maryland	784
5	Massachusetts	1,301	30	North Dakota	783
6	Mississippi	1,262	31	Iowa	768
7	Alaska	1,250	32	Illinois	764
8	Rhode Island	1,240	33	Idaho	762
9	Louisiana	1,212	34	New Jersey	755
10	West Virginia	1,203	35	South Dakota	754
11	Arkansas	1,139	36	Texas	753
12	Arizona	1,091	37	Alabama	751
13	Kentucky	1,078	38	Hawaii	751
14	Missouri	1,022	39	Indiana	736
15	Pennsylvania	999	40	Nebraska	693
16	Ohio	967	41	Washington	674
17	Connecticut	958	42	Florida	657
18	Minnesota	949	43	Wyoming	656
19	Delaware	911	44	New Hampshire	651
	United States	899	45	Kansas	624
20	Michigan	895	46	Georgia	614
21	Tennessee	885	47	Virginia	529
22	South Carolina	878	48	Utah	508
23	Oklahoma	877	49	Colorado	491
24	North Carolina	852	50	Nevada	396
25	Wisconsin	837			

Source: SPR analysis, based on Centers for Medicare and Medicaid Services and Census population counts

Procurement

The federal government is an enormous purchaser of goods and services. Procurement—especially for defense activities—has been the fastest-growing category of federal spending since FY 2000, as shown on page 7. Wars in Iraq and Afghanistan, along with increased spending on homeland security have led to rapid growth in government contracting.

The next table shows the distribution of procurement spending among states in FY 2010 on a per capita basis. Predictably, **Virginia** and **Maryland** are big winners; the government consultants and contractors who populate the Washington, DC, metro area receive billions in federal contracts each year.

**Per Capita Federal Spending on Procurement
FY 2010**

Rank	State	Amount	Rank	State	Amount
1	Virginia	\$7,291	26	New Jersey	\$1,164
2	Maryland	4,594	27	South Dakota	1,121
3	New Mexico	3,642	28	New Hampshire	1,090
4	Alaska	3,470	29	Kansas	1,072
5	Connecticut	3,345	30	North Dakota	1,019
6	Massachusetts	2,442	31	Wyoming	1,010
7	Alabama	2,193	32	West Virginia	962
8	Missouri	2,171	33	Florida	956
9	Colorado	2,061	34	Rhode Island	951
10	Hawaii	2,018	35	Illinois	904
11	Arizona	2,005	36	Oklahoma	900
12	South Carolina	1,767	37	Mississippi	898
13	Kentucky	1,725	38	Nevada	891
14	Wisconsin	1,724	39	Indiana	848
15	Idaho	1,680	40	Montana	828
16	Texas	1,614	41	Iowa	779
17	Louisiana	1,608	42	Ohio	765
	United States	1,605	43	New York	716
18	Tennessee	1,598	44	Nebraska	715
19	California	1,544	45	Michigan	654
20	Pennsylvania	1,524	46	North Carolina	639
21	Washington	1,493	47	Arkansas	600
22	Vermont	1,489	48	Minnesota	556
23	Utah	1,360	49	Oregon	534
24	Maine	1,307	50	Delaware	404
25	Georgia	1,286			

Among the states that do well in the procurement arena are those with ties to the defense and energy departments, including **New Mexico** (Los Alamos), **Connecticut** (United Technologies), **Massachusetts** (Raytheon) and **Missouri** (Boeing).

The next table shows the inflation-adjusted change in per capita federal spending on procurement since FY 2000. National per capita federal spending for procurement rose 61.9% in the last 10 years. A number of the states near the top of the list, including **Wisconsin, Connecticut** and **Michigan**, experienced enough growth in federal procurement to lift their states' overall per capita federal spending levels to among the highest in the nation. All three states are home to major defense-related equipment production centers with which the Defense Department has contracted during the wars in Iraq and Afghanistan.

**Percent Change in Real Per Capita Federal Spending on Procurement
FY 2000 to FY 2010**

Rank	State	Amount	Rank	State	Amount
1	Wisconsin	400.2%	27	Georgia	63.0%
2	Connecticut	233.5		United States	61.9
3	South Dakota	139.3	28	Iowa	61.4
4	Pennsylvania	135.2	29	Colorado	61.0
5	Vermont	123.7	30	North Carolina	59.0
6	Illinois	121.8	31	Missouri	58.5
7	West Virginia	120.8	32	New York	55.4
8	North Dakota	117.2	33	Alaska	55.0
9	Michigan	116.4	34	Arizona	53.7
10	Arkansas	116.0	35	California	53.3
11	Montana	105.2	36	Hawaii	51.1
12	Massachusetts	103.9	37	Utah	50.2
13	New Hampshire	103.6	38	Maine	49.3
14	South Carolina	101.8	39	Washington	49.1
15	Kentucky	100.5	40	Ohio	41.0
16	Nebraska	99.0	41	Florida	40.5
17	Virginia	91.2	42	Texas	40.1
18	New Jersey	88.5	43	Tennessee	37.6
19	Indiana	85.8	44	Rhode Island	34.9
20	Louisiana	83.4	45	Idaho	27.4
21	Oregon	82.8	46	New Mexico	26.6
22	Maryland	82.2	47	Oklahoma	26.4
23	Kansas	75.6	48	Wyoming	21.9
24	Nevada	68.4	49	Minnesota	3.4
25	Delaware	67.3	50	Mississippi	2.1
26	Alabama	64.2			

Salaries and Wages

The table on page 2 underscores the extent to which the federal government serves more of a check-writing function than an employment function. While direct payments to individuals represent more than half of total federal spending traceable to states, spending on salaries and wages represents just 10.5% of such spending.

Salaries and wages have been the slowest-growing component of federal spending over the last 10 years, even as a new cabinet-level department has been created (Homeland Security) and troop levels have increased to support two wars. This slow spending growth is likely to continue as a result of a federal employee pay freeze in effect through December 31, 2012. In part, the slow growth in federal spending on salaries and wages is explained by the strong growth in procurement spending. In the last several years, the federal government has moved toward competitive contracting when hiring employees. This holds down growth in direct spending for salaries and wages, while pushing up procurement spending.

As the next table shows, states that do well in this category are those with large amounts of federal land, large military bases and operations, other federal installations and close proximity to Washington, DC.

**Per Capita Federal Spending on Salaries and Wages
FY 2010**

<u>Rank</u>	<u>State</u>	<u>Amount</u>	<u>Rank</u>	<u>State</u>	<u>Amount</u>
1	Hawaii	\$5,806	26	Nebraska	\$976
2	Alaska	5,710	27	Rhode Island	947
3	Virginia	2,639	28	Maine	854
4	Maryland	2,605	29	Arkansas	829
5	Kentucky	2,121	30	Idaho	794
6	Kansas	2,039	31	Delaware	788
7	Georgia	1,793	32	Arizona	779
8	Washington	1,716	33	New York	719
9	Colorado	1,694	34	Nevada	719
10	North Dakota	1,611	35	Pennsylvania	693
11	North Carolina	1,610	36	Florida	690
12	Oklahoma	1,486	37	Massachusetts	688
13	New Mexico	1,344	38	Indiana	672
14	South Dakota	1,266	39	Oregon	670
15	Wyoming	1,258	40	New Hampshire	668
16	Missouri	1,222	41	California	660
17	Montana	1,207	42	Minnesota	635
18	Texas	1,190	43	New Jersey	634
19	Alabama	1,174	44	Iowa	624
20	Vermont	1,157	45	Illinois	620
21	Utah	1,156	46	Tennessee	605
	United States	1,099	47	Ohio	605
22	West Virginia	1,045	48	Connecticut	532
23	Louisiana	1,037	49	Wisconsin	515
24	Mississippi	1,017	50	Michigan	485
25	South Carolina	998			

The combination of extensive federal land holdings and a small underlying population assures a high ranking for **Hawaii, Alaska and North Dakota.**

Conversely, a number of midwestern and northeastern states have large populations without the other characteristics cited and, therefore, hold some of the lowest ranks on the table.

The next table shows inflation-adjusted per capita growth since FY 2000. While spending on salaries and wages has grown relatively slowly over this period, this spending shot up in **Kentucky, Kansas, Hawaii** and **Alaska**. Three states—**California, Illinois** and **Tennessee**—saw reductions in this component of federal spending over the decade.

Again, states with a significant military presence have experienced the largest increases in federal salary and wage spending. As the number of servicemen and women has increased in the last decade to support numerous overseas operations, spending on salaries and wages has risen accordingly. For instance, nearly all of the growth in salaries and wages in the top four states is being paid to military employees.

**Percent Change in Real Per Capita Federal Spending on Salaries and Wages
FY 2000 to FY 2010**

<u>Rank</u>	<u>State</u>	<u>Amount</u>	<u>Rank</u>	<u>State</u>	<u>Amount</u>
1	Kentucky	148.6%	26	South Carolina	27.5%
2	Kansas	134.9	27	Nebraska	27.5
3	Hawaii	128.7	28	Utah	27.2
4	Alaska	109.6	29	Montana	24.9
5	North Carolina	85.2	30	Michigan	21.9
6	Vermont	73.6	31	Pennsylvania	19.7
7	Georgia	73.1	32	Maryland	18.8
8	Louisiana	61.8	33	Virginia	18.2
9	Washington	61.7	34	Wyoming	17.7
10	Texas	61.6	35	Ohio	17.2
11	Missouri	57.2	36	Nevada	16.3
12	West Virginia	55.0	37	Delaware	15.7
13	Colorado	52.0	38	New Mexico	14.2
14	Arkansas	48.6	39	Oregon	14.1
15	Indiana	46.5	40	New Jersey	12.8
16	Iowa	46.0	41	Massachusetts	11.8
17	Alabama	43.6	42	Idaho	11.6
18	New Hampshire	38.6	43	Maine	10.4
19	Oklahoma	37.3	44	Arizona	10.2
20	New York	36.8	45	Rhode Island	8.5
21	Wisconsin	36.3	46	Florida	7.0
	United States	34.2	47	Connecticut	2.6
22	Mississippi	32.9	48	California	-1.0
23	North Dakota	32.7	49	Illinois	-2.1
24	Minnesota	30.1	50	Tennessee	-4.1
25	South Dakota	29.2			

Looking Ahead

While direct payments make up the largest category of federal spending traceable to states, procurement spending growth has significantly outpaced other federal spending categories in percent terms over the decade from FY 2000 to FY 2010. States with military bases and defense-related industries have experienced the most pronounced federal spending growth, in the form of both procurement contracts for military-related activities and increased salary expenditures for higher military employment levels. Grant funding also contributed significantly to the growth in federal spending in some states over the past decade, most notably those that enacted health care expansions.

With respect to their fiscal relationship with the federal government, states have traditionally focused on federal grant support. Grant funding has been considered the principal method through which states receive federal support. However, a changing landscape argues for a broader view.

For instance, the Budget Control Act of 2011 (BCA) will have significant effects on states, including potential reductions in grants, defense-related procurement, Medicare payments and salaries. Moreover, uncertainty about the implementation of federal health care reform fosters uncertainty about future federal spending. Too, the recent federal credit rating downgrade poses threats to those states particularly exposed to the federal government, creating the potential for higher borrowing costs.

In short, states find themselves closely attending to a wider array of fiscal connections with the federal government than in the past. With that in mind, it is important to understand the extent to which the federal government's role in state budgets and economies increased over the decade since FY 2000, and to prepare for a future where the federal government's role could be greatly diminished.

Technical Notes

Federal Funding. The census data used in this analysis come from the *Consolidated Federal Funds Report* (CFFR). It is available at the governments section of the census website, www.census.gov. Medicaid spending is from the Centers for Medicare and Medicaid Services (CMS).

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