



Tom Merton/Getty Images

Medicaid Drives Growth in Federal Grants to States

Total grant funding remains high a decade into the economic recovery

Overview

States get roughly a third of their revenue from the federal government, funding that pays for health care, schools, roads, public safety, and other services.¹ And since 2008, those grants have increased by 42 percent from \$448 billion to \$636 billion, adjusted for inflation, driven by rising Medicaid costs. Grants in other program areas have either experienced significantly smaller increases, or even decreases over that time.

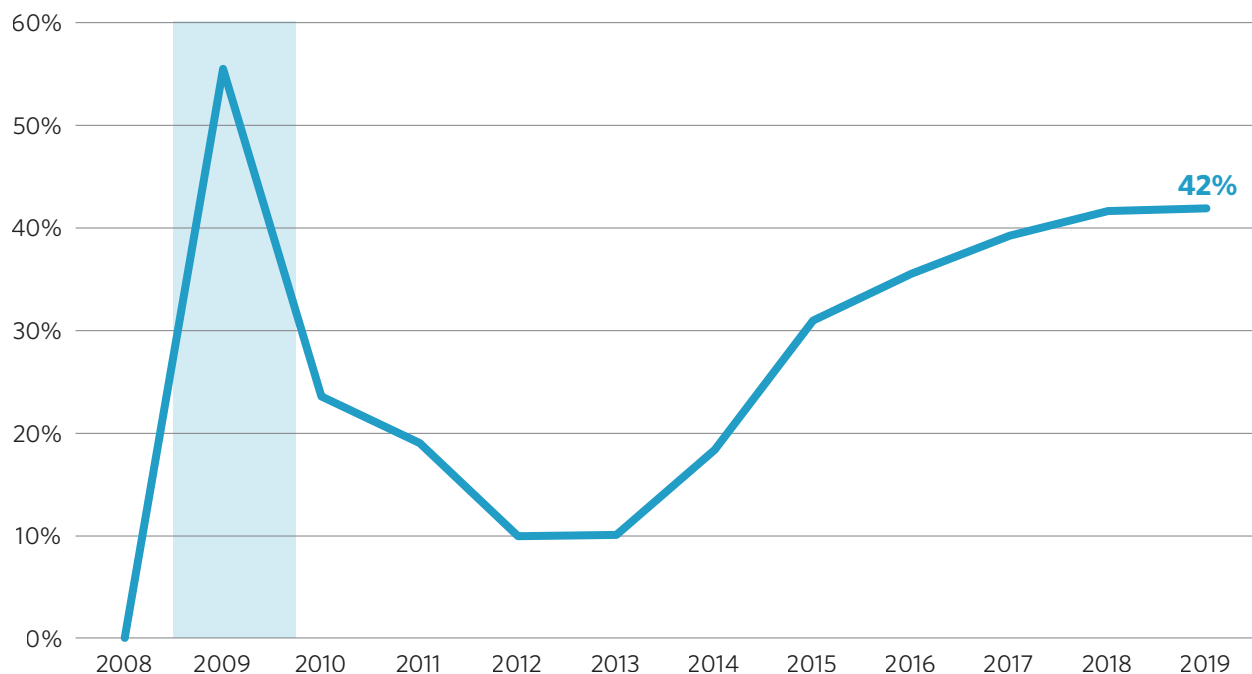
Federal grants to states rose 42% from 2008 to 2019

Federal grants are 42 percent higher, overall, than they were when the Great Recession began in 2008. (See Figure 1.) Federal stimulus aid to states during and immediately after the recession resulted in a spike in grant spending, which increased by 55 percent in the first year after passage of the American Recovery and Reinvestment Act (ARRA) of 2009. By 2013, however, the temporary aid provided by ARRA had been nearly phased out, and grant dollars declined by about 30 percent from the 2009 peak. In 2014, federal grants to states began to rise again, and since 2017, they have hovered around 40 percent above 2008 levels.

Figure 1

Federal Grants to States Have Risen Steadily Since 2013

Percentage change from federal FY 2008, adjusted for inflation



Note: Data reflect enacted funding levels and the most recent state allocations available and include funding from the American Recovery and Reinvestment Act of 2009. The recession period is shaded. Federal Funds Information for States, the source of the data, says its database accounts for more than 90 percent of federal funds going to state and local governments.

Sources: Federal Funds Information for States, "FFIS Grants Database," <https://ffis.org/database>; Medicaid.gov, "Expenditure Reports from MBES/CBES," <https://www.medicaid.gov/medicaid/finance/state-expenditure-reporting/expenditure-reports/index.html>; Bureau of Economic Analysis, "Gross Domestic Product," <https://www.bea.gov/data/gdp/gross-domestic-product>; Congressional Budget Office, "An Update to the Budget and Economic Outlook: 2017 to 2027," June 29, 2017, <https://www.cbo.gov/publication/52801>; U.S. Department of Education, "Education Jobs Fund," <https://www2.ed.gov/programs/educationjobsfund/awards.html>

© 2020 The Pew Charitable Trusts

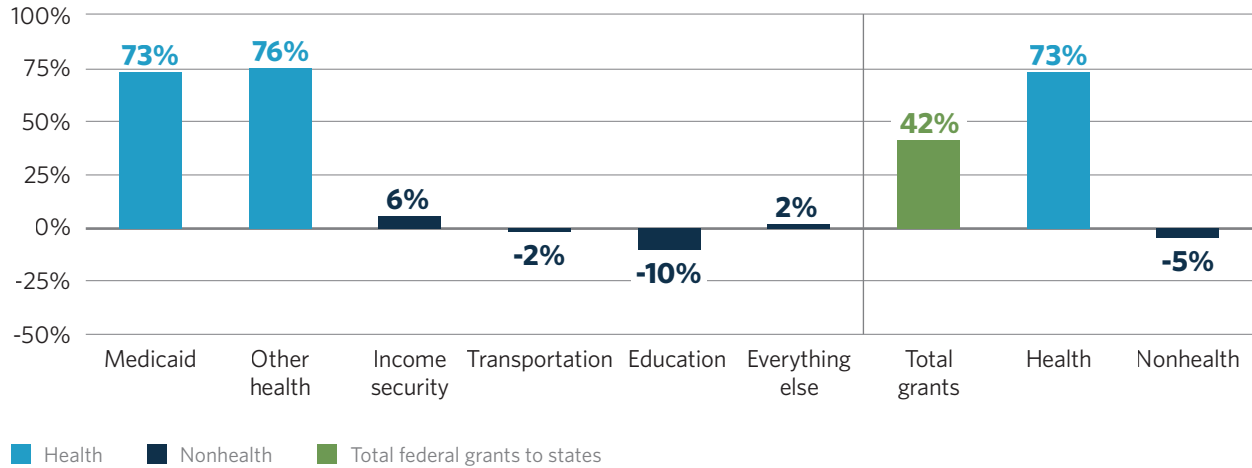
Medicaid spending increases are the main driver of this upward trend

Spending for health care has driven the increase in federal grants to states over the past decade. Health grants grew by 73 percent from 2008 to 2019, while nonhealth grants decreased by 5 percent over that span. (See Figure 2.)

Figure 2

Health Programs Accounted for Most Growth in Federal Grants to States

Percent change from federal FYs 2008 to 2019 by program area, adjusted for inflation



Notes: “Other health” covers all items in the health budget function other than Medicaid and the Medicare Part D “clawback,” including the Children’s Health Insurance Program and grants for programs such as vaccines for children and substance use prevention and treatment. The clawback refers to states reimbursing the federal government for certain costs associated with Medicare Part D. “Everything else” includes agriculture, energy, natural resources and the environment, community and regional development, administration of justice, and veterans’ benefits and services. “Income security” includes the social services and training and employment budget subfunctions. Federal Funds Information for States says its database accounts for more than 90 percent of federal funds going to state and local governments. Data reflect enacted funding levels and the most recent state allocations available.

Sources: Federal Funds Information for States, “FFIS Grants Database,” <https://ffis.org/database>; Medicaid.gov, “Expenditure Reports from MBES/CBES,” <https://www.medicare.gov/medicaid/finance/state-expenditure-reporting/expenditure-reports/index.html>; Bureau of Economic Analysis, “Gross Domestic Product,” <https://www.bea.gov/data/gdp/gross-domestic-product>; Congressional Budget Office, “An Update to the Budget and Economic Outlook: 2017 to 2027,” June 29, 2017, <https://www.cbo.gov/publication/52801>; U.S. Department of Education, “Education Jobs Fund,” <https://www2.ed.gov/programs/educationjobsfund/awards.html>

© 2020 The Pew Charitable Trusts

Federal policies have helped to shape this divergent trend between health and nonhealth grants. A provision in the Affordable Care Act allowed states to expand their Medicaid programs to cover some previously ineligible low-income adults, with federal funding covering 100 percent of costs through 2016, then gradually dropping to 90 percent by 2020. In part because of this expansion, Medicaid spending has increased by 73 percent since 2008 and has been the main driver of growth in federal health grants and in all federal funds to states. Medicaid funds flowing to states rose sharply in fiscal year 2015, the first full year of implementation for most states that expanded Medicaid.² At the end of fiscal 2019, 36 states and the District of Columbia had adopted Medicaid expansion.³

Until recently, policy decisions such as the statutory limits on discretionary spending set by the Budget Control Act of 2011 resulted in negative growth in most nonhealth program areas compared with 2008, after adjusting

for inflation. However, higher spending limits under the bipartisan budget acts of 2018 and 2019 contributed to increases in federal outlays for income security and “everything else,” as well as smaller decreases for transportation and education than in previous years.

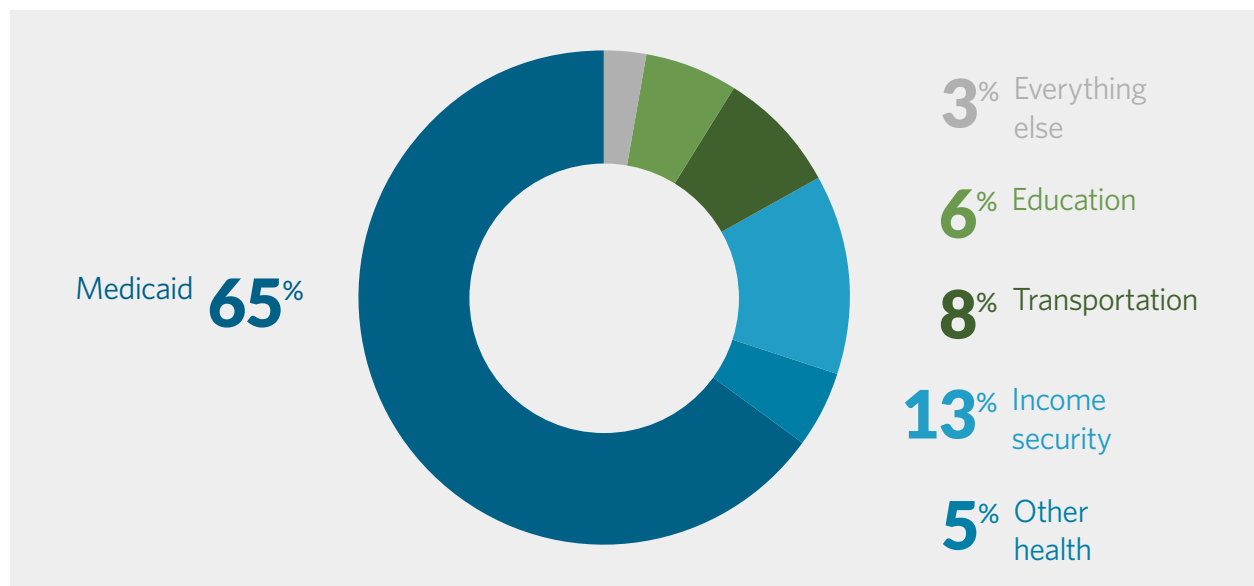
Medicaid makes up most federal grants to states

Not only is Medicaid the main driver of the growth in federal grants to states, but it also is by far the largest such grant, accounting for 65 percent of that grant funding in 2019. (See Figure 3.) The second-largest category of grants in 2019 was for income security (13 percent of total), followed by transportation (8 percent) and education (6 percent.)

Figure 3

Medicaid Accounts for About Two-Thirds of Federal Grants to States

Distribution of funding by program area, federal FY 2019



Notes: “Everything else” includes the following budget functions: agriculture, energy, natural resources and environment, community and regional development, administration of justice, and veterans’ benefits and services. “Income security” includes the social services and training and employment budget subfunctions. “Other health” includes all items in the health budget function other than Medicaid and the Medicare Part D “clawback,” a payment from states to reimburse the federal government for certain costs, which is included in the Medicaid category. Federal Funds Information for States, the source of the data, says that its database accounts for more than 90 percent of federal funds going to state and local governments. Data reflect enacted funding levels and the most recent state allocations available.

Source: Federal Funds Information for States, “FFIS Grants Database,” <https://ffis.org/database>

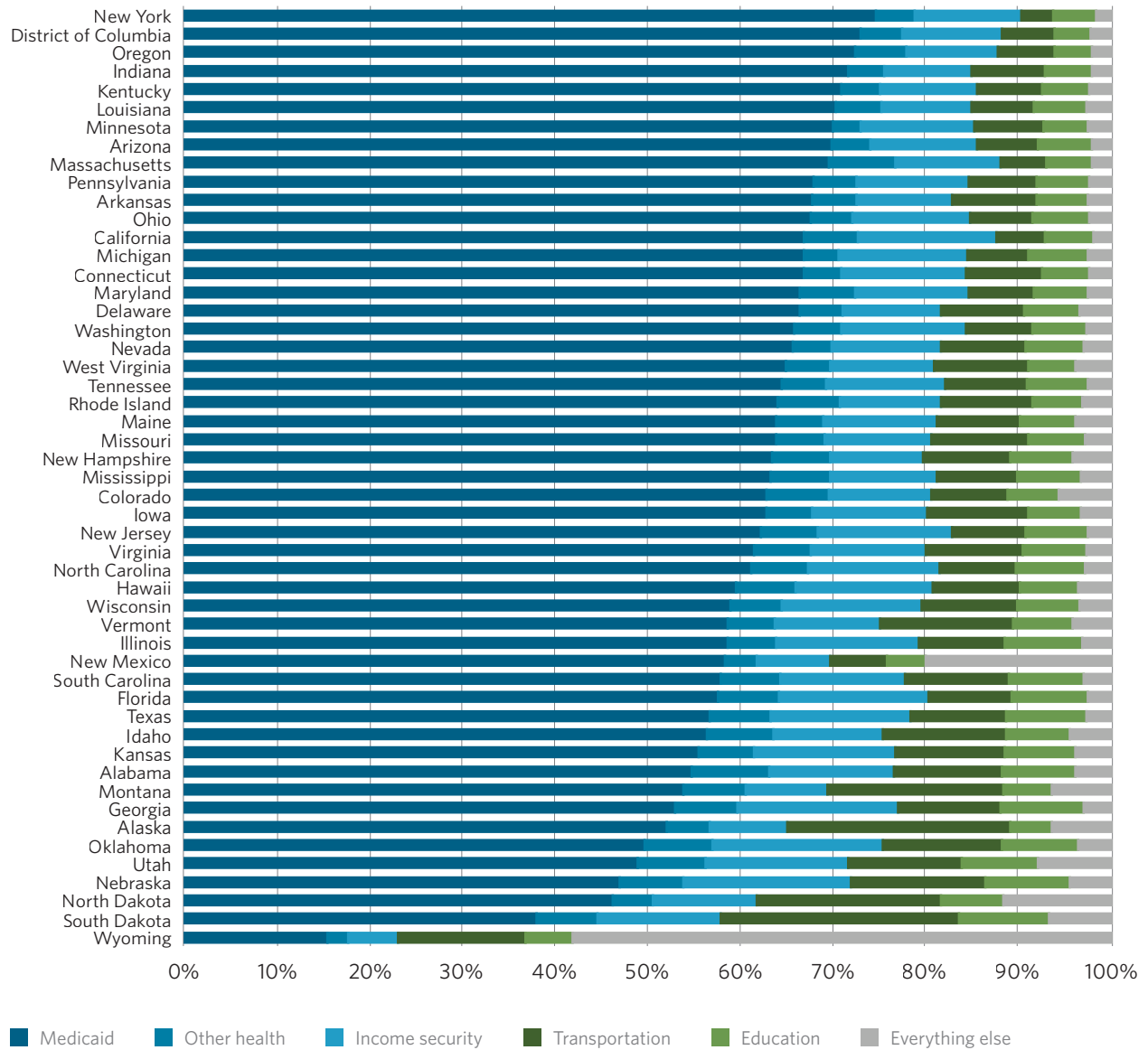
© 2020 The Pew Charitable Trusts

Medicaid is the largest single source of federal funding in every state except Wyoming, but it nevertheless varies as a share of federal funding across states. (See Figure 4.) Medicaid represents two-thirds or more of total grant money from the federal government in 14 states and the District of Columbia, with the highest figure in New York (75 percent). Medicaid accounted for less than 50 percent of federal funding in only six states, with Wyoming the lowest at 15 percent.

Figure 4

Medicaid Makes Up Bulk of Federal Grants in Nearly Every State, but the Mix Varies

Distribution of total grant funding by program area and state, federal FY 2019



Notes: The bars associated with each state total 100 percent of federal grant funding that the state receives; the chart shows the breakdown of funding within each state's total. The total dollar amount each state receives differs significantly. "Everything else" includes grant funding for agriculture, energy, natural resources and environment, community and regional development, administration of justice, and veterans' benefits and services. "Other health" includes all items in the health budget function other than Medicaid and the Medicare Part D "clawback," a payment from states to reimburse the federal government for certain costs. Federal Funds Information for States, the source of the data, says that its database accounts for more than 90 percent of federal funds going to state and local governments.

Source: Federal Funds Information for States, "FFIS Grants Database," <https://ffis.org/database>

© 2020 The Pew Charitable Trusts

Other major federal grants to states

Income security grants

Income security grants include temporary cash assistance, employment services, and school-provided meals. The percentage of grants to states dedicated to income security programs ranged from 5 percent in Wyoming to 18 percent in Oklahoma.

Transportation grants

Transportation grants to states fund programs such as surface transportation, airport improvements, and Federal Highway Administration programs. As a share of total federal grants, transportation grants were highest in South Dakota (26 percent) and lowest in New York (3 percent).

Education grants

The percentage of total federal grant dollars that went to education programs in states, including Title I, special education, and career and technical education, varied less than other major categories. These grants accounted for 4 percent of funding in the District of Columbia and 10 percent in South Dakota.

Other health grants

Although Medicaid is the largest health grant flowing to states, 5 percent of grants are non-Medicaid health grants, as shown in Figure 3. These grants fund the Children's Health Insurance Program, access to federally funded health centers, vaccines for children, prevention and treatment of substance misuse, and access to HIV/AIDS services, among other programs. These grants ranged from 8 percent of federal grants in Alabama to 2 percent in Wyoming.

Everything else

This category includes funding for a wide range of grants, including those for environmental protection, minerals management, community development, and job training and employment for dislocated workers. This category accounted for 58 percent of federal grants in Wyoming, largely related to leasing rights to oil, gas, and minerals extracted on public lands. In New York, just 1.5 percent came from this funding category.

Endnotes

- 1 The Pew Charitable Trusts, "Federal Funds Hover at a Third of State Revenue," accessed Nov. 26, 2019, <https://www.pewtrusts.org/en/research-and-analysis/data-visualizations/2014/fiscal-50#ind1>.
- 2 Office of the Actuary, "2016 Actuarial Report on the Financial Outlook for Medicaid," Department of Health & Human Services, Centers for Medicare & Medicaid Services, 2016, <https://www.cms.gov/Research-Statistics-Data-and-Systems/Research/ActuarialStudies/Downloads/MedicaidReport2016.pdf>.
- 3 Kaiser Family Foundation, "Status of State Medicaid Expansion Decisions: Interactive Map," last modified Jan. 10, 2020, <https://www.kff.org/medicaid/issue-brief/status-of-state-medicaid-expansion-decisions-interactive-map/>.

For further information, please visit:
pewtrusts.org/fiscal-federalism

Contact: Sarah Leiseca, communications manager
Email: sleiseca@pewtrusts.org
Project website: pewtrusts.org/fiscal-federalism

The Pew Charitable Trusts is driven by the power of knowledge to solve today's most challenging problems. Pew applies a rigorous, analytical approach to improve public policy, inform the public, and invigorate civic life.