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How States Are Tackling the Challenges of Managing Federal Funds.

Recommendations and strategies to help fiscal leaders better deal with a vital, complex, and shifting source of revenue

Overview

Grants from the federal government represent a significant but often overlooked part of state budgets. In state fiscal year 2023, federal funds were the second-largest source of state revenue, after tax collections, accounting for 36% of the 50 states' combined total revenue.1

States use federal funds to provide goods and services for a range of activities, but these sources often come in boom-bust cycles and with complex stipulations for use, reporting requirements, and cash-flow challenges. In contrast, when states impose and collect their own taxes and fees, there can exist broader discretion for the use of that funding. Recent changes in federal priorities—including funding pauses and spending reductions for specific programs, such as Medicaid—have introduced a tremendous amount of uncertainty about the future role of the federal government in supporting state-operated programs and activities.2 These changes emphasize how important it is for policymakers to understand available funding sources, what they pay for, how to use it to advance state priorities, and how to reduce the effects of funding volatility on state budgets.

The Pew Charitable Trusts undertook this study to explore these challenges and uncover promising state practices for managing this complex revenue stream.3 The report is based on Pew's original research, which included a focus group with elected officials and legislative staff; a 50-state scan of budget documents and websites; and 26 interviews with executive and legislative budget officials from 12 states. (See Appendix A: Methodology.)

Continue reading.

The Pew Charitable Trusts

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