

Pandemic-Related Funding Boosts Federal Grants to States

Health spending jumped in response to COVID-19 after years of moderate growth

Overview

Emergency funding to address the COVID-19 pandemic caused the largest increase in federal grants to states since 2009, when Congress approved the American Recovery and Reinvestment Act (ARRA). In fiscal year 2020, pandemic-related spending made up the largest share of federal grants in eight states, and was the second-largest in the rest. COVID-19 assistance—which states spent to meet a diverse set of urgent needs, including coronavirus testing and housing assistance—was in addition to the federal grants that states normally receive. Those grants typically make up about a third of state revenue and help pay for education, transportation, public safety, social services, environmental protection, and other programs.¹ Before the pandemic, total federal grants had been slowly but steadily rising for years, mostly because of Medicaid (the federal and state health insurance program for people from low-income households and people with disabilities) and other health spending.

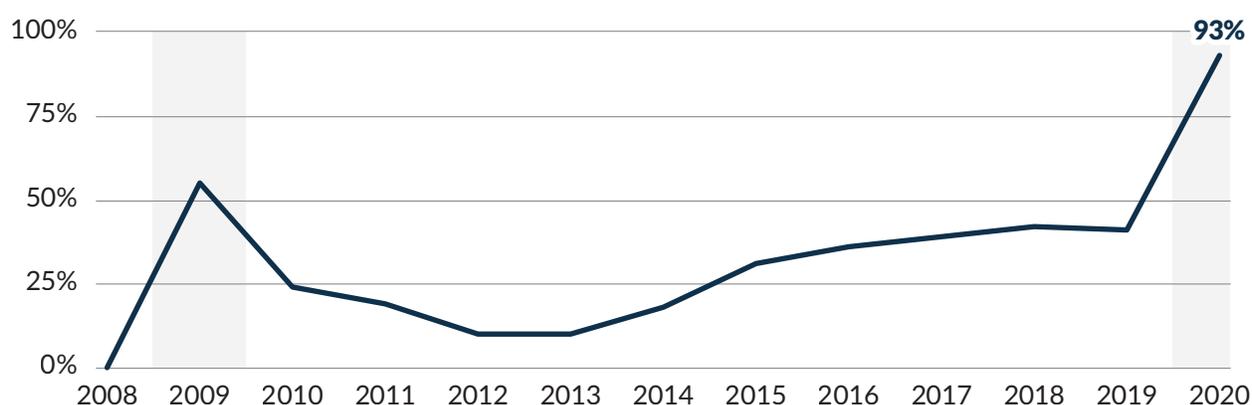
COVID-19 funding led to a spike in federal grants to states

From fiscal 2008 to fiscal 2020, federal grants to states increased by 93%, when adjusted for inflation. However, much of that growth occurred in just the final year of that span—fiscal 2020—when the federal pandemic response, including the Coronavirus Relief Fund, public assistance funding, and Centers for Disease Control and Prevention (CDC) grants, caused grants to rise 37% from what they were in 2019. By comparison, grants rose an average of just 4% annually during the previous five fiscal years (2014 through 2019). Although pandemic-related funding was largely responsible for the past year’s rise, Medicaid and other health spending fueled the steady growth in grant funding to states before the pandemic and remains a major driver of increasing grant funding.² (See Figure 1.)

Figure 1

COVID-19 Aid Caused a Sharp Rise in Federal Grants to States in 2020

Percentage change in funding relative to federal FY 2008, adjusted for inflation



Note: The data accounts for funding from the American Recovery and Reinvestment Act of 2009; Coronavirus Preparedness and Response Supplemental Appropriations Act; Families First Coronavirus Response Act; Coronavirus Aid, Relief, and Economic Security Act; and Paycheck Protection Program and Health Care Enhancement Act and reflects enacted funding, meaning the amount appropriated. Because of data limitations, COVID-19 grant data includes some funding that went to localities or hospital associations. The Federal Funds Information for States grants database, the primary source of the data, accounts for more than 90% of federal funds going to state and local governments.

Sources: R. Rudowitz, B. Corallo, and R. Garfield, “How Much Fiscal Relief Can States Expect From the Temporary Increase in the Medicaid FMAP?” Kaiser Family Foundation; Federal Funds Information for States, “FFIS Estimated State Funding for Coronavirus Pandemic”; Federal Funds Information for States, “FFIS Grants Database”; Medicaid.gov, “Expenditure Reports from MBES/CBES”; Bureau of Economic Analysis, “Gross Domestic Product”; U.S. Department of Education, “Education Job Funds.”

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Health grants drove trends before COVID-19

Spending for health care, including for Medicaid, the Children’s Health Insurance Program, and other programs, propelled the increase in federal grants to states from 2008 to 2019. Health grants grew 73% over that span, while nonhealth grants—which include money for transportation, education, and other services—declined.³ (See Figure 2.)

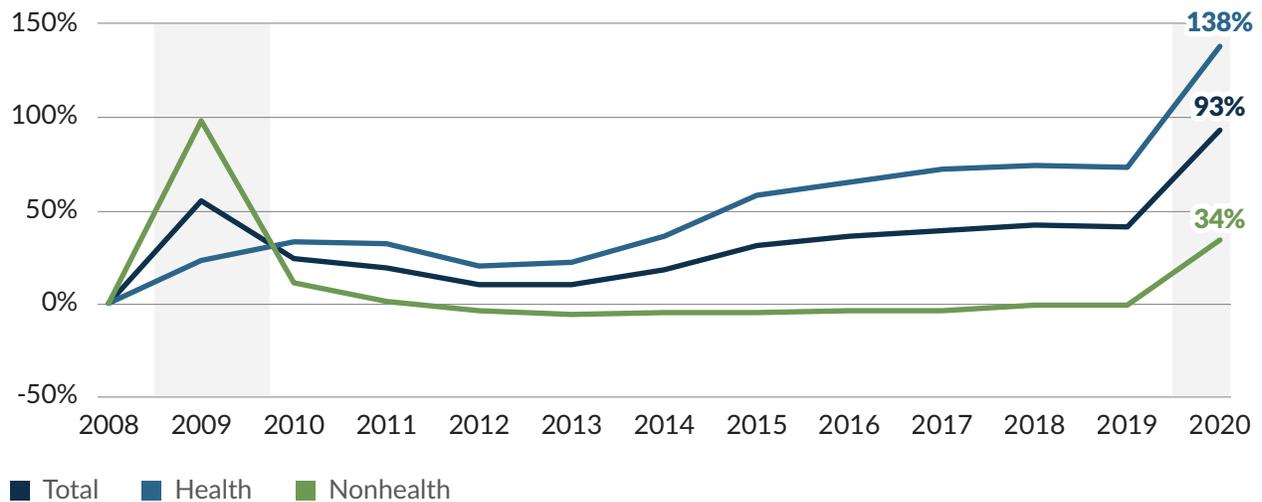
Federal policy decisions, such as the limits on discretionary spending set by the Budget Control Act of 2011, contributed to the divergent trends seen in health and nonhealth grant investments. Between 2012 and 2017, overall nonhealth grants fell to as low as 6% below 2008 funding. However, higher spending limits established in

the bipartisan budget acts of 2018 and 2019 contributed to increases in these grants, which brought them near 2008 levels by fiscal 2019, after adjusting for inflation. And spending trends differed across policy areas within the nonhealth category as well: In 2019, education grants were 10% lower than in 2008, while those for income security were 6% higher.⁴

Figure 2

Health Programs Accounted for Most of the Rise in Federal Grants to States Since 2008

Percentage change in health, nonhealth, and total funding relative to federal FY 2008, adjusted for inflation



Notes: The “Health” category is a functional classification from the U.S. Office of Management and Budget (OMB), and is reflected in the Federal Funds Information for States (FFIS) grants database. “Nonhealth” indicates all programs not captured under “Health.” FFIS does not include budget functions in its ARRA and COVID-19 spending data. For the programs in these datasets, Pew relied on treasury identification numbers to match programs with classifications from OMB. Additionally, Pew treated the Coronavirus Relief Fund as “Health” because Congress created it in response to the public health crisis (despite its functional classification as “General government” and the fact that states used the funding for a variety of purposes). This analysis includes CDC’s testing funds, Epidemiology and Laboratory Capacity for Infectious Diseases, and Crisis Response Cooperative Agreement programs in “Health,” but classifies the Department of Labor’s “Short-time compensation” program as “Nonhealth.” Because of data limitations, COVID-19 grant data includes some funding that went to localities or hospital associations. Federal Funds Information for States says its database accounts for more than 90% of federal funds going to state and local governments. The data reflects enacted funding levels and the most recent state allocations available.

Sources: R. Rudowitz, B. Corallo, and R. Garfield, “How Much Fiscal Relief Can States Expect From the Temporary Increase in the Medicaid FMAP?” Kaiser Family Foundation; Federal Funds Information for States, “FFIS Estimated State Funding for Coronavirus Pandemic”; Federal Funds Information for States, “FFIS Grants Database”; Medicaid.gov, “Expenditure Reports from MBES/CBES”; Bureau of Economic Analysis, “Gross Domestic Product”; U.S. Department of Education, “Education Job Funds.”

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Over much of the past decade, Medicaid has been the main catalyst for the growth in health and total grants to states: A provision in the Affordable Care Act allowed states to expand Medicaid programs to cover some previously ineligible low-income adults, with the federal government paying 100% of the expansion costs through 2016. The federal share of Medicaid expansion then gradually declined to 90% by 2020.⁵ Medicaid funds flowing to states rose sharply in fiscal 2015, the first full year of implementation for most states that expanded Medicaid.⁶

Medicaid remains the largest grant to states

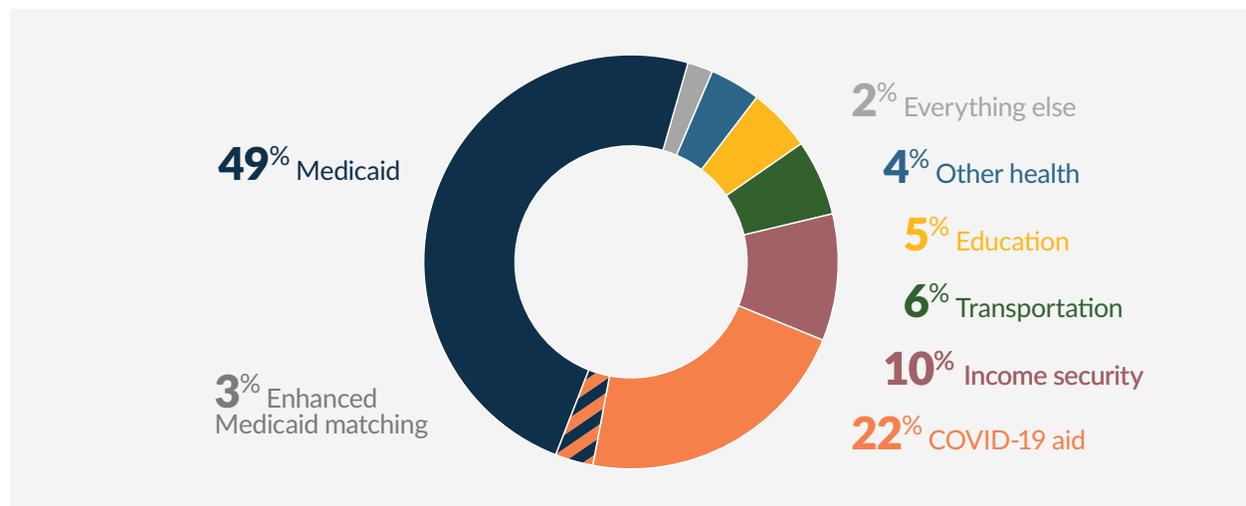
Medicaid has consistently been the largest federal grant to states in recent years, making up close to two-thirds of all such funding.⁷ But in 2020, COVID-19 aid accounted for 25% of all federal grant funding to states, relegating Medicaid's share to about half of all grants to states. (See Figure 3.) Included in the pandemic aid was an increase in Medicaid's federal matching rate, which accounted for about 3% of all grants to states in fiscal 2020.

As represented in Figure 3, the COVID-19 aid category includes funding for multiple programs serving health, community and regional development, income security, and other emergency needs. The largest of these programs, the Coronavirus Relief Fund, allocated \$112 billion for the 50 states and Washington, D.C., and accounts for 50% of the COVID-19 aid category and 13% of total grants to states in 2020.⁸ Other programs that received funding from the pandemic-related appropriations include Lost Wages Supplemental Payment Assistance, Community Development Block Grants, CDC testing funds, child nutrition, and K-12 education.

Figure 3

COVID-19 Spending Accounted for 25% of Federal Grants to States in 2020

Distribution of funding by program area, federal FY 2020



Notes: "Enhanced Medicaid matching" designates the increased Federal Matching Assistance Percentage (FMAP) for states that was passed in the Families First Coronavirus Response Act and is represented in Figure 3 as separate from other Medicaid or coronavirus spending. "Everything else" includes the following budget functions: agriculture, energy, natural resources and environment, community and regional development, employment and training, administration of justice, and veterans' benefits and services. "Income security" includes the social services budget subfunction. "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. "COVID-19 aid" indicates COVID-19 relief spending with the exception of Medicaid FMAP based on the data available from Federal Funds Information for States (FFIS) as of Nov. 10, 2020. FFIS, the source of the data, says that its database accounts for more than 90% of federal funds going to state and local governments. The data reflects enacted funding levels and the most recent state allocations available.

Sources: R. Rudowitz, B. Corallo, and R. Garfield, "How Much Fiscal Relief Can States Expect From the Temporary Increase in the Medicaid FMAP?" Kaiser Family Foundation; Federal Funds Information for States, "FFIS Estimated State Funding for Coronavirus Pandemic"; Federal Funds Information for States, "FFIS Grants Database."

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Because Medicaid represents such a large expenditure for states, efforts to expand federal Medicaid funding not only bolster the program itself, but also help states relieve budget pressure in times of fiscal stress.⁹ During the pandemic, the federal government has provided this support through an additional 6.2% matching rate for states that agreed to meet certain requirements, such as maintaining continuity of coverage for enrollees. The increase will continue as long as the federal government deems COVID-19 to be a public health emergency.¹⁰

The federal government took similar action in earlier recessions. In 2001, it provided states with a small matching rate increase that contributed an additional \$10 billion for Medicaid, and then in 2008, it offered a 6.2% supplemental matching rate for about two years.¹¹

Together, Medicaid and COVID-19 relief made up more than two-thirds of grants in nearly all states

In 2019, Medicaid accounted for the largest share of federal grants to states in every state except Wyoming, and although it continued to dominate grants to states in 2020, pandemic-related funding surpassed it in eight states and changed the distribution of grant funding nationwide. Pandemic aid was the second-largest grant in the remaining 42 states and D.C. and ranged from 18% in Kentucky to 50% in South Dakota. (See Figure 4.)

Medicaid represented 50% or more of total federal grant money in 17 states and D.C., with the highest figure in New York (60%). Conversely, it accounted for less than a third of federal funding in only seven states, with Wyoming the lowest at 12%.

As in prior years, the various categories accounted for different shares of federal grant funding to each state. For example, in fiscal 2020, transportation programs made up 15% of federal grants to Alaska but only 3% of grants to New York.

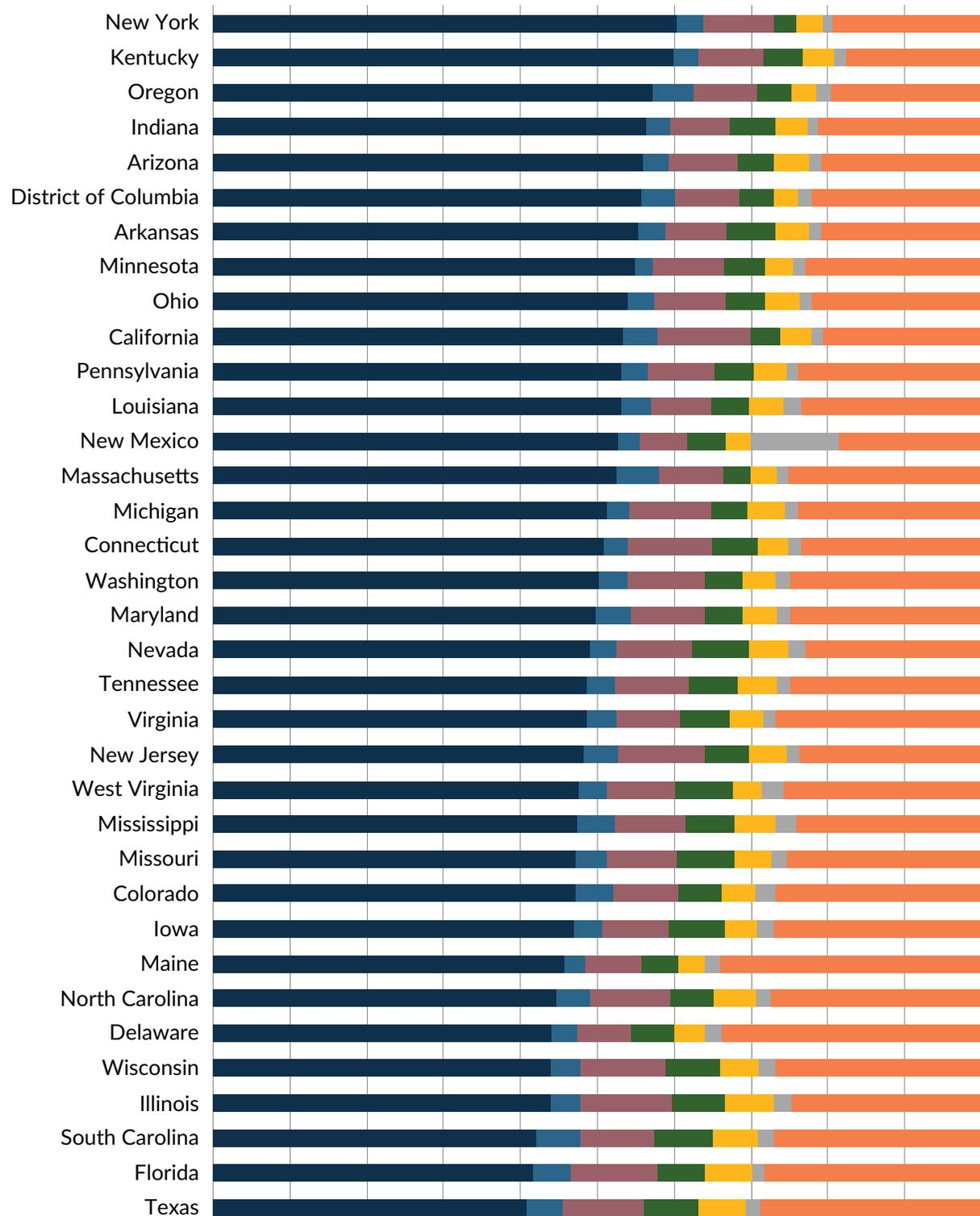


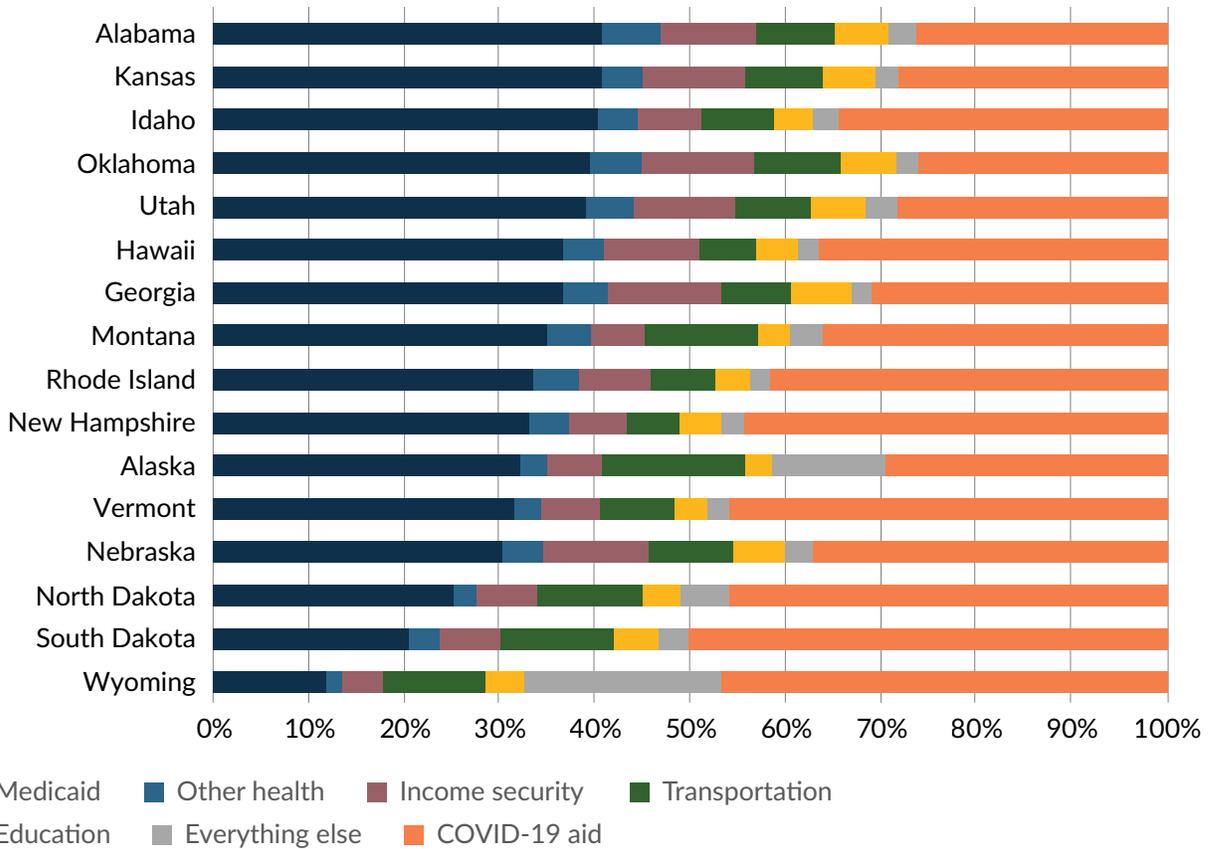
Paul Hennessy/NurPhoto via Getty Images

Figure 4

Grant Funding in Response to COVID-19 Made Up a Significant Share of Total Grants to States in 2020

Distribution of total grant funding by program area and state, federal FY 2020





Notes: The bars associated with each state total 100% 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. "COVID-19 aid" includes the Medicaid FMAP increase. "Income security" includes the social services budget subfunction. "Everything else" includes grant funding for agriculture, energy, natural resources and environment, community and regional development, employment and training, 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% of federal funds going to state and local governments.

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Conclusion

Although Medicaid continued to make up the largest share of grants to states in fiscal 2020, the infusion of pandemic-related aid dramatically increased the total flow of federal grant money to states and localities. Further, when examined as its own spending category, COVID-19 aid was at least the second-largest type of grant in every state and D.C.

Federal aid to states is key to states' ability to weather times of economic stress, such as the pandemic. And with additional relief packages passed in fiscal 2021—including the American Rescue Plan, which sent \$350 billion in aid to state, local, territorial, and tribal governments—COVID-19 funding is likely to significantly alter state and local revenue and spending for years to come.

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/articles/2019/10/08/federal-funds-hover-at-a-third-of-state-revenue>.
- 2 The Pew Charitable Trusts, “Medicaid Drives Growth in Federal Grants to States” (2020), <https://www.pewtrusts.org/en/research-and-analysis/issue-briefs/2020/02/medicaid-drives-growth-in-federal-grants-to-states>.
- 3 Later in this brief, COVID-19 aid is its own funding category, but in Figure 2, COVID-19 programs are split between health and nonhealth for the purposes of analyzing these broad investment categories.
- 4 The Pew Charitable Trusts, “Medicaid Drives Growth.”
- 5 Medicaid and CHIP Payment and Access Commission, “State and Federal Spending Under the ACA,” accessed March 25, 2021, <https://www.macpac.gov/subtopic/state-and-federal-spending-under-the-aca/>; Kaiser Family Foundation, “Status of State Medicaid Expansion Decisions: Interactive Map,” accessed March 23, 2021, <https://www.kff.org/medicaid/issue-brief/status-of-state-medicaid-expansion-decisions-interactive-map/>. At the end of fiscal 2020, 39 states and D.C. had adopted the Medicaid expansion.
- 6 Centers for Medicare and Medicaid Services, Office of the Actuary, “2016 Actuarial Report on the Financial Outlook for Medicaid” (Department of Health and Human Services, 2016), <https://www.cms.gov/Research-Statistics-Data-and-Systems/Research/ActuarialStudies/Downloads/MedicaidReport2016.pdf>.
- 7 The Pew Charitable Trusts, “Medicaid Drives Growth.”
- 8 Pew analysis of data from Federal Funds Information for States. The Coronavirus Relief Fund totaled \$150 billion, including money for territories and specific localities, and was the largest category of coronavirus spending in 2020.
- 9 A. Mitchell, “Medicaid Recession-Related FMAP Increases” (Congressional Research Service, 2020), <https://crsreports.congress.gov/product/pdf/R/R46346>.
- 10 Ibid.
- 11 The Pew Charitable Trusts, “How the Federal Government and States Coordinate in Times of Recession” (2019), <https://www.pewtrusts.org/en/research-and-analysis/fact-sheets/2019/09/how-the-federal-government-and-states-coordinate-in-times-of-recession>.

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