

# 3 Ways That States Can Better Manage Federal Funds

Understanding grants, investing in tools and people, and strategic coordination are keys to success

Federal funds have consistently played an important role in state budgets, accounting for more than a third of state revenue in recent years.<sup>1</sup> However, recent changes in federal priorities—including funding pauses and spending reductions—have introduced uncertainty about how and to what extent federal funds support state programs and activities.<sup>2</sup> More than ever, state policymakers must understand what funding is available, what it pays for, and how to maximize its impact while reducing the effects of funding volatility on state budgets.

Research from The Pew Charitable Trusts has identified three central challenges that states face—in both stable and volatile periods—while managing their federal funding streams.

## **Challenge 1: Federal funding levels can be difficult to project.**

Because some grants are one-time allocations and others are recurring, and because funding may be subject to political volatility, state officials can't always predict the size, scope, timing, and allowable uses of that money.

## **Challenge 2: Applying for and managing federal grants is complicated.**

The federal grant management process requires states not only to have the capacity to obtain and distribute grants but also to be flexible enough to adjust to changes in federal funding needs. Further, states must comply with regulations and meet audit requirements. Supporting local governments with these activities and handling large influxes of one-time money present additional complications for state fiscal leaders.

## **Challenge 3: It is difficult to strategically direct federal funds to key state priorities.**

Because federal dollars come from so many different funding streams and support a wide range of state activities, the strategic use of these dollars presents a complex challenge. Silos that separate state agencies or levels and branches of government impede collaboration and exacerbate this challenge.

## **Meeting these challenges**

Some state officials are addressing these challenges with strategies such as delineating recurring and nonrecurring revenue sources in their budget documents and planning around the end dates of those nonrecurring sources. In Utah, for instance, budget documents that break down sources of funding by legislative subcommittee also separate that funding into recurring federal funds and one-time federal funds. In another example, Maine's budget documents identify whether an appropriation is one-time and whether the expenditure includes federal dollars.

State officials are also working to improve and support access to federal funds by investing in the capacity and systems needed to acquire and administer them, or by providing the matching funds needed to attain them. Some states, including Hawaii, use specific platforms to search for and track available grants, while others, such as Ohio, invest in grants training efforts or systems. In 2023, Kentucky lawmakers passed legislation to create a matching program that provided up to \$200 million to help communities and nonprofit organizations meet federal matching requirements so that they could access funds.

## Recommendations

Given the unique challenges that federal funding poses, Pew has three recommendations for states to improve management of their federal funds.

### Recommendation 1: Create a transparent system to understand federal funding and what it pays for.

- Clearly track and document federal funding in budget documents.
- Have a plan to assess the impact of federal funding shifts in times of volatility.

### Recommendation 2: Target state resources to invest in the people and systems needed to administer federal funds.

- Centralize tasks or invest in personnel and tools to help administer federal funds if agency capacity is insufficient.
- Provide support to local governments to improve grant management capacity through training initiatives and partnerships with regional associations.

### Recommendation 3: Coordinate and use funds strategically to maximize the impact of federal resources to advance state priorities.

- Create processes for coordination and communication across agencies and levels of government.

## Endnotes

- 1 “Federal Share of State Budgets Remains High, but Uncertainties Lie Ahead,” Rebecca Thiess, Samuel Pittman, and Justin Theal, The Pew Charitable Trusts, June 16, 2025, <https://www.pew.org/en/research-and-analysis/articles/2025/06/16/federal-share-of-state-budgets-remains-high-but-uncertainties-lie-ahead>.
- 2 “NCSL Updates on Federal Funding Pause,” National Conference of State Legislatures, Feb. 10, 2025, <https://www.ncsl.org/resources/details/ncsl-updates-on-federal-funding-pause>. Rhiannon Euhus et al., “Allocating CBO’s Estimates of Federal Medicaid Spending Reductions Across the States: Enacted Reconciliation Package,” KFF, 2025, <https://www.kff.org/medicaid/allocating-cbos-estimates-of-federal-medicaid-spending-reductions-across-the-states-enacted-reconciliation-package/>. 119th Congress, H.R.1—An Act to Provide for Reconciliation Pursuant to Title II of H. Con. Res. 14, <https://www.congress.gov/bill/119th-congress/house-bill/1/text>. “Budgets and Programs in Balance: Understanding the Fiscal Impact of Federal Policy Across State and Territory Systems,” National Governors Association, May 21, 2025, <https://www.nga.org/advocacy-communications/budgets-and-programs-in-balance-understanding-the>.

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