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The U.S. Bureau of the Census released its report for fiscal year (FY) 2007 that tracks the flow of federal funds to the states. The report was issued just months after the FY 2006 report, which was issued only seven months after the FY 2005 report, confirming a catch-up effort by Census. States use the report to assess how they fare in their fiscal relationship with the federal government.

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Federal Spending in the States

The federal government plays an important role in state economies, although states focus mainly on federal grants and give less thought to other forms of federal spending that may be equally important. According to the National Association of State Budget Officers, federal funds accounted for about 28% of state government spending in fiscal year (FY) 2007, of which more than 40% was for Medicaid. But the final resting places of other federal spending can be identified as well, and represents an important source of funds that get pumped into state economies.

The next table lists the four main flows of federal funds into states, and indicates the share of the total represented by each of them. While grants are an important source of federal funds, they are by no means the largest; direct payments to individuals hold that distinction. The data listed are from the Census Bureau's *Consolidated Federal Funds Report* (CFFR), which catalogs federal spending for FY 2007. Compared to prior years, the new data show a continuing increase in the share of federal spending spent on direct payments; such spending accounted for 52.5% of spending as recently as FY 2003. The share going to procurement also has increased since FY 2003 (from 15.9%), while the share going to grants has declined (21.4% in FY 2003) as has the share spent on salaries (10.2% in FY 2003).

Distribution of Federal Spending Traceable to States		
Fiscal Year 2007 (amount in billions)		
Category	Amount	Percent of Total
Direct Payments	\$1,368	53.5%
Grants	496	19.4%
Procurement	440	17.2%
Salaries and Wages	253	9.9%
Total	\$2,557	100%

A quick way to assess how states are doing in their relationship with the federal government is to calculate the share of each of the categories listed above 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 four components. **Kentucky** is a good example of a state that records an "average" performance, with 1.4% of the national population and a similar share of each of the four components of federal spending. This type of analysis is most useful with respect to grants, because many grant formulas rely on some variation of population data to distribute funds.

State Share of Federal Spending by Category, Fiscal Year 2007
(amounts in percent)

<i>State</i>	<i>Population</i>	<i>Total Spending</i>	<i>Retirement/ Disability</i>	<i>Other Direct Payments</i>	<i>Grants</i>	<i>Procurement</i>	<i>Salaries/Wages</i>
Alabama	1.5%	1.9%	2.0%	1.8%	1.6%	2.4%	1.4%
Alaska	0.2	0.4	0.2	0.1	0.6	0.5	0.8
Arizona	2.1	1.9	2.0	1.4	1.9	2.4	1.7
Arkansas	0.9	0.9	1.1	0.9	1.0	0.3	0.7
California	11.9	10.2	9.4	10.2	11.6	10.4	9.6
Colorado	1.6	1.4	1.4	1.0	1.2	1.5	2.0
Connecticut	1.1	1.3	1.1	1.1	1.2	2.1	0.7
Delaware	0.3	0.2	0.3	0.2	0.3	0.1	0.2
Florida	6.0	5.8	7.1	7.3	4.3	3.6	4.7
Georgia	3.1	2.8	2.8	2.3	2.5	3.2	3.7
Hawaii	0.4	0.6	0.5	0.3	0.5	0.5	1.4
Idaho	0.5	0.4	0.5	0.3	0.4	0.5	0.4
Illinois	4.2	3.5	3.8	4.2	3.6	2.0	3.0
Indiana	2.1	1.8	2.1	2.1	1.8	1.5	1.1
Iowa	1.0	0.8	1.0	1.0	0.9	0.4	0.6
Kansas	0.9	0.9	0.9	0.9	0.8	0.8	1.1
Kentucky	1.4	1.4	1.6	1.3	1.4	1.1	1.6
Louisiana	1.4	1.7	1.4	1.7	2.9	1.0	1.2
Maine	0.4	0.5	0.5	0.4	0.6	0.4	0.4
Maryland	1.8	2.8	2.1	2.1	1.9	4.8	4.5
Massachusetts	2.1	2.4	2.1	2.5	2.9	2.7	1.6
Michigan	3.3	2.8	3.5	3.2	2.8	1.8	1.6
Minnesota	1.7	1.6	1.5	2.5	1.6	0.7	1.1
Mississippi	1.0	1.2	1.1	1.0	1.5	1.5	0.9
Missouri	1.9	2.2	2.1	2.1	1.9	2.8	2.0
Montana	0.3	0.3	0.4	0.3	0.4	0.1	0.4
Nebraska	0.6	0.5	0.6	0.7	0.5	0.2	0.6
Nevada	0.8	0.6	0.8	0.5	0.6	0.5	0.6
New Hampshire	0.4	0.4	0.5	0.3	0.4	0.4	0.3
New Jersey	2.8	2.5	2.8	2.8	2.5	1.9	1.9
New Mexico	0.6	0.9	0.7	0.5	1.0	1.5	0.9
New York	6.3	6.2	6.0	6.8	9.7	2.7	4.2
North Carolina	3.0	2.6	3.2	2.2	2.9	1.2	3.5
North Dakota	0.2	0.3	0.2	0.3	0.3	0.2	0.4
Ohio	3.7	4.1	3.9	7.3	3.5	2.0	2.4
Oklahoma	1.2	1.2	1.4	1.2	1.3	0.6	1.5
Oregon	1.2	1.0	1.3	0.9	1.2	0.4	0.8
Pennsylvania	4.1	4.6	4.9	6.2	4.2	3.3	2.9
Rhode Island	0.3	0.4	0.4	0.4	0.5	0.1	0.3
South Carolina	1.4	1.4	1.7	1.2	1.3	1.5	1.5
South Dakota	0.3	0.3	0.3	0.5	0.3	0.1	0.3
Tennessee	2.0	2.0	2.2	2.0	2.0	2.2	1.2
Texas	7.8	6.7	6.5	5.9	5.9	8.9	7.2
Utah	0.9	0.7	0.6	0.4	0.7	0.9	1.0
Vermont	0.2	0.2	0.2	0.2	0.3	0.2	0.2
Virginia	2.5	4.3	3.1	2.4	1.9	10.3	6.8
Washington	2.1	2.1	2.2	1.6	2.0	2.1	2.7
West Virginia	0.6	0.7	0.9	0.6	0.8	0.3	0.6
Wisconsin	1.8	1.5	1.8	1.7	1.5	1.0	0.9
Wyoming	0.2	0.2	0.2	0.1	0.4	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 D.C. and outlying areas.

Total Federal Spending

The next table reports total spending relative to population for each state. States at the top of the table typically receive more than twice as much per capita federal spending as bottom-ranking states like **Nevada**. The states bordering Washington, DC, physically large states in the West and states affected by Hurricane Katrina did particularly well in their relationships with the federal government in FY 2007. Midwestern states typically do poorly. **Virginia**, which always ranks high on the table, moved into the #1 position on a marked increase in its grant funding.

**Per Capita Federal Spending
Fiscal Year 2007**

Rank	State	Amount	Rank	State	Amount
1	Virginia	\$14,277	26	Kansas	\$8,190
2	Alaska	13,721	27	New York	8,177
3	Maryland	12,569	28	Washington	8,109
4	New Mexico	11,380	29	Florida	8,059
5	Hawaii	10,957	30	Arkansas	7,921
6	North Dakota	10,576	31	Nebraska	7,881
7	Mississippi	10,489	32	Minnesota	7,710
8	South Dakota	10,400	33	Arizona	7,574
9	Alabama	10,348	34	Indiana	7,447
10	Wyoming	10,242	35	Georgia	7,447
11	Louisiana	10,024	36	New Hampshire	7,421
12	Massachusetts	9,462	37	New Jersey	7,365
13	Missouri	9,452	38	Idaho	7,301
14	Pennsylvania	9,423	39	North Carolina	7,269
15	West Virginia	9,418	40	Iowa	7,245
16	Connecticut	9,245	41	Delaware	7,208
17	Ohio	9,175	42	Texas	7,186
18	Maine	8,996	43	Colorado	7,164
19	Vermont	8,980	44	California	7,124
20	Montana	8,871	45	Michigan	7,114
21	Rhode Island	8,580	46	Illinois	6,899
22	Oklahoma	8,483	47	Wisconsin	6,815
23	Kentucky	8,470	48	Oregon	6,736
24	South Carolina	8,407	49	Utah	6,486
25	Tennessee	8,358	50	Nevada	6,032
	United States	8,339			

While the preceding table shows how each state did in FY 2007, the table on the next page looks at the change in per capita federal spending between FY 2006 and FY 2007. On average, federal spending traceable to states increased by \$281 in FY 2007, up from a \$490 per capita increase in FY 2006. **Louisiana, Mississippi, Maryland, Kentucky, Alaska, Colorado, Iowa** and **Tennessee** saw a decline in per capita federal spending. **Ohio, Minnesota** and **Pennsylvania** saw the biggest increases.

**Change in Per Capita Federal Spending
FY 2006 to FY 2007**

Rank	State	Change	Rank	State	Change
1	Ohio	\$2,138	27	Oregon	\$362
2	Minnesota	1,535	28	Oklahoma	359
3	Pennsylvania	1,122	29	Delaware	351
4	Alabama	796	30	New Jersey	343
5	Virginia	792	31	Utah	324
6	Maine	688		United States	281
7	New Hampshire	671	32	Arkansas	272
8	New Mexico	668	33	North Carolina	267
9	North Dakota	648	34	New York	255
10	Wisconsin	596	35	Wyoming	204
11	South Carolina	578	36	Nevada	180
12	Washington	577	37	South Dakota	179
13	Massachusetts	573	38	Florida	171
14	Georgia	553	39	California	160
15	Vermont	527	40	Texas	98
16	Idaho	516	41	Arizona	57
17	Indiana	515	42	Nebraska	6
18	Connecticut	509	43	Tennessee	-21
19	Missouri	507	44	Iowa	-77
20	West Virginia	505	45	Colorado	-78
21	Illinois	491	46	Alaska	-84
22	Hawaii	462	47	Kentucky	-470
23	Michigan	443	48	Maryland	-875
24	Kansas	404	49	Mississippi	-4,027
25	Montana	391	50	Louisiana	-6,239
26	Rhode Island	369			

Taking a longer view, the next table shows how major categories of federal spending have fared over a five-year period. It illustrates how states have fared in the grant arena. Total spending traceable to states increased by 33% over the period, with grants, salaries and direct payments increasing less than the average and procurement increasing more than the average. The increase in overall grant payments primarily reflects two things: post-9/11 homeland security grants and hurricane-recovery efforts, reflected partly in the transportation grant level shown on the table.

Procurement spending has increased significantly, reflecting both the increased use of contractors rather than federal employees and purchases of goods and services for homeland security and the wars in Iraq and Afghanistan. The relatively small increases for direct payments may seem counterintuitive. However, the FY 2007 data show a marked drop in agricultural assistance from prior-year levels. Also, growth in Social Security does not yet reflect the onset of Baby Boomer retirements.

Percent Change in Major Categories of Federal Spending in the States, 2002-2007
(dollars in millions)

<i>Category</i>	<i>2002</i>	<i>2007</i>	<i>Percent Change</i>
Direct Payments	\$1,035,235	\$1,367,400	32%
Social Security	490,921	623,793	27%
Medicare	251,116	349,093	39%
Agricultural Assistance	33,688	18,342	-46%
Grants	412,371	495,842	20%
Education	34,286	36,353	6%
Health and Human Services (primarily Medicaid)	243,930	284,182	17%
Transportation	42,665	72,380	70%
Procurement	270,965	440,377	63%
Defense	165,579	294,025	78%
Non-Defense	105,387	146,352	39%
Salaries and Wages	199,066	252,594	27%
Defense	76,100	96,039	26%
Non-Defense	122,965	156,556	27%
TOTAL	\$1,917,637	\$2,556,213	33%

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 the category also includes federal retirement and disability payments, veterans' benefits, Medicare, unemployment compensation, food stamps, housing assistance, farm payments and payments made under the federal Earned Income Tax Credit.

The next table shows the per capita amount attributable to direct payments in each state for FY 2007. Of the total average per capita spending shown on page 4 (\$8,339), more than half is accounted for by direct payments.

In most years, the states that dominate the top spots on the table are states from which a large share of young people have emigrated, leaving an elderly population that receives Social Security benefits, or states that have become destinations for the elderly, who move to them in retirement. Not only do the elderly receive Social Security checks directly, but their health care costs result in Medicare payments, which also boost direct federal spending.

In FY 2007, the top-ranking states of **South Dakota** and **Ohio** are reflective of states from which younger people have emigrated. Agricultural states typically receive above-average direct spending in the form of farm payments; however, the FY 2007 data show a marked drop in such payments. Many agricultural states have both high farm payments and a relatively large elderly population.

**Per Capita Federal Spending on Direct Payments
Fiscal Year 2007**

Rank	State	Amount	Rank	State	Amount
1	South Dakota	\$6,648	27	Michigan	\$4,558
2	Ohio	6,340	28	New York	4,523
3	Pennsylvania	5,992		United States	4,498
4	North Dakota	5,804	29	Delaware	4,455
5	West Virginia	5,740	30	Connecticut	4,426
6	Alabama	5,636	31	Hawaii	4,414
7	Florida	5,376	32	New Jersey	4,407
8	Maryland	5,116	33	Vermont	4,338
9	Minnesota	5,078	34	Wyoming	4,306
10	Arkansas	5,057	35	Wisconsin	4,279
11	Virginia	4,959	36	New Mexico	4,245
12	Nebraska	4,951	37	Illinois	4,220
13	Mississippi	4,950	38	North Carolina	4,168
14	Missouri	4,894	39	Oregon	4,138
15	Oklahoma	4,884	40	Washington	4,113
16	Rhode Island	4,876	41	New Hampshire	4,042
17	Montana	4,874	42	Arizona	3,776
18	Louisiana	4,867	43	Georgia	3,676
19	Maine	4,835	44	Idaho	3,669
20	Kentucky	4,769	45	California	3,632
21	Massachusetts	4,759	46	Texas	3,550
22	Iowa	4,712	47	Colorado	3,464
23	Tennessee	4,701	48	Nevada	3,412
24	Kansas	4,604	49	Alaska	2,917
25	South Carolina	4,567	50	Utah	2,795
26	Indiana	4,563			

States with large concentrations of young people hold lower ranks on the table. These concentrations may result from high birth rates (**Utah**), immigration (**Texas** and **California**), domestic migration (**Nevada** and **Colorado**), or a combination of the three.

On average, direct payments increased just 3.8% between FY 2006 and FY 2007. **Ohio's** per capita payments increased a stunning 47% and **Minnesota's** by 34% (both attributed to "other direct payments"). **Louisiana** and **Mississippi** both saw big drops in direct payments, reflecting the phasing-out of large hurricane-relief payments.

The Largest Components

Social Security and Medicare are a large source of federal spending in the states, accounting for nearly three-fourths of all direct spending and about 40% of total federal spending. The next table lists the state-by-state detail, which averages \$3,198 per capita, up very modestly from \$3,162 in FY 2006.

**Per Capita Federal Spending on Social Security and Medicare
Fiscal Year 2007**

Rank	State	Amount	Rank	State	Amount
1	West Virginia	\$4,497	26	Wisconsin	\$3,179
2	Pennsylvania	4,301	27	North Dakota	3,173
3	Florida	3,957	28	Illinois	3,163
4	Alabama	3,823	29	Montana	3,097
5	Massachusetts	3,751	30	New Hampshire	3,078
6	Rhode Island	3,746	31	Oregon	3,032
7	Michigan	3,708	32	South Dakota	3,030
8	Connecticut	3,707	33	North Carolina	3,003
9	Louisiana	3,695	34	Maryland	2,942
10	New York	3,638	35	Nebraska	2,937
11	Arkansas	3,635	35	Hawaii	2,845
12	New Jersey	3,567	37	Minnesota	2,808
13	Kentucky	3,544	38	Wyoming	2,798
14	Maine	3,543	39	Washington	2,779
15	Mississippi	3,540	40	California	2,745
16	Missouri	3,535	41	New Mexico	2,737
17	Ohio	3,493	42	Arizona	2,733
18	Tennessee	3,436	43	Virginia	2,719
19	Iowa	3,403	44	Idaho	2,580
20	Delaware	3,381	45	Georgia	2,507
21	Oklahoma	3,374	46	Texas	2,458
22	Indiana	3,318	47	Nevada	2,417
23	Vermont	3,230	48	Colorado	2,325
24	Kansas	3,217	49	Utah	1,826
	United States	3,198	50	Alaska	1,585
25	South Carolina	3,182			

Grants

Grants are the second-largest source of federal funds flowing to the states and the source that has increased at the slowest rate over the last five years. States that did particularly well in FY 2007 are those that receive payments reflecting the increased value of natural resources extracted from their public lands (including **Alaska, Wyoming, North Dakota, Louisiana** and **New Mexico**). Louisiana and **Mississippi** continued to benefit from hurricane relief, albeit at lower levels than in FY 2006. The next table shows the detail.

Alaska always ranks high for three reasons. First, it has historically done well in the legislative process, winning earmarks and formula concessions secured by its congressional delegation. Second, it has abundant natural resources on public lands. Third, it has very few people, so the grant funds it does receive dwarf those of other states when measured on a per capita basis. Bottom-ranking **Nevada** doesn't do so well, receiving about one-fourth as much as top-ranking Alaska.

Per Capita Federal Spending on State and Local Government Grants*
Fiscal Year 2007

Rank	State	Amount	Rank	State	Amount
1	Alaska	\$4,384	26	California	\$1,577
2	Wyoming	3,825	27	North Carolina	1,564
3	Louisiana	3,405	28	Oregon	1,546
4	Mississippi	2,538	29	Nebraska	1,535
5	New Mexico	2,534	30	Ohio	1,524
6	New York	2,494	31	Minnesota	1,515
7	Vermont	2,399	32	Washington	1,498
8	Montana	2,326	33	Idaho	1,485
9	North Dakota	2,265	34	Arizona	1,478
10	Rhode Island	2,254	35	South Carolina	1,467
11	Massachusetts	2,231	36	New Jersey	1,419
12	Maine	2,131	37	Iowa	1,419
13	West Virginia	2,058	38	Illinois	1,395
14	Hawaii	1,911	39	Indiana	1,392
15	South Dakota	1,903	40	New Hampshire	1,378
16	Arkansas	1,802	41	Michigan	1,375
17	Oklahoma	1,749	42	Kansas	1,352
18	Pennsylvania	1,677	43	Wisconsin	1,347
19	Alabama	1,671	44	Georgia	1,298
20	Maryland	1,656	45	Utah	1,284
21	Connecticut	1,632	46	Colorado	1,265
22	Kentucky	1,624	47	Texas	1,232
	United States	1,624	48	Virginia	1,192
23	Missouri	1,617	48	Florida	1,173
24	Tennessee	1,606	50	Nevada	1,162
25	Delaware	1,604			

*Includes grants to governmental and non-governmental entities.

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.

Third, a state's ranking on the table reflects the vagaries of the data themselves. To illustrate this point, consider the following table, which lists the percent change in each state's per capita grants from FY 2006 to FY 2007.

**Percent Change in Per Capita State and Local Grants
FY 2006 - FY 2007**

Rank	State	Percent	Rank	State	Percent
1	Virginia	20.1%	27	Maine	5.0%
2	Nevada	12.7	28	Oregon	4.9
3	Oklahoma	11.8	29	California	4.6
4	Illinois	11.4	30	Wisconsin	4.6
5	Kansas	11.3	31	New Hampshire	3.9
6	Minnesota	11.0	32	Arizona	3.8
7	Missouri	9.8	33	Pennsylvania	3.3
8	New Jersey	9.6	34	Utah	3.0
9	Vermont	9.4	35	Georgia	3.0
10	Arkansas	9.2	36	Alabama	2.3
11	Massachusetts	9.1	37	North Dakota	1.8
12	Indiana	8.7	38	Tennessee	1.5
13	Idaho	8.6	39	South Carolina	1.2
14	Montana	8.4	40	South Dakota	0.3
15	Rhode Island	7.5	41	Delaware	-0.1
16	Nebraska	7.4		United States	-0.4
17	Michigan	7.4	42	Colorado	-0.4
18	Iowa	6.9	43	Kentucky	-1.4
19	Washington	6.8	44	Alaska	-4.5
20	New Mexico	6.5	45	Wyoming	-4.8
21	North Carolina	6.5	46	Texas	-5.0
22	Hawaii	6.4	47	Florida	-5.5
23	New York	6.4	48	Louisiana	-36.1
24	Ohio	5.9	49	Maryland	-40.7
25	West Virginia	5.5	50	Mississippi	-53.8
26	Connecticut	5.2			

Judging by the data themselves, it would appear that **Virginia** had done an excellent job of securing additional grant funds and that **Mississippi** had done a lousy job. Virginia did see increases in funding across several grant areas. **Mississippi** simply saw the effects of reduced hurricane relief spending. Last year, **Maryland** saw a big jump in its grants from the Department of Health and Human Services, which appears to have been reversed this year. (The online version of the FY 2006 federal funds report now has an errata sheet attached to it, which lists several large and small errors in the FY 2006 data. One of those was in federal Medicaid spending in Maryland, which was actually \$6.8 billion less than initially reported. This explains the apparent large drop in FY 2007 and underscores the potential for problems in the data.)

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.

In FY 2007, 27 states experienced reductions in their federal matching rates and 12 states had increases. **Georgia** and **North Carolina** recorded the largest increase in their federal Medicaid matching rate for FY 2007, but neither ranks very high on the preceding table (#35 and #21). **South Dakota, Rhode Island** and **Nebraska** saw the largest declines in their Medicaid matching rate, but only South Dakota's results reflect the change.

In general, a near doubling of homeland security grants between FY 2006 and FY 2007 helped many states increase their per capita results.

Assessing a state's performance—or worse, a particular person's performance—based on Census grant data is a risky proposition. There are many variables that can cause the data to vary. Also, Medicaid is so large that all the other programs pale in comparison to it.

Medicaid The next table shows per capita Medicaid grants by state for FY 2007. It includes the federal share of all Medicaid program costs, as reported by the president's budget office. The reason for including the table is to highlight the importance of Medicaid grants in federal funding. For most states, their rank on Medicaid grants approximates their rank on grants overall, with the exception of the states that have received extraordinary minerals payments or disaster assistance in any given year.

An attribute of Medicaid that sets it apart from many other grant programs is its redistributive design. That is, the program provides poorer states a higher federal matching rate than is provided to wealthier states. High-ranking **New Mexico, West Virginia** and **Mississippi** benefit from this structure, as each has a federal matching rate higher than 70%. At the other extreme, states with some combination of relatively high wealth, small Medicaid programs and a small share of elderly residents tend to hold lower ranks on the table. **Virginia** and **Colorado** both received the minimum federal matching rate in FY 2007 (50%) and run relatively modest Medicaid programs. **Nevada's** rate was about 54%

New York is in a class of its own. It receives the 50% minimum federal matching rate, but it runs an expansive—and expensive—Medicaid program, which drives up its federal reimbursements. As a result, its per capita Medicaid grant is almost double the national average. **Maine's** result reflects health care expansion that includes a Medicaid waiver.

**Per Capita Federal Medicaid Spending
Fiscal Year 2007**

Rank	State	Amount	Rank	State	Amount
	New York	\$1,251		Indiana	\$610
	Maine	1,127		Texas	602
	New Mexico	1,066		New Jersey	578
	Alaska	1,020		Iowa	572
	Vermont	1,012		Montana	567
	West Virginia	960		North Dakota	560
	Rhode Island	939		Idaho	559
	Massachusetts	902		Illinois	557
	Louisiana	886		Nebraska	553
	Mississippi	874		Michigan	553
	Arkansas	861		Hawaii	549
	Tennessee	797		South Dakota	534
	Kentucky	774		Oregon	531
	North Carolina	742		Kansas	530
	Missouri	742		Maryland	522
	Pennsylvania	740		Wisconsin	516
	Arizona	730		Washington	497
	Ohio	703		New Hampshire	495
	South Carolina	678		Georgia	478
	Oklahoma	671		Wyoming	474
	United States	309		Florida	467
	Minnesota	661		Utah	440
	Connecticut	639		Virginia	355
	Alabama	635		Colorado	324
	Delaware	634		Nevada	306
	California	621			

Source: SPR analysis, based on Analytical Perspectives, Budget of the U.S. Government, FY 2009, and Census population estimates

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 in the last five years, as shown on page 6. In the wake of 9/11, procurement has become an even bigger growth industry, with homeland security and the Iraq war leading to substantial new federal procurement spending.

The next table shows the states that benefit from such purchases. Not surprisingly, **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. Other 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), **Missouri** (Boeing), **Massachusetts** (Raytheon) and others.

**Per Capita Federal Spending on Procurement
Fiscal Year 2007**

Rank	State	Amount	Rank	State	Amount
1	Virginia	\$5,886	26	Kentucky	\$1,120
2	Maryland	3,756	27	North Dakota	1,076
3	New Mexico	3,438	28	Louisiana	1,066
4	Alaska	3,424	29	Indiana	1,054
5	Connecticut	2,657	30	New Jersey	983
6	Alabama	2,290	31	Wyoming	964
7	Mississippi	2,246	32	Florida	863
8	Missouri	2,100	33	Nevada	831
9	Massachusetts	1,853	34	Wisconsin	794
10	Hawaii	1,814	35	South Dakota	791
11	Arizona	1,660	36	Oklahoma	789
12	Texas	1,643	37	Ohio	783
13	Tennessee	1,553	38	Michigan	771
14	South Carolina	1,508	39	West Virginia	748
15	Vermont	1,501	40	Illinois	698
16	Utah	1,496	41	Iowa	645
17	Georgia	1,487	42	Rhode Island	622
18	Idaho	1,437	43	New York	608
19	New Hampshire	1,434	44	Minnesota	599
20	Washington	1,425	45	Montana	595
	United States	1,393	46	Nebraska	586
21	Colorado	1,386	47	North Carolina	567
22	Maine	1,256	48	Oregon	488
23	California	1,251	49	Delaware	474
24	Kansas	1,216	50	Arkansas	436
25	Pennsylvania	1,165			

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 the states, spending on salaries and wages represents less than 10% of such spending.

Salaries and wages have been the slowest-growing components of federal spending over the last five years, even as troop levels have increased to support two wars. To some degree, this relatively weak performance is explained by the strong performance of procurement. Increasingly, the federal government is eschewing the hiring of new or replacement employees in favor of contractors. This holds down growth in spending for salaries and wages but pushes up growth in procurement spending.

The next table shows the state-by-state detail. States that do well are those with large amounts of federal lands, those with large military bases and operations, those with other federal installations and those in close proximity to Washington, DC. The combination of extensive federal land holdings and a small underlying population assures a high ranking, as in the case of **Alaska, Hawaii, North Dakota** and **New Mexico**. Conversely, a number of midwestern and northeastern states have large populations without the other characteristics and, therefore, hold some of the lowest ranks on the table.

**Per Capita Federal Spending on Salaries and Wages
Fiscal Year 2007**

Rank	State	Amount	Rank	State	Amount
1	Alaska	\$2,997	26	Alabama	\$751
2	Hawaii	2,819	27	Vermont	742
3	Virginia	2,240	28	Idaho	711
4	Maryland	2,041	29	Louisiana	686
5	North Dakota	1,431	30	Delaware	675
6	New Mexico	1,163	31	California	664
7	Wyoming	1,148	32	Arizona	661
8	Montana	1,076	33	Florida	647
9	Washington	1,073	34	Nevada	627
10	Oklahoma	1,061	35	Arkansas	625
11	South Dakota	1,057	36	Massachusetts	620
12	Colorado	1,049	37	Pennsylvania	589
13	Kansas	1,019	38	Illinois	586
14	Georgia	986	39	New Hampshire	567
15	North Carolina	971	40	Oregon	564
16	Kentucky	956	41	New Jersey	556
17	Utah	911	42	New York	551
18	West Virginia	872	43	Connecticut	530
19	South Carolina	865	44	Ohio	528
20	Missouri	841	45	Minnesota	519
21	Rhode Island	828	46	Tennessee	497
	United States	825	47	Iowa	469
22	Nebraska	809	48	Indiana	438
23	Maine	774	49	Michigan	410
24	Texas	760	50	Wisconsin	396
25	Mississippi	756			

Looking Ahead

The Census report on FY 2007 federal spending was released about one year after the conclusion of the fiscal year to which it pertains and just a few months after the report for FY 2006. This continuing improvement in timeliness underscores the Census Bureau's increased effort to remedy the backlog that had developed in recent years.

Over the last several cycles, increases in federal spending have been disproportionately in procurement, suggesting ever more “outsourcing” of government functions. While grant funding has grown, it often has been explained by isolated incidents, such as special federal fiscal relief provided in FY 2003 and FY 2004, hurricane relief in FY 2005 and FY 2006 and a bump in homeland security spending in FY 2007. Other formula grant funding has remained essentially flat for the last few years.

As FY 2009 gets underway, there is reason to expect that it could witness significant increases in federal grant funding. The need for an economic stimulus has already emerged as a major topic for discussion on Capitol Hill, and many of the programs targeted for such spending are grant programs covered by this report.

At the same time, however, the nation’s balance sheet moves deeper into the red with each passing day. With a growing federal budget deficit and an unprecedented national debt, pressure to rein in all types of federal spending will be nearly as pervasive as pressure to expand it. Thus, while the FY 2008 report will probably show a relatively steady state relative to FY 2007, the reports going forward could begin to reflect more significant changes in federal spending patterns. Or not.

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 taken from the president’s FY 2009 budget submission and the 2007 state population estimates.

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