

About the Fiscal Federalism Initiative

Pew's fiscal federalism initiative (FFI) provides data-driven analysis of the federal-state fiscal relationship to enrich dialogue and provide policymakers with better information to make informed policy decisions. FFI also convenes federal and state policymakers to enhance their understanding of this multi-faceted relationship and discuss the impact of federal spending and tax policies.

Almost all changes to federal policy, from spending decisions to tax reform, affect state revenue, economies, and residents. FFI examines the ways in which federal choices affect states, including federal spending and tax code connections, as well as policy areas that highlight the federal state fiscal relationship.

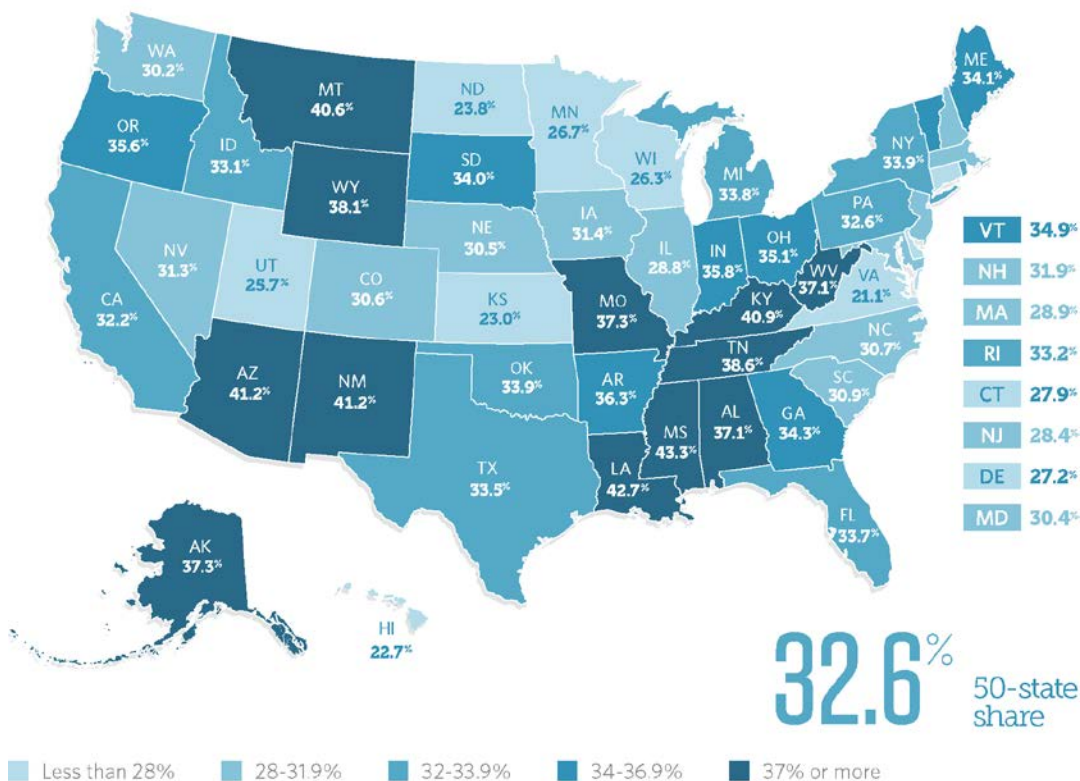
Key Aspects of the Federal-State Fiscal Relationship

Federal spending plays an important role in every state

Federal funds provide almost \$1 out of every \$3 in state revenue: the second largest source after taxes. State governments receive federal grants to help fund programs in areas ranging from education to transportation to health care (e.g., Medicaid). These grants accounted for approximately \$622 billion in total state revenue in fiscal year 2016, varying from 43 percent of state revenue in Mississippi to 21 percent in Virginia.

Federal Grants Vary as a Share of State Budgets

Percentage of state revenue from federal funds, state FY 2016



Grants to state governments are one of five major components of total federal spending in the states, which totaled \$3.4 trillion in fiscal year 2015.

Also included are retirement benefits such as Social Security; nonretirement benefits such as Medicare; contracts for purchases of goods and services; and salary and wages for federal employees. Federal budget decisions that increase or decrease any of these areas of spending can affect each state differently.

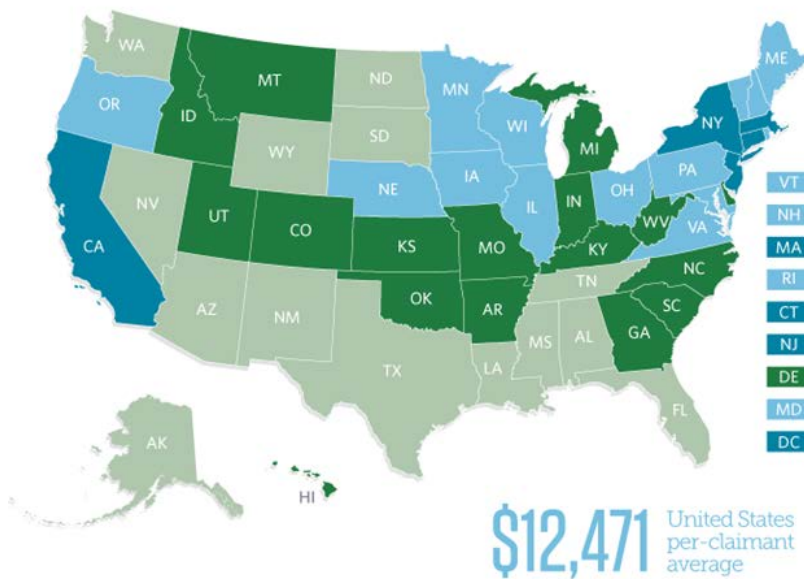
Source: Pew analysis of data from U.S. Census Bureau, 2016 Annual Survey of State Government Finances

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Federal tax policies significantly impact state policies, revenues, and economies

States With Average SALT Claims Over \$10,000 Were Concentrated in 3 Geographic Areas

Mean federal deduction per claimant by state, 2015



Many states link directly to the federal tax code by using federal measures of income for tax computations or linking to federal itemized deductions or credits. When such federal provisions change, states may see a change in their own revenue collections.

In addition, the geographic distribution of federal tax benefits varies widely across the states. For example, the average federal deduction for state and local taxes ranged from \$4,932 per filer in Alaska to \$22,169 in New York in 2015. This variance across the states was particularly notable when the Tax Cut and Jobs Act capped the deduction at \$10,000.

■ Below \$8,000 ■ \$8,000-\$9,999 ■ \$10,000-\$14,999 ■ More than \$15,000

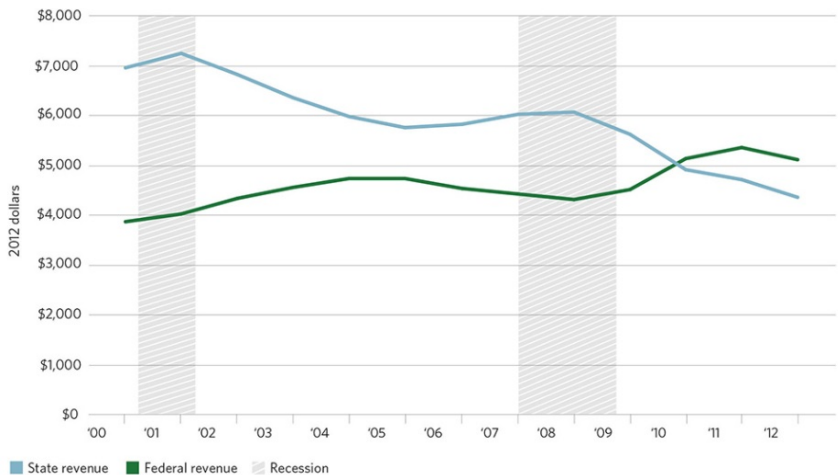
Source: Pew's analysis of the Internal Revenue Service's Statistics of Income, Historic Table 2, "Individual Income and Tax Data, by State and Size of Adjusted Gross Income" for tax year 2015
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Many policy areas are funded by a mix of spending from multiple levels of government

State and federal funding are often intertwined. With higher education, for instance, the federal government mainly provides financial assistance to individual students and specific research projects, while states primarily pay for the general operations of public institutions. Historically, states provided a far greater amount of assistance to postsecondary institutions and students; this difference narrowed dramatically following the Great Recession, as state spending declined and federal investments grew sharply—largely driven by increases in the Pell Grant program.

State Funding for Higher Education Declined in Recent Years While Federal Funding Grew

Federal and state revenue per full-time equivalent student flowing to higher education institutions, fiscal years 2000-12, adjusted for inflation



This funding relationship illustrates the importance of understanding the impact of spending changes at all levels of government.

Sources: Pew's analysis of data from the Delta Cost Project Database (May 2015), based on original data from U.S. Department of Education, National Center for Education Statistics' Integrated Postsecondary Education Data System
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