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HOW ARE FEDERAL DOLLARS SPENT IN CALIFORNIA?

Federal dollars support an array of programs and services that touch the lives of all Californians – from Social Security and health care to public schools and universities to highway construction and public safety. In federal fiscal year (FFY) 2010, which ended September 30, 2010, \$333.8 billion in federal funds came to California. Most of those dollars went directly to Californians without passing through the state budget. As is typical during economic downturns, federal spending increased significantly as a share of the state budget during the Great Recession, reaching \$91.5 billion in the 2010-11 budget – approximately 40 percent of total state expenditures.

More than 50 cents out of every federal dollar spent through the state budget supports health and human services for children, seniors, and many other Californians. Nearly three-quarters of federal funds that go toward health and human services pay for health care through the Medi-Cal Program – the single largest federal expenditure in the state budget. The next largest share of federal funds – nearly 19 cents out of every federal dollar spent through the state budget – supports unemployment insurance (UI) benefits for jobless Californians. Approximately 15 cents out of every federal dollar spent through the state budget goes to California’s public schools and universities, while more than 5 cents out of each federal dollar supports transportation programs. The balance of federal spending through the state budget supports public safety, environmental protection, and a range of other services.

Federal Spending in California Exceeds \$300 Billion Per Year

Californians received \$333.8 billion in federal dollars both through and outside of the state budget in FFY 2010.¹ Nearly one-fifth (19.3 percent) of this amount – \$64.3 billion – supported Social Security payments for approximately 5 million Californians, including retirees and people with disabilities (Figure 1).² An additional \$56.3 billion (16.9 percent) paid for health care for 4.8

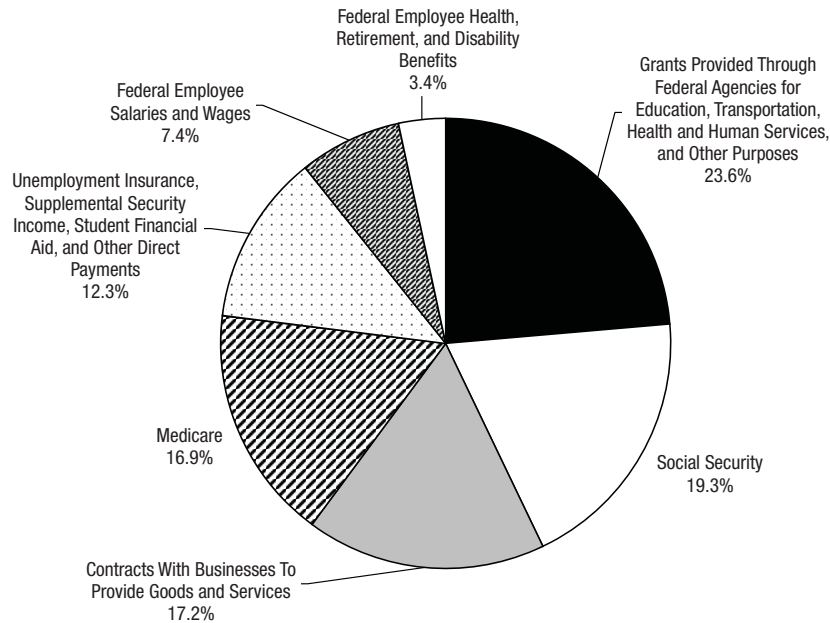
million California seniors enrolled in Medicare. Another \$41.0 billion (12.3 percent) supported an array of programs that directly assist millions of Californians, including:

- 3.9 million Californians who receive food assistance through the Supplemental Nutrition Assistance Program (SNAP), known as CalFresh in California;
- 2.6 million California households who receive the federal Earned Income Tax Credit (EITC);³
- Nearly 1.3 million low-income seniors and people with disabilities who receive cash assistance through the Supplemental Security Income (SSI) Program;
- More than 1 million jobless Californians who receive UI benefits; and
- More than 260,000 military veterans who receive disability benefits.

Federal dollars also provide funding for education, transportation, and other key public structures; pay for goods and services purchased from businesses; and fund the salaries and benefits of federal employees. Specifically:

- More than one-fifth (23.6 percent) of federal dollars spent in California in FFY 2010 were provided as grants through federal agencies, including the Department of Education, the Department of Transportation, and the Department of Health and Human Services.⁴ Expenditures in this category include:
 - “Title I” funding for school districts with a high concentration of students from low-income families;
 - Federal support for the Medicaid Program – known as Medi-Cal in California – which provides health care for low-income children, parents, seniors, and people with disabilities; and
 - The federal Temporary Assistance for Needy Families (TANF) block grant, which supports cash assistance and welfare-to-work services for low-income families with children through the California Work Opportunity and Responsibility to Kids (CalWORKs) Program.

Figure 1: Social Security Accounts for Nearly One-Fifth of Federal Spending in California



Total Federal Expenditures in California in Federal Fiscal Year 2010 = \$333.8 Billion

Source: US Census Bureau

- More than one out of six federal dollars (17.2 percent) went to businesses that provide goods and services to the federal government, including defense contractors.
- A relatively small share (7.4 percent) of federal dollars paid the salaries and wages of federal employees and an even smaller share (3.4 percent) supported federal employee health, retirement, and disability benefits.

Most Federal Dollars Are Spent Outside of the State Budget

An estimated three-quarters – roughly \$240 billion – of the more than \$330 billion in federal dollars spent in California in FFY 2010 went directly to individuals, businesses, and others without passing through the state budget.⁵ Federal dollars that go directly to people and businesses include several of the funding streams discussed above, such as EITC payments, Social Security and SSI benefits, CalFresh food assistance, payments to defense contractors, and the salaries and wages of federal employees.

Federal Funds Comprise More Than One-Third of Spending Through the State Budget

Federal dollars allocated through the state budget support public schools and universities, health care, highway construction,

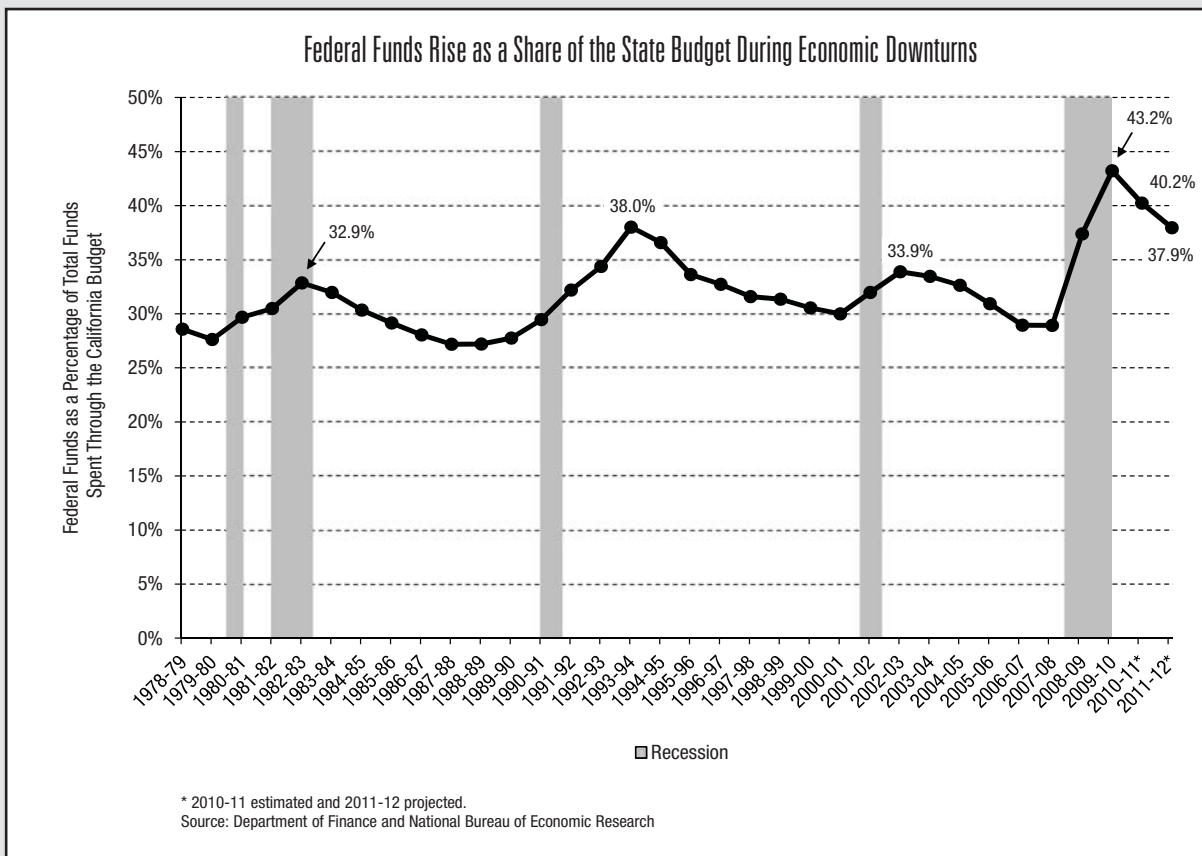
and an array of other programs and services. Federal spending increased significantly as a share of the state budget during the Great Recession, reaching \$91.5 billion in 2010-11 – 40.2 percent of the budget and equal to state General Fund spending that year (Figure 2).⁶ Federal spending rose substantially during the recession because UI and other federally funded programs expanded to meet the rising demand. In addition, Congress enacted the American Recovery and Reinvestment Act of 2009 (ARRA), which temporarily injected additional federal dollars into state economies in order to help boost demand and mitigate state budget cuts.⁷

More Than 50 Cents Out of Every Federal Dollar Spent Through the State Budget Supports Health and Human Services

The federal government provided nearly \$50 billion for health and human services programs in 2010-11 – more than 54 cents out of every federal dollar spent through the state budget (Figure 3). Nearly three-quarters (73.5 percent) of these funds – an estimated \$36.4 billion – supported the Medi-Cal Program, the single largest federal expenditure in the state budget (Figure 4).⁸ Medi-Cal provides health coverage to 7.5 million low-income Californians, covers one out of three California children, and pays for two-thirds of nursing home costs in the state each year.

Federal Dollars Increase as a Share of the State Budget as a Result of Economic Downturns

Historically, federal dollars have helped to stabilize state and local economies during economic downturns. Federal spending increases as UI and other federally funded programs expand to meet rising demand as workers lose their jobs, incomes, and job-based health coverage. In addition, federal policymakers often implement temporary measures designed to inject additional federal dollars into state economies in order to help boost demand and mitigate the impact of recessions. These federal spending increases, in turn, are reflected in the state budget. During the early 1990s, for example – when California’s jobless rate continued to rise well after the national recession ended in March 1991 – federal spending increased to more than one-third (38.0 percent) of the state budget. Similarly, in the wake of the Great Recession in 2009-10, the federal share of the state budget jumped to 43.2 percent partly due to temporary spending measures included in the ARRA, which “played a significant role in the turnaround of the economy” during 2009 and 2010, according to President’s Council of Economic Advisers.⁹



Federal dollars rise as a share of the state budget during periods of economic hardship as a result of the interaction between state spending *cuts* and federal spending *increases*. Specifically:

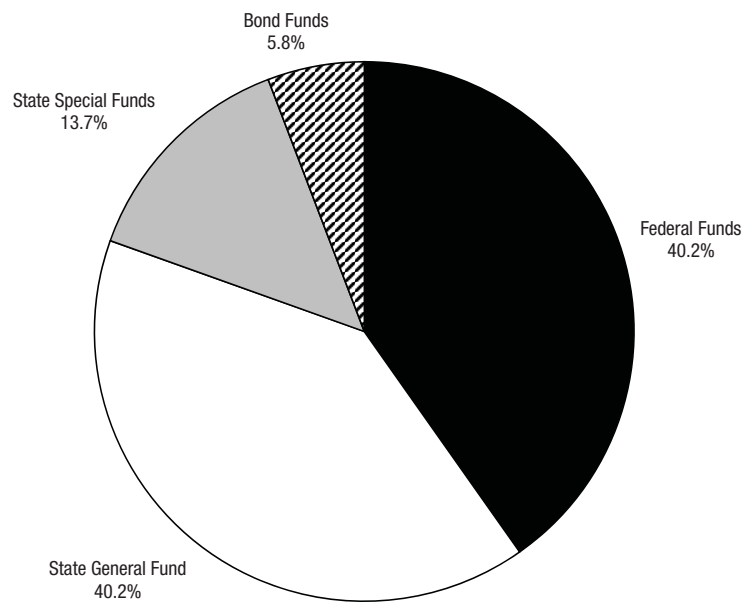
- State spending declines or flat-lines during or after economic downturns.** State expenditures decline or remain relatively flat during or following economic downturns as lawmakers enact cuts to help balance the budget. State lawmakers, for example, reduced General Fund spending from \$103.0 billion in 2007-08 to \$91.5 billion in 2010-11 as revenues plummeted due to the Great Recession. In the wake of the 2001 recession, General Fund spending remained relatively flat for several years, going from \$78.1 billion in 2000-01 to just \$79.8 billion in 2004-05, a modest 2.2 percent increase, as lawmakers restrained program growth in order to help balance the state budget.
- Federal spending rises during economic downturns.** Federal spending increases during recessions as UI and other programs expand to meet rising demand and federal policymakers implement temporary spending measures designed to provide an additional boost to the economy. Federal spending through the state budget, for example, jumped by 72.8 percent

in recent years, rising from \$52.9 billion in 2006-07 – just before the Great Recession began – to \$91.5 billion in 2010-11. Coupled with state spending cuts, the influx of federal funds drove federal spending as a share of the state budget to its highest level in more than three decades. A similar pattern emerged during or following the downturns of the early 1980s, 1990s, and 2000s: Federal spending increased substantially as state spending declined or flat-lined, thereby boosting federal expenditures as a percentage of the state budget. Federal spending rises during economic downturns for two primary reasons:

- Federal expenditures for safety-net programs such as UI and Medi-Cal increase “on the natural” as more Californians become eligible and apply for assistance to help support themselves and their families.¹⁰ The number of Californians enrolled in Medi-Cal, for example, jumped significantly beginning in late 2007, rising from 6.6 million in November 2007 to 7.5 million in November 2010, a 13.4 percent increase.¹¹ In contrast, Medi-Cal enrollment increased by less than 1 percent between November 2004 and November 2007.
- Federal policymakers often respond to recessions with measures designed to inject additional federal dollars into state economies. These dollars help boost demand for goods and services and mitigate the impact of the recession and state budget reductions. Congress, for example, traditionally enacts temporary, federally funded extensions of UI benefits beyond the regular 26-week eligibility period during national recessions.¹² In addition, following the 2001 recession, Congress temporarily increased the federal share of Medicaid costs for all states by 2.95 percentage points.¹³ This change reduced states’ Medicaid costs during that period and freed up state funds that could be used for other services. Furthermore, the ARRA included a number of temporary federal spending increases, including boosting UI benefits by \$25 per week, increasing the federal share of Medi-Cal costs from 50.0 percent to 61.6 percent, and establishing an emergency fund to help states pay for rising costs in their welfare-to-work programs.¹⁴

In summary, as state expenditures decline or flat-line during economic downturns, federal spending – which rises during recessions – increases as a share of the state budget.

Figure 2: Federal Funds Account for More Than One-Third of Spending Through California's Budget



Estimated 2010-11 State Budget Expenditures = \$227.4 Billion

Source: Department of Finance

Additional “on-budget” federal expenditures for health and human services in 2010-11 included:

- \$7.8 billion to provide services and assistance to low-income and vulnerable Californians through the Department of Social Services, including:
 - An array of services and interventions to protect children from neglect, abuse, or exploitation;
 - Financial assistance for foster families who care for children who have been removed from their homes;
 - Financial assistance for families who adopt foster children with special needs; and
 - Child care, job training, cash assistance, and other services for the state’s 1.5 million CalWORKs welfare-to-work recipients, more than three-quarters of whom are children.
- \$1.9 billion to prevent and control infectious diseases, ensure safe drinking water, and support nutrition programs for 1.4 million low-income women, infants, and children through the Department of Public Health.
- \$1.0 billion to provide health coverage to low-income children and pregnant women as well as to Californians who lack access to private health insurance due to a pre-existing condition through programs overseen by the Managed Risk Medical Insurance Board. The largest program – Healthy Families – provides health, dental, and vision coverage to

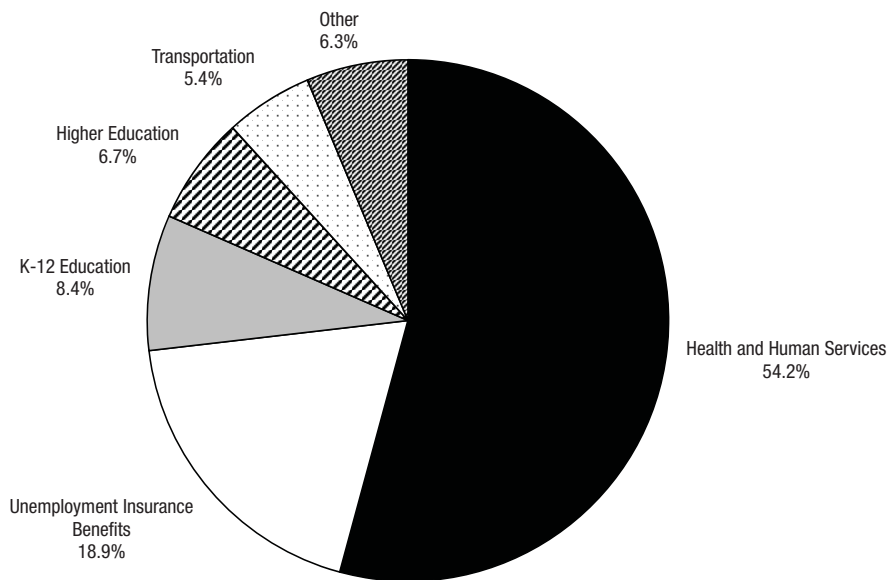
more than 870,000 children with family incomes somewhat higher than the Medi-Cal income limit.

- \$616.5 million to help locate parents, establish paternity, and collect and distribute child support through the Department of Child Support Services.
- \$406.9 million for energy assistance programs and an array of services for low-income families overseen by the Department of Community Services and Development.
- \$272.9 million for drug abuse prevention, treatment, and recovery programs for approximately 300,000 Californians through the Department of Alcohol and Drug Programs.

Nearly 19 Cents Out of Every Federal Dollar Spent Through the State Budget Supports UI Benefits for Jobless Workers

The two central goals of the federal-state UI system are to ensure the financial security of workers who lose their jobs through no fault of their own and to help boost consumer demand during recessions.¹⁵ UI benefits provide eligible workers with “temporary, partial replacement for the loss of earnings due to unemployment.”¹⁶ The UI system provided \$17.3 billion to jobless Californians in 2010-11 – nearly 19 cents out of every federal dollar spent through the state budget.¹⁷

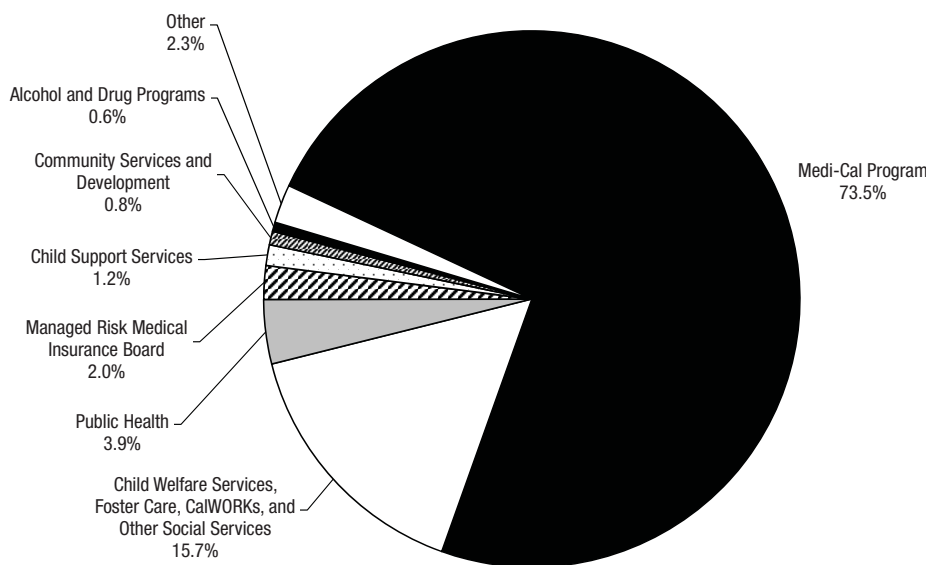
Figure 3: More Than Half of Every Federal Dollar Spent Through the State Budget Supports Health and Human Services Programs



Estimated Federal Expenditures Through the State Budget in 2010-11 = \$91.5 Billion

Source: Department of Finance

Figure 4: Medi-Cal Receives Nearly Three-Quarters of Every Federal Dollar Spent on Health and Human Services Through the State Budget



Estimated Federal Expenditures Through the State Budget for Health and Human Services in 2010-11 = \$49.6 Billion

Source: Department of Finance

Approximately 15 Cents Out of Every Federal Dollar Spent Through the State Budget Supports California’s Public Schools and Universities

The federal government provided \$13.8 billion for California’s public schools and universities in 2010-11 – approximately 15 cents out of every federal dollar spent through the state budget. K-12 education received \$7.7 billion, equal to more than 8 cents out of every federal dollar. Higher education received \$6.1 billion, equal to nearly 7 cents out of every federal dollar. More than half (54.2 percent) of federal funding for higher education went to the University of California. The remaining federal funds primarily supported student financial aid (29.2 percent) and the California State University (16.4 percent) in 2010-11.¹⁸

More Than 5 Cents Out of Every Federal Dollar Spent Through the State Budget Supports Transportation Programs

The federal government provided \$5.0 billion for transportation programs in 2010-11 – more than 5 cents out of every federal dollar spent through the state budget. The vast majority (94.1 percent) of these funds were allocated to the Department of Transportation, primarily for maintenance and construction of

highways. The remaining federal funds supported the California Highway Patrol, the Department of Motor Vehicles, the High-Speed Rail Authority, and the Office of Traffic Safety.

The Balance of Federal Spending Through the State Budget Supports Other Services, Including Public Safety and Environmental Protection

The remainder of federal dollars spent through the state budget supports other public services, including public safety and environmental protection. The federal government provided \$5.8 billion for these services in 2010-11 – more than 6 cents out of every federal dollar spent through the state budget. Significant expenditures in this category include:

- \$1.1 billion to prepare for and respond to a range of emergencies and disasters, such as wildfires and terrorist attacks, through the California Emergency Management Agency;
- \$1.0 billion primarily to administer the UI system through the Employment Development Department;
- \$216.1 million to create and preserve affordable housing and homeless shelters through the Department of Housing and Community Development;
- \$147.9 million to protect water quality through the State Water Resources Control Board;

- \$145.1 million primarily to build, maintain, and operate facilities for California’s veterans through the Department of Veterans Affairs;
- \$99.0 million to promote and ensure the safety of California’s agricultural products through the Department of Food and Agriculture;
- \$85.8 million to promote energy efficiency, support renewable energy, and reduce reliance on petroleum through the California Energy Commission;
- \$75.1 million to support the California National Guard and the California National Guard Youth Programs through the Military Department;
- \$70.0 million to manage more than 1 million acres of fish and wildlife habitat, balancing species survival with public use and enjoyment, through the Department of Fish and Game; and
- \$64.7 million to manage 1.4 million acres of land, including 270 state parks, through the Department of Parks and Recreation.

Does California Get Its “Fair Share” of Federal Dollars?

Many states receive less federal funding than might otherwise be expected given their share of the nation’s population. California, for example, was home to 11.9 percent of the US population in FFY 2010, but accounted for 10.2 percent of federal expenditures.¹⁹ Similarly, California’s share of federal dollars amounted to \$8,960 per capita, well below the national per capita level of \$10,460.²⁰ California and other states do not receive a proportionate share of federal expenditures for a number of reasons, including:

- States operate within a federal system of policymaking that transcends the interests of any single state. Decisions about the allocation of federal tax dollars result from negotiations within Congress and between Congress and the President that are driven by *national* as well as local considerations. Those negotiations can produce imperfect federal funding formulas that are difficult to change without creating new sets of “winners” and “losers.”²¹
- States have diverse attributes that can influence the level of federal funding that they receive. For example:
 - The nation’s capital is in Washington, DC, which explains why per capita federal spending was \$102,904 in the District of Columbia and was also relatively high in the neighboring states of Virginia (\$17,008) and Maryland (\$16,673).²²
 - New Mexico receives a large share of federal dollars because it is a poor state and is home to the Sandia and Los Alamos national laboratories, which receive substantial amounts of federal funding for national security purposes. Other small states with relatively high poverty rates, including Kentucky, Louisiana, and West Virginia, also receive a larger share of federal funding per capita than California does.²³
 - States with a large US military presence receive a disproportionate share of federal dollars. Hawaii, for example, received \$15,331 per capita in FFY 2010, nearly half (48.0 percent) of which was attributable to defense spending. Alaska received \$17,762 per capita, with more than four out of 10 federal dollars (41.3 percent) attributable to military spending.²⁴

Scott Graves prepared this Policy Basics with assistance from Samar Lichtenstein. The California Budget Project (CBP) was founded in 1994 to provide Californians with a source of timely, objective, and accessible expertise on state fiscal and economic policy issues. The CBP engages in independent fiscal and policy analysis and public education with the goal of improving public policies affecting the economic and social well-being of low- and middle-income Californians. General operating support for the CBP is provided by foundation grants, subscriptions, and individual contributions. Please visit the CBP’s website at www.cbp.org.

ENDNOTES

- ¹ The federal expenditure data in this report come from US Census Bureau, *Consolidated Federal Funds Report for Fiscal Year 2010: State and County Areas* (September 2011). FFY 2010 is the most recent year for which federal expenditure data are available.
- ² Expenditures reported in this paragraph reflect “direct payments” as defined by the federal government. Caseload figures reflect the most recent data available for each program. Californians may receive assistance from more than one program at a time.
- ³ The EITC uses the tax code to supplement the earnings of low-wage workers by offsetting federal income taxes and some or all of the federal payroll taxes paid by these workers. Eligibility is limited to low-income families and individuals with earnings from work.
- ⁴ This category reflects formula grants, block grants, and project grants. Project grants include fellowships, scholarships, and research grants. US Census Bureau, *Consolidated Federal Funds Report for Fiscal Year 2010: State and County Areas* (September 2011), p. x.

- ⁵ This estimate is based on a CBP analysis of Department of Finance data for state fiscal year 2009-10 and US Census Bureau data for FFY 2010. The estimate is approximate because the state and federal fiscal years are not concurrent: California's fiscal year begins on July 1, while the federal fiscal year begins on October 1. Because federal spending as reported by the state and federal governments reflects slightly different time periods, it is not possible to precisely determine the amount of federal funds provided through and outside of the state budget in a single fiscal year.
- ⁶ General Fund revenues are the primary source of state funding for programs and services and are flexible – that is, they are not restricted to a particular purpose.
- ⁷ Federal dollars allocated through the state budget are projected to decline to \$79.2 billion in 2011-12, partly because most of the ARRA's temporary funding has been spent. For an overview of the ARRA's impact in California, see California Budget Project, *What Has the American Recovery and Reinvestment Act of 2009 Meant for California?* (March 4, 2010).
- ⁸ Federal support for Medi-Cal in 2010-11 reflects a CBP estimate based on Department of Finance data. This estimate includes spending for the In-Home Supportive Services (IHSS) Program, which – along with Medi-Cal – receives federal Medicaid matching funds. IHSS helps nearly 440,000 California seniors and people with disabilities live safely in their own homes as an alternative to out-of-home care.
- ⁹ The Council of Economic Advisers estimated that the ARRA “raised employment by 2.7 to 3.7 million jobs relative to what it otherwise would have been.” Executive Office of the President, Council of Economic Advisers, *The Economic Impact of the American Recovery and Reinvestment Act of 2009: Fifth Quarterly Report* (November 18, 2010), pp. 19-20. Similarly, a study by economists Alan Blinder and Mark Zandi concluded that the fiscal stimulus measures enacted by Congress – of which the ARRA was the largest – added “almost 2.7 million jobs to US payrolls” and kept the unemployment rate about 1.5 percentage points lower than it otherwise would have been. Alan S. Blinder and Mark Zandi, *How the Great Recession Was Brought to an End* (July 27, 2010), pp. 1-3.
- ¹⁰ UI benefits are funded with both federal and state dollars that come primarily from taxes on employers. Revenues from the state UI tax are deposited into the federal unemployment trust fund and managed by the federal government until the funds are needed to pay “regular” UI benefits, which are provided for up to 26 weeks. Revenues from the federal UI tax pay for a number of UI-related costs, including a portion of UI benefit extensions that the federal government generally provides during times of high unemployment. Because of the close interaction between state and federal UI funding, this *Policy Basics* follows the approach of the state Department of Finance and counts all expenditures for UI benefits as federal dollars regardless of whether they are raised by state or federal UI taxes.
- ¹¹ Department of Health Care Services data. November 2010 is the most recent month for which complete Medi-Cal enrollment data are available.
- ¹² See, for example, Wayne Vroman, *The Role of Unemployment Insurance as an Automatic Stabilizer During a Recession* (Impaq International: July 2010), pp. 4 and 24, and US Department of Labor, *Unemployment Compensation: Federal-State Partnership* (April 2005), p. 2.
- ¹³ Christie Provost Peters, *Medicaid Financing: How the FMAP Formula Works and Why It Falls Short* (National Health Policy Forum, The George Washington University: December 11, 2008), p. 3.
- ¹⁴ For an overview of the ARRA's impact in California, see California Budget Project, *What Has the American Recovery and Reinvestment Act of 2009 Meant for California?* (March 4, 2010).
- ¹⁵ For a discussion of UI's role in supporting consumer demand during recessions, see Peter Orszag, *Unemployment Insurance as Economic Stimulus* (Center on Budget and Policy Priorities: November 15, 2001).
- ¹⁶ Wayne Vroman, *An Introduction to Unemployment and Unemployment Insurance* (The Urban Institute: October 2005), p. 2.
- ¹⁷ As noted above, this *Policy Basics* follows the approach of the state Department of Finance and counts all expenditures for UI benefits as federal dollars.
- ¹⁸ Less than 1 percent of federal funding for higher education purposes in 2010-11 supported the California Community Colleges.
- ¹⁹ California was one of 22 states in which the state's share of federal expenditures was smaller than the state's share of the US population. Seventeen states and the District of Columbia received a share of federal spending that was larger than their share of the nation's population, and 11 states received a share of federal spending that equaled their share of the US population. US Census Bureau, *Consolidated Federal Funds Report for Fiscal Year 2010: State and County Areas* (September 2011), Table 11.
- ²⁰ California was one of 27 states in which per capita federal spending was smaller than US per capita spending level. Per capita federal spending exceeded the US per capita spending level in 23 states and the District of Columbia. US Census Bureau, *Consolidated Federal Funds Report for Fiscal Year 2010: State and County Areas* (September 2011), Table 10.
- ²¹ For example, for a review of the federal Medicaid funding formula and the challenges inherent in modifying it, see Christie Provost Peters, *Medicaid Financing: How the FMAP Formula Works and Why It Falls Short* (National Health Policy Forum, The George Washington University: December 11, 2008).
- ²² US Census Bureau, *Consolidated Federal Funds Report for Fiscal Year 2010: State and County Areas* (September 2011), Table 10.
- ²³ US Census Bureau, *Consolidated Federal Funds Report for Fiscal Year 2010: State and County Areas* (September 2011), Table 14.
- ²⁴ US Census Bureau, *Consolidated Federal Funds Report for Fiscal Year 2010: State and County Areas* (September 2011), Tables 10 and 12.