

# Federal Funds: What Might the Future Hold?

Federal Funds Information for States  
[www.ffis.org](http://www.ffis.org)

Montana Legislature –  
Legislative Finance Committee  
January 15, 2020

# Overview

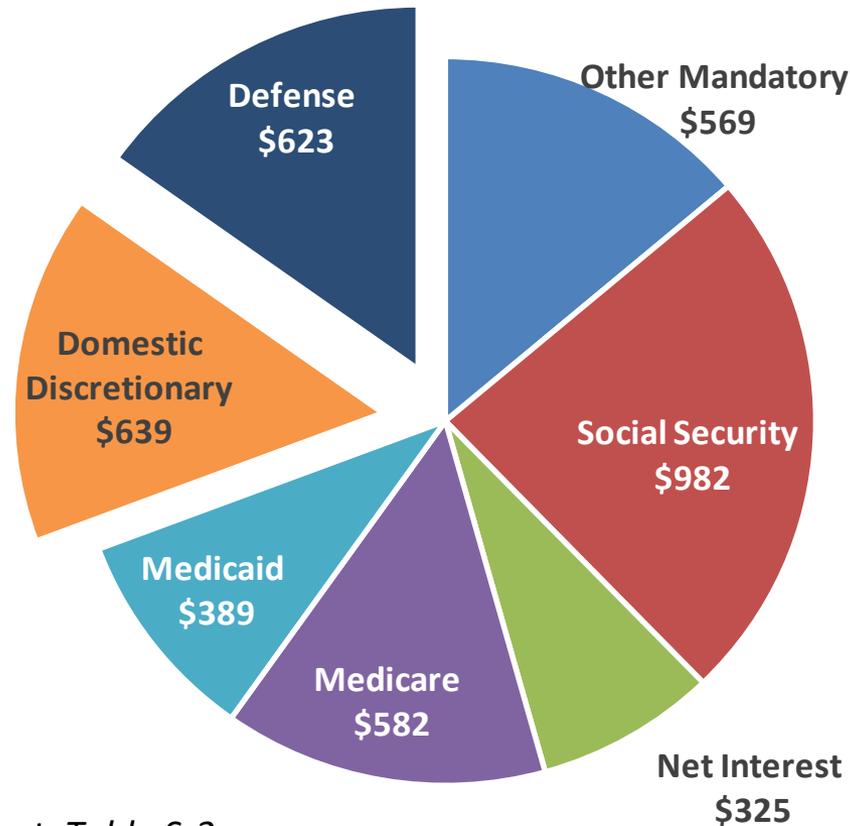
About federal grants

Fiscal outlook

Challenges/options

# Pieces of the federal budget pie

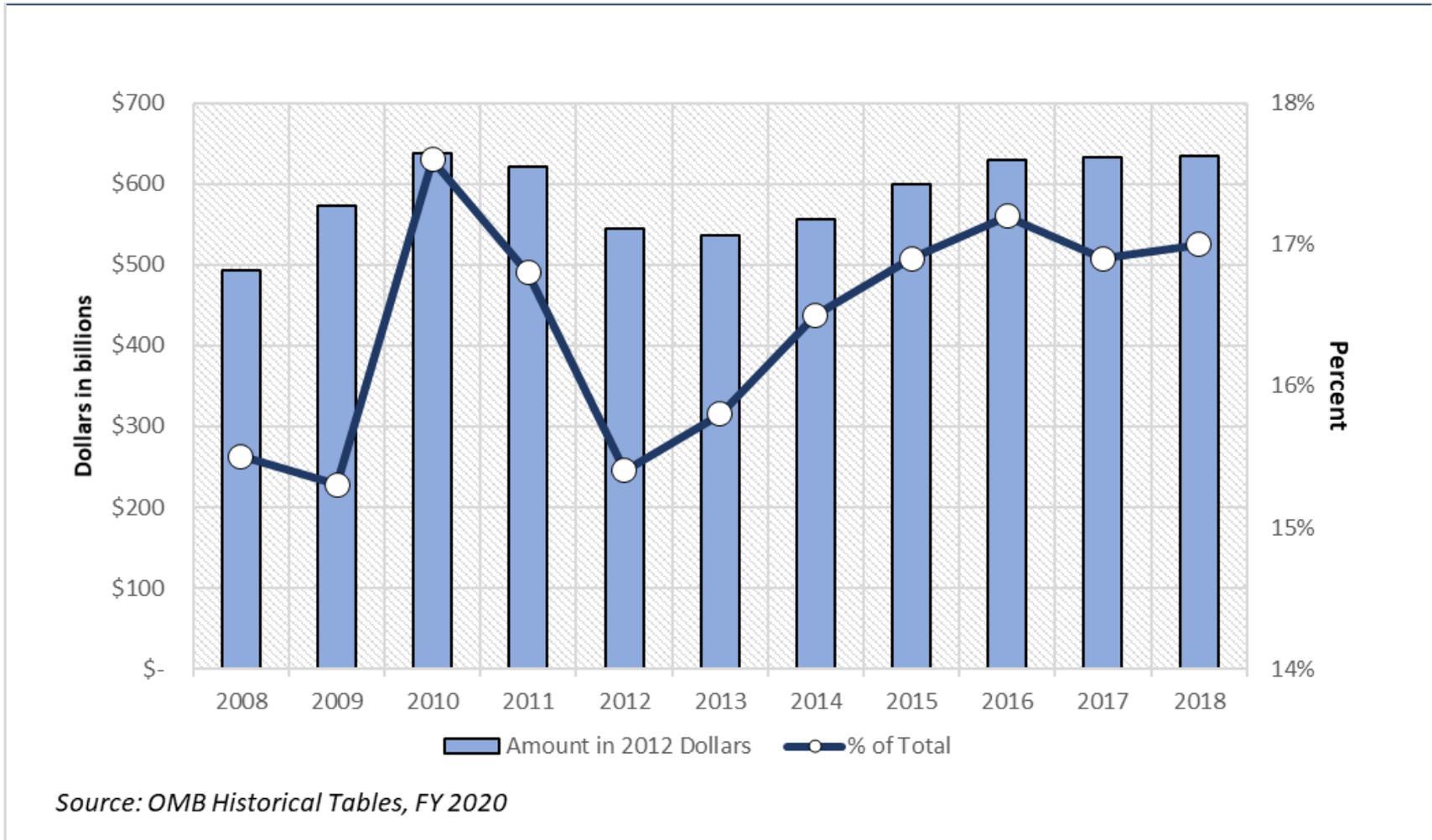
**Federal Outlays in FY 2018**  
(\$ in billions)



Other mandatory includes:  
 Federal retirement  
 UI  
 Nutrition  
 TANF  
 SSI  
 EITC

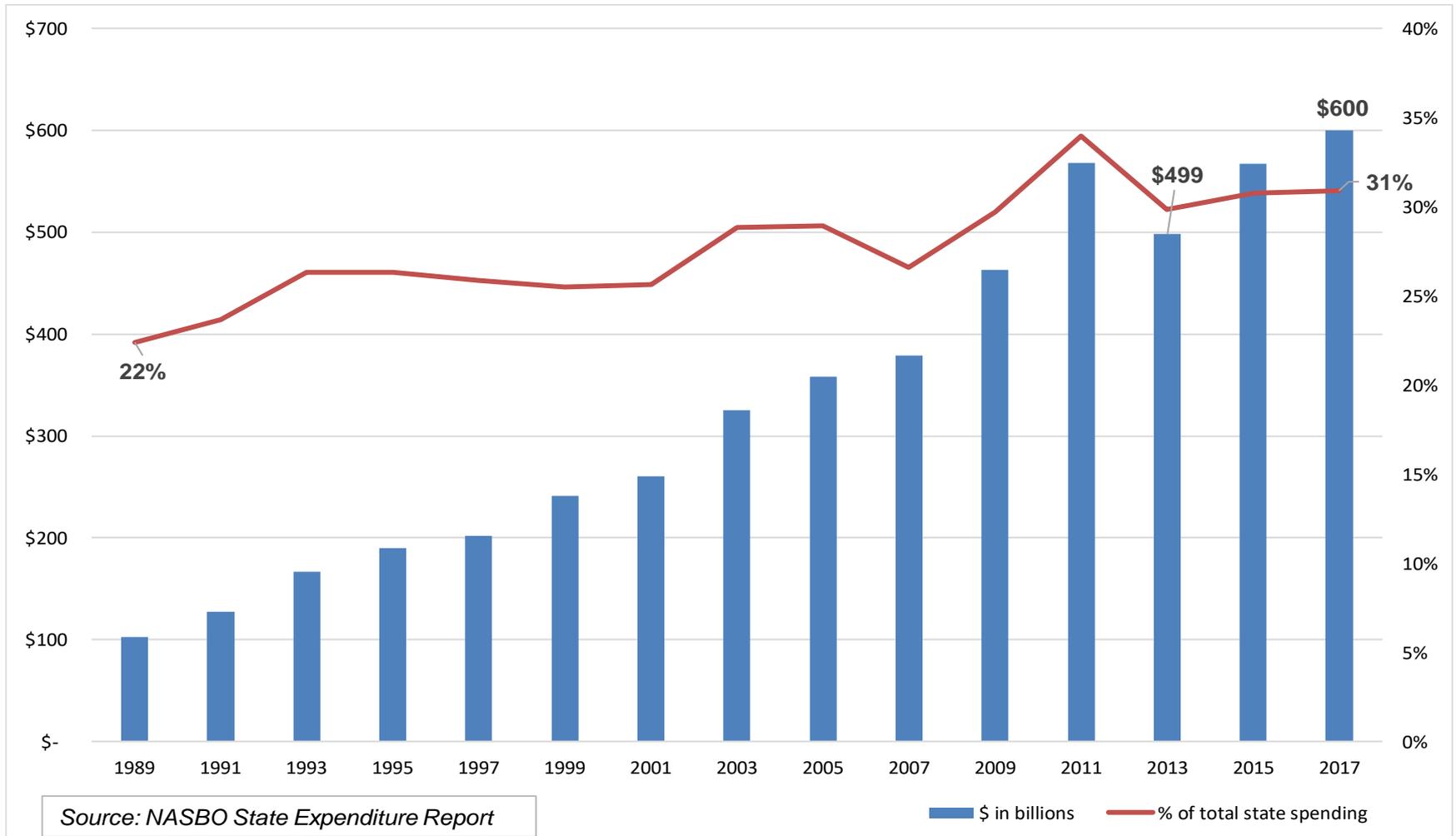
Source: FY 2020 budget, Table S-3

# Grants play a minor, but growing, role in federal spending



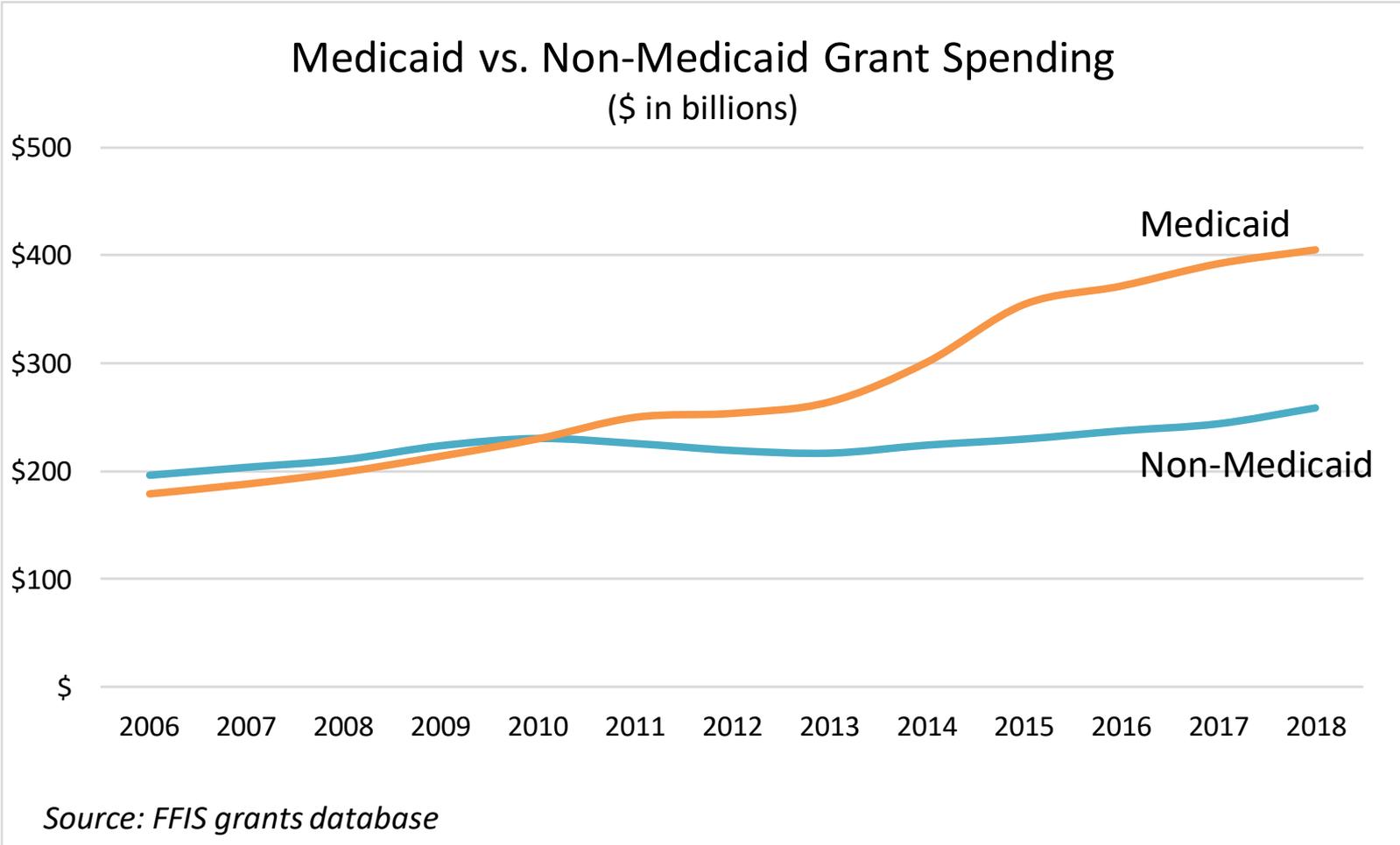


# Grants are a growing share of state spending (MT = 40%)



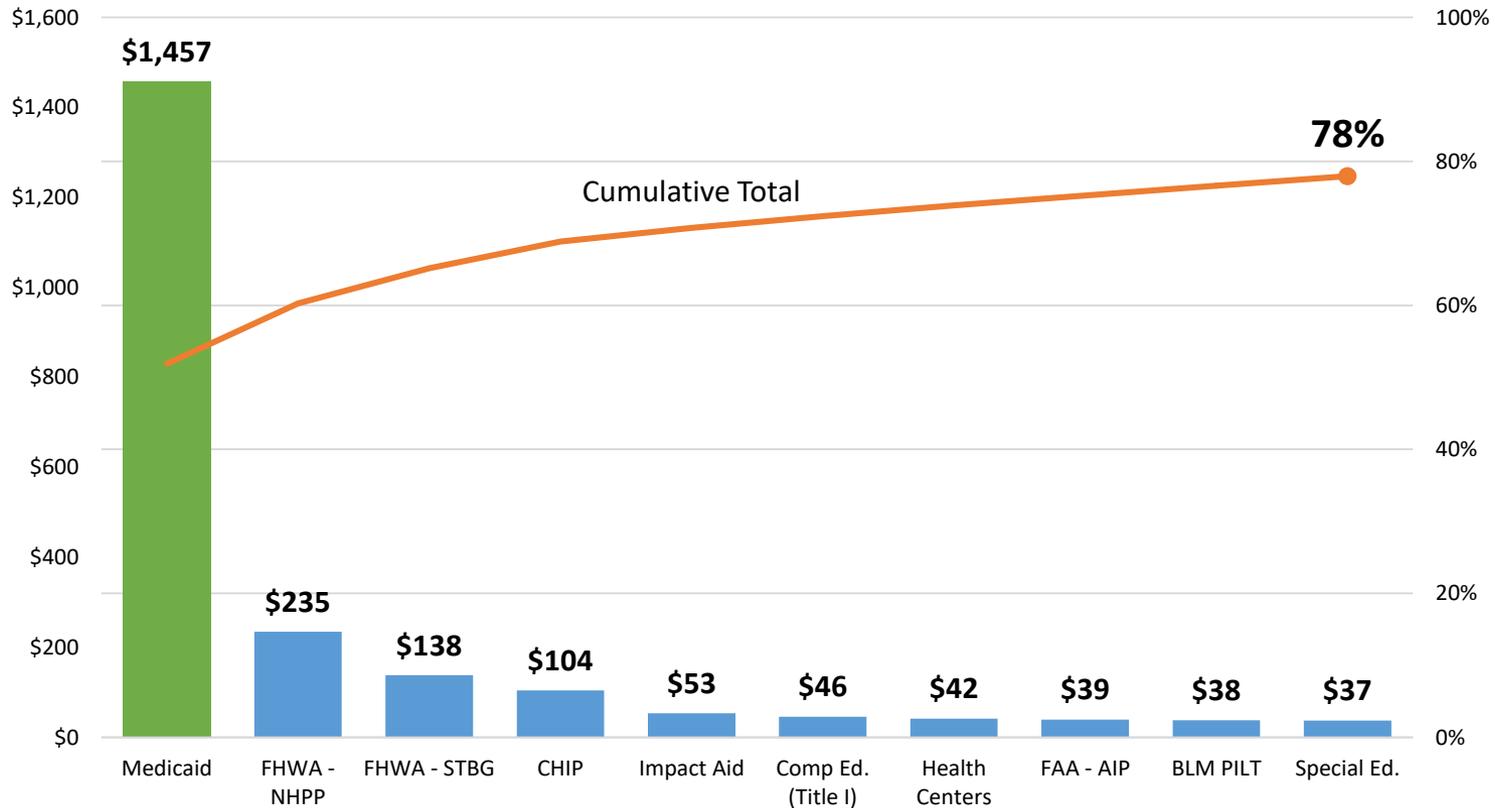


# Because...





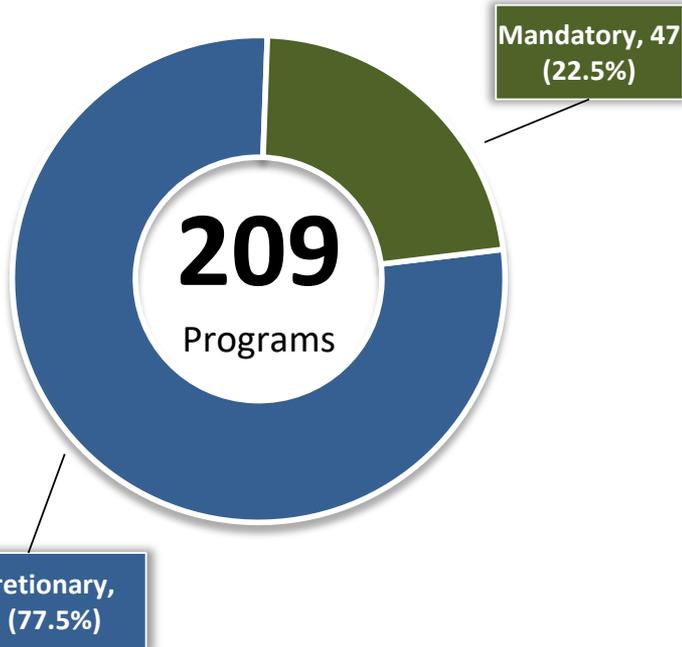
# The largest grants dominate total funding in MT



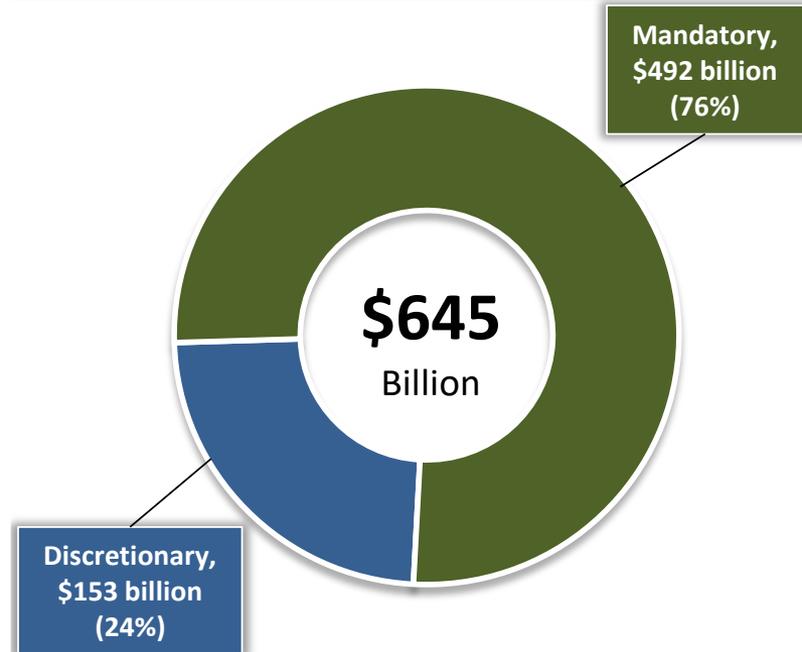
# Lots of discretionary programs

# Lots of mandatory money

**Distribution of Grants  
by Type, FY 2017**



**Distribution of Grants  
by Funding, FY 2017**

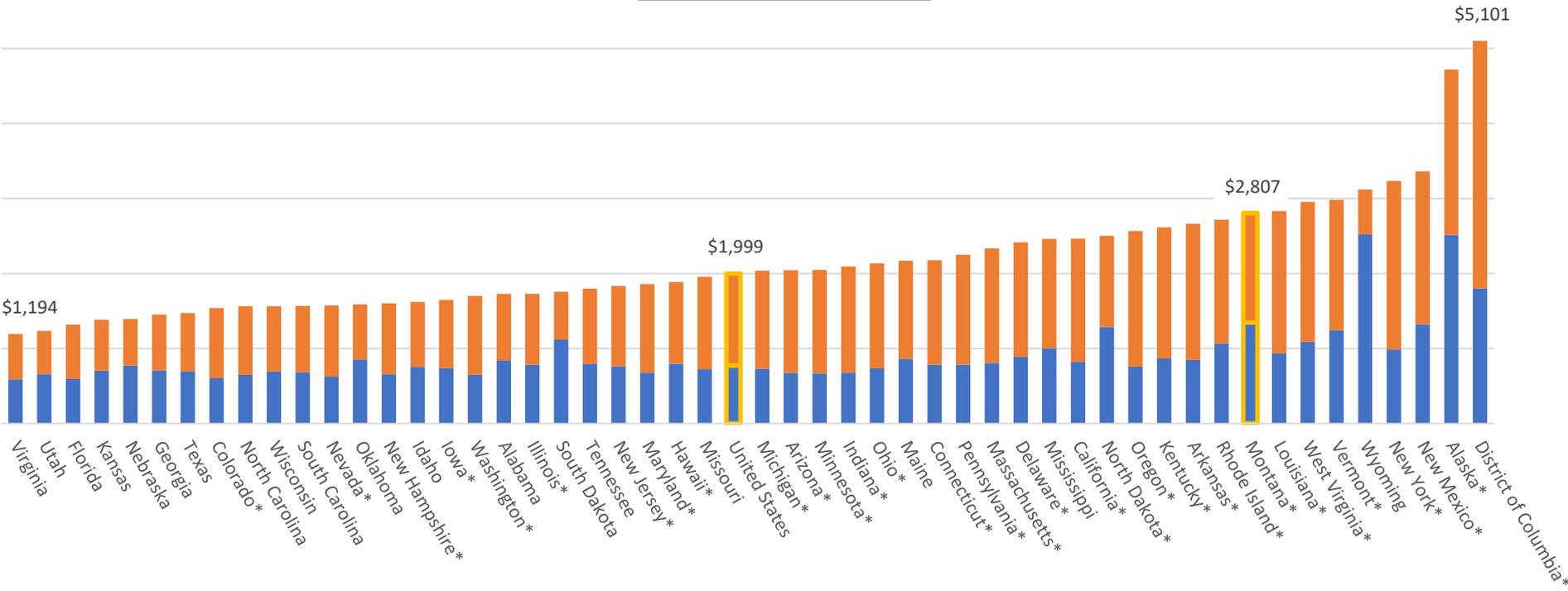




# How states stack up

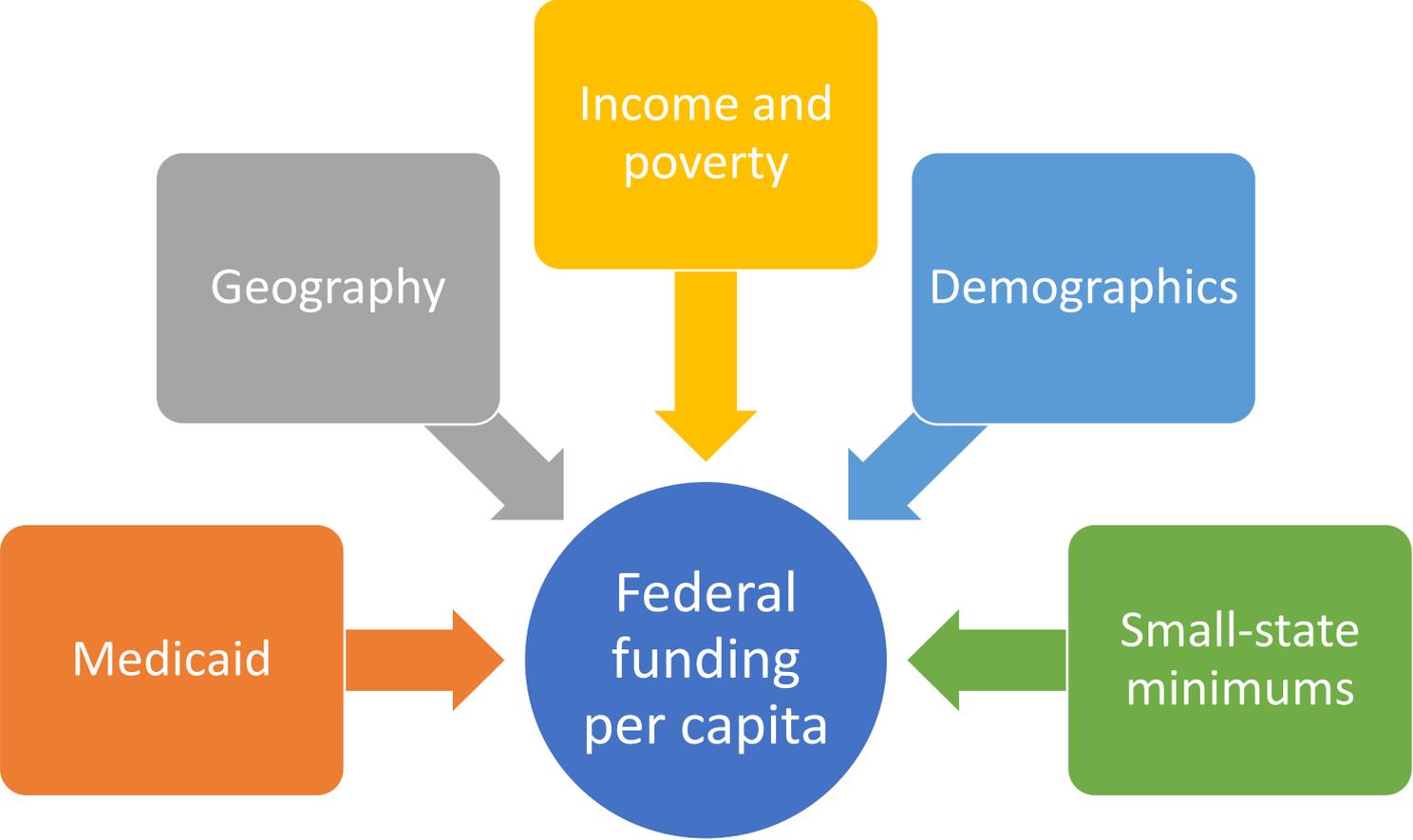
Per Capita Federal Spending on FFIS-Tracked Grants, FY 2018

■ Non-Medicaid ■ Medicaid

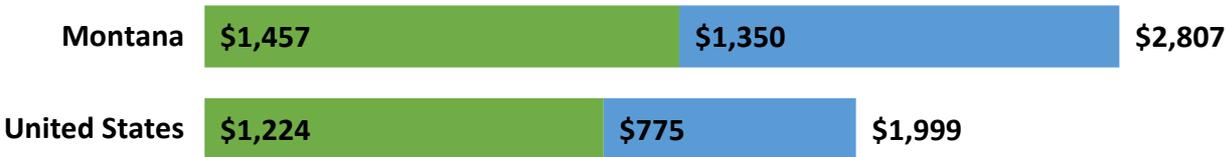


\* Expanded Medicaid by FY 2018

# How the money flows



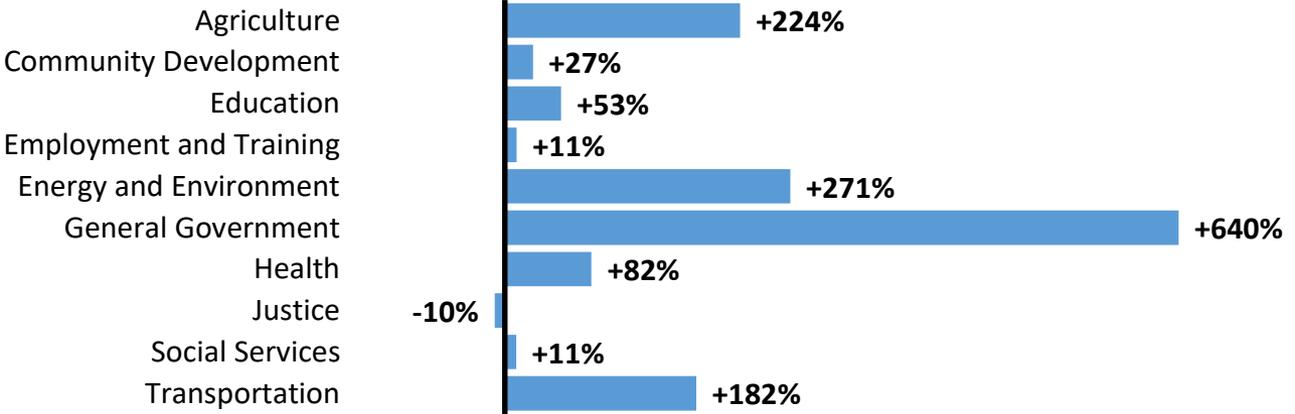
# How does Montana compare?



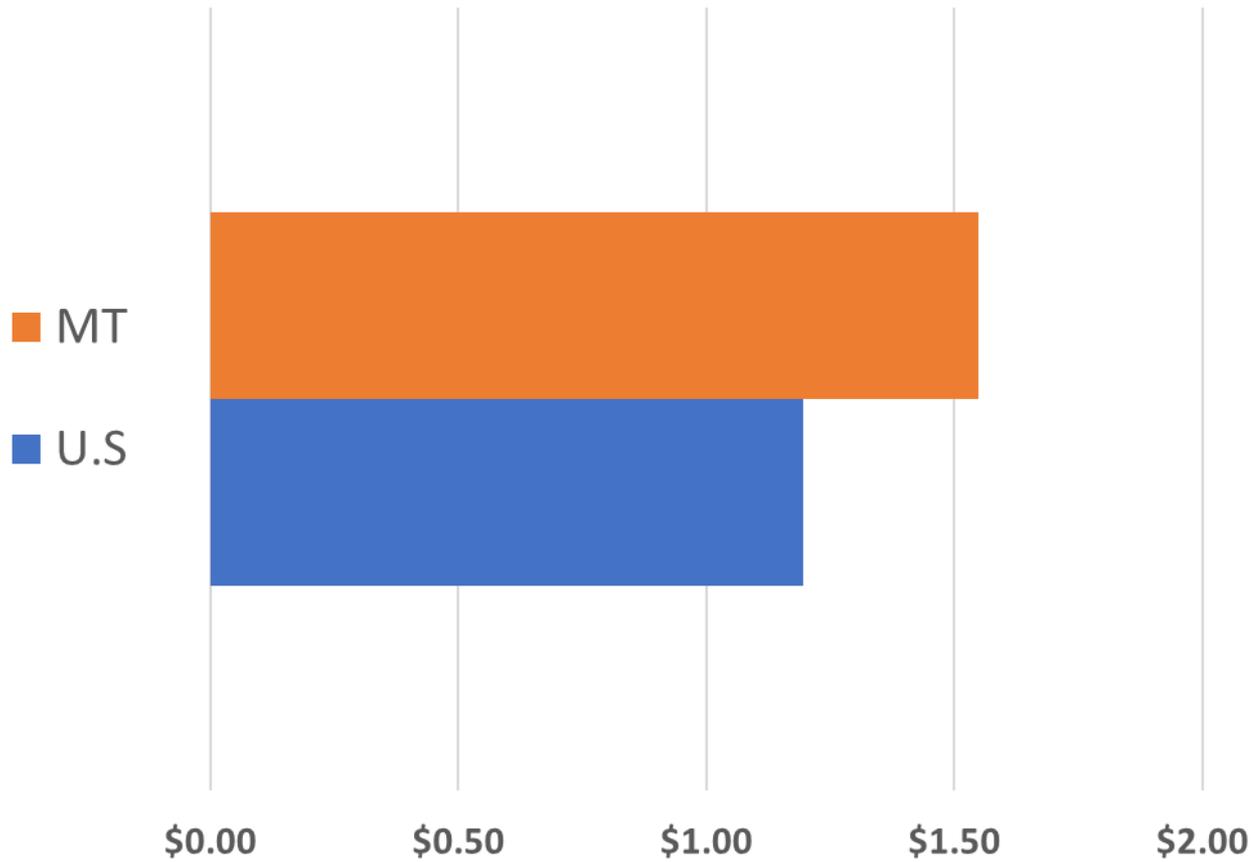
**+19%**  
 Medicaid  
 Rank **#17**

**+40%**  
 Total  
 Rank **#10**

**+74%**  
 Non-Medicaid  
 Rank **#8**



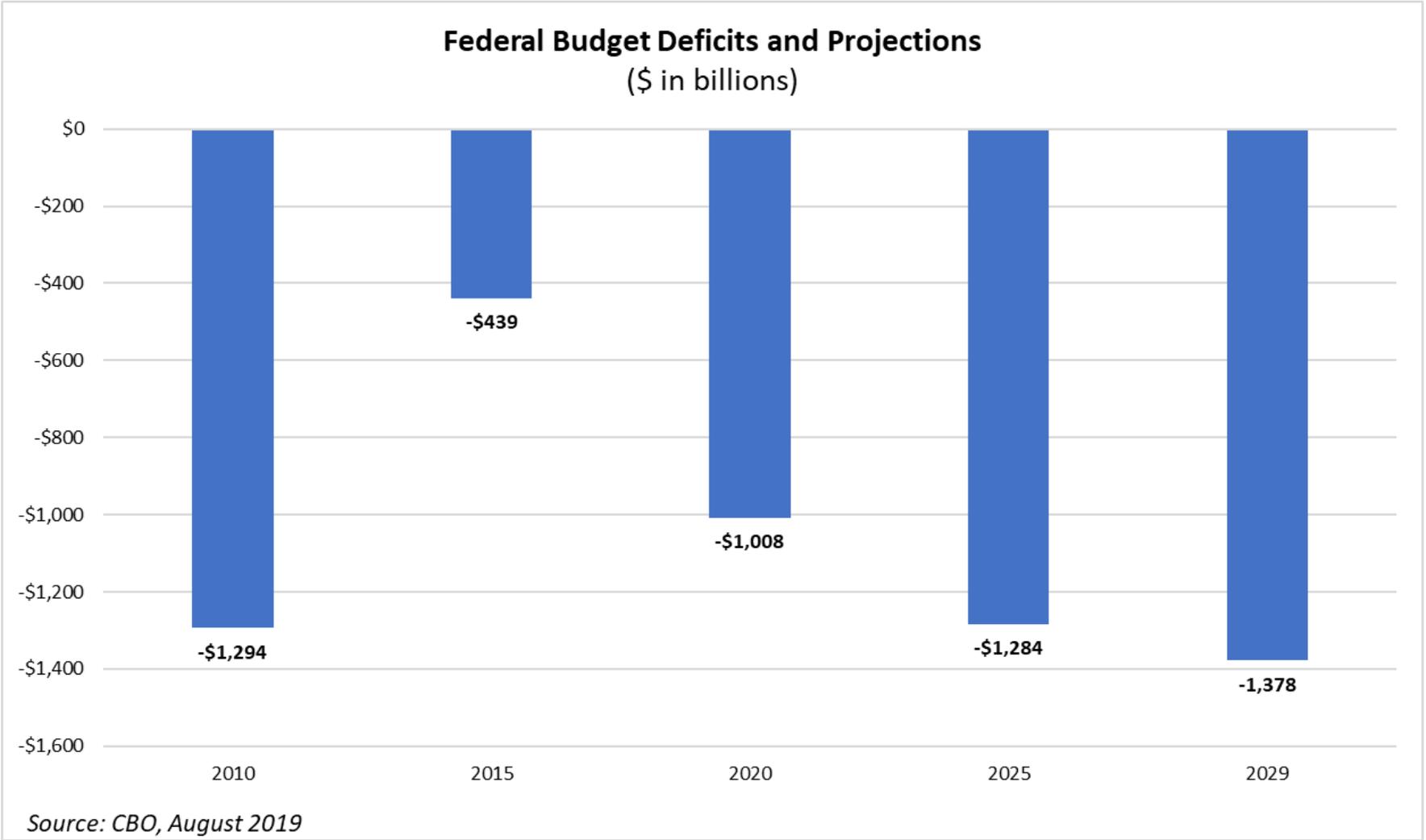
# Beyond grants



**Per Capita Federal Spending per Dollar of Taxes, FY 2017**

*Source: FFIS calculations of data from New York Comptroller*

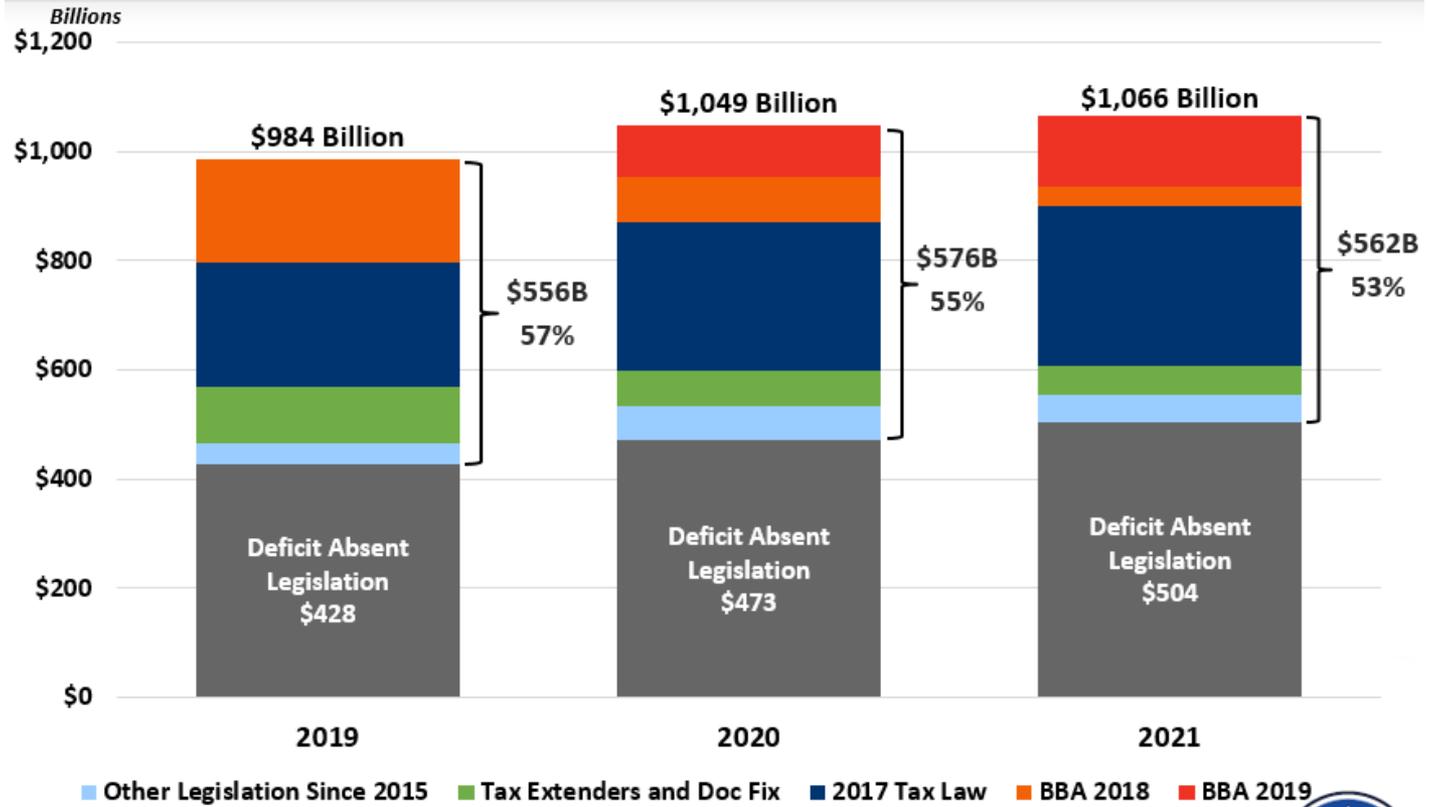
# Return of trillion-dollar deficits



# Recent legislation doubles deficit



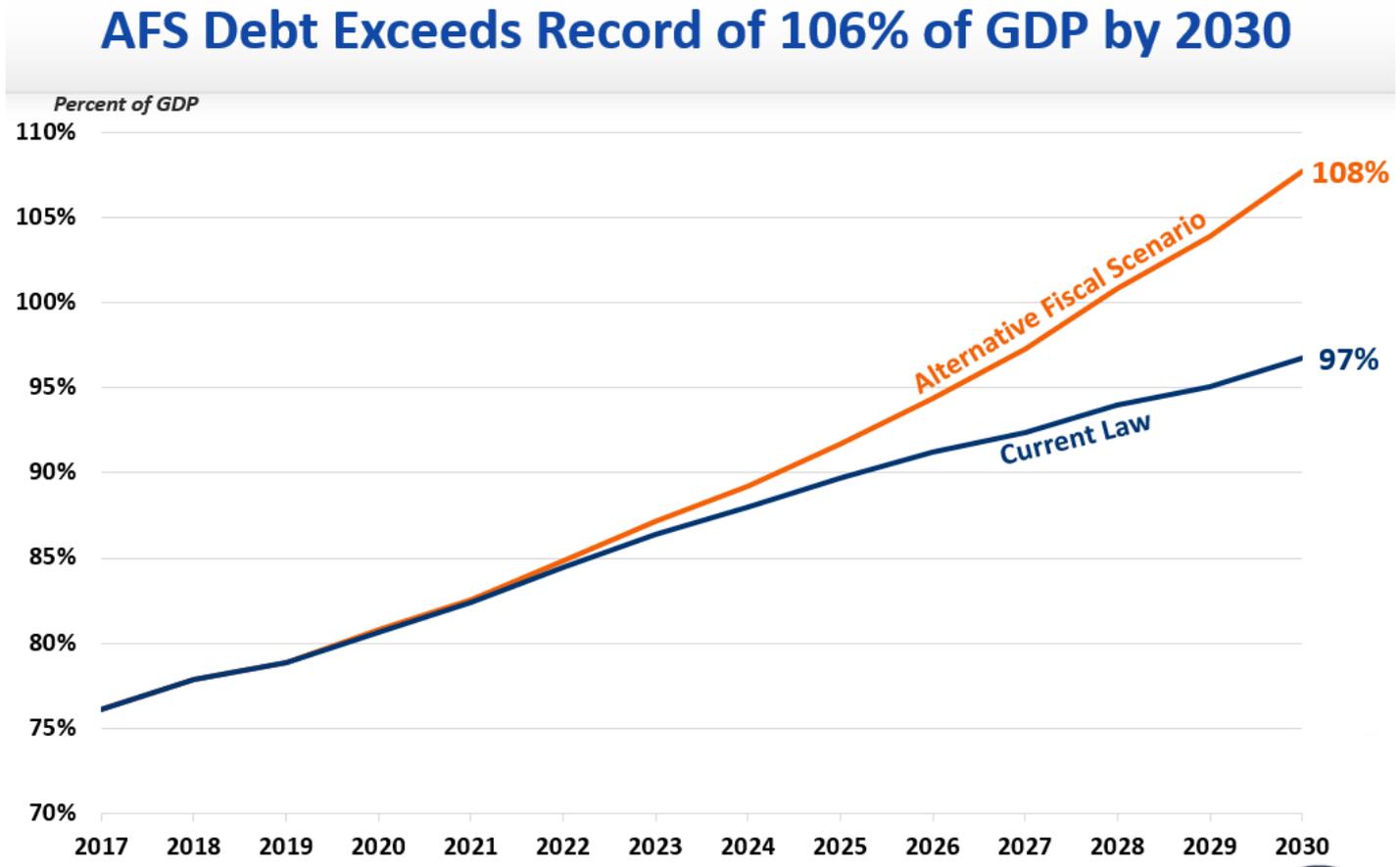
## Recent Legislation Will Double Budget Deficits



Sources: Congressional Budget Office, CRFB calculations.



# National debt is high and rising



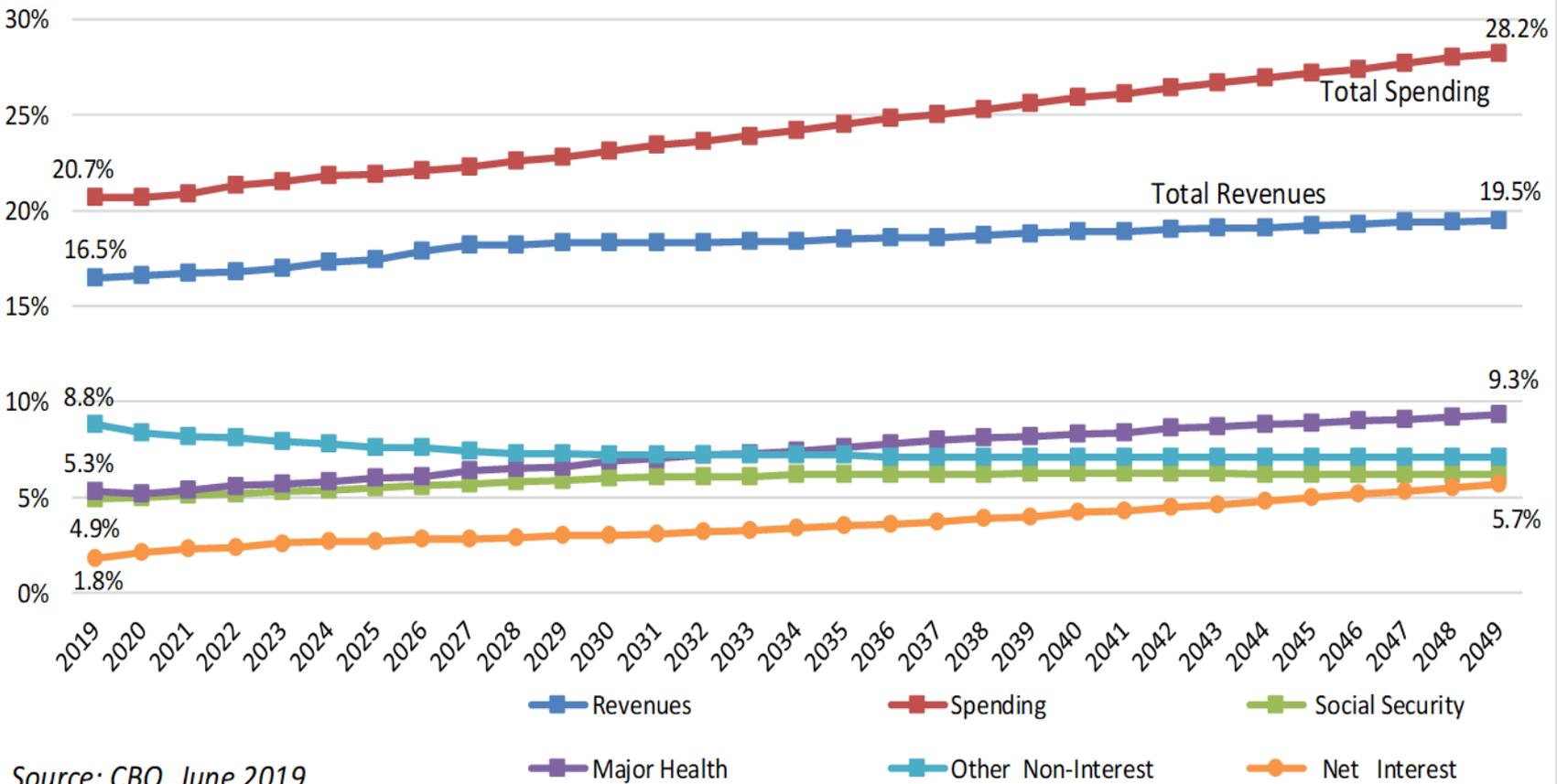
Source: Congressional Budget Office, CRFB calculations.



# Key drivers: aging population, rising health care costs

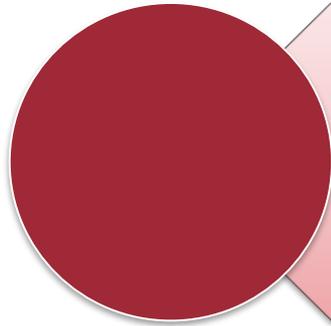


Long-Term Budget Projections

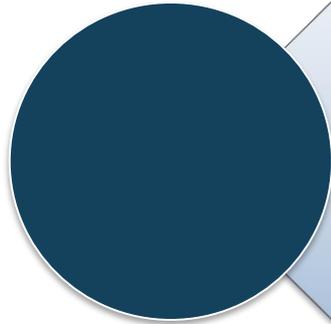


Source: CBO, June 2019

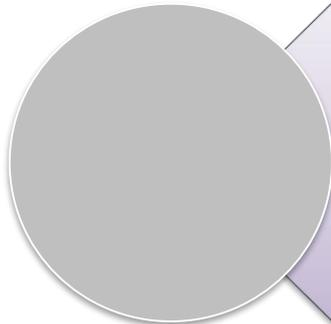
# Challenges and trade-offs



Limiting discretionary  
spending



Limiting mandatory  
spending



Raising taxes

# What is discretionary spending?

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Includes defense, non-defense, and disaster assistance

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Relatively small share of federal spending and grants to state/local governments

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Insufficient to address deficit

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Controlled by annual budget process

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Easy to enact

# How to reduce discretionary spending

Impose  
caps

Reduce  
funding

Eliminate  
programs

Cost Shift

# What is mandatory spending?

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Growth driven by Medicare and Medicaid; other programs relatively stable

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Difficult to change (especially for elderly)

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On autopilot (outside of annual budget process)

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Must change authorizing law, requires a 60-vote majority in Senate (exception: reconciliation)

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Social Security, Medicare Part A reserves declining

# How to reduce mandatory spending

Increase state  
matching  
rates

Restrict  
eligibility,  
benefits

Convert to  
block grant

Cap or reduce  
grant levels

# Concluding observations

No one cares about deficits (today)

Known risks: BCA ending, debt ceiling, big grant programs expiring

Long-term risks: federal fiscal capacity (recessions, disasters, grants to state/local governments)

The longer Congress waits, the harder it will be



# Questions?

Check for updates: [www.ffis.org](http://www.ffis.org)

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