

INTRODUCTION

Each year, state and local governments collectively receive and spend billions in federal funds, which accounted for 40.5% of all state spending in 2021, to provide important services to the public. Federal law and regulation establish some restrictions on the use of federal grants to varying degrees, but state lawmakers have considerable power to leverage federal funds in support of the public services that guarantee all families the opportunity to thrive.

This publication offers a blueprint to state legislators for a values-based approach to managing federal funds from the planning, policymaking, and implementation stages. By working together with advocates and communities, state lawmakers can ensure that we have the resources to deliver quality schools, affordable healthcare, and public services that make communities stronger.

An Overview of Federal Grants to States

Federal grants to state governments are subject to two different federal budget processes. Discretionary funds are a part of the annual federal appropriations process; Congress has the discretion to set funding levels each year for discretionary programs. Discretionary spending includes funding for certain programs or activities, and often includes administrative costs for federal agencies. If Congress fails to provide funding for discretionary spending through an appropriations bill by the start of the fiscal year on October 1, lawmakers can enact a continuing resolution to provide temporary funding and avoid a government shutdown until an appropriations bill is passed. While

this avoids an economic catastrophe, continuing resolutions are not a long-term solution, and as the Congressional Progressive Caucus Center (CPCC) explains, locking in federal funding to prior spending levels can result in underfunded programs, with serious consequences to helping low-income children or combating climate change or protecting public health, just to name a few. Examples of discretionary spending include the Child Care and Development Block Grant (CCDBG), Head Start, and hospital and medical care for veterans. Another important component of the federal appropriations process is the ability of members to "earmark" funding for priority projects in their congressional district. Earmarks are also referred to as congressionally directed spending or community project funding (see the CPCC explainer, Understanding Capitol Hill Jargon, for more).

A Note on Riders

A rider is a public policy provision that is attached to an appropriation bill, often added in legislation that is needed to keep the government from shutting down. These riders do not have much to do with the appropriation bill itself, but are instead "riding" the appropriation into law. As the Clean Budget Coalition puts it, these policy riders are often "just handouts to big corporations and special favors for ideological extremists that could not become law on their own merits."

Mandatory funds, by contrast, are not a part of the annual appropriations process, but are spending priorities set by federal law; spending levels for mandatory programs remain the same absent a change to the underlying law that authorized the program. Mandatory spending includes outlays for federal benefit programs and other payments to individuals, businesses, nonprofits, and state and local governments. Examples of mandatory spending include some of the nation's largest entitlement programs: Social Security, Medicare, and Medicaid.

State legislators should be aware of the federal budget distinctions in planning the use of federal grants: funding levels for discretionary programs may be subject to annual changes as a part of the federal budget process, whereas changes to mandatory programs require statutory changes outside of the annual federal appropriations process.

Federal Grants and Administrative Requirements for State Governments

Federal grants to state governments also fall into two categories based on their

spending requirements and allocation processes. Block grants are provided to fund specific programs and outcomes. However, allowable activities are generally broadly defined, leaving state governments with some flexibility in appropriating funds. Categorical grants can only be used for specific programs with narrowly defined activities. There are additionally four types of categorical grants that differ in how funding is disbursed to state governments and other eligible entities. The degree of federal control and restrictions in the use of grants varies significantly, with important implications for state lawmakers' discretion in setting the policy and activities attached to a particular federal grant (see Table 1).

Table 1. Block Grants and Categorical Grants

Allocation Process & Grant Examples	Discretion in Use of Funds		
	Federal		State
	Selecting Recipient	*Administrative Conditions*	
CATEGORICAL GRANTS			
Project grants Competitive grants for specific projects awarded by a federal agency ***Examples:*** Race to the Top, RAISE Grants, Food Insecurity Nutrition Incentive program	HIGH	HIGH	LOW
Formula grants Discrete amount of funding is appropriated and apportioned to eligible governments based on a formula ***Examples:*** Supplemental Nutrition Assistance Program (SNAP), Title I	LOW	HIGH	LOW
Formula-project grants Funding is apportioned to states based on a formula and states are responsible for distributing funds for specific projects on a competitive basis ***Examples:*** Maternal, Infant, and Early Child Home Visiting (MIECHV), Weatherization Assistance Program (WAP), Head Start, Capital Investment Grants program	LOW	HIGH	LOW
Open-end reimbursement grants State and local governments are reimbursed for a certain percentage of costs for a specific program based on the number of program participants ***Examples:*** Medicaid, Title IV-E	LOW	HIGH	LOW
BLOCK GRANTS			
Funding is appropriated to state and local governments to address broad purposes ***Examples:*** Temporary Assistance for Needy Families (TANF), Child Care and Development Block Grant (CCDBG), Community Development Block Grant (CDBG)	MEDIUM	MEDIUM	MEDIUM

Adapted from Federal Grants to State and Local Governments: A Historical Perspective on Contemporary Issues.

States of Inequality: A Brief History of Federalism and Federal Grants

The nation's federalist system has long produced a dynamic and ever-changing relationship between states and the federal government. Historically, federalism has been selectively used as a political tool to rig the system in favor of corporations and the wealthy. However, state lawmakers have the opportunity to chart a new path for an era of progressive federalism that secures the future of all people, especially communities that have been historically excluded from federally-funded programs, by broadly employing their discretion to maximize the use of federal grants.

The passage of major federal social policies in the form of the New Deal during the 1930s ushered in an era of cooperative federalism, in which the federal and state governments share power and have overlapping responsibilities. While the New Deal created much-needed social insurance programs and protections for the working class, it also left a lasting legacy of racist public policy. Domestic workers and farmworkers, mostly Black and brown workers, were carved out of the Social Security Act and labor protections—a policy rooted in slavery that remains on the books today. Meanwhile, the exclusion of Black people and other people of color from government-sponsored homeownership programs created under the New Deal cemented the racial wealth divide and racial segregation across the country.

Corporate interests mobilized in the following decades to beat back policies that strengthened the middle class, and in tandem with major political shifts in the wake of the Civil Rights movement, the country transitioned into a period of uncooperative or coercive federalism. During this time, industry lobbyists schemed behind the scenes to take over American democracy in the name of pro-enterprise, conservative ideology by way of public policy, media, civic and educational institutions, and the judiciary.

In a few short decades, this powerful group of white wealthy elites won major corporate tax cuts, deregulated industries, and suppressed the right of workers to join together in union, systematically enshrining economic inequality across the nation. The budgetary impacts of advancing a corporate special interest agenda at the federal level have had negative impacts on states and localities. For example, the Reagan tax cuts led to a ballooning deficit and an end of federal revenue-sharing with states and localities, which then led to an overreliance on court fees and fines to help fund local governments, which in turn has contributed to racially discriminatory mass incarceration.

This broader crusade to maintain the status quo and entrench conservatism in every sphere of the political economy also came with dire consequences for those who

could stand to benefit from billions in federal funding each year. Today, there are extreme variations in policy from state to state, producing highly racialized patterns of who can access federally funded programs, and the quality of those services. For example:

- States with larger Black populations were less likely to accept millions in federal funds to expand Medicaid to individuals with incomes below 138 percent of the federal poverty level;
- States with larger Black populations have more restrictive policies for cash assistance programs for children living in poverty funded by the Temporary Assistance for Needy Families (TANF) block grant;
- States with more Black workers have less generous unemployment insurance benefits, and Black workers are less likely to receive unemployment benefits when compared to white workers with similar education or job tenure; and
- Black students receive almost $400 less per pupil in education funding than white students, and Hispanic students receive over $1,000 less per pupil across the country.

These patterns follow other regional and demographic disparities produced by generations of anti-Black voter suppression and gerrymandering. These patterns follow other regional and demographic disparities produced by generations of anti-Black voter suppression and gerrymandering. In the same way that racism continues to distort our democracy by restricting our freedom to vote, unequal access to public services is the direct result of anti-Blackness wielded as a political strategy.

Under the guise of "states' rights" and in order to protect the interests of the wealthy few, conservative politicians — Republicans and Democrats alike — stoked and manipulated racist beliefs to provide cover for massive tax cuts for corporations and deregulation of harmful industries. These racially coded narratives are used to distract from the decimation of our social safety net, the defunding of public education and services, and the stripping of our most fundamental liberties.

Left unchallenged, racist dog whistles (*see below*) conjure misguided support for policies that benefit the few at the expense of many, instead of a policy agenda that supports a vibrant democracy and a strong middle class. As state lawmakers work to reduce racial and economic inequities by maximizing federal grants, they should directly confront the historical use of federalism as a blunt instrument of oppression in policymaking.

Dog Whistle Narratives and Federal Grants

Block grants are a relatively new approach to federal funding, first appearing in 1966 when Congress converted nine categorical grants for health care services to a block grant. But it wasn't until 1971 that President Nixon announced a plan to shift toward a new system that would significantly reduce federal control and increase state discretion over federal grants, as a way to "press open the door of full and equal opportunity, and of human dignity."

The subtext of this speech, which positioned state governments as the main actors that would open doors "for the black American, the Indian, the Mexican-American, and for those others in our land who have not had an equal chance," becomes clear in the context of the Southern Strategy to grow a coalition of conservatives by exploiting racism. In the wake of the Civil Rights Movement, explicitly racist language was simply recast by politicians into racially coded and "colorblind" narratives.

President Nixon and his advisors relied heavily on dog whistles like "state's rights," which had previously been used against the abolition of slavery in the Civil War era, to appeal to anti-Black sentiment, especially in the South in response to the Civil Rights Movement. This was a political move to manipulate racism as a weapon to turn middle class Americans against themselves and distract the public from the growing harms of extreme wealth concentration. Indeed, Nixon's special counsel reflected that as a part of Nixon's 1968 presidential campaign, "subliminal appeal to the anti-black voter was always present in Nixon's statements and speeches."

The march toward increased state control over federal grants continued through the Reagan administration, which adopted the use of the same dog whistles and oversaw the consolidation of dozens of categorical grant programs into new block grants. Since 2000, block grant funding levels for low-income programs have declined by 37 percent after adjusting for inflation and population growth. Moreover, increased control over federal grants by gerrymandered legislatures has resulted in misguided, and even fraudulent, appropriations that stray far from the original intent of some federal grants, such as in the case of federal funds for children living in poverty that have increasingly been diverted to fill state budget gaps, oftentimes on unrelated programs. The conversion of anti-poverty programs to "flexible" block grants has effectively left millions of low-income Americans vulnerable to state budget cuts during economic downturns, and Republicans continue to push to convert Medicaid and SNAP into block grants, using the same

charged language to make false claims of waste, fraud, and abuse.

Dog whistles continue to be a pervasive and dangerous tool used by politicians today. Former President Donald Trump's prolific use of dog whistles paved the way for the re-emergence of white nationalism in mainstream politics and the penetration of far-right extremism in state legislatures across the country.

> **State lawmakers should be wary of the use of racist dog whistles like "states' rights," which draw on a powerful narrative of fear and scapegoating communities of color and other marginalized groups. While these dog whistles appear race-neutral, they conjure and reproduce racist beliefs in service of a broader political agenda to protect the interests of the wealthy few; state lawmakers have a critical role in naming and dismantling these racist frames.**

See more resources on messaging against dog-whistle racism in the Race Class Narrative project.