

Statement on Methodology and Impact

In 2023, the United States government had roughly 2.2 million civilian employees and spent \$6.16 trillion. Federal employees spent that money in 15 cabinet-level departments, 65 major independent agencies, dozens of boards, commissions, and quasi-governmental agencies, and somewhere between 440 and 2,000 agencies, subagencies, and offices (depending on how you count).

We are all dependent to some degree on the money spent by the federal government. A common way that dependency is expressed, at the state level, is the ratio between federal dollars received divided by federal taxes paid. (Money comes back to the states through Medicaid, Social Security, Medicare, federal contracts & grants, and federal employees in each state).

What follows is the first in a series of indexes Pioneer Institute will publish using data sourced and assembled at USDataLabs.org. This new resource, which is free to join, gives you data to compare the performance of all 50 states and D.C. against common policy goals in health, education, infrastructure, energy, taxation, their economies and more.

This first state index ranks all 50 states based on how dependent they are on funding from the federal government. We are not unique in attempting to build such a ranking. USAFacts.org recently published a similar index, one that looked at both the transfers of money from states to the federal government, as well as those from the federal government to states. WalletHub.org publishes an annual ranking of states most dependent on federal funding.

To create our Dependency Index, we compared federal money transferred into each state against three metrics: per capita, as a percentage of per capita personal income, and as a percentage of per capita personal consumption expenditures. Per capita personal consumption expenditures (PCE) measure the average amount of money spent on goods and services per person in a specific population. It is a key economic indicator of individual consumer spending and living standards.

Though our findings approximate what has been found elsewhere, they also differ in important respects. Like both USAFacts and WalletHub, we find that Alaska, on a per capita basis, is the state most dependent on federal funding. However, as a percentage of per capita personal consumption expenditures, Maryland was the most dependent state in our rankings. And from there, our rankings only diverge more, particularly from WalletHub's. For example, Pioneer ranks Virginia as the third most dependent state on a per capita basis, whereas WalletHub ranks Virginia down at number 35. And Massachusetts, which WalletHub has at number 47, is 11th in our ranking.

The divergence is due to methodology. We strove to be as comprehensive as possible. If we could attach a dollar amount to it, we included it. So, for example, in addition to Social Security payments, defense contracts, and intergovernmental transfers, which are typically included in this type of ranking, we also included FEMA obligations, federal civilian employee payroll per state, and military payroll per state, which are not.

We understand that the states, and the residents of those states, are dependent on the federal government in too many ways to count. We picked these dependency measures because they could be quantified in a way that allows apples-to-apples comparisons between states. Other metrics, such as federal water infrastructure, were excluded precisely because they did not allow for such comparisons.

The spending categories we're tracking—Intergovernmental Transfers (which includes Medicaid and income security programs), Medicare, Social Security, FEMA, and defense spending—represent more than 70 percent of the federal budget. Data came from federal agencies rather than non-governmental organizations because the feds have refined and documented their methodologies over many years of collection. (For a complete list of what was included and what excluded, please see below.)

We should also note that we decided not to include Washington, D.C. in our rankings because its dependency on the federal government is such an outlier, especially when taking into account federal civilian and military payroll.

Why does it matter which state and its residents receive the most money from the federal government? In this century, our federal budget has grown from just under \$2 trillion to almost \$7 trillion annually. That represents a jump from 17 percent to 23 percent of GDP. Thomas Hobbes would be pleased, for these numbers are truly Leviathan-like.

How we dispense these enormous sums back to the states tells us something about both our present and future priorities. To paraphrase a certain former president, show me your budget and I'll show you your priorities.

It should come as no surprise that the three of the most dependent states in our ranking—Alaska, Hawaii, and Virginia—also rank in the top three in defense spending per capita. It should also come as no surprise that Virginia and Maryland, ranked second and third respectively in our index per capita, are home to so many federal employees and contractors. These are potential trends that bear watching.

List of Included and Excluded Metrics

Air Transportation: Federal aid for construction, operation, and support of public airports; and other distributions from the Federal Airport and Airway Trust Fund.

Education: Federal aid for Federally impacted areas; migrant and bilingual education; Indian education; Head Start program; Federal grants for school nutrition and milk programs; and grants and contractual amounts received by institutions of higher education for education or for research and development programs.

Excludes: Grants for agricultural experiment stations and extensions and aid for library services.

Employment Security Administration: Federal aid for administration of the cooperative Federal-state unemployment compensation system, public employment offices and related services, and veterans' readjustment allowances; and determination of eligibility for Social Security disability benefits.

Excludes: Workforce Investment Act—WIA and Federal grants for occupational health and safety.

General Local Government Support: Federal aid which may be applied at the discretion of the receiving government to any of its basic functions or purposes; payments-in-lieu-of-taxes; and aid received distinctively as reimbursement for Federal programs or facilities which have resulted in loss of state or local tax revenue.

Excludes: School aid in Federally affected areas and shared revenues from national forests, grazing lands, mineral leases, etc.

Health and Hospitals: Federal aid for alcohol, drug abuse, and mental health; communicable disease control; maternal and child health; special supplemental food program (WIC); environmental health; and care of veterans in state hospitals, including construction of facilities.

Excludes: Federal aid for medical care under public assistance programs such as Medicaid even if received by a public hospital, for care in nursing homes not associated with hospitals, or for payments to vendors for medical care in public assistance cases; and hospital charges received on behalf of individuals under Medicare or other Federal insurance-type arrangements.

Highways (including roads and streets): Federal aid distributed from the Federal Highway Trust or other funds for approved projects and for highway safety.

Excludes: Federal grants for urban mass transit.

Housing and Community Development: Federal aid for construction or operation of public housing; rent subsidy programs (e.g., “Section 8” funds); and rural, urban, and community development.

Natural Resources: Federal aid for forests and grasslands; soil, water, and energy conservation; flood prevention and drainage; fish and wildlife management; and mine reclamation and safety.

Includes: Federal aid for agricultural experiment stations and extension services; inspection of meat, poultry, and other agricultural products; and agricultural research.

Excludes: Federal aid for parks and recreation and shared revenue from national forests, grazing lands, mineral leasing, flood control lands, etc. Also excludes Federal grants for school nutrition and milk programs; special supplemental food program, or WIC; food stamp program; and value of food commodities distributed to states.

Public Welfare: Federal aid for categorical programs—Temporary Assistance for Needy Families—TANF; medical assistance programs (Medicaid) even if received by a public hospital; care in nursing homes not associated with hospitals; food stamp administration; child welfare services; low-income energy assistance; social and community services block grants; refugee assistance; work incentives program (WIN); and related administration.

Excludes: Federal aid for school nutrition and milk programs and special supplemental food program, or WIC.

Sewerage: Federal aid for construction, operation, and maintenance of sanitary and storm water sewer systems, and sewage disposal and treatment facilities.

Water Supply Systems: Federal aid for maintenance, operation, and construction of public water supply systems, whether for distribution of water to the general public or to other public or private utilities.

Excludes: Reimbursements for sale of water to Federal Government as a regular utility customer and grants related to water irrigation, conservation, and management even if project is designed for future water supply uses.

Electric Power Systems: Federal aid for maintenance, operation, and construction of public electric power generating plants and related transmission systems.

Excludes: Reimbursements for sale of electric power to Federal Government as a regular utility customer and grants for water development projects which have an electricity generating component

Gas Supply Systems: Federal aid for maintenance, operation, and construction of public natural gas supply and distribution systems.

Excludes: Reimbursements for sale of natural gas to Federal Government as a regular utility customer.

Public Mass Transit Systems: Federal aid for maintenance, operation, and construction of public mass transit systems (buses, subways, commuter railroads, urban mass transit, and the like).

Excludes: Grants for other modes of transportation, such as airports and highways

All Other: Federal aid for specified purposes other than categories shown above (e.g., economic development, libraries, civil defense and militias, disaster assistance, public broadcasting, parks and recreation, water transportation) and for multipurpose activities.

Examples:

- Workforce Investment Act
- Shared revenue from national forests, grazing lands, mineral leasing, and flood control lands, even though such funds must be spent on specified types of activities, such as schools and roads.
- Disaster Assistance (FEMA).

Mission

Pioneer Institute empowers Americans with choices and opportunities to live freely and thrive. Through expert research, educational initiatives, legal action, and coalition-building, we advance human potential in four critical areas: K-12 Education, Health, Economic Opportunity and American Civic Values.

