

An Overview of Recent Federal Funding and Cost Shift Changes and Their Impact on Local Governments

Whitney Afonso
School of Government



THE UNIVERSITY OF NORTH CAROLINA AT CHAPEL HILL

1

Quick introduction

Professor at the School of Government at UNC-CH

Work with state and local budget and finance professionals

Research on state and local taxes
Income, property, and sales

THE UNIVERSITY OF NORTH CAROLINA AT CHAPEL HILL

2

This morning

- Examples of changes at the federal level that are likely to effect state and local governments
- Deeper dive into most impactful
- Some reflections about county governments and their resiliency

THE UNIVERSITY OF NORTH CAROLINA AT CHAPEL HILL

3

Examples of cost shifting

AA

- SNAP (H.R.1)
 - Administrative costs
- Medicaid (H.R.1, reconciliation bills)
 - Reduction in matching funds
 - Administrative costs
- FEMA (H.R.4669 and budget cuts)
 - Increasing thresholds for assistance
 - Administrative costs

CC

- Digital Accessibility (DOJ ADA Title II)
 - Administrative costs
- EPA Environmental Regulations
 - Upgrades/infrastructure
 - Administrative costs

THE UNIVERSITY OF NORTH CAROLINA AT CHAPEL HILL

4

4

Examples of cost shifting

IDEA

- Individuals with Disabilities Education Act (IDEA) Funding Shortfall
 - Reduction in federal funds
- Other Education cuts
 - Elimination of 12 programs
 - Other reductions

Cybersecurity

- Cybersecurity Incident Reporting and Grant Cuts
 - Upgrades/infrastructure
 - Administrative costs
- HHS Tobacco Product Standards
 - Administrative costs
- Many others

THE UNIVERSITY OF NORTH CAROLINA AT CHAPEL HILL

5

5

Regulatory Environment

- Administrative costs are key and often less visible initially
- Estimated burden from regulatory changes from 2023-2026 is >\$2 trillion
- State and local governments are responsible for ~20-30% of those costs

COMPLIANCE

THE UNIVERSITY OF NORTH CAROLINA AT CHAPEL HILL

6

6

Deeper Dive: SNAP, FEMA, & Medicaid

7



Supplemental Nutrition Assistance Program (SNAP)

- Almost 1.45 million North Carolinians receive SNAP
- 1 in 6 children in NC receive SNAP
- About 80% of SNAP households have a working adult in the household

8

Changes coming to SNAP

- Federal share of funding for administrative costs dropping from 50% to 25% in FY27
 - ~\$850 million increase in annual obligations for counties nationally
- For North Carolina:
 - NCDHHS estimates \$67 million for counties
 - NCACC estimates \$67 to \$70 million for counties
 - State share ~\$15 million
- These costs include eligibility determinations, compliance with (new) work requirements, enrollment, and other costs
 - Almost 175,000 adults will be impacted



THE UNIVERSITY OF NORTH CAROLINA AT CHAPEL HILL

9

SNAP error costs

- Currently federal government pays 100% benefit costs
- Overpayment burden (error) already required to be repaid to federal government
- Change in coverage of benefit costs (October 2027)
 - 5% if error rates between 6 to 8%
 - 10% if error rates between 8 to 10%
 - 15% if error rates over 10%
 - Based on error rates from prior 3 years
- NC's SNAP error rate in 2024 was **10.21%**
 - Slightly below national average (10.93%)
- Estimated cost to NC for benefit costs: **\$420 million per year**



THE UNIVERSITY OF NORTH CAROLINA AT CHAPEL HILL

10

10



FEMA H.R. 4669

- Mixed bag for impact on local government
- Goals:
 - Faster public assistance funding
 - Universal application with goal to reduce paperwork
 - Streamlined procurement
 - Greater support for small/rural jurisdictions
- Decreased support:
 - Goal to make state and locals less dependent on federal funds
 - Possible increased compliance burdens
 - Possible increased use of private contractors

11

11

FEMA

- The cancellation of FEMA's Building Resilient Infrastructure and Communities (BRIC) program could leave counties more vulnerable to disasters, removing a key source of federal disaster mitigation funding.
 - BRIC provided \$750 million to \$1 billion annually for projects like stormwater systems, wildfire prevention and flood protection.
- In December, a federal judge said the termination of the program was unlawful and it was reinstated.

THE UNIVERSITY OF NORTH CAROLINA AT CHAPEL HILL

12

12

FEMA

- Secretary (DHS) review changed from \$25 million to \$100,000
 - Has led to bottlenecks in response for current programs
 - Average of 164 declared disasters a year (major disasters: 1 every 3 or 4 days)
- More requests are being denied
- It is unclear at this moment what changes will occur with FEMA and how they will impact state and local governments

THE UNIVERSITY OF NORTH CAROLINA AT CHAPEL HILL

13

13

Medicaid



- Over 3.1 million North Carolinians are enrolled
- Projected loss in coverage because of new work requirement
- Potential loss in coverage if expansion ends
 - Over 670,000 people

THE UNIVERSITY OF NORTH CAROLINA AT CHAPEL HILL

14

14

Medicaid

- Many changes
 - Estimated by NCDHHS to be a loss of almost \$50 billion over 10 years
- Removal of 5% of Federal Medical Assistance Percentage (FMAP) incentive
 - Increase the cost of expansion
- State Directed Payments (SDP)
 - Capped at Medicare rates
 - 2028: Cut by 10 percentage points annually
 - Elimination of \$6 billion Healthcare Access and Stabilization Program (HASP)
- Federal limits on provider taxes (used to fund Medicaid)
 - \$22.5 billion over 10 years

THE UNIVERSITY OF NORTH CAROLINA AT CHAPEL HILL

15

15

Medicaid

- Cost shift: subnational administrative cost increasing from 50% to 75%
 - Estimated increase of \$96 million for NC
- Error rates
- Changing work requirements & more frequent eligibility verification
 - Greater costs to ensure compliance
 - New work requirements
 - Check qualifications every 6 months
 - Reduction in health insurance coverage
 - Strain on local healthcare providers
 - Biggest impact on rural counties which are projected to lose ~\$155 million in Medicaid spending
 - May also leads to reductions in the healthcare industry and that would impact the economy more broadly

THE UNIVERSITY OF NORTH CAROLINA AT CHAPEL HILL

16

16

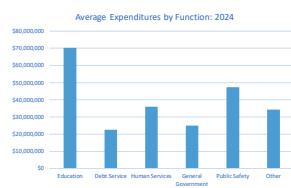
How might local governments respond?

17

17

Possible responses

- Reduce expenditures:
 - Efficiency cuts
 - Reduce or eliminate some services or transfers
 - Re-prioritization and reducing less high priority needs
 - Most common reductions in local government
 - Staff
 - Capital



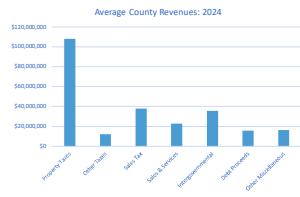
THE UNIVERSITY OF NORTH CAROLINA AT CHAPEL HILL

18

18

Possible responses

- Increase revenues
 - Major drivers are:
 - Property tax
 - Sales tax
 - Occupancy tax (for some)
 - Fees



THE UNIVERSITY OF NORTH CAROLINA AT CHAPEL HILL

19

19

Possible responses

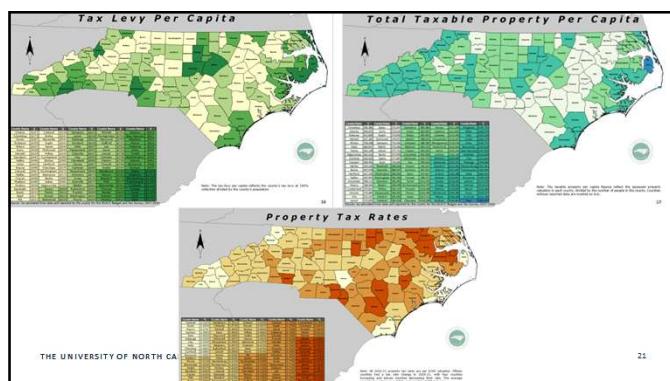
- Adopt another local sales tax
 - Just under half of counties can levy Article 46



*Does not include Mecklenburg's new LST

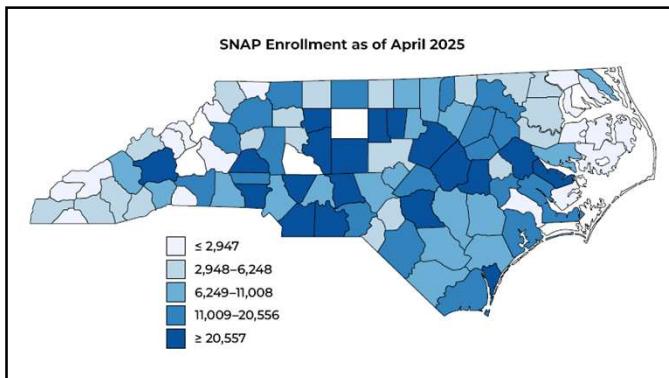
20

20

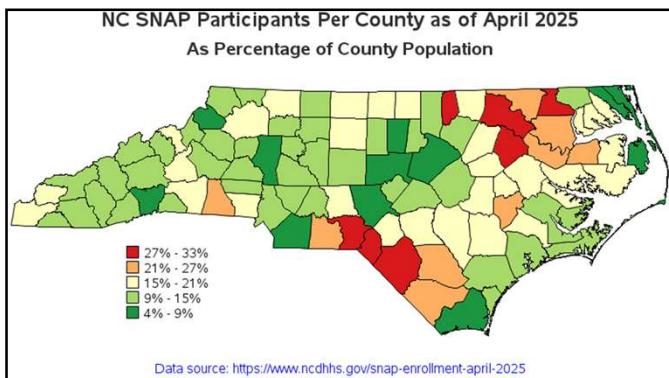


21

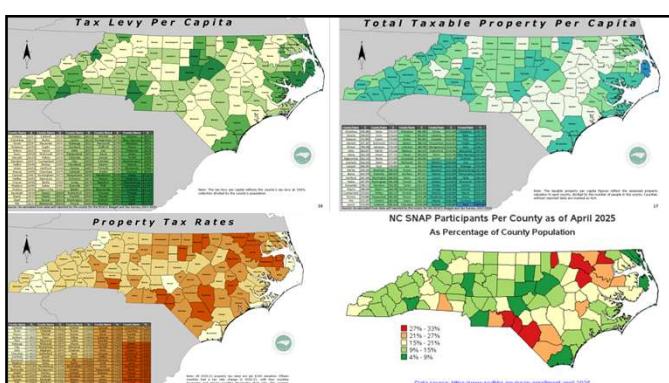
21



22



23



24

Final thoughts on local coping with cost shifting

- There are a lot of ways to think about financial health and resiliency
- In general, I prefer thinking about per capita numbers
 - They are imperfect too
 - Impact of non-residents
 - Rural areas: typically, it costs more to serve each resident
 - Growing areas often require large capital investments

THE UNIVERSITY OF NORTH CAROLINA AT CHAPEL HILL

25

25

Please reach out

Whitney Afonso
Afonso@sog.unc.edu

26



THE UNIVERSITY
of NORTH CAROLINA
at CHAPEL HILL

27

27

Legislation

One Big Beautiful Bill Act: P.L. 119-21

P.L. 119-21's impacts include:

- (1) **§§ 10101-10108 SNAP Benefits:** Impacts in North Carolina include changes to work requirements and removal of many categories of non-citizen eligibility. Additionally, a decrease in the federal portion of administrative SNAP costs coverage from 50% to 25%. Currently, counties pay the 50% of costs in NC. NCDHHS estimates this will lead to state administrative costs increasing by \$16 million and county administrative costs increasing by \$67 million. State agencies will also be required to pay a percentage of SNAP benefit allotments if their SNAP Payment Error Rate is above 6% (previously, the federal government funded 100% of the direct cost and only overpayments had to be repaid). The cost share varies based on the error rate. The largest share is 15% for error rates over 10%. In 2024, NC's average error rate was 10.21% and NCDHHS estimates that NC's cost share could be around \$420 million per year. For more on impacts to SNAP benefits in NC, see Kristi Nickodem's blog posts from [October 31, 2025](#) and [November 12, 2025](#), as well as the NCDHHS PowerPoint provided via email.
- (2) **§§ 71101-71121 Medicaid:** There are many different sections in this new law that will impact state and local governments' provision of Medicaid, such as changes in eligibility requirements, additional reporting requirements for the state, and changes to funding and the provider tax limits.
 - a. §§ 71103, 71104, 71107, 71111, & 71119 detail new information states must obtain from enrollees, new state reporting obligations, and require states to redetermine eligibility every six months (NC currently makes this redetermination annually per NCDHHS).
 - b. §§ 71109, 71110, 71119, 71201 detail new eligibility requirements that include removing eligibility for certain categories of noncitizens and new community engagement requirements and reduce the federal matching rate for emergency services provided to certain unlawful residents.
 - c. §§ 71106 and 71116 discuss shifts in calculations of state federal matching funds based on erroneous excess payments and revisions to regulations that will limit state-directed payments (SDPs) for certain services. NCDHHS predicts that the \$6 billion Healthcare Access and Stabilization Program (HASP) will be eliminated, which is the largest SDP in NC.
 - d. Changes related to Medicaid expansion in §§ 71114, 71115, & 71120: new limit on the provider tax for states that have expanded Medicaid to the current rate or a specified rate, whichever is lower, and decrease in the maximum rate gradually to 3.5% from fiscal year 2028 to 2032 (previously, 6% cap). According to NCDHHS, this includes the \$50 billion Rural Healthcare Provider Fund and estimates \$22.5 billion will be taken out of NC economy over 10 years.
- (3) Other sections of P.L. 119-21 with impacts for state and local government, though not major like the changes to SNAP and Medicaid, include: (1) § 71401 (providing \$ 10 billion per FY for 2026-2030 for a program supporting provision of healthcare in rural areas; state application decisions were to be made by December 31, 2025); (2) §§ 4008 & 6009 (rescinding funds for financial assistance to states

for specific environmental efforts); (3) § 70309 (expanding exclusion from gross income for interest on bonds issued by state or local governments to include interest on bonds with at least 95% of net proceeds used to finance a spaceport); (4) § 70422 (increasing low-income housing tax credit eligibility and federal allocation to states by 12%); (5) § 73001 (prohibiting federal unemployment programs' payments to those with wages of \$1 million or more; requiring state agencies administering program to verify income and provide recovery of any overpayments); (6) §§ 90005—06, 100051—57 (providing funding to states and localities related to border security and law enforcement costs to protect the President's residence). The Counter-Unmanned Aircraft System Grant Program established as part of § 90005 and being distributed by FEMA has [FY 2026 awards announced](#), NC is not included, but the [Notice of Funding Opportunity from November 2025](#) states that the outstanding \$250 million will be distributed to all 56 states and territories in FY 2027. For more on the program, see [Yucel Ors, Grant Program to Empower Cities, Towns and Villages, NATIONAL LEAGUE OF CITIES \(December 9, 2026\)](#).

(4) Finally, while higher education impacts stemming from P.L. 119-21 were not discussed above, some of the education regulations surrounding higher education that are developing because of the One Big Beautiful Bill Act will impact states. For a summary of the potential impacts, see [Austin Reid et al., 'Big Beautiful' Education Regulations Now in the Works, NATIONAL CONFERENCE OF STATE LEGISLATURES \(January 29, 2026\)](#).

Legislation On the Horizon

No pending legislation would have as large of an impact as P.L. 119-21. However, there are some bills that are worth noting.

- (1) [H.R. 22](#) – Would require voters to provide documentation proving citizenship when registering to vote for federal elections. Requires states to establish a process for citizens who cannot provide proof to submit other documentation and sign an attestation. This is an unfunded mandate with no funding to states to assist with implementation costs. See [Rachel Orey et al., Five Things to Know About the SAVE Act, BIPARTISAN POLICY CENTER \(February 2, 2026\)](#).
- (2) There seems to be an overarching focus on energy and electric utilities with current bills that individually might not have too much but taken together could be noteworthy. These include: (1) [H.R. 3628](#) (requiring state utility commissions to consider establishing measures of availability of electricity over specified time periods). CBO estimates a small incremental increase in administrative costs. See [CBO Cost Estimate - H.R. 3628](#); (2) [H.R. 3632](#) (modifying Federal Energy Regulatory Commission (FERC) process to determine if a public utility must remain open where retirement would make the bulk power system unreliable). CBO cannot determine the aggregate cost of all mandates in bill. See [CBO Cost Estimate - H.R. 3632](#); (3) [H.R. 3668](#); [H.R. 1949](#); [H.R. 1047](#); [H.R. 3062](#); [H.R. 3616](#) (if FERC increases fees to offset the cost of implementing these bills there would be an increase to mandate costs on public and private entities, such as electric utilities). See the following CBO Cost Estimates: [for H.R. 3668](#); [for H.R. 1949](#); [for H.R. 1047](#); [for H.R. 3062](#); [for H.R. 3616](#).
- (3) [H.R. 3492 Protect Children's Innocence Act](#) – Prohibits medical professionals and institutions (including publicly owned) from providing gender-affirming procedures and drug treatments to minors resulting an estimated revenue loss of \$16 million per year over 2026-2030 for intergovernmental costs. See [CBO Cost Estimate - H.R. 3492](#).

Executive Orders

Monitored by NCSL

The National Conference of State Legislatures (NCSL) has developed a list of [Key 2025 Trump Administration Executive Orders and Policies](#). This list includes states-related executive orders, policies and memoranda issued by the Trump administration in 2025 and should be consulted to review executive orders. The date the table was last updated is listed as November 3, 2025, on the website, but there are EO's from as late as November 14, 2025. The table can be organized by type of action (i.e. EO's) and each administrative action has a short summary and link to the full text if you click on the arrow to the left of each row entry. The summaries detail the main actions taken and highlight important actions after the initial order. There is also a column in the table that tracks the latest action related to the order.

Other E.O.s

For EO's after November 14, 2025, that would not have been included in the NCSL table, review of each EO on the White House website was completed. The following EO's are noteworthy:

(1) EO's Related to AI:

- a. [EO 14363 – Launching the Genesis Mission](#). One of multiple EO's implementing America's AI Action Plan, launching the mission as a coordinated national effort to establish AI-accelerated innovation and discovery by building an integrated AI platform. Direct impact to states or local governments is unclear, but it does include university scientists as part of the scientific efforts the mission is meant to combine.
- b. [EO 14365 – Ensuring a National Policy Framework for Artificial Intelligence](#). Calls for the Administration to act with Congress to ensure there is a minimally burdensome national standard for AI regulations and criticizes state-by-state regulation, calling for the national framework to forbid state laws that conflict with national policy. Calls for specified individuals to assist through various measures like establishing task force to challenge certain state AI laws and to add restrictions on federal funding for some states and new conditions for discretionary grants to states, for example.
 - i. In response to the EO, the Attorney General's office has [announced the AI Litigation Task Force](#). See also [Bradley Bennett & Cailyn Reilly Knapp, Inside the DOJ's New AI Litigation Task Force, JD Supra \(January 28, 2026\)](#).

For more on AI-related 2025 EO's, as well as other state and federal AI-related actions, see Kristi's [October 13, 2025 blog](#).

- (2) [EO 14379 – Addressing Addiction Through the Great American Recovery Initiative](#). Calling for a new national response to addiction that will create stronger coordination across many sectors to have the treatment parallel that of other chronic diseases. Requires Initiative members to, among other things, consult with states, local jurisdictions, and many others on best strategies to ensure more Americans receive treatment and celebrate individuals going through the recovery process.
- (3) EO's Related to Tariffs: [EO 14380 – Addressing Threats to the United States by the Government of Cuba; Addressing Threats to the United States by the Government of Iran](#) (not yet published in Federal Register, signed February 6, 2025) (allowing tariffs at ad valorem rate of duty on goods imported into the U.S. that are products of any other country that directly or indirectly sells or otherwise provides any oil to Cuba, EO 14380, or indirectly purchases, imports, or otherwise acquires any goods or services from Iran, February 6 EO).

Summary of federal funding and cost shifting
Whitney Afonso February 2026

Note, EO numbers were found using the [Federal Register Executive Orders Index](#) as needed. The White House website versions linked above do not contain the executive order numbers.

Research support for this handout was provided by Meagan Watson, Legal Research Associate, UNC School of Government.