

# IN BRIEF

**The  
Intergovernmental  
Grant  
System:  
An  
Assessment  
&  
Proposed  
Policies**



# IN BRIEF

**The  
Intergovernmental  
Grant  
System:  
An  
Assessment  
&  
Proposed  
Policies**



# CONTENTS

<b>Foreword</b>	1	
<b>Introduction</b>	3	
<b>The Federal Grant System</b>	7	
A Grant Typology	7	
How The System Works	10	
Impact on State and Local Governments	11	iii
Decentralization or Recentralization?	11	
Generalist or Specialist?	13	
State-Local Relationships	13	
<b>Strategy for Improvement</b>	15	
Grant Consolidation	15	
National Policy Requirements Reconsidered	16	
Careful Program Design and Evaluation	19	
Simplifying and Standardizing Grants Management Procedures	22	
Functional Allocation	23	
Recent Grant Administration Initiatives	24	
<b>An Overview of the Trends in Federal Aid</b>	25	



# FOREWORD

This report in brief of the Commission's recent work entitled *The Intergovernmental Grant System: An Assessment and Proposed Policies* is the first of what will be a series of reports highlighting some of the Commission's most significant and timely work.

This report was written by Carol S. Weissert, ACIR Information Officer, based on the work of members of the ACIR Structure and Functions Section, headed by Assistant Director David B. Walker. It provides an overview of various key elements of the Commission's comprehensive study of the federal and state aid system and highlights a five-point strategy for grant reform. Specific references to ACIR source documents are provided throughout the text.

1

The full Commission work on this topic is comprised of the 14 volumes listed below. These reports are available upon request.

- Block Grants: A Roundtable Discussion* (A-51), Oct. 1976.
- Categorical Grants: Their Role and Design* (A-52), May 1978.
- A Catalog of Federal Grant-in-Aid Programs to State and Local Governments: Grants Funded FY 1975* (A-52a), Oct. 1977.
- Improving Federal Grants Management* (A-53), Feb. 1977.
- The Intergovernmental Grant System as Seen by Local, State, and Federal Officials* (A-54), March 1977.
- Safe Streets Reconsidered: The Block Grant Experience, 1968-1975* (A-55), Jan. 1977.
- Safe Streets Reconsidered: The Block Grant Experience, 1968-1975, Case Studies* (A-55a), Jan. 1977.
- The Partnership for Health Act: Lessons from a Pioneering Block Grant* (A-56), Jan. 1977.
- Community Development: The Workings of a Federal-Local Block Grant* (A-57), March 1977.
- The Comprehensive Employment and Training Act: Early Readings from a Hybrid Block Grant* (A-58), June 1977.
- The States and Intergovernmental Aids* (A-59), Feb. 1977.
- Block Grants: A Comparative Analysis* (A-60), Nov. 1977.
- Federal Grants: Their Effects on State-Local Expenditures, Employment Levels, and Wage Rates* (A-61), Feb. 1977.
- Summary and Concluding Observations* (A-62), June 1978.





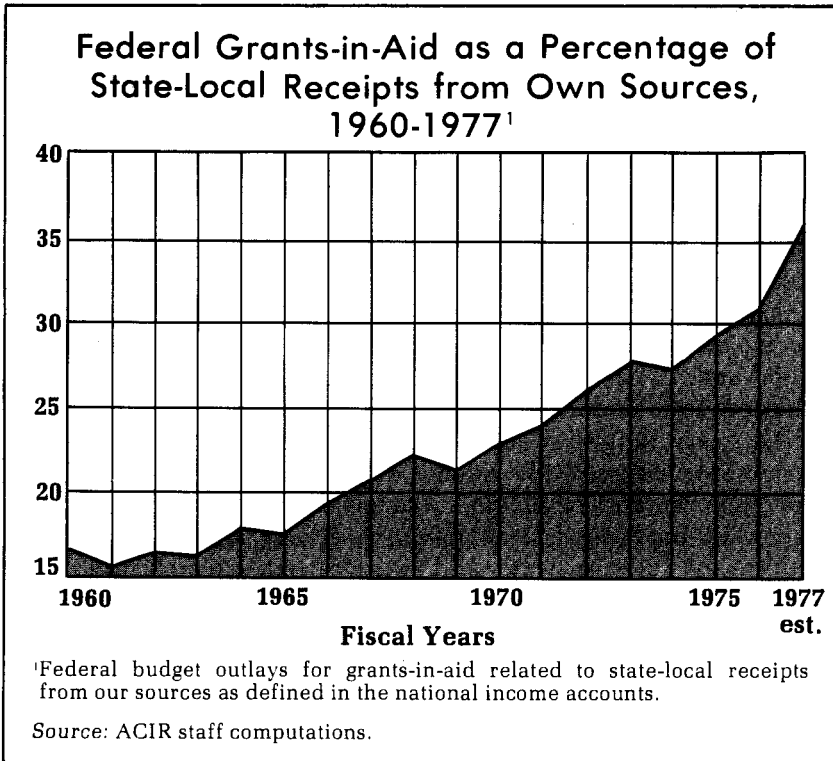
# INTRODUCTION

Federal aid is big business in intergovernmental relations. It is big in terms of total federal outlays, state and local expenditure patterns, and the scope and substance of service delivery to constituents of all three levels of governments.

In fiscal year 1978, federal aid to state and local governments will exceed \$80 billion—a tenfold increase since 1960. As a percentage of the federal budget, federal aid has more than doubled—from 7.6% in 1960 to an estimated 17.4% in fiscal year 1978.

3

Understandably, federal aid plays a significant role in the activities of grant recipients. Today it accounts for about 25% of state budgets and an even larger percentage of many local budgets. In 1977, federal aid came to more than 35% of total state-local general revenues collected from their own sources.



The reach of federal aid is sweeping. Virtually every state and local activity can be assisted by some federal program. Thus, where once federal grants mainly supported transportation and agriculture, today they fund a plethora of programs in health, education, community development, environmental protection, social services and other functions. The result has been that many activities traditionally considered wholly state-local responsibilities are now a part of a three-government mix.

The effects these changes in federal aid have had on recipient governments and citizens have been significant—but until recently undocumented. Unlike sophisticated national defense analyses and numerous studies of “softer” social programs like welfare, few researchers have attempted to evaluate the entire federal aid package in terms of what difference it makes to our

4 intergovernmental system.

To make this assessment, one must deal with these questions:

- What elements make up our current federal aid system?
- Does the kind of grant make a difference, and, if so, when are categorical and block grants most appropriately used?
- How does the grant system affect state and local governments?
- What are the trends in federal aid?
- What can be done to improve the system?

The Advisory Commission on Intergovernmental Relations answered these and related questions in a 14-volume study entitled, *The Intergovernmental Grant System: An Assessment and Proposed Policies*. The purpose was to make a comprehensive assessment of the federal and state aid systems, to identify problem areas, and to propose reforms. Effects on state and local governments comprised one focus of the study. How the broad system and its elements work was another. The Commission examined four federal block grants in depth; catalogued and studied every funded federal categorical grant to state and local government; assessed the impact of federal grants on state and local expenditures, employment levels, and wage rates; studied current and past efforts at managing federal grants; and surveyed hundreds of federal, state and local officials concerning their views of the operation of the federal and state aid systems.

Based on its findings, the Commission made 60 recommendations directed to all three levels of government. The recommendations and related findings are found throughout the 13 volumes and are consolidated in the final volume of the series. The 14 volumes and their dates of publication are listed in the *Foreword* of this summary.

Out of the key recommendations, ACIR fashioned a five-point strategy for improving the federal grant system. Specifically, the Commission recommended that the Congress and the President give full attention to:

- 1) a joint effort to simplify and standardize, wherever feasible, the procedures and requirements of federal assistance programs. The Commission recognizes that Executive actions alone in this area have proven in the past to be inadequate in the absence of clear Congressional agreement and support. The Commission further recognizes that while the Congress has shown an increasing interest in rationalizing and coordinating its own policy initiatives in intergovernmental and other areas, many of the management challenges still arise from multiple federal aid actions within the many committees and subcommittees dealing with domestic governmental programs. The Commission, then, emphasizes that without a joint approach to federal grants management there is no effective approach;
- 2) the merger of the more than 448 federal grants-in-aid primarily to state and local governments into a much smaller number of consolidated grants (including both block grants, where appropriate, and broader categorical programs). The Commission is convinced that such consolidations are an indispensable means of rendering the present aid system more comprehensible and manageable to policy officials in the executive and legislative branches and to program administrators at all levels of government. The Commission also finds this device to be one of the essential ways of strengthening most of the existing block grants and of curbing the extraordinary program specificity of dozens of categorical programs;
- 3) careful assessment, both before and after their enactment, of the impact of generally applicable intergovernmental regulatory standards and procedures, including the federal capacity to enforce them fairly and uniformly; the costs as well as prospective benefits of their achievement; the suitability and necessity of the use of intergovernmental aid programs as a major instrument for pursuing these national objectives; the clarity and precision of the objectives and principles to be applied in their executive and judicial interpretations; and the relationships and possible contradictions between and among these various national policy objectives. The Commission emphasizes that these are the

minimum steps necessary to bring some semblance of order to an area wherein regulations have run riot; and

- 4) the ongoing evaluation of the achievements, shortcomings, and impacts of federal grant-in-aid programs, singly and collectively, and the related need for greater attention to the objectives and the design of different aid instruments, including questions of grant form; the role of eligible recipients; allocation and matching provisions; maintenance of effort requirements; and reporting and other conditions. The Commission stresses that these efforts are indispensable if the system is to be seen whole and if the crucial conditioners of this system are to be brought under control.

The Commission further recommends that the President provide for:

- 5) a reexamination of federal, state and local roles in, and contributions to, the principal functional areas of public policy, including assessments of the desirability of fully nationalizing some functions while reducing, eliminating or forestalling federal involvement in others; an assessment of the interrelationships among the full range of programs in each policy field; and a consideration of the possible use of instruments other than grants-in-aid to realize national objectives. While the Commission has previously indicated its position regarding the areas of welfare and public education, similar studies need to be made for other fields.

# THE FEDERAL GRANT SYSTEM

## A Grant Typology<sup>1</sup>

The somewhat abbreviated definition of federal grants to state and local governments used by ACIR is "resources provided by the federal government in support of a state or local program of governmental service to the public." This includes direct cash grants, outlays for grants-in-kind (like the school lunch program), and payments to nonprofit institutions when there is state or local governmental involvement.<sup>2</sup>

7

ACIR counted 448 such grants both authorized and funded as of January 1976 (for fiscal year 1975). Of these, 442 were categorical grants, five were block grants, and one a comprehensive general revenue sharing program.<sup>3</sup>

General revenue sharing, the newest grant type, refers to a program for state and local governments where funds are provided by formula to a large number of general purpose governments with few or no limits or restrictions as to how the money will be spent. The *State and Local Fiscal Assistance Act of 1972*, renewed in 1976, is the largest and most comprehensive federal general revenue sharing program in operation.<sup>4</sup>

Like general revenue sharing, block grants are distributed by means of a formula. Within a broad functional area, the recipient is free to use federal funds largely according to his own priorities and at his own discretion. The amount of flexibility, however, varies considerably from grant to grant. ACIR recognizes five programs as block grants: the *Partnership for Health Act*

---

<sup>1</sup>For more information on topics discussed in this section, see *Categorical Grants: Their Role and Design* (A-52), and *Summary and Concluding Observations* (A-62).

<sup>2</sup>This definition is based on Executive Office of the President, Office of Management and Budget, *Preparation and Submission on Budget Estimates*, Circular No. A-11, Revised, July 19, 1976.

<sup>3</sup>The Antirecession Fiscal Assistance program, established by Title II of the 1976 *Public Works Employment Act* and extended as part of the Economic Stimulus Program by the *Intergovernmental Antirecession Act of 1977*, is viewed by many as an additional general revenue sharing program.

<sup>4</sup>Shared revenues, payments in lieu of taxes and other small programs do exist and have no constraints on the purposes for which they are spent, but these amounted to only \$705 million in fiscal year 1977 and reached a limited number of governments.

**Federal Aid Outlays, by Type, Selected Fiscal Years, 1968-77**  
(in millions)

Type	1968		1972		1975		1977	
General Revenue Sharing	—	—	—	—	\$ 6,130	12%	\$ 6,758	10%
General Support Aid	\$ 294	2%	\$ 490	1%	841	2	2,748 <sup>1</sup>	4
Block Grants <sup>2</sup>	57	—	415	1	5,393	11	7,063	10
Categorical Grants <sup>3</sup>	18,248	98	35,035	97	37,359	75	51,827 <sup>4</sup>	76
<b>Total Federal Grants</b>	<b>\$18,599</b>	<b>100%</b>	<b>\$35,940</b>	<b>100%</b>	<b>\$49,723</b>	<b>100%</b>	<b>\$68,396</b>	<b>100%</b>

<sup>1</sup>Includes \$1,699 Antirecession Financial Assistance and \$276 federal payment to the District of Columbia.

<sup>2</sup>Includes totals for block grants (Partnership for Health, Safe Streets, Social Services, Comprehensive Employment and Training (CETA), and Community Development), although a portion may be granted for specific projects under the discretionary allocation provided for by statute.

<sup>3</sup>Includes target grants like Model Cities and the Appalachian Regional Commission Program.

<sup>4</sup>Includes funds for two countercyclical programs: Local Public Works—\$577, and CETA (Titles II and VI)—\$3,524 (est.).

Source: Office of Management and Budget, Special Analyses: Budget of The United States and Budget Appendix, Washington, DC, U.S. Government Printing Office, various years.

(1966), the *Omnibus Crime Control and Safe Streets Act* (1968), the *Comprehensive Employment and Training Act* (1973), the *Housing and Community Development Act* (1974), and the 1974 amendments (Title XX) to the *Social Security Act* of 1935.

Categoricals are the oldest and most prevalent form of federal aid. Although their percentage of the total federal assistance pie has dropped from 98% in 1968 to 76% in 1977, they are still the dominant force in the federal aid system, amounting to over \$51 billion out of a total of \$68 billion in federal aid in 1977. Categorical grants can be used only for specific, narrowly defined activities. Eligible activities are usually specified in legislation but may also be determined by administrators.

Within the broad definition of categorical grants fall various kinds of aid that differ substantially from each other. ACIR has identified four types: formula grants, project grants, formula-project grants, and open-end grants.

9

The two most common types are project and formula grants. When funds are allocated among recipients according to a formula set forth in legislation or administrative regulations, the grant is considered a formula grant. In project grants, a pool of potential recipients "compete" for funds by submitting specific, individual applications in a manner prescribed by the federal granting agency.

Sometimes these two grant types are used in various sections of the same law. For example, the *Public Works Employment Act of 1976*, a law that provided antirecession aid for state and local governments and funds to build local public works facilities and water pollution treatment plants, contained three titles—two were based on formulas, one was a project grant.

### Number and Estimated Dollar Volume of Categorical Grants, by Type, FY 1975

	Number	Percent	Estimated Outlays (billions)	
			Amount	Percent
<b>Formula-based grants</b>	146	33.0%	\$25.8	69.0%
<b>Allotted formula</b>	(97)	(21.9)	(8.6)	(23.0)
<b>Project grants subject to     formula distribution</b>	(35)	(7.9)	(2.8)	(7.4)
<b>Open-end reimbursement</b>	(14)	(3.2)	(14.4)	(38.6)
<b>Project grants</b>	296	67.0	11.6	31.0
<b>TOTAL</b>	442	100.0%	\$37.4	100.0%

Source: ACIR staff tabulations.

The two types of grants may be combined to form a third type of categorical where a formula is specified to determine the amount going to a state but within that state, the funds are distributed according to applications and discretionary awards. This combination has been used in a variety of grants in the fields of transportation, education, environmental protection, and health.

The fourth type of categorical is an open-end reimbursement grant in which the federal government commits itself to reimbursing a specified proportion of state-local program costs. Two of the best examples of this type of grant are Aid to Families with Dependent Children (AFDC) and Medicaid.

10 The differences among the three major types of grants are less than clear cut. Block grants and revenue sharing, for instance, are not free from administrative requirements; and some categorical grants allow recipients considerable discretion in program design and administration. Therefore, perhaps it is more accurate to look at the components of the federal aid system in terms of three key design elements: the range of the federal administrator's discretion, the range of recipient discretion, and the numbers and kinds of requirements (strings) attached to the spending of the money. The four types of categorical grants, block grants, and revenue sharing vary considerably in terms of these elements, and thus can be placed at different spots along a continuum ranging from maximum federal prescription or control to maximum recipient discretion. Project grants would be at one extreme; revenue sharing at the other. The other categorical grants and block grants would fall somewhere in the middle.

### How The System Works<sup>5</sup>

Although the continuum concept helps in understanding the grant panorama, it is misleading to think that reason totally permeates the formulation and administration of the system. In many ways the opposite is, in fact, true. For example:

- Although block grants and general revenue sharing are designed to allow recipients maximum discretion for particular uses of the funds within certain limitations, there is a tendency on the part of Congress to attach numerous requirements, objectives and demands to both, thereby considerably compromising recipient freedom and flexibility.

---

<sup>5</sup>For more information on topics discussed in this section, see *Block Grants: A Roundtable Discussion* (A-51), *Categorical Grants: Their Role and Design* (A-52), *The Intergovernmental Grant System as Seen by Local, State and Federal Officials* (A-54), and *Block Grants: A Comparative Analysis* (A-60).



- Although efforts have been made to reduce red tape in grant application and award procedures, the overall record thus far is poor to adequate. Additional and more serious administrative problems have occurred as more and more special requirements to assure national policies such as civil rights and citizen participation are being applied to federal grants across the board.
- The targeting of federal funds to specific areas, jurisdictions or populations of critical need is often frustrated by the necessity of assuring enough votes in Congress for enactment of the grant program. At last count, there were 146 separate formulas as well as thousands of individual project grant awards, presenting a distributive pattern of wide variation rather than a coherent national policy.

## Impact on State and Local Governments

While these points illustrate some of the problems in program design and administration, another set of problems relates more pointedly to the effects the grant programs have at the state and local level. Are federal aid programs tending to decentralize authority, or is there a counter trend toward centralization? Do aid programs alter state-local relationships? If so, how? And have the newer forms of federal aid strengthened the hand of elected officials and other “generalists” at the state and local levels?

### Decentralization or Recentralization?<sup>6</sup>

In the late 1960s and early 1970s, decentralization of power from federal to state and local governments was very much in vogue. Congress and the President worked together to give more discretion to state and local officials in deciding how best to use federal funds, to cut red tape in grant application and award processes, and to involve state and local officials in making decisions on matters concerning them. Four block grants and general revenue sharing were enacted; several key management circulars were issued attempting to standardize, simplify and coordinate grant application and administration; and ten federal regional councils were established to decentralize decision-making on issues directly involving state and local governments.

---

<sup>6</sup>For more information on topics in this section see *Categorical Grants: Their Role and Design* (A-52), *Improving Federal Grants Management* (A-53), *Safe Streets Reconsidered: The Block Grant Experience* (A-55), *Community Development: The Workings of a State-Local Block Grant* (A-57), *Block Grants: A Comparative Analysis* (A-60), and *Summary and Concluding Observations* (A-62).

At the same time, however, federal control continued or tightened in other programs. Indeed, some of the very elements of decentralization actually have had centralizing tendencies.

There is little question that general revenue sharing and block grants allow recipients more discretion than do categoricals, but that discretion is not as unbounded as some supporters had hoped. For instance, while the broadly stated objectives of the community development block grant—eliminating and preventing slums and blight—suggest considerable recipient discretion, in fact, the statutory language pertaining to eligible activities and subsequent administrative regulations greatly restricted the extent of program flexibility by listing 13 eligible activities for fundable projects.

12 The tendency for Washington to tighten control over block grants seems to increase as the program ages. For example, 45 new requirements were added to the *Omnibus Crime Control and Safe Streets Act* in its first eight years. Between 1970 and 1976 alone, Congress added new categories to the program or earmarked block grant funds for four major purposes: corrections, juvenile justice, courts, and neighborhood crime prevention.

Even general revenue sharing, the "purest" of the decentralized programs, is subject to nine specific conditions ranging from filing of planned and annual use reports to using funds within a reasonable period of time. Moreover, the three ostensibly innocuous procedural strings added by the 1976 renewal—civil rights, citizen participation, and auditing—potentially constitute a major intrusion into the operations of the 38,000 recipient governments.

General revenue sharing also greatly expanded the federal presence through its broad availability to all local general purpose governments including thousands of jurisdictions across the country which had little prior federal involvement save for the presence of a post office or an agriculture extension agent. Thus, while decentralizing, in terms of dollars given to governments at lower levels, general revenue sharing also had a centralizing tendency in that Washington became a factor in many local governmental decisions previously solely their own.

Still other evidences of recentralization can be found in the increasing use of federal aid to state and local governments to assure implementation of national policies in such fields as civil rights, environmental protection, access to governmental information, citizen participation, and the rights of handicapped. While the objectives are worthy, implementing them across the board through the grant mechanism can lead to increased fed-

eral involvement in state and local policies and administration. In effect, they have brought us into a new era of national regulation.

## Generalist or Specialist?<sup>7</sup>

Closely aligned with concern for decentralization is the question of control when the money reaches state and local governments. Categorical grants—particularly project grants—tend to give control to “specialists” or persons with special area expertise. Elected officials and their top generalist assistants may have little involvement in obtaining, or subsequently, managing a grant. This impedes interfunctional consideration and may lead to undesired spending and program commitments.

Block grants and general revenue sharing were expressly designed to avoid such specialist control by encouraging elected officials to participate actively in the decisionmaking processes at several levels. Indications are that general revenue sharing does just that. Block grants, however, have not been as successful, in part, because generalists have failed to take advantage of their opportunities. For instance, the *Safe Streets Act* specifies gubernatorial involvement in establishing state criminal justice planning agencies, but, in fact, Governors have not generally been active in the work of these bodies or in carrying out LEAA-funded activities in their state. Planning and administrative staff are also heavily involved in decisionmaking in two other block grants, CETA and Community Development.

13

A development fortifying the role of the specialist has been the creation of hundreds of single purpose, multicounty planning bodies by federal programs. Such units are highly specialized and do not generally work closely with councils of government. Over the past decade, at least 1,800 single purpose units have been formed at the substate level, and 15 at the multistate level.

## State-Local Relationships<sup>8</sup>

One impact of the federal grant system that was perhaps unintended—but nevertheless meaningful—has been to strengthen

<sup>7</sup>For more information on topics in this section, see *Community Development: The Workings of a Federal-Local Block Grant* (A-57), *The Comprehensive Employment and Training Act: Early Readings from a Hybrid Block Grant* (A-58), *Block Grants: A Comparative Analysis* (A-60), and *Summary and Concluding Observations* (A-62).

<sup>8</sup>For more information on topics in this section, see *Safe Streets Reconsidered: The Block Grant Experience* (A-55), *Community Development: The Workings of a Federal-Local Block Grant* (A-57), *The Comprehensive Employment and Training Act: Early Readings from a Hybrid Block Grant* (A-58), *The States and Intergovernmental Aids* (A-59), and *Summary and Concluding Observations* (A-62).

local governments, particularly counties, frequently at the expense of the states.

In fiscal year 1976, 30% of total federal aid went directly to localities. Of the remaining 70% flowing to the states, some 30% was "passed through" to local governments. Yet even more important than the dollars are the new and expanded responsibilities assumed by local governments thanks to these federal funds.

Two block grants were instrumental in broadening the responsibilities of local government: CETA and Community Development. Both essentially bypassed states and established federal-local partnerships.

14 Until the passage of CETA in 1973, private nonprofit organizations were the prime recipients of federal manpower funds. CETA—and later countercyclical assistance—made local governments big time operators in the manpower field in a very short period of time. The new local governmental preference was particularly significant in light of the traditional state preeminence in the employment field.

Traditionally, county responsibilities in community development have been primarily in water resource management and recreation. This focus was broadened considerably when the community development block grant made "urban counties" or consortia of counties and cities of a certain size eligible for community development funds—regardless of past experience. In its first year, 73 counties qualified for funding under this block grant—far more than HUD estimates of ten or twelve. Since many counties did not have authority to assume these responsibilities under existing state law, necessary enabling legislation was passed—at the same time further expanding the opportunities of other counties throughout these states.

# STRATEGY FOR IMPROVEMENT

These and other ACIR findings on the workings and impact of the current grant system provide a challenge for any potential reformer of that system. The problems are complex; the solutions, difficult. The ACIR's proposed solutions are embraced in 60 recommendations that make up an overall five-point strategy for reforming the federal grant system. The five points are: grant consolidation; restrained and considered use of national policy requirements; careful program design and evaluation; simplifying and standardizing grant management procedures; and reconsideration of functional responsibilities.

15

## Grant Consolidation<sup>9</sup>

Many criticisms of the federal aid system center on its fragmentation and duplication. And, indeed, gross violations of tenets of order and coordination among categorical grants abound.

As of January 1, 1976, there were 441 funded categorical grants to state and local governments—many attempting to meet similar needs. In the area of transportation safety, for example, there were nine categorical programs. One was a basic highway safety formula grant to states; three were formula grants involving railroad crossings, roadside obstacles, and high locations; three were project grants subject to a state allocational constraint dealing with seatbelt law incentives, reduced traffic fatality incentives, and special bridge replacement; and two were project grants for railroad safety and motor vehicle diagnostic inspection demonstrations. The federal matching for these grants varied from 70% to 90%.

This example is far from extreme. There were 23 grants for pollution control and abatement, 36 for social services, and 78 for elementary, secondary and vocational education.

Yet the primary problem is not so much the numbers as the specificity of these grants. The programs do not generally overlap or duplicate other programs in the specific areas, but they are often so specific that if a community has a need that is not

---

<sup>9</sup>For more information on topics in this section see *Categorical Grants: Their Role and Design* (A-52) and *Summary and Concluding Observations* (A-62).

exactly as described in the various grants, it might very well not be eligible for aid—even though its problems in the broad area might be great. For example, a community which wishes to initiate a program for crippled children might not be eligible for a categorical grant specially designed for crippled children who are mentally retarded.

Of course, the goal of many categorical grants is to ensure that problems of specific national concern will be adequately addressed by state and local governments. Yet such narrowness of national concern might well be questioned by recipient and designer alike since the fragmentation leads to program, management and organization difficulties for grantor agencies as well as state and local governments, and severely complicates the task of achieving effective legislative oversight.

16 ACIR recommends consolidation of grants which are closely related functionally, similar or identical in their objectives, and linked to the same recipient governments. It has identified 172 programs in 24 subfunctional areas which are similar in these respects and therefore deserve first priority consideration for possible consolidation.<sup>10</sup>

To facilitate consolidation, ACIR recommends that Congress enact legislation giving the President authority to initiate proposed mergers for Congressional consideration. Expeditious action should be encouraged by provisions that a Presidential plan must be considered in the appropriate committees in the House and Senate not more than 60 days after its submission.

## **National Policy Requirements Reconsidered<sup>11</sup>**

There are few who would question the desirability of such national goals as fair treatment of all races and sexes, pure air and water, preservation of historic sites, access to governmental information, or citizen participation. Yet requiring conformance with these and other goals as a condition of receiving federal funds has placed a great administrative burden on recipients of federal aid. The basic problem here is their cumulative impact on recipient jurisdictions.

For example, when a state or local government receives a federal grant, chances are that in addition to fulfilling the purpose

<sup>10</sup>Advisory Commission on Intergovernmental Relations, "Grant Consolidation: Time for Action," *Information Bulletin* (77-2), Washington, DC, ACIR, Sept. 1977.

<sup>11</sup>For more information on topics in this section, see *Categorical Grants: Their Role and Design* (A-52), *Block Grants: A Comparative Analysis* (A-60), and *Summary and Concluding Observations* (A-62).

or purposes of the grant, the recipient must also administer the funds in such a way as to:

- redress past discrimination and prevent present and future discrimination on such bases as sex, age, race and national origin, with respect to jobs, education, housing, public accommodations, and any other benefits of the grant;
- provide equal access to government benefits and opportunities by the handicapped and disadvantaged;
- protect and enhance the quality of the environment;
- protect persons against loss who have been relocated due to project activities;
- ensure prevailing wages for any construction workers under contract in the project;
- provide for the use of qualified public employees, appointed and treated according to merit principles;
- prevent financial kickbacks and corruption;
- facilitate intergovernmental and interprogram coordination;
- ensure project compatibility with local, regional, and state planning;
- provide information about the program freely to the public;
- involve citizens and appropriate public officials in program development and implementation; and
- protect the privacy of information about individuals associated with or affected by the program.

17

There are some 31 generally applicable national policy requirements which apply more or less across the board to all grant programs. These requirements appeared in the 1960s and have continued to grow through the 1970s. Current indications are that similar requirements will soon be added for conserving energy, curbing inflation, and reducing unemployment. Some requirements are viewed partly as remedial measures which correct deficiencies resulting from incrementally developed grant programs, and some as attempts to use the substantial leverage of financial aid to help implement independently generated national policy.

Yet in spite of their significance and profusion, Congressional committees and Executive agencies overseeing grant programs rarely adequately consider the impact of such requirements on program implementation and state-local recipients. Not only can the requirements raise administrative costs considerably, but they can also create conflicts within the primary objectives of grant programs themselves. For example, federal requirements prohibiting discrimination against the handicapped in federally assisted programs had no public hearings and few floor debates

of substance before they became law as part of the *Rehabilitation Act of 1973*. Yet this section had significant impact on recipients of federal aid.

Some state and local officials apparently have rejected federal funds to avoid having to comply with such requirements as Davis-Bacon wage rates or relocation expenses. Others use federal grants on innocuous, noncontroversial projects and their own funds on projects which otherwise would be subject to national requirements. Such substitution might mean that the federal government loses an important opportunity to advance its national policy objectives, or that their implementation and impact vary from jurisdiction to jurisdiction.

18 The problem is compounded by the fact that the requirements are specified in numerous laws and are administered or enforced by many different agencies. For instance, 12 major sources of nondiscrimination objectives apply to grant programs. The enforcement agencies of these 12 range from the Equal Employment Opportunities Commission (EEOC) to the Department of Labor, the Justice Department to the Civil Service Commission. The situation becomes even more confusing when each federal agency develops regulations which apply those conditions to the particular grant programs which it operates and which probably differ considerably from related regulations of other agencies.

In addition to their burdensome problem for state and local officials administering the grant programs, national requirements pose two more theoretical and overarching questions: Is the grant mechanism the best means to achieve these national policy goals? And, what is the long-term implication of using federal aid for various regulatory purposes?

In light of these issues, ACIR proposes that the system of national purpose requirements be reviewed and reassessed in terms of the goals of the requirements and uses of the grant. Wherever the requirements seem to pose inordinately burdensome or counterproductive results, they should be eliminated. Where the requirements are partially or wholly duplicative of one another, they should be consolidated. When requirements are found to be sound after reassessment, ACIR recommends that the added costs of implementation to federal agencies or recipient governments be recognized in law and provisions made for meeting them.

To further organize a currently disheveled system, ACIR also recommends that a single unit, or designated agency, within the Executive Branch be given clear authority for achieving standardized guidelines and simplified administration for each of the generally applicable requirements. In addition, the Office of



Management and Budget should monitor the administration of the generally applicable requirements, including the work of the designated agencies, and bring to the attention of the President and Congress any conflicts or duplications and potential opportunities for resolving conflicts, consolidating requirements, and simplifying administration.

## Careful Program Design and Evaluation<sup>12</sup>

Block grants and general revenue sharing are far from the "string free" programs envisioned by some early supporters. Requirements, procedures and administrative demands tend to dilute the unencumbered nature of both grant forms. Some of these strings are due to administrative tinkering. Most, however, are imposed by the enabling legislation.

19

Categorical grants also suffer from poor or inadequately considered design. Much of the fragmentation associated with the grant system results from the continuing growth in the number of small, narrowly drawn project grants. These grants are sometimes passed to respond to particular needs of a vocal constituency with little consideration given to broader issues the program suggests, the coordination of the project with other similar projects, and the impact of the grant on interjurisdictional relationships.

Formula grants generally are larger in dollars allocated and thus may be enacted with more legislative caution. Yet they too tend to be designed to provide something for everyone—particularly in terms of the formula. There are four different principles generally reflected in allocating federal aid: the need for a specific service; fiscal capacity; the actual level of recipient expenditures; and political "fairness" as measured by equality among the states or total population. Most grants combine elements based on two or more of these four principles—even though the elements frequently counteract each other. For instance, program need and fiscal capacity are frequently found in the same formula and may serve to counteract each other. The result is that interstate distributions of federal aid in the aggregate seem more random than planned and have fluctuated significantly over time.

Determination of the level of matching as part of the grant design is another area where a choice could be made on the

---

<sup>12</sup>For more information on topics in this section, see *Categorical Grants: Their Role and Design* (A-52), *Block Grants: A Comparative Analysis* (A-60), and *Summary and Concluding Observations* (A-62).

basis of desired outcomes such as the impact of special matching requirements on state or local spending or administrative behavior, or on distribution of benefits among states and localities. Even though matching is used in nearly two-thirds of all federal grants to state and local governments, there is no indication that expected or desired impacts have had any effect on the choices of matching provisions.

20 Maintenance of effort can be another way of requiring recipient governments to share in fiscal support of the aided activity since they must continue to spend at least as much for that activity as was spent prior to receipt of the grant. The object is to make recipients use the aid for additional spending instead of substituting federal dollars for state-local dollars, yet the actual impact of existing maintenance-of-effort requirements is uncertain. Some 13% of categorical grants in 1976 had maintenance-of-effort provisions.

Once the grant is designed and operating, Congress has a key oversight role. Here, again, performance falls short, for a variety of reasons. The chief one is that Congress is far more interested in, and believes it gets much more payoff from, working on new legislation than monitoring the results of laws already on the books.

For these and many other flaws in the design and evaluation of grant programs, ACIR poses specific remedies. Overall they add up to more careful design of grant programs and enactment of "sunset" legislation to ensure more effective legislative oversight.

To improve grant design, the choice of the proper grant type is the first requirement. ACIR has identified various criteria to consider in making the decision.

Formula grants should be used when:

- a federal program has nationwide applicability; and
- objective factors relevant to program needs and recipient jurisdictions' characteristics can be quantified appropriately for use in a formula.

Project grants should be used when:

- the funds are to be targeted precisely to a limited number of specific needy recipients;
- selective research and demonstration projects are desired;
- or
- appropriate formulas and eligibility requirements cannot be devised for a systematic distribution of funds.

Formula-project grants should be used where project grants

are deemed appropriate but where state allocation is needed to curb federal administrative discretion in the awards process.

Cost reimbursement (open-end) grants should be used when the federal government wishes to underwrite a specific proportion of state and local program costs while permitting recipient governments discretion in establishing service levels.

While realizing the key role of categorical grants in the federal intergovernmental aid system, the Commission believes that the project grant tends to be used excessively and inappropriately. Thus it suggests that whenever possible, the Congress consider opportunities to use formula, formula-project, or open-end grants instead of project grants.

In designing formula and formula-project categoricals, decisions on elements to be expressed in the formula and the degree of matching or use of maintenance-of-effort requirements should be based on careful study of program goals, purposes, and target recipients.

21

Block grants should be used when:

- a cluster of functionally related categoricals can be consolidated;
- the area to be covered in the block grant is broad and is one of the traditional responsibilities of the recipient government;
- there is general consensus and support for federal involvement in the area;
- there is no primary intent to stimulate state-local spending;
- only a modest degree of innovation is anticipated;
- there is a wide ranging need for the program, both geographically and jurisdictionally; and
- there is a high degree of consensus as to the general purpose of the grant by Congress, the federal administering agency, and recipients.

The third major grant type, general revenue sharing, should be used to provide general fiscal support for state and local governments.

To meet its responsibility for seeing that a grant program fulfills its purposes, Congress should enact sunset legislation calling for review of programs prior to the scheduled expiration of their authorizations. Such a review would not only focus on the program's goals and purposes but should also consider the appropriateness of the specific grant mechanism used, whether changes should be made in its administration, the adequacy of the grant in meeting the needs it was designed for, and the consequences

of eliminating or consolidating the program or funding it at a lower level.

Other actions for improvement of grant design proposed by ACIR include advance funding of grants wherever possible and the launching of studies to examine the effects of matching and maintenance-of-effort requirements and to develop more precise proxies of program need.

## **Simplifying and Standardizing Grants Management Procedures<sup>13</sup>**

22 “Red tape” is the term most commonly used to describe excessive governmental requirements and procedures which often generate burdensome paperwork. In an ACIR survey of cities over 10,000 and counties over 50,000 population, over 71% of city and 64% of county chief executives cited red tape as the most serious problem in administering federal aid. Also high on the list were such procedural issues as the time involved in the application, review and approval processes for project grants; difficulties in getting clear and prompt policy interpretations from federal grant administrators; the complexity of reporting, accounting and auditing requirements; and inadequate provision for consultation with state and local officials in developing regulations and guidelines.

One county administrator complained that “federal administrators are usually more concerned with checking off a list of hypothetical requirements and processes than with seeing that a program meets reasonable performance objectives.”

Various solutions to the red tape and other administrative problems have been instituted over the past decade. Yet despite their good intentions, they have scored only a modest success in lightening the administrative burden of state and local recipients.

Currently in use are various management directives (circulars) issued by the Office of Management and Budget (OMB) which set uniform requirements, largely in the area of audits, cost principles, and other financial procedures. These have been welcomed by recipients but their effectiveness has been hampered by federal agency noncompliance and weak oversight by OMB.

---

<sup>13</sup>For more information on topics covered in this section, see *Categorical Grants: Their Role and Design* (A-52), *Improving Federal Grants Management* (A-53), *The Intergovernmental Grant System as Seen by Local, State and Federal Officials* (A-54), and *Summary and Concluding Observations* (A-62).

Other grants management innovations have dealt with notification and information processing associated with grants. Most notable is OMB Circular A-95 which establishes procedures for coordinating federal and federally assisted programs and projects with each other and with state, regional and local plans and programs. Although the process does provide the desired information, there are criticisms leveled at the clarity of the procedures, and the lack of commitment and cooperation of federal agencies, OMB, and the states.

Commission recommendations in this area inevitably involve the effort and cooperation of all levels of government but the main thrust is for federal action. The Commission recommends that the Executive Branch exercise leadership by establishing a strong central management capacity including a Presidential assistant for intergovernmental affairs and a commensurate office in OMB (or similar central agency) to oversee management improvement on an interdepartmental, interprogram and intergovernmental basis. There should also be a unit within each federal agency with grant administering authority to oversee agency compliance with central management circulars.

23

Other recommendations include improving the use of inter-agency agreements, Congressional support for central management of grant administration, more effective federal regional councils, and improvement of efforts and mechanisms for informing state and local governments about grants.

## Functional Allocation

The evidence is clear that what has been called our "marble cake" federal system is continuing to become even more marbled. The intergovernmental grant system has contributed to this marbleization by expanding the responsibilities of all governments into many areas—with many responsibilities now shared by three levels of government which had once belonged to only one or to none. This has meant federal involvement in nearly all state-local areas, with multiple federal, federal-state, federal-state-local, and federal-local relationships resulting. The question now becomes: Are there functions which should be performed solely or primarily by one level of government or is the multilevel sharing system the best approach? If the latter, then, is the current multilevel system the optional one?

This question—along with the findings of the workings of the current grant system—suggests the need for an in-depth look at functional responsibilities of governments in an attempt to solve the age-old intergovernmental puzzle: Who should do what?

Clearly key to answering this question are issues of the desirability of full federal takeover in some areas, reduction or elimination of federal roles in others; use of federal aid as a means of realizing national objectives; an assessment of complex interrelationships among a range of programs; and a much clearer enunciation of what is, and should be, the state role.

Although the functional allocation issue is a vital part of ACIR's five-point strategy for improving the aid system, it was not addressed specifically in the federal aid study. It will be considered in an upcoming ACIR examination of the intergovernmental assignment of functions. This examination will update and expand previous Commission work in the area of functional allocation, including a 1974 study of local and areawide governmental functions and processes.<sup>14</sup>

24

### Recent Grant Administration Initiatives

The Carter Administration has launched what the President calls "a concentrated attack on red tape and confusion in the federal grant-in-aid system." This attack includes efforts to:

- standardize application forms and reduce number of copies required for a grant application;
- to conduct single audits wherever possible and to increase federal reliance on state and local auditors;
- write regulations in clearer and simpler language;
- consult state and local officials during drafting of regulations; and
- coordinate and standardize the system of cross-cutting national requirements dealing with areas such as civil rights and environmental protection.

Although these efforts are certainly a step in the right direction, much still needs to be done. More attention must be focused on the type of grant selected for the purposes desired, its impact on state and local governments, and on careful choice of factors, such as national policy requirements and formula and matching provisions, which through misapplication can substantially thwart achievement of program purposes. The ACIR five-point strategy has been designed to meet these and other challenges that the current system of federal assistance has created.

---

<sup>14</sup>Advisory Commission on Intergovernmental Relations, *Governmental Functions and Processes: Local and Areawide, Volume IV, Substate Regionalism and the Federal System* (A-45), Washington, DC, U.S. Government Printing Office, Feb. 1974.

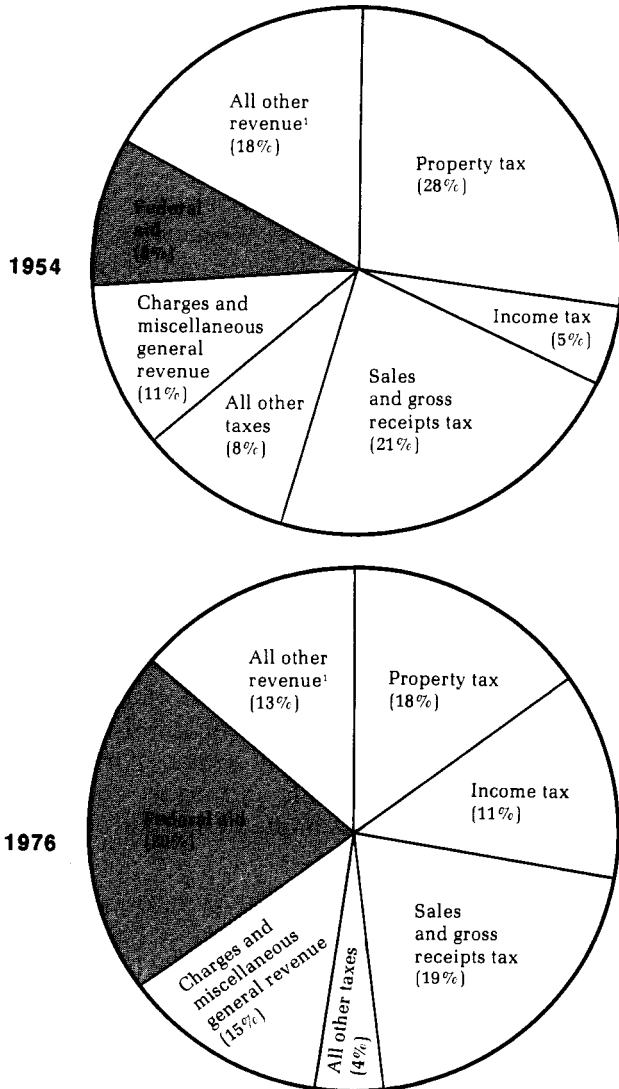
# AN OVERVIEW OF THE TRENDS IN FEDERAL AID

The overall picture, then, is one of more programs, more money, more participants, and more confusion. It can be placed into focus by highlighting these key trends:

- In the past two decades, federal aid to state and local governments has skyrocketed. In 1960, it totalled \$7 billion; in 1970 it was \$24 billion. By 1975, it had nearly doubled to \$49 billion, and in fiscal year 1978, it will exceed \$80 billion. Although the amount of increase has varied from year to year, the trend of substantial growth has been unremitting.
- The number of governments participating in intergovernmental relationships has increased significantly in recent years. Where once the interlevel partnerships included the federal government, states, and some key urban areas and counties, they now include all local governments, almost all school districts, 2,000 substate regional bodies, many special districts, local authorities, and numerous nonprofit units. In the past few years still another force has come to the intergovernmental front with renewed strength. Neighborhood advisory groups have become active, thanks to funding from city halls using federal block grant funds. These groups are assuming leadership in many cities, particularly in areas such as housing, manpower, and crime control, and are expected to play a role in implementation of the national urban policy.
- State and local governments have become increasingly dependent on federal aid over the past few decades. In 1954, federal aid made up only 8% of total state-local revenue. By 1976, federal aid was a more important source of revenue for state and local governments than their two traditional taxes — sales and property.
- A move in the direction of grant decentralization has been clear over the past decade through increased use of block grants and general revenue sharing. These two grant forms now account for about 25% of the total aid package. In the past few years, however, some of the interest may have waned as evidenced by the fact that no major block grant has been enacted since 1974.

## The State and Local Revenue System Fiscal Years 1954 and 1976

26



<sup>1</sup>Includes utility, liquor store, and insurance trust revenue.

Source: Advisory Commission on Intergovernmental Relations, *Significant Features of Fiscal Federalism, 1976 Edition, Vol. 1, Trends (M-106)*, Washington, DC, U.S. Government Printing Office, 1976, p. 34.



- In addition, there has been an incremental recentralization resulting in large part from widespread use of federal grants to assure compliance with important national goals, such as civil rights and clean air, through across-the-board requirements. Although understandably important to national policy, the question arises as to the appropriateness of these requirements as part of the federal aid system, especially since they tend to impose considerable additional paperwork, administrative burdens, and, as a consequence, substantial costs to the recipients.
- The new patterns of federal aid have tended to shore up and strengthen local governments—particularly counties—at the expense of states. Local governments are the prime beneficiaries of block grants and general revenue sharing and have used them—particularly block grants—to substantially expand their areas of responsibility.
- The program areas funded by the federal government cover the gamut of governmental services including those once solely state-local in nature. Thus, the marbleizing of federal-state-local relationships continues with all governmental levels responsible in some fashion for many of the same functional areas of importance to citizens.

These trends indicate the emergence of a new American federal system with a transformed and incredibly complex network of intergovernmental relations. And, although the changes have been piecemeal and apparently discontinuous, the system is substantially different from its predecessor of only one decade ago.



# COMMISSION MEMBERS

## **Private Citizens**

Abraham D. Beame, Chairman, New York, New York  
Robert E. Merriam, Chicago, Illinois  
Richard W. Riley, Columbia, South Carolina

## **Members of the United States Senate**

Lawton Chiles, Florida  
William Hathaway, Maine  
William V. Roth, Jr., Delaware

## **Members of the U.S. House of Representatives**

Clarence J. Brown, Jr., Ohio  
L. H. Fountain, North Carolina  
Charles B. Rangel, New York

## **Officers of the Executive Branch, Federal Government**

W. Michael Blumenthal, Secretary of the Treasury  
Juanita M. Kreps, Secretary of Commerce  
James T. McIntyre, Director, Office of Management and Budget

## **Governors**

Reubin O'D. Askew, Florida  
Otis R. Bowen, Indiana  
Richard F. Kneip, South Dakota  
Richard A. Snelling, Vermont

## **Mayors**

Thomas Bradley, Los Angeles, California  
Richard E. Carver, Peoria, Illinois  
Tom Moody, Columbus, Ohio  
John P. Rousakis, Savannah, Georgia

## **State Legislative Leaders**

Fred E. Anderson, Colorado State Senate  
John H. Briscoe, Speaker, Maryland House of Delegates  
Martin O. Sabo, Speaker, Minnesota House of Representatives

## **Elected County Officials**

William O. Beach, Judge, Montgomery County, Tennessee  
Lynn G. Cutler, Chairperson, Board of Supervisors, Black Hawk County, Iowa  
Doris W. Dealaman, Freeholder Director, Somerset County, New Jersey

# what is ACIR?

The Advisory Commission on Intergovernmental Relations (ACIR) was created by the Congress in 1959 to monitor the operation of the American federal system and to recommend improvements. ACIR is a permanent national bipartisan body representing the executive and legislative branches of Federal, state, and local government and the public.

The Commission is composed of 26 members—nine representing the Federal government, 14 representing state and local government, and three representing the public. The President appoints 20—three private citizens and three Federal executive officials directly and four governors, three state legislators, four mayors, and three elected county officials from slates nominated by the National Governors' Conference, the Council of State Governments, the National League of Cities/U.S. Conference of Mayors, and the National Association of Counties. The three Senators are chosen by the President of the Senate and the three Congressmen by the Speaker of the House.

Each Commission member serves a two year term and may be reappointed.

As a continuing body, the Commission approaches its work by addressing itself to specific issues and problems, the resolution of which would produce improved cooperation among the levels of government and more effective functioning of the federal system. In addition to dealing with the all important functional and structural relationships among the various governments, the Commission has also extensively studied critical stresses currently being placed on traditional governmental taxing practices. One of the long range efforts of the Commission has been to seek ways to improve Federal, state, and local governmental taxing practices and policies to achieve equitable allocation of resources, increased efficiency in collection and administration, and reduced compliance burdens upon the taxpayers.

Studies undertaken by the Commission have dealt with subjects as diverse as transportation and as specific as state taxation of out-of-state depositories; as wide ranging as substate regionalism to the more specialized issue of local revenue diversification. In selecting items for the work program, the Commission considers the relative importance and urgency of the problem, its manageability from the point of view of finances and staff available to ACIR and the extent to which the Commission can make a fruitful contribution toward the solution of the problem.

After selecting specific intergovernmental issues for investigation, ACIR follows a multistep procedure that assures review and comment by representatives of all points of view, all affected levels of government, technical experts, and interested groups. The Commission then debates each issue and formulates its policy position. Commission findings and recommendations are published and draft bills and executive orders developed to assist in implementing ACIR policies.