

Block Grants: A Comparative Analysis

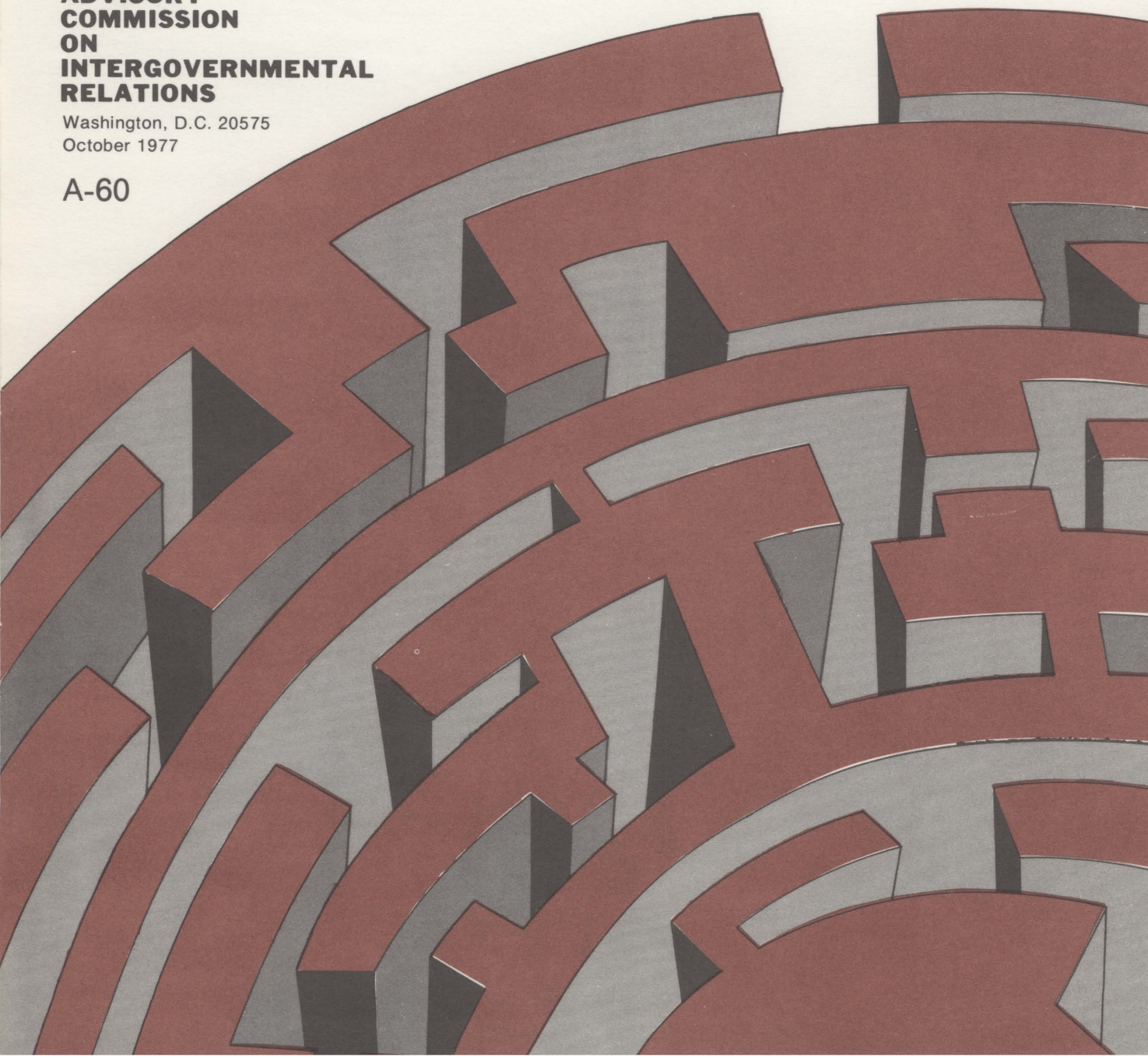
THE INTERGOVERNMENTAL GRANT SYSTEM:
AN ASSESSMENT AND PROPOSED POLICIES



**ADVISORY
COMMISSION
ON
INTERGOVERNMENTAL
RELATIONS**

Washington, D.C. 20575
October 1977

A-60



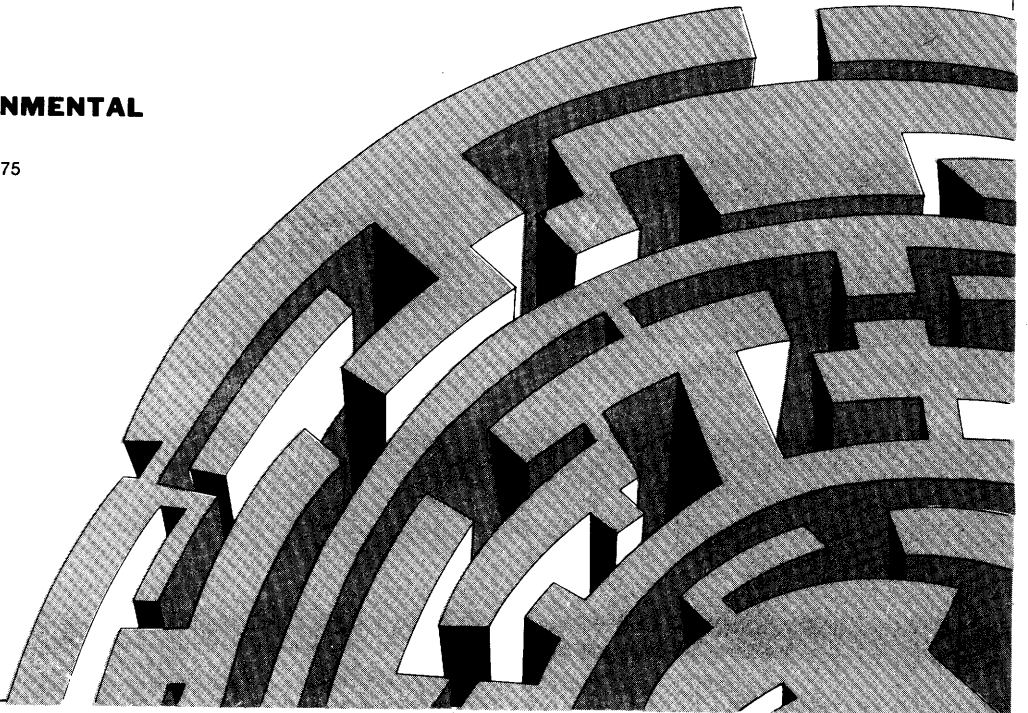
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Preface

Pursuant to its statutory responsibilities authorized in Section 2 of Public Law 86-380, passed during the first session of the 86th Congress and approved by President Dwight D. Eisenhower on September 24, 1959, the Commission singles out for study particular problems that impede the effectiveness of the federal system.

The current intergovernmental grant system was identified as such a problem by the Commission in the Spring of 1974. The staff was directed to probe four features of this system: categoricals, the range of reform efforts that stop short of consolidations, block grants, and the changing state servicing and aid roles. This report is the eleventh in the 13-volume series on the grant system. It is a comparative analysis of experiences under the health, crime control, manpower, and community development block grant. The report explores the lessons derived from those programs concerning the design and implementation of the block grant instrument and the implications for policymakers interested in grant reform. This report and the recommendations herein were approved at a meeting of the Commission on May 5, 1977.

Robert E. Merriam
Chairman

Acknowledgments

This volume was prepared by the governmental structure and functions section of the Commission's staff. Carl Stenberg had major responsibility for its preparation. David Beam, J.H. Fonkert, Richard Gabler, Bruce McDowell, and Albert Richter provided valuable advice and criticism during the writing of the report. Beverly Preston had the major responsibility for typing and coordinating preparation of the volume. Carol Monical Wright furnished indispensable library services.

The Commission and its staff had the benefit of review by and comment on this work from a number of persons knowledgeable about block grants. Those who were involved in "thinkers" and "critics" sessions on the scope, methodology, and results of the study, or who reviewed and commented on individual chapters, included: Robert Baitty, Jerry Britten, Herrington Bryce, Milton Chen, William Colman, Milan Dluhy, Delphis Goldberg, James Gregg, Thomas Hadd, Albert Hair, Helen Kramer, Richard Leach, Sarah Liebschutz, Sheldon Mann, Milton Morris, Richard Nathan, Thornton ("Tip") Parker, and Donald Weidman.

Preparation of this volume would not have been possible without the contributions of the persons identified above. Full responsibility for content and accuracy rests, of course, with the Commission and its staff.

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Executive Director

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Table of Contents

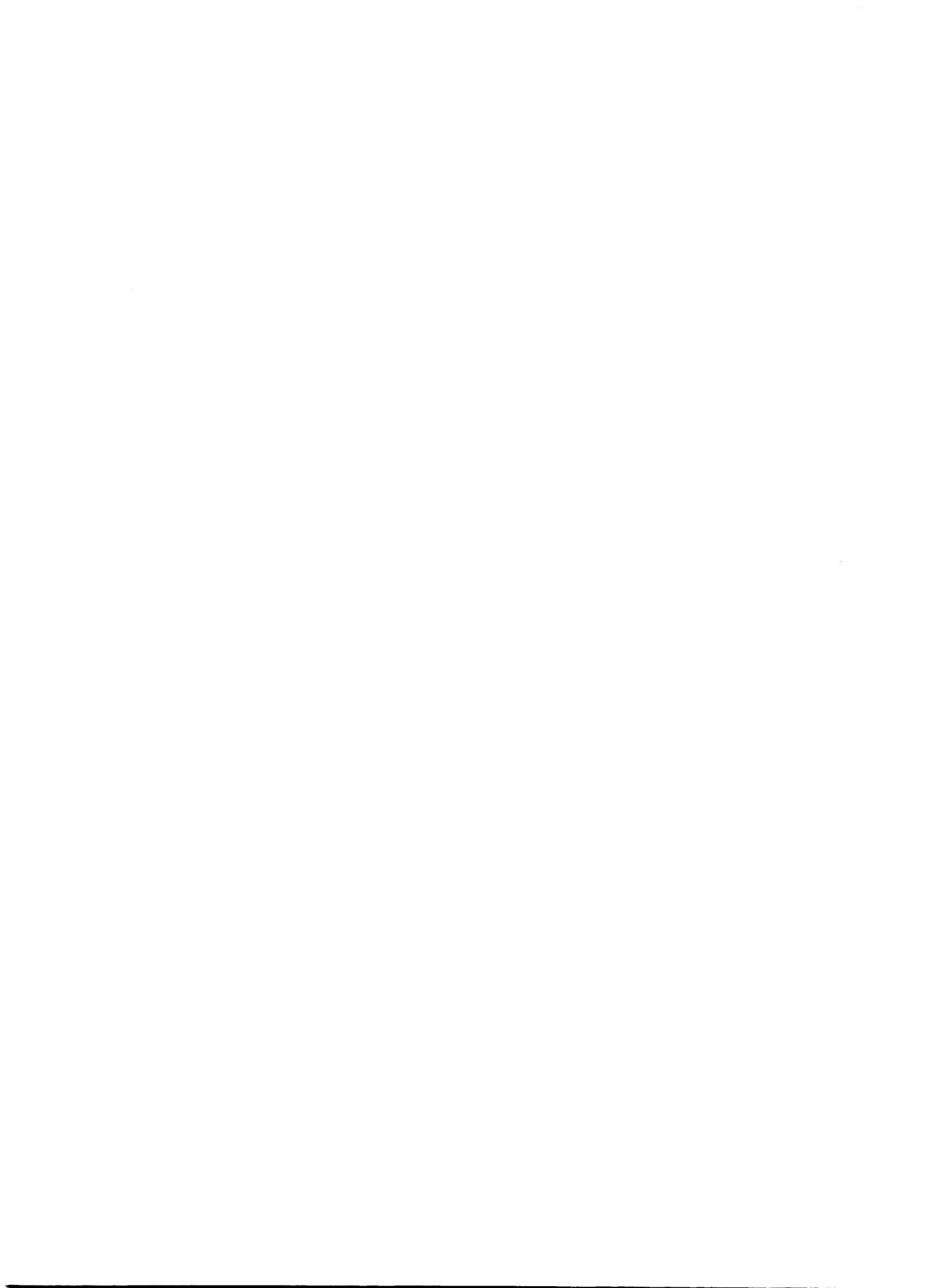
Introduction	1	
Chapter I	Block Grant Features	3
	Evolution of the Block Grant Concept	3
	Shifting Congressional Sentiment	4
	Basic Characteristics of the Instrument	6
	Compatible and Conflicting Objectives	8
	Economy and Efficiency	8
	Program Enlargement	8
	Decentralization	10
	Coordination	10
	Targeting	10
	Innovation	11
	Generalist Control	11
	Areas of Confusion	11
	Large Category Grants	11
	Consolidated Grants	12
	Social Security Amendments of 1967	12
	Education Amendments of 1974	12
Chapter II	The Dynamics of Implementation	15
	Partnership for Health: From "Giant" to "Pigmy"	15
	Functional Scope	15
	Recipient Discretion	16
	Program Conditions	16
	Grantee Certainty	17
	Generalist Involvement	18
	Safe Streets: A Case of "Creeping Categorization"	18
	Functional Scope	18
	Recipient Discretion	19
	Program Conditions	26
	Grantee Certainty	26
	Generalist Involvement	27
	CETA: A Case of "Hybridization"	28
	Functional Scope	28
	Recipient Discretion	29
	Program Conditions	30
	Grantee Certainty	30
	Generalist Involvement	31
	Community Development: Localization of the Block Grant ..	31
	Functional Scope	31
	Recipient Discretion	33
	Program Conditions	33
	Grantee Certainty	34
	Generalist Involvement	35

Chapter III	Lessons From Experience	37
	Basic Purpose	37
	Funding Threshold	38
	Targeting	38
	Discretion	39
	Categorization	39
	The States	39
	Planning	39
	Generalists	40
	Time Lag	40
Chapter IV	Recommendations	41
	Summary of Findings	41
	Recommendations	42
	<i>Recommendation 1: Block Grant Purposes</i>	42
	<i>Recommendation 2: Recognition of Essential Block Grant Features</i>	43
	<i>Recommendation 3: Avoiding Recategorization</i>	45
	<i>Recommendation 4: The States' Role in Block Grants</i>	46
	<i>Recommendation 5: The Role of Regional Bodies</i>	47

Introduction

Decategorization and decentralization of federal grants-in-aid via the block grant instrument are complex and inherently controversial tasks. This situation is partly due to inadequate understanding by many members of Congress, officials of the federal executive branch, and representatives of state and local governments of the conceptual and operational differences between and among categorical aids, block grants, and general revenue sharing. It is also attributable to the perseverance of some of these interests in resisting changes in the categorical status quo. Thus philosophical, pragmatic, and political difficulties have resulted in a low rate of adoption of block grant proposals and occasional distortion of the purposes behind those that have been enacted. Yet, contemporary interest in this approach remains keen.

This report attempts to clarify some of the confusion surrounding the design and administration of the block grant. It is based largely on the Commission's assessments of the application of this instrument to the health, crime control, manpower, and community development fields. Following a description of the evolution of the block grant concept, its essential characteristics and objectives are identified and compared to the realities of implementation. The lessons from those programs and their implications also are examined. These experiences provide a foundation for recommendations concerning the appropriate use of the block grant by the federal government.



Block Grant Features

Although federal aid programs embodying the block grant concept are of relatively recent origin, somewhat similar approaches were taken during the 19th Century to make direct cash grants to states and localities for banking, education, agriculture, defense, and such internal improvements as road construction, coastal protection, and river and harbor upgrading. The federal government supervised the administration of these monies, but generally the grants' purposes were broadly defined and recipients exercised considerable latitude in determining how to use these funds.¹ As federal grants expanded in response to the expressed needs of particular groups, their purposes were more narrowly specified, the number of conditions was increased; and the scope of state and local discretion was diminished.

EVOLUTION OF THE BLOCK GRANT CONCEPT

The steady growth in categorical programs since the 1930s has created a number of serious intergovernmental fiscal, functional, and management problems. In light of this situation the general purpose of the block grant shifted—from a method of providing virtually unconditional fiscal assistance to a means of achieving administrative reform within a broad program area. Beginning in the late 1940s, the consolidation of categorical programs into a block grant was considered to be a major step toward streamlining the fragmented federal assistance system.

One of the earliest proposals for the formation of block grants through this consolidation approach was made by the first Hoover Commission, which recommended in 1949 that "a system of grants be established

based upon broad categories—such as highways, education, public assistance, and public health—as contrasted with the present system of extensive fragmentation."² This recommendation was followed by proposed Congressional legislation, introduced with the support of the Eisenhower Administration, to create block grants in the health and public welfare fields. In both cases, several specialized categories of assistance would have been replaced by a single broad authorization of funds to the states for carrying out programs. However, these efforts at consolidation were unsuccessful, largely because of their proponents failure to give Congress, the states, and affected groups adequate assurances that these block grants would not reduce the funding levels of particular clientele or jurisdictional interests.³

Another noteworthy attempt during the 1950s was legislation developed by the U.S. Department of Health, Education, and Welfare (HEW) to consolidate 14 existing programs into block grants for the public health, child health and welfare, vocational education, and vocational rehabilitation areas. Only the latter proposal was adopted by the Congress.⁴ These and a few other consolidation measures introduced during the 1950s sought not only to streamline the administration of programs, but also to reduce the amount of federal aid or stabilize appropriations increases in their respective functional area.⁵

Two somewhat less grandiose reform proposals received more favorable attention. In 1953, the Congress approved a "Consolidation of Existing Laws Relating to Cooperative Agricultural Extension Work" for the purpose of simplifying administrative procedures and establishing a uniform allotment of funds. Two years later, at the urging of the Kestnbaum Commission on Intergov-

ernmental Relations, the *Experiment Station Consolidation Act* was approved, merging the budgeting and accounting procedures related to agricultural extension work. Apparently recognizing the lessons learned from the health and welfare experiences, both laws established that no state would receive less funds than prior to merger and that appropriations under the new measure would be made in accordance with a special formula.⁶

During the 1950s, Congressional attitude toward block grants was basically hostile, sometimes for reasons extraneous to the legislation under consideration. Based on her review of this earlier record, Selma Mushkin noted in 1960: "The repeated rejection of block grants leads us to the conclusion that the assumptions on which the block grant proposal rest are not valid in all instances or, at least, run counter often to other objectives which are more compelling."⁷ These included assumptions . . .

that the primary purpose of federal aid is to provide states with financial support to carry out a program's objective,

that the alignments and pressures for political action are different at the national level from those at the state and local levels,

that federal controls (e.g., standards, audits and other reviews) would be substantially reduced if the purpose of the program were broadened, and

that more effective and efficient use of public funds will result if states have wider latitude in directing expenditures.⁸

During the next dozen years, the Congress enacted only two block grants—the *Partnership for Health Act of 1966* and the *Omnibus Crime Control and Safe Streets Act of 1968 (Safe Streets Act)*. Meanwhile, literally hundreds of project and formula-based categoricals were approved, and the overall amount of federal aid to state and local governments increased nearly fivefold.

Between 1960 and 1972, several grant consolidations were proposed, some of which were merely large categoricals while others were more like block grants. The general Congressional response was to reject or to ignore entirely these proposals. For example, bills were introduced in 1970 to merge categoricals in a number of functional areas, including library services and construction; higher education, defense education, and international education; headstart development; water quality management and pollution control; water, sewer, and

waste treatment facilities; and housing and urban development. Only the latter bill could be considered a block grant; the rest consolidated programs but retained substantial federal control over policy and administration. None of these bills were enacted and most were not even considered. A basic reason for this reluctance has been pointed out by Richard P. Nathan:

This approach (to grant-in-aid reform) is one which emphasizes the consolidation of individual grants and would have us work within the system to take successive incremental steps to streamline federal aids. The problem, simply put, is that this approach doesn't work. Let me use an illustration. In 1969, the administration proposed the consolidation of several narrow library grants. The Congress resisted, and the reason was simple. It can be expressed quantitatively: 99.99% of the public is not interested in library grant reform. Of the 0.01% who are interested, all are librarians and oppose it.⁹

Sometimes categorical grant reform backfires. In 1967, for example, the Congress favorably considered the *Education Professions Development Act*, which sought to merge teacher training programs. Not included, however, were undergraduate training programs—the Congress not only continued 12 categorical grants, but also added three new ones. The following year, an attempt to consolidate several vocational training programs dating back to 1917 was successful, but at the same time the Congress added several new categories of assistance for the disadvantaged, residential schools, cooperative education, curriculum development, and teacher training. The net effect was to replace old categoricals with new ones.¹⁰ The lessons from this experience, in the view of one participant-observer are that ". . . Congress—accustomed to operating through 36 standing committees and scores of subcommittees—is far better suited to reaching agreement on very limited objectives than it is to resolving issues of a broader, philosophical nature."¹¹

Shifting Congressional Sentiment

The feeling of futility surrounding the traditional approach to establishing block grants prompted the Nixon Administration to develop a new strategy, called "special revenue sharing." Although the 92nd Congress approved general revenue sharing, it virtually ignored the six special revenue sharing bills for urban community

development, transportation, law enforcement, manpower training, education, and rural development, which combined would have amounted to \$11.3 billion in their first full year of operation.

Unlike general revenue sharing, these bills would have replaced rather than supplemented certain federal categorical grants-in-aid; the six 1971 proposals would have merged 129 categorical programs.¹² Three of these special revenue sharing bills were considered but not acted on by the 93rd Congress—urban development, law enforcement, and education. Under a fourth measure, approved in December 1973, 17 manpower training programs were merged, but only after the administration revealed its plan to proceed along these lines without specific Congressional approval. Rural development and transportation were dropped from the special revenue sharing package in 1973; the remaining consolidated programs, including manpower, would have amounted to \$6.9 billion in their first full year of implementation.

Similar to some earlier block grant proposals, the special revenue sharing legislation covered a wide functional scope, defined narrowly eligible recipients, and distributed all or most funds as an entitlement. However, these bills contained substantially fewer federal strings, required no matching, and provided far greater opportunity for recipients to exercise policy and administrative discretion. For example, funds would be paid automatically without need of application by the states or localities nor of prior federal agency approval of plans.

The special revenue sharing proposals, coupled with the enactment of general revenue sharing, rekindled Congressional interest in grant consolidation and block grants. This development was most likely a reflection of growing legislative concern about the problems inherent in the existing patchwork structure of aid programs and desire to rationalize and streamline the federal assistance system. Some former block grant opponents also possibly changed their position for defensive reasons. Michael Reagan has explained the political rationale underlying this change of attitude:

Just as the grant system as a whole stands somewhere between total state-local autonomy and total federal takeover of specific functions, so also does the block grant constitute (at least potentially) a reasonable compromise between the values of categorical grants and shared revenues. Federal *policy* is very clearly stated in the laws authorizing the block grant programs, and if there is adequate means for ensuring pro-

grammatic accountability of the recipient governments, then such grants may be a useful way of centralizing policy while decentralizing administration and permitting considerable local choice and decisionmaking on particular programs.¹³

Shifting Congressional sentiment toward block grants was revealed in the results of a survey with a 40% response rate of the House of Representatives conducted in September 1973 by the Intergovernmental Relations Subcommittee of the House Committee on Government Operations. In answer to a question about the appropriate mix of various types of grants, "over three times as many members thought that too little use is made of block grants as thought that block grants are used too intensively. This preference for block grants was indicated by all categories of respondents."¹⁴

Political compromise can be a purpose of the block grant as well as a process that characterizes Congressional deliberations on proposed legislation using this instrument. In seeking to strike an acceptable balance between the achievement of national goals and the enhancement of recipient flexibility in using federal funds, the block grant offers three major political advantages.

First, pressures from nationally organized special interests can be deflected. Within the functional area covered, the state and local officials largely determine who gets how much, when, and for what purposes. Often these are difficult, controversial, and politically unpopular decisions. At the same time, these choices occur within the framework of a national program defined by the Congress and supported by its appropriations. In a sense, then, the Congress can still take some credit while avoiding some political pitfalls.

Second, the block grant reduces the influence of the federal bureaucracy on the recipients' use of funds. State and local elected officials, in particular, can play a major role in such decisions. The federal administering agency, however, is still responsible for stewardship of the program and must account to the Congress about results.

Third, the Congress has a reasonably solid basis for determining whether its general intent or particular programmatic wishes are being met by grantees, and whether the grantor agency is properly implementing statutory provisions. Given the incremental nature of the Congressional budgetary process, adjustments in the administrative structure, program mix, or funding emphasis can be made periodically. In short, opportunities always exist for redirection if Congress wishes to use them.

Partly as a result of these attitudinal changes, block grants were established in 1973 and 1974 under the *Comprehensive Employment and Training Act*, the *Housing and Community Development Act*, and amendments (Title XX) to the *Social Security Act of 1935*. In fiscal year 1976, these programs, in addition to the *Partnership for Health and Safe Streets Acts*, accounted for 9% of the \$59.8 billion total federal aid to state and local governments, compared with 12% for revenue sharing and general support aid and 79% for categorical programs.

Despite these breakthroughs, categorical aids clearly continued to command Congressional attention; between 1969 and 1976, for example, at least 100 new programs were enacted.* The Congress also was unenthusiastic about the proposals contained in President Gerald R. Ford's 1976 budget message, which called for the replacement of 59 categorical programs by four block grants in the fields of health, education, child nutrition, and community social services.¹⁵ The Congress' response to the President's attempt to merge 16 health grants prompted two observers to predict that, "... the apparent support for such conversions is subtly eroding and the block grant trend has, in fact, peaked."¹⁶

BASIC CHARACTERISTICS OF THE INSTRUMENT

Although they differ in several respects (see *Tables 1 and 2*), the health, crime control, manpower, community development, and social services programs share to varying degrees five basic design characteristics. Together, these traits can help to differentiate block grants from other forms of federal assistance:

1. Federal aid is authorized for a wide range of activities within a broadly defined functional area.
2. Recipients have substantial discretion in identifying problems and designing programs and allocating resources to deal with them.

*A few of these categoricals were quite broad and accorded recipients a good deal of discretion over the mix of federally assisted activities to be undertaken. For example, the *Public Works Employment Act of 1976* authorized \$2 billion in grants for a wide range of state and local capital projects. No matching was required. Although it embodies certain block grant characteristics, a basic differentiating factor is the competitive nature of the public works program. States and localities must apply for aid, and the Economic Development Administration makes award decisions. During 1976, over 25,000 applications were submitted totaling more than \$24 billion. Yet, only 1,988 projects were selected for funding in that year.

3. Administrative, fiscal reporting, planning, and other federally imposed requirements are kept to the minimum amount necessary to ensure that national goals are being accomplished.
4. Federal aid is distributed on the basis of a statutory formula, which results in narrowing federal administrators' discretion and providing a sense of fiscal certainty to recipients.
5. Eligibility provisions are statutorily specified and favor general purpose governmental units as recipients and elected officials and administrative generalists as decisionmakers.

By combining these characteristics, a **block grant may be defined as a program by which funds are provided chiefly to general purpose governmental units in accordance with a statutory formula for use in a broad functional area, largely at the recipient's discretion.**

The key elements in defining block grants, therefore, are structural, functional, and managerial—not fiscal. Whether a particular federal aid instrument has, or should have, a stimulative or a supportive effect on state and local efforts is an issue that remains far from settled. Historically, categorical grants were established in response to particular needs or problems that were of national interest and concern, and federal funds were authorized primarily to stimulate states and localities to take remedial actions. Under formula-based programs, these jurisdictions normally played a major role in planning, policy and program development, and administration. On the other hand, a nationally administered program that bypassed the states usually was established under project grants.¹⁷ As categorical programs mature, support often replaces stimulation as the major fiscal effect of federal aid; this occurred in the highway and public assistance areas. Other factors that make it difficult to predict whether a stimulative or supportive effect will take place include: the size of federal funds relative to recipient direct outlays; the amount of matching required; the severity of problems experienced by grantees and the extent to which nonfederal resources are adequate to deal with them; and the possibility of interchangeability of federal dollars from various grants when mixed with state or local revenues.

The gap between the theory and reality of intergovernmental relations is especially great with respect to block grants. A consolidation of categoricals, for example, may combine programs having a stimulative intent with those having a supportive thrust. It is reasonable to assume that the larger the block grant (in

Table 1

Structural and Fiscal Characteristics of Contemporary Block Grant Programs, 1977

Program	Year of Enactment	Number of Categorical Programs Consolidated	FY 1976 Actual Outlay (in millions) ^a	Distribution Formula	Primary Recipient	Matching Requirements	Maintenance of Effort Requirements
Partnership for Health	1966	9	\$ 90	population	states	none	no
Omnibus Crime Control and Safe Streets ^b	1968	0	405	population	states	90-10 (planning) 50-50 (construction) 90-10 (other "action" programs)	yes
Comprehensive Employment and Training ^c	1973	17	1,358	unemployment, general purpose • previous year funding level, low income	local units and states	none	no
Housing and Community Development ^d	1974	6 ^e	750	population, housing overcrowding, poverty	general purpose local units	none	yes
Title XX Social Services	1974	0	2,358	population	states	90-10 (family planning) 75-25 (other social service programs)	no

^a Executive Office of the President, Office of Management and Budget, *Special Analyses: Budget of the United States Government Fiscal Year 1978*, Washington, DC, U.S. Government Printing Office, 1977.

^b Excludes Part C discretionary grants and Part E (corrections) formula and discretionary grants.

^c Excludes public service and emergency employment programs.

^d Excludes outlays for urban renewal and the phase out of other categorical programs replaced by the block grant.

^e A seventh program—Section 312 Housing Rehabilitation Loans—was also initially proposed for consolidation.

Source: ACIR staff compilation.

terms of both functional scope relative to other federal aid programs and fiscal magnitude relative to state and local direct outlays), the greater the supportive effect. Yet, the five existing programs that employ this instrument contain neither of these features. Similar to categoricals, particularly those having a formula-based distribution method, they are intended to stimulate as well as provide support for state and local activities. The mix of these purposes, however, varies from program to program, and empirical studies have arrived at different conclusions on this issue. About two-thirds of the city and county officials participating in ACIR's 1975 survey of local attitudes toward federal aid reported that the crime control, manpower, and community development block grants had increased the amount of local spending of nonmatching funds.¹⁸ Others, however, have contended that block grants and general revenue sharing are almost entirely supportive and heavily substitutive in their fiscal impact.¹⁹

COMPATIBLE AND CONFLICTING OBJECTIVES

In addition to sharing a number of characteristics, block grants have been established to accomplish somewhat similar objectives. Three of those most commonly sought have been economy and efficiency, program enlargement, and decentralization. Block grants also have been associated over the years with other purposes—coordination, targeting, innovation, and generalist control. These purposes have been sometimes compatible and other times in conflict with the basic characteristics of the instrument.

Economy and Efficiency

This objective has been closely linked with the consolidation of categorical aids. Block grant proponents argue that economy and efficiency would occur as a byproduct of the authorization of funds to be used in a broadly defined functional area rather than in several narrowly specified categories. For example, instead of authorizing individual grants for training, equipment purchases, research, and personnel compensation to each component of the criminal justice system, a block grant would be established to aid the planning and implementation of a comprehensive crime reduction and control program. State and local recipients would determine the mix of activities best suited to meeting their law enforcement and criminal justice needs. The absence of specific categories would reduce the possibilities of duplication among federal assistance programs

serving similar functions or needs even though they establish different intergovernmental fiscal, programmatic, and jurisdictional relationships. Wide scope and structural simplicity would help lower administrative costs, because recipients would not have to spend substantial amounts of time identifying the agencies having funds available for which they might be eligible. Moreover, they would not have to comply with numerous and possibly inconsistent planning, organizational, personnel, paperwork, and other requirements associated with interrelated but separate programs. In short, under a block grant, the time devoted to communications and coordination with the grantor would be much less than under categorical grants. From the standpoint of overall program design, therefore, the block grant instrument would be a simpler, cheaper, and more efficient way of providing resources to achieve certain national purposes.

In addition to these design features, economies could result from recipients playing a major managerial role in the block grant. Their performance of plan and application review, regulation enforcement, monitoring and evaluation, and other functions would lower federal personnel and overhead expenses. Especially in the case of federal-state block grants, assigning recipient agencies application approval and fund allocation responsibilities would further reduce federal administrative costs, as well as lessen the possibilities of political pressures and problems stemming from making distribution decisions at the national level. Channeling block grants through the states also would help maximize the impact of federal dollars, because they could be combined with state appropriations to further statewide goals as well as to assist local efforts.

Another method of achieving economy and efficiency would be to use the block grant as a means of budget control by setting a limit or slowing the growth rate of federal expenditures. President Ford's "Financial Assistance for Health Care Act," for example, would have merged Medicaid and 19 other health programs into a block grant with fiscal year 1978 outlays estimated at \$12.3 billion. Medicaid expenditures alone, however, were estimated to exceed \$10 billion in fiscal year 1977, leaving little room for accommodation of the other candidates for consolidation. In the crime control area, the fiscal year 1978 request for block grant appropriations was slightly less than the fiscal year 1971 level of outlays, partly due to categorization.

Program Enlargement

A second and quite different objective of the block grant is what has been called "improvement through

Table 2

**Principal Recipient and Federal Agency Roles in Contemporary
Block Grant Administration,
1977**

Program	Actions by Recipient			Actions by Federal Agency			
	Plan Submission	Application Submission	Detailed Reporting	Plan Review & Approval for Substantive Content	Application Approval	Monitoring, Evaluation, Auditing	Discretionary Grant Awards
Partnership for Health		X ^a			X ^b		
Omnibus Crime Control and Safe Streets	X	X	X	X	X	X	X
Comprehensive Employment and Training Act	X	X	X	X	X	X	X
Housing and Community Development	X	X		X	X	X	X
Title XX Social Services	X ^b					X	

^a Since 1970, preprinted assurances are filed indicating that all statutory planning and other program requirements are met.

^b Contents are reviewed to ensure that statutorily specified procedures have been followed.

Source: ACIR staff compilation.

enlargement,"²⁰ i.e., increased appropriations. Although reformers may seek to realize greater economy and efficiency through the merger of related categoricals, the reduction of red tape, administrative costs, and overlapping responsibilities may not always be a totally convincing argument. Consolidation raises concerns among recipients about their future funding levels, even where the candidates for merger have relatively limited functional scope and small dollar amounts. As was evident during the 1950s, the prospects for enactment are diminished if block grant proposals fail to provide reasonable certainty that present grantees will not be affected adversely in their previous funding levels. Such assurance normally is accomplished through distribution formulas that include prior funding levels and through hold-harmless provisions designed to gradually wean certain grantees from excessive dependence on federal aid. The net effect would be to raise appropriations above categorical program levels, as old functional and jurisdictional interests are accommodated and new directions are being charted.

Consolidating categoricals also could generate political pressures for program enlargement. The greater visibility given the new block grant and the realignment and concentration of Congressional committee-federal administrative agency-interest group alliances in the functional area covered by merger would very likely lead to higher appropriations.

Decentralization

Decategorization has been a long-standing reaction against the steady growth in the number of federal aid programs and the amounts of outlays. But the nature and extent of federal decentralization to emphasize subnational jurisdictions is the key characteristic differentiating between a block grant and a consolidated categorical program. In other words, both funding approaches can lead to improved economy and efficiency and to program enlargement; only the former, however, can accomplish meaningful decentralization of decisionmaking.

Under a block grant, recipients would be encouraged to identify and rank their problems, develop plans and programs to deal with them, allocate funds among the various activities called for by these plans and programs, and account for results. At a minimum, the role of the central and regional offices of the federal administering agency would involve promulgating regulations and guidelines, providing advice and assistance to recipients during the various stages of implementation, considering plans prepared by grantees,

maintaining financial records, performing periodic audits, evaluating performance, and reporting to the President and the Congress on the achievement of national purposes. Additional federal responsibilities could include designating eligible recipients, approving plans and programs, and awarding discretionary funds to supplement formula allocations for various purposes. In general, the minimum level of involvement was reflected in the Nixon Administration's 1971 and 1973 special revenue sharing proposals, while the more expanded role was embodied in the grant consolidation bills introduced during the 1950s and early 1960s, as well as in three of the five block grants that have been established.

Coordination

Block grants have been viewed as having significant potential to achieve coordination. They are often considered as alternatives to categorical programs, many of which tend to accentuate specific programmatic, professional, or political interests. Block grants could eliminate federal intradepartmental coordinative problems arising from numerous categorical grants in the same functional area. Coordination of the activities of related recipient government agencies within a broadly defined functional terrain also could be achieved. In the crime control field, for instance, the block grant has been a significant catalyst in meshing the efforts of police departments, prosecutors and defenders, the courts, and corrections and juvenile agencies for the purpose of reducing crime and delinquency. In this sense, block grants could have a system-building effect, by requiring the participation and cooperation of functionally allied agencies during the various stages of the grant-in-aid process. Comprehensive planning, the establishment of advisory or decisionmaking bodies composed of functional and jurisdictional representatives, balanced funding requirements, and other statutory provisions are geared to facilitating communications and coordination. Without them, the possibilities for developing these links would be reduced greatly.

Targeting

Some observers consider block grants to be a major method of targeting federal funds on jurisdictions having the greatest needs. This purpose would occur by the authorizing legislation including a formula that "objectively" measures need for the particular type of assistance—using population, income, unemployment, housing overcrowding, and other appropriate data. Whether these data are accurate indicators of need and can be made

available in a timely fashion are critical concerns. In addition, the need factor in the distribution formula could be diluted as a result of the compromises necessary to gain Congressional consent to consolidation. Nevertheless, an entitlement basis for allocations, in general, would help ensure that a fair share of resources will go to the most deserving, while minimizing the discretion of federal administrators. By way of contrast, a project-based categorical would emphasize grantsmanship in the acquisition of federal aid and maximize the opportunities for federal administrative influence in grant award decisions.

Targeting of funds also would take place as a result of the flexibility accorded to recipients by the block grant. Within the broad scope of federally aided activities, recipients would have wide latitude in allocating funds to programs that are of high priority and in shifting monies among activities in response to changing conditions. In this manner, the distorting effects of federal assistance on state and local priorities could be reduced.

Innovation

Another objective sought by some block grant proponents is innovation, i.e., recipients would use federal funds to launch activities that otherwise could not or would not be undertaken. This purpose reflects the belief that the block grant should have a stimulative effect in addition to providing support for ongoing activities and relief from fiscal strain. Realization of this objective would depend on several factors relating to the structure and size of the block grant instrument, as well as to the needs and resources of the recipient. Moreover, whether the block grant is applicable to a new or traditional state/local program area and whether its cost-sharing arrangements (e.g., matching and maintenance of effort) are effective are other considerations affecting the extent of innovation.

Generalist Control

The block grant is sometimes associated with control of grant-in-aid decisionmaking by generalists—elected chief executive and legislative officials and administrative generalists. This is an important corollary to decentralization, because policy decisions would be made by those who presumably were more aware of and accountable to community interests. The intent would be to curb the pressures of the functional specialists and interest groups that have been generated over time by categorical aids and to restore the generalist to an authoritative position vis-a-vis the flow of federal funds

into his/her jurisdiction. General purpose governments, as opposed to private nonprofit organizations, special districts, and public authorities, would be the prime recipients of block grants. However, these jurisdictions could contract with such bodies to perform particular aspects of service delivery. The basic point, however, is that responsibility for interfunctional coordination and accountability for the results of federally assisted programs would be on the shoulders of those who are directly elected by the people or those who are responsible to such officials.

AREAS OF CONFUSION

The interplay of the diverse objectives sought by block grant proponents and of intergovernmental political forces has occasionally blurred the differences between this instrument and other forms of federal aid. Two major areas of confusion involve large categorical programs and consolidated grants.

Large Categoricals

Some observers consider certain large, formula-based categorical programs to be virtually identical to block grants in their operational features. Perhaps the best example is Title I of the *Elementary and Secondary Education Act of 1965*.

The stated purpose of this title was to authorize funds for activities aimed at meeting the special educational needs of educationally deprived children. It was not primarily intended to provide general assistance to school districts. Federal aid was distributed in accordance with a statutory formula based on the number of eligible children, per pupil expenditures, and low-income population. No matching funds were required. Recipients were able to exercise considerable discretion in using grants due to the looseness of definitions of "educationally deprived children," the reluctance of the U.S. Office of Education (OE) to give direction about the most appropriate types of educational programs, and the close communications and shared expectations of education professionals involved in administering the program at different governmental levels. Substantive ambiguity was reinforced by the political sensitivities associated with local control of education, helping to curb federal intrusiveness. As a result, Title I dollars were widely disbursed rather than targeted, and they were tailored to meet recipient rather than national needs and priorities.

In effect, this categorical program was transformed into a de facto block grant by providing general aid to

most local education agencies and according them substantial flexibility in allocating these monies, including substitution for normal local expenditures. Despite a number of similarities, Title I fails three of the basic block grant tests: the program does not cover the bulk of the functional area; funds are not provided to general purpose units, nor do administrative generalists or elected chief executive or legislative officials have significant influence in decisionmaking; and the categorical structure provides opportunities for OE officials to enforce several strings related to the use of federal aid, should they choose to do so.

Consolidated Grants

The second area of confusion involves the decategorization strategy. Unless the essential traits of the block grant instrument are taken into account, the merger of existing programs may result merely in a large categorical grant. For instance, consolidation may establish a broad functional entitlement program but not increase grantee discretion or reduce the funding conditions imposed by the grantor. At least two grant consolidations have produced programs that some consider to be block grants—the *Social Security Amendments of 1967* and the *Education Amendments of 1974*.

SOCIAL SECURITY AMENDMENTS OF 1967

Title V of the *Social Security Amendments of 1967* consolidated several separate programs concerned with maternal and child health and crippled children services. During fiscal years 1962-1972, half of the annual appropriations between maternal and child health services and crippled children services.

stressed need, as determined by the Secretary of HEW. The Secretary also determined the allocation of these appropriations between maternal and child health services and crippled children services.

To be eligible for financial assistance, a state was required to submit a plan to the Secretary for approval. The scope of this plan ranged from organizational (e.g., single state agency), procedural (e.g., report submission), and personnel (e.g., merit basis for employment) matters to assurances that special attention would be given to dental care for children and family planning services for mothers in needy areas and groups.

Federal aid would cover half of the cost of the plan's programs. Of the remaining annual appropriations, four-fifths was earmarked for special project grants for maternity and infant care, the health of school and preschool children, and the dental health of children,

with the federal share set at 75% of costs. Finally, 10% of the appropriations was for research and for personnel training in institutions of higher education (with emphasis placed on undergraduate programs). Beginning in FY 1973, however, 90% of the appropriations was to be used for all of the above purposes other than training and research, which remained at the 10% level.

Five years after enactment, the functional scope of the formula-based programs under Title V was broadened as a result of including the project grants. Eligibility remained narrow, and the entitlement basis for distribution was not changed. The Secretary still possessed substantial discretion in allotting funds between the maternal and child health and crippled children services areas, as well as authority to oversee state planning and programming efforts. Moreover, federal funds continued to be awarded to and controlled by state health departments rather than by generalists. Thus, the consolidated programs resulted in a more categorical than block grant approach.

EDUCATION AMENDMENTS OF 1974

Title IV of the *Educational Amendments of 1974* merged eight categorical grants into two programs—libraries and learning resources and educational innovation and support. The annual appropriations for each activity were to be distributed to the states based on their relative number of children. These monies in turn were to be passed through to local educational agencies in accordance with their enrollment, tax effort, and per pupil expenditures. Each state seeking aid was required to establish an advisory council that was broadly representative of educational and cultural interests and to submit a plan to the commissioner of education for approval. This document was to include the broad range of procedural and substantive assurances, one of which was that “each local educational agency will be given complete discretion . . . in determining how the funds it receives from appropriations . . . will be divided among the various programs. . . .” Federal funds were authorized to match the amount spent by the state in implementing its plan.

Although consolidation streamlined the categorical structure in these two areas and established an entitlement program with narrow eligibility, the commissioner of education retained significant authority over the use of funds and generalists were not involved in planning, program administration, or advisory council deliberations. Moreover, as had occurred in other successful consolidations, the library and educational innovation programs were accompanied by a “special projects act,”

which set up separate nationally directed project grants for meeting unique needs, placing special emphasis, and launching experimental undertakings with respect to: use of the metric system, gifted and talented children, community schools, career education, consumers' education, women's equity in education, and arts in education.

In summary, the block grant is neither a new nor a well defined component of the federal assistance system.

Although it occupies a middle-ground position between categorical aids and general revenue sharing, the particular characteristics of this instrument are often not well recognized and, therefore, may not be reflected in programs bearing the block grant label. This situation may generate conflict and confusion when results are assessed against objectives. It also may lead to disillusionment and disappointment with the block grant approach to dispensing federal aid.

FOOTNOTES

- ¹ See Daniel J. Elazar, *The American Partnership: Intergovernmental Co-operation in the Nineteenth-Century United States*, Chicago, IL: University of Chicago Press, 1962; and W. Brooke Graves, *American Intergovernmental Relations: Their Origins, Historical Development and Current Status*, New York, NY: Charles Scribner's Sons, 1964, pp. 477-514.
- ² Commission on Organization of the Executive Branch of the Government, *Overseas Administration, Federal-State Relations, Federal Research*, Report to the Congress, March 1949, p. 36, cited by Selma J. Mushkin, "Barriers to a System of Federal Grants-in-Aid," *National Tax Journal*, Vol. XIII, No. 3, September 1960, p. 194.
- ³ Mushkin, "Barriers to a System of Federal Grants-in-Aid," *op. cit.*, pp. 194-196.
- ⁴ *Ibid.*, pp. 197-198.
- ⁵ Selma J. Mushkin and John F. Cotton, *Functional Federalism: Grant-in-Aid and PPB Systems*, Washington, DC: The George Washington University, 1968, p. 114.
- ⁶ Mushkin, "Barriers to a System of Federal Grants-in-Aid," *op. cit.*, pp. 196-197.
- ⁷ *Ibid.*, p. 198.
- ⁸ *Ibid.*, p. 199.
- ⁹ Richard P. Nathan, "Special Revenue Sharing: Simple, Neat, and Correct," Unpublished manuscript.
- ¹⁰ William H. Robinson, "Budgeting for Federal-State Programs: Progress and Problems," *Tax Policy*, Vol. XXXV, Nos. 11-12, November-December, 1968, pp. 9-10.
- ¹¹ *Ibid.*, p. 10.
- ¹² See: Advisory Commission on Intergovernmental Relations, *Special Revenue Sharing: An Analysis of the Administration's Grant Consolidation Proposals* (M-70), Washington, DC: U.S. Government Printing Office, December 1971; Richard P. Nathan, "Special Revenue Sharing," in Joseph D. Sneed and Steven Waldhorn, eds., *Restructuring the Federal System: Approaches to Accountability in Post-Categorical Programs*, New York, NY: Crane, Russak & Co., Inc., 1975, pp. 35-45;

- Roland L. Warren, "Competing Objectives in Special Revenue Sharing," in Sneed and Waldhorn, *op. cit.*, pp. 46-60; and Jeffrey L. Pressman, "Political Implications of the New Federalism," in Wallace E. Oates, ed., *Financing the New Federalism*, Baltimore, MD: Johns Hopkins University Press, 1975, pp. 13-39.
- ¹³ Michael D. Reagan, *The New Federalism*, New York, NY: Oxford University Press, 1972, p. 63.
- ¹⁴ U.S. Congress, House of Representatives, Committee on Government Operations, Intergovernmental Relations Subcommittee, *Replies by Members of Congress to a Questionnaire on General Revenue Sharing*, 93rd Cong., 2nd Sess., 1974, p. 1.
- ¹⁵ "Budget Message of the President," *The United States Budget in Brief: Fiscal Year 1977*, Washington, DC: U.S. Government Printing Office, 1976, p. 6.
- ¹⁶ Leonard Robins and Charles Backstrom, "The Coming Erosion of Support for Block Grants," *CFS Notebook*, Center for the Study of Federalism, Temple University, Philadelphia, PA, Vol. 6, No. 4, Fall 1976, p. 3.
- ¹⁷ See George F. Break, *Intergovernmental Fiscal Relations in the United States*, Washington, DC: The Brookings Institution, 1967; and Charles L. Schultze, "Sorting Out the Social Grant Programs: An Economist's Criteria," *The American Economic Review*, Vol. 64, No. 2, May 1974, pp. 181-189.
- ¹⁸ Albert J. Richter, "Federal Grants Management: The City and County View," *Urban Data Service Reports*, Washington, DC: International City Management Association, Vol. 8, No. 10, October 1976, p. 5.
- ¹⁹ See: Mushkin, et al., *Functional Federalism, op. cit.*, Chapters 6-9; Richard P. Nathan, Allen D. Manvel, and Susannah Calkins, *Monitoring Revenue Sharing*, Washington, DC: The Brookings Institution, 1975; and Richard P. Nathan, Dan Crippen, Andre Juneau and Associates, *Where Have All the Dollars Gone? Implications of General Revenue Sharing for the Law Enforcement Assistance Administration*, prepared for the National Institute of Law Enforcement and Criminal Justice, U.S. Department of Justice, Washington, DC: U.S. Government Printing Office, December 1967.
- ²⁰ Mushkin et al., *Functional Federalism, op. cit.*, p. 114.

The Dynamics of Implementation

To arrive at a better understanding of block grant operations, the experience of the programs employing this approach—health, crime control, manpower, and community development—can be probed.*

In each case, the political and administrative dynamics associated with their implementation are assessed according to the five basic characteristics of the block grant. These traits collectively can serve as a test of the extent that the block grant features are embodied in a particular program. Within this context, the objectives sought by block grant proponents are examined, and the changes over time in both the programs characteristics and purposes are analyzed.

PARTNERSHIP FOR HEALTH: FROM "GIANT" TO "PIGMY"

The *Partnership for Health Act of 1966* was the first contemporary block grant enacted by the Congress. Section 314(d) authorized federal financial assistance to states for comprehensive public health services, with administration by the U.S. Department of Health, Education, and Welfare (HEW). PHA framers were concerned with achieving three of the basic goals of the block grant: improved economy and efficiency, enlarged program and fiscal scope, and greater decentralization of responsibility. The ten-year period of operation of this

*For a more detailed discussion of these programs consult the following reports issued in 1977 by the Advisory Commission on Intergovernmental Relations: *The Partnership for Health Act: Lessons from a Pioneering Block Grant* (A-56); *Safe Streets Reconsidered: The Block Grant Experience 1968-1975* (A-55), *The Comprehensive Employment and Training Act. Early Readings from a Hybrid Block Grant* (A-58); and *Community Development: The Workings of a Federal-Local Block Grant* (A-57).

program provides a good opportunity to observe how the block grant works in practice and how it changes over time in response to functional, fiscal, and political pressures within the intergovernmental system.

Functional Scope

The first test of a block grant is whether a wide range of activities are authorized within the public health area. An affirmative response is essentially accurate, insofar as the provisions of Section 314(d) are concerned.

PHA was designed to achieve a fundamental revision of federal categorical health programs through the consolidation of nine formula grants (administered by the Public Health Service of HEW), into the Section 314(d) block grant and the merger of seven project grants into another section of the act. Although previous consolidation attempts had generated severe opposition from the affected specialized health constituencies, only the mental health interests provided any real difficulties, and they were placated by a minimum 15% earmark within the new block grant. In effect, the mental health provision was the only programmatic constraint on recipients contained in the 1966 legislation.

Broad functional coverage was partly illusory, however, as illustrated by three subsequent events. First several old programs originally administered by the Children's Bureau, HEW, were not included in PHA. Instead, they were consolidated in the *Social Security Amendments of 1967* title dealing with maternal and child health services and crippled children services.

Second, since 1967 the Congress has steadily departed from the flexible servicing goals of the act by mandating block grant attention to particular health

problems. It also has enacted 11 new categorical programs that logically could have been subsumed under PHA.*

Third, the fiscal magnitude of this program must be considered when gauging its functional breadth. The initial (FY 1968) appropriation of \$60.2 million was only a modest increase over the combined figure for the consolidated categorical grants, although according to the legislative record, the Congress clearly intended appropriations to grow rapidly to a level four or five times that amount. Yet, from 1970 to 1976 each annual appropriation amounted to only \$90 million, which represented only 3% to 4% of total state health department expenditures. In fiscal year 1976, PHA accounted for approximately 4% of HEW's public health outlays—less than 1% of total federal expenditures in this area. This static pattern suggests a significant shift in the goal of using the block grant as the basic means of providing federal assistance to state-local public health efforts.

Recipient Discretion

The second test is whether states exercise substantial discretion in identifying needs and in developing programs. Perhaps the most important objective of PHA was to provide state health agencies with greater flexibility to use federal assistance in accordance with their particular needs and priorities. In certain respects, this objective has been achieved, although not on a totally meaningful level.

A survey of all state health officers, conducted in 1975 by ACIR, revealed that the overwhelming majority believe that the block grant affords them greater discretion than was experienced with the categorical aids. With respect to the handful of restrictions contained in Section 314(d), almost half of the respondents claimed that these provisions do not actually constrain their public health activities. The most commonly cited limitations on recipient flexibility were the mental health earmark, the stipulation that local recipients employ program personnel on a merit basis, and the

requirement that at least 70% of the grant award be spent on "services in communities." These reactions underscore the essentially "few strings" character of the Section 314(d) program.

Flexibility also is explained by other factors: the difficulty involved in enforcing conditions, especially in view of the opportunities for fungibility stemming from large state-local public health expenditures; the growing professionalism of state health departments; and the resolution at an early stage of program implementation of the initial points in controversy.

Other factors undercut the claims of greater discretion. First, the block grant outlays under PHA are small relative to the aggregate of federal grants and state-local direct expenditures for public health. Discretion clearly is more limited under this circumstance than would be the case under a broad, adequately funded block grant covering the bulk of the functional area.

Another negative factor is the origin of PHA—the consolidation of a cluster of existing categorical programs. Public health administrators at the federal and state levels inherited a number of well established programs and clientele groups.

Finally, the PHA experience suggests that without significant new money (as indicated earlier) state efforts to shift program priorities and to initiate new undertakings may be severely curtailed. The available data on PHA outlays at the state level are not very reliable, but they imply an absence of significant departures from the funding levels associated with the prior legislative categories. For example, these data indicate that the dental health share of the Section 314(d) program was 0.9% in 1974 compared with 1.7% in 1966, while the proportion for chronic diseases was the same as in the last preconsolidation year.

In short, recipient discretion may be great under PHA, but only in the sense that the block grant serves as a useful filler of small gaps not covered by larger, federally aided and state-supported specialized servicing efforts. This situation, of course, was not the purpose of the program's founders.

Program Conditions

The third test of a block grant is whether administrative, fiscal reporting, planning, and other federally established requirements are kept to the minimum amount necessary to ensure that national goals are being accomplished. To obtain this objective, national and state concerns must be delicately balanced: this was not achieved in the public health area by PHA. The absence from the outset of any clear realization that this lack of balance was the basic dilemma confronting the new

*These include: alcohol abuse and alcoholism prevention, treatment and rehabilitation basic grants; alcohol abuse and alcoholism prevention, treatment and rehabilitation special grants; emergency medical services: establishment and initial operation of system; emergency medical services: feasibility studies and planning; narcotic addiction, drug abuse, and drug dependence prevention and rehabilitation education; drug abuse prevention and treatment basic grant; lead-based paint poisoning prevention centralized laboratory facilities; lead-based paint poisoning prevention local program development; urban rat control; venereal disease prevention and control program project grants; and venereal disease prevention and control program research, demonstration and training grants.

assistance device compounded the problem and underscores how ill defined and little understood the block grant concept was in the mid-1960s.

The Congress and HEW both failed to come to terms with the question of the extent of federal requirements and oversight as related to the state-local programs. Was the block grant intended to support any public health activities undertaken by state or local governments or to further particular national public health priorities? HEW officials considered national and state concerns to be complementary, while the Congressional committees, although somewhat skeptical about this belief, failed to provide clear guidance as to how intergovernmental disagreements over plans, priorities, programs, and other matters would be resolved (if they arose).

As PHA matured, the error in assuming identical objectives on the part of the grantor and grantees became increasingly evident. A number of controversies over state program content marked its early years, partly because federal officials (particularly in HEW regional offices) were not accustomed to the block grant style of administration and tended to follow the categorical mode of operation. In addition, because they were aware of Congressional concerns about the new instrument, these officials believed that they needed to present a convincing record to the authorizing committees in order to ensure continuation and to justify appropriations increases.

The states, on the other hand, contended that they were entitled to PHA funds regardless of how they intended to use them. This attitude prevailed despite the claims of HEW regional offices that federal accountability for the program could be preserved only if they exercised a degree of control over state plans and program directions. Nearly all of these early disputes were resolved in favor of the states.

By 1970, HEW had decided not to require the submission of detailed state comprehensive health services plans. Instead, they were bypassed through the use of forms that assured the existence of a plan satisfying all pertinent federal requirements. This change in program administration marked the beginning of a period of HEW's inattention to, if not abdication of, its responsibilities under the program. With one person assigned on a part-time basis in the central office and one-half of a man year recommended as the appropriate personnel allocation in each regional office, cursory attention to the block grant became the operative norm.

This lack of oversight reflected not only the new HEW policy of emphasizing administrative simplification and recipient discretion, but also the awareness that many conditions were unenforceable—the states could

rebudget revenue sources to counter-balance imposed requirements. Moreover, the Congress' growing tendency to enact health categoricals separate from the Section 314(d) program affected the situation.

The ambiguities persisted, however, since practically all forms of federal involvement declined during the early 1970's—including state plan preparation and review, technical assistance, monitoring, enforcement of reporting requirements, auditing, and program evaluation. HEW's hands-off approach was in marked contrast to the growing sentiment in the pertinent Congressional committees favoring increased controls over the block grant program.

The stand-off between the political branches of the national government, in turn, tended to strengthen the Congress' preference for enacting categorical grants and maintaining the funding of the Section 314(d) program at a relatively low level. It also led to an ironic situation in 1975 where the Ford Administration was urging the scrapping of the PHA for fiscal reasons while retaining the health categoricals because of their strong clientele support and likely prospects for continuation. Although the block grant was renewed with few major changes, it was slated for merger with 21 other federally aided health grants under President Ford's proposed "Financial Assistance for Health Care Act."

In summary, the failure to achieve an effective operational balance between the concerns of the states and those of the federal government ultimately produced a program with meager funding, only a few really powerful supporters (chiefly state and county health officials), and an uncertain future. In other words, state dominance fostered federal disinterest.

Grantee Certainty

With respect to the test of whether grants are allocated on a statutory formula basis, which has the effect of narrowing the discretion of federal administrators and providing grantees with some sense of fiscal certainty, the response is a qualified "yes."

Grants were to be awarded to states contingent upon HEW's approval of a state plan for comprehensive public health services submitted by state health and mental health agencies. The distribution formula was based on population and financial need. Requirements for matching were variable, ranging between one-third and two-thirds of a state's total expenditures under its Section 314(d) allotment and depending on its per capita income level. In addition, a hold-harmless clause was included to ensure that each state would receive at least as much money under the block grant as it had under the

categorical formula grants. Compared to the prior health grants, this arrangement narrowed HEW's discretion and strengthened the recipients' sense of certainty. The latter was enhanced further by the deletion of the matching requirement in the 1975 amendments to the act.

At the same time, it should be remembered that the original expectation that the PHA appropriation would quickly grow to four to five times the initial \$62.5 million authorization never materialized. "Certainty," in a very real sense, merely meant that from 1970 through 1976 the states could expect to share in a total \$90 million annual appropriation.

From the local (mainly county) vantagepoint, the act's requirements that block grant funds be "made available" to other public and private nonprofit organizations and that 70% of the funds be spent on "services in communities" were largely left to state interpretation and implementation. Funds were not required to be passed through to local or areawide comprehensive health planning (CHP) units, and the act's legislative history appeared to indicate that the requirement for 70% of the funds to be used to provide "services in communities" could be met by local agencies or by the state directly. Four-fifths of the states now involve local or regional public agencies—but rarely nonprofit organizations—in the operation of their Section 314(d) program. The suballocation method, however, is state-determined as, in most cases, are the expenditure priorities. This suggests a pattern of strong state-level program discretion and some fiscal certainty, but little corresponding flexibility or certainty for participating local governments and private health services providers.

Generalist Involvement

PHA meets the fifth block grant test in all major respects: eligibility provisions are fairly specific, relatively restrictive, and tend to favor general purpose governmental units, elected officials, and administrative generalists. Governors were clearly designated in the act as the prime eligible recipients. Also, various other statutory provisions that might have undercut their dominant role were written or applied in such a way as to bolster the state position. As noted above, block grant funds were required to be "made available" by state health agencies to other public and private nonprofit organizations in order to receive their "maximum participation" in providing assisted services. Yet, the manner in which the funds were to be made available and the measures of maximum participation to be used were not specified.

On another front, the link between the program and local or areawide and state comprehensive health planning was largely left to chance. Block grant-supported services merely had to be "in accord with a state CHP plan," and no relationship with local CHP efforts was spelled out. In addition, the 70% community services requirement, if interpreted differently, could have seriously retarded state ascendancy in the program.

In summary, the states have been the dominant partners in the PHA block grant. Yet, the fiscal magnitude of the program is so small relative to other grants in the health area that PHA has been subsumed at the state level and virtually ignored by the federal administering agency. In this atmosphere, the fact that the block grant has been a gap filler rather than a launching pad for new initiatives or major undertakings is not surprising.

SAFE STREETS: A CASE OF "CREEPING CATEGORIZATION"

Unlike Partnership for Health, the crime control block grant was not formed through a consolidation of categorical grants. Although a small project grant existed for three years prior to approval of the *Omnibus Crime Control and Safe Streets Act of 1968* (and subsequently was folded into the program), this act was the first and only attempt to date to make use of the block grant instrument from the outset. Partly for this reason, it differs markedly from its health predecessor in the extent to which the five basic traits are reflected in practice.

A second major difference between the two programs is the objectives sought by their respective proponents. The *Safe Streets Act* was shaped in a highly sensitive political environment, and political compromise has characterized the Congressional consideration of this program throughout its existence. Law enforcement, after all, has been a traditional and significant function of state and local governments, and fears arose about establishment of a national police force and improper exercise of the U.S. Attorney General's powers. As a result, although coordination, economy and efficiency, and, to a lesser degree, program enlargement were influential elements in the design of the block grant, policy and administrative decentralization was the pivotal objective.

Functional Scope

The first question to be addressed—Does the act authorize federal aid for a wide range of activities within

the broad law enforcement and criminal justice area?—can be answered affirmatively. Block grants may be used by state and local governments to support a variety of activities undertaken by virtually all components of the criminal justice system. These programs include: law enforcement training, personnel compensation, and career development; detection and apprehension; riot and civil disorders control; crime prevention, including public education; correction and rehabilitation; juvenile delinquency prevention and control; prosecution, court, and law reform; community relations; organized crime control; research and development; construction; and crime statistics and information.

The *Safe Streets Act*, however, is not the only source of technical and financial assistance provided to states and localities by the federal government. The Federal Bureau of Investigation, the Bureau of Alcohol, Tobacco, and Firearms of the U.S. Department of the Treasury, the National Institute on Drug Abuse, and the Bureau of Prisons are additional federal agencies involved in intergovernmental crime prevention and control activities. In fiscal year 1976, three-fourths of the \$1.2 billion federal expenditures provided to assist state and local crime and juvenile delinquency reduction efforts was channeled through the act's federal administering agency—the Law Enforcement Assistance Administration (LEAA) of the U.S. Department of Justice.

Block grants awarded to states pursuant to Part C of the act (action programs) account for approximately half of LEAA's total budget authority, which amounted to \$811 million in fiscal year 1976. However, in assessing the impact of these funds, their relatively small fiscal magnitude for states and localities must be kept in mind. Although LEAA's present appropriations level is nearly 13 times that of fiscal year 1969, this figure represents less than 5% of annual state and local own-source outlays for crime reduction purposes.

Recipient Discretion

With respect to the second test, recipients of crime control block grants are given substantial discretion in identifying problems and designing appropriate programs. Unlike many categorical programs enacted by the Congress during the 1960s, the *Safe Streets Act* called for the states to prepare comprehensive statewide plans for criminal justice improvements; to review and approve applications from state agencies, regional planning units, and local governments for programs implementing the plans; to coordinate implementation efforts; and to monitor and evaluate recipient performance. Each state

has set up a state planning agency (SPA) for criminal justice to perform these tasks. Policy decisions and grant awards are made by a supervisory board that is broadly representative of functional, governmental, and citizen interests, with SPA professional staff members exercising varying degrees of influence.

Although the crime control block grant is largely a state-oriented program, certain statutory provisions restrict their flexibility over the use of funds. The most significant curb on discretion resulted from Congressional categorization, which has converted the *Safe Streets Act* into a hybrid block grant. In 1971, Part E was added to the act, establishing a program of financial aid for corrections institutions and facilities. In order to receive assistance under this part, the states have to maintain their level of correctional funding under Part C action programs. The amounts available have ranged from between 15% and 20% of the total Part C block grant appropriation. Fifty percent of the Part E funds are allocated to the states in accordance with a population-based formula, while the remainder are discretionary funds to be used by LEAA to finance project grants designed by states and localities. Part E has imposed additional planning, reporting, and coordination requirements on SPAs and has provided a strong inducement for the allotment of more federal dollars to corrections.

In addition to earmarking for corrections, in 1974 the Congress passed the *Juvenile Justice and Delinquency Prevention Act*, which required that Part C funding for juvenile delinquency programs be maintained at the fiscal year 1972 level. The 1976 amendments rejected the arguments by spokesmen for the courts that a separate category of financial assistance for the judiciary should be established, as well as the Ford Administration's proposal for a separate high-crime program with the block grant. Nevertheless, \$15 million each year was earmarked for neighborhood crime prevention, and 19.15% of all LEAA appropriations were set aside for juvenile justice purposes. In addition, SPAs were required to set up judicial planning committees to prepare annual plans and establish priorities for court improvement and to develop projects to implement them. SPAs must make available to these committees at least \$50,000 in Part B planning funds each year. The amendments also provided that the courts have a minimum of three representatives on the supervisory board and receive an adequate share of block grants.

The *Safe Streets Act* contains at least four other provisions that limit recipient discretion. First, matching is required at varying rates highlighting Congressional priorities. In 1968, federal aid covered 75% of the costs

of riot and civil disorders control, 50% of construction projects, and 60% of all other action programs. Small wonder that during the initial years of the program, substantial amounts of funds were used to purchase police hardware. In 1971, the Congress authorized federal funds to be used to cover up to 90% of the costs of correctional programs under Part E. Two years later, Congress raised the federal share for Part C grants to 90%, with the exception of construction, which remained at the 50% level.

A second string limits the amount of funding for personnel compensation to not more than one-third of project costs, a measure designed to avoid dependence on federal dollars for salary support. Thirdly, each state is required to submit annually a comprehensive plan to LEAA for review and approval. The organization and contents of this plan are prescribed in detail by law. Fourth, Part C contains several provisions calling upon SPAs, in particular, to emphasize a wide range of Congressionally mandated concerns, including the following:

No state plan shall be approved as comprehensive unless the administration finds that the plan provides for the allocation of adequate assistance to deal with law enforcement and criminal justice problems in areas characterized by both high crime incidence and high law enforcement and criminal justice activity. No state plan shall be approved as comprehensive, unless it includes a comprehensive program, whether or not funded under this title, for the improvement of juvenile justice. . . .

No plan shall be approved as comprehensive unless the administration finds that it establishes statewide priorities for the improvement and coordination of all aspects of law enforcement and criminal justice, and considers the relationships of activities carried out under other federal programs, the general types of improvements to be made in the future, the effective utilization of existing facilities, the encouragement of cooperative arrangements between units of general local government, innovations and advanced techniques in the design of institutions and facilities, and advanced practices in the recruitment, organization, training, and education of law enforcement and criminal justice personnel. It shall thoroughly address

improved court and correctional programs and practices throughout the state. . . .

In making grants under this part, the administration and each state planning agency, as the case may be, shall provide an adequate share of funds for the support of improved court programs and projects, including projects relating to prosecutorial and defender services.

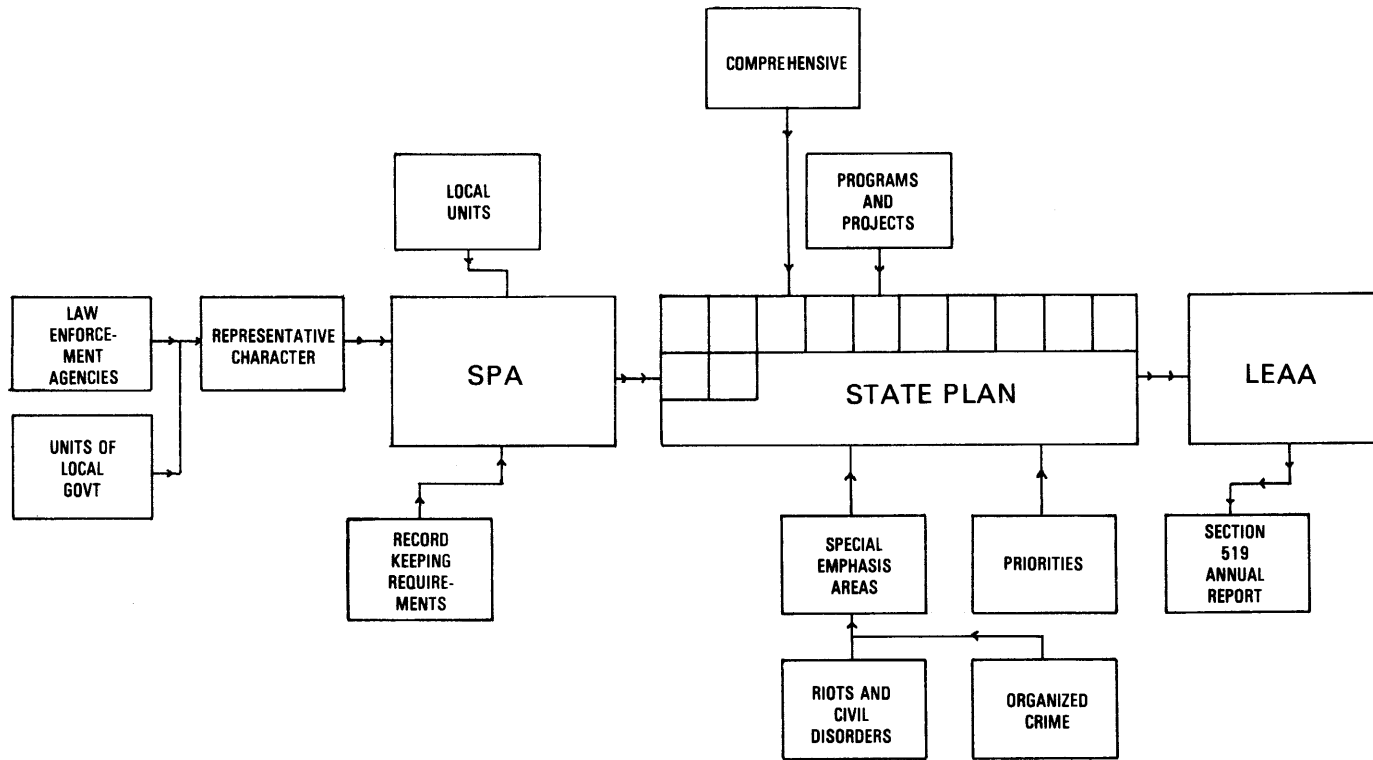
Over the years, categorization, earmarking, and the addition of other statutory provisions have produced a complex and bewildering array of program requirements. The resulting progressive narrowing of recipient discretion is diagrammed in *Figure 1*.

In addition to federal constraints on recipient discretion, four-fifths of the states have adopted policies that exclude certain activities from funding and encourage others, with the result of reducing local flexibility. For example, some states have discouraged the funding of routine activities by prohibiting the use of LEAA monies for equipment and construction. Others have attempted to maximize the reform potential of this federal aid by setting eligibility standards for applicants, such as requiring police departments to meet the SPA's minimum standards for police services or local governments to submit a joint application for a project having regional significance (e.g., a correctional institution or a communications system).

The *Safe Streets Act* experience suggests that as block grants filter down through the intergovernmental system, the addition of substantive strings is likely, restricting the flexibility of ultimate recipients in tailoring federal aid to their priority needs. The impact of these strings, however, may be difficult to predict or to measure. For example, under a federal-state block grant, some local officials may not perceive any significant differences between block and categorical grants in the degree of discretion they are allowed to exercise over the use of funds. On the other hand, contrary to what might be assumed from the preceding discussion, SPA officials do not appear to believe that the original restrictions or the subsequent hybridization have unduly curbed their flexibility. In response to a 1975 ACIR survey, 43% of the SPA directors indicated they had "great" discretion over the control and use of funds and 61% reported having "great" discretion in establishing action grant categories. These views underscore the importance of operational experience, as well as the language of legislation and administrative regulations and guidelines, in understanding how a block grant works, in practice.

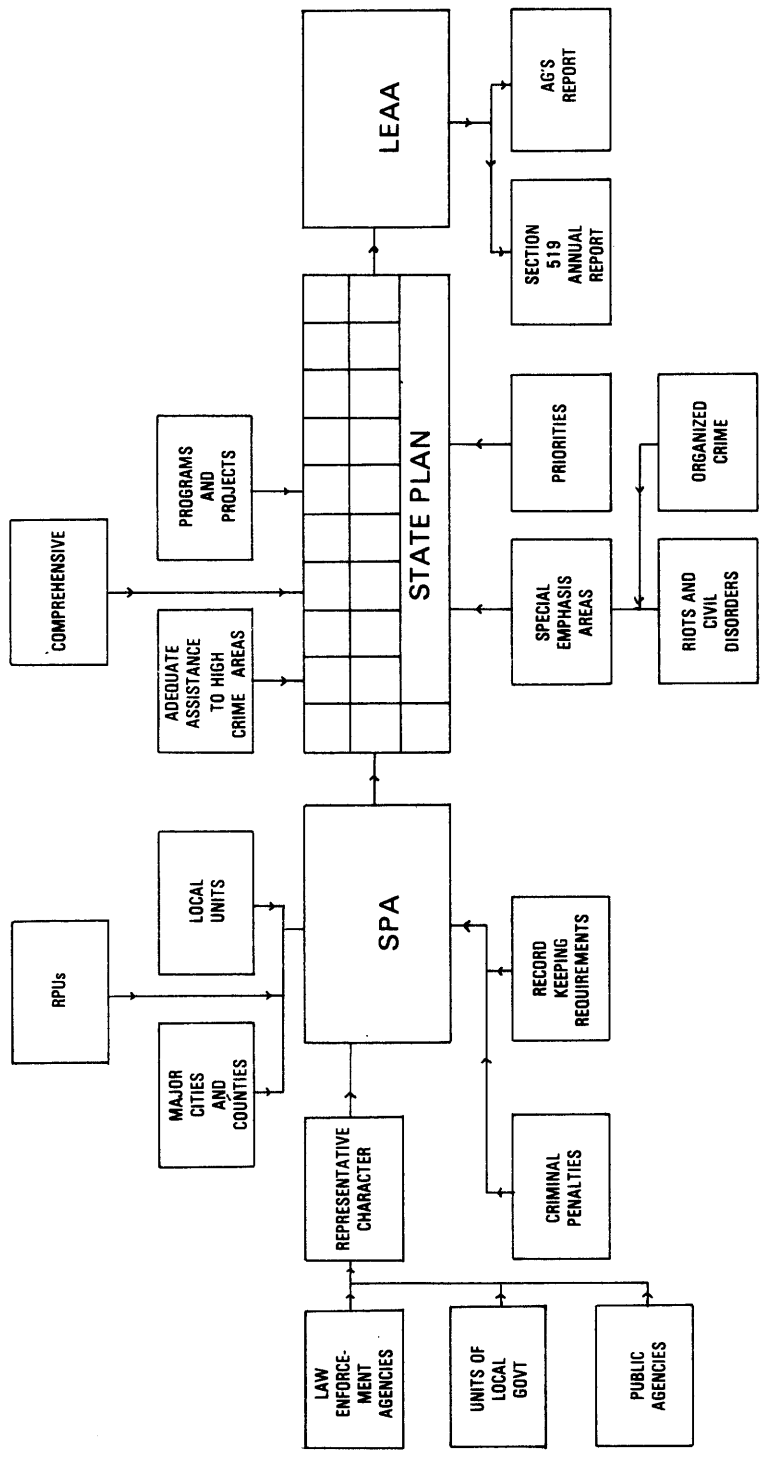
FIGURE I
**Evolution of Statutory Requirements
 in Crime Control Block Grant Program
 1968-1976**

PART-A
Omnibus Crime Control and Safe Streets Act of 1968

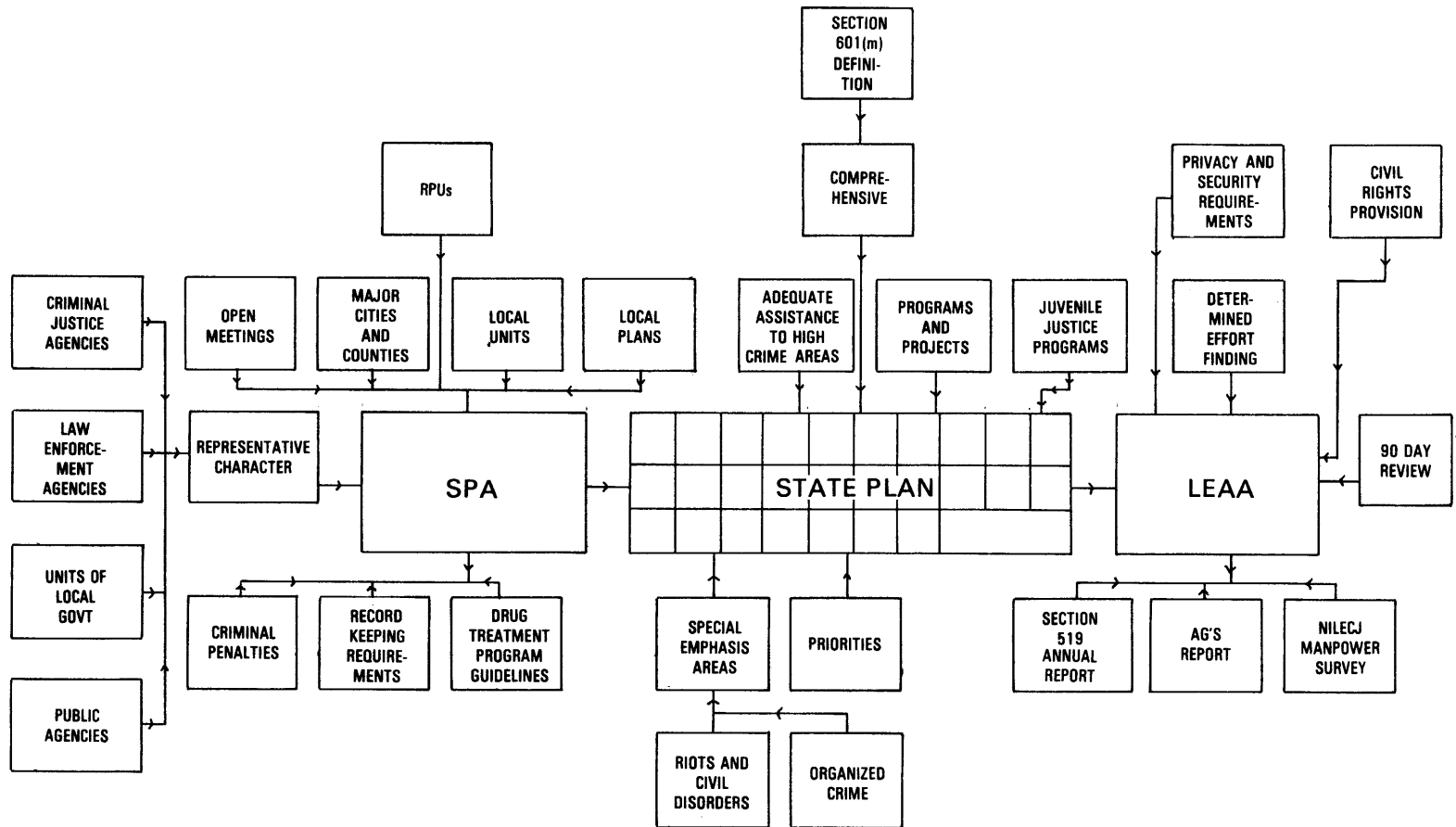


SOURCE: U.S. Department of Justice, Law Enforcement Assistance Administration, "Summary of the Statutory Development of the LEAA Block Grant Program," November 16, 1976 (mimeo).

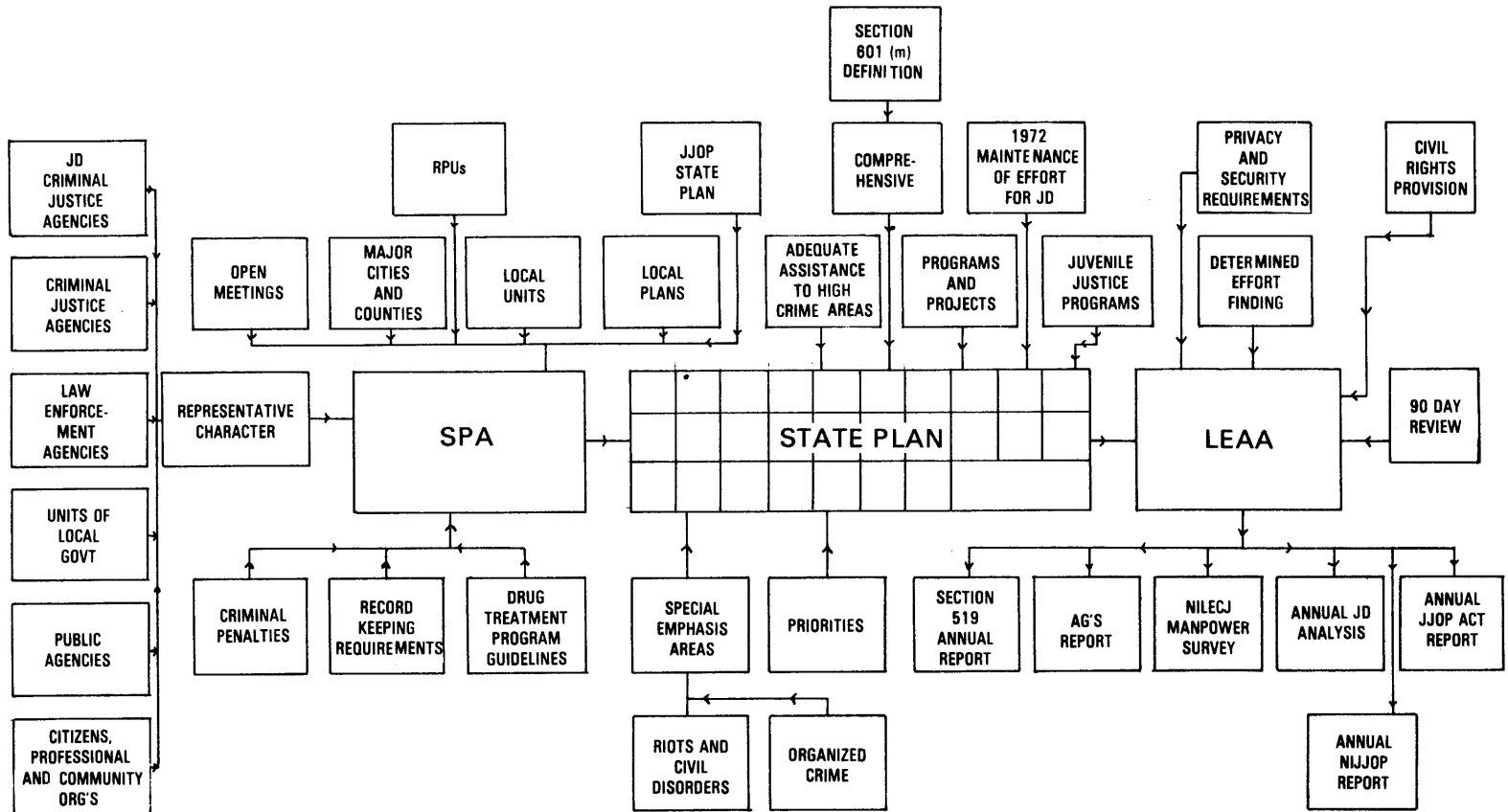
PART-B Omnibus Crime Control Act of 1970



PART-C
Crime Control Act of 1973

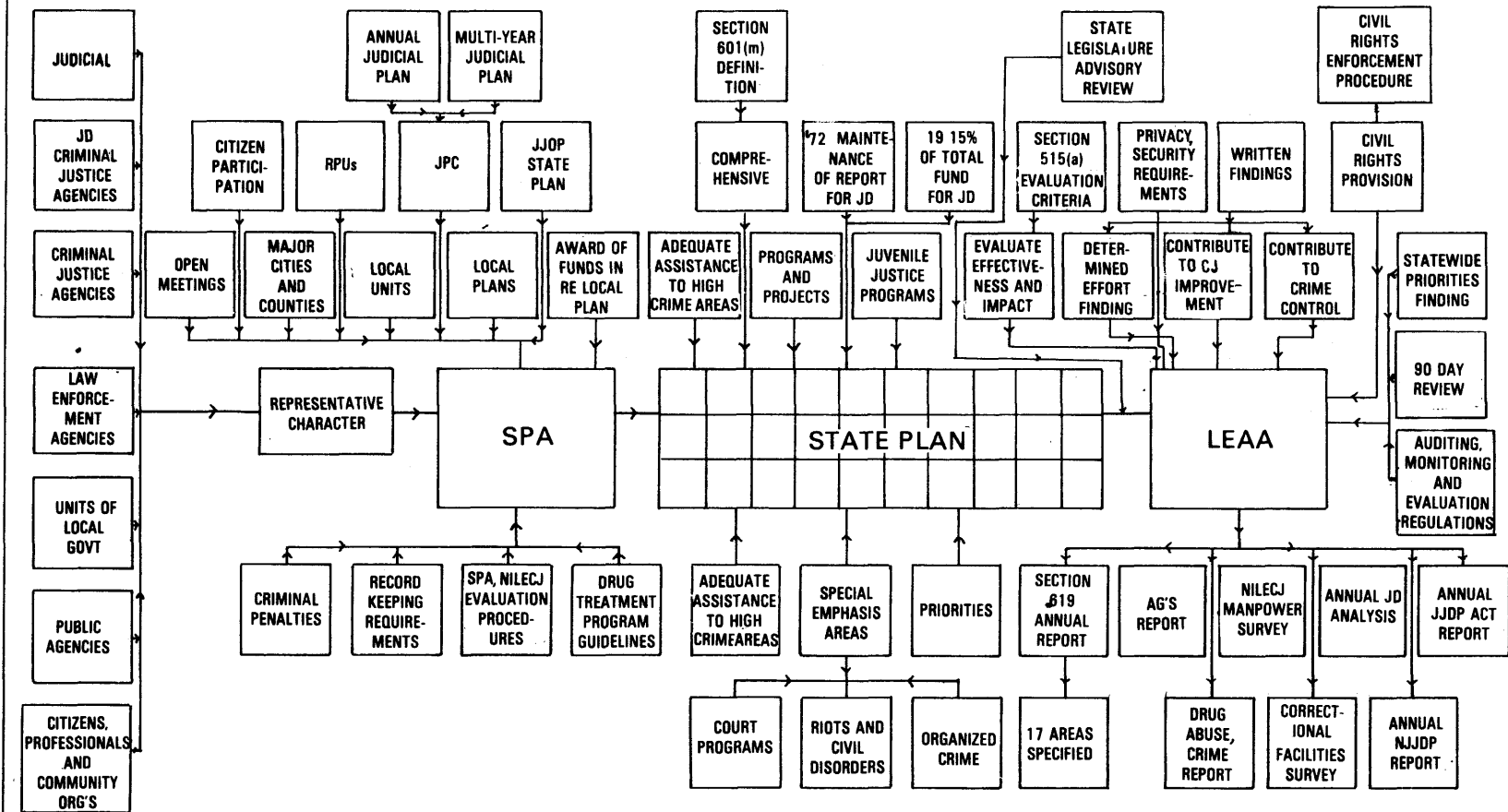


PART-D
**Juvenile Justice and
 Delinquency Prevention Act of 1974**



**PART-E
Crime Control Act of 1976**

25



Program Conditions

With respect to other types of conditions, planning, administrative, and paperwork requirements are not really designed to limit LEAA intrusiveness. Two statutory provisions have had a major effect on SPA planning and decisionmaking. First, SPAs are required to approve or disapprove applications for assistance within 90 days of receipt. Second, and more importantly, Part C of the act lists those areas that must be adequately addressed by the state comprehensive plan for criminal justice improvement. LEAA's regional offices review SPA submissions and, in lieu of plan disapproval, normally issue "special conditions" that must be met within a specified time period in order for the state to be in compliance with the act.

The Part C and Part E guidelines, promulgated by LEAA each year, form the basis for development of the annual comprehensive plan. These guidelines consist of detailed discussion of and specific requirements for each of the Congressionally mandated sections of the plan, including: (1) a description of existing law enforcement and criminal justice systems (including juvenile justice) and available resources; (2) an analysis of needs, problems, and priorities; (3) a description of the state's law enforcement and criminal justice standards and goals; (4) a multiyear projection of improvements; (5) a review of related federal, state, and local plans, programs, and systems; (6) a description of the annual action programs; (7) a past progress report (primarily an evaluation of previously funded projects); and (8) a statement of compliance with statutory requirements. The comprehensive plan guidelines do not require separate annual plans for Parts C and E but do mandate that the special Part E assurances required by law be met in a number of places throughout the annual plan.

Many of the strongest complaints about the block grant program by SPA directors—and, in some instances, other state, regional, and local officials—center on the guidelines, which are considered restrictive, incomplete, repetitive, and overly detailed. A concern frequently expressed by SPAs relates to the financial reporting procedures and amount of paperwork required by LEAA, which overloads their staff and leaves little time for genuine planning. As a result, the plan has become, in the view of some states, a compliance document rather than an instrument for systematically addressing present and future state and local crime reduction needs.

In addition to guideline intrusiveness, administrative categorization of Part C block grants has occurred as a result of LEAA actions. Almost since the inception of the program, LEAA has encouraged the use of standard

functional categories to assure both itself and the Congress that the states are adequately addressing all components of the criminal justice system. Although SPAs may and do develop their own categorized structure, they are required to cross reference their plan's program and funding information with LEAA's standard functional categories, as specified in the annual planning guidelines.

SPAs divide their block grant appropriations into a number of functional "pots" corresponding to the programs that constitute their category structure. Applications are funded from these pots until the money has been expended. If more applications of merit are submitted than can be covered by available funds in a particular area, the SPA must either deny some proposals' funding or transfer funds from underutilized pots to cover the deficit. If this transfer involves more than 15% of the funds, the SPA must request LEAA approval of a plan amendment; this approval is almost always granted.

Functional categories have limited the flexibility of both the SPA and potential applicants. In some states, the funded programs are so specifically defined that numerous activities and/or eligible recipients are excluded. Hence, city and county applicants may find that these categories do not adequately recognize their needs and priorities or are unresponsive to local initiatives or emergencies. Although the approval of plan amendments is routine, the amount of time and paperwork involved in securing most allocation changes often leaves local officials believing that block grant planning and funding allocation decisions are, at best, a ritual. This condition is exacerbated by the inflexibility resulting from a large proportion of federal funds for the support of ongoing programs; on the average, 50% of the fiscal year 1975 state allocations were set aside for this purpose.

In summary, the block grant approach—at least in the crime control area—does not necessarily minimize federal strings. In fact, conditions imposed by the grantor and paperwork required of the grantee may be increased to assure Congressional committees that the intent of the statute is being adequately met. This situation may lead to administrative categorization being as intrusive, if not more so, than statutory categorization.

Grantee Certainty

With regard to the fourth block grant trait, crime control block grants are distributed on the basis of a statutory formula, which narrows LEAA's discretion. However, the amount of fiscal certainty depends on the type of recipient.

As indicated previously, half of LEAA's annual budget authority is accounted for by Part C block grants, 85% of which are distributed to the states on the basis of population. The remaining 15% of the Part C appropriation comprises a discretionary fund, which LEAA considers as its "categorical" program. Although applications for discretionary funds are reviewed by the SPA and must conform with the state comprehensive criminal justice plan, LEAA decides on their allocation and purpose. Discretionary funds have supported a wide variety of undertakings; in the case of the judiciary and high-crime local jurisdictions, there is some evidence that these monies have been used to fill gaps in block grant awards.

Local grantees do not possess a high degree of certainty with respect to the receipt of block grants because the statutory formula applies only to the aggregate for the substate level. SPAs must passthrough an amount proportionate to the local share of total direct state-local criminal justice expenditures in the preceding fiscal year. However, the SPAs decide which jurisdictions will receive support, what programs will be funded, and whether presently aided activities will be continued.

Since the inception of the program, heated debate has arisen over whether SPAs are allocating a proportionate share of action funds to those major cities and urban counties with the highest crime rates. Although the Congress has stated that no state plan is to be approved by LEAA unless it provides for the allocation of adequate assistance to areas having both "high crime incidence and high law enforcement and criminal justice activity," representatives of the nation's local governments have argued that both the states' response and LEAA's enforcement have been uneven. They assert that greater amounts of action monies need to be targeted to high-crime areas on a continuous basis, and that such concentration of the relatively limited federal resources is the only way to reduce crime.

ACIR's probing of this issue revealed that several large cities individually receive substantially fewer funds than would appear warranted by their share of state crime rates or population. However, several states have achieved a jurisdictionally balanced funding pattern, particularly if crime control actions are considered within the framework of a city-county criminal justice system. Counties, after all, have been assigned significant responsibilities in operating the courts and correctional institutions, as well as performing law enforcement functions in unincorporated and some incorporated areas. Cities, on the other hand, are heavily involved in providing police protection, and to a lesser degree, in

performing certain prosecutorial and judicial activities. Analysis of the flow of block grant assistance over the years in terms of city-county criminal justice systems across the country reveals that larger jurisdictions have received action funds generally in proportion to their share of state population and slightly below their share of state crime rates.

In short, although gaps still remain in some states' effort, the present statutory provisions calling upon both LEAA and the SPAs to give adequate attention to the needs of high-crime areas appear to have had a positive effect. At the same time, local government spokesmen have not been deterred from proposing amendments to the act that would establish a separate block grant program for major cities and urban counties, or combinations thereof, or that would require SPAs to earmark a portion of their Part C allocation for these jurisdictions. Largely in response to concerns over funding certainty, the Congress provided in the 1976 amendments that SPAs must establish procedures under which local governments, or combinations thereof, of 250,000 or more population could submit annually a local comprehensive plan. Approval by the SPA would trigger a "mini-block grant" award to implement the plan.

Generalist Involvement

The final test—Are eligibility provisions fairly specific, relatively restrictive, and do they favor general purpose governmental units, elected chief executive and legislative officials, and administrative generalist?—results in a basically affirmative answer for the *Safe Streets Act*.

Part of this question has been resolved already—eligibility for crime control block grants is statutorily specified and restricted to general purpose units. With respect to the remaining issue, a key feature of the block grant instrument is the enhancement of the power position of elected chief executives and legislators and top administrative generalists vis-a-vis functional specialists. For example, the act calls for the creation of supervisory boards at the state and, where used, regional levels composed of representatives of various governmental, functional, and public interests. In the 1973 amendments, the Congress affirmed this position by requiring that a majority of the members of regional planning (RPU) boards be local elected officials. However, some confusion has arisen over who qualifies as a "local elected official." In some states, sheriffs, judges, and prosecutors are considered to be part of this category. This imprecision has led to inconsistent representational policies and has effectively thwarted the Congress'

objective in mandating such representation. For example, approximately one-third of the regional and local officials responding to a 1975 ACIR survey indicated that the requirement had produced no effect on RPU supervisory board decisionmaking.

At the state level, the governor normally establishes the SPA, names supervisory board members, and directs other state agencies to cooperate with the SPA. The governor also may designate RPUs. In the 35 states lacking a statutory basis for the SPA, these activities are accomplished by executive order and may be changed periodically in response to gubernatorial turnover, executive branch reorganization, and other factors. Despite their formal responsibilities under the act, most governors have not played an active role in the crime control program on a day-to-day basis. The governor's influence is generally exercised through the selection of supervisory board members and appointment of the SPA director. In part, this level of participation reflects the heavy demands on the chief executive's time, as well as the relatively small amount of funds available.

One effect of the limited gubernatorial involvement has been restriction of the SPA to activities related to the *Safe Streets Act*, even though the block grant instrument is supposed to address crime control in a system-wide context. With few exceptions, SPAs have not been authorized to collect criminal justice data from other state agencies, to develop comprehensive plans for the entire criminal justice system, or to influence state resource allocation decisions through review and comment on the appropriation requests of its law enforcement and criminal justice agencies. Neither the representation of these agencies on supervisory boards nor the provision of planning and technical assistance to them have been successful in enabling SPAs to become a more integral part of the state criminal justice system. As a result, SPAs are still viewed largely as planners for and dispensers of federal aid.

Another consequence of the "governors program" image of the *Safe Streets Act*, as well as the relatively low funding level, has been limited state legislative involvement. Although the legislature appropriates matching and buy-in funds, makes decisions about assuming the costs of projects, and in 20 states sets up the SPA, its awareness of and substantive participation in the program has been quite limited. In many states, the legislature has no real say in planning and policy decisions, but is expected routinely to fund programs submitted by the governor and the SPA. Where legislatures have attempted to assert a more aggressive role, their efforts frequently have been resisted by the governor and by LEAA. However, their lack of involve-

ment makes it difficult for the legislature to mesh federal anti-crime funds with state criminal justice outlays, to exercise effective oversight, and to relate this program to any broader efforts in reforming the criminal justice system. In response to these problems, the 1976 amendments provided for an "advisory" review of SPA comprehensive criminal justice improvement plans by the legislature prior to their submission to LEAA.

Generalist participation is not easy to achieve—even under a block grant. The amount of interest and involvement on the part of these individuals appears to be largely dependent on the amount of federal funds available, whether the generalist is a part or full-time official, and the degree of statutory clarity with regard to participants, their roles, and their authority.

CETA: A CASE OF "HYBRIDIZATION"

Title I of the *Comprehensive Employment and Training Act of 1973* (CETA) established a block grant through the consolidation of 17 categorical programs. Decentralization, coordination, generalist control, and economy and efficiency were the major objectives sought by proponents of this approach. Unlike the health and crime control block grants, direct funding of local governments was authorized even though the states played a major role in planning, coordination, evaluation, and service delivery. Moreover, CETA emerged from a special revenue sharing proposal developed as part of the Nixon Administration's "new federalism" domestic agenda. The block grant, therefore, was a compromise between the categorical and revenue sharing decisionmaking models. However, many of the assumptions about how decategorization and decentralization would work were untested.

The implementation process proceeded cautiously and was heavily conditioned by fluctuating national economic conditions, spiraling unemployment rates, pressures from old categorical interests, and recipient experiences with general revenue sharing. A more basic factor was the difficulty experienced by key program participants in grasping the essential traits of the block grant and in understanding the implications of using this instrument.

Functional Scope

CETA only partially meets the first test of a block grant—whether there is a statutory authorization of a wide range of activities covering a broad functional area. Although Title I provides for "comprehensive manpower

services," in fiscal year 1976 the scope of the block grant was limited to only about three-tenths of the total CETA appropriation and one-sixth of the overall federal aid for employment and training purposes. Thus, although it accounts for more than \$1.3 billion in annual outlays, the block grant is only a small piece of the manpower pie.

Title I of CETA did little to curb the historical fragmentation of federal aid for manpower-related purposes. Many of these programs were beyond the jurisdiction of the Congressional committees that designed CETA and, therefore, were not directly affected by its passage. Even after consolidation, 47 categorical grants remain in this field, two-thirds of which are project based. These are administered by 10 federal departments and agencies. Within the framework of the act, the Congress attempted to develop a mixture of block and categorical program authorizations that would strike an acceptable compromise between national and sub-national objectives.

From the outset, CETA embodied a hybrid block grant. The 17 programs folded into Title I were surrounded by a cluster of categoricals aimed at public service jobs, emergency employment, the Job Corps, and special target groups like youth, Indians, and migrant and seasonal workers. This approach was a politically viable way to assure the Congress, the federal and state manpower bureaucracies, and various interest groups that programs of proven past popularity or of national implication due to contemporary conditions would not be adversely affected by decategorization and decentralization.

This legislative strategy generated several management problems. Most local recipients had little prior planning experience and no operational experience in the manpower area. However, the early implementation process was facilitated by the fact that Title I covered a wide range of services and activities that could be readily packaged to meet the needs of particular labor market areas. Yet, whenever sponsors had to draw on categorical programs that were outside of CETA and administered by other agencies—such as HEW or state employment services—coordination became a problem.

The Employment and Training Administration (ETA) of the U.S. Department of Labor attempted to facilitate integration of block and categorical programming by entering into interagency agreements, publishing technical assistance guides and program inventories, and offering advice. The lack of sponsor familiarity with either instrument, however, led to difficulties in developing links between them. The block grant, therefore, could not serve as an effective catalyst for coordinating

manpower programs or for filling gaps in service delivery remaining after categorical funding.

Recipient Discretion

The second block grant test deals with the extent of recipient discretion in identifying and prioritizing needs and allocating resources to meet them. In federal programs using this aid instrument, recipient flexibility in these matters should be relatively more than under a project or formula-based categorical but less than under general revenue sharing. Title I of CETA falls between these extremes.

Manpower block grants are authorized for a variety of purposes, including intake, classroom and on-the-job training, supportive services, information gathering, assistance to community-based organizations, public employment programs, special target group services, and Job Corps programs. These funds may be used in conjunction with categorical grants under the other titles. The mix and the beneficiaries of these services are determined by recipients, who are termed "prime sponsors." The activities to be undertaken are specified in a plan submitted annually to the Secretary of Labor for approval. The only real statutory constraint is very general: sponsors must give adequate attention to economically disadvantaged, unemployed, and underemployed, and to those "most in need." Moreover, sponsors have considerable leeway in determining whether these target groups are best served by programs geared to the disadvantaged, to structural unemployment, or to cyclical unemployment.

During the first year of implementation, many sponsors did not use their discretion to the extent anticipated by block grant supporters. The majority relied on previously existing categorical programs as a basis for determining the service target groups and the service providers. However, as national economic and local unemployment conditions worsened, some changes were made, including a reduction in the number of contracts with the state employment service, a sharp decline in the amounts spent for classroom training, a significant increase in work experience outlays, and a gradual assumption of a direct servicing role by some prime sponsors.

The initial tendency to renew previous categorical relationships was understandable in light of the fairly widespread sponsor unfamiliarity with the manpower field. In many areas, categorical programs were an important source of stability and continuity during the transition period. The decisions by prime sponsors to change program directions in response to the rising

unemployment curve underscores their growing capacity to use the discretion inherent in the block grant.

At the same time, certain problems arose as a result of wide sponsor latitude. A major concern was the use of nearly half of fiscal years 1975 and 1976 Title I formula allocations for public service jobs or for equivalent programs (e.g., work experience). Although prime sponsor decisions to allocate resources in these manners were consistent with the block grant concept, countercyclical hiring diverted attention away from the long-term CETA goal of placing unemployed persons in unsubsidized jobs, primarily in the private sector. Moreover, in the view of some observers, continued use of public service employment could lead to the substitution of federally supported positions for those that would have been funded with local revenues. It also duplicated other federal programs that provide countercyclical assistance—Titles II and VI of CETA, general revenue sharing, and the anti-recession provisions of the *Public Works Employment Act of 1976*. This substitution effect contradicts the intent of the act. Although ETA has begun to encourage greater sponsor attention to private sector employment and to on-the-job and other skills training programs, it has considerably less leverage in accomplishing this goal under the block grant than under the previous categorical programs. Sponsor resistance to this change also may be highly likely unless major gains are registered in reducing unemployment rolls.

Another problem associated with the exercise of prime sponsor discretion is the role of the state employment service (SES) as provider of manpower programs. Prime sponsors have been less inclined to contract with the SES than was the case when these agencies were considered the presumptive deliverers of certain categorically funded services. For bureaucratic as well as programmatic reasons, ETA has supported the continued use of the intake, assessment, counseling, and other activities of SES agencies. Of particular concern is the possibility of CETA-funded efforts duplicating those of the SES in the same labor market. Many sponsors, however, have not acceded to ETA's wishes and have been reluctant to cooperate and coordinate with the SES.

In these and other problem areas, the exercise of sponsors' discretion may lead to intergovernmental tensions as ETA attempts to ensure that resource allocation decisions are compatible with Congressional intent, long-term employment and training needs, and efficient and effective management practices. Although ETA may inform, encourage, assist, support, or take similar noncoercive actions to influence sponsor deci-

sions, it also could simply mandate changes through its plan review and approval authority. This move would require a delicate balancing act, especially as sponsor sophistication grows and if local unemployment rates remain high.

Program Conditions

The preceding discussion of potential friction points provides a background for an examination of how CETA meets the third block grant test—whether federally established requirements are sufficient to ensure that national objectives are being achieved while not unduly burdening recipients with red tape. To date, CETA appears to have met this test.

ETA has four major statutory responsibilities: setting national objectives, priorities, and performance standards; furnishing technical assistance; reviewing and approving prime sponsor plans; and assessing their compliance with provisions of the act, success in goal achievement, and program effectiveness. During the first year of implementation, ETA basically followed a revenue sharing style of administration. Although relationships varied from region to region, generally speaking ETA was far from intrusive. In fact, in some regions it was almost invisible. Many sponsors—and some DOL regional offices—believed that greater technical assistance and guidance should have been provided during the startup period. Outside observers of CETA's implementation criticized ETA for being too willing to bend its regulations in order to fund prime sponsors and for emphasizing procedural rather than substantive compliance. This "soft" treatment, they observed, was underscored by the fact that no plans were disapproved by the regional offices, even though several were returned to sponsors for changes.

Beginning with fiscal year 1976, ETA became more active in its stewardship of the block grant. Sponsors were required to report more frequently and to supply more information on their fiscal transactions, participant characteristics, placement rates and costs, and related matters. Public hearing and auditing procedures also were tightened, as were definitions of key terms in the act. Some sponsors viewed these actions as the first sign of ETA's movement back toward a categorical mode of operations, which would soon be followed by substantive intervention and second guessing.

Grantee Certainty

With respect to the fourth block grant test, four-fifths of the Title I funds are distributed on a statutory formula basis. In short, who receives aid is determined

largely by objective measures of need rather than by grantsmanship. Hence, ETA's discretion and influence in allocating resources is narrowed relative to that which would be exercised under a project-grant approach.

CETA does not require that local grant awards must pass through the state. Yet, despite the presence of a direct federal-local relationship, the amount of fiscal certainty possessed by some prime sponsor is not altogether clear. The tripartite statutory formula (unemployment, low-income persons, previous year funding level) and the 90% hold-harmless provision give sponsors assurance that their CETA funding will not fluctuate greatly from year to year. Data and definitional problems, however, cloud the picture. The Department of Labor is responsible for gathering timely and accurate local labor market information and for making estimates on labor force, employment, and unemployment for individual local governments. Because these figures are based partly on decennial census or other population surveys, they are often not very reliable. These data problems hardly convey a sense of certainty, particularly for jurisdictions with marginal eligibility for prime sponsorship.

For the most part, however, the statutory distribution formula provides eligible prime sponsors with a reasonably high degree of assurance on funding matters. Opportunities for grantor intrusiveness are further diminished by the earmarking of nearly all of the Secretary's discretionary fund. Half of these monies go to governors for local vocational training services, coordination and special statewide services, and operation of the state manpower services council. The remainder are set aside for consortium incentives or for hold-harmless payments.

Although a high degree of certainty may be associated with the distribution of block grants, whether these awards are equitable and effective is subject to debate. For example, the emphasis of the unemployment factor in the formula has resulted in substantial amounts of Title I funds being diverted to suburban counties and rural communities at the expense of central cities, for use largely as a countercyclical tool. Although the latter jurisdictions have the most pressing employment and training needs, ETA can do little to redirect the dollar flow to give greater attention to structural unemployment. Moreover, unlike other block grant programs, nearly all Title I discretionary funds are earmarked; the Secretary of Labor cannot use them to fill gaps remaining after making the formula allocations.

A second concern related to the certainty issue involves the fragmentation of local labor market areas. In designating prime sponsors, insufficient attention has

been given to the fragmentation effects. This situation is due, in part, to the specificity of statutory provisions defining eligibility, which limits ETA's discretion. Although the act authorizes incentive funds to encourage the formation of consortia, these guidelines are rather loose and cover a variety of interlocal relationships that may change from year to year. Hence, consortia have been found to cover a labor market area entirely, partially, or not at all.

The basic point emerging from these two problem areas is the need for some balance between grantee certainty and reasonable grantor leverage. In Title I of CETA, certainty may have come at a sacrifice of equity and/or effectiveness.

Generalist Involvement

The final block grant test covers the extent to which the statute defines eligible recipients and gives preference to elected officials of general purpose local units as opposed to private nonprofit organizations and functional specialists. Title I of CETA contains both characteristics.

The major breakthrough of the CETA block grant was its reliance on local elected officials as prime sponsors. Although this departure from the categorical approach created problems of delay and misjudgment resulting from unfamiliarity with the manpower field, the initial costs of involving such officials were thought to be well worth the benefits.

Whether or not local elected officials will assume major decisionmaking responsibilities for manpower needs and priorities, plan and program contents, service deliverers, and other matters remains to be seen. The early experience with planning councils suggests the desire of these officials to play a leadership role, but the CETA administrator and staff continue to dominate decisionmaking in many places. Although no common pattern emerges, the block grant clearly does provide generalists with an opportunity to exert considerable influence. However, the nature, extent, and effect of their involvement are conditioned by several factors, including local unemployment rates, CETA funding levels, and whether the elected official occupies a part or full-time position.

COMMUNITY DEVELOPMENT: LOCALIZATION OF THE BLOCK GRANT

After many years of debate, the Congress in 1974 enacted the *Housing and Community Development Act*, which consolidated a number of separate project-grant

programs. Unlike its predecessors, the community development block grant (CDBG) completely bypassed the states and established a direct federal-local relationship in virtually all aspects of program administration. The major objectives sought were decentralization, generalist control, and economy and efficiency. As in the case of the other block grants, political compromise characterized every stage of the Congress' consideration of the proposed merger.

Functional Scope

With regard to the first block grant test, the CDBG program authorized federal assistance for six of the former community development-related categorical grants administered by the U.S. Department of Housing and Urban Development (HUD): urban renewal; model cities; open space, urban beautification, and historic site preservation; neighborhood facilities; water and sewer; and public facilities loans. Recipient jurisdictions may pursue any of 13 eligible activities covered by the block grant. However, the scope of the functional area encompassed by CDBG can be best determined by examining what was omitted from the consolidation.

Two major HUD programs were not folded into the block grant, even though they involved activities that were fundable under the act and served similar activities and constituencies. These were the Section 312 (rehabilitation loan) program and the Section 701 (comprehensive planning and management assistance) program. The former was originally slated for consolidation under CDBG in August 1975. However, supporters succeeded in keeping it separate from the larger block grant. They argued that the Section 312 program was simple and effective, that it assured funds for rehabilitation efforts, and that it gave those efforts a priority not guaranteed by CDBG. In contrast, the Section 701 program was never a candidate for merger because it also provided funds to state and regional planning bodies; CDBG funds could go to states only on a discretionary basis, and regional planning bodies were ineligible for both discretionary or entitlement grants. In addition, the Section 701 program was broader than CDBG, in that it authorized assistance for planning activities that were ineligible for block grant support.

A second basic functional scope issue related to the act's purpose of providing decent housing in pursuit of the goal of viable urban communities. Some observers argue that housing is an integral component of community development. Yet, new housing construction was not designated as an activity eligible for block grant

funding, nor were housing assistance programs consolidated under the act.

Earlier House versions of the legislation proposed a separate housing block grant that would have made funds available to general purpose units of local government to implement the housing plan contained in their community development application. This approach was later dropped when a compromise was reached between the Congress and the Nixon Administration on alternative means for providing housing assistance for low- and moderate-income families. Although a link between housing and community development was proposed by requiring applicants to submit a housing assistance plan (HAP) in order to qualify for community development funds, direct block grant expenditures for housing subsidies were abandoned and housing assistance was covered in other titles of the act. This action may be understandable as a means of avoiding domination of CDBG by housing outlays, but the separation of the two basic activities for funding purposes seems contrary to the intent of the act.

Functional scope also is limited because CDBG did not cover several other federal community development-related programs that were not administered by HUD or authorized by the Congressional committees that produced the merger. These include the U.S. Department of Agriculture's Farmers' Home Administration (FHA), the U.S. Department of Commerce's Economic Development Administration (EDA), the Appalachian Regional Commission (ARC), and the Environmental Protection Agency (EPA). The clientele and the focus of these non-HUD programs are distinguishable in certain respects from those included under CDBG. Many of the FHA programs are directed toward small rural communities and their developmental problems, while the ARC programs target on economic development in the 13-state Appalachian region. EDA focuses on areas across the country having severe unemployment and low-income problems. Although some overlapping of purposes and recipients does exist, for the most part these programs could not be considered urban oriented.

In recognition of these differences, President Richard M. Nixon in 1971 proposed separate special revenue sharing bills for rural community development and urban community development. The *Rural Development Act of 1972* was a partial response to this initiative, and it was designed to serve basically nonurban needs.

Despite these apparent differences, the CDBG program does not assist urban areas solely. Funds are available for use in rural and urban communities alike. Twenty percent of the funds are earmarked for a non-metropolitan discretionary fund. Urban counties that

qualify as entitlement jurisdictions may use block grants for undertaking eligible community development activities in their rural areas. In addition, states may apply for metropolitan and nonmetropolitan discretionary funds. The Department of Agriculture's Rural Development Service has even printed an information bulletin assisting its clientele in seeking CDBG funds.

In summary, the community development block grant does not cover a substantial portion of federal outlays for this field. Within the act itself, separate categorical programs have been retained that either duplicate activities that could be carried out under the block grant or fund programs that, although ineligible for CDBG assistance, are closely related to its basic purposes.

Recipient Discretion

One of the major features of the block grant is the high degree of flexibility it affords recipients in decision-making. Underlying this flexibility in the community development field is the belief that local government officials are better equipped to determine their needs and should be given the opportunity and responsibility to do so. Although in general CDBG is characterized by broad recipient discretion, certain limitations exist on the types of activities eligible for aid.

The lines drawn between permissible and impermissible activities have caused some confusion and dissension in CDBG—most noticeably in funding decisions relating to three specific activities: public service projects in support of another community development activity, the construction and installation of public facilities, and the use of funds for sewage treatment.

In the case of public services, the act established a five-part test for qualifying activities. The test resulted from Congressional rejection of a 20% ceiling on related public service expenditures; it was intended to be more restrictive. On the average, only about 8% of a jurisdiction's entitlement grant was used for this purpose during the first year of implementation, reflecting both HUD's discouragement of such activities and the recipients' differing program priorities.

Similarly, HUD has placed constraints on the public facilities category. Apparently reacting to the Congress' decision to terminate rather than consolidate the Public Facilities Loan program under CDBG, HUD's regulations permit only the funding of public facilities that serve neighborhoods, with the exception of communitywide projects for jurisdictions having a population under 10,000. All central facilities, as well as multicomunity

projects, are excluded for larger recipient jurisdictions.

These two restrictions on the use of block grants were intended to preserve funds for uses more in keeping with Congressional and HUD objectives. These preferences included physical development instead of social service programs and neighborhood facilities providing assistance to target populations instead of larger areawide projects. Yet, HUD later issued apparently contradictory rulings regarding the use of CDBG funds for sewage treatment facilities. Rejecting its own more narrow interpretation, HUD proposed a change in the regulations to support funding for sewage treatment facilities in areas where other community development-related activities are not underway. Critics of this ruling charged that it will dilute CDBG funds and turn the program into a special revenue sharing approach to community development.

The lines being drawn between HUD and recipient preferences are merely attempts to rank the use of limited community development appropriations. Because the block grant approach permits the grantor to tie certain strings to the funds in pursuit of stated national objectives, HUD has reserved the right to retain administrative control. However, the confusion over project eligibility necessitating individual rulings on various questionable projects may lead to recategorizing the list of eligible undertakings. As with most block grants, CDBG is facing the challenge of delicately balancing national goals and recipient program purposes.

Program Conditions

In assessing the nature and extent of federal requirements in the CDBG program, the distinction between its entitlement and discretionary grant authorizations must be kept in mind. Although minimal federal intervention is an important test of the block grant, it is not applicable to categorical programs and as such serves as no constraint upon the discretionary portions of the overall program. Nevertheless, this block grant trait might be expected to carry over into the activities supported by discretionary funds.

Prior to the receipt of any funds, the CDBG program requires a detailed application, which includes: (1) a summary plan of long-range (three-year) goals; (2) an annual plan for specific proposed activities; (3) a program relating local needs to national objectives; (4) certifications of compliance with a variety of federal statutes concerning civil rights, environmental protection, relocation and reacquisition assistance, low-income employment and training opportunities, and citizen participation; and (5) a housing assistance plan. In

limited cases, any of the first four requirements may be waived at the Secretary's discretion.

Pursuant to an informal compromise reached in the Congressional committee deliberations, initial applications only received minimal review by HUD. During the first year, this approach expedited the disbursement of funds.

Some critics have asserted that cursory review of applications threatens to defeat the other aspect of the decentralization objective—to ensure that national purposes are being accomplished. Although the statutory provisions provide for a substantial year-end review of recipient performance, some observers have argued that this approach is insufficient because it occurs after funds have been expended by recipients and therefore is not preventative in nature.

HUD has responded to these criticisms by promulgating regulations and guidelines delineating the minimum federal requirements in areas such as environmental impact statements, A-95 review procedures, and housing assistance plans. Although it is still too early to discern the effects of these actions on the block grant, the guidelines and clarifying regulations during the first year of the program appeared to be helpful, particularly to recipients that lacked prior experience with HUD. If they become progressively more detailed, however, HUD probably would be open to charges of "guideline intrusiveness" or "administrative categorization."

The use of such explanatory materials underscores the need for technical assistance in the preparation of application and performance reports, as has been expressed by many new grant recipients in the program. Such assistance is crucial during the capacity-building phase to assure that national objectives are not frustrated or lost in the decentralization process. However, whether the appropriate source for such expertise should be HUD, the state, councils of governments, or counties has been an issue. HUD has avoided substantial involvement in the provision of technical assistance, based on the premise that this effort might undermine the basic purpose of the program—to return decisionmaking to local communities.

At this time, an assessment of HUD's administration of the year-end performance reports is premature. However, at an early stage in program implementation, pressure began to mount for local governments to be held accountable for their use of funds in the pursuit of the national statutory objectives. Examples of intentional abuses of discretion have been cited by civil rights groups and others who are anxious that the actions by some local governments to use general revenue sharing funds in disregard of federally mandated civil rights

obligations not be repeated under CDBG. Anything less than vigorous enforcement of the letter and spirit of the law, therefore, is likely to become a heated issue.

Although the operation of the discretionary grant theoretically is not governed by the same constraints as the block grant, the intrusiveness of federal requirements is of equal concern to its recipients. HUD also appears to be extending its administrative simplification methods to these grants, such as the use of preapplication procedures to evaluate and inform applicants of the likelihood of their receiving one of the highly competitive discretionary grants. However, because competition is heavy, HUD may call for increased amounts of information from applicants in order to facilitate grant award decisionmaking. Applications of certain small jurisdictions for one-time developmental assistance also may be simplified by the Secretary, who has the option of waiving all but the HAP requirement in the application process.

Although the achievement of program uniformity as well as the coordinated development of housing assistance for metropolitan discretionary grant applicants both argue strongly for the retention of the HAP requirement, some believe it is not necessary for very small and nonmetropolitan cities. Experience has shown that the preparation of the HAP is an expensive and time-consuming process. These costs may discourage small jurisdictions from applying for one-time, non-housing related projects.

Grantee Certainty

The CDBG program established two basic funding mechanisms: an entitlement grant based on a statutory formula requirement and a discretionary grant based on competitive applications for funding in specific areas. The distributional formula for the entitlement grants relies on population, housing overcrowding, and poverty (which is double weighted). In addition, a temporary hold-harmless provision is included in the act to ensure that each locality receives at least as much funding in the initial three years of the block grant as had been awarded under the merged categorical programs. No local matching is required by the act, but a maintenance-of-effort clause is included.

Two percent of the total appropriation is earmarked for the Secretary's discretionary fund, and 20% of the remainder is set aside for nonmetropolitan hold-harmless general purpose discretionary funds. The remaining 80% is allocated for a mix of metropolitan area entitlement hold-harmless and discretionary grants. Within this category, funding priority is given to the entitlement formula distribution, followed by hold-harmless funding of prior

program participants, and finally, discretionary grants to nonentitlement metropolitan jurisdictions for unspecified purposes. During the first year of the program, all metropolitan funds were used for entitlement grants. Hold-harmless allocations and discretionary grants were funded through additional appropriations.

The entitlement formula appears to adhere to the basic block grant trait of narrowing the grantor's discretion and providing the recipient jurisdiction with some sense of fiscal certainty. Although these funds are distributed on the basis of statutorily defined need rather than grantsmanship, eligible recipients do not know in advance the exact amount of their block grant. This situation can be attributed, in part, to the newness of the program and to the fact that it was funded only for three years. In addition, during the Congress' consideration of the formula, no consensus emerged over which factors should be included to accurately assess community development needs. Therefore, a provision specifically requiring a review of the formula and its effects was written into the act. Even before the new program was implemented, critics of the formula were calling for its amendment, which also has contributed to recipient uncertainty over future allocations.

Controversy has arisen over two factors in the formula and the availability and reliability of the data needed to measure them. First, the use of housing overcrowding as an indicator of need is being questioned in areas with serious problems of housing abandonment. Under the present formula, cities with rising abandonment rates are receiving fewer funds even though the act is generally interpreted as intending to reach this type of blight. Second, the population factor has been criticized as having no relationship to need because of its ability to shift money toward populous but not necessarily needy jurisdictions despite the poverty indicator within the formula. Moreover, the unreliability of estimated population shifts further undermines the adequacy of this measure.

The certainty issue also is affected by the block grant's discretionary funds, which exist to provide for the needs of nonentitled jurisdictions and to allow federal administrators some discretion in the allocation and use of funds. Any decision to expand further the entitlement categories has the automatic effect of diminishing the monies available to carry out the purposes of the discretionary funds. The alternative possibility of strengthening the use of discretionary funds is often overlooked.

The CDBG program provides for two separate types of discretionary funds. Each has its own advantages and limitations. The Secretary's discretionary fund is a percentage of the total appropriation, and its possible

uses are statutorily specified. Therefore, additional uses, either in the form of directing money to specific jurisdictions—such as the states or decaying cities—or in the form of earmarking certain funds for particular uses—such as providing technical assistance—most likely would necessitate an amendment to the act. Such a step might diminish the funds for the block grant and tend to recategorize the program.

The general purpose discretionary funds, on the other hand, can better target on the needs of their respective metropolitan and nonmetropolitan areas. The fixed percentage that is used in the nonmetropolitan fund establishes some degree of fiscal certainty within that program. The amount of available funding is statutorily established and is known by potential applicants who, through the mandatory preapplication procedures, can gauge the chances for funding ahead of their fiscal year deadlines. The metropolitan discretionary fund lacks an established funding level. Supporters of earmarking argue that such a move would inject a degree of fiscal certainty into that program, thereby reassuring the smaller nonentitled jurisdictions that some discretionary dollars would be provided to help meet their community development needs. However, this action also would restrict the amount of available funds for entitlement grants.

Generalist Involvement

The CDBG program contains specific eligibility provisions that favor general units of local government and local elected officials in contrast to the previous consolidated categoricals that favored public authorities and functional specialists. Although this basic block grant test is met, some governments are given preference over others. In addition, the number of jurisdictions participating in the new program increased by 40% but total funding grew by only 15%.

CDBG effectively shifted the positions of recipients vis-a-vis each other. Under the prior categoricals, all recipients were competitors for funds. Under the block grants, two categories of recipients were created: entitlement jurisdictions and discretionary applicants. Their share of block grant funds was modified by the act's hold-harmless provisions, which extend over six years.

Entitlement status was awarded by location and by size, regardless of need. Eligibility was limited to central cities, other standard metropolitan statistical area (SMSA) cities of over 50,000, and urban counties located within SMSAs and having over 200,000 persons and authority to undertake essential housing and community development activities within their unincorporated areas. Units of local government within

qualified urban counties with less than 50,000 population were given the option of signing cooperative agreements with those counties, thereby indirectly benefiting from entitlement status.

The act's definitions also clearly eliminated from entitlement funding certain units of government, including: the states; all units of local general government located outside of an SMSA; units of local general government included within SMSAs that are not central cities and have populations of less than 50,000; and all SMSA counties with less than 200,000 population, plus those counties, towns, and townships that fail to meet the various qualifying tests of powers and general composition. Only competitive discretionary funding is available to these jurisdictions.

Many of the entitlement and discretionary grantees of CDBG funds were new participants in HUD-sponsored community development programs. As a result of the 20% earmarking for nonmetropolitan areas and the entitlement of large numbers of suburban metropolitan jurisdictions, the funds from what was once considered to be urban-oriented legislation have spread to suburban areas.

Another issue posed by the eligibility requirement is the position of the urban county within the act. The Congress did not intend to authorize the substantial participation of these jurisdictions that occurred during the first year of implementation.

The initial qualification of 73 urban counties contributed to the depletion of the metropolitan general purpose discretionary fund and the hold-harmless amounts. As a result, some monies were transferred from the Secretary's discretionary fund to the metropolitan pot and additional funds were appropriated. Their acceptance as entitlement jurisdictions also contributed to the expansion of urban county powers in the community development field, as evidenced by the establishment of cooperation agreements with nearly 1,900 incorporated units to carry out countywide programs, and by the enactment of new state enabling legislation. Irrespective of their financial needs, the counties have benefited substantially from their entitlement status.

The shortfall in the metropolitan general purpose discretionary funds and the heavy competition for nonmetropolitan discretionary funds raises the issue of the role of small cities within the act. Representatives of these jurisdictions have argued that the Congress intended some funds to be used to fulfill their needs and, therefore, additional steps ought to be taken to safeguard their right to discretionary funds.

The final entitlement issue involves the inclusion of

the states with a status equal to their units of local general government in qualifying for discretionary grants. Unlike the two older block grants, the CDBG program followed, to some degree, the model of the *Comprehensive Employment and Training Act* and established a basically federal-local partnership. In rejecting the states as entitlement jurisdictions in the block grant arrangement, the Congress merely reinforced what past experience had demonstrated—local governments were the primary participants in the field of community development in terms of nonfederal outlays and had been the major partners with HUD in previous categorical programs. This perception of the state role in community development-related activities was not seriously challenged during the Congress' consideration of CDBG. However, since the passage of the act, state spokesmen have raised questions regarding their position in the block grant. Basically, three roles have been proposed for the states—as entitlement jurisdictions; as additional or substitute grant administrators; and as providers of technical assistance. Although the states are provided funds for administrative duties and may apply for discretionary grants under the metropolitan, nonmetropolitan, and Secretary's discretionary funds, any additional role must be considered within the context of their overall capacity and commitment in the community development field.

The foregoing case studies of ongoing block grants reveal some variation in the degree to which the five basic characteristics of this instrument are incorporated in their structure and reflected in their operation. Clearly, these programs are all hybrids—a number of related categorical aids surround them or new categories of assistance or funds earmarking have been established within the framework of the block grant. In addition to these statutory provisions, administrative categorization has occurred as the programs have matured. These developments, coupled with the relatively small fiscal magnitude of each block grant, have affected adversely attainment of their proponent's objectives.

From the standpoint of recipient expectations arising from block grant enactment the record to date does not lead to much optimism that the realities of decategorization and decentralization will match the rhetoric associated with these concepts. However, block grants can serve useful purposes as a middle tier between the categorical and revenue sharing components of the federal assistance system. But the architects of block grant proposals need to recognize and reconcile the horizontal and vertical political forces in intergovernmental relations that condition the design and implementation of this instrument.

Lessons From Experience

The four block grant programs examined in this report provide several important lessons about how to achieve national purposes while enhancing state and local discretion. They also underscore the differences between the conceptual and operational features of federal-state and federal-local block grants and reveal the compromises and trade offs that apparently need to be made in order to ensure the effectiveness, and perhaps survival, of the instrument. Therefore, it is useful to summarize the principal findings concerning the block grant experience under these acts, and to indicate their significance to intergovernmental policymakers.

BASIC PURPOSE

The block grant means different things to different people. In the past, it has been proposed mainly on the grounds of economy and efficiency, program expansion, and decentralization. However, coordination, targeting, innovation, and generalist control also have been sought by some proponents. These objectives reflect the high expectations generated by consolidating a number of narrow, existing categorical grants into a broad, visible assistance program covering a wide functional territory. In the case of crime control, they accompanied the launching of a new, presumably integrated, federal initiative in an area that traditionally had been the almost exclusive domain of state and local jurisdictions.

The implementation record is mixed with respect to attainment of the management aims of the block grant.

In general, however, experience under the four programs examined indicated that significant policy and administrative decentralization was achieved, federal personnel and paperwork costs were reduced, processes for facilitating interfunctional and intergovernmental coordination were established, and elected chief executives and legislators as well as administrative generalists were given significant roles in block grant decisionmaking. At the same time, categorization and relatively low appropriation levels often limited the impact of these improvements and sometimes worked at cross purposes with the nature and intent of the instrument.

Closely related to the managerial impact of block grants is their system-building effect, which operates in two basic ways. First, opportunities are provided for coordination and communication among functionally related agencies and for the meshing of federal and state/local-supported activities. These effects are partly because of the broad functional scope inherent in the aid device, as well as the comprehensive planning requirements, and the decentralization of significant decision-making authority over the uses of funds. Second, similar to a formula-based categorical, the block grant seeks to improve the planning, management, and personnel capacity of federal aid recipients. This more traditional system-building goal is reflected in provisions concerning personnel qualifications, training, single state agencies, and planning that is required as a condition of receiving assistance. With respect to the more contemporary type of system building, significant differences between block and categorical grants exist; in terms of the more traditional aims, however, these distinctions are blurred.

With regard to fiscal effects, federal grants-in-aid, regardless of their type, have at least two purposes—stimulation of new activity (often called “innovation”) and/or support for ongoing operations. Little evidence exists to indicate that the block grant maximizes opportunities for achieving innovation, although a stimulative effect was apparent in the crime control program and, to a lesser degree, in community development. Historically, however, stimulation has been a categorical grant function, particularly of the project-based variety. The block grant generally—together with formula-based categoricals and general revenue sharing—seems best suited for the latter purpose—supportive activities.

The block grant device appears most appropriate where a mix of the stimulation, support, and system-building purposes is sought. It also is useful where significant discretion is to be accorded to recipients for allocating funds to undertake activities that contribute to both the alleviation of state and local problems and the achievement of national objectives.

FUNDING THRESHOLD

When a block grant accounts for a relatively small proportion of total public sector expenditures in a functional area, as is the case of those covered in this report, programmatic impact resulting from the investment of federal dollars often is difficult to discern. This situation is particularly true when a mix of objectives is sought, when funds tend to be spread among a wide variety of activities, and when a cluster of categorical aids and state or locally supported efforts crowd the same functional landscape. If the block grant is expected to produce even short-term changes in intergovernmental or functional relationships and to show progress in tackling the problems it was designed to address, then the funding threshold must be substantial relative to state-local direct outlays, to total federal expenditures in the area covered, and to the dollar size of categorical grants excluded from consolidation (assuming this was the mode of establishment). If such a “critical mass” for change cannot be generated, the basic objectives sought by the Congress must be identified and, to the extent possible, ranked in order to avoid dilution of available resources.

TARGETING

The block grant, like other formula-based grants, emphasized need factors rather than grantsmanship in

allocating funds. Entitlement rather than competition is the hallmark of the distribution process. Yet, the political compromises involved in securing Congressional approval of an allocation formula make the targeting of resources on needy jurisdictions or clientele groups very difficult to achieve. As a result, significant shifts often occur in program participants and areas served during the transition from a categorical to a block grant mode of operations, regardless of whether hold-harmless provisions are included. If the experiences of crime control, manpower, and community development block grants are valid indicators, then a movement of funds to suburban areas and county governments can be expected.

This development needs careful consideration when evaluating the viability of the block grant, particularly if as Charles L. Schultze has suggested: “Federal grant programs . . . would be significantly improved if federal control over the *kinds* of services delivered were sharply reduced but federal control over *who* got the benefits were maintained or even intensified in selected cases.”¹ This is a major premise underlying the block grant. Yet, it assumes that need can be accurately measured and that the proxies of need will be politically acceptable. The CETA and CDBG formulas raise serious doubts on both counts. Major problems have been experienced in obtaining in a timely basis reliable data on various need-related factors. Moreover, the price tag on political support for the block grant is high, often resulting in a formula that dilutes the targeting effect of funds by including factors unrelated to need (such as previous year funding levels) or by broadening eligibility for assistance (such as to counties).

Given these political realities, if targeting is supposed to occur within the block grant framework, then two approaches appear to merit consideration. First, to reach particular clientele groups or population areas, the block grant might be surrounded by narrowly defined, project-based, nationally administered categoricals, each with its own authorization of funds, as was done under CETA. The major proviso here is that individually or collectively, these categoricals should not fiscally overwhelm the block grant.

Second, to reach particular jurisdictional or functional interests, a discretionary fund could be established as a percentage of the total block grant appropriation. This fund would be the responsibility of the Secretary of the federal administering department and would operate much like a project grant. These monies might be used largely for hold-harmless purposes during the initial stage of implementation, and later for various national emphasis activities. Although other options are available—

such as earmarking, preference provisions, and variable matching—experience indicates that these methods are far less successful than the above in filling gaps in block grant allocations.

DISCRETION

As can be seen in all four case studies, the block grant gives wide discretion to recipients in the planning for and allocating of federal funds. Yet, in the case of *Safe Streets Act* and to a lesser degree CETA, the grantor agency has been accused of being too intrusive vis-a-vis states and localities. With Partnership for Health and, thus far, with CDBG, this has not been a problem.

The block grant method of decisionmaking is distinct from the categorical and the revenue sharing models. Decategorization and decentralization, however, do not imply a hands-off federal role, nor one confined to purely procedural matters. The federal administering agency is a middleman between the Congress and interest groups on the one side and recipient jurisdictions on the other. It must provide national leadership and direction, while allowing recipients maximum latitude in exercising discretion. Although the demands are not irreconcilable, this essential balance is very difficult to strike and is a basic reason why the block grant appears to be the least stable of all forms of intergovernmental fiscal transfers. Unless the federal administering agency takes proper steps to assure that the statute's intent is being carried out and that federal funds are being used effectively and efficiently (such as through substantive plan approval, development of performance standards, and evaluation of recipient programs), pressures for recategorization will grow. And unless recipients are assured of genuine flexibility in tailoring funds to their needs, disillusionment with decentralization will ensue. Furthermore, in the conversion from the categorical to the block grant mode of program operations, new recipients require technical assistance and regional offices require guidance. The block grant, then, does not abrogate federal responsibility; it merely changes the nature and extent of agency involvement in program implementation.

CATEGORIZATION

A "pure" block grant does not exist. Partly in response to political pressures, the earmarking of assistance categories within the grant or the establishment of categoricals around it have been facts of life with which most block grant administrators have had to reckon.

As the block grant matures, two conflicting patterns tend to emerge. The Congress becomes more interested in categorizing, while recipients, as their management capacity grows, become better equipped to achieve functional and jurisdictional balance in funding. The presence of a discretionary fund, however, seems to be an expeditious way of deflecting pressures for earmarking and of increasing funding flexibility at the federal level. Furthermore, where Congressional committees require the federal administering agency to evaluate and report periodically on recipient performance, opportunities are provided to adjust funding policies and priorities to better reflect national objectives via administrative rather than statutory actions.

THE STATES

In a block grant program, the position of the states vis-a-vis city and county recipients is sometimes ambiguous and often controversial. The states may be expected to serve as planners, reviewers, coordinators, evaluators, or service deliverers. From the local vantage-point, however, they may be an unwelcome partner—another layer of bureaucracy and red tape between the source of funds and the location of the problems. Where a federal-state block grant relationship prevails, for example, local governments may perceive no real difference with previous categorical programs, except that the state, rather than a federal agency, attaches strings to funds.

Unless the states' positive role—such as technical assistance, financial support, or coordination—can be emphasized, friction with localities will result. This is especially the case with block grants formed from a merger of federal-local categoricals. The federal administering agency has an arbitral role to play that should not be ignored.

PLANNING

Block grant planning often has been piecemeal, geared to the allocation of federal funds, and eclipsed by grant administration. Where a single recipient agency has been established for federal funding purposes, it generally has been unable, and occasionally unwilling, to comprehensively plan for the entire functional area or to seek to influence spending decisions on the part of related state or local agencies. If the planning process is considered instrumental to achieving the objectives of a block grant, then the agency responsible for comprehensive planning must have sufficient authority to plan for all activities encompassed within the functional

scope of the block grant, including those supported directly by nonfederal revenues.

Three of the case study block grants also support regional planning, often leading to the creation of separate functional area wide planning bodies and staffs that are not well integrated with those of a more multipurpose nature. This situation may lead to recipients having higher administrative costs, as well as to duplication of effort, delays in processing plans and applications, and friction with local governments.

GENERALISTS

The block grant approach embodies a functional framework and a decisionmaking process conducive to generalist participation. The experience to date, however, suggests that the harnessing of the rather diverse political, programmatic, and personal interests of elected chief executives, legislators, and top administrators is difficult. Unless the block grant provides substantial amounts of federal funds, decentralizes substantial authority to make resource allocation decisions, provides visible political benefits, or fills a major program void, generalists will be reluctant to make the time and intellectual commitments necessary for effective involvement. Functional specialists and professional staff will dominate policymaking and generalist participation will be a sham.

Another consideration is that although the block grant seeks to decentralize decisions and achieve economy and efficiency, it often has created new generalist-oriented policymaking, grant review, and coordinative bodies and has placed them between the grantor and the problem being addressed. These organizational arrangements, coupled with "procedural due process" requirements such as notice and hearings on intended uses of funds, suggest that even though the block grant reduces federal agency administrative costs, it can have the opposite effect on recipients. Furthermore, to the extent that generalists lack prior federal program experience or familiarity with the block grant's functional area, such expenses could exceed the delivery costs of categorical programs.

TIME LAG

The final and perhaps most important lesson is that it takes time to achieve change. Decentralization and decategorization do not necessarily produce abrupt or major deviations from past behavior. This is particularly true if the recipients of block grants lack experience in the functional area that is being addressed, as was the case with CETA. The focal point can be expected to be organizational rather than programmatic matters during the transition period. In all likelihood, the servicing decisions made by the grantees will not deviate significantly from those made by their predecessors. Once the new organizational machinery, personnel, and procedures are functioning smoothly, changes will begin to occur. However, this may take place over a two- or three-year period, or even longer. Therefore, the Congressional committees' demand on the federal administering agency for instant results may distort the implementation record. Multiyear appropriations have been suggested as a desirable means of giving recipients a sufficient time period to establish a performance record and of reinforcing the need for patience on the part of the grantor. In short, the expectations surrounding conversion to the block grant should be tempered by the realities of implementation.

In summary, the block grant is coming of age. General concerns about "big government" coupled with particular problems associated with categorical aids indicate that a basic sorting out of the federal assistance instruments best suited to achieve particular purposes is on the horizon. Because of its decentralization thrust, its relationship to economy and efficiency, and its system-building effect, the block grant will have considerable appeal to those seeking to restructure, rationalize, and revitalize federal assistance. In this process, political compromises will be unavoidable. Yet, the proponents of decategorization must be aware of the implications of the trade-offs that they must make in terms of both the nature of the block grant instrument and the dynamics of the intergovernmental system. The following chapter presents recommendations designed to guide and facilitate this effort.

FOOTNOTE

¹ Henry Owen and Charles L. Schultze, *Setting National Priorities: The Next Ten Years*, Washington, DC: The Brookings Institution, 1976, p. 369.

Recommendations

The previous chapters of this report have described the basic features of the block grant, analyzed the implementation of four programs embodying this instrument, and discerned the major lessons derived from these experiences. This chapter presents recommendations that are intended to provide guidance to policymakers in designing and administering new block grants, as well as in reconsidering existing programs that use this approach. A brief review of the major findings that emerge from the Commission's probing of the block grant record serves as a necessary backdrop for these recommendations.

SUMMARY OF MAJOR FINDINGS

- Although the block grant occupies a middle-ground position between categorical aids and general revenue sharing, the characteristics of this instrument are not defined sharply enough to clearly differentiate it from other components of the federal assistance system, particularly formula-based categoricals. As a result, considerable confusion exists over the purposes, structure, operations, and limitations of the block grant.
- Block grants have been associated with several objectives, some of which are in harmony and others which are in conflict with the characteristics of this approach. The diversity of these objectives makes it difficult to evaluate block grants. In general, however, the goals of decentralization, economy and efficiency, generalist control, and coordination appear to be best suited

to the block grant, while targeting, innovation, and program enlargement can be better achieved through other aid devices.

- Although this instrument was unpopular in the Congress during the 1950s and 1960s, the political and fiscal environment of the 1970s seems more favorable to the adoption of block grant proposals, particularly those that involve consolidations of categorical aids. However, whether recipients will be accorded significant discretion in using funds, and if so, whether they can retain this flexibility as the program matures, remain to be seen.
- Each existing block grant is a "hybrid" because it contains or is surrounded by categorical programs. This is sometimes the result of political compromises necessary to gain acceptance of legislation embodying this approach. In addition, as block grants age, they become subject to "creeping categorization," as the Congress, interest groups, and federal administrators seek to emphasize specific national priorities, guarantee funding of popular programs, or raise appropriations levels. The net effect of such action is to curb the flexibility of recipients over the use of funds. This phenomenon appears to be a significant factor in understanding the "life cycle" of such grants and makes for a rather unstable instrument.
- Block grants have fostered new planning, advisory, and decisionmaking bodies at the state, substate regional, and local levels. Although some of these organizations have been instrumental in achieving

the generalist control, coordination, and decentralization objectives of the block grant, they also have produced confusion, delay, and red tape. Therefore, even though a block grant reduces federal personnel and paperwork, it may increase the administrative costs borne by recipients.

- Block grants, especially those of a federal-local type, pose complex and politically sensitive problems involving the designation of appropriate recipients, the definition of need in allocation formulas, and the appropriate role for state governments.
- Block grants do not normally embrace all federally aided activity in their respective functional areas. Most programs that have emerged from categorical consolidation have done little to curb the historic fragmentation of federal grants-in-aid.
- Block grants have not been major change agents in the intergovernmental system. Their fiscal magnitude relative to other federal and direct state-local outlays in their respective functional area is usually small. Hence, the "critical mass" necessary to achieve a major impact on the problems the program was intended to address has been difficult to build.

RECOMMENDATIONS

Recommendation 1:

Block Grant Purposes

The Commission concludes that the block grant, like general revenue sharing, is a necessary component of federal intergovernmental assistance. This instrument balances the accomplishment of national purposes with broad functional areas with the exercise of substantial recipient discretion in allocating funds to support activities that contribute to the alleviation of state and local problems. With well designed allocation formulas and eligibility provisions, as well as adequate funding, block grants can be used to provide aid to those jurisdictions having the greatest programmatic needs, giving them a reasonable degree of fiscal certainty; accord recipients substantial discretion in defining problems, setting priorities, and allocating resources; simplify program administration and reduce paperwork and overhead; facilitate interfunctional and intergovern-

mental coordination and planning; and encourage greater participation on the part of elected and appointed generalist officials in decisionmaking.

Therefore, the Commission recommends that the Congress use the block grant as the preferred instrument to provide federal financial assistance to state and local governments primarily in cases where:

- 1) a cluster of functionally related categorical programs have been in existence for some time;
- 2) the broad functional area to be covered is a major component of the recipient's traditional range of services and direct funding;
- 3) heavy support for those recipient services that the Congress determines also to have national significance is intended;
- 4) no more than mild fiscal stimulation of recipient outlays is sought;
- 5) a modest degree of innovative undertakings is anticipated;
- 6) program needs are widely shared, both geographically and jurisdictionally, and
- 7) a high degree of consensus over general purposes exists among the Congress, the federal administering agency, and recipients.

This recommendation seeks to clarify the general purpose of the block grant as the middle-tier component of the tripartite federal assistance system. Understanding the nature and limits of the block grant is essential if this instrument is to achieve the objectives for which it was intended and not work at cross purposes.

The basic thrust of the recommendation is to specify the fiscal, functional, and political conditions under which use of the block grant seems most appropriate. It assumes that most block grants will be established through the consolidation of existing categorical aids. If this is the case, older programs will be the most likely candidates, because changing conditions may have signaled a need for modification of their goals, allocation formulas, eligibility provisions, and mix of authorized activities. In addition, fragmentation appears to be greatest in the functional areas of long-standing federal financial assistance.

The recommendation also underscores the desirability of merging federal grants relating to functions that recipients traditionally perform. This is desirable for both substantive and strategic reasons. Substantively, it is consistent with the basically supportive fiscal effect of block grant funds. Moreover, significant amounts of capacity-building likely will not be necessary because recipients already possess the requisite organizational, personnel, and procedural experience to handle the new program. Strategically, these factors would help overcome criticisms that decentralization is unwarranted due to the high degree of national interest in dealing with a particular problem or to the lack of interest or ability on the part of state or local governments in addressing it.

With respect to fiscal effects, the recommendation recognizes the heavily supportive nature of the existing block grants. Although a stimulative effect on the expenditures of some recipients also is possible, this purpose generally should be considered secondary to the support of ongoing activities. Innovative undertakings—recipients performing services that they would not or could not have carried out in the absence of federal aid—also may accompany the block grant but should not be considered the major impact of assistance furnished through this instrument.

Finally, the recommendation points out the importance of shared needs and goals in developing from the outset a consensus on the objectives associated with the use of the block grant approach in a particular functional area. This agreement is crucial to achieve smooth intergovernmental relationships during the implementation process and to avoid eventual recategorization.

In summary, an awareness of block grant purposes could significantly improve the stability of this instrument and help to define its characteristics and objectives vis-a-vis other types of federal aid. Moreover, it would serve to better align the rhetoric of block grant proponents and opponents with the realities of the intergovernmental system.

Recommendation 2:

Recognition of Essential Block Grant Features

The Commission concludes that the proper design of a block grant is a crucial factor conditioning the achievement of the basic purposes of this instrument. Hence,

the Commission recommends that the following guidelines be taken into account when developing proposed block grant legislation:

- 1) The program objectives and priorities should be clear and precisely stated.
- 2) A substantial portion of total federal aid for providing services and facilities in the functional area involved should be encompassed.
- 3) Grants should be authorized for a wide variety of activities within the functional area covered, and recipients should be given significant discretion and flexibility in developing and implementing a mix of programs tailored to their needs.
- 4) Funds should be distributed on the basis of a statutory formula that accurately reflects program need and that is consistent with the purposes and priorities of the legislation.
- 5) Discretionary funds, if authorized, should account for not more than 10% of total appropriations.
- 6) Eligibility provisions should be specific, favor general purpose units of government, and reflect their servicing capacity, legal authority, and financial involvement.
- 7) Matching, if called for at all, should be statutorily fixed at a low and preferably uniform rate for all aided activities.
- 8) Planning, organizational, personnel, paperwork, and other requirements should be kept at the minimum amount necessary to ensure that funds are being spent in accordance with the program's authorized objectives.
- 9) The federal administering agency should have authority to approve, within a specified period, recipient plans and applications for conformance with legislative objectives and also to evaluate program results.
- 10) Capacity building assistance should be provided to recipients, as needed, to enhance their ability to effectively administer the program.

This recommendation specifies ten basic traits of the block grant instrument that should be recognized by the Congress and the federal administering agency. These elements are the critical factors differentiating block grants from other types of federal assistance. The rationale underlying their inclusion follows:

- With respect to program objectives, the expressions of Congressional intent and priorities should be clear and consistent with the basic purpose of the block grant instrument. Although a certain degree of ambiguity may be unavoidable in order to gain political support, these statements should provide the federal administering agency and recipients with sufficient guidance for implementing the program with a reasonable degree of confidence. Otherwise, confusion will characterize the block grant from the outset, and evaluation of performance against objectives will be impossible.
- Regarding fiscal magnitude, the block grant should encompass a substantial portion of federal aid for providing state and local services and facilities in the functional area affected. Although this has not been accomplished by existing block grant programs, it should be an important goal of consolidation advocates. Otherwise, problems of intrafunctional coordination, inconsistent policy direction, and uncertain decentralization of decisionmaking authority will result, and the block grant may represent only a token rather than a genuine attempt at grant reform.
- With respect to scope, the block grant should authorize a wide range of services that contribute to realizing legislatively authorized program purposes. Recipients should be able to exercise substantial discretion concerning the mix of servicing activities needed to achieve national purposes that are also of state and local concern. Although the Congress may indicate in either the legislative history or statutory provisions certain areas that are to be given priority or to be taken into account by recipients, this is preferable to the establishment of separate programs within the block grant. Planning and training functions could be eligible expenditures under the block grant, or they could be aided through separate appropriations. The areas of recipient authority and responsibility in allocating resources to provide services, therefore, should be clearly delineated and their discretion here should be maximized. Otherwise, Congressional committees and executive branch agencies may, in all likelihood, second guess recipient decisions, eventually leading to categorization of the block grant.
- Concerning the distribution of funds, a formula emphasizing objective need measures should be statutorily specified. Problems may be encountered in determining need in light of limitations on available data, and it may be difficult to fully incorporate this factor in legislation due to political compromises made during the consolidation of block grant proposals. Yet, this is a critical element of program design, because it avoids many of the distortions and disparities resulting from grantsmanship and helps further clarify legislative intent. Hence, strenuous efforts should be made to develop better measures of need than raw population and per capita income figures. Otherwise, ensuring that sufficient funds reach the needs served by the block grant will be difficult.
- Regarding eligibility, the block grant should be focused chiefly on general purpose government units, and significant opportunities should be provided for generalist participation in decision-making. Generalist officials should have additional participation incentives beyond the designation of their jurisdictions as prime recipients, such as substantial funds being made available for allocation, significant discretion being accorded over their use, and the amount of federal interference being kept to a minimum. Otherwise, they will not believe that the benefits of involvement in block grants—political and others—warrant the amount of time and effort required, and functional specialists will continue to dominate decisionmaking.
- With reference to discretionary funds, these may be useful supplements to the block grant, particularly for filling gaps in formula allocations, holding harmless previous recipients, achieving certain national emphasis activities, and initiating research and development efforts. However, because they are, in effect, nationally administered project grants, the overall size of discretionary funds should remain relatively

small. Otherwise, the decentralization and supportive objectives of the block grant may be undermined, tensions between grantor and grantee over the differing degrees of federal oversight may arise, and duplication of activities may result.

- If matching is required, the rate should be fixed by law. The recipient's share should be comparatively small, given the essentially supportive nature of the block grant. To the maximum extent practicable, no variations should be made in the various programs or projects that could be undertaken within its framework. Otherwise, an unnecessary skewing of recipient priorities within the areas covered by the grant may take place.
- Concerning conditions attached to federal aid, these should seek to balance the needs for both grantor accountability and grantee flexibility. Red tape should be kept to the minimum amount necessary to effectively manage the program and to report to the Congress on results. Otherwise, recipient administrative costs, which probably will be heavy in any case, will increase and decisionmaking delays will occur.
- With respect to the federal administering agency, a major stewardship role must be set out. The block grant, more so than other federal aid instruments, requires that a delicate balance be struck between the attainment of national goals and the exercise of recipient flexibility. Hence, it is essential that the federal agency frequently and regularly consult and communicate with states and localities on regulations and guidelines, issuances, legal rulings, policy changes, budgetary matters, reorganization, and other matters of mutual interest. Technical assistance and other capacity-building assistance also should be provided to recipients, where necessary. In addition to these facilitative actions, the federal agency has a responsibility to ensure the conformance of plans and applications with statutory objectives, to evaluate recipient performance, and to keep the Congress well informed on progress in achieving national objectives. Otherwise, pressures for categorization will grow.

The above factors are key components of the block grant instrument. They are geared to reconciling the conflicting needs of the political branches of the federal government with the equally competing needs of the national and subnational governments. If these horizontal and vertical sources of tension are not taken into account in the design of the legislation, implementation likely will produce unintended results. In the long run, dissatisfactions over recipient performance, even though they may be attributable to the structure of the program, can lead to creeping categorization.

Recommendation 3:

Avoiding Recategorization

The Commission concludes that recategorization is an unfortunate occurrence that often is associated with Congressional deliberations over the reauthorization of block grant programs. To help preserve the balance between national objectives and state and local discretion, the Commission recommends that the Congress:

- 1) refrain from earmarking funds or authorizing new categories of assistance within the statutory framework of the block grant;
- 2) rely, to the maximum extent practicable, on capacity-building programs for recipients and on the federal administering agency—through its plan review and approval authority, technical assistance, and discretionary grants—when a redirection of the uses of block grant funds is sought to better achieve Congressional intent; and
- 3) authorize block grants for at least three years or for a period of time consistent with any “sunset” legislation that may be enacted, and make multiyear appropriations, so that recipients and the federal administering agency will have sufficient time to make the transition from categorical to block grant decisionmaking and to develop a solid record before reauthorization.

A pure block grant does not yet exist; all are hybrids to varying degrees. Some—such as Partnership for Health and CETA—were categorized from the outset. Others—such as crime control—were categorized during reauthorization proceedings. These efforts by the Congress are a reflection of several factors, including: confusion over

Congressional intent and priorities; pressures from interest groups for the inclusion or protection of popular programs; Congressional disillusionment with recipient program choices and/or federal agency stewardship; and inadequate or distorted information on performance. These problems are exacerbated by the short-time horizon of block grants—new appropriations must be approved each year, and programs have been scheduled for reauthorization every three years or so. As a result, premature evaluations of results often are made.

The purpose of this recommendation is to underscore the need for patience in Congressional oversight of block grant implementation and to urge the Congress to abstain from premature recategorization of this instrument. The former could be ensured by extending the authorization and appropriations periods to give recipients sufficient opportunity to establish a reliable implementation record. The latter could be achieved by improved plan scrutiny, data collection, evaluation, capacity building, and other technical assistance on the part of the grantor agency to ensure that funds are being used as intended and that necessary adjustments will be made by grantees. Discretionary grants also could be useful in filling gaps in block grant allocations or responding to particular Congressional priorities.

“Creeping categorization” is avoidable, provided that the Congress and the federal administering agency are committed to the block grant concept. What is needed is better oversight machinery—both in the Congress and the federal agency—coupled with a longer period of uninterrupted program authority, funding, and capacity building. Above all, patience is vital. If these conditions are not met, and the recipients continue to be second guessed, then quite possibly disillusionment with the block grant on the part of state and local officials will grow.

Recommendation 4:

The States' Role in Block Grants

The Commission concludes that, as a general principle, state governments with active interest and involvement in the functions aided by federal block grant programs should have a key role in planning, coordination, administration, service delivery, monitoring, and evaluation under such programs. Hence, **the Commission recommends that under certain conditions the states be designated in future block grant legislation as the initial recipients of funds, and that they be required to pass through a stipulated portion of such monies to eligible general purpose units of local govern-**

ment in amounts at least proportionate to the local share of total state-local direct expenditures in the functional area covered during the immediately preceding three fiscal year period, to be used to support authorized local programs and projects. However, in order to be eligible for such designation, the state must demonstrate that: 1) appropriate policy, organizational, planning, and procedural arrangements have been established to ensure the efficient and effective use of federal aid; 2) the personnel to be assigned to block grant administration possess requisite planning, managerial, and other skills; 3) the state has demonstrated a substantial financial commitment to the functional area covered by the block grants; and 4) where matching is required and local units were previously the major recipients of federal aid in the functional area covered, the state is willing to assume at least one-half of the local matching share.

Where these criteria are not met, block grants should be provided directly to general purpose units of local government that individually or in combination are eligible for financial assistance. The states, however, should be authorized to apply for aid on behalf of jurisdictions that are not otherwise eligible for entitlement funding.*

The states' role in the five existing block grants is neither very clear nor consistent. In the case of the two federal-local programs (CETA and CDBG), their position is ambiguous. As a result, considerable intergovernmental friction has surrounded the issue of state involvement. The purpose of this recommendation is to establish a standard policy regarding the nature, extent, and conditions of state participation in block grants.

As a general policy, the Commission believes that it is desirable to channel federal block grants through state agencies, providing certain conditions are met. One stipulation is financial commitment, as evidenced by appropriations of state revenues to provide services in the functional area served by the block grant and by buying into local programs through assuming half of the

*Governor Kneip dissented because he felt that block grants should be passed through the states as a matter of course, without special eligibility conditions, and that the governor should designate a state agency to perform certain administrative functions in the block grant program including: (1) review and comment on local plans and applications for Federal assistance; (2) monitor and evaluate implementation at the local, regional, and, if appropriate, state levels; and (3) make recommendations for improving coordination.

nonfederal share of project costs, if matching is required of recipients. This buy-in approach was first recommended by ACIR in 1964, and in 1971 it was added to the *Safe Streets Act*. It is an appropriate quid pro quo for state administration of the block grant.

Money, of course, is not the only measure of the states' interest and ability to handle block grants. The state should have an established policy in the area, as well as sufficient organizational, planning, and personnel capacity to implement the program effectively and expeditiously. These managerial factors are important conditioners of state-local relationships.

Where these criteria are met, a federal-state block grant should be established. In addition to their administrative duties, the states should be authorized to make subgrant awards within broad passthrough requirements. This approach is consistent with the basic legal relationship between a state and its local units. Furthermore, in comparison with a federal agency, the state usually is closer to and more aware of the needs existing within its borders, the priorities for taking remedial action, the management capacity and legal powers of local government, and their technical assistance requirements. The state also can more readily facilitate interjurisdictional and interprogram coordination in the delivery of services supported by block grants.

Where direct federal-local funding has resulted from the states' inability or unwillingness to meet the above conditions for channeling, they should still have an opportunity to play a role in the program. In particular, states should be authorized to apply for funds on behalf of ineligible local units. This position is similar to the balance-of-state prime sponsors in the CETA program.

This two-fold approach to state participation in block grants is a flexible and realistic way of bringing some rationality and consistency to decisions in the Congress on subnational delivery systems. It recognizes both capacity and commitment and, as such, carries with it a high degree of political feasibility as well as administrative desirability. Moreover, it provides an inducement for greater state involvement in local problem solving.

Recommendation 5:

The Role of Regional Bodies

The Commission concludes that block grant programs have spawned a large number of functional planning bodies at the substate regional level that are not adequately coordinated with general purpose planning and grant review organizations, such as councils of governments and A-95 clearinghouses. Hence, **the Commission recommends that where block grant legislation encourages or requires the establishment of regional planning units, the statutory provisions should specify, to the maximum extent practicable, the use of the boundaries and organization of existing areawide general purpose planning bodies.**

The existing block grant programs except social services supports regional bodies that plan for the use of federal funds within each functional area. The geographic scope, responsibilities, and representation requirements of these units vary widely. Although federal regulations and guidelines "encouraged" the use of existing regional boundaries and organizational structures in designating these functional planning bodies, the substantial number that remain separate indicates the ineffectiveness of these provisions. *OMB Circular A-95* seeks to coordinate the activities of functional planning units by requiring a memorandum of agreement with the clearinghouse in their area setting forth procedures for the review of plans, work programs, and applications for funds. However, these documents are no substitute for integration of substate regional planning bodies.

The Commission's approach to regionalism in block grant programs reflects its overall policy on this matter, first articulated in 1973. This policy calls for the ultimate establishment in each substate district area of an umbrella multijurisdictional organization having significant planning, grant review, coordination, and servicing responsibilities vis-a-vis local governments and state agencies. "Piggybacking" block grant planning on existing councils of governments, A-95 clearinghouses, or other general purpose regional bodies would be an important step toward achieving this objective.



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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.

