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Summary and Concluding Observations

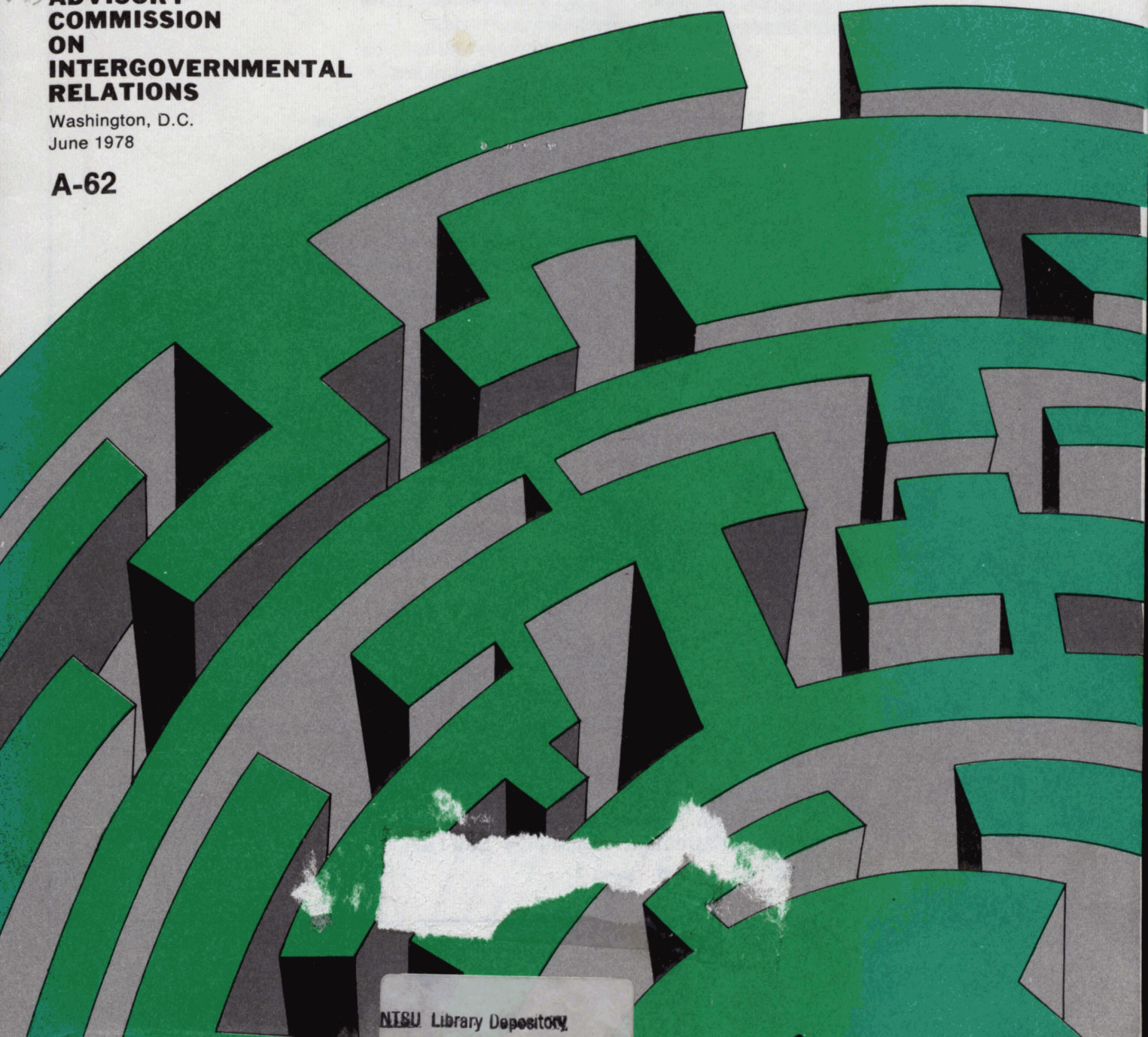
THE INTERGOVERNMENTAL GRANT SYSTEM:
AN ASSESSMENT AND PROPOSED POLICIES



**ADVISORY
COMMISSION
ON
INTERGOVERNMENTAL
RELATIONS**

Washington, D.C.
June 1978

A-62



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Summary and Concluding Observations

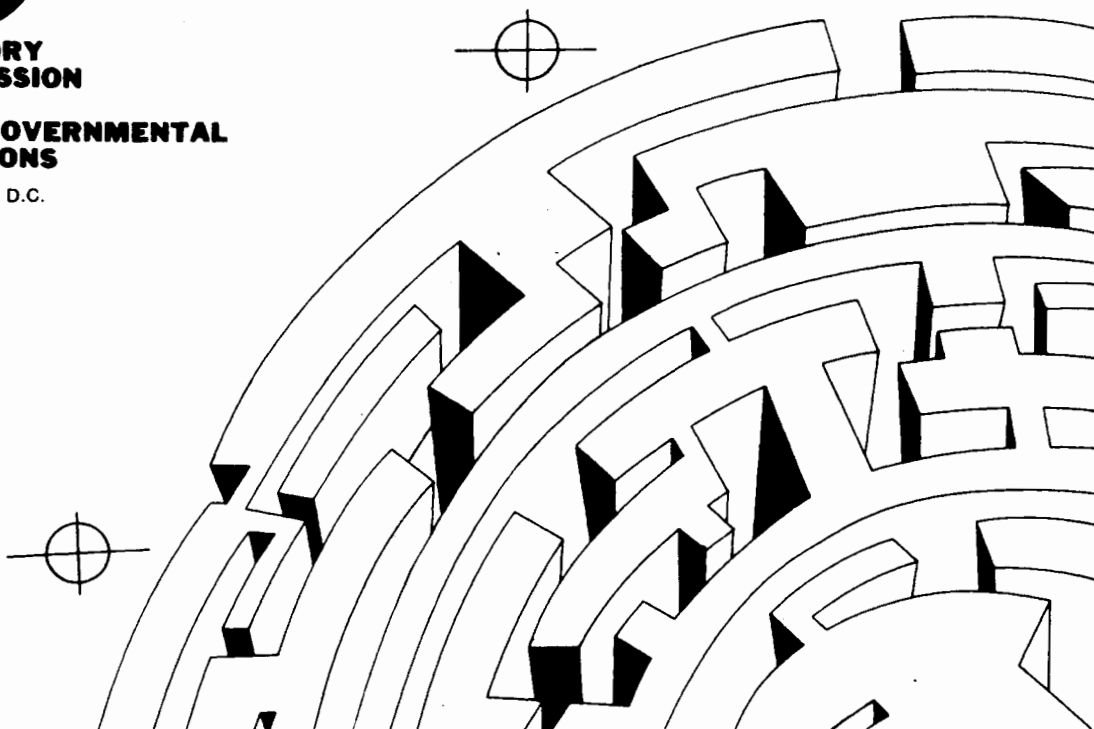
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Preface

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

The current intergovernmental grant system was identified as such a problem in the spring of 1974. Since then the Commission has published a series of 13 volumes on the subject, covering categorical grants, the range of reform efforts that stop short of consolidation, block grants, and the changing state servicing and aid roles. This report summarizes the major findings and conclusions and replicates the texts of the recommendations contained in the earlier volumes. It also presents concluding observations based on these studies and a final Commission recommendation. The report was approved at a meeting of the Commission on December 15, 1977.

Robert E. Merriam
Chairman

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Acknowledgment

This volume was prepared by the Governmental Structure and Functions Section of the Commission staff. Albert J. Richter was mainly responsible for *Chapters I-IV*. David B. Walker wrote *Chapter V—Epilogue*, with assistance from David R. Beam, Bruce D. McDowell, and Albert J. Richter. The secretarial services of Evelyn M. Nolin and Linda S. Silberg were indispensable.

The Commission gratefully acknowledges financial assistance received from the U.S. Department of Health, Education, and Welfare. These funds supported much of the research upon which earlier volumes are based and expedited the printing of this volume. Full responsibility for content and accuracy rests, of course, with the Commission and its staff.

Wayne F. Anderson
Executive Director

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Introduction

In its 1967 report, *Fiscal Balance in the American Federal System*,¹ the Advisory Commission on Intergovernmental Relations called for a new federal aid “mix” which would recognize the need for flexibility in the types of financial assistance provided state and local governments. This mix would involve a combination of federal categorical grants-in-aid, block grants, and per capita general support payments (general revenue sharing). Each of these mechanisms was viewed as accomplishing different objectives. The categorical grant would help finance specific programs in the national interest and underwrite demonstration and experimentation projects; the block grant would allow states and localities considerable flexibility in meeting needs within broad functional areas while at the same time furthering national objectives; and general revenue sharing (GRS) would provide additional financial resources to state and local governments without functional restraints to conduct programs in response to their own priorities.

Surveying the intergovernmental scene in the spring of 1974, the Commission found that a tripartite federal aid system embodying each of the elements which it had recommended seven years earlier in fact had been established. Yet it also found that the system had by no means become stabilized. As the first GRS legislation came up for renewal, debate was widespread over how the funds were used by state and local governments, and Congress’s re-enactment of the program was uncertain. Growing confusion surrounded the distinctive statutory and administrative

features of block grants; and continuing concern was voiced over the future role of categorical grants. The Commission concluded that a reassessment of its general 1967 recommendation was timely. Having just completed a re-examination of general revenue sharing and essentially reaffirmed its initial support for that program,² the Commission launched this series of studies, *The Intergovernmental Grant System: An Assessment and Proposed Policies*, focusing on block grants and categorical grants.

The basic purpose of the study is to evaluate the traditional and recent issues involving these grant programs and consider ways of enhancing the effectiveness of each. Major questions addressed include:

- Does the form of a grant make any difference in achieving its legislative purpose? What are the special values of the several kinds of categorical grants?
- Have grant management reforms had a perceptible impact? What problems still beset the categorical system? Are they as serious as ever? What further reforms are needed?
- What has been the experience with block grants? Has practice conformed to theory? Has experience been the same for all the block grants? What factors are essential to their success? What are their special strengths and limitations?
- What kind of impact — fiscal and administrative — is the federal grant system having at the state and local levels?

- How fragmented is the federal aid system? What about claims that there are 500, 1,000, 1,600 or more grants to state and local governments?

In recognition of the pivotal role of states in the intergovernmental grant system, the study also examines the states as prime recipients of federal assistance, as direct providers of services to their citizens, and as dispensers of aid (from their own and from federal sources). This part of the study constitutes an updating of the Commission's 1969 report on *State Aid to Local Government*.³

The complete study consists of 14 volumes, listed in the accompanying box. This final volume, the 14th in the series:

- summarizes the major findings, conclusions, and recommendations of the entire study;
- analyzes what the changes in the federal grant system of the past decade have meant in terms of four key intergovernmental issues, based mainly on the findings and conclusions of the earlier volumes; and

—concludes with an *Epilogue* which identifies the broad trends that characterize current federal-state-local relationships in the assistance area and the reasons for trends; interprets the long-term impact of these trends on the system of American federalism; and summarizes the Commission's view of this impact as it emerges from the 60 recommendations produced by the study. The *Epilogue* closes with the Commission's summary recommendation for a five-point intergovernmental strategy to meet the challenges created by the current federal grant system.

¹Advisory Commission on Intergovernmental Relations (ACIR), *Fiscal Balance in the American Federal System* (Report A-31), Washington, DC, U.S. Government Printing Office, October 1967.

²See ACIR, *General Revenue Sharing: An ACIR Re-evaluation* (Report A-48), Washington, DC, U.S. Government Printing Office, October 1974.

³See ACIR, *State Aid to Local Government* (Report A-34), Washington, DC, U.S. Government Printing Office, April 1969.

The Intergovernmental Grant System: An Assessment and Proposed Policies

1. **Block Grants: A Roundtable Discussion** (Report A-51), October 1976.
2. **Categorical Grants: Their Role and Design** (Report A-52), May 1978.
3. **A Catalog of Federal Grant-in-Aid Programs to State and Local Governments: Grants Funded FY 1975** (Report A-52a), October 1977.
4. **Improving Federal Grants Management** (Report A-53), February 1977.
5. **The Intergovernmental Grant System as Seen by Local, State, and Federal Officials** (Report A-54), March 1977.
6. **Safe Streets Reconsidered: The Block Grant Experience, 1969-1975** (Report A-55), January 1977.
7. **Safe Streets Reconsidered: The Block Grant Experience, 1968-1975, Part B — Case Studies** (Report A-55a), January 1977.
8. **The Partnership for Health Act: Lessons from a Pioneering Block Grant** (Report A-65), January 1977.
9. **Community Development: The Workings of a Federal-Local Block Grant** (Report A-57), March 1977.
10. **The Comprehensive Employment and Training Act: Early Readings from a Hybrid Block Grant** (Report A-58), June 1977.
11. **The States and Intergovernmental Aids** (Report A-59), February 1977.
12. **Block Grants: A Comparative Analysis** (Report A-60), November 1977.
13. **Federal Grants: Their Effects on State-Local Expenditures, Employment Levels, and Wage Rates** (Report A-61), February 1977.
14. **Summary and Concluding Observations** (Report A-62), June 1978.

Major Findings and Conclusions

A TYPOLOGY OF FEDERAL GRANTS¹

The federal grant-in-aid system consists of three general kinds of grants: categorical grants, block grants, and general revenue sharing.

Categorical grants are grants that are intended for use only for the specific program for which the aid is extended and usually are limited to narrowly defined activities. This study identifies four kinds of categoricals: formula-based, project, formula-project (combining some aspects of the first two types), and open-end reimbursement grants.

Formula grants are those for which funds are allocated among recipients according to factors specified in legislation or in administrative regulations. Project grants are nonformula grants for which potential recipients submit specific, individual applications in the form and at the times indicated by the grantor. The third or mixed type of categorical grants are project grants for which a formula specified in statutes or regulations is used to determine the amount available for a state area. Distribution takes place in two stages, with the first stage involving state area allocations governed by formula and the second entailing project applications and discretionary awards. For open-end reimbursement grants — often regarded as formula grants — the federal government commits itself to reimbursing a specified proportion of state-local program costs, thus eliminating “competition” among recipients as well as the need for an allocational formula.

The second of the tripartite components of the present federal grant system is the **block grant**. It goes chiefly to general purpose governmental units in accordance with a statutory formula for use in a variety of activities within a broad functional area largely at the recipient’s discretion. Activities for which the funds may be spent are more numerous than those of a categorical grant and there are fewer conditions constraining recipients’ discretion in the spending.

The third component is **general revenue sharing**, under which funds are distributed by formula with few or no limits on the purposes for which they may be spent and few if any restrictions on the procedures by which they are spent.

The differentiation of the three kinds of grants (and among the four kinds of categoricals) reflects varying combinations of three types of characteristics:

- the range of funding discretion vested in the federal grant administrator;
- the range of discretion bestowed on the recipient in choosing activities upon which to expend grant funds; and
- the type, number, detail and scope of conditions attached to the grant program.

Measuring each of the six grant types by these three characteristics indicates that, in general, project grants tend to place the most restraints on recipients. They are characterized by a high degree of federal funding discretion, substantial federal intrusiveness through imposition of extensive performance conditions, and very restricted recipient scope in choice of

permitted activities. At the other end of the spectrum is general revenue sharing, featuring formula entitlement and therefore no federal administrative discretion in fund distribution, minimum federal prescription of performance conditions, and the widest scope of permitted activities. Block grants, formula-based categoricals, formula-project categoricals, and open-end reimbursement grants fall between these two extremes.

The spectrum image is crucial — the classification of grant types is a continuum, shading gradually from maximum federal prescription and control to maximum recipient discretion.

CATEGORICALS: A CURRENT APPRAISAL²

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The ACIR's reappraisal of the categorical grant reviewed the history and rationale, counted and documented the number, and examined the key features of this mainstay of the federal grant system. The study also looked at Congress's authorizing and oversight role, reviewed public officials' attitudes toward categoricals, and identified some of the more urgent difficulties afflicting them. Highlighted among the major findings and conclusions were the following:

The Count

Number and Estimated Dollar Volume of Categorical Grants, by Type (Fiscal Year 1975)

	Number	
	Number	Percent
Formula-based	146	33.0%
Allotted		
formula	(97)	(21.9)
Project grants		
subject to		
formula dis-		
tribution	(35)	(7.9)
Open-end re-		
imbursement	(14)	(3.2)
Project	296	67.0
Total	442	100.0%

	Estimated Outlays (billions)	
	Amount	Percent
Formula-based	\$25.8	69.1%
Allotted		
formula	(8.6)	(23.1)
Project grants		
subject to		
formula dis-		
tribution	(2.8)	(7.4)
Open-end re-		
imbursement	(14.4)	(38.6)
Project	11.6	30.9
Total	\$37.4	100.0%

Continuing Fragmentation

- While the number of categorical grant programs to state and local governments has grown steadily over the past decade, reaching a total of 442 for funded programs in FY 1975, it is well below the 1,000-1,600 figure frequently cited. But though these numbers have been exaggerated, the administrative problems have not.

- The philosophy of "New Federalism," with its stress on revenue sharing, block grants, decategorization, decentralization and simplification, barely dented the traditional system of categorical aid. Despite Presidential and Congressional initiatives, long-standing problems persist, with categorical programs still accounting for nearly 80% of all federal aid dollars.

- The problem of program numbers is not so much that of duplication and overlap, in the sense of two or more grants authorizing aid for identical activities, but excessive specificity, with clusters of several grants for servicing, planning, training and demonstration in the same narrow program area. This applies particularly to project grants. Often a single social problem has been attacked from many directions, with programs distinguished by the particular activities they support, the clientele group they serve, the manner in which services are delivered, or the places on which they focus.

Administrative Problems

- State and local governments still raise many of the same complaints about the categorical aid system that they did a decade ago, chiefly excessive paper-

work and administrative complexity. Yet certain shifts are notable, including mounting concerns about the uncertainty of funding; the relationship of categorical grants to block grants and revenue sharing; and the emergence of new conditions affecting general state-local policies and governmental processes. At the same time, recipient jurisdictions continue to believe that these problems are federally centered and have little to do with their own internal management and decisionmaking capabilities.

- Each of the four kinds of categorical grants possesses distinguishing characteristics and significant advantages and disadvantages. It is the large number of project grants, however, which is the source of the greatest current concern — involving 296 programs and \$11.6 billion in 1975.

- The federal executive branch has sought to coordinate, standardize and simplify categorical application and administrative procedures through governmentwide management and other circulars, organizational reforms, and decentralization to the field. Yet the overall record thus far must be rated as merely poor-to-adequate, thanks to executive-legislative conflicts, Congressional committee-agency links, departmental specialization, the relative weakness of critical managerial units within the Executive Office of the President, and the shifting nature of the problems constituting the grants management challenge.

- Ironically, while efforts have been made to reduce red tape in grant application and award procedures over recent years, during the same period new problems have arisen from the impact on grant recipients of a number of governmentwide regulations involving national policies in environmental protection, equal employment opportunity, equal access to public services, and other fields. These regulations, which are administered by a complex network of federal departments, agencies and Presidential units, have too often become points of confusion and conflict between the levels of government and within the federal bureaucracy itself.

Fiscal Features

- In absolute dollar terms, categorical assistance expanded more than sixfold between 1960 and 1976, passing the \$45 billion mark in the latter year. In constant dollar terms, the 1976 figure amounted to nearly two-and-a-half times its 1960 counterpart and

as a percentage of state-local expenditures the hike (in inflated dollars) came to 33% over this 16-year period.

- The program emphasis of categorical assistance has shifted significantly over the past decade and a half, with health, educational and environmental programs experiencing marked proportionate increases, while transportation and agricultural outlays decreased proportionately. Aid is now offered in nearly every area of state and local activity, though in some fields the federal contribution is quite small.

- A number of different, competing, and even contradictory philosophies and objectives have determined the allocation of aid among state and local governments, including the need for a specific service, fiscal capacity, the actual level of recipient expenditures, and such general criteria of political "fairness" as equality among the states or total population. The 1975 distributive pattern in the aggregate was a product of 146 separate formulas and thousands of project grant awards, rather than any coherent national policy. Allocational patterns have shifted as formulas have been revised, new grants created, and the emphasis upon particular functional areas has altered. Over recent years, differences in the total per capita grant allocations among the states have narrowed, though there has been a slight but continuing tendency to favor the smaller and less urbanized states. Contrary to a common belief, federal aid has not consistently favored the states least able to finance their own public services — the reverse has sometimes been true — and only a small number of grants explicitly reorganize interstate differences in fiscal capacity.

Purposes and Cost-Sharing Arrangements

- Analysis of categorical statutes, their formal conditions, and age suggests that project grants tend to be used somewhat more for stimulative program purposes, while formula-based grants embody more of a support approach. These tendencies are clouded, however, by the significant proportion (one-fourth to one-fifth) of the grants in both sectors that incorporate both goals, as well as by the proportion of the total that are essentially national programs relying on state and/or local governments for their administration out of practical political necessity or convenience.

- Matching and other cost-sharing provisions in grant authorizations continue to reflect considerable

diversity and little clear rationale for their selection. At the same time, the overall number of categorical programs requiring no recipient matching has increased in recent years (by over 70 from 1967 to 1975), but this trend has not affected most of the big money formula-based and open-end grants. The overall fiscal effects of matching requirements would appear to be stimulative. However there is considerable debate over the evidence because of

- the different measures used,
- the varying program preferences of recipient governments,
- the difficult-to-determine effects of other related provisions like maintenance of effort, and the potential — even among categoricals — for fungibility, over time, in program areas already involving large recipient outlays, and in jurisdictions that perform a wide range of services and participate in many aid programs.

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The Congressional Role

■ In a formal sense, Congress is the chief architect of the categorical aid system, and many of the system's features are reflections of its subcommittee structure, the coalition character of its parties, the perennial constituency concerns and narrow program specialization of most of its individual members, and the continuing political and institutional constraints on its leadership and oversight role — despite recent reforms. Some current proposals for improved legislative processes are intended to reduce the resulting weaknesses. Yet, at bottom, Congress — and the categorical grant system — mirror the American political process as a whole, with its many points of access and power, its loosely structured political parties, its fluctuating sources of policy initiatives and leadership, its difficulty in sustaining a long-range planning effort, and its tendency to react to, and act upon, specific problems rather than move toward comprehensive national goals and explicit policy objectives.

“MIDDLE RANGE REFORM:” IMPROVING GRANTS MANAGEMENT³

Noteworthy in the evolution of the federal grant system over the past decade were the organizational and procedural efforts to remedy some of the opera-

tional defects in the system. These might be called “middle range reform” efforts because they work within and accept the likely continuance of categorical grants. Moreover they stop short of a transformation of federal aid into a general revenue sharing and block grant oriented system. Examination of these developments produced the following major findings and conclusions as of early 1976.

Organizational Responses

■ Considerable attention has been devoted to the better “coordination” of assistance programs throughout the past decade. A wide variety of administrative reforms have been executed or proposed, in the service of this objective. However none of these have had more than limited success in eliminating conflicts or differences of policy and procedure in the operation of a system of federal assistance programs largely characterized by fragmentation, inconsistency, complexity and duplication.

■ Traditional administrative theory suggests that organizational coordination can best be obtained through a hierarchical organization under the direction of the chief executive. Hence many analysts have recommended the creation of a “focal point” unit for intergovernmental relations located close to the President. An alternative theory suggests that sufficient coordination often can be attained without recourse to hierarchical organization or centralized management. These conflicting theories make the selection of an optimal coordination system difficult. Moreover the past record of efforts based on both theories in the intergovernmental area show few positive results.

■ The attempts to improve coordination among programs have demonstrated that federal agencies have few incentives to standardize, simplify, or “target” their activities. Their primary concern (shared by most Congressional committees which oversee them, as well as most interest groups) is to be able to account for and make effective use of each specific grant program they administer. This naturally leads to differences in requirements and procedures.

■ One of the most important constraints on coordinative activities and federal coordinating agencies has been the limited interest and attention of the President and his top-level staff. The record offers little reason to suppose that priorities will change.

■ A multiplicity of coordinating agencies sometimes has led to conflict among them and made it

difficult to identify specific areas of authority and responsibility. Coordinating systems frequently have been altered or discarded and replaced after short periods of use.

- Starting in 1970, the Domestic Council was formally responsible for developing basic domestic policy, while the Office of Management and Budget was charged with budget development and management oversight. In practice, this division of functions between the two was not sharply defined, and neither monopolized the activities assigned to it.

- The Bureau of the Budget, later the Office of Management and Budget, initiated (sometimes in response to Congressional enactments) many of the procedures to coordinate and simplify the operation of the categorical grant system. Yet the office has not become the significant force for management improvement which had been anticipated; most of its attention and resources continue to be concentrated on its budgetary activities and these, in turn, rarely have been geared to management purposes.

- From late 1972 until its abolition in 1977, the Domestic Council served as the primary liaison between the President and policy-level officials of state and local government. Hampered by a small staff, the council devoted little attention to intergovernmental relations and did not provide sufficient representation of state and local concerns.

- The Federal Regional Councils have engaged in a variety of useful special projects and provided important communications links. But they, as yet, have made only minor contributions to the coordination of federal program operations and the strengthening of relations among the levels of government. The most significant constraint upon their activities is the continuing centralization of decisionmaking for many assistance programs and the lack of full administrative authority among the regional officials who make up the council membership.

Procedural Reforms

- The reform of grant procedures has been approached mainly through three key management circulars administered by OMB: Federal Management Circular 74-7 (formerly OMB Circular A-102) — uniform administrative requirements for grants-in-aid to state and local governments; FMC 74-4 (formerly A-87) — cost principles applicable to grants and contracts with state and local govern-

ments; and FMC 73-2 (formerly A-74) — audit of federal operations and programs by Executive Branch agencies. Evidence from various sources indicates that the three circulars as a group achieved improvement in the administration of the categorical grants and their continuation was strongly supported by state and local public interest groups and others. A review of experience under the circulars also suggests that they have not been complete successes and that they need different kinds and degrees of improvements to attain their potential, especially in the manner and degree of their interpretation and implementation.

- In the field of intergovernmental communications and consultation, new measures initiated over the past decade also have worked to ease some of the strains in the categorical grant system. Yet the record is more spotty than that of the management circulars, perhaps reflecting the plowing of newer ground than in the areas covered by the management circulars. The new initiatives included: The Regional Management Information System (RMIS), an effort to equip the Federal Regional Councils with new tools for their task of interagency and intergovernmental coordination in the field; the Grant Tracking Information Subsystem (REGIS), also focusing on regional offices; TC 1082, the Treasury circular requiring federal grantor agencies to inform states of grant awards made within their jurisdictions — it has not attained its potential; the *Catalog of Federal Domestic Assistance*, an indispensable source of information, despite continuing complaints about inadequacies and imperfections; the Federal Outlays report, reporting information on past expenditures by location of the expenditure; and the OMB Circular A-85 procedure for consultation with chief executives of state and local general purpose governments in advance of the issuance of new regulations.

Strengthening State and Local Coordination and Discretion

- The four parts of OMB Circular A-95, "Evaluation, Review, and Coordination of Federal and Federally Assisted Programs and Projects," had varying degrees of success. Probably the most effective is Part I, the Project Notification and Review System affecting grant applications, through the support it has provided for areawide planning and coordination performed by regional councils. Serious doubts exist about the degree to which Part I has helped states and their political subdivisions coordinate with direct

federal projects. Similar doubts are raised regarding the extent to which governors have availed themselves of the opportunities offered by Part III to coordinate federal program plans with state comprehensive plans.

Overall indications are that governors and local chief executives have not taken advantage of the opportunities presented by the circular. In part this is due to deficiencies in the apparatus established by OMB, federal agencies, the states, and perhaps to a somewhat lesser extent regional bodies and local governments for channeling information and making decisions, and in the resources and zeal which each dedicates to making the several processes function. There has been notable progress in responding to criticisms of the A-95 process, insofar as it is reflected in improving the provisions of the circular and the efforts of the limited OMB staff managing it. Yet there is serious question whether the procedure can work effectively without additional OMB central staff and as long as primary responsibility for compliance is left with the federal agencies.

■ Annual Arrangements and CERC (Chief Executive Review and Comment) were demonstration programs initiated by HUD to help prepare local officials for broadened discretionary powers expected under the community development block grant. An Annual Arrangement culminated in an annual negotiated agreement between the local chief executive and HUD whereby HUD agreed to approve specific grant programs in exchange for the city's meeting certain project selection criteria and taking certain prescribed steps. CERC aimed to strengthen the chief executive's influence over federal grants coming into the city and to support the city's planning and decisionmaking process. Some evaluations of Annual Arrangements indicated substantial progress in preparation of city-wide development strategies, creation of coordinating mechanisms, and enhancement of the chief executive's leadership role. Others indicated tepid city responses for various reasons. CERC seemed successful in helping some cities strengthen chief executives' influences over federal programs affecting their communities. Yet others felt that a chief executive's profiting from CERC depended on the authority that he already wielded in his community.

■ Integrated Grants Administration (IGA) was an experimental, then demonstration program of the administration geared to simplifying the job of recipients in obtaining federal funds and to enhancing their capacity to integrate federal and other programs,

including their funds, directed at common objectives. Many of its weaknesses were inherent in the experimental nature of the program, such as the vagueness and apparent inconsistency of policies and procedures. The program scored enough successes, however, and showed enough potential for improvement to help persuade Congress to authorize a five-year trial through the *Joint Funding Simplification Act of 1974*.

BLOCK GRANTS — IN GENERAL⁴

The study examined four of the five existing block grants: Partnership for Health, Safe Streets, Comprehensive Employment and Training (CETA), and Community Development (CD). Their differing origins, developments, and characteristics produced a variegated record. These differences were taken into account in a comparative analysis of the four separate programs, which reached certain conclusions about the block grant in general. The principal ones were:

■ While the block grant occupies a middle position between categorical aids and general revenue sharing, its characteristics are not sharply enough defined to clearly differentiate it from the other components of the federal assistance system, especially 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 with the characteristics of this approach while others are in conflict with them. 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 they were 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 which 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, remains to be seen.

■ Each of the four block grants is a "hybrid," in that it contains or is surrounded by categorical pro-

grams. Sometimes this is the result of political compromises necessary to gain enactment. In addition as block grants age they become subject to "creeping categorization," as 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 in the uses of funds. This phenomenon appears to be a significant factor in understanding the "life cycle" of such grants and makes them a rather unstable instrument.

- Block grants have fostered new planning, advisory, and decisionmaking bodies at the state, substate regional, and local levels. While some of these organizations have been instrumental in achieving the generalist control, coordination and decentralization objectives of the block grant, they have also produced confusion, delay and red tape. Hence while 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 (i.e., Community Development and CETA), 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 of the programs which have emerged from consolidations of categoricals 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 the functional area covered is usually small; hence it has been difficult to build the "critical mass" necessary to achieve a major impact on the problems the program was intended to address.

FOUR BLOCK GRANTS: THEIR RECORDS TO DATE

The separate studies of the four block grants undertook to appraise the record of the individual programs in achieving their original legislative purposes and, most particularly, how the block grant form in each case affected that record.

Partnership For Health Block Grant⁵

- The Partnership for Health block grant (created by Section 314(d) of the *Comprehensive Health Planning and Public Health Services Amendments of 1966*) developed the necessary support for enactment with the convergence of two streams of thought: the mounting criticisms of the increasing categorization of public health programs and growing dissatisfaction with the quality of health care being funded under those programs.

- The modifications of the block grant authority since 1966 evidence two main themes, which are manifestations of the basic tension in the block grant between furthering national priorities and supporting virtually any state and local health programs. The stronger theme has been the tendency of Congress to recategorize the health grant system by creating numerous new categorical programs outside the block grant. The second theme has been the search for an appropriate link between the block grant and the comprehensive health planning called for by the *Partnership for Health Act*.

- Six different, and in some cases conflicting, elements of legislative intent were reflected in the health block grant: lessening the administrative burden that categoricals imposed on recipients; providing state health agencies with greater flexibility in the use of federal aid; furtherance of national health services priorities; assuring the complementarity of the block grant and comprehensive health planning activities; use of the grant primarily to provide services instead of covering administrative costs; and broad participation of other public and private nonprofit agencies in the provision of comprehensive public health services.

- HEW's administration of the grant fell into two more or less distinct periods. The first was one of adjustment to the new management problems posed by the block grant, during which program administrators made sporadic attempts to exercise a degree of control over the content of the funded programs. The second period began in 1970 when HEW decided not to require submission of detailed state plans. It was marked by very little attention to, and interest in, the block grant.

- Once the block grant reaches the states, it ceases to become an identifiable program and becomes instead simply another source of funds. These funds are merged with other funds for state and local health

services. Decisions regarding allocation of the block grant funds are made with limited involvement of persons outside the state health agencies. Despite this, most states involve local or regional agencies in the operation of the 314(d) program by making suballocations of block grant funds to these units.

- The Congressional intent of greater recipient discretion clearly has been realized. The states overwhelmingly report that the block grant affords them greater flexibility than did the categorical programs, although many note that this has been severely limited by the absence of significant funding increases for the block grant.

- The inadequacy of expenditure data makes it difficult to get a clear picture of the pattern of 314(d) expenditures. Such data as exist indicate that the grant's importance varies considerably among the states. Also its role in support of certain health activities is disproportionately large.

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Safe Streets Block Grant⁶

After seven years, the Safe Streets program appears to be neither as bad as its critics contend nor as good as its supporters maintain. While a mixed record has been registered as between states, on the whole the results are positive. This is not to say, however, that changes are unnecessary. In brief, the ledger reads as follows:

On the Positive Side:

- Elected chief executive and legislative officials, criminal justice professionals and the general public have gained greater appreciation of the complexity of the crime problem and of the needs of the different components of the criminal justice system.

- A process has been established for coordination of efforts to reduce crime and improve the administration of justice.

- Safe Streets funds have supported many law enforcement and criminal justice activities that recipients otherwise would have been unable or unwilling to undertake.

- A generally balanced pattern has evolved in the distribution of Safe Streets funds to jurisdictions having serious crime problems as well as among the functional components of the criminal justice system.

- State and local governments have assumed the costs of a substantial number of Safe Streets-initiated activities.

- Many elected chief executives and legislators as well as criminal justice officials believe that the federal government's role in providing financial assistance through the block grant is appropriate and necessary, and that the availability of Safe Streets dollars, to some degree, has helped curb crime.

On the Negative Side:

- Despite growing recognition that crime needs to be dealt with by a functionally and jurisdictionally integrated criminal justice system, the Safe Streets program has been unable to develop strong ties among its component parts.

- Only a handful of state planning agencies (SPAs) have developed close working relationships with the Governor and legislature in Safe Streets planning, policy formulation, budgetmaking and program implementation, or have become an integral part of the state-local criminal justice system.

- SPAs have devoted the vast majority of their efforts to distributing Safe Streets funds and complying with LEAA procedural requirements.

- LEAA has not established meaningful standards or criteria against which to determine and enforce state plan comprehensiveness and SPA effectiveness.

- Excessive turnover in the top management level of LEAA and the SPAs has resulted in policy inconsistencies, instability in professional staffing, and confusion as to program goals.

CETA Block Grant⁷

CETA is now three years old. Although this short life precludes an assessment of the long-term impact of the act on unemployment rates and the national economy, sufficient evidence is available to arrive at judgments on how well the block grant has worked in light of the intent of the act and what changes are necessary to improve its intergovernmental administration.

- Although 17 categorical grants were folded into Title I, the CETA block grant did little to curb the historic fragmentation of federal manpower programs. Forty-seven separate authorizations for this purpose still exist, and these are administered by ten federal departments or agencies.

- Title I formula appropriations account for less than one-fourth of federal manpower outlays and slightly over two-fifths of the total CETA appropria-

tion. In other words, categoricals dominate both CETA and the overall federal manpower program structure.

- Title I has been used largely for meeting cyclical rather than structural unemployment needs. The economic recession and spiraling unemployment rates diverted attention away from the statutory goal of placing individuals in unsubsidized jobs and led to nearly half of the block grant funds being used for public service employment or equivalent programs, such as work experience. In addition there have been marked decreases in the funding of activities geared to skills needed by the private sector, such as on-the-job training and classroom training.

- In contrast with categorical programs, local elected officials have played a major role in CETA decisionmaking. However their lack of previous experience has led them to move cautiously and to rely on existing programs and service deliverers.

- CETA has created new intergovernmental planning, program development, and coordination machinery. Four new layers have been imposed between the Employment and Training Administration's (ETA) central office and program participants, producing delays in decisionmaking and contributing to coordination difficulties.

- Consortia arrangements have been a popular approach to manpower service delivery, for administrative efficiency as well as the availability of incentive funds. While there is some coincidence between the boundaries of consortia and labor market areas, there is little evidence of participation by councils of governments or other general purpose regional planning organizations in the formation of these bodies. The A-95 review and comment process has had practically no impact upon prime sponsor decisions due to an absence of adequate areawide manpower plans and to time pressures on implementation of the act.

- Both sponsor planning councils and state manpower services councils have had only limited impact on prime sponsor decisionmaking, largely as a result of the influence of chief elected officials and CETA administrators.

- Although during the first year of CETA operations most prime sponsors decided to continue to use existing program operators, as their familiarity with the manpower field grew, there was an increased tendency to make changes, especially to reduce the involvement of state employment services and to directly assume service delivery responsibilities.

- Contrary to expectations, community-based nonprofit organizations have experienced increases in the number of contracts and amounts of funds awarded under the block grant compared with pre-CETA levels.

- Largely because unemployment is weighted three times more than low income, the CETA distribution formula has tended to shift block grant dollars from central cities to counties and from structural to cyclical unemployment needs.

- Title I of CETA has a high rate of "positive" placements, with slightly under three-tenths of the enrollees being placed in unsubsidized employment and over one-third entering school, joining the armed forces, or taking other steps to improve their employability.

Community Development Block Grant (CDBG)⁸

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The federal-local block grant, as exemplified by the CDBG, is more complex than its more established predecessor, the federal-state block grant. Its complexities, in part, derive from the increase in the number of recipients — from 50 to a couple of thousands — as well as from the wider variety of different, often conflicting and competing needs that this greater number of participants possess. These factors, in turn, render the development of an equitable, workable, and politically viable allocation formula an inordinately different task.

THE ACT

- The CDBG emerged as a hybrid block grant. It contained a mix of funding mechanisms, program objectives, and administrative regulations. Although all the basic elements of a block grant were present, many were preempted by additional requirements to insure administrative control and accountability.

- The CDBG program combines a variety of past approaches to community development. It provides funds for metropolitan as well as nonmetropolitan communities, for physical projects as well as related social services, and for urban renewal as well as new growth. It relates comprehensive areawide planning with local community planning, and attempts to establish a firmer link between housing and community development.

- The program's broadly stated objectives were geared to eliminating and preventing slums and blight, and these suggest broad program discretion. Yet the statutory language pertaining to eligible activities and the subsequent administrative regulations, in effect, restricted the extent of program discretion by using a "laundry list" approach (13 eligible activities) for fundable projects.

- The mix of formula entitlement, hold harmless, and discretionary funding has produced a more complicated allocation scheme than is ordinarily found in a block grant. In some cases, it has operated to decrease rather than increase certainty of funding, and has raised questions of equity and effectiveness.

- The eligibility requirements for formula entitlements were drawn broadly enough to encompass the intended units of large and medium size municipalities as well as an unexpected number of urban counties. Small cities and states were given minor roles by being eligible only for discretionary grants.

- Administrative requirements reflected a Congressional compromise between the highly flexible recipient-dominated approach of special revenue sharing and the strong federal oversight approach of a formula-based categorical program.

IMPLEMENTATION

- HUD has been able to distribute funds to more cities, more quickly, with less administrative red tape under the CDBG program than under the folded-in categoricals.

- The funds have gone to many jurisdictions that had little or no previous HUD program experience. These include urban counties, suburban communities, and smaller cities. The program has fostered city-county and intracounty cooperation.

- Past participants (frequently older cities) continue to use their funding generally for projects designed to eliminate existing slums and blighted conditions and rebuild these decaying areas. Many new recipients use their funds more for growth-related development problems, in hopes of preventing future slum or blight conditions. The overall effect of the expanded eligibility provisions has been to shift some of the former urban assistance funds away from the urban areas and into the suburban areas.

- The entitlement formula has been the subject of much criticism. It does not target sufficient funds to cities with the worst slum and blighted conditions,

especially in light of the percentage of poverty and overcrowding existing there.

- The multiple discretionary grant categories have operated to allow a large amount of flexibility in fulfilling the community development needs of nonentitlement recipients. However during the first year, they have been plagued by unexpected shortfalls of funds — due to the unanticipated high expenditure of entitlement funds for qualifying urban counties.

- Small cities, as a result of these shortfalls, have pressed for guarantees of more certain funding, either through earmarked funds or arrangements to obtain entitlement status.

- The objective of strengthening the role of local general government is being achieved in two ways: (1) state statutory actions have enhanced the legal authority of localities, allowing them to exercise a broader range of community development powers; and (2) the act has resulted in increased local government decisionmaking. Where previously only special districts could act, generalists now have options to assume or delegate the power.

- The administrative "strings" which are required to safeguard certain national goals have not operated as effectively as public interest monitors had hoped. HUD, in its initial phase, had only loose requirements, which gave rise to questions of the degree of allowable program permissiveness. However HUD has now strengthened its program oversight.

- HUD's role in planned review and program evaluation is an open question. Its current position of establishing substantive guidelines for fulfilling national goals strengthens the block grant. Nevertheless HUD runs the risk of recategorization if, by so doing, it develops a series of intrusive procedural requirements which infringe greatly upon local discretion.

THE IMPACT OF FEDERAL GRANTS ON STATE AND LOCAL FINANCES⁹

As part of its reassessment of federal grants, the ACIR sought to fill some of the gaps in knowledge about the impact of the grant system on state-local expenditures. Issues in doubt included: whether grants stimulate certain classes of expenditure or simply result in tax reduction; whether stated allocation goals are achieved best by block or categorical grants; and whether the grant system significantly equalizes variations in recipient governments' finan-

cial capacity. Among the study's major findings and conclusions were these:

- Previous empirical studies have generally found that federal grants tend to stimulate state-local expenditures — federal aid induces states and localities to spend more than a dollar in total or for a particular function per dollar of grants. However there is no clear-cut consensus on the degree of stimulus.

- The findings of theoretical studies suggest that, for a given public good or service, state-local expenditures increase more from receiving an open-ended matching grant than from receipt of a close ended matching grant and least from a nonmatching grant. Regardless of the form of grant, the impact is greater if the aid is provided for a good or service not previously supported by states and localities.

- The ACIR study found that grant impact does differ for the different grant classifications — in a fiscal sense, the form of grant does make a difference. The various grant types — project, formula, high matching, low matching, and no matching — all led to a stimulative response by the state-local sector. This response differed, however, among the various grant instruments, regardless of whether or not construction aids were included.

- Public sector wage rates are associated with high-matching, low-matching, and no-matching grants, but only when construction aids are excluded. Both high- and no-matching grants are related to lower public sector wage rates, while low-matching grants are associated with higher wages.

- The major impact of each federal grant category is on public sector employment levels — an effect that differs markedly for the various types of grant instruments. Thus the main effect of the federal grant system overall is to stimulate state-local spending for additional public employees — to increase service levels rather than public sector wages.

Federal Grant Typology

- Not surprisingly the predominant grant form in dollar terms is formula based (rather than project), is given to states (rather than localities), and is low match. This grant form accounted for \$21.0 billion (65%) of the 1972 grant total.

- Only 14 of the 100 U.S. Treasury grant categories generally required a high state-local match; 31, a low-match provision; 28 were dominated by grants

with no matching requirements. Matching provisions could not be determined for 27 grant categories.

- Direct federal-local grants generally are project, rather than formula, based. Thirteen of 15 grant categories, accounting for \$2.7 billion of \$3.4 billion in federal-local grants, were predominantly of this form in 1972.

Grant Participation

- Grant participation — the per capita level of federal grant receipts — tends to be related to three measures of need — directly with income but inversely with population size and urbanization. Grant participation also is related to intergovernmental fiscal arrangement variables. State dominant systems tend to receive higher per capita levels of grants.

State-Local Fiscal Arrangements

- The 50 state-local systems exhibit considerable diversity in their intergovernmental fiscal arrangements. States in which the state sector dominates financing tend to provide services directly, rather than to support them at the local level by grants. States in which the local sector dominates tend to have a higher ratio of state grants and a higher local direct expenditure share. State government dominant systems are found in Alaska, Delaware, Hawaii, Vermont, Idaho, Utah, West Virginia, Kentucky and South Carolina. Local governments tend to dominate fiscal relations in California, Nevada, New York, Illinois, Indiana, Ohio and Texas. The latter group generally are more populated, urban, and wealthier; in contrast, the state-dominated fiscal pattern is found mainly in rural, less populated, and below average income states.

THE STATES AND INTERGOVERNMENTAL AIDS¹⁰

“More of essentially the same” is the dominant theme that emerges from the ACIR's study of recent developments in state aid. There has been some, but relatively little, innovation, particularly with regard to the functional areas aided and the type of transfer mechanism utilized. The predominant characteristic of state aid is its growth. Highlights of the study's major findings and conclusions include the following:

- The growth in state aid during the 20th century is virtually uninterrupted in both money and real terms, even when adjusted for population increase. By 1975, state aid (including federal amounts received and passed through to localities) totalled \$52 billion.

- States' direct servicing role also showed a general upward movement for the period 1957-1972. More than half the states increased their direct servicing role in nine functional areas — total direct general expenditures, highways, welfare, health, police, natural resources, libraries, financial administration and general public buildings. No change was the predominant pattern for parks and recreation, local schools, housing and urban renewal, airports and water supply.

- Federal pass-through funds were estimated at \$7.1 billion in 1972 — a virtual doubling of the 1967 magnitude. In both years, welfare and education aid accounted for more than 90% of total pass-through funds. These pass-through estimates radically alter the traditional measures of state aid flows. Pass-through amounts represented 20% of state aid and approximately 26% of federal aid to states. For 1972 inclusion of the pass-through as part of federal-local aid leads to a 2.6-fold increase over the traditionally considered federal-local grants, as well as a quadrupling of this form of assistance for education and a 52-fold growth in welfare.

- The education function dominates state aid, while federal grants are heavily concentrated in non-educational functions.

- State aid for municipal-urban services has expanded in the past five years, in terms of numbers of states participating, number of programs enacted and dollar magnitudes. However the total amount of municipal-urban aid remains small and for many municipal-urban services, state response is sporadic.

- State programs of general local support are approximately the same dollar amount as federal revenue sharing to local governments. Federal revenue sharing, however, is more equalizing in nature than state programs, because many of the latter involve shared taxes. Indeed, about half of state general support dollars are returned to localities on the basis of origin.

- In terms of the six states studied to assess fiscal impact, state aid was found to stimulate, rather than substitute for, local expenditures. The stimulative effect mainly resulted from the hiring of additional employees, with little roll out in the form of increased wage rates.

- State and local officials queried on the state aid system found that inequitable distribution formulas and uncertainty of state funding were the two most serious problem areas. Respondents also indicated that states play a very minor policymaking role regarding funds passed through to localities; a finding that may be attributable to the mandating activities of state governments — a vehicle frequently used to set program and performance standards. A surprising lack of general oversight of the state aid system by the executive and legislative branches was also notable.

FOOTNOTES

¹See Advisory Commission on Intergovernmental Relations, *Categorical Grants: Their Role and Design* (Report A-52), Washington, DC, U.S. Government Printing Office, May 1978.

²*Ibid.*, and ACIR, *A Catalog of Federal Grant-in-Aid Programs to State and Local Governments: Grants Funded FY 1975* (Report A-52a), Washington, DC, U.S. Government Printing Office, October 1977.

³See ACIR, *Improving Federal Grants Management* (Report A-53), Washington, DC, U.S. Government Printing Office, February 1977.

⁴See ACIR, *Block Grants: A Comparative Analysis* (Report A-60), Washington, DC, U.S. Government Printing Office, November 1977.

⁵See ACIR, *The Partnership for Health Act: Lessons from a Pioneering Block Grant* (Report A-56), Washington, DC, U.S. Government Printing Office, January 1977.

⁶See ACIR, *Safe Streets Reconsidered: The Block Grant Experience, 1968-1975* (Report A-55) and *Case Studies* (Report A-55a), Washington, DC, U.S. Government Printing Office, January 1977.

⁷See ACIR, *The Comprehensive Employment and Training Act: Early Readings from a Hybrid Block Grant* (Report A-58), Washington, DC, U.S. Government Printing Office, June 1977.

⁸See ACIR, *Community Development: The Workings of a Federal-Local Block Grant* (Report A-57), Washington, DC, U.S. Government Printing Office, March 1977.

⁹See ACIR, *Federal Grants: Their Effects on State-Local Expenditures, Employment Levels, and Wage Rates* (Report A-61), Washington, DC, U.S. Government Printing Office, February 1977.

¹⁰See ACIR, *The States and Intergovernmental Aids* (Report A-59), Washington, DC, U.S. Government Printing Office, February 1977.

Recommendations

On the basis of the major findings and conclusions, the Commission adopted 60 recommendations for improving the working of the intergovernmental grant system and the several types of grant. These follow by major subdivision, sometimes preceded by summary findings and conclusions which the Commission found of particular relevance to the recommendation.

CATEGORICAL GRANTS¹

1. Choosing the Type of Categorical Grant

The Commission finds that categorical grants may be grouped into four types — project grants, formula grants, formula-project grants, and open-end reimbursement grants. Each of these types has different advantages and disadvantages, and is best suited for different situations and purposes. Thus, in choosing the form of categorical grant instrument to be used to accomplish particular objectives, Congress should consider systematically the advantages and disadvantages accruing to the various interested parties — grant recipients, interest groups, and administering agencies.

The Commission concludes, however, that federal categorical assistance still is excessively fragmented. This condition continues to generate program, management and organizational difficulties for grantor agencies and recipient jurisdictions. It severely complicates the task of achieving effective legislative oversight at all levels and hinders efforts to strengthen politically accountable Executive Branch officials.

The Commission finds that the continuing growth in the number of small, narrowly drawn, project grants is primarily responsible for the proliferation of categorical grants, and that avoiding, when possible, the creation of additional project grants of this type offers a significant means of controlling that proliferation. Too often project grants have been used almost automatically without adequate consideration of other types. Of course project grants have positive features that make them uniquely suitable in certain circumstances — such as (a) when funds are too scarce to serve a broad constituency and a more precise targeting of funds to the jurisdictions with the greatest program needs is desired; (b) when the appropriate recipients are not easily identifiable until they make application; (c) when the distribution of funds cannot be systematized appropriately ahead of time or measured accurately by objective factors; and (d) when national research or demonstration needs take precedence over recipient needs. On the other hand, they have other features that create friction in intergovernmental relations. For example they generate excessive paperwork, they foster “grantsmanship” and inequities among competing eligible recipients, and they introduce uncertainty about continued funding (in addition to the level of funding). These are added reasons for controlling the multiplication of project grants.

Formula-based grants, in contrast, distribute funds automatically according to more objective measures of program need and/or fiscal capacity as specified by Congress; involve a narrower, less diverse range of recipients; and incur substantially fewer administra-

tive complications than the project grant application and review process.

The Commission believes, therefore, that when undertaking new categorical grant programs and consolidating existing ones, Congress should more thoroughly assess opportunities to use the formula-based grant and use it when possible rather than the project grant. Even when it is not possible or desirable to use a formula for complete distribution of funds, a modified formula or open-end reimbursement approach may be used to help allocate funds more efficiently than is possible using only a project-by-project approach. Hence . . .

The Commission recommends that, when considering new or reenacting old categorical grant programs, Congress and the President consciously evaluate the advantages and disadvantages of the four alternative types of categorical grants — project, formula, formula-project, and cost reimbursement — as well as the relative advantages and disadvantages of block grants, and select in each case the type which meets the intended national purposes best in light of the need to reduce the total number of programs and to facilitate simpler, fairer and more efficient administration of grant programs.

The Commission recommends, further, that in those cases where the Congress and the President determine that a categorical grant is to be preferred, they use the following criteria in choosing among the four types:

- a. Formula grants should be used when a federal program has nationwide applicability and when objective factors relevant to program needs and recipient jurisdictions' characteristics can be quantified appropriately and interrelated in a formula for the allocation of funds among recipients.
- b. Project grants should be used when funds are to be targeted precisely to a limited number of recipients having unusually great needs, when national objectives call for selective research and demonstration projects, or when appropriate formulas and eligibility requirements cannot be devised for the systematic distribution of program funds.
- c. Mixed formula-project grants should be used only when conditions for project grants obtain, but where state allocations are needed to curb administrative discretion in the awards process.

- d. Cost reimbursement grants should be used when the Federal government wishes to underwrite a specified proportion of legitimate state or local government program costs, whatever the total amount may be, while permitting recipient governments discretion in establishing service levels.

2. Grant Consolidation Goal and Criteria

Strongly implied in the Commission's appraisal of the categorical grant system is the need for action to reduce the excessive fragmentation that continues to cause severe administrative problems and trouble intergovernmental relations in that system. Hence . . .

The Commission reaffirms its 1967 recommendation that Congress and the President adopt as a general goal the reduction in the number of categorical programs and urges that the following factors be utilized in attempting to identify the most likely candidates for consolidation. Programs to be merged should be, or be capable of being made:

- a) closely related in terms of the functional area covered;
- b) similar or identical with regard to their program objectives; and
- c) linked to the same type(s) of recipient governmental jurisdictions.

3. Possible Candidates for Consolidation

On the basis of a preliminary review of the 442 categorical grants that were operational in FY 1975, using the criteria suggested in *Recommendation 2* but with primary emphasis on the functional inter-relationship, the Commission concludes that the merger of at least 102 programs into no more than 15 grant consolidations appears to be both feasible and desirable. Hence . . .

The Commission recommends that as a first priority Congress and the Administration give serious consideration to achieving grant consolidation in the following subfunctional areas:

- Forest Lands Management
(involves five categoricals),
- Highway Beautification
(involves three categoricals),
- Transportation Safety
(involves eight categoricals),

- Comprehensive Urban Transportation (involves ten categoricals),
- Comprehensive State Transportation (involves nine categoricals),
- Pollution Prevention and Control (involves seven categoricals),
- Public Library Aid (involves four categoricals),
- Programs for Older Americans (involves four categoricals),
- Child Welfare Services and Facilities (involves three categoricals),
- Vocational Education (involves nine categoricals),
- Strengthening Instruction in Science, Math, Language, etc. (involves two categoricals),
- Vocational Rehabilitation (involves seven categoricals),
- Domestic Volunteer Services (involves three categoricals),
- Child Nutrition and School Meals (involves eight categoricals), and
- Preventive and Protective Health (involves 20 categoricals).

4. Presidentially Initiated Grant Consolidation Plans

The Commission recommends that Congress enact legislation authorizing the President to submit to the Congress plans for consolidating categorical grant programs, and requiring Congress to approve or disapprove such plans by resolution within 90 days of submission, and if approved, such plans to go into effect upon approval by the President of the joint resolution. The Commission further recommends that the legislation authorize the President to make modifications or revisions of plans submitted to Congress anytime within 30 days after such submission.*

*Senator Hathaway supports the proposition that the President periodically ought to submit grant consolidation plans to Congress. However, he is concerned that any structure for implementing such plans not alter Constitutional separation of powers or undermine fundamental Congressional authority to legislate. *Recommendation 4*, by granting the President authority to propose detailed grant consolidation plans and by confining Congress to a position of either approving or disapproving such plans within a set period of time would, in Senator Hathaway's view, reverse our current Constitutional structure.

5. Congressional Review: A "Sunset System"

The Commission recommends that Congress enact "sunset legislation" providing at regularly scheduled intervals for the termination, thorough reassessment prior to the slated expiration dates, and reauthorization, where warranted, of all grant-in-aid programs by functional areas. In their reassessment, Congressional committees should, as is already stipulated under Sec. 601 of the *Intergovernmental Cooperation Act of 1968* (P.L. 90-577) for grants-in-aid without termination dates, give special attention to:

- a) the extent to which the purposes for which the grants-in-aid are authorized have been met;
- b) the extent to which the objectives of such programs can be carried on without further financial assistance from the federal government;
- c) whether or not any changes in purpose, direction or administration of the original programs, or in the procedures and requirements applicable thereto, shall be made; and
- d) the extent to which such grant-in-aid programs are adequate to meet the growing and changing needs which they were designed to support.

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In addition, the Commission recommends that the relevant Congressional committees in their periodic comprehensive reviews assess:

- a) the consequences of eliminating a program, consolidating it with a related program, or funding it at a lower level;
- b) whether or not the statutory purposes of programs are stated clearly enough to permit adequate administrative and Congressional evaluation;
- c) whether or not the cost-sharing arrangements (such as matching and maintenance of effort) included in grants are appropriate in light of the programs' purposes (such as stimulation or support) and whether such arrangements are actually effective in practice;
- d) whether or not the factors utilized in distributing assistance funds are appropriate to meeting fiscal equalization, program or other

stipulated grant needs and whether such factors actually serve as the best available indicators of such needs; and

- e) whether or not grant eligibility provisions are designed to assure that potential recipients are the most appropriate in light of their respective fiscal, servicing, and jurisdictional roles in the aided program area.

6. Advance Funding

The Commission finds that state and local performance of federally funded programs is adversely affected by the uncertainty of future levels of federal funding of those programs.

The Commission, therefore, recommends that Congress, in consultation with representatives of state and local governments, take steps to reduce funding uncertainties, including:

- a) evaluation by the Appropriations Committees of Congress of existing grant activities to determine whether any additional ones should be funded a year or more in advance;
- b) adoption of a rule for completing reauthorization action on grant programs a year before expiration of the authorization;
- c) establishment of a two-year appropriations cycle for grant programs that are amenable to such a cycle, yet are now funded one year at a time; and
- d) setting budget targets for grant programs for two years beyond the budget year.

7. Greater Responsiveness to State and Local Timing Problems

The Commission recommends that Congress and the Administration take steps to make the timing of grant implementation procedures more responsive to the scheduling requirements of state and local governments. To this end, it is recommended that:

- a) Congress make certain that the procedural requirements imposed in grant legislation are consistent with the schedule by which federal funds are appropriated and allocated;
- b) Congress extend the practice of fixing firm statutory deadlines for federal agency issu-

ance of regulations and for completion of action on submitted state and local grant applications; and

- c) federal grantor agencies, in consultation with representatives of state and local governments, provide, where possible, increased lead time in changing rules, regulations, or allocation formulas.

8. Purposes of Matching

The Commission concludes that matching requirements may have several effects, including the encouragement of recipient concern for the efficient administration of federally aided programs, and the adjustment of federal and recipient shares of program costs to reflect the degree of national, as opposed to state or local, benefits. The Commission further concludes that different kinds of matching requirements have different effects. A grant with no matching requirement or a low matching requirement provides the strongest incentive for eligible participants to participate in a program. High matching, on the other hand, increases the price facing the recipient and may discourage some eligible jurisdictions from participating.

The Commission recognizes that a fixed matching requirement may make it difficult for some jurisdictions with high levels of program need, but low fiscal capacity, to participate. In addition the differing matching requirements that now exist for the wide array of different grant programs may distort state and local budget decisions in ways unintended by Congress. Therefore . . .

The Commission recommends that Congress carefully consider the degree to which the costs of individual federally aided programs should be shared, whether recipient contributions are necessary to encourage efficient administration, and whether recipient governments should be expected to increase financial commitments to the aided programs, and design matching requirements accordingly. Matching should be required primarily when Congress believes recipient cost-sharing is necessary to encourage more responsible recipient administration or when it wishes to encourage new or additional spending for the activity to be aided. Matching requirements generally should not be imposed in programs of aid to established state or local activities for which federal aid is small relative to recipient spending for the aided

activity. Grants with relatively high matching requirements usually should be restricted to instances when Congress is more interested in eliciting significant recipient financial support and is less concerned with widespread adoption of the aided program.

9. Maintenance of Effort and Non-Supplant Requirements

Congress has frequently used maintenance of effort requirements in an attempt to assure that federal aid will be used to supplement, and not substitute for, recipient government spending for an aided activity or function. The Commission finds, however, that there is considerable doubt about the enforceability, and thus the effectiveness, of these requirements. Therefore . . .

The Commission recommends that Congress request the General Accounting Office, or other appropriate organizations, to research and report on the effect of existing maintenance of effort requirements in categorical grant programs.

10. Improving Allocational Provisions

The Commission concludes that, in many programs and functional areas, formula-based grants are allocated among recipients according to very general statistical indicators of program need where more precise indicators are feasible and desirable. Furthermore, the Commission believes increased attention should be given to assuring that grant funds are allocated in proportion to the actual need for services. Therefore . . .

The Commission recommends that grant formula allocation provisions be examined carefully by the appropriate legislative committees of the Congress as part of the review called for in *Recommendation 5*, and by the Executive departments and agencies, and where desirable and feasible updated to include more precise and specific indicators of program need. The Commission further recommends that a critical review be given to those formulas which distribute funds according to total population or equal shares; to minimum and maximum grant entitlements; and to any formula factors which may have inappropriately or unintentionally favored one set of recipients over another.

11. Administration of Generally Applicable Grant Requirements

The Commission concludes that the number and importance of generally applicable requirements affecting federal grant programs have become such that these requirements need special attention. They affect such widely divergent and fundamental matters as civil rights, environmental protection, employment conditions, merit systems, wage rates, relocation benefits, access to governmental information, and rights of the handicapped. The general objectives of these requirements are desirable. Nevertheless instead of standardizing and helping to simplify these elements in the administration of federal grants, across-the-board requirements have been administered for the most part in such a way as to allow significantly different approaches among agencies, wide variances in compliance from one program to another, and even conflict in some cases. Hence . . .

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The Commission recommends that:

- a) Congress and the President review all new and existing statutory requirements having general applicability to federal grant programs, and for each such requirement assign to a single administrative unit within the Executive Branch, by legislation or executive order, clear responsibility and authority for achieving standardized guidelines and simplified administration for effective compliance by all affected federal agencies;
- b) the Office of Management and Budget establish a clearinghouse for all such generally applicable requirements, monitor their administration, and bring to the attention of the President and the Congress, from time to time, any identified conflicts or duplications among such requirements and potential opportunities for resolving such conflicts, consolidating similar requirements, and simplifying administration;
- c) all such generally applicable statutes and regulations be reviewed by Congress and the President for the purpose of consolidating those which are related to each other and of simplifying or terminating those that have proven to be excessively burdensome, either fiscally or administratively, or to be impracticable to implement;

- d) in developing administrative regulations to implement generally applicable requirements, the federal administrative units designated in part (a) of this recommendation consider the estimated costs as well as benefits of securing compliance under potential administrative measures, and that "certification acceptance" procedures be incorporated, whenever appropriate;
- e) the added costs of generally applicable requirements — whether administrative or otherwise and whether incurred by the central administrative unit, the various federal agencies subject to compliance, or the non-federal grant recipients — be recognized in law, and provisions be made for meeting them; and
- f) federal administrative regulations to implement generally applicable requirements allow and foster the practice of contracting by grant recipients with other units of government — whether local, state, regional or federal — better able to meet such requirements on behalf of such recipients.

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IMPROVING FEDERAL GRANTS MANAGEMENT²

1. Basic Policy Position

On balance, while fully supporting the enactment of additional block grants where appropriate and the effective administration of existing ones, the Commission concludes that categorical grant programs will continue to be an integral component of the federal assistance system. Hence, the Commission believes that efforts must be continued to improve grant administration through such means as management circulars, measures to improve intergovernmental information and consultation, as well as procedures for strengthening state and local coordination and discretion. Hence . . .

The Commission recommends that the political branches of the federal, state and general units of local government assume their historic responsibility for jointly establishing and sustaining the necessary central management mechanisms to achieve improved operations of governmental programs and to render the civil service more fully accountable. The Commission further urges that the intergovernmental dimen-

sions (fiscal, programmatic and policy) of public management be made an integral component of all such administrative systems.

2. The Central Management Mechanism

The Commission concludes that the federal Executive Branch needs a strong central management capacity, but recognizes that no single strategy for organizing the Executive Office of the President could or would over time suit the varying administrative styles of individual Presidents. Hence . . .

The Commission recommends that the organization of the Executive Office of the President for central management purposes be flexible enough to reflect Presidential desires, but that there should be in place sufficient institutional staff to enable the President to exert vigorous and visible leadership in the five basic central management activities essential to smoother and more productive federal-state-local relations: budget preparation and consultation; management, including governmentwide grants management; domestic policy development; intergovernmental liaison; and legislative reference. The *Executive Reorganization Act* concept should be revived to allow the President expeditiously to achieve his desired Executive Office organizational objectives.

The Commission further recommends that the President appoint a high-ranking assistant for intergovernmental affairs having direct access to the President who, with a small professional staff, would monitor and evaluate for the President the various intergovernmental relations activities performed on a governmentwide basis under whatever organizational arrangements the President may establish. A key official in agencies responsible for budget preparation, management, and domestic policy development, as well as officers of Presidential appointive rank responsible for intergovernmental affairs in each department, would serve as strategic points of contact for, and consultation with, the Presidential assistant.

Furthermore recognizing the present essentially bifurcated pattern of manage-budget and policy organization, the Commission recommends that, if this present arrangement is continued, the organization, staffing and internal operating procedures of the Office of Management and Budget be thoroughly reviewed and evaluated by the President, the Director, and the appropriate committees of the Congress, with a view toward making OMB the primary focal

point with adequate staff for management improvement on an interdepartmental, interprogram and intergovernmental basis. Specific provision should be made for regular consultation between the Office of Management and Budget and officials and representatives of state and local governments on long- and short-range budgetary and fiscal issues. Activities relating to intergovernmental relations and grants management delegated by executive order to the Department of the Treasury (TC-1082) and by OMB Circular A-85 to the Advisory Commission on Intergovernmental Relations should be vested in the Office of Management and Budget. A key OMB official should be specifically assigned intergovernmental responsibilities.

The Commission also recommends that the performance of the Domestic Council or its successor in the identification of domestic problems requiring national attention and the development of general domestic objectives and policies through the report on national growth and other activities be improved. Meetings of the full membership of the council for the consideration of domestic policy problems and issues should be held on a regular basis. Other domestic policy-related councils and boards with membership which largely duplicates that (in full or part) of the Domestic Council should be consolidated with the Domestic Council. The creation of similar bodies in the future should be avoided.

The Commission further recommends that OMB and the Domestic Council continue to collaborate, but more effectively, in "the determination of national domestic priorities for the allocation of available resources" and in assuring "a continuing review of ongoing programs from the standpoint of their relative contribution to national goals as compared with the use of available resources," as was called for in Executive Order 11541.

Finally, the Commission recognizes that organizational arrangements may change from time to time, but believes that the essence of this recommendation pertaining to the budget, management and policy functions will remain valid and compelling.

3. The Federal Regional Councils

The Commission recommends that the President, the Office of Management and Budget, and the Under Secretaries Group for Regional Operations move aggressively to eliminate the impediments to the more effective operation of the Federal Regional Councils by:

- a) fully familiarizing policy-level officials of state and local governments with the purposes and activities of the councils;
- b) analyzing the political and administrative factors that permit decentralization of grant sign off authority in some assistance programs and not in others, and securing the decentralization of the former under the direction of the principal regional official of each appropriate department and agency;
- c) obtaining greater conformity to the standard administrative regions and field office locations set forth in OMB Circular A-105;
- d) assuring the assignment by each FRC member agency of the staff members required for ongoing council operations, including the A-95 review and comment procedure, joint funding, and special task forces;
- e) providing to council staff such special training as is required for the effective performance of their duties; and
- f) assuring continuing communications with and support from Washington, largely through a more active Under Secretaries Group.*

4. Assignment of Responsibility for Interprogram Grants Management Within Individual Departments and Agencies

The Commission recommends that the President require the heads of federal grant administering departments and agencies to assign leadership responsibility for interprogram grants management activities to a single unit with adequate authority, statute, and staff in their respective departments or agencies. Such activities, at a minimum, should include oversight of the agency's compliance with OMB Circulars A-85, A-89, and A-95 and management circulars (including FMC 74-7, FMC 74-4, FMC 73-2, and OMB Circular A-105), and responsibility for leadership and compliance with regulations under the *Joint Funding Simplification Act of 1974*.

*Mr. Cannon and Mr. White dissented on *Recommendation 3*.

5. Monitoring Interagency Agreements

The Commission concludes that existing federal aid legislation and administrative regulations establish duplicative planning and application processes as well as overly complex and confusing rules for applicants to follow. They also create duplicative federal reviews of state and local planning, waste of federal funds, and lost opportunities for one federal aid program to reinforce the benefits of another. These problems are often susceptible to amelioration by interagency agreements. While such agreements have been in use for many years, there is a continuing and growing need for greater emphasis on their use and for creating the means to strengthen them.

22 The Commission recommends that the Office of Management and Budget be given responsibility for compiling and updating a list of the interagency agreements in effect, for evaluating them, and initiating new ones or improvements to existing ones as needed, to effectively further and support maximum feasible coordination among the various federal aid programs. The Office of Management and Budget, acting through the Under Secretaries Group for Regional Operations and the Federal Regional Councils, also should be given responsibility for monitoring and supporting the proper and full implementation of these agreements. All new and amended interagency agreements having a significant and broad intergovernmental impact on the management of federal aid programs should be reviewed and commented upon at the draft stage by state and local governments through the A-85 consultation process.

6. Interagency Committee Management

The Commission recommends that the President reinstitute administrative guidelines and instructions regarding the establishment, use and termination of interagency committees, with a view toward:

- a) monitoring and evaluating the operation of such committees within the Executive Branch;
- b) supporting and strengthening those committees necessary to the effective operation of federal assistance programs and related activities; and
- c) discouraging the formation or continuation of unnecessary or unproductive committees.

7. Congressional Support for Circulars

The Commission recommends that Congress provide specific statutory authorization for OMB Circulars A-85 and A-95 and existing and future circulars issued by the Office of Management and Budget directed toward standardization, simplification and other improvements of grants management.

The Commission further recommends that Congress enact legislation clearly vesting in the Office of Management and Budget the responsibility for developing the circulars, interpreting them, and otherwise enforcing compliance by the grant administering agencies. Monitoring by the OMB of agencies' compliance with the circulars should include approval of agency regulations and related documents implementing these circulars.

Finally, the Commission recommends that Congress enact legislation requiring submission of periodic evaluation reports on the circulars to the Congress by the Office of Management and Budget.

8. Possible Modifications of Standardization Requirements

The Commission recommends that the Office of Management and Budget organize and head an interagency review of FMC 74-7 for the purpose of determining whether additional areas of administrative requirements should be standardized and whether existing standardized requirements should be modified. Representatives of state and local governments should be given the opportunity to review and comment on any revisions recommended by the interagency group.

9. The States and the Management Circulars

The Commission recommends that the states examine their legislative and administrative policies and practices applicable to the expenditure of federal grant funds by the states or their political subdivisions. This includes conditions attached to the pass-through of federal funds to localities, with a view toward resolving in cooperation with the Office of Management and Budget any conflicts between those policies and practices and the provisions of federal grant management circulars. Such examination should include problems involved in claiming allowa-

ble overhead costs in performance of audits by nonfederal agencies.

10. The States and A-95

The Commission recommends that states upgrade their participation in the circular A-95 process. Specifically, the Commission recommends that governors and/or legislatures take steps to assure that federal program plans are reviewed for their conformity with state policies and plans pursuant to part III of the circular; and that where states have developed and adopted statewide policies and plans impacting on local government, the legislatures enact statutes or the Governors issue executive orders making state grants to political subdivisions that relate to such policies and plans subject to the A-95 clearance process.

11. A-85 and the Public Interest Groups

The Commission recommends that the public interest groups involved in OMB Circular A-85 re-examine their internal A-85 procedures and the resources they deploy to them, and take steps necessary to assure more fully responsive participation in the process.

12. FRCs and A-95

The Commission concludes that there is a need for better coordination within the federal establishment itself with respect to federal aid programs and project funding decisions, as well as direct activities having interagency and intergovernmental impacts. Without such coordination, program and project conflicts may go unidentified and unresolved, and opportunities for one program to reinforce another may be lost. The Commission believes the A-95 project review and comment process recognizes this need by requiring individual federal agencies that are considering the funding of projects of potential concern to other federal agencies to consult with such agencies. But these consultation opportunities are limited only to those identified by the "interested" funding agency itself. The Commission further concludes that applying the A-95 notification, review and comment procedures internally within the federal government (rather than only at the state and areawide levels) could meet this recognized need for federal interagency coordination more fully than it is presently being met; and that

FRCs would be appropriate mechanisms to do this because they already have an A-95 role for monitoring federal agency compliance with the state and areawide review processes.

The Commission recommends that the Office of Management and Budget designate the Federal Regional Councils as federal clearinghouses under Circular A-95, making them responsible for:

- a) notifying affected federal agencies of grant applications having regional impact and intergovernmental significance, as well as comparable direct federal activities subject to A-95;
- b) preparing comments concerning the inter-program and intergovernmental effects of these proposed projects;
- c) transmitting their own comments as well as individual agency reviews to the federal action agency; and
- d) more vigorously pursuing their currently assigned responsibilities for enforcing federal agency compliance with existing Circular A-95 provisions.

The Commission further recommends that Federal Regional Councils provide the means for resolving issues raised in the federal interagency review process.

13. Joint Funding and Recipients

To strengthen state and local support for and use of the *Joint Funding Simplification Act*, the Commission recommends that states and larger units of general local government assign to a single agency leadership responsibility for participation by their respective jurisdictions in jointly funded projects. Such responsibility should include the development of proposed projects and coordination of the joint funding activities of participating departments.

14. Improving Grant Information

The Commission recommends that Congress and the Administration take steps to improve information that is available on grants-in-aid through the *Catalog of Federal Domestic Assistance* and other sources.

Specifically, the Commission recommends that:

- a) Congress amend Section 201 of the *Intergovernmental Cooperation Act of 1968* to

require federal agencies, upon request of the chief executive or legislative body of larger cities and counties, to inform them on a timely basis of the purpose and amounts of grants-in-aid that are made directly to such localities and authorities within such localities;

- b) the Office of Management and Budget publish annually, prior to the conclusion of each calendar year, a list of grant-in-aid programs that are scheduled to terminate in the following calendar year;
- c) the Office of Management and Budget assume the initiative for assuring that all authorized programs are listed in the *Catalog of Federal Domestic Assistance* instead of relying on grantor agencies to identify such programs; and
- d) the Office of Management and Budget revise the format of the *Catalog of Federal Domestic Assistance* so that each listing represents not more than one discrete program or clearly identifies the separate programs included under that listing; that all authorized programs are listed whether or not funds are appropriated therefor, and that the program titles in the state and local government indexes show the code for the type of assistance provided (for example, formula grants, project grants, direct loans, technical assistance, training).

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The Commission further recommends, in connection with paragraph (a) above, that states explore the possibility of providing their larger localities with information on the purpose and amounts of grants-in-aid which the states send to such localities. Such information should cover both direct grants from the state and federal grants passed through the state government.

BLOCK GRANTS — IN GENERAL³

1. Block Grant Purposes

The Commission concludes that the block grant is a necessary component of federal intergovernmental assistance. This instrument balances the accomplishment of national purposes within broad functional areas with the exercise of substantial recipient discretion in allocating funds to support activities which

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

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

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

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.

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

- a) the program objectives and priorities should be clear and precisely stated;

- b) a substantial portion of total federal aid for providing services and facilities in the functional area involved should be encompassed;
- c) 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 a mix of programs tailored to their needs;
- d) 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;
- e) discretionary funds, if authorized, should account for not more than 10% of total appropriations;
- f) eligibility provisions should be specific, favor general purpose units of government, and reflect their servicing capacity, legal authority, and financial involvement;
- g) matching, if called for at all, should be statutorily fixed at a low and preferably uniform rate for all aided activities;
- h) 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;
- i) 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; and
- j) capacity building assistance should be provided to recipients, as needed, to enhance their ability to effectively administer the program.

3. Avoiding Recategorization

The Commission concludes that recategorization is an unfortunate occurrence that is often 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:

- a) refrain from earmarking funds or authorizing new categories of assistance within the statutory framework of the block grant;
- b) 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
- c) 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 decision-making and to develop a solid record before reauthorization.

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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.

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 moneys to eligible general purpose units of local government 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:

- a) appropriate policy, organizational, planning and procedural arrangements have been established to ensure the efficient and effective use of federal aid;
- b) the personnel to be assigned to block grant administration possess requisite planning, managerial and other skills;

- c) establishing, where feasible, a planning group representing the courts to prepare plans for and make recommendations on funding to the SPA.

8. Generalist Participation

The Commission recommends that Congress amend the *Safe Streets Act* to:

- a) define "local elected officials" as elected chief executive and legislative officials of general units of local government, for purposes of meeting the majority representation requirements on regional planning unit supervisory boards, and
- b) encourage SPAs that choose to establish regional planning units to make use of the umbrella multijurisdictional organization within each substate district.

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CETA BLOCK GRANT⁶

1. Recasting and Reorganizing National Manpower Programs

In light of the rapid proliferation of manpower programs, their frequently competing or duplicating purposes and clientele groups, and spiraling federal outlays for these numerous activities . . .

The Commission recommends that the President and the Congress give high priority to sorting out, redefining, and articulating clearly national manpower goals; to relating a range of coordinative management devices for their accomplishment at the community level; and to developing the necessary mechanisms for periodic evaluations of program progress and accomplishments. As a long-term objective, the Commission is convinced that reorganization of the federal agencies responsible for administering manpower programs and consolidation and redirection of grants-in-aid to state and local governments in this area are essential means of bringing the highly fragmented existing employment and training, vocational education, institutional training, vocational rehabilitation, economic opportunity, and other programs into a more consistent, integrated, and coordinated strategy for meeting the manpower goals and needs of the nation's local communities in an efficient, effective, and equitable manner.

2. CETA and National Manpower Policy

Given its fiscal magnitude and functional scope, the Commission concludes that the *Comprehensive Employment and Training Act* (CETA) could serve as a catalyst for reforming federal manpower programs; however, its potential in this area has been largely untapped. Hence . . .

The Commission recommends that CETA be retained, improved, and utilized more fully as the preferred mechanism for providing and/or coordinating all federally aided manpower services chiefly designed to respond to the needs of state and substate labor markets. The devices that should be considered for achieving fuller program coordination include grant consolidation; federal government reorganization; joint funding; interagency agreements; more meaningful comprehensive manpower planning, review, and evaluation processes; and stronger interagency coordination at the federal level through the Executive Office of the President and the federal regional councils.

3. A More Focused Title I Block Grant

The Commission concludes that other federal grant programs are geared to meeting public sector cyclical needs and that prime sponsors under Title I of CETA should give greater attention to the long-term goal of placing individuals in unsubsidized private sector jobs. Hence . . .

The Commission recommends that Title I of CETA be amended to prohibit the use of block grant funds for public service employment or for equivalent programs, except where prime sponsors certify that relevant and current private sector employment needs have been met and opportunities satisfied in their respective labor market areas.

4. A More Equitable Distribution Formula

The Commission concludes that the Title I distribution formula has diverted funds away from areas which have the most pressing long-term unemployment needs and from activities geared to meeting them.

COMMUNITY DEVELOPMENT BLOCK GRANT⁷

The Commission recommends that the act be amended to provide that the Title I formula allocations be distributed on the basis of indices that gauge long-term structural employment. Implementation of this formula change is dependent upon, and must await development of, reliable low-income and unemployment data produced through special interim studies and the 1980 census. The Commission further recommends that the hold harmless provision of the act be deleted.

5. Federal Actions to Facilitate the States' Involvement In Title I

The Commission concludes that there is a need for greater federal efforts to enhance the performance of the states' responsibilities vis-a-vis local prime sponsors in CETA block grants.

The Commission recommends that the Employment and Training Administration (ETA) provide increased technical assistance and such other advice and support as may be necessary to bolster the role of state manpower services councils in reviewing prime sponsor plans, coordinating state and local manpower activities, and evaluating performance. The Commission further recommends that the ETA continue its efforts to encourage prime sponsors to make greater use of the state employment service in the provision of manpower programs and, during the plan review process, ensure that the undertaking of duplicative services by the state employment service and CETA prime sponsors in the same labor market areas will be avoided.

6. The Special Problem of Youth Unemployment

The Commission concludes that the Congress should accord high priority attention to dealing effectively with the pressing problems of youth unemployment across the nation. Hence . . .

The Commission recommends that the Congress amend the *Comprehensive Employment and Training Act* to delete the youth employment provisions of Title III, Part A. The Commission further recommends that the Congress consider the advisability of establishing a youth employment services title with a separate appropriation and allocation formula based on the relative amount of unemployed youth served by the prime sponsor above the national average.

1. Further Coordination and Consolidation

The Commission concludes that the block and discretionary grant programs established by Title I of the *Housing and Community Development Act of 1974* provide the most effective and efficient strategy for meeting the community development needs of general purpose units of local government in metropolitan and nonmetropolitan areas. Therefore . . .

The Commission recommends that efforts be made to coordinate and, where feasible, merge administratively the Title I program with those related community development grant programs now administered by other federal departments and agencies.

The Commission further recommends that the Section 312 rehabilitation loans program be consolidated with Title I of the *Housing and Community Development Act of 1974*.

The Commission concludes that the community development block grant, general revenue sharing, and other block grant programs have not diminished the necessity of federal support for local, regional, and state planning, management, and technical assistance or "capacity building" activities. Therefore . . .

The Commission recommends that the Congress provide adequate funding for the Department of Housing and Urban Development's 701 comprehensive planning and management assistance program, until such time as a broader, consolidated planning and management assistance program may be enacted.

2. Greater Recipient Discretion

The Commission concludes that the Community Development Block Grant Program contains some program constraints which unnecessarily restrict the program discretion of its recipients. Therefore . . .

The Commission recommends that Congress amend the act to allow greater discretion in identifying and designing the programs to be funded. Specifically, the Commission recommends that the act be amended to:

- a) allow for the funding of public services which are necessary or appropriate to support community development activities, pursuant

to the objectives of the act, provided that no more than 20% of the recipient's grant be used for this purpose where other federal program funds cannot be provided for social services;

- b) allow for the funding of all facilities, whether neighborhood or communitywide, which are consistent with, and in support of, the community development objectives of the act; and
- c) simplify the requirements for the Housing Assistance Plan to the maximum degree possible consistent with the act's objectives.

3. Continuing the Simplification of Administrative Requirements

30 The Commission recommends that HUD remain sensitive to further opportunities for simplifying the administrative requirements of the CDBG program, and refrain from establishing additional procedural requirements which unnecessarily burden the application, administration, and performance reporting processes in the program.

4. The Federal Role in Performance Evaluation

The Commission supports the legislatively established federal role in using performance reporting in the CDBG program to monitor progress toward the program's national objectives and to assure that federal funds are spent in accordance with them.

5. Building Greater Capacity of Block Grant Recipients

The Commission recommends that:

- a) HUD step up its sponsorship of research and demonstration projects designed to enhance the capacity of local governments to use the CDBG within the broadest context of community governance;
- b) HUD make more effective use of its publications, public information program, field offices, and other mechanisms to provide technical assistance to CDBG recipients and

potential recipients; and that Congress authorize the necessary resources for this purpose;

- c) Congress fund, and HUD use, Section 811 of the *Housing and Community Development Act* to support capacity building objectives in CDBG recipient and potential recipient governments, using appropriate state and areawide agencies as vehicles for training and technical assistance where advantageous; and
- d) HUD make a special effort, in cooperation with the Environmental Protection Agency, the Council on Environmental Quality, and other appropriate federal agencies, to provide much more substantial technical assistance to CDBG recipients than is presently available for compliance with required environmental reviews.

6. The Role of Regional Bodies

The Commission recommends that HUD revise its guidelines to encourage councils of governments and other general purpose regional planning bodies to provide more technical assistance to applicant communities in preparing their Housing Assistance Plans (HAP).

The Commission further recommends that Congress amend the act to authorize councils of governments and other general purpose regional planning bodies to prepare a Regional HAP in lieu of local HAPs. Upon acceptance by the affected local units in accordance with the approval procedures of the regional body within the region, the regional HAP would be submitted to HUD in fulfillment of the statutory application requirements.*

7. Strengthening the State Role

The Commission recommends that Congress amend the act to establish a new federal category to be used to stimulate and support the direct performance of community development programs by any state which has a demonstrated interest and capacity in this area, as evidenced by the state's:

- a) having a community affairs agency,

*Commissioner Dunn and Mr. White dissenting.

- b) engaging in planning for community development,
- c) providing technical assistance to local applicants in community development programs, and
- d) providing substantial amounts of its own funds for community development-related purposes.*

8. A General Call for Allocation Revision

The Commission recommends that Congress amend the act so that the funding allocation treats the older, deteriorating cities and small communities in metropolitan areas more equitably. The Commission further recommends that in reviewing the operation of the funding allocation in preparation for recommending improvements to the Congress on or before December 31, 1976, as provided in the act, the Secretary of HUD give special attention to the fiscal treatment accorded these two groups of recipients.

9. Advance Funding

The Commission concludes that the physical development activities that the CDBG program supports can most effectively be implemented by the assurance of substantial and long-term fiscal commitments. Therefore . . .

The Commission recommends that Congress appropriate funds for the CDBG program for a six-year period of advanced funding beyond the current funding entitlement with provisions for periodic Congressional review of the program's goals, operation and effectiveness.

THE STATES AND INTERGOVERNMENTAL AIDS⁸

1. State Revenue Sharing Programs — Consolidation, Greater Urban Focus, and Equalization Issues

The Commission concludes that state programs of general local government support, many of which are shared taxes returned to place or origin, commonly

are excessive in number, inadequate to equalize local fiscal capacities, and neglectful of urban needs.

The Commission recommends that all states establish programs of general local government support; that such programs be of sufficient magnitude to materially redress imbalances among local fiscal capacities; and that funds be distributed by an allocation formula reflecting population, tax effort, and municipal overburden. The Commission further recommends that the multiplicity of such programs be substantially reduced by consolidation to increase the amount of state general support payments to local jurisdictions that will be allocated according to this strongly equalizing formula.

2. State Functional Grants — The Allocation Issue

The Commission concludes that the fiscal equalization and the program-needs objectives of state aid are best met by separate grant devices. The Commission further concludes that state functional grants are most appropriately used to meet local program needs and that programs of general local government support are best geared to achieving fiscal equalization objectives.

The Commission therefore recommends that states use general local government support programs to accomplish significant equalization of local fiscal capacities, and then rely on specific measures of program need to allocate grants for the support of all conditionally aided public programs other than minimum foundation education programs.

3. Review and Consolidation of State Functional Grants

The Commission concludes that the present conditional aid system in many states is largely a product of piecemeal legislative actions and is marked by a multiplicity of narrow-based categorical aids.

The Commission therefore recommends that states periodically review their categorical aids in each functional area. The Commission further recommends that state ACIRs be utilized by appropriate central management units in the Executive Branch and pertinent substantive legislative committees in conducting such reviews.

These reassessments should determine the extent to which individual programs in the same functional

*Commissioner Dunn dissenting.

area have met their statutory purpose(s), need redirection in light of changing conditions, duplicate or overlap with other aid programs, and/or are related to, or are a basic component of, a state-performed service — all with a view toward consolidating duplicative and closely related aid programs; eliminating ineffective or outdated grants; revising the statutory goals and possibly the formulas of those that need modernization; and determining whether the grant device is the most effective, efficient and equitable means of achieving the program's goal in light of the state's direct servicing role in the functional area involved.

In order to secure a thorough and orderly review, the Commission further recommends that each state provide by law for the simultaneous termination of aid programs in each functional area upon a specified review date, and at regular intervals (four or five years) thereafter, unless such programs are reauthorized by appropriate legislative action.

4. The State Legislature and Federal Grants

The Commission recommends that state legislatures take much more active roles in state decision-making relating to the receipt and expenditure of federal grants to the states. Specifically, the Commission recommends that legislatures take action to provide for: inclusion of anticipated federal grants in appropriation or authorization bills; prohibition of receipt or expenditure of federal grants above the amount appropriated without approval of the legislature or its delegate; establishment of subprogram allocations, where state discretion is afforded in formula-based categorical and block grants, in order to

specify priorities; and specification of the basis of fund allocation and recipient eligibility and the conditions of performance where states have a discretionary role in passing funds through to local governments.

5. The Governor's Role in the Federal Grant Process

In light of continuing recipient management problems associated with federal grants to the states, the Commission recommends that — pursuant to statute or executive order — state agencies be required to obtain the approval of the governor or his designee before:

- a) entering into grant negotiations with federal grant agencies,
- b) applying for federal grants, or
- c) accepting any federal grants.

6. Coordinating State Aid Appropriations and Local Budgeting

The Commission recommends that state legislatures act to enable local governments to anticipate the amounts and timing of state aids with greater certainty by:

- a) providing for advance funding of such aids where appropriate; and by
- b) prescribing a uniform fiscal year for local governments that is geared to the legislative appropriations calendar.

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FOOTNOTES

¹See ACIR, *Categorical Grants: Their Role and Design* (Report A-52), Washington, DC, U.S. Government Printing Office, May 1978.

²See ACIR, *Improving Federal Grants Management*, (Report A-53), Washington, DC, U.S. Government Printing Office, February 1977.

³See ACIR, *Block Grants: A Comparative Analysis* (Report A-60), Washington, DC, U.S. Government Printing Office, November 1977.

⁴See ACIR, *The Partnership for Health Act: Lessons from a Pioneering Block Grant* (Report A-56), Washington, DC, U.S. Government Printing Office, January 1977.

⁵See ACIR, *Safe Streets Reconsidered: The Block Grant Experience—1968-1975* (Report A-55), Washington, DC, U.S. Government Printing Office, January 1977, and *Safe Streets Reconsidered: The Block Grant Experience—1968-1975: Part B, Case Studies* (Report A-55a), Washington, DC, U.S. Government Printing Office, January 1977.

⁶See ACIR, *The Comprehensive Employment and Training Act: Early Readings from a Hybrid Block Grant* (Report A-58), Washington, DC, U.S. Government Printing Office, June 1977.

⁷See ACIR, *Community Development: The Workings of a Federal-Local Block Grant* (Report A-57), Washington, DC, U.S. Government Printing Office, March 1977.

⁸See ACIR, *The State and Intergovernmental Aids* (Report A-59), Washington, DC, U.S. Government Printing Office, February 1977.

A Decade of Change in the Federal Grant System: Its Impact on Certain Key Issues in Intergovernmental Relations

3

This 14-volume study focused on the experience of the past decade with block grants and categorical grants and efforts to improve the management of the federal grant system. Consideration of general revenue sharing was excluded inasmuch as that program had received separate consideration by the Commission in 1974.¹ In closing, it is appropriate to step back and appraise what the changes in the federal grant system of the past decade have meant in terms of certain key intergovernmental issues. Specifically what has been the impact on certain aspects of federal-state-local relations of the shift from a basically categorical system to a tripartite system and the related efforts to improve grants management? Apart from its relevance to the purpose of the entire study, this kind of concluding assessment seems fitting because just ten years ago, in a comprehensive series of recommendations directed at achieving better fiscal balance in the American federal system,² the ACIR called for a tripartite system, and for reform of grants management.

The specific broad issues addressed in this chapter are:

- Have the changes in the federal grant system of the past decade increased the amount of

discretion exercised by state and local governments in the use of grant funds and have they effected a noticeable devolution of authority?

- Have these changes helped to strengthen the capacity of state and local governments?
- Have they altered the structure of local government?
- Have they brought about any changes in state-local relations?

With respect to the changes wrought by block grants and the grants management improvement efforts, the analysis relies mainly on a synthesis and application of findings and conclusions presented in the earlier volumes of the study. On the effects of general revenue sharing, the chapter is based chiefly on the Commission's 1974 study and the subsequent works of others, particularly the Brookings Institution.

This analysis is undertaken with a full recognition of the relative newness of general revenue sharing and two of the four block grants examined and, therefore, with a clear appreciation of the tentative character of conclusions on experience to date under those programs.

DEVOLUTION

On the face of it, the issue of whether there has been a devolution of authority to states and localities as a result of the establishment of a tripartite grant system seems fairly obvious, considering the portion of federal grants now represented by general revenue sharing and block grants and the essential nature of these two assistance mechanisms. With respect to the first point, the following figures tell the story:

Percentage of Federal Grant Dollars by Grant Type, FY 1966 and FY 1975

	FY 1966	FY 1975
Categoricals	99.5%	76.0%
Block Grants	0.5	10.0
General Revenue Sharing	0.0	14.0

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Regarding the nature of GRS and block grants, a useful summary is the typology of federal grant forms presented in the introduction to this study.³ The typology distinguishes among the three grant forms on the basis of three factors: the degree of administrative discretion exercised by federal grant administrators; the range of limitations on grantees in choosing activities to be covered by the federal assistance; and type, number, detail and scope of conditions attached to the grant program. Application of these characteristics to the three principal types of federal grant assistance produces a continuum, with certain categorical grants at the extreme of limited recipient discretion and "no strings" general revenue sharing at the other extreme of broad recipient discretion.

Putting these two sets of information together leads to the clear conclusion that there has been a decided devolution of authority to state and local governments via the evolution of the tripartite federal grant system in the past decade.

The hitch, of course, is the degree to which the three types of grant mechanism conform to the model set forth in the typology. Has the shift to block grants and general revenue sharing in the past ten years really constituted as much of an increase in state and local discretion in the expenditure of grant funds as is indicated by the grant characteristics identified in the typology and the rise from 0.5% to 24% in the share of grant dollars attributable to revenue sharing and

block grants? To answer this question requires a closer examination of what has actually happened along the entire grant-in-aid front. It also calls for a look at the issue of fungibility.

General Revenue Sharing

The general revenue sharing program is completely an entitlement program — federal administrators have no discretion in determining who shall get money and in what amounts. From this perspective alone, general revenue sharing represents a substantial movement — in excess of \$6 billion in FY 1976 — in the direction of increased state and local authority.

Local recipients' discretion in spending the funds was limited in the original 1972 legislation by the attachment of nine specific conditions, in addition to certain fiscal and accounting requirements for all recipients. These conditions covered functional limitations on the expenditure by local governments of GRS funds for operating and maintenance purposes, use of funds as the nonfederal share of federal grants, maintenance of the level of state aid to their localities, filing of reports on the planned and actual use of GRS funds, compliance with recipients' own laws and procedures in spending of revenue sharing money, nondiscrimination in employment, compliance with Davis-Bacon minimum wage requirements, by contractors and subcontractors, payments of not less than prevailing wages to the jurisdiction's own employees, and use of GRS funds within a reasonable period of time.

Yet despite these conditions, the ACIR concluded in its 1974 report, "state and local policymakers have enjoyed wide discretion in the use of the dollars."⁴ Three reasons were cited for this wide latitude. First, there was a lack of revenue and expenditure maintenance requirements and it was virtually impossible to distinguish revenue sharing dollars from the recipient jurisdiction's own dollars. Second, Congress clearly intended to provide wide discretion in the use of revenue sharing dollars. Third, states and localities received various assurances, from President Nixon on down, that in implementing the law, the administration would not dictate how the money should be spent.⁵

The 1976 legislation extending the GRS statute eased up on some of the conditions and stiffened others.⁶ It eliminated the functional limitations on local operating and maintenance expenditures and the prohibition on use of funds for the nonfederal share

of matching grants. Requirements for reporting the use of funds were made more specific regarding the amounts appropriated, spent and obligated but required publication of only a planned-use report and dispensed with the actual-use report. More detailed publication requirements were specified to accommodate public convenience. Separate public hearings were mandated on the use of the revenue sharing funds and on a recipient jurisdiction's entire budget. The nondiscrimination provisions were broadened, including adding prohibitions against discrimination for age, handicapped status, and religion. In addition, the legislation provided for an "independent" financial and compliance audit at least every three years for all governments receiving \$25,000 or more a year. The Secretary of the Treasury was given authority to waive this requirement if a recipient demonstrated it was making "substantial progress" to establish acceptable auditing and accounting procedures.

A further word is needed about the nondiscrimination and Davis-Bacon provisions, which are the only so-called, "across-the-board" requirements applicable to GRS.⁷ The nondiscrimination provision applies to all programs and activities of recipient governments, but its coverage is limited to the direct use of shared revenue. In effect if a recipient government "demonstrates by clear and convincing evidence" that shared revenue was used in a specific program area, the nondiscrimination provision does not apply to other programs or activities in that government, even though these programs may be indirectly affected, as in cases where shared revenue simply substitutes for funds that otherwise would have been used for these programs. The Davis-Bacon "prevailing wage" conditions apply only to construction projects for which more than 25% of the cost was paid out of revenue sharing.

Apart from the presence or absence of conditions on assistance recipients, there is another aspect of the federal grant relationship involved in the issue of devolution. This is the matter of eligibility and the "reach" of the program.

Since the GRS legislation makes all general purpose units eligible, and excludes only special purpose units, including school districts, it has brought into contact with federal grant programs many units of local government that had never had that experience previously.⁸ As the Brookings Institution stated:

Though firm evidence is not readily available, it seems likely that only a minor fraction of all the local jurisdictions that

now receive shared revenue had ever before received grant funds directly from the federal government.⁹

Thus while many cities and some counties and other jurisdictions which had been familiar with the categorical grant system from past exposure felt that the general revenue sharing program was relatively free of federal conditions, jurisdictions having their first experience with the federal government in the aid relationship found themselves now subject to federal conditions, however minimal relatively, which they had never previously experienced. The way in which some of the conditions were applied, moreover, meant that the federal government was intruding not only into their decisions and practices in regard to general revenue sharing funds but all moneys received and spent by those jurisdictions. Thus hearings must be held on the relationship of the proposed use of revenue sharing funds to the recipient jurisdiction's entire budget. The original legislation also gave the Secretary of the Treasury broad power to prescribe necessary accounting and auditing procedures to assure compliance with the law, and empowered the Comptroller General to conduct necessary reviews. The Secretary's power was considerably reduced in the 1976 extension but the Comptroller General's was untouched.

Thus the general revenue sharing program is bringing the federal presence to the local level much more extensively than had been the case with categorical grants in the past. Where it applies federal requirements to the gamut of local expenditures, moreover, it probably extends the federal presence far beyond the expectations of those who originally supported the general revenue sharing legislation as a move toward devolution and as a lightening of the federal hand.

BROOKINGS STUDY

The Brookings monitoring study addressed the issue of devolution indirectly. The study looked at the degree to which the revenue sharing program appeared to increase public interest and participation in decisionmaking. Where a positive result was found it was taken to reflect a strengthening of the recipient governments and hence a flow of influence to them relative to the grantor federal government.

Examination of the decisionmaking process was centered on the budget process. Major concern was over the degree to which the budget process for

handling general revenue sharing funds was set up separately from the established procedure for handling other state and local funds.

Brookings made preliminary findings on this issue in its first monitoring report.¹⁰ It found that one-third of the jurisdictions in its survey sample showed some degree of separate handling of the revenue sharing funds, which seemed to involve increased public and interest group participation. Another nine jurisdictions indicated no separate treatment of the GRS funds but did display a changed behavior in local groups' participation in the budget process. The authors emphasized the importance of local conditions as important factors explaining differences among the budget processes of the several jurisdictions. However, they did feel that there was some evidence of change in the degree of local interest and participation in the budget process affected by GRS.

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In its second monitoring report,¹¹ Brookings found that for about one-fifth of the sampled jurisdictions, revenue sharing was associated with either a shift in political influence among the generalists (especially local legislative bodies) or with a relatively competitive decisionmaking process in allocating these funds. Elsewhere a less pronounced impact was found but the study felt that the overall effect was not politically neutral. Their conclusion was that there was no dramatic change in the politics of state and local governments as a consequence of receiving GRS moneys, but there was some shifting in broadening the political influence and strengthening of the generalist officials. The second monitoring review concluded that the long-run effect was hard to predict at that point.

Block Grants

The ACIR's examination of the four block grant programs concluded that, while they had a mixed impact on the sharing of authority between the federal government and state and local governments, on the whole, they served to broaden the scope of the activities aided and to decentralize decisionmaking.¹² To understand the range of differences implied by the word "mixed," it is necessary to look at the individual block grants.

PARTNERSHIP FOR HEALTH

Under the Partnership for Health (PHA) grant, expansion of the functional scope covered by the

grant was partly illusory. The functions performed under the grant were largely those that had been performed previously by state health departments under the covered-in categorical grant programs. In addition, following establishment of the program, Congress specified particular health problems to be addressed by the block grant, and enacted numerous new categorical programs that could have been covered under PHA.

The failure to expand the program's functional coverage was due in large part to the fact that, contrary to original expectations, Congress did not gradually increase the amount of appropriations for this block grant. The relative tightfistedness of federal funding also served to circumscribe the degree of discretion exercised by state health departments in identifying needs and developing public health programs to deal with them. Hence while discretion was increased under PHA, as a practical matter it was used as a filler of small gaps not covered by larger federally aided and state-supported specialized servicing efforts.

The intrusiveness of the federal government in imposing performance and procedural conditions declined over the life of the PHA. The early years of uncertainty over balancing national and state concerns witnessed a number of controversies over state program content, reflecting federal officials' habituation to the categorical mode of operations and their concern about accountability to Congress. As time passed, HEW assumed a more hands-off approach, responding to the low-level funding of the program, Congress's growing tendency to enact separate new health categoricals, and the administration's emphasis on administrative simplification and recipient discretion.

SAFE STREETS

In some respects, the *Safe Streets Act* was more effective than the health block grant in decentralizing authority. In the first place, the program covered a broad scope of law enforcement activities. Second, substantial discretion was given to the states in identifying problems and designing programs to deal with them. The states were called on to prepare statewide plans, review and approve applications from state agencies, regional planning units, and local governments, coordinate implementation efforts, and monitor and evaluate recipient performance. State planning agencies (SPAs) were created to do these things.

Yet limits were placed on states' discretion. A

certain amount of funds had to be set aside for corrections expenditures and the level of expenditures had to be maintained for juvenile justice purposes. Judicial planning committees were required to prepare plans and set priorities for court improvement. In addition, variable matching was mandated for different functions, limits were placed on the amount of funding to be allocated to personal service expenses, and an annual comprehensive plan was required for federal review and approval. These restrictions apply specifically to the state government, which was the key unit in the administration of the program. In passing funds to local jurisdictions, moreover, four-fifths of the state governments narrowed the scope of localities' use of the pass-through funds.

Just how serious these limits on recipient discretion were is difficult to measure. Some local officials, receiving Safe Streets money through the double filter of the federal and state governments, saw little difference between the block grant and categorical grants in the limits on local discretion. On the other hand, SPA directors felt that they had a "great" amount of discretion, despite the various federally imposed limitations.

Performance and procedural requirements imposed by LEAA administrators constituted additional limitations on recipients' freedom of action. Such conditions applied to the timing of application approval, limited the areas to be covered by Part C action funds, and specified requirements for development of the annual criminal justice plan. Administrative guidelines, especially in the financial reporting area, were criticized as restrictive, repetitive and overly detailed. Finally, federal administrators' categorization of Part C grants further limited recipient discretion.

In short, the crime control block grant does not necessarily minimize federal strings.

CETA

General application of the term "hybrid" to the CETA block grant reflects in part a mixed record in meeting the block grant criterion of providing broad discretion to state and local jurisdictions. In the first place, the block grant appropriation represented only one-third of the total appropriations for the CETA act, and only one-fifth of the total of federal financial assistance for employment and training. In addition, it was surrounded by a cluster of 47 categorical grants in the manpower area administered by ten separate departments and agencies.

The CETA program fell somewhere between GRS and categorical grants with respect to recipient discretion in identifying and prioritizing needs and allocating resources. Prime sponsors were given latitude in determining the mix and beneficiaries for a variety of purposes, so long as they directed adequate attention to specified target groups. In the first year, many sponsors did not fully use their discretion, but rather relied on previously existing categorical programs in deciding on target groups to be served as service providers. Yet some changes were made, particularly as national economic and local unemployment conditions became more acute. These changes then sometimes induced federal administrators to try to restrain prime sponsors' use of discretion; as, for example, when the sponsors turned away from contracting with the state employment service for services traditionally provided by those agencies.

With respect to establishing program conditions, CETA presents a mixed picture. In its first year, the Employment and Training Administration (ETA) was far from intrusive, giving the impression to some observers that it was leaning over backward in favor of local autonomy. Responding to criticism on this score, there was indication that in the second year, ETA was moving more toward a categorical mode of federal oversight and technical assistance.

COMMUNITY DEVELOPMENT

Like CETA, the Community Development Block Grant does not cover a substantial portion of federal outlays for its broad legislative purpose. Recipient jurisdictions may pursue any of 13 eligible activities covered by the block grant. Yet two major HUD programs were not folded in — the Section 312 Rehabilitation Loan program and the Section 701 Comprehensive Planning and Management Assistance program. Also, although a linkage between housing and community development was established by requiring applicants to submit a housing assistance plan 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. Finally, the block grant did not cover several other federal community development related programs that were not under HUD or authorized by the Congressional committees that produced the grant merger.

Recipients are, in general, given a high degree of flexibility in decisionmaking, but there are certain

limitations on the types of activities eligible for aid. Thus public service projects are limited to those that meet a five-part test in the act. Public facilities may be funded only when they serve neighborhoods, except that, by HUD regulation, sewage treatment facilities are eligible in areas where other community development related activities are not underway.

In its first year of operations, HUD, like ETA, took a general hands-off attitude in monitoring performance and procedural requirements such as those that apply to application and planning processes. It received some criticism for this posture and responded with regulations and guidelines delineating minimum federal requirements in certain areas. It was still too early to discern the effect of these actions on the block grant.

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To sum up the extent of devolution of decision-making under the four block grants, as measured by the degree of latitude provided for determining the scope of activities, by the discretion allowed in setting goals and program priorities, and by the measure of freedom from performance and procedural conditions imposed by the federal government — while all devolved to some extent, all fell short (in varying degrees) of what might be considered the norm for this feature of the prototype block grant. All these programs are hybrids to a varying degree, surrounded by a number of related categorical aids or subdivided by new categories of assistance or earmarked funds within the framework of the block grant itself. Further they have been subjected to administrative categorization as the programs have matured. Yet the shortfall of devolution through the block grant, varying as it does among the four programs, seems like an essential characteristic of a grant form that is designed to strike a balance between the achievement of national objectives and the meeting of recipient needs.

Middle Range Reform Efforts

In the discussion of the Partnership for Health block grant, the administration's emphasis on administrative simplification was cited as one of the reasons that HEW assumed more of a hands-off attitude toward monitoring implementation of that program. Administrative simplification was one of the key objectives of the entire gamut of middle range reform efforts of the past decade, aimed at improving grants management short of grant consolidation. The way in

which that effort relates to the devolution of decision-making deserves further elaboration.

Among the middle range reform measures, two types of actions tended to enhance the decisionmaking discretion of grant recipients. The first are those measures which tend to impose restraints on the actions of federal grant administrators in their relations with grantees. Such restraints, in a sense, draw lines beyond which the grantor agencies may not venture in imposing conditions, either procedural or performance, upon their grantee associates. Included in this class are the various management circulars and other administrative mechanisms directed toward simplifying and standardizing grant administration procedures. The effectiveness of these measures as constraints, of course, depends upon the care with which they are observed by federal agencies upon whom they are imposed, and as was pointed out in another volume in this series, observation of these management requirements has not been uniformly adequate.¹³

The other type of middle range reform measure tending to devolve power to state and local governments are those which "free up" the recipients in exercising their authority over the spending of grant funds. Among these were the integrated grants administration demonstration and its successor, the *Joint Funding Act*. Their central objective was, and is, to simplify the process by which state and local grantees can identify, apply for, and administer funds from several federal assistance programs to carry out a single project. Other administrative reform efforts with freeing up spillovers were the Chief Executives Review and Comment (CERC) and Annual Arrangements initiatives, which laid the groundwork for the Community Development Block Grant. The former gave chief executives in selected cities the right to review and comment on all grant applications affecting their jurisdictions. The latter was a negotiated agreement between HUD and a local community to bring about better coordination of the department's separate categorical grant programs. It was geared to simplify federal procedures and expand the authority of local elected officials.

Like the measures that impose constraints upon federal administrators, this latter group has had only limited success. However the jury is still out, for the *Joint Funding Simplification Act* is still in process of development, and the Community Development Block Grant is in the early stages of "proving out" the concepts of CERC and Annual Arrangements.

With some justification one might also add to the

freeing up group the entire series of efforts to improve intergovernmental communications and consultation. These included the Regional Management Information System (RMIS), the Grant Tracking Information Subsystem (REGIS), Treasury Circular 1082 requiring federal grantor agencies to inform states of grant awards made within their jurisdictions, the *Catalog of Federal Domestic Assistance* (an indispensable source of information despite continuing complaints about inadequacies and imperfections), the Federal Outlays report providing information on past expenditures, and the OMB Circular A-85 procedure for consultation with elected chief executives of state and local general purpose governments in advance of the issuance of new regulations. To the extent that this range of procedural reforms made it easier for state and local officials to administer federal grant programs, their time and energies were released for strengthening their internal policy and resource management.

Countercyclical Aid

Nothing in the recent past has affected the federal grant system as much in dollar terms as the countercyclical programs of 1976 and 1977. Initiated with Titles I and II of the *Public Works Employment Act of 1976*, this economic stimulus package allocated almost \$13.9 billion to states and localities from November 1976 through November 1977. The \$13.9 billion amounted to almost 7% of state and local governments' own-source revenue of \$200.6 billion in 1975-76.

For FY 1978, the administration requested countercyclical assistance of almost \$10 billion, or 12.1% of estimated federal outlays to state and local governments. This total was distributed as indicated in the next column.

With the stimulation of economic recovery through the creation of additional jobs as the overall objective, these funds were intended to be quickly injected into the economy. Three paths were chosen: public works projects (the local public works of the *Public Works Employment Act*), maintenance of basic state and local public services (antirecession provisions), and public service employment (CETA Titles II and VI). Fund distribution in each case is geared to rates of unemployment in the areas aided. Recipients are given the broadest spending discretion though the antirecession program, which was essentially an extension of GRS. Payments are to be used for the "maintenance of basic services." The local

Countercyclical Program	1978 Revised Budget (in millions)
<i>Public Works</i>	
<i>Employment Act of 1976 amended</i>	
Title I—Local Public Works	\$2,789
Title II—Antirecession Fiscal Assistance	1,550
<i>CETA Act of 1973 amended</i>	
Title II—Employment and Training Assistance	672
Title VI—Temporary Employment Assistance	4,872

public works program provides for 100% federal project grants, with few limits on the Secretary of Commerce's discretion apart from consideration of certain factors reflecting unemployment levels. Recipients have wide latitude in choice of projects on which to use the money — "construction, renovation, repair, or other improvement of local public works projects." The CETA Titles II and VI programs offer prime sponsor recipients less discretion than they have under the CETA Title I block grant program inasmuch as the grants are limited to use for providing transitional employment and related training in jobs involving needed public services. Yet the choice of possibilities within the public service jobs category is itself broad, so that these programs can be regarded as extending considerable discretion to recipient jurisdictions. Overall, therefore, the package of four countercyclical programs represents a substantial devolution of spending authority to state and particularly local governments.

Intrusiveness: Generally Applicable National Policy Requirements

The earlier section on general revenue sharing indicated that recipients of GRS funds are subject to civil rights and Davis-Bacon requirements. These are only two of some 31 requirements, enacted by the Congress to carry out national policy objectives, which apply more or less across the board to all grant programs. In addition to nondiscrimination and labor

and procurement standards, they impose conditions under environmental protection, planning and project coordination, relocation and real property acquisition, public employee standards, and access to government information and decision processes. These requirements came into being largely in the 1960s and 1970s and the number applicable to grant programs continues to grow year by year. Current indications are that grant programs may become subject to additional guidelines in conserving energy, curbing inflation, and reducing unemployment.¹⁴

The consequence of this Congressional approach to achievement of national policy objectives is an encroachment on state and local discretion of a much wider and deeper magnitude than is indicated by looking only at the conditions that apply to individual grants. Any conclusion that the entire grant system has moved in the direction of providing greater discretion to state and local recipients as a consequence of the enactment during the past ten years of block grants and general revenue sharing, therefore, must be carefully weighed against the counter effect of the 31-odd, so-called, across-the-board, national policy objectives as conditions of receipt of federal financial assistance and the fact that general revenue sharing . . .

establishes a direct and continuing fiscal relationship between the national government and all 38,000 units of local government, 90% of whom (the units under 10,000 people) have had little or nothing to do with the federal government in the past.¹⁵

The Issue of Fungibility

A frequently cited explanation for Congress's heavy reliance on categorical grants is that they are effective instruments for Congress to influence state and local recipients to do certain things, involving expenditure of money. In other words, a leading objective of the grants is to stimulate state and local recipients to spend more money on specific activities identified in the categorical grant.

An analysis of legislative intent conducted by ACIR staff tends to confirm this reading of Congressional motivations. For its study of categorical grants, the Commission staff perused the law and legislative history behind formula-based or project grants. Exercising considerable subjective judgment in examining the record, the staff estimated that about 50% of the

146 formula-based grants and about 63% of the 296 project grants were in whole or part intended to be stimulative at the time they were enacted by Congress. In other words, 259 or 59% of the total of 442 categorical grants in 1975 had at least a partially stimulative purpose when passed by Congress.¹⁶

LOCAL OFFICIALS' VIEWS

Local officials surveyed by ACIR showed that there was little doubt in their minds about the effect of categorical grants. Two-thirds of the city officials and four-fifths of the county respondents believed that they would allocate federal grant funds differently if they had a chance. More than three-fourths of both groups thought that the reallocation would be moderate or substantial. Clearly, as seen by these officials, federal categorical grants tend to skew local decision-making, both in the use of the federal funds and in the local match.¹⁷ The skewing effect represents the stimulus of the federal categorical grants.

In response to parallel questions regarding block grants, local officials seemed to feel that categoricals tend to skew local priorities more than the two block grants examined (Safe Streets and Partnership for Health).¹⁸ This supports the theory that block grants allow recipients greater discretion in the use of funds.

Considering then, Congressional intent, the perceptions of local officials, and the nature of block grants, one might expect that any shift in the composition of the total grant structure away from categorical grants and toward block grants and general revenue sharing would alter the fiscal impact of that system. There would be less federal influence in determining recipient priorities — in other words, more devolution of decisionmaking. Is this what has actually happened? The issue gets down to a question of whether the system has become more or less stimulative or substitutional.

ACIR-SYRACUSE ANALYSIS

An ACIR-Syracuse University study examined the issue of stimulation vs. substitution in an analysis of the effect of federal grants on state and local expenditures, employment levels, and wage rates.¹⁹ This study looked at state-local expenditures in the aggregate, rather than individual grant programs or functional sections of the total grant package. It concluded that all federal grants tend to call for additional state-local own-source expenditures, but that this result is

greater for some types of grants than for others. Both project and formula grants were found to generally stimulate state-local expenditures. The overall degree of stimulation was somewhat higher for project grants than for formula grants, suggesting that project grants tend to be more in line with state-local expenditure preferences and reflect a greater degree of voluntarism than formula grants.

The study divided federal grants into high, low, and no state-local matching, with a high state-local match defined as 50% or more. As might be expected, the greatest degree of expenditure stimulus was associated with high matching grants.

In sum, the ACIR-Syracuse study found that the federal aid system in aggregate stimulated new expenditures among state and local recipients; that the stimulation was greater through project grants than formula grants; and that it was highest in the high-match grants. The fact that the study was focused on grant aggregates left unanswered the issue of whether specific grants or grants in specific functional areas have a stimulative or substitutive effect.

THE FUNGIBILITY OF SPECIFIC GRANTS

In its analysis of cost sharing arrangements in another volume of this series, the ACIR drew conclusions from a study of the literature on grants stimulation or substitution and its own analysis of the issue.²⁰ The analysis concluded that a number of factors may influence whether a particular grant program is stimulative or substitutive. The principal factor is the recipient's taste for the aided activity in preference to other competing uses of funds. Other factors are the size and servicing range of the recipient government, the number and variety of grant programs in which it participates, the timing and size of the grant relative to the ongoing recipient spending for the aided activity, the type of grant, and the grant's fiscal requirements. Taste and a recipient's fiscal and servicing condition provide the motivation for using federal funds to substitute for nonfederal funds. What makes fungibility practical is the size of the grant, the number of grant programs, and presence or absence of local political pressure.

The Brookings Institution study of general revenue sharing for the one-year period ending June 30, 1974 — a period during which expenditures for operating and maintenance purposes by local governments were restricted to certain "priority expenditure categories" — endeavored to identify the extent to which recipients used the revenue sharing funds as

their actual-use reports indicated. For that period, the study found that local jurisdictions' officially reported expenditures of shared revenue for law enforcement were four times greater than new spending for such purposes actually identified by the Brookings field research. The report concluded:

The differences revealed by this special study of the programmatic impact of revenue sharing clearly indicate that revenue sharing funds have not gone for new public safety and law enforcement programs in anything like the amounts suggested by the ORS (Office of Revenue Sharing) actual-use data. This is not to say that the Treasury data are wrong, only that public safety and law enforcement are areas in which official designations for general revenue sharing uses reflect especially high substitution effects as opposed to the new spending effects.²¹

The Brookings authors argue that in attempting to differentiate among different federal grants as to their effect on recipient governments' expenditure decisions, the fungible or substitutive nature of these funds must be carefully considered. They assert that all forms of federal aid to state and localities are fungible, no matter how ingenious the conditions placed on the use of grant moneys. Thus, they contend, fungibility is an issue not only in noncategorical grants, such as revenue sharing, but also in categorical grants, where the allocational impact is "ultimately determined by the preferences that recipient governments have for the particular public goods and services at which such grants are aimed; for these types of grants, fungibility is also a very real issue."²²

The Brookings study derived several general points about substitution vs. new spending effects that arise from many studies made of the issue of fungibility:

1. The older the grant, the greater will be its substitution or displacement effects.
2. Project grants can be expected to have greater new spending effects than formula grants.
3. The higher the matching ratio, the greater will be the ratio of substitution to new spending effects.
4. Grants made to special purpose jurisdictions (such as school districts and housing and

urban renewal districts) will have greater new spending effects than grants made to general purpose units of state and local governments.

5. Overall, the broader the permissible uses and the fewer restrictions on the federal grants, the greater will be the substitution effects.²³

Part of the reason for Congress's decision to authorize general revenue sharing and block grants is the desire to permit greater state and local discretion in the expenditure of assistance funds. This contrasts with their reason for choosing the categorical instrument, namely, their desire to specify the use and the conditions under which those funds may be spent. Yet research studies to date, admittedly inconclusive, suggest that, while categorical grants as a type are less fungible than block grants and GRS, in certain circumstances they are likely to be highly fungible.

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These include situations where the recipient receives a multitude of intergovernmental fiscal transfers, has a number of independent revenue sources, and provides an expanding or broad range of public services. If this analysis is correct, to the extent that such circumstances become more common among grant recipients, the recipients are exercising a greater degree of discretion in the use of categorical grant funds. To that extent, moreover, the shift from categorical grants to block grants and general revenue sharing becomes less significant as a factor in increasing recipient discretion in the spending of federal funds. Of more significance is the growing size of the aid flows, the increasing number of programs, and the rate of recipient participation. All this is not to say that GRS and block grants have not enhanced recipient fiscal discretion. They have, but so has the continued and expanded reliance on categoricals, especially in combination with the newer forms of funds transfer.

The question raised about fungibility also casts doubt about the long-standing allegations by state and local officials, fortified by the survey findings cited earlier, that federal grants have a heavy skewing effect, at least at this point, on local budget priorities.

Summary

By definition almost, the shift to the tripartite grant system has seemed to effect a notable devolution of decisionmaking to the state and local levels of government. This change has been abetted by two

trends in the middle range efforts to reform grants management — the imposition of limits on federal grant administrators' freedom to impose conditions on grantees, and the freeing up of local recipients in their administration of grants. In the past two years, moreover, the infusion of some \$14 billion in counter-cyclical aid has tended to tilt the grant system further in the direction of increased recipient discretion.

While in theory GRS and block grants are biased toward the devolution of authority to state and local recipients, in practice their influence has not been entirely this way. GRS imposes some conditions upon recipients, notably in regard to budgeting, reporting and auditing. Most significantly, for the first time it brings the federal aid presence to a multitude of smaller jurisdictions that previously were not exposed to that presence.

The four block grants examined are hybrids in varying degree, in the sense that they depart from the model block grant. They are surrounded by categoricals, constitute only a part of the total federal funds applied to their functional areas, and are subject to varying numbers and complexity of procedural and performance requirements.

All grants are subject in some degree to special requirements established by Congress for the attainment of certain national objectives. This includes GRS, which is subject to nondiscrimination and Davis-Bacon wage rate conditions. The nondiscrimination requirements, in fact, are more demanding under GRS than under other programs. All the across-the-board requirements represent a substantive and growing means of increasing federal intrusiveness into the conduct of state and local government, heightened in the case of GRS by its near universal coverage of all general purpose units.

The issue of the degree to which the switch from categorical grants to GRS and block grants has liberated decisionmaking at the recipient level depends to some extent on the degree to which categorical grants are fungible. Evidence, while not conclusive, is sufficient to suggest that fungibility, although most pronounced in GRS and block grants, exists among all types of grants, including categoricals, and is dependent upon factors other than the type of grant — particularly the number of separate grants and the total cash flow. Hence the switch from a monolithic categorical grant system to one in which categoricals make up only 75% of the grant dollars means that there has been some increase in the decisionmaking flexibility of grant recipients. While much of it is due to the introduction of block grants

and GRS, much is also attributable to the expansion in the number and dollar magnitude of categorical grants.

CAPACITY BUILDING

Closely related to the decentralization of power through the grant system is the effect of grants-in-aid on the capacity and performance of recipient jurisdictions. Their ability to perform is crucial to their continued viability as partners in the federal system as well as to their effectiveness in executing the national objectives of the federal government. Hence it is a matter of intergovernmental concern whether the changes in the federal grant system of the past decade have had any serious effect on the management capacity and performance of recipients, and if so, what that effect is.

Management has been said to consist of three different elements: policy management, resource management, and program management.²⁴ Policy management includes the identification of needs, analysis of options, selection of programs, and allocation of resources on a jurisdictionwide basis. Resource management consists of the establishment of basic administrative support systems, such as budgeting, financial management, procurement and supply, and personnel administration. Program management includes the implementation of policy or daily operation of agencies carrying out policy along functional lines.

Policy and resource management are basically the responsibilities of elected officials and generalist administrators. Program management falls to professional and other functional specialists.

It is generally acknowledged that states and their localities are weaker in policy and resource management than in program management.²⁵ Some of the responsibility for this situation is ascribed to the federal categorical grant system, which has long been criticized for strengthening the functional specialists at the expense of generalists.²⁶ In fact, a strong argument advanced by the advocates of the "New Federalism" and the supporters of general revenue sharing and block grants was that these forms of assistance would help shift the balance more in the direction of the generalists.²⁷

To what extent has the recent alteration in the makeup of the federal grant system affected recipient capacity? More specifically what features of this new system have strengthened generalists as against func-

tional specialists, and helped them in their essential responsibilities of integrating their jurisdictions' efforts to meet community needs effectively and efficiently? Preeminent among the generalists, of course, are the top elected officials.

Again, as in the discussion of the issue of decentralization, the answer seems pre-ordained by the nature of the new elements in the federal grant structure — GRS and block grants — and their preference, as just stated, for the interests of elected officials and other generalist administrators. The purpose of the analysis, however, is to attempt to appraise the extent to which practice so far has conformed to intent and theory and to note whether there have been any offsetting or supporting influences from the categorical sector.

General Revenue Sharing

One respected scholar of federalism observed in 1975 that

General revenue sharing can be viewed as a dollar representation of an alliance among generalists, especially executives, at all levels to counteract the accumulated influence of the program professions General revenue sharing was, in large measure, "caused" by the executive-generalists coalition Both logic and fragmentary evidence suggest that it (revenue sharing in its initial five-year form) has enhanced the role of executives in determining priorities and influencing policy. There is some doubt as to whether the same can be said for legislatures such as state representatives, county commissioners, and city councilmen.²⁸

The field research of the Brookings study supported these conclusions with respect to executives, if not local legislators. On the basis of the first two periods of its monitoring of GRS — from December 1972 through June 1974 — the study found that about one-fifth of the local governments in its sample gave evidence that revenue sharing had been associated with either a shift in political influence among generalist officials (particularly an increase in the role of local legislatures) or with a relatively competitive decisionmaking process in allocating these funds. Brookings concluded that while its research did not bear out the expectations of some that GRS would

bring a dramatic change in the politics of state and local government,

the evidence from our field associates does not support those who expected no political effect, that state and local decisions about revenue sharing would merely be business as usual. There has been some shifting and broadening of political influence, as well as a strengthening in the traditional roles of generalist officials.²⁹

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The Brookings study found few significant changes in the budgetary processes of recipient jurisdictions as a consequence of such legal requirements of the GRS law as the submission and publication of annual planned and actual-use reports, and the establishment of a trust fund for the shared revenue. For the first round of the field research, effects were reported for only four of the 65 jurisdictions. The two in which the effects were significant were small jurisdictions in which the revenue sharing requirements stimulated development of more systematic financial systems and procedures. In the second period of field research, covering July 1973, to June 1974, six jurisdictions were identified as having made changes in their financial systems and procedures as a result of revenue sharing requirements.³⁰

A number of the GRS research projects sponsored by the National Science Foundation looked into various aspects of the program's impact on the capacity of recipient jurisdictions. One survey of some 2,000 state and local officials with responsibility for administering the GRS program reported that while a substantial minority of respondents felt that priority setting had not been made less difficult by GRS, a clear majority of both mayors and fiscal officers reported that planning for future expenditures had been simplified. "Instead of causing planning difficulties, respondents generally perceive GRS as a helpful contribution."³¹

Another of the National Science Foundation's Research Applied to National Needs (NSF/RANN) project studied planning and participation in ten large cities. It found that majorities of the general public, community leaders, and municipal officials felt that GRS had increased cities' capacity to deal with local problems more effectively. This seems to be principally linked to the availability of more money, as indicated by the fact that the most enthusiastic responses came from heads of departments that received funds.³²

A third NSF/RANN project examined the effects

of GRS on 97 southern California cities. It reported that 94% of the city officials responding stated that no changes in the formal budget process had been brought about by the advent of the GRS program.³³

Another NSF/RANN sponsored study surveyed state administrators regarding the effect of general revenue sharing in the 50 states, where the impact was clearly more modest than at the local level. One section was centered on the state budgetary process, paralleling generally the territory covered by the Brookings study. With a caution about the limited character of the survey, the surveyors reported that state administrators believed that the Governor was clearly the dominant actor in decisions on GRS, with over 60% of those responding ranking him as the most influential.³⁴

One of the NSF/RANN reports indicated that GRS requirements might be dysfunctional in regard to citizen participation and policy planning, because they bar funds from being used for general administrative expenses, such as policy planning and citizen participation, and restrict cities from spending funds in innovative areas where they might be counted as matching funds for federal grants.³⁵ These restrictions were removed by the 1976 amendments. However, the act has been faulted for not giving a positive boost to the planning function, considered an essential element in priority setting and interprogram and intergovernmental coordination. Thus one observer in early 1975 criticized the absence of a requirement in the legislation that expenditures be based on, or consistent with, local or areawide comprehensive plans.³⁶ This criticism, however, must be considered in light of the fact that not all of the local jurisdictions that are eligible for GRS are really general governments, i.e., units performing a range of services for their constituents. Limited servicing units after all have no need for a comprehensive planning function.

Block Grants

As with devolution, the impact of the four block grant programs on the capacity and performance of recipient jurisdictions has been mixed. On the whole, these programs:

- 1) served to improve coordination and communication among functionally related agencies and the meshing of federal with state and local activities, and
- 2) strengthened state and local capacity through program requirements as to plan-

ning, personnel, training, and (in two cases) designation of the responsible state agency.

The ACIR studies of the four block grants identified as one of the basic characteristics of this device that "eligibility provisions are statutorily specified and favor general purpose governmental units as recipients and elected officials and administrative generalists as decisionmakers." Yet these generalizations again conceal a range of performance among the individual block grants.

PARTNERSHIP FOR HEALTH

The limited scope of the Partnership for Health grant and the fact that the folded-in categorical programs already were usually administered by a single state agency meant that it offered little in the way of improved coordination. Neither was the program a very powerful instrument for upgrading state administration through federal prescription of administrative requirements. By 1970 HEW no longer required the submission of detailed state and comprehensive health service plans. This reflected the view that, because of the stabilized, low level of funding, states were able only to continue previously funded health programs at the earlier level, so there was no expectation that they would change their plans and operations much from year to year. It was also a response to the increased emphasis on administrative simplification launched in the late 1960s.

The program did, however, meet the test of preferring elected officials and administrative generalists. Governors were clearly designated in the act as the prime eligible recipients. In addition, various other statutory provisions that might have undercut the Governors' dominant role were written or applied in such a way as to bolster their position.³¹

SAFE STREETS

The Safe Streets block grant had a somewhat greater impact on recipient capability than the health grant, although the effect was also uneven. In the first place, the program covered a broad scope of law enforcement functions, providing a setting favorable to the integration of previously dispersed activities. This was complemented by the substantial discretion given to the states to establish an implementing organization and procedures. On the other hand,

limits were placed on state flexibility in defining program scope and conducting implementation. These included mandated minimum set-asides or expenditures for corrections and juvenile justice and delinquency and ceilings on the amount of funding to be allocated to personal service expenses. Further LEAA administrators attached limitations on state discretion through restrictive and detailed guidelines.

The *Safe Streets Act* calls for creation of supervisory boards at the state and, where used, regional levels consisting of representatives of various governmental, functional and public interests. In 1973 amendments, Congress sought to affirm its position in favor of generalists by requiring that a majority of the members of the regional planning boards be local elected officials. Due to state-to-state variations in the definitions of "a local elected official," however, officials commonly considered as functional specialists are sometimes named to these boards. Thus the boards do not always represent the generalists' point of view.

Nominally the act placed a good deal of responsibility on the state Governor. He was designated to establish the state planning agency (SPA) and name its members, and he could designate the regional planning units. In practice, however, Governors have not assumed a lead role under the Safe Streets program, due mainly to the pressures of other responsibilities. One effect was to restrict the scope of the authority of the state planning agency to activities authorized and funded under the *Safe Streets Act*, contrary to the expectation of some that the SPA should extend its influence over the entire criminal justice system within a state, whether or not it was covered under *Safe Streets Act* funding.

Another consequence has been limited state legislative involvement, resulting in part from the relative low funding level of the program. Where legislatures have tried to assert a more aggressive role, they often have been resisted by the Governor and by LEAA. Consequently the 1976 amendments to the act provided for an "advisory" review of SPA comprehensive and criminal justice improvement plans by the legislature prior to their submission to LEAA.

ACIR concluded that generalist participation is not easy to achieve, even though the LEAA program is a block grant program. Generalists' interest and involvement appears to depend largely on the amount of federal funds available, whether the officials are part or full time, and the degree of statutory clarity as to participants, their roles, and their authority.³⁸

CETA

The limitations on the functional scope of the CETA block grant constituted a formidable impediment on recipients' capacity to effectively coordinate manpower services. In FY 1976, the block grant appropriation represented only three-tenths of total appropriations for CETA, and only one-sixth of the total of federal financial assistance for employment and training. In addition a cluster of 59 categorical grants in the manpower area surrounded it.

CETA had other obstacles to its success as a coordinating device. Local prime sponsors found it difficult to coordinate with parallel programs funded by HEW, and in some instances were reluctant to work with state employment agencies. The state manpower services councils were designed to provide statewide coordination of various manpower programs but did little in the first year.

46 CETA gives preference to elected officials as opposed to functional specialists. Yet in many places the CETA administrator and staff dominate decision-making. Hence the block grant does provide generalists with an opportunity to exert considerable influence, but the major extent and effect of their involvement are conditioned by a number of factors, such as local unemployment rates, CETA funding levels, and whether the elected official occupies a part or a full-time position.

COMMUNITY DEVELOPMENT

The Community Development block grant does, of course, "block" the funding for seven previously separate federal programs, but, like CETA, it covers only a portion of the federal outlays for the broad purpose specified in the legislation. This restricts the opportunity for interprogram coordination. Also, as noted earlier, while in general the CD grant is characterized by broad recipient discretion, even within the scope of the folded-in programs it restricts that discretion by certain limitations on the types of activities eligible for aid and by performance conditions.

A Brookings Institution study of the first year of implementation of the CD block grant found that the outstanding political effect was its concentration of responsibility for community development and housing activities on local chief executives.³⁹ These include county administrators, mayors in mayor-council or commission cities, and city managers in council-manager cities. With a few exceptions, the local chief

executive was a dominant actor in the first-year application process. However the chief executives took widely different approaches to their involvement in the application process. Brookings found further that, at the support staff level, planners in planning departments were especially prominent in CDBG activities. In many cases they had the duty of preparing the application and preparing the housing assistance plan. This constituted a substantial broadening of the responsibilities usually assigned to planners.

The Brookings study looked at the effect of the CDBG on specialist officials and special purpose agencies. The predecessor urban renewal and model cities programs had required that special bodies be created to receive and administer these grants. In the first year of the block grant program, these specialist agencies did not suddenly close down; some, in fact, actually expanded their influence. Yet the trend was for their role to decline, especially in the case of model cities units.

Brookings concluded that the extent of program specialists' participation in the CDBG program depended essentially on local circumstances. Important factors were the way in which special purpose bodies were regarded by the public and generalist officials, and the degree to which the general government had the necessary expertise to develop the application and implement the community development program. Sometimes the generalists without experience and skill in preparing applications were forced to rely on program specialists or, where the general government did assume policymaking responsibility for the new program, it may have turned to a special purpose agency to administer it. In those cases where specialist staffs were merged into the general government, they tended to have more influence under CDBG than specialist agencies that retained their independence. Brookings offered this as a tentative finding.

Brookings concluded generally that the CDBG program had prompted administrative reorganization which in a number of cases had been conducive to more comprehensive planning and policy development at the local level. This, they stress, was a preliminary conclusion based on the first year's implementation.

The study also found that the role of local legislatures in CDBG in the first year was sometimes prominent but far from dominant. Little more than one-third of the legislatures in its sample were found to be actively involved in the block grant process. The active involvement was more likely in the case of governments with prior experience with the predeces-

sor categorical grants and for central cities. Involvement tended to center around formulation of program proposals but less in designing procedures for preparing block grant applications.

The role of local legislative bodies in the Community Development Block Grant changed dramatically from their role in the predecessor urban renewal and model cities programs. Under the latter, local legislatures had no history of important participation in any phase of program planning and execution. They only reviewed and approved or disapproved some plans submitted by the city to HUD, and invariably they approved them. Under the CDBG program, these bodies have a greater opportunity to shape these applications and appear in many cases to be taking full advantage of the opportunity.

Middle Range Reform Efforts

Only two categorical assistance programs can be considered to provide direct federal financial help in the strengthening of central management at the recipient level. These are the Comprehensive Planning Assistance (701) program and the *Intergovernmental Personnel Act*.⁴⁰ The former, established in 1954, was originally concerned almost exclusively with land use planning but was later expanded to include comprehensive management assistance. In the early 1970s, funding cutbacks of the program forced elimination of many management aspects that had been encouraged and left most of the money for physical planning purposes. The *Intergovernmental Personnel Act of 1970* is the single federal program specifically aimed at strengthening policy and resource management. The grant funds have been used in part to finance broad management capacity development projects. Increased authorization for FY 1978 is expected to enable the program to expand its activities.

A number of middle range reform measures of a procedural nature have helped to strengthen the general capability of state and local grant recipients in a more indirect fashion. Some were cited earlier as helping to decentralize decisionmaking.

Parts I and II of the OMB Circular A-95 are designed to strengthen the planning and decisionmaking processes of state and local grant recipients and give them a chance to influence federal program decisions affecting their jurisdictions. Part I, applicable to grant programs, has generally been acknowledged to be useful in achieving this aim, although improvement is needed. Part II, applicable to direct federal development projects, has been less successful.

Part III gives Governors a chance to review and comment on state plans required under federal programs with respect to their consistency with state plans and policies. Again the effect has been somewhat disappointing, but it does offer encouragement for an enhanced state planning capacity. Part IV of the circular provides for coordinating federal planning and development districts with substate districts to help bring some order to the tangled undergrowth of federally spawned districts.

CERC and Annual Arrangements, the two demonstration programs of the early 1960s setting the scene for the CDBG, had capacity building effects. They were after all intended to serve as vehicles for coordinating federal programs coming into local jurisdictions, and they focused the coordinating power on the chief executive. Evaluations of the effect of these two approaches, however, were mixed.

Another federal effort with an indirect effect on the local capacity to coordinate was the integrated grants administration program. Its basic aim was to simplify the job of recipients obtaining federal funds but a secondary aim was to enhance a recipient's capacity to integrate federal and other programs, including their own funds, directed at common objectives. As was noted earlier, it was successful enough to lay the groundwork for Congressional enactment of the *Joint Funding Simplification Act* in 1974.

Finally, the OMB Circular A-85 process of consultation with certain public interest groups before the issuance of new or revised regulations having an impact on state and local government gives the elected generalist officials, through their national organizations, leverage to exert influence in the development of new federal policy in such a way as to favor those generalist officials' interests.

Summary

The GRS program seems to offer great potential for improving recipient capability. The distribution of funds to general purpose units essentially free of functional restrictions gives decisionmaking responsibility to generalist officials — legislative and executive. It enhances their opportunities for setting expenditure priorities and effecting interprogram coordination. It also gives them resources for strengthening their jurisdiction's management capability, if they are so inclined.

Yet revenue sharing funds are not entirely without conditions, and often for good reasons. Prescribed budget procedures and use reports, fiscal manage-

ment requirements referred to in the Brookings study, expenditure constraints in the civil rights and Davis-Bacon provisions, and the new independent audit requirements cloud any GRS claim to being a "no strings" financial assistance program. On the other side of the coin and unlike many traditional categorical programs, freedom from other restrictions means that the federal government foregoes the opportunity to promote certain conditions designed to bolster recipient capability. The legislation does not, for example, encourage a strengthening of the central planning function in larger recipient jurisdictions that have a need for comprehensive planning.

Evidence of the net impact of GRS on recipient capability is still fragmentary and tentative. What emerges from the Brookings and National Science Foundation studies is that the program, as anticipated, clearly bolsters the role of generalists at both the local and state levels. While the NSF-sponsored research also indicates that GRS simplifies fiscal planning at the local level, it is not clear whether this represents an improved mechanism and process, or merely the greater fiscal flexibility that comes from access to more revenue.

Eligibility provisions in the block grant statutes favor elected officials and administrative generalists, but the programs vary in the degree to which generalists have taken advantage of their opportunities. Under LEAA, Governors have not often exploited their possibilities and legislatures generally have been little involved in criminal justice planning and oversight. Local chief executives have received a boost from the CD Block Grant, while the role of the specialists in the program depends to a large extent on how the predecessor special housing or renewal authorities have been absorbed into the CD program and whether the elected officials for whom the specialists work are part time or not. Local legislatures appear to be taking advantage of their enlarged opportunities to shape community development plans, though again the tenure issue conditions the nature of their response.

The potential for planning and program integration under the block grants is circumscribed by the limited scope of functions covered and of the flexibility given to recipients to define scope. The general absence of federal performance requirements presents a climate favorable to recipient jurisdictions' improving their governing capacities. Yet that absence also means that recipients lose the advantage of federal prescription of good management improvements. In the CETA program, prime sponsors find it difficult to

coordinate with old line manpower agencies at the state level, such as the employment services and vocational educational units.

Among the grants management improvement efforts, the *Comprehensive Planning Assistance* and *Intergovernmental Personnel Acts* are the only instances of direct federal support for building general management capability at the state and local levels. Indirect influences were felt through the A-85 and A-95 processes, CERC, Annual Arrangements, and Integrated Grants Administration and its successor, the *Joint Funding Simplification Act*.

THE PATTERN OF LOCAL GOVERNMENT

Has the shift in the grant amalgam in the past decade tended to alter the basic pattern of local and areawide governments? Have the efforts to strengthen grant administration had any such effect? Among the principal kinds of changes that might occur are alterations in the balance between

- general purpose and special purpose units;
- multifunctional, general purpose and limited functional, general purpose jurisdictions;
- small and large units;
- cities and counties;
- areawide agencies and local agencies; and
- various kinds of areawide agencies.

General Revenue Sharing

Indications are that the framers of the general revenue sharing law in the Nixon Administration were not deliberately intending to affect the structure of local government in drafting that legislation.⁴¹ In fact, it could be argued that the idea of influencing local structure contradicted the objective of decentralizing decisionmaking to states and localities. Yet there were interested groups that saw GRS as a potential vehicle for bringing about improvement in local government organization. Thus in its GRS recommendation, the ACIR included a proviso that only major units of local general government should be eligible for funds at this level. The intent was to encourage jurisdictional consolidation, curb special district formation, and avoid the propping up of geographically smaller, functionally limited, and fiscally dependent localities.⁴²

After enactment of GRS, it soon became apparent that the allocational formulas and the entitling at the

local level of all general purpose units of government potentially could have a structural effect. Based on a year or so of actual experience, numerous observers drew conclusions on what the effects had been, or speculated on what they would be.⁴² Probably the most current and thorough was the Brookings Institution's study, which by the fall of 1977 had completed two of its three projected monitoring reports.

THE BROOKINGS STUDY

The first Brookings report concluded that:

structural intervention under revenue sharing probably has been less extensive than under categorical grants. But certain strings and formula features of revenue sharing have important structural effects, including some that seem to be quite fortunate. These effects may become far more pronounced as the program continues.⁴⁴

In its second report,⁴⁵ Brookings took another look at this aspect of the program.

The Impact on Small and Limited Function Units in Rural Areas

The report first examines the effect on small and limited function governments in rural areas. Such governments are eligible to receive revenue sharing funds, thereby increasing their ability to resist abolition. They receive additional preferential treatment from the guarantee to each recipient government of 20% of the average statewide per capita grant. Under the allocational formula, this amount cannot exceed one-half of a unit's total taxes and intergovernmental receipts, but any locality that receives only minimal support from other levels of government can count on receiving 50% of additional revenue for every dollar it collects in taxes.

Two policies of the Office of Revenue Sharing provide further incentives for the creation and continued existence of small and limited function units. First, new units do not have to collect taxes in order to receive revenue sharing funds, but instead receive allocations during their first year of operation on the basis of "estimated revenues" derived from the collection of other governments of similar size. Second, neighboring governments have no incentive to oppose incorporation, since the funds needed to bring a unit up to the 20% floor do not come from the county area entitlement, in which the neighboring governments share, but rather from a statewide pool.

Combined with the 20% floor, then, have these administrative policies actually had the effect of propping up small governments? Brookings found that, although there had been a slight increase in the number of new governmental units incorporated since the adoption of revenue sharing, the data were not conclusive. For one thing, the formation of new governments seemed to be generally motivated by factors other than financial feasibility, such as local desires to avoid annexation, prevent encroachment on tax bases by other governments, or improve the level of services. Where revenue sharing was explicitly considered in the incorporation action, it seemed to come only after the basic decision to incorporate had already been made. The financial incentive in revenue sharing was further diluted by the fact that in some states new governments stood to receive additional revenues in the form of state aid that were several times the amount available for revenue sharing.

Brookings made similar findings with respect to continuation in existence of small and limited function governments. It reasoned that such units were probably more influenced by their wish to maintain control of land use and local autonomy than issues of financial viability, particularly in the case of small suburban governments which wished to avoid annexation by cities. Brookings therefore concluded that general revenue sharing has a limited impact on the decision of small and limited function governments not to disincorporate.

Another potential effect of revenue sharing on local government structure has to do with possible encouragement for small units of government to expand the scope of their activities, due to the injection of revenue sharing funds. Shared revenue generally constitutes a larger fraction of total revenue in small governments than in large areas. Also small governments typically provide a more limited range of services.

The study concluded that the incentive for small units to spend in new functional areas was neutralized by the uncertainty about the program's continued existence.

This uncertainty apparently reinforced a general unwillingness on the part of local officials to move into new program areas, and thus to have caused smaller governments to allocate shared revenue to capital expenditures for traditional functions, such as roads and sewage.⁴⁶

Brookings reasoned that extension of the program to 1980 with its lessening of future uncertainty

might provide a stronger incentive for smaller units of government to expand the scope of their activities.

IMPACT ON LOCALITIES IN URBAN AREAS

The Brookings analysis of the effect of GRS on small and limited function governments was basically confined to such units in rural areas. The study also looked at the principal affects on localities in urban areas, focusing on the use of special districts, the impact on annexation, the adoption of new functions, and intergovernmental cooperation efforts.

50 Since special districts are not eligible to receive shared revenues, a general purpose government that creates a district cannot take credit for taxes assessed by the district. Also if the local unit is constrained by the requirement that its revenue sharing may not exceed 50% of its combined taxes and intergovernmental revenue, it may not be given credit for any intergovernmental aids the district receives. On the other hand, when a general purpose unit exercises sufficient supervision of special districts within its borders so that the districts are judged "dependent" by the Census Bureau, that unit can claim credit for the district's taxes in computing its shared revenue allocation. Thus local governments have a moderately strong incentive to establish fewer special districts and to expand their control over existing districts.

Yet the Brookings study found that through June 1974 this expected impact had been limited, based on reports from field associates and state and boundary agency officials. The apparent reasons were the low level of understanding among local officials of how special districts affected local revenue sharing allocations and, more important, the modest gain in revenue sharing that would result from absorbing districts. The latter is due to the heavy reliance of special districts on user charges rather than property taxes.

Brookings speculated on other reasons for local officials' limited interest in converting special districts to their advantage in revenue sharing. Absorption of the districts would deny localities the advantages that special districts offer in evading state limits on debts and taxes, and in avoiding the use of local tax revenue to guarantee bonds. In addition, many special districts are created in response to federal programs and local officials may have abstained from attempting to absorb the districts for fear of generating problems with federal officials. Finally many districts

are governed by bodies of elected officials, raising possibilities of political controversy if attempts were made to abolish them.

Brookings thought that the incentives offered by revenue sharing for local governments to annex more territory were weaker and more uncertain than those for absorbing special districts. Two main reasons were identified: first, federal regulations prohibit a government from increasing its allocation through annexation until the population in annexed areas is at least 5% of that of the annexing unit; and second, and perhaps more important, the cost of extending services to the annexed areas may offset the additional revenue to be gained.

Evidence on the actual impact of revenue sharing on annexation was inconclusive. The total amount of annexation in the country declined over the years the program had been in effect. Appraisals from state and boundary officials indicated greater impact of annexation than reports from local officials. Brookings concluded that annexation decisions "tend to be influenced by noneconomic factors in many cases, but at the same time the additional resources provided by the revenue sharing program may in some cases facilitate annexation actions."⁴⁷

Another way that some observers expected revenue sharing to affect the structure of urban local governments was through stimulation of new functions. Brookings found that revenue sharing has not caused large numbers of small governments to appreciably extend the scope of their activities. Their findings suggested that spending for new functions and programs depends on the financial condition of the recipient and the political orientation of its leaders. Where a unit was under fiscal pressure, it tended to use revenue sharing funds to substitute for other revenues. Also, generally speaking, conservative officials were inclined to use the funds for tax stabilization or capital projects in established functional areas. Factors that moved localities to take on new or expanded functions were high levels of interest group activity, increasing suburbanization producing pressure to take on certain "urban" services, and restructuring of county governments to permit them to offer urban services. Brookings concluded from its research sample that overall there had not been a "blossoming of new governmental activity caused by revenue sharing."⁴⁸

A final area of impact of revenue sharing on the structure of local governments in urban areas examined by the Brookings study was cooperation among such units. There is a presumption among some

critics, the study says, that GRS discourages cooperation by making it easier for individual units to go it alone. Brookings' findings did not generally support this belief. They indicated that revenue sharing in a number of cases stimulated intergovernmental cooperation, although mostly in program areas where cooperation was already widely practiced, such as transportation. The fact that cooperation was in the "customary mold of most such arrangements" indicated that it involved neither an observed inducement or impediment to more basic and far-reaching kinds of regional cooperation for multiple or more controversial functions. On the other hand, the availability of revenue sharing did not handicap existing regional institutions, which are considered important elements of metropolitan restructuring of local units by many reform groups.⁴⁹

Summarizing its analysis of the impact through June 1974, of revenue sharing on local government structure, responsibilities, and interrelationships, the Brookings study concluded that this impact had been much more modest than was originally anticipated. While the program contains incentives for localities to modify the way they finance and organize their activities, these incentives have not been strong enough to bring about significant changes in local government structure. Yet the study also found evidence that the long-range effects might be more pronounced. The uncertainty over the durability of the program caused much of the hesitancy of smaller and limited function governments to use revenue sharing to fund new activities. Some of that uncertainty may have been removed by the program's extension to 1980.

Brookings stated that its most significant finding was that:

revenue sharing does not appear to provide incentives of significant strength to make a substantial impact on the structure of state and local government. The roles and functions of various levels of government appear to be determined by political and economic forces that may be reinforced by revenue sharing, but are not significantly altered.⁵⁰

OTHER STUDIES

In December 1975, a summary report covering the research efforts on GRS formulas and processes by the National Science Foundation's Research Applied

to National Needs (NSF/RANN) concluded that:

the research findings suggest that the GRS program had the effect of increasing the activity level of small local governments, but had minimal impact on consolidation or annexation or take over of special districts, although it did result in some increases in intergovernmental cooperation.⁵¹

This overall conclusion is consistent with the Brookings second report with one exception — the latter found less evidence of increased activity among small local governments. A specific finding in the NSF report which supports its conclusion on this issue is the report by the Michigan Survey Research Center that about 80% of state and local officials responding to their survey felt GRS did encourage small governments to increase their activities.⁵²

In the literature on GRS another point of disagreement with the Brookings appraisal is evident. Brookings concluded that regional institutions had suffered no handicaps from revenue sharing. Others believe that regional bodies are adversely affected. As one observer commented in early 1975:

Despite the investment of millions of federal dollars in comprehensive planning at the local and regional levels under Section 701 of the *Housing Act*, projects funded by revenue sharing do not have to conform with officially adopted plans of this type. Furthermore, these projects do not even have to be submitted to an A-95 clearinghouse to be reviewed and commented on for plan consistency. Since they do not qualify as general purpose local governmental units, councils of governments and regional planning commissions do not directly receive revenue sharing payments. In short, general revenue sharing virtually ignores regionalism.⁵³

Block Grants

The evolution of state and local government in the United States has produced a varied pattern of assignment of functions between state and local governments. The variation exists among states for the same function and within individual states for different functions. Hence it was inevitable that block grants for different functions would have a diverse impact on

the structure of local government and, as described in the next section, on state-local relations.

PARTNERSHIP FOR HEALTH

The Partnership for Health program has had no discernible influence in altering local government structure. Local general purpose governments generally are not involved in state decisions allocating the block grant funds. Most states suballocate part of these funds to their local health departments, usually county agencies, but there are no indications that this in any way strengthens or weakens these units vis-a-vis other units at that level. A major reason is that the amount involved is only a relatively small part of the total local health budget.

Regional comprehensive health planning (CHP) agencies might have been expected to participate in state allocation decisions, but rarely did. Sponsors of the *Health Planning and Resource Development Act of 1974* that established health systems agencies to replace CHPs hoped that the new regional bodies would be more involved in general state health planning. There are no indications as yet that they are.

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SAFE STREETS

The *Safe Streets Act* has affected substate planning agencies, the role of general purpose units, and the balance between cities and counties in criminal justice activities.

The act requires the state criminal justice planning agencies (SPAs) to pass through at least 40% of the federal planning funds to units of general local government or combinations thereof to develop local components of the state's comprehensive criminal justice plan. In addition, the administrative guidelines require that priorities in funding local planning be given to the state's major urban and metropolitan areas, other areas of high crime incidence and potential, and to efforts involving combinations of local units.

The ACIR's 1970 study of LEAA found that combinations of local units, chiefly regional planning agencies established at either the state or local initiative, received the bulk of local planning subgrants.⁵⁴ By far most of these regional planning units (RPUs) consisted of existing multijurisdictional entities — such as state planning districts, councils of governments, regional planning commissions, local development districts, and economic development

districts — whose functions were expanded to include crime control planning. A 1975 survey of 43 states, however, found that 57% of the RPUs were created specifically and exclusively for areawide criminal justice planning purposes.

Establishment of the RPUs was criticized by representatives of the big cities, who felt that their cities were outvoted in such regional bodies by the representatives of other local jurisdictions on the planned agency, such as counties, townships and suburban municipalities. Nevertheless, the Commission's 1975 re-examination of LEAA found little change with respect to the role of the regional planning units in the administration of planning funds.⁵⁶

The *Safe Streets Act* also initially required the state planning agencies to distribute 75% of action block grants to general units of government or combinations thereof. In 1970, the ACIR reported that critics felt that, because of lack of further federal guidance under the block grant, not enough money was being directed to the big cities, and too much was going to small jurisdictions. The ACIR concluded, however, that the record on the impact of action grants on urban places was mixed. Overall, cities and counties over 50,000 population received the bulk of action subgrants, but some SPAs distributed small amounts of funds to many jurisdictions under 10,000 which had less serious crime problems.⁵⁷

Between 1970 and 1975 the legislation was changed to provide that, instead of 75% of action funds being passed through to local jurisdictions, the pass-through percentage would be variable, based on the local proportion of state and local expenditures for criminal justice during the preceding fiscal year. The ACIR concluded that under the variable percentage, large cities and counties received proportionately more funds than their population would warrant. The flow of dollars seemed more closely related to the incidence of crime than to the size of population.⁵⁸ At the same time, there was evidence that cities were not receiving a percentage of pass-through funds proportionate to their share of total crimes, as compared to counties, both nonsuburban and suburban. Thus cities had 83% of the crime, 70% of the population, and only 52% of the block grant money which went to both cities and counties together. The ACIR report suggested several reasons for this apparent preference for counties:

- Counties have substantial responsibility for crime control activities in unincorporated areas as well as in small incorporated areas.

- Crime reporting is better in cities than in counties, tending to understate the actual incidence of crime in the latter.
- There is a trend toward consolidating criminal justice activities at the county level.
- And the county preference may reflect an improved sharing in responsibilities for criminal justice activities between the cities and the counties.⁵⁹

CETA

The CETA program introduced a new element into manpower activities — the requirement that prime sponsors be elected officials of general purpose units of government. This meant essentially cities and counties, or consortia composed of cities and counties combined — multicounty, city-county, and multicity arrangements that meet the statutory population floor.

The significance of the designation of cities and counties as prime sponsors was two-fold. First, these governmental units replaced private nonprofit organizations as the principal local agencies for the administration of manpower funds. Cities and counties were thereby given an opportunity to expand their functional responsibilities into this field. Most had not received federal support for manpower purposes prior to FY 1975, but since counties had been generally more active in the manpower area prior to CETA, cities were expected to be the greater gainers.⁶⁰

Another major impact of the CETA program on local structure has to do with regional bodies. Such bodies were not identified in the legislation as eligible prime sponsors. That fact alone tended to reduce their influence in relation to cities and counties. In addition, councils of government and regional planning commissions had very little to do with the formation of consortia, an area in which they might have been influential. In practice, the decision to form a consortium normally was made by the chief executive or administrative officer of the city or county or both. The regional bodies' role was further weakened by the fact that very little of the manpower programs was channeled through the A-95 regional notification and review process.

COMMUNITY DEVELOPMENT

The Community Development block grant statute expresses an intent to strengthen the role of general purpose units of local government. It includes within

the term "unit of general local government" certain special purpose agencies that were eligible to provide public facilities or services to a new community under the predecessor categorical programs. Under the CDBG, these special purpose agencies can receive funding directly through the competitive discretionary process or by assignment from a unit of general local government. However the act's entitlement grants to local general governments encourage those units to take over the tasks of the special purpose bodies or to render them more dependent. In addition, in some instances the act has prompted the local general governments to obtain from their states the necessary enabling legislation to carry out the responsibilities of the special purpose agencies and authorities, the lack of which had formerly been a prime factor in relying on these functional units of government. The net effect is to increase the stature of local general purpose units and diminish that of special purpose units in the conduct of community development activities.

A second important effect of the CD block grant on local government structure is the acceptance of urban counties as entitlement jurisdictions. Although the initial designation of counties as eligible units may have been merely in recognition of the few urban counties with well developed governmental powers, the effect of their inclusion in the favored funding category (particularly with only minimal powers required of them in the housing and community development area) has worked to augment county power. This is evidenced by new state enabling legislation for counties in some areas and the proliferation of intracounty cooperation agreements.

The stimulation of intracounty cooperation agreements itself was one of the most significant developments affecting local government structure. These agreements arose pursuant to the definition of an urban county which required that the county have both a population of 200,000 or more and powers to perform "essential community development and housing activities." Counties can achieve the necessary population or authority by entering into cooperative agreements with incorporated areas within the county. The population of those areas is added to that of the unincorporated areas to reach the 200,000 minimum. Similarly, their redevelopment authority is credited to the county.

A final potential area of local government impact brought about by the Community Development Block Grant involves areawide bodies. The act requires applications for CD funds to be submitted to state

and areawide clearinghouses for A-95 review, but the initial HUD interpretative regulations stated that the applicant need not conform rigidly to areawide plans or secure approval of areawide planning agencies. The language of the regulations was less stringent than prior legislative review requirements under two of the consolidated categorical programs (open space and water-sewer facilities). This apparent retreat raised a question regarding the importance of the areawide agencies in the new federal strategy. After the first year, however, the Secretary of HUD indicated that she was looking to state and areawide clearinghouses to play a more active role in the coordination of the CDBG program. Accordingly HUD issued new guidelines for the A-95 comments, underscoring the intergovernmental importance of the clearinghouse's role. Thus HUD appeared to be taking a stronger pro regionalism stand.

54 **Other Influences on Local Structure**

Apart from the introduction of general revenue sharing and block grants, there have been other changes in the intergovernmental grant system in the last decade which have had an impact on local government structure. Two such developments are the explicit Congressional direction that grant administration at the federal level favor general purpose units of local government over special purpose units, and the stimulation by federal grant programs of the creation of separate substate regional bodies for the administration of different federal grants. In practice these have been addressed mainly to problems created by categorical grants, but potentially at least they apply to all varieties of federal assistance programs. In fact evidence regarding the general purpose government preference is most readily available for the noncategorical programs.

PREFERENCE FOR GENERAL PURPOSE UNITS

The policy of preference for general purpose units came via the *Intergovernmental Cooperation Act of 1968*, the landmark legislation by which the federal government attempted to cope with some of the increasing intergovernmental frictions arising from the proliferation of categorical grant programs. Section 402 of that act provides that in cases where federal law makes both special purpose and general purpose units of local government eligible to receive

loans or grants, in the absence of substantial reasons to the contrary, federal aid administrators shall make the grants or loans to the general purpose units.

No study has been made of the extent to which this provision has actually been implemented by federal grant administrators. Yet undoubtedly this policy declaration has had an influence on subsequent legislation affecting local governments adopted by the Congress. Specifically, the general revenue sharing legislation, as already noted, limits the distribution of GRS funds to general purpose units and specifically excludes special purpose units. Title I of the CETA legislation limits local prime sponsors to elected officials of general purpose units, and these units (plus Indian tribes) are the designated recipients under the countercyclical programs of Titles II and III of that act. The Community Development Block Grant is limited to general purpose units as recipients. Although special purpose agencies were permitted under the CDBG to receive Community Development funds, their claims are secondary to those of cities and counties.

SUBSTATE REGIONALISM

The growing impact of the federal grant system on substate regionalism has come through the rapid rise in the number of federal programs that take an areawide approach to community problems. In early 1964, only five programs used such an approach. By 1972 there were at least 24 areawide programs and by 1976 they numbered 32. These include two general purpose programs — the federal aid review and comment process (OMB Circular A-95), and intergovernmental personnel grants (IPA) — plus 30 others which serve a range of specific functional purposes, including community and economic development, environmental protection, transportation, social services, and protective services.

This new network of federally spawned metropolitan and nonmetropolitan areawide agencies across the country has been characterized by considerable inconsistency among programs as to boundaries, powers, relationship to local general purpose governments, planning requirements, and composition of governing bodies. In response to these inconsistencies, the federal government has established processes for coordinating these programs with each other and with the planning processes at local, regional and state levels.

The foremost of these is the federal aid review and

comment process provided in Part I of OMB Circular A-95. Initially this process stemmed from reviews required in individual programs in the early 1960s. Subsequently a relatively broad physical development program review was introduced by the *Demonstration Cities and Metropolitan Development Act of 1966*. Title IV of the *Intergovernmental Cooperation Act of 1968* called for a governmentwide review policy, requiring state and local governments as well as specific civil rights, environmental, and other groups to be notified of proposed federal aid projects, and given an opportunity to review and comment on them before they are acted upon by the appropriate federal agency. Designated regional planning bodies, usually regional councils, perform the "clearing-house" role of notification and passing local reviews onto the federal agency along with the regional bodies' own comments. This process provides an opportunity to coordinate the federally assisted regional programs with each other and to coordinate local applications for federal aid with regional planning.

The effectiveness of the A-95 process gets mixed reviews. Supporters point to such developments as the increasing number of clearinghouses and the fact that some 200 federal aid programs are now covered by the process. In addition, they cite the fact that social services as well as physical development programs are not subject to the process and federal agency compliance is fairly widespread. More skeptical observers acknowledge some improvements in the communications and program coverage areas, but see the end result as still largely a papermill process with little real impact on the flow of funds or on interprogram coordination.

Regional councils are also affected by Part IV of A-95, since it requires maximum feasible use of the same geographic boundaries for areawide federal aid programs in the same area and coordination among any different regional agencies in the area which may have been established either for purposes of individual federal aid programs or for other related purposes. Unfortunately recent checks also have indicated continuing difficulties in successfully implementing this part of the circular. Too many different boundary designations and separate organizations still are involved in planning for, and administering areawide federal aid programs in the same regions. Substate districting efforts have not ended the separatist tendencies of program specialists. Confusion and duplication continue, while program coordination suffers.

Summary

The past ten years have seen a clear thrust in support of general purpose units of local government as recipients of federal assistance. The *Intergovernmental Cooperation Act of 1968* gave explicit Congressional endorsement of the policy as a directive to federal administrators, but the clearest evidences of the implementation of the policy is in legislation creating general revenue sharing and the two block grants that go exclusively or primarily directly to local general governments: Community Development and the *Comprehensive Employment and Training Act*.

The designation of general purpose units as exclusive eligibles has induced state statutory actions which have enhanced the legal authority of localities, allowing them to exercise the broader range of community development powers in areas where previously only special districts or authorities could act. In CETA, the similar designation has given city and county governments responsibility in a functional field formerly largely occupied by nongovernmental agencies.

Of the two basic forms of general purpose local units, counties seem to have increased in their relative stature over cities. The 73 urban counties that qualified for CD funds in the first year far exceeded the number anticipated, indicating a significant expansion in counties' undertaking of urban responsibilities. Counties also responded to new opportunities to engage in manpower activities, and did relatively better than cities in attracting Safe Streets funds.

Although the general revenue sharing program was not intended by its sponsors to have any impact on local government structure, its eligibility and allocational provisions gave it that potential. Yet at least through the first two years of the program there was little evidence that some of this potential was being realized, as in the failure to create new municipalities or to prop up small existing ones, or to discourage creation of special districts. These shortfalls of expectation may have been traceable to the uncertainty of the life of the program at the time the research conclusions were reached. They might also have been due to the existence of other political forces opposing such changes.

If there was a clear thrust toward preference for general purpose local governments there was federal ambiguity with reference to substate regionalism. The leading study of GRS found that revenue sharing had not imposed any handicaps on regional institutions. Yet the exclusion of such institutions from direct participation as eligibles and the failure to apply the

A-95 review and comment requirement to revenue sharing could not but constitute a missed opportunity to strengthen substate regionalism. The stimulation of creation of new regional limits or the use of existing regional bodies for the performance of regional criminal justice planning under the *Safe Streets Act* was supportive, as was the eventual decision by HUD to apply the A-95 process to Community Development Block Grant funding. Other features of the block grant practices were not favorable — CETA excluded them from serving as city-county manpower consortia, and they were not eligible for CD grants even for the limited function of planning, which is the principal activity of most regional bodies.

Over the past decade, categorical grant programs continued to proliferate separate regional programs, with many differences among them as to area served, powers, composition of governing bodies, and relationships to existing local units. The principal federal effort to bring some consistency to the confused pattern — the A-95 coordination, evaluation, and review process — while improving with time, is still falling short of coping with the problem.

STATE-LOCAL RELATIONS

A second area where alterations in the federal grant system have had an impact on governmental structure is that of state-local relations. The key question is whether the changes have modified the relative roles of state and local governments in the performance and financing of services, and in the state's constitutional and historic parental relationship to local governments.

General Revenue Sharing

In its 1967 report, *Fiscal Balance in the American Federal System*, the ACIR took note of the increasing tendency for federal grants to bypass the states. The arrangement became known as "direct federalism," representing the tendency to make grants directly to local units, either removing the states entirely as recipients or giving localities equal status with them as eligible recipients.⁶¹

The general revenue sharing program is, of course, another example of the direct federalism approach. Two-thirds of GRS funds are distributed directly to local governments, with one-third going to the state governments. States may develop an optional formula

for distributing the local share within their boundaries pursuant to certain criteria established by the law but, although a few states have considered possible reallocation, none has done anything about it.

Local funds are made available to all general purpose units, including counties and townships, so that nearly 38,000 receive GRS funds. Hence not only has the amount of money distributed directly to local governments been markedly expanded, but also the number of jurisdictions now having direct relationships with the national government.

While local units look directly to the federal government for their GRS funds, potentially they are by no means free of the power of the state government in spending those funds. Except as it is constrained by provisions of state constitutions and statutes, the state government has basic responsibility for local operations. Thus state governments could exercise their prerogatives to influence the way in which local units spend their general revenue sharing funds.

The Brookings study examined this issue in 17 states.⁶² It found that in seven, the state government played a significant role in the expenditure of general revenue funds. This role ranged from prescribing accounting forms through granting advice, holding seminars, and providing technical assistance. In seven other states, state governments had a restricted role, essentially limited to supplying basic information on budgeting and supporting state public interest groups in providing advisory services. In three states the state government played no role or a very minimal one. In general, state governments' exercise of influence on the way in which localities spent their GRS moneys depended on the state's established approach to supervising local finances.

One section of the general revenue sharing statute requires states to maintain their level of aid payments to their general purpose localities. There has been little or no question raised about state compliance with this requirement. Brookings reported, based on both its 1973 and 1974 studies, that not only did the states maintain their levels of expenditures, but actually increased the amount of state aid as a consequence of GRS. The largest increases occurred in the area of school aid. Brookings surmised that recent and anticipated federal and state court decisions on educational equalization were at the root of the state's decisions to expand state aid at the same time that local governments were receiving more general revenue sharing money.⁶³

Partnership for Health

The ACIR study of the 314(d) health block grant found little local government involvement in state decisions on allocating the federal block grant and extensive variation in local participation in the use of the funds. Determination of the block grant's net impact on state-local relations was very difficult. There was certainly no alteration in the relative roles of the two levels in the health field, but the effect on day-to-day operating relationships was not clear. Most state officials surveyed perceived no real change but a substantial minority did. The ACIR concluded that at the least there was little to suggest that significant harm had resulted.⁶⁴

Safe Streets

In the *Safe Streets Act*, Congress was entering a functional field where the federal government had previously had only minimal responsibility and where both state and local governments had long been deeply involved. The predecessor *Law Enforcement Assistance Act of 1965* only provided funds for training and research and thereby laid little groundwork for the 1968 legislation. Under the latter, state governments were assigned the pivotal role because it was believed that they were best equipped to integrate and coordinate a fragmented criminal justice system. They were expected to serve as planners, coordinators, resource allocators, administrators, decision-makers and innovators.

From the start a top priority in the program was development of a criminal justice planning capacity. The act required that the Governor designate a permanent administrative and decisionmaking body, composed of a full-time staff and a supervisory or policymaking body, to receive block grants and make subgrants to state and local governments. The intent was to guarantee gubernatorial supervision and authority over planning and management in order to avoid duplication of effort and conflict at the state level and between state and local criminal justice agencies. The organizational location of the SPA within the state government was a decision left primarily to the states. Most SPAs have been, and continue to be directly under the control of the Governor. Under Part B of the act, Congress provides funds specifically to support the SPA's planning and administrative activities.⁶⁵

The act requires that local governments participate in states' comprehensive planning activities and states

must make at least 40% of allocated planning funds available to local governments or combinations thereof. LEAA guidelines encouraged local participation in planning on a regional, metropolitan, or other "combined interests" basis. The agency further suggested that where multijurisdictional organizations were not in existence, SPAs were to create regional planning units (RPUs) to help in developing annual comprehensive plans. In practice, for the most part local governments have participated in establishing or reconstituting RPUs.⁶⁶

Almost all RPUs perform or coordinate planning activities and review grant applications. In recent years there has been a slight increase in the number of states in which RPUs award action subgrants to units of local government and a substantial decrease in those that expend action funds as the ultimate grantee and award planning subgrants.⁶⁷

The status of RPUs is uncertain. Although two-fifths of the states with RPUs have decentralized substantial planning and funding authority to them, many SPAs remain skeptical about their planning and decisionmaking capacities. In contrast, most local governments rate their RPU planning as either highly developed or adequate.⁶⁸

Probably the most critical decision involving state-local relationships is the authority to distribute Part C action funds. The SPAs are given this authority. Still the state and specifically the SPA role has not been as potent as originally intended by the Congress, due to requirements for annual plan submission to LEAA, delays in guideline issuance by LEAA, a high rate of continuation funding, an emphasis on fund distribution, and a lack of authority to plan for the state-local criminal justice system. These factors result in many SPAs developing project-specific, short-term plans rather than long-term, balanced plans.

The statutory provision on the distribution of Part C action funds tends to be neutral with respect to the state-local balance. As was noted earlier, the percentage which has to be allocated to local governments is variable, based on the local proportion of state and local expenditures for criminal justice during the preceding fiscal year. Within the specific allocations to local governments as a whole, however, the SPA is responsible for making decisions on awards to individual local jurisdictions.

Overall, despite the assurance of a minimum allocation of action funds to local governments, the general thrust of the *Safe Streets Act* is to bolster the role of the state in the criminal justice functional area. This comes about through the establishment and

prescription of activities for SPAs, the location of the SPAs in the state government structure, and the SPA's authority to determine grant awards to local governments within the overall allocation of funds to local agencies.

CETA

The CETA program altered the traditional state-local fiscal and administrative arrangements for manpower programs in two principal ways: first, in regard to prime sponsors, and second, in regard to the way in which service was to be delivered. The new element regarding prime sponsors was that at the local level, these were to be elected officials of general purpose governmental units. In FY 1975 prime sponsors consisting of cities, counties or consortia thereof received about 68% of the total funds allocated. The remainder went to state prime sponsors. These state prime sponsors were responsible for administering manpower programs for jurisdictions under 100,000 population ineligible to receive direct funding.

The state government has a coordinating role over all manpower prime sponsors, including those at the local level, through the mechanism of the state manpower services council (SMSC). In practice, in the first year of implementation of the CETA program, the SMSCs actually provided little coordination. Perhaps as a result of this, local prime sponsors had little comment about the coordinating councils.⁶⁹

The CETA program also affected the states' role vis-a-vis local governments in the delivery of manpower services by state agencies. Under previous manpower programs, the state employment service (SES) and vocational education department were "presumptive" deliverers of their respective services. Under CETA, SESs are just one of several possible service providers available for use by prime sponsors. One effect of this changed status was the reduced SES role in the functioning of CETA at both the local and state levels. The CETA law also provides that prime sponsors do not need the concurrence of the state vocational education department in their choice of the vocational education service provider. As a consequence, according to one survey only 44% of the local prime sponsors plan to use the traditional vocational education institutions for vocational education training.⁷⁰

Community Development

All but one of the seven categorical grants consolidated into the Community Development Block

Grant had been available only to local units. The one exception — open space — was available to both states and localities.

Under the block grant, the bulk of the moneys are distributed through the entitlement formula, for which state governments are not eligible. After the entitlement grant sum is determined, funds are next distributed to hold harmless jurisdictions, and the remainder of the funds are made available through a discretionary grant process. Discretionary grants are available to states and to all units of local governments that do not qualify for the automatic entitlement.

The role of state government is thus reduced to a minimum under the act. In limited situations, a state may receive funds, but its role is clearly subordinate to the units of general local government. The discretionary funds for which states may compete are generally designated for use in certain metropolitan or nonmetropolitan areas unless granted pursuant to one of the special discretionary funds. But for the most part, the state is merely a conduit for funds, retaining for itself only an allowance for the cost of general administration. Thus whatever role the state had in the previous categorical programs by being eligible along with cities for open space grants has now been diminished, if anything, in its subordinate role under this block grant.

Categorical Grants

Apart from revenue sharing and block grants, state-local relations have been affected by changes in the categorical sector of the federal grant system in the past decade. One aspect of those changes is the shift in the composition of eligible recipients. A summary picture is presented in *Table IV-1*.⁷¹

The six-year period 1969-75 saw a slight drop in the proportion of the total programs which went exclusively to state governments, almost doubling in the proportion of those for which both state and local governments were eligible, a drop in the proportion going solely to local units, and little change in the proportion going to state and local governments and other recipients.

The tally relates, of course, to the number of programs, not to the dollar amounts involved. On a dollar basis, while there was a slight decline in the number of programs going to states exclusively, states still were by far the largest recipient of federal assistance moneys. This principally because many of the big money programs were still federal-state programs,

Table IV-1

Number of Categorical Grant Programs,
by Type of Recipient,
1969 and 1975

Recipient	1969		1975	
	Number	Percent	Number	Percent
State Governments Exclusively	123	40.2%	162	37.7%
State and Local Governments	24	7.8	62	14.0
Local Governments Exclusively	20	6.5	20	4.5
State and Local Governments and Others*	<u>139</u>	<u>45.4</u>	<u>198</u>	<u>44.8</u>
	306	99.9%	442	100.0%

*Public and private nonprofit organizations.

Source: U.S. Congress, Senate Committee on Government Operations, *Federal Programs of Grants-in-Aid to State and Local Governments*, 91st Congress, 1st Sess., Washington, DC, U.S. Government Printing Office, 1969; ACIR, *A Catalog of Federal Grant-in-Aid Programs to State and Local Governments: Grants Funded FY 1975* (Report A-52a), Washington, DC, U.S. Government Printing Office, October 1977.

such as public assistance, medicaid, and highway construction.

The percentage for which state and local governments were both eligible in 1975 over-represents the number on which local governments were on a complete par with the states, because about one-sixth of this number (11/62) were programs which, by the authorizing statute, either came through the state or with the approval of the state government. Examples are grants for waste treatment works construction, a number of Appalachian Regional Commission development grant programs, and several disaster assistance programs. A similar caution needs to be registered about the proportion of programs that went exclusively to locals. Almost half of these came through the state government or with the state government's approval. Most of these were programs of elementary, secondary and vocational education, such as three programs for educationally deprived children.

The drop in percentage of programs going solely to local governments reflects to some degree the blocking of the community development categorical grants.

In almost half of the programs, both in 1969 and 1975, state and local governments shared program eligibility with "other" recipients, usually private and public nonprofit agencies. Considering that the 45% is on the base of an inventory of programs almost 50% larger in number in 1975 than in 1969, it is evident that the numerical weight of private federalism continues to expand. The implications of this expansion for state-local relations probably can be viewed in two ways. First, it can suggest that state governments are losing control over an increasing number of federal grant programs by virtue of the fact that they have much less legal leverage over public and private nonprofit agencies than they have over local governments. On the other hand, this trend might not necessarily indicate a diminution of state influence, since the state government has an important role to

play in defining the new public-private sector relationships in the area of human resources, an area in which the public and private nonprofit agencies are primarily involved.⁷²

Generalizations about what these figures by themselves tell us regarding the relative positions of states and local governments in the categorical grant system are hazardous. Taking account of the reservations expressed about the two middle groups, it may be suggested that local governments have slipped a little and states have risen a little over the ten-year period. If the state role in regard to the expanding public and private nonprofit sector is important, as noted above, then this tentative conclusion is further strengthened. In any case, however, these figures do not seem to support the view that the trend in eligibility designations in categorical programs over the past ten years has favored local governments vis-a-vis state governments.

Countercyclical Assistance

As noted earlier, there has been nothing in recent years to match the impact on state-local participation in federal grant programs of the countercyclical measures proposed for fiscal year 1978. This group of programs, building on parts of the *Public Works Employment Act of 1976* and Titles II and VI of the *Comprehensive Employment and Training Act of 1973*, is designed to inject massive sums of money to stimulate the economy by providing jobs at the state and local levels.

The differences among the four programs in the economic stimulation package with respect to eligible recipients and provisions for distribution of available funds have a bearing upon the relative roles of state and local governments and various kinds of local governments. Under Title I of the *Public Works Employment Act*, funds are available on a project basis to any state or local government. The term "local government" is all inclusive and is not limited to general purpose units. Section 108(b) specifies that priority and preference shall be given to local governments as against state governments. Overall preference for both states and local governments is given to those with unemployment rates above a specified minimum.

Title II of the same act — the antirecession title — distributes the funds according to formula, with one-third going to the states and two-thirds to local governments. In each case the share is deter-

mined by the relative amount of unemployment in the state or local jurisdiction and the revenue sharing amount computed for purposes of distributing GRS to local governments. Eligible local units are, therefore, limited to general purpose units, according to the definition found in the general revenue sharing statute. The only exception to this is that a local unit must be an "identifiable local government" in order to receive part of the local share. Identifiable local governments are those for which the Secretary of Labor has made a determination concerning the rate of unemployment for purposes of CETA.

Funds available under Title II of CETA, Public Services Employment, are distributed by formula to prime sponsors and Indian tribes. Eighty percent of the funds are so distributed, with 20% being allocated at the discretion of the Secretary. Prime sponsors are defined as states and general purpose local governments of population of 100,000 or more or combinations of general purpose units of government. The formula factor is the number of unemployed in areas of substantial unemployment.

Under Title VI of CETA, Emergency Public Service Jobs Program, the formula again is used and the eligible recipients are prime sponsors as defined under Title I of CETA. Ninety percent of the funds are distributed by formula and 10% are left to the discretion of the Secretary. The formula contains some different factors measuring the severity of unemployment compared to the factors used in Title II.

Considering these four countercyclical programs as a group, it seems that their fiscal thrust is clearly in favor of local governments, and particularly general purpose units. Title I of the *Public Works Act* specifically identifies local units (although not general purpose units) as the recipients to receive priority and preference. Title II of that act piggybacks onto the general revenue sharing formula, modified by unemployment data. Again local governments, and specifically general purpose units, are at an advantage because of the general revenue sharing formulation.

In the two titles of CETA, linkage of recipients to the recipient definition in the CETA act itself again gives an advantage to local general purpose units.

Thus the conclusion seems inescapable that, at least under the economic recession conditions to which the countercyclical programs are addressed, a massive influx of grant money is working to boost the role of local governments in the manpower field. Against the background of traditional state preeminence in the manpower area, as through the employment service, unemployment compensation, and vo-

cational education, it seems clear that the countercyclical programs, at least for the temporary period for which they are said to be designed, are a thrust in the direction of direct federalism, with all its implications for a shift in the balance of power between state and local governments.

Summary

The development of the tripartite federal aid system during the past decade has had a mixed impact on the structure of state-local relations. The initiation of general revenue sharing gave a sharp boost to the trend toward direct federalism that emerged strongly in the early 1960s. This was subsequently reinforced by the Community Development and CETA block grants. The former represented no change for that functional field, since of the seven programs folded in by the block grant six had been direct federal-local programs. Yet it constituted a conscious decision by Congress to perpetuate the policy of not involving state governments in dealing with critical community development problems. The CETA block grant, on the other hand, represented a switch toward more direct federal-local relations in a functional area where states had previously played more of a key role. The change involved the designation of general purpose units of local government as prime sponsors and the policy followed by prime sponsors of not relying primarily on state manpower agencies as providers of manpower services, contrary to previous practice in federally assisted manpower programs.

The Partnership for Health grant followed the traditional pattern of a federal-state linkage in the distribution of public health funds. The Safe Streets block grant, providing federal assistance for the first time in a functional field previously left almost exclusively to state and local governments, undoubtedly boosted the role of state governments by virtue of the key roles assigned to the Governor and the state planning agency and the system for allocation of planning and action funds.

A major development in the relative responsibilities of states and their localities in the federal grant system was the injection of countercyclical antirecession funds in fiscal years 1976 through 1978. Rising from \$1.9 billion to an estimated \$9.9 billion in the latter year, these moneys go directly to local jurisdictions, and in FY 1978 they represent more than all previous direct federal-local funds combined. The latter now constitute about 22% of all federal aid to

states and localities. The long-range effects of the antirecession programs on the state-local relationship will depend on whether or not, under the title of countercyclical aid or something else, they become permanent parts of the aid structure, and if so, to what extent.

Generalizations about the effect of changes in the categorical grant system on state-local relations in this period are difficult to draw. The patterns of state and local government eligibility for categorical grants indicate that local governments have not improved their relative positions and may have lost some ground, measured by the changes in proportions of the total number of grant programs in 1975 compared with 1966. In dollar terms, the same conclusion is probably warranted, considering that the big money categorical programs are essentially federal-state programs.

Yet the trend in the overall grant funding picture, embracing GRS and block grants as well as categorical, remains clear — a distinct movement in favor of local governments vis-a-vis state governments.

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RECAPITULATION

We have examined four issues in intergovernmental relations in an effort to ascertain how these have been affected by the historic recent shift in the federal grant system from a categorical system to a tripartite categorical-block-revenue sharing system. The four overlap to some extent and although they obviously do not cover all the contemporary issues in intergovernmental relations, they embrace some of the more significant ones: devolution, capacity building, the impact on local government structure, and the impact on state-local relations. At the risk of oversimplification, the sense of the analysis may be summarized as follows.

On **devolution** of authority from the national to the state and local levels, GRS and block grants have effected a transfer of decisionmaking away from the federal government, and this movement has been abetted to some extent by various middle range reform efforts and, in the past two years, by the massive infusion of countercyclical funds to create jobs and stimulate economic recovery. Still the movement toward devolution has probably not been as strong as some of the original advocates of GRS and block grants may have expected. GRS is not entirely without strings, and it represents the means by which, for the first time, thousands of local jurisdictions

have become engaged with the federal government in a grant relationship. The federal presence has been further extended through the gradual and continuing growth in the number of generally applicable requirements imposed by Congress on grant recipients for the promotion of certain social and environmental policy objectives. Finally, the degree to which devolution has occurred in the past decade is affected by the issue of fungibility. All grants — including categorical, but especially block grants and of course GRS — apparently are fungible, to greater or lesser extent, thanks in large measure to the great increase in the number and dollar flows of federal aids. This suggests that while recipient discretion has been increased by the introduction of block grants and GRS, it has also been enhanced by the continuing dollar expansion and numerical proliferation of categorical grants.

62 On **capacity building** at the state and local levels, the evolution of the grant system in the past decade has produced two major thrusts — greater emphasis on strengthening the role of generalists as against specialists, and increased opportunities for local and state initiative, rather than any direct positive assistance by the federal government. Generalist elected and appointive officials are responsible for goal and priority setting and interprogram and intergovernmental coordination, key elements of a jurisdiction's ability to perform effectively. Increased opportunities are offered through revenue sharing funds which, though subject to conditions, give recipients broader discretion. The hybrid character of block grants restricts the functional scope and flexibility they bestow on recipients, and yet they provide a more favorable framework for planning and program integration than categorical grants. Certain changes in the composition and administration of categorical grants have brought modest increases in the federal government's efforts to help build management capacity at

the state and local levels.

Regarding **local government structure**, the clear emphasis of the past decade has been on support of general purpose units of local government. Of the two basic types, municipalities and counties, the counties have gained the more, by virtue of their frequently newly acquired role in community development and their greater activity in the manpower field. But revenue sharing has not had as great an effect on local government as was anticipated by many observers. Limitation to general purpose units has not meant a decline in number of special districts nor a proliferation of new municipalities. GRS also has provided no encouragement to rationalizing the substate regional picture, which has become more proliferated with many additional federal programs (including the Safe Streets block grant) prescribing different regional arrangements and federal efforts to make them work in harmony falling short of their objectives. The federal posture toward substate regions remains ambiguous.

On **state-local relations**, the principal impact overall has been the encouragement of more direct federal-local relations, with a consequent net diminution of the role of the states in the federal grant system. This is clearly the direction of GRS and the CD and CETA block grants. Considering the categorical grants alone — apart from the special countercyclical programs — local governments have, if anything, suffered a minor downgrading vis-a-vis states in their relationship with the federal government. Most recently, the sudden and powerful injection of countercyclical funds, channeled directly to local communities, has been the most significant development in constantly shifting federal influence on state-local relations. While these measures were initiated as tools for combating the effects of economic recession, it is not at all certain that they will be completely phased out when the current recession is over.

FOOTNOTES

¹See ACIR, *General Revenue Sharing: An ACIR Reevaluation* (Report A-48), Washington, DC, U.S. Government Printing Office, October 1974.

²See ACIR, *Fiscal Balance in the American Federal System: Metropolitan Fiscal Disparities*, Vol. II (Report A-31), Washington, DC, U.S. Government Printing Office, October 1967.

³See ACIR, *Categorical Grants: Their Role and Design* (Report A-52), Washington, DC, U.S. Government Printing Office, May 1978.

⁴ACIR (Report A-48), *op cit.*, p. 2

⁵*Ibid.*, p. 2.

⁶P. L. 94-488.

⁷The Civil Service Commission attempted to make the *Hatch Act* also apply to revenue sharing but the Attorney General eventually ruled in favor of excluding the *Hatch Act* provisions from application. For further reference to the "across-the-board" requirements in grant programs generally, see the discussion on "intrusiveness."

⁸In 1975 the Office of Revenue Sharing stated that revenue sharing payments were being made to more than 38,000 of the eligible 38,861 local governments. Department of the Treasury, *Second Annual Report of the Office of Revenue Sharing*, Washington, DC, U.S. Government Printing Office, March 1, 1975, p. 7.

- ⁹Richard P. Nathan, Allen D. Manvel, Susannah E. Calkins, and Associates, *Monitoring Revenue Sharing*, Washington, DC, The Brookings Institution, 1975, p. 281.
- ¹⁰*Ibid.*, pp. 263–278.
- ¹¹Richard P. Nathan, Charles F. Adams, Jr., and Associates, *Revenue Sharing: The Second Round*, Washington, DC, The Brookings Institution, 1977, pp. 108–132.
- ¹²See ACIR, *Block Grants: A Comparative Analysis* (Report A-60), Washington, DC, U.S. Government Printing Office, November 1977.
- ¹³See ACIR, *Improving Federal Grants Management* (Report A-53), Washington, DC, U.S. Government Printing Office, February 1977.
- ¹⁴For an in-depth analysis of this development, see ACIR (Report A-52), *op. cit.*, Chap. VIII.
- ¹⁵Thomas J. Anton, Institute of Policy Studies, University of Michigan, quoted in Neal R. Peirce, "Fiscal Federalism: Sharing Revenue is Not Enough," *Publius*, Philadelphia, PA, Center for the Study of Federalism, Fall 1976, p. 181.
- ¹⁶See ACIR (Report A-52), *op. cit.*, Chap. V.
- ¹⁷The existence of skewing is, of course, widely accepted as an effect of categorical grants. See for example, U.S. General Accounting Office, *Revenue Sharing and Local Government Modernization: A Conference Report*, Washington, DC, U.S. GAO, April 17, 1975, p. 10.
- ¹⁸See ACIR, *The Intergovernmental Grant System as Seen by Local, State, and Federal Officials* (Report A-54), Washington, DC, U.S. Government Printing Office, May 1977, p. 24.
- ¹⁹See ACIR, *Federal Grants: Their Effects on State-Local Expenditures, Employment Levels, and Wage Rates* (Report A-61), Washington, DC, U.S. Government Printing Office, February 1977.
- ²⁰ACIR (A-52), *op. cit.*, Chap. VI.
- ²¹*Ibid.*, p. 78.
- ²²*Ibid.*, p. 79. For other testimony regarding the fungibility of GRS, see U.S. Congress, Senate Committee on Finance, *General Revenue Sharing Hearings*, 94th Congress, 1st Sess., Washington, DC, U.S. Government Printing Office, April 16 and 17, and May 21 and 22, 1975, especially that of the Comptroller General, pp. 125 ff.; also U.S. General Accounting Office, *Revenue Sharing: Its Use by and Impact on State Governments*, Washington, DC, U.S. GAO, August 2, 1973, p. 2.
- ²³*Ibid.*, p. 80.
- ²⁴Study Committee on Policy Management Assistance, *Strengthening Public Management in the Intergovernmental System*, Washington, DC, U.S. Government Printing Office, 1975, p. viii.
- ²⁵*Ibid.*, p. viii.
- ²⁶See for example, Deil S. Wright, *Federal Grants-in-Aid: Perspectives and Alternatives*, Washington, DC, American Enterprise Institute, June 1968, p. 9.
- ²⁷See Richard P. Nathan, "Federalism and the Shifting Nature of Fiscal Relations," *The Annals*, Philadelphia, PA, American Academy of Political and Social Science, May 1975, p. 125.
- ²⁸Deil S. Wright, "Revenue Sharing and Structural Features of American Federalism," *The Annals*, Philadelphia, PA, American Academy of Political and Social Science, May 1975, p. 111.
- ²⁹Nathan, Adams, and Associates, *op. cit.*, p. 131.
- ³⁰*Ibid.*, p. 129.
- ³¹F. Thomas Juster, "A Survey of the Impact of General Revenue Sharing," National Science Foundation, Research Applied to National Needs, *General Revenue Sharing, Research Utilization Project*, Vol. 2, Washington, DC, U.S. Government Printing Office, August 1975, p. 67.
- ³²Steven A. Waldhorn, et al, "General Revenue Sharing: Planning and Participation in Ten Large Cities," NSF/RANN, *op. cit.*, p. 71.
- ³³Catherine Lovell, John Korey, et al, "The Effects of General Revenue Sharing on Ninety-Seven Cities in Southern California," NSF/RANN, *op. cit.*, p. 80.
- ³⁴Deil S. Wright, et al, "Assessing the Impacts of General Revenue Sharing in the 50 States: A Survey of State Administrators," NSF/RANN, *op. cit.*, p. 103.
- ³⁵Waldhorn, et al, *op. cit.*, p. 79.
- ³⁶Michael A. Carroll, "The Impact of General Revenue Sharing on the Urban Planning Process — An Initial Assessment," *Public Administration Review*, Washington, DC, American Society for Public Administration, March/April 1975, p. 146.
- ³⁷ACIR (Report A-60), *op. cit.*, p. 18.
- ³⁸ACIR (Report A-60), *op. cit.*, p. 28.
- ³⁹Richard P. Nathan, et al, *Block Grants for Community Development*, First Report on the Brookings Institution Monitoring Study of the Community Development Block Grant Program, Washington, DC, U.S. Department of Housing and Urban Development, January 1977.
- ⁴⁰Of the 34 grant programs in FY 1975 identified by ACIR staff as having a capacity building purpose in total or in part, these were the only two that were aimed at generalist officials. Functional groups most heavily represented were education, health (including mental), and criminal justice. ACIR (Report A-52), *op. cit.*, Chap. V.
- ⁴¹See Richard P. Nathan, "Federalism and the Shifting Nature of Fiscal Relations," *The Annals*, Philadelphia, PA, American Academy of Political and Social Science, May 1975, pp. 125–126.
- ⁴²Carl W. Stenberg, "Revenue Sharing and Governmental Reform," *The Annals*, Philadelphia, PA, American Society of Political and Social Science, May 1975, pp. 52–53.
- ⁴³See for example the various articles in "General Revenue Sharing and Federalism," *The Annals*, Philadelphia, PA, American Society of Political and Social Science, May 1975.
- ⁴⁴Nathan, Manvel, Calkins, et al, *op. cit.*, p. 308.
- ⁴⁵Nathan, Adams, et al, *op. cit.*
- ⁴⁶*Ibid.*, p. 142.
- ⁴⁷*Ibid.*, p. 149.
- ⁴⁸*Ibid.*, p. 152.
- ⁴⁹*Ibid.*, p. 156.
- ⁵⁰*Ibid.*, p. 158.
- ⁵¹National Science Foundation, Research Applied to National Needs, *General Revenue Sharing Research Utilization Project*, Vol. 4, Washington, DC, U.S. Government Printing Office, December 1975, p. 46. The studies cited in the synthesis included the first Brookings report, a survey of state and local officials by the Survey Research Center of the University of Michigan, a survey of 97 Southern California governments, and a 1974 General Accounting Office report on the impact of GRS on local governments.
- ⁵²*Ibid.*, p. 43.
- ⁵³Stenberg, *op. cit.*, pp. 59–60.
- ⁵⁴See ACIR, *Making the Safe Streets Act Work: An Intergovernmental Challenge* (Report A-36), Washington, DC, U.S. Government Printing Office, September 1970, p. 33.
- ⁵⁵ACIR, *Regionalism Revisited: Recent Areawide and Local Responses* (Report A-66), Washington, DC, U.S. Government Printing Office, June 1977, p. 21.
- ⁵⁶See ACIR, *Safe Streets Reconsidered: The Block Grant Experience — 1968–1975* (Report A-55), Washington, DC, U.S. Government Printing Office, January 1977, p. 81.

⁵⁷ACIR (Report A-36), *op. cit.*, p. 47.

⁵⁸ACIR (Report A-55), *op. cit.*, p. 129.

⁵⁹*Ibid.*, p. 131.

⁶⁰Some observers thought some counties would actually lose manpower funds. See Richard P. Nathan, "Federalism and the Shifting Nature of Fiscal Relations," *The Annals*, Philadelphia, PA, American Academy of Political and Social Science, May 1975, p. 127.

⁶¹ACIR (Report A-31), *op. cit.*, p. 164.

⁶²Nathan, Manvel, Calkins, et al, *op. cit.*, p. 302.

⁶³Nathan, Adams, et al, *op. cit.*, p. 157.

⁶⁴See ACIR, *The Partnership for Health Act: Lessons from a Pioneering Block Grant* (Report A-56), Washington, DC, U.S. Government Printing Office, January 1977.

⁶⁵ACIR (Report A-55), *op. cit.*, pp. 52-55.

⁶⁶*Ibid.*, p. 61.

⁶⁷*Ibid.*, pp. 62-63.

⁶⁸*Ibid.*, p. 96.

⁶⁹See ACIR, *The Comprehensive Employment and Training Act: Early Readings from a Hybrid Block Grant* (Report A-58), Washington, DC, U.S. Government Printing Office, June 1977.

⁷⁰*Ibid.*, p. 35.

⁷¹The 1969 data are not entirely comparable with the 1975 data. However, the source document appeared to be sufficiently similar to the 1975 inventory to warrant the analysis conducted here. The figures used were determined by the ACIR staff, observing where possible the same rules in counting as those used in the summary of the 1975 inventory and which are explained in Technical Note I to Chapter V of the volume on categorical grants in this series, ACIR (Report A-52), *op. cit.*

⁷²See Jay Gilmer, James W. Guest, and Charles Kirchner, "The Impact of Federal Programs and Policies on State-Local Relations," *Public Administration Review*, Special Issue, Washington, DC, American Society for Public Administration, December 1977, p. 777.

Epilogue

Federal grants-in-aid have been a crucial conditioner of intergovernmental relations in this century. Complex and controversial program, personnel, administrative, jurisdictional as well as fiscal issues have been raised by their extraordinary growth, especially during the past dozen years. And most of the range of "theories" that have been enunciated to describe or to prescribe 20th century American federalism have focused heavily on the purposes, patterns, forms and functions of federal aid — whether it be "cooperative," "creative," "new," "permissive," "technocratic," "picket fence," or "bamboo fence" federalism. In short, these intergovernmental fiscal transfers and their many implications for, and impacts on, elected officials, generalists, and general governments at all levels have been central to most efforts to describe and diagnose "cures" for the American federal system.

The preceding 13 volumes in this study probed most of the recent developments in federal (as well as state) aid. Out of the welter of facts, findings and attitudes that this massive research effort has identified, certain broad trends emerge. Some of these trends suggest continuity and an extension in magnified form of those present a decade ago. Others, however, reflect a marked departure from past practices and approaches. Whether a new system of intergovernmental relations has, in fact, emerged in the 70s, depends in large measure on the degree to which these current trends combine to form a predominant pattern of continuity or a major new mosaic resulting from significant change.

THE TRENDS

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What then are the broad trends that characterize current federal-state-local relationships in the assistance area? The overwhelmingly dominant trait of contemporary intergovernmental relations, to which nearly all the others are linked, is the extraordinary degree of "marbleization" that has emerged over the past decade. Never have the functioning, funding, management and manpower of nearly all state and local servicing endeavors been more affected by federal assistance and other related involvement than now. Whether this is merely a larger version of the earlier marble cake metaphor developed by McLean, Grodzins and Elazar or whether it resembles a new style "wedding cake" constructed of several layers of marble cake depends on one's interpretations of the 11 following subsidiary developments.

- The partnership ideal now encompasses all the older members — the federal government, all the states, some special districts, and some urban cities and counties, as well as a whole range of new ones — all local general governments, almost all school districts, some additional special districts and authorities, 2,000 substate regional bodies, and some nonprofit units. Put differently, the eligibility and entitlement provisions of GRS, CETA and CDBG — to cite only the more obvious — have added a host of new local members to the "partnership," with GRS alone reaching all 38,000 local general governments.

- The power position of these members, as the earlier analysis suggests, is somewhat more blurred now than it was a dozen years ago. States are in reduced but still preferred position (since they still receive about 70% of all federal aid to states and localities), but cities, counties and school districts now are accorded a much more honored role than ever before (the direct assistance accorded them soared from 10% of the total of federal aid in 1965 to 30% in FY '78). The federal government retains its senior partner role fiscally, but more and more its problem solving, managerial, and intellectual capacities are being questioned by the other partners.
- In terms of federal administrative discretion, more assistance money (about 75%) now flows pursuant to statutorily dictated formulas than was the case in the mid-60s. GRS, of course, and the bulk of the funds under all five block grants, as well as all formula-based and open-ended categoricals fall in this group. A major feature of this trend was the development for the first time of substate allocational formulas for the new forms of aid going to units of local general government. All this has prompted a new form of "grantsmanship" — involving strenuous efforts to favorably fashion the formulas and to influence eligibility provisions, generally with dollar dispersion a prime result and enhanced regional competition another recent byproduct. It also has placed heavy responsibilities on statistics gatherers to produce better figures to gauge "need," "effort," regional cost of living or service differences, and the like.
- In terms of services aided, all of the big efforts of intergovernmental and national import (like welfare, health, hospitals, transportation and education) are federally aided — with social programs experiencing the greatest dollar and proportionate gains since 1965 — but so are a range of activities that not so long ago were deemed wholly state-local responsibilities (like rural fire protection, libraries, jelly fish control, police, and historical preservation). In some cases, federal grants have generated entirely new service program roles among recipient governments, as with community development and manpower for certain cities and urban counties. The only real counter-trends to this functional marbleizing was the partial "federalization" of the adult welfare categories in 1972 and the emergence of a tiny but perceptible trend toward recipient (especially state) refusal to participate in certain programs (i.e., OSHA).
- The forms of federal assistance, at least outwardly, have changed drastically since 1966, with all the traditional types of categorical grants (project, project-formula, formula, and open end) still in use, along with at least five block grants and general revenue sharing. Categoricals accounted for 79%, block grants 12%, and GRS 9% of the 1977 federal aid package. In jurisdictional terms, cities and counties have benefited far more from the enactment of these newer forms of aid, while states are caught much more in the older categorical system.
- Conditions now are attached to all forms of federal aid. The procedural requirements (civil rights, citizen participation, and auditing requirements) that were added to GRS in 1976 and the hybrid nature of most of the block grants along with their tendency to pick up program and other constraints over time, render inaccurate the older description of these two forms of aid as essentially "no strings" and "few strings" assistance programs, respectively. Moreover the emergence of a range of across-the-board requirements in the environmental, equal access, equal rights, relocation, historic preservation, and personnel areas only underscores the fact that the conditions now attached to practically all federal assistance are infinitely more complex, more controversial (with more judicial decisionmaking), more pervasive (in terms of the number of jurisdictions affected), and more penetrating (in terms of the focus of some on the internal operations of whole governmental jurisdictions) than their largely program-oriented predecessors of the mid-60s.
- Despite the above, the form of aid can make a difference. Recipient discretion still is greater with general revenue sharing than with the other forms, and insofar as block grants cover a fairly wide portion of functional turf and are adequately funded, they, too, confer greater

discretion than do the categoricals. Moreover certain ostensible categoricals in practice become block grants due to a range of factors that can produce lax federal agency oversight. Above all, perhaps, the servicing and fiscal discretion that comes as a consequence of receiving a number of federal grants — whether categorical, block or GRS — must not be discounted at this point in time. Put more succinctly, and relating this discretionary theme to the previous one, increasing conditions characterize the recent evolution of all federal assistance and some of these conditions are more intrusive in a procedural and systemic sense than the old style categorical strings. Still the practical effect on those states and localities that receive a large and mixed package of federal aid now is potentially, if not actually, to expand their fiscal and program options.

- Paralleling the above, the fiscal impact of federal aid is more difficult to gauge now than ever before. Earlier studies tended to agree that this impact was chiefly stimulative of greater state and/or local outlays, either in the aided area or aggregatively. Recent surveys are less conclusive and some suggest merely an additive or even a substitutive effect — especially in the newer forms of aid and with larger urban jurisdictions participating in multiple federal programs. In this connection, the fact that both the community development and manpower block grants require no matching (as well as GRS, of course) should not be overlooked.
- Institutionally, the states and traditional local governmental units, as the foregoing has indicated, have all been affected by the expansion in federal assistance. And a clear attempt has been made for over a decade now to favor general governments and generalists. With the states, significant strengthening of the executive branches generally has occurred over the past decade and a half, but it is difficult to establish any direct links between this development and the growth of federal aid during the same period. With legislatures, there is some evidence in some states that recent efforts to strengthen their power over the purse strings does relate to this rapid growth and to the feeling, on their part, that the executive

branches have been the prime beneficiaries of this rising dollar flow. At the local level, most of the newer direct federal programs have stressed the role of elected officials and a systematic approach to program implementation, but there is meager evidence that this has produced many fundamental management changes in these recipient jurisdictions.

- From another angle, this apparent effort to bolster generalists and general governments has been something of a charade. At the substate regional level (and some would add at the multistate level as well) more than a score of federal aid programs have helped foster the creation of hundreds of single purpose, multicounty planning bodies. This is due to the fact that more times than not the multipurpose, generalist-dominated regional unit has not been designated to carry out the functions of these federal regional programs. The somewhat cluttered institutional scene at the multistate level and the heavily cluttered terrain at the substate level, then, is primarily a product of federal aid programs enacted over the past 15 years. In all but a handful of instances, however, the institutions engendered by these efforts lack political legitimacy and authoritative legality.
- A critical indirect effect of many of the above trends has been the gradual weakening of the representative character of our governments. The imposition of some across-the-board requirements, e.g., affirmative action hiring policies, has tended to remove from state and local legislators decisions on vital social issues, or at least blurred their accountability for such decisions. Increased mandating of public participation procedures on recipient jurisdictions also diffuses legislative responsibility. Initiation of legal challenges to the substance or implementation of grant programs further circumscribes, or threatens to circumscribe, the decisionmaking authority of Congress, state and local legislators, and administrators at all levels.

These, then, are some of the major trends that have emerged during the past decade, and they combine to support the summary generalization that never has the maze of fiscal, functional, regulatory and administrative links between and among the federal government, the states, and all substate units been more

complex, costly and convoluted than it is now. What has prompted this mesmerizing (for the critics) and marvelously intricate (for the proponents) marbleization?

SOME REASONS WHY

Legally, the past decade has seen the near fading away of any real attempts to define national purposes in constitutional terms. The federal right to spend for whatever purposes it desires was sanctioned by the Supreme Court in the 1920s and took on expanded legal and practical meaning in the 1930s. Yet through the early 60s, questions of national purpose and even linkages to expressed powers cited in Article I, Section 8, of the U.S. Constitution were part of the official and public debate accompanying Congressional enactment of major new grant programs. The federal government still defers to the states in matters affecting energy regulation, water rights, and workmen's compensation. Yet the fact that no Court decisions have come down disputing the right of the federal government to involve itself in any grant-in-aid activity leads one to wonder how long these state bastions will remain standing, particularly in regard to energy and water.

Politically, the functional triads that have always formed the national basis for program enactments have multiplied in recent years. These forces (consisting of middle level administrators, subcommittee members, and interest group spokesmen) have not only a national, but frequently a state or local base as well. Moreover to the numerous functional and new social groupings have been added the public interest groups representing elected state and local officials who have been in the forefront of the campaigns to achieve GRS, CETA and CDBG and who sometimes find allies among the upper echelons of the federal departments and of units in the Executive Office of the President. Moreover though the functionalists and generalists appear to be in opposition to one another, they combine to achieve a strong centralizing thrust. These centralizing political trends, however, have been matched by almost a reverse development within Congress and its parties where the forces of dispersion seem as strong as ever, despite recent reforms and new and aggressive leadership.

Fiscally, the recession provides the short-term explanation for some of the recent expansion in the flow of aid, especially to the older cities hit hard by unemployment. But, in a long-term sense, the slow down in economic growth and the revenue and

jurisdictional rigidities at the local (and in some cases the state) level have also contributed to this development. But few programs — GRS being the chief exception — have attempted to use fiscal effort in allocating funds. And the proxies used for "need" frequently are questionable. Put differently, targeting was difficult to achieve, at least until the recent countercyclical legislation (and some would argue whether it targets). The inevitable Congressional (especially Senatorial) tendency to spread funds widely and thinly has dominated, and equity considerations — whether gauged by "need" or "effort" — were lost or compromised in formulas that incorporated two or more factors that frequently "fought each other." All this has been aided by state and local coalitions — whether of elected or functional officers — that naturally have fought any real attempt to differentiate the "haves" from the "have-nots."

Administratively, this marbleization has been abetted by several developments. One is the idea that intergovernmental administration is merely a variant of managing a program within a single administrative system. This view conjures up the image of the old public administration hierarchy and of chain-of-command theories. It was reinforced by the Executive-Legislative Branch impasse of the Nixon years and is partly sustained now by many of the conditions attached to grants, largely pursuant to Congressional dictates. Yet the residuals of contemporary federalism still leave state and local personnel part of their respective and separate systems, as was underscored in the *NLC vs. Usery* case. Moreover in a supervisory sense, sometimes conflicting, lax and understaffed federal agency efforts frequently make even monitoring a fiction.

At the state level, while "single agency" requirements generally have been less intrusive than formerly, variations on these provisions persist and have even prompted a pending court case between Florida and HEW. Among bureaucratic developments at this level is the emergence of divided loyalties that surveys of state administrators have identified. Managers of federally aided programs — whether block grants or categorical — tend to look upward to Washington as much as outward to state policymakers. No doubt a comparable pattern of behavior exists among local administrators in a similar fiscal position. A strong Washington belief in the theory of federal administrative control, supported in practice by various grant conditions and by the loyalty of state and local functional counterparts are some of the administrative developments that have contributed to the marbleization.

Equity considerations also have played a major role. Various of the crosscutting aid requirements relate to this factor and a large number of the more recently enacted programs have been argued in terms of helping poor people, poor governments, or both. Part of this, of course, stems from the perennial tendency of equity issues to be pushed to the highest levels of adjudication and/or legislative amelioration. But part of this also is a product of the marked increase over the past decade in the number of interest groups and of members of Congress who champion equity politics. Centralization, categorical, conditions and caustic criticisms of state and local governments have been the hallmarks of these groups.

Attitudinally, as some of the foregoing suggests, the acceptance by decisionmakers at nearly all levels of what might be called "interest group pragmatism" is the dominant philosophic reason for the heavily marbled system of the 70s. In some respects, this is merely an outgrowth of the constitutional relativism discussed earlier. But it signifies more. Within the national legislative process, it is reflected in the new style omnibus bill with its various titles, mix of aid programs, varying groups of eligible recipients, and ambiguous or even conflicting goals which work against each other. Politically, it is an extension of the coalition building process that is the driving force of all major political parties and of all efforts to enact major legislation. It also is reflected in the steady decline recently in the capacity of our two major parties to absorb and prioritize the demands of the myriad of interests that our increasingly more articulate and heterogenous society produces.

In terms of traditional American pragmatism and its bottom line question, "Will it (or does it) work?" this attitude actually represents something of a departure. Questions of administrative feasibility, of real recipient need and fiscal resources, of actual (or potential) servicing results, after all, are rarely raised now when grants are enacted or renewed. Many agency evaluations conceal as much as they reveal, and probing oversight hearings are as rare now as they were common 20 years ago. Nonetheless, it is a pragmatic attitude that is at play here — a widely shared sentiment that — to paraphrase the late Speaker Rayburn, "To get your grant, you go along with another." Grants, after all, are a major facet of Congressional and federal bureaucratic activity — not to mention interest group, both private and public, concern. They convey the image of action; they can be useful in election campaigns; they can help ameliorate interjurisdictional, as well as interest group, conflicts;

and, above all, they suggest that the national government is being responsive to a range of public needs. Moreover most of the media, most of the intellectual opinion molders, and most politicians still adhere to this theory of responsiveness. "Interest group pragmatism," then, though rarely a point in any officeholder's formally enunciated political creed, serves as a major force in this prolix process of "marbleization."

A NEW SYSTEM?

Tracing the prime factors underpinning the recent trends in federal assistance gives the impression that the "system" is both qualitatively and quantitatively quite different from the prevailing pattern of the mid-60s.

To some, this difference merely represents a logical, if not inevitable, outgrowth of Creative Federalism — with its inclusive ideal of partnership, expansion of direct federalism, growing urban program focus, move into functional areas heretofore almost wholly within the state-local domain, and above all perhaps, expansive definition of national goals which are to be achieved by a range of subnational and quasigovernments using a widening variety of inter-governmental fiscal transfer mechanisms, chiefly of the conditional type.

Others, while conceding that the current system has roots in Creative Federalism, also point to the impact of many of the paradoxes stemming from the New Federalism and certain Congressional initiatives of the Nixon-Ford period. For out of these eight years came:

- not only a conscious effort to curb the growth of categorical grants, but also a net gain of at least 100 additional programs;
- not only a strenuous effort to standardize and simplify grant administration, but also the emergence of both more varied federal agency contacts with more recipient jurisdictions at the local level than had existed before and greater conditional complexities in these relationships; the latter resulted, from a growing Congressional tendency to utilize some grants for regulatory purposes and all grant mechanisms for furthering certain social and environmental goals;
- not only a drive to achieve a devolution of power to generalists and general governments, with some initial preference for the states, but

also a distribution of general revenue sharing funds both to a wide assortment of essentially limited governments as well as to all genuine general governments; and attempts to achieve "special revenue sharing" which produced three block grants that are struggling to retain the degree of recipient discretion initially contemplated, because now they also are attempting to achieve the more explicit national goals specified in their respective programs;

- not only a conscious favoritism towards traditional governments at the state and local level, but also policies which consciously or unconsciously favored the emergence of at least 1,800 single, though broad purpose units at the substate regional level during this period, and of 15 federal multistate units (established solely pursuant to federal legislation);
- not only some attempt to sort out (demarbleize) the assignment of basic program responsibilities according to appropriate governmental levels, but also involvement (with the exception of the partial federalization of the adult welfare categories) of more state and especially local governments in more, and frequently new, joint servicing efforts than was ever the case in the heyday of Creative Federalism; and
- finally, not only the growth of more categoricals and more across-the-board conditions, both suggestive of a continuing federal (especially Congressional) concern with encouraging specific programs and with achieving, if not mandating, a range of national goals, but also the growth of greater recipient discretion — thanks to the fact that this sizeable and varied tripartite assistance package appears to be at least partially substitutive fiscally and to enhance program discretion in cases where jurisdictions partake of many programs.

Those who ponder these paradoxes tend to agree that the fall-out from the Nixon-Ford years is a prime conditioner of the current system as well as a major modifier of the one that functioned in the mid-60s.

Still another set of analysts recognizes the contributions of Creative Federalism and New Federalism, but focus on the efforts of Congress in 1976 and 1977 to assemble a package of assistance programs that would stimulate the national economy and stabilize

state and local governmental operations. In the minds of these observers, it is this federal response to the recent recession and the lagging recovery that constitutes the major molder of the present aid system.

With the local public works program (authorized by Title I of the *Public Works Employment Act of 1976* and expanded by legislation enacted in May 1977), the antirecession fiscal assistance program (established by Title II of this 1976 omnibus legislation and extended as part of the *Intergovernmental Antirecession Act of 1977*), and the major expansion of the public service employment programs (Titles II and VI) of the *Comprehensive Employment and Training Act of 1973* (with the Carter Administration's proposals that were enacted into law in June 1977), a new three-part countercyclical initiative was launched. The countercyclical program is exerting a crucial impact on recipient governments and on the overall aid system as well. This effort is distinctive, they emphasize, because it involves substantial amounts of money (\$13.9 billion from November 1976, to November 1977) and most of it is bypassing and substitutive in character. Moreover it achieves a degree of targeting to older, declining central cities with heavy unemployment that other assistance programs have rarely achieved. In addition, it involves a mix of general support (countercyclical revenue sharing), block grants (CETA Titles II and VI in practice if not in form tend generally to conform to most of the traits of this grant device), and categoricals (Local Public Works) — all ostensibly geared to using state and local governments as agents of national economic stabilization policy and to using a range of different assistance devices with different purposes to help stabilize state and local finances in a period of severe economic uncertainties.

These analysts argue that the goals, strategy, methods of implementation, linkages with other ongoing assistance programs, and unclear (as of the moment) results of this novel countercyclical effort combine to form the most important force affecting current intergovernmental relations. They also would concede, however, that ongoing efforts to devise a new federal urban strategy tend to reveal that many are unaware of the power of this program and of the fact that it already constitutes the most expensive urban undertaking that the federal government has ever mounted. This unawareness may be connected with the "temporary" character of this program. But will it be temporary? Many observers think not, given its importance to many major urban jurisdictions. Others, however, cite growing economic and fiscal trends

VARYING VIEWS OF THIS NEW SYSTEM

that foreshadow early efforts to curb federal spending. These trends include the growing federal deficit, unremitting inflation, the worsening international balance of payments, and rising concern over the deteriorating climate for business investment. Countercyclical and other programs of fiscal stimulation would likely be vulnerable to budgetary retrenchments undertaken in response to these trends.

Has a "new system" been fashioned from Creative Federalism, New Federalism, and the countercyclical undertaking? Anyone comparing the basic features of the system in 1967 (as they were depicted in the Commission's two-volume study of *Fiscal Balance in the American Federal System*) and those of its 1977 counterpart must respond affirmatively. Certain trends (ever-expanding definitions of national purpose; novel and proliferating conditional programs, especially for urban jurisdictions; more and more participating partners; the bypassing of states; and the growing power of functionalists and functional governments) that were identifiable a decade ago clearly have continued, and in vastly expanded form, despite certain subsequent countertrends. To these, older trends have been added: new assistance devices; a new activism on the part of generalist public interest groups; a new trend toward recipient substitution of aid funds for their own fiscal resources; new recipient discretion that flows from the two foregoing developments; a new creeping conditionalism that has regulatory and national purpose, as well as programmatic connotations; and the novel use of a new portion of the assistance package as an instrument of national economic policy implicitly focusing on hyperdistressed older cities.

These older and newer trends combine to suggest that the nation, in fact, has evolved — without really knowing it — a new American federal system with a transformed and terribly complex network of intergovernmental relations. The novelty of this system, however, has been largely unobserved, because the dynamics that shaped it have been largely piecemeal, partial (in a program sense), heavily pluralistic (in terms of inputs and outputs), and perennial. In short, the process at first glance was, and is the traditional one in our system, and it tends to conceal the full impact of a range of incremental intergovernmental initiatives. Yet the volume, variety, pervasiveness and pace of the recent initiatives suggest nontraditional tendencies for the most part, as well as basic reasons for the conclusion that the present system is substantively different from its predecessor of only a decade ago.

While it is impossible to fathom fully the long-term impact of all of these features of this new system of American federalism, varying interpretative views are beginning to emerge.

From the *traditional federalists* — and this group now includes both advocates of the old dual federalism theory and some adherents of the later cooperative federal concept — comes a series of criticisms. The most severe is their charge that the current system, in effect, is quasi-unitary but without even the few positive features of a unitary system. The intergovernmentalizing of most domestic American governmental activities, in their view, has produced a dangerous centralization, an overloading of the system, and a massive muddling of the appropriate administrative, fiscal, and servicing roles of the differing levels.

The ever widening range of recipients, the growing array of aid programs, and the attachment of assorted administrative conditions to all forms of assistance, they believe, have generated the most intrusive federal position ever and an extraordinary centralization of programmatic, regulatory and fiscal decisionmaking in Washington. The size of the assistance flows to several recipients has only engendered a habitual dependency on the national government, thus undercutting the vital sense of state-local self-reliance that is the real basis of a functioning federal system. The increasing bypassing of the states and bilateral federal links with a host of substate governments, undercut administrative effectiveness and constitute a complete misreading of the long-term solutions to metropolitan and rural problems. After all, only the states, they emphasize, have the power to address authoritatively the structural, fiscal, jurisdictional and land use challenges that confront most of these substate units.

Above all, these critics worry about the all-important accountability question. Marbleizing has erased clear lines of accountability. Some of the confusion stems from newer aid programs that treat recipients as mere agents of national policy, they point out. Some of it relates to the growth in conditions which blurs the ostensible differences among categoricals, block grants, and general revenue sharing. Some of it can be traced to the shared views of specialists that are linked by specific aid programs, while some of the dilemma can be traced to the workings of citizen participation requirements. Even the more traditional theory of generalist control is no

longer clear cut, since its application at one level can conflict with its application at another. Diverse theories of accountability have emerged, they point out, which in practice make it impossible to hold any set of officials at any level legitimately responsible for the totality of their official actions.

In their reform efforts, these traditionalists urge strengthening of the states, greater state involvement in local and regional problems, and above all a clarification of the proper federal role in the system. They formerly preferred block grants and general revenue sharing and still favor these forms of assistance over categoricals. Yet they recognize the continuing tendency to add intrusive conditions to any form of federal assistance. Hence they feel the time has come to begin a sorting out of the fiscal-functional roles of each of the levels with a view toward some demarbleizing of the current system. This does not mean that they expect a return to dual federalism, but they do expect a clearer, more circumscribed definition of the proper federal role to emerge from the effort. And this, for them, would mark the beginning of achieving a more balanced, more effectively functioning federal system — one in which the traditional features of diversity, subnational experimentation and initiatives, and a more viable concept of political accountability are encouraged.

Defenders of the new system, who might be classed as *national federalists*, reject these criticisms, arguing that we have become one nation in fact and federalism is a dynamic — not static — process governed by the heavily pluralistic politics that undergirds the entire system. They maintain that a successful federation is one that adapts itself to the needs of the times. And recent intergovernmental relations underscore the continuing capacity of American federalism to be adaptable and responsive to a range of current challenges. The present heavily marbled pattern merely reflects the undeniable fact that ours is an interdependent economy and society. As such, they feel, it should be welcomed, since it suggests a degree of national cohesion that this country has rarely exhibited in the past and various other nations lack now.

The concern with achieving broad national goals in the environmental, equal rights, and equal access areas, they hold, constitutes an affirmative answer to the aspirations of the entire body politic, not merely to certain sectors of it, and from the one source that can act authoritatively for the nation as a whole. Categoricals and heavily conditioned block grants are viewed as the most appropriate means of promoting national objectives. The growing urban focus in

federal aid, the direct contacts with local units, and the expanded dollar flows triggered by the countercyclical program reflect a national sensitivity to the severe fiscal and servicing shackles that constrain local governments, especially older central cities.

The wide diversity of servicing areas and of recipients that are aided by federal grants, they emphasize, is the inevitable concomitant of certain efforts necessary in a bewilderingly heterogeneous society like ours. These include amelioration of group and interjurisdictional antagonisms, tapping the talent of various subnational governmental and quasigovernmental units, and giving a sense of being part of the system to groups and governments that in the past have felt excluded. Conditions are part of the price of participating in assistance programs, they emphasize, and the range of purposes that these constraints now seek to achieve are commendable ones, geared to achieving minimum national levels of program performance, to enhancing recipient administrative and personnel capacity, and to attaining certain widely accepted social and environmental goals.

That the fulcrum for these endeavors should be the federal level is a logical outgrowth of a series of long-term secular developments that have produced an interdependent national society and economy. Flexibility, equity, accessibility, responsiveness, and above all a new nationalism are the hallmarks of the national federalist defense of the present system.

The reform efforts of these nationalists pretty much constitute a continuation of current trends, though with some modifications. Categoricals and constrained block grants would be their preferred intergovernmental fiscal transfer devices. If GRS is retained, it should be used as a lever to promote state and local governmental reorganization. The federal regulatory role would be stepped up, given the unending pressures at the national level on the energy, environmental and developmental fronts. Conditions as a means of achieving quasiregulatory purposes would continue, but in a form and an administrative fashion that would facilitate their more effective implementation. A well orchestrated urban development policy is very much a part of the creed of some of these nationalists, with some adopting a federal-state approach to the challenge and others adhering to the present largely federal-local strategy though with more funding and a better linking of the existing multiple federal program efforts. For both groups, only the national government can provide the leadership for such a difficult undertaking.

A third body of critical opinion incorporates

elements of both of the above schools of thought, though the chief concern of these *pragmatic federalists* is whether the present system works well or even works. Like the nationalists, adherents of this viewpoint are not much interested in static theories of federalism or with philosophic questions relating to centralization or devolution. But they are concerned with the system's functioning and its effects; hence some of their criticisms resemble those of the more traditional federalists.

These pragmatists focus generally on the overload issue and specifically on the effectiveness of federal aid programs, both singly and aggregatedly. In too many instances, they contend, federal efforts have fallen far short of their stated goals. Poor program design, unrealistic expectations, and naive assumptions about implementation and the workings of intergovernmental relations — not just inadequate funding — have produced these poor performance ratings.

While conceding the practical (and political) need for conditions in most grant programs and the validity of national social and environmental goals, these pragmatists point to the many wide gaps between principle and practice in this area of federal controls. They contend that the aggregative impact of these numerous and separately supervised conditions on individual recipient governments has produced a condition that is counterproductive to their realization. In addition, the failure of Congress and the federal agencies to provide the manpower necessary for effective program supervision and evaluation, they claim, makes a mockery of the idea that recipients are agents of national policies. Moreover they believe that the very theory underpinning categorical and, to a lesser degree, block grants with its greater or lesser stress on conditions is thrown into doubt in those cases where recipient fiscal and program discretion actually is enhanced by participating in several aid programs.

They note the federal efforts to establish substate units by means of strings attached to a score of grants and to influence the internal operations of recipient governments and conclude that legitimate and effective jurisdictional or institutional changes can only be achieved by authoritative actions at the state-local level and in response to indigenous needs at these levels. Thus institutional strings attached to federal grant dollars have produced only synthetic results.

The pragmatic federalists, then, focus on the actual operations of the intergovernmentalized system of the mid-70s and find in them a series of defects — defects

which impede the effective delivery of services and which undermine the capacity of the system to solve, or at least to ameliorate, basic social and economic problems confronting the nation. As federalists, they are not totally enamored of economic efficiency and administrative effectiveness in a system such as ours. Yet as pragmatists, they find the trend toward intergovernmentalizing nearly everything to be either futile or counterproductive, functionally. And this runs counter to their preoccupation with actual performance and genuine problem solving.

When grappling with ways and means of making the system more workable, these pragmatists focus primarily on a range of procedures that would reveal clearly what actually results — fiscally, managerially, programmatically, and in a direct servicing sense — from galloping intergovernmentalization. Better and more accounting and auditing efforts, better and more program evaluations, probing and periodic legislative oversight hearings, a more vigilant and intergovernmentally sensitized press corps, and more interest groups of a generalist public policy character are but a few of the means at all levels by which practical results may be matched up against political rhetoric and program promises. In a more comprehensive sense, zero-based budgeting, revamped legislative budgetary processes, and well thought out “sunset” procedures are sanctioned by this group. In short, these pragmatists support whatever combination of forces and procedures that will expedite the discovery of what works from what does not, so that the experiment of American federalism may continue unencumbered by the legacy of ineffective programs and outdated political ideas.

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THE COMMISSION'S POSITION

How does this Commission view the new system of intergovernmental relations? As a bipartisan, national body composed almost wholly of elected officials drawn from the three traditional governmental levels, the ACIR in its reports and in its recommendations inevitably tends to avoid rigid ideological positions and to focus on practical ways of alleviating overt as well as potential points of conflict in the system — whether fiscal, programmatic, jurisdictional or administrative. Its two basic biases are a commitment to a federal principle involving meaningful decisionmaking at all three traditional levels of government and a desire to strengthen the interlevel relationships that are the sinews of this system.

From the 13 preceding reports in this intergovern-

mental grant system series and from certain earlier Commission studies, there emerge some judgments — sometimes explicit, sometimes implicit — regarding many of the trends that have produced the new system. What, then, do the 60 recommendations that are advanced in the first 13 volumes reveal about the Commission's basic assessment of this overriding development? Taken singly, but more frequently in combination with others, these recommendations indicate that the Commission favors some of the developments that have emerged since 1967, but deplores others.

The emergence of a tripartite federal aid system is applauded. After all, this development implements the basic Commission recommendation advanced in its 1967 report on fiscal balance. But the continuance of certain earlier trends and the emergence of some new ones has prompted corrective recommendations in five broad areas: intergovernmental management, grant consolidation, general national policy requirements, systems controls, and functional assignment. In effect, and in an empirical fashion, the Commission has adopted a pentagonal strategy to meet the many challenges that the new system of intergovernmental relations has created.

Turning to the *first component* in this overall strategy, Congressional and federal Executive Branch efforts to simplify and standardize grants management are welcomed. Yet given the paramount position of aid programs in the national government's domestic undertakings, the administration of the management circulars, the leadership and organizational pattern of the Executive Office of the President for intergovernmental relations, and the counterpart departmental and field efforts, all need beefing up. Several of the proposals adopted in the previous reports identify specific ways this might be done. This phase of the Commission's strategy involves an effort to strengthen the politically accountable federal executives and their generalist allies with better links to, better understanding of, and better procedures affecting counterpart officials at recipient governmental levels being a major byproduct of this endeavor. It also involves a comparable effort within the states and localities, and more than a half dozen recommendations indicate how such an effort might be launched.

In all this, however, the multiple thrusts, the many types, and the tremendous variety of the current aid programs must be considered. These, after all, combine to create the basic challenge to effective coordinative management in the Executive Branch. Yet given the aid system as presently constituted, the Commis-

sion believes that no independent Presidential, departmental, or even joint Congressional-Presidential efforts on the management front alone can be effective. The ACIR, in effect, adopts the position that no management improvements per se will succeed unless a simultaneous drive is mounted to bring somewhat greater clarity, more purpose, and more balance to the current federal aid system. More basic reforms then also are needed.

A *second element* in the ACIR strategy, then, is consolidationist oriented. No meaningful restructuring can occur if the nagging problem of numbers is ignored. The proliferation of aid programs in, and of itself would be no problem, the Commission believes, if this development did not have aggregative impacts — managerial, legislative oversight, fiscal, and servicing — that put the so-called aid system beyond the comprehension of both elected officials and the citizenry, as well as generalists and program specialists. No effort to standardize and simplify grant administration can succeed if the substance of what is to be standardized and simplified is not dealt with. And the substance is the awesome arsenal of 442 categoricals for state and local governments, plus more than 100 others for higher education, five block grants, and GRS (as of FY 1975). No common sensical assessment of each of these programs, the Commission believes, would indicate that every single one of them is in the national interest, administratively sensible, fiscally viable, or even currently reflective of the current priorities of various functional interest groups. Hyperspecificity in a program sense, resulting from a hypersensitivity to narrow gauge pressure groups, and narrow definitions of policy issues, have helped produce this problem of numbers. The perennial difficulties of "keeping current" and of assessing aggregative impacts have not helped the situation.

The Commission, therefore, reaffirms its 1967 recommendation calling for a range of consolidations, noting that the conditions that prompted the initial proposal have only become more critical during the intervening decade. Regarding the existing block grants (with the exception of Title I of CETA), earmarkings within should be eliminated and the closely related categoricals outside should be merged with them. With the categoricals, a drastic reduction in the number should be a basic policy goal of the Congress and the President. Programs that are closely related functionally, similar or identical in their objectives, and linked to the same recipient governments represent prime candidates for consolidation. And, the Commission has developed a list of potential

mergers. Whether the result is a larger categorical or a block grant program would depend on the basic purposes that are envisioned for the new program.

To facilitate the development of a meaningful consolidation process, the Commission urges enactment of legislation authorizing the President to submit proposed mergers to Congress, subject to the requirement that each such proposal must be voted up or down within 90 days of submission. The latter provision represents a modification of the Commission's earlier recommendation that adhered closely to the procedures of the old executive reorganization process. This change, we believe, strikes a better balance between executive initiative and final legislative decisionmaking in this highly sensitive area of domestic programs.

These, then, comprise the consolidationist element in the Commission's overall approach toward reforming the federal grant system. Comparable positions regarding state aid can be found in the ACIR report, *The States and Intergovernmental Aid*.¹ But, consolidation alone, or even when linked with a greatly strengthened grants management drive, does not address the range of intergovernmental problems that the current aid system has engendered. Improved grants management and consolidation, after all, were the focal points (along with the call for a tripartite system) of the Commission's 1967 reform agenda. Both clearly are still desperately needed; but, in response to new and troublesome trends that were impossible to foresee a decade ago, other broad reform proposals must be considered.

A *third feature*, then, of the ACIR's 1977 strategy for rendering the new system more purposive, productive and accountable involves the number and growing significance of generally applicable (national purpose) requirements affecting practically all federal aid programs. At first glance, these would appear to fall properly within the purview of improved grants management. But, on closer examination, it becomes clear that these requirements now constitute a challenge in and of themselves, and no set of actions by the Executive Branch alone could end the confusion and controversy that has cropped up in this field. After all, they include such widely divergent and fundamental issues as civil rights, employment conditions and rights, environmental protection, wage rates, relocation benefits, access to governmental information, citizen participation, and rights of the handicapped.

These, of course, are Congressional enactments and reflect general goals that are deemed desirable.

This Commission does not question these goals or their desirability. But, we do question the manner of their administration, their multiple cumulative impact, and the long-term implications of using federal aid devices for various regulatory purposes. These are the questions, then, that force a separate consideration of these new-type conditions.

In response to them, the Commission urges that Congress and the President reassess all such requirements with a view toward consolidating those that are partially or wholly duplicative of one another and eliminating those that have been found to be incapable of implementation or inordinately burdensome (which is to say counterproductive), fiscally or managerially.

For each of those requirements that emerge from this process, the costs of implementation to federal agencies or recipient governments should be recognized and provided for by law. Moreover, for each, a single unit within the Executive Branch should be given clear authority for achieving standardized guidelines and simplified administration. In this effort, the estimated costs of compliance should be considered and "certification acceptance" procedures permitted, wherever appropriate.

In advancing these proposals, the Commission strikes a balance between recognizing the merit of most of the goals embodied in these crosscutting requirements and narrowing the gap between promise and performance that overlap, poor administration, and nonattention to costs and manpower have produced. If these proposals were enacted and implemented, the Commission believes the moral position of the federal government would be enhanced, because the "politics of symbolic posturing" would be counterbalanced by the "politics of fiscal and administrative reality."

A *fourth feature* of this Commission's current grant reform agenda is a series of procedural changes that combine to form a more effective complex of systems controls. The primary component, of course, is the proposed enactment of sunset legislation which would provide at regularly scheduled intervals for the termination and thorough reassessment of all federal aid programs by broad functional areas well in advance of scheduled expiration dates. Those programs that are found worthy would, of course, be reauthorized. The Commission has advanced nine criteria that should govern the direction of the review process, and, if applied, Congress' capacity to assemble the necessary information on which to base a renewal, merger or termination decision would never be in doubt.

Closely linked to the sunset legislation proposal is the overriding need, in our opinion, to identify and to develop a widespread understanding of the assets and liabilities of each of the three basic forms of federal assistance (categoricals, block grants, and general revenue sharing) and of the four types that are subsumed under the categorical heading. The Commission is convinced that no successful restructuring or systems controls can be achieved until there is a widespread appreciation of the fact that the various features of a grant's design — allocational approach, degree of functional latitude or specificity, recipient eligibility, and variety of administrative and other conditions — reveal as much about the real purpose(s) of an assistance program as the goals stated in the initial purpose section (or title) of the enabling statute. The many ways these design features are combined produces the range of grant types that, in this series, has been reduced to six basic ones (the four forms of categoricals, the block grant device, and GRS). And each of the six now has a track record.

Based on this record, the Commission has adopted recommendations that pinpoint when it is most appropriate to use one device rather than another. In our view, grant design and form tell much about grant goals as well as the likelihood of achieving them. And this elemental aspect of the aid picture must be fully appreciated if a sunset process is to succeed.

Other facets of the Commission's emphasis on developing better procedures and techniques for systems controls include recommendations (1) for various Congressional actions to help reduce uncertainty about future funding levels of grant programs; (2) for careful Congressional consideration of the known effects of matching (and nonmatching) when the cost sharing feature of a grant is being decided; (3) for an authoritative study of the effects of maintenance of effort and nonsupplanting requirements; and (4) for a critical review by the Executive Branch and the Congress of imprecise proxies of program need used in allocational formulas. All but the first of these four proposals involves a specific (possible or actual) component of a grant's design, and each, in turn, has received widely varying treatment in both the categorical and block grant sectors of the overall aid package.

All of these specific proposals, of course, could and should be integral parts of a sunset process. They also relate clearly to the grant design recommendations previously cited. Yet the Commission treated these four separately, because each has become a source of recent intergovernmental (and in three

instances of interregional) friction. And this conflict does not stem so much from their specific handling within separate programs as from their aggregate impact(s).

The Commission, then, believes that a systemic approach involving the basic features of grant form and design and a process that mandates a periodic reassessment of these and other attributes of all aid programs is essential if this system is to be brought under some meaningful control. Only through such an effort can the aggregative effects of the new system be gauged and continued or corrected. It is these (largely unanticipated) effects — far more than the impact of individual programs — that have generated some of the most profound changes in current intergovernmental relations. It is the absence of an effective process which encourages an overview of the "system" and its actual impact that is the source of so much frustration in contemporary American federalism. In these recommendations, the Commission seeks that process, and, taken with the recommendations, it provides an array of information and possible guidelines that could be helpful to those that might be part of it.

The *fifth and final feature* of the Commission's pentagonal strategy for coming to grips with the new system of intergovernmental relations involves the fiscal-functional assignment question. Here, some initial components of a demarbleizing approach are advanced. In earlier reports (not in this series), the Commission called for full federal takeover of the funding responsibilities for all public welfare, including general assistance and medicaid, and for state — not federal — assumption of the dominant fiscal responsibility for elementary and secondary education.² The basic rationale for the first reassignment is that welfare programs are so interstate in nature and already so dominated by federal policy that only full federal financing (though with a possible continuing state-local administrative role) makes any sense. With the second, it is argued that the states can and should be held accountable for reduction of school financial disparities and for property tax reform, given their legal authority and crucial fiscal role in both of these interrelated areas.

In yet another earlier report, the Commission urged the states and their localities to join in establishing an assignment of functions process, so that responsibility among these levels of government might be divided more consistently and logically. An ongoing policy and process (involving state ACIRs) was called for in each state. The enabling legislation would

(a) formulate general criteria (i.e., economic efficiency, administrative effectiveness, fiscal and servicing equity, and accountability) for answering basic assignment questions; and (b) set up classification standards for determining which levels should do what in specific servicing cases. The Commission also urged that the federal government respect state-local policies in this area in its grant legislation and administration.

In these ways, the Commission has sought to answer partially the question of who ought to be funding and doing what. The answer, however, gives few clues generally as to the appropriate federal role. Yet pursuant to Congressional mandate enunciated in its renewal of GRS last year, the Commission now is involved in a study and evaluation of

. . . the American federal fiscal system in terms of the allocation and coordination of public resources among federal, state and local governments including, but not limited to, a study and evaluation of —

- 1) the allocation and coordination of taxing and spending authorities between levels of government, including a comparison of other federal government systems;
- 2) state and local governmental organization from both legal and operational viewpoints to determine how general local governments do and ought to relate to each other, to special districts, and to state governments in terms of service and financing responsibilities, as well as annexation and incorporation responsibilities; . . .
- 5) forces likely to affect the nature of the American federal system in the short-term and long-term future and possible adjustments to such system, if any, which may be desirable, in light of future developments.

As a follow-up to this mandate, three volumes currently are contemplated. The first, tentatively entitled "The Federal Role: The Need for Latitude vs. A Search for Limits," will explore the social, economic and political dynamics underlying the expanding role of the national government, especially into fields traditionally the responsibility of the states. The second volume, currently titled "Who Does What? The Governmental Geography of American Federal-

ism," will summarize and, where possible, update past Commission studies on the assignment of functions among states, counties, municipalities, townships, special districts, and regional organizations in light of recent pertinent studies and of the results of the 1977 *Census of Governments*.

The third volume, "Comparative Fiscal Federalism," will assess the extent to which federal systems in other industrialized nations have faced and dealt with some of the issues of fiscal and functional federalism that now are of concern in the United States.

Out of these future studies, a more definitive Commission position on the controversial question of the assignment of fiscal-functional responsibilities among all three governmental levels doubtlessly will emerge.

* * *

SUMMARY RECOMMENDATION: A FIVE-POINT INTERGOVERNMENTAL STRATEGY

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In summary, the Commission has concluded that a five-part strategy is necessary for meeting the challenges that the current system of federal assistance has created. The overall strategy emerges from the three-score recommendations adopted in this multivolume study of *The Intergovernmental Grant System: An Assessment and Proposed Policies* and from a few others appearing in earlier reports. Hence . . .

The Commission recommends that the Congress and the President give due consideration to the findings and recommendations set forth in this series. In terms of developing a much needed, well orchestrated strategy for overcoming the manifold difficulties caused by the increasing intergovernmentalization of nearly every aspect of domestic American governance, the Commission recommends that the Congress and the President give full attention to:

- 1) a joint effort to simplify and standardize, wherever feasible, the procedures and requirements of federal assistance programs. The Commission recognizes that the executive actions alone in this area have proven in the past to be inadequate in the absence of clear Congressional agreement and support. The Commission further recognizes that while the Congress has shown an increasing interest in rationalizing and coordinating its own policy initiatives in intergovernmental and other areas, many of the management challenges still arise from multiple

federal aid actions within many committees and subcommittees dealing with domestic governmental programs. The Commission, then, emphasizes that without a joint approach to federal grants management there is no effective approach;

2) the merger of the more than 448 federal grants-in-aid primarily to state and local governments into a much smaller number of consolidated grants (including both block grants, where appropriate, and broader categorical programs). The Commission is convinced that such consolidations are an indispensable means of rendering the present aid system more comprehensible and manageable to policy officials in the executive and legislative branches and to program administrators at all levels of government. The Commission also finds this device to be one of the essential ways of strengthening most of the existing block grants and of curbing the extraordinary program specificity of dozens of categorical programs;

3) careful assessment, both before and after their enactment, of the impact of generally applicable intergovernmental regulatory standards and procedures, including the federal capacity to enforce them fairly and uniformly; the costs as well as prospective benefits of their achievement; the suitability and necessity of the use of intergovernmental aid programs as a major instrument for pursuing these national objectives; the clarity and precision of the objectives and principles to be applied in their executive and judicial interpretations; and the relationships and possible contradictions between and among these various national policy objectives. The Commission emphasizes that these are the minimum steps necessary to bring some semblance of order to an area wherein regulations have run riot; and

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

crucial conditioners of this system are to be brought under control.

In light of its conclusion that state and local public services have become excessively intergovernmentalized and to fill the obvious gap in a fully developed corrective strategy, the Commission further recommends that the Congress and the President provide for (1) re-examination of federal, state and local roles in, and contributions to the principal functional areas of public policy, including assessments of the desirability of fully nationalizing some functions while reducing, eliminating or forestalling federal involvement in others; (2) an assessment of the interrelationships among the full range of programs in each policy field; and (3) a consideration of the possible use of instruments other than grant-in-aid to realize national objectives. While the Commission has previously indicated its position regarding the areas of welfare and public education, similar studies need to be made for other fields.

* * *

These, then, are the principal concerns of the Advisory Commission on Intergovernmental Relations as it views the present federal assistance system:

- simplification,
- consolidation,
- sensible conditioning,
- effective evaluation, and
- reallocation.

A fivefold strategy, with some points directed at each of these concerns, has been recommended. The Commission believes that each of these issues must be addressed by the Congress and the President if the historical strengths and contributions of each of the three governmental levels — national, state and local — are to be realized in the years ahead and if the federal system of the future is to be an effectively functioning, accountable and authoritative one.

FOOTNOTES

¹Advisory Commission on Intergovernmental Relations, *The States and Intergovernmental Aids* (A-59), Washington, DC, U.S. Government Printing Office, February 1977.

²Advisory Commission on Intergovernmental Relations, *State Aid to Local Government* (Report A-34), Washington, DC, U.S. Government Printing Office, 1969.

Glossary

Listed below for quick reference and general understanding is a glossary of terms that occur in various volumes of this series of reports on the intergovernmental grant system. Most of the terms are defined with greater precision at appropriate points in the individual reports.

Types of Grants

Block Grant—A grant that is distributed in accordance with a statutory formula for use in a variety of activities within a broad functional area largely at the recipient's discretion.

Categorical Grant—A grant that can be used only for specific, narrowly defined activities. Usually legislation details the parameters of the program and specifies the types of eligible activities, but sometimes these may be determined by administrators.

Conditional Grant—A grant that is awarded with limitations (conditions) attached to use of the funds. Both categorical and block grants are conditional, although the categorical grant generally has a greater number and severity of conditions.

Formula-Based Categorical—A categorical grant under which funds are allocated among recipients according to factors specified in legislation or in administrative regulations.

Project Categorical—Nonformula categorical grants awarded on a competitive basis to recipients who submit specific, individual applications in the form and at the times indicated by the grantor agency.

Formula-Project Categorical—A project grant for which a formula specified in statutes or regulations is used to determine the amount available for a state area, and then funds are distributed at the discretion of the administrator in response to project applications submitted by substate entities.

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Open-end Reimbursement Grant—Often regarded as a formula grant, but characterized by an arrangement wherein the federal government commits itself to reimbursing a specified portion of state-local program expenditures with no limit on the amount of such expenditures.

Discretionary Grant—A grant awarded at the discretion of a federal administrator, subject to conditions specified by legislation. Generally used interchangeably with project grant.

General Revenue Sharing—A financial assistance program for states and their general purpose political subdivisions under which funds are distributed by formula with few or no limits on the purposes for which they may be spent and few restrictions on the procedures by which they are spent.

Special Revenue Sharing—Usually used interchangeably with the term block grant. The term was employed by the Nixon Administration in connection with its grant consolidation proposals. Those who consider special revenue sharing a separate form, usually differentiate it from the block grant by its lack of a matching requirement and imposition of fewer conditions on recipient performance.

Target Grant—A grant which “packages” and coordinates funds for wide-ranging public services directed at a specific clientele group or geographic area. Major examples include the Appalachian Regional Development Program, the Community Action Program, and the discontinued Model Cities Program.

Elements or Characteristics of Grants

Allocation Formula—The quantitative formula by which grant funds are distributed to eligible recipients. Usually it is specified in legislation, but sometimes is provided by regulations.

Cost-Sharing—The provisions by which the costs of assisted programs are shared between the grantor and the recipient (and sometimes by third parties).

80 **Closed-end**—A legislative appropriation with a limit, i.e., an “end.” Contrasted with open-end.

Equalization—Varying the size of individual grants in order to provide a more uniform service level among recipients who have different fiscal capacities. Usually achieved by using an income factor in the allocation formula.

Fiscal Factor—A factor in an allocation formula that reflects differences in recipients’ fiscal capacity. See *Equalization*.

Generally Applicable Requirements—Performance requirements that Congress attaches more or less across the board to all grant programs. They are usually imposed to achieve certain national policy objectives, such as uniform relocation benefits, equal employment opportunities, and environmental protection.

Hold Harmless—A grant provision that guarantees recipient grants equal to at least some percentage—often 100%—of a previous year’s grant. It is designed to protect the recipient from sharp decreases in grant revenue due to fluctuations in the formula’s factors or to changes in the formula itself. Often used only for temporary transition periods, staged at decreasing percentages for successive years.

In-Kind Match—A recipient’s fulfilling of its cost-sharing obligation by a contribution other than cash, such as the rental of space or equipment or staff services. Sometimes called “soft-match.”

Maintenance of Effort—A requirement that the recipient maintain the level of program expenditures

financed from his own resources prior to receipt of a grant and use the grant funds to supplement state-local expenditures for the aided activities.

Matching Share—The contribution that recipients are required to make to supplement the grantor’s grant moneys.

High Match—A recipient’s contribution which is 50% or greater.

Low Match—A recipient’s contribution which is less than 50% of the total cost.

Nonimplant Provision—A provision that does not clearly specify an actual level of spending to be maintained (as in a maintenance of effort provision) but merely stipulates that recipients shall maintain spending from their own resources at the level that would have existed in the absence of the federal aid.

Open-end—A program for which Congress has established no limit on the amount of federal funds available for matching recipient expenditures. Examples are the AFDC and Medicaid programs. See *Closed-End*.

Pass-Through—A process by which a state government receives federal grants and passes the money through to substate jurisdictions. Such action may be mandated by the grant statute or result from a state decision.

Program Need Factor—A factor in an allocation formula that reflects differences in recipients’ program needs. Examples are total population, number of school age children, and miles of highway.

Soft-Match—Used interchangeably with the term “in-kind” match.

Impact of Grants

Fungibility—A grant is “fungible” when the recipient is able to use the grant moneys for purposes other than those specified in the grant authorization.

Stimulative—A grant is stimulative when it increases the expenditures of the grantee for the specified activities over and above what they would have been in the absence of the grant.

Substitutive—A grant is substitutive when it is used by the recipient to reduce spending from the recipient’s own sources for the aided activity, freeing these own-source funds for other programs or for tax stabilization or reduction.

Supportive—A grant is supportive when a reduction or withdrawal of the grant is unlikely to weaken support for the aided activity from the recipient's own resources.

Targeted—A grant is considered targeted when its eligibility and allocation provisions are drawn tightly so that only the most "needy" cases are assisted, and the amounts of aid are directly proportional to program needs.

Instruments or Features of Grants Management

Annual Arrangements—A program used by HUD in the early 1970s involving a written agreement with a local chief executive whereby HUD committed itself to approve a number of specific grant programs, with dollar limitations, for the applicant city, and the city in turn agreed to meet project selection criteria and take certain other prescribed steps.

Catalog of Federal Domestic Assistance—A compilation of federal programs of assistance available to states, localities, and other recipients, prepared annually by the Office of Management and Budget and updated semiannually.

Chief Executive Review and Comment (CERC)—A program of the early 1970s under which a city's chief executive was given the right to review and comment on all applications for federal assistance affecting city services and activities before federal funding decisions were made.

Federal Assistance Review (FAR)—A three-year federal effort initiated in the late 1960s, conducted by OMB and agencies represented on the Domestic Council, for the purpose of decentralizing, standardizing and simplifying the federal grant system.

FM Circular 73-2—A federal management circular establishing the principles for audit of federal operations and programs by Executive Branch agencies.

FM Circular 74-4—A federal management circular establishing cost principles applicable to grants and contracts with state and local governments.

FM Circular 74-7—See *OMB Circular A-102* below.

Federal Regional Councils (FRCs)—Standing inter-agency committees composed of regional officials from 11 federal agencies. Located in each of the ten standard federal administrative regions, FRCs are created to assist state and local government by the

coordination of federal program grants and operations in the field.

Integrated Grants Administration (IGA)—An experimental, then demonstration program of the Administration in the early 1970s, geared to simplifying the job of recipients in obtaining federal funds and to enhancing their capacity to integrate federal and other programs, including their funds, directed at common objectives. Superseded by the *Joint Funding Simplification Act of 1974* and OMB Circular A-111.

OMB Circular A-85—A management circular which prescribes a procedure for federal agency consultation with chief executives of state and local general purpose governments in advance of the issuance of new regulations that have an intergovernmental effect.

OMB Circular A-95—A management circular establishing a four-part procedure by which state and local governments and certain others are involved in the evaluation, review and coordination of federal and federally assisted programs and projects before they are approved.

OMB Circular A-102—A management circular establishing uniform administrative requirements for grants-in-aid to state and local governments. Formerly known as FMC 74-7.

OMB Circular A-111—A management circular establishing a procedure permitting and encouraging state and local grant recipients to obtain funds from multiple federal sources through the submission of a single application, a single audit, and negotiation with a single point of federal contact. Superseded the procedure initially established by the IGA.

Planned Variations—A modification of the Model Cities program in the early 1970s which permitted 20 selected cities greater flexibility in the use of federal funds and provided greater coordination of all such funds coming into the cities. Flexibility included authorization to spend funds citywide rather than in limited neighborhoods and to minimize federal administrative requirements.

REGIS—A federal management information subsystem which focused on regional offices and helped to underscore the need for a better system of tracking grant applications.

RMIS—The Regional Management Information System made available to FRCs as new tools for their task of interagency and intergovernmental coordination in the field.

Standard Federal Regions—Ten administrative regions of the federal government established by OMB Circular A-105. See *Federal Regional Councils*.

Treasury Circular (TC) 1082—The Treasury Circular requiring federal grantor agencies to inform states of grant awards made within their jurisdictions.

Legislation Affecting Grant Administration

Section 204, Demonstration Cities and Metropolitan Development Act of 1966—The first federal legislative provision requiring applications for an array of urban assistance programs to be referred to a metropolitan planning body and general purpose local governments in its area for comment as to their consistency with comprehensive planning. It also required areawide planning bodies to be composed of or responsible to elected officials of an areawide governmental unit or constituent general purpose local governments.

Intergovernmental Cooperation Act of 1968—The first successful multifaceted legislative effort by the federal government specifically aimed at improving

the administration of federal grant-in-aid programs. It addresses such issues as better information for governors and state legislators regarding grants coming into their states, the waiver of the single state agency requirement, and better coordination of federal programs having areawide and intergovernmental significance.

Intergovernmental Personnel Act of 1970—Another landmark intergovernmental statute, with the purpose of strengthening state and local personnel administration, training and developing state and local employees, and encouraging the temporary exchange of personnel between the federal government and state and local governments.

Joint Funding Simplification Act of 1974—The legislation which prescribed the program implemented through OMB Circular A-111 (see above).

Federal Program Information Act of 1977—Legislation providing for the continuation and improvement of a central source of information about federal assistance programs, including continual revision and making the information accessible to potential assistance recipients through the use of modern computer technology.

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 states 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.

