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Report to the Chairman, Committee on Economic and Educational Opportunities House of Representatives

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BLOCK GRANTS

Characteristics, Experience, and Lessons Learned

GAO/HEHS-95-74

GAO

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General Accounting Office
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Health, Education, and
Human Services Division

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The Honorable William F. Goodling
Chairman, Committee on Economic and
Educational Opportunities
House of Representatives

Dear Mr. Chairman:

The Congress has become increasingly interested in proposals to reduce the potential fragmentation and duplication that the multitude of categorical programs poses to states and localities. According to the Advisory Commission on Intergovernmental Relations, in fiscal year 1993, 578 federal categorical programs with $182 billion in funding provided assistance to states and localities.

Creating block grants from federal categorical programs is not a new idea. In fact, a report by the Commission on the Organization of the Executive Branch in 1949 concluded, "A system of grants should be established based upon broad categories—such as highways, education, public assistance, and public health—as contrasted with the present system of extensive fragmentation."[1] We have documented the proliferation of categorical programs in numerous social service areas. For example, in the employment training area, we found 163 federal programs administered by 15 departments, with appropriations of $20 billion for fiscal year 1995.[2] In the youth development area, we found 46 federal programs administered by 8 agencies, with appropriations of $5.3 billion specifically earmarked for delinquent and at-risk youth[3] for fiscal year 1995. Similarly, we found over 90 early childhood programs administered by 11 federal agencies.[4]

As agreed with your staff, this report summarizes information on federal block grant programs, assesses the experience of the states operating under them and identifies lessons learned that can be useful to the Congress as it considers creating a new set of block grants.

[1]A Report to Congress on Federal-State Relations (Washington, D.C.: 1949) from George E. Peterson, et al., The Reagan Block Grants: What Have We Learned? (Washington, D.C.: The Urban Institute Press, 1986).

[2]Multiple Employment Training Programs: Major Overhaul Needed to Create a More Efficient, Customer-Driven System (GAO/T-HEHS-95-70, Feb. 6, 1995).

[3]Multiple Youth Programs (GAO/HEHS-95-60R, Jan. 19, 1995).

[4]Early Childhood Programs: Multiple Programs and Overlapping Target Groups (GAO/HEHS-94-4FS, Oct. 31, 1994).

To do our work, we reviewed our earlier studies of the block grants created in 1981 and their implementation in 13 states, and our more recent work on block grant programs in the health, education, and social services areas.[5] (See app. I for a more detailed discussion of our objectives, scope, and methodology.)

Results in Brief

A total of 15 block grant programs with funding of $32 billion are in effect today, constituting a small portion of the total federal aid to states—$206 billion for 593 programs in fiscal year 1993. As part of the Omnibus Budget Reconciliation Act of 1981 (OBRA), 9 block grants were created from about 50 of the 534 categorical programs in effect at that time. This was the most recent and substantial effort to consolidate federal programs and broaden program flexibility among states. OBRA created block grants in the areas of health services, low-income home energy assistance, substance abuse and mental health, social services, community development, and community services.

In general, where states had operated programs, transition to block grants was smoother as states relied on existing management and service delivery systems. However, the transition was not as smooth for two block grants—Low-Income Home Energy Assistance and Community Services—because the categorical programs that the block grants replaced had been almost entirely federally funded, or local service providers had dealt directly with the federal agencies, largely bypassing the state. State officials generally reported administrative efficiencies in managing block grants as compared with categorical programs, although administrative cost savings were difficult to quantify. Although states experienced a 12-percent funding reduction when the block grants were created, they used a variety of approaches, such as using carry-over funds from the categorical programs and adding state revenues, to help them offset the funding reductions in the first several years.

Several concerns emerged over time. First, because initial funding allocations were based on prior categorical grants, they were not necessarily equitable. Second, problems persist in terms of the kinds of information available for the Congress and program managers to effectively oversee block grants. Third, state flexibility was reduced as funding constraints were added to block grants over time.

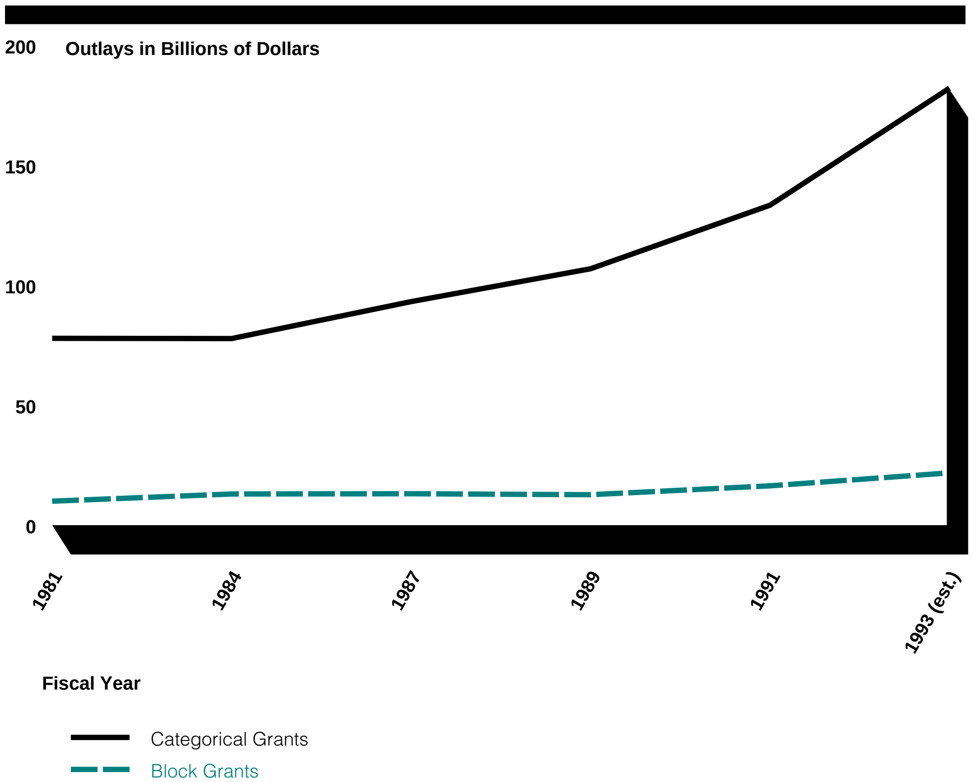
[5]Our look at the 1981 block grants, while extensive, covered 13 states that were not representative of the nation as a whole.

Our research suggests that three lessons can be drawn from the experience with the 1981 block grants that would have value to the Congress as it considers creating new block grants. First, there clearly is a need to focus on accountability for results, and the Government Performance and Results Act may provide such a framework. Second, funding allocations based on distributions under prior categorical programs may be inequitable because they do not reflect need, ability to pay, and variations in the cost of providing services. Finally, states handled the transition to the 1981 block grants, but today's challenges are likely to be greater. The programs being considered for inclusion in block grants not only are much larger but also, in some cases, such as Aid to Families with Dependent Children, which provides cash assistance to the poor, are fundamentally different from those programs included in the 1981 block grants.

Characteristics of the 1981 Block Grants

Block grants are broader in scope and offer greater state discretion in the use of funds than categorical programs; in addition, block grants allocate funding on the basis of a statutory formula. Block grants have been associated with a variety of goals, including encouraging administrative cost savings, decentralizing decisionmaking, promoting coordination, spurring innovation, and providing opportunities to target funding. However, block grants have historically accounted for only a small proportion (11 percent) of grants to states and localities, as figure 1 shows. Before OBRA created nine block grants in 1981, three block grants had been created under President Nixon for community development, social services, and employment and training. More recently, the Job Training Partnership Act was passed in 1982, and the largest block grant program in terms of funding, the Surface Transportation Program, was created in 1991. (See app. II for a more detailed discussion of block grants.)

Figure 1: Block Grants Are Small Portion of All Grants



Note: Outlays for block grants include some broad-based grants. All outlays are in current dollars.

Source: U.S. Advisory Commission on Intergovernmental Relations.

OBRA Created Nine Block Grants

Under OBRA, the administration of numerous federal domestic assistance programs was substantially changed by consolidating more than 50 categorical grant programs and 3 existing block grants into 9 block grants and shifting primary administrative responsibility for these programs to the states. The OBRA block grants carried with them significantly reduced federal data collection and reporting requirements as compared to the previous categorical programs, although some minimal requirements were maintained to protect federal interests. Overall, federal funding was reduced by 12-percent, or about $1 billion, but varied by block grant. (See app. III for a more detailed discussion of the 1981 block grants. App. VI includes a bibliography on block grants.)

States were given broad discretion under the block grants to decide what specific services and programs to provide, as long as they were directly related to the goals of the grant program. Four of the block grants were for health, three for social services, and one each for education and community development.

The three block grants that were in place prior to OBRA but were modified by OBRA were (1) the Health Incentives Grant for Comprehensive Public Health, which was incorporated into the Preventive Health and Health Services Block Grant; (2) the Title XX Block Grant, which was expanded into the new Social Services Block Grant; and (3) the Community Development Block Grant, which had been in existence since 1974. Under OBRA, Community Development Block Grant funds for cities with a population under 50,000 were given to the states to allocate. In two cases (the Primary Care and Low-Income Home Energy Assistance Block Grants), a single categorical program was transformed into a block grant.

Overall Federal Funding Reduced

Overall federal funding for the block grants in 1982 was about 12 percent, or $1 billion, below the 1981 level for the categorical programs, as table 1 shows. However, changes in federal funding levels for the block grants varied by block grant—ranging from a $159 million, or 30-percent, reduction in the Community Services Block Grant, to a $94 million, or 10-percent, increase in the Community Development Block Grant. The Social Services Block Grant was reduced by the largest amount—$591 million, representing a 20-percent reduction.

Table 1: Changes in Federal Funding Levels Varied by 1981 Block Grant

Dollars in thousands

Block grant	FY 1981 appropriations for categorical programs	FY 1982 appropriations for block grants	Percent change
Community Services	$525,000	$366,000	–30
Alcohol, Drug Abuse, and Mental Health Services	585,000	432,000	–26
Primary Care	327,000	247,000	–25
Social Services	2,991,000	2,400,000	–20
Maternal and Child Health	455,000	374,000	–18
Preventive Health and Health Services	93,000	82,000	–12
Education (Chapter 2)	536,000	470,000	–12
Low-Income Home Energy Assistance	1,850,000	1,875,000	+1
Community Development (Small Cities)	926,000	1,020,000	+10
Total	**$8,288,000**	**$7,266,000**	**–12**

Source: Early Observations on Block Grant Implementation (GAO/GGD-82-79, Aug. 24, 1982) and Block Grants Brought Funding Changes and Adjustments to Program Priorities (GAO/HRD-85-33, Feb. 11, 1985).

Funding and Other Requirements Viewed as Less Onerous

The funding and other federally imposed requirements attached to the 1981 block grants were generally viewed by states as less onerous than under the prior categorical programs. Funding requirements were used to (1) advance national objectives (for example, providing preventive health care, or more specifically, to treat hypertension); (2) protect local service providers who have historically played a role in service delivery; and (3) maintain state contributions. Set-aside requirements and cost ceilings were used to ensure certain services are provided. For example, the Preventive Health and Health Services Block Grant required that 75 percent of its funding be used for hypertension. A limitation in the Low-Income Home Energy Assistance Block Grant specified that no more than 15 percent of funds be used for residential weatherization. Pass-through requirements—notably the requirement that 90 percent of 1982 allocations under the Community Services Block Grant be awarded to community action agencies—were used to protect local service providers. The community action agencies were the primary service providers under the prior categorical program. Finally, provisions were included to maintain state involvement by preventing states from substituting federal for state funds.

Data Collection and Reporting Requirements Reduced

Block grants carried with them significantly reduced federal data collection and reporting requirements compared with categorical programs. Under the categorical programs, states were required to comply with specific procedures for each program, whereas the block grants had only a single set of procedures, and the administration decided to largely let the states interpret the compliance provisions in the statute. Federal agencies were prohibited from imposing burdensome reporting requirements and, for many of the block grants, states were allowed to establish their own program reporting formats. However, some data collection and reporting requirements were contained in each of the block grants as a way to ensure some federal oversight in the administration of block grants.[6] Block grants generally require the administering federal agency to report to the Congress on program activities; provide program assessment data, such as the number of clients served; or conduct compliance reviews of state program operations. Basic reporting requirements also exist for state agencies.

Experience Operating Under the 1981 Block Grants

In general, the transition from categorical programs to block grants following the passage of OBRA was smooth, with states generally relying on existing management and service delivery systems. Although some continuity in funding was evident, states put their own imprint on the programs. States used a number of mechanisms to offset federal reductions for block grant programs. Block grant allocations were initially based on allocations under the prior categorical programs and were not sensitive to relative need, cost of providing services, or states' ability to pay, posing concerns regarding their equity. Steps have been taken to improve program accountability, but problems such as noncomparable data persist. Finally, the lack of information on program activities and results may have contributed to the Congress' adding funding constraints to block grants over time. (See app. IV for a more detailed discussion of the experience operating under the 1981 block grants.)

Transition to Block Grants Smooth, Efficiencies Experienced

For the most part, states were able to rely on existing management and service delivery systems. States consolidated offices or took other steps to coordinate related programs. For example, Florida's categorical programs

[6] Block Grants: Federal Data Collection Provisions (GAO/HRD-87-59FS, Feb. 24, 1987).

had been administered by several bureaus within the state's education department; under the Education Block Grant all the responsibilities were assigned to one bureau.

State officials generally found federal requirements placed on the states under the block grants created in 1981 to be less burdensome than those of the prior categorical programs. For example, state officials in Texas said that before the Preventive Health and Health Services Block Grant, the state was required to submit 90 copies of 5 categorical grant applications. Moreover, states reported that reduced federal application and reporting requirements had a positive effect on their management of block grant programs. In addition, some state agencies were able to make more productive use of their staffs as personnel devoted less time to federal administrative requirements and more time to state-level program activities.

Although states reported management efficiencies under the block grants, they also experienced increased grant management responsibilities because they had greater program flexibility and responsibility. It is not possible to measure the net effect of these changes in state responsibilities on the level of states' administrative costs. In addition, cost changes could not be quantified due to the absence of uniform state administrative cost definitions and data, as well as a lack of comprehensive baseline data on prior categorical programs.

States Offset Funding Reductions Through Variety of Mechanisms

States took a variety of approaches to help offset the 12-percent overall federal funding reduction experienced when the categorical programs were consolidated into the block grants. Together, these approaches helped states replace much of the funding reductions during the first several years. For example, some states carried over funding from the prior categorical programs. This was possible because many prior categorical grants were project grants that extended into fiscal year 1982. States also offset federal funding reductions through transfers among block grants. The 13 states transferred about $125 million among the block grants in 1982 and 1983. About $112 million, or 90 percent, entailed moving funds from the Low-Income Home Energy Assistance Block Grant to the Social Services Block Grant. The transfer option was used infrequently between other block grants, although it was allowed for most. States also used their own funds to help offset reduced federal funding, but only for certain block grants. In the vast majority of cases, the 13 states increased their contribution to health-related or the Social Services Block Grant programs—areas of long-standing state involvement—between 1981 and 1983.

Federal Funding Allocations Based on Prior Categorical Grants

Initially, most federal funding to states was distributed on the basis of their share of funds received under the prior categorical programs in fiscal year 1981. Such distributions may not be sensitive to populations in need, the relative cost of services in each state, or states' ability to fund program costs.

With the exception of the Social Services Block Grant and Community Development Block Grant, all block grants included a requirement that the allocation of funds take into account what states received in previous years in order to ease the transition to block grants. For example, under the Alcohol, Drug Abuse, and Mental Health Services Block Grant, funds were distributed among the states for mental health programs in the same proportions as they were distributed in fiscal year 1981. For alcohol and drug abuse programs, funds had to be distributed in the same proportions as in fiscal year 1980.

Today, most block grants use formulas that more heavily weigh beneficiary population and other need-based factors. For example, the Community Development Block Grant uses a formula that reflects poverty, overcrowding, age of housing, and other measures of urban deterioration. The formula for the Job Training Partnership Act Block Grant considers unemployment levels and the number of economically disadvantaged people in the state. This formula is also used to distribute funds to local service delivery areas. However, three block grants—Community Services, Maternal and Child Health Services, and Preventive Health and Health Services—are still largely tied to 1981 allocations.

Steps Taken to Improve Accountability, but Problems Persist

Block grants significantly reduced the reporting burden imposed by the federal government on states compared with previous categorical programs. However, states stepped in and assumed a greater role in oversight of the programs, consistent with the block grant philosophy. The 13 states we visited generally reported that they were maintaining their level of effort for data collection as under the prior categorical grants. States tailored their efforts to better meet their own planning, budgetary, and legislative needs. Given their new management responsibilities, states sometimes increased reporting requirements for local service providers.

However, the Congress, which maintained interest in the use of federal funds, had limited information on program activities, services delivered, and clients served. This was because there were fewer federal reporting requirements, and states were given the flexibility to determine what and how to report program information. Due to the lack of comparability of information across states, state-by-state comparisons were difficult. In response to this situation, model criteria and standardized forms were developed in 1984 to help states collect uniform data, primarily through voluntary cooperative efforts by the states. However, continued limitations in data comparability reduced the usefulness of the data to serve the needs of federal policymakers, such as for allocating federal funds, determining the magnitude of needs among individual states, and comparing program effectiveness among states.

Just as with data collection and reporting, the Congress became concerned about financial accountability in the federal financial assistance provided to state and local entities. With the passage of the 1984 Single Audit Act, the Congress promoted more uniform, entitywide audit coverage than was achieved under the previous grant-by-grant audit approach. We have found the single audit approach has contributed to improving financial management practices in state and local governments. Systems for tracking federal funds have been improved, administrative controls over federal programs have been strengthened, and oversight of entities receiving federal funds has increased. However, the single audit process is not well designed to assist federal agencies in program oversight, according to our 1994 review.[7]

To illustrate, we found limitations with the usefulness of single audit reports. For example, reports do not have to be issued until 13 months after the end of the audit period, which many federal and state program managers found too late to be useful. In addition, managers are not required to report on the adequacy of their internal control structures, which would assist auditors in evaluating the entity's management of its programs. In addition, the results of the audits are not being summarized or compiled so that oversight officials and program managers can easily access and analyze them to gain programwide perspectives and identify leads for follow-on audit work or program oversight. Yet, we believe that the Single Audit Act is an appropriate means of promoting financial accountability for block grants, particularly if our recommended improvements are implemented.

[7]Single Audit Act: Refinements Can Improve Usefulness (GAO/AIMD-94-133, June 21, 1994).

State Flexibility Reduced Over Time as Funding Constraints Added

Even though block grants were intended to increase state flexibility, over time additional constraints were placed in these programs that had the effect of "recategorizing" them. These constraints often took the form of set-asides, requiring a minimum portion of funds to be used for a specific purpose, and cost-ceilings, specifying a maximum portion of funds that could be used for other purposes. This trend reduced state flexibility. Many of these restrictions were imposed because of congressional concern that states were not adequately meeting national needs.

In nine block grants, from fiscal years 1983 and 1991, the Congress added new cost ceilings and set-asides or changed existing ones 58 times.[8] Thirteen of these amendments added new cost ceilings or set-asides to 9 of 11 block grants we reviewed. Between fiscal years 1983 and 1991, the portion of funds restricted under set-asides increased in three block grants (Maternal and Child Health Services; Community Development, and Education). For example, set-asides for the Maternal and Child Health Services Block Grant restricted 60 percent of total funding (30 percent for preventive and primary care services for children and 30 percent for children with special health care needs).

Lessons Learned

Our research suggests that three lessons can be drawn from the experience with the 1981 block grants that would have value to the Congress as it considers creating new block grants. First, there clearly is a need to focus on accountability for results, and the Government Performance and Results Act may provide such a framework. Second, funding allocations based on distributions under prior categorical programs may be inequitable because they do not reflect need, ability to pay, and variations in the cost of providing services. Finally, states handled the transition to the 1981 block grants, but today's challenges are likely to be greater. The programs being considered for inclusion in block grants not only are much larger but also, in some cases, such as Aid to Families with Dependent Children, which provides cash assistance to the poor, are fundamentally different from those programs included in the 1981 block grants. (See app. V for a more detailed discussion of lessons learned.)

Need to Focus on Accountability for Results

One of the principal goals of block grants is to shift responsibility for programs from the federal government to the states. This includes priority setting, program management, and, to a large extent, accountability.

[8]Block Grants: Increases in Set-Asides and Cost Ceilings Since 1982 (GAO/HRD-92-58FS, July 27, 1992).

However, the Congress and federal agencies maintain an interest in the use and effectiveness of federal funds. Paradoxically, accountability may be critical to preserving state autonomy. When adequate program information is lacking, the 1981 block grant experience demonstrates that the Congress may become more prescriptive. For example, funding constraints were added that limited state flexibility, and, in effect, "recategorized" some of the block grants.

Across the government, we have recommended a shift in focus of federal management and accountability toward program results and outcomes, with correspondingly less emphasis on inputs and rigid adherence to rules.[9] This focus on outcomes is particularly appropriate for block grants, given their emphasis on providing states flexibility in determining the specific problems they wish to address and the strategies they plan to employ to address those problems. The flexibility block grants allow should be reflected in the kinds of national information collected by federal agencies. The Congress and agencies will need to decide the kinds and nature of information needed to assess program results.

While the requirements in the Government Performance and Results Act (GPRA) of 1993 (P.L. 103-62) apply to all federal programs, they also offer an accountability framework for block grants. Consistent with the philosophy underlying block grants, GPRA seeks to shift the focus of federal management and accountability away from a preoccupation with inputs, such as budget and staffing levels, and adherence to rigid processes to a greater focus on outcomes and results. GPRA is in its early stages of implementation, but by the turn of the century, annual reporting under this act is expected to fill key information needs. Among other things, GPRA requires every agency to establish indicators of performance, set annual performance goals, and report on actual performance, in comparison with these goals, each March beginning in the year 2000. Agencies are now developing strategic plans (to be submitted by Sept. 30, 1997) articulating the agency's mission, goals, and objectives preparatory to meeting these reporting requirements.

In addition, although the single audit process is not well designed to assist federal agencies in program oversight, we believe that it is an appropriate means of promoting financial accountability for block grants, particularly if our recommended improvements are implemented.

[9] Improving Government: Actions Needed to Sustain and Enhance Management Reforms (GAO/T-OCG-94-1, Jan. 27, 1994) and Improving Government: Measuring Performance and Acting on Proposals For Change (GAO/T-GGD-93-14, Mar. 23, 1993).

Equitable Funding Formulas Reflect Need and Ability to Pay

The Congress will need to make tough decisions on block grant funding formulas. Public attention is frequently focused on allocation formulas because there will always be winners and losers. Three characteristics of formulas to better target funds include factors that consider (1) state or local need; (2) differences among states in the costs of providing services; and (3) state or local ability to contribute to program costs. To the extent possible, equitable formulas rely on current and accurate data that measure need and ability to contribute. We have reported on the need for better population data to better target funding to people who have a greater need of services.[10]

Today's Transition Challenges Likely Greater Than in 1981

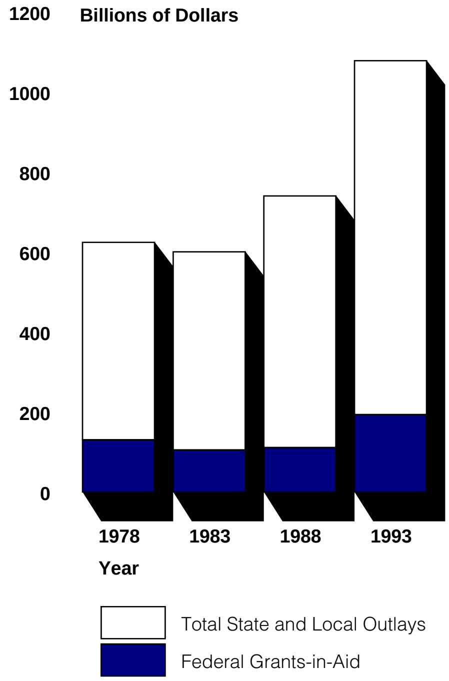
The experience managing the 1981 block grants contributed to increased state management expertise. Overall, states have become more capable of responding to public service demands and initiating innovations during the 1980s and 1990s. Many factors account for strengthened state government. Beginning in the 1960s and 1970s, states modernized their government structures, hired more highly trained individuals, improved their financial management practices, and diversified their revenue systems.[11]

State and local governments have also taken on an increasing share of the responsibility for financing this country's domestic expenditures. As figure 2 illustrates, state and local government expenditures have increased more rapidly than federal grants-in-aid. Between 1978 and 1993, state and local outlays increased dramatically, from $493 billion to $884 billion in constant 1987 dollars.

[10]Federal Aid: Revising Poverty Statistics Affects Fairness of Allocation Formulas (GAO/HEHS-94-165, May 20, 1994) and Federal Formula Programs: Outdated Population Data Used to Allocate Most Funds (GAO/HRD-90-145, Sept. 27, 1990).

[11]Federal-State-Local Relations: Trends of the Past Decade and Emerging Issues (GAO/HRD-90-34, Mar. 22, 1990). Other GAO work on intergovernmental trends includes State and Local Finances: Some Jurisdictions Confronted by Short- and Long-Term Programs (GAO/HRD-94-1, Oct. 6, 1993) and Intergovernmental Relations: Changing Patterns in State and Local Finances (GAO/HRD-92-87FS, Mar. 31, 1992).

Figure 2: State Program Funding Is Increasing



Note: Federal grants in aid and state and local outlays are expressed in inflation-adjusted dollars (1987=100).

Source: U.S. Advisory Commission on Intergovernmental Relations.

Many factors contribute to state fiscal conditions, not the least of which are economic. In addition, state officials have expressed concern about unfunded mandates imposed by the federal government. Practices such as “off-budget” transactions could obscure the long-term impact of program costs in some states. In addition, while states’ financial position has improved on the whole,[12] the fiscal gap between wealthier and poorer states and localities remains significant, in part due to federal budget cuts. We reported in 1993 that southeastern and southwestern states, because of greater poverty rates and smaller taxable resources, generally were among the weakest states in terms of fiscal capacity.

[12] The National Governors’ Association and the National Association of State Budget Officers, reported that the steady growth of the economy has been favorable for state budgets. See The Fiscal Survey of the States (Washington, D.C.: 1994).

New block grant proposals include programs that are much more expansive than block grants created in 1981 and could present a greater challenge for the states to both implement and finance. Nearly 100 programs in five areas—cash welfare, child welfare and abuse programs, child care, food and nutrition, and social services—could be combined, accounting for more than $75 billion of a total of about $200 billion in federal grants to state and local governments. The categorical programs, which were replaced by the OBRA block grants, accounted for only about $6.5 billion of the $95 billion 1981 grant outlays.

In addition, the present block grant proposals include programs that are fundamentally different from those included in the 1981 block grants. For example, Aid to Families with Dependent Children (AFDC) provides direct cash assistance to individuals. Given that states tend to cut services and raise taxes during economic downturns to comply with balanced budget requirements, these cash assistance programs could experience funding reductions affecting vulnerable populations at a time when the AFDC population is likely growing. At the same time, the needs to assist these vulnerable populations would be increasing. In addition, some experts suggest that states have not always maintained state funding for cash assistance programs in times of fiscal strain.

Because the information presented in this report was largely based on previously issued reports, we did not obtain agency comments. We are sending copies of this report to the Director, Office of Management and Budget; the Secretaries of Education, Health and Human Services, Labor, and other federal departments; and other interested parties.

If you or your staff have any questions concerning this report, please call me at (202) 512-7014. Major contributors to this report are listed in appendix VII.

Sincerely yours,

Linda G. Morra

Linda G. Morra
Director, Education and
Employment Issues

Contents

Abbreviations

ACIR	U.S. Advisory Commission on Intergovernmental Relations
ADMS	Alcohol, Drug Abuse, and Mental Health Services Block Grant
AFDC	Aid to Families with Dependent Children
CDBG	Community Development Block Grant
CETA	Comprehensive Employment and Training Act
CSBG	Community Services Block Grant
GPRA	Government Performance and Results Act
HHS	Department of Health and Human Services
JTPA	Job Training Partnership Act
LIHEAP	Low-Income Home Energy Assistance Block Grant
MCH	Maternal and Child Health Services Block Grant
OBRA	Omnibus Budget Reconciliation Act of 1981
OMB	Office of Management and Budget
PHHS	Preventive Health and Health Services Block Grant
PIC	private industry council
SSBG	Social Services Block Grant

Objectives, Scope, and Methodology

To review the experience with block grants, we examined our past work on the implementation of the block grants created by the Omnibus Budget Reconciliation Act of 1981 (OBRA). The work consists of a series of reports on each of the major block grants, which were released during the early to mid-1980s, as well as several summary reports of these findings released in 1985.[13]

To update this work, we reviewed our more recent work on block grants as part of our overall program oversight efforts, focusing on block grants in the health, education, and social services areas. For example, in the early 1990s, we issued reports on the administration of the Low-Income Home Energy Assistance Block Grant (LIHEAP); drug treatment efforts under the Alcohol, Drug Abuse, and Mental Health Services Block Grant (ADMS); and oversight issues with respect to the Community Development Block Grant (CDBG). In 1992, we also looked at the distribution of funds under the Maternal and Child Health Services Block Grant (MCH). We have closely tracked the implementation of the Job Training Partnership Act (JTPA) Block Grant since its inception in 1982 and have looked at the Child Care and Development Block Grant, created in 1990, in the context of our other work on child care and early childhood programs. For a list of GAO and other key reports on block grants, refer to appendix VI.

Our review of the implementation of the 1981 block grants was done in the early to mid-1980s and was based on work in 13 states. These 13 states—California, Colorado, Florida, Iowa, Kentucky, Massachusetts, Michigan, Mississippi, New York, Pennsylvania, Texas, Vermont, and Washington—received about 46 percent of the 1983 national block grant appropriations and accounted for about 48 percent of the nation's population. The results may not be projected to the nation as a whole, although the 13 states represent a diverse cross section of the country. While our more recent oversight work updates some of our understanding of how block grants have been implemented, we have not done a systematic review of block grants themselves since these earlier reports.

[13]Block Grants: Overview of Experiences to Date and Emerging Issues (GAO/HRD-85-46, Apr. 3, 1985); State Rather Than Federal Policies Provided the Framework for Management Block Grants (GAO/HRD-85-36, Mar. 15, 1985); Block Grants Brought Funding Changes and Adjustments to Program Priorities (GAO/HRD-85-33, Feb. 11, 1985); A Summary and Comparison of the Legislative Provisions of the Block Grants Created by the 1981 Omnibus Budget Reconciliation Act (GAO/IPE-83-2, Dec. 30, 1982); and Lessons Learned From Past Block Grants: Implications for Congressional Oversight (GAO/IPE-82-8, Sept. 23, 1982). In addition, between 1983 and 1984, we issued a series of reports on 7 of the 9 block grants created by OBRA. The Primary Care Block Grant was not included because few states had accepted the block grant; CDBG was not included in this series because we had done an earlier study involving different states.

Background on Block Grants

Block grants are broader in scope and offer greater state flexibility in the use of funds than categorical programs. They have been associated with a variety of goals, including encouraging administrative cost savings, decentralizing decisionmaking, promoting coordination, spurring innovation, and providing opportunity to target funding. Before OBRA created nine block grants, three block grants had been created by President Nixon for community development, social services, and employment and training. More recently, the Job Training Partnership Act was passed in 1982, and the largest block grant program in terms of funding, the Surface Transportation Program, was created in 1991. Today, a total of 15 block grants are in effect, although block grants today, as they have historically, represent only a small proportion (about 11 percent) of all grants-in-aid to states and localities.

Block Grant Features

Block grants are a form of federal aid authorized for a wider range of activities compared with categorical programs, which tend to be very specific in scope. The recipients of block grants are given greater flexibility to use funds based on their own priorities and to design programs and allocate resources as they determine to be appropriate. These recipients are typically general purpose governments at the state or local level, as opposed to service providers (for example, community action organizations).

Administrative, planning, fiscal, and other types of reporting requirements are kept to the minimum amount necessary to ensure that national goals are being accomplished. Federal aid is distributed on the basis of a statutory formula, which results in narrowing the discretion of federal administrators and providing a sense of fiscal certainty to recipients.

Block Grant Goals

Block grants have been associated over the years with a variety of goals, each of which has been realized to a greater or lesser degree depending upon the specific block grant.

Block grant proponents argue that administrative cost savings would occur as a by-product of authorizing funds in a broadly defined functional area as block grants do, rather than in several narrowly specified categories. These proponents say that block grants provide a single set of requirements instead of numerous and possibly inconsistent planning, organization, personnel, paperwork, and other requirements of categorical programs.

Decisionmaking is decentralized in that state and local recipients are encouraged to identify and rank their problems, develop plans and programs to deal with them, allocate funds among various activities called for by these plans and programs, and account for results. At the same time, block grants can eliminate federal intradepartmental coordination problems arising from numerous categorical grants in the same functional area, as well as help state and local recipients better coordinate their activities. Still another objective of the block grant is innovation—recipients are free to use federal funds to launch activities that otherwise could not be undertaken.

By distributing aid on the basis of a statutory formula, block grants aim to better target federal funds on jurisdictions having the greatest need. However, a critical concern about block grants is whether the measures used—population, income, unemployment, housing, and overcrowding, among others—are accurate indicators of need and can be made available in a timely fashion. By contrast, a project-based categorical program would emphasize grantsmanship in the acquisition of federal aid and maximize the opportunities for federal administrators to influence grant award decisions.

Block Grant History

Three block grants were enacted in the mid-1970s under President Nixon. These were the Comprehensive Employment and Training Act of 1974 (CETA);[14] the Housing and Community Development Act, which instituted CDBG; and Title XX of the Social Security Act.

CETA called for locally managed but federally funded job training and public sector job creation programs. CDBG replaced categorical grant and loan programs under which communities applied for funds on a case-by-case basis. For the purpose of developing viable urban communities by providing decent housing and expanding economic opportunities, the block grant allowed communities two types of grants—entitlement and discretionary, the latter for communities with populations under 50,000. Title XX replaced prior social services programs and set forth broad national goals such as helping people become economically self-supporting; protecting children and adults from abuse, neglect, and exploitation; and preventing and reducing inappropriate institutional care.

[14]Some considered CETA a block grant in that it consolidated a number of categorical job training programs and allocated funds by a statutory formula.

With the passage of OBRA under President Reagan, nine block grants were created. The discretionary program under CDBG became the Small Cities program. States were called on to administer this block grant program and required to give priority to activities benefiting low- and moderate-income families. The Title XX was expanded into the Social Services Block Grant (SSBG), although because the initial block grant was already state administered and very broad in scope, there were few changes as a consequence of OBRA. In addition, OBRA created block grants in the areas of health services, low-income energy assistance, substance abuse and mental health, and community services, in addition to social services and community development, as already mentioned.

In 1982, the JTPA Block Grant was created. JTPA emphasized state and local government responsibility for administering federally funded job training programs, and, unlike CETA, which it replaced, partnerships with the private sector were established. Private industry councils (PIC), with a majority of business representatives, oversaw the delivery of job training programs at the local level. State job training coordinating councils also included private sector representation. The premise was that private sector leaders best understood what kinds of job training their communities needed, and would bring a concern for efficiency and performance.

The Surface Transportation Program, established by the Intermodal Surface Transportation Efficiency Act of 1991, is currently the largest block grant program, with $17.5 billion awarded in fiscal year 1993. The act dramatically changed the structure of the Federal Highway Administration's programs, which had been based on federal aid by road system—primary, secondary, urban, and rural. The Surface Transportation Program allows states and localities to use funds for construction or rehabilitation of virtually any kind of road. A portion of funds may also be used for transit projects or other nontraditional highway uses.

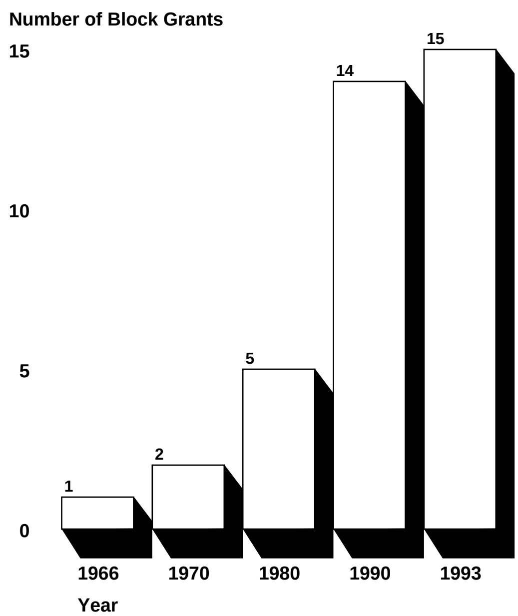
Other block grants created after the 1981 block grants include the 1982 Federal Transit Capital and Operating Assistance Block Grant; the 1988 Projects for Assistance in Transition from Homelessness; and the 1990 Child Care and Development Block Grant.

One block grant, ADMS, was broken into two different block grants in 1992. These block grants are the Community Health Services Block Grant and the Prevention and Treatment of Substance Abuse Block Grant. Among the block grants eliminated since 1981 are the Partnership for Health, Community Youth Activity, Primary Care, Law Enforcement Assistance, and Criminal Justice Assistance Block Grants.

Block Grants Today

Today, a total of 15 block grants are in effect. These block grants and dollars awarded in fiscal year 1993 awards appear in table II.1. Compared with categorical grants, which number 578, there are far fewer block grants. As figure II.1 demonstrates, the largest increase in block grants occurred as a result of OBRA in 1981.[15]

Figure II.1: Block Grants in Effect From 1966 to Present



Source: U.S. Advisory Commission on Intergovernmental Relations (ACIR).

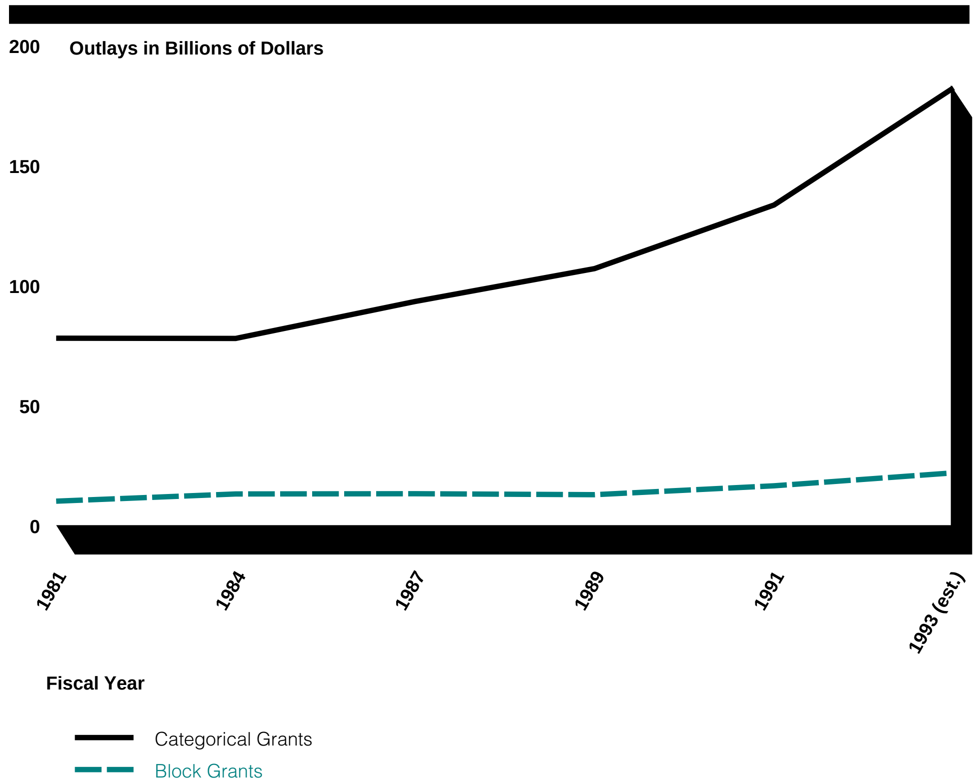
Block Grants Are Small Proportion of All Grants

Outlays for block grants have consistently been only a small fraction of outlays for categorical grants. As figure II.2 illustrates, outlays for block grants in fiscal year 1981 were only about 11 percent, or $10 billion, of total federal grants to state and local governments of about $95 billion. In fiscal year 1993, outlays for block grants were also about 11 percent, or

[15]Not all of the 1981 OBRA block grants were still in effect in 1990. Some, such as the Primary Care Block Grant, had been eliminated. Other block grants, such as the Child Care and Development Block Grant, were created between 1980 and 1990.

$22 billion, compared with total federal grants of $206 billion. About $32 billion was awarded for block grants in 1993.

Figure II.2: Block Grants Are Small Proportion of All Grants



Note: Outlays for block grants include some broad-based grants. All outlays are in current dollars.

Source: ACIR.

Table II.1: Block Grants in Fiscal Year 1993

Dollars in thousands

Block grant	FY 1993 award
Surface Transportation Program	$17,548,164 (est.)
SSBG	2,800,000
CDBG/Entitlement Program	2,725,450
Federal Transit Capital and Operating Assistance	1,773,162
LIHEAP	1,346,030
Prevention and Treatment of Substance Abuse	1,130,509
CDBG/Small Cities Program	1,118,300
JTPA, Title II-A: Training Services for Disadvantaged Adults and Youth	1,045,021
Payments to States for Child Care Assistance (Child Care and Development Block Grant)	892,711
MCH	557,939
Education	439,954
Community Services	372,000
Community Mental Health Services	277,919
Preventive Health and Health Services	143,306
Projects for Assistance in Transition from Homelessness	29,462
Total	**$32,199,927**

Source: Catalogue of Federal Domestic Assistance, Office of Management and Budget (1994). Dollars do not reflect budget obligations; they are grant awards for the fiscal year.

Characteristics of the 1981 Block Grants

Under OBRA, the administration of numerous federal domestic assistance programs was substantially changed by consolidating more than 50 categorical grant programs into 9 block grants and shifting primary administrative responsibility for these programs to the states. Overall federal funding was reduced by 12 percent, or about $1 billion, but varied by block grant. The OBRA block grants carried with them significantly reduced federal funding and data collection and reporting requirements as compared to the previous categorical programs, although some minimal requirements were maintained to protect federal interests.

OBRA Created Nine Block Grants

Under OBRA of 1981, the administration of numerous federal domestic assistance programs was substantially changed by consolidating more than 50 categorical grant programs and 3 existing block grants into 9 block grants and shifting primary administrative responsibility for these programs to the states. However, 534 categorical programs were in effect the same year this legislation passed, meaning there continued to be many more categorical programs than were subsumed under the 1981 block grants.

States were given flexibility under block grants to decide what specific services and programs to provide as long as they were directly related to the goals of the grant program. Four of the block grants were for health, three for social services, and one each for education and community development.

Three existing block grants were among the 9 block grants created. As mentioned previously, these include Title XX, which was expanded into SSBG, and CDBG, for which states were give the responsibility of administering the Small Cities program. In addition, the Health Incentives Grant for Comprehensive Public Health was incorporated into the Preventive Health and Health Services Block Grant (PHHS). In two cases (Primary Care and LIHEAP), a single categorical program was transformed into a block grant.

The scope of block grants was much wider than the categorical grants that were consolidated to form them. For example, Chapter 2 of the Elementary and Secondary Education Act (the Education Block Grant) funded state and local activities to improve elementary and secondary education for children attending public and private schools. The 38 categorical programs that this Education Block Grant comprised included, for example, several "Emergency School Aid Act" programs, "Civil Rights

Technical Assistance and Training," and "Ethnic Heritage Studies Program."

Some block grants were wider in scope compared with others that were more narrow. For example, the scope of LIHEAP—which covers assistance to eligible households in meeting the costs of home energy—was quite narrow, having essentially a single function. In contrast, the scope of the Community Services Block Grant (CSBG) was to support efforts to "ameliorate the causes of poverty," including employment, education, housing, emergency assistance, and other services.

Several block grants offered the flexibility to transfer funds to other block grants, providing states the option to widen their scope even further. For example, SSBG allowed a state to transfer up to 10 percent of its allotment to the four health-related block grants or LIHEAP. Such flexibility to transfer funds was offered in five of the block grants—SSBG, LIHEAP, ADMS, CSBG, and PHHS.

Overall Federal Funding Reduced

Overall federal funding for the block grants in 1982 was about 12 percent, or $1 billion, below the 1981 level for the categorical programs, as table III. 1 shows. However, changes in federal funding levels for the block grants varied by block grant—ranging from a $159 million, or 30-percent, reduction in the Community Services Block Grant, to a $94 million, or 10-percent, increase in CDBG. SSBG was reduced by the largest amount—$591 million, representing a 20-percent reduction. Table III.1 compares the 1981 funding levels of the categorical programs with the 1982 funding levels when these categorical programs were consolidated into block grants.

Table III.1: Changes in Federal Funding Levels Varied by 1981 Block Grant

Dollars in thousands

Block grant	FY 1981 appropriations for categorical programs	FY 1982 appropriations for block grants	Percent change
CSBG	$525,000	$366,000	–30
ADMS	585,000	432,000	–26
Primary Care	327,000	247,000	–25
SSBG	2,991,000	2,400,000	–20
MCH	455,000	374,000	–18
PHHS	93,000	82,000	–12
Education	536,000	470,000	–12
LIHEAP	1,850,000	1,875,000	+1
CDBG (Small Cities)	926,000	1,020,000	+10
Total	**$8,288,000**	**$7,266,000**	**–12**

Source: Early Observations on Block Grant Implementation (GAO/GGD-82-79, Aug. 24, 1982).

Funding Requirements of 1981 Block Grants

The funding requirements attached to the block grants were generally viewed by states as less onerous than under the displaced categorical programs. However, the federal government used funding requirements to (1) advance national objectives (for example, providing preventive health care, or more specifically, to treat hypertension), (2) protect local providers who have historically played a role in the delivery of services, and (3) maintain state contributions.

Mechanisms contained in the block grants that protected federal interests included (1) state matching requirements, (2) maintenance of effort or nonsupplant provisions, (3) set-asides, (4) pass-through requirements, and (5) cost ceilings. An illustration of each mechanism follows:

- State matching requirements were imposed to help maintain state program contributions. CDBG required that states provide matching funds equal to at least 10 percent of the block funds allocated. MCH required that each state match every four federal dollars with three state dollars. The Primary Care Block Grant required that states provide a 20-percent match of fiscal year 1983 funds and a 33-percent match of fiscal year 1984 funds. Many state governments chose not, or were unable, to make the match for the Primary Care Block Grant, leading to the termination of this program in 1986.

- A nonsupplant provision appeared in three block grants (Education, PHHS, and ADMS), which prohibited states from using federal block grant funds to supplant state and local government spending. The purpose of this provision was to maintain state involvement by preventing states from substituting federal for state funds.
- Set-asides require states and localities to use a specified minimum portion of their grant for a particular purpose. PHHS included a set-aside in which the states were required to provide at least 75 percent of fiscal year 1981 funds in fiscal year 1982 for hypertension and, for rape prevention, an allocation based on state population of a total of at least $3 million each fiscal year.
- Under pass-through requirements, state or local governments must transfer a certain level of funds to subrecipients in order to protect local providers who have historically played a role in the delivery of services. CSBG required that states award not less than 90 percent of fiscal year 1982 funds to community action organizations or to programs or organizations serving seasonal or migrant workers.
- Cost ceilings require that states and localities spend no more than a specified maximum percentage of their grant for a particular purpose or group. LIHEAP included a cost ceiling of 15 percent of funds for residential "weatherization" or for other energy-related home repairs.

Accountability Requirements of 1981 Block Grants

The 1981 block grants carried with them significantly reduced federal data collection and reporting requirements compared with categorical programs. Under the categorical programs, states had to comply with specific procedures for each program, whereas with block grants there was one single set of procedures. Federal agencies were actually prohibited from imposing "burdensome" reporting requirements. Consistent with the philosophy of minimal federal involvement, the administration decided to largely let the states interpret the compliance provisions in the statute. This meant states, for the most part, determined both form and content of block grant data collected and reported.

However, some data collection and reporting requirements were contained in each of the block grants as a way to ensure some federal oversight in the administration of block grants.[16] From federal agencies, the block grants generally required (1) a report to the Congress on program activities, (2) program assessment data such as the number of clients served, or (3) compliance reviews of state program operations. For example, ADMS required the Department of Health and Human Services

[16]Block Grants: Federal Data Collection Provisions (GAO/HRD-87-59FS, Feb. 24, 1987).

(HHS) to provide agency reports to the Congress on activities and recommendations; program assessments, which included data on clients, services, and funding; and annual compliance reviews in several states.

From states agencies, the block grants generally required: (1) grant applications, which included information on how the states plan to use federal funds, (2) program reports describing the actual use of federal funds, (3) fiscal expenditure reports providing a detailed picture of expenditures within certain cost categories, and (4) financial and compliance audits. For example, LIHEAP required states to provide annual descriptions of intended use of funds, annual data on numbers and incomes of households served, and annual audits.

In addition to these reporting requirements, states were required to involve the public. Some block grants required states to solicit public comments on their plans or reports describing the intended use of funds. Some block grants also required that a public hearing be held on the proposed use and distribution of funds. The Education Block Grant required the state to establish an advisory committee.[17]

[17]The 13 states we visited not only met these federally mandated requirements but also provided other forums to foster public involvement. See Public Involvement in Block Grant Decisions: Multiple Opportunities Provided But Interest Groups Have Mixed Reactions to States' Efforts (GAO-HRD-85-20, Dec. 28, 1984).

Experience Operating Under the 1981 Block Grants

Where states had operated programs, transition to block grants was smoother as states relied on existing management and service delivery systems. However, the transition to block grants was not as smooth for LIHEAP and CSBG because of limited prior state involvement or state funding of these programs. State officials generally reported administrative efficiencies in managing block grants as compared with categorical programs, although administrative cost savings were difficult to quantify. Although states experienced a 12-percent federal funding reduction when the 1981 block grants were created, they were able to offset these reductions for the first several years through a variety of approaches, such as carrying funding over from categorical grants.

Several concerns have emerged over time. First, initial funding allocations were based on prior categorical grants in order to ease the transition to block grants. Such distributions, however, may be inequitable because they are not sensitive to populations in need, the relative cost of services in each state, or states' ability to fund program costs. Second, although the Congress has taken steps to improve both data comparability and financial accountability, problems persist in terms of the kinds of information available for program managers to effectively oversee block grants. For example, consistent national information on program changes, services delivered, and clients served has not been available to the Congress because of the lack of standardization in block grant reporting. Third, state flexibility was reduced as funding constraints were added to block grants over time. This runs counter to an important goal of block grants, which is to increase state flexibility.

Where States Had Operated Programs, Transition to Block Grants Was Smoother

Prior program experience helped states manage the 1981 block grants. For the most part, states were able to rely on existing management and service delivery systems. Proceeding from their role under the prior categorical programs as well as their substantial financial commitment to certain program areas, states had a service delivery structure in place through which social services, health, and education programs were implemented. Decisions on the use of social services, health, and education block grant funds often reflected broader state goals and priorities for delivering related services. In some cases, states consolidated offices or took other steps to coordinate related programs, such as with the Education Block Grant, in which 5 of 13 states merged offices. For example, Florida's categorical programs had been administered by several bureaus within the state's education department. Under the block grant, all responsibilities were assigned to one bureau.

The exceptions to this were LIHEAP and CSBG. The categorical programs that preceded these block grants were almost entirely federally funded. In the case of CSBG, service providers had dealt primarily with federal officials and had little contact with state administrators.

- With LIHEAP, planning processes were not well integrated with overall state planning processes. Officials in 11 of the 13 states we visited indicated that separate priorities were set for LIHEAP.
- With CSBG, not only was the planning process not well integrated, but the state had to develop a new administrative structure. Five states had to assign management of CSBG to new or different offices or change the status of existing offices. States had to develop relationships with community action agencies, whose continued participation in the block grant-funded program was ensured by a 90-percent pass-through requirement.

Taking advantage of the flexibility that block grants offered them, states began to put their own imprint on the use of funds. Although some continuity in funding was evident, changes in funding patterns did emerge:

- Under MCH and PHHS, the states tended to provide greater support for services to children with disabilities and reduce support for lead-based paint poisoning prevention.
- Under SSBG, the states usually gave a higher priority to adult and child protective services and home-based services, among other services. By contrast, they often tightened eligibility standards for day care services. Given the increased availability of federal child care funding from sources other than the SSBG, states may decide to allocate fewer SSBG dollars to child care in the future.[18]
- Under LIHEAP, most of the states increased funding for weatherization and crisis assistance while decreasing expenditures for heating assistance. More recently, we found that state actions differed significantly in response to a decrease in federal funding of $619 million under the block grant between fiscal years 1986 and 1989. Some states, for example, varied in the extent to which they offset federal funding cuts with other sources of funding.[19]

[18]Between 1988 and 1990, the Congress created four new child care programs for low-income families. Title IV-A of the Social Security Act funds three programs that provide child care assistance for families who are working toward economic self-sufficiency or who are at risk of welfare dependency. The Child Care and Development Block Grant provides subsidies for the working poor to obtain child care services.

[19]Low-Income Home Energy Assistance: States Cushioned Funding Cuts but Also Scaled Back Program Benefits (GAO/HRD-91-13, Jan. 24, 1991).

- States' imprint on their use of block grant funds was not evident with ADMS. This was in part due to funding constraints added by the Congress over time.[20]

States Reported Administrative Efficiencies

State officials generally found federal requirements placed on them by the 1981 block grants less burdensome than those of the prior state-operated categorical programs. For example, state officials in Texas said that before PHHS, the state was required to submit 90 copies of 5 categorical grant applications. Moreover, states reported that reduced federal application and reporting requirements had a positive effect on their management of block grant programs. Also, some state agencies were able to make more productive use of their staffs as personnel devoted less time to federal administrative requirements and more time to state-level program activities.

Although states realized considerable management efficiencies or improvements under the block grants, they also experienced increased grant management responsibilities through greater program discretion devolved from the federal government. It is not possible to measure the net effect of these competing forces on the level of states' administrative costs. In addition, cost changes could not be quantified because of the lack of uniform state administrative cost definitions and data as well as a lack of comprehensive baseline data on prior categorical programs.

States Offset Funding Reductions Through Variety of Mechanisms

States took a variety of approaches to help offset the 12-percent overall federal funding reductions experienced when the categorical programs were consolidated into the 1981 block grants. For example, some states carried over funding from the prior categorical programs. This was possible because many prior categorical grants were project grants that extended into fiscal year 1982. In the 13 states we visited, at least 57 percent of the 1981 categorical awards preceding the three health block grants were available for expenditure in 1982—the first year of block grant implementation. By 1983, however, carryover funding had declined to 7 percent of total expenditures. Carryover funding was not available under SSBG or LIHEAP because the programs preceding them had been funded on a formula basis, and funds were generally expended during the same fiscal year in which they were awarded.

[20]We discuss the recategorization of block grants as a consequence of imposing additional funding constraints later in this appendix.

States also offset federal funding reductions through transfers among block grants. The 13 states transferred about $125 million among the block grants in 1982 and 1983. About $112 million, or 90 percent, entailed moving funds from LIHEAP to SSBG. This trend was influenced by the fact that SSBG experienced the largest dollar reduction—about $591 million in 1982 alone—and did not benefit from overlapping categorical funding, while LIHEAP received increased federal appropriations. The transfer option was used infrequently between other block grants.

States also used their own funds to help offset reduced federal funding, but only for certain block grants. In the vast majority of cases, the 13 states increased their contribution to health-related block grants or SSBG—areas of long-standing state involvement. Although such increases varied greatly from state to state, overall increases ranged from 9 percent in PHHS to 24 percent in MCH between 1981 and 1983. Overall, expenditures of state funds for programs supported with block grant moneys increased between 1981 and 1983 in 85 percent of the cases in which the states we visited had operated the health-related block grants and SSBG since their initial availability in 1982.[21] Aside from the health-related block grants and SSBG, states did not make great use of their own revenues to offset reduced federal funds.

Together, these approaches helped states replace much of the funding reductions during the first several years. Three-fourths of the cases we examined experienced increases in total program expenditures, although once adjusted for inflation this dropped to one-fourth of all cases.[22] Increased appropriations in 1983 through 1985, and for 1983 only, funds made available under the Emergency Jobs Appropriations Act also helped offset these reductions. Some block grants, however, did not do as well as others. For example, some states did not restore funding for CSBG, which may be due in part to the limited prior state involvement under the categorical program preceding the block grant.[23]

[21]The health-related block grants include ADMS, MCS, and PHHS. The number of the 13 states operating the block grants for the entire 2-year period were 11 each for MCH and PHHS, 12 for ADMS, and 13 for SSBG, which is a total of 47 cases.

[22]We collected financial information on each of 7 block grants in 13 states. States did not always operate each block grant, although we considered each block grant operated by an individual state to represent one case.

[23]The responses of states to funding reductions in the 1981 block grants is profiled in Reagan and the States, Richard P. Nathan, Fred C. Doolittle, and Associates (Princeton University Press, 1987). This book profiles the effects of President Reagan's policies for federal grant-in-aid in 14 states plus 40 local governments within the sample states.

Federal Funding Allocations Based on Prior Categorical Grants

Initially, most federal funding to states was distributed on the basis of the state's share of funds received under the prior categorical programs in fiscal year 1981. We found that such distributions may be inequitable because they are not sensitive to populations in need, the relative cost of services in each state, or states' ability to fund program costs.

With the exception of SSBG and CDBG, block grants included a requirement that the allocation of funds take into account what states received in previous years in order to ease the transition to block grants. For example, under ADMS, funds had to be distributed among the states for mental health programs in the same proportions as funds were distributed in fiscal year 1981. For alcohol and drug abuse programs, funds had to be distributed in the same proportions as in fiscal year 1980.

Today, most block grants use formulas that more heavily weigh beneficiary population and other need-related factors. For example, CDBG uses a formula that reflects poverty, overcrowding, age of housing, and other measures of urban deterioration. The formula for JTPA considers unemployment levels and the number of economically disadvantaged persons in the state. This formula is also used to distribute funds to local service delivery areas. However, three block grants—CSBG, MCH, and PHHS—are still largely tied to 1981 allocations.

Difficulties posed in developing funding formulas that allocate on the basis of need, relative cost of services, and ability to pay are illustrated here:

- Because of concern that funds were not distributed equitably under ADMS, the Congress mandated that HHS conduct a study of alternative formulas that considered need-related factors, and in 1982 the Secretary of HHS reported on several formula options that would more fairly distribute funds. Legislative amendments in 1988, for instance, introduced the use of new indicators of need: (1) the number of people in specific age groups as proxies for populations at risk for drug abuse, alcohol abuse, and mental health disorders and (2) state total taxable resources as a proxy for its capacity to fund program services from state resources. These amendments also called for phasing out the distribution of funds based on categorical grant distribution. We examined the formula in 1990, finding that the formula's urban population factor overstates the magnitude of drug use in urban as compared with rural areas and that a provision that protects states from losing funding below their 1984 levels causes a mismatch between needs and actual funding.[24]

- Under MCH, funds continue to be distributed primarily on the basis of funds received in fiscal year 1981 under the previous categorical programs. Only when funding exceeds the amount appropriated in fiscal year 1983 are additional funds allotted in proportion to the number of persons under age 18 that are in poverty. We found that economic and demographic changes are not adequately reflected in the current allocation, resulting in problems of equity. We developed a formula by which equity is improved for both beneficiaries and taxpayers that includes, for example, a measure for at-risk children.[25]

In keeping with the desire to maximize state flexibility, most block grant statutes did not prescribe how states should distribute funds to substate entities. Only the Education and the newer JTPA Block Grants prescribe how states should distribute funds to local service providers.[26] For example, the Education Block Grant requires states to distribute funds to local educational authorities using a formula that considers relative enrollment and adjusts per pupil allocations upward to account for large enrollments of students whose education imposes a higher than average cost—generally students from high-risk groups. Although this formula was prescribed, states were given the discretion to decide which factors to consider in determining who were high-cost students.

Where the law did not prescribe such distribution, some states developed their own formulas. In a 1982 study, we identified nine states that developed formulas to distribute CSBG funds to local service providers based in part on poverty, leading to reductions in funding to many community action agencies compared with the funding these agencies received under the prior categorical programs. Mississippi developed a formula to distribute ADMS funds to community mental health centers based on factors such as population density and per capita income.

[24]Drug Treatment: Targeting Aid to States Using Urban Population as Indicator of Drug Use (GAO/HRD-91-17, Nov. 27, 1990).

[25]Maternal and Child Health: Block Grant Funds Should Be Distributed More Equitably (GAO/HRD-92-5, Apr. 2, 1992).

[26]We are not referring here to pass-through requirements under which states must transfer a certain level of funds to subrecipients. For example, CSBG included a pass-through requirement that not less than 90 percent of funds be awarded to community action organizations.

Steps Taken to Improve Accountability, but Problems Persisted

Block grants significantly reduced the reporting burden imposed by the federal government on states as compared to the previous categorical programs. However, states stepped in and assumed a greater role in oversight of programs, consistent with the block grant philosophy. The 13 states we visited generally reported that they were maintaining their prior level of effort for data collection under the categorical grants. States tailored their efforts to better meet their own planning, budgetary, and legislative needs. Given their new responsibilities, states sometimes passed on reporting requirements to local service providers.[27]

However, the Congress, which maintained interest in the use of federal funds, had limited information on program activities, services delivered, and clients served. This was because there were fewer federal reporting requirements, and states were given the flexibility to determine what and how to report program information. In addition, due to the lack of comparability of information across states, state-by-state comparisons were difficult. Federal evaluation efforts were hampered because of this diminished ability to assess the cumulative effects of block grants across the nation.

In response to this situation, model criteria and standardized forms for some block grants were developed in 1984 to help states collect uniform data, primarily through voluntary cooperative efforts. We examined the data collection strategies of four block grants to assess the viability of this approach.[28] Problems identified included the following:

- States reported little data on the characteristics of clients served under the Education Block Grant, and LIHEAP data on households receiving assistance to weatherize their homes were not always readily accessible to state cash assistance agencies.
- Because of the broad range of activities under CSBG and the Education Block Grant, it is highly likely that the same clients served by more than one activity were counted twice.
- In 1991, we examined reporting problems under ADMS. Because HHS did not specify what information states must provide, the Congress did not have information it needed to determine whether a set-aside for women's

[27]For example, Mississippi developed new data collection and reporting procedures for providers under some of the health-related block grants. Massachusetts developed a performance assessment tool for evaluating subgrantees under LIHEAP, allowing state administrators to identify and replace ineffective subgrantees. In Vermont and Iowa, the state legislatures imposed greater reporting requirements for some of the health-related block grants in order to improve accountability.

[28]Block Grants: Federal-State Cooperation in Developing National Data Collection Strategies (GAO/HRD-89-2, Nov. 29, 1988).

services had been effective in addressing treatment needs of pregnant women and mothers with young children. In another 1991 report, we found state annual reports varied significantly in the information provided on drug treatment services, making comparisons or assessments of federally supported drug treatment services difficult. In addition, many states did not provide information in a uniform format when they applied for funds.[29]

Generally, the data were timely, and most officials in the six states we included in our review perceived the collection efforts to be less burdensome than reporting under categorical programs. However, the limitations in data comparability reduce the usefulness of the data to serve the needs of federal policymakers, such as allocating federal funds, determining the magnitude of needs among individual states, and comparing program effectiveness among states.

Just as with data collection and reporting, the Congress became concerned about financial accountability in the federal financial assistance provided to state and local entities. With the 1984 Single Audit Act, the Congress promoted more uniform, entitywide audit coverage than was achieved under the previous grant-by-grant audit approach. The single audit process has contributed to improving financial management practices of state and local officials we interviewed. These officials reported that they, among other things, have improved systems for tracking federal funds, strengthened administrative controls over federal programs, and increased oversight of entities to which they distribute federal funds.

Even though state and local financial management practices have been improved, a number of issues burden the single audit process, hinder the usefulness of its reports, and limit its impact, according to our 1994 report.[30] Specifically, criteria for determining which entities and programs are to be audited are based solely on dollar amounts. This approach has the advantage of subjecting a high percentage of federal funds to audit, but it does not necessarily focus audit resources on the programs identified as being high risk. For example, even though the Office of Management and Budget (OMB) has identified Federal Transit Administration grants as being

[29]ADMS Block Grant: Women's Set-Aside Does Not Assure Drug Treatment for Pregnant Women (GAO/HRD-91-80, May 6, 1991) and ADMS Block Grant: Drug Treatment Services Could Be Improved by New Accountability Program (GAO/HRD-92-27, Oct. 17, 1991).

[30]Single Audit Act: Refinements Can Improve Usefulness (GAO/AIMD-94-133, June 21, 1994).

high risk, we found in our review of single audit reports that only a small percentage of the grants to transit authorities were required to be audited.

The usefulness of single audit reports for program oversight is limited in several ways. Reports do not have to be issued until 13 months after the end of the audit period, which many federal and state program managers we surveyed found was too late to be useful. Audited entities' managers are not required to report on the adequacy of their internal control structures, which would assist auditor's in evaluating an entity's management of its programs. In addition, the results of the audits are not being summarized or compiled so that oversight officials and program managers can easily access and analyze them to gain programwide perspectives and identify leads for follow-on audit work or program oversight.

State Flexibility Reduced Over Time as Funding Constraints Added

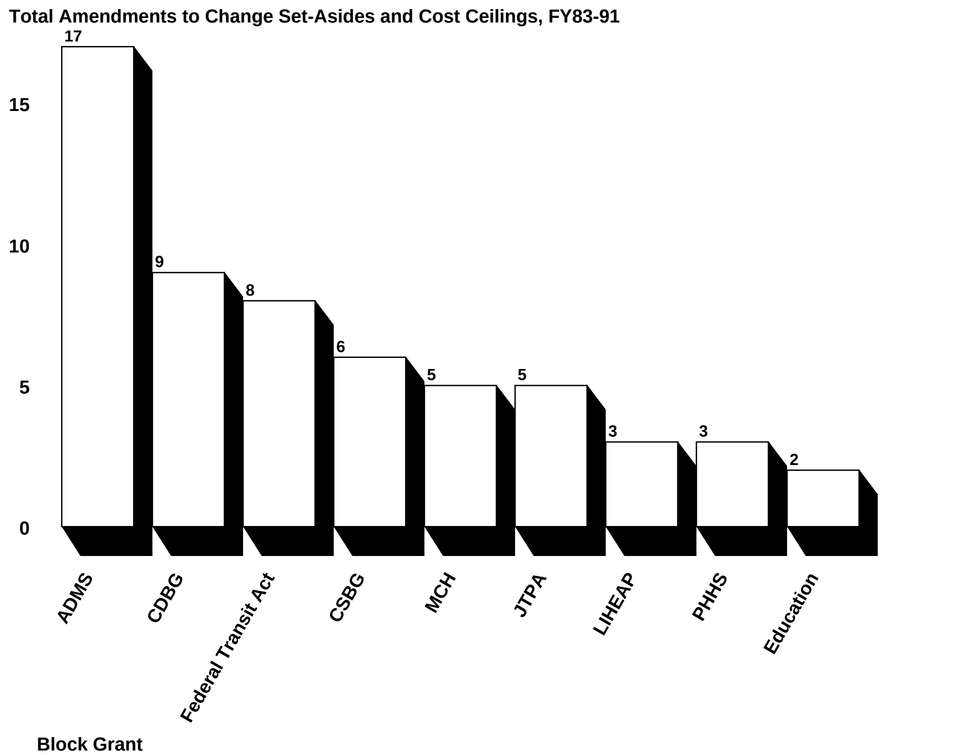
Even though block grants were intended to provide flexibility to the states, over time constraints were added which had the effect of "recategorizing" them. These constraints often took the forms of set-asides, requiring a minimum portion of funds be used for a specific purpose, and cost ceilings, specifying a maximum portion of funds that could be used for other purposes. This trend reduced state flexibility. Many of these restrictions were imposed as a result of congressional concern that states were not adequately meeting national needs.

In nine block grants from fiscal years 1983 and 1991, the Congress added new cost ceilings and set-asides or changed existing ones 58 times, as figure IV.I illustrates.[31] Thirteen of these amendments added new cost ceilings or set-asides to 9 of 11 block grants we reviewed. Between fiscal years 1983 and 1991, the portion of funds restricted under set-asides increased in three block grants—MCH, CDBG, and Education. For example, set-asides for MCH restricted 60 percent of total funding (30 percent for preventive and primary care services for children and 30 percent for children with special health care needs).

However, during the same period the portion of restricted funds under two block grants—ADMS and PHHS—decreased. In addition, 5 of the 11 block grants we examined permitted states to obtain waivers from some cost ceilings or set-asides if the state could justify that this amount of funds was not needed for the purpose specified in the set-aside.

[31]Block Grants: Increases in Set-Asides and Cost Ceilings Since 1982 (GAO/HRD-92-58FS, July 27, 1992).

Figure IV.I: Many Funding Constraints Added to Block Grants



Lessons Learned

Three lessons can be drawn from the experience with the 1981 block grants. These are the following: (1) The Congress needs to focus on accountability for results in its oversight of the block grants. The Government Performance and Results Act provides a framework for this and is consistent with the goal of block grants to provide flexibility to the states. (2) Funding formulas based on distributions under prior categorical programs may be inequitable because they do not reflect need, ability to pay, and variations in the cost of providing services. (3) States handled the 1981 block grants, but today's challenges are likely to be greater. The programs being considered for inclusion in block grants not only are much larger but also are fundamentally different than those programs included in the 1981 block grants.

The Congress Needs to Focus on Accountability for Results

One of the principal goals of block grants is to shift responsibility for programs from the federal government to the states. This includes priority setting, program management, and, to a large extent, accountability. However, the Congress and federal agencies maintain an interest in the use and effectiveness of federal funds. Paradoxically, accountability is critical to preserving state flexibility. When adequate program information is lacking, the 1981 block grant experience demonstrates that the Congress may become more prescriptive. For example, funding constraints were added that limited state flexibility, and, in effect, "recategorized" some of the block grants.

We have recommended a shift in focus of federal management and accountability toward program results and outcomes, with correspondingly less emphasis on inputs and rigid adherence to rules.[32] This focus on outcomes over inputs is particularly appropriate for block grants given their emphasis on providing states flexibility in determining specific problems to address and strategies for addressing them. The flexibility block grants allow should be reflected in the kinds of national information collected by federal agencies. The Congress and federal agencies will need to decide the kinds and nature of information needed to assess program results.

While the requirements in the Government Performance and Results Act of 1993 (GPRA) (P.L. 103-62) apply to all federal programs, they also offer an accountability framework for block grants. Consistent with the philosophy underlying block grants, GPRA seeks to shift the focus of federal

[32]Improving Government: Actions Needed to Sustain and Enhance Management Reforms (GAO/T-OGC-94-1, Jan. 27, 1994) and Improving Government: Measuring Performance and Acting on Proposals for Change (GAO/T-GGD-93-14, Mar. 23, 1993).

management and accountability away from a preoccupation with inputs, such as budget and staffing levels, and adherence to rigid processes to a greater focus on outcomes and results.[33]

By the turn of the century, annual reporting under this act is expected to fill key information gaps. Among other things, GPRA requires every agency to establish indicators of performance, set annual performance goals, and report on actual performance in comparison with these goals each March beginning in the year 2000. Agencies are now developing strategic plans (to be submitted by September 30, 1997) articulating the agency's mission, goals, and objectives preparatory to meeting these reporting requirements.

Even though GPRA is intended to focus agencies on program results, much work, however, lies ahead. Even in the case of JTPA, in which there has been an emphasis on program outcomes, we have found that most agencies do not collect information on participant outcomes, nor do they conduct studies of program effectiveness.[34] At the same time, there is little evidence of greater reliance on block grants since the 1981 block grants were created. Categorical programs continue to grow, up to almost 600 in fiscal year 1993. We have more recently reported on the problems created with the existence of numerous programs or funding streams in three program areas—youth development, employment and training, and early childhood.[35]

Even though state and local financial management practices have been improved with the Single Audit Act, a number of issues burden the single audit process, hinder the usefulness of its reports, and limit its impact. We have made recommendations to enhance the single audit process and to

[33]In addition to data for measuring program results, the kinds of uniform data needed for reporting and evaluation purposes should be determined through discussions between agencies and the Congress. We have suggested the kinds of information that could help the Congress to make decisions about programs it oversees in Program Evaluation: Improving the Flow of Information to the Congress (GAO/PEMD-95-1, Jan. 30, 1995).

[34]Multiple Employment Training Programs: Basic Program Data Often Missing (GAO/T-HEHS-94-239, Sept. 28, 1994).

[35]We found 46 youth development programs administered by 8 federal agencies targeting delinquents and at-risk youths, with fiscal year 1995 appropriations of $5.3 billion in Multiple Youth Programs (GAO/HEHS-95-60R, Jan. 19, 1995). We also reported that $20 billion in fiscal year 1995 went to 163 employment training programs administered by 15 departments. See Multiple Employment Training Programs: Major Overhaul Needed to Create a More Efficient Customer-Driven System (GAO/T-HEHS-95-70, Feb. 6, 1995). Similarly, we identified over 90 early childhood programs in 11 federal agencies and 20 offices, with 34 programs alone in which education and child care were key to program mission. See Early Childhood Programs: Multiple Programs and Overlapping Target Groups (GAO/HEHS-95-4FS, Oct. 31, 1994).

make it more useful for program oversight.[36] We believe, however, that the Single Audit Act is an appropriate means of promoting financial accountability for block grants, particularly if our recommended improvements are implemented.

Funding Formulas Should Reflect Need and Ability to Pay

Even if block grants were created to give state governments more responsibility in the management of programs, the federal government will continue to be challenged by the distribution of funds among the states and localities. Public debate is likely to focus on formulas given there will always be winners and losers.

Three characteristics of formulas that better target funds include factors that consider (1) state or local need, (2) differences among states in the costs of providing services, and (3) state or local ability to contribute to program costs. To the extent possible, equitable formulas rely on current and accurate data that measure need and ability to contribute. We have reported on the need for better population data to better target funding to people who have a greater need of services.[37]

We have examined the formulas that govern distribution of funds for MCH as well as other social service programs such as the Older American Act programs.[38] In advising on the revisions to MCH, we recommended that 3 factors be included in the formula: concentration of at-risk children to help determine level of need; the effective tax rate to reflect states' ability to pay; and costs of providing health services, including labor, office space, supplies, and drugs. We also suggested ways to phase in formulas to keep the disruption of services to a minimum.

[36]Single Audit Act: Refinements Can Improve Usefulness (GAO-AIMD-94-133, June 21, 1994). In this report, we make recommendations to modify criteria used to select entities and federal programs for audit, such as the inclusion of criteria that reflects risk. We also recommended that single audit reports be transmitted to the appropriate federal agency or state or local government no later than 9 months after the end of the fiscal year under audit. We have also recommended that entities receiving $50 million or more in federal assistance must report on the extent to which the entity has in place internal controls, and that single audit reports include a summary of the auditor's determinations in order that the reports are more helpful to program managers.

[37]Federal Aid: Revising Poverty Statistics Affects Fairness of Allocation Formulas (GAO/HEHS-94-165, May 20, 1994) and Federal Formula Programs: Outdated Population Data Used to Allocate Most Funds (GAO/HRD-90-145, Sept. 27, 1990).

[38]Maternal and Child Health: Block Grant Funds Should Be Distributed More Equitably (GAO/HRD-92-5, Apr. 2, 1992) and Older Americans Act: Funding Formula Could Better Reflect State Needs (GAO/HEHS-94-41, May 12, 1994).

States Handled the 1981 Block Grants; Today's Challenges Likely Greater

During the buildup of the federal grant programs, the federal government viewed state and local governments as convenient administrative units for advancing federal objectives. State and local governments were seen as lacking the policy commitment and the administrative and financial capacity to address the domestic agenda. During the 1970s, the opposition to using state and local governments as mere administrative units grew, culminating in the Reagan administration's New Federalism policy, which focused on shifting leadership of the domestic policy agenda away from the federal government and toward states. By cutting the direct federal-to-local linkages, this policy also encouraged local governments to strengthen their relationships with their respective states.

States as a whole have become more capable of responding to public service demands and initiating innovations during the 1990s. Many factors account for strengthened state government. Beginning in the 1960s and 1970s, states modernized their government structures, hired more highly trained individuals, improved their financial management practices, and diversified their revenue systems.[39]

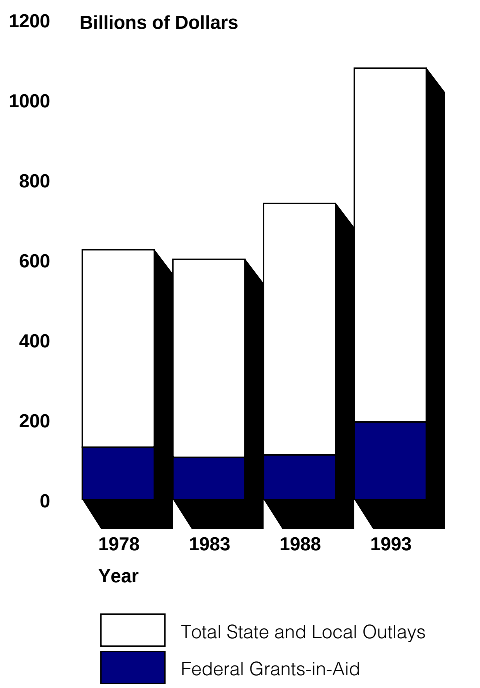
State and local governments have also taken on an increasing share of the responsibility for financing the country's domestic expenditures. Changing priorities, tax cuts, and mounting deficits drove federal policymakers to cut budget and tax subsidies to both states and localities. These cuts fell more heavily on localities, however, because the federal government placed substantial importance on "safety net" programs in health and welfare that help the poor, which generally are supported by federal-state partnerships. In contrast, the federal government placed less importance on other "nonsafety net" programs such as infrastructure and economic development, which generally are federal-local partnerships. Growth in spending by state governments also reflects rising health care costs as well as officials' choices favoring new or expanded services and programs.

As figure V.1 illustrates, state and local governments' expenditures have increased more rapidly, while federal grants-in-aid represent a smaller proportion of total state and local expenditure burden. Between 1978 and 1993, state and local outlays increased dramatically, from $493 billion to $884 billion in constant 1987 dollars. With their growing fiscal responsibilities, states have reevaluated their spending priorities and

[39]Federal-State-Local Relations: Trends of the Past Decade and Emerging Issues (GAO/HRD-90-34, Mar. 22, 1990). Other reports we have issued on intergovernmental trends are State and Local Finances: Some Jurisdictions Confronted by Short-and Long-Term Problems (GAO/HRD-94-1, Oct. 6, 1993) and Intergovernmental Relations: Changing Patterns in State and Local Finances (GAO/HRD-92-87FS, Mar. 31, 1992).

undertaken actions to control program growth, cut some services, and increase revenues—by raising taxes and imposing user fees, for example. The continued use of these state budget practices, combined with a growing economy, have improved the overall financial condition of state governments.[40]

Figure V.1: State Program Funding Is Increasing



Note: Federal grants-in-aid and state and local outlays are expressed in inflation adjusted dollars (1987=100).

Source: ACIR.

Many factors contribute to state fiscal conditions, not the least of which are economic recessions, since most states do not possess the power to deficit spend. In addition, state officials have expressed concern about

[40]In 1994, the National Governors' Association and the National Association of State Budget Officers reported that the steady growth of the economy has been favorable for state budgets. State financial conditions have improved substantially as illustrated by the growth in year-end balances to an estimated 3.5 percent of expenditures in 1995 from 1.1 percent in 1991. See The Fiscal Survey of the States (Washington, D.C.: 1984).

unfunded mandates imposed by the federal government. Practices such as "off-budget" transactions could obscure the long-term impact of program costs in some states. In addition, while states' financial position has improved on the whole, the fiscal gap between wealthier and poorer states and localities remains significant, in part due to federal budget cuts. We reported in 1993 that southeastern and southwestern states, because of greater poverty rates and smaller taxable resources, generally were among the weakest states in terms of fiscal capacity.[41]

New block grant proposals include programs that are much more expansive than block grants created in 1981 and could present a greater challenge for the states to both implement and finance, particularly if such proposals are accompanied by federal funding cuts. Nearly 100 programs in five areas—cash welfare, child welfare and abuse programs, child care, food and nutrition, and social services—could be combined, accounting for more than $75 billion of a total of about $200 billion in federal grants to state and local governments. Comparatively, the categorical programs, which were replaced by the OBRA block grants, accounted for only about $6.5 billion of the $95 billion in 1981 outlays.

In addition, these block grant proposals include programs that are fundamentally different than those included in the 1981 block grants. For example, Aid to Families with Dependent Children provides direct cash assistance to individuals. Given that states tend to cut services and raise taxes during economic downturns to comply with balanced budget requirements, these cash assistance programs could experience funding reductions, which could impact vulnerable populations at the same time their number are likely to increase. In addition, some experts suggest that states have not always maintained state funding for cash assistance programs in times of fiscal strain.

[41]State and Local Finances: Some Jurisdictions Confronted by Short- and Long-Term Problems (GAO/HRD-94-1, Oct. 6, 1993).

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