

GAO

Testimony

Before the Subcommittee on Information
Policy, Census, and National Archives,
Committee on Oversight and Government
Reform, House of Representatives

For Release on Delivery
Expected at 2:00 p.m. EDT
Thursday, July 9, 2009

FORMULA GRANTS

Census Data Are among Several Factors That Can Affect Funding Allocations

Statement of Robert Goldenkoff, Director
Strategic Issues



GAO

Accountability * Integrity * Reliability



Highlights of [GAO-09-832T](#), a testimony before the Subcommittee on Information Policy, Census, and National Archives, Committee on Oversight and Government Reform, House of Representatives

Why GAO Did This Study

In past years, the federal government has annually distributed over \$300 billion in federal assistance through grant programs using formulas driven in part by census population data. Of the more than \$580 billion in additional federal spending, the American Recovery and Reinvestment Act of 2009 will obligate an estimated additional \$161 billion to federal grant programs for fiscal year 2009.

The U.S. Census Bureau (Bureau) puts forth tremendous effort to conduct an accurate count of the nation's population, yet some error in the form of persons missed or counted more than once is inevitable. Because many federal grant programs rely to some degree on population measures, shifts in population, inaccuracies in census counts, and methodological problems with population estimates can all affect the allocation of funds.

This testimony discusses (1) how census data are used in the allocation of federal formula grant funds and (2) how the structure of the formulas and other factors can affect those allocations. This is based primarily on GAO's issued work on various formula grant programs and the allocation of federal funds.

[View GAO-09-832T](#) or [key components](#). For more information, contact Robert Goldenkoff (202) 512-2757 or goldenkoffr@gao.gov.

FORMULA GRANTS

Census Data Are among Several Factors That Can Affect Funding Allocations

What GAO Found

Federal grants use various sources of population counts in their funding formulas. They include the decennial census, which provides population counts once every 10 years, and also serves as the baseline for estimates of the population for the years between censuses—known as postcensal estimates. Other sources of population data include the Bureau's American Community Survey and the Current Population Survey conducted by the Bureau for the Bureau of Labor Statistics, which provides monthly data.

The degree of reliance on population in funding formulas varies. For example, the Social Services Block Grant formula allocates funding based solely on a state's population relative to the total U.S. population. Other programs use population plus one or more variables to determine funding levels. Medicaid, for example, uses population counts and income to determine its federal reimbursement rate.

On the basis of simulations GAO conducted of federal grant allocations by selected federal grant programs—for illustrative purposes only—we found that changes in population counts can affect, albeit modestly, the allocations of federal funds across the states. For example, in 2006 we found that compared to the \$159.7 billion total federal Medicaid funding in 2004, 22 states would have shared an additional \$208.5 million in Medicaid funding, 17 states would have lost a total of \$368 million, and 11 states and the District of Columbia would have had their funding unchanged. In total 0.2 percent of Medicaid funds would have shifted as a result of the simulation.

In addition to population data, various other factors related to the design of federal grant programs may mitigate the effect that population changes can have on the distribution of federal funds. For example, in order to prevent funding losses from a formula change, several programs include hold-harmless provisions guaranteeing that each recipient entity will receive a specified proportion of the prior year's amount or share regardless of population changes.

Chairman Clay, Mr. McHenry, and Members of the Subcommittee:

Thank you for the opportunity to be here today to discuss the role that the nation's population count plays in the allocation of federal funds to states and localities. As agreed with the Subcommittee, my remarks today describe (1) how census data are used in the allocation of federal formula grant funds, and (2) how the structure of the formulas and other factors can affect those allocations.

My main point is that although population counts play an important role in the distribution of federal funds, other factors, such as the design of the grant formulas, can mitigate the effect that any population changes have on funding levels. It does not necessarily follow that an increase or decrease in population size would have a proportional effect on the amount of federal assistance an entity ultimately receives. Nevertheless, because population estimates are important for federal funding allocations, and the decennial census is the foundation for these estimates, an accurate enumeration in 2010—including a reduction in the historic undercount of minority and other populations, as previously reported¹—is essential.

As you well know, the decennial census is a critical national effort mandated by the Constitution, and census data are used to apportion congressional seats and redraw congressional districts. Data from the decennial census, and annual estimates of the nation's population that are derived from the decennial, directly and indirectly affect the allocation of federal assistance to state and local governments. In past years, the federal government distributed over \$300 billion annually in federal assistance through federal grant programs to states and localities using formulas driven in whole or in part by census population data. The enactment of the American Recovery and Reinvestment Act of 2009 (Recovery Act)²—which is intended to help restore the economy, invest in our national infrastructure, and minimize and avoid reduction in state and local government services—will allocate additional money through grant programs. Of the \$580 billion in additional federal spending associated with the Recovery Act, the federal government will obligate an estimated additional \$161 billion to federal grant programs for fiscal year 2009,

¹ GAO, *2010 Census: Communications Campaign Has Potential to Boost Participation*, [GAO-09-525T](#) (Washington, D.C.: Mar. 23, 2009).

² Pub. L. No. 111-5, 123 Stat. 115 (Feb. 17, 2009).

including some programs that depend on census population data in whole or in part to determine the amount of federal assistance.

The Census Bureau (Bureau) puts forth tremendous effort to conduct an accurate count of the nation's population. However, some degree of error in the form of persons missed (an undercount), counted more than once (an overcount), or in the wrong location is inevitable. Such errors are particularly problematic because of their differential impact on various subgroups. Minorities, renters, and children, for example, are more likely to be undercounted by the census, while more affluent groups, such as people with vacation homes, are more likely to be enumerated more than once.

Further, the U.S. has an increasingly mobile population, and natural disasters such as Hurricane Katrina can have a dramatic impact on population counts of affected communities. For example, in the wake of Hurricane Katrina, the Red Cross estimated that over a half a million people were displaced and either temporarily or permanently migrated to other areas. Because many federal grant programs rely to some degree on population measures, shifts in population, inaccuracies in census counts, and methodological problems with population estimates can all affect the allocation of funds.

My remarks are based primarily on reports we have previously issued on various formula grant programs and the allocation of federal funds (please see the final pages of this testimony for a list of related GAO products). To update information from our prior work, we reviewed funding data for selected grant programs in the Office of Management and Budget's *Analytical Perspectives, Budget of the U.S. Government, Fiscal Year 2010* and interviewed Bureau officials. We selected five grant programs based on prior work we conducted that illustrate how population and other factors can affect the allocation of federal funds. According to the General Services Administration's *Catalog of Federal Domestic Assistance*, the federal government administers over 1,800 different grant programs. Some grant programs use census population data in their allocation formulas while others do not. The five programs we selected constituted about \$225.7 billion in fiscal year 2008 obligations, and represented more than 40 percent of federal program grant obligations in that year. The programs we selected (and the amount of money obligated in fiscal year 2008) include:

-
- the Medical Assistance Program (Medicaid),³ which is a joint federal-state program that finances health care for certain low-income individuals (about \$214.0 billion in fiscal year 2008 obligations);⁴
 - the Community Development Block Grant program (CDBG),⁵ which is intended to develop viable urban communities by providing decent housing and a suitable living environment and expanding economic opportunities, principally for persons of low and moderate income (about \$4.9 billion in fiscal year 2008 obligations);⁶
 - the Vocational Rehabilitation Program (VR),⁷ which administers grants for the purpose of providing vocational rehabilitation services to persons with disabilities who are seeking competitive employment (\$2.9 billion in fiscal year 2008 obligations);⁸
 - the Social Services Block Grant (SSBG) program,⁹ which is a federal program that provides funds to assist states in delivering social services to adults and children (\$1.7 billion in fiscal year 2008 obligations); and
 - the Ryan White Comprehensive AIDS Resources Emergency (CARE) Act of 1990,¹⁰ which was enacted to address the needs of jurisdictions, health care providers, and people with human immunodeficiency virus/acquired immunodeficiency syndrome (HIV/AIDS) and their family members (about \$2.2 billion in fiscal year 2008 obligations).

³ 42 U.S.C. §§ 1396 to 1396w-2.

⁴ Growing obligations in fiscal years 2009 and 2010 would then be supplemented by an estimated \$79.8 billion under the Recovery Act.

⁵ 42 U.S.C. §§ 5301-5321.

⁶ The CDBG obligation in fiscal years 2009 and 2010 will be supplemented by an estimated \$3 billion under the Recovery Act.

⁷ 29 U.S.C. §§ 720-751.

⁸ The VR obligation in fiscal year 2009 will be supplemented by an estimated \$540 million under the Recovery Act.

⁹ 42 U.S.C. §§ 1397-1397f.

¹⁰ 42 U.S.C. §§ 300ff to 300ff-121.

Changes in Census Population Counts Can Affect the Allocation of Federal Funds

Federal grants use various sources of population counts in their funding formulas. First, the Bureau conducts the decennial census, which provides population counts once every 10 years, and also estimates the population for the years between censuses—known as postcensal estimates. For example, the SSBG allocation formula uses the most recent postcensal population estimates to distribute funds. Second, the Bureau’s American Community Survey provides detailed annual data on socioeconomic characteristics for the nation’s communities and is used to allocate federal funds for such programs as the Section 8 housing voucher program,¹¹ an effort aimed at increasing affordable housing choices for very low-income households. In addition, the Current Population Survey conducted by the Bureau for the Bureau of Labor Statistics provides monthly data and is used to allocate funds for programs under the Workforce Investment Act of 1998,¹² which provides workforce development services to employers and workers.

Among funding formulas that rely on population data, the degree of reliance varies. On the one hand, the SSBG formula allocates funding based on a state’s population relative to the total U.S. population. On the other hand, some formulas use population plus one or more other variables to determine funding levels. Medicaid, for example, uses population counts and income to determine the federal reimbursement rate. The Medicaid formula is based on the ratio of a state’s aggregate personal income to the same state’s population relative to aggregate U.S. per capita personal income. Other grant programs, such as CDBG, are driven by multiple factors in addition to population such as poverty, housing overcrowding, and the age of the housing. Population plays a more limited role in other programs. Federal assistance under one part of the CARE Act does not use census population counts in its funding formula. Rather, census population counts are used in this part as criteria for program eligibility—CARE Act funds under this part are awarded to urbanized areas, which are determined in part by census population counts. The actual amount of federal assistance is based on the counts of people with HIV/AIDS.¹³

¹¹ 42 U.S.C. § 1437f.

¹² Pub. L. No. 105-220, 112 Stat. 936 (Aug. 7, 1998).

¹³ See, e.g., 42 U.S.C. §§ 300ff-11, 300ff-13.

Accurate Population Counts Are Important for Allocating Federal Assistance

On the basis of simulations we conducted of formula grant allocations, we found that changes in population counts can affect, albeit modestly, the allocations of federal funds for the programs analyzed. Note that these simulations were for illustrative purposes only—to demonstrate the effect that alternative population estimates could have on selected federal grant programs.

In two prior reports, we simulated the reallocations that would have resulted from using alternative population counts for Medicaid allocations.¹⁴ In our 2003 report, based on population estimates that differed from the 2000 Census count by about 3.2 percent across the U.S. and varying state by state, we found that of the \$110.9 billion total federal Medicaid spending in 2002, 18 states would have shared an additional \$377.0 million in Medicaid funding, 21 states would have lost a collective \$363.2 million, and 11 states and the District of Columbia would have had their funding unchanged.

In our 2006 report, based on population estimates that differed from the 2000 Census count by about 0.5 percent across the U.S. and varying state by state, we found that of the \$159.7 billion total federal Medicaid funding in 2004, 22 states would have shared an additional \$208.5 million in Medicaid funding, 17 states would have lost a total of \$368 million, and 11 states and the District of Columbia would have had their funding unchanged.¹⁵ In total, 0.2 percent of Medicaid funds would have shifted as a result of the simulation. In our 2006 report, we also simulated the reallocations of SSBG funding and found that of the \$1.7 billion in SSBG allocations, 27 states and the District of Columbia would have shared a gain of \$4.2 million and 23 states would have shared a loss of \$4.2 million. In total 0.2 percent of SSBG funds would have shifted as a result of the simulation.

¹⁴ GAO, *Federal Assistance: Illustrative Simulations of Using Statistical Population Estimates for Reallocating Certain Federal Funding*, [GAO-06-567](#) (Washington, D.C.: June 22, 2006) and *Medicaid Formula: Differences in Funding Ability among States Often Are Widened*, [GAO-03-620](#) (Washington, D.C.: July 10, 2003).

¹⁵ [GAO-06-567](#).

The Census Bureau Has Procedures for Addressing Errors in Population Counts

Since the completeness and accuracy of population data can modestly affect grant funding streams and other applications of census data, the Bureau has used a variety of programs to address possible errors in population counts and estimates. Not all of these programs are completed by December 31 of the decennial year—the date on which population data are to be sent to the President for purposes of congressional apportionment. Corrections made after this date may be reflected in the population counts made available for redistricting or the allocation of federal funds.

- **Demographic Full Count Review:** For the 2000 Census, analysts were hired under contract by the Bureau to identify, investigate, and document suspected data discrepancies in order to clear census data files and products for subsequent processing or public release. Bureau reviewers were to determine whether and how to correct the data by weighing quality improvements against time and budget constraints. Bureau officials told us that they expect to implement something similar to the 2000 program, but they have not made a final decision for 2010.
- **Count Question Resolution (CQR):** In addition, for the 2000 Census the Bureau implemented the CQR program to provide a mechanism for state, local, and tribal governments, as well as Bureau personnel, to correct the counts of housing units and other types of dwellings and their associated populations. Governmental entities could use the updated information when applying for federal assistance that uses census data as part of the allocation formula. Between the program's initiation in June 2001 and its completion in September 2003, the CQR program corrected data affecting over 1,180 of the nation's more than 39,000 governmental units. Although the national- and state-level revisions were relatively small, in some cases the corrections at the local level were substantial. For example, the Bureau added almost 1,500 persons to the population count of Cameron, Missouri, when CQR found that a prison's population was erroneously omitted. Bureau officials told us that they expect to implement something similar to the 2000 program, but they have not made a final decision for 2010.
- **Census Challenge Program:** Further, to permit challenges to population estimates prepared by the Bureau, the Bureau administers a program whereby governmental units—including states, counties, and tribal and local governments—may file informal challenges within a designated period of time after the estimate is released by the Bureau. In the event that the challenge cannot be resolved informally, the governmental unit

may proceed with a formal challenge where the state or local government unit has a right to a hearing.¹⁶ Using such documentation as new construction permits, and data from water and electrical utilities, localities can ask the Bureau to review and update their population counts. Between 2001 and 2007, 259 challenges led to adjustments in census population estimates.

- **Coverage Measurement:** Beginning with the 1980 Census, the Bureau has had procedures in place to measure the accuracy of the census (or “coverage”) by relying on additional information obtained from an independent sample survey of the population. However, due to concerns over the quality of the data and other factors, the Bureau has never used the results of its coverage measurement efforts to adjust the census population count. For the 2010 Census, the Bureau plans to measure coverage error for various demographic groups and geographic areas, but does not plan to use the results to adjust the final population counts.

Factors Other Than Population Can Affect Distribution of Federal Funds

Although accurate population counts and estimates play an important role in allocating federal assistance, various other factors related to the design of federal grant programs may mitigate or increase the effect that population changes can have on the distribution of federal funds. These factors include floors on matching rates, floors for small states, hold-harmless provisions, complex formula structures, lags in data, and whether funding for a specific program is from a fixed pool or open ended. I will describe each in greater detail.

- **Floors on Matching Rates:** Some grant programs employ floors in order to mitigate the outcome that would result if a particular grant allocation were determined by the funding formula alone. For example, the Medicaid statute provides for a 50 percent floor.¹⁷ In our 2003 report on federal formula grant funding, we found that for certain states the Medicaid matching provisions mitigated the effect of the Medicaid funding formula, which has a population component.¹⁸ In 2002, under the statutory formula, which is based on personal income relative to state’s population, Connecticut—a state with a high per-capita income—would have received

¹⁶ 15 C.F.R. §§ 90.1-90.18.

¹⁷ The Medicaid statute also generally provides for an 83 percent ceiling on the matching rate of each state’s contribution. 42 U.S.C. §1396d(b). However, 1973 is the most recent year that any state has qualified for the 83 percent ceiling in the federal matching rate.

¹⁸ [GAO-03-178](#).

a 15 percent federal matching rate. Because of the statutory floor, Connecticut instead received a 50 percent federal match.

- **Floors for Small States:** To ensure at least a minimum level of funding for all states, program formula allocations with formulas that rely on population data can include floors for small states. The VR formula employs a floor allocation that overrides the population-based allocations.¹⁹ The least-populated states receive a higher allocation than they would have otherwise received under the formula.
- **Hold-Harmless Provisions:** In order to prevent funding losses from a formula change, programs can include hold-harmless provisions guaranteeing a level of funding that is based on a prior year's funding. For example, one part of the CARE Act contains hold-harmless provisions whereby some recipients are guaranteed they will receive at least as much funding as in the previous year.²⁰
- **Complex Formula Structures:** Many formulas include measures other than population to distribute funds. VR allocations depend upon three factors: the state's 1978 allocation, population, and per capita income.²¹ As a result, the effect of increases in population may be mitigated by their 1978 allocations and changes to the state's per capita income. CDBG allocations are based on a complex dual formula structure using statistical factors reflecting several broad dimensions of need. Each metropolitan city and urban county is entitled to receive an amount equaling the greater of the amounts calculated under two formulas. The factors involved in the first formula are population, extent of poverty, and extent of overcrowded housing, weighted 0.25, 0.50, and 0.25, respectively. The factors involved in the second formula are population growth lag, poverty, and age of housing, weighted 0.20, 0.30, and 0.50, respectively.²² In these formulas, the inclusion of population moderates the targeting impact of the other formula factors. We previously reported that complex approaches such as this can result in widely different payments to communities with similar needs.²³

¹⁹ 29 U.S.C. § 730(a).

²⁰ See, e.g., 42 U.S.C. § 300ff-13(a)(4).

²¹ 29 U.S.C. § 730.

²² 42 U.S.C. § 5306.

²³ GAO, *Community Development Block Grant Formula: Options for Improving the Targeting of Funds*, [GAO-06-904T](#) (Washington, D.C.: June 27, 2006).

-
- **Lags in Data Used to Allocate Funds:** Statutes that require formulas to use specific sources of data can introduce lags in the data being used when those data are not immediately available. Lags inherent in the collection and publication of data by statistical agencies that gather and process data can result in a formula relying on data that are several years old. For example, the Medicaid statute generally specifies that matching rates for Medicaid be calculated 1 year before the fiscal year in which they are effective, using a 3-year average of the most recently available per capita income data reported by the Department of Commerce.²⁴ For fiscal year 2007, matching rates were calculated at the beginning of fiscal year 2006 using 3-year average data for 2002 through 2004—the latest then available. Where recipients have been affected by recent changes to their population, the recipient may view such allocations as slow to respond to these changes in population.
 - **Fixed Pool versus Open Ended Funding:** Most programs have a finite or fixed pool of funds to distribute, while others do not. In a fixed pool program, such as SSBG, when a population change results in an increased allocation for one state, the increase is offset by decreases in allocations to one or more other states. In open-ended programs, such as Medicaid, states can receive more funding when states spend more from their own source of revenue, without a corresponding decrease to other states.

In conclusion, while population data play an important role in allocating federal assistance through formula grant programs, other grant-specific features—several of which I have discussed today—can also play a role in funding allocations, and in some cases can mitigate or entirely mute the impact of a change in population. Importantly, not all grants work the same, and an increase or decrease in population size may not have a proportional impact on ultimate funding levels. Nevertheless, given the importance of census data as a baseline for postcensal estimates used for grant programs, as well as for congressional apportionment and redistricting, counting the nation’s population once, only once, and in the right location in 2010 is an essential first step.

Mr. Chairman, this concludes my remarks. I will be glad to answer any questions that you or other Subcommittee members may have.

²⁴ 42 U.S.C. § 1301(a).

Contacts and Acknowledgments

For further information regarding this statement, please contact Robert Goldenkoff, Director, Strategic Issues, on (202) 512-2757 or at goldenkoffr@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this testimony. Individuals making key contributions to this statement included Ty Mitchell, Assistant Director; Sarah Cornetto; Erin Dexter; Robert Dinkelmeyer; Gregory Dybalski; Amber G. Edwards; Amanda Harris; and Tamara F. Stenzel.

Related GAO Products

Ryan White CARE Act: Estimated Effect of Proposed Stop-Loss Provision on Urban Areas. [GAO-09-472R](#). Washington, D.C.: March 6, 2009.

2010 Census: Population Measures Are Important for Federal Allocations. [GAO-08-230T](#). Washington, D.C.: October 27, 2007.

Ryan White CARE Act: Impact of Legislative Funding Proposal on Urban Areas. [GAO-08-137R](#). Washington, D.C.: October 5, 2007.

Vocational Rehabilitation: Improved Information and Practices May Enhance State Agency Earnings Outcomes for SSA Beneficiaries. [GAO-07-521](#). Washington, D.C.: May 23, 2007.

Medicaid: Strategies to Help States Address Increased Expenditures during Economic Downturns. [GAO-07-97](#). Washington, D.C.: October 18, 2006.

Community Development Block Grants: Program Offers Recipients Flexibility but Oversight Can Be Improved. [GAO-06-732](#). Washington, D.C.: July 28, 2006.

Community Development Block Grant Formula: Options for Improving the Targeting of Funds. [GAO-06-904T](#). Washington, D.C.: June 27, 2006.

Federal Assistance: Illustrative Simulations of Using Statistical Population Estimates for Reallocating Certain Federal Funding. [GAO-06-567](#). Washington, D.C.: June 22, 2006.

Data Quality: Improvements to Count Correction Efforts Could Produce More Accurate Census Data. [GAO-05-463](#). Washington, D.C.: June 20, 2005.

Grants Management: Additional Actions Needed to Streamline and Simplify Processes. [GAO-05-335](#). Washington, D.C.: April 18, 2005.

Medicaid Formula: Differences in Funding Ability among States Often Are Widened. [GAO-03-620](#). Washington, D.C.: July 10, 2003.

Formula Grants: 2000 Census Redistributes Federal Funding Among States. [GAO-03-178](#). Washington, D.C.: February 24, 2003.

2000 Census: Coverage Measurement Programs' Results, Costs, and Lessons Learned. [GAO-03-287](#). Washington, D.C.: January 29, 2003.

Formula Grants: Effects of Adjusted Population Counts on Federal Funding to States. [GAO/HEHS-99-69](#). Washington, D.C.: February 26, 1999.

This is a work of the U.S. government and is not subject to copyright protection in the United States. The published product may be reproduced and distributed in its entirety without further permission from GAO. However, because this work may contain copyrighted images or other material, permission from the copyright holder may be necessary if you wish to reproduce this material separately.

GAO's Mission

The Government Accountability Office, the audit, evaluation, and investigative arm of Congress, exists to support Congress in meeting its constitutional responsibilities and to help improve the performance and accountability of the federal government for the American people. GAO examines the use of public funds; evaluates federal programs and policies; and provides analyses, recommendations, and other assistance to help Congress make informed oversight, policy, and funding decisions. GAO's commitment to good government is reflected in its core values of accountability, integrity, and reliability.

Obtaining Copies of GAO Reports and Testimony

The fastest and easiest way to obtain copies of GAO documents at no cost is through GAO's Web site (www.gao.gov). Each weekday afternoon, GAO posts on its Web site newly released reports, testimony, and correspondence. To have GAO e-mail you a list of newly posted products, go to www.gao.gov and select "E-mail Updates."

Order by Phone

The price of each GAO publication reflects GAO's actual cost of production and distribution and depends on the number of pages in the publication and whether the publication is printed in color or black and white. Pricing and ordering information is posted on GAO's Web site, <http://www.gao.gov/ordering.htm>.

Place orders by calling (202) 512-6000, toll free (866) 801-7077, or TDD (202) 512-2537.

Orders may be paid for using American Express, Discover Card, MasterCard, Visa, check, or money order. Call for additional information.

To Report Fraud, Waste, and Abuse in Federal Programs

Contact:

Web site: www.gao.gov/fraudnet/fraudnet.htm

E-mail: fraudnet@gao.gov

Automated answering system: (800) 424-5454 or (202) 512-7470

Congressional Relations

Ralph Dawn, Managing Director, dawnr@gao.gov, (202) 512-4400
U.S. Government Accountability Office, 441 G Street NW, Room 7125
Washington, DC 20548

Public Affairs

Chuck Young, Managing Director, youngc1@gao.gov, (202) 512-4800
U.S. Government Accountability Office, 441 G Street NW, Room 7149
Washington, DC 20548

