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THE WHITE HOUSE

Office of the Press Secretary

For Immediate Release

PRESS BRIEFING

March 20, 1981

BY

RICHARD HODES AND ROSS DOYEN
OF THE NATIONAL CONFERENCE OF STATE LEGISLATURES
AFTER MEETING WITH THE PRESIDENT

5:05 P.M. EST

MS. SMALL: Good afternoon, folks. I'd like to introduce two people to you today. First of all, Richard Hodes who is President of the National Conference of State Legislatures. He is a Democrat of Florida. He is Majority Leader of the Florida House. Also, Ross Doyen is the President-elect of the National Conference of State Legislatures. He is a Republican from Kansas and he is President of the Kansas State Senate and they'll talk to you for a couple minutes and then take questions.

MR. HODES: We spent -- in fact, this is not our first trip with the President on the issue of federalism and we were back today to again visit with the President on the issue of federalism. This time we were accompanied by the leadership of the legislatures of almost all 50 states.

The basic issues which the President raised were the same that we've heard from the President which are those which this Conference supports and that is that federalism is a goal of the states and has been for many years and we're supportive of that and supportive of the President in that position.

In a response to the President, we did raise the question that in recent days on Capitol Hill we have been hearing that the administration spokesmen have been backing away a little bit from some of the federalism issues that the President originally presented and we have expressed our concerns. We are concerned specifically in some areas such as Medicaid where there seems to be a retreat from the concepts of maximum flexibility in administration of the Medicaid program and that retreat in the face of the Medicaid cuts that are proposed in the budget are something that we feel the states cannot live with.

Secondly, we are concerned about the retreat in the categorization concepts in the education programs. We feel that there is some step back toward categorization again. So, we have expressed our concerns to the President in that respect. The President responded that this is a part of the negotiating process and that it's interim and that his final goals have not changed and that the ultimate flexibility, block granting to the states is the administration's position. We respect that position, but we certainly hope that the administration will pursue that goal and not allow itself to be chipped away at and allow these programs to become categorized to the extent that the states could not in any way support any form of budget cut. We can support some budget cuts with the flexibility in block granting.

Cuts are fairly deep, but with categorization -- with decategorization we can do rather well. The thing we are opposing and that we're concerned about now is before we really got the consolidation of grants and before we really got a strong expression for block grants there is a sense that we may be facing recategorization, remandating and reduction.

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We don't think that's what we want. We will accept some reduction, but we certainly have to have the flexibility to administer these programs and target the dollars effectively if program cuts can take place at all. Otherwise, the result will be that the states will not be able to meet their obligations and the local governments will end up paying the bills and local government is the place where the money is the tightest. So, we would hope that flexibility does remain the basic part of the administration package.

Q What have you been hearing that administration spokesmen have been saying on the Hill?

MR. HODES: Well, we get presentations that the education grants, for example, in special education programs and in comp-ed programs, Title I programs would be kept separately categorized, go directly to local school districts and bypass state capitols. This would be a very difficult process for us because it would require restructuring entirely our equalization funding formulas as they now exist in the states. And that the Medicaid flexibility would only be available after the states get in line with applications for waivers in order to achieve flexibility in certain specified areas, or to go back and reprogram the entire Medicaid program state-by-state and have that submitted and reviewed for approval.

MORE

That's something we can't live with. That is not the way we understood program consolidation and block granting.

Q But the President's explanation was that this was an interim -- what? Argument on behalf of the administration?

MR. HODES: I didn't know whether that was an interim argument or something that we would do for now -- live with the cuts and then come back in a couple of years and get it again. The timeframe was clear in his response. So that does make us a little nervous because it can't go on this way with those kinds of -- with a five percent cap. We can't retain what now exists, and that is the very tight program that now exists with all the rules and regulations tied in with it. All that will mean is that a lot of people will be ending up in hospital emergency rooms for local governments to take care of. And we just don't think that will work. So, we've got to have a flexibility with the budget.

He said his intent is to keep it together as a package. So, I hope that's what we have. If we have that, we can accept some of the cuts. The caps are tight, would be particularly tough in growth states, but it is something we can work with if we have the flexibility to target the dollars properly. I don't want to pre-empt Senator Doyen so I'd like to give him an opportunity to make some remarks.

SENATOR DOYEN: Well, I was pleased to have the opportunity to have this discussion with the President, of course, this afternoon and it was reassuring to me to hear him restate his position in regard to the economic recovery plan that he's put forth back here before the Congress and also to restate his position in regard to regulatory reform. This is something that the states are very, very much interested in because the regulations that we have in many of these categorical grants are almost impossible to survive under.

And it was pleasing -- it's almost like a breath of fresh air to hear the President talk about federalism -- returning some of the control back to the states. I'm more than willing to accept my responsibility to make these adjustments, even though they are reductions, in attempt to do all we can to make this government, as great as it has been, and maybe even greater in the future. And the President did indicate that his philosophy still is to have a block grant with some flexibility and not too many restrictions. And I'm confident that the states can accept that, accept some major reductions and still provide the services to the citizens of our state if we can determine the eligibility and the things of this nature that go with those block grants.

I'd be more than happy, and I'm sure Representative Hodes would too, to respond to questions.

Q Senator, don't you believe that these cuts coupled with the return of control to the states is necessarily going to require higher spending at your level?

SENATOR DOYEN: No, I would say there would be a reduction in spending because we feel that we're spending dollars on programs now that really aren't that beneficial to our people and if we weren't required to do that type of a spending program, we probably wouldn't be in the program to begin with.

Q Such as school lunch programs?

SENATOR DOYEN: We feel that there are a lot of people qualifying for the school lunch programs that shouldn't

qualify. At the present time, there's very little restrictions on that. You just go down and make an application. There's no check. There's no accuracy lots of times determined in those reviews and they just, for lack of any ability to determine whether the child is eligible for a reduction or for the Food Stamp or whatever, we just go ahead and pay it, and I think it's wrong.

Q Were the mass transit cutbacks discussed in the meeting?

MR. HODES: We did not discuss with the President those particular problems. We are sensitive to them, however, and again, we are concerned that the mass transit, particularly the operating grant eliminations, would be a serious detriment to the urban states in the Northeast. What we feel, again, is that the block granting concept would help a great deal. So if we could combine the highway grants, the mass transit grants, and transportation grants in general, to those states that felt that they had to target more dollars to operating grants for mass transit, could then do so.

Those states such as Kansas and my own in Florida might well feel that it needs to use more of its dollars for maintenance programs of its federal highways, and we in Florida particularly feel that this is a particular problem. The point I'm making is that the block grant would allow us to make those particular types of decisions without necessarily having to be concerned about whether the dollar, as it left Washington, was intended for an operating grant for mass transit or for a bridge repair.

We hope that the cut doesn't represent too great a percentage of the overall cut. One of the most serious fiscal situations in almost every state today deals with transportation. That's because traditionally the gasoline has been levied on a unit basis.

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That unit basis, of course, has eroded as inflation has increased and the tax itself hasn't and gasoline consumption has not necessarily increased and certainly not at the rate of inflation, thank goodness.

So, what we're faced with there is that every state has a semi-transportation crisis facing it. And a serious cutback in transportation dollars is going to be one of the major problems that we have to face. I am only hoping that if we do have to take some cut in transportation money that those cuts would be -- with a true block grant principle. I'm not hearing that at the present time and that again is one of the concerns that I've expressed. But we didn't get into the transportation, per se, in this afternoon's discussion.

Q ~~Why~~ didn't you bring that up?

MR. HODES: Frankly, the education and social issues were more clearly on my mind at that moment and in the very brief time of that type of a presentation, I really couldn't get into all the various phases which concern me.

I am hoping that the administration will stay with this principle of block grants and not allow these things to be fragmented. We're even concerned about the Social Service Program being in four or five different categories. That, in itself, is just the beginning of additional loss of flexibility. It'd just take a little greater effort to chop it up a little bit more and add a few regulations and we're back to square one again.

So, we are hopeful that we can keep the administration on its goal. When you think about it, the legislators and the governors are the only constituency that's out there today and we represent the people of our states-- the only constituency there today that's saying, "Don't cut my little bittie program." We're saying, "Just cut your programs as you have to, but keep it put together." That's the point we made.

We think that for federalism there may be only one constituency and that's the states. The other constituency, interestingly enough, we think, is the people.

Q If you don't get the regulatory flexibility with Medicaid that you were talking about that you need, what will happen if you're required to live with this five percent cut?

MR. HODES: I'll try to draw a scenario for you. I think in my own state, we'll reduce eligibility considerably. There'll be an additional class of people who currently fall into the notch between being funded for their health care and are funded through a public program that will end up as indigent usually on some local county or township or city program and very often not getting much medical care until they have a crisis and ending up in the most expensive form of medical treatment and that's the hospital emergency room. That's paid for by two people, either the local property

MORE

taxpayer or sick people who are in the hospital, who have their bill increased so that a hospital can keep that emergency room going. So we do levy sick taxes even though we don't levy the others. That's what will happen in Medicaid plus the nursing homes where we're really concerned in Florida.

Q There's been some concern on the Hill expressed that maybe some of these block grant programs wouldn't be put into place as quickly as they might like. You might have a year's lapse or something. What are --

MR. HODES: We clearly said that we cannot accept cuts in budget with a delay in legislation and it's got to go together. The President reassured us that that was his position as well.

What we're hearing on the Hill, however, is we're looking -- the budgets are flying through. Well, you know, it went through either the Senate Budget Committee, going through the Congress and we're looking around for the legislation that's supposed to handle all the entitlement language that we have to deal with if we're going to go into block grants.

We haven't seen it yet. We are on faith, at the present time, assuming that it's going to be there.

Q Senator Chiles from your own state said today that he's been told particularly in education grants for the handicapped, that one, he's been flat out told -- he says that they cannot get their block grants in place in time, that there will be a year's lapse in that program.

MR. HODES: Well, a cut in funding with the mandates as they now exist, unless there is some way to do it without legislation, and I don't know what it is, is going to create a problem. It has to go together. Either that or the budget has to be held off because we just cannot administer, literally administer and fund the programs with the kinds of cuts we have. The states are not going to make up the difference. So the programs will just -- I don't know how you would handle some of the mandates because there are some eligibility mandates there.

The Medicaid cap is an open-ended eligibility situation. I don't know how you handle that with a five percent cap. There are just more sick people who don't get treatment. That's it.

Q Was the flexibility issue the main criticism?

MR. HOADS: The main criticism we have now is that flexibility seems to be a bit of a declining effort and that the availability of the flexibility with the cut in the budget may not come together. We had assurances. We received it from the President that his plan is for those things to go together. Now, that's a political problem that I can't address here. It's a battle that has to be fought out on the Hill

Q Thank you.

MR. HODES: Thank you very much.

END

5:20 P.M. EST



Coalitions For America

Citizens
 Dr. George Hahn, Chairman
 Annan, Jere Hunt, Secretary
 Dr. Charles Moser, Treasurer
 Paul M. Weyrich, President
 Connaught Murray, Chairman, Liberty Corp.
 Robert B. Dwyer, Chairman, Financial Group
 Lindsey Dulvah, Director of Operations
 Donna Goodwin, Secretary
 Eric Dal Bell, Receptionist

file

Economic Package

MEMORANDUM

TO: ED MEESE
 FROM: PAUL WEYRICH
 DATE: MAY 11, 1981
 RE: THE IMMINENT DEMISE OF THE PRESIDENT'S BLOCK GRANT PROGRAM

As reluctant as I am to dampen the euphoria resulting from your success on the First Concurrent Budget Resolution last week, I am concerned that what is quietly going on in the Senate will, if unchecked, destroy the President's economic program and turn the House fight into a Pyrrhic victory. I am therefore taking the liberty of speaking frankly about what I view as an extremely hazardous situation.

First, you need to be aware that the Left does not intend to wage its principal battle against the President's program in connection with the Budget Resolution. At a conference I attended a few weeks ago, the opposition's high command indicated, rather, the intention to savage the President's block grant programs and bust the budget through an item-by-item reauthorization and appropriation of the programs which the President seeks to abolish.

In the history of the budget process, Congress has never strictly adhered to the figures it set in the First Concurrent Resolution. Therefore, unless you can keep the block grant program together, the victory on the budget will be meaningless.

Second, the Senate Labor and Human Resources Committee is preparing to decimate your block grant program. Senator Kennedy and his staff are bragging that they have the votes to kill all of the block grants and replace them with reauthorizations of each and every categorical grant program which you seek to abolish.

As an example of the Committee's mood, Senator Lowell Weicker stood up on the floor of the Senate last week and threatened to crush the administration if it did not back off of its opposition to Legal Services. Weicker has also introduced a categorical grant substitute to your emergency block grant, and the "conservative compromise" being floated in the Senate is so full of set-asides and federally mandated stipulations that it is not worth supporting.

Sources on the Education Subcommittee report that Senator Stafford is prepared to kill your education block grant. In addition, Stafford now seems prepared to vote against the President's program through the reauthorization of Adolescent Pregnancy (the Kennedy version, not the Denton bill), Title 4A of CETA, Developmental Disabilities, and other programs which are up for reauthorization this year, and which you would like to get rid of. Last week, Weicker gave Kennedy his proxy.

Continued

Ed Meese
May 11, 1981
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For their part, frenzied Senate conservatives are considering such self-destructive proposals as creating set-asides within block grants for such things as Legal Services and Community Action Programs. They are also considering creating a separate block grant for Developmental Disabilities. I don't need to tell you that, with this as a starting point, a liberal committee, a non-sympathetic Senate, and a Democratic House can only proceed to make the proposal that much worse.

Now for the bad news. There are very serious defections from the President's proposal among the highest levels of the Republican leadership in the Senate. A source of impeccable reliability has assured me that the consistent opposition of Majority Leader Howard Baker to the President's social program is substantially responsible for its problems in the Senate.

Senator Robert Dole has privately railed against the administration, and has stated that the Senate "is not a rubber stamp" to the President's wishes. Of course, you have witnessed the serious damage which Dole has already done to the social services block grant.

If these programs are allowed to come up one by one, the results will be the same as occurred with the Legal Services Corporation last week, in which the Administration was defeated by a 72 to 24 vote, with the active opposition of Baker, Domenici, Dole, Stevens, and other senators whose support you should expect to receive.

In my opinion, the only way to overcome this result is to lump the President's social services proposals into a single amendment, and lobby them as a test of the President's program. Senator Baker should be requested in the strongest terms not to call up any bill which seeks to reauthorize a program which is slated for destruction. With the hope of reauthorizing individual categorical programs removed, it is my expectation that the liberals will be more sympathetic to the block grant concept. Finally, the bill could be moved through the House with a discharge petition.

While I understand that resting so much of the President's prestige on a single vote is a risky strategy, I believe the alternative is certain defeat. If the President allows his program to be destroyed piecemeal by the approval of every heart-rending program which comes along, the results will ultimately be much more damaging.

To: Dick Dingman
From: Pat Buckley
re: Supporters of Block Grants Ad Hoc Group
6/12/81

file
Economic Block
PKg. Grants

Pursuant to our earlier discussions, I have put together a list of 80 national groups (list attached) who publicly support the Reagan block grant proposals as originally introduced. I supply the emphasis because of what happened Wednesday in the Senate Labor and Human Resources Committee.

I have done a quick poll of the groups, and while I have not yet been able to get to them all, I have not found any who will support the committee sellout. Consequently, I am putting the press conference, at which the existence of this list, on the back burner.

As to how the sellout came about, there is a great deal of misinformation and rumor which I am not going to try to sort out. Suffice it to say that the game was essentially lost when Howard Baker told Hatch and Stafford to do whatever had to be done to get the bills out of committee, that the package was not to be put together on the floor. Whether Baker acted on his own or at the request of the White House is not clear. What is clear is that his instructions were later ratified by the White House in the form of some pressure on Hatch to get the bills in committee.

Let me be clear about what the White House agreed to: Health Services, Preventive Health, Education, and Low-income Energy Assistance were agreed to. As they came out of the Committee the White House supports them and does not want them changed on the floor.

Community Services Administration, which includes Legal Services Corporation, was not agreed to by the White House, and will be fought on the floor in the form of a Hatch (probably) amendment.

The most troubling thing about all this is that according to what Reagan himself told some of our people on Thursday evening, he thinks he got out of committee 70% of what he wanted. That of course is ludicrous and indicates real chicanery on the part of staff. I am not going to go into the shortcomings of the sellout here, but my estimate is that he got about 20% of what he wanted.

Obviously, this sellout has implications for other aspects of the President's program. Many of the grass roots organizations find it much easier to rally their troops (many of whom are, after all, conservative Democrats) in opposition to block grants than in favor of tax cuts which won't even offset the tax increases they are going to get. You and I understand the need for tax cuts, but we have to sell them out in the field. If the groups feel sold out by the block grant compromise (and they do), they are going to work much less hard for the tax cuts.

Perhaps even more immediately, this sellout might cause some conservative Senators and/or Congressmen to vote against the reconciliation package, if they judge the compromise to be just too much. Since most Democrats can be expected to vote against it, it probably would not take that many defections to kill the President's entire reconciliation package.

In view of the above points, it may be well to discuss with the groups on the list the possibility of coming out in strong opposition to the committee compromise, which now appears to be the White House position. If they were to do so, that would very likely doom the reconciliation package, and might well kill the tax cuts.

AD HOC COMMITTEE TO SUPPORT BLOCK GRANTS

1. COMMITTEE FOR THE SURVIVAL OF A FREE CONGRESS
2. AMERICAN FARM BUREAU
3. NATIONAL COALITION FOR CHILDREN
4. NATIONAL DEFENSE LOBBY
5. CONCERNED WOMEN OF AMERICA
6. CITIZENS FOR EDUCATIONAL FREEDOM
7. PUBLIC SERVICE RESEARCH COUNCIL
8. NATIONAL PRO-LIFE PAC
9. UNITED FAMILIES OF AMERICA
10. EAGLE FORUM
11. FUND FOR A CONSERVATIVE MAJORITY
12. YOUNG AMERICANS FOR FREEDOM
13. COALITIONS FOR AMERICA
14. CITIZENS FOR REAGAN
15. PRO-FAMILY FORUM
16. FAMILY AMERICA, INC.
17. FAMILY LIFE SEMINARS
18. AMERICAN LIFE LOBBY
19. RELIGIOUS ROUNDTABLE
20. CONSERVATIVE CAUCUS
21. LIMIT MARYLAND'S TAXES COMMITTEE
22. CAUCUS RESEARCH AND ANALYSIS FOUNDATION
23. GUARDIANS FOR CHILDREN IN MAINE
24. NATIONAL FEDERATION FOR DECENCY
25. CHRISTIAN FOCUS ON GOVERNMENT
26. UP WITH FAMILIES
27. MICHIGANS FOR BIBLICAL MORALITY
28. LIFE AMENDMENT PAC

29. AMERICAN LEGISLATIVE EXCHANGE COUNCIL
30. UNITED FAMILIES OF MARYLAND
31. MORAL MAJORITY
32. COMMITTEE TO PROTECT THE FAMILY
33. CHRISTIAN FAMILY RENEWAL
34. FAMILY AND FREEDOM FOUNDATION
35. FREE THE EAGLE
36. ASSOCIATION OF CHRISTIAN SCHOOLS INTERNATIONAL
37. COMMITTEE FOR RESPONSIBLE YOUTH POLITICS
38. TRANSNATIONAL ASSOCIATION OF CHRISTIAN SCHOOLS
39. CHRISTIAN SCHOOL SERVICES, INC.
40. NATIONAL ASSOCIATION OF PRO-AMERICA
41. CONSERVATIVES AGAINST LIBERAL LEGISLATION
42. CHRISTIAN VOTERS VICTORY FUND
43. NATIONAL CHRISTIAN ACTION COALITION
44. NATIONAL CONSERVATIVE PAC
45. PROTECT AMERICA'S CHILDREN
46. NATIONAL TAX LIMITATION COMMITTEE
47. AMERICANS FOR CONSTITUTIONAL ACTION
48. COUNCIL OF STATE CHAMBERS OF COMMERCE
49. PENNSYLVANIA TAX LIMITATION COMMITTEE
50. EXECUTIVE FORUM
51. NATIONAL ASSOCIATION FOR PRIVATE SCHOOLS
52. COUNCIL FOR EDUCATIONAL FREEDOM
53. CITIZENS FOR EDUCATIONAL FREEDOM
54. ASSOCIATIONS OF INDUSTRIES OF MASSACHUSSETTS
55. EDUCATION VOUCHER INSTITUTE

56. MID-AMERICA CONSERVATIVE PAC
57. IOWA CONSERVATIVES
58. WOMEN FOR RESPONSIBLE LEGISLATION (FLA.)
59. UNIVERSITY PROFESSORS FOR ACADEMIC ORDER
60. CONSERVATIVE VICTORY FUND
61. KING INFORMATION SYSTEMS
62. ILLINOIS CITIZENS FOR FAMILY LIFE
63. CONCERNED WOMEN'S COALITION
64. LEAGUE OF LADY VOTERS
65. CITIZENS FOR LIMITED TAXATION
66. CALIFORNIA FARM BUREAU
67. CALIFORNIA TAX COMMITTEE
68. MARYLAND TAXPAYER COALITION
69. NATIONAL ASSOCIATION OF PROFESSIONAL EDUCATORS
70. S.T.O.P. FORCED BUSING
71. UNITED PARENTS UNDER GOD
72. COUPLE TO COUPLE LEAGUE
73. FOUNDATION FOR LIFE
74. PRO-FAMILY COALITION
75. THE LIFE ADVOCATE
76. HOLIDAY INNS, INC.
77. NATIONAL ASSOCIATION OF REALTORS
78. NATIONAL CONSERVATIVE FOUNDATION
79. PUBLIC ADVOCATE
80. NEW YORK STATE CONSERVATIVE PARTY

NEWS

U.S. Senator HOWARD BAKER

of Tennessee



4123 Dirksen Bldg.

Washington, D.C. 20510

202-224-9683

FOR IMMEDIATE RELEASE

WASHINGTON, June 29 -- U.S. Senate Majority Leader Howard Baker today said he wholeheartedly endorses President Reagan's block grant program and pledged to find an appropriate vehicle to attach the remainder of the proposal.

"I regret that the reconciliation bill did not include the entire block grant and did not allow the Senate to vote it up or down," Baker said. "I am committed to finding another vehicle to attach the remainder of the program and have the issue fully debated by the Senate."

Baker said his political philosophy has been based on the concept of reversing the trend of government, directing more control to state and local governments.

"I have always felt that the proper mix of revenue sharing, extensive block grant programs and a greatly reduced categorical grant program would best serve the needs of the country."

AD HOC COMMITTEE TO SUPPORT BLOCK GRANTS

- ① AMERICAN FARM BUREAU
- ② AMERICANS FOR CONSTITUTIONAL ACTION
- ③ AMERICAN LEGISLATIVE EXCHANGE COUNCIL
- ④ AMERICAN LIFE LOBBY
- ⑤ ASSOCIATION OF CHRISTIAN SCHOOLS INTERNATIONAL
- ⑥ ASSOCIATIONS OF INDUSTRIES OF MASSACHUSETTS
- ⑦ CALIFORNIA TAX COMMITTEE
- ⑧ CALIFORNIA FARM BUREAU
- ⑨ CHRISTIAN FAMILY RENEWAL
- ⑩ CHRISTIAN FOCUS ON GOVERNMENT
- ⑪ CHRISTIAN SCHOOL SERVICES, INC.
- ⑫ CHRISTIAN VOTERS VICTORY FUND
- ⑬ CITIZENS FOR EDUCATIONAL FREEDOM
- ⑭ CITIZENS FOR LIMITED TAXATION
- ⑮ CITIZENS FOR REAGAN.
- ⑯ COALITIONS FOR AMERICA
- ⑰ COMMITTEE TO PROTECT THE FAMILY
- ⑱ COMMITTEE FOR RESPONSIBLE YOUTH POLITICS
- ⑲ COMMITTEE FOR THE SURVIVAL OF A FREE CONGRESS
- ⑳ CONCERNED WOMEN OF AMERICA
- ㉑ CONCERNED WOMEN'S COALITION
- ㉒ CONSERVATIVES AGAINST LIBERAL LEGISLATION
- ㉓ THE CONSERVATIVE CAUCUS
- ㉔ THE CONSERVATIVE CAUCUS RESEARCH ANALYSIS - EDUCATION FOUNDATION
- ㉕ CONSERVATIVE VICTORY FUND
- ㉖ COUNCIL FOR EDUCATIONAL FREEDOM

- 27 COUNCIL OF STATE CHAMBERS OF COMMERCE
- 28 COUPLE TO COUPLE LEAGUE
- 29 EAGLE FORUM
- 30 EXECUTIVE FORUM
- 31 EDUCATION VOUCHER INSTITUTE
- 32 FAMILY AMERICA, INC.
- 33 FAMILY AND FREEDOM FOUNDATION
- 34 FAMILY LIFE SEMINARS
- 35 FOUNDATION FOR LIFE
- 36 FREE THE EAGLE
- 37 FUND FOR A CONSERVATIVE MAJORITY
- 38 GUARDIANS FOR CHILDREN IN MAINE
- 39 HOLIDAY INNS, INC.
- 40 ILLINOIS CITIZENS FOR FAMILY LIFE
- 41 IOWA CONSERVATIVES
- 42 KING INFORMATION SYSTEMS
- 43 LEAGUE OF LADY VOTERS
- 44 THE LIFE ADVOCATE
- 45 LIFE AMENDMENT PAC
- 46 LIMIT MARYLAND'S TAXES COMMITTEE
- 47 MARYLAND TAXPAYER COALITION
- 48 MICHIGANS FOR BIBLICAL MORALITY
- 49 MID-AMERICA CONSERVATIVE PAC
- 50 MORAL MAJORITY
- 51 NATIONAL ASSOCIATION OF PRO-AMERICA
- 52 NATIONAL ASSOCIATION OF PROFESSIONAL EDUCATORS
- 53 NATIONAL ASSOCIATION FOR PRIVATE SCHOOLS

- 54 NATIONAL ASSOCIATION OF REALTORS
- 55 NATIONAL CHRISTIAN ACTION COALITION
- 56 NATIONAL DEFENSE LOBBY
- 57 NATIONAL FEDERATION FOR DELENCY
- 58 NATIONAL COALITION FOR CHILDREN
- 59 NATIONAL CONSERVATIVE FOUNDATION
- 60 NATIONAL CONSERVATIVE PAC
- 61 NATIONAL PRO-LIFE PAC
- 62 NATIONAL TAX LIMITATION COMMITTEE
- 63 NEW YORK STATE CONSERVATIVE PARTY
- 64 PENNSYLVANIA TAX LIMITATION COMMITTEE
- 65 PRO-FAMILY COALITION
- 66 PRO-FAMILY FORUM
- 67 PROTECT AMERICA'S CHILDREN
- 68 PUBLIC ADVOCATE
- 69 PUBLIC SERVICE RESEARCH COUNCIL
- 70 RELIGIOUS ROUNDTABLE
- 71 S.T.O.P. FORCED BUSING
- 72 TRANSNATIONAL ASSOCIATION OF CHRISTIAN SCHOOLS
- 73 UNITED FAMILIES OF AMERICA
- 74 UNITED FAMILIES OF MARYLAND
- 75 UNITED PARENTS UNDER GOD
- 76 UNIVERSITY PROFESSORS FOR ACADEMIC ORDER
- 77 UP WITH FAMILIES
- 78 WOMEN FOR RESPONSIBLE LEGISLATION
- 79 YOUNG AMERICANS FOR FREEDOM

Eighty generally conservative organizations have formed an ad hoc committee to support and push for passage of the entire presidential block grant program. This group includes conservative organizations from the business, religious, social issue and the political communities. It is significant because it is the one part of the president's four part economic recovery program that all of the groups within this ad hoc committee do support. This part of Reagan's program clearly enunciates a long term principle of a conservative philosophy of government. As the president said in his inaugural address: "We must remember that it was the states that formed the federal government, not the other way around."

Although other parts of the President's program include conservative changes in the federal government, this is the only part that provides a change in the institutional framework of government. Namely, putting the decision making authority over governmental programs closer to individual people by giving authority to states and/or local governments. This reverses a fifty year trend and is consistent with a theme of the President's campaign in which he promised to get the federal government off the backs of the American people. The block grant proposals carry forward President Reagan's longstanding advocacy of a renewed federalism. This is good public policy ^{because} for too many years Congress has had a full plate of programs now existant in the federal government. The President's proposal will lighten the load on Congress by shifting authority over 87 programs to the states. This will allow Congress more time to review the remaining 400 ^{plus} programs.

The block grant proposals allow reduction in the vast amount of federal paperwork and bureaucracy. This will immediately save tax payers money. Additional savings will result from closer scrutiny by state and local government of the programs to be folded into the block grants. These savings will come from elimination of waste, fraud and abuse leaving more money for the programs themselves.

Another benefit of block grants is that it unplugs the special interests from the federal treasury by removing the decision making authority to the states. Block grants will require the special interest groups to work in 50 locations to affect policy changes instead of Washington D.C. alone. This will substantially reduce the power of these special interest groups that has built up over the past 50 years. It will also reduce their ability to obtain taxpayer monies to carry out their private left-wing agendas. It is interesting to note that most of the 63 liberal groups who are opposed to block grants are federally funded organizations or receive federal grants and/or contracts. This contrasts with our ad hoc committee of 80 groups, the vast majority of whom do not accept federal funds. We have no conflict of interest in taking a positive position for block grants.

It is interesting to note how powerful these special interests are because they have been able to frustrate implementation of the President's programs by bottling up in committee the majority of his original block grants.

We have been promised by Senator Majority Leader, Howard Baker that he will provide a procedure in the Senate whereby the President's block grant programs, which have not been included in other pending legislation, may be voted upon. This will give the taxpayers an opportunity to have

their senators vote on Reagan's pure block grant proposals and to determine whether there will indeed be a change from the last 50 years worth of business as usual.

The 80 groups in the ad hoc committee are fully committed to enactment of the block grant program and many groups have their own newspapers, newsletters and systems for alerting their members when the block grant program is scheduled for action by Senator Howard Baker in the Senate.

5/22

FOR IMMEDIATE RELEASE

CONTACT: John Carr
(202) 333-0822
(301) 839-2496

63 NATIONAL ORGANIZATIONS
WARN OF "DEVASTATING CONSEQUENCES" OF BLOCK GRANT PROPOSALS

(Washington) -- More than sixty major national organizations expressed "deep concern over the potentially devastating consequences of the Administration's block grant proposals." In a letter to Congress the 63 organizations said "these block grant proposals repeal landmark legislation, eliminate essential programs and undermine principles of fiscal accountability and lay the groundwork for confusion, neglect and new bureaucracy at the state level."

The League of Women Voters, National Urban League, Lutheran Council, American Association of Retired Persons, Children's Defense Fund, National Education Association, and United Auto Workers joined 56 other organizations in predicting that "untargeted, undirected, unmonitored and unexamined block grants will mean far less assistance to those who need these services."

The organizations are part of an ad hoc coalition on block grants raising basic questions about the block grant proposals. "These proposals would undermine entitlements, civil rights and other safeguards, remove application and targeting requirements and eliminate maintenance of efforts and citizen participation provisions and a host of other accountability tools. Many believe these proposals

are the first steps in a strategy of abandonment of federal involvement in meeting human needs," the groups declared.

"We fear that turning less money over to states without clear priorities, direction or strategies will undermine national goals in health, education, social services, community development and energy assistance," they said.

"These proposals will certainly mean two things: less assistance to those in genuine need in these areas and a brutal political struggle at the state level where the most vulnerable and those without clout are almost certain losers," they declared.

(For additional information about the activities of the block grant coalition, contact John Carr at (202) 333-0822).

May 14, 1981

Dear Senator /Representative:

We the undersigned 63 organizations wish to voice our deep concern over the potential devastating consequences of the Administration's block grant proposals. We fear that turning less money over to states without clear priorities, direction or strategies will undermine national goals in health, education, social services, community development and energy assistance. These proposals will certainly mean two things: less assistance to those in genuine need in these areas and a brutal political struggle at the state level where the most vulnerable and those without clout are almost certain losers.

These block grant proposals repeal landmark legislation, eliminate essential programs and undermine principles of fiscal accountability and lay the groundwork for confusion, neglect and new bureaucracy at the state level. Without defending every categorical program, we can predict that untargeted, undirected, unmonitored and unexamined block grants will mean far less assistance to those who need these services, despite rhetorical commitments to the "truly needy" and "the social safety net."

We call on Congress to thoroughly examine the troubled history and performance of block grants, the strengths and weaknesses of the categorical programs they would replace and most importantly, evaluate and consider the impact of these proposals in meeting the needs of people. These proposals would undermine entitlements, civil rights and other safeguards, remove application and targeting requirements and eliminate maintenance of efforts and citizen participation provisions and a host of other accountability tools. Many believe these proposals are the first steps in a strategy of abandonment of federal involvement in meeting human needs.

We urge you to resist the pressure to treat these proposals as simply budget issues. They are far more. They represent a radical shift. They deserve full, fair and thorough consideration focused on what they would mean for families and individuals in need of these services. Hasty or superficial action would ignore the broad dimensions of this shift and the enormous consequences for our society.

We stand ready to participate in this important national discussion.

Sincerely,

American Association of Retired Persons	Lutheran Council in the USA, Office for Governmental Affairs
American Baptist Churches of the United States	National Association of Community Based Organizations
American Friends Service Committee	National Association of Community Cooperatives
American Nurses Association	National Association of Neighborhoods
American Public Health Association	National Association of Social Workers
Association of Community Organizations for Reform Now (ACORN)	National Center for Urban Ethnic Affairs
Association for Retarded Citizens	National Conference of Catholic Charities
Center for Community Change	National Congress for Community Economic Development
Citizen Labor Energy Coalition	National Congress of Neighborhood Women
Children's Defense Fund	National Consumer Law Center
Children's Foundation	National Council of Community Mental Health Centers
Civic Action Institute	National Council of Jewish Women
Community Information Service	National Council of LaRaza
Community Nutrition Institute	National Council of Senior Citizens
Congress of Neighborhood Women	National Education Association
Consumer Coalition for Health	National Employment Law Project
Consumer Law Project	National Hispanic Housing Coalition
Family Service Association of America	National Office of Jesuit Social Ministries
Food Research and Action Center (FRAC)	National Retired Teachers Association
Gray Panthers	National Rural Housing Coalition
Housing Assistance Council	National Treasury Employees Union
Information Center for Handicapped Individuals, Protection and Advocacy System	
League of Women Voters	
Low Income Housing Coalition	

National Urban Coalition

National Urban League

National Youth Work Alliance

Neighborhood Coalition

Parents Without Partners

Planned Parenthood

Rural America

Rural Coalition

Rural Housing Coalition

Southern Council of Low Income Elders

United Auto Workers

United Cerebral Palsy Association

United Methodist Church, Department of
Human Welfare, Board of Church and
Society

United Presbyterian Church, Washington
Office

Vietnam Veterans of America

Working Group on Community Development
Reform

Wider Opportunities for Women

Young Women's Christian Association, of
the USA, National Board

BLOCK GRANTS:
A STRATEGY OF ABANDONMENT

"I have a dream of my own. I think block grants are only the intermediate steps. I dream of the day when the federal government can substitute for those the turning back to local and state governments of the tax sources we ourselves have preempted here at the federal level so that you would have those tax sources."

President Ronald Reagan
Washington Post, March 10, 1981

While much of the nation's attention is focused on the debate in the Congress and country over the Reagan budget, a more significant battle is shaping up over the Administration's plans to kill dozens of federal programs and replace them with a series of "block grants" to be administered by the states with virtually no national priorities, direction or guidelines. Under the guise of "increasing flexibility" and "economic restraint," the Administration is advocating a radical program designed to reduce and finally eliminate federal involvement in health, education, social services and other major areas of national need.

The Administration seeks to consolidate or eliminate dozens of programs, reduce funding by 25% and establish several state block grants in health, social services, education and other areas. These proposals will surely mean two things: (1) less assistance to needy families in areas of health, social services, education and emergency assistance; (2) a brutal political struggle at the state level where the poor and others without clout will often be the losers.

The Administration's block grant proposals contain virtually no requirements to focus on those in need, no citizen participation mandates, no civil rights protections, no quality standards or priorities. There is no requirement that these federal funds not be used to substitute for state funds or "maintenance of effort" provisions. These proposals include no involvement for state legislatures, no application or planning process, no federal evaluation procedures or basic accountability principles.

As a part of the block grant process, the Administration proposes to repeal the Child Welfare Act, the Child Abuse and Neglect Act, the Right to An Education for Handicapped Children Act, major portions of the Equal Opportunity Act and several other major laws. These bipartisan and hard-fought laws provide far more than money for programs, they establish standards and models for states and local government. Far more is at stake in this battle than budget cuts.

Many of these programs were established after documented neglect and abuse at the state level. In many cases, states have been unwilling or unable to meet the needs of disadvantaged students, black lung victims, and children, to name just three. It is unlikely that their needs will be met by turning over less money to states with no accountability, prior or otherwise, in that direction.

The Administration says the cuts are justified by administrative savings resulting from consolidation. The General Accounting Office points out that administrative costs averaged 4% in 31 education programs which will be cut by 25%. The 26% cut in health programs is more than 4 times the current total administrative costs of the 26 health programs at federal, state and local levels. In fact, GAO has said that administrative costs could increase as 50 state bureaucracies are established to administer the block grants.

Ironically, this Administration which has made rhetorical commitments to the "truly needy" and a "social safety net," is replacing highly targeted programs such as educational aid to the disadvantaged (Title I) with unfocused, untargeted block grants which set no priorities based on need. The process for allocating funds is far more likely to respond to political clout than human need. It will set older citizens against poor families, child care advocates against the handicapped in a desperate political battle over reduced resources.

These block grant proposals set the stage for even deeper cuts and less accountability in the future. By their design, they eliminate entitlements, set constituencies against one another and reduce accountability. The Administration must cut more than \$70 billion more by 1984 to reach its budget goals. They have already made clear their desire to eliminate federal involvement in these areas. The block grants are not a step toward state-federal partnerships to meet human needs but a step toward abandonment of federal responsibility.

There is a growing discussion over the ability of states to take on the administrative responsibilities for these services, given the lack of time for planning and start-up. Some fear that much of the block grants could be eaten up in new and duplicative administrative structures.

There is also strong concern about the lack of information about the Administration's proposals and their consequences. Several of the block grants have not even been introduced. Very few hearings have been held. Little is known about what these proposals could really mean. While the consequences of these plans are unknown, it is impossible for Congress to responsibly choose to implement them. Thorough and comprehensive hearings and consideration are needed before decisions are made.



Copy all to
Bob Carlson
Morton Blackwell
orig to ALEC

GOVERNMENT 1611 North Kent St. - Suite 508
INFORMATION Arlington, Va.
SERVICES 22209
(703) 528-1082

Spring, 1982

BLOCK GRANTS ARE A STARK REALITY.

Eight block grants are currently in
existence, and President Reagan has

proposed seven more. As a federally funded program administrator, you must face the fact that this is the funding wave of the future.

To help you get a handle on these new developments, we are publishing

NEW DIRECTIONS IN FUNDING

... a bi-weekly newsletter and flash reporting service that focuses on BLOCK GRANTS and the Reagan "NEW FEDERALISM" proposals.

Starting May 15th, each issue will keep you up-to-date on all key funding issues—as they happen—as well as provide you with in-depth analyses to understand the "big picture" in this new era of federal funding.

You'll learn about ...

- BLOCK GRANT LEGISLATION & REGULATION—what you must know to successfully negotiate the complex new funding process on Capitol Hill, in federal agencies, and at state offices ...
- WHERE THE MONEY IS GOING—-and how to be in the most advantageous position to get available \$\$\$...
- NEW FEDERALISM—-how can you benefit from the Medicaid/Welfare swap and turnback proposals ...
- PLUS, details on participation plans, audit requirements, state assurance reports, technical assistance and other insider techniques for more effective grant administration.

Take a look at the sample issue of NEW DIRECTIONS IN FUNDING enclosed. See for yourself the types of articles, topics, and coverage you'll receive in the months to come.

(over)

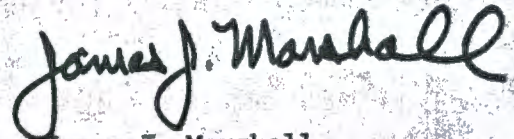
That's why Government Information Services, publisher of Local Government Funding Report, Shared Revenues Report, and the annual Federal Funding Guide has chosen to introduce NEW DIRECTIONS IN FUNDING now.

And if you act now, you'll save \$35 off the regular subscription price. That's right, you'll be a Charter Subscriber and receive this valuable federal grant information for only \$93.00 instead of \$128.00.

This price is low, considering that one issue, one story, one bit of timely information, could make the difference in surviving the uncertain funding future.

But you must act quickly. This Charter Subscription offer expires on June 15, 1982. Complete the enclosed Charter Subscription order card and send it in today.

Sincerely,



James J. Marshall
Publisher

P.S.: Worried about whether or not we live up to your high expectations? Don't. We guarantee your satisfaction with every issue of NEW DIRECTIONS IN FUNDING and we back this guarantee with this promise: If you ever conclude that NEW DIRECTIONS IN FUNDING is not for you ... not doing the job you need done ... tell us about it and we'll refund every penny of the unused portion of your subscription payment. We're that confident that this new news service is for you. So act now. The order card has full details.

NEW DIRECTIONS in FUNDING

An Exclusive Report on Block Grants and New Federalism

prototype issue

Mixed Bag for Block Grants in FY 1983

President Reagan's fiscal 1983 budget request for the block grants created in the Omnibus Budget Reconciliation Act of 1981 shows an increase in two grants, decreases in two others, and steady funding in the remaining three non-education grants.

Maternal and Child Health (MCH), for example, has a \$347.5 million budget in fiscal 1982. In the fiscal 1983 request, it is scheduled to increase nearly three-fold to a \$1 billion level. Accounting for this jump, however, is an administration plan to incorporate the supplemental food program for Women, Infants and Children (WIC) into the existing grant. In fiscal 1982, WIC is funded at \$934 million. Under the fiscal 1983 budget request for the new block grant that would be created, the \$1 billion funding level would be more than \$280 million less than the

consolidated 1982 levels of MCH and WIC. In its annual analysis of the presidential budget request, the U.S. Conference of Mayors noted that "as this block grant requires a 75 percent state match, states will need to contribute \$470 million in new money to receive the full authorized amount."

This, however, is contingent upon the adoption of the Reagan proposal by Congress, which at this point in time is taking care not to accept at face-value, any of the administration's requests.

The other block grant showing an increase in its funding level in fiscal 1983 is the Primary Care grant. In addition to the administration proposal to expand the grant from covering only

(Continued on page 6)

Alternative to "New Federalism" Unveiled in Senate

Amid reports that President Reagan is considering various compromises in his "New Federalism" plan in order to appease disgruntled state and local leaders, an alternative plan has surfaced in the Senate that would establish a "special revenue sharing fund" to phase in any cuts made to fiscal 1983 budgets included in the yet-to-be submitted administration federalism plan.

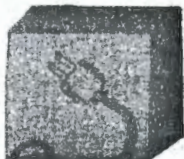
Senate Intergovernmental Relations Subcommittee Chairman Dave Durenberger (R-Minn.) unveiled his proposal at a recent subcommittee hearing looking into the administration plan.

As outlined by Durenberger in a report to the White House, the "special fund" would be separate from the \$28 billion "New Federalism Trust Fund" being considered by the administration. That fund is slated to begin in fiscal 1984 to finance "super" revenue sharing, or at the states' option, continued participation in the grant programs contained in the 43 areas scheduled to be phased out. Funding for the administration fund would come in part from the windfall profits tax (\$16.7 billion), and existing federal excise taxes on gas, alcohol, tobacco, and telephone services (\$11.3 billion).

(Continued on page 8)

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What's What in the Block Grants Under Existing Law



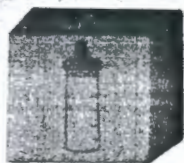
LIHEA
Low Income Home
Energy Assistance

Program	(\$ in millions)		
	1981 Appropriation	1982	1983 Request
Low-income home energy assistance	\$1,850	\$1,998*	\$1,300

*Includes \$123 million supplemental approved in February.

Authorizations: \$1.875 billion each in FY 82-84.

Current Restrictions: No more than 15 percent of a state's grant may go for low-income weatherization or other energy-related home repair. States must conduct outreach activities to assure households are made aware of the program. Fair administrative hearings must be provided to individuals denied assistance.



MCH
Maternal and
Child Health

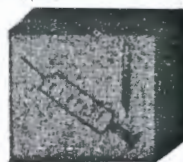
Program	(\$ in millions)		
	1981 Appropriation	1982	1983 Request
Title V maternal/child health/crippled children's services	\$387		
SSI disabled children's services	30		
Lead-based paint poisoning	10		
Sudden infant death syndrome	3	\$347.5	\$1,000
Hemophilia treatment centers	3		
Genetic diseases	13		
Adolescent pregnancy programs	10		

Authorizations: \$373 million in FY 82 and beyond.

Current Restrictions: 15 percent set-aside in FY 82 and from 10-15 percent in FY 83 and beyond for discretionary spending for special projects of regional or national significance, research and training, genetic disease testing, counseling and information, and comprehensive hemophilia diagnostic and treatment centers. Special consideration will be given to existing genetic disease and hemophilia programs.

States must spend \$3 for each \$4 received in block grant funds. Although no pass-through requirement exists, conferees intended that states "maximize the amount of funding available for direct delivery of services, and that local health departments and other local public health entities receive at least the same proportion of funding in future years..."

A "substantial portion of all funds, federal and state," should be used for maternal/child health services. Special consideration should go to special projects previously funded under Title V. A "reasonable proportion" of funds should be used by states to: reduce infant mortality, preventable diseases, and handicapped conditions; and, increase maternal care, child immunizations, and assessments of services to low-income children.



PHS
Preventive Health
Services

Program	(\$ in millions)		
	1981 Appropriation	1982	1983 Request
Home health	\$4		
Urban rat control	13		
Fluoridation	7		
Health education/risk reduction	14		
Emergency medical services	30	\$81.6	\$81.6
Health incentive grants	36		
Rape crisis centers*	—		
Hypertension	20		

*new program

Authorizations: \$95 million in FY 82, \$96.5 million in FY 83, \$98.5 million in FY 84.

Current Restrictions: At least \$3 million must be used for rape crisis centers. In FY 82, states must also spend funds equalling 75 percent of the amount received from Washington in FY 81 for hypertension, followed by drops to 70 percent in FY 83, and 60 percent in FY 84. Up to seven percent of a state allocation may be transferred to another health block grant. Administrative expenses are capped at 10 percent.



CSBG
Community Services
Block Grant

Program	(\$ in millions)		
	1981 Appropriation	1982	1983 Request
All Community Services Administration programs except community economic development corporations.	\$545	\$348	\$100

Authorizations: \$389.3 million in FY 82 and the succeeding four fiscal years.

(Continued on page 6)

'Reports' to Examine Specific Requirements

In future issues of **New Directions in Funding Special Reports** we will examine, in depth, compliance areas that state and local block grant fund recipients will need to know to remain eligible for block grants in future years.

Specifically, we will look at:

- **requirements in force during the fiscal 1982 transition period from federal to state supervision of funds.**
- **application procedures, bringing together not only those requirements contained in the regulations, but also those in the often-referred to statute.**
- **public hearing requirements within states; what the localities are required to do, and more important, the requirements on state legislatures?**
- **the final regulations on existing block grants, as well as future block grants as they are developed.**
- **special block grant provisions for Indian tribes within states, and what is expected of the state and tribe in order to assure compliance with both the statute and regulations.**
- **prohibited uses of block grant funds, detailing programs and other uses that are specifically ineligible for block grant funds.**
- **civil rights under the block grants. Are the same requirements now in place for many of the federal grant-in-aid programs also in effect for block grant funds; and what to do if you think you are a victim of discrimination.**
- **some of the block grant organizations that have sprung up throughout the country to aid state and local governments in the acceptance and use of block grant funds.**
- **who is administering the programs from the federal level as well as the state level, the problems they see with the block grants and what they are planning to do to correct these problems.**
- **A-95 and its place within the new block grant system. Are the requirements still viable under a less structured grant-in-aid atmosphere such as the block grants present, or will A-95 be a thing of the past?**
- **audit requirements for the block grants and how to prepare for conducting the audit so as to meet the regulatory and statutory requirements.**

SPECIAL REPORTS

Audits and Auditors: Things You Should Know

Regulations currently in force for the new block grants require recipient state governments to conduct financial and compliance audits for funds they use. Not only do the regulations have requirements for the block grants in general, but each of the specific block grants have certain requirements that must be met.

Preparation

In preparing to meet the audit requirements, state block grant fund recipients should refer to the Omnibus Budget Reconciliation Act of 1981 which created the grants. The complete statute is found in the July 29, 1981 issue of the Congressional Record. Specifically, the general requirements for state audits can be found on page H 5557.

These requirements state in part that financial and compliance audits must be conducted once in every two year period beginning in fiscal 1982 — which started on October 1, 1981. The audit must be conducted according to the U.S. General Accounting Office standards. Additionally, the statute allows that the audit may be conducted in lieu of any other financial and compliance audit of the same funds unless specifically required by a particular block grant.

In the Preventive Health block grant, for example, the audit requirement is for every year, not one in every two. Further more, audits of the preventive health block grant funds must be made by an independent auditor who is not employed by an agency receiving funds from the block grant.

Another requirement of the grant's audit procedure calls for the audit to be sent to the Department of Health and Human Services (HHS) within 30 days of completion. The same time frame is in effect for making the results of the audit available to the public.

Additional Requirements

Such is also the case for audits under the Alcohol, Drug Abuse and Mental Health block grant, where audits are also required every year, despite the general provisions allowing for audits once every two years.

In the Social Services block grant, the audits are required only once in every two year period, and must also follow the basic GAO guidelines. One difference noted specifically in the statute for this grant is the requirement that within 30 days of completing the audit, not only must it be submitted to HHS, it must also be sent to the state legislature as well as the general public.

Under the Primary Care block grant, however, there is an entirely different set of requirements. Not only must the block grants be audited annually following GAO standards and submitted to HHS and the general public within 30 days of completion, the individual grants to community health centers must also be audited.

Annually, the statute requires, community health centers must be audited to evaluate the recipient's cost accounting, financial and program reporting procedures, and billing and collection procedures. As for the billing and collection procedures audit, the statute requires that these procedures be checked to assure that the fee schedule and schedule of discounts are relative to the availability of health insurance and other public programs to pay for the provided services.

Selecting an Auditor

These requirements point to the need for some general knowledge in selecting a competent auditor, and the need for the audit being conducted to be done correctly.

Selecting an auditor should be handled in the same way you would purchase goods or services. In fact, when an audit firm is chosen, the government is buying a service with public funds, and it should be sure it is getting the best product available at the best price.

No responsible recipient would purchase a police cruiser, for example, without knowing the type of car that was needed — maximum speed, acceleration, optional equipment required, or delivery schedule. Buying an audit is a

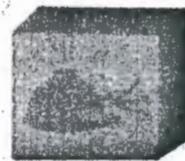
Future Issues Cover Wide Range of Topics



WA
Welfare Administration



RRA
Rental Rehabilitation
Assistance



ET
Employment and
Training

In coming issues of *New Directions in Funding*, we will look at a wide swath of areas dealing with both block grants and President Reagan's "New Federalism."

Aside from general news and budget items, some of the stories being looked into at this very minute include:

- How is the "New Federalism" plan being accepted by state and local leaders? Opposition from the start has been strong, and the administration is now having to compromise with these officials in order to gain the support its plan will need. We will keep on top of all the latest developments, and how they relate to your state, and community.

- Where are states planning state-wide competitions for the available block grant funds; what are the deadlines, requirements, and filing procedures?

- Who is responsible for assurance reports required under the block grant legislation? Specifically, how much input will communities have in preparing this report which will be used by HHS in determining future state participation in the block grant program.

- Will additional guidelines or regulations be issued at the state level for sub-state recipients of block grant funds? Some states have already indicated they will be establishing such "guidelines." We will take a close look at these, along with keeping you informed of any others that develop as the block grants come more into use.

- State participation plans and how local officials are getting involved in developing the use reports for block grant funds. Specifically, we will look at the comment time, location, and public comment requirements within each state.

- What states are funding under the block grants that were not, or could not be funded under the previously categorical programs? We will report on the contents of state application plans, where they are filed, and what innovative items they contain.

- What is the story with revenue turnbacks? How are state and local governments planning for the eventual elimination of the federal "fund" to aid in the transition from federal to state and local supervision?

- Questions and Answers on the most frequently asked block grant questions, as well as in-depth analysis on some of the more technical aspects of various requirements. In addition, as the "New Federalism" program progresses, we will address specifics about the plan, and provide authoritative answers to the questions nagging at state and local officials.

- How are localities dealing with the block grants? We will look at how specific counties and small communities are handling the block grant funds, focusing on special programs or procedures followed to obtain the most of the state grant that is possible.

- How localities are responding to the block grants. Are they making ends meet without the federal funds they had in previous years? How are they doing it? What are they doing to reduce spending?

- In what way has the easing of federal audit requirements for block grants alleviated financial and/or administrative burdens on your state?

- What state legislatures are doing concerning the appropriation, allocation or administration of block grant funds.

- What states have done to revise the authority and flexibility of local governments under block grants.

- The complaint procedure, and how local governments and organizations can file a complaint with HHS concerning the use (or abuse) of state block grant funds. We will look at the complaints that can be filed, the hearing, and appeal procedures.

- Future block grants — President Reagan has proposed seven new block grants, and changes to several existing ones. We will follow these as they make their way through Congress, and the funding battles that are sure to develop.



SRS
State Rehabilitation
Services



CDBG
Community Development
Block Grant



CW
Child Welfare

'83 Budget Adds Seven Block Grants, Changes Three

Following overwhelming success in creating eight new block grants for FY 1982, President Reagan has proposed seven additional block grants for FY 83. Also on the agenda are changes to three of the existing block grants.

New Block Grants

- **Vocational/Adult Education** combines eight grant programs funded in FY 82 at \$740 million into one FY 83 grant of \$500 million.

- **Handicapped Education:** preschool incentive grants, Part B state grants, Chapter 1 handicapped program, and certain discretionary project grants funded as categoricals in FY 82 at \$896 million, are combined at \$846 million in one FY 83 grant.

- **Employment and Training:** replaces eight CETA programs funded in FY 82 at \$2.4 billion with a single \$1.8 billion state grant in FY 83.

- **State Rehabilitation Services:** combines state handicapped rehabilitation grants into one \$663 million grant in FY 83, while transferring the program from the Education Department to Health and Human Services.

- **Child Welfare Services:** combines child welfare services, foster care, adoption assistance, and child welfare training, funded in FY 82 at \$465 million, into one \$380 million state grant in FY 83.

- **Welfare Administration:** combines administration of AFDC, food stamps and Medicaid with a \$2.2 billion FY 83 ceiling for state and local administrative costs — about five percent of the federal share of administration costs in FY 82.

- **Rental Rehabilitation Assistance:** replaces HUD's Section 312 rehabilitation loans and Section 8 moderate rehabilitation with a \$150 million, 50 percent matching grant to states in FY 83.

Changes

Changes proposed in existing block grants by the Reagan FY 83 budget would:

- add Black Lung clinics, migrant health and family planning, funded in FY 82 at \$165 million, to the **primary care** block grant at a \$417 million FY 83 level.

- add USDA's \$934 million supplemental food program for women, infants and children (WIC) to the **maternal and child**

(Continued on page 8)

Viewpoint: HHS and the Regulations

Well into its second year, the administration has begun an erosion of the once strong and well-financed grant-in-aid programs, leaving state and local officials with nowhere to turn but their own taxing authority or private corporations for needed funds. With federal aid for programs managed by private nonprofit groups at a literal standstill, these organizations as well are competing for a part of the available private sector funds.

To ease this erosion and increased competition, President Reagan has set up state block grants that theoretically fund the once-categorical programs at comparable levels without federal intervention. At first glance, states were pleased. Another "no strings attached" general revenue sharing program.

The block grants, however, included a 25 percent reduction in funding from fiscal 1981 levels for what the administration claimed would be lower administrative costs. When the effect this reduction would have on overall funding for the block grants sank in, states weren't quite so pleased.

Local governments, on the other hand, always opposed turning funds for local programs over to states for subsequent pass-through claiming the 25 percent cuts were too severe, and that state administrative expenses would surely eat away further at the diminished funds. Others went one step further saying that relations between states and local governments had never been the greatest and would surely deteriorate more if block grants were imposed.

Still, President Reagan moved forward developing eight new block grants in his first year in office. Seven of these started on October 1; only primary care is delayed until October 1, 1982.

At that time, the Department of Health and Human Services, overseer of six of the effective block grants, issued "interim final regulations." The Department of Education took even longer. Its block grant regulations were issued on February 12, and then only as a "notice of proposed rulemaking." Even with this initial guidance for participants in the block grant programs, questions remain not only at state and local levels, but apparently in the upper-level offices of federal bureaucrats; questions not only of general interest, but on specific requirements.

At HHS, top agency officials required more than four weeks to comment on final regulations replacing the October 1 "interim" rules; a time lag described by some within HHS as "surprising." After all, the HHS General Counsel's office spent nearly three months revising the regulations, claiming all along that few, if any, changes would evolve. Yet, the snail's pace persists.

When general revenue sharing began in 1972, similar "interim" rules were issued, although they contained more specifics than do those from HHS. In time, however, the Office of Revenue Sharing revised and expanded its rules to accommodate specific questions from its principle beneficiaries. Does HHS think these same beneficiaries will not demand the same kinds of specifics under these block grants, allowing only a basic framework to guide the distribution of the billions of dollars involved?

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A New Federalism Task Force Report

November 24, 1982

WHY BLOCK GRANTS WORK

INTRODUCTION

The New Federalism initiative is one of the Reagan Administration's most promising attempts to reduce the size and role of the federal government and to return the responsibility for basic social programs to the states. Recent signs that the White House is retreating from its original proposals have appeared, ironically, just as evidence emerging from the 1981 block grant experience reveals the states to be sophisticated and efficient when given discretion over such programs.

Statements made during the summer indicate that top White House officials in the Office of Intergovernmental Affairs have all but agreed to the position of the National Governors Association that the only acceptable part of the New Federalism initiative outlined in the 1982 State of the Union address would be the nationalization of the \$30 billion Medicaid program. The Administration has withdrawn from its original plan (opposed by the governors) to turn over the \$9 billion Food Stamp program to the states, and has dropped part of its plan to streamline maintenance of effort standards, mandatory pass-through requirements, and other rules that increase costs and restrict experimentation.

Yet the experience of the 1981 block grants suggests that the states are capable of assuming administrative and financial responsibilities for even more programs. The data show that the states can absorb the cuts in federal aid associated with the blocks and make appropriate cost savings without unduly reducing services or increasing taxes. The evidence also shows, however, the need for greater flexibility to enable states to experiment further and better use their block grant funds.

It is important to the New Federalism debate that the experience of the 1981 block grants be understood and its lessons

properly drawn. Failure to appreciate this experience has prompted many legislators and, apparently, Administration officials to press less vigorously than they should for the decentralization of basic support programs that is a key element of New Federalism.

BACKGROUND

Federal grants-in-aid to the states have been growing rapidly. Since 1961, the number of categorical aid programs slated for states has trebled, reaching 510 in FY 1981.¹ Federal spending for those programs amounted to \$94.4 billion in FY 1981, up \$3 billion from 1980 and \$12 billion from 1979.² The average annual growth rate for those programs over the twenty-year period was 13 percent, or roughly three times the growth in Gross National Product. Categorical grants-in-aid to the states constituted 3.4 percent of the 1981 GNP, compared to 1.4 percent of the 1961 GNP.³

The Advantages of Block Grants

The rapid growth in federal aid was seen by many as a welcome indication of a national commitment to resolve supposed national problems and to offer states needed monies to finance basic service programs. However, such growth brought with it increased federal influence over state and local policies. The typical grant featured 300 to 500 separate spending requirements on state governments.⁴ White House officials estimate that regulations attached to just one of the nutrition programs involved 62 million "burden hours" of paperwork annually.⁵ Those millions of man-hours spent on paperwork did more than siphon resources that could have been directed to actual service delivery. They also were a clear signal that federal authorities intended to use the spigot of public monies to change the course of state and local policies.

This "mandate millstone," as New York City Mayor Ed Koch described the hundreds of thousands of changes states must make routinely in their own programs to accommodate federal directives, is a major problem to states in securing block grants. The millstone burdened each of the 500-plus categorical aid

¹ A cogent history of categorical grants is given in Thomas Ascik, "Block Grants and Federalism: Decentralizing Decisions," Heritage Foundation Backgrounder #144, June 5, 1981, pp. 18-23.

² See Reagan and the States (Washington, D.C.: American Legislative Exchange Council, 1981), p. 4.

³ Additional statistics about categorical grants-in-aid are provided in "Fact Sheet: Federalism Initiative," distributed by the White House, Office of the Press Secretary, January 27, 1982, pp. 2-4.

⁴ Ibid., p. 3.

⁵ Ibid., p. 4.

programs for the states. In some cases, mandates were reinforced with sanctions imposed by federal authorities to force states to comply.

The regulations and spending mandates that accompanied the Elementary and Secondary Education Act (ESEA) are but one example of federal influence. Federal spending in 1981 amounted to only 8 percent of all monies spent on education. Yet this had a disproportionate impact on states and localities because it financed almost 100 percent of student loan, nutrition, and specially targeted aid programs. To qualify for this 8 percent, the states (which bore 88 percent of all education costs) were required to prove compliance with a variety of curriculum, hiring, and admission standards. These forced states to start new programs or revise existing ones without regard to efficiency or local desires. Among the most controversial of the requirements are bilingual education and school busing.

The Critics of Block Grants

Criticism of block grants has mounted on several fronts. It is argued, for instance, that the states' own sources of revenue are so strained they cannot afford to bear the cuts in federal outlays that are a part of the block grant strategy.

A May 14, 1981, letter to all Members of Congress signed by 63 public interest groups maintained that: "These [block grant] proposals will certainly mean two things: less assistance to those in genuine need in these areas and a brutal political struggle at the state level where the most vulnerable and those without clout are certain losers."⁶

These critics presume that reductions in block grant monies would prove insurmountable obstacles to the states. The assumption was that costs would not be balanced by reduced overhead and compliance costs. This ignores the proved capability of state governments to make significant changes in priorities and coverage within a relatively short period.

Critics also maintain that the states would be unwilling and uncaring administrators of services. This implies that only the federal government is capable of compassion. Dozens of welfare and civil rights groups complained that states would use block

⁶ "Coalition Condemns Plan for Block Grants to States," Washington Post, May 21, 1981. A June 24, 1981, memorandum written by Susan Phillips of The Conservative Caucus demonstrates that many of the 63 groups were recipients of large amounts of federal grants. Mrs. Phillips documents, among other facts, that some of the groups are actually affiliates or projects of groups mentioned elsewhere on the list. Other groups had no phone numbers, were unaware that they were on the list of 63 groups, or were projects that existed solely through a federal grant.

grants as an opportunity to gut basic benefits and service delivery for the needy.⁷ Carl Rowan, in a column entitled "Help for Needy Retreats to Block Grants Shelter," wrote: "In hundreds of [economic] areas of life, state and local officials were unable to meet the needs of families that couldn't pay fuel bills or dental bills, or bills of other vital needs. In some cases--food programs, for example--troglodyte local officials even rejected what they could have for free from Uncle Sam."⁸

Key lobby groups, such as the U.S. Conference of Mayors and the National Conference of State Legislatures (NCSL), oppose wholesale distribution of discretionary power to states--not because states are inexperienced or incompetent overseers of programs but rather because they see the states as stingy in distributing monies to the cities and counties.

Concern over the capabilities and dedication of state governments ignores the impressive political maturation of state legislatures during the last ten to fifteen years. Between 1974 and 1980, the number of legislative committees and support staff doubled. Professor Alan Rosenthal of Rutgers University concludes:

State Legislatures have recently undergone significant change.... Legislatures are more likely to meet annually than biennially. They spend more time in session than before. Professional staff has increased. Research agencies nearly everywhere are larger, many more important standing committees have assistance and leaders in more than half the states have full-time staff support."⁹

In fact, it has been these improved resources that have enabled the states to establish such a commendable record on assuming responsibility for the block grants.

THE 1981 BLOCK GRANTS

The nine block grants, passed by Congress as part of the 1981 Omnibus Reconciliation Act, contain the following principal provisions:

Maternal and Child Health Services. Seven categorical grants are consolidated--Maternal and Child Health, Supplementary

⁷ For specific comments by those groups, see "Block Grant Proposal Carries Few Strings," Washington Star, March 7, 1981.

⁸ Washington Star, May 31, 1981.

⁹ Dr. Alan Rosenthal, Legislative Performance in the States (New York: The Free Press, 1974), pp. 2-3.

Security Income [Children], Hemophilia, Sudden Infant Death Syndrome, Lead-Based Poisoning Prevention, Genetic Diseases, and Adolescent Pregnancy. The consolidation is designed to enable states to improve the health of mothers and children and support special research, training, and service programs. This block grant is funded at \$373 million for FY 1982.

Preventive Health and Health Services. This program consolidates eight categorical grants, including Home Health Incentive Grants, Fluoridation, Rat Control, Health Education/Risk Reduction, Hypertension, Emergency Medical Services, and Rape Crisis Counseling. The consolidation is designed to improve the health of recipients by preventing incidence of unnecessary injury, illness, or death. This block grant is funded at \$95 million for FY 1982.

Alcohol and Drug Abuse and Mental Health Services. This consolidates five programs--Alcohol Project Grants, Alcohol Formula Grants, Drug Abuse Project Grants, Drug Abuse Formula Grants, and Mental Health Services. The consolidation seeks to improve the health of recipients by providing treatment, prevention, and rehabilitation services. This block grant is funded at \$491 million for FY 1982.

Primary Care. This applies to only one categorical grant, the Community Health Centers, which is converted into a block grant by increasing state alternatives for providing primary health care. It is funded at \$302 million for FY 1982.

Social Services. This block redesigns three programs previously authorized under Title XX of the Social Security Act--Social Services, Day Care Services, and State and Local Training. The primary purpose is to prevent or remedy neglect, abuse, or exploitation of vulnerable children and adults and to prevent inappropriate institutional care. It is funded at \$2.45 billion for FY 1982.

Low-Income Energy Assistance. Designating the Low-Income Energy Assistance Program a block grant gives the states more flexibility in their assistance to eligible households for heating, cooling, and weatherization costs. Consolidation also reduces federal requirements for state assistance under the program. This block is funded at \$1.87 billion for FY 1982.

Community Services. The consolidation redesigns programs previously administered by the Community Services Administration, including Community Action, Senior Opportunities and Services, Community Food and Nutrition, Training and Energy Conservation, Evaluation, and Technical Assistance. Consolidation is designed to enhance the anti-poverty efforts of federal, state, and local governments. This block grant is funded at \$389 million for FY 1982.

State Community Development Block Grant Program for Small Cities. This consolidation gives states the option of taking over responsibility for a program previously administered by the Department of Housing and Urban Development. It seeks to enhance housing, income, and environmental living conditions for low-income individuals. The block is funded at \$1.08 billion for FY 1982.

Elementary and Secondary Education. This consolidation has two chapters. The first streamlines programs in Title I of the Elementary and Secondary Education Act--Basic Grants to Local Education Agencies, Concentration Grants, Migratory Children, Handicapped Children, and Neglected and Delinquent Children. Chapter 2 consolidates 27 other elementary and secondary programs, such as Basic Skills, PUSH-EXCEL, Metric Education, Consumer Education, Library Resources, Community School Aid, Gifted and Talented, Ethnic Heritage, Teacher Corps, and Alcohol and Drug Abuse Education. This block grant is funded at \$518 million for FY 1982.

HOW CONSOLIDATION WORKS

The Reagan Administration's 1981 economic recovery plan stressed two aims of block grants: (1) to reduce the cost and number of federal-state categorical programs and (2) to limit the growth of aid under such programs.¹⁰ To achieve these goals, the Administration proposed to consolidate almost 100 different categorical programs into seven blocks--grants that would allow states to implement the programs free from the need for annual reports, maintenance of effort standards, state matching funds, or even the submission of applications for the grants. The grants would have been funded automatically without the means tests and application procedures associated with categorical programs.

The block grants were supposed to involve substantive regulatory reform for many categorical grants. This was to result in less overhead, a greater share of benefits going to the needy, increased flexibility for state and local officials, and improved political accountability for the programs. Robert Carleson, Special Assistant to the President for Policy Development, summarized the block grant rationale:

In conjunction with regulatory reform, block grants are designed to reverse the trend towards greater federal control over state and local programs. They represent a means of ameliorating the impact of federal spending reductions, which are required in this economic climate.

¹⁰ "Consolidating Categorical Programs into Blocks," A Program for Economic Recovery, 1981, pp. 7-1 and 7-2.

Block grants reduce state and local compliance costs, eliminate waste, reduce federal administrative costs, and make state and local officials directly accountable to their constituents.¹¹

Despite Carleson's assurances, some observers point out that the consolidations are not true block grants, for they include the sort of restrictions that characterized the grant consolidations of previous administrations. Many governors, for instance, have their doubts. Said Governor James Thompson to the Illinois General Assembly: "We were promised relief from regulations and mandates. Instead, the states will receive these half-hearted, watered-down versions of the original proposals. We got the cuts, but not the flexibility."¹²

Earmarks

It is easy to understand why the 1982 grant consolidations might be considered "categorical" conversions instead of "block" conversions. In some cases, Congress attached provisions to the grants that escalated costs beyond what the states might have authorized otherwise. In other cases, Congress enacted spending and distribution restrictions that made the states little more than a conduit for carrying out a federally prescribed course of action. One example is the "earmark," a term referring to the percentage of grant funds that must be set aside for a purpose prescribed by statute.

Earmarks limit the range of spending and management options of a state. In the Elementary and Secondary Education Block Grant, for example, 80 percent of the funds available from the federal government must be "passed-through" automatically to local education agencies "on the basis of relative enrollment adjusted for relative numbers of higher cost children." With the education block, therefore, the states not only must give the lion's share of their monies to local entities, but also must distribute the monies in accordance with a formula mandated at the federal level. The earmarks in the education block are typical of the 1981 blocks. Six of the seven health block grants include such set-asides.

By reducing the states' ability to assign priorities for funding topic areas, the earmarks inhibit the states from redesigning previous categorical grants into a system uniquely responsive to their own needs.

¹¹ The White House, Office of Policy Development, "Summary Fact Sheet: The Administration's Block Grant Proposals," May 14, 1981.

¹² Quoted by Illinois State Representative Penny Pullen in "Guest Editorial," in The American Legislative Exchange Council's First Reading, October 1981.

Reporting and Audits

The spending mandates are one of the structural constraints imposed by Congress on block grants. Others require states to conduct reporting and audits of the block grant programs. Additionally, the blocks are still subject to federally required "cross-cutting mandates," even though the very purpose of the grant consolidations was to relieve the states of onerous tasks associated with federal rules. Cross-cutting mandates oblige the states to adhere to a wide variety of federal statutes of which they may not be aware. Those include affirmative action quotas, access to handicapped rules, Davis-Bacon construction wage requirements, and the Uniform Relocation Assistance Act. The latter raises potential financial problems for the states in that it requires governmental units to compensate individuals who are displaced because of a government project.

The GAO Findings

The block grant pitfalls left open by Congress were recently highlighted in an August 24 Report to the Congress by the U.S. General Accounting Office (GAO). The 57-page report noted the same earmarks and reporting requirements outlined above. The GAO added the observation that mandatory pass-through provisos and the slow rate of federal-state money disbursements complicated state planning efforts. In some states, according to the GAO, federal requirements forced the states to "sharply increase expenditures" in some of the blocks.¹³

In general, however, the GAO gave high marks to the states for overcoming initial obstacles to block grant efficiencies. One of the most important factors that favored the states at the outset was their working familiarity with block grant recipients. The report cited Colorado, Kentucky, Washington and Michigan as prime examples of states continuing to use previously funded grantees as service delivery systems. "Because of states' prior experience, relatively few organizational adjustments were needed," stated the GAO report. The GAO added: "In addition to employing existing organizational structures, states drew upon their institutional knowledge for carrying out block grant responsibilities. For most block grants, details on how the previous programs were run, their purposes, and the activities required were well known. Moreover, states often had existing relationships with service providers."¹⁴

The GAO report is useful to the extent that it reaffirms the states' abilities to be creative under pressure. However the report raises some unanswered questions that will be dealt with

¹³ Report to the Congress by the Comptroller General, "Early Observations On Block Grant Implementation," U.S. General Accounting Office, Report #GGD-82-79, August 24, 1982, p. 25.

¹⁴ Ibid., p. 12.

elsewhere in this Background. The report declares that states made few organizational changes during the categorical-block grant transition, but does not identify savings that states made in the process. The report mentions that private contractors from the categorical system were retained under the blocks, but does not examine how previously covered recipients are affected. It notes that state legislatures are becoming more active in oversight and implementation of the blocks, but does not analyze how their increased role affected eligibility criteria. The report identifies institutional obstacles that impede program efficiency, but does not suggest ways to improve the block grant structure in a meaningful way. And finally, the report restricts itself to 13 specific states, without any reference to successes achieved in the other 37.

Flexibility

The GAO study is correct in stating that the block grant legislation enacted in 1981 gives the states some important flexibility. In the Social Services and the Alcohol and Drug Abuse and Mental Health blocks, Congress repealed a matching fund requirement which, under the categorical system, obligated the states to appropriate monies from their own treasuries equal to the federal outlay. In four new blocks (Low-Income Energy, Community Services, Preventive Health, and Alcohol and Drug Abuse and Mental Health), states can transfer funds from one block to another. In all the blocks, states can decide how to design and write their applications for funding. Freed from standard forms, the states will "save" 5.4 million man-hours that would otherwise have been spent on paperwork, according to Office of Management and Budget estimates. These reductions in man-hours will reduce paperwork time by 83 percent.¹⁵

Flexibility is also gained in that the states can now decide the date of their participation in the block grant program. This option is an important political concession to the states since the final form of block grant legislation was not clear until several months after the states' fiscal year began (for 46 states, the date is July of each year). States needed time to develop applications, prepare demographic data, project expected participation, and itemize probable outlays. Granting discretion to the states regarding the date of participation gave them the opportunity to phase out efficiently the categorical system and the time to solicit bids from the private sector for some block grant functions.

In sum, it is debatable whether the 1981 grant consolidations represent true block grants. State governments did not have

¹⁵ U.S. Office of Management and Budget, "Block Grant Implementation: Effect of Block Grants on Paperwork Reduction," Attachment #3, September 21, 1981.

unbridled discretion regarding financial and administrative management. On the other hand, the states did have some latitude regarding contracting out of services, transfer of funding, and gradual conversion from categorical to block grants. Additionally, the block grant consolidation offered significant reductions in compliance costs and paperwork burdens.

PROGRESS OF THE BLOCKS: IMPLEMENTATION

Block grant enabling legislation was purposely vague on the matter of responsibility--in the case of all the blocks except education, "the state" meant the governor or the legislature. It was equally silent about process, state compliance with civil rights guarantees, distribution of benefits, and the procedures that each state should use to ensure public participation in the block grant process. The Children's Welfare League, the League of Women Voters, the Center for Community Change, and other interest groups expressed serious concern that the public would be excluded from the block grant process, once those jurisdictional and technical questions were resolved.¹⁶

Two-thirds of the nation's governors have formed task forces to review block grant problems; these are mainly advisory bodies and are not authorized to dictate the nuances of implementation.¹⁷ Similarly, several state legislatures have voted themselves the authority to apply for or accept block grant applications. Most states are administering the blocks by using existing personnel. A handful of states, notably Louisiana and Texas, are using the federal block grants as an opportunity to merge similar state programs into a single state office.

Some states have found that block grants are useful for giving local governments more control over basic benefit programs. California and Oregon are the two states most actively decentralizing block grants to the county level--so-called mini-block grants. California officials have already given counties complete authority to administer the Social Services Block Grant. As a result, state officials feel that they can absorb the funding reductions that accompanied the block grant. Only a minimal number of state personnel is needed to oversee the counties' efforts. The counties, meanwhile, are using volunteer services and private contractors to cut costs. The California innovations have attracted attention; the Pennsylvania and Illinois General Assemblies, for example, are now debating the prospect of establishing mini-block grants for their state-local grant awards.

¹⁶ Those concerns are detailed in a lengthy "Briefing Book" about block grants (Washington, D.C.: Center for Community Change, 1981).

¹⁷ James Stockdale, Deputy Undersecretary for Intergovernmental Affairs, Memorandum to Regional Directors, U.S. Department of Health and Human Resources, May 24, 1982., p. 23.

Critics' fears that the public would be excluded from the process have proved unfounded. Federal enabling legislation requires states to conduct an initial public hearing about the distribution and structure of the blocks. Indeed, states had to hold such hearings before they could receive the block awards. The states have complied with this mandate and are making public hearings a regular, integral part of the block grant process. In a few states (notably Utah and Virginia), the executive branch of the state government has established toll-free telephone numbers through which the public can report problems or successes with the blocks.

Other states have been equally innovative in tapping public views of block grants. Efforts range from advertising in newspapers and on television to holding field hearings in the locations most likely to benefit from the blocks. At a Nebraska hearing, approximately 1,500 people turned up.

The block grant program is the first major federal-state effort that gives the public an opportunity to comment on plans for major grants-in-aid policies. This alone makes it a critical element of the New Federalism structure. The states' hearings constitute the first instance of the public at state and local levels being brought into the policy planning process. A February 1982 survey by the National Governors Association (NGA) found that state public hearings on block grants will be even more widespread in 1983.¹⁸ "If nothing else," concluded the NGA survey, "the data provided by the states clearly and emphatically show that citizens were provided a multiplicity of opportunities to participate in the process....[F]or all the programs (except Title XX and Social Services Block Grant) this is generally the first year in which the public has been involved so heavily in the process of program decisions."¹⁹

PROGRESS OF THE BLOCKS: FINANCIAL MANAGEMENT

Once the states resolved the issues of authority and public participation, the immediate problem was how to manage the financing of the block grants. Initially, funding was not technically a part of the state budgets, since the states' fiscal years had already started at the time Congress approved funding. When the blocks were enacted, therefore, the states faced a number of problems.

1. How to accommodate the budget reductions. The Reagan Administration originally requested that the blocks be 75 percent

¹⁸ The NGA survey also shows that 35 states plan to increase public participation during FY 1983. "1982 Governors' Guide to Block Grant Implementation," National Governor's Association (February 1982), p. 21.

¹⁹ Ibid.

of the FY 1981 funding for the relevant categories. The states were expected to make up the budget gap through reduced overhead and compliance costs. The General Services Administration, however, estimated that administrative costs associated with the categorical grants amounted to only 5 to 15 percent of total outlays. Moreover, the economic recession increased normal demand for services under the grants program--services that, under the federal enabling legislation, required the states to cover certain categories of persons.

2. Whether to transfer funds between blocks. The enabling legislation allowed the states to transfer certain amounts of grant funds from one block to another. Though states can direct a small percentage of unused monies to another grant program in order to compensate for unexpected shortfalls in the blocks, such a grant diversion might reduce the funds available from the federal government in future cycles.

3. How to maximize service delivery with a minimum of administrative costs. This issue is particularly poignant for block grants because of the federally mandated cap on administrative expenses.

Accommodating the reduction of federal funds did not become a major problem. The reason: there was almost no cut in federal outlays to the states. Though all state officials had come to expect a uniform 25 percent reduction in funding for the blocks, the final cut, as set by congressional Continuing Resolutions, amounted to only 10 percent. Even this turned out to be far over the mark. The National Association of State Budget Officers estimates that, as of February 1982, the collective outlays for those programs (at the state level) dropped an average of just 0.5 percent,²⁰ meaning that the states have not had to cut budgets or raise taxes to accommodate the anticipated reduction in block grant funding--it never took place.

States were concerned with the distribution procedure for the funds. Disbursement is governed by two federal processes, the Intergovernmental Cooperation Act (ICA) and the Continuing Resolution of Congress. The first posed a cash-flow problem for states because it obliges the federal government to give grants to states only on an actual or immediate need basis. In other words, the state governments count block grant funds as part of their state budgets, but the federal government will disburse funds only on an incremental, quarterly basis. This restricts the states' abilities to deposit block grant monies for interest-yielding purposes in banks and other lending institutions--a

²⁰ Ibid., p. 37. Individual state changes in federal funding for the blocks ranged from +2.3 percent to -19.8 percent.

common cash management practice. The ICA thus effectively reduces the total funds available for services.²¹

The federal government's reliance on a Continuing Resolution to fund programs compounds the cash management restrictions. The Continuing Resolution usually covers program funding for no more than a few months. In the case of block grants, the federal government's use of such stop-gap budgeting prevents the state governments from receiving funds on a predictable and regular manner.

The double restrictions of the ICA and the Continuing Resolution have caused particular problems for blocks subject to unusual demand, such as the Low-Income Energy Block Grant, designed to give aid to needy individuals who cannot pay their high heating bills. The Low-Income Energy Block Grant naturally incurs its greatest outlays during the winter months, but ICA guarantees the release of funds only gradually; financing via the Continuing Resolution, meanwhile, assured that the funds would be less predictable. Officials at the Office of Management and Budget apparently attempt to take into consideration the states' problems and give a high priority to expediting block grant disbursements. While the ICA required the government to make only quarterly payments, OMB officials try to make funds available in line with actual program operations.

Although there were fears that Low-Income Energy funds would be inadequate to meet states' needs, over two dozen states, as of Spring 1982, had transferred funds, capped at 10 percent by federal legislation, mainly to augment funding for the Social Services Block Grant. Five states transferred Low-Income Energy funds into weatherization programs,²² and 26 states transferred funds into Title XX of the Social Services Program.²³ Therefore, in spite of initial cash-flow problems, the states have found surplus funds to be redirected into other block grants.

In the short run, the interblock transfer of funds has enabled states to reassign priorities within the blocks to the extent allowable under law. The long-run consequences are not as clear, however, because the transfer of funds out of a block may signal to future federal administrators that the state was awarded too much money for that block.

²¹ The technical procedure by which states receive their funds is explained in "The Block Grant Award and Cash Disbursement Procedures," a fact sheet (Office of Management and Budget, October 2, 1981). Additional details are given in a question-and-answer paper, untitled (Office of Management and Budget, September 29, 1981).

²² Colorado, Kansas, Maine, North Dakota, Oklahoma.

²³ Alabama, Arkansas, California, Florida, Georgia, Iowa, Kansas, Kentucky, Louisiana, Maryland, Michigan, Missouri, Montana, Nebraska, New Jersey, New York, North Dakota, Oregon, South Dakota, Utah, Vermont, Virginia, Washington State, West Virginia, Wisconsin, and Wyoming.

PROGRESS OF THE BLOCKS: SERVICE DELIVERY

It is becoming evident that service delivery under the blocks is better than it was under the previous categorical programs. The states' successes can be examined in terms of: (a) the nature of new recipients previously excluded from the categorical grants and the scope of new services available; (b) the level of administrative activity and the proportion of block grant monies consumed by administration.

Scope of Block Grants

In all the blocks, there has been an increase in new, previously uncovered recipients--a change directly attributable to the reassignment of priorities within the blocks. In Montana, for example, one portion of the Maternal Child Health Block Grant was merged with the Handicapped Children's program. Montana's consolidation increased the projected participation in the program by about 11 percent. Similarly, Louisiana is regrouping all state community service programs into the same State Department of Labor division that will handle the Community Services Block Grant. New York State officials are merging the Social Services Block Grant and Alcohol and Drug Abuse and Mental Health Block Grant into an existing "Consolidated Services Planning Process." Thirty state governors have established a lead agency responsible for coordinating the blocks with state programs. Thirty-two state governors have created task forces whose mandates include the identification of existing federal or state rules that prevent augmentation of the blocks.

This consolidation by the states runs counter to the predictions of critics who believed that states would use block grants to cut aid to needy individuals. In fact, the consolidation has improved service to the needy since the programs are now designed to give priority to categorically needy persons.

The majority of states have drafted comprehensive lists of "risk factors" to serve as a precondition for distribution of block grant benefits. In the case of the Preventive Health Block Grant, states are giving priority to areas with either high rates of communicable diseases or areas with high propensity for health related problems (e.g., high crime areas where rape prevention programs may be useful). Similarly, some states are using the Community Services Block Grant to contract with private providers willing to address the needs of unserved populations. Under the Community Services Grant, there is a trend for new services to be provided for previously unserved groups via competitive bidding for contracts. Delaware and Arkansas have been especially active in the competitive bidding/contracting-out process.

Are the consolidations and redesigning by states adversely affecting previous recipients? Until the states complete their audits of the blocks, no definitive answer is possible. Thus far, however, the states seem to be taking steps to offset seri-

ous shortfalls in projected aid. In the case of the Maternal and Child Health Services Grant, the use of supplemental appropriations by the states is especially noticeable. Forty-five states are offering the basic matching fund required by federal law (\$3 in state funds for every \$4 in federal funds);²⁴ 19 states are matching federal funds in excess of the match prescribed by federal law;²⁵ and 19 states are requiring some sub-unit of state government to provide an additional match of federal monies.²⁶

As of June 1982, approximately two-thirds of the states had not made changes in eligibility requirements for either individuals or grantees. The remainder of the states are considering changes in eligibility, but those changes, if enacted by the state general assemblies, will only affect recipients of the FY 1983 block grants. This preservation of eligibility requirements means that the blocks are still servicing the same broad groups of beneficiaries. What has tended to change is the priority under which the recipients are given benefits.

The states also have adequate safeguards to assure compliance with nondiscrimination provisions of the federal block grant laws. As of July 1982, no state had been sued or charged in a similar civil action that alleged discriminatory practices vis-a-vis block grants. Given the high degree of public and inter-governmental interaction on the block grant program, there are adequate checks to detect violations of civil liberties.

Economies in Administration

One group only has suffered from the institution of block grants: the state bureaucrats who usually audit, survey, monitor, or otherwise certify the progress of categorical grants.

Federal legislation still ensures a full public accounting of the blocks. Each state is required to provide federal agencies with an annual independent audit. Still, the paperwork burden formerly imposed on states through categorical grant regulations is noticeably absent. It is still too early to assess the impact of reduced paperwork on individual states. State budget officers, however, believe that the paperwork costs will be much lower than those under the categoricals--if for no other reason than that the latter required several reports for 57 different programs. In contrast, the new block grants require

²⁴ The five exceptions are: Iowa, Nebraska, New York, Oregon, and West Virginia.

²⁵ Alaska, Arizona, Arkansas, Georgia, Idaho, Illinois, Louisiana, Maine, Maryland, Michigan, Mississippi, Missouri, Nevada, New Hampshire, North Carolina, Ohio, Rhode Island, Tennessee, and Wyoming.

²⁶ Alabama, Connecticut, Delaware, Georgia, Illinois, Indiana, Kansas, Minnesota, Montana, Nebraska, New Jersey, North Carolina, North Dakota, Oklahoma, Pennsylvania, Rhode Island, Tennessee, Texas, and Wisconsin.

only one or two smaller reports for just seven individual programs. Accordingly, states expect to spend at least 40 percent less on conducting audits and compliance reports than in FY 1981.

Preliminary trends suggest that the very modest funding reductions are not straining state financial resources. Inter-block transfers (especially for the Social Services block), supplemental funding (beyond the matching fund requirements of some blocks), and the projected reduction in compliance and paperwork costs have all contributed to the solvency of the blocks. In a handful of states, some innovative administrative action has further bolstered the self-sufficiency of selected blocks. Montana's decision to terminate specific projects under the Maternal and Child Health block and Washington State's action to impose limited user fees for nonpriority services are but two instances of cost-saving measures. That the states are making such decisions demonstrates that a fundamental purpose of the block grant system has been achieved: states have responsibility for program operations, to the point that they are now accountable for the grants.

Increasing Decentralization

The states also have shown that block grants are only a first step down the ladder of decentralization. For some states it has prompted the mini-block grant approach that has helped reduce unneeded overhead while returning responsibility to local officials. In the interim, the states' decentralizing programs are demonstrating a sophistication and sensitivity to local needs that refutes arguments of early critics that the states could not handle the grants fairly and effectively.

The irony is that states are making strides in spite of continued federal restrictions. Those restrictions, which have more to do with congressional action than with Administration policy, will dampen future state innovation. The restrictions are unnecessary, redundant, and inconsistent with the blocks' goal of permitting maximum flexibility for the states. That states established the mini-block systems on their own initiative suggests that they do not need the guidance and supervision inherent in the spending restrictions imposed by Congress. Unless such restrictions are removed, a future Administration or Congress may add further burdens. Only by drastically revising or repealing these restrictions now can decentralization accelerate.

NECESSARY REFORMS

Finance

Neither the National Governors' Association report nor the GAO study offers substantive recommendations about how to improve the block grant program enacted in 1981. The recommendations

that the two reports do make are limited to technical transition and data collection changes -- hardly the sort of needed reforms that can bolster the long-range security of the blocks. The evidence presented above suggests that at least three financial reforms are needed. First, the federal government should require immediate disbursement of all available block grant monies to the states. The theory that the states should only be allotted funds on an actual and immediate need basis presumes that states will either overspend or misuse the funds. States have the financial maturity to handle large public funds deposits. Transmitting available funds to states immediately would reduce the reliance of the states on federal authorities for permission regarding the disposition of funds. State governments deserve a free hand in the management of public funds, if only because they are the entities responsible and accountable for block grant operations.

Second, the cash management of public funds should be reformed. Currently, states are allowed to use grant awards only for actual grant outlays, meaning that they cannot deposit block grant funds in banking institutions for interest-yielding purposes. The problem with this restriction is that unobligated grant funds (however large or small) should be accumulating interest while not being used. If the states are allowed to invest block grant funds on a periodic basis, they have a way to augment their initial grant award. As such, Washington should either authorize cash management of monies by states; or, at a minimum, allow states to receive proceeds from the federal management of undisbursed but obligated block grant monies.

A third financing reform concerns the day care portion of the Social Services Block Grant. Currently, almost two dozen states are implementing some form of Community Work Experience Program (CWEP), also known as "workfare." These CWEP programs require recipients of certain public aid programs to "work off" their benefits by taking positions with public service agencies, which often include day care centers. Since the CWEP approach is a goal of the Administration, and since the CWEP option is currently nonbinding on the states, the Social Services block should be revised to give states an incentive to establish a workfare program that includes day care options. The incentive for the state could be financial: States with a certified CWEP program that includes substantive day care provisions ought to be allowed to transfer funds from the day care portion of Social Services into another grant program. This approach would have the advantage of encouraging the remaining two dozen states to establish full or partial CWEP programs, while at the same time freeing a sizable portion of the largest block grant for use elsewhere.

Administration

There are several reforms that can be made in the administration of block grants. Each would reduce the costs of the block grant system, introduce competition into the process, and increase flexibility for the states. The reforms also would increase the service delivery potential of the blocks.

Bring block grant activity under the jurisdiction of OMB A-85 mandates, or else require states to contract-out certain functions of the grant awards. The contracting-out process can either be broadly worded to cover all possible activities that are not inherently governmental in nature; or the procedures can be restricted to services that are directly "private" in nature, such as data processing, records keeping, processing of claims, or warehousing.

Allow states the right to seek discretionary regulatory relief from the federal government. This option would allow states to seek a waiver from any federal regulation that is particularly inappropriate or inapplicable to their geographic area. Relief could require that federal waivers be printed in the Federal Register, along with the normal comment period and review cycles.

Allow states to transfer larger portions of funds between block grants. Currently the Community Services block allows only a 5 percent transfer, the Low-Income Energy block 7 percent, and the Alcohol and Drug Abuse and Mental Health block 7 percent. Expanding the scope of transfer capabilities would not necessarily diminish block grant service delivery since the evidence shows sincere efforts by the states to focus block grant benefits on needy and previously unserved populations. Increasing the inter-block transfer ability encourages states to find ways to better manage finances.

Allow states to deliver block grant benefits in the form of vouchers. The voucher approach, already used in the federal Food Stamp and G.I. Education program, would encourage block grant recipients to reduce expenses and would introduce more competition among vendors of services.

Repeal the matching fund requirements. These requirements increase block grant costs by forcing specified levels of state outlays. States can provide useful in-kind services to compensate for reduced matching requirements. Current efforts to consolidate state programs alongside federal programs and provide supplemental matching funds by sub-units of government suggest that states will augment blocks regardless of matching fund requirements.

All the suggested reforms require some statutory change by Congress. As yet, no effort has been made by Administration officials or congressional aides to introduce the reforms required in these recommendations. In fact, no effort has been made to reduce the regulatory burdens usually associated with the grants-in-aid system. If the block grant strategy is to be successful, then much more reform is needed.

CONCLUSION

In addition to reforms in the present block grants, Congress and the Administration should press forward with a plan to extend

the block grant mechanism to the major social programs, as envisioned in the President's original New Federalism proposal. Income maintenance, nutrition, health, housing, and economic development should be examined as candidates for block grants. A blueprint for the consolidation of certain categorical grants in these areas has been outlined in publications by The Heritage Foundation and the American Legislative Exchange Council.²⁷ Consolidating another \$50 billion in categorical programs would not hamper their administration or undermine the eligibility rights of needy individuals. Indeed, as this study has shown, the service programs surely would become more responsive to recipients, less expensive and less bureaucratic.

Far from retreating on the initial goal of transferring the planning and operation of major social programs to the states, the White House should make the consolidation of programs into block grants a top priority of New Federalism. While the desirability of funding these basic services at the state level may still be uncertain, the benefits of administration by the states are very clear.

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²⁷ Thomas M. Humbert, "Budget Cuts: The Key to Economic Recovery," Heritage Foundation Backgrounder #151, September 18, 1981; White Paper on New Federalism: The ALEC Alternative (Washington, D.C.: The American Legislative Exchange Council, 1982).