

CRS Report for Congress

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Federal Grants to State and Local Governments: Overview and Characteristics

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Summary

Each fiscal year, Congress appropriates funds for grants to state and local governments to further national goals and assist sub-national governments. Examples of goals include attaining minimum national standards and improving program effectiveness. The federal government provides grants for numerous substantive purposes, such as crime prevention, community development, and transportation. In 1999, grants-in-aid to state and local governments totaled \$270 billion.

Grants can be classified by the substantive purposes they address. This report, however, reviews the fundamental characteristics according to which they can also be classified. Examples of grant characteristics include range of eligible activities, objectives, award process, and administrative requirements. This report will be updated as circumstances warrant.

Introduction to Grants-in-Aid

The assistance that the federal government provides to state and local governments comes in many forms—grants-in-aid, loans, loan guarantees, insurance, and technical assistance, to mention a few examples. This report focuses on grants-in-aid to state and local governments. In 1999, the federal government spent \$270 billion in grants to states and localities—approximately 16% of total federal outlays.¹ The recipient governments use the payments to finance such state and local programs as transportation, emergency services, and income maintenance for individuals.

Grants can be classified by the substantive issues they address, such as air pollution, urban development, and water quality. This report, however, reviews other characteristics according to which they can also be classified, such as the range of activities eligible for assistance, who decides on the amount of the grant, matching requirements, and

¹ U.S. Office of Management and Budget. *Budget of the United States Government, Fiscal Year 2001, Analytical Perspectives* (Washington, D.C.: GPO, 2000), p. 241.

application and reporting requirements. The discussion that follows also explains the fundamental characteristics of categorical grants, block grants, project grants, formula grants, project/formula grants, matching grants, and entitlement grants.

Characteristics of Grant Programs

Range of Eligible Activities. Each grant program has either a narrow or broad range of eligible activities. Congress uses grants with a narrow range of eligible activities to address specific categories of problems. The resulting grants are known as categorical grants, or in some instances as project grants. Congress uses grants with a broad range of eligible activities to offer flexibility in the use of funds. Recipient governments may use the grants, called block grants, to address a broad range of related activities in areas like mental health or community development. Congress also authorized a program known as general revenue sharing, which is no longer in existence, with no limits on the range of activities the recipient could undertake using the federal funds. Under the revenue sharing program, which existed from 1972 to 1986, recipient governments could use their own discretion in spending the funds. With varying ranges of eligible activities, categorical grants, block grants, and revenue sharing represent three different approaches to providing grants-in-aid to states and localities.

Objectives. Grant programs have a variety of objectives. They may be aimed at helping states attain minimum national standards, improving the overall quality of programs, or demonstrating new approaches to providing government services. Congress also uses grants to encourage general social objectives and enhance the capacity of state and local administrative structures. During the development of a grant program, designers may state the program's objectives explicitly or they may leave objectives vague to broaden political support for the program.²

Applicant Type. The federal government distributes grants-in-aid to state and local governments. The recipient governments can then award the money to other governmental units, nonprofit organizations, and individuals. Grant programs use different kinds of criteria to determine the pool of eligible applicants, including type of governmental unit, population, and socio-economic data.

Award Process. The allocation of funds is typically based on either statutory formula, agency discretion, or a combination of the two. When Congress establishes a formula for disbursing funds, the formula determines either the absolute amount of the grant or the proportion of the appropriated budget authority going to each grant recipient. When Congress gives award discretion to federal agencies, it may or may not specify the criteria the Secretary is to use in considering grant applications. The awarding of a grant may also be affected by the way state law treats particular jurisdictions, such as metropolitan counties or special districts, and the capacity of the recipient to fulfill the grant objectives.

Continuation. Grants are either time-limited or renewable. Project grants are time-limited, funding the completion of the project or service, then terminating. Block, formula, and entitlement grants are typically renewable, funding on-going services.

²Michael D. Reagan, *The New Federalism* (New York: Oxford University Press, 1972), pp. 66-72.

Administrative Requirements. Grants may or may not require the recipient to apply for funds. Some entitlement grants require no application from an eligible recipient. Conversely, project grants typically require a detailed proposal of the product or service. Other types of administrative requirements include citizen participation requirements, and project planning requirements. Congressional responsibility to ensure that recipients of grant funds are using the funds appropriately is a strong incentive for periodic reports from grant recipients and occasional oversight by congressional committees.³

Profiles of Grant Types

The two types of grants that most often appear in political discussions are categorical and block grants, but there are several other types of grants, including project, formula, project/formula, matching, and entitlement grants. These labels help classify grants based on their most salient characteristics, but they are not meant to be rigid definitions. More than one of these labels can apply to a given grant program. For example, the federal government distributes Community Development Block Grant (CDBG) funds to states using a formula block grant, but states redistribute the funds to localities as project grants. The profiles that follow are meant to give descriptive information on grants, not to create mutually exclusive types.

Categorical Grants. Categorical grants have a narrow range of eligible activities, permitting funds to be used only for specific, narrowly defined purposes. Discretion over the awarding of grants remains at the federal level since Congress defines the categories and federal agencies review applications. Categorical grants outnumber block grants in number of programs and in amount of funding. In FY1999, categorical grants to state and local governments totaled \$227.5 billion, comprising 84% of total federal grant outlays to state and local governments. Categorical grants remain a preferred vehicle for new grant programs. These grants typically include administrative and reporting requirements that help ensure both financial and programmatic accountability.⁴ Examples of categorical grants include American Battlefield Protection Grants and Flood Mitigation Assistance Grants.⁵

Block Grants. Block grants have a broad range of eligible activities, typically addressing a general, rather than a specific problem area. For example, a block grant may address a broad purpose such as public health, rather than more specific problems like lead poisoning or rodent control. When Congress creates block grants, it often consolidates a number of existing categorical programs into one larger instrument. Block grants are distributed on a formula basis. With their broad range of eligible activities, block grants give more discretion to the recipient states in identifying problems and designing programs to address those problems. They also minimize administrative requirements. In FY1999,

³ Adapted from *Catalog of Federal Domestic Assistance*, (Washington, D.C.: GPO, 2000), pp. XV-XVIII.

⁴ U.S. Advisory Commission on Intergovernmental Relations, *Characteristics of Federal Grant-in-Aid Programs to State and Local Governments: Grants Funded FY 1993* (Washington, D.C.: GPO, 1994), p. iii, 1-2.

⁵ All grant examples in this report are taken from the *Catalog of Federal Domestic Assistance* (CFDA).

block grant outlays totaled \$42.5 billion and represented approximately 16% of total grant allocations to state and local governments. Critics of block grants contend that it is difficult for federal policymakers to ascertain how funds are being used and whether programs are achieving their intended purpose. Proponents contend that they provide state and local governments with needed flexibility.⁶ Examples of block grants include Temporary Assistance to Needy Families (TANF) and the Social Services Block Grant.

Project Grants. Project grants fund specific products or the delivery of specific services for fixed periods of time.⁷ They are designed to promote proposals within policy areas that Congress defines as problematic.⁸ Project grants are sometimes referred to as discretionary grants, referring to the discretionary authority of administrators and agencies in awarding the grants. Since these grants fund one specific project, they have the narrowest range of eligible activities of all the grant types. In 1993, project grants constituted 72.5% of all categoricals.⁹ Generally, the application is lengthy and there is an audit process after the project is completed.¹⁰ Examples of project grants are Minority Business Development Grants and Wetlands Protection Development Grants.

Formula Grants. Formula grants allocate money to state or local governments according to a distribution formula prescribed by federal statute. Such is the case with all federal block grants. Typically, these grants fund on-going activities, not specific projects. The distribution formula includes different variables from a particular state, region, or locality. Some examples of variables used in distribution formulas are the number of low-income families, number of people with disabilities, and number of youth. The data federal agencies use for the formulas is gathered by such agencies as the U.S. Census Bureau and the Bureau of Labor Statistics. The grant funds typically pass through an intermediary, such as a state or local government, before reaching the recipient. After receiving the formula grant, the intermediary may redistribute the funds to recipients on a project or formula basis.¹¹ Examples of formula grants include Temporary Assistance for Needy Families (TANF) and Block Grants for Treatment and Prevention of Substance Abuse (also known as the Prevention and Treatment Block Grant).

Project/Formula Grants. Project/Formula grants have a combination of elements from project and formula grants. This term may apply when the discretion of an administrator in awarding grants is constrained by a formula, for example, one limiting the amount that may be awarded to a local government.¹²

⁶ CRS Report 95-264, *Block Grants: An Overview*, by Eugene Boyd and Sandra Osbourn.

⁷ *Catalog of Federal Domestic Assistance*, p. IX.

⁸ David G. Bauer, *The "How To" Grants Manual: Successful Grantseeking Techniques for Obtaining Public and Private Grants* (Phoenix: Oryx Press, 1999), p. 58.

⁹ U.S. ACIR, *Characteristics of Federal Grant-in-Aid Programs...*, pp. 1,2.

¹⁰ Bauer, *The "How To" Grants Manual...*, p. 58.

¹¹ *Ibid.*, p. 59.

¹² U.S. ACIR, *Characteristics of Federal Grant-in-Aid Programs...*, p. 1.

Matching Grants. Matching grants require the recipient to contribute either cash, services, or facilities to match a percentage of the grant. Congress uses matching grants to encourage the recipient to efficiently manage the federally aided program. ACIR concluded that grants with no matching requirement or a low matching requirement provide a strong incentive for eligible recipients to participate in a program, while grants with high matching requirements discourage eligible recipients from participating.¹³ The recipient's matching requirement is specified by law and may increase over time. For example, an 8-year grant may cover 90% of a project the first and second years, but decrease by 5% each subsequent year. Grants may have a maintenance-of-effort requirement that requires the recipient to maintain a specified level of financial effort in an area in order to receive federal funds. This requirement insures that federal funds only supplement, not supplant, the level of recipient's funds.¹⁴ Examples of matching grants are the Economic Adjustment Grant, which generally funds 50% of economic recovery projects; and the Federal-Aid Highway Program, which funds up to 90% of interstate projects.

Entitlement Grants. Entitlement grants require the payment of benefits to any person or governmental unit that meets the eligibility requirements established by law. These grants typically aim to help individuals with low income, economically devastated communities, and similar recipients. Statutory benefit levels and the number of qualified recipients determine the funding amounts for these programs.¹⁵ Congress can distribute entitlement funds through automatic payments to any qualified recipient, such as with Social Security Disability Insurance. Congress distributes other entitlement grants through formula-based shares of appropriations, such as with the Entitlement program of the Community Development Block Grant.

Catalog of Federal Domestic Assistance

The Catalog of Federal Domestic Assistance offers a profile on every federal assistance program, including the objectives, administering agency, uses and restrictions, application and award process, and contact information. The Office of Management and Budget and the General Services Administration publish the CFDA on an annual basis. The CFDA website is [<http://www.cfda.gov>].

This CRS report classifies grants into general types, such as categorical or block grants. This classification provides readers a framework for understanding the basic characteristics and differences between grant programs. It complements the CFDA classification system, which is based on the type of aid given. The CFDA recognizes seven types of financial assistance and eight types of nonfinancial assistance. The catalog identifies nearly all federal grants-in-aid to state and local governments as either project or formula grants.

¹³ U.S. Advisory Commission on Intergovernmental Relations, *Summary and Concluding Observations, The Intergovernmental Grant System: An Assessment and Proposed Policies* (Washington D.C., 1978), pp. 18-19.

¹⁴ *Catalog of Federal Domestic Assistance*, p. XVII.

¹⁵ CRS Report 96-70, *Entitlement Spending*, by Dawn Nuschler and Richard Rimkunas, pp. 1-2.

Related CRS Reports

CRS Info Pack 50G, *Grants and Foundation Support: Information on Government and Private Funding*.

CRS Report 95-264, *Block Grants: An Overview*, by Eugene Boyd and Sandra Osbourn, 1995.

CRS Report RL30358, *Population Factors Used in Federal Assistance Program*, by James R. Riehl, 2000.

CRS Report 98-79 C, *Federal Funds: Tracking Their Geographic Distribution*, by James R. Riehl, 2000.

CRS Report 95-518, *American Federalism, 1776 to 1997: Significant Events*, by Eugene Boyd, 1997.

Grant Websites

CRS Website for Federal Grants Information:

[<http://lcweb.loc.gov/crs/grants/>]

CRS Website for Tracking Distribution of Federal funds:

[<http://www.loc.gov/crs/federalfunds/geotracking.html>]

OMB Grants Management Website: [<http://www.whitehouse.gov/omb/grants/index.html>]

U.S. Census Bureau, *Consolidated Federal Funds Report for Fiscal Year 1999: State and County Areas*. (CFFR):

[<http://www.census.gov/govs/www/cffr99.html>]