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Block Grants: One Year Later

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October 1, 1981 was an historic day for America. President Reagan's economic recovery plan and his new block grants\(^1\) became effective—the beginning of the end of the federal government's expansion into the lives of Americans. It was a day which signified a step towards realizing a goal that President Reagan has consistently spoken of—a return to federalism, where state and local governments once again can have the power, responsibility, and revenue sources for determining which programs and services are most needed for citizens in individual communities and states across the nation.

In 1981, the President proposed the most far-reaching effort ever attempted in the consolidation of federal grant-in-aid programs to state and local governments. He asked Congress to consolidate nearly ninety categorical grants into seven block grants.

Congress made significant changes in the President’s proposals, but the basic framework was retained. The Omnibus Budget Reconciliation Act of 1981\(^2\) consolidated fifty-seven categorical grants into nine new or modified block grants. While the block grants included more restrictions and mandates than the President preferred, they represented a new beginning of increased responsibility and authority for state and local officials. The states now are working on the challenges and changes posed by the shift from categorical grants to block grants as they begin the implementation process. Some states are establishing permanent, long-range processes and procedures; others are concentrating on the short-run transition period.\(^3\)

Much work remains to be done to ensure the proper balance of responsibility among our three levels of government. Therefore, the

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1. A block grant is the consolidation into one large grant of various grant-in-aid programs in the same broad area. Federal aid to run the activities within the grant is given to state and local governments. These governments have substantial discretion in targeting the funds. Federally imposed requirements, such as fiscal reporting and planning, are kept to a minimum.


President intends to push for more block grants and to fight for increased flexibility in those which have already been enacted.

THE NEED FOR A REVITALIZED FEDERALISM

The federal government has gradually expanded into every aspect of our lives. It has become the decisionmaker and the manager for many activities that had formerly been considered purely state and local responsibilities. Local communities have been eased out of the decisionmaking process for such programs as education, housing, transportation, and social services—areas in which they had previously played a lead role.  

The federal government has also become an important source of funds for state and local government programs. Local officials in particular have increasingly looked to the federal government for fiscal resources. With the receipt of funds has come a plethora of regulations which constrain all levels of government from providing citizens the maximum value for their tax dollars. 

Federal aid during the past two decades has developed into a myriad of specific categorical grants that serve narrowly-defined groups. The system has become a confusing tangle of small programs which overlap, conflict and overregulate. During this period, there has been a 1,243% increase in the cost of categorical grants. In 1959, separate grant-in-aid programs cost $6.5 billion, or 1.4% of the Gross National Product (GNP). By 1980, categorical grant programs numbered over 500, costing more than $91.5 billion, or 3.6% of the GNP.

The proliferation of grants resulted in bureaucratic overkill from Washington, D.C. which often bordered on the absurd. For example, the state of Wyoming returned a $200,000 Juvenile Justice grant to the Federal government, because it would have cost them $500,000 to comply with the federal mandates and restrictions.

As Governor of California, Ronald Reagan experienced first hand the grip of federal bureaucracy. From this experience he became convinced that power and responsibility must be returned to state and local governments. To ease this grip, President Reagan has called upon

5. ADVISORY COMMISSION ON INTERGOVERNMENTAL RELATIONS, REPORT M-118, RECENT TRENDS IN FEDERAL AND STATE AID TO LOCAL GOVERNMENTS (1980).
members of his Administration and Cabinet departments to look for ways to slow the growth of the federal government, to provide regulatory relief whenever possible, and to look for federal programs that can be better handled at the state and local level.

PRIOR BLOCK GRANT PROPOSALS

Before President Reagan took office, Congress had established only five block grants, all in the prior two decades. The first two block grants were enacted during the Johnson Administration. The Partnership for Health Act, signed into law in 1966, consolidated seven categorical grants into one project grant.\(^{10}\) This block grant became the major source of national assistance for health services and established the system of state and area-wide health planning agencies. The second Johnson block grant was the Omnibus Crime Control and Safe Streets Act, enacted in 1968.\(^{11}\) This was the first block grant to be established as a new program.\(^{12}\)

In 1972, President Nixon, trying to improve federal-state relations, proposed general revenue sharing and a program of special revenue sharing. General revenue sharing sought a permanent source of broad discretionary fiscal support for state and local governments.\(^{13}\) Special revenue-sharing, on the other hand, was to consolidate numerous categorical grants into six special revenue sharing grants. Of these two proposals, Congress only enacted general revenue sharing.\(^{14}\)

Congress did enact, however, three block grant proposals, in 1974 during the Nixon Administration; the Comprehensive Employment and Training Act (CETA) that consolidated seventeen manpower and employment programs which had been administered by six different Cabinet departments and one agency;\(^{15}\) the Housing and Community Development Act, that consolidated six of HUD’s community development programs;\(^{16}\) Title XX of the Social Security Act that reformed the largely disorganized system of federal subsidies of state social welfare services.\(^{17}\)

The Nixon block grants differed from President Reagan’s in two major ways. First, President Nixon was more pragmatic, accepting

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14. Id. at 16. Because of the rapid decline in the Nixon Administration’s power and authority in the wake of the Watergate Affair and its aftermath, Congress only enacted general revenue sharing.
devolution of spending authority to whatever level of government Congress chose. President Reagan in general favors devolution from the federal government to the states, with pass-through's where appropriate to local governments. Second, President Nixon's block grant proposals included new and additional funds, referred to as "sweeteners." For example, when enacted in 1974, the Nixon community development block grant involved a bonus of fifteen percent per year. President Reagan's block grant proposals were offered during a time of far greater budgetary pressure.

In creating the Nixon block grants, Congress did not seem to seriously commit itself to providing financial assistance with few requirements to state and local governments. These grants had both categorical elements and other federal strings attached. In addition, over the past fifteen years, Congress has created numerous other categorical grants which could easily have been subsumed into the five existing block grants.

REAGAN 1981 BLOCK GRANTS

In order to return responsibilities to the states, shortly after his inauguration President Reagan asked Congress to consolidate nearly ninety categorical grants into the following seven block grants: Health Services, Preventive Health Services, Social Services, Energy and Emergency Assistance, Local Education Services, State Education

19. President Reagan's, State of the Union Address, 18 WEEKLY COMP. PRES. DOC. 80 (Feb., 1982).
20. R. NATHAN, supra note 18, at 10.
24. Id. The Preventive Health Services Block Grant consolidated eleven federal health programs administered by the Department of Health and Human Services. The programs included high blood pressure control, health incentive grants, risk education, health education, fluoridation, lead-based paint poisoning prevention, family planning services, venereal disease, rat control, genetic diseases, and adolescent health services.
25. Id. tit. XXIII, subtit. D, 95 Stat. 867. The Social Service Block Grant consolidated twelve federal social service programs presently administered by three federal agencies: the Department of Health and Human Services, the Department of Education, and the Community Services Administration. The programs included Title XX (existing social services block grant), child welfare services, foster care, adoption assistance, child abuse, runaway youth, developmental disabilities, rehabilitation services, and community services.
26. Id. tit. XXVI, 95 Stat. 893. The Energy and Emergency Assistance Block Grant consolidated two federal programs administered by the Department of Health and Human Services: the low-income energy and the emergency assistance programs.
27. Id. § 565, 95 Stat. 471. The Local Education Services Block Grant consolidated twelve federal education programs now administered by the Department of Education. These included
Block Grants

Services and Community Development. The Reagan Administration's proposed consolidation of categorical grants into block grants resembled more closely President Nixon's special revenue sharing bills of 1971 than the block grants previously enacted by Congress. The Reagan proposals contained far fewer requirements than the existing block grants and gave maximum flexibility and freedom of action to the states.

The Reagan block grant program has three important goals for a revitalized federalism: (1) to decentralize government decision-making; (2) to significantly reduce administrative costs; and (3) to provide greater opportunity for state innovation with government services. Through decentralization, government decisions will once again be made by state and local officials who can be held accountable for those decisions.

As the President said on March 20, 1981:

We are not cutting the budget simply for the sake of sounder financial management. This is only a first step toward returning power to states and communities, only a first step toward reordering the relationship between citizen and government.

Our governmental system has faltered because of the breakdown in accountability between decision-maker and voter. Participation in government and accountability of government can be accomplished only by allowing government decisions to be made at the state and local level. As part of their accountability system, the block grants require citizens participation. States are required to obtain public comments on intended use reports or plans, and to hold comments on intended use reports or plans, and to hold public hearings on the proposed use and distribution of funds. This citizen participation promotes civic responsibility and encourages the public to play a part in deciding how federal funds will be spent in their cities or states.

The block grants also will yield significant administrative savings. Returning the power and authority for these grants to the states will result in a reduction of wastefulness and inefficiency that was previously associated with the overloaded federal machinery. The programs proposed for consolidation in just the health and social services areas alone encompassed 437 pages of law and 1,200 pages of regulations.

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financial assistance to meet the special needs of educationally deprived children, handicapped children, children in schools undergoing desegregation, migrant children, and adults lacking basic educational skills. Most funds were to be passed through to local education agencies, although the states would determine local allocations.

28. *Id.* § 563, 95 Stat. 470. The State Education Services Block Grant consolidated programs in over thirty categories that aim to help states improve school performance and the use of resources.

29. *Id.* tit. VI, ch. 8, subch. A, 95 Stat. 489. The Community Development Block Grant replaced the Community Development Block Grant for Small Cities and Rural Areas.


Over six million man-hours of state and local government and community effort were required each year to fill out federally required reports for the 6,800 separate grants awarded annually.  

Finally, block grants will result in greater innovation and permit the states, through increased flexibility to serve as true "laboratories of democracy." The history of state government is replete with examples of such innovation. California led the way in advancing the nation's environmental concerns long before it was fashionable to do so. Wisconsin and Illinois developed the first welfare programs in the nation prior to federal preemption. Unlike the federal government, when a state makes a mistake, it will not be required to be repeated in every other state. This increased flexibility will also permit state and local officials to target diminishing resources to areas and individuals whose needs are the greatest. Such targeting would not occur if the decision-making authority was left with unelected, unaccountable federal bureaucrats in Washington, D.C.

CONGRESSIONAL CONSIDERATION

President Reagan proposed his block grants in an atmosphere ripe for change. State and local officials had become frustrated, and felt as though they served primarily as administrators of federal programs determined and directed in Washington, D.C. There was a recognition that the Federal Government was not working.

In that atmosphere, state and local officials welcomed the news that one of President Reagan's foremost priorities, in addition to national economic recovery, was to increase state and local flexibility in implementing federal programs, to cut federal taxes, and to reduce federal rules and regulations. From the outset, the governors and state legislators strongly supported the block grants. They saw block grants as a means of gaining more control and of increasing flexibility and administrative efficiency.

Both the National Governors' Association (NGA) and the National Conference of State Legislators (NCSL) seemed to realize President Reagan's political strength and his commitment to achieving real budget cuts. In the President's block grant proposals, the NGA and

32. OFFICE OF MANAGEMENT AND BUDGET, FY 82, INFORMATION COLLECTION BUDGET OF THE U.S. GOVERNMENT 16 (Dec., 1982).
33. In a dissenting opinion in New State Ice Company v. Liebmann, 285 U.S. 262 (1932), Supreme Court Justice Louis Brandeis wrote: "It is one of the happy incidents of the federal system that a single courageous state may, if its citizens choose, serve as a laboratory; and try novel social and economic experiments without risk to the rest of the country."
36. In a joint statement, NGA and NCSL noted: "Having experienced the tax revolt, a powerful grass roots drive to require a balanced federal budget by constitutional amendment, and deep federal aid cuts in the midst of a national recession, we have no illusions about the seriousness of the problems facing government in this decade . . . . We are ready to negotiate, not as another of the special interest groups that have dominated the Washington agenda
the NCSL sensed a significant step toward the devolution of power which they had long sought. Consequently, they decided to help the President battle the "iron triangle" for the budget cuts, in exchange for a pledge that he would fight equally hard for block grants. The President eagerly embraced this exchange. And, importantly, it was a bipartisan coalition. Both the NGA and the NCSL have a majority of Democrats; their grass roots Democratic leadership would prove crucial in helping the President get his program through the Democratic-controlled House of Representatives.

Local government leaders were more reluctant to support the President's program. They were especially concerned that the President intended to dramatically cut or even eliminate the federal government's relationship with local governments. Critics of the block grants argued that local governments that had suffered under the arbitrary and often heavy hand of federal bureaucrats with categorical grants would now be afflicted by the worse fate of arbitrary state mandates administered by state legislator and state bureaucrats. These legislators and bureaucrats were viewed as incompetent, with a heavy rural bias. In addition, they were seen as even more susceptible to special interest lobbying than officials in Washington. It was a classic scare tactic.

Actually, the block grants proposed by the President did very little to alter the federal-local relationship. While speaking at the National League of Cities' annual convention in November, 1982, the President highlighted the federal-local relationship of working together:

We've held many working sessions about the challenges we face, and together we've made significant improvements in this administration's original federalism proposal . . . Perhaps of greatest importance . . . you collectively have driven home the absolute need for some programs and some funds to pass directly from Washington to your city for far too long, but as full constitutional partners who represent precisely the same citizens that Washington represents." Joint Statement of the National Conference of State Legislators and National Governors' Association, made in Washington, D.C. (Nov. 25, 1980). In addition, the National Governors' Association passed a resolution at its Winter Conference in Washington, D.C., which stated: "The governors share the President's concern about the high inflation, high unemployment, and low productivity that afflict the nation's economy. We share with the Administration the belief that federal expenditures must be brought under control and we are prepared to accept substantial budget cuts, but we will vigorously oppose any attempts to shift costs to state and local taxpayers." (Feb., 1981).

37. The so-called "iron triangle" is the special interest groups, the permanent federal bureaucracy, and Capitol Hill committee staff and members. All three sides of the iron triangle have large interests in protecting the status quo and expanding federal spending and federal control in their jurisdictional areas. Thereby, they gain more power, more prestige, and more money. Their relationships are incestuous. Most Washington special interest lobbyists are former employees from Capitol Hill or from the departments and agencies downtown. They are paid for their grantsmanship and lobbying on laws, regulations and programs they helped to design. And too often political contributions to members of Congress are dominated by special interests who lobby them on programs under the member's committee jurisdiction. This "iron triangle," coupled to members of Congress who sincerely oppose any devolution as harmful, provide substantial opposition to any new federalism efforts.

without taking a detour by your state capital.39

In the health and social services area, which covered four of the seven block grants, almost all the programs proposed for consolidation were already going from the federal government directly to the states for administration.40 Counties and some cities for years had been receiving federal monies through the states to administer health and social service programs.41

The two block grants proposed for education did mean a shift to federal-state funding in an area that had previously been federal-local in nature.42 However, the President's proposal included a mandatory requirement that seventy-five percent of the funds be passed through to local governments, based on an historic formula, during the first three years of the program. Such a requirement left little room for abuse by state governments. The three-year time frame provided local governments with the transition time they had been calling for to develop a relationship between the state and local governments.

The crux of the state-local debate centered around the Community Development Block Grant (CDBG).43 CDBG, as proposed by the President, was actually two separate programs under one title. Of the $4.16 billion requested by the Administration to fund the program, $500 million was to be allocated to the Urban Development Action Grant (UDAG) program. The President proposed the UDAG continue in its current form whereby HUD would continue to administer it on a competitive basis. Of the remaining $3.66 billion allocated for CDBG, seventy percent of the funds would continue to go directly from the federal government to entitlement cities, those cities over 50,000 in population. The “entitlement” portion of CDBG would continue to be administered by HUD. Thus, the only real change that the Administration proposed in CDBG was that the remaining thirty percent or approximately $1.09 billion would be transferred to the states for their administration and allocation to cities of less than 50,000 in population.44

The Administration believed that if it cut through all the rhetoric on the state/local issue and explained the true nature of the proposed block grants, most of the opposition from local governments would disappear. In May and early June 1981, the Administration set out on a campaign to educate local elected officials on the block grants. National mailings were made to city and county officials. HUD Secretary

44. See Williamson, Community Development Block Grants, 14 URB. LAW. 283 (1982).
Samuel Pierce, Health and Human Services (HHS) Secretary Richard Schweiker, and Education Secretary Terrel Bell each held consultation sessions with local officials. The President held six meetings during this period with a total of sixty-three key local elected officials from the National League of Cities, the United States Conference of Mayors, and the National Association of Counties.45

The mood of the majority of big-city mayors was stated in July by Mayor Margaret Hance of Phoenix on national television:

We have no problem with the block grants that are already in place—the health, the preventive medicine, the education and the energy—because traditionally at least 89% of those funds have gone to the state anyway. We are more concerned about those block grants which are going to come down the line in the future, especially those things that deal directly with the cities—such as transportation and housing. In this regard, we have been assured that before even any option papers are presented to the President, that we will have a great deal of input to the White House, and we're grateful for this.46

In addition to the reluctance which the Administration encountered among local officials, many key members of Congress were not able to produce the results which we desired in their committees. As a consequence, the vested special interest groups, some turf conscious Congressmen, and some Members of Congress who sincerely have little faith in state and local governments, did succeed in watering down the President's proposals. Some categorical programs escaped consolidation and some block grants were encumbered with earmarks.47

The President had no flexibility to veto any of the block grants individually because they were all incorporated as a part of the crucial Budget Reconciliation bill48 which had passed the House of Representatives by only six votes. The President's choice was either to sign the entire bill or veto the bill. The President had no real choice but to sign the bill. But the situation provided an instructive example of how the Administration had inherited a budget so badly hemorrhaged that rein- ing in excessive spending by necessity superseded and dominated all other aspects of its domestic policy-making machinery.

The reconciliation bill, as signed by the President, included the following block grants: Alcohol, Drug Abuse and Mental Health49; Pre-

45. These meetings were part of a large scale effort by the President to meet with state and local officials at the White House. During 1981, over 1300 state and local officials met with the President in the White House. Although most of the meetings were large, several of the meetings were small, with one or two dozen people, where it was possible to have a free exchange of ideas.
47. National Governors' Association, President Reagan Had Changed the Direction of Federal Aid System, 81-83 GOVERNORS' BULL. 2 (Aug. 7, 1981). See this article for a discussion of the status of block grants as passed by Congress.
49. The Alcohol Drug Abuse and Mental Health Block Grant covers drug abuse community services; alcoholism treatment and rehabilitation; alcohol formula grants; alcohol project
ventive Health and Health Services$^{50}$; Maternal and Child Health Services$^{51}$; Primary Care$^{52}$; Social Services$^{53}$; Community Services$^{54}$; Low Income Home Energy Assistance$^{55}$; Elementary and Secondary Education$^{56}$; and Community Development.$^{57}$ Although the new block grants did not include all the flexibility the Administration proposed or desired, they did represent an important federalism victory for the President.$^{58}$ As the National Governors' Association reported in its August, 1981 Governors' Bulletin:

Seven months after taking office, President Reagan has changed the direction of a federal aid system . . . [The block grants] represent some progress toward greater flexibility for state and local officials at a time when aid to state and local governments is shrinking.$^{59}$

With the new block grants enacted, the implementation process became the next hurdle for the Administration.

**IMPLEMENTATION OF BLOCK GRANTS**

Although there was little time between Congressional enactment of the new programs and their effective dates, the states made quick and significant progress in the transition to block grants. The implementation process went smoothly for most states because they followed the allocation patterns already in place from previous grants.$^{60}$ Thus, rela-
tively few organizational changes were needed. In addition, the success of the change-over to block grants was greatly assisted by regional briefings given by the Block Grant Implementation Task Force.\textsuperscript{61} The implementation agenda included a series of eight regional block grant briefings held between August 1981 and mid-September 1981.

The states accepted most block grants quickly. For example, thirty-seven states participated in HUD's Community Development Block Grant in Fiscal Year 1982 even though it was optional; forty-eight states will participate in Fiscal Year 1983. Though this program is less than a year old, it is, by any criteria, a huge success. The high participation rate attests to the interest states have in reassuming responsibility for meeting the priorities and preferences of their citizens. The primary reason for nonparticipation was a problem of timing, which has been resolved.\textsuperscript{62}

The same enthusiasm was shown for the HHS block grants. All fifty states chose to accept five of the HHS block grants; forty-one states accepted a sixth HHS block grant, Community Services. The last block grant administered by HHS only became available on October 1, 1982.\textsuperscript{63} Finally, when the Department of Education block grant became available in July, 1982, 48 states applied in the first week. Applications from the remaining two states were received shortly thereafter.

By the time the implementation process was underway, it was apparent that the primary goals of the Administration had largely been achieved: (1) increased accountability of government decision-makers, (2) lowered administrative costs, and (3) greater flexibility for state and local governments, thus promoting innovation and diversity.

Increased Accountability

Making state and local officials responsible and accountable for their decisions is the first principal goal of the Administration's block grant program. The fundamental check on the issue of funds is the states' accountability to their citizens. As indicated earlier, states are required by the block grants to obtain public comments on intended use reports or plans, holding public hearings on the proposed use of

\textsuperscript{61} The Task Force, established within the Executive Office of the President shortly after the signing of the Reconciliation Bill on August 13, 1981, including representatives from HHS, HUD, the Department of Education, the Office of Management and Budget, and the White House. Interagency coordination assured that implementation activities of the federal government were considered quickly. According to a recent GAO report, \textit{Early Observations on Block Grant Implementation}, a number of states mentioned the usefulness of such things as the HHS Secretary's letters to the governors explaining the transition process. In a telephone conversation on October 1, 1982, between Jocelyn White, my staff assistant, and the Director of the Division of Health, Georgia Department of Health, the Director stated, "We were given a good orientation from Washington to begin the preparation for block grants."

\textsuperscript{62} DEPT OF HOUS. AND URB. DEV., \textit{BLOCK GRANTS-ONE YEAR LATER} 1 (Aug., 1982).

\textsuperscript{63} HHS also moved rapidly to issue interim final rules. On October 1, 1981, just six weeks after enactment of the block grant legislation, the regulations were published. To ensure consistency among the blocks and flexibility for the states, a single rule was prepared for all seven block grants.
distribution of funds, and arrange for independent audits of block grant expenditures. Most of the states published advertisements in one of more major newspapers noting the locations where copies of the reports were available. In a few states, toll-free telephone numbers were provided and public service announcements were used.64

The early indications are that the implementation process is working. According to a recent General Accounting Office (GAO) report on the implementation of block grants, states have made substantial progress in becoming more accountable to their citizens.65 For example, Missouri has developed its own priorities on how to spend block grant money. Missouri also has held public meetings on its proposals in order to get public feedback.66

Under the HHS block grants, the governors and state legislatures have been directly involved in block grant implementation. The governors' offices have been more heavily involved in the planning and resource allocation of the block grants than they were in many federal categorical programs. About two-thirds of the governors established task forces or similar groups to study implementation options and the impact of federal budget reductions on state programs.67 The governors of several states employed strategies that included holding public hearings and preparing analyses of issues for the legislature.68 This process has greatly increased civic participation in planning for major grant-in-aid programs.69

Reduced Administrative Costs

The second major goal of the block grant program, reducing administrative costs, is also being reached. The preliminary indications are that there is less red tape and therefore reduced costs. For example, the development of new regulations enabled the Secretary of Education to consolidate more than 30 categorical programs into a single block grant. The consolidation effectively eliminated 118 printed pages of regulations in the Federal Register, 200,000 pages of grant applications, 7,000 pages of financial reports, and 20,000 pages of programmatic reports. This reduction in paperwork represents a $1.5 million savings to grant application preparants, $70,000 in financial reports which the Department of Education requests, and nearly $145,000 in the preparation of reports for the various programs.70

64. Block Grant Report Memorandum from the Secretary of HHS to the Director, Office of Cabinet Affairs, at 6 (Aug. 27, 1982).
65. U.S. GEN. ACCT. OFF., EARLY OBSERVATIONS ON BLOCK GRANT IMPLEMENTATION 30 (August 24, 1982).
66. Telephone conversation between Dr. Joseph Ricort, Director, Division of Health, Missouri Department of Social Services, and my staff assistant, Jocelyn White (Oct. 15, 1982).
67. See Block Grant Report, supra note 64, at 5.
68. Id.
70. Block Grant Report Memorandum from the Secretary of Education to Director, Office of Cabinet Affairs, at 2 (Aug., 1982).
President Reagan demonstrated the reduced scope of federal regulations relating to the block grants during his nationally-televised news conference on October 1, 1981. He held up two stacks of paper of differing sizes. In one hand he held the 318 pages of old federal government regulations needed to comply with the former categorical grants of HHS which were consolidated into seven block grants. In the President's other hand were just six pages of new government regulations needed to comply with the President's new HHS block grant programs.

The Office of Management and Budget estimates that the new block grant regulations will result in a reduction in the paperwork burden on state and local officials from 6.5 million manhours in Fiscal Year 1981 to 1.1 million manhours in Fiscal Year 1982, an eighty-three percent reduction. While speaking on the implementation of block grants, Senator David Durenberger (R-Minn.) stated:

The states can administer social programs effectively and efficiently, and without the federal government dogging their every step. I've been saying that for some time now and after holding two hearings on the implementation of block grants, as Chairman of the Senate Subcommittee on Intergovernmental Relations, I am more convinced than ever that it is true.

The Heritage Foundation states in its report on block grants that states expect to spend at least forty percent less on conducting audits and compliance reports than in fiscal year 1981. The GAO, in its block grant status report, also found that management improvements in developing and submitting block grant applications resulted in less administrative costs associated with auditing and reporting requirements. In the GAO report, a Massachusetts official found that the preparation of their Low-Income Energy Assistance block grant only took three days compared to the twenty-two days needed under the prior categorical programs.

State Flexibility and Innovation

Many states have realized an increase in their flexibility to perform various responsibilities, such as transferring funds. According to a
recent National Governors' Association study, one of the major positive features of the Omnibus Budget Reconciliation Act of 1981 is the provision that allows states some latitude in transferring funds among block grants. Under the Act, states are permitted to transfer a stipulated percentage of their allocation from one block grant to another related grant program. A recent survey by the National Conference of State Legislators also found that states are taking advantage of this flexibility.

In his testimony before the Senate Subcommittee on Intergovernmental Relations, Dr. Rubin of HHS cited specific examples of how states have used their new flexibility:

So far, 36 states have taken advantage of the transfer or are planning on doing so. 33 states are transferring funds from the Energy block to other blocks, primarily the Social Services block. Four other states have transferred funds to the Maternal and Child Health block from two other health block grants. From the Community Services block, three states are transferring funds to the Older Americans Act and one state to the Head Start Program.

The ability to transfer funds allows states the flexibility to be innovative in meeting the needs of their communities. For example, in some states shifts have been made within the Energy block grant to better target the resources to what were explicitly energy needs: funds have been shifted to assist citizens facing an imminent power shut-off due to problems in paying utility bills. Shifts were also made out of the Energy block into Social Services by states that have warm climates, and thus do not consider energy assistance as serious a need.

A further illustration is Puerto Rico's experience with its nutritional assistance block grant. When the block grants were being proposed for Puerto Rico in 1981, the Puerto Rican officials did not want to have block grants, preferring to leave things as they were. However, their experience under the nutritional assistance block grant proved to be very positive. Puerto Rico found that ninety percent of the cash benefits provided to its households were used to purchase food rather than nonessential items; administrative costs were reduced by ten million dollars; and the possibility of fraud was reduced. It is therefore understandable that when the 1982 Omnibus Budget Reconciliation Act

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78. NAT'L GOVERNORS' ASSOC., 1982 GOVERNORS' GUIDE TO BLOCK GRANT IMPLEMENTATION 13 (Feb. 1982).
79. CONG. RES. SERV., BLOCK GRANTS 58 (1982).
80. Statement of Robert J. Rubin before the Subcommittee on Intergovernmental Relations 7 (May 11, 1982).
81. 'NAT'L GOVERNORS' ASSOC., supra note 78, at 7.
82. Id.
83. Letter from Governor Bob Graham of Florida to Governor La Fortaleza of Puerto Rico (Nov. 8, 1982).
added the specific requirement that the grant be made in a non-cash form, effective October 1, 1983, Puerto Rican officials were outraged. Puerto Rico had successfully implemented the nutrition assistance block grant and preferred it over the previous food stamp program. They were angered that Congress decided to take away the flexibility of the cash system after they had achieved such great success with the block grant program.

Flexibility also allows for more creativity in the targeting of funds. An example of how states are targeting small cities' Community Development Block Grants (CDBG) funds is Virginia. The State of Virginia is using a larger "needs" test than HUD for the CDBG funds. While HUD's test is relatively unsophisticated, Virginia's test is detailed and very comprehensive.

The Assistant Secretary of the North Carolina Human Resources Department reflected states' responses to increased flexibility when he observed that,

We have been able to target services more carefully and have really taken advantage of the flexibility. We are now able to help some of the 41 area Mental Health Centers that were given less money. Block grants allow for this kind of discretion.

Difficulties With Block Grants

Although the Administration has been successful in the three primary goals of the Administration, the block grants have not been without their problems. During the enactment of the block grants, local officials were distrustful of the states. The U.S. Conference of Mayors and the National Association of Counties opposed the devolution of power to the states because they saw the states as stingy in distributing money to cities and counties. They resisted the idea of the block grants being handed over to the states without some pass-through assurances that local governments would be given their fair share of the money. The friction between state and local officials was typified by a statement made by Tom Moody, Mayor of Columbus, Ohio, during hearings before the Subcommittee on Intergovernmental Affairs, that.

85. Memorandum from Inspector General, Auditing, North Atlantic Region, U.S. Department of Agriculture, to Donn E. Adkisson, Acting Assistant Inspector General for Audit, regarding the review of the block grant implementation efforts and assessment of the benefit delivery system (Aug. 27, 1982).
87. The HUD test asks what number of people and what proportion of people in an area live below the poverty line. The Virginia test compares average income levels, population changes, unemployment levels and relative tax effort and ability. In addition, Virginia gives "need" more weight than does HUD.
88. Telephone conversation between Ted Parrish, Assistant Secretary, North Carolina Department of Human Resources, and my staff assistant, Jocelyn White (Oct. 15, 1982).
89. Vash, supra note 69, at 4.
“we in home rule cities prefer to deal directly with the federal government because the state is in the way of real contribution.”90

During the implementation of the block grants, this same friction between state and local governments continued. According to a survey by the U.S. Conference of Mayors:

Most [city human services officials] indicated that their cities had not been adequately involved in either the state block grant planning process or the state resource allocation process. They indicated, in addition, that state block grant funds had not been passed through to their cities in an adequate manner.91

While many big city mayors complained about the block grant implementation, however, much of their displeasure arose from budget cuts rather than the block grants themselves. This conclusion is supported by the findings of the GAO that very few changes had been made in the programs and requirements of each block grant except for funding cuts.92 In its report on block grants, the Heritage Foundation found that the reduction of federal funds did not pose a major problem because almost no cuts were made in federal outlays to the states.93

From the Administration’s perspective, the budget cuts were posed and enacted as a matter of fiscal and economic necessity for economic recovery. The block grants represented an effort to provide greater flexibility to state and local officials to cope with these budget cuts. The President’s commitment to support increased flexibility was not mere lip-service. He pledged to propose further block grants and to go “back and back and back again”94 to the Congress to get the flexibility that state and local governments needed and deserved.

**BLOCK GRANTS PROPOSED IN 1982**

As the President promised, he proposed seven new block grant or program consolidations in 1982. In addition, three existing block grants were proposed to be expanded to include new categorical programs. These ten new proposals would replace forty-six more of the

90. *Intergovernmental Relations in the 1980's: Hearings Before the Subcomm. on Intergovernmental Relations of the Senate Comm. on Governmental Affairs, 97th Cong., 1st Sess. (1981).*


92. See U.S. GEN. ACCT. OFF., supra note 65, at 11.

93. The Heritage Foundation states that: “Though all state officials had to 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, 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.” Vash, supra note 69, at 12.

94. Address by President Ronald Reagan to the National Conference of State Legislators in Atlanta, Georgia, 17 WEEKLY COMP. PRES. DOC. 832 (July 30, 1981).
existing categorical programs. In 1983, amendments will also be proposed to replace four Child Nutrition programs with a simple $488 million program of more flexible grants to the states.

The new 1982 block grant proposals were: Child Welfare; Combined Welfare Administration; Rehabilitation Services; Vocational and Adult Education; Education for the Handicapped; Dental Rehabilitation; and the Job Training. Expansions of the following three block grants established by the Omnibus Budget Reconciliation Act of 1981 are proposed for Fiscal Year 1983: Primary Care; Maternal and Child Health; and the Energy and Emergency Assistance.

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95. Office of Management and Budget, Information Block Grants and Program Consolidations in the Fiscal Year 1983 Budget 156 (Feb. 18, 1982).
97. The Child Welfare Block Grant consolidates into a single block grant to states four categorical programs for foster care and child services. The program will support state services designed to strengthen and unite families or place children in adoptive homes when they cannot be reunited with their families. This program was sent to Congress on June 8, 1982. It has no sponsor and has not been introduced yet.
98. The Combined Welfare Administration consolidates payments for state expenses to administer three welfare programs: Food Stamps, Medicaid, and Aid to Families with Dependent Children. No state match would be required and states would be given added flexibility to design efficient public assistance programs. In lieu of open-ended funding, states would be given added flexibility to design efficient public assistance programs. In lieu of open-ended funding, states would receive fixed grants even if caseloads declined due to tighter eligibility requirements. This program was sent to Congress on July 17, 1982. It has no sponsor and has not been introduced yet.
99. The Rehabilitation Services Block Grant consolidates and simplifies five separate authorities designed to help disabled individuals become self-sufficient. Authority for administering the new programs would be transferred from the Department of Education to the Department of Health and Human Services. This bill will not be submitted until the next Congress.
100. The Vocational and Adult Education Block Grant consolidates into a single grant program nine separate education authorities—eight vocational and one adult education. A bill was sent to Congress on March 28, 1982. An amended version was introduced by Senator Hatch on March 31. House hearings were held, with no further action.
101. The Education for the Handicapped Block Grant consolidates into a single grant program 13 programs currently authorized by two sources, the Education of the Handicapped Act and the education of the handicapped activities authorized by Chapter 1 of the Education Consolidation and Improvement Act of 1981 (Title I, ESEA Handicapped State grants). A bill will not be submitted until 1983.
102. The Rental Rehabilitation Block Grant replaces two existing housing rehabilitation programs—the Rehabilitation Load fund and Section 8 Moderate Rehabilitation Program. The new program will provide grants to states and units of local government for up to half the cost of rehabilitating multi-family rental properties, principally for low-income families. A bill was introduced on March 30, 1982. Hearings were held in the House and Senate. No bill has been reported out yet.
103. The existing block grant will provide primary health care services to populations in need, beginning in Fiscal Year 1983. Legislation will propose adding three programs to this block grant—Black Lung Clinics, Migrant Health, and Family Planning. This proposal was submitted to Congress on May 12 and has not been introduced yet.
104. The existing maternal and Child Health (MCH) block grant covers seven programs to assist and improve the health of mothers and children. This proposal will add one program—currently administered by the U.S. Department of Agriculture—Women, Infants, Children (WIC). It will thus authorize provision of nutrition services, as well as other services to improve the health of mothers and children. This program was sent to Congress on April 12, 1982. It has not been introduced and there is no sponsor.
105. The existing Low Income Home Energy Assistance block grant redesigned the federal program for low-income home energy assistance to increase state program discretion. This pro-
The Job Training Block Grant proposal was signed into law on October 13, 1982, creating a new single block grant to states for training and employment programs. This grant replaced the Comprehensive Employment and Training Act which had expired. An appropriation level of $1.8 billion was proposed for the first year. In 1981, the legislative and policy development officials of the Department of Labor began consideration of legislation to replace the Comprehensive Employment Training Act (CETA). These officials held a series of meetings with interest groups to develop the department's job training proposal. A Cabinet Council Work Group met to consider the department's "core proposal" for job training legislation to replace CETA. The department's proposal included a block grant program to the states and placed the emphasis for training and jobs on the private sector.

On February 11, 1982, Labor Secretary Raymond Donovan met with President Reagan and others to discuss job training legislation. Following that meeting, agreement was reached for Senators Dan Quayle (R-Ind.) and Orrin Hatch (R-Utah) to introduce the Administration's bill. The bill, S. 2184, was introduced on March 9, 1982. The Administration bill differed from an earlier Quayle bill, S. 2036, which had been introduced on January 25, 1982, with respect to the emphasis placed on the role of state and local entities. There were other significant differences as well. Both bills differed markedly from the House bill, H.R. 5320, also introduced on January 25 by Congressman Gus Hawkins, Chairman of the House Subcommittee on Employment Opportunities. Essentially, the House bill continued the old CETA program with little change.

As a result of subsequent meetings of Administration officials with Senators Hatch and Quayle, the Senate bill was modified to conform more nearly with Administration goals. At the mark-up of the Senate bill (S. 2036) Senator Quayle said, "This bill is based on a proper recognition of the role of the states. It transfers to the state many functions previously vested in the federal government, such as approval of local plans, designation of service delivery areas, and management and fiscal controls."

On September 30, 1982, and October 1, 1982, the Senate and House, respectively, approved the Conference Report on S. 2036, the Job
Training Partnership Act of 1982. The bill incorporated the key features of the President’s original proposal. President Reagan signed the bill into law on October 13, 1982, which represented, as Governor Scott Matheson said, “the most significant federalism step in 1982.”

This was the first block grant to be enacted in 1982. The President encouraged Congress to pass this important legislation, because

Several principles which I consider absolutely essential are at the core of this proposal. The delivery system for job training incorporates the block grant funding approach of our New Federalism.

CONCLUSION

The existing and proposed block grants are part of a logical progression from a federally-dominated categorical grant-in-aid system to the state-oriented system proposed under President Reagan’s new federalism. Although the Reagan block grants have only been effective for a short time, it has become clear that the states and territories want the block grants—now that they have had the experience of running them.

Thus far, states have handled block grant implementation responsibly and responsibly. States have moved quickly to expand the involvement of a wide spectrum of people and groups. States are capable of assuming administrative and financial responsibilities for even more programs.

In February, 1983, the President proposed the following four megablock grants which consolidate thirty-four programs; the State Block Grant; the Local Block Grant; the Transportation Block Grant; and the Rural Housing Block Grant. The President plans to continue to fight for more flexibility until the states have what they need and deserve. The President is committed to bringing government closer to our citizens, once again providing them with the decision-making responsibility to chart their future.

113. New Federalism, supra note 107 at 2.
115. Statement by President Reagan on the Jobs Training Bill (Sept. 23, 1982).
116. See Memorandum, supra note 64, at 7.
117. Vash, Supra note 69, at 1.
118. The proposed total Fiscal Year 1984 funding level for these magablock grants is approximately $21 billion. The proposal provides for level funding for five fiscal years, from 1984 through 1988.
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<tr>
<th>Block Grant</th>
<th>Date Effective</th>
<th>Optional</th>
<th>State Applications Received as of 7/1/82</th>
<th>Funding FY '81 (in $ millions)</th>
<th>Funding FY '82 (in $ millions)</th>
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* Budget Authority