

TALKING POINTS ON BLOCK GRANTS

1. When people say "block grant" they mean very different things

- consolidation of other programs
- programs with greater flexibility and fewer requirements

2. People advocate block grants for very different reasons

- cut paperwork
- more flexibility
- consolidation of programs
- eliminate programs
- cost savings

3. I support what helps students -- Responsible block grants

Elements of a responsible "block grant:

- clear national priorities
- flexibility for states and localities on how to achieve them
- accountability for results
- ensuring equity for those most at risk

Goals 2000, School to Work, ESEA are "responsible block grants."
(Governor Tommy Thompson described School-to-Work as a block grant.)

Responsible block grants can cut paperwork, increase flexibility, consolidate programs to make them more effective and eliminate programs that are no longer needed.

We are already doing this:

- o reduced paperwork (Goals application 4 pages);
- o increased flexibility (Goals and STW are state-generated reforms; waivers; charter schools);
- o reduced regulations (Goals and STW none; ESEA fewer; doing thorough review of all regulations);
- o proposed eliminating 41 programs for a savings of \$700 million by FY96 and consolidating an additional 27 into broader authorities

4. The problems with "irresponsible" block grants

A. No clear national priorities or accountability

Without clear purpose, there can be no accountability and, often, no improvement in teaching and learning. Money is used on unconnected activities and key elements of school improvement can be lost. Examples:

In the early 1970's, studies showed Title I funds were being spent to carpet principals' offices, buy band uniforms and build swimming pools. Title I was then focused on basic skills instruction. As a result, disadvantaged and minority students began to close the previously existing gap in basic skills test scores.

In tight budgets, professional development is first thing to be cut because it is not tied to jobs and fails to produce immediate tangible results. This occurs even though the critical role of professional development in school reform is widely recognized. The new Title II program is designed to respond to this reality.

A Chapter 1 director in KY had a room full of computers, but no one knew how to use them or teach their students how.

However, high poverty schools often have been able to use the clear focus in Title I schoolwide to leverage overall reforms. By asking schools to look at upgrading entire program, develop alternatives to what they are doing, and adopt research based strategies, schoolwides can make it easier for those who want to, to do the right thing.

B. No targeting of resources on those most at risk

In 1981, the emergency school aid program was consolidated into the new Chapter 2 "block grant" authority that did not contain specific targeting provisions. The result: Chapter 2 funds were spread across all districts, and the high poverty schools lost significant funding. In response, Congress created yet another targeted federal education program: the magnet schools program.

Historically, school districts have tended to distribute Title I funds to as many schools as possible, which often results in many high poverty

schools receiving amounts too small to make a difference. Without some targeting parameters, districts often cannot withstand the pressure to serve as many schools as possible.

5. I do not support cutting investment in education because these cuts will hurt students

Re-naming grants as "block grants" should not be used as a veil to conceal cutbacks in aid.

The notion in Congress today is that you can block grant programs and then cut funding without having any negative affect on students. The theory is that education programs are bureaucratic and costly to run -- and that if we blockgrant them states and district can be more efficient and cuts in funding will not hurt children.

This is a myth. There is no big administrative cost for states and districts. Chapter 1 is an example:

Dollars spent on federal program implementation at the local level tend to be lower than the costs of administering non-categorical state and locally-supported efforts.

-- Districts devoted a greater percentage of their Chapter 1 expenditures to classroom services (73%) than other district funds (62%).

Moreover, data from GAO, the U.S. Chamber of Commerce and the Department of Education show that the costs associated with administering federal programs vary widely across states and districts. This suggests that the costs depend in large part on choices that each state and district makes in how they administer their programs.

6. Quotes from local educators

March 8 article in Education Week raises points made by various local educators:

- o Without targeting and accountability, districts may use funds intended

for poor children to buy everything from airplanes to carpeting.

An elementary school principal in Tennessee says: "I'm telling you. I've been there. I know."

A local superintendent in Wisconsin says: "I'd like to do away with the paperwork. . . . But if it involves millions and millions of dollars, someone has to administer it."

o Need to go slowly:

A deputy state superintendent in Utah who is a former aide to Orris Hatch says: Congress is "just moving so rapidly. They ought to take a year out and study what they are doing."

7. Most Department funding is directed at a few critical national purposes

We have about 140 elementary and secondary education programs; about 45 percent of our total budget.

Most of this funding goes to States and school districts through just a few major programs focused on critical needs: helping all children learn to high standards, ensuring schools are safe and drug free, training teachers, preparing students for the transition from school to work, and serving children with disabilities.

Just eight major formula grant programs -- Goals 2000, Title I, Eisenhower Professional Development, Safe and Drug Free Schools, Impact Aid, Innovative Education Program Strategies, Vocational Education Basic Grants and Special Education state grants -- account for 80 percent of Federal elementary and secondary education funding.

The same is true of Federal support for postsecondary education. We administer about 70 postsecondary programs funded at more than \$15 billion in 1995.

More than 90 percent of our postsecondary dollars are delivered through just six student aid programs: Pell Grants, Supplemental Educational Opportunity Grants, Work-Study, Perkins Loans, Federal Family Education Loans, and Direct Loans.

What this means is that most of our dollars are already delivered in essentially block grant form, but with some targeting on important national purposes as defined by Congress, and with accountability that allows us to tell taxpayers in California, for example, how their money is being used in South Carolina.

[1341] From: Jennifer Davis at WDCB02 3/28/95 8:16PM (1307 bytes: 20 ln)
To: Mike Smith at WDCB01, Mike Cohen at WDCB01, Susan Frost at WDCE05
cc: Jennifer Davis
Subject: Analysis of Governor Engler proposal before Thursday Mtg.

----- Message Contents -----

Governor Bayh's Washington Director has asked if we could come prepared to talk about the impact of Governor Engler's proposal to block grant all federal higher education programs--including Pell grants and student loans. The Governor wants to be able to make the case that in order to administer the higher ed programs he would have to hire a large staff/build a larger bureaucracy. No Governor wants to do that. He has asked for a rough number of staff we believe it would take to administer these programs as the state level.

I will get you copies of the Engler information and the full NGA proposal.

Other information: evidently the Rivlin meeting was canceled and will be rescheduled next week. The Governors' staff are looking for our political as well a policy advice on how to make the case on these issues.

Jennifer

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originally were created at the federal level to guarantee all students equal treatment, according to one source. This plan could destroy the concept of giving national "rock-bottom" assurances to students when using money collected by the federal government, the source added. Some states could severely limit access to aid while others merely set minimum standards. Cash-strapped states also could use the money for other purposes unless significant guidelines are set, a source contended. Another source questioned the ability of states to handle the increase in responsibility.

APPROPRIATIONS

Big Fights Expected At House Panel's Rescission Markup

In what may be an acrimonious meeting sources said could last for hours, the House Appropriations Committee this afternoon began marking up the \$17.3 billion rescission bill. Democrats plan to offer amendments restoring slashed domestic spending levels, while Republicans will offer amendments on abortion and immigration. The markup, set to open with an hour of general debate, may involve what a source called "major fisticuffs" between Democrats and Republicans over subcommittee-approved rescissions in domestic programs, including nutrition and other programs aiding children.

Appropriations ranking member David Obey, D-Wis., will offer an amendment cutting funding for the F-22 fighter by \$7 billion — about two-thirds — and pushing back its production schedule for five years, an Appropriations aide said. The savings would go into a reserve fund for Congress to fund school lunch and child nutrition programs cut back in the Economic and Educational Opportunities panel, thereby "creating a pot of money that would allow the House to restore school lunch and child nutrition programs over the five-year period," the aide said.

Rep. Richard Durbin, D-Ill., will offer an amendment that would restore \$4.8 billion to programs helping children and seniors. If that fails, Rep. Louis Stokes, D-Ohio, will offer an amendment taking \$2.5 billion in potentially unused disaster relief money and using it for housing. And Rep. John Murtha, D-Pa., will offer an amendment barring Republicans from using any of the rescission money to fund tax cuts. "It's mindless, it's valueless and it's wrong," House Minority Leader Gephardt said of using additional savings to fund tax cuts. Republicans also are expected to offer several amendments, including one making the current language more restrictive on taxpayer funding of abortions for the poor in cases of rape and incest. One Republican amendment, said by a GOP aide to be highly controversial, deals with timber.

TELECOMMUNICATIONS

Administration Officials Urge DOJ, FCC Telco Oversight

Administration officials today told the Senate Commerce Committee that telecommunications reform legislation should make Justice Department and FCC officials the arbiters of whether local telephone companies have opened their markets sufficiently to be rewarded with access to long-distance markets. This would be a "date conditional" approach to market access, decided on a case-by-case basis, explained Anne Bingaman, assistant attorney general for antitrust. Panel Democrats, led by Commerce ranking member Ernest Hollings, D-S.C., have advocated a "date certain" market access plan to prevent the regional Bell operating companies from stalling their efforts to let other players in their areas.

In an exchange with Bingaman, Hollings offered, "Maybe we could have a date certain for unbundling, interconnection, and number portability, but not for entry." This way, he suggested, the RBOCs would be compelled to take certain actions to allow in competition, but federal

2/8 draft

Engler Proposal

Summary of
2/8 draft

new version almost at.
Attachment One

Principles

- The bill should (a) with the exception of the JOBS program, eliminate all existing ^{*}(IAS programs as reported by the General Accounting Office) federally established workforce development programs, (b) establish a program with an explicit purpose and explicit outcome/impact expectations, and (c) provide funding to the states through block grants. Broad goals should be established, each state should determine how to reach the goals.
- States should have responsibility for developing expenditure plans with no approval from the federal government necessary in order for states to receive funds and to implement their plans.
- States should be allowed to carry forward funds from one fiscal year to the next.
- Up to a total of 20 percent of this block grant should be transferrable to any other block grant or grants—and vice versa.
- There should be no entitlement to services by participants.
- There should be no congressional "micromanagement", i.e., states should be required to provide services in efficient, effective, and equitable ways with no further requirements placed on the states. States, for example, would not be required to provide services through one-stop centers, to provide "universal services," to provide vouchers to participants, etc. (It is likely that Governors will choose to, e.g., provide services through one-stop centers if they think that it is efficient and effective to do so.)
- The purpose of the grant should reflect the need for federal resources to be used to effect the work force so that the country's employers can compete successfully in the global market place. Not, e.g., to serve (a) workers laid off due to plant closing, and (b) economically disadvantaged adults and youths, etc.
- Selected groups, identified in the legislation, should be served equitably. The groups identified would include all "protected groups" presently identified in civil rights laws, as well as veterans.
- States should be required to expend funds in efficient and effective ways. In other words, at the lowest cost per unit of output. This is in direct conflict with the notion that states must give priority to those "hardest to serve." The purpose of the act should be to provide services to people in order to improve the education and skills of the workforce so that employers can compete successfully. The best program, then, is one that best allows employers to compete successfully.
- State governance should involve the establishment of state Workforce Development Councils in each state. The councils should provide recommendations to the Governors on all aspects of the block grants, e.g., budgeting and program design and it should oversee program operations. Members of the councils should be appointed by the Governors. A majority of each council, as well as the chairperson, should be from the private sector.
- Governors should be allowed to provide services through centralized, state-administered delivery systems and/or through decentralized, nonstate-administered delivery systems.

* Programs listed in GAO report #94-88 in Appendix I.

- In those instances where Governors opt to provide all or some services through centralized, state-administered delivery systems, Governors must, at a minimum, obtain advice relating to the expenditure of funds used to provide the state-administered services from local Workforce Development Councils. Governors should be permitted to delegate all or some of their authority to these local councils.
- In those instances where Governors opt to provide all or some services through decentralized, nonstate-administered delivery systems, funds used to support these services should be provided by the states to local Workforce Development Councils which should expend the funds in a manner consistent with policies developed by State Workforce Development Councils and approved by Governors. These local councils should be liable for disallowed costs only up to a level which can be "covered" through purchase of readily available insurance policies.
- Local Workforce Development Councils should be established to serve all areas of the state. Governors should determine (a) the number of local councils to be established in each state and (b) the geographical area to be served by each council.
- A majority of the membership, as well as the chairperson, of each local council should represent the private sector.
- Members of local councils should be selected and appointed by the chief elected local officials from each area served by a council. Governors should establish policies regarding the identification of these local officials.
- Private sector representatives of local councils should be selected from those nominated by general and special purpose business organizations based on policies established by governors.
- Workforce Development Councils should be prohibited from providing services to program participants. They should contract with other agencies to provide these services. Employees of these agencies should not be members of the councils.
- Governors should have discretion in establishing broad policies relating to the expenditure of all funds. Specifically as it relates to priorities in impacting on the various sectors of the workforce, e.g., in determining if priority should be given to:
 - preventive efforts rather than remedial. School-to-work programs rather than programs to retrain laid-off workers.
 - upgrading existing workers rather than training the unemployed.
- Intra-state distributions of funds and services should be done in an equitable way, reflecting the broad policies of the governors.
- The federal role should involve (a) through audits, ensuring compliance with the act by states; (b) the development and maintenance of a national labor market information system; and (c) management of a contingency fund to be made available to states experiencing severe economic hardship or natural disaster.

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the greatest risk are the nine Senate Democrats who voted against the balanced budget amendment and who may seek re-election next year. Opponents will try to tag each of them with being the one who caused the amendment's defeat, making a one-vote loss "the worst" political scenario for Democrats, Kerrey said.

But, Kerrey added, as big a vote as the balanced budget issue is now, "the much more difficult vote is to vote on entitlement cuts" that will be proposed later. When it comes time to vote on possible Medicare or other painful cuts, he said, the balanced budget vote "is going to look smaller as the year progresses." **Sen. Paul Wellstone**, D-Minn., who voted against the balanced budget amendment and is one of the nine expected to seek re-election next year, said his vote "won't make it any easier" to win a second term. "I'm sure there'll be plenty of attacks," Wellstone said. But, he said, he feels strongly that passing the amendment would be "a profound mistake" for the country and he voted his conscience in opposing it. Declared Wellstone, "I'm proud [of his vote] — otherwise, I'd be miserable."

Sen. Larry Craig, R-Idaho, a key sponsor of the amendment, contended polls show incumbent senators experience "a 15-18 percent drop" in their favorable ratings once constituents are told the legislator opposes the amendment. "The politics of a single vote are substantially stronger than the politics of multiple votes," he declared. But another Republican, **Sen. Christopher Bond** of Missouri, suggested the defeat of the amendment is a boost for Democrats because "it solidifies their base. It's a win-win for them because if it loses, their special interests are very often on the pro-spending side and they will have defended them."

A key administration source offered that "Social Security is probably the best argument to use" by Democrats in explaining why they opposed the amendment — because of the GOP refusal to add language to the constitutional amendment itself ensuring that the Social Security trust fund would not be raided to achieve balance. As for fallout from the vote for the Republicans, **Sen. James Exon**, D-Neb., an amendment supporter, told reporters Tuesday that he sees the balanced budget debate as a "win-win" situation for the Republicans. If the amendment passed, they could claim credit; if it failed by a narrow margin, they could attack the Democrats who opposed it. And, Exon said, defeat would have the added bonus of allowing the GOP presidential contenders off the hook by no longer forcing them to lay out what difficult specific cuts they would make to bring the budget into balance.

EDUCATION

GOP Governors Float Higher Education Block Grants

All federal higher education programs — including Pell grants and student loans — would be folded into state block grants under a proposal Republican governors are floating, sources said today. The block grants would cover about 160 broadly defined job training programs and would be similar to the welfare grants in House GOP welfare reform legislation, according to a source. Even though the plan has not been fully developed, these block grants potentially could be included in the welfare reform bill — which the source said the governors would like to see occur. But there is scant time to prepare legislation as the welfare bill is speeding through House committees. Several Republican governors raised the issue in a meeting this week with **Speaker Gingrich** and other House leaders, according to the source, but the leaders were non-committal.

Republicans in Congress have long discussed consolidating job training programs, but the governors' proposal is the first indication higher education programs also could be shifted to the states. Other sources raised a number of concerns about the plan. The higher education programs

What Do We Need From Mike Smith

His sense of what we should/can say at this point about our position on block grants

His sense of how/if we handle the discussions Labor will be having on Adult Education--how/if we should weigh in (who should be talking to Labor about this today??)

His sense of the political issues around working with OMB--what Alice Rivlin will say when the Govs staff meet with her. What about the White House?

His sense of how to get the Bayh question answered (re: higher ed)

Other??

- p. 10 NW part
- Concur with cells
to decline

Meeting with Governors' Washington Directors

- Purposes:
- (1) to begin a dialogue with Democratic Governors' staff about block grants and to review specific concerns about NGA proposal and Governor Engler's proposal.
 - (2) to discuss political strategy over proposals. (e.g. will the Democratic Governors endorse the NGA proposals; why Title I should not be included.)
 - (3) to share information on legislative timing and what the Republican's are proposing.

Meeting Points:

1. Give broad overview of the Secretary's and the Administration's approach on block grants.

(To do: talk with John Emerson at White House/ Follow up with Labor on their approach on adult ed/ OMB too???)
2. Specifically discuss Department position on Title I (and IDEA)
3. Next Steps: proposal for keeping the working relationship going

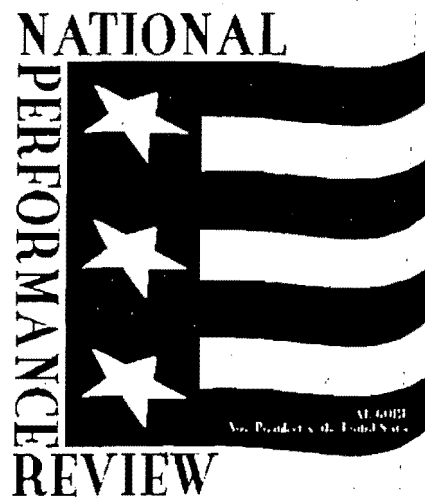
Issues we have to watch for:

governance issues
entitlements
how do we develop performance measures that make sense?

Note: I will also provide them the most recent rescission information.

PERFORMANCE PARTNERSHIPS

SUMMARY AND GUIDING PRINCIPLES



**PROVIDED BY THE
NPR PHASE II FEDERALISM TEAM**

**WORKING DRAFT
FEBRUARY 1995**

PERFORMANCE PARTNERSHIPS

SUMMARY

WHAT IS A PERFORMANCE PARTNERSHIP?

- p CONSOLIDATED PROGRAMS WITH**
 - INCREASED FLEXIBILITY**
 - ACCOUNTABILITY FOR PERFORMANCE**

WHERE DO THEY MAKE SENSE?

- p IF PROGRAMS ARE DELIVERED AT STATE AND LOCAL LEVELS,**
- p THERE IS SHARED AGREEMENT ON GOALS AND OBJECTIVES, AND**
- p YOU CAN MEASURE RESULTS.**

HOW ARE THEY DIFFERENT FROM BLOCK GRANTS?

- p OUTCOMES (NOT PROCESS) ARE THE PRINCIPAL MEASURE OF SUCCESS, AND**
- p FUNDS AND FLEXIBILITY ARE TIED TO IMPROVED PERFORMANCE**

HOW ARE THEY "PARTNERSHIPS"?

- p FEDERAL, STATE, AND LOCAL GOVERNMENTS AND PROVIDERS JOINTLY DESIGN THE PROGRAM AND MEASURE PROGRAM RESULTS**
- p PARTNERS WORK TOGETHER TO REMOVE BARRIERS TO SUCCESS**

PERFORMANCE PARTNERSHIPS

Guiding Principles

Current Federal grant system.

A great deal of the current grant system has broken down in a tangle of good intentions gone awry. There are too many funding categories, suffocating regulations and paperwork, misdirected emphasis on remediating rather than preventing problems, and no clear focus on measurable outcomes. The system stifles initiative and squanders resources without achieving sufficient results. Performance partnerships offer improvements to the current system.

What is a performance partnership?

Performance partnerships provide increased flexibility on how a program is run in exchange for increased accountability for results.

- p Increased flexibility includes:
 - consolidated funding streams
 - elimination of micro-management,
 - devolved decision-making (national goals and objectives, with much more flexibility for State and local partners to determine HOW these are achieved), and
 - reduced wasteful paperwork.
- p Increased accountability for results means the partners will:

- begin to treat outcomes and outputs as the basic measure of success (e.g., teenage pregnancy rate rather than number of visits to a clinic), and
- create funding and other incentives to reward desirable results and performance towards results.

Where do performance partnerships make sense?

Performance partnerships work best:

- p When the Federal Government intends to deliver services at State and local levels,
- p Where there is shared agreement among Federal, State and local partners about national goals and objectives, and
- p Where progress toward the goals and objectives can be measured.

Checklist of Guiding Principles for Designing a Performance Partnership

A number of key characteristics should be considered in designing and implementing performance partnerships:

1. Program consolidations
2. Partnership
3. Increased Flexibility
4. Improved Accountability
5. Measuring Performance
6. Performance Incentives

- 7. Shift in the Locus of Decision-making
- 8. Administrative Simplification
- 9. Administrative Savings
- 10. Implementation
- 11. Entitlement Programs

- Every effort should be made to merge funding streams which now force recipients to wastefully isolate administration and delivery of one program from another to avoid being penalized by auditors.

The checklist which follows contains principles which build upon the description of the Administration's six proposed "performance partnerships" in the President's FY 1996 Budget (see pages 152-154). The guiding principles should be regarded as "**rebuttable presumptions**":

- (a) In any policy arena in which there is a strong national interest and a history of Federal grants and other assistance to State and local governments, agencies should give strong consideration to developing one or more performance partnerships.
- (b) If a proposed performance partnership is not consistent with a particular principle, there should be a compelling argument about how the program is otherwise addressing local needs, stops micromanagement, and holds its partners accountable for results.

1. Program consolidations

- p Proposals should restructure current grant program authorizations to consolidate programs and/or funding streams and eliminate overlapping authorities:

2. Partnership

- p Federal, State and local partners should jointly design the partnership and the strategies to implement it.
- p Performance partnerships should accommodate different program strategies with different State and local partners.

3. Increased Flexibility

- p Performance partnerships should:
 - Promote multiple approaches to meeting national objectives;
 - Allow federally-funded activities to be fully integrated with State, local, and provider activities, and
 - Allow flexibility so that State and local institutional forces and incentives achieve the desired results.
- p If State plans are necessary, multiple "State Plan" requirements should be replaced with one "community-based strategic plan." Such a plan would outline basic strategies and tactics, and accommodate much more diversity from community-to-community and

state-to-state than existing approaches.

b Partnerships should:

- Minimize "required" service requirements, and
- Provide multi-year funding.

4. Improved Accountability

b Federal agencies and State or local partners should develop, communicate, and monitor measurable program goals and report progress toward achieving them:

- Think in terms of shared accountability.

b Performance partnerships should focus on *outputs* and *outcomes* (real results) rather than detailed assessment of the inputs and process used by States and localities:

- An emphasis on results means, for example, concentrating on getting cleaner air (not the existence of State environmental regulations) or whether educational goals are being achieved (not the level of school expenditures).

b Notwithstanding increased flexibility, performance partnerships will maintain Constitutional and critical, national public policy requirements:

- Non-discrimination requirements, for example, will apply.

5. Measuring Performance

b Performance partnerships should be structured, managed, and evaluated on the basis of *results* (i.e., progress in terms of agreed upon measures of performance).

b Performance measures will typically include a mix of outcome and output measures, including both measures of progress toward national goals and measures of important negative consequences that are likely to result from program activities.

b Partnerships should focus on *outcomes* (not *process*) as the principal criteria by which to measure success.

b Authorizing legislation should include a statement of:

- "National goals and objectives" that the partnership seeks to help achieve, and

For example: "parental responsibility."

- Types of "performance information" that would indicate what types of information would indicate progress toward the national goals and objectives.

For example: "paternities established"

- b The Federal agency should be authorized to develop national goals and objectives where the authorizing legislation does not specify them.

For example: "The Secretary shall, in conjunction with the States, local governments, providers and consumers, develop national goals and objectives."

- b "Performance measures" and performance targets should *not* be incorporated in authorizing legislation.

For example: "The Secretary shall, in conjunction with States, local governments, providers and consumers, develop and update measures for determining State or local performance in achieving progress toward the national goals and objectives."

Accordingly, performance measures and targets should be:

- Mutually developed by the partners, or
- In the case of certain core indicators, developed by the Federal Government in consultation with grantees, and supplemented with indicators mutually agreed to by the grantees.
- Refined over time in consultation with the grantees.

Performance measures require specification of at least the following:

- (1) Type of performance information.
- (2) Data source (or sources).
- (3) Acceptable levels of precision and accuracy.
- (4) Domains of estimations (e.g., States, counties, etc.)
- (5) Frequency of data collection.
- (6) Time period covered.

For example: for "paternities established"

- (1.1) Percentage of new welfare cases for which paternities have been established, for each fiscal year cohort of new welfare recipients.
- (1.2) Percentage of the total welfare caseload for which paternities have been established, as of the close of each fiscal year.
- (2) Selected welfare system case records and information obtained through external quality control review.
- (3) Total estimation error not to exceed 7% at the county level and/or 1% at the State level.
- (4) The sample design must support precision and accuracy requirements for State (county) level estimates or for the population generally (e.g., the entire sample may be allocated across the State, "n" cases allocated per

county, or even "n" cases per 1,000 per county).

(5) Annually.

(6) The last fiscal year.

p Performance agreements:

- Federal agencies should develop individual performance agreements with each State/locality receiving funds.

For example: "The Secretary shall, in conjunction with the States, local governments, providers and consumers, develop individual performance agreements which specify the program goals and objectives, program performance measures, performance targets, and the timeframes for achieving the performance targets."

p Assessing progress:

- The authorizing legislation should include a requirement that the Federal agency work with the partners to develop a system for assessing the extent of progress toward national objectives.

For example: "The Secretary shall, in conjunction with the States, local governments, providers and consumers, develop a system for assessing the extent of progress toward the national objectives."

- At least annually, the partners should assess the level of performance

achieved, the extent to which performance meets or exceeds agreed-on performance targets, and the extent to which performance has changed over time. These reports should acknowledge the influence of important external factors that may have affected the performance levels achieved.

- From time to time, annual performance reports should be supplemented by program evaluations that estimate the net program impacts caused by the program. These program evaluations would use research designs to estimate the difference that the program makes (i.e., the difference between (a) the actual performance levels achieved, and (b) the performance levels that would have been achieved in the absence of the program).

p Data collection:

- The partners will have to identify or develop data systems to define and assess "results" and "improvement in results."

For example: "The Secretary is authorized to withhold up to 5 percent of the amount appropriated to the program to support the development and

updating of data systems tied closely to the national goals; the development of performance agreements with States; and data quality assurance and data quality improvement; and research and development of performance measurement methodology."

- Partners should consider whether and how to get data that is generalizable, and consistent among and within States overtime.

p Refining the measures over time:

- It is expected that the performance measurement process and indicators will evolve over time, as Federal agencies and grantees develop greater experience with this approach.

6. Performance Incentives

- p** Agencies should consider whether funds should be allocated in part on performance (but other factors such as need may also be determinants, including population, poverty, disease incidence, morbidity, and mortality, as appropriate).

- p** Partners should be recognized and rewarded for success -- both high performance and improved performance.

- p** Recipients should be rewarded for achieving ambitious, rather than readily-attainable, performance targets.

p Some portion of the funding should be based on actual performance:

- Some portion of funding should be available to the Federal agency as an incentive for States and localities that make improvement.

For example: "The Secretary is authorized to reserve up to 10 percent of the funds to be used for performance incentive awards for recipients making progress toward meeting national goals."

- "Up to" is important, since it will first be necessary to get a sensible measurement system in place, before attempting to award performance incentives.

- Rewards should not be directed toward only "exceptional" performance, but allow the Secretary to reward high or improved performance (i.e., "progress toward achieving national goals").

- p** High-performing States and localities should be rewarded with additional flexibility or reduced matching requirements.

- p** Similarly, disincentives should include reduced flexibility:

- A requirement to shift funds into practices successfully used by high performing States and localities, or

- Requirements for additional commitments of State or local resources, or
- Reduction or termination of Federal funding.

b Partners should avoid punishing innovation and experimentation:

- Keep in mind: no one is accountable for results *now* under the current system.

b Since there is shared accountability for results, Federal agencies should also respond to problems by providing technical assistance about promising practices:

For example: "The Secretary shall provide technical assistance to the States to help them expand and improve"

b States and localities should be held harmless for cases where outcomes are not achieved despite the use of best practices (given the current state of knowledge).

7. Shift in the Locus of Decision-making

b The partners should decide largely on the "What" and leave most of the "How" to States and localities.

b Performance partnerships should seek to empower communities to make their own decisions about how to address their needs, and to be held accountable for results.

b Front-line, local-level providers should have greater flexibility and

responsibility for service design, delivery, and results.

b Partnerships should permit customers and beneficiaries to shape programs to better match their individual needs -- by giving them voice, choice, and the means to integrate services from multiple providers.

b Recipient jurisdictions should have flexibility to set local benchmarks that are consistent with national program goals.

8. Administrative Simplification

b Partners will seek to reduce barriers to success.

b Partnerships should resemble "performance contracts" (i.e., contract for measurable results) rather than traditional cost-reimbursement, "level-of-effort" grants.

b Performance partnerships should reduce Federal regulation of inputs, and avoid micro-management, and wasteful paperwork:

- Rigid and costly program restrictions should be eliminated.

b Procedural, detailed application, financial management, auditing and expenditure reporting requirements should be eliminated or simplified to permit comprehensive service delivery:

- The focus should be "Is the community achieving measurable results that indicate progress toward national goals?" — rather than "Were the dollars spent on the identified problem?"

b Federal agencies should, to the extent feasible, establish or negotiate performance targets, rather than specify the manner of compliance that States or localities must adopt.

b Reporting and monitoring should focus on performance (outcomes and outputs that indicated progress toward strategic goals) rather than inputs.

9. Administrative Savings

- b Administrative savings should be realized through consolidation and program and administrative simplification:
- Consolidated planning requirements, for example, should enable more integrated services with less overhead.

10. Implementation

- b Proposals should consider:
- Phased-in implementation,
 - Initially, shifting toward performance partnerships with self-selected or "volunteer" States/local partners that are ready.

- b Partnership proposals should accommodate different degrees of devolution between Federal, and various State and local governments.

11. Entitlement Programs

b Performance partnerships for entitlement programs might:

- Initially allocate funds to States to match what they currently receive,
- Adjust over time for growth of poverty population and inflation,
- Authorize the Secretary to provide extra funds to States during economic downturns,
- As an incentive (since funding levels are fixed), permit high-performing States to re-direct their matching funds.

b Eligibility may need to be simplified, for example, to transform public assistance offices from bureaucratic eligibility offices into family support and job preparation centers linking a range of services.

b There may be a need to set specific common measures, but allow for flexibility for local circumstances:

- Measures should be both population- and client-based.

Question: Should we block grant education programs? If Congress decides to block grant programs, can you see 3 to 6 areas in which the programs could be packaged?

Answer:

My basic principle for evaluating any proposal is will it help America's children -- will it improve teaching and learning for all students. I am willing to consider seriously any proposals that meet that basic test.

We are already moving in this direction.

Have started the second phase of Reinventing Government will take a hard look at all our programs. Expect will complete in March or April.

Last year we proposed elimination and consolidations of 34 programs. Congress eliminated 13, but added a number more.

In our re-examination of the Perkins Vocational Education program, we are already moving in this general direction.

- proposing consolidations of the numerous separate authorities in Perkins;
- focus the law on the basic principles of School to Work;
- flexibility over how they achieve those objectives while holding them accountable for results.

Question: Why not just give states and communities the resources to do the job and get out of their way? Why not just use block grants?

Answer:

If by block grant you mean agreeing on national priorities and objectives, allowing states and localities to have flexibility over how they achieve those objectives, and holding them accountable for results, then we support that strategy. In fact, Goals 2000: Educate America Act and the School to Work Opportunities Act can be considered block grants of this sort.

However, if you mean simply giving federal money to schools without clear goals or focus or accountability, then we believe this is a poor use of the taxpayer's money. We cannot afford this type of federal government program. And, taxpayers demand accountability.

When the purposes of block grants are left unspecified, there is no focus or accountability. The tendency is to give a little something to everyone and there is little assurance that they will address the fundamental problems of our schools -- safety, basic skills, better teachers, technology and ensuring access to college.

Our new legislation strikes a balance between the need for much greater flexibility in how federal resources are used and the need for much greater accountability for better results -- broad waiver provisions; whole-school approaches; a Department-wide emphasis on fewer regulations; charter schools; investing in teams of teachers, parents and school and community leaders to find quality solutions.

PRESENTATION TO DEMOCRATIC GOVERNORS' STAFF

1. Overview of our performance partnership/block grant approach

Support principles: Program consolidations

increased flexibility

improved accountability

--budget proposals--program eliminations and consolidations

--Goals 2000

--Perkins Proposal

--other??

2. Address key issues regarding NGA proposal

Ready to Learn: IDEA--out; Even Start belongs elsewhere?

Youth Development: Drug Free Schools and Communities should be in going to schools

Education Reform: Title I out; Perkins with training

Education Discretionary: STW should be with Perkins

Workforce Development: Pell Grants should be out;

Engler Proposal on higher ed--see maureen's talking points

3. Questions and Answers/political strategy

① Accomplishments
over, 5th, over - frank

Listening to fl
what they are

DRAFT -- FOR COMMENT ONLY

II. Block Grants

READY TO LEARN

Purpose

The Ready to Learn block grant is designed to provide flexible funding to support state efforts to ensure that all children, including those at risk of poor outcomes, are mentally, physically, and emotionally prepared for formal learning and to help ensure their success in later life. Specific activities covered would include services that promote healthy births for all children, enhance parents' ability to be their child's first teacher, enhance parents' and other caretakers' ability to provide stable and caring environments, and promote the health and well-being of all young children. (See unresolved issues.)

Rationale

The Ready to Learn block grant would bring into a single funding stream a series of program and services that are now provided to children and families through multiple categorical programs. By supporting state efforts to help young children and their families, the federal government is working towards the achievement of the National Education Goal One : By the year 2000, all children will start school ready to learn.

Included Programs

	FY 94 (\$ in millions)
*Child Care and Development Block Grant	893
*Title IV-A (AFDC) Child Care	528
*Title IV-A Transitional Child Care	140
*Title IV-A At-Risk Child Care	361
State Dependent Care Development Grants	13
Head Start	3,371
Child Development Associate Credential Scholarship	1
Child and Adult Care Food Program	2
Supplemental Feeding Program for Women, Infants, and Children (WIC)	3,210
Commodity Supplemental Food Program	95
Even Start	91
IDEA, infants and preschool	592
TOTAL	9,297

Unresolved Issues

Under the Ready to Learn Block Grant, funds that currently go directly to local grantees under the Head Start program would be redirected through the states to be combined with other state funds to provide childcare and other early intervention activities to ensure that all children arrive at schools ready to learn.

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In addition, this grant includes four entitlement programs (*) that would be converted as part of this block grant to a discretionary program that would be subject to an annual appropriation.

It is unclear whether the health-related needs of children addressed by the following programs are best served through health funding streams or through a more integrated block such the one proposed. The placement of the following programs remain unresolved.

	FY 94 (\$ in millions)
<i>Ready to Learn or Health Services Block Grant</i>	
Maternal and Child Health Block Grant	687
Childhood Immunization Grants	528
Healthy Start	98
Pediatric Emergency Medical Services	8
<i>Ready to Learn or Public Health and Prevention Block Grant</i>	
Childhood Lead Poisoning Prevention	35
<i>Ready to Learn or Mental Health Systems Treatment Block Grant</i>	
Children's Mental Health	35

DRAFT -- FOR COMMENT ONLY

YOUTH DEVELOPMENT

Purpose

To provide a base level of funding to states to support a continuum of developmentally appropriate activities that promote the social development of youth and facilitate their preparation for careers and lifelong learning. These activities will build the competencies of young people, while respecting the dominion of the family, fostering scholastic achievement, promoting self-reliance, and cultivating positive peer interactions. The range of activities to be funded may include school-, community- and work-based experiential learning, mentoring, community service, crisis intervention, and structured recreation and cultural activities during non-school-hours. These activities and services would be fully blended into comprehensive community-wide strategies that would enable all young people (in-school and out) to develop the knowledge, skills, attitudes, and values needed to successfully make the transition from childhood to productive adulthood. (See unresolved issues.)

Rationale

Pooling these categorical employment and training, education, and social service/prevention programs into a block grant would facilitate state and community efforts to plan and develop comprehensive strategies to promote positive youth development by meeting the fundamental needs of all youth without being bound by the narrow parameters of current federal youth programs. The current array of crisis-driven, narrowly targeted prevention and intervention programs are scattered across federal agencies and departments, and aimed at stratified segments of the nation's young people: those exhibiting behaviors or experiencing problems commonly associated with a specific adolescent "pathology" (e.g., delinquency, substance abuse, and pregnancy), or those deemed at-risk for developing such behaviors or problems. Hence, public action frequently occurs after a problem has surfaced, rather than seeking to prevent the problem from emerging in the first place. These programs have not significantly reduced the problems associated with adolescence and in many communities, the problems have intensified despite intensive interventions.

DEPARTMENT OF HEALTH AND HUMAN SERVICES

	FY 94 (\$ in millions)
<i>Administration for Children and Families</i>	
Independent Living	70
Youth Gang Substance Abuse	11
Runaway and Homeless Youth Programs	
Basic Centers	36
Drug Abuse Prevention	12
Transitional Living	15
<i>Office of Community Services</i>	
National Youth Sports	12
<i>Public Health Service</i>	
Adolescent Family Life	6
<i>Center for Substance Abuse</i>	
High-Risk Youth	63

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FY 94
(\$ in millions)

Violent Crime Control and Law Enforcement Act of 1994 -Title
III:

Community Schools Youth Service & Supervision Grant 26
Program (new program authorized in FY 95 under Crime Bill)

DEPARTMENT OF EDUCATION***Elementary and Secondary Education***

Drug Free Schools & Communities 375

Violent Crime Control and Law Enforcement Act of 1994 -Title
III:

Family and Community Endeavor Schools Grant Program* 11
(new program authorized in FY 95 under the Crime Bill)

DEPARTMENT OF LABOR***Employment and Training Administration***

Job Training Partnership Act (JTPA)

IIB—Summer Youth Employment and Training Program 877

IIC—Year-Round Youth Program 659

Youth Fair Chance 25

Job Corps 1,041

DEPARTMENT OF JUSTICE***Office of Juvenile Justice and Delinquency Prevention***

Part A—Management and Administration 4

Part B—Formula State Grants 58

Part C—Discretionary Grants 22

Part D—Youth Gangs 5

Part E—State Challenge (new program funded in FY 95) 10

Part G—Juvenile Mentoring 4

Delinquency Prevention Grants 13

Violent Crime Control and Law Enforcement Act of 1994 -Title
III:

Ounce of Prevention Council (new, authorized for FY 95) 1

DEPARTMENT OF AGRICULTURE***Extension Service***

Youth At Risk 10

**DEPARTMENT OF HOUSING AND URBAN
DEVELOPMENT**

Drug Elimination Grants (50% of total appropriation minus 10%
set aside for Native Americans) 119

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FY 94
(\$ in millions)

DEPARTMENT OF TREASURY

Violent Crime Control and Law Enforcement Act of 1994—

Title III:

Gang Resistance Education and Training (new program FY 95) 9

TOTAL 3,495

*Grants to CBO's.

Unresolved Issues

Several of the programs included in this block grant currently provide grants directly to LEAs and CBOs or award grants to a select number of states for carrying out special activities and therefore could be controversial.

Many of the other federal dollars currently funneled to youth services are hidden in the federal budget within larger programs enacted to address major social problems, (i.e., health, disease control, crime, family planning, and mental health) or represent nonstatutory set-asides within federal programs whose primary targets are either adults or young children. These programs, which dedicate significant resources to prevention, have not been included because it would be difficult to ascertain the portion of the total appropriation targeting young people. Hence, the federal programs targeting youth represent only a fraction of the total expenditures on youth.

Twenty-percent of the funds appropriated under the current Substance Abuse Block Grant (\$233 million) which is administered by the Center for Substance Abuse within the Department of Health and Human Services are earmarked for prevention and focused on youth. It is unclear whether the needs of youth are best served through a substance abuse block grant or through a more integrated block such the one proposed.

DRAFT -- FOR COMMENT ONLY**CHILDREN AND FAMILY SERVICES****Purpose**

The Children and Family Services block grant is designed to provide funding to assist states in developing programs for intervention and follow-up services for children and families who are experiencing crisis. Specific activities covered would include services designed to strengthen parents ability to care for their children such as family support and preservation and parenting education; services to secure permanent homes for children; services to care for children who cannot remain in their home; and services to reduce violence in families.

Rationale

The Children and Family Services Block Grant would continue role that that the Federal Government as historically played in improving the welfare of children in specific areas of national concern. All of the programs listed are specifically designed to support families in crisis. The Governors believe that services to this population could be significantly improved by permitting states to provide services to children and their families through a single source. By providing a single stream of funds from the federal government, states are also better to able to blend state and federal dollars into a seamless system of services.

Included Programs

	FY 94 (\$ in millions)
Social services block grant	2,800
*Community services block grant	385
Temporary child care and crisis nurseries	12
Child welfare services (includes child welfare training)	299
Foster care	2,606
Adoption assistance	317
Adoption opportunities	12
Abandoned infants	15
Child abuse state grants	23
Child abuse demonstrations	21
Child abuse prevention, substance abuse	19
Family violence programs	28
Foster grandparents	70
Emergency assistance	575
Family Preservation and Support Program	60
Family Support/Resource Centers	13
TOTAL	7,254

*Includes only that portion allocated to states

DRAFT -- FOR COMMENT ONLY**Unresolved Issues**

Under current law, states are permitted to use funds under the Social Services Block Grant to provide support services to the elderly. Therefore, a portion of this block grant could be linked with the Aging Block Grant to provide services to the elderly. It should also be noted that the Foster Care and Adoption Assistance programs are currently entitlement programs. Under this proposal, these programs would become part of a discretionary block grant and therefore subject to an annual appropriation.

DRAFT -- FOR COMMENT ONLY

LIFELONG LEARNING BLOCK GRANT

Purpose

To provide states a base level of funding for workplace skill training, occupational education, employment, and labor exchange services for welfare recipients, economically disadvantaged adults and older youth, dislocated workers who lose their jobs for any reason, incumbent workers whose skills need upgrading, and disabled individuals in need of training and placement assistance.

Activities to be funded include classroom and on-the-job training, basic skills instruction, literacy programs, needs-related supportive services, individual assessment, job counseling, job search assistance, career information, labor exchange, job matching services, administration of unemployment insurance and related income support programs, development and management of labor market information, and professional and capacity development. Labor exchange, job matching services, labor market information, and career guidance would be available to all citizens of working age, irrespective of economic need, through integrated intake, assessment, and referral systems in each community.

Rationale

Currently, a myriad of separate, confusing, and often conflicting federal training programs confront eligible economically disadvantaged adult and dislocated workers, at-risk youth, and welfare recipients -- and employers who would like to hire them after they are trained to perform in the modern workplace. This block grant would afford states the opportunity to streamline their workforce development system, to create lifelong learning systems, and to integrate access by employers seeking skilled and ready workers and by individuals seeking training and placement assistance for their first job or a new career.

This block grant would provide the resources for managing a state's workforce development system, including its work-based income support components; developing and operating one-stop service centers providing access to the system; and supporting basic and occupational skills training to meet the economic and social needs of the citizens of the state. It would focus on developing the human resources represented by adults and dependent youth with children through partnerships that include state, local, and business interests from both public and private sectors.

In the interest of reducing the number of separate federal job training programs, this proposal has two parts. The first would combine some 30 federal programs into a single fund to be distributed as a single block grant to each of the states. The second would consolidate 15 additional federal programs into a single fund to be distributed by the Secretary of Labor through discretionary grants for activities of national significance and programs to encourage innovation and quality improvement and to address priority multistate issues.

DRAFT -- FOR COMMENT ONLY**Included Programs**

	FY 94 (\$ in millions)
DEPARTMENT OF LABOR	
<i>Training and Employment Services</i>	
JTPA Formula Grants to States	
JTPA Title II-A (Adults)	988
JTPA Title III (Dislocated Workers)	894
JTPA Federally Administered Programs	
JTPA Migrant Farmworkers Program	86
Labor Market Information	3
NOICC/SOICC (State Occupational Information Aid)	4
<i>State Unemployment Insurance and Employment Service Operations</i>	
Unemployment Compensation	
State Operations	1,716
State Integrity Activities	357
Employment Service	
Allotment to States	833
National Activity-Targeted Jobs Tax Credit	15
<i>Veterans Employment and Training</i>	
State Administration	162
<i>Community Service Employment for Older Americans</i>	
State Programs	90
<i>Trade Act Adjustment Assistance</i>	
TAA Training & Benefits	190
NAFTA Training & Benefits (New Program in FY 1995)	43
DEPARTMENT OF EDUCATION	
<i>Migrant Education</i>	
High school equivalency program	8
College assistance program	2
<i>Vocational Education</i>	
Data Systems (NOICC/SOICC)	4
<i>Student Financial Assistance</i>	
Pell Grants (Nonbachelors degree undergraduates only)	3,670
<i>Adult Education</i>	
State programs	255
State Literacy resource centers	8
Workplace literacy partnerships	19
Literacy training for homeless adults	10
Literacy programs for prisoners	5
<i>Vocational Rehabilitation</i>	
State grants	1,974
Client assistance grants to states	10

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	FY 94 (\$ in millions)
Training (for professionals)	40
Supported employment state grants	35
DEPARTMENT OF AGRICULTURE	
Food Stamp Program - Employment and Training for Recipients	158
DEPARTMENT OF HEALTH & HUMAN SERVICES	
JOBS Program - Education and Training for AFDC Recipients	1,100
TOTAL, LIFELONG LEARNING BLOCK GRANTS	12,678

Secretary of Labor's National Discretionary Block Fund

	FY 94 (\$ in millions)
DEPARTMENT OF LABOR	
<i>Training and Employment Services</i>	
JTPA Federally Administered Programs	
American Samoans/Asian Americans	4
Veterans employment	9
Rural Concentrated Employment Program (RCEP)	4
Pilots and Demonstrations	36
Research, Demonstration and Evaluation	12
Capacity Building	3
NOICC/SOICC (Occupational Information National Activities)	1
Skills Standards	3
Women in apprenticeship	1
Homeless job training	13
<i>Community Service Employment for Older Americans</i>	
National contracts	320
<i>State Unemployment Insurance and Employment Service Operations</i>	
Employment Service	
One-stop Career Center Grants (FY 1995 Funding Level)	120
<i>Veterans Employment and Training</i>	
Federal Administration	21
TOTAL, FEDERAL DISCRETIONARY BLOCK FUND	548

Unresolved Issues

Several programs that might seem appropriate for including in the block grants to states are instead incorporated in a national discretionary block fund administered by a department secretary. Most notable among these programs are the following:

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- One-stop career center grants, funded at \$50 million in FY 1994, are designed to be rolled out to a small number of additional states each year based on their readiness to implement the programs. While including in block grants to states would place all states on an equal footing for future funding, that could diffuse funds that are now focused on states that are most ready to make maximum use of them. The one-stop center funds would be included in the Secretary of Labor's national discretionary block fund (see above).
- Similarly, school-to-work implementation grants, which also involve a roll-out each year to another increment of states, are not included in block grants to states. These funds would be included in the Secretary of Education's national discretionary block fund.

Federal vocational education grants -- including basic state grants, tech-prep grants, consumer and homemaker education, etc. -- could have been divided among the youth development, education, and lifelong learning block grants. However, this would result in problems in a large number of states. In the case of the basic state grants, for example, states currently may use the federal dollars for secondary and post-secondary programs in ratios of their own choice, and the split now varies from state to state in a range from about 15% to 85%. To preserve maximum flexibility, these funds are incorporated in an education block grant to states with the understanding that up to 20 percent of a block grant's funds may be transferred to another block grant to satisfy a state's particular needs. States would be expected to establish strong planning, management, and operating linkages between the education block grant activities and the lifelong learning activities to be funded under this block grant.

Specifically Excluded Programs

Several programs or portions of programs have been specifically excluded from this proposed block grant and the related secretary's discretionary block fund. Some are included in other block grant proposals, despite their apparent relevance to lifelong learning, because of more significant links to purposes of the other block grants. Others are excluded for reasons related to their national significance or applicability nationwide and would remain as discrete nationally administered financial assistance programs.

DRAFT -- FOR COMMENT ONLY

EDUCATION

Purpose

To promote state-based systemic reform of the nation's education system by providing a single federal grant that can be coordinated with new and existing state reform efforts. The funds would be directed through the state planning panel to the appropriate states agencies and local school districts who would in turn spend the monies in accordance with the state's education reform plan. Funds would be used for capacity building and to provide direct services to primarily elementary and secondary education students. If provided for under the state plan, the a portion of the funds could be used to support the transitional programs for pre-school students, such as those students enrolled in programs such as Head Start and other early intervention programs.

Rational

Create a state-level *Education Reform Flexiblility Grant* by combining a number of education categorical programs into a single grant that would be allocated to the states based on a formula similar to the current Title One formula. A portion of the funds would be allocated to local schools based on the state's allocation formula. This grant would be administered by a state panel appointed by the Governor. The panel would work with the Chief State School Officer and other appropriate state agencies in developing and administering the plan. The state would submit a single plan to the U.S. Department of Education. The plan would outline the state's current reform plan and would include a set of benchmarks and performance indicators that would lead toward the achievement of the national education goals. Through the panel, states would report to the Secretary and to the citizens of the state on progress in achieving the benchmarks. This program would be phased in by amendment the existing Goals 2000: Educate America Act.

Included Programs

Education Reform Flexiblility Grant:

	FY 94
	(\$ in millions)
Goals 2000: Educate America Act	372
Title I: Helping Disadvantaged Children Meet High Standards	7,222
Title II: Eisenhower Professional Development Program	320
Title VI Innovative Education Program Strategies	374
Education Infrastructure	100
Carl C. Perkins Vocational Education Act	973
TOTAL	9,335

The Secretary's Discretionary Block Grant

A second block grant would be created to provide the Secretary of Education with discretionary funds to support programs of national significance that help improve educational quality and provide support for special populations. This block grant would include an administrative set-aside for the Department of Education. Included in this block grant would be the following programs:

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	FY 94 (\$ in millions)
School to Work Opportunities Act	250
Charter Schools	6
Education, Research, Statistics, and Improvement	355
Federal Goals 2000 Activities	22
Technical Assistance for Improving Elementary and Secondary Education programs	45
Bilingual and Immigrant Education	245
Inexpensive Book Distribution	10
Arts in Education	12
Law Related Education	6
Christa McAuliffe Fellowships	2
Foreign Language Assistance	11
Title V: Programs to promote Title V	1,434
TOTAL	2,398

Unresolved Issues:

Currently, states may split their Vocational Education Grant between secondary and postsecondary education. The split varies widely between states. Therefore, there should also be a linkage between the *Education Reform Flexibility Grant* and the *Lifelong Learning Block Grant* to support vocational education activities at the postsecondary level.

This proposal does not attempt to consolidate federal programs to support postsecondary education because most federal aid at the postsecondary level is delivered through a voucher system that provides individuals with the ability to choose among different types of eligible institutions in any state. Governors support such flexibility and do not recommend that the federal system aid program be restructured for students attending degree granting institutions.

DRAFT -- FOR COMMENT ONLY**HEALTH SERVICES BLOCK GRANT****Purpose**

This proposal will created a unified financing mechanism to support and enhance the availability and delivery of a broad range of personal health care services. Predominantly, these funds would focus on the treatment of disease.

Rationale

The proposed consolidation of these programs would allow states to determine the priority health care needs and health services required by their residents and to target the resources to best meet the needs. Without the categorical limitations of the existing programs, states would be able to better target these service delivery dollars toward gaps in the existing health care system and would permit states to better coordinate these services with the existing array of primary and specialty care services available in the private sector and through the state Medicaid programs.

Included Programs

	FY 94 (\$ in millions)
Community Health Centers Grants	604
Ryan White AIDS	79
Developmental Disabilities Basic Support & Advocacy Grants	69
Project Grants for Health Services to the Homeless	63
Migrant Health Centers Grants	59
Rural Health Outreach	26
Rural Health Research	9
Residents of Public Housing Primary Care Program	9
Linking Community-Based Primary Care, Substance Abuse, HIV/AIDS, & Mental Health Treatment Services	8
HIV/AIDS Dental Reimbursements	7
Adolescent Family Life - Demonstration Projects	6
Trauma Care	5
Native Hawaiian Health Care	4
Coal Miners Respiratory Impairment Treatment Clinics & Services	4
Developmental Disabilities Projects of National Significance	4
Operation of Offices of Rural Health	3
Health Services in the Pacific Basin	3
HIV Demonstration Program for Children, Adolescents, & Women	2
Family Planning-Service Delivery Improvement Research Grants	NA
TOTAL	1,464

DRAFT -- FOR COMMENT ONLY**Unresolved Issues**

This is an omnibus health services proposal that covers a broad range of health care issues. As an alternative, should this block be subdivided into smaller more focused block grants such as community and migrant health care centers, communicable diseases (to include, for example, HIV/AIDS, sexually transmitted diseases, and tuberculosis programs), rural health care, and chronic diseases (e.g. cancer)?

It is unclear whether the health-related needs of children addressed in the following programs are best served through this funding stream or through a more integrated block such the Ready to Learn proposal. The placement of the following programs remain unresolved.

	FY 94 (\$ in millions)
<i>Ready to Learn or Health Services Block Grant</i>	
Maternal and Child Health Block Grant	687
Childhood Immunization Grants	528
Healthy Start	98
Pediatric Emergency Medical Services	8

DRAFT -- FOR COMMENT ONLY

PUBLIC HEALTH AND PREVENTION BLOCK GRANT

Purpose

This proposal will create a unified financing mechanism to support a broad array of preventive health services as well as support the continued existence of core public health functions.

Rationale

This proposal consolidates a myriad of categorical funding streams with the Preventive Health Block grant to permit states to help state support the prevention of disease and meet the priority public health needs of their residents. This consolidation would give states the resources and flexibility to conduct needs assessments and design data/vital statistics systems to monitor their public health priorities, as needed. In addition, states would have the flexible resources available to maintain emergency response capacity, to address disease outbreaks, natural disasters, toxic spills, or any other public health crisis that could emerge.

Included Programs

	FY 94 (\$ in millions)
Acquired Immunodeficiency Syndrome (AIDS) Activity	543
Preventive Health & Health Services Block Grant	157
Occupational Safety & Health (Research and Training)	128
Assistance Program for Chronic Disease Prevention & Control	123
Project Grants & Cooperative Agreements for Tuberculosis	112
Control Programs	
Community Partnership Demonstration Grants	105
Preventive Health Services - Sexually Transmitted Disease	87
Control Grants	
Cooperative Agreements for State-Based Comprehensive Breast & Cervical	78
Epidemic Services	74
Infectious Disease	48
Centers for Research & Demonstration for Health Promotion & Disease Prevention	39
Injury Prevention & Control Research & State Grants Projects	39
Minority Community Health Coalition Demonstration	22
HIV Demonstration, Research, Public & Professional Education	16
Projects	
Prevention Centers	7
Emergency Preparedness	2
HIV/AIDS Surveillance	45*
Cancer Registries	15*
Disabilities Prevention	8*
Comprehensive School Health Programs to Prevent the Spread of HIV & Other Important Health Problems	6*

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	FY 94 (\$ in millions)
Community Health Promotion	5*
Tobacco	3*
Prostate Cancer	2*
Research, Treatment & Education Programs on Lyme Disease in the United States	1*
Skin Cancer	1*
TOTAL	1,666

*FY 95 Appropriations figure

Unresolved Issues

Should environmental health be addressed separately from public health?

Other categorical programs that fund public health functions were identified, but complete information about these was not available in time for this proposal. These may be added at a future date, should information become available.

It is unclear whether the health-related needs of children addressed in the following program is best served through this funding stream or through a more integrated block such the Ready to Learn proposal. The placement of the following program remain unresolved.

Ready to Learn or Public Health and Prevention Block Grant

	FY 94 (\$ in millions)
Childhood Lead Poisoning Prevention	35

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SUBSTANCE ABUSE PREVENTION AND TREATMENT BLOCK GRANT

Purpose

This proposal combines a variety of categorical and demonstration programs with the existing substance abuse prevention and treatment block grant give states greater choices in the design of prevention and treatment programs.

Rationale

This proposal consolidates the block grant and demonstration funds (as well as smaller public education and training programs) into a single block grant administered by the states. This consolidation would free states to establish their own priorities for the demonstration of emerging prevention or treatment protocols. With such flexibility, states would be able to reduce waiting lists for treatment services, could direct funds toward maximizing coordination with other existing state programs, and would allow states, that so choose, to focus more finances on coordination of prevention or treatment programs.

Included Programs

	FY 94 (\$ in millions)
Substance Abuse Prevention and Treatment Block Grant	994
Community Prevention ¹	1157
Prevention Demonstration: High Risk Youth ¹	63
Treatment Improvement Demonstrations: Critical Populations	44
Prevention Demonstration: Pregnant Postpartum Women and their Infants ¹	43
Treatment Demonstrations: Target City Demo	35
Treatment Improvement Demonstrations: Criminal Justice	34
Treatment Improvement Demonstrations: Women and Children	28
Treatment Improvement Demonstrations: Comprehensive	28
Community Treatment Programs	
Residential Treatment for Pregnant Women	26
Capacity Expansion Program	15
Training (prevention) ²	15
Prevention Public Education and Dissemination ¹	11
Prevention Demonstration: Other Programs ¹	7
Training (treatment) ²	5
Treatment Improvement Demonstrations: Campus Projects	4
TOTAL	1,417

¹ Current funding to Public and Private Non-Profits

² Current funding to Academic Institutions

Unresolved Issues

Twenty-percent of the funds appropriated under the current Substance Abuse Block Grant (\$233 million) which is administered by the Center for Substance Abuse within the Department of Health and Human Services are earmarked for prevention and focused on youth. It is unclear whether the needs of youth are best served through this proposal or through a more integrated block such the Youth Development.



BACKGROUND MATERIALS FOR GOVERNORS-ONLY MEETING

January 26, 1995

TO ALL GOVERNORS:

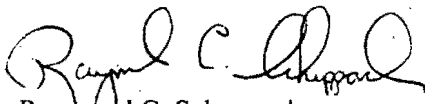
The Governors-only session on Sunday, January 29 will begin with a discussion of welfare reform. It will then turn to block grants. If additional time is needed, the discussion will continue at the Governors-only session on Monday, January 30. Materials on welfare were distributed to you yesterday. Materials on block grants are enclosed. They include:

- A brief backgrounder on block grants and their current status.
- An overview of block grant issues and questions.
- An example of a policy statement that identifies issues of possible concern to Governors.
- Introductory materials from the block grant discussion draft sent to you for comments earlier
- A glossary of terms relating to grant-in-aid programs and the federal appropriation process.

All of these documents are intended solely to provide background for your discussion. They are not intended to reflect official NGA positions, and any positions or options have not been endorsed either by Governors or their staff.

If you have any questions about the planned discussion, or if we can provide you with any additional information prior to the meeting, please let me know.

Sincerely,


Raymond C. Scheppach

c: Washington Representatives
NGA State Contacts

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BLOCK GRANTS - BACKGROUND

January 26, 1995

In 1993 the federal grant-in-aid programs provided approximately \$206 billion to state and local governments. About \$22 billion of this aid was provided through broad-based programs, largely the 15 block grant programs. The remaining \$180 billion was provided through some 578 categorical programs. In addition states and localities received over \$100 billion in partial reimbursement for the costs of individual entitlement programs such as AFDC and Medicaid.

Over the past 10 years the number of broad-based programs has increased by 3 while the number of categorical federal grant-in-aid programs has increased by 186. More significantly the percent of federal assistance distributed through categorical programs has grown from 79.7 percent to 88.3 percent.

States have long advocated reform in the federal system. The simplification of the current federal grant-in-aid system has been an important part of that reform. Governors have argued that such simplification would both increase administrative efficiency and encourage state and local efforts to develop more effective programs.

As the federal government begins to move toward a balanced budget the pressure for reordering federal priorities and curtailing federal grants will increase. Preliminary analysis suggests that the adoption of the balanced budget amendment could require the Congress to cut categorical grants to states and localities by as much as several hundred billion dollars over a five year period. Already, numerous proposals for program consolidation and reduction are on the table.

The history of block grants is long, going back at least to general revenue sharing and the broad block grants of the Nixon era. Block grants were also an important part of the Reagan "New Federalism" of the 1980s. At that time the consolidation of programs also came with significant funding cuts. While most block grant proposals have begun with a theme of simplification and consolidation, the actual legislation has often retained significant federal restrictions. Equally important, over time the federal government has tended to establish additional setasides and place new restrictions within the block grants that have been established.

However, funding constraints and overly prescriptive federal management is not restricted to block grants alone. States have seen similar problems develop in individual entitlements and in categorical programs. Moreover, the number of small categorical programs has continued to proliferate rapidly. These trends have tended to reduce state flexibility and to slow down state efforts to reform and reinvent state government.

It seems almost certain that block grant proposals will emerge from the House of Representatives. Similarly there is at least some degree of receptivity in the Senate. Changes in the federal grant-in-aid program will have a significant impact on the ability of states and localities to address critical domestic

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**BLOCK GRANTS FOR CATEGORICAL PROGRAMS
ILLUSTRATIVE APPROACH TO POLICY**

January 26, 1995

The nation's Governors have long recognized the need to reform and restructure the federal system. The simplification of the federal grant-in-aid system must be part of that reform. Block grants are a key tool in simplification and Governors support consolidation of the current several hundred non-entitlement grants into a small number of flexible grants organized around clear program objectives. The current array of federal grant programs are inefficient and their complexity and inflexibility contribute to the public disillusionment with big government. The administration of an excessive number of federal categorical grants creates unnecessary costs such as duplicate application and recordkeeping at both the state and federal level. Moreover, the complexity discourages state innovation and the development of coordinated community-based programs. Finally, categorical programs often ignore regional differences and the individual characteristics of the fifty states.

Block grants, with broad and clearly defined objectives, and substantial state flexibility offer opportunities for significant administrative savings. More important they will encourage and reward state and local efforts to develop more innovative and cost effective programs and services. Finally, such consolidations will help enhance public involvement and restore public confidence in government.

While the nation's Governors are generally supportive of consolidation they also believe that such consolidation must:

1. Avoid set-asides or other overly prescriptive conditions for the funding.
2. Include significant transferability of funds between the block grants.
3. Preclude cost-shifts to the states.
4. Be consistent with the way in which state government delivers services to citizens.

5. Incorporate distribution formulations consistent with the distribution implicit in existing categorical grants.
6. Allow the flexibility needed to maximize efficiency and to minimize the expansion of state government employment.

(Additional criteria could be added based on gubernatorial discussion.)

The National Governors' Association will be developing specific proposals that collapses most categorical grants into a small group of block grants that meet this criteria.

Once the various options have been evaluated, the Governors would welcome the opportunity to negotiate the final structure and funding levels for the grants. However, the Governors view the consolidation as one of efficiency in government not part of a general budget reduction strategy.

needs. As a result, it is vital that the Governors become active participants in the debate that will take place on the Hill.

Even if it is not possible to agree on all aspects of a block grant strategy, it is important that the Governors identify those areas of common interest where they wish to collectively influence federal decisions.

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BLOCK GRANTS - ISSUES FOR CONSIDERATION

January 26, 1995

Ideally over the next several weeks the Governors will be in a position to develop their own recommendations for specific block grants. This process is already underway. However, as we have attempted to move ahead, it is clear that there are a number of threshold issues that must be addressed by the Governors. Some of the most important of those issues are outlined briefly in the sections that follow.

The Need for Early Action on NGA Policy

Public discussions and comments over the past few months appear to assume that there is broad agreement among the Governors on the need for block grants. Indeed, NGA's current permanent policy on federalism endorses the concept of block grants. In addition, time limited policies endorse efforts to consolidate or integrate programs in a number of specific program areas. However, while broadly supported by the Governors when initially considered, this policy has not been reviewed by the newly elected Governors. Equally important, the Governors have not fully discussed the implications of the wide scale conversion of almost all federal grant-in-aid programs to broad based grants or the implications of such a strategy in the face of substantial cuts in federal spending.

Block grants offer a number of advantages. A smaller number of programs will be less costly to administer. Properly constructed block grants will offer states and localities a greater opportunity to address local priorities and to tailor programs and delivery systems that are more cost effective and responsive to community needs. However, to realize those benefits the Governors must be prepared to make hard choices. They must be prepared to reorganize programs and reduce administrative overhead. They also must be prepared to abandon lower priority or ineffective programs. They must be prepared to invest in the thoughtful planning and fundamental system reform that will increase the overall effectiveness of government services.

There are also a number of pitfalls that must be considered. History has shown that it is difficult to muster strong advocates for block grants and that, as a result, Congressional support for adequate funding may wane. If federal funding is not adequate to meet priority needs, states and localities may be forced to increase taxes. Equally important, we have seen existing block grants encumbered with program setasides and detailed administrative or programmatic requirements. A block grant without flexibility offers few advantages. Under current fiscal conditions there is a real danger that block grants may be used as a vehicle to shift costs to states and localities.

Do Governors continue to support efforts to consolidate and integrate federal grant and assistance programs?

Option 1 - Continue existing policy.

Option 2 - Adopt new policy that will reinforce NGA's general commitment to block grants and emphasize state concerns with possible cost shifts.

Option 3 - Adopt new policy that will reinforce NGA commitment to block grants, emphasize state concerns with possible cost shifts, and establish criteria for the development of specific block grant proposals. (See discussion below.)

Federal Funding Levels

At the national level, block grants are frequently seen as a vehicle for federal budget reductions. While block grants offer the possibility of some immediate savings through administrative efficiencies, many programs are already underfunded, and any significant future savings that may result from better program design or the investment in prevention, will take time.

Are Governors willing to support block grants that result in significant reductions in federal funding for shared federal, state, and local responsibilities?

Option 1 - Adopt new policy that makes clear that the Governors would oppose block grant approaches that would serve primarily to shift costs to states and localities.

Option 2 - Adopt new policy that indicates that states are willing to accept block grants with restricted future funding increases so long as those restrictions are reasonable and the structure of the grant is sufficiently flexible.

Distribution Formula

The current allocation of federal funds among the states is driven by a variety of factors. Individual entitlements are driven by program participation. Categorical programs are generally driven by formulas that reflect some measure of need (from number of poor children to miles of interstate highway) or allocate funds on a competitive basis. Approximately 420 of the current grant-in-aid programs are allocated on a project basis. States alone compete for funds under some 90 of those programs, while states and localities jointly compete under 39 and localities compete exclusively for 16. State and local governments compete with other entities for funds under the remaining 274 project based programs.

Opening a formula debate could well preclude any movement toward block grants in the near future. Allocating block grants based on existing distributions may create some inequities as allocations of project funds may be skewed at any particular point in time. In addition, to the extent that current formulas are "needs based", changing economic and demographic conditions may produce future imbalances.

Are Governors willing to see changes in the overall distribution of federal funds among the states?

Option 1 - Adopt new policy that makes clear that present distributions should be frozen in place for some period of time.

Option 2 - Attempt to develop policy that would address the long term reallocation of federal resources based on some state defined measure of need and capacity.

Programs to Be Considered

Current federal aid programs include individual entitlements, capped entitlements, state entitlements, block grants, formula driven categorical grants, and competitive or discretionary categorical programs. In addition some federal aid programs are funded through trust funds and/or through earmarked revenue sources. Finally some services are currently provided directly by federal staff. See Attachment 2 for definition of assistance types and the budget process.

Traditionally, NGA has excluded individual entitlements (AFDC, Medicaid, Food Stamps, etc.) from its block grant proposals. This reflects both differences in the treatment of individual entitlements under the federal budget process and the fact that individual entitlements are often particularly sensitive to cyclical changes in the economy.

A number of grant programs are funded from trust funds or earmarked revenues. Some of those programs are included in a variety of block grant proposals. Some Governors have suggested that it might make better sense if the federal government were to eliminate those earmarked federal revenue sources and turn back full responsibility for those programs to the states. In most cases this would require the states to replace the federal tax with a state tax.

Do Governors wish to specify the types of programs that should or should not be considered for inclusion in block grants?

Option 1 - Adopt new policy that supports block grants without specific provisions regarding program types.

Option 2 - Adopt new policy that supports block grants and addresses specifically whether the following should be included:

- individual entitlements
- capped entitlements
- state entitlement block grants
- formula based categoricals
- competitive or discretionary categoricals
- programs funded from trust funds or earmarked federal taxes

The federal role in domestic programs often extends beyond the provision of financial assistance to state and local government. In some areas the federal government provides direct services or directly contracts for those services. In other areas the federal government provides technical support and or research and evaluation.

Are the states willing to see current direct federal responsibilities included in block grants?

Option 1 - Adopt new policy that indicates that states are willing to accept programs currently directly operated by the federal government.

Option 2 - Adopt new policy that supports a continued federal role in technical assistance and research and development.

There are a number of categorical federal grant-in-aid programs that appear to work well. Examples cited by some Governors include the school lunch program and the Agricultural extension service. There is a concern that the inclusion of such programs in block grants may have an adverse impact.

Are there any specific federal programs that should be excluded from block grants?

Option 1 - Identify specific programs, if any, to be excluded.

Option 2 - Refer to staff for further consideration

Some Governors have argued that not all federal domestic programs should be continued. They would favor the elimination of such programs, rather than their consolidation into block grants.

Are there federal responsibilities that should be eliminated?

Option 1 - Develop a list of low priority federal programs that states would no longer support.

Option 2 - Remain silent on this issue.

A significant portion of federal assistance flows to local government or to private nonprofit organizations such as universities. Some of this money is passed through the states. Some of it flows directly to the final recipient.

Local governments have strongly supported maintaining a direct federal-local relationship and have opposed increasing state discretion and flexibility in the management or allocation of pass through money. Non-profits are also likely to strongly object to imposing the state in decisions relating to their receipt of federal funds.

Do the Governors wish to include local government and nonprofit assistance in the block grants?

Option 1 - Support the broadest possible block grants without regard to current allocations at the substate level.

Option 2 - Support the broadest possible block grants, but agree to provisions that would ensure that some percent of the available resources were passed through to substate recipients.

Option 3 - Support efforts to exclude existing directly funded substate programs from the block grant.

Program Structure

Block grant proposals generally group existing categorical programs. Generally speaking such a grouping will generally follow population groups (children, aging, etc.), service modalities (health, nutrition, income support), or program goals or objectives (ready to learn, etc.). There are strong advocates for each approach. Ideally, block grants would not presume any single administrative agency or delivery structure. States would be free to allocate funds from an individual block grant to a variety of agencies, programs, and delivery systems. However, Congress may not adopt this ideal approach and the importance of the choice of program structure will increase as the flexibility within the block grants themselves is reduced.

NGA has developed a set of proposed categories that is based primarily on a combination of population groups and/or broad service modalities. A listing of those categories is included in Attachment 3. A number of states have suggested either the combination of categories (e.g. place all health programs in a single block grant) or the creation of new categories.

Do the Governors have a preference as to the organizing principles to be used in the development of block grant proposals?

Option 1 - Accept the NGA listing.

Option 2 - Reorient the program structure to focus on service delivery modalities.

Option 3 - Refer to staff for additional work.

Other Issues for Discussion

There are a variety of other issues that Governors may wish to address in considering approaches to the block grants and state concerns. Those issues include:

Will states require some minimum period of lead time in order to convert from existing categorical funding to block grant funding?

Should block grants include the authority to transfer some percent of the appropriated funds from one block to another?

Are states willing to accept limited federal requirements regarding the development of a state plan and public review and comment?

Are the states willing to accept performance measures or other accountability mechanisms?

Are states willing to accept any limitations on the use of block grant funds for administrative costs?

Are states willing to accept any maintenance of effort or matching requirements?

NOTE: Some Attachments are still under development. If they are not included, they will be distributed separately at a later time.

I. Introduction

The purpose of this paper is to begin a dialogue with federal officials regarding the simplification and rebalancing of the federal system. It presents the National Governors' Association's positions regarding the conversion of current federal categorical non-entitlement grant-in-aid programs into a system of broad block grants. In addition, to provide illustrations of how these principles might be incorporated into specific programs, it outlines a series of possible block grants organized around a set of national purposes. It also suggests the current programs that might be terminated to provide the moneys needed to fund the possible block grants.

While the policies reflect the formal views of the Governors, the possible proposals and suggested funding sources do not. Those proposals have been prepared by NGA staff in general consultation with state staff. They are intended as a starting point for discussions between the states and the federal government, and are subject to significant modification as specific proposals are further developed and discussed. NGA endorsement of any specific block grant proposal will require the adoption of interim policy.

It is important to note that at its 1995 Winter Meeting, the National Governors' Association adopted policy that states: "Governors have not yet reached agreement on whether cash assistance and other entitlement assistance should remain available as federal entitlements or whether it should be converted to state entitlements." As a result, the principles and proposals discussed here relate solely to categorical non-entitlement grant programs.

II. Block Grants - A Federalism Context

Historically, the Governors have considered four different approaches to the simplification of the federal grant in aid system. Those approaches are:

- broad block grants to support state and local activities in selected areas
- consolidation of federal discretionary programs
- turnbacks of tax resources and program responsibility
- sorting out of federal and state and local responsibilities

Each of these approaches has merits, and the rebalancing of the federal system demands a willingness to explore a broad range of alternatives. No single approach is appropriate for the full range of federal programs and interests. However, it is clear that block grants are an important tool that needs further development and discussion.

III. Block Grants - The Policy Context

At the 1995 Winter Meeting of the National Governors' Association, the Governors adopted new policy regarding the restructuring of the federal system. That policy stated:

"The simplification of the current categorical, non-entitlement federal grant-in-aid system must also be a Congressional priority. Governors have argued that such simplification would both increase administrative efficiency and encourage state efforts to develop more effective programs.

"The history of block grants is long, going back at least to general revenue sharing and the broad block grants of the Nixon era. Block grants were also an important part of the Reagan "New Federalism" of

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the 1980s. At that time the consolidation of programs also came with funding cuts. While block grant proposals have generally begun with a theme of simplification and consolidation, the actual legislation has often retained significant federal restrictions. Equally important, over time the federal government has tended to establish additional set-asides and place new restrictions within the block grants that have been established. Future reforms must address these problems.

"Governors believe that such consolidations must:

- Recognize the national interest in protecting and serving children.
- Include a clear definition of national purpose and national objectives.
- Avoid set-asides or other prescriptive conditions of federal funding.
- Include significant transferability of funds between the block grants.
- Preclude cost shifts to the states.
- Be consistent with the way in which state governments deliver services to their citizens.
- Incorporate distribution formulations consistent with the distribution implicit in existing categorical programs.
- Allow the flexibility needed to maximize efficiency and to minimize the expansion of state government employment."

IV. Background

The American Federal System established a strong union while preserving the diversity reflected in the individual states. State and local governments - governments close to the people - provide the needed opportunities for flexibility and innovation. By their decentralization of decisionmaking and responsive nature, they encourage citizen participation and support.

Although there is a clear need for a national role in a variety of domestic issues, the principles of local determination and diversity require a careful balance of federal and state roles. It is vital to ensure that states have the authority and flexibility needed to respond to the needs and priorities of those who live within their boundaries.

Over the past several decades, that balance has become threatened as the federal government has attempted to implement its role through an increasingly complex and prescriptive system of grants in aid. While many of these grant programs address legitimate national purposes and federal concerns, the structure of the programs reduce state and local flexibility their accountability to the electorate.

In its permanent policy on federalism adopted in 1993, the National Governors' Association states:

"Steps also must be taken to overcome the imbalance that has resulted from the rapid expansion of federal programs in the past. The proliferation of detailed federal programs must be ended, and states must be given greater flexibility in policymaking. Toward these ends, the following changes are recommended.

- The number of joint federal-state programs should be reduced by a sorting out of responsibilities between the two levels of government.
- Where federal programs are to be maintained, grant conditions should not be used to force state program changes not related to the specific program purposes for which the grant is provided, and federal funding should not require state or local matching funds.
- Federal regulations should rely on state laws and procedures for the administration of federal programs.

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- Where a joint federal-state role is to be retained, federal grants should be consolidated into general block grants.
- While local governments must be assured that resources will be made available for priority needs, such as crime control, the federal government should end the bypassing of state governments."

-In 1993 the federal grant-in-aid programs provided approximately \$206 billion to state and local governments. About \$22 billion of this aid was provided through broad-based programs, largely the 15 block grant programs. The remaining \$180 billion was provided through some 578 categorical programs. In addition, the states received over \$100 billion in partial reimbursement for the cost of individual entitlement programs such as AFDC and Medicaid.

Over the past 10 years the number of broad-based programs has increased by 3 while the number of categorical grant-in-aid programs has increased by 186. More significantly the percent of federal assistance distributed through categorical programs has grown from 79.7 percent to 88.3 percent.

The current array of federal grant programs is outdated and contributes to public disillusionment with big government. The public rightly questions the complexity of federal programs and recognizes that often there is no single national solution to pressing domestic problems. Equally important, the public is growing more concerned with the impact of federal decisions on the allocation of scarce state and local resources. As a result, the electorate is demanding the flexibility to tailor programs to meet regional and local conditions and a greater direct role in determining program and service priorities.

The mix of federal categorical grants is also inefficient and often is not cost effective. The administration of an excessive number of federal programs creates unnecessary costs at both the state and federal level. The continuation of separate programs in some areas often requires duplicate applications and record keeping and can discourage needy individuals from seeking services. Moreover, the complexity of the grant system discourages the development of coordinated community based programs and often makes it difficult to secure the range of services needed to prevent or remedy complex problems. Funding sources are often biased toward treatment and often do not offer the flexibility needed to develop more cost effective investments in prevention. In addition, grant programs often ignore legitimate differences between states and among localities.

A simpler, more rational, and more flexible system of federal grants offers opportunities for significant administrative savings. More important it will encourage and reward state and local efforts to develop more innovative and more cost effective programs and services. In addition, it offers a real opportunity to enhance public involvement and to restore public confidence.

Over the past decade states have made considerable progress in improving their administrative capacity. Equally important, they have demonstrated a willingness and ability to be creative and innovative. They are at the forefront of reinventing government and ready for new challenges.

Vision

America's strength lies in its citizens and its communities. We must free ourselves from the inefficient bonds of an overly complex array of national programs. An array of programs that too often substitutes the cookie cutter solutions and convenience of a distant bureaucracy for the needs of those most in need and the wisdom of the communities closest to the problems.

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Americans deserve a government that is both cost effective and responsive. The consolidation and simplification of current categorical grants programs into a few broad block grants will truly enable states to reinvent government services in a manner that will:

- ensure that the investment of government resources will address local priorities
- focus investments on programs that produce measurable results
- eliminate programs that are not cost effective
- invest in prevention as well treatment
- reflect the unique characteristics of each community
- involve communities and program participants in program development and administration
- build on the strengths of all sectors - government, non-profit, and business
- eliminate unnecessary administrative overhead
- reduce the proliferation of government programs and bureaucracies
- allow for the better coordination of services
- reduce red tape and other obstacles for those in need of service

The implementation of this vision requires hard work and dedication. There are a number of important programmatic, financial, and political issues that must be resolved. They include:

- defining the national purpose
- identifying programs for consolidation or elimination
- determining the national investment
- establishing performance expectations and standards
- determining the interstate allocation of funds

Each of these elements is discussed in the sections that follow.

V. Block Grants - A Staff Proposal

A. The National Purpose

Block grants provide a vehicle for the federal government to assist states and localities meet high priority domestic needs that they would otherwise be unable or unlikely to accomplish. The first step in developing a system of block grants is to determine the national purposes that should structure such a system. Clearly there are a variety of approaches, and the ultimate choice will depend upon a number of programmatic and political factors. However, to provide a structure for possible discussions, the NGA staff have identified seventeen major programmatic or functional areas for consideration. Those areas, and the national purposes they address are outlined in the materials that follow.

1. Ready to Learn. The Ready to Learn block grant is designed to provide flexible funding to support state efforts to ensure that all children, including those at risk of poor outcomes, are mentally, physically, and emotionally prepared for formal learning and to help ensure their success in later life. Specific activities covered would include services that promote healthy births for all children, enhance parents' ability to be their child's first teacher, enhance parents' and other caretakers' ability to provide stable and caring environments, and promote the health and well-being of all young children. (See unresolved issues.)

✓ 2. Youth Development. This grant would provide a base level of funding to states to support a continuum of developmentally appropriate activities that promote the social development of youth and facilitate their preparation for careers and lifelong learning. These activities will build the competencies of young people, while respecting the dominion of the family, fostering scholastic achievement, promoting self-reliance, and cultivating positive peer interactions. The range of activities to be funded may include school-, community- and work-based experiential learning, mentioning, community service, crisis intervention, and structured recreation and cultural activities during non-school-hours. These activities and services would be fully blended into comprehensive community-wide strategies that would enable all young people (in-school and out) to develop the knowledge, skills, attitudes, and values needed to successfully make the transition from childhood to productive adulthood. (See unresolved issues.)

3. Children and Family Services. The Children and Family Services block grant is designed to provide funding to assist states in developing programs for intervention and follow-up services for children and families who are experiencing crisis. Specific activities covered would include services designed to strengthen parents ability to care for their children such as family support and preservation and parenting education; services to secure permanent homes for children; services to care for children who cannot remain in their home; and services to reduce violence in families.

4. Education Reform. To promote state-based systemic reform of the nation's education system by providing a single federal grant that can be coordinated with new and existing state reform efforts. The funds would be directed through the state planning panel to the appropriate states agencies and local school districts who would in turn spend the monies in accordance with the state's education reform plan. Funds would be used for capacity building and to provide direct services to primarily elementary and secondary education students. If provided for under the state plan, the a portion of the funds could be used to support the transitional programs for pre-school students, such as those students enrolled in programs such as Head Start and other early intervention programs.

✓ 5. Education Discretionary. To provide the Secretary of Education with the discretionary funds to support programs of national significance and help improve educational quality and support for special populations.

6. Crime Control and Corrections. Crime control is primarily a state and local responsibility. The purpose of this block grant is to assist states in defining the crime problem on a statewide basis; to develop objectives and priorities; to identify appropriate strategies and resources to achieve these goals; and to coordinate the justice system -- courts, corrections, prosecutors, defense, police-- with units of government (county and city).

7. Health Services. This proposal will create a unified financing mechanism to support and enhance the availability and delivery of a broad range of personal health care services. Predominantly, these funds would focus on the treatment of disease. The types of activities that could be supported through this consolidation include the provision of health care and related services: to address the needs of uninsured and underinsured special populations, to reduce the rate of infant mortality and low birth weight babies, and/or to enhance the delivery of emergency medical care for children and adults. States could utilize these funds to implement innovative strategies such as developing integrated service networks in rural areas to increase accessibility to health care services.

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8. **Public Health and Prevention.** This proposal will create a unified financing mechanism to support a broad array of preventive health services as well as support the continued existence of core public health functions. States would have the discretion to target prevention dollars to critical public health activities, such as immunization of children, control of infectious diseases, and/or the prevention of lead poisoning. Other public health initiatives could be supported by these dollars, such as smoking cessation programs and childhood injury prevention programs.

9. **Substance Abuse Prevention and Treatment.** This proposal combines a variety of categorical and demonstration programs with the existing substance abuse prevention and treatment block grant to give states greater choices in the design of prevention and treatment programs. A broad array of substance abuse treatment activities could be funded, including inpatient chemical dependence programs, methadone maintenance programs for narcotic dependent persons, or community-based social models, like those that serve persons with alcoholism. Likewise a broad range of prevention activities could be designed and implemented in communities to reduce the incidence and prevalence of drug and alcohol abuse by young people, child-bearing women and other populations.

10. **Mental Health Systems and Treatment.** This proposal combines a variety of categorical and demonstration programs with the existing mental health block grant to give states greater freedom to address the needs of persons with mental illness. The consolidated funds would be available to states to finance the treatment of a range of mental health problems for populations in need; for example, states could support the continued development at the state and community level of systems of care for children who are seriously emotionally disturbed by building linkages between public and private sector providers of health and mental health services. Other types of activities that could be supported include psychosocial rehabilitation programs, mental health peer support programs, and outreach and diagnostic services.

11. **Health Professions.** States play a pivotal role in the financing of medical and other allied health professionals education. This proposal would enhance that role by giving states more flexibility and authority to direct federal funding for workforce development. Activities that could be supported include financial assistance to colleges and universities to increase their capacity to produce well-trained medical and allied health professionals, need-based scholarships to increase the number of practitioners in primary care or under-represented specialty areas, and education/training centers designed to complement university-based development of health professionals.

12. **Aging Services.** This block grant is designed to organize services for the elderly based on consumer needs rather than provider auspices. It would give states flexibility to fund the types of aging services most needed by older consumers in their jurisdictions. A broad array of types of services to meet the special transportation, nutritional and psychosocial needs of older Americans could be financed through this mechanism; for example, home-bound elderly could have meals prepared and brought to their homes, while other funds could be used to transport older persons to a community-based facility where communal meals would be prepared. Assistance with financial planning could be provided to those in need, as could help planning for the elderly's long-term health care needs.

13. **Affordable Housing.** Funding for a wide range of affordable housing services targeted primarily to low income persons and families, including construction and rehabilitation funds; interest rate buy-downs, downpayments, and other financial support; rent subsidies and vouchers; and supportive services.

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14. Community and Economic Development. To provide capital investment, training, management and technical assistance, and research aimed at promoting job creation, community enrichment, and economic growth within a community, a region, or an industry sector.

15. Agricultural Research and Extension Services. To promote research and the transfer of technology aimed at strengthening industries in rural America including farming, forestry, and animal husbandry.

16. Environmental Mandates Assistance. To provide assistance to local communities for environmental infrastructure needs in a manner that will result in compliance with various federal environmental requirements, particularly related to water quality. In order to enhance existing loan assistance programs, Governors seek greater flexibility to combine infrastructure monies and coordinate the expenditure of such monies based on state and local priorities.

17. Environmental Program Management. To provide administrative blocks grants which will enhance the ability of states to use federal resources to meet national environmental protection goals consistent with state-based priorities, while improving coordination of current environmental management programs.

18. Agriculture Conservation Programs - A Partnership. To broaden the focus of existing conservation-related agriculture programs while providing states with new tools to address environmental and conservation problems associated with modern agriculture. Currently, most funds are paid directly from the U.S. Department of Agriculture (USDA) to farmers for the purpose of taking agricultural lands out of production or encouraging certain farming practices. The proposal is to consolidate some of these program funds into one comprehensive program and allow states to set priorities for the investment of these funds. A traditional "block grant" would not be necessary to achieve this goal.

19. Workforce Development. To provide states a base level of funding for workplace skill training, occupational education, labor exchange, and employment services for welfare recipients, economically disadvantaged adults and older youth, dislocated workers who lose their jobs for any reason, incumbent workers whose skills need upgrading, and disabled individuals in need of training and placement assistance.

Activities to be funded include classroom and on-the-job training, basic skills instruction, literacy programs, needs-related supportive services, individual assessment, job counseling, job search assistance, career information, labor exchange, job matching services, administration of unemployment insurance and related income support programs, development and management of labor market information, and professional and capacity development. Labor exchange, job matching services, labor market information, and career guidance would be available to all citizens of working age, irrespective of economic need, through integrated intake, assessment, and referral systems in each community.

B. Programs for Consolidation or Elimination

Once agreement has been reached on the structure and purpose of block grants it is necessary to determine what programs will be consolidated or eliminated in order to provide the funding needed for the block grants. As in the case of the organization of the block grants themselves, there are numerous alternatives and no single right selection. However, again to facilitate discussion, NGA staff have developed for each of its possible blocks a listing of current grant-in-aid programs that might be

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eliminated. Those listings are contained in Attachment 1. Other approaches are possible and many programs could reasonably be related to more than one block.

In reviewing the listings it is important to note that block grants are intended to create a new funding mechanism and to redefine and simplify the relationship between the federal government and the states. As a result, it should be clear that the programs mentioned as funding sources should not merely be replicated as set-asides within the block grants. Existing program requirements must be terminated and replaced with broad flexibility combined with a clear understanding of new goals and objectives.

C. Determining the National Investment

NGA policy states: "As the federal government begins to move toward a balanced budget the pressure to reorder federal priorities and curtail federal grants will increase. Already, numerous proposals for program consolidation and reduction are on the table.

"While federal budget cuts are needed, the Governors are concerned about the cumulative impact on states of federal budget decisions. The federal budget must be balanced by true savings, not by shifting costs to the states.

"Governors recognize the special responsibility of government at all levels in meeting the needs of children. Governors have taken the lead in carrying out these responsibilities in the past. The Governors believe that the federal government must maintain a financial role in assisting states and localities to continue to meet these responsibilities."

In addressing the issue of funding for current entitlement programs, the Governors adopted additional policy which states: "Block grant funding should be guaranteed over five years at levels agreed to among the states, Congress and the Administration. Governors will work with the Congress to provide appropriate budget adjustments that recognize agreed upon national priorities, inflation, and demand for services." It is likely that Governors would support similar principles relating to the categorical programs as well.

D. Establishing Performance Expectations and Standards

The Governors recognize the legitimate interest of the federal government in establishing accountability for the funding that they provide. Again in adopting policy relating to concerns with an entitlement grant, the Governors adopted policy which states: "The block grant should include a clear statement of purpose including mutually agreed upon goals for the block grant and the measures that will be used to judge the effectiveness of the use of the block grants....Under this concept there should be no micromanagement and states should be required only to ensure that the funding received is used (to meet the goals of the program). While states would be required to describe their program in a state plan and to provide periodic reports to the public, the plans would not be subject to federal approval or federal revision. Financial and compliance audits would be conducted to ensure that moneys were properly spent, and states would be required to pay back any misspent funds. Specific program outcome data will be collected by the states and publicly reported."

Again, it is likely that Governors would support similar principles relating to the categorical programs as well.

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E. Determining the Interstate Allocation of Federal Funds

Formula issues may be among the most difficult raised in the development of a block grant proposal. To minimize the impact of this issue, NGA policy suggests that initial block grant allocations mirror the actual distribution of funds among the states under the programs to be consolidated or eliminated.

As noted above in the section on the national investment, Governors have also suggested the need to discuss and agree upon adjustments in federal funding that would reflect changes in a number of factors. As adjustments are made in the commitment of national resources, consideration could be given to similar adjustments in the state by state allocations as well. Such adjustments should not, however, penalize states that have used the flexibility in the block grants to achieve improved efficiency or program effectiveness.

While it is unlikely that the Governors can collectively address the issue of formula changes, individual Governors will need to be actively involved in any formula discussions.

VI. Next Steps

As noted initially, NGA policy supports the creation of broad based block grants as one mechanism to simplify the current complex system of non-entitlement categorical grants. The proposals outlined above suggest one means by which that block grants might be accomplished. There are other approaches that might have equal or more merit. The challenge is to move ahead.

However, it is vital that these block grants not be the unilateral creation of the federal government. They must be the product of frank and open discussion between the states and the federal government. Governors must have a seat at the table. The decisions made over the next several months will have a major impact on the ability of the states to effectively meet domestic needs and the Governors must be involved in those decisions.

The NGA and the Governors stand ready to participate in this discussion.

Appendices: Funding Sources; NGA Federalism Policy; NGA Principles to Guide the Restructuring of the Federal-State Partnership.