Talking Points on Health Care Reform and Medicaid

- I am pleased that we can continue to work together on health care reform. While we had honest differences of opinion on some issues last year, and while I know that mistakes were made, I am proud that we tried to pass meaningful health reform legislation. It was the right thing to do then, and it is still the right thing to do.

- As you know, I remain firmly committed to guaranteeing health insurance for every American and to containing health care costs for families, businesses, and Federal, state and local governments. I reiterated this commitment in a letter that I sent in December to the Congressional Leadership.

- I also noted in my letter that, this year, Republicans and Democrats can and should work together to take the first steps toward these goals. We can reform the insurance market. We can ensure quality and efficiency in the Medicare and Medicaid programs. And surely we can make coverage affordable for families and children.

- As I looked at your health policy statement, I was happy to see many areas where we can agree.

    - We can do away with the need for waivers for states that want to implement Medicaid managed care. We also can agree to remove restrictions on Medicaid managed care (such as the requirement that no more than 75% of a managed care plan's enrollees be Medicaid beneficiaries) as long as access and quality are guaranteed.

    - We can do away with the need for waivers for states that want to implement home and community-based care programs.

    - I recognize your concerns on the Boren amendment and can agree with many of your proposals in this area as well. We can agree with your proposal for safe harbors for hospitals. (NOTE: THERE ARE POLICY AND POLITICAL CONCERNS WITH SAFE HARBORS FOR NURSING HOMES, SO WE ARE AGREEING WITH ONLY PART OF THEIR PROPOSAL). I also agree that Boren should not apply to managed care arrangements.

MEDICAID AS A CAPPED ENTITLEMENT

[NOTE: The Governors have proposed that states be given the option to operate Medicaid either as an individual entitlement or a capped entitlement to the state. Because of concerns about this proposal, it may be best not to initiate discussion of this issue. If it is raised by the Governors, the following are suggested talking points:]

- We are looking closely at your proposal to provide states with the option to change their Medicaid programs into capped entitlements to states. While I want to discuss this more with you, I have some serious concerns.

  - Primarily, I am concerned that capping Federal Medicaid payments to states in today's budget climate will result in significant loss of coverage under the program. Over the past few years, coverage in Medicaid has been going up, while employer-based coverage has been shrinking. Without a viable Medicaid program as a safety net, our coverage situation would be even worse than it is today.

  - I also am concerned that the reductions in Federal spending that will come from capping Federal payments could cause a number of problems for states:

    - States would have a harder time coping with recessions if their Medicaid payments were capped.

    - States also would have a harder time coping with aging of the Medicaid population. If Federal payments were capped based on current enrollment and growth, the states will be left holding the bag for these growing long-term care needs.

    - States also will be unable to use Medicaid to expand coverage in the future. For example, virtually every state has opted to cover one or more of the optional coverage categories under Medicaid. A big reason is that the Federal government pays between 50% and 78% of the cost. If Federal payments are capped, states will have to pick up 100% of the costs and probably won't be as able to increase coverage.

- I believe these concerns need to be addressed adequately by Republicans and Democrats and by states and the Federal Government before we take any action. I think this is particularly the case in light of my desire and intention to be even more responsive to states' legitimate needs to have additional flexibility in the operation of their Medicaid programs.

ERISA

[NOTE: Our intelligence from the NGA to date indicates that it is doubtful that ERISA will be raised by the Governors during their visit. Because of the political sensitivity of this issue with big business and many within the labor community, it therefore seems wise to avoid initiating a conversation on this subject. If the issue is raised, however, we suggest the following talking points:]

- I am well aware of the challenges ERISA poses to states desiring to move forward on health reform and am sympathetic to the concerns and recommendations layed out in your policy paper.

- Given the fact that the big business community has made opposition to ERISA changes their number one priority, it seems unlikely that Congress will take on the ERISA issue in any significant way. Even if it does, there is at least as good a chance that any interventions they are likely to pass may undermine current state insurance reform efforts. (For example, the changes might well make it easier for small businesses with healthy employees to self-insure and make the resulting pool even more expensive to insure.)

- Regardless of the debate, I remain sympathetic to your position and look forward to working with you to develop workable and potentially "passable" approaches to the ERISA issue.

E X E C U T I V E   O F F I C E   O F   T H E   P R E S I D E N T

20-Jan-1995 04:05pm

TO: Carol H. Rasco

FROM: Christopher C. Jennings
Domestic Policy Council

CC: Jennifer L. Klein
CC: Jeremy D. Benami

SUBJECT: Dean's staff (rogan/alberghini) conversation

Carol:

I talked with both Theresa Alberghini and Bob Rogan today re the Medicaid issue. Theresa pretty much deferred to Bob and here is the summmary of the conversation:

1. Bob didn't know that the entitlement option provision that is in NGA policy for welfare was also in the Medicaid section. However, he said that is seemed to be the only realistic/pragmatic political way to go at this time.

2. Bob said he thinks he agress with what he believes is Ray's strategy: to lay low on the Medicaid issue during the NGA conference. Otherwise, he fears it could go in uncontrollable directions.

3. He thinks the Democratic Governors may want to briefly talk about the Medicaid cap issue (and their concerns about it) amongst themselves (and you and Leon) during the Saturday meeting. However, such a conversation -- if it took place -- would only take place in order to raise general concerns and strategize for future (post NGA conference) actions/reactions.

4. I said I would report all this to you. He said he has a DGA staff meeting on Monday and if any changes occur he'd get back with us.

THE END. CJ

NATIONAL GOVERNORS ASSOCIATION
Winter Meeting 1995
Domestic Policy Briefing

Issue: Employee Retirement Income Security Act (ERISA)

A. Issues of General Concern to the Governors

ERISA preempts state regulation that "relates to" health insurance plans except that states may impose regulations on fully insured plans that are specifically directed towards the insurance industry. This means that ERISA protects all self-insured health plans from state regulation.

Last year, the National Governors Association took the position that ERISA should be modified to give states more flexibility to carry out their own health reform plans. The NGA seemed most concerned that ERISA prevents states from establishing state-wide employer mandates and guaranteed benefit packages; collecting data from all health plans; establishing uniform administrative procedures and forms; establishing all payer rate-setting systems; taxing the premiums of self-insured plans and imposing provider taxes.

Although the governors now may be less focused on this issue than they had been in the past, the ERISA sections of their new policy position paper have actually been strengthened. Republican Governor Tommy Thompson of Wisconsin was heavily involved in formulating the new language. The new ERISA sections emphasize that the increased prevalence of self-insurance has made ERISA a "formidable barrier" to state reforms. With respect to what the NGA wants the federal government to do, the new draft is far more specific than last year's position paper.

The NGA calls on Congress to take a "multidimensional approach" to ERISA reform. The first component to this approach, "statutory flexibility," would permit states to impose requirements on self-funded plans if the state adopted or built upon minimum national standards developed by the executive branch or worked within a federal framework. The second component would give the Department of Labor the authority to grant state waivers from ERISA. States requesting exemptions in the areas of financing or cost control would have to submit a plan for expanding coverage. In addition, the NGA favors federal consumer protection standards, similar to the standards states now apply to commercial insurers, and the establishment of a limit below which size no business could self-insure. The NGA staff believes that the governors will ratify the new ERISA language without substantial modifications.

The governors are closely following the ERISA-related activity now taking place in the Congress:

- Last session, Rep. Wyden and Rep. Williams held joint hearings on ERISA. Rep. Wyden is developing legislation that would modify ERISA by instituting federal requirements for self-insured plans. The requirements would include modest insurance market reforms, data collection standards, and some consumer protections. Under the Wyden bill, employers would be obliged to file an attestation of their compliance with these federal requirements with the Department of Labor and states would investigate complaints of violations. The penalties for filling a false attestation would include losing the exemption from state regulation.

- Sens. Hatfield and Graham hope to introduce an ERISA reform bill, perhaps as early as next week. Rep. Wyden is talking with them about trying to agree on a joint bill.

- On January 11, 1995, Sen. Jeffords and a bipartisan group of 11 other senators asked the General Accounting Office to study the current market impact of self-insured plans, the impact of ERISA preemption on current state reform efforts, costs and benefits of changing ERISA's preemption clause, and the potential for increased insurance premiums if self-insured plans are not included in insurance reform that Congress may try to pass this year. Jeffords is drafting a bill that includes substantial changes to ERISA.

- Rep. Fawell announced plans to introduce legislation that will allow small businesses and self-employed individuals to band together and collectively self-insure -- for example, by joining "umbrella" groups like the National Federation of Independent Businesses -- and thereby escape state insurance regulation.

Because of the strong opposition from employers (and to some extent, organized labor) that will attend any proposal to change ERISA, it may be best not to engage in much discussion of ERISA at this time. If the Governors bring the subject up, a reasonable response might be as follows:

- We share your concerns about the need for federal standards, which can provide assistance to states in better providing protection to consumers enrolled in self-insured (or ERISA) plans. We proposed such standards in the Health Security Act. We want to work with you on the best way to bring this about.

- We are of course well aware of the challenges ERISA poses to states interested in broader state reform effort, and we continue to be sympathetic to states' concerns.

- However, it seems unlikely -- given the big business opposition to many of these changes -- that Congress will take on the problems states have with ERISA in any significant manner. If Congress does act, there is as good a chance that the interventions they will consider will be those that could undermine current state reform efforts(see Rep. Fawell's statement above).

- Regardless of the Congressional debate, we remain sympathetic to your position and look forward to working with you to develop approaches to problems with ERISA that both have a chance of passing the Congress and are likely to support (rather than undermine) our mutual efforts to improve the health care system.

B. The states that appear to have the most immediate ERISA problems include Washington, Minnesota, Connecticut and New York.

- Washington: The core of Washington's 1993 reform law, an employer mandate set to take effect on July 1, 1995 for large employers and to include all employers by 1997, cannot be put in place without change in ERISA. Now that Republicans have gained control of the Washington House of Representatives and the Democrats have slipped to a one vote edge in the Senate, there is interest in modifying the reform law and jettisoning the employer mandate.

- Minnesota: Without an ERISA exemption or change, Minnesota's plan to institute a fee schedule for doctors who are not in integrated service networks will likely be delayed. Minnesota is moving ahead on its intentions to issue recommendations for a uniform benefits package and to simplify plan administration.

- Connecticut: In November 1994, a federal district court held that Connecticut's tax on hospital services and gross earnings to fund uncompensated care was preempted by ERISA. The decision is on appeal.

- New York: The United States Supreme Court will decide New York's appeal from a decision of the Court of Appeals for the Second Circuit that held that New York's rate setting scheme was preempted by ERISA. Arguments were heard on January 18, 1995.

I have attached "Examples of State Laws With ERISA Complications," which was distributed at the Map Room meeting about ERISA. Please note that the Massachusetts legislature has voted to postpone implementation of the state's "pay-or-play" legislation for a year and that Governor Weld is opposed to the pay-or-play scheme.

EXAMPLES OF STATE LAWS WITH "ERISA PROBLEMS"

Except where noted, the following state laws are either clearly preempted by ERISA or are likely to be vulnerable to a colorable claim that they are preempted by ERISA.

Except where noted, these state laws have been enacted but not implemented. The list does not include laws that were seriously considered by a state -- for example, through a task force or interagency commission -- but not proposed in legislation (e.g., payroll taxes in Colorado and Vermont).

"PURE" EMPLOYER MANDATE
- Washington
- Hawaii[1]

PAY OR PLAY
- Oregon
- Massachusetts

"EMPLOYER CONDUIT" (employers must offer, but need not pay for, insurance)
- Iowa

TAXES ON HOSPITAL SERVICES & GROSS EARNINGS (to fund uncompensated care)
- Connecticut[2]

PROVIDER TAX (to fund coverage expansion)
- Minnesota[3]

RATE-SETTING
- New York[4]
- Maryland[5]

GLOBAL BUDGETS (limits on spending or rate of growth)
- Vermont
- New York
- Washington
- Minnesota
- Montana[6]

REQUIREMENT THAT HEALTH PLANS ARBITRATE/MEDIATE MALPRACTICE DISPUTES BEFORE GOING TO COURT
- Washington

DATA COLLECTION[7]

Washington
Minnesota
New York
Vermont

BASIC INSURANCE REFORMS SUCH AS MODIFIED COMMUNITY RATING, RESTRICTING PREEXISTING CONDITION EXCLUSIONS, RESTRICTING MEDICAL UNDERWRITING, AND PORTABILITY

One or more of these types of reforms has been enacted (for fully-insured plans) and/or implemented in every state except Nevada, Michigan, Pennsylvania, Georgia, Alabama, and Hawaii.[8]

1. Hawaii has been able to implement its legislation because it is the only state to be granted a waiver of ERISA preemption by Congress. However, Hawaii's waiver limits the state to its health plan as it existed in 1974. Currently, Hawaii is seeking an expansion of its waiver to allow it to modify the mandated benefit package, require coverage for dependents, and update its cost-sharing formula for insurance premiums.

2. Connecticut's legislation has been implemented and challenged in court on ERISA grounds. A federal district court judge held recently that the legislation is preempted by ERISA. The system Connecticut previously had in place to pay for uncompensated care, an uncompensated care pool funded by a portion of each insured patient's hospital bill, had also been struck down on ERISA preemption grounds.

3. Implemented; challenged in court on ERISA grounds.

4. New York's legislation has been implemented and challenged in court on ERISA grounds. The Court of Appeals for the Second Circuit held recently that the legislation is preempted by ERISA. The United States Supreme Court has agreed to hear the case.

5. Maryland's all-payer hospital rate-setting system has been implemented; although it may be vulnerable to a court challenge on ERISA grounds, no lawsuit has been brought at this time. Maryland has announced that it is interested in changing its rate-setting system to finance uncompensated care and medical education more equitably and that it has not yet done so because it does not want to defend a lawsuit brought against the state on ERISA grounds.

6. Montana's legislation establishes a commission charged with developing two health care reform plans; both plans must include a global budget.

7. The data collection laws in these and other states are not preempted by ERISA because they do not apply to self-insured plans. The four states listed here have expressed a desire to obtain data from such plans; currently, they request the self-insured plans to contribute data voluntarily.

8. These laws are not preempted by ERISA because they do not apply to self-insured plans.

EXECUTIVE OFFICE OF THE PRESIDENT

19-Jan-1995 09:21pm

TO: Carol H. Rasco
TO: Jennifer L. Klein

FROM: Christopher C. Jennings
Domestic Policy Council

CC: Jeremy D. Benami

SUBJECT: Medicaid conversation with Alan Weil

Carol:

Following up on our meeting, I just talked with Alan Weil re the Medicaid block grant/cap issue and the upcoming NGA meeting. It was a very interesting conversation. Highlights were:

1. Very similar to what you were saying, Alan thinks the welfare argument is lost and that Democrats should sign on as quickly as possible to the best agreement they can get. He said any attempted delay by Dems just prolongs the agony; in his words, "the political winds assure that this one is lost." (By the way, he has major regrets about this).

2. He thinks that Democratic Governors -- if they have at all been talking to their financial officers -- are likely to argue against the Medicaid capping idea. He thinks the issues most likely to have most sway with them are the likely magnitude of the cuts and the fact that the upcoming aging population boom, without population adjustment in any formula, would kill the states.

3. He thinks (and is very frustrated with the fact) that the staff at DGA don't yet comprehend the impact of a cap. In fact, he reported that they were so into the "state flexibility" issue that he said it was extremely lucky the NGA health draft had the state option provision to choose either an individual entitlement vs. a capped state entitlement. (He said if he and a couple of others had not argued to the contrary, NGA might have signed onto a straight Medicaid cap.)

4. He acknowledged that the current NGA Medicaid policy option provision is not workable, but said it was better than the alternative. He thinks that in the real world of legislating, an

explicit direction will have to be chosen by the Congress and the Governors. While he believes that Republicans will amost universally choose the Medicaid no/little strings and a cap approach (even with much less Federal money), he thinks that most Democrats will likely opt for a proposal with current Medicaid spending and fewer Federal strings than now (but more than what they would get under the Republican proposal.)

5. I said that we were concerned, however, that it would be very risky to raise concerns about the Medicaid cap issue at the upcoming NGA conference and meeting with POTUS because the discussion might not end up where he wants it to go. He acknowledged that was a risk, but he felt it was an even greater risk to not use the opportunity by Democrats to focus national attention on this issue. He argued that so much of the Medicaid program is going for middle income people in nursing homes and children that Dems could/should be able to win the argument. He said if Dems did not make the argument when they had the national media attention the result may be simply a continuation of the welfare block grant debate and Republicans might win out.

I concluded our conversation, saying that I would talk to you about this issue and get back to him later. I reiterated that he should be very hesitant about starting a debate that he did not know what direction it might end up. He said he understood and would keep us informed of any intelligence he is picking up.

Carol: I am also going to talk with Theresa Alberghini of Dean's office re this issue to get her read. However, even with just the Alan conversation in mind, I am getting nervous (as always) about not getting at least a little time with the President on this issue before the Governors come in. Talk to you soon. Sorry about the book like nature of this note. I am starting to get like Brian...

CJ

E X E C U T I V E   O F F I C E   O F   T H E   P R E S I D E N T

17-Jan-1995 06:29pm

TO: (See Below)

FROM: Jeremy D. Benami
Domestic Policy Council

SUBJECT: NGA policy statements

A number of you received a request directly from Marcia Hale to put together information on NGA's proposed policy changes.

Two things:

(1) The assignments made some mistakes. I know a number of you have addressed this directly, but I want to be sure the following is the right list of assignments:

Transportation -- Mike and Paul, I assume you gave both issues to Michael Deitch if appropriate
Housing -- Paul, please work with Lynn
Immigration -- Steve, please get info from Mike
Workforce Excellence -- Mike, please get from Bill Galston
Natural Resources -- Brian: assigned correctly
Health Reform -- Chris and Jen Klein
Long Term Care/Medicaid -- Chris and Jen, could you please do these as well.
Indian Gaming -- Mike
HIV/AIDS -- Patsy, I will fax this to you
Equal Rights -- Steve, I will get this to you
Child care -- Gaynor, I will get this to you, we should talk

Talking Points

Gaynor -- They asked Bill to pull talking points on (1) Intergovernmental Progress/Federalism, (2) Education and (3) Re employment -- could you please work with Bill, Elaine and others as appropriate to pull the latest materials

Jen K -- Health and Medicaid

Brian -- Environment

Steve -- Immigration (not Mike obviously)

Jose -- Crime

(2) FORMAT

These should be very short, one pagers. Carol suggests the following format:

Policy Number: EC-7
Committee: Executive — Health Reform
Title: Summary
~~3 sentence summary~~: (what law do they want to change, what would they change, etc.)
Of concern to the administration: what serious "red flags" does the proposal raise. No need for a detailed policy statement, just the red flags.

Please submit materials for this response through me so that we can coordinate centrally - by c.o.b. Wednesday. If any problems, please see me.

Thanks.

Distribution:

TO: Robert M. Berry
TO: Brian E. Burke
TO: Jose Cerda, III
TO: Julie E. Demeo
TO: William A. Galston
TO: Christopher C. Jennings
TO: Jennifer L. Klein
TO: Michael Levitan
TO: Cathy R. Mays
TO: Gaynor R. McCown
TO: Rosalyn A. Miller
TO: Lynn M. Margherio
TO: Bruce N. Reed
TO: Denise Ricketson
TO: Kimberly M. Ross
TO: Stacey L. Rubin
TO: Michael T. Schmidt
TO: FAX (9-632-1096,Jeff Levi)
TO: FAX (9-720-8819,Marion Berry)
TO: Michael Waldman
TO: Stephen C. Warnath
TO: Paul J. Weinstein, Jr

CC: Carol H. Rasco

Jennifer 6 2878

Policy Number: 7.2.3.2
Committee: Executive??
Title: EC-7 Health Care Reform

Summary: NGA is proposing that each state be able to choose between continuing under an individual entitlement or switching to a capped entitlement to states. This appears to be a no-lose proposition for states; they can keep what they have or make a change in program structure if it appears more advantageous. However, by making this proposal, NGA is signalling that a capped entitlement might be acceptable. This opens the door to deficit hawks in Congress who want to use a program cap to dramatically reduce federal Medicaid spending.

Admin Comment:

Advocating transforming Medicaid into a capped entitlement is a risky strategy for states. Given the current budget climate, capping the federal payments to states would inevitably result in a reduction in the federal government's financial commitment to the program. Reducing the "level" of a block grant payment is much easier than making specific program cuts, because the hard choices about how to make do with the reduced payments are devolved to the states. Even if initial payment reductions were a small (e.g., one percentage point below baseline), over a reasonably short period of time the reduction in federal resources provided to states would be tens of billions of dollars.

State and local governments ultimately will face the consequences of such a reduction, because the need for medical and long-term care by the poorest and most vulnerable populations will continue. States will be forced to respond either through increased state spending or reductions in coverage and benefits. Cuts in Medicaid coverage and services not only would result in severe hardships for needy populations, but would also result in more uncompensated care and greater costs shifts to other private and public payers.

1. As an individual entitlement program, Medicaid automatically adjusts federal payments to meet the current level of need. During recessions or natural disasters, the number of families without work and without insurance can increase dramatically. Because of the entitlement nature of Medicaid, the amount of federal support will automatically adjust to help states cope with the increased need for services. A capped entitlement to states would not respond to changes in economic conditions, leaving states to address the increased need on their own. Although states in theory could cut off participation or benefits if funds were not available, as a practical matter states would be unable to make significant reductions at times of recession.

2. The demographic changes that are occurring in the Medicaid population increase the risk that a capped entitlement to states will result in states getting fewer federal resources over time. As the population continues to age, the growing need for long-term care services will put increased stress on the Medicaid program. If federal payments to states are fixed based on current enrollment and growth, the states will would bear the burden for providing these services as the population ages.

3. States that wish to expand coverage are better able to do so under Medicaid an individual entitlement than under a capped entitlement to states. The current system is

a partnership, in which the federal government has agreed to match state spending. For example, virtually every state has elected to expand coverage to one or more of the optional coverage categories under Medicaid, in part because the federal government is paying between 50 and 78% of the cost of each new enrollee. Under a capped entitlement to states, expanding coverage would require states to pick up 100% of the costs of the new enrollees, making it far less likely that states would expand enrollment.

POTENTIAL AREAS OF STATE FLEXIBILITY UNDER MEDICAID

Potential changes in the Medicaid program that would increase state flexibility without shifting costs to states or threatening coverage include:

- Eliminate the waiver process for Medicaid managed care programs. States could implement managed care at their own pace without seeking a waiver. Current limitations on provider contracting (e.g., requiring 25% private enrollment) could be replaced with a system for demonstrating access and quality.

- Enable states to target policies to specific populations and communities. Requirements that programs and services be uniform statewide could be removed for:

  - Medicaid managed care programs.

  - Home and community-based care programs.

  - Optional services.

- Amend the Social Security Act to create a mechanism for providing flexibility under Medicaid outside of the 1115 waiver process.

While significantly greater flexibility can be accomodated in Medicaid, the program should continue to assure that:

- The vulnerable populations that Medicaid currently protects continue to be eligible for benefits.

- People covered under Medicaid are guaranteed access to a reasonable range of services, including: hospital, physician and mental health services; prescription drugs; diagnostic and treatment services for children; and nursing home, home health care and other special services for the disabled.

- Eligible people are able to obtain covered services of reasonable quality.

Klein-Fyi

NATIONAL GOVERNORS' ASSOCIATION

Howard Dean, M.D.
Governor of Vermont
Chair

Tommy G. Thompson
Governor of Wisconsin
Vice Chair

Raymond C. Scheppach
Executive Director

Hall of the States
444 North Capitol Street
Washington, D.C. 20001-1512
Telephone (202) 624-5300

March 1, 1995

M E M O R A N D U M

To: Balanced Budget SAC
Bob Rogan, Vermont
Mary Sheehy, Wisconsin
Alan Salazar, Colorado
Liz Ryan, Delaware
Charlie Steele, Massachusetts
Ed Tobin, Massachusetts
LeAnne Redick, Michigan
Brad Douglas, Missouri
Jill Friedman, Missouri
Ted Hollingsworth, Ohio
Tom Needles, Ohio
Joanne Snow Neumann, Utah
LaVarr Webb, Utah
Judy Margolin, West Virginia

From: Ray Scheppach

Re: Block Grants

Attached is a revised draft of the proposed block grant paper. There are a number of important changes in this draft. First, the transportation grant has been dropped from inclusion. Second, head start has been dropped from the Ready to Learn grant. Third, we have incorporated the NGA policy, rewritten the first section, and have placed the specific proposals in an appendix.

One question that I would like the task force to focus on is the structure of how the individual proposals are described. The current draft describes the purposes in the body of the report, but duplicates the information in the appendix. An alternative is to drop the purpose section in one of the two places, i.e., page 5-6 or in the individual descriptions.

I would like us to meet on Tuesday, March 7 from 1:30 p.m. to 2:30 p.m. in room 385 of the Hall of the States for a discussion of this latest draft.

DRAFT -- FOR COMMENT ONLY

Options to Consolidate Federal Categorical Grants to States

March 1, 1995

National Governors' Association

Staff Paper

DRAFT -- FOR COMMENT ONLY

Table of Contents Page

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 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.

- 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.

American's 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.

8. Public Health and Prevention. This proposal will created 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 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 compliment 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.

14. Community and Economic Development. T o 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 Parntership. 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 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.

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.

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

APPENDIX A

FUNDING SOURCES

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 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.

Rationale

As reflected in Title XX of the Social Security Act, the federal government has long recognized that cash assistance alone would not address the needs of the poor and that prevention and early intervention services were of critical import. The Ready to Learn block grant also emphasizes prevention and early intervention services. In addition, it increases parents and caretakers ability to become self-sufficient and maintain their independence while addressing the developmental needs of children. By supporting state efforts to help young children and their families, the federal government also strengthens states ability to achieve Goal One of the National Education Goals: By the year 2000, all children will start school ready to learn. Finally, combining a series of program and services that are now provided to children and families through multiple categorical programs into a single funding stream enhances the ability of families to obtain comprehensive services and improves the quality of these services.

As indicated in the introduction, states have not reached agreement on whether individual entitlement programs (e.g., Title IV-A AFDC Child Care, $555, and Title IV-A Transitional Child Care, $156) should be included in block grant proposals.

Potential Programs

	FY 95 Budget Authority ($ in millions)
Child Care and Development Block Grant	935
Title IV-A At-Risk Child Care	300
State Dependent Care Development Grants	13
Child Development Associate Credential Scholarship	1
Child and Adult Care Food Program	1
Commodity Supplemental Food Program	84
Even Start	102
IDEA, infants and preschool	642
TOTAL	*2,077*

YOUTH DEVELOPMENT

Purpose

To provide a base level of funding to states to support a continuum of developmentally appropriate activities that promote individual responsibility and 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.

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. In recognition of the national implications of neglect, the federal government has traditionally provided states and communities with significant resources to address the needs of vulnerable youth. Unfortunately, the current array of crisis-driven, narrowly targeted prevention and intervention programs, scattered across federal agencies and departments, are 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. Enabling states and communities the flexibility to strategically and comprehensively plan a continuum of developmentally-relevant activities and services would more effectively prepare youth to make the transition from childhood to productive citizenship.

Potential Programs

DEPARTMENT OF HEALTH AND HUMAN SERVICES

	FY 95 Budget Authority ($ in millions)
Administration for Children and Families	
Independent Living	70
Youth Gang Substance Abuse	11
Runaway and Homeless Youth Programs	
Basic Centers	40
Drug Abuse Prevention	14
Transitional Living	14
Office of Community Services	
National Youth Sports	12
Public Health Service	
Adolescent Family Life	7
Center for Substance Abuse	
Substance Abuse Block Grant (20% earmarked for prevention)	247
High-Risk Youth	65

	FY 95 Budget Authority ($ in millions)
Violent Crime Control & Law Enforcement Act of 1994 -Title III:	
Community Schools Youth Service & Supervision Grant Program (new program authorized in FY 95 under Crime Bill)	26
DEPARTMENT OF EDUCATION	
Elementary and Secondary Education	
Drug Free Schools & Communities	457
Violent Crime Control & Law Enforcement Act of 1994 -Title III:	
Family and Community Endeavor Schools Grant Program* (new program authorized in FY 95 under the Crime Bill)	11
DEPARTMENT OF LABOR	
Employment and Training Administration	
Job Training Partnership Act (JTPA)	
IIB—Summer Youth Employment and Training Program	1,056
IIC—Year-Round Youth Program	599
Youth Fair Chance	25
Job Corps	1,099
DEPARTMENT OF JUSTICE	
Office of Juvenile Justice and Delinquency Prevention	
Part A—Management and Administration	5
Part B—Formula State Grants	70
Part C—Discretionary Grants	25
Part D—Youth Gangs	10
Part E—State Challenge (new program funded in FY 95)	10
Part G—Juvenile Mentoring	4
Delinquency Prevention Grants	20
Violent Crime Control & 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)	130
DEPARTMENT OF TREASURY	
Violent Crime Control & Law Enforcement Act of 1994—Title III:	
Gang Resistance Education and Training (new program FY 95)	9
TOTAL	***4,047***

*Grants to CBO's.

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 the role that the Federal Government has 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.

As previously indicated, there is no agreement among states about whether individual entitlement programs (e.g., Foster Care, $3,128, Adoption Assistance, $399, or Emergency Assistance, $656) should be included in block grant proposals.

Potential Programs

	FY 95 Budget Authority ($ in millions)
Social services block grant	2,800
+Community services block grant	391
Temporary child care and crisis nurseries	12
Child welfare services (includes child welfare training)	296
Adoption opportunities	13
Abandoned infants	15
Child abuse state grants	23
Child abuse demonstrations (discretionary activities and challenge grants)	15
Family violence programs	33
Foster grandparents	68
Family Preservation and Support Program	150
Family Support/Community-Based Resource Centers	39
TOTAL	*3,855*

+Includes only that portion allocated to states

EDUCATION REFORM

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 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.

Potential Programs

	FY 95 Budget Authority ($ 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*

EDUCATION DISCRETIONARY

Purpose

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.

Rational

These categorical programs currently provide support for certain states to participate in programs of national significance or meet special needs. By consolidating the programs into a single grant the Secretary will be able to better prioritize and focus federal dollars on areas of special concern. This block grant would include an administrative set-aside for the Department of Education.

Potential Programs

	FY 95 Budget Authority ($ 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 McAullife Fellowships	2
Foreign Language Assistance	11
Title V: Programs to promote Equity (Magnet Schools, Women's Education Equity Act and Drop-Out Assistance)	143
TOTAL	*1,107*

CRIME CONTROL AND CORRECTIONS

Purpose

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).

Rationale

The strength of a "crime control and corrections block grant" is the flexibility provided the states to identify crime priorities, and initiate and experiment with new programs that address crime problems. It allows for the development of a statewide plan of attack that is necessary in order to mount and sustain an effective and coordinated crime fighting effort.

A block grant to states must not have any restrictions such as earmarkings, set asides or mandates for special populations. States must have full flexibility to define the nature and course of the crime problem to be addressed.

Potential Programs

	FY 95 Budget Authority ($ in millions)
Edward Byrne Memorial Grant Program	358
Correctional Options Grants	12
State Correctional Grants/Boot Camps	0
Community policing	1,300
Violent Offender Incarceration and Truth in Sentencing Incentive Grants	0
TOTAL	*1,660*

HEALTH SERVICES

Purpose

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.

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.

Potential Programs

	FY 95 Budget Authority ($ in millions)
Supplemental Feeding Program: Women, Infants and Children	3,470
Maternal and Child Health Block Grant	684
Community Health Centers Grants	617
Family Planning (Title X)	193
Healthy Start	110
Ryan White AIDS	79*
Developmental Disabilities Basic Support & Advocacy Grants	70
Project Grants for Health Services to the Homeless	65
Migrant Health Centers Grants	65
Rural Health Outreach	27
Rural Health Research	13
Residents of Public Housing Primary Care Program	10
Linking Community-Based Primary Care, Substance Abuse, HIV/AIDS, & Mental Health Treatment Services	8
Pediatric Emergency Medical Services	10
HIV/AIDS Dental Reimbursements	7
Trauma Care	5
Native Hawaiian Health Care	5
Black Lung Clinics	4
Developmental Disabilities Projects of National Significance	6
Operation of Offices of Rural Health	4
Health Services in the Pacific Basin	3
HIV Demonstrations: Children, Adolescents, & Women	2
TOTAL	*5,457*

*FY 94 figure

PUBLIC HEALTH AND PREVENTION

Purpose

This proposal will created 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.

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.

Potential Programs

	FY 95 Budget Authority ($ in millions)
Acquired Immunodeficiency Syndrome (AIDS) Activity	*590*
Childhood Immunization Grants	359
Preventive Health & Health Services Block Grant	*158*
Chronic and Environmental Disease Prevention	*140*
Tuberculosis Control Programs	*114*
Community Partnership Demonstration Grants	115
Sexually Transmitted Disease Control Grants	*92*
Cooperative Agreements for State-Based Comprehensive Breast & Cervical	*100*
Injury Prevention & Control Research & State Grants Projects	*45*
Childhood Lead Poisoning Prevention	*36*
Minority Community Health Coalition Demonstration	22
HIV Demo. Research, Public & Professional Ed. Projects	16
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
Community Health Promotion	5
Tobacco	3
Research, Treatment & Education Programs on Lyme Disease in the United States	1
TOTAL	***1,872***

SUBSTANCE ABUSE PREVENTION AND TREATMENT

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. 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.

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.

Potential Programs

	FY 95 Budget Authority ($ in millions)
Substance Abuse Block Grant[1]	987
Community Prevention	115
Prevention Demonstration: High Risk Youth	65
Treatment Improvement Demonstrations: Critical Populations	24
Prevention Demonstration: Pregnant Postpartum Women and their Infants	23
Treatment Demonstrations: Target City Demo	36
Treatment Improvement Demonstrations: Criminal Justice	38
Treatment Improvement Demonstrations: Women and Children	54
Treatment Improvement Demonstrations: Comprehensive Community Treatment Programs	27
Residential Treatment for Pregnant Women	25
Capacity Expansion Program	7
Training (prevention)	16
Prevention Public Education and Dissemination	14
Prevention Demonstration: Other Programs	7
Training (treatment)	6
Treatment Improvement Demonstrations: Campus Projects	0
TOTAL	*1,444*

[1] This block grant does not include prevention dollars earmarked for youth. A number of states still prefer to include those prevention dollars in this block grant.

MENTAL HEALTH SYSTEMS AND TREATMENT

Purpose

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.

Rationale

The current categorically-based mental health programs have insufficient flexibility in their focus to allow states to adapt to the rapidly changing health care environment. States simple need a more flexible funding source. For example, a more flexible block grant would help states and providers adapt to changes in mental health service delivery and financing as a result of the proliferation of health care networks. Further, the operation and modification of comprehensive management information systems are vital to evaluating the impact of services. Yet, current resources are inadequate to operate and modify such systems. Compilation and analysis of data for policy formulation, program management and evaluation is needed. This new block grant proposal would give states the flexibility to respond to this changing environment. In addition, this proposal calls for the consolidation of demonstrations under a block grant. While these demonstration funds are currently competitive, allocating them to states would give states more authority to test innovations, such as testing mental health "carve-out" management versus "integrated" management arrangements in the delivery of care in managed care settings.

Potential Programs

	FY 95 Budget Authority ($ in millions)
Mental Health Block Grant	275
Children's Mental Health	60
Projects for Assistance in Transition from Homelessness (PATH)	29
Demonstrations: Community Support Program	24
Protection and Advocacy	22
Demonstrations: Homeless Demonstrations[1]	21
Clinical Training	2
TOTAL	*433*

[1] This is a special CMHS, Housing and Urban Development, Department of Education, and Department of Agriculture five year demonstration in 18 sites (9 states). It is designed to document the impact of an integrated care model recommended by the 1992 report of the Federal Task Force on Homelessness and Severe Mental Illness.

HEALTH PROFESSIONS

Purpose

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 compliment university-based development of health professionals.

Rationale

Currently, the majority of federal funding for workforce development flows directly to individuals and universities within a state. This proposal would promote a more active role for state government in the allocation of those scarce resources. States could the identify their own needs for primary versus specialty care providers and target financial resources based upon these workforce patterns. The proposal would also allow states to direct resources to the cultural and linguistic minorities which reflect the demographics of the citizens. Finally, by increasing the state role in directing funds for health professions, states would be better able to encourage beneficiaries of financial assistance to practice in unserved or underserved areas of the state.

Potential Programs

	FY 95 Budget Authority ($ in millions)
Grants for Family Medicine	47
Health Careers Opportunity Program	27
Area Health Education Centers	25
Programs of Excellence in Health Professions Education for Minorities	24
Minority Health	21
Developmental Disabilities University Affiliated Programs	19
Health Professions Student Loans, Including Primary Care Loans/Loans for Disadvantaged Students	18
Minority Scholarships	18
Grants for General Internal Medicine and/or General Pediatrics	17
Professional Nurse Traineeships	16
Nurse Practitioner/Nurse Mid-wife	17
Advanced Nurse Education	12
Exceptional Financial Need Scholarships	11
Nurse Education Special Projects	10
Grants for Geriatric Education Centers	9
HPSL Recapitalization	8
Public Health/Preventive Medicine	8
Grants for Physician Assistant Training Program	7
Scholarships for Health Professions Students from Disadvantaged Backgrounds	6
Mental Health Clinical or Service Related Training Grants	5*
Interdisciplinary Training for Heath Care in Rural Areas	4
Allied Health Projects Grants	4

	FY 95 Budget Authority ($ in millions)
Nursing Education Opportunities for Individuals from Disadvantaged Backgrounds	4
Residency Training & Advanced Education in the General Practice of Dentistry	4
Area Health Education Centers - Border Health	4
Grants for Nurse Anesthetist Faculty Fellowships	3
Health Professions Research and Data	2
Grants for State Loan Repayment	1
Health Administration Traineeships & Special Projects Program	1
Chiropractic Demonstrations	1
Grants for Podiatric Primary Care Residency Training	1
Demonstration Grants to States for Community Scholarships	
TOTAL	***354***

*FY 94 figure

AGING SERVICES

Purpose

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.

Rationale

There are two compelling reasons for consolidating and block granting these programs. First, these programs are highly interrelated, and support and complement one another. For example, specialized Department of Transportation funds are used to purchase vehicles that transport older people to Department of Health and Human Services (DHHS) financed meal sites; DHHS funds are used for the vehicle operating costs. Both the Senior Community Services Employment Program (Department of Labor) and the Older Americans Volunteer Program (Corporation for National and Community Service) pay stipends to older people who provide direct services tot he elderly (some of the services are partly financed by DHHS). In short, these programs perform overlapping functions.

The second reason is administrative efficiency. Even though these programs all serve the same target population (the elderly), their federal requirements and restrictions force states to; set-up duplicative grants management and reporting systems; to cajole local providers serving identical populations s to coordinate their efforts; and allocate resources to certain functions that may be of lower priority than others due to the federal allocation of funds.

Potential Programs

	FY 95 Budget Authority ($ in millions)
Senior Community Service Employment Program	411
Congregate Nutrition, Title III-C1, Older Americans Act	376
Supportive Services - Title III-B, Older Americans Act	307
Commodities Support for Elderly Nutrition	151
Transportation for the Elderly and Adults with Disabilities - Section 16(b)(2) of the Federal Transit Act	60
Retired Senior Volunteer Program	36
Senior Companion Program	31
Congregate Housing Services Program - Housing and Community Development Act	25
Health Promotion - Title III-F of the Older Americans Act	17
Insurance Counseling Assistance - Sec. 4360, OBRA '90	10
Home Delivered Meals, Title III-C-2, Older Americans Act	10
In-Home Services, Title III-D, Older Americans Act	9
Alzheimer's Demonstration Grants to States - Section 398 of Public Health Services Act	5
Elder Abuse Prevention- Title VII, Chapter 3, Older Americans Act	5

	FY 95 Budget Authority ($ in millions)
Long Term Care Ombudsman - Title VII, Chapter 2, Older Americans Act	4
Pension Counseling - Title VII, Chapter 5, Older Americans Act	2
TOTAL	*1,459*

Note: The Foster Grandparent Program has been included in the Children and Family Services. A number of states still prefer that this program remain in this block grant.

AFFORDABLE HOUSING

Purpose

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.

Rationale

Depending on the per capita income of its residents and the inventory and condition of its housing stock, a state may need relatively more funds for the promotion of affordable housing construction and less for actual rental assistance or vice versa. These conditions also vary across a state and change over time. A block grant would permit a state to use federal funds to address its priority affordable housing needs. In addition, many existing federal housing programs are competitive grants, awarded after expensive grantswriting investments. A block grant would save this expense, and, coupled with effective management documents, still achieve continual improvement in program design.

By folding in programs from both the Department of Housing and Urban Development (HUD) and the old Farmers Home Administration (FmHA), currently administered by the Rural Housing and Community Development Service (RHCDS), the block grant would permit states to manage housing programs consistently across the state, rather than having separate rules for urban and rural areas. This proposal does not include any loan or loan guarantee programs because their operation is not consistent with a block grant approach.

The federal government has established a wide array of programs and approaches to affordable housing, including one that few states have adopted: ownership of properties. Thus, this proposal assumes that any affordable housing stock that is owned and/or operated by the federal government (public housing, troubled multifamily housing, etc.) or under long term contract (section 236, etc.) would remain as a federal responsibility until the property was "market ready," meaning that renters with vouchers would seek to rent the units. This requirement means that the funds available for the block grant may need adjustment since HUD may need to hold additional funds to improve, repair, or demolish some portion of its inventory.

While NGA does not generally support setasides in block grants, the housing arena is one where local governments play a major role. Therefore, Governors would accept a pass through or setaside for local government purposes in this grant.

Because of the major changes suggested by this block grant proposal, it is recommended that a transition period be established. Portions of the overall proposal could be enacted on different schedules, depending on the difficulty of coordinating federal agencies, measuring the required subsidy based on the new mix of services, and creating a mechanism to determine the properties that would be transferred on a state-by-state basis. For instance the production programs (HOME, Sec. 202, and Sec. 811) and the homelessness assistance programs could each be consolidated on a faster schedule than the public housing programs.

Potential Programs

	FY 95 Budget Authority ($ in millions)
Housing Construction/Rehabilitation Programs at HUD	
HOME	1,400
National Homeownership Trust	50
Housing Counseling	50
Elderly Housing (Sec.202)	1,279
Housing for the Disabled (Sec.811)	387
HOPE II & HOPE III	62
Lead Based Paint Hazard Reduction	100
Funding for Preservation of Existing Affordable Housing in Areas Needing Such Units (Preservation)	175
RHCDA [formerly Farmers Home Administration (FmHA) Housing Production Grant Programs	
Sec. 504 Very-Low Income Housing Repair Grants	12
Sec. 516 Rural Housing for Domestic Farm Labor	11
Sec. 53 Mutual and Self-Help Housing	13
Sec. 509 Compensation for Construction Defects	1
Sec. 533 Rural Housing Preservation Grants	22
Subtotal: Construction and RehabilitationGrant Programs:	3,562
HUD Rental Assistance and Support Programs	
Section 8 Certificates and Vouchers for Expiring Contracts	2,786
Section 8 Rental Assistance - Elderly	1,162
Section 8 Rental Assistance - Disabled	396
Section 8 Amendments	735
New Rental Assistance (incremental)	982
Flexible Subsidy	50
Elderly Housing Service Coordinators	22
Project-Based Service Coordinators	15
Tenant Based and Multifamily Service Coordinators	15
Family Self-Sufficiency Coordinators	17
Congregate Housing Services	25
Foster Child Care	72
Moving to Opportunity	50
Homeownership Assistance Program	7
RHCDA/FmHA Rental Assistance Programs	
Sec. 521 Rental Assistance	516
Sec. 502 Rental Assistance	7
Rental Assistance Subtotal:	6,857
HUD Homelessness Assistance Programs	
Shelter Plus Care	905**
Emergency Shelter Grants	157
Supportive Housing	**
Innovative Homeless Initiative	25

	FY 95 Budget Authority ($ in millions)
Section 8 SRO (single room occupancy)	**
Housing Opportunities for Persons with AIDS	186
Homelessness Assistance TOTAL	1,273
** Program costs included within $905 milion appropriation.	
HUD Public Housing Construction and Rehabilitation Programs	
Public Housing Development	598
Public Housing Amendments	65
Public Housing Modernization (This figure includes Indian Housing)	3,285
HUD Public Housing Operating Programs	
Public Housing Operating Subsidies	2,900
Family Investment Centers	26
Community Partnership Against Crime	290
Public Housing Service Coordinators	30
Lease Adjustments	13
Public Housing Subtotal	7,207
Block Grant Proposal TOTAL	**18,899**

COMMUNITY AND ECONOMIC DEVELOPMENT

Purpose

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.

Rationale

Efforts to promote economic and community development are primary goals of state government. Consolidation of a wide range of existing federal resources into one flexible program would permit states to use these resources more effectively to respond to local market and community situations, including affordable housing. Most states have developed strategic plans for development which identify priority areas for state action. Limited federal resources would be more efficiently spent in concert with state efforts.

This proposal does not include loan or loan guarantee programs. It does include programs that are currently delivered to customers or clients directly by the federal government, requiring a new federal state relationship in those areas. However, most states already serve these same clients and offer similar services. Therefore the transition will not be difficult for states. The proposal does bring together programs from a number of federal agencies. The block grant is intended to free states from different requirements within different federal agencies for essentially similar programs.

Potential Programs

	FY 95 Budget Authority ($ in millions)	
Community Development Program, administered by HUD		
Community Development Block Grant: Small Cities Portion	1,287	
Empowerment Zones	400	
Special Purpose Grants	45	
Economic Development Initiative (UDAG Recapture Funds)	125	
Subtotal HUD		1,857
Economic Development Programs, administered by EDA		
Development Grants	202	
Planning Grants	26	
Technical Assistance Grants	11	
Economic Development and Adjustment Grants	45	
Subtotal EDA		284
Rural Economic Development Grant Programs, administered by the Rural Business and Cooperative Development Service (RBCDS) (formerly Farmers Home Administration)		
Rural Business Enterprise Grants	48	
Subtotal RBCDS		48
Programs for Farmers administered by the Farm Service Agency (formerly FmHA)		
State Mediation Grants	3	
Farm Outreach and Assistance Grants	3	
Subtotal FSA		6

The Appalachian Regional Commission	FY 95 Budget Authority ($ in millions)	
Appalachian Development Highway System	237	
Physical Development Program	100	
Human Development Program	24	
Business Development Program	10	
Local Development District & Technical Assistance	7	
Subtotal ARC		378
Economic Development Programs administered by the Tennessee Valley Authority		
Rural Development	21	
Subtotal TVA		21**
The Small Business Administration		
Economic Development	166	
Small Business Advocacy	8	
Subtotal SBA		174
Proposed Block Grant TOTAL	***2,768***	

** *denotes funds to be distributed only within geographic areas of current programs*

AGRICULTURAL RESEARCH AND EXTENSION SERVICES

Purpose

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

Rationale

Cooperative state research can be managed by states within regions based on common problems, and extension services can be managed by states to effectively meet the needs of farmers and other local agricultural service providers. States fund other portions of state university budgets, and a stronger state role can better target limited resources.

U.S. Department of Agricultural Research Programs

	FY 95 Budget Authority ($ in millions)
Cooperative State Research Service Programs	
1890 College Tuskegee	28
Animal Health/Disease	5
Coop Forestry	20
Hatch Act	171
Agriculture - Special	75

	FY 95 Budget Authority ($ in millions)
Extension Services Programs	
1890 Colleges	25
D.C. Act	1
Farm Safety	3
Expand Food and Nutrition	61
Pest Impact Assessment	3
Pest Management	11
Renewable Resources	3
Smith Lever	271
Total Research Programs	***677***

ENVIRONMENTAL MANDATES ASSISTANCE

Purpose

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.

Rationale

Governors have consistently called for more state flexibility in administering the federal infrastructure assistance monies to states and local communities. Specifically, the Governors propose consolidation of federal environmental loan funds (i.e., state revolving loan funds for drinking water and wastewater treatment construction) in order to enable states to target the funds to their greatest water quality, infrastructure-related needs. A consolidated infrastructure loan fund would combine all capitalization grant dollars for wastewater and drinking water state revolving loan funds (SRF) and other dedicated water quality-related funds. States would be authorized to utilize funds to award loans and grants to needy communities. Consolidation would increase efficiency in administering federal dollars from EPA and USDA through states to local communities for environmental infrastructure projects and other activities to reduce water pollution. Priority needs may include construction of a wastewater treatment plant, enhancement of a public drinking water system, closure of a municipal waste landfill, or groundwater treatment to clean up contamination from underground storage tank releases.

Potential Programs

	FY 95 Budget Authority ($ in millions)
Wastewater State Revolving Loan Fund	1,235
Drinking Water State Revolving Loan Fund (appropriated but not yet authorized)	1,300
FmHA Rural Water and Waste Disposal Loans/Grants (60 percent/40 percent)	1,155
Total Estimate	**3,690**

1. A portion of appropriated amounts may need to be reserved for debt servicing of existing loans.

ENVIRONMENTAL PROGRAM MANAGEMENT

Purpose

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.

Rationale

The federal government currently provides categorical grants to assist in the administration of environmental programs. Existing grants are awarded (some by allocation formula and some on a competitive basis) under priorities set by the federal government rather than by the states and funds are severely constrained by federal grant conditions. Eliminating the specific program grant criteria and allowing the states to use the money in a block over a five-year period according to their priorities would advance state environmental activities, particularly in voluntary, non-regulatory areas. To make this fully workable, states must be authorized, in consultation with local officials, to adjust timeframes for meeting certain federal requirements to allow priority environmental problems to be addressed first. In particular, adjustment of federal enforcement priorities and explicit statutory requirements and deadlines would likely be necessary to enable Governors to target funds toward individual states' environmental priorities. States may need a one to two-year transition period to obtain environmental block grants.

Potential Programs

	FY 95 Budget Authority ($ in millions)
Air Pollution Control Program	
Clean Air Act Section 105 Grants	181
Water Pollution Control Program	
Clean Water Act Section 104(b)(3)	23
Clean Water Act Section 106 Grants	80
Nonpoint Source Management Grants	100
Water Quality Management Planning Grants	13
Clean Lakes Program Grants	0
Wetlands Program Grants	15
Drinking Water Program	
Safe Drinking Water Act Public Water Supply Supervision Grants	70
Underground Water Source Protection Grants	10
Hazardous Waste Management Program	
State Program Support Grants	96
Leaking Underground Storage Tank Trust Fund	70
State Underground Storage Tanks Program	10
Pesticides Enforcement Cooperative Agreement Grants	16
Toxic Substances Enforcement Grants	4
Radon State Grants	8
Lead Grants	13
Total Estimate	**709**

AGRICULTURAL CONSERVATION PROGRAMS - A PARTNERSHIP

Purpose

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.

Rationale

This proposal would provide greater focus on state agriculture-related conservation and environmental priorities by giving Governors a larger role in the targeting of USDA conservation monies. Consequently, states would be better able to address priority objectives such as the clean water requirements for which states are ultimately held accountable.

Potential Programs

	FY 95 Budget Authority ($ in millions)
Conservation Operations	603.4
River Basin Surveys and Investigations	13.0
Watershed Planning	10.5
Watershed and Flood Prevention Operations	70.0
Great Plains Conservation Program	15.2
Resource Conservation and Development	32.8
Conservation Reserve Program	1859.0
Wetlands Reserve Program	83.2
Agricultural Conservation Program	100.0
Water Bank	0.9
Colorado River Salinity Program	0.6
Total Estimate	**2788.6**

WORKFORCE DEVELOPMENT

Purpose

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.

Rationale

This block grant would afford states the opportunity to streamline their workforce development system, create lifelong learning systems, and integrate access to services sought by employers, workers, and labor market entrants. The block grant would provide resources for managing a state's workforce development system; cultivating partnerships among state, local, and business interests from both public and private sectors; 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 state.

Block Grant Structure

This proposal would establish a block grant with two components -- one supported by federal general funds currently distributed through 24 programs; the other supported by some of the federal trust funds derived from the payroll tax levied under the Federal Unemployment Tax Act (FUTA). This second component includes only administrative funding allocated by formula for state employment security programs -- i.e., unemployment insurance and Job Service. At a minimum, states could combine these trust funds for maximum flexibility in administering their employment security programs.

In addition, states would have a new option to combine trust funds and general funds -- in proportions chosen by the state -- to finance comprehensive workforce development systems. This would allow states to use a portion of the administrative trust funds for other workforce development initiatives -- e.g., customized training, skills development for specialized industries, implementation of skills standards systems, etc. -- that could strengthen the link between workforce and economic development.

To further reduce the number of categorical federal job training programs, this proposal also combines 10 other federal programs into a single fund from which the Secretary of Labor would make discretionary grants for activities of national significance and programs to encourage innovation and quality improvement and to address priority multistate issues.

TABLE 1 -- Potential Programs

Component A - General Funds	FY 95 Budget Authority ($ in millions)
DEPARTMENT OF LABOR	
Training and Employment Services	
JTPA Formula Grants to States	
JTPA Title II-A Training for Economically Disadvantaged Adults	1,055
JTPA Title III Training for Dislocated Workers	1,037
JTPA Federally Administered Programs	
Migrant Farmworkers Program	86
Veterans employment	9
Labor Market Information	5
NOICC/SOICC (Occupational Information Coordination)	5
State Unemployment Insurance and Employment Service Operations	
Employment Service	
Allotments to States (General Funds)	25
Trade Act Adjustment Assistance	
TAA Training & Benefits	231
NAFTA Training & Benefits (New in FY 1995)	43
DEPARTMENT OF EDUCATION	
Migrant Education	
High school equivalency program	8
College assistance program	2
Vocational Education	
Data Systems (NOICC/SOICC - Occupational Information Coord.)	5
Student Financial Assistance	
Pell Grants (Non-degree studies)	1,827
Adult Education	
State programs	252
State Literacy resource centers	8
Workplace literacy partnerships	19
Literacy training for homeless adults	9
Literacy programs for prisoners	5
Vocational Rehabilitation	
State grants	2,054
Client assistance grants to states	10
Training (Professional)	40
Supported employment state grants	37
DEPARTMENT OF AGRICULTURE	
Food Stamp Program	
Employment and Training	165

	FY 95 Budget Authority ($ in millions)
DEPARTMENT OF HEALTH & HUMAN SERVICES	
JOBS Program	
Education and Training for AFDC Recipients	1,300
Total, General Funds	***8,237***

Component B - Unemployment Trust Funds	FY 95 Budget Authority ($ in millions)
DEPARTMENT OF LABOR	
State Unemployment Insurance and Employment Service Operations	
Unemployment Compensation	
State Operations	1,766
State Integrity Activities	367
Employment Service	
Allotment to States (Trust Funds)	821
National Activity-Targeted Jobs Tax Credit	15
Veterans Employment and Training	
State Administration	161
Total, Unemployment Trust Funds	**3,130**
GRAND TOTAL, STATE BLOCK GRANTS	**11,367**

TABLE 2 -- Secretary of Labor's National Discretionary Fund

	FY 95 Budget Authority ($ in millions)
DEPARTMENT OF LABOR	
Training and Employment Services	
JTPA Federally Administered Programs	
American Samoans/Asian Americans	5
Rural Concentrated Employment Program	4
Pilots and Demonstrations	36
Research, Demonstration and Evaluation	12
Capacity Building	6
NOICC/SOICC	1
Skills Standards	6
Women in apprenticeship	1
Homeless job training	5

	FY 95 Budget Authority ($ in millions)
State Unemployment Insurance and Employment Service Operations	
Employment Service	
One-stop Career Center Grants	120
Total, General Funds	*196*

Additional Comments and Issues

Roll-Out Reforms. Under this proposal, two "roll-out" reforms would be excluded from the block grants to states and retained in a national discretionary block fund administered by a federal department secretary:

- **One-stop career center grants**, funded at $120 million in FY 1995, are designed to be rolled out to several additional states each year based on their readiness to implement a comprehensive workforce development system. Including these discretionary grants in future block grants could diffuse funds now focused on the states that are most ready to make maximum use of them. This proposal would include the one-stop center grants in the Secretary of Labor's national discretionary block fund.

- **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 for similar reasons. These funds would be included in the Secretary of Education's national discretionary block fund.

Vocational Education. Perkins Act vocational education funds could have been included in this block grant or in Education or divided among them and Youth Development. Dividing them at the federal level could cause problems in a number of states. Take 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 18% to 85%.

To preserve maximum flexibility, these funds would be included in an Education block grant with the understanding that up to 20 percent of its total funds would be transferable to the Workforce Development block grant or the Youth Development block grant, or both, and that states would provide an appropriate share of these funds for post-secondary vocational training and establish strong planning, management, and operating links between activities under the three block grants.

Separate Block Grant For Youth Development Programs. This block grant does not include federal youth employment and training programs. A separate Youth Development block grant combines these programs with other categorical youth services to provide states with a foundation for comprehensive youth programs that more effectively address the full range of youth needs and opportunities.

Specifically Excluded Programs

Several programs or program components have been excluded deliberately from this proposed block grant and the related secretary's discretionary block funds. Some are included in other block grant proposals, despite their apparent relevance to workforce development, because they have significant links to purposes of the other block grants. Others are excluded because of their national significance or applicability nationwide and would remain as discrete nationally administered financial assistance programs. Programs that do not appear in the block grants to states or the secretary's block funds would be left intact to operate as currently authorized.

APPENDIX B

NGA POLICY PRINCIPLES FOR STATE-FEDERAL RELATIONS

PRINCIPLES FOR STATE-FEDERAL RELATIONS

1 **Preamble**

The American federal system established a strong union while preserving the diversity reflected in individual states. State and local governments—governments close to the people—provide the needed opportunities for flexibility and innovation, and by their decentralization of decisionmaking and responsive nature, 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.

While recognizing that a strong national government was necessary, the original thirteen states, in adopting the United States Constitution, included provisions to limit the power of the national government and to preserve the power and authority of states. However, the authority of state government has been eroded over time due to constitutional changes, Supreme Court decisions, and legislative changes. The legislative changes generally have reduced state prerogatives by preempting state laws, by creating unfunded mandates, and by prescribing minute management and administrative details for specific federal assistance programs.

Not only has there been a trend toward the erosion of state authority, but two Supreme Court decisions, *Garcia v. San Antonio Metropolitan Transit Authority* and *South Carolina v. Baker*, cleared the way for this trend to accelerate. These two decisions substantially reduced the Tenth Amendment protection for state authority, forcing states to make their case with Congress much like a special interest group. The key language in the *Garcia* decision holds that "the limits are structural, not substantive, i.e., that states must find protection from congressional regulation through the national political process, not through judicially defined spaces of unregulated state activity."

The Supreme Court decision in *South Carolina* confirmed the *Garcia* decision. Furthermore, it eliminated any remaining constitutional protection regarding the doctrine of intergovernmental tax immunity. The loss of reciprocal tax immunity, coupled with the huge federal budget deficit, increases the pressure on Congress to change the current legislation so that a part or all of the interest from general obligation bonds would be subject to federal income taxes. Other tax issues that are of potential concern are the loss of deductibility for state and local income taxes (sales taxes are no longer deductible) and the possible imposition of a national sales tax or value-added tax that would preempt the states' major source of revenue.

Recently, the Supreme Court's Tenth Amendment decisions have evinced a more positive trend. In *Gregory v. Ashcroft*, a statutory case that involved a state's authority to set a mandatory retirement age for its judges, the Court went out of its way to speak approvingly of our constitutional system of "dual sovereignty between the states and the federal government." The following term, in *New York v. United States*, the Court restored at least some substantive content to the Tenth Amendment by expressly holding that a provision of the Low-Level Radioactive Waste Policy Amendments Act of 1985 was unconstitutional because it compelled states to govern according to Congress' instructions. "[E]ven where Congress has the authority under the Constitution to pass laws requiring or prohibiting certain acts," the Court reasoned, "it lacks the power directly to compel the states to require or prohibit those acts."

It is too soon to tell whether *Gregory* and *New York* represent initial steps in a revival of the Tenth Amendment or whether they are simply one more instance of the Supreme Court's vacillation in this area of constitutional doctrine.

2 **Protecting State and Local Borrowing Capacity**

State and local bonds are a significant revenue source for state and local governments. The threat of federal action to tax the interest on such bonds in the future may have a measurable impact on the cost and availability of such funding. Although no congressional action has begun to impose such a tax, the uncertainty remains. Therefore, the Governors call on Congress to permanently remove this threat by adopting and referring to states a constitutional amendment that would specifically exempt state and local bonds from federal taxation.

3 **Creating a Consensus for Action**

The continuing federal deficit, and now the health care crisis, will force the federal government to make a number of critical choices relating to the financing and administration of governmental programs. Many of these decisions will have a fundamental effect on state and local governments and the quality and availability of public services they provide and administer.

Such decisions should not be made in a vacuum. Therefore, the Governors call on Congress to convene a commission, composed of members designated by the federal government and states, to develop recommendations on the steps needed to retain or restore balance in the federal system. Such a commission should address not only the issues of the allocation of intergovernmental programs, but also the simplification of intergovernmental administration and the protection of state and local revenue bases.

The Governors recognize that resolution of the federal budget deficit entails painful spending and revenue choices and that some of these choices may have adverse effects on all or some states and on local governments, as well as on recipients of services of federally funded programs. The Governors urge that federal actions minimize such impacts and take into account the extent to which state and local governments have contributed, during the past decade, to federal budget reduction through lowered federal grant levels and shifts of funding responsibilities to the state and local sectors.

4 **Defining the Future Federal Role**

To ensure that legitimate demands for federal actions are met in a responsible manner and that the role of states and localities is preserved, several steps are needed.

4.1 **State Responsibility.** The Governors strongly support the principles of federalism, but the public will insist on federal action should states fail to act collectively on issues of legitimate concern. The states reaffirm their strong commitment to continued leadership and effective state action.

4.2 **Federal Protection and Special Populations.** The states reaffirm their support for a federal role in ensuring equality of access and due process. The federal government also has a responsibility to help states meet the needs of special populations.

4.3 **Federal Forbearance.** Not all problems require a uniform solution. Priorities and preferences may vary from state to state. The lack of universal action or uniform solutions does not in and of itself provide a sufficient rationale for federal action. Instead, Governors recommend that the development of future federal programs be guided first by five fundamental principles.

- Federal action should be taken where constitutional authority for action is clear and certain.
- Federal action should be limited to problems that are national in scope, where the national interest requires a universal or uniform solution, and should not merely address problems that are common to all states.
- Federal action should be sensitive to each state's ability to bring a unique blend of resources and approaches to common problems.
- Unless the national interest is at risk, federal action should not preempt additional state action.
- Federal action should depend on risk-based priorities and cost-benefit analysis and should avoid inflexible earmarking.

4.4 **Unfunded Federal Mandates.** Although unfunded federal mandates may reflect well-intentioned policy goals, they often impose substantial cost and regulatory burdens on states. Federal action increasingly has relied on states to carry out policy initiatives without providing necessary funding to pay for these programs, thereby robbing states of their right and responsibility to set priorities and develop policies that best meet local needs.

In *New York v. United States*, 112S.CT. 2408 (1992), the U.S. Supreme Court unequivocally reaffirmed the vitality of state governments in the federal system as separate and independent political entities. The Court held that state governments cannot and should not be treated as mere subdivisions or agents of the federal government. States must be free to maintain the integrity of their governmental structures and governing processes.

State governments cannot, however, function as full partners in our federal system if the federal government appropriates states' ability to devise and legislate their own solutions to domestic problems by requiring states to devote their limited resources toward complying with unfunded federal mandates.

The Governors commend President Clinton for issuing Executive Order No. 12866 on regulatory planning and review and Executive Order No. 12875 on enhancing the intergovernmental partnership. The strong commitments made to the reduction of unfunded mandates, increased flexibility, and regulatory restraint in these executive orders, combined with the administration's vigorous reinventing government effort, create an important and extensive action agenda. The Governors support the basic intent and direction of that agenda and pledge their cooperation in carrying it out.

The Governors call on members of Congress to oppose, and the President to veto, legislation that imposes further mandates without also providing adequate funding to cover the costs of implementation. The following additional actions are recommended.

- Governors must work with state legislators, county officials, mayors, and city officials in support of federal legislation that provides state and local governments with real, permanent relief from the mandate burden. Congress should act to guarantee that costs to state and local governments associated with all new mandates are reimbursed by the federal government.
- Legislation must be enacted to require the Congressional Budget Office to report on the costs imposed by unfunded mandates on state and local governments prior to congressional action by a full committee and the full House or Senate.
- Congress should extend the principle of pay-as-you-go, revenue-neutral requirements, now used for federal entitlement programs, to any new state and/or local mandate.
- A point of order should be provided against any mandate on state or local governments that violates the above three requirements, with a three-fifths majority necessary to override the point of order.
- State and local elected officials of general purpose governments and their representative national organizations should be exempted from the Federal Advisory Committee Act and the Administrative Procedures Act.
- The National Performance Review recommendations for broad agency waiver authority and bottom-up grant consolidation should be enacted.
- Burdensome and costly reporting requirements should be reduced through enactment of the Paperwork Reduction Act.
- A summit conference on federalism should be formed to discuss the breakdown of federalism and to renew our national commitment to the federalist system our founding fathers envisioned.

4.5 **State Task Force on Federalism**

The Governors embrace the following four steps to create a process to bring a better balance to the federal system.

- A Governors' working group will be appointed and will extend an invitation to a similar group that has already been created by the National Conference of State Legislatures (NCSL) to establish a joint NGA/NCSL task force.
- The NGA/NCSL task force will be charged with proposing to NGA and NCSL an action plan to increase the ability of the states to preserve their constitutional role in the federal

system. The proposal may include a conference of states or other means for collective state action, concentrating state power and focusing national attention on federalism.

- This proposal is to be ratified by the full membership of NGA and NCSL.
- The task force will consider legislative, legal, and constitutional means to address imbalance in the federal system. It will seek fundamental ways states can leverage their ability to compete. The National Governors' Association, Council of State Governments, International City/County Management Association, National Association of Counties, National Conference of State Legislatures, National League of Cities, and U.S. Conference of Mayors will be invited to support the plan and provide input on potential solutions. However, the Governors, in their role as statewide officers, and state legislators, who have a constitutionally specified role in this matter, must be the primary organizers and participants.

5 Ensuring Program Flexibility and Accountability

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 purposes for which the grant is provided, and federal funding should not always require state or local matching funds.
- Federal regulations should rely on state laws and procedures for the administration of federal programs.
- 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.

As a specific step toward this more rational allocation of services, the Governors support the following action steps.

- Enact a national policy on income security for the needy with a larger federal responsibility in exchange for reduced federal responsibilities in other areas.
- Develop a national program of medical care for the needy, financed by federal resources.
- Provide funding for these programs and preserve the balance of costs within the federal system by the orderly turnover to states of a comparably priced set of program responsibilities, such as education, community development, transportation, and social services.
- Ensure that all states have the fiscal capacity to meet the requirements of the national income security policy and other federal goals.

6 Administering Intergovernmental Programs

To provide maximum flexibility and an opportunity for innovation, as well as to foster administrative efficiency and cross-program coordination, intergovernmental grant legislation should be designed to meet the following principles.

6.1 **General.** The following principles should apply.

- Legislative authorization should be kept current, and all grant programs should be subject to periodic review.
- There should be a congressional determination of a compelling need for federal action.
- Legislation should include clear statements of measurable program objectives to reduce administrative confusion and facilitate judicial interpretation of congressional intent.

- States should be actively involved in a cooperative effort to develop policy and administrative procedures.
- Grant requirements should be tied to the purpose of the grant.
- The federal government should respect the authority of states to determine the allocation of administrative and financial responsibilities within states in accordance with state constitutions and statutes. Federal legislation should not encroach on this authority.

6.2 **Financing.** The following principles should apply.

- Federal revenues that are earmarked for federal aid programs should be made fully available for the purposes enacted.
- Legislation should authorize and appropriate sufficient funds to meet identified program objectives.
- Federal assistance funds, including funds that will be passed through to local governments, should flow through states according to state laws and procedures.
- States should be given flexibility to transfer a limited amount of funds from one grant program to another, or to administer related grants in a consolidated manner.
- Federal assistance appropriations should be enacted on a timely basis, possibly even one year in advance.
- Federal funds or letters of credit should be provided in a timely manner.

6.3 **Administrative Requirements.** The following principles should apply.

- Federally mandated administrative requirements should be uniform across federal agencies and programs and should allow the substitution of comparable state requirements.
- Federal grant programs should not impose unreimbursed administrative costs on states or localities.
- Congress should limit administrative authority over planning and reporting requirements by specifying the product of planning rather than the process, by delegating planning to existing state organizations, and by requiring that reporting requirements be clearly justified.
- States should be given broad flexibility in establishing federally mandated advisory groups, including the ability to combine advisory groups for related programs.
- Governors should be given the authority to require coordination among state executive branch agencies, or between levels or units of government, as a condition of the allocation or pass-through of funds.
- Federal government monitoring should be outcome-oriented and should not focus on process or procedural measures.
- Federal reporting requirements should be minimized, and states should be encouraged to develop cooperative reporting efforts.
- The federal government should not dictate state or local government organization.
- States with prior programs and acceptable performance should be excused from detailed federal requirements or certified as meeting federal requirements.
- Federal agencies should accept state and local administrative structures and program administration.

7 Avoiding Federal Preemption of State Laws and Policies

The Constitution assigns certain responsibilities to the federal government and reserves the balance to states. Accordingly, the role of the federal government in areas reserved for states and for local governments should be strictly limited. There should be highly compelling reasons to justify federal actions that require changes in policies adopted by state and local officials, who are accountable to the same voters and whose performance is reviewed by them at least as often as the performance of Congress and the President.

In cases where Congress determines that federal preemption of state laws is in the national interest, the federal statute should accommodate state actions taken before its enactment. Provision should be made to permit states that have developed stricter standards to continue to enforce them and to permit states that have developed substantially similar standards to continue to adhere to them without change.

The principle of avoiding preemption by the federal government in areas of primary state responsibility is applicable across the board, covering issues such as education; insurance regulation; crime control; preservation of the dual banking system; preservation of state securities regulation, including registration, licensing, and enforcement activities; and management of state personnel programs.

The federal courts, as well as the Department of Justice, must practice restraint when determining states' responsibility versus deprivation of constitutional rights. As a result of litigation, states have been required to impose restrictive standards in our state prisons and schools that go far beyond the guarantee of constitutional rights.

To avoid state preemption, whenever the federal government is a party to litigation to secure federal constitutional guarantees, in the area of primary state responsibility, the U.S. Department of Justice should vigorously pursue termination of the litigation as soon as constitutional concerns are alleviated.

Integral to the operation of state government is the freedom to structure state revenue systems. It is essential that the federal government not preempt, either directly or indirectly, sources of state revenues, state tax bases, or state taxation methods.

For example, increases to federal excise taxes, by raising prices, reduce demand and therefore revenue from existing state excise taxes. At the same time, the federal tax preempts the tax base, restricting future state use.

Similarly, new federal excise taxes on raw materials risk distorting the prices of final products, reducing economic growth, and causing industries and states to bear costs unequally.

When considering excise taxes or increases in excise taxes, Congress should carefully consider the fact that these options have an adverse impact on states' ability to raise revenue or result in a disproportionate burden among various states. Where federal court decisions restrict state tax actions, Congress should review these decisions and provide legislative relief when appropriate.

8 Preserving Intergovernmental Communication

The Governors recognize the need for open communication and the free flow of information among officials at all levels of government. Such communication is essential to the effective and efficient implementation and administration of intergovernmental programs. The Governors oppose efforts by the federal government to restrict employees of state and local governments from communicating with members of Congress and other federal officials. Although federal funds should not be used to retain private individuals and firms to influence federal legislation and regulations, federal statutes and regulations should specifically exempt employees of state and local governments from the restrictions on lobbying the federal government.

9 Conclusion

The Governors recognize the unique nature of the federal system and the critical importance of developing a close working relationship with our federal partner. We recognize and support a continued federal role in protecting the basic rights of all our citizens and in addressing issues beyond the capacity of individual states. At the same time, the federal government must recognize that there are problems that can be best addressed at the state and local levels.

The Governors are committed to a revitalized and strong partnership with Congress and the administration to bring a new balance to federalism. We believe these issues are crucial to the future viability of our separate governments and to a revival of citizen participation in the affairs of government.

Permanent policy
Adopted Annual Meeting 1993; revised Winter Meeting 1994 and Annual Meeting 1994.

APPENDIX C

NGA POLICY PRINCIPLES TO GUIDE THE RESTRUCTURING OF THE FEDERAL-STATE PARTNERSHIP

EC-15. PRINCIPLES TO GUIDE THE RESTRUCTURING OF THE FEDERAL-STATE PARTNERSHIP

15.1 **Preamble**

The Governors believe that the next two years will present an enormous opportunity to restructure the federal-state relationship. The Governors urge Congress to take advantage of this opportunity both to examine the allocation of responsibilities among the levels of government and to maximize state flexibility in areas of shared responsibility. However, the Governors believe that children must be protected throughout this process.

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.

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

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

15.2 **Welfare Reform**

All Governors recognize the importance of a federal role in financing income assistance to families and children. However, the continuation of the current welfare system is unacceptable. Tinkering and changes at the margin will not be sufficient. Congress should create a new, simpler, and more responsive federal role.

The Governors have not yet reached consensus on whether cash and other entitlement assistance should remain available as federal entitlements to needy families or whether it should be converted to a state entitlement block grant. They do agree, however, that in either case states should have the flexibility to enact welfare reforms without having to request federal waivers. Although the Governors recognize the legitimate interest of the federal government in setting broad program goals in cooperation with states and territories, they also believe that states should be free from prescriptive federal standards, including key aspects of the welfare system, such as work requirements, benefits to teen parents and to legal immigrants, and time limits on benefits.

15.2.1 **A State Entitlement Block Grant Program.** The Governors believe that block grants as discussed in this section should be entitlements to states and not discretionary grant programs. The Governors view any block grant proposal as an opportunity for Congress and the president to provide needed flexibility for states, not as a primary means to reduce the federal budget deficit. Block grants 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 block grant. The block grants must recognize the nation's interest in:

- services to children;
- moving recipients from welfare to work; and
- reducing out-of-wedlock births.

Under this concept, there should be no micromanagement and states should be required only to ensure that the funding received is used to provide services for poor children and their families. Although each state would be required to describe their program in a state plan and to provide periodic reports to the public, state plans would not be subject to federal approval or federal revision. Financial and compliance audits would be conducted to ensure that funds 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.

Block grant funding should be guaranteed over five years at levels agreed to among the states, Congress, and the administration. The Governors will work with Congress and the administration to provide appropriate budget adjustments that recognize agreed-upon national priorities, inflation, and demand for services.

In return for this broad flexibility, states would consider an initial allotment based on the average of several prior years. Federal funds would be automatically available under a capped entitlement structure, instead of being subject to annual discretionary appropriations. There would be no maintenance-of-effort provisions, and states would be allowed to keep all savings as long as the federal allocation was spent. Unexpended federal funds would remain available to states to maximize flexibility and to encourage the creation of a "rainy day" fund and would not be subject to reallocation by the federal government.

To provide for significant changes in the cyclical economy and for major natural disasters, an additional amount should be set aside each year for automatic and timely distribution to states that experience a major disaster, higher-than-average unemployment, or other indicators of distress.

15.2.2 **An Individual Entitlement Program.** If the federal government preserves the federal entitlement of all needy families to assistance, the Governors believe the current Aid to Families with Dependent Children (AFDC) program should be replaced by a new national program that establishes clear policy objectives and certain minimum standards, but provides states with broad flexibility to design key program elements.

Federal policy objectives and standards could include, but should not exceed, the following.

15.2.2.1 **Time-Limited Aid to Families with Dependent Children.** Assistance in the form of cash grants to families and children should be available for a time-limited period; during this time, activities should take place to help recipients make the transition from welfare to work.

15.2.2.2 **Social Contract.** The expectations and responsibilities of both the recipient and the government should be clearly defined, and incentives and sanctions should be designed to ensure that those responsibilities are carried out. States should be granted broad flexibility in defining the components of the social contract, including requirements to begin work before the maximum time is exhausted. Receipt of assistance should be conditional upon ongoing compliance with the social contract.

15.2.2.3 **Support Services.** State programs could include, as appropriate, the education, training, and support services necessary to help participants become self-sufficient. Such services should be funded either as a component of the income support program or through broader block grants.

15.2.2.4 **Long-Term Assistance.** Continued federal, state, county, and local assistance under the national program after the time-limited period should be dependent upon a requirement of work or work-related activities unless no job, community service work opportunity, or community service placement is available. Federal funds equivalent to the assistance payment should be available to the states to support the creation of needed work. States should be allowed to create work directly and through subsidies to the private sector. The ongoing financial needs of children must be addressed in any time-limited system.

15.2.2.5 **Flexibility.** States oppose prescriptive federal management of the AFDC program. Federal guidelines should be reasonably general in nature and states should have broad statutory authority to adjust benefit levels and to determine the form and condition of assistance. This flexibility should be in the form of allowable options and should not require federal waivers or plan approval.

States should have the ability to extend assistance on a case-by-case basis, with full federal financial participation, for a limited period beyond the federal standard in order to ensure that recipients complete education or job training programs; complete treatment for substance abuse or other physical or mental impairments; or resolve emergency situations, such as homelessness.

15.3 **Program Consolidation**

The Governors believe that maximum budget savings are possible only if the concept of flexibility is extended beyond the income assistance program. The simplification of the current categorical, nonentitlement federal grant-in-aid system must also be a congressional priority. The Governors have argued that such simplification would both increase administrative efficiency and encourage state and local 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 the 1980s. At that time, the consolidation of programs also came with funding cuts. Although 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 reform must recognize and address these problems.

The Governors believe that such consolidation 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 for the funding;
- include significant transferability of funds between the block grants;
- preclude cost-shifts to the states;
- be consistent with the way in which state government delivers services to citizens;
- incorporate distribution formulations consistent with the distribution implicit in existing categorical grants; and
- allow the flexibility needed to maximize efficiency and to minimize the expansion of state government employment.

Block grants provide a vehicle for the federal government to assist states and localities in meeting high-priority domestic needs that they would otherwise be unable or unlikely to accomplish.

15.4 **Restructuring Medicaid**

The Governors have adopted significant policy relating to the restructuring of the Medicaid program and to health care reform overall. Because of the close link between income policy and health policy, the Governors will be better able to achieve welfare reform if their health care policies are enacted. The Governors recognize that Congress is considering substantial cuts in the federal contribution to the Medicaid program. The Governors believe there may be potential for savings in the acute care portion of the Medicaid program and direct NGA staff to develop the option of restricting future program growth in exchange for the federal government assuming responsibility for the long-term care program.

The Governors believe that there is some potential to attain savings in the acute care portion of the Medicaid program and they are willing to consider reasonable restrictions on future program growth. However, such restrictions must be accompanied by significant statutory flexibility in program delivery, including flexibility in setting eligibility and benefits levels, much greater use of managed care, and greater opportunity to define reimbursement methodologies. The Governors also believe that there are savings to be realized in long-term care, including the use of alternatives to institutionalization and adoption of strategies that will improve the cost-effectiveness of nursing home care. The Governors look forward to working with Congress to address acute and long-term care costs.

15.5 **Equitable Treatment for Territories in National Welfare Reform**

The Governors believe the territories should be treated equitably in any welfare reform proposal brought before Congress.

Time limited (effective Winter Meeting 1995-Winter Meeting 1997).
Adopted Winter Meeting 1995.