

# CRS Report for Congress

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## Federal Grants to State and Local Governments: Overview and Characteristics

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### Summary

Each fiscal year, Congress appropriates funds for grants to state and local governments to further national goals and assist state and local government operations. Examples of goals include attaining minimum national standards and improving program effectiveness. The federal government provides grants for numerous substantive purposes, such as crime prevention, community development, and transportation. In FY2001, grants to state and local governments totaled \$317 billion.

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

### Introduction to Grants-in-Aid

The term “grants-in-aid” typically refers to the assistance that the federal government provides to state and local governments. Federal assistance comes in many forms—monetary grants, loans, loan guarantees, insurance, and technical assistance, to mention a few examples. This report focuses on grants-in-aid to state and local governments. In FY2001, the federal government spent \$317 billion in grants to states and localities—approximately 17% of total federal outlays.<sup>1</sup> Recipient governments use grants-in-aid to finance state and local programs in such areas as emergency services, transportation, and income maintenance for individuals.

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<sup>1</sup> OMB lists the estimated 2002 amount at \$346 billion; Source: U.S. Office of Management and Budget. *Budget of the United States Government, Fiscal Year 2003, Historical Tables* (Washington: GPO, 2002), p. 217.

Grants can be classified by the substantive issues they address. This report, however, reviews other characteristics according to which they can also be classified, such as the range of eligible activities, award process, accountability provisions, and application and reporting requirements. The discussion that follows also explains the fundamental characteristics of categorical grants, block grants, project grants, formula grants, matching grants, and entitlement grants. (For more information on grants-in-aid, see *Federal Grants to State and Local Governments: Concepts for Legislative Design and Oversight*, CRS Report RL30778.)

## Characteristics of Grant Programs

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

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

**Applicant Eligibility.** The federal government distributes grants-in-aid to state and local governments. In some programs, the recipient governments act as intermediaries, awarding the money to other governmental units, nonprofit organizations, and individuals. Grant programs use different kinds of criteria to determine the pool of eligible applicants, including type of governmental unit, population, socio-economic data, and evidence of need.

**Award Process.** The allocation of funds is typically based on either statutory formula, agency discretion, or a combination of the two. When Congress establishes a formula for disbursing funds, the formula determines either the absolute amount of the grant or the proportion of the appropriated budget authority going to each grant recipient. When Congress gives award discretion to federal agencies, it may or may not specify the criteria the Secretary is to use in considering grant applications. The awarding of a grant

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

may also be affected by the way state law treats particular jurisdictions, such as metropolitan counties or special districts, and the capacity of the recipient to fulfill the grant objectives.

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

**Application Procedure.** Some grants require prospective recipients to apply for assistance, while others do not. Some entitlement grants require only proof of eligibility and an action plan explaining the intended use of the grant funds. Project grants typically require state and local governments to compete for funds. These grants have a formal application that includes a detailed project proposal.

**Accountability and Oversight.** Grants have varying types of accountability provisions. Congressional intent to ensure that recipients of grant funds are using the funds appropriately is a strong incentive for periodic reports from grant recipients and occasional oversight by congressional committees. Congress also authorizes the U.S. General Accounting Office to evaluate the use of federal grants by recipient governments.<sup>3</sup>

**Administrative Requirements.** Grant recipients typically must satisfy a variety of administrative requirements that are designed to ensure fair and effective use of federal funds. Some examples of administrative requirements include providing opportunities for citizen participation, conducting environmental impact assessments, and keeping accurate financial records.

## Profiles of Grant Types

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

**Categorical Grants.** Categorical grants have a narrow range of eligible activities, permitting funds to be used only for specific, narrowly defined purposes. Funds may be distributed based on a formula, or at the discretion of agencies. Categorical grants outnumber block grants in number of programs and in amount of funding. In FY2000, there were approximately 750 categorical grant programs for state and local governments.<sup>4</sup>

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<sup>3</sup> U.S. General Services Administration, *Catalog of Federal Domestic Assistance*, (Washington: GPO, 2000), pp. XV-XVIII.

<sup>4</sup> This figure is an estimate based on an analysis of the 2000 *Catalog of Federal Domestic Assistance*.

Categorical grants remain the most common vehicle for new grant programs. These grants typically include administrative and reporting requirements that help ensure both financial and programmatic accountability.<sup>5</sup> Examples of categorical grants include American Battlefield Protection Grants and Flood Mitigation Assistance Grants.<sup>6</sup>

**Project Grants.** Project grants are similar to categorical grants, funding specific projects or the delivery of specific services for fixed periods of time.<sup>7</sup> These grants have the narrowest range of eligible activities of all the grant types. They are designed to promote proposals within policy areas that Congress defines as problematic.<sup>8</sup> Project grants are sometimes referred to as discretionary grants, referring to the discretionary authority of federal administrators and agencies in awarding the grants. Generally, the application is lengthy and there is an audit process after the project is completed. Examples of project grants are Minority Business Development Grants and Wetlands Protection Development Grants.

**Block Grants.** Block grants have a broad range of eligible activities, typically addressing a general, rather than a specific problem area. For example, a block grant may address a broad purpose such as public health, rather than more specific problems like lead poisoning or flu vaccinations. When Congress creates block grants, it often consolidates a number of existing categorical programs into one larger program. Block grants are distributed on a formula basis. With their broad range of eligible activities, block grants give more discretion to recipients in identifying problems and designing programs to address those problems. They also minimize administrative requirements. Critics of block grants contend that it is difficult for federal policymakers to ascertain how funds are being used and whether programs are achieving their intended purpose. Proponents contend that they provide state and local governments with needed flexibility. Examples of block grants include the Community Development Block Grant, Social Services Block Grant, and Temporary Assistance to Needy Families (TANF). (For more information on block grants, see *Block Grants: An Overview*, CRS Report RL30818, by Eugene Boyd and Ben Canada.)

**Formula Grants.** Formula grants allocate money to state or local governments according to a distribution formula prescribed by federal statute. Although they are generally perceived as having a broad range of eligible activities, some have narrow purposes. Typically, formula grants fund on-going activities, not specific projects. The distribution formula includes different variables from a particular state, region, or locality. Some examples of variables used in distribution formulas are the number of low-income families, number of people with disabilities, and number of youth. The data federal agencies use for the formulas is gathered by such agencies as the U.S. Census Bureau and

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<sup>5</sup> U.S. Advisory Commission on Intergovernmental Relations, *Characteristics of Federal Grant-in-Aid Programs to State and Local Governments: Grants Funded FY 1993* (Washington: GPO, 1994), pp. iii, 1-2.

<sup>6</sup> All grant examples in this report are taken from the *Catalog of Federal Domestic Assistance* (CFDA).

<sup>7</sup> *Catalog of Federal Domestic Assistance*, p. IX.

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

the Bureau of Labor Statistics. The grant funds typically pass through an intermediary, such as a state or local government, before reaching the recipient. After receiving the formula grant, the intermediary may redistribute the funds to recipients on a project or formula basis.<sup>9</sup> Examples of formula grants include the Bioterrorism Hospital Preparedness Program and Block Grants for Treatment and Prevention of Substance Abuse (also known as the Prevention and Treatment Block Grant).

**Matching Grants.** Matching grants require the recipient to contribute either cash, services, or facilities to match a percentage of the grant. Congress uses matching grants to encourage the recipient to efficiently manage the federally aided program. ACIR concluded that grants with no matching requirement or a low matching requirement provide a strong incentive for eligible recipients to participate in a program, while grants with high matching requirements discourage eligible recipients from participating.<sup>10</sup> The recipient's matching requirement may be specified by law and may increase over time. For example, an 8-year grant may cover 90% of a project the first and second years, but decrease by 5% each subsequent year. Grants may have a maintenance-of-effort provision that requires the recipient to maintain a specified level of financial effort in an area in order to receive federal funds. This requirement insures that federal funds only supplement, not supplant, the level of recipient's funds.<sup>11</sup> The Block Grant for Community Mental Health Services is an example of a program with a maintenance of Effort requirement. Examples of matching grants are the Economic Adjustment Grant, which generally funds 50% of economic recovery projects; and the Federal-Aid Highway Program, which funds up to 90% of interstate projects.

**Entitlement Grants.** Entitlement grants require the payment of benefits to any person or governmental unit that meets the eligibility requirements established by law. These grants typically aim to help individuals with low income, economically depressed or disaster-stricken communities, and similar recipients. Statutory benefit levels and the number of qualified recipients generally determine the funding amounts for these programs.<sup>12</sup> Congress can distribute entitlement funds through automatic payments to any qualified recipient, such as with Social Security Disability Insurance.

## Catalog of Federal Domestic Assistance

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

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<sup>9</sup> *Ibid.*, p. 59.

<sup>10</sup> U.S. Advisory Commission on Intergovernmental Relations, *Summary and Concluding Observations, The Intergovernmental Grant System: An Assessment and Proposed Policies* (Washington: 1978), pp. 18-19.

<sup>11</sup> *Catalog of Federal Domestic Assistance*, p. XVII.

<sup>12</sup> CRS Report 96-70, *Entitlement Spending*, by Dawn Nuschler and Richard Rimkunas, pp. 1-2.

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

## **Related CRS Products**

### **Policy Issues Related to Grants.**

*Block Grants: An Overview*, CRS Report RL30818, by Eugene Boyd and Ben Canada.

*Federal Grants to State and Local Governments: Concepts for Legislative Design and Oversight*, CRS Report RL30778, by Ben Canada.

*Federal Grants to State and Local Governments: A Brief History*, CRS Report RL30705, by Ben Canada.

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

*Waivers and the Grants-in-Aid System*, CRS Report RS20872, by Ben Canada.

### **Grants Work in Congressional Offices.**

CRS Website for Grants Information:

[<http://www.crs.gov/reference/general/grantsinfo.shtml>]

CRS Website for Tracking Distribution of Federal funds:

[<http://www.crs.gov/reference/general/geotracking.shtml>]

*Grants Work in a Congressional Office*, CRS Report 97-220, by Merete Gerli.

*Grants Information for Constituents*, CRS Report RS20514, by Merete Gerli.

*Grants and Foundation Support: Information on Government and Private Funding*,  
CRS Info Pack IP050G.

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