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Title: UPDATE ON THE NEW FEDERALISM

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In January 1982, President Reagan proposed a New Federalism plan which called for states to assume administrative and fiscal responsibilities for nearly 40 human services, education, and community development programs. The President also proposed that the states assume complete control of the Food Stamps program and of Aid to Families with Dependent Children (AFDC), in return for federal assumption of the Medicaid program.

Opposition to these proposals was strong on many fronts. The Governors and members of Congress were particularly concerned with the states' ability to finance such programs, once federal funds were lost. Civil rights, low-income and minority groups were opposed to the whole concept of New Federalism, believing that the provision of basic human services should be the responsibility of the federal government, not the states.

The Administration has therefore changed its original New Federalism plans in order to make them more agreeable to some factions. The new proposals call for the establishment of four "mega-block grants" to states and localities. These mega-block grants include a State Block Grant to include many of the human services programs outlined in the original proposal, a Local Block Grant which would include the Community Development Block Grant and General Revenue Sharing funds, a Transportation Block Grant, and a Rural Housing Block Grant. These mega-block grants would be funded by the federal government for five years, after which time the states would assume fiscal control for the provision of programs which are included.

While it is doubtful that much action will be taken by Congress in the near future with regards to these New Federalism proposals, persons should be aware of the Administration's agenda in this area. Concerned groups and individuals should contact their Governors, Senators, and Congressmembers expressing their ideas on these proposals.



UPDATE ON THE NEW FEDERALISM PROPOSALS

President Reagan's Original Proposal

In January 1982, President Ronald Reagan proposed a complete restructuring of the governmental system for providing human services, education and community development programs. Under this New Federalism proposal, the President called for the "turnback" of some 40 federal programs to the states (a complete listing of these programs is provided in Figure 1), with states eventually assuming both administrative and funding responsibilities. States would have had the option, under the original turnback proposal, of discontinuing any programs they chose, and would have been able to alter the programs as they saw fit. A federal "trust fund" would have been set up to finance the programs for the first four years, financed by existing alcohol, tobacco, and telephone excise taxes, and a portion of gasoline taxes and oil windfall profits taxes. Each state would receive funds based on its FY 1979-1981 share of total allocations from the 40 affected programs. This trust fund would have been decreased by 25 percent in each of the following four years, with states finally assuming complete fiscal responsibility for the financing of the programs, along with the right to levy taxes to pay for them.

The President's proposal also included provisions for states to assume complete fiscal and administrative control of the Food Stamp program and of Aid to Families with Dependent Children (AFDC), in exchange for federal assumption of the Medicaid program. The Administration asserted that the combined costs of this exchange would not result in a revenue loss to the states. However, the states determined that their costs would increase, and that they would need to raise additional revenues in order to finance the programs.

The states' opposition to many of the President's New Federalism proposals was evidenced during Congressional hearings on the proposals and during meetings

of the National Governors' Association (NGA). Congressional hearings emphasized the disparities among states in their ability to finance the programs. Testimony centered on how poor states, which have a greater need for many of the programs, would be the least able to generate the revenues to maintain them. The NGA announced early in the summer of 1982 that it opposed state assumption of the Food Stamps program, and forced the Administration to withdraw this proposal in July. Some members of Congress sought to block grant the Food Stamp program, but were defeated in this attempt.

President Reagan's New Proposals

The Administration recently disclosed plans for changes in the original New Federalism plans. President Reagan's leading advisor on New Federalism, Richard Williamson, proposed in December 1982 that the Food Stamps and AFDC programs be combined in a relatively unrestricted block grant to the states, and that federal takeover of the Medicaid program be dropped from negotiation. However, negative responses from several sides, including state officials who fear that consolidation will be accompanied by budget reductions, makes the adoption of this proposal highly unlikely.

President Reagan has instead called for the enactment of four large block grants to the states. These "mega-block grants" would be financed by the federal government for a period of five years. During these five years the Administration proposes to closely monitor the financing of the block grants to determine if it would be feasible to return revenue sources, such as federal excise taxes or a percentage of the federal income tax, to state and local governments along with administrative responsibility for the block-granted programs. Thus, after five years, the federal government would give states and localities complete responsibility for deciding which programs they would continue to operate and for determining how they would finance those which they chose to fund.

The first mega-block grant would consolidate over 20 programs from among those originally included in the "turnback" proposal. These would include the education and training, energy assistance, social services and health programs (see Figure 2 for a complete listing). Excluded from the original list of programs is the child nutrition program, which was the subject of a Congressional Resolution which called for its continuation as a federal program. Under this proposed block grant, states could transfer up to 20 percent of the monies from each program included in the consolidation to any other program in the block grant, during the first year. This flexibility would be increased during each of the following four years; at which time states would be allowed to allocate all funds for any purpose they chose, whether for consolidated programs, or for other state priorities. In effect, the block grant would eventually serve as general revenue sharing funding for the states.

The second block grant being proposed by President Reagan would go directly to local governments. This Local Fiscal Assistance Trust would include the Community Development Block Grant (CDBG) program and General Revenue Sharing. Localities could choose to continue to participate in both programs or could reallocate up to 20 percent of the funds the first year, and an additional 20 percent each of the following four years, for any other program within the block grant.

The third mega-block grant, a Transportation Block Grant, would consolidate the following programs: Urban and Secondary Highway Systems, Non-Primary Bridges, Highway Safety Grants, Hazard Elimination, and Rail-Highway Crossing. This block grant would be funded by a portion of the federal gasoline tax.

The Administration is also proposing a Rural Housing Block Grant which would eliminate the Rural Housing Insurance Fund, Very Low-Income Repair Grants, Mutual and Self-Help Grants, and the Rental Assistance Program. Funds for this block grant would be used to benefit low-income persons through loans and/or grants. Monies could be used to acquire, construct, improve, alter, repair, or convert

structures for dwellings and rental housing; to refinance debts incurred for such purposes; and to cover temporary housing costs. States would be required to use at least 80 percent of their funds to assist "low-income" persons -- those with incomes below 50 percent of the state or national median income, whichever is greater. The remaining 20 percent could be used by the state to assist persons with up to 80 percent of the state median income.

While the proposed legislation for these mega-block grants was forwarded to Congress by the White House in February, there has been little action concern them in either the House of Representatives or the Senate. While hearings were held regarding the New Federalism concept, these were generally perfunctory, and led to no serious consideration of the bills. It is doubtful that these proposals will be considered again in the near future.

Concerns with New Federalism Proposals

The block grant and New Federalism plans have been strongly opposed from the onset by most low-income, civil rights, and minority groups. Their concerns stem from past experiences with state-administered programs and prior block grants, and have been fostered by their experiences under the block grants enacted by Congress in 1981. Of particular concern to these groups are issues such as: (1) targeting of funds to those persons with the most need, (2) recordkeeping and accountability at all levels of government, (3) enforcement of civil rights and affirmative action laws and regulations, (4) citizen participation in the decision-making process, and (5) maintenance of existing efforts. Proposals calling for the complete "turnback" of programs to the states have even further-reaching implications for needy individuals, as each state assumes responsibility for determining which types of programs it chooses to continue, as well as for financing them. With no requirements for the continuation of programs, many programs which provide badly needed services could be abolished or altered, thereby affecting the quality

and scope of human services provision in this country. The enactment of the New Federalism proposals would probably result in the elimination or reduction of many programs which were originally part of President Reagan's "social safety net" of programs for the "truly needy." Civil rights and poor people's advocates believe that this represents a clear abrogation of well-established federal responsibility for protecting minorities and other powerless subgroups.

As stated, proposals calling for the enactment of the New Federalism plans have little strong support among members of Congress. Senator David Pryor (D-AR) has stated that President Reagan's plan is "dead in the water" as far as Congress is concerned. He adds, "We have too many fires to put out to be thinking about New Federalism. It's an idea whose time has not come." Of particular concern to many members of Congress are the budget reductions which seem always to accompany the New Federalism proposals. Senator David Durenburg (R-MN), the leading proponent of a standardized block grant process, is nonetheless concerned with these funding cuts; he has stated that "when you take an entitlement program and turn it into a block grant, automatically you offer it up on the chopping block." However, the Administration continues to support the New Federalism concept and will continue to include it on its agenda in the future.

Conclusions

While it appears that little action will be taken on the New Federalism bills during the upcoming months, it is important to be aware of the proposals being introduced by the Administration in this area. The National Council of La Raza, through its work with the Coalition on Block Grants and Human Needs, will continue to monitor these proposals and to inform its network of any new developments in this area. Persons concerned with the New Federalism proposals are urged to contact their own governors and Congressmembers to express their ideas about these proposals.

FIGURE 1
PROGRAMS WHICH WOULD BE TURNED BACK
TO THE STATES IN THE TRUST FUND

Education and Training

Vocational Rehabilitation
Vocational and Adult Education
State Block Grant in Education
(Chapter 2 ECIA)
CETA
Women, Infants, and Children
(WIC)

Income Maintenance

Low-Income Energy Assistance

Transportation

Grants-In-Aid to Airports
Highways
Primary, Rural, Urban, Bridge,
Construction Safety, Highway
Safety
Interstate Transfer
Appalachian Highways
Urban Mass Transit

Revenue Sharing & Technical Assistance

OSHA State Grants
General Revenue Sharing

Social, Health & Nutrition
Services

Child Nutrition
Child Welfare
Adoption Assistance
Foster Care
Child Abuse
Social Services Block Grant
(Title XX Program)
Legal Services
Community Services Block
Grant (previous CSA Programs)
Health Prevention Block Grant
Alcohol, Drug Abuse, and
Mental Health Block Grant
Primary Health Care Block
Grant (Community Health
Centers)
Maternal & Child Health Block
Grant
Primary Care Research
Black Lung Clinics
Migrant Health Clinics
Family Planning
Women, Infants, and Children
(WIC)

Community Development and
Facilities

Water & Sewer Grants & Loans
Community Facilities Loans
Community Development Block
Grants
Urban Development Action
Grants
Waste Water Treatment Grants

FIGURE 2

PROPOSED MEGABLOCK GRANTS

State Block Grant

Rehabilitation Services
Vocational Education
Adult Education
State Education Block Grant
(ECIA, Chapter 2)
Women, Infants, and Children
Low-Income Home Energy Assistance
Social Services Block Grant
Community Services Block Grant
Alcohol, Drug Abuse, and Mental Health
Block Grant
Maternal and Child Health Block Grant
Rural Water and Waste Disposal
Grants (FmHA)
Water and Sewer Facility Loans (FmHA)
Community Facility Loans (FmHA)
CDBG - Non-Entitlement Portion Grants
for the Construction of Municipal
Waste Water Treatment Works (EPA)
Child Welfare Services
Adoption Assistance
Foster Care
Preventive Health and Health Services
Block Grant
Child Abuse State Grants
Runaway Youth

Federal-Local Block Grant

General Revenue Sharing
CDBG - Entitlement Portion

Transportation Block Grants

Urban System
Secondary System
Non-Primary Bridges
Highway Safety (FHWA 402 Grants)
Hazard Elimination
Rail Highway Crossing

Rural Housing Block Grant

Rural Housing Insurance Fund
Very Low-Income Repair Grants
Mutual and Self-Help Grants
Rental Assistance Program