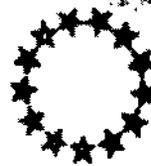




**National Conference of  
State Legislatures**



**NATIONAL  
GOVERNORS'  
ASSOCIATION**

**March 11, 1993**

**The President  
The White House  
Washington, D.C. 20500**

**Dear Mr. President:**

In response to your vision for restructuring government, the National Governors' Association and the National Conference of State Legislatures are pleased to submit a "Proposal for Federal-State Flexibility Grants." These flexibility grants, which we are asking you to include in your fiscal 1994 budget request to Congress, would provide states with more opportunities to innovate and to tailor responses to the unique needs of our citizens.

These grants could be a first step toward broader, more ambitious reforms. Flexibility grants would allow state legislators and governors to integrate funding from several different sources. They would encourage state governments to design their own strategies for moving forward on a range of domestic issues. They would relax stifling federal restrictions and would allow state leaders to focus once again on solving problems rather than on processing stacks of federal paperwork.

The enclosed proposal would combine approximately 55 existing programs, with a funding level of approximately \$12.9 billion in fiscal 1993, into flexibility grants in six broad areas: education reform, workforce quality, air and land environmental management, water quality, defense conversion, and housing.

We believe that there are many other programs that could be combined in this way. In developing this proposal, we have attempted to be pragmatic. We have deliberately avoided possible flexibility grants that would cause questions concerning jurisdiction of congressional committees. We have also eliminated grants that involve local governments.

These flexibility grants would help reverse unfortunate trends toward centralized decision making in our federal system, encumbering programs with unnecessary stipulations and regulations, and fragmented and inefficient spending for domestic programs. The nation's governors and state legislators look forward to working with you in refining this proposal and in moving it through Congress.

The President  
March 11, 1993  
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Please feel free to contact either one of us or Ray Scheppach or Bill Pound, our organizations' executive directors, if you have any questions.

Sincerely,



Roy Romer  
Governor of Colorado  
Chairman, NGA



Art Hamilton  
Minority Leader, Arizona House  
President, NCSL

cc: Leon Panetta  
Bob Rubin  
Alice Rivlin

**A PROPOSAL FOR FEDERAL-STATE FLEXIBILITY GRANTS**

**Financing the Implementation of Education Reforms  
Improving Workforce Quality  
Targeting High-Priority Environmental Needs Through Flexible Funding  
Increasing State Involvement in Defense Firm Conversion and Adjustment  
Increasing Access to HOME Affordable Housing Program Funds  
and  
Consolidating Efforts Within the Motor Carrier Safety Program**

**Developed by**

**The National Governors' Association**

**and**

**The National Conference of State Legislatures**

**March 11, 1993**

## FEDERAL-STATE FLEXIBILITY GRANTS

The National Conference of State Legislatures and the National Governors' Association have worked together over the past several years to protect and improve the states' ability to innovate and to deliver services effectively and creatively. NCSL, for example, has promoted federal legislation that would limit unfunded federal mandates. NGA has campaigned for the Leahy-Pryor bill to ensure an expedited federal waiver process for states. Together, in 1990, the organizations developed comprehensive and detailed proposals for consolidating several existing federal aid programs to state governments.

A common theme pervades these and other projects. Governing in the United States works best when it is shared appropriately among federal, state, and local governments. We believe that states must have the flexibility to innovate and to respond to the unique and diverse needs of their residents. We believe that programs and services are most effective when it is clear which level of government is accountable for them.

The change currently taking place in Washington offers fresh opportunities to adopt remedies for problems affecting the state-federal partnership. Among the problems are:

- the proliferation of relatively small categorical grants;
- the burden of legislative and regulatory requirements attached to block grants;
- the rigidity of current federal grant programs and the concomitant restrictions that hamper states' ability to respond to the unique needs of their residents;
- federal statutes and regulations that prevent states from transferring funds among related programs;
- shrinking federal financial support for domestic discretionary programs; and
- the accelerating propensity of the federal government to mandate additional services and programs without adequate funding.

In combination and alone, these problems stifle innovation, confuse accountability, and degrade public services.

There are several ways to attack these problems. One, which has enjoyed varying degrees of bipartisan support over the past two decades, combines into a single grant two or more federal programs dealing with related problems.

There are several current examples: the child care block grant, the community development block grant, and the social services block grant. In his 1990 State of the Union address, President Bush proposed combining more programs into \$12 to \$15 billion worth of "consolidated" grants. In Mandate for Change, David Osborne has advocated consolidating "more than 400 categorical and block grants into broad Challenge Grants."

This proposal, developed jointly by the National Conference of State Legislatures and the National Governors' Association, offers several specific, albeit modest, suggestions for beginning this process of consolidation. In addition, it proposes changes to other existing federal programs, such as streamlined and coherent waiver processes, that also would improve the effectiveness and accountability of programs.

The proposal's six sections deal with education, workforce, environment, housing, defense conversion, and social services. The suggestions are consistent with criteria used in 1990 by NCSL and NGA to select programs for consolidation. In the interest of expediting consideration of these suggestions, we have also tried to respect, as much as possible, the jurisdictional authority of congressional subcommittees and committees.

## FINANCING THE IMPLEMENTATION OF EDUCATION REFORMS

### OPTION 1: EDUCATION REFORM FLEXIBILITY GRANT

#### Background

The longest standing and largest block grant to state and localities for elementary and secondary education is provided under Chapter Two of the Elementary and Secondary Education Act of 1965. This grant for improving elementary and secondary programs was expanded through both the Education Consolidation and Improvement Act of 1981 and the Elementary and Secondary Schools Improvement Amendments of 1988. Using the Chapter Two program as a point of departure, this proposal combines into a single grant the programs aimed at education reform that are coordinated by the states.

#### Proposal

Create a state-level Education Reform Flexibility Grant by combining the following existing elementary/secondary education programs into a single grant to the states.

#### Elementary and Secondary Education

<u>Program</u>	<u>Fiscal 1993 Appropriations (in millions)</u>
Chapter One--State Administered Grants	\$ 60.7
State Program Improvement Grants	25.9
Chapter Two--State Block Grants	435.4
Eisenhower Math and Science	246.0
Foreign Language Assistance	10.9
Immigrant Education	294.6
Drug Free Schools--State Grants	498.5
Education for Homeless Youth	24.8
Follow-Through	8.4
State Agency Program:	
Education of Neglected and Delinquent Children	35.4
<b>Total</b>	<b><u>\$1,640.6</u></b>

States would be required to submit a plan outlining current and future systemic reform efforts along with a series of performance indicators that relate, where appropriate, to achieving the National Education Goals. Such indicators could include student drop-out rates, student absenteeism, and graduation rates. The state would report annually to the Secretary of Education on changes in the indicators.

#### Postsecondary Education

Provide states with the authority to target State Student Incentive Grants (SSIG) by assisting students enrolled in teacher education programs that are training high quality teachers, both pre-service and in-service, consistent with the state's systemic reform efforts. The SSIG program is the only direct funding source for states in the postsecondary education area. The remaining dollars are granted to students and institutions based on financial need. In fiscal 1993, \$72.5 million was appropriated.

#### Justification

Because of its flexibility, the Chapter Two Block Grant has proven effective in supporting state efforts to improve education systems as part of the larger effort to achieve the nation's six education goals. The Education Reform Flexibility Grant would expand on the Chapter Two Block Grant to provide states with the incentive along with the needed flexibility to initiate or continue systemic reform.

### **OPTION 2: INCENTIVE GRANTS FOR STATE-LEVEL EDUCATION REFORM**

#### Background

The longest standing and largest block grant to states and localities for elementary and secondary education is provided under Chapter Two of the Elementary and Secondary Education Act of 1965. This grant for improving elementary and secondary programs was expanded through both the Education Consolidation and Improvement Act of 1981 and the Elementary and Secondary Schools Improvement Amendments of 1988. Using the Chapter Two program as a point of departure, the proposal below combines programs that are coordinated by the states into a single grant.

#### Proposal

Permit states to treat funds allocated under several federal categorical programs as a single supplementing flexibility grant for elementary and secondary education. The grant serves as an incentive for states to initiate or continue existing systemic reform efforts directed toward achieving the National Education Goals. To merge funds from two or more programs, states would be required to submit to the Secretary of Education a plan identifying current and future statewide initiatives facilitating state-level education reform and the achievement of the goals. The state plan would include assurances that services currently provided to discrete populations under the separate programs would remain consistent with the level of appropriation provided for those programs. Specific programs would include the following.

## Elementary and Secondary Education

<u>PROGRAM</u>	<u>Fiscal 1993 Appropriations</u> <u>(in millions)</u>
Chapter One--State Administered Grants	\$ 60.7
State Program Improvement Grants	25.9
Chapter Two--State Block Grants	435.4
Eisenhower Math and Science	246.0
Foreign Language Assistance	10.9
Immigrant Education	294.6
Drug Free Schools--State grants	498.5
Education for Homeless Youth	24.8
Follow-Through	8.4
State Agency Program: Education of Neglected and Delinquent Children	35.4
<b>Total</b>	<b><u>\$1,640.6</u></b>

## Postsecondary Education

Provide states with the authority to target State Student Incentive Grants (SSIG) by assisting students enrolled in teacher education programs that are training high quality teachers, both pre-service and in-service, consistent with the state's systemic reform efforts. The SSIG program is the only direct funding source for states in the postsecondary education area. The remaining dollars are granted to students and institutions based on financial need. In fiscal 1993, \$72.5 million was appropriated.

### Justification

Because of its flexibility, the Chapter Two Block Grant has proven effective in supporting state efforts to improve education systems as part of the larger effort to achieve the nation's six education goals. Incentive grants for state-level education reform would expand on the Chapter Two Block Grant to provide states with the incentives along with the needed flexibility to initiate or continue systemic reform efforts.

### **OPTION 3: GENERAL WAIVER AUTHORITY**

#### **Background**

Currently, the Secretary of Education has minimal waiver authority to provide states with the regulatory relief needed to permit state-level systemic reform in education.

## Proposal

### Elementary and Secondary Education

Provide the Secretary of Education with general authority to waive regulations in selected programs. States would be required to submit a plan outlining current and future systemic reform efforts along with a request to waive specific regulations. The Secretary could waive regulations in the following program areas: Chapter Two, Jacob Javits Gifted and Talented Education Act, Drug Free Schools and Communities Act, Head Start Transition Act, Follow Through Act, Dwight D. Eisenhower Math and Science Act, Carl Perkins Vocational and Applied Technology Act, Job Training Partnership Act, Emergency Immigrant Education Act, National School Lunch Act, and the Child Nutrition Act.

No limit would be placed on the number of states that could apply for waivers. A similar proposal was offered in the Neighborhood Schools Improvement Act.

### Postsecondary Education

Provide states with the authority to target State Student Incentive Grants by assisting students enrolled in teacher education programs that are training high quality teachers, both pre-service and in-service, consistent with the state's systemic reform effort. The SSIG program is the only direct funding source for states in the postsecondary education area. The remaining dollars are granted to students and institutions based on financial need. In fiscal 1993, \$72.5 million was appropriated.

### Justification

By providing such waiver authority, states can proceed with systemic reform efforts in the absence of federal barriers.

## IMPROVING WORKFORCE QUALITY

### OPTION 1: WORKFORCE IMPROVEMENT FLEXIBILITY GRANT

#### Background

Presently there are 125 different federal employment and training programs for adults and out-of-school youth administered by fourteen different federal agencies. At a time when states and localities are attempting to offer comprehensive, customer-driven services, they are constrained by the differing eligibility, reporting, and program requirements of the myriad programs.

## Proposal

States with Human Resource Investment Councils could be permitted to access a Workforce Improvement Flexibility Grant, providing funds for a wide range of workforce development programs and sidestepping a multitude of conflicting program requirements. Governors in a number of states have established state Human Resource Investment Councils to coordinate adult and vocational education and job training programs. The state councils were authorized by federal law this fall, and a number of states are still in the process of creating them. States that have established Human Resource Investment Councils are, by definition, engaged in a great deal of coordination across existing systems. Instead of accessing job training and adult and vocational education monies through existing programs, if the Human Resource Investment Council so recommends, the state could take advantage of a Workforce Improvement Flexibility Grant. By giving sign-off to the Human Resource Investment Council, the key players will have bought into the flexibility grant.

States opting for the Workforce Improvement Flexibility Grant could access a single source of funds to provide adult and vocational education and job training and placement services as long as the state satisfies certain accountability measures.

In states where either there is no Human Resource Investment Council or where the council does not want to access the Workforce Improvement Flexibility Grant, monies would continue to flow through existing programs.

Programs included in the flexibility grant:

### Adult Education

### Fiscal 1993 Appropriations (in millions)

Adult Education: State Administered Programs	\$ 254.6
Adult Education for the Homeless	9.6
Workplace Literacy Partnerships	18.9
Literacy Programs for Prisoners	4.9
Total	<u>\$288.0</u>

### Vocational Education

Vocational Education: Basic Grants to States	\$ 972.8
Vocational Education: Consumer and Homemaking Education	34.7
Vocational Education: State Councils	8.9
Bilingual Vocational Training	2.9
Vocational Education: Community Based Organizations	11.8
Tech Prep	104.2
Total	<u>\$1,135.3</u>

## Training and Employment

Employment Service	\$ 810.9
Senior Community Service Employment Employment and Training	5.9
Assistance for Dislocated Workers	567.0
Youth Employment and Training Program	1,367.4
Veterans Employment Program	9.0
Adult Job Training Program	1,045.0
Defense Conversion Assistance	150.0
Defense Diversification Program	75.0
Trade Adjustment Assistance	211.0
Job Training for the Homeless	12.5

Total \$4,253.7

Total: Workforce Improvement Grant \$5,389.0

A number of criteria could be adopted to ensure accountability, including the following.

- Funds could be made available to the state only upon submission of a state plan that demonstrates how funds will be used to foster workforce quality.
- States could be required to distribute to local communities the same proportion of funds that otherwise they would have been required to allocate.
- States could be required to serve individuals with special needs to the same degree that they would have otherwise, for example, homeless individuals, disabled individuals, migrant workers, and veterans.
- States could be required to file annual reports to provide sufficient data for the legislative oversight of the states' use of funds under the block grant.

### OPTION 2: WORKFORCE QUALITY WAIVERS

#### **Background**

Presently, there are a multitude of definitions, reporting requirements, performance standards and the like that inhibit the provision of a coordinated system of workforce training services.

#### **Proposal**

States that have established Human Resource Investment Councils should be permitted to apply for waivers from law and regulations of, for example, the Job Training Partnership Act, the Carl Perkins Vocational and Applied Technology Education Act, the JOBS Program authorized in the Family Support Act, the National and Community Service Act, the Adult Education Act, the Vocational Rehabilitation Act, the Stewart McKinney Homeless Assistance Act (which authorizes a job training program for the homeless), the Wagner-Peyser

Act (the Employment Service), and the Food Stamp Employment and Training Program authorized in the Food Stamp Act. - States should be eligible to apply for waivers that would facilitate improved services, specifically waivers from regulation or law that prevent the application of consistent practices across programs.

The waiver authority should include protections relating to, for example, the distribution of funds and eligibility for services.

To facilitate an interdepartmental approach to waivers, a federal council should be established that includes, for example, the Secretaries of Labor, Education, HHS, and Agriculture.

#### Justification

Both the Workforce Improvement Flexibility Grant and the Workforce Quality Waivers will enable states to integrate more effectively a variety of state and federal programs designed to provide adults and youth with opportunities for education and training throughout their lifetimes.

## TARGETING HIGH-PRIORITY ENVIRONMENTAL NEEDS THROUGH FLEXIBLE FUNDING

#### Background

The President's fiscal 1993 budget includes a total of more than \$500 million for fifteen separate EPA grants to states for the management of environmental programs. These grants are for the administration of specific programs for clean air, clean water, and hazardous waste. Generally these categorical programs require funds to be spent on specified activities, regardless of the particular conditions or relative importance of those activities in a given state. For example, funds are available for hazardous waste management and only that purpose, even though in a particular state environmental and public health protection may be better served by investing in air pollution control instead of hazardous waste management.

#### Proposal

Two flexibility grants are proposed: air and land resources and water resources. In addition to water-related environmental management grants, the water flexibility grant includes the State Revolving Fund program for construction of sewage treatment plants.

Air and Land Environmental Management Flexibility Grant

<u>Program</u>	<u>Fiscal 1993 Appropriations</u> <u>(in millions)</u>
Clean Air Program	\$ 174.5
Public Water Systems	58.9
Underground Injection	10.5
Special Studies	.5
Hazardous Waste	93.3
Underground Storage Tanks	9.0
Pesticide Enforcement	15.9
Pesticide Program	15.9
Radon Program	8.1
Toxics Enforcement	5.1
Total	<u>\$ 391.7</u>

Water Quality Flexibility Grant

<u>Program</u>	<u>Fiscal 1993 Appropriations</u> <u>(in millions)</u>
State Revolving Loan Fund	\$ 2,500.0
Clean Water Management	81.7
Clean Lakes	4.0
Nonpoint Source	50.0
Wetlands	10.0
104 (b) Special Studies	16.5
Total	<u>\$ 2,662.2</u>

Justification

Consolidation of these categorical grants into two block grants, with flexibility for states to allocate available funds among the programs within each block, would enable states to better prioritize their efforts and reflect the specific environmental conditions and needs in the state. The block grants also would eliminate separate applications and allow better targeting of state programs on high-priority environmental problems. In particular, resources could be used more easily to address multifaceted, related aspects of environmental problems in a specific geographic area by focusing attention on the area to be protected (e.g., an urban area or an estuary) rather than on its individual components (e.g., its air or its wetlands).

## INCREASING STATE INVOLVEMENT IN DEFENSE FIRM CONVERSION AND ADJUSTMENT

### Background

The fiscal 1993 Defense Authorization Act and Defense Appropriations Act together created over twenty-five programs, committees, or task forces devoted to assisting workers, businesses, and communities cope with reductions in federal defense spending. States play a role in assisting each of these affected groups. However, this proposal is directed only toward programs aimed at using federal funds to assist businesses adversely affected by the defense downsizing.

### Proposal

Consolidate these newly created programs into a smaller number of more flexible programs. Specifically provide an opportunity for states to serve as partners in determining feasible projects, developing industry-university-government consortia and regional cooperative efforts, and locating affected firms. Existing state programs are accessible to small and medium-sized firms who could most effectively be assisted through these programs.

### Program

Fiscal 1993 Appropriations  
(in millions)

#### Dual-Use and Critical Technology Development:

Defense Advanced Research Projects Agency (DARPA) Dual Use Critical Technology Partnerships Program	\$ 97.0
DARPA Commercial-Military Integration Partnerships	48.5
Advanced Manufacturing Technology Partnerships	24.3
DoD Manufacturing Technology	97.0
Dual Use Technology and Industrial Base Extension	97.0
Regional Technology Alliances Assistance Program (DoD funds to be disbursed in consultation with the Departments of Commerce and Energy)	97.0
<b>Total</b>	<b><u>\$460.8</u></b>

#### Alternative: Administrative Action to Promote State-Federal Partnership

Administrative action could be taken to direct the Department of Defense and other affected agencies to draft regulations that permit states to work in partnership with the federal government in implementing these programs. This

might include language permitting states to apply for waivers from categorical program requirements to utilize these funds in implementing comprehensive defense conversion programs. Another option could be language making states key players in the awarding of competitive grants, especially where state matching funds are involved.

#### **Justification**

Several states have already invested in programs to assist companies based in their states to convert from defense-related production to commercial production. Nearly all states have established public programs or public-private programs in some of these areas: promoting technology diffusion among companies; technology transfer from research laboratories into business applications; manufacturing extension services; and business modernization through adopting existing technologies and adopting modern business practices (just-in-time inventory, total quality management, etc.).

Businesses seeking assistance in defense conversion could easily contact state programs that would work with the federal government to establish priorities and develop successful program models and strategies. As partners, states could assist in implementing national defense conversion/adjustment programs by matching business needs with available expertise, by developing partnerships and consortia to carry out conversion projects, or by evaluating competing proposals. States could become effective managers of these efforts. The federal government would save time and money and ensure greater access to assistance for small- and medium-sized businesses by developing an effective state-federal partnership.

### **INCREASING ACCESS TO HOME AFFORDABLE HOUSING PROGRAM FUNDS**

#### **Background**

The HOME Investment Partnerships Program (HOME) was established by the National Affordable Housing Act of 1990. Designed as a federal, state, and local partnership to ensure more housing for low-income persons and families, HOME was intended as an incentive for states and localities to take a stronger role in providing affordable housing. Currently 40 percent of HOME funds flow to states. However, statutory and regulatory requirements make this an expensive program to administer, especially for a relatively new program.

#### **Proposal**

By amending the HOME program, both through regulatory changes and statutory changes, the federal government could achieve its goal of more affordable housing, and states and localities could better use the funds to meet local needs. Simplifying the program, making the targetting consistent with other housing programs, reducing the paperwork requirements, and reestablishing states and localities as primary partners would increase state participation in the program. Onerous regulatory requirements for the comprehensive housing affordability strategies (CHAS), which must be filed each year for program

eligibility, are only one example. Others include a controversial fund transfer and accounting scheme, a bias against new construction through stiffer matching requirements, and prohibitively expensive project oversight requirements. Partial improvements were achieved through legislation in 1992. However, action at this time could ensure that HOME funds are utilized across the country.

Program

Fiscal 1993 Appropriations  
(in millions)

HOME Investment Partnerships Program

\$1,000.0

Alternative: Regulatory Relief within the HOME Program

By administrative action alone, the administration could improve the efficiency of the HOME program. Current CHAS regulations need to be simplified or waived for states to allow submission of state planning documents that address many of the same issues as the CHAS but in a much more efficient manner. HUD could work with states on sections of the plan that HUD found deficient and that related to the top priorities of both HUD and the state. Regulations for HOME also could be streamlined to encourage project development. By establishing simple and clear guidelines for project eligibility, states and local jurisdictions could readily determine the applicability of HOME funds to a given project. Efforts to attain consistency with other programs, such as the low-income housing tax credit or mortgage revenue bonds, would also help.

Justification

The HOME program was established because more affordable housing is universally recognized as an important component to solving the problem of homelessness. However, complicated program restrictions have deterred many jurisdictions from applying for funds. For example, existing HOME restrictions were aimed at guaranteeing that funds not be directed only toward new construction; that state match be made only of general revenues; that state funds be included in each and every project where HOME funds were directed; that states establish five-year plans to meet housing needs and publicly state where their resources would be directed, even though federal funding levels remained uncertain; that a percentage of the funds be utilized by community organizations whether or not they existed in all communities; that states would collect data on homeless individuals including whether drugs, alcohol, mental illness or family abuse contributed to their homelessness; that states develop more extensive inventories of existing housing to determine not only the location of housing in need of rehabilitation, but whether such housing is occupied by elderly citizens, families with children, racial minorities, etc. Many of these are good public policy goals, but together they create an unmanageable and unrealistic burden. Easing these requirements and promoting a genuine partnership would ensure more affordable housing and a more cost-effective use of scarce public funds.

**CONSOLIDATING EFFORTS  
WITHIN THE MOTOR CARRIER SAFETY PROGRAM**

**Background**

Motor Carrier Safety Assistance Program funds are distributed by formula to states that have adopted compatible federal safety regulations. The state match is 20 percent. Under review this year, federal hazardous materials safety permit and registration programs have been slow to start. Flat fees are levied on shippers and carriers and are used to finance state emergency response grants. State and local governments also operate hazardous materials permit and registration programs. The scope of these programs is restricted by federal law which limits state and local governments to collecting fees that are "reasonable and used for transportation related purposes."

**Proposal**

Consolidate programs related to motor carrier safety enforcement, inspection, permitting, and registration requirements. Eliminate duplicative reporting requirements and unify state oversight of all motor carrier safety.

**Program**

**Fiscal 1993 Appropriations  
(in millions)**

Motor Carrier Safety Assistance Program	\$ 65
Federal Registration and Permit Program	11.3
<b>Total</b>	<b><u>76.3</u></b>

**Justification**

States presently perform the preponderance of motor carrier safety inspection and enforcement. This includes efforts related to hazardous materials transportation as well. The elimination of the dual registration and permit programs to enable states to administer programs under federal uniform standards would allow states to consolidate all enforcement efforts under one widely implemented program structure, the Motor Carrier Safety Assistance Program.

**ATTACHMENT B: THE PROGRAMMATIC, FINANCIAL, AND ADMINISTRATIVE STRUCTURE OF THE GOVERNORS' FLEXIBILITY GRANT PROPOSAL**

**Programmatic Structure**

Flexibility grants are intended to increase the effectiveness of programs by allowing state government greater conformity in the design and delivery of services. To provide such conformity, flexibility grant authorizing legislation should:

- Include a clear statement of purpose, including goals for the flexibility grant and a description of the measures that will be used to judge the effectiveness of the use of flexibility grant funds. (Such legislation should leave to states the specification of the services and programs to be used to accomplish those purposes.)

- Clearly define any limits on financial eligibility for service under the flexibility grant. (Such legislation generally should not include categorical eligibility requirements, programmatic earmarks, or other nonfinancial eligibility criteria not directly related to the purpose of the flexibility grant.)
- Authorize limited transfer of funds among or between flexibility grants to provide the conformity to accommodate differences in state priorities. For example, 15 percent of flexibility grant X could be used for flexibility grant Y.

### Financial Considerations

While flexibility grants increase state options and simplify administration, there is a continuing concern regarding the stability and responsiveness of future congressional appropriations. There is also a concern that uncertainty regarding federal audit standards may unnecessarily reduce flexibility and innovation. To address these concerns, flexibility grant legislation should:

- Make initial allocations of funds based on the application of current formula.
- Provide funding to allow for the upward adjustment in allocations based on the use of 1990 census data in the calculation of formula payments.
- Provide funding to allow for the upward adjustment in allocations based on increases for at-risk or targeted populations included in current formulas.
- Guarantee at least level funding plus the rate of inflation for a period of five years. ~~---This could be done by enacting a permanent appropriation or an entitlement.~~
- Should federal or state audits determine that flexibility grant funds are being spent in a manner inconsistent with the purpose of the flexibility grant, allow the funds subject to an audit exception to remain available for acceptable purposes for a period of twelve months subsequent to the determination.
- If flexibility grants contain matching requirements or maintenance-of-effort provisions, provide that such requirements and provisions be waived during severe economic downturns. Otherwise the inability of states to provide matching funds or maintain existing program funding levels would result in a reduction in federal support.

### Administrative Requirements

Flexibility grants are intended to improve government efficiency by reducing unnecessary and duplicative administrative expenses. To accomplish those ends, it is critical that new and existing flexibility grants address the following concerns:

- Funds should be made available to the states upon submission of a state plan that demonstrates that funds will be used in a manner consistent with the authorizing legislation.
- In general, federal mandates should be limited to those directly related to the flexibility grant itself. If other requirements are to be imposed, the states should be allowed to certify compliance without the submission of a detailed plan.
- States should be given broad authority to determine the state agency or agencies to be held responsible for the administration of flexibility grant programs.
- States should be authorized to use existing legislative or regulatory procedures and/or to establish alternative methods to ensure public input into the development of a state plan for the use of flexibility grant funds.
- States should be authorized to use existing state procedures for financial management and auditing of flexibility grant funds.
- States should have the authority to comingle flexibility grant funds with related programs as long as the overall purpose of the integrated program is consistent with the purpose of the flexibility grant.
- States should be authorized to establish and/or waive confidentiality requirements as necessary to facilitate the integration of programs.
- Flexibility grant funds may be used to fund their proportionate share of consolidated case management activities.
- Authorizing legislation shall not include limitations on administrative costs.
- Federal approval should not be required for the acquisition of data processing systems.
- States should be expected to file annual reports that will provide sufficient data for the legislative oversight of the states' use of funds under the flexibility grant. Such data should be relevant to the state plan, and should not be standardized except as necessary to provide information relative to the performance measures established by statute.

These suggested provisions are based on the assumption that existing state law and procedures are sufficient to ensure that funds are expended in a manner consistent with legal and political accountability. While it is reasonable for the federal government to require assurances that funds are being expended for the purposes set forth in federal legislation, there is no need for federal intervention in state administrative or legislative processes. Existing state programs already manage the distribution of state tax revenues far in excess of the value of any federal flexibility grants.