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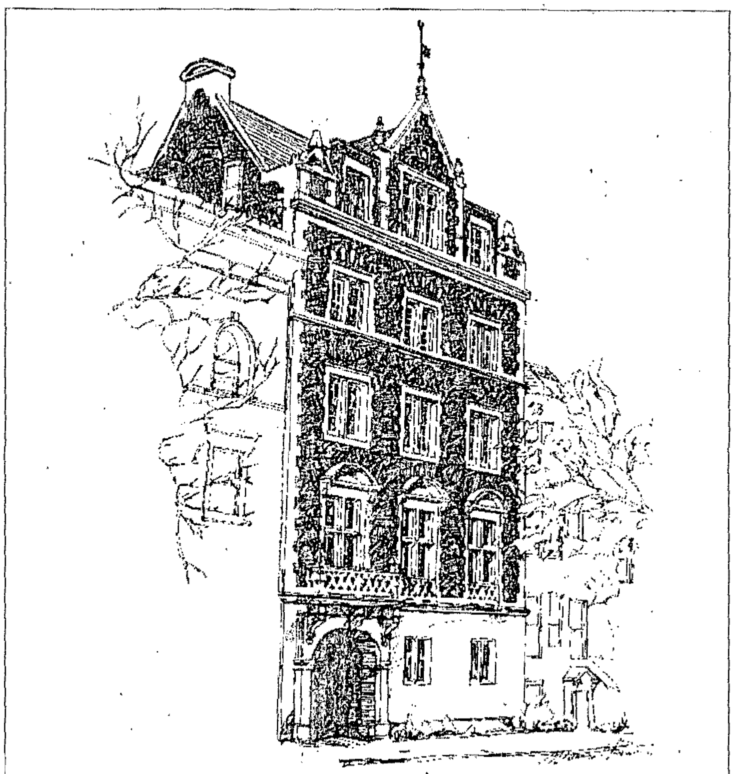
The Methodology for Field Network Evaluation Studies



Richard P. Nathan

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HISTORY

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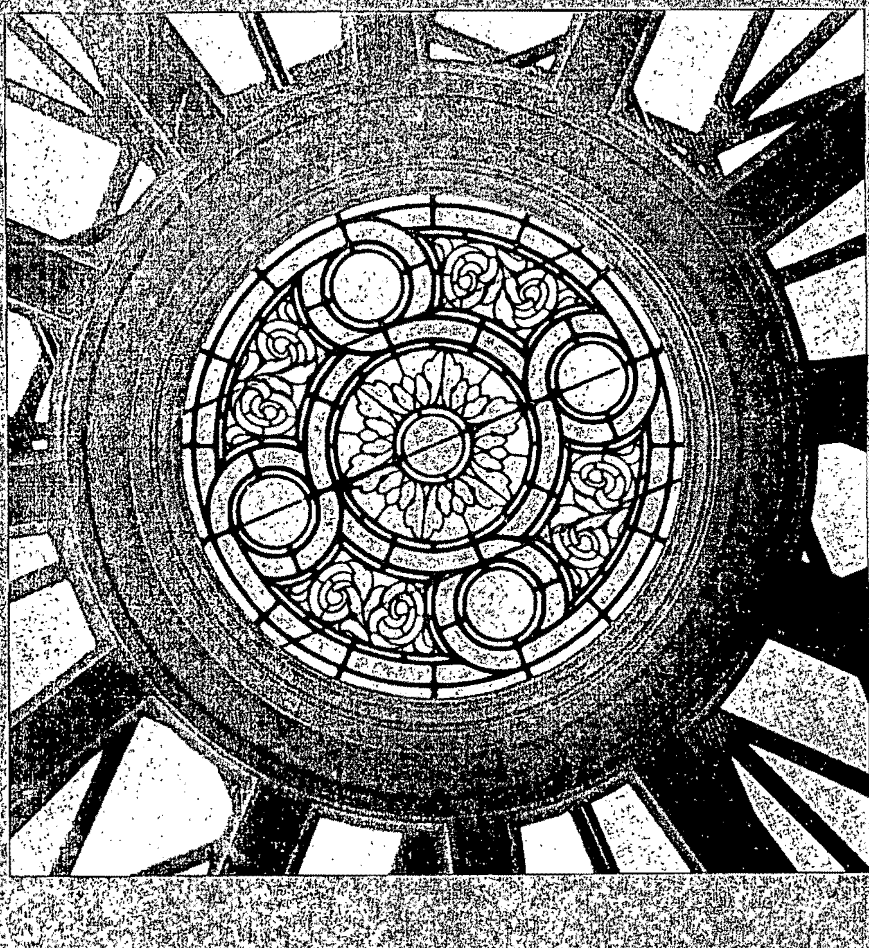

AN ASSESSMENT OF THE EMPOWERMENT ZONE/ENTERPRISE COMMUNITY INITIATVE

RESEARCH STATEMENT AND PROTOCOL

NELSON A. ROCKEFELLER INSTITUTE OF GOVERNMENT

STATE UNIVERSITY OF NEW YORK

The Empowerment Zone/Enterprise Community initiative marks the most significant effort launched by the federal government in decades on behalf of this nation's distressed inner cities and rural areas. The program is notable as well as an innovative approach to building partnerships and community capacity; for fostering reform in the relationship between citizens and their government, and among levels of government; and for insisting on a new level of accountability, with visionary goals connected to measurable results.

This assessment of the EZ/EC initiative marks an important opportunity to help ensure that our government and nation learn the right lessons about this important undertaking. The assessment also serves as a method of identifying the sites, people and programs that are standout performers, using and sharing those models and best practices as lessons for improvement while the initiative is underway.

I. Background:

A. Program Description:

The Empowerment Zone and Enterprise Community initiative (abbreviated below as EZ/EC) was established in law on August 10, 1993, when President Clinton signed the Omnibus Budget Reconciliation Act of 1993. Provisions of the Act authorize the federal government to designate up to 104 communities throughout the country as Empowerment Zones or Enterprise Communities, enabling these selected communities to benefit from tax and regulatory relief, grants and other favorable treatment, provided to attract private investment and stimulate community revitalization.

To be eligible for designation as an urban EZ or EC, such communities had to have:

Populations less than 200,000 or greater than either 50,000 or 10 percent of the population of the most populous city in the area;

Pervasive poverty, unemployment and general distress;

A total land area of 20 square miles or less;

A poverty rate of at least 20 percent in each census tract, 25 percent in 90 percent of the tracts nominated, and 35 percent in 50 percent of the nominated tracts;

A continuous boundary or not more than three noncontiguous parcels;

A location entirely within the jurisdiction of the local government(s) making the nomination and within not more than two contiguous states; and

No portion of a central business district in any census tract unless every such tract has a poverty rate of at least 35 percent, for an EZ, or 30 percent for an EC.

Urban ECs -- 65 of which are authorized in statute -- are eligible for tax-exempt facility bonds for certain private business activities, in addition to special consideration for requested waivers of federal regulations, flexibility in the use of existing program funds and in the competition for numerous federal programs, like National Service and Community Policing. Each EC is also eligible for approximately $2.8 million in Social Service Block Grant funds (abbreviated to SSBG below), passed through their respective state. SSBGs can be used for a number of purposes (additional activities may be eligible for SSBG funding as well as those below, with proof they meet the same goals and with reasons for why these pre-approved programs were not pursued):

Community and economic development services focused on disadvantaged adults and youths, including skills training, transportation, and counseling concerning employment, housing, business/financial management;

Promoting homeownership, education or other routes to economic independence;

Assisting with emergency and transitional housing;

Assisting nonprofit organizations and/or community colleges that provide disadvantaged individuals with training that promotes self-sufficiency, or organizations that provide them with training and employment in construction, rehabilitation or improvement of affordable housing, public infrastructure or community facilities;

Or for services that ameliorate or prevent neglect of children and adults or that preserve families, through comprehensive drug treatment for pregnant women or mothers with children, or through after-school programming.

Four Enhanced Enterprise Communities (abbreviated below as EECs) have been designated among the ECs, comprising parts of: Boston, Houston, Kansas City and Oakland. In addition to being eligible for the benefits above, each EEC is to receive $22.2 million in Economic Development Initiative (EDI) grants from HUD to provide financing for economic development, housing rehabilitation and other essential development projects (on top of the $2.8 million in SSBG funds, for $25 million in total).

Two Supplemental Empowerment Zones (abbreviated below as SEZs) were designated among the ECs, comprising parts of Los Angeles and Cleveland. In addition to being eligible for all the benefits made available to the other ECs, the Cleveland SEZ is to receive $87.2 million in EDI grants from HUD (for $90 million in total) and Los Angeles is to receive $122.2 million in EDI grants from HUD (for $125 million in total).

Six Urban Empowerment Zones (abbreviated as EZs) were designated, comprising parts of: Atlanta, Baltimore, Chicago, Detroit, New York City and Philadelphia/Camden. Each will receive up to $100 million in federal SSBG funds, for the purposes described above. In addition to the benefits afforded the other designated communities, EZ businesses are eligible for federal income tax credits for employing zone residents. Employers located in Empowerment Zones are eligible to receive tax credits for each worker who resides in the zone for up to 20 percent of the first $15,000 in wages and qualified costs of training. Empowerment Zone businesses are also eligible to receive allowances ranging from $10,000 to $20,000 for expensing of depreciable property in the first year of business. EZ communities are authorized to use expanded tax-exempt state and local bond financing for certain zone properties as well. The tax incentives may prove to be an important influence on program results, and have been estimated to amount to more than $2 billion over the life of the program.

To have been considered for Empowerment Zone and Enterprise Community designation, a community must meet the socio-economic distress criteria noted above and must have submitted a strategic plan that:

Describes the coordinated economic, human, community, and physical development and related activities proposed for the nominated area;

Describes the process by which members of the community, local institutions and organizations are involved in, and have contributed to, the process of developing and implementing the plan;

Specifies needed waivers or other changes sought in federal, state and local governmental programming to enable better coordination and delivery; and

Identifies the state, local and private resources that will be available to the nominated area.

The area must also have been nominated by the state and relevant local government, putting these other partners in the position of assuring their own commitment to resources and reinvention. The strategic plan is the cornerstone of the application for EZ or EC designation.

The designation of urban EZs/ECs was made by HUD Secretary Cisneros (and rural designations by USDA Secretary Espy) following review by an interagency task force representing the agencies comprising the Community Empowerment Board -- a body, chaired by Vice President Gore, meant to reflect an important early example of "reinventing" the federal government to better coordinate activity while being more flexible and responsive.

B. <u>Key Features of the EZ/EC Initiative:</u>

- Local Design and Community Participation: The latitude left to local variation and the requirements for community involvement are among the most distinctive features of the EZ/EC initiative. As the application guide states: "Your application will be judged both by the substance of the strategic plan and the extent to which [it] reflects the participation of community residents, citizen groups, the private and nonprofit sectors, and your local government entities" (p.6). The community-based, partnership-laden strategic planning process essentially <u>became</u> the application.

- Breadth of Vision: The EZ/EC initiative puts economic development/opportunity in a more comprehensive context than have traditional governmental efforts. While the programmatic details are left to the participating communities, the program design requires they take an integrated approach to address the interrelated problems of human, economic and community development. These elements are emphasized in the four key principles enunciated for the EZ/EZ initiative: economic opportunity; sustainable community development; community-based partnerships; and strategic vision for change.

- Innovative Federalism and Governmental Reform: The EZ/EC initiative takes a challenge-grant approach to reinventing government -- putting up a federal commitment to change in exchange for complimentary commitments from state and local partners, and the identification of specific changes in governmental regulation requested from community-level service providers. The perspective on "reinvention" ranges from impacts on service delivery and coordination; to relationships among and within federal, state and local governments; and, more importantly, relationships of citizens to those governments and one another.

- Building Community: The design, application and implementation processes require partnerships among local players. The EZ/EC initiative was intended to encourage businesses groups, locally elected officials and community advocates to join together, thinking and deciding about their common destinies and pulling in the same direction.

- Assuring Accountability: The EZ/EC initiative has placed particular emphasis on the development and use of benchmarks to measure and report actions and efforts specified in the strategic plans, tying the acceptance of these plans and the release of funds to the identification of measurable and specific indicators of task completion and performance. The initiative has incorporated a parallel reporting requirement to HUD from the states and cities involved as well.

C. Context:

The concept of Enterprise Zones as an economic development tool is based at least in part on a British experiment of the late 1970s. Tax incentives and regulatory relief to entrepreneurs in distressed urban areas were seen as a way to turn England's abandoned industrial areas into inner-city industrial parks. The concept was imported to the U.S. by Stuart Butler of the Heritage Foundation. Among the earliest supporters was former Congressman and HUD Secretary Jack Kemp, who saw England's free-market approach as a model for the revitalization of America's decaying urban areas and who introduced the first enterprise zone bill in Congress in 1980. Little legislative headway was made over the ensuing thirteen years, with the exception of a relatively minor attempt at enactment and implementation in 1987, which died on the vine, and a version within a larger bill vetoed by President Bush in 1992 because of unrelated tax considerations.

The Clinton Administration's EZ/EC initiative has been described as the culmination of this 13-year debate over federal enterprise zones. Critics of the effort have said it owes more to previous models of governmental intervention than to the "pure EZ concept" of tax incentives and regulatory relief. On closer examination, however, the Clinton Administration's EZ/EC initiative ought to be seen in a broader context.

The EZ/EC initiative, as designed, reflects a recognition that a different strategy was warranted in applying the enterprise zone concept to distressed communities and populations within those communities than the original, British approach to advancing economic development in depopulated, derelict industrial areas. Indeed, this distinction was also made by Butler, an early advocate of EZs who nonetheless acknowledged the need and desirability of additional action for such communities in the U.S.; by the Bush Administration too, which advocated tax benefits, waivers of regulation and a $500 million "weed and seed" program for such communities. The Conservative British government, as it happens, quickly turned to a much more activist approach toward governmental intervention in these areas in England, as well.

The design of the EZ/EC initiative also appears to reflect the benefit of state experience. Enterprise zone activity has been extensive at the state level over the 1980s: Some 37 states have designated upwards of 2,000 enterprise zones across the country. Variation in approaches, site characteristics and context among state-level zones and zone-programs is ample, making it harder for the evaluations that have been conducted to determine whether differences in results have been due to what was done by different states or to how they did it. The preponderance of evidence on the state experience suggests, however, that tax benefits -- particularly tax credits, which have a delayed effect -- are not enough. Generally, the more successful state zones include financial help to businesses, physical infrastructure and targeted social services to strengthen human resources. Where such techniques are not directly a part of the zone initiative, site coordinators have reported their efforts include linkages to such other programs and services. Researchers have also focused on the influence of local organizations built up from the community; the state experience demonstrates that the presence of a strong local entity and the quality of the staffing are among the most important determinants of success.

The design of the Clinton Administration's EZ/EC initiative appears to have been responsive to the lessons of the Model Cities program as well. The EZ/EC initiative doesn't just encourage community input and participation in local planning: it requires community involvement, and prescribes specific types of activities including implementation as well as planning and design) and types of local actors (including community residents, CDCs, businesses, financial institutions, neighborhood associations, service providers and local government) that must be involved and committed.

The EZ/EC initiative is designed to be more than a federal-city partnership with input from communities. It requires the states to participate along with the other groups noted above. It requires, implicitly, in effect, that they match resource commitments and, explicitly, that they join in the "reinvention"/reorganization of their own services and administrative interventions in these communities.

The EZ/EC initiative is designed to do more than promise coordination of federal efforts. Instead of leaving that responsibility to simply one among a host of federal agencies (and a brand new one at that, as was HUD at the time of Model Cities), the EZ/EC initiative includes the creation of the Community Empowerment Board, chaired by Vice President Gore and including all the relevant federal agencies that are supposed to be providing resources and demonstrating regulatory and grantmaking flexibility as part of the EZ/EC initiative.

Finally, the EZ/EC initiative places significant emphasis on accountability, as noted above. Community input, partnerships and vision were all stressed in design and execution; the benchmarking forms/process ties those elements to specific commitments, and ties the strategy to individual steps with designated, responsible parties and deadlines.

II. **Technical Approach**

A. Discussion:

Evidence supporting the efficacy of past urban economic development programs is relatively sparse. This may be attributable to the economic forces working against urban regeneration, to the design and implementation of these earlier efforts, to the design and execution of their evaluations, or to some combination.

It is important to note that the purpose of the EZ/EC program is not to learn something but rather to do something, and the structure of the effort requires an evaluation far different than would be warranted in the setting of a laboratory or demonstration study. There is a limited opportunity to control the conditions under which the assessment study is to be conducted and no opportunity to have randomly assigned subjects to counterfactual or control groups [One could attempt to construct a comparison of EZ/EC sites to similarly situated communities within similarly situated urban areas -- possibly beginning by looking at communities that unsuccessfully sought designation -- but it is extremely unlikely that such areas could be similar enough to serve as counterfactual cases, could be sufficiently controlled to eliminate the influence of exogenous factors or could be possibly selected at random].

The timing of the program and physical characteristics of the sites involved have important implications for the design of such an evaluative assessment as well. The EZ/EC program began, and the two-year funding commitment cycle will end, well within a single decennial census cycle: 1990 census data is probably too old to be used as a reliable barometer of "before," even if interested evaluators, program officials and other observers were willing to wait for 2000 census data to become available as a measure of "after." Moreover, the EZs and ECs represent subcity areas; comprising newly defined areas, in many cases, that do not comport with the boundaries of existing agency catchment districts or identifiable neighborhoods. Generally, these attributes make the use of existing secondary data more challenging if not somewhat problematical.

B. Proposed Methodology:

The design of the EZ/EC initiative stresses comprehensiveness, decentralization and local variation. The effort is subject to considerable discretion and differences in administrative implementation. We believe a multidimensional research strategy is needed combining:

(1) a Field Network Evaluation that blends quantitative and qualitative data and relies on observers making informed observations, predicated on key informant interviews, surveys, focus groups and other analytic techniques that are systematic, objective and rigorous;
(2) a Data Base Analysis of Programmatic Information built up from the benchmarking forms and the state/city reports on progress filed with HUD;

(3) Geographic Information System analysis; and

(4) Dissemination of Best Practices and Model Sites.

1. Field Network Evaluation:

The field research will focus on effects and on identifying commonalities in underlying goals. Given the diversity in desired outcomes for EZ/EC communities and the nature of the program, we believe the network evaluation should encompass four categories of effects:

(i) Economic opportunity/employment effects;

(ii) Programmatic effects;

(iii) Distributional effects; and

(iv) Institutional effects.

Economic Opportunity/Employment Effects. Job creation is viewed as crucial to the success of the EZ/EC program. Not only should an evaluation seek to assess direct job-creation effects and the types of jobs created, it is necessary to observe, and seek to gauge, the job/economic opportunity-creation effects of other activities, such as entrepreneurial initiatives, small business expansion, and job training.

The availability of tax incentives has the potential for producing large costs and benefits if EZ businesses take advantage of them on a broad basis; estimates are as high as $2 billion. Although there is an extensive literature on the impact of tax incentives on economic development, not enough is known to conclude how businesses are likely to react to such incentives especially in neighborhoods like those in the EZ program.

Programmatic Effects. Field network research on programmatic effects will focus on how EZ/EC money is allocated among different functional areas, programs, and agencies. Field researchers will be asked to identify the programs that are being funded under the aegis of the EZ/EC initiative and how these programs are organized.

Since one of the underlying themes of the initiative is to "reinvent" government, field researchers will be asked to analyze how the management/delivery of services has changed as a result of the program. Coordination of service delivery is particularly important; field researchers will be asked to study institutions in the EZ/EC neighborhoods and the way they are affected by the new programs.

Distributional Effects. Research on the distributional effects of the EZ/EC initiative will focus on the allocation of funds among different income, racial, age and ethnic groups and geographic sub-areas. HUD documents stress the need for "balance" between individual impacts of the EZ program and neighborhood impacts, between physical and social service components, between economic development and human capital development, and between the young and the old, the poor and the more successful resident of EZ communities. Field researchers will be asked to analyze the approaches undertaken by the EZ/EC communities to achieve balance in these terms by assessing projects in the neighborhood and interviewing program administrators, neighborhood residents, city and state officials. Geographic Information Systems (GIS) research will play an important role in our analysis of these distributional effects, as described more fully below.

Political/Institutional Effects. The mobilization, support, and involvement of citizens, community institutions and leaders is a critical element within EZ/EC programs. Political/institutional effects are an important outcome variable and are of considerable concern to national policy makers. Field researchers will be asked to investigate the role of citizens, community groups, businesses and the community as a whole in the development and implementation of the plans for each zone. They will also examine how public-private partnerships are used for service delivery to citizens of distressed areas and the leveraging effects of EZ money on commitments of state and local government resources. An important dimension of the political/institutional impact of the EZ program is in how it will affect the sense of "civic community" and identity and also ideas about the future prospects of the residents of EZ areas.

Key Variables:

Quantifiable data, together with objective, scientifically-drawn qualitative information, will be collected to measure the four categories of effects noted above. We have identified the following key variables as measures that are important for baseline purposes and for assessing program effects overall:

- Jobs created and retained
- New business start-ups/closures
- Employment and earnings
- Labor demand and supply shifts

- Partnerships: public/private, public/public, private/community, etcetera
- Leverage of private resources (business; foundation)
- Skill/educational attainment
- Crime (with a subset on substance abuse)
- Public assistance caseload/poverty (noting that many other changes are or are potentially occurring that affect this variable)
- Population decline or increase
- Property investment: new mortgages written
- Housing stock: abandonment/boarded-up; rates of owner occupancy
- Economic/social isolation
- Community involvement: civic group membership/attendance/formation

Central and field staff will examine the benchmarking forms and other local-source data for measures of these variables. The forms include baseline data related to program initiatives that cover many of the above, and indicate whether the baseline information is sourced to the Census, for example, or to some other, local source.

In addition, we will work to identify additional sources of agency-based and other local data measuring these variables and ensure that successful local research techniques are shared across all the field personnel in our EZ/EC network.

Tools for Field Network Studies:

The tools used by the field research team to study employment effects will include key-informant interviews and surveys of program administrators, program participants, and local business and community leaders, and field analysis of the benchmarking forms and other data generated for the EZ/EC program.

The field study will seek to collect data on the use of the tax incentives and offer an assessment of how they have worked -- taking care to note and attempt to measure displacement effects by trying to discover if EZ jobs are created at the expense of jobs elsewhere in the city or region -- and their relative influence on job growth in the EZs.

The tools used by the field researchers to study programmatic, distributional and institutional effects will include interviews with program administrators, representatives of neighborhood institutions (such as churches, schools, and hospitals) observation and the analysis of data on community conditions and on levels and methods of service delivery. A special set of interviews and focus groups with "players" and residents in the EZs and ECs will be conducted by field researchers to get at the dimension of change in civic community and leadership capacity.

In each site, the field associate -- with technical support from the central team -- will be responsible for conducting two focus groups, each of which will meet twice. One group would be comprised of key community leaders: church, civic group, business, nonprofit and other organizational representatives. A second group would comprise a representative selection of community residents within the EZ/EC. The first sessions would be held as soon as practicable and appropriate in the spring-to-early-summer of 1996. The second set of sessions -- revisiting with the same individuals -- would be held in mid-summer of 1997.

The objective would be to use the focus group technique for two interrelated purposes. First, the focus groups will enable us to capture interpretive information about what is happening in the communities, adding greater texture and flavor to our understanding of what is taking place. And second, they will serve as a cohort tracking mechanism -- helping to establish a "baseline" about expectations for the effort, the status of things in the beginning, performance against expectations, and impact on actual life-chances and experience.

2. <u>Data Base Analysis of Program Information</u>

The benchmarking and activities forms and the reports required from state and local partners to HUD represent a potential treasure-trove of programmatic information. In addition to the breadth and depth of information-gathering already provided for in the program design, and the range of baseline-descriptive data and progress-against-stated-objective-related-to-vision information it may be able to provide, the fact that the information is available electronically makes its potential utility even greater.

We will create a data base of selected information off the benchmarks and activities forms and accompanying narrative reports. For example, we will canvas the "category of need" entries to identify areas of common focus and canvas the benchmarks entries to identify commonalities in method. We will develop a coding taxonomy for categorization and analysis and employ it to generate and report a set of data across all of the urban EZ/EC sites, including such things as:

Characteristics of the funded programs

Distribution of benefits to local actors, by type of benefit and type of actor

Process: involvement; decision-making; design; management

Type of city and location within metropolitan area to note whether there are any interesting differences by size, region, relative economic health of region, central vs. edge city, and the like

Percentage breakdown of funds by category/purpose, enabling illustration of the largest/most frequent components and how much variation in purpose there is across sites

Macro-level progress against process objectives, generating a matrix on status of MOA/ benchmark approval; those with funds expended

Those sites with a governance structure and process in place, by type

Degree of leverage of private funds and other public sector funds (by level of government and purpose)

Linkages with community-based organizations (illustrating the notion of the effort strengthening existing/start-up organizations that will have continuing benefit to social capital/capacity/leadership in these troubled communities)

Field Survey

We propose to complement this approach with survey data on the universe of 72 urban sites, asking site managers and members of zone advisory boards for their perspectives on outputs and outcomes; on progress against stated objectives and against expectations; on process. We would use the results of our earlier focus group research to frame the questions and sample segments for this survey. The Research Committee, discussed below, would have a prime role in shaping the framework and design for the focus group and survey research. Our approach is predicated on relying on HUD's communication network to assure the necessary rate of return of mailed survey instruments from the field.

3. Geographic Information Systems Analysis

Powerful new computer technology has greatly enhanced the ease of producing maps for urban areas across the country. This computer-generated cartographic capability enables accurate maps and drawings to be produced efficiently, with digitized, graphic display permitting manipulation of the same kind of topological information -- line features, street segments, intersections, natural boundaries and shapes like rivers, parks and other open space -- traditionally seen on paper maps.

Moreover, GIS capability not only facilitates the illustration of these spatial relationships, it enables researchers to combine and compare these relationships with quantitative/descriptive data that can be arrayed visually. For example, geographic base files

(GBFs) illustrating the physical layout of a given geographic area -- a metropolitan area, city, neighborhood, census tract, etcetera -- can be combined with statistical base files (SBFs) -- showing population, income, educational attainment, housing characteristics and the like -- for the corresponding geographic area in a common data bank.

We propose to use this exciting technology in several ways:

We will geocode the physical location of initiatives funded through the EZ/EC initiative and match them against relevant neighborhood characteristics, to assess targeting.

We will array programmatic activity and the socio-economic/demographic characteristics of the census tracts comprising the EZs and ECs to assess distributional effects and "balance."

We will plot the locations and catchment areas of significant service organizations in the EZs/ECs, both public and private/nonprofit. This will be useful as (1) a gauge of whether any "reinvention" of governmental efforts has been realized in terms of better coordination of service delivery and (2) a measure of increased "community capacity."

We will gather and attempt to geocode secondary source information as a cross-measure on outputs and outcomes: agency data on crime; health-related vital statistics like birthweight/teen pregnancy, disease; caseload data regarding public assistance; Unemployment Insurance; available data on migration.

4. Information Dissemination on Best Practices/Model Sites

This assessment of the EZ/EC initiative should be seen as a formative, process evaluation. And, as such, the lessons about performance should be useful and used not only as input for an interim or long-range evaluation but more, as a way of learning and improving while the program is underway.

Consequently, the field network study and other analytic techniques described above will include, in every appropriate step, an emphasis on identifying model systems, best practices and exemplary programs -- standout performers that provide specific lessons of use to other sites, people and programs involved in the initiative.

We will highlight these lessons in our reports to HUD. Moreover, within our core assessment work, we propose to share descriptions produced through our field network via case-study and personal profile with the universe of 72 urban sites, employing HUD's Home-page/Web Site as an efficient vehicle to provide this information to EZ/EC sites, public libraries, and other potential users.

III. Scope of Work:

Each field site will be responsible for key informant interviews with a core of 10-to-15 EZ/EC leaders per round of research. In addition, as noted above, each field site will host two focus groups, each of which will meet twice over the course of the assessment. Field associates will undertake research of program documentation produced by the local EZ/EC sites as well as a variety of separate, local-source data that will be used to round-out and "triangulate" results reported through "benchmark" and other program reports.

Insights gained from the use of these various tools and techniques will be applied to written contributions toward four reports to HUD, described below.

In addition, field sites will need to have a designated individual available for telephone and email communication on a weekly to bi-monthly basis regarding progress on the assessment.

IV. Overall Schedule:

We will hold a plenary session bringing all of the field associates together with central staff and HUD/Price Waterhouse representatives at HUD's offices in Washington on March 29, 1996 for discussion of our research approach and methodology. We will be joined in the afternoon by HUD's field staff covering the EZ/EC initiative, who will share additional detail and insight about local progress, useful contacts and logistics. Following the meeting, we will finalize and distribute a protocol reflecting input from the plenary session.

We also plan to involve each field associate in one of two regional update meetings scheduled over the summer of 1996 (one will be held in in Los Angeles, covering the west coast and Rocky Mountain states, and the second in Chicago, covering the Midwest through the east coast).

The written product of the field research will consist of four reports:

For June, 1996:

We will ask each field site to provide a description of the components of each community's strategic plan and a special focus on community participation: What approaches were pursued to draw in the community; what strategies worked or didn't work; how was participation manifest -- what did it look like, what forms did it take; did it continue throughout or die off. What structures were created, at what stages, to translate community input/responsibility into control; what patterns do we see in these structures with respect to resident/citizen involvement/representation, city governmental and state governmental participation, if any; other represented interests.

The analyses supporting this interim report will feed in to the underlying assessment of the overall EZ/EC program. The first comprehensive assessment report will be delivered in draft to HUD on August 15, 1996.

For August, 1996:

The initial comprehensive assessment report will be built up from intensive, case-study format chapters on each of the cities studied in the in-depth sample of 18 urban sites. The case studies will tell the who, what, when, where, why and how of each sample site, telling the story of the history, activities, effects and possible consequences of the EZ/EC initiative from application, through the preaward period, designation and since.

These case studies will be preceded by chapters organized around each of the four key principles of the EZ/EC program -- Economic Opportunity, Sustainable Community Development, Community Based Partnerships and Strategic Visions for Change. These chapters will answer the research questions enumerated on the attached list, also organized in accordance with the four key principles undergirding the EZ/EC initiative. This material will be preceded by an introduction/overview that discusses our broad analysis and findings.

The August report will contain a special emphasis on benchmarking: What benchmarking was intended to do; how HUD and the EZ/EC communities set about performing the benchmarking process; what the benchmark information actually looks like; the degree to which it has demonstrated itself to be, as implemented, a successful or not so successful method to emphasize product over process, tying strategy to accountability.

This assessment report will: describe the history of the process; describe the degree of community participation and partnership in design through benchmarking; discuss the governance structure; detail what the efforts in the sample cities look like, substantively, programmatically and structurally; provide data on status against benchmarks for the sample cities; provide a matrix on status for the universe of 72 urban sites; emphasize the input of interpretative information from the first set of focus groups;

provide GIS mapping of the distributional effects of EZ/EC programing, arraying those efforts underway and planned on maps also depicting population characteristics; and information on model systems, best practices and exemplary programs identified to that date.

For February, 1997:

The third report will be a smaller, contributory report on a topic to be determined. Most likely, it will cover either the private sector allegory to community participation -- business participation and leverage -- or it will cover reinvention efforts between and among public sector, private sector and nonprofit sector partners.

For August, 1997:

The fourth and final report will be a summary report detailing the activities that have been funded and generalizing about their results over 2.5 years of progam operation. It will: Incorporate the second and final round of focus group interpretative data, which will shed light on changes in individual life chances and whether they were lasting and meaningful; Contain the remaining GIS analysis assessing the targeting of EZ/EC activity and, where possible, demonstrating measures of impact according to geocoded agency data; Assess the more comprehensive approach taken through the EZ/EC initiative to developing economic opportunity; Examine available evidence of governmental service delivery reinvention; Describe what we have learned about community capacity for self-empowerment and the characteristics of newly emergent leaders; and provide a final set of case-models.

V. EZ/EC Sample Sites

EZs: (6 of 6)

Atlanta
Baltimore
Chicago
Detroit
Philadelphia/Camden
New York City

Supplemental EZs: (2 of 2)

Los Angeles
Cleveland

Enhanced ECs: (2 of 4)

Boston

Oakland

ECs: (8 of 60)

San Fransisco
East St. Louis
Minneapolis
Phoenix
Dallas
Tacoma
Charlotte
Louisville

VI. Project Team

Principal Investigator - Richard P. Nathan is Director of the Nelson A. Rockefeller Institute of Government and Provost of the Rockefeller College of Public Affairs and Policy, University at Albany. Dr. Nathan has extensive experience directing field network studies of federal grant-in-aid programs including public service employment, community development block grant programs, revenue sharing, and President Reagan's domestic policy while at the Government Studies program of the Brookings Institution and the Urban and Regional Research Center at the Woodrow Wilson School of Princeton University. Professor Nathan is Chairman of the Board of the Manpower Demonstration Research Corporation and serves as Principal Investigator for the Rockefeller Institute field network study of working and middle class minority neighborhoods and co-PI for the field network evaluation of the Pew Charitable Trusts' Neighborhood Preservation Initiative. Dr. Nathan will guide the research program and serve as the principal editor and author of the four assessment reports.

Project Director - David Wright is Director of Urban Studies at the Rockefeller Institute of Government. In addition to general management and planning, Mr. Wright co-directs the Urban Neighborhood Study, a field network study of 16 metropolitan regions across the country, and is co-principal investigator and project director for a nine-city field evaluation of the Pew Charitable Trusts' Neighborhood Preservation Initiative. Prior to joining the Institute, Mr. Wright served as Deputy Secretary to Governor Mario M. Cuomo for policy and program development, working intensively for twelve years on policy and program design, evaluation and budgeting. Mr. Wright will handle the daily management functions of the project. He will supervise the central research staff and manage communications with field research associates; will have primary responsibility for the production of the assessment reports and progress reports and will serve as the contact person to Price Waterhouse and HUD.

Project Assistant - Mark McGrath, Special Assistant to the

Director, Rockefeller Institute of Government, will be responsible for assuring financial and personnel issues are resolved for the central staff and field research associates. He has worked closely with the Principal Investigator on the Rockefeller Institute field network study of working and middle class minority neighborhoods and the field network evaluation of the Pew Charitable Trust's Neighborhood Preservation Initiative. Mr. McGrath will assist the Project Director with management of central staff members and with communications with field research associates. He will be responsible for budgeting, administrative material, logistics of travel, and meetings for the study under the supervision of the Project Director.

Data Manager - To be identified. Under the supervision of the Project Director, the Data Manager will be responsible for the preparation, compilation, management, and analysis of all data needed for the project. Acting as a liaison of the central staff, the Data Manager will coordinate with the field research associates in the development of the data collection tools such as case study protocol, survey instruments, focus group questionnaires, and other assessment tools/documents as needed. The Data Manager will assist the Principal Investigator and Project Director in preparing technical documentation and analysis reports for the project.

GIS Analyst - Ming Zhang is Senior Research Aide to the Urban Study Group at the Rockefeller Institute and will serve as the GIS Analyst for the project. Mr. Zhang has an M.A. in Urban and Regional Planning from the University at Albany and a graduate certificate in GIS in December 1995. Mr. Zhang is the GIS Analyst for the Rockefeller Institute study of working and middle class minority neighborhoods. He will work closely with the Data Manager to produce GIS maps for the assessment sites, geocode the location of initiatives funded through the EZ/EC initiative, and help to gather and geocode secondary source information as a cross measure on outputs and outcomes of the EZ/EZ initiative.

Administrative Assistant - To be identified. An Administrative Assistant will provide administrative, conference and clerical support associated with the daily operation of the project including; typing and formatting of policy papers, informational mailings, letters, and developing and maintaining mailing lists. The Administrative Assistant will also assist the Project Director with communication with field research associates.

Research Committee

Members of the Research Committee will assist the central team to develop the protocol for survey and focus group methodology, advise on the methodology for assessing the universe of 72 urban sites, and support special studies for the project. Members of the Research Committee include:

Charles J. Orlebeke is Professor of Urban Planning and Public Administration and Acting Dean of the College of Architecture, Art and Urban Planning at the University of Illinois at Chicago. He has held various government positions as an Executive Assistant for Planning and Program in the Governor's office of the State of Michigan, and with the U.S. Department of Housing and Urban Development in various capacities during the 60s and 70s. From 1978 to 1986, Professor Orlebeke was a Chicago/Illinois research associate for several multi-year field network evaluations of federal program and policy impacts on city and state governments working with Richard P. Nathan and the Brookings Institution, Princeton University, and Westat, Inc.

Professor Orlebeke's publications include "Illinois," in Reagan and the States, by Richard Nathan et al. Princeton: Princeton University Press, 1987; The Reagan Program in Illinois and Chicago, Princeton Urban and Regional Research Center, Princeton University 1984; Federal Aid to Chicago, Washington, DC: The Brookings Institution, 1983; and Public Service Employment: A Field Evaluation, with Richard P. Nathan et al, Washington, DC: The Brookings Institution, 1981.

Professor Orlebeke's role as a Research Committee member will be to assist with the writing and synthesis for the four assessment reports as well as providing input in developing the field research for the Chicago Empowerment Zone.

Michael J. Rich is Assistant Professor of Political Science at Emory University. Prior to joining the faculty at Emory, Dr. Rich was an Assistant Professor of Political Science and Public Policy at Brown University, where he also served as Director of the Policy Analysis Laboratory at the A. Alfred Taubman Center for Public Policy and American Institutions. From 1992-1994, he served as the first executive director of The Providence Plan, a nonprofit strategic planning organization created by the City of Providence and the State of Rhode Island to direct the revitalization of Rhode Island's capital city. Dr. Rich received his Ph.D. from Northwestern University and worked at the Brookings Institution as a central staff member on the field network evaluation of the Community Development Block Grant program. His publications include Federal Policymaking and the Poor, published by Princeton Press in 1993; several publications on federalism and several publications on urban policy, including community development, housing, crime, and economic development.

Professor Rich currently serves as the lead field analyst in Atlanta for the Rockefeller Institute's urban neighborhood study. In addition to performing field associate duties for the Atlanta EZ site, Dr. Rich will work with members of the central team to guide the analysis of secondary data from local agencies and key institutions involved in the EZ/EC programs in each city. He will provide input and advice on the GIS applications of the project.

Tara D. Jackson is a Postdoctoral Research Fellow at the Joint Center for Housing Studies of the Kennedy School of Government, Harvard University. Dr. Jackson is a lead analyst on the Rockefeller Institute's study of working and middle class minority urban neighborhoods. Dr. Jackson received her B.A. in Psychology from the University of California, Berkeley and her Ph.D. in Social Psychology from the University of Michigan, Ann Arbor. Dr. Jackson has research and teaching experience in survey research methodology and multivariate analysis techniques. She has been a Research Team Investigator with the Multi-City Study of Urban Inequality Project: "The Multi-City Study of Urban Inequality." (Atlanta, Boston, Detroit, Los Angeles). Her recent publications include "Stereotypes and Segregation: Neighborhoods in the Detroit Area," with Reynolds Farley, Charlotte Steeh, Maria Krysan, and Keith Reeves, American Journal of Sociology, 1984; and "The Causes of Continued Racial Residential Segregation: Chocolate City, Vanilla Suburbs Revisted," with Reynolds Farley, Charlotte Steeh, Maria Krysan, and Keith Reeves, Journal of Housing Research, 1993.

Dr. Jackson will provide input on the development of survey instruments, analysis of survey responses, and focus group guidelines for the study.

Michael H. Schill is Professor of Law and Urban Planning, New York University School of Law and Robert F. Wagner Graduate School of Public Service and Director, NYU School of Law Center for Real Estate and Urban Policy. Prior to his appointment at NYU in July 1995, Professor Schill was a member of the faculty at the University of Pennsylvania Law School. His publications include Revitalizing America's Cities: Neighborhood Reinvestment and Displacement, with Richard P. Nathan (Albany: State University of New York Press, 1983); "The Spatial Bias of Federal Housing Law and Policy: Concentrated Poverty in Urban America," University of Pennsylvania Law Review (1995); "The Role of the Nonprofit Sector in Low Income Housing Production: A Comparative Perspective," Urban Affairs Quarterly, (1994); and "A Tale of Two Cities: Racial and Geographic Disparities in Home Mortgage Lending in Boston and Philadelphia," Journal of Housing Research (1993) (with Susan M. Wachter).

Professor Schill will advise the central team on the collection and analysis of quantitative variables and data for the project and will also provide input on data analysis and interpretation.

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(Enclosure)

THE "NONPROFITIZATION MOVEMENT"

An Examination of the Effects of Devolution on Nonprofit Organizations

Richard P. Nathan

With the assistance of
Mark J. McGrath
and
William C. O'Heaney

Prepared for a conference for the "New Partnership Project," sponsored by the Program on Public Policy, Philanthropy and the Nonprofit Sector, University of Minnesota, and the Center on Philanthropy, Indiana University.

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CONTENTS

This paper examines the rise of the role of nonprofit organizations in the field of community development and as providers of human services as a form of political devolution - that is, transferring power and responsibility from governmental entities with broad scope and power to governments with a narrower geographical scope and beyond that to nonprofit organizations. The emphasis in this paper is on the effect of federal devolutionary policies on nonprofit groups, but the more one probes the more interwoven are two types of political changes - efforts to devolve power and responsibility from Washington to states and localities and what is referred to in this paper as "nonprofitization." Nonprofitization is juxtaposed here to "privatizing" governmental services, referring to measures that contract out public activities to profit-making firms. By contrast, the term "nonprofitization" refers to the role of nonprofit organizations as the quasi-governmental ground-level providers of services where two conditions apply: (1) in some places and previous situations, these services are (or have been) directly provided by governments; and (2) they are predominantly paid for out of public funds. Going beyond these broad definitional statements, both subjects - devolution and "nonprofitization" - are hard to pin down.

There is a mythology about devolution that is useful to dispel at the outset of this paper on effects on nonprofit organizations of national government devolutionary efforts. It is widely believed that both presidents Nixon and Reagan used the theme of turning power and money over to the states as a "cover" for advancing conservative fiscal and social policies. There is also a mythology about private charities. Many people believe services for the poor financed from private contributions can be a superior alternative to public funding. If governments would pull back from helping the poor, it is held, then private charities (that is, nonprofit social service organizations) could do the job properly.

There are several things wrong with this picture. For one, Nixon and Reagan had very different new federalisms. Nixon was a big spender on domestic and social issues; his brand of New Federalism was a far cry from Reagan's, which did involve budget cuts in the name of devolution. In the same spirit of debunking widely held views, there is some current political sloganeering that is central to the important subjects explored in this paper. It is widely believed, or at least claimed, that private charities can be relied on to pick up the slack for recently proposed federal budget cuts in social programs. In a June 1995 *New York Times* article, House Speaker Newt Gingrich said, "What America needs is a dismantling of the welfare state, with many of its functions turned over to private charities."[1] Not so at all. Private charities that are nonprofit organizations in the functional areas that are the focus of attention in this paper face *very big problems* with federal budget cuts.

I. The "Nonprofitization Movement"

We hear a lot these days about *"privatizing"* governmental services. However, the big story for social welfare and community development services broadly defined is *"nonprofitization."* Increasingly over the past 25 years, state and local governments have contracted with nonprofit organizations for human and community development services. An extensive and complicated pattern of nonprofitization has evolved linking government and these organizations in new partnerships.[2] Lester Salamon emphasizes that among nonprofit groups, human service organizations predominate, accounting for over half of the total.[3] Most of these human and community development service providers rely heavily on government for financial support. Some of them receive almost all of their revenue from various federal, state, and local money streams in the form of grants and contracts and fees for service. *Although the conventional image of government and nonprofits is of separate sectors, the relationship today between government and nonprofit groups is one of mutual dependence.*

Areas of Focus for Nonprofitization

It is useful to take a look at functional areas to show where nonprofitization is prevalent and to indicate those functional areas in which out-and-out privatization is more likely to occur. The later areas, those in which contracting to profit-making firms is more common, tend to involve harder (that is, physically harder, services) like trash and garbage collection, waste treatment, building and office maintenance, catering, vehicle maintenance, and other maintenance tasks.[4] Softer (i.e., mainly social) services tend to be candidates for nonprofitization - for example, child care, aiding the homeless, drug treatment, job training, social and counseling services, and services for the elderly and youth.

There are however some hard to classify areas, like health services that in many instances are privatized. In fact, this is often done by converting nonprofit organizations to profit-making status, especially the case of hospitals. Another area that is hard to classify in these terms is corrections, where some youth and juvenile detention correctional services (moreso than adult corrections) in many instances have been outrightly privatized.

To complexify further, there is also a considerable and growing movement towards privatization *by nonprofit groups*, whereby they sub-allocate some generally routine tasks to private providers, as in the case, for example, where a nonprofit organization contracts with a profit-making provider of maintenance, bookkeeping, catering services, etc.. Research we are conducting at the Rockefeller Institute will help get a handle on the relative importance of nonprofit organizations as service providers and employers in ways that can be considered quasi-governmental because the services involved are heavily subsidized by government.[5]

Many nonprofit groups in the human services and community development fields receive most of their revenue from government. The point was already made, but needs to be emphasized. Charitable contributions to these groups are important and they work hard at fundraising. But the big winners in the charitable-giving sweepstakes tend to be other types of organizations where the behavior involved (charitable giving) has a different orientation and motivation compared to the activities described here as quais-governmental. Relatively much higher levels of charitable giving, for example, are to high-prestige universities and the arts and museums moreso than the groups we are examining in this paper. These groups and sectors - social and urban organizations especially - have a big stake in the retrenchment of domestic public spending now occurring at all levels and in many functional areas of domestic government. United Way organizations in some regions of the country play a catalytic role in organizing these groups to assist them both politically and organizationally. In the former area (political support) I have in mind the role some United Ways play in helping to make the case for meeting social and urban needs by serving as a convener and spokesperson for nonprofit groups in these areas. In the latter area, as a catalyst for organizational change, there is a growing interest on the part of some United Ways to promote service integration in fields in which, as Julian Wolpert points out, their activities often are "fragmented and atomistic."[6] This organizational role for United Ways where it occurs is often part of a bigger movement which is tied to efforts to "reinvent" governmental systems or "re-engineer" them. These reform efforts are currently being accelerated at both the national and state levels. The nonprofit service sector is under pressure to reform by streamlining and consolidating activities, especially in cases in which multiple service providers are aiding the same family or individual.

In the broadest sense, one can think of the nonprofitization movement for human and community development services that has occurred over the past two and a half decades as *a form of devolution*, moving power and responsibility from a higher level (state and local governments) to community-level organizations and institutions. Like any subject one probes in depth, as we have seen this devolutionary movement is complexified by doing so. Although efforts to devolve governmental programs and services have deep roots, they tended to pick up steam and be accentuated beginning in the early 1970s, more likely as an objective advanced by Republicans than Democrats in national and state politics. Nixon's devolutionary efforts mainly channeled money to local governments (cities, counties, townships, Indian tribal governments), not states, despite the fact that over this long period - the past 25 years - the major story line for American federalism has been the rising role of states. But even this generalization needs a caveat. The watchword of American federalism is its *diversity*. States are different. In some states expanded "Home Rule" arrangements have empowered local governments at the very time that in the aggregate the main trend has been toward the rising role of states. Likewise, state governments vary appreciably today in their relative interest in governmental re-engineering as it affects the integration of services provided by nonprofit organizations.

Add to this picture the myriad efforts over the past 25 years to empower people in small local communities, mainly distressed urban neighborhoods and rural communities - and the word "devolution" takes on even more baggage. Lyndon Johnson's Great Society programs (primarily Community Action and Model Cities) and many variants since, supported both by governments (federal, state, and local) and private foundations, have sought to empower communities (both urban and rural) in the interest of creating social capital and meeting social and community development needs.[7] The recently-enacted federal Empowerment Zones/Enterprise Communities Initiative is the latest such national effort.[8] Other governmental and foundation efforts are also underway currently.[9] All of these efforts and others like them created opportunities for, and increased the role of, nonprofit organizations providing community development and human services. Seen in this light, the term "devolution" becomes even squishier taking on a meaning that involves multiple efforts to move power and responsibility from higher to lower levels in our already diverse, layered, and fragmented political system. In sum, nonprofitization, and indeed privatization as well, can be seen both as *aspects* and *instruments* of devolution.

Not everyone agrees about the appropriateness of this growth in the subsidization of nonprofit groups that provide services heavily funded by governments. In their 1993 book, *Nonprofits for Hire*, Steven Rathgeb Smith and Michael Lipsky argue specifically that equity-type policy functions should be governmental. Quoting them,

> One critical issue is the legitimacy of giving over state power to private providers. Government control and manipulation of vulnerable populations proceeds properly only when sanctioned by deliberate democratic practices and safeguards. Contracting gives away responsibility for important authoritative decisions about vulnerable people. Program monitoring and auditing are often rudimentary and inadequate for assuring program compliance and maintenance of standards.[10]

Underlying Issues

Smith and Lipsky have probed an issue that is critical for nonprofitization. Judith Saidel suggests a useful distinction - devolving activities to these groups, but not *responsibility*, in the same sense that Smith and Lipsky argue that allocation and equity policy decisions are, and should be, the domain of government.[11] The founding president of the Independent Sector, Brian O'Connell, makes the same argument when he warns that "creating quasi-governmental organizations that are viewed as outside the immediate spectrum of formal government tends to obscure both responsibility of government and a truly independent sector."[12] The main observation that needs to be added here is that operationally there is a fine and blurry line between responsibility and activity that is not easy to deal with.

Why "Nonprofitization"?

We might well ask why this nonprofitization movement has occurred. We can speculate about some of the major reasons. From a political point of view, one reason is that "putting out" human and community development services to nonprofit groups apparently has been seen by some governmental officials as a means by which the costs of these services can be more easily (though never very easily) controlled. Reducing these costs in periods of retrenchment when governments wish to do so would not require laying off public (often civil service-protected) personnel. Likewise, nonprofitization is viewed as enabling state and local officials to hold down spending for the affected services by using relatively lower-paid workers compared to the higher-paid regular employees of public agencies. It avoids adding people to unionized and civil service personnel systems in ways that limit the control options, and may increase costs for, government managers.

Yet in a paradoxical way, this nonprofitization strategy may have backfired for public officials who saw it as a way to achieve policy and fiscal control without building people or activities into their ongoing program and personnel base. The politics of nonprofitization are not inconsequential. In a way that is very American, the organizations that "get their water" out of quasi-governmentalized funding streams have formed or strengthened public interest groups that lobby hard and often for their purposes and programs. Public money paid to nonprofit groups has added to their capacity to organize and pay for lobbying activities. This observation is not meant as criticism. Their lobbying of course is for substantive reasons as well as direct financial reasons. This development has however changed the politics of public service in the areas affected, notably those involving human services and community development activities. This situation, in fact, has produced a major legislative issue in Congress as represented by a legislative effort led by Representatives Ernest Istook (R-OK), David McIntosh (R-IN) and Robert Ehrlich (R-MD). They have offered numerous versions of what is now pretty well know as the Istook Amendment. While the particulars of the various versions differ, they all have three commonalties; they limit the amount of privately raised funds that can be used by federal grantees for advocacy purposes; they have expansive definitions of advocacy; and they all create new regulatory and paperwork requirements for nonprofit organizations.[13]

Another potential problem for human service nonprofit organizations is the possibility of a backlash to the proliferation of such groups dedicated to aiding the poor. A recent article in the *New York Times* by Jonathan Rabinovitz describes a decision by the City Council of Hartford, Connecticut adopting a hard line approach, a six-month moratorium on new homeless shelters, rehabilitation homes, and other treatment or social-service centers being newly located in the city.[14] Despite protests from advocates for the poor, city officials took the position that the work of these well-meaning groups serves as a magnet contributing to the city's hard challenges.

> "We have more than our fair share," said Mayor Mike Peters, who described his city, the state capital, as "the dumping ground for every project for the needy." ...
>
> "I agree that it's time for other communities to step up to the plate, but that doesn't make it right for Hartford to erect barriers to people who need to be served," said Nancy Hroneck, a lawyer with the Legal Aid Society of Hartford County.[15]

It is not possible to know how widespread this attitude is or whether it will spread.

Another misconception about nonprofit organizations that needs to be addressed directly in this paper is that they are homogeneous. The nonprofit sector is huge and diverse; it consists of a broad assortment of universities, hospitals, religious groups, and human service and community development organizations. They range in size from small churches and fraternal associations to hospital complexes and sprawling research universities.[16] They serve many different purposes and constituencies. Total spending by the nonprofit sector (all Section 501C-3 charitable groups eligible for federal tax exemption) was $520 billion in 1992.[17] More than half of this spending was for health (mainly for institutional care, hospitals and nursing homes), although service-type health programs are also reimbursed under Medicaid. Other important subsectors are higher education ($58 billion), elementary and secondary education ($40 billion), and human services ($35 billion).[18] These observations bring back into focus the comment made earlier about variations in the character and motivation of charitable giving.[19]

Research at the Rockefeller Institute using employment data will provide a close and detailed examination over time of the rise in *number of people* working for nonprofit organizations. This will be a valuable new knowledge base. A preliminary study on one local area identifies what are termed "nonprofit-oriented industries" (health, social services, and religious and other membership organizations).[20] The data show that for the first part of the 1990s, the largest proportion of job growth in the Capital Region of New York State - 40.3% - was in these industries. The same approach (using ES 202 data from the U.S. Bureau of Labor Statistics) can track employment growth over time to show how much more reliant workers and the economy have become on nonprofit organizations and specifically on different types of nonprofit organizations. As already noted, both the Great Society programs of the nineteen sixties and Nixon's New Federalism were fuel for the massive subsidization of nonprofit organizations in the health and human services fields and for neighborhood and community development. This was especially true of the Medicaid program enacted under President Johnson.

In New York State, the word, Medicaid is a *verb*. To Medicaid a health or social service is to define it so the service is eligible for federal matching under Title XIX (the Medicaid title) of the Social Security Act.[21] As James W. Fossett has demonstrated, Medicaid funds in New York have had a revenue-sharing effect. They have been used to support a wide range of services, not all of which would conventionally be regarded as health services. This includes alcoholism treatment, drug treatment, and services for the mentally retarded and developmentally disabled that Fossett says are "collectively known in local parlance as the 'mental hygiene' agencies."[22] Under President Nixon, block grants had the same effect, especially the public service employment program (PSE) component of the Comprehensive Employment and Training (CETA) block grant, which turned out to be a booster shot for the nonprofit sector. Block grants in many cases have been money machines for nonprofit groups.

Section II of this paper digs into the terrain; it describes past federal government devolutionary efforts, especially block grants, and what we know about their effects on nonprofit organizations, with the idea that the paper can serve as a useful source document. I know few places where summary information at the level of generalization presented here is available across time about the experience with revenue sharing, block grants, federal waivers, regulatory polices, etc. - all ways the national government has sought to achieve devolutionary purposes, i.e., to reduce the role of the federal government and assign greater responsibility and discretion to states and localities. These devolutionary efforts, as already noted, have produced big bucks for nonprofit groups. In fact, there has been so much nonprofitization under this new regime that it has itself fueled issues about social program proliferation and duplication.[23] Recommendations we hear often for social service integration and "holistic" community development efforts reflect the fact that many grant-in-aid streams now provide money to a plethora of nonprofit groups.

It also needs to be reiterated here that more than nonprofitization is occurring in ways that affect the delivery of domestic public services. Social services are being privatized as well as non-privatized. This is particularly so as noted for health services in the case of the very large increase (most of it recent) in the role of health maintenance organizations (HMOs). The fact that both public agencies and nonprofit groups are contracting out to a greater degree further blurs distinctions between the government and the nonprofit and private sectors, a point that has been stressed by Dennis Young, governing director of the Mandel Center for Nonprofit Organizations, who states,

> Roughly speaking, three types of developments are ascendent: Nonprofits seem to be behaving more like businesses; business seem to be acting more like nonprofits; and hybrid forms and practices ar emerging which are hard to classify as either for-profit or nonprofit.[24]

The bottom line: If you are a nonprofit group, maybe one lesson you can draw from this is that you can have too much of a good thing; the challenge increasingly is to organize and rationalize devolved activities.

II. Nonprofitization Under Block Grants

Lyndon Johnson's administration saw the emergence of block grants as a devolutionary instrument. Block grants are broad, relatively unconditional fiscal subventions to state and local governments, often created by folding-in narrower so called "categorical" grants-in-aid, and distributing the consolidated funds on an automatic formula basis without extensive application and oversight requirements. The move to block grants is often made in response to concerns that previous grant-in-aid categories were too narrow and prescriptive.

The idea of block grants in the modern period first appeared under Johnson in response to what the chairman of his Council of Economic Advisors, Walter Heller, called *"the hardening of the categories."* Johnson proposed a block grant in 1966 consolidating several public health grants into a single grant for public health services. The next year he took a bigger leap into grant blocking, although not enthusiastically, when his administration (with Republican backing) pushed for the creation of the law enforcement assistance block grant. Senate Minority Leader Everett Dirksen (R-IL) was the chief mover behind this block grant. Law enforcement funds were distributed on a formula basis to states with a requirement that 75 percent of the funds provided be passed through to localities. However, the starting point for really strong post-World War II devolution was the Nixon administration.

Nixon's New Federalism

The aim of Nixon's New Federalism was to shift power relationships and at the same time restructure and reform governmental management. He emphasized that his purpose was to assign governmental functions to the level best suited to carry out those functions. He said he believed in "sorting out" functions. Certain functions, such as welfare and environmental protection, he said, could be best handled by the federal government, whereas other functions like community development, employment and training, and social services are best handled at the state and local levels. But, make no mistake about it, Nixon also sought to move power away from Washington bureaucrats and empower elected state and local (including suburban) public officials.[25]

Nixon's New Federalism consisted of four main elements. The first was management reforms designed to improve program coordination and efficiency. The second was to consolidate individual grant-in-aid programs into block grants. Third, Nixon proposed to expand this aim of providing greater flexibility for states and localities with the establishment of revenue sharing to provide "no-strings" aid to states and localities. Fourth, the Nixon administration sought to centralize (yes, centralize) public sector responsibilities for areas such as health, welfare, and the environment.

While Nixon favored the decentralization of many government services, he believed the federal government should provide money to state and local governments to help them carry out these services. He successfully advocated three large new block grants - community development, social services, and employment and training. Nixon also won passage of revenue sharing in 1972, which provided $5 billion annually in flexible aid on a formula basis to states and local governments. It lasted until 1986.

Overall, there was significant new spending on domestic programs under Nixon. Total domestic spending by the federal government rose from 10.3 percent of the gross national product at the beginning of Nixon's presidency to 13.7 percent six years later when he resigned. The bulk of this growth was in entitlement programs - Social Security, food stamps, Medicaid, etc. However, other grants also rose from 1.4 percent of gross domestic product to 2.2 percent, a 50 percent rise in share, with a steadily rising proportion of these funds in the form of general-purpose and broad-based aid. Although Reagan's New Federalism employed some of the same instruments and strategies as Nixon's, it did so in different combinations and in pursuit of different aims. The aim of Reagan's New Federalism was more to reduce the power and influence of the national government than to reform and restructure intergovernmental management.

Revenue Sharing

Revenue sharing was originally intended, as the name implies, to be a designated percentage of federal taxes set aside in the U.S. Treasury to be redistributed without strings to state and local governments. It was argued that the federal income tax is a more efficient, equitable generator of public revenue than sales and property taxes; hence, the idea was to tie an amount of this tax revenue to aid to lower levels of government. The revenue sharing program was intended to help needy state and local governments meet their financial responsibilities stemming from such causes as urbanization, increased geographic concentrations of the poor, and inflation. By initiating revenue sharing, Nixon also hoped to encourage fresh, creative approaches to state and local problems. In his message to Congress of August 13, 1969, he outlined his vision for the New Federalism.

> Ultimately, it is our hope to use this mechanism [GRS] to so strengthen state and local government that by the end of the coming decade, the political landscape of America will be visibly altered, and the states and cities will have a far greater share of power and responsibility for solving their own problems. The role of the Federal Government will be re-defined and re-directed toward those functions where it proves itself the only or the most suitable instrument.

As originally proposed by Nixon in 1969, $500 million was to have gone to state and local governments as shared revenue on an unconditional basis. The state-local reaction to this modest plan was lukewarm. It languished. State and local government revenues from their own sources passed the $100 billion mark in 1969, which meant revenue sharing as originally proposed represented one-half of one percent of what state and localities were raising on their own.

To move this issue off the dime politically, Nixon in 1972 increased the amount of shared revenue proposed to be distributed by ten-fold. Not surprisingly, this got the attention of governors and local officials. Revenue sharing was to be a permanent appropriation - a designated percentage (1.3%) of the federal personal income tax base to be distributed to 39,000 states, counties, cities, towns, townships, Indian tribes, and Alaskan native villages. This permanent appropriation would grow with the national economy. The funds were to be distributed by formula with the states responsible for the distribution of some of these funds to local units.

As passed by Congress in October of 1972, *The State and Local Fiscal Assistance Act of 1972* differed in several respects from Nixon's original plan. While Nixon envisioned revenue sharing to be mainly a fiscal federalism mechanism to pass funds through to state and local governments for their discretionary use, the Congress altered the bill to make it more conditional, although the law did represent a major departure from the way Congress usually provides aid to states and localities in the form of categorical grants. It was neither federal aid to advance specific national goals or pure revenue sharing.[26] The 1972 act provided $30 billion to state and local governments in the first five years of the program.[27] In the case of revenue sharing, moreso than in the case of the block grants discussed in the sections that follow, it was capital projects more than nonprofit organizations that tended to benefit most from this new federal largesse.[28]

Revenue sharing was renewed in 1976 and again in 1979. The second round was signed into law by President Ford on October 13, 1976.[29] The act was basically the same as the 1972 legislation, extending revenue sharing for three and three-quarter more years with a spending level of $6.85 billion per year. Changes made in the bill included the elimination of the highly questionable "priority" expenditure categories and modest changes in the distribution formula.[30] There was also a requirement that prevailing wage rates apply to all revenue sharing projects and a strengthening of the civil rights requirement, which extended it to cover "all programs and activities" funded by this law.

Revenue sharing did not survive Ronald Reagan in large part because he and Nixon had very different federalism philosophies. In 1981 Reagan proposed decreasing revenue sharing by 12 percent as part of an across-the-board reduction in federal spending. This proposal did not succeed due to the hard lobbying of state and local officials, but the die was cast. In 1985 the Reagan administration argued that the federal government "can no longer afford general revenue sharing." Congress allowed the program to expire in 1986.

The Community Development Block Grant

The Community Development Block Grant (CDBG) is the major component of Nixon's New Federalism that still exists. It is considered one of the most successful of block grants, and is one of the largest federal grant-in-aid programs today, providing over $4 billion in aid in 1995. Moreso than revenue sharing, the CDBG program has been a major stimulant for the expanded role of nonprofit organizations as providers of public services. The CDBG program provided $48 billion in aid to 946 entitlement communities between 1974 and 1995. Today, it is the third largest source of grant assistance to the states and local governments. CDBG is a hybrid program that attempts to target both needy places and persons with funds distributed according to a needs-based formula.

Enacted in 1974, the original CDBG structure consolidated seven categorical community development programs - urban renewal, model cities, water and sewer facilities, open spaces, neighborhood facilities, rehabilitation loans, and public facility loans. All cities over 50,000 were *"entitled"* to receive an annual grant with no application process or detailed planning document necessary to secure these funds. Central cities, and the eligible urban counties, not surprisingly, came to be known in the argot as "entitlement jurisdictions."

Congress however did not share Nixon's enthusiasm for a hands-off approach to CDBG. The legislation as passed, *The Housing and Community Development Act of 1974*, while it did consolidate the seven categorical programs as Nixon had proposed, differed from the President's plan in that it enumerated objectives for the use of these funds. Actually signed into law by Gerald Ford, CDBG was initially a three-year program funded at $8.6 billion. CDBG funds were to be used for programs that provided "maximum feasible priority to activities which will benefit low- or moderate-income families or aid in the prevention or elimination of slums or blight." In addition, a system of applications and review procedures was established. Grants were not allocated on a competitive basis; they were *automatically* provided to cities of at least 50,000 population and to urban counties with over 200,000 population. Smaller local governments, both urban and rural, while not entitled to aid, competed for 20 percent of the annual appropriation. The new block grant allowed far more local discretion and planning than the categorical grants it replaced.

Studies done of the implementation in the first years of the CDBG found mixed results. Research performed at the Brookings Institution showed that there had been substantial decentralization of decision making, with local officials exercising much more control of community development than they had under the precursor categorical grant programs.[31] While many large urban renewal projects started under the folded-in grants were completed with CDBG funds, few new ones were initiated. Small-scale, more diverse programs were implemented, often administered through nonprofit community development and social service organizations. Funding for housing rehabilitation in selected neighborhoods and small-scale improvement projects (streets, sidewalks, parks, etc.) stood out. In 1976 approximately 34 percent of the CDBG funds were used for housing rehabilitation, and 31 percent for small-scale public improvements. The Brookings study concluded, "the CDBG program did not significantly contribute to the legislative objective of encouraging 'spatial deconcentration' of housing for lower-income persons."[32] On the other hand, it said "[t]hese first-year findings suggest that the block grant program is a better instrument for aiding transitional neighborhoods and preventing blight than were the folded-in grants, but that it is more limited as an instrument for redeveloping the most seriously deteriorated urban areas."[33] There were also high-visibility media reports of alleged abuses in the program, with CDBG recipients spending these funds in middle- and upper-class neighborhoods for marinas, tennis courts, and the like. These alleged abuses were laid at the feet of the federal government (20 major lawsuits and 10 major administrative complaints filed nationwide by the end of the CDBG's second year) for purported laxness in program oversight.

In 1976 the Senate held hearings on the extension of CDBG with a focus on social targeting. Many complaints were registered. Representatives of the National Association for the Advancement of Colored People, the National Association of Housing and Redevelopment Officials, the National League of Cities and the U.S. Conference of Mayors testified. It was charged that CDBG funds were spent on moderate-income beneficiaries, ignoring the needs of the poor. A National Association of Housing and Redevelopment Officials study found that communities allocated more CDBG funds to high-income census tracts (16 percent) than for low-income census tracts (15 percent); a majority of funds were found to have been used in moderate-income tracts (64 percent).[34] Testimony at these hearings led Congress to revise the act, to make its targeting more in line with what was felt to be the initial spirit of the legislation. A so-called "dual formula" was developed to improve the targeting of CDBG funds. It had a pronounced effect in shifting the distribution of CDBG funds to distressed inner cities. New regulations also directed that 75 percent of the CDBG funds be used in areas with concentrations of low- and moderate-income persons. Going even further, HUD regulations promulgated under the Carter administration specified which types of activities would be considered beneficial to those income groups and described the manner in which program benefits had to be calculated. The new regulations increased the percentage of CDBG funds targeted to low- and moderate-income groups in central cities from 57 percent in 1975 to 62 percent in 1977 and 1978, and to 63 percent in 1979.[35] This tightening of the formula and HUD's more assertive role under President Carter made a difference. They moderated the philosophy of Nixon's New Federalism. But this was not the end of the story.

CDBG under Reagan

The administration of the CDBG program dramatizes the shifting sands of presidential positioning on devolutionary efforts. While the Carter administration sought to control the use of CDBG funds through tight controls, the Reagan administration went in the opposite direction. This produced a highly-charged partisan debate about the targeting of CDBG funds, with Congress steadily pressing for stronger redistribution in the allocation of these funds. Yet, in 1981 under Reagan, Congress also approved administration-backed amendments that eliminated detailed CDBG applications, ended close federal review of applications, gave states the option of picking up the small cities part of the CDBG program, and cut out most citizen participation requirements.[36] The amendments also capped CDBG spending on social services at 10 percent. In addition, there was a shift in HUD oversight. HUD's review of local block grant programs shifted from a front-end review of proposed activities to a post-audit review. The 1981 amendments also made it easier for smaller (mostly suburban) cities to be designated as entitlement jurisdictions, which expanded the number of entitlement communities, thus further thinning out the funds available to bigger cities and reducing the targeting strength of the program. The number of entitlement communities grew from 590 in 1975, to 814 in 1985 with only 31 of the new communities having populations over 100,000.[37]

From 1975-79, a third of the CDBG money was spent on public facilities such as streets, sidewalks, water and sewer lines, parking garages, parks and senior citizen centers.[38] The focus shifted later to housing rehabilitation - 36 percent of CDBG money in 1983, up from 11 percent in 1975. Again, nonprofit groups often did this work. The share for public services - health, education, child care, job training, rodent control and police patrols - rose from 4 percent in 1975 to 12 percent in 1983. HUD also changed the rules to make economic development projects sponsored by profit-making groups eligible for CDBG money which resulted in an increase from 5 percent in 1980 to 10 percent in 1985.[39]

Changes in the Reagan-period shifted the distribution, scale, and use of CDBG funds. More communities were made eligible for CDBG funds; there were fewer funds to distribute as total entitlement funding declined 25 percent between 1980 and 1985.[40] In 1980 approximately 3 percent of all entitlement funds were available to communities new to the program. In 1989 entitlement communities that received CDBG grants for the first time in the 1980s received almost 11 percent of the fiscal 1989 entitlement allocation.[41] This increased share in funding for new entitlement communities came at the expense of central cities. Their share of CDBG funding declined from 76 percent in 1980 to 70 percent in 1989.

HUD's 1982 evaluation of the CDBG program noted increased substitution in the use of CDBG funds.[42] With other federal aid programs being reduced or eliminated under Reagan, local governments were under pressure to use CDBG money to plug weak spots in their budgets. Moreover, with looser regulations and enforcement, both federal and local officials were able to respond more easily to pressures for substitution uses of CDBG funds and from better-off groups.

CDBG, an enduring legacy of Nixon's New Federalism, is still the largest source of federal assistance to state and local governments for community development. While there have been problems, CDBG continues to be popular. In FY 1995, 946 communities received CDBG funding totaling $4.6 billion.

Excluding federal grants for payments to individuals, the CDBG program is the third largest source of federal aid for state and local governments, ranking behind federal aid to highways and grants for the education of the disadvantaged. An Urban Institute field study for HUD of the effects of the CDBG program showed high-level use by nonprofit groups.[43]

The Comprehensive Employment and Training Act

Although the Community Development Block Grant was the most enduring of Nixon's block grants, the *Comprehensive Employment and Training Act of 1973* (CETA) was the first block grant program enacted under his New Federalism. It too had high salience for nonprofit organizations. The legislative compromises necessary to obtain passage of CETA meant that it was essentially a hybrid that neither covered all federal employment and training programs nor fully decategorized all those that it was replacing. Forty percent of the funds appropriated to CETA in its first full year in operation were allocated to the block grant title of the bill, and this proportion declined steadily thereafter.[44] Expenditures under CETA between FY 1975 and 1983 totaled over $55 billion.[45] The public service employment titles of CETA, as described below, turned out to be manna from heaven for nonprofit organizations.

In the 1960s the national climate was conducive to so-called "manpower" programs (now called employment and training programs). The civil rights movement was underway; the administration was committed to the "war on poverty;" and the national economy was in a position where it could absorb additional workers. *The Manpower Development and Training Act of 1962* (MDTA) and the *Equal Opportunity Act of 1964* launched a host of categorical employment and training programs. These programs were designed and controlled at the federal level and operated locally by the employment service, vocational education agencies, and nonprofit community organizations. The programs of the 1960s embodied two fundamentally different philosophies about how the government should attack unemployment and poverty. Some programs sought to change the individual so that he or she could fit into the economic system; others sought to change institutions to better accommodate the needs of workers.[46]

The pre-CETA programs - Neighborhood Youth Corps, MDTA institutional and on-the-job training, Job Corps, Work Incentive Program, and others - had overlapping purposes, served similar client groups, and usually had separate administrative structures. These were project grants. The federal government was responsible for reviewing and rewarding grant applications and for monitoring performance of local program operators. The pre-CETA manpower programs (17 separate and independent programs administered by 13 different agencies) embodied about 10,000 separate contracts between the federal government and local program operators.[47] Dissatisfaction with this "tangle" of separate programs, plus the aim of the Nixon administration to devolve federal programs, laid the foundation for devolutionary reform of the nation's employment and training programs.

In 1969 and 1970 Congress devoted attention to manpower reform in terms of both the substance of the services provided and the method by which they were provided. The struggle was lengthy. During the more than four years that employment and training reform was before Congress, the principal issues dividing participants in the debate were the degree of devolution and the desirability of subsidized public service employment. The players involved were the Congress, the President, the federal agencies responsible for manpower programs, and local governments. Missing from the debate were governors and state agencies.

Nixon and conservative congressional Republicans favored what was called "manpower revenue sharing." They opposed both public service employment and a strong federal role in the administration of programs. Congressional Democrats questioned devolution and decategorization, opposed manpower revenue sharing, and favored public service employment and a consequential federal administrative role. The cities and counties favored public service employment and decentralization, but argued over how much money should be provided and whom power should be devolved to. The House and Senate passed comprehensive manpower legislation in 1970, but Nixon vetoed the bill because it did not decategorize programs enough to suit him and because it included public service employment.[48]

In 1971, in response to what was felt to be too-high an unemployment rate at 6 percent, Congress and the president reached agreement on the *Emergency Employment Act*, which authorized the public employment program (PEP). Considered a pilot program, PEP was scheduled to last two years. It was a sizable effort at counter-cyclical employment. Funding was $1 billion for fiscal year 1972 and $1.25 billion for 1973. In keeping with Nixon's philosophy, PEP put the responsibility for operations in the hands of state and local governments. PEP funds went to states and to municipalities and counties serving populations of 75,000 or more.[49] The federal government imposed few restrictions on the state and local governments receiving funds.

PEP was an addition to the collection of training programs that preceded it, not a replacement. These older programs, as noted, were often criticized for being uncoordinated and sometimes duplicative. Partly in response to these criticisms and partly in response to the philosophy of Nixon's New Federalism, Congress passed the *Comprehensive Employment and Training Act* in December 1973. CETA was designed to consolidate programs aimed at various areas and population groups into block grants.

As originally passed, CETA had three main components. Title I established a formula to distribute money for training programs to state and local governments as a block grant, giving these governments the broad powers to determine what kinds of programs they would operate. The state or local governments that received the funds directly (called prime sponsors) chose which agencies - public or nonprofit - would run the programs. Title II established a relatively small public service employment program that operated in areas with unemployment rates of 6.5 percent or more. The initial appropriation for Title II was $370 million; an additional $250 million was allocated to phase out PEP until July 1974. Finally, Title III allowed for direct federal operation of some national training programs aimed at special groups, such as Indians, migrants, and youth, and Title IV continued the Job Corps. Title II was primarily designed to combat *structural* unemployment, that is, the lack of job opportunities for disadvantaged and poorly-prepared workers. The need for a program to alleviate *cyclical* unemployment was not strongly felt in 1973 since the peak of unemployment associated with the recession of 1969-71 had passed two years earlier. But this was to change dramatically.

Public Service Employment

In the summer of 1974, the nation began to suffer a major recession brought on in part by rising energy costs associated with the Arab oil embargo. Unemployment rose, reaching a peak of 8.7 percent in the spring of 1975. In December 1974 Congress reacted by passing the *Emergency Jobs and Unemployment Assistance Act of 1974*, which added Title VI to CETA. Title VI established a public service employment program that was explicitly countercyclical. To be eligible for a Title VI job, a person had to be unemployed for 30 days, or 15 days if the local unemployment rate in his or her area was more than 7 percent. Originally authorized for 18 months, Title VI began with an appropriation of $875 million.

Implementation of Title VI brought rapid growth of the PSE program. The first grants under Title VI were paid out in January 1975. By the end of June 1975, enrollments, stood at about 155,000 for Title II and 125,000 for Title VI.[50] The total enrollment in public service jobs programs, including PEP participants stood at 310,000 in May 1975.

The emphasis during this period of rapid buildup of Title VI enrollments was on hiring participants quickly to combat the effects of the recession. State and local governments were quickest to hire participants with good educational and work backgrounds. This caused many in Congress to conclude that PSE was causing displacement of workers at the state and local levels on a large scale, referring to situations in which state and local governments were using PSE-subsidized workers for jobs they would have filled anyway with non-PSE workers. This concern led to a Congressionally-mandated shift in the design of the PSE program to combat displacement, a change that had major repercussions for nonprofit organizations. Congress passed the *Emergency Jobs Program Extension Act* on October 1, 1976, providing new funds for Title VI and imposing two major changes:

> 1. *It required that all newly-hired Title VI workers be assigned to special projects that would last for no more than one year. In effect, the PSE program now consisted of two components: "sustainment" positions funded under Title II and part of the Title VI appropriation, and "project" positions, funded with the rest of the Title VI appropriation.*
>
> 2. *The act also imposed new eligibility restrictions Half of the vacancies arising under the sustainment portion of all*

the new positions created under the project portion were to be filled with people who had been unemployed for at least 15 out of the preceding 20 weeks. The previous rule required no more than 30 days of unemployment.

The idea behind the project approach was to remove PSE employees from the regular operation of the state or local government. The one-year projects were supposed to consist of specific tasks that would not otherwise be performed. It was hoped that these new changes would make fiscal displacement more difficult.

In May 1977 Congress once again ratcheted up PSE. It passed the Carter administration's "Economic Stimulus Program" designed to provide jobs to respond to economic stagflation. An additional $4 billion was pumped into PSE for 1977 and 1978, much of it going to Title VI projects. As a result, enrollment in Titles II and VI combined rose to a peak of 755,000 participants in March 1978.[51] One big effect of the Title VI changes was to provide large numbers of new jobs rapidly to nonprofit organizations. Prime sponsors greatly increased the number of PSE positions that were subcontracted to community-based nonprofit organizations.

But visibility had its downside. Although CETA provided jobs for well over a million unemployed persons over time and job training and work experiences for thousands more, by 1978 stories of PSE abuses and mismanagement undermined support for the whole CETA apparatus.[52] In October 1978, the number of positions for PSE was reduced, and amendments were added to address perceived shortcomings in the administration of these programs. The 1978 act changed the planning and grant application procedures, requiring tighter verification of a participant's eligibility and mandating independent monitoring units for each prime sponsor. Then the sky fell in.

The basic CETA block grant program was also changing. Whatever the reasons for making changes, the effects were similar. Comprehensive manpower services were displaced by PSE as the primary focus of CETA in terms of both funding and publicity, and at the same time CETA was slowly recategorized and recentralized as specific programs and target groups were added to local prime sponsor's responsibilities. The more things change, the more they stay the same; rather than a single block grant, within four years prime sponsors were administering a series of categorical manpower grants. The attraction of special programs with earmarked funds serving targeted groups proved irresistible despite the fact that consolidation and coordination were major goals of the legislative reform that led to the initial passage of CETA. As the program evolved, these goals were slowly buried. The one thing that remained constant in the face of the many alterations to CETA was the decentralized administrative structure. Officials of local governments retained responsibility for planning and operating the programs authorized.

CETA wound up in the eyes of many as a widely discredited effort. *Fortune* magazine ran a story in April, 1979 entitled, "How CETA Became a Four-Letter Word."[53] This harsh judgment of CETA was neither fair nor accurate; many local programs worked well. But the die was cast. The end of CETA and especially its big and vulnerable PSE components came in 1981 when Reagan took office. Citing charges of abuse by local governments, the high cost per participant, and low rates of placement in unsubsidized jobs, the Reagan administration persuaded Congress to rescind the programs' spending authority for fiscal year 1981 and to eliminate any authorization for fiscal year 1982 for public service jobs.

The *Job Training Partnership Act of 1983* (JTPA) replaced CETA as the primary vehicle for job training. JTPA differs from CETA in that it does not channel federal money directly to local governments. Instead, funds go to each governor for allocation within their state. JTPA also puts heavier emphasis than

CETA on cooperation with the private sector. At the local level, each area's JTPA program is operated under an agreement between local government and a private industry council (PIC), which includes a majority of representatives from private business. JTPA programs focus on training; JTPA explicitly prohibits public service employment. JTPA also contains an earmark for retraining dislocated workers. Nonprofit groups, however, still are big players in this field, and the likelihood is that they will continue to be under the new workforce development block grant making its way through the Congress.

The Social Services Block Grant - Title XX

Social services for recipients of welfare were not funded under the original *Social Security Act of 1935* despite the argument that cash alone would not address the needs of the poor. State social services expenditures for welfare recipients did become eligible for 50 percent Federal funding twenty years later in 1956, although many states chose not to participate. The Social Security Act was amended again in 1962, with added emphasis on the importance of *preventive* and *rehabilitative* services and a higher federal matching rate for services of 75 percent. The 1962 amendments also expanded eligibility for social services to both "former" and "potential" welfare recipients. No limit was placed on the federal expenditure level! (Notice the exclamation point.) In 1967 the Social Security Act was again amended to authorize funding for so-called "hard" social services, such as job training and child care, in a more aggressive effort to move people off welfare and into work.[54] The new legislation also required states to establish a single organizational unit responsible for administering social services and provided an enriched match (85 percent) for social services provided during the first year after the law took effect.[55]

In a hugely-important (and, in retrospect, wrong-headed) step, administration of the federal social services program was formally separated from the administration of cash assistance in 1967 as part of a reorganization in the Department of Health, Education, and Welfare.' Welfare eligibility workers were set apart from social workers. Increasing the emphasis on this mis-step, five years later in 1972 states were required by regulation to separate the local administration of cash assistance and social services.[56] Ironically, major beneficiaries of separation were nonprofit organizations, precisely the groups many conservatives view (incorrectly I would say) as "*private* charities." Separation fueled the use of social service grant funds for a wide range of nonprofit organizations - child care agencies (often that also administer foster care programs), counseling agencies, homeless shelters, family planning agencies, settlement houses, youth programs, and health-related programs, for example, drug and alcohol treatment. In 1975, Title XX was enacted in the last year of the Ford presidency to give states more flexibility in the use of funds, and at the same time help rein in this program. Title XX provided assistance to states to enable them to furnish services directed at five goals.[57]

States are given discretion under Title XX to determine the services to be provided and the groups eligible, usually low-income families and individuals. In addition to supporting social services, the law allows states to use their allotment for staff training, administration, planning, evaluation, and administering state social service programs. States decide what amount of the federal allotment to spend on services, training, and administration. But strings there are. Funds cannot be used for medical care (except family planning), rehabilitation and certain detoxification services, purchase of land, construction, or major capital improvements, room and board (except emergency short-term service), education services provided by public schools, social services provided in and by employees of hospitals, nursing homes, and prisons, child day care services that do not meet state and local standards, and wages to individuals as a social service except wages of welfare recipients employed in a child day care center.

Federal spending for social services ballooned from $281.6 million for fiscal year 1967 to $1,688.4 million for fiscal year 1972, prompting concerns by budgeteers and leading to a 1972 ceiling on federal expenditures for social services of $2.5 billion and a limitation of 10 percent the amount of funds that could be spent on services to former or potential welfare recipients, that is, people not at the time receiving public aid.[58] The 1975 act establishing Title XX retained the $2.5 billion ceiling on federal social services expenditures. By fiscal year 1981, the entitlement ceiling for the Title XX program had been raised to $2.9 billion. An additional $16.1 million was available apart for social services expenditures of the territories, and $75 million was available to the states for staff training costs related to Title XX activities, for a total of $2.99 billion for all federal social services expenditures. Funding for this activity, however, has bumped up and down (mostly down) since the program was capped in 1972. Under Public Law 96-272, enacted in 1980, the Title XX entitlement ceiling was scheduled to increase to $3 billion for fiscal year 1982, and by $100 million a year until it reached $3.3 billion for fiscal year 1985.

Reagan's *Omnibus Budget Reconciliation Act of 1981* amended Title XX to make it more explicitly a block grant, but the changes were relatively minor. Funding for social services to the states and territories and for social services staff training were combined.[59] The legislation also cut the funding. It reduced the Title XX entitlement ceiling to $2.4 billion for fiscal year 1982, and scheduled increases to $2.45 billion for fiscal year 1983, $2.5 billion for fiscal year 1984, $2.6 billion for fiscal year 1985, and $2.7 billion for fiscal year 1986 and years thereafter. In addition, the law eliminated federal mandates regarding priority recipients and the provisions requiring the targeting of services on low-income individuals and families. The emergency jobs bill enacted in March 1983, appropriated an additional $225 million for fiscal year 1983 for Title XX available for carryover to fiscal year 1984.

Categorization never stops; it ebbs and flows. Because of the concern by Congress of reports of child sexual abuse in day care centers, a $25 million increase in Title XX funding for fiscal year 1985 was appropriated for use by the states to provide special training for child day care staff, state licensing and enforcement officials, and the providers of day care. Later, urban policy purposes became merged in a big way with Title XX. *The Omnibus Budget Reconciliation Act of 1993* made $1 billion available out of Title XX for the Secretary of Health and Human Services to make grants to states for social services in Empowerment Zones and Enterprise Communities (EZ/EC). Grants were made to states, which serve as the fiscal intermediaries for these EZ/EC funds by sub-allocating these funds to HUD-approved designated localities within the state in accordance with strategic plans. (Rural areas are also aided.) The statute creating the Empowerment Zone/Enterprise Community initiative requires that EZ/EC funds be used to finance activities that are goals of the basic Title XX grant program - to prevent, reduce, or eliminate dependency; to achieve or maintaining self-sufficiency, including the reduction or prevention of dependency; to prevent or remedy neglect, abuse, or exploitation of children and adults unable to protect their own interests, or to preserve, rehabilitate or reunite families. The funds must be used in accordance with EZ/EC strategic plans on activities that benefit residents of the zone or community. The range of allowable EZ/EC services is narrower in some respects and broader in others than under the Title XX program. On the other hand, certain restrictions of the basic Title XX program are waived under the Empowerment Zone program in order to carry out EZ/EC program objectives.

Not only is the EZ/EC program a new frontier for nonprofit groups in the community development field, housing policy has also shifted to the advantage of these organizations. The growth of community development corporations (CDCs), which use tax credits and benefit from federal banking regulations, have appreciably stimulated support for affordable housing. Most such projects - both rental and home ownership projects - are managed by community development corporations, so much so that their role can be said to represent a "new paradigm" for U.S. housing policy.[60]

Reagan's Block Grants

As already stated, President Reagan's brand of New Federalism departed strikingly from Nixon's. In his first budget, the 1981 Omnibus Budget Reconciliation Act (OBRA), Reagan won enactment of nine new programs called "block grants." Like Nixon's block grants, they were for operating and capital functions, not for entitlement programs. Reagan did make a weak attempt in 1982 to do a so called "swap and turn back" (Feds get Medicaid, states AFDC), but it was never even introduced in the Congress. Three of Reagan's highly-touted block grants were in the health field - for the prevention and treatment of substance abuse and mental health, for preventive public health services, and for maternal and child health care.. None of these "block grant" programs were especially large, and four of the "blocks" contained only one pre-existing categorical grant. In my opinion, Reagan's role as a grant blocker is overstated. However, his block grants and Nixon's do have one important point in common. Many of them lost value over time; overall these programs grew by an annual average of 0.9 percent from 1983 to 1993 compared to a 3.9 percent growth in the consumer price index.[61]

III. The Current Scene

Federal grants-in-aid from the federal government to states, localities, and nonprofit groups were estimated at $238.5 billion for the fiscal year that began October 1, 1995 in President Clinton's budget submitted February 6, 1995. This includes fifteen programs that are classified as block grants by the U.S. General Accounting Office and the U.S. Advisory Commission on Intergovernmental Relations.[62] These grants account for a relatively small share (15 percent) of total federal grant-in-aid spending as shown below.

1995-96 BLOCK GRANTS

Block Grant	Estimated 1995 (in millions $)
Surface Transportation	$ 18,773
Community Development Block Grant	3,186
Social Services Block Grant	2,800
Federal Transit Capital and Operating Assistance	2,284
CDBG States' Program	1,346
Low Income Home and Energy Assistance Program	1,319
Prevention and Treatment of Substance Abuse	1,234
Job Training Partnership Act, Title II-A	1,055
Child Care and Development Block Grant	935
Maternal and Child Health	684
Education (Federal-State-Local Partnerships)	370
Community Services	392
Community Mental Health Services	275
Preventative Health and Health Services	152
Assistance for Transition from Homelessness	29
TOTAL	**$ 34,834**

Source: Budget of the U.S. Government, Fiscal Year 1996, Budget Information for the States (Washington: GPO, 1995).

Waivers as a Devolutionary Tool

Another subject of importance in considering devolution - one of rising importance and relatively recent origin - is the use of *waivers* of federal laws. This practice has been prominent since the mid-1980s as a way to give the states greater control over, and flexibility for entitlement grants-in-aid, especially Medicaid and the Aid to Families with Dependent Children (AFDC) program. Almost all of the states have applied for waivers, most of them under Section 1115 of the Social Security Act, more of them for welfare (AFDC) than for Medicaid. In 1992, forty-two states had applied for welfare waivers. Most of these have been granted under the liberal waiver-granting policy of the Reagan and Clinton administrations;

furthermore, many of them create new service-program opportunities for nonprofit organizations, particularly child care and job training agencies. As of late 1995, twenty-seven states had applied for Medicaid waivers, most of which emphasize the role of health maintenance organizations to deliver hospital, primary care, and preventive services. But for some devolutionists, this form of permission-granting flexibility is not enough.

Douglas Besherov of the American Enterprise Institute, argues in a recent unpublished article that the Clinton administration has used the waiver process to reform welfare already. Besherov states, "this new round of welfare waivers ends the individual entitlement to welfare, and in its stead, gives administrators and caseworkers enormous new discretion in deciding who gets welfare. This is indeed the end of welfare as we know it."[63]

The "Newt Federalism"

The notable difference today from past devolutionary efforts is that now a much stronger effort, a veritable "Devolution Revolution," is being promoted by Republican leaders of the Congress in concert with Republican governors.[64] The new movement includes entitlement grants-in-aid as candidates for block grants. Early in the first 100 days, Speaker Newt Gingrich and his House colleagues set about with a vengeance to create block grants out of these entitlement grants. The Republican majority in the Congress favors repealing the safety-net aspect of grants that provide aid in cash and in kind to poor families and individuals on an open-ended basis. It is still too early at the time of this writing to know which programs will in the end be converted to block grants, but an impressive list is being considered.

The most important and likely is a welfare block grant replacing the Aid to Families with Dependent Children program. Called "Temporary Assistance to Needy Families (TANF)," this block grant would provide lump sum payments to the states for aid to needy families; TANF passed both Houses of Congress by wide margins in 1995. The vote was 234 to 199 in the House and 87 to 12, in the Senate. New program requirements would limit aid to five years for any family and require that after two years a family head (usually the mother) has to go to work. Assuming a state adheres to these high-prominence, hard-line rules, TANF then gives the state wide latitude to set its own benefit levels and other rules for aiding poor families. This would be a historic shift in social policy, fundamentally changing what was done under the New Deal. However, President Clinton vetoed this legislation in January 1996.

Another important and quite likely pending block grant proposal is for job placement and job training. It would combine some 90 separate categorical grant-in-aid programs into a new program with three or so main parts and give states much more discretion than is now the case under the folded-in categorical grants. This block grant passed both houses of Congress by big margins in 1995; the vote was 345 to 79 in the House and 95 to 2 in the Senate. As of this writing, however, the bill is not law.

There are other important pending candidates for block grants. One is a block grant for school lunches and breakfasts, now an open-ended entitlement, which the House of Representatives in 1995 converted into a closed-ended grant, although the Senate would not go along. Foster care and food stamps are also both open-ended entitlements that were converted in 1995 by the House into closed-ended block grants to the states. Again, the Senate would not go along. Other potential block grants on the agenda are for youth programs and crime prevention.

The big enchilada of grant blocking, if it occurs, would be Medicaid, a step fraught with significance for nonprofit groups, especially hospitals and nursing homes, but also other providers of health-care services. Medicaid accounts for 40 percent of the one-quarter trillion dollars the federal government pays each year to states, localities, and nonprofit groups. The Medicaid program was converted to a block grant by Congress in 1995, but President Clinton again dug in his heels. He vetoed the budget act that included this provision. Actually, Medicaid is not one program, but several. It aids poor families (the welfare population), the disabled in institutions, and old people in nursing homes. Many in the latter group were not always poor themselves and have children who are not poor; these offspring of nursing home residents depend on this program to take care of their parents. Thus, this is a stream of federal aid that in large measure aids the middle-class. This fact, plus the fact that nursing homes and many medical-care providers and practitioners want to keep this federal aid faucet open, explains why a Medicaid block grant faces stiff political resistance.

Deregulation as an Instrument of Devolution

Deregulation is still another arrow in the devolution quiver. It can happen as a result of both legislative and administrative action, in the latter case as already mentioned in the case of string-loosening under the Community Development Block Grant. On the legislative front, Congress passed, and President Clinton signed, the Unfunded Mandates Reform Act of 1995 limiting the federal government's power to adopt future mandates for state, local, and tribal governments without paying for them. This was part of "Promise Number 8" in the House Republicans' 1994 *Contract With America.* This law by itself is enough to have us conclude that something important is happening to American federalism. Unfunded mandates were one way the federal government managed to keep control over policy decisions without bearing the fiscal responsibility.

The Effect of Budget Cutting on Devolution

The federal government is not simply loosening the regulatory apron strings. *It is also tightening the purse strings.* Cuts in spending for domestic programs average ten percent, and in some cases much more than this for fiscal year 1996. Looking down the road to 2002, projections for the reductions being discussed average 30 percent at the end of this seven-year period. Not only is federal spending being cut, but it is no longer the *modus operandi* of Washington to discover problems and throw money at them to solve them. The federal money machine is turned off. This is not just a fiscal event. It shifts the social policy agenda to others - mainly to state governments - when it comes to defining social needs, determining how to meet them, and deciding who should have the responsibility for doing so. Nonprofit organizations have every reason to be very nervous about these budget reductions.

State Management Reform

Nonprofit groups play many roles. Service provision is one. Advocacy, of course, is another. They are also breeding grounds for developing leadership and administrative skills at the community and neighborhood levels. Hence, the way state or local governments contract with these groups and relate to them involves more than managerial niceties. Many state governments are not standing around waiting for the Feds to act as, for example, on structural and intergovernmental changes such as block grants. There is a "New Activism" on the part of the states. They are undertaking policy and managerial innovations under their already existing authority, which is considerable. Some changes now being undertaken by states to thin out and control the activities of nonprofit groups could stifle their role of developing leaders and managerial skills if state actions in this area are too heavy handed.

On a recent visit to Cincinnati, Ohio, for example, I was impressed by a new state program called "Families and Children First." It involves pooling funds from a range of social agencies - human services, mental health, mental retardation, the juvenile court, drug and alcohol addiction services - to create a single revenue payment for case management for youth with multiple and severe needs.[65] We know of other examples like this. A recent unpublished survey by the Urban Institute identifies other examples of service integration.

The essential point here is that there are many state officials, governors who see devolution as a way to give them greater opportunity to improve the management and efficiency of government. In many cases, they are not as conservative as many of their Congressional compatriots. They are likely to talk about what they are doing as *"re-engineering"* government, borrowing corporate terminology. Corporate re-engineering is seen as a response to global economic competitiveness to shift the production function, that is, make business more productive. It can be argued that if you want to re-engineer government you have to do it where government gets done, *at the state and local levels*. The "Devolution Revolution" can be seen in these terms as a way to exert pressure where it should be exerted, to provide incentives and tools for state and local officials to make management changes in a political setting in which change at every level of our federalism is not easy to achieve. The jury is out on how much and what kinds of real management changes state governments will make. Such change is hard to measure. It involves such challenging tasks as:

1. *Integrating services, which especially involves the nonprofit sector*
2. *Strengthening leadership structures to make them more responsive*
3. *Establishing state-of-the-art management information systems*
4. *Effectively administrating managed care systems for health and social services*
5. *Reforming civil service systems*
6. *Modernizing contracting procedures*
7. *Upgrading financial management practices and measuring program performance*
8. *Privatization*

Historically these subjects have been viewed by politicians and the public as dull and worthy of little serious attention. Implementation - the ability to execute the purposes you say you will carry out - is the short suit of American government. However, this may be changing now at the state and local levels on the part of governmental leaders throughout the country.

IV. Lessons - Some Serious, Some Tongue in Cheek

Recently, experts on public administration have written about "the hollow state," referring to the separation between government and the services it funds.

> In a general sense the hollow state refers to any joint production situation where a governmental agency relies on others (firms, nonprofits, or other government agencies) to jointly deliver public services. Carried to extreme, it refers to a government that as a matter of public policy has chosen to contract out all of its production capability to third parties, perhaps retaining only a systems integration function responsible for negotiating, monitoring, and evaluating contracts. There is obviously a great deal of territory between these two extremes, but while hollowness varies from case to case, the central task of the hollow state does not - this is to arrange networks, whereas the traditional task of government is to manage hierarchies.[66]

Eugene Bardach and Cara Lesser see a "leaking of authority" from elected legislators as raising new problems of accountability.[67] The proliferation and layering of governmental units, contracting out to private firms, and the nonprofitization of social welfare and community development services featured in this paper are all encompassed in this metaphor. Nonprofitization has strengthened the aided organizations, but brings with it hard questions about whether the contracted services should be treated in this way and whether and how governmental responsibility - that is, accountability - can be retained.

Responsibilities have always been highly dispersed and fragmented in American government. Even without the increased reliance on nonprofit organizations to provide social welfare and community development services, these functional areas would have to be described as highly - even especially - pluralistic. I began this paper by debunking myths; a final debunk is in order. There is a widespread idea that the New Deal put the national government in charge of domestic affairs, and that this is now being undone. Hardly the case; domestic responsibilities have always been shared, with different levels of government involved to different degrees in financing, making policy, and administering programs. But the main action when it comes to running programs is not Washington action. The national government, I like to say in jest, really runs only two social programs - Social Security and *"Sesame Street."* Devolution has been advanced in the modern period primarily by conservatives, but sometimes it has backfired, and sometimes it has surprised people, and among the surprised people are leaders and proponents of nonprofit organizations. Here are five concluding comments about this experience:

1. *Creating block grants makes federal aid <u>more vulnerable</u> over time, a consideration that no doubt was on the minds of the conservative authors and supporters of various "new federalisms." Yet, historically devolutionary efforts, their character and their effects, have <u>followed the ballot box</u>. Nixon's block grants and his revenue sharing program, coming in an essentially liberal period on domestic issues, involved substantial new spending compared to Reagan's budget-cutting block grants advanced in a more conservative period. Welfare and Medicaid waivers display the same pattern. Waivers have been used recently to emphasize stringent anti-welfare policies and to control Medicaid costs. Earlier in the eighties, waivers were used to advance liberal purposes like strengthening welfare work incentives and adding children in working poor families to Medicaid. The same pattern is found for regulatory measures. Strings under the Community Development Block Grant were loosened under presidents Ford and Reagan to give local officials more freedom. They were tightened under the Carter administration to concentrate CDBG funds on poor neighborhoods. The underlying point is that there are <u>not</u> two electorates in America, one that is national and liberal and the other state-based and conservative.*

2. *<u>For nonprofit organizations, devolution has been profitable</u> because of the way it has stimulated states and localities to devise putting-out and contracting-out policies for the provision of many public services, particularly health services, other social services, and community development programs. True, block grants are viewed by many as a way to control spending, but we don't know the counter-factual. Would this*

have happened anyway? Moreover, some open ended grants (notably Medicaid) provide entitlements in the form of services provided predominantly by nonprofit organizations that are administered on a basis that gives states wide latitude and has proved to be high-octane fuel for nonprofit organizations in many states.

3. *Strategies about devolution involve a high degree of subtly. Conservatives, for example, were tripped up by their devolutionary cleverness in the case of Reagan's New Federalism. Research we did at the Brookings Institution indicated that Reagan's New Federalism backfired to the extent that states told by Reagan to do more, did exactly that. The strong recovery from the 1981-82 recession beginning late in 1982 meant that state coffers were beginning to fill up just as Reagan's federal aid retrenchments policies were beginning to be felt. This high volatility of state finances put state governments in a position after 1982 to spend more and do more in those functional areas in which the federal government under Reagan was pulling back or signaling its intention to do so. Data from the U.S. Bureau of the Census show that state governments in the aggregate increased their role during the Reagan years. From 1983 to 1986, as the Reagan retrenchment and federalism policies took effect, state aid to localities increased by an average of 5.6 percent a year in real terms. Total state spending rose by nearly the same percentage. Before that, from the mid 1970s to 1983, both state aid to localities and total state spending had been level in real terms.*

4. *All dollars are green. State and local officials are a cagey lot. Fiscal substitution and the pursuit of the most-loved purposes happens under the tightest of tight categorical grants. However, on the whole, nonprofit groups have found block grant heaven under block grants, notably CDBG, the CETA public service employment program (PSE), and Title XX. The effort under PSE in particular to combat fiscal displacement in the use of block grant funds played right into their hands. Money for public service jobs produced a big spurt in the growth of local community based nonprofit organizations. Today, the same effect is seen in the use of CDBG funds as high octane fuel for community development corporations that build affordable housing and increasingly are expanding into broader social-service areas.*

5. *State governments are the key to what happens to the level and administrative character of nonprofitization. Federal systems of government can be defined as those in which regional-level governments have a consequential role - consequential in the sense that they have major legal, fiscal, programmatic responsibilities; are culturally and historically distinctive; and, have major powers over the size, structure, powers, and taxes of local units.*[68] *Federal systems can be classified according to the relative strength of the role of regional governments (states, provinces, republics) according to these criteria. Nonprofit organizations, as this paper seeks to show, are part and parcel of this devolutionary landscape. They too share responsibilities, and their share has grown. This growth has paralleled the rising role of states. Devolution and nonprofitization go together, or at least have occurred at*

the same time in our recent history. As state governments have contracted out social and community development services to make them quais-governmental, this has created new institutional arrangements and new politics. It present problems of accountability. It also presents opportunities for state government leadership to deal with these problems by devising better management, oversight, and performance budgeting techniques, and, to advance organizational reforms that integrate social and community development services. Service integration has long been a familiar refrain in government. There is evidence, though by no means enough of it yet or available systematically, that the story line for nonprofitization in the future will involve stronger managerial and organizational leadership on the part of state governments. That would be a good thing. The current interest in "reinventing" and "re-engineering" government sets just the right tone for doing this.

NOTES

1 Arenson, Karen W., "Gingrich's Vision of Welfare Ignores Reality, Charities Say," *The New York Times*, June 4, 1995, p. A-1.

2 Lester M. Salamon has studied this subject extensively. See for example, Salamon, Lester M. (1995) *Partners in Public Service: Government - Nonprofit Relations in the Modern Welfare State* (Baltimore, MD: Johns Hopkins University Press), and "Social Services" in *Who Benefits From the Nonprofit Sector*, ed, by Clotfelter, Charles T., (Chicago: University of Chicago Press, 1992).

3 Salamon, Lester M., "Social Services," in Clotfelter, Charles T., *Who Benefits from the Nonprofit Sector?* (Chicago: University of Chicago Press, 1992) p. 137.

4 This list is based on a British source, a description of "CCT," which stands for "compulsory competitive tendering," conducted under a law passed under Margaret Thatcher in 1988. The law requires data collection on "savings" achieved in each such area.

5 The Rockefeller Institute of Government is planning a national field network evaluation of the capacity of state governments which will include a major component on nonprofitization, with emphasis on linkages among now nonprofit service providers.

6 Julian Wolpert has written extensively on this subject. His most recent paper is "What Charity Can and Cannot Do," (New York: Twentieth Century Fund Press [http://epn.org/tcf/tcccd.html]). This paper was presented March 19, 1996 at a seminar sponsored by the Aspen Institute's Nonprofit Sector Research Fund.

7 Connell, James P., et al. (1995), *New Approaches to Evaluating Community Initiatives: Concepts, Methods and Contexts* (Washington, D.C.: The Aspen Institute).

8 The Rockefeller Institute is conducting a national assessment of this program for the U.S. Department of Housing and Urban Development. The prospectus for this research, *An Assessment of the Empowerment Zone/Enterprise Community Initiative*, is available from the Urban Studies Group at the Rockefeller Institute of Government. Contact Mark McGrath at 518-442-5289.

9 Connell et.al., *New Approaches to Evaluating Community Initiatives.*

10 Smith, Steven Rathgeb and Lipsky, Michael, (1993) *Nonprofits for Hire: The Welfare State in the Age of Contracting* (Cambridge, MA: Harvard University Press), p. 11.

11 Saidel, Judith, "The Dynamics of Interdependence Between Public Agencies and Nonprofit Organizations," Research in Public Administration, Volume 3, (1994), p. 201-229.

12 O'Connell,, Brian "A Major Transfer of Government Responsibility to Voluntary Organizations? Proceed With Caution," Public Administration Review, May/June 1996, p. 222-225. See also, Kramer, Ralph M., "Voluntary Agencies and the Contract Culture: "Dream or Nightmare?" Social Science Review (March 1994) p. 33-60.

Lipsky's own earlier work, *Street Level Bureaucracy* (1983), helps make this point about the blurred distinction in real life between responsibilities and activities.

13 The Independent Sector, http://www.indepsec.org/saasum.html

14 Rabinovitz, Jonathan, "Fighting Poverty Programs, Hartford Faces Vote to Bar New Nonprofit Services," *The New York Times*, March 24, 1996, p. 41, 46.

15 Ibid.

16 Salamon, Lester M. (1995) *Partners in Public Service: Government - Nonprofit Relations in the Modern Welfare State*.

17 Clotfelter, Charles T. and Schmalbeck, Richard L. (1996) *The Impact of Fundamental Tax Reform on Nonprofit Organizations* (Washington, D.C.: The Brookings Institution).

18 Ibid.

19 See Ostrower, Francie, (1996) *Why The Wealthy Give: The Culture of Elite Philanthropy* (Princeton: Princeton University Press).

20 Ehrenhalt, Samuel, (April 23, 1996) "Facing Up To The Future: Key Forces Reshaping The Capital Region," unpublished paper prepared for the Rockefeller Institute of Government.

21 Fossett, James, (Fall 1993) "Medicaid and Health Reform: The Case of New York," *Health Affairs*, p. 81-94.

22 Ibid. See also, Fossett, James W., Ebdon, Carol A. and Brier, Norman, "When Is Growth Not Growth? The Curious Case of Mental Health Budgeting in New York," Forthcoming in *Public Budget and Finance*.

23 Young, Dennis, (1996) "The Blurring of the Sectors," (Cleveland, OH: Mandel Center for Nonprofit Organizations), p. 1-11.

24 Ibid.

25 Nathan, Richard P. (1975) *The Plot That Failed: Nixon and the Administrative Presidency* (New York: John Wiley and Sons).

26 State governments received one-third of the total allocation; two-thirds was divided among units of local government - counties, cities, townships, and Indian Tribal governments. State officials could spend this money as they wished, but could not use it as the required match for other federal grants. Local governments had this same restriction, plus they had to spend this money within designated functional areas, such as public safety, social services, health, transportation, and other priority areas. There would be no yearly appropriations. The act created a five-year trust fund for distributing shared revenue; funds were distributed by a formula based on population, tax effort, and relative personal income. Revenue sharing funds were to be kept separate from state and local general funds and accounted for in reports to the General Accounting Office. A nondiscrimination provision was included in the act. With all general purpose governments included as recipients of these funds, the national government extended its capability to enforce civil rights compliance in areas of state and local activity not previously covered.

extended its capability to enforce civil rights compliance in areas of state and local activity not previously covered.

27 The Office of Revenue Sharing in the U.S. Department of the Treasury reported that more revenue sharing money was spent for operating and maintenance than for capital expenditures. According to the reports issued by the Treasury Department, the largest share of revenue sharing funds were spent by state and local governments on education (24 percent); public safety (23 percent); transportation (15 percent); health (6 percent); social services (3 percent); and community development (1 percent). However, research we did at the Brookings Institution to evaluate this program cast doubt about these official numbers. We found that over forty percent of this money was used at the local level to substitute for funds that would otherwise have been raised from other sources. Three fifths went into new spending, most of which was used for capital expenditures. At the state level, the proportions were similar. Our conclusion was that there was hesitancy on the part of government officials to allocate these funds to operational activities. Recipient governments appeared to be cautious in implementing or expanding ongoing operational programs with these funds. They told us they did not want to be caught committed to new programs when and if this manna from heaven ceased flowing.

28 Dommell, Paul R., Nathan, Richard P., Liebschutz, Sarah F., Wrightson, Margaret T., (1978) *Decentralizing Community Development.* (Washington, D.C.: U.S. Government Printing Office.)

29 Ibid.

30 Ibid.

31 Ibid., p. 11-12.

32 Nathan, Richard P., Dommell, Paul R., Liebschutz, Sarah F., Morris, Milton D., and Associates, (1977) *Block Grants and Community Development* (Washington, D.C.: U.S. Department of Housing and Urban Development), p. 499.

33 Ibid., p. 498.

34 National Association of Housing and Redevelopment Officials (1976) *NAHRO: Year One Findings Community Development Block Grants* (Washington, D.C.: NAHRO).

35 Dommell, Paul R., Musselwhite, James C., and Liebschutz, Sarah F., (1982) *Implementing Community Development.* (Washington, D.C.: U.S. Government Printing Office), p. 100.

36 State experience under CDBG is particularly relevant in the present context given the debate over what the likely consequences of further devolution to the states might be. Michael J. Rich examined the effects of that devolution in all fifty states by comparing the types of decisions state officials made vis-a-vis federal officials. Here we have essentially the same program (i.e., re eligible use of funds etc.) but the only variation is on who makes the choices about what gets funded. Several points stand out from that analysis:

1. States spread their funds more broadly than did the feds, with states funding on average about twice as many grants in a given year as did the feds;

2. The types of jurisdictions funded shifted with the very smallest places increasing their share and the larger smaller cities seeing their shares dropped sharply;

3. The nature and activities shifted, away from housing rehabilitation to public works and economic development;

4. Targeting to distressed communities declined although the pattern was not uniform across states. Overall there was about a 4 percentage point drop in the share of CDBG funds awarded to the most distressed communities under state administration as opposed to federal administration. When individual states are examined, 6 states had substantially more targeted programs under state administration and 13 states had programs that were more targeted under state than federal administration. On the other hand 9 states had substantially less targeted programs and 16 states had lower rates of targeting. See Rich, Michael J., *Federal Policymaking and the Poor*, (Princeton: Princeton University Press, 1993), Chapter 4.

37 Dilger, Robert Jay (1989) *National Intergovernmental Programs* (Englewood Cliffs: Prentice Hall), p. 169. For a full discussion of the implementation, operation and impact of community development block grants, see Rich, Michael J., *Federal Policymaking and the Poor*, (Princeton: Princeton University Press, 1993).

38 Peirce, Neal R. and Guskind, Robert (1985) "Reagan Budget Cutters Eye Community Block Grant Program on Its 10th Birthday." *The National Journal* (January 5, 1985), p. 14.

39 Ibid.

40 Rich, Michael J. (1993) *Federal Policymaking and the Poor* (Princeton: Princeton University Press), p. 82.

41 Ibid.

42 U.S. General Accounting Office (1982) *HUD Needs To Better Determine Extent of Community Block Grants' Lower Income Benefits* (Washington, D.C.: GAO/RCED-83-15).

43 The Urban Institute Study of the CDBG Program, *Federal Funds, Local Choices: An Evaluation of the Community Development Block Grant Program*, (Washington, D.C.: U.S. Department of Housing and Urban Development, Office of Policy Development and Research, May 1995).

44 Conlan, Timothy, 1982, *New Federalism: Intergovernmental Reform from Nixon to Reagan*, (Washington, D.C.: The Brookings Institution), p. 63.

45 Franklin, Grace A., and Ripley, Randall B., (1984) *CETA Politics and Policy 1973-1982* (Knoxville, TN: The University of Tennessee Press), p. 11.

46 Ibid.

47 Ibid., p. 6.

48 Ibid., p. 12-14.

49 Cook, Robert F., Adams, Charles F. Jr., Rawlins, V. Lane and Associates (1985) *Public Service Employment: The Experience of a Decade*, (Kalamazoo, MI: W.E. Upjohn Institute for Employment Research), p. 6.

50 Ibid., p. 8.

51 Nathan, Richard P., Cook Robert F., Rawlins, V. Lane and Associates (1981) *Public Service Employment: A Field Evaluation* (Washington, D.C.: The Brookings Institution), p. 5.

52 Conlan, Timothy, p. 175.

53 Cameran, Juan, "How CETA Became a Four-Letter Word," *Fortune 99* (April 9, 1979), p. 112-114.

54 U.S. Library of Congress, Congressional Research Service, *Title XX of the Social Security Act: Program Description, Current Issues*, Report No. 81-58 EPW, by Spar, Karen, Washington, D.C., February 17, 1981.

55 Ibid.

56 Ibid.

57 The five goals of Title XX of 1975 are:

1. Achieving or maintaining economic self-support to prevent, reduce, or eliminate dependence;

2. Achieving or maintaining self-sufficiency, including reduction or prevention of dependency;

3. Preventing or remedying neglect, abuse, or exploitation of children and adults unable to protect their own interests, or preserving, rehabilitating or reuniting families;

4. Preventing or reducing inappropriate institutional care by providing for community-based care, home-based care, or other forms of less intensive care; and

5. Securing referral or admission for institutional care when other forms of care are not appropriate, or providing services to individuals in institutions.

58 Ibid.

59 Ibid.

60 Orlebeke, Charles, from the "New Paradigm," final chapter from an unpublished manuscript on the New York City Housing Partnership.

61 See also Gold, Steven D., *"The ABCs of Block Grants,"* State Fiscal Brief, Center for the Study of the States, Nelson A. Rockefeller Institute of Government, March 1995.

62 United States General Accounting Office, "Block Grants: Characteristics, Experience, and Lessons Learned," GAO/HEHS-95-74, February 1995. U.S. Advisory Commission on

Intergovernmental Relations, "Characteristics of Federal Grant-in-Aid Programs to State and Local Governments: Grants Funded FY 1995," M-195, June 1995.

63 Besherov, Douglas, "How Bill Clinton Reformed Welfare ... Already," American Enterprise Institute, Unpublished article.

64 Rockefeller Institute *Bulletin* (1996) Symposium on American Federalism Today. Nathan, Richard P., *Hard Road Ahead: Block Grants and the "Devolution Revolution,"* discussion paper prepared for the Brookings Institution, October 27, 1995.

65 Letter to Richard P. Nathan from Mason, James R., President and CEO of Beech Acres, Cincinnati Ohio with enclosure on FCF Management mission statement.

66 *Journal of Public Administration: Research and Theory*, (Transaction Publishers) Vol. 6, No. 2, April 1996, p. 193-194.

67 Bardach, Eugene and Lesser, Cara, (April 1996) "Accountability in Human Services Collaboratives - For What? and To Whom?" *Journal of Public Administration Research and Theory*, p. 197-224.

68 Nathan, Richard P. (1996) "The Role of the States on American Federalism," in the *State of the States*, Third Edition, ed. by Van Horn, Carl E. (Washington, D.C.: Congressional Quarterly Press), p. 15-16. See also, Nathan, Richard P., "Defining Modern Federalism," in *North American and Comparative Federalism Essays for the 1990s*, ed. by Scheiber, Harry N. (Berkeley, CA: Institute of Government Studies Press, 1992).