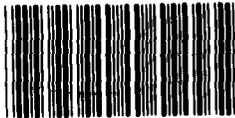


UNITED STATES GENERAL ACCOUNTING OFFICE
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STATEMENT OF
JAMES DUFFUS III
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BEFORE THE
SENATE COMMITTEE ON ENERGY AND NATURAL RESOURCES
ON ENERGY BLOCK GRANTS

Mr. Chairman and Members of the Committee:

We welcome the opportunity to be here today to discuss energy block grants. We recently issued a report on energy conservation block grant options. 1/ My statement is based on that report and discusses our overall position on block grants. It also discusses various features that could be considered in establishing an energy block grant program--measures of accountability for program effectiveness, formulas for fund distribution, and matching or maintenance of effort requirements.

BLOCK GRANTS vs. CATEGORICAL GRANTS

In examining a variety of grant programs, we have supported the concept of (1) consolidating separate categorical programs having related objectives and serving similar target populations, (2) placing management responsibility for similar programs in the same agency, and (3) giving the States greater flexibility to match resources with needed priorities.

1/"Options for Establishing an Energy Conservation Consolidated Grant Program," EMD-81-115, July 8, 1981.

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Our longstanding position has been that the consolidation of fragmented and restrictive categorical grants into broader purpose programs is fundamental to improving the administration of Federal assistance programs at all levels of Government. The categorical grant system has created a variety of administrative problems. Categorical grants are often too restrictive to meet actual service needs at the State and local levels and the burden of monitoring a coordinated effort to deliver federally assisted services falls on the grantee.

The proliferation of categorical programs also has considerable impact on State and local priorities. By providing assistance in narrowly defined areas on national priorities, the Federal Government induces State and local governments to fund programs that they otherwise may not have funded.

Federal grants available for a broader range of purposes would increase State and local discretion and move toward supporting rather than changing State and local priorities. Block grants seek to achieve this goal by providing assistance for a broad range of purposes in a functional area, thereby maximizing flexibility and easing administrative burdens at State and local levels.

There are various features that could be considered in designing block grant legislation, such as S. 1544 currently under consideration by the Committee. These features include provisions for accountability, formulas for fund distribution, and matching or maintenance of effort.

BLOCK GRANT DESIGN FEATURES

The choice of design features for block grants is properly a political function that should be driven by the ultimate objectives the Congress is seeking to achieve. Block grants intended to continue Federal stewardship of national objectives in a more flexible or decentralized manner should have significantly different design features than block grants intended principally to transfer Federal responsibilities to State and local governments.

In designing a block grant program, the Congress must consider the trade-offs between State and local discretion and Federal control. At one end of the spectrum, block grants may become indistinguishable from general revenue sharing, if, for example, a maintenance of effort provision is not included. On the other hand, detailed Federal eligibility rules, standards, or funding requirements could transform the block grant into a categorical grant, thus lessening any benefits that could be realized from greater State and local discretion. A balance should be sought between the extent of flexibility provided to State and local governments and the degree of accountability to the Federal Government required to assure that the program's national objectives will be met.

A number of different provisions can be incorporated into block grants to facilitate the achievement of national objectives. The provisions considered should be carefully framed to encourage States and localities to meet national objectives in the broadest possible way and provide flexibility. The provisions

could encourage achievement of goals without specifying the means to be used.

Accountability requirements

The nature and extent of a Federal role in accountability will be a function of two factors: (1) whether the purposes of the programs make a Federal role appropriate or desirable and (2) whether the design features of the program make a Federal role possible. If a Federal accountability role is desired, the program should be designed in such a way that is it possible to assess what program funds are spent for and what they are accomplishing. Several important design features and mechanisms would promote this should the Congress desire a Federal role in assessing program efficiency and effectiveness. However, it is important that Federal accountability alternatives be considered in the context of the overall objectives the Congress is trying to achieve.

Among the provisions that could be considered to provide accountability are planning provisions, performance goals, oversight requirements, and specification of required or ineligible activities.

Planning provisions

Planning provisions can enable States to better define their own goals and objectives within the parameters of Federal objectives defined for the program. S.1544 contains no provision requiring State plans. Among the features for a State energy plan that could be considered in proposed energy block grant programs are the following:

--A description of State energy supply and demand and of its energy goals and policies.

--A forecast of energy consumption patterns including the likely sources and the need for major energy supply facilities.

--A management plan for, and description of the planned uses of the block grant funds and any other Federal or non-Federal funds.

Performance goals

Performance goals requiring States to achieve broad goals and objectives can be included, while allowing grantees the flexibility to select the specific means to be used and the funding needed for meeting the objectives. S.1544 contains no requirements for such goals and objectives.

Oversight requirements

Oversight of the extent to which block grant funds are being spent to achieve Federal objectives is appropriate to ascertain what the funds are accomplishing. Certain reporting, audit and evaluation provisions could facilitate the ability of the Federal Government to judge the extent to which national objectives are being achieved and, if considered desirable, to assess the efficiency and effectiveness of block grant funded program efforts of the States. S.1544 requires each grantee to keep whatever records the Secretary of Energy prescribes in order to assure an effective financial audit and performance evaluation.

The responsibility for audit and evaluation could be allocated among the levels of government in a number of ways. State governments could bear primary responsibility for performing both financial and compliance audits as well as evaluations of program efficiency and effectiveness. Under this scheme, the role of Federal agencies would be to provide broad guidance on Federal criteria and general oversight of the adequacy of State and local audits and evaluations. Nationwide evaluations of program effectiveness among all States may also be desirable, necessitating a more direct evaluation role for Federal agencies, perhaps culminating in an annual report.

The establishment of performance goals and planning provisions previously discussed would facilitate the oversight process by establishing a basis for periodic assessment of individual State and overall program progress and effectiveness.

Activity requirements

The legislation can provide that certain type activities (1) must be included in the State's program, (2) are not eligible for funding, or (3) must be funded at a specified percentage level of the State's grant. Although this could encourage a greater concentration of block grant resources on areas of national concern, it would take away from the grantee the flexibility of deciding priorities. S.1544 contains no such requirements.

Allocation formula

The purpose of an allocation formula is to distribute the program funds among State and local governments. Such formulas

often give consideration to factors related to the program's overall objectives, and seek to allocate funds to the areas where the problems are concentrated.

S.1544 distributes funds to the States with 75 percent allocated on the basis of population and 25 percent allocated equally among the States.

Other factors that could be considered are (1) the climatic conditions in each State, which may include consideration of heating and cooling degree-days and (2) low-income population. Inclusion of these factors would recognize varying State climatic conditions affecting energy use and varying low-income populations affecting the need for weatherization.

Matching and maintenance of effort requirements

Matching and maintenance of effort provisions comprise the principal means through which Federal programs influence State and local budgets. Matching provisions require State and local governments to bear a minimum share of program costs as a condition for receiving Federal assistance. Maintenance of effort provisions are designed to prevent State and local grantees from reducing their spending in federally funded program areas.

S. 1544 requires matching funds from non-Federal sources equal to 30 percent for fiscal year 1982 and 50 percent for fiscal years 1983 and 1984.

The total financial burden on State and local governments has become an important issue due to the rapid growth of Federal matching grant programs over the past 15 years as well as the

recent wave of fiscal constraints and expenditure reductions faced by all levels of government. For this reason, the appropriateness and effectiveness of matching requirements have become important issues for the entire public sector.

In a December 1980 report on matching and maintenance of effort requirements, 1/ we noted that localities facing budget reductions most often choose to continue their matching contributions to retain Federal grant funds while disproportionately cutting non-federally funded local programs of higher priority. As a result, a local priority shift towards federally funded programs occurs. We recommended that the Congress use matching requirements more sparingly and only where a specific Federal interest can be articulated. This would help restore State and local discretion in allocating their own funds.

Well-designed maintenance of effort requirements on the other hand, can serve a Federal purpose by ensuring that Federal grant funds are used to support additional program activities and not used to replace State or local support for these activities. Such requirements, however, could have significant adverse programmatic and fiscal effects by reducing the flexibility available to State and local governments to manage their own resources more effectively.

1/"Proposed Changes in Federal Matching and Maintenance of Effort Requirements for State and Local Governments," GGD-81-7, Dec. 23, 1980.

In our December 1980 report, we concluded that maintenance of effort requirements must be made more flexible to avoid penalizing bona fide spending reductions as well as program innovation. At the same time, these requirements also need to be standardized to improve Federal implementation and assist State and local governments in their own compliance efforts.

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Mr. Chairman, this concludes my prepared statement. I will be happy to respond to your questions.