

GAO

United States General Accounting Office 130973  
Fact Sheet for the Honorable Lloyd  
Bentsen, United States Senate

August 1986

# FY 1986 BUDGET SEQUESTRATION

## Agency Approaches to Implementing Reductions Under Formula Grants



130973

RESTRICTED---Not to be released outside the General  
Accounting Office  
approval by the [blank] of specific  
[blank] tions.

RELEASED

GAO/HRD-86-130FS

53635

-----

-----

|

,

|

|

1

4



United States  
General Accounting Office  
Washington, D.C. 20548

---

Human Resources Division

B-221498

August 8, 1986

The Honorable Lloyd Bentsen  
United States Senate

Dear Senator Bentsen:

This fact sheet responds to your request for information on the implementation of the 4.3-percent budget reduction in formula grant programs resulting from the Balanced Budget and Emergency Deficit Control Act in 1986. Specifically, you asked that we determine how many of the major formula grant programs distributed cuts disproportionately using the programs' formulas rather than reducing each state's allocation by 4.3 percent.

We identified 48 programs subject to reductions under the act in fiscal year 1986 that included a type of formula constraint where a budget cut could affect the relative distribution of funds among states. As agreed with your office, we obtained detailed information on 26 of the 48 programs in order to include 12 of the largest programs with formula constraints and a mixture of different types of constraints.

Essentially, we found that 12 of the 26 programs distributed budget reductions disproportionately among states generally in response to formula provisions in authorizing legislation for the programs. However, only 3 of the 12 had percentage reductions that were substantially different from what they would have been if the reductions had been proportional. The other 14 programs distributed the reductions proportionally.

Unless you publicly announce its contents earlier, we plan no further distribution of this fact sheet until 30 days after its issue date. At that time we will distribute copies to other interested parties. Further information regarding this document can be obtained by calling me at 275-2854.

Sincerely yours,

*Edward A. Blensmore*

*for*

J. William Gadsby  
Associate Director

## C o n t e n t s

	<u>Page</u>
LETTER	1
FY 1986 BUDGET SEQUESTRATION: AGENCY APPROACHES TO IMPLEMENTING REDUCTIONS UNDER FORMULA GRANTS	3
Objectives, Scope, and Methodology	3
Budget Reductions Were Allocated Differently Among Recipients	4
Potential Effects of Future Reductions	6
APPENDIX	
I    Programs With Disproportionate Reductions	8
II   Programs With Proportionate Reductions	9
<u>Table</u>	
1    Agencies' Budget Reduction Approaches	4
<u>ABBREVIATIONS</u>	
ADAMH	Alcohol, Drug Abuse, and Mental Health
CFDA	Catalog of Federal Domestic Assistance
GAO	General Accounting Office
LIHEA	Low-Income Home Energy Assistance

**FY 1986 BUDGET SEQUESTRATION:**  
**AGENCY APPROACHES TO IMPLEMENTING**  
**REDUCTIONS UNDER FORMULA GRANTS**

**OBJECTIVES, SCOPE, AND METHODOLOGY**

We identified 48 programs subject to reductions under the Balanced Budget and Emergency Deficit Control Act in fiscal year 1986 that included a type of formula constraint under which a budget cut could affect the relative distribution of funds among states. These constraints included (1) hold-harmless provisions, which guarantee that the recipients will not receive less than they did under a previous distribution, and (2) fixed minimum allocations for each recipient.

The formula grant programs containing constraints on funding allocations were identified from a review we are completing which describes and catalogues the 142 federal grant programs using formulas. In that effort we surveyed agency program managers and staff familiar with the 142 formula grants to develop information on how their formulas work, including information on constraints on the distribution of funds among states or other grantees. The baseline for our information was fiscal year 1984; however, we added programs established later and deleted programs not funded in fiscal year 1986. We also updated information on formula constraints.

As agreed with Senator Bentsen's office, we obtained detailed information on 26 of the 48 programs in order to include 12 of the largest programs with formula constraints and a mixture of different types of constraints. For 18 of the 26 programs, we contacted responsible agency program or budget officials to determine how the reductions were implemented and what impact formula constraints had on the allocation of the reductions among states. For the other eight programs, we relied on information from GAO's report on the implementation of budget reductions in selected accounts. (Implementing FY 1986 Reductions: Balanced Budget and Emergency Deficit Control Act of 1985, GAO/OCG-86-3, June 30, 1986.) The 26 programs were administered by four federal agencies: the Departments of Education, Health and Human Services, and Transportation and the Environmental Protection Agency. Total funding for the 26 programs in fiscal year 1986 was about \$12 billion--81 percent of the total funding available for the universe of 48 programs with formula constraints.

**BUDGET REDUCTIONS WERE ALLOCATED  
DIFFERENTLY AMONG RECIPIENTS**

The agencies applied the required budget reductions for the 26 formula programs in two ways. For 12 programs with total funding of \$7 billion, cuts were allocated disproportionately among states and other grantees (subsequently referred to as recipients). However, only three programs--Low Income Home Energy Assistance (LIHEA); Alcohol, Drug Abuse, and Mental Health Block Grant (ADAMH); and Rehabilitation Services' Independent Living Program--had percentage reductions among states that were substantially different from what they would have been if the reductions had been proportional. The other 14 programs, with total funding of about \$5 billion, applied their reductions proportionally--reducing each recipient by a uniform percentage, in most cases 4.3 percent.

In addition, the approaches to implementing the budget reductions varied within, as well as among, agencies, as shown in table 1.

Table 1: Agencies' Budget Reduction Approaches

<u>Agency</u>	<u>Number of programs reviewed</u>	<u>Budget reduction approach</u>	
		<u>Disproportionate</u>	<u>Proportionate</u>
Health and Human Services	9	5	4
Education	11	5	6
Environmental Pro- tection Agency	5	2	3
Transportation	<u>1</u>	<u>-</u>	<u>1</u>
Total	<u>26</u>	<u>12</u>	<u>14</u>

Appendixes I and II provide detailed information on the impact of the budget reductions on state allocations for each of the 26 programs reviewed.

**Programs With Disproportionate  
Allocations Among Recipients**

For 10 of the 12 programs allocating reductions disproportionately, agency officials followed formula provisions included in their programs' authorizing legislation as the basis for allocating the reduced funding. In effect, for these programs, the distribution among recipients after the reduction was the distribution that would have occurred if the Congress had appropriated the reduced level of funding at the beginning of fiscal year 1986.

In 2 of the 12 programs, disproportionate cuts resulted because some states had already obligated funds exceeding the reduced funding level. The Environmental Protection Agency's guidance on implementing budget reductions provided that each state's total allocation of grant funds was to be reduced by 4.3 percent. However, if a state had already obligated funds for a particular grant program that exceeded the reduced funding level, reallocation of funds between programs would be permitted to achieve an overall 4.3-percent cut. This occurred in two of the agency's five programs that we reviewed.

In the 10 programs following formula provisions, the hold-harmless or fixed minimum funding levels in the programs' formulas affected the extent of the reduction received by each recipient. In some cases, recipients were already at their formula hold-harmless or minimum funding levels and did not receive any reductions. As a result, the entire reduction had to be absorbed by the remaining recipients, resulting in many receiving a reduction greater than 4.3 percent.<sup>1</sup>

However, substantial differences in percentage cuts among recipients occurred in only three programs. For LIHEA and ADAMH, about half of the recipients received no reduction because they were at the hold-harmless level, while other recipients received reductions as high as 11.7 percent and 16.1 percent, respectively. The third program, Rehabilitation Services' Independent Living State Grants, included a minimum funding level. Since only six states received funding exceeding this level, they had to absorb all of the program's reductions, taking cuts as high as 44.8 percent. However, total funding for this program is only about \$10.5 million, and the largest reduction was about \$212,000.

#### Programs With Proportionate Allocations Among Recipients

In the remaining 14 programs, agencies applied the budget reduction proportionally. For seven of these programs, officials allocated the cuts proportionally rather than use the program formula. We did not evaluate the reasons that, in these

---

<sup>1</sup>In three programs, all recipients received both a guaranteed minimum or hold-harmless funding level, as well as a share of incremental funding above this level. Only these incremental funds were subject to the fiscal year 1986 budget reduction. Since all states receive this incremental funding, they all received cuts. However, since states differ in the extent of their reliance on these incremental funds, they received unequal cuts for the entire programs. One program had a guaranteed minimum, which was not considered in calculating the reductions.

cases, agencies made reductions uniformly among states, rather than following formula provisions that might have resulted in disproportionate cuts. For instance, Department of Health and Human Services' program officials responsible for the Older Americans programs decided to implement 4.3-percent cuts uniformly for each recipient to promote equitable treatment. Implementing the reduction through the program's formula would have resulted in disproportionate cuts due to the formula's hold-harmless provision.

The other seven programs achieved proportional funding reductions even though agencies applied authorizing legislation program formulas to allocate the reduced funding level. For these programs, funding levels were either sufficiently above or below the applicable constraint levels so that all recipients received proportional reductions. For three of these programs, the initial fiscal year 1986 funding levels were sufficiently above either hold-harmless or minimum funding levels so that all recipients continued to receive funding in excess of their respective constraint level even after the budget reductions. For the other four programs, the national fiscal year 1986 funding levels before the budget reductions were equal to or less than the funding level required to maintain all grantees at the hold-harmless level, and under those circumstances, the hold-harmless provisions did not apply.

#### **POTENTIAL EFFECTS OF FUTURE REDUCTIONS**

Future reductions could substantially alter the mix of programs experiencing proportionate or disproportionate cuts. If further budget reductions are applied on the basis of formulas, programs currently allocating proportionate cuts could experience disproportionate cuts. While funding for these programs is currently sufficient to keep allocations above hold-harmless levels, further cuts, depending on their size, will bring some recipients to their constraint levels. For example, if national funding for the Head Start program dropped to \$839 million from its current \$1.0134 billion funding level, some recipients would reach their hold-harmless levels.

On the other hand, reductions in programs currently applying disproportionate cuts could become more proportional once total program funds drop below levels required to maintain recipients at their hold-harmless levels. At this point, all recipients would begin to incur reductions, and the variations in reductions among recipients would lessen. Ultimately, all recipients would receive proportional cuts once funding reductions were calculated from a level below the hold-harmless threshold. For example, if the ADAMH program's funding drops from its current \$468.9 million below the hold-harmless level of \$462 million, all states will begin to incur reductions. While



cuts experienced by states in 1986 varied from 0 to 16.1 percent, the cuts would range from 3 to 9 percent at a \$450 million funding level. Future years' cuts from the \$450 million level would be allocated proportionately among the states.

PROGRAMS WITH DISPROPORTIONATE REDUCTIONS (12 PROGRAMS)

<u>CFDA number<sup>a</sup></u>	<u>Program title</u>	<u>FY 86 funding<sup>b</sup></u> (millions)	<u>Nature of constraint<sup>c</sup></u>	<u>Range of reductions<sup>d</sup></u> (percent)
<u>All recipients reduced</u>				
13.645	Child Welfare Services	\$ 198.1	Base at Min/\$70K	3.6 - 4.4
66.433	Underground Water Source Protection	8.7	Not considered in reduction	4.1 - 4.5
66.700B	Pesticide Applicator Certification/Training	2.5	Not considered in reduction	4.0 - 4.6
84.126	Rehabilitation Services: Basic Support	1,145.1	Base at HH/FY 78 Min/\$3,000K or .33%	3.4 - 4.4
<u>Reductions not affecting all recipients</u>				
13.630A	Developmental Disabilities: Basic Support	51.1	Min/\$300K	0 - 4.8
13.630B	Developmental Disabilities: Protection/Advocacy	14.0	Min/\$150K	0 - 5.9
13.818	Low-Income Home Energy Assistance	2,009.7	HH/FY 84	0 - 11.7
13.992	Alcohol, Drug Abuse, and Mental Health	468.9	HH/FY 84	0 - 16.1
84.010	Educationally Deprived Children	3,062.4	Min/85% of prior year	0 - 4.3
84.161	Rehabilitation Services: Client Assistance	6.4	Min/\$50K	0 - 5.1
84.169	Rehabilitation Services: Independent Living	10.5	Min/\$200K	0 - 44.8
84.175	Rehabilitation Services: Innovation/Expansion	<u>8.6</u>	Min/\$50K	0 - 4.8
Total funding for 12 programs		<u>\$6,986.0</u>		

<sup>a</sup>CFDA number refers to the Catalog of Federal Domestic Assistance, which contains information on all federal assistance programs. The first two digits identify the department or agency responsible for administering the programs. The following two-digit codes identify the four agencies in this study: 13--Health and Human Services; 20--Transportation; 66--Environmental Protection Agency; 84--Education. Numbers followed by a letter indicate that the program is one of multiple programs within a CFDA listing.

<sup>b</sup>FY 86 funding refers to the obligation amount for the program after budget reduction.

<sup>c</sup>Nature of constraint refers to the type of constraint in each program that could affect the relative distribution of funds among states at various funding levels. The notation used is as follows: HH/FY \*\*--hold-harmless level/fiscal year indicated; Min/\$\*\*K--minimum funding level/amount expressed in thousands.

<sup>d</sup>Range of reductions does not include territories or the District of Columbia. Range is shown only for states.

PROGRAMS WITH PROPORTIONATE REDUCTIONS (14 PROGRAMS)

<u>CFDA number</u> <sup>a</sup>	<u>Program title</u>	<u>FY 86 funding</u> <sup>b</sup> (millions)	<u>Nature of constraint</u> <sup>c</sup>	<u>Range of reductions</u> <sup>d</sup> (percent)
<u>Agency applied uniform percentage (7 programs)</u>				
13.294	Health Planning - HSAs	\$ 15.0	Not considered in applying reduction	4.3
13.633	Older American Support Services	253.6		4.3
13.635	Older American Nutrition Services	386.2		4.3
66.419	Water Pollution Control	62.1		4.3
66.700A	Pesticide Enforcement Program	9.3		4.3
66.801	Hazardous Waste Management	66.8		4.3
84.041	Impact Aid Maintenance/ Operation	615.4	—	4.3
<u>Agency based reduction on formula (7 programs)</u>				
<u>Above constraint level</u>				
13.600	Head Start	\$1,013.4	HH/FY 81	3.1
84.027A	Education for Handicapped	1,163.3	HH/FY 77	4.3
20.106A	Airport Improvement Primary Airport Apportionments	442.6	Min/\$200K	0.5
<u>Below constraint level</u>				
84.002	Adult Education	97.6	HH/FY 85	4.3
84.048	Vocational Education: Basic Grants	744.0	HH/FY 85	4.3
84.049	Vocational Education: Consumer and Homemaking Education	30.3	HH/FY 85	4.3
84.069	Student Incentive Grants	72.7	HH/FY 79	4.3
Total funding for 14 programs		<u>\$4,972.3</u>		

<sup>a</sup>CFDA number refers to the Catalog of Federal Domestic Assistance, which contains information on all federal assistance programs. The first two digits identify the department or agency responsible for administering the programs. The following two-digit codes identify the four agencies in this study: 13--Health and Human Services; 20--Transportation; 66--Environmental Protection Agency; 84--Education. Numbers followed by a letter indicate that the program is one of multiple programs within a CFDA listing.

<sup>b</sup>FY 86 funding refers to the obligation amount for the program after budget reduction.

<sup>c</sup>Nature of constraint refers to the type of constraint in each program that could affect the relative distribution of funds among states at various funding levels. The notation used is as follows: HH/FY \*\*--hold-harmless level/fiscal year indicated; Min/\$\*\*K--minimum funding level/amount expressed in thousands.

<sup>d</sup>Range of reductions does not include territories or the District of Columbia. Range is shown only for states.

(000088)



---

Requests for copies of GAO reports should be sent to

U.S. General Accounting Office  
Post Office Box 6015  
Gaithersburg, Maryland 20877

Telephone 202-275-6241

The first five copies of each report are free. Additional copies are \$2.00 each.

There is a 25% discount on orders for 100 or more copies mailed to a single address.

Orders must be prepaid by cash or by check or money order made out to the Superintendent of Documents.

---

United States  
General Accounting Office  
Washington, D.C. 20548

Official Business  
Penalty for Private Use \$300

Address Correction Requested

---

First-Class Mail Postage & Fees Paid GAO Permit No G100
--