

December 2009

FORMULA GRANTS

Funding for the Largest Federal Assistance Programs Is Based on Census- Related Data and Other Factors



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Highlights of [GAO-10-263](#), a report to congressional requesters

Why GAO Did This Study

Many federal assistance programs are funded by formula grants that have historically relied at least in part on population data from the decennial census and related data to allocate funds. In June 2009, the Census Bureau reported that in fiscal year 2007 the federal government obligated over \$446 billion through funding formulas that rely at least in part on census and related data. Funding for federal assistance programs continues to increase.

GAO was asked to determine (1) how much the federal government obligates to the largest federal assistance programs based on the decennial census and related data, and how the Recovery Act changed that amount; and (2) what factors could affect the role of population in grant funding formulas. To answer these objectives, GAO identified the 10 largest federal assistance programs in each of the fiscal years 2008 and 2009 based on data from the President's fiscal year 2010 budget. GAO reviewed statutes, agency reports, and other sources to obtain illustrative examples of how different factors could affect the role of population data in grant funding.

[View GAO-10-263](#) or [key components](#). For more information, contact Robert Goldenkoff at (202) 512-2757 or goldenkoffr@gao.gov.

FORMULA GRANTS

Funding for the Largest Federal Assistance Programs Is Based on Census-Related Data and Other Factors

What GAO Found

GAO's analysis showed that each of the 10 largest federal assistance programs in fiscal years 2008 and 2009 relied at least in part on the decennial census and related data—that is, data from surveys with designs that depend on the decennial census, or statistics, such as per capita income, that are derived from these data. For fiscal year 2008, this totaled about \$334.9 billion, representing about 73 percent of total federal assistance. For fiscal year 2009, the estimated obligations of the 10 largest federal assistance programs totaled about \$478.3 billion, representing about 84 percent of total federal assistance. This amount included about \$122.7 billion funded by the Recovery Act and about \$355.6 billion funded by other means.

Fiscal Year 2009 Estimated Obligations for the 10 Largest Federal Assistance Programs and Portion of Estimated Amount Obligated Due to Recovery Act

Dollars in billions

Program	Estimated amount obligated	Estimated portion from Recovery Act
Medicaid	\$266.6	\$36.7
Highway Planning and Construction	54.1	13.4
State Fiscal Stabilization Fund—Education State Grants	39.7	39.7
Title I Grants to Local Education Agencies	24.5	10.0
Individuals with Disabilities Education Act Part B	22.8	11.3
Temporary Aid for Needy Families	17.1	5.0
Section 8 Housing Choice Vouchers	16.6	0.0
Community Development Block Grant	13.3	1.0
Federal Transit Formula Grants Programs	13.0	5.6
Children's Health Insurance Program	10.6	0.0
Total	\$478.3	\$122.7

Source: Office of Management and Budget (OMB), *Analytical Perspectives, Budget of the United States Government, Fiscal Year 2010 (May 2009)*, Table 8-4, Summary of Programs by Agency, Bureau, and Program and Table 8-6, Summary of Recovery Act Grants by Agency, Bureau, and Program.

Note: Because the actual obligations for fiscal year 2009 are not yet available from OMB for each of these programs, we are reporting the estimated fiscal year 2009 obligations reported in the President's Fiscal Year 2010 budget.

Several factors can affect the role of population in grant funding formulas. When a formula includes variables in addition to total population, the role of population in the grant funding formula is less than if the formula relies solely on total population. All of the programs in GAO's review included one or more grants with formulas containing variables other than total population, such as the level of transit service provided. In addition, other factors can modify the amount that a state or local entity would have otherwise received under the formula. These factors include (1) hold harmless provisions and caps; (2) small state minimums; and (3) funding floors and ceilings. With the application of these factors, grant funding may be affected less or entirely unaffected by changes in population.

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Abbreviations

ACF	Administration of Children and Families
ACS	American Community Survey
CFDA	Catalog of Federal Domestic Assistance Programs
CHIP	Children's Health Insurance Program
CMS	Centers for Medicare & Medicaid Services
CPS	Current Population Survey
CRS	Congressional Research Service
FMAP	Federal Matching Assistance Percentage
FMR	Fair Market Rent
IDEA	Individuals with Disabilities Education Act
LEA	Local Educational Agency
OMB	Office of Management and Budget
TANF	Temporary Aid for Needy Families

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United States Government Accountability Office
Washington, DC 20548

December 15, 2009

The Honorable Thomas Carper
Chairman
Subcommittee on Federal Financial Management, Government
Information, Federal Services, and International Security
Committee on Homeland Security and Governmental Affairs
United States Senate

The Honorable William Lacy Clay
Chairman
Subcommittee on Information Policy, Census, and National Archives
Committee on Oversight and Government Reform
House of Representatives

The Honorable Carolyn Maloney
House of Representatives

The federal government uses formula grants to determine funding amounts for many of the largest federal assistance programs. These programs provide funding for a variety of purposes, including health insurance for low income families and individuals, improvement of highway and public transportation systems, and special education programs. To determine funding amounts, grant formulas have historically relied at least in part on data from the decennial census and related data—that is, data from surveys with designs that depend on the decennial census, or statistics derived from these data sources. More than 10 years ago, we reported that in fiscal year 1998 the federal government obligated about \$162 billion through 22 of the largest federal assistance programs using formulas based at least in part on decennial census and related data.¹ In June 2009, the Census Bureau reported that in fiscal year 2007 the federal government obligated over \$446 billion through funding formulas that rely at least in part on census and related data.² Funding for federal

¹GAO, *Formula Grants: Effects of Adjusted Population Counts on Federal Funding to States*, GAO/HEHS-99-69 (Washington, D.C.: Feb. 26, 1999).

²Blumerman, L. M. and P. M. Vidal. 2009. *Uses of Population and Income Statistics in Federal Funds Distribution—With a Focus on Census Bureau Data*. Governments Division Report Series, Research Report #2009-1. For that report, the authors identified 140 programs that use population or income data or both as a factor in determining funding amounts or eligibility criteria.

assistance programs continues to increase. Of the \$580 billion in additional federal spending associated with the American Recovery and Reinvestment Act of 2009 (Recovery Act),³ the federal government obligated an estimated \$161 billion through federal grant programs for fiscal year 2009.

This report responds to your request that we determine (1) how much the federal government obligates to the largest federal assistance programs based on the decennial census and related data, and how the Recovery Act changed that amount; and (2) what factors could affect the role of population in grant funding formulas. To answer our objectives, we identified 11 federal assistance programs representing the 10 largest programs in each of the fiscal years 2008 and 2009 based on the dollar amounts obligated reported in the President's fiscal year 2010 budget, issued in May 2009, Office of Management and Budget (OMB), *Analytical Perspectives, Budget of the United States Government, Fiscal Year 2010* (Fiscal Year 2010 budget).⁴ We included the following programs in our review:⁵

- Children's Health Insurance Program (CHIP);
- Community Development Block Grant (CDBG) and Neighborhood Stabilization Program;
- Education State Grants, State Fiscal Stabilization Fund (State Fiscal Stabilization Fund);
- Federal Transit Formula Grants Programs;
- Head Start;
- Highway Planning and Construction;
- Individuals with Disabilities Education Act (IDEA), Part B;
- Medicaid;
- Section 8 Housing Choice Vouchers;
- Temporary Aid for Needy Families (TANF); and
- Title I Grants to Local Education Agencies (Title I).

³Pub. L. No. 111-5, 123 Stat. 115 (Feb. 17, 2009).

⁴Because the actual obligations for fiscal year 2009 are not yet available from OMB for each of these programs, we are reporting the estimated fiscal year 2009 obligations reported in the President's Fiscal Year 2010 budget.

⁵For purposes of this report, we refer to the programs as they are identified in the President's Fiscal Year 2010 budget. Some of the programs listed comprise multiple federal assistance grants programs.

For a description of each of these programs, see appendix II. To determine whether the programs' funding relied on census and related data, we reviewed statutes, our prior work, the Catalog of Federal Domestic Assistance Programs (CFDA),⁶ Congressional Research Service reports, and agency Web pages and reports related to each of the programs. We considered funding to be based on census or related data if any part of the funding formula(s) or eligibility requirements relied on these data sources. To determine what factors could affect the role of population in grant funding formulas, we reviewed our prior work (see the list of related GAO products at the end of this report) and other research on formula grants.⁷ (See appendix I for a more detailed discussion of our scope and methodology.)

We conducted our work from June 2009 to December 2009 in accordance with all sections of GAO's Quality Assurance Framework that are relevant to our objectives. The framework requires that we plan and perform the engagement to obtain sufficient and appropriate evidence to meet our stated objectives and to discuss any limitations in our work. We believe that the information and data obtained, and the analysis conducted, provide a reasonable basis for any findings and conclusions.

Background

Congress appropriates federal assistance grant funds to executive branch agencies that then use funding formulas to distribute federal assistance to states or local entities.⁸ These funding formulas are typically established through statute and expressed as one or more equations containing one or more variables. Executive branch agencies also use formulas to determine the amount of federal matching grants for jointly funded federal assistance programs where the amount of the federal match varies among the states based upon the formula calculation. For example, Medicaid's Federal Matching Assistance Percentage (FMAP) is determined through a statutory

⁶The General Services Administration and OMB's CFDA (available at www.CFDA.gov) is a governmentwide compendium of federal programs, projects, and activities that provide assistance or benefits to the American public.

⁷National Research Council, *Statistical Issues in Allocating Funds by Formula* (Panel on Formula Allocations), Thomas A. Louis, Thomas B. Jabine, and Marisa A. Gerstein, editors, Committee on National Statistics, Division of Behavioral and Social Sciences and Education, the National Academies Press; Washington, DC: 2003.

⁸For purposes of this report, states include the District of Columbia. Local entities can include local governments, local education agencies, and entities under contract with the federal government.

formula based on each state's per capita income relative to U.S. per capita income.⁹ Various statutory or administrative provisions can also modify the amount that would otherwise be determined under the formula. These provisions may be included to avoid disruptions that could be caused by year-to-year changes in funding, to cover fixed costs of a program, or for other reasons.

Congress can use formula grants to target funds to achieve federal assistance program objectives by including specific variables in the formulas that relate to the programs' objectives.¹⁰ For example, for a program intended to serve a specific segment of the population, the formula may contain variables that measure or identify the subset of the population. Therefore, the formula for a program designed to provide services for children in low income areas may contain variables that identify the total number of children living in poverty in a certain area.

Historically, many formulas have relied at least in part on decennial census and related data as a source of these variables. The decennial census collects, among other things, information on whether a residence is owned or rented, as well as respondents' sex, age, and race. To update decennial population counts, the Bureau's Population Estimates Program produces population estimates for each year following the last published decennial census, as well as for past decennials, using administrative records such as birth and death certificates and federal tax returns. Census-related data stem from the decennial census and the Bureau's population estimates and include (1) surveys with statistical samples designed to represent the entire population using data from the decennial census or its annual updates, and (2) statistics derived from decennial census data, its annual updates, or census-related surveys.

Two of the census-related surveys produced by the Bureau include the American Community Survey (ACS) and the Current Population Survey (CPS). The ACS is an annual survey of about 3 million housing units that collects information about people and housing, including information previously collected during the decennial census. The CPS is a monthly

⁹Matching grants may also be based on a fixed percentage of the amount spent by the state. Highway Planning and Construction programs have matching grants where the federal share is based on a percentage of the total cost of the program.

¹⁰Program objectives may not always be met by funding formulas and may be modified by provisions introduced in subsequent legislation.

survey of about 50,000 households conducted by the Census Bureau for the Bureau of Labor Statistics and provides data on the labor force characteristics of the U.S. population. Supplemental questions also produce estimates on a variety of topics including school enrollment, income, previous work experience, health, employee benefits, and work schedules.

Federal agencies use census data, annual updates, and surveys based on these data to produce other statistics used in federal assistance grant formulas. For example, the Bureau of Economic Analysis produces per capita income data—a derivative of decennial census data—by dividing personal income by population obtained from census population estimates. Per capita income is used to calculate Medicaid’s FMAP. Another derivative is Fair Market Rent (FMR) that the Department of Housing and Urban Development calculates and uses to determine payment standard amounts for the Section 8 Housing Choice Voucher Program. The FMR for a particular area is based on decennial census data or other surveys such as the ACS for the years between censuses.

The Federal Government Obligated an Estimated \$478 Billion in Fiscal Year 2009 at Least in Part Based on Census and Related Data

Our analysis showed that each of the 10 largest federal assistance programs in fiscal year 2008 and 2009 relied at least in part on decennial census and related data to determine funding. For fiscal year 2008, this totaled about \$334.9 billion, representing about 73 percent of total federal assistance.¹¹ We considered funding based on decennial census and related data if any part of the funding formula or eligibility requirements relied on these data sources.¹² Table 1 shows the fiscal year 2008 obligations for the 10 largest federal assistance programs in that year.

¹¹The percentage of total federal assistance spending was based on the total amount of outlays for fiscal year 2008.

¹²The Bureau’s June 2009 report on the uses of population and income statistics found that in fiscal year 2007, the federal government obligated over \$446 billion through funding formulas that rely in part on census population or income data or both. For that report, the authors identified 140 programs that relied on these data. The authors used obligation amounts for fiscal year 2007 reported in the CFDA.

Table 1: Fiscal Year 2008 Obligations for the 10 Largest Federal Assistance Programs

Dollars in billions	
Program	Amount obligated
Medicaid	\$214.0
Highway Planning and Construction	37.4
TANF	17.0
Section 8 Housing Choice Vouchers	15.6
Title I Grants to Local Education Agencies	13.9
IDEA Part B	11.0
Federal Transit Formula Grants Programs	8.2
Head Start	6.9
CHIP	6.0
CDBG and Neighborhood Stabilization Program	4.9
Total	\$334.9

Source: OMB, *Analytical Perspectives, Budget of the United States Government, Fiscal Year 2010* (May 2009), Table 8-4, Summary of Programs by Agency, Bureau and Program.

For fiscal year 2009, the estimated obligations of the 10 largest federal assistance programs totaled about \$478.3 billion, representing about 84 percent of total federal assistance.¹³ This amount included about \$122.7 billion funded by the Recovery Act and about \$355.6 billion funded by other means. The 10 largest federal assistance programs in fiscal year 2009 included a new program added by the Recovery Act—the State Fiscal Stabilization Fund.¹⁴ Table 2 shows the fiscal year 2009 estimated obligations for the 10 largest federal assistance programs and how much the Recovery Act increased that amount.

¹³The percentage of total federal assistance spending was based on the total amount of outlays for fiscal year 2009.

¹⁴With the addition of the State Fiscal Stabilization Fund—Education State Grants, Head Start was not among the largest federal assistance programs in fiscal year 2009.

Table 2: Fiscal Year 2009 Estimated Obligations for the 10 Largest Federal Assistance Programs and Portion of Estimated Amount Obligated due to the Recovery Act

Dollars in billions

Program	Estimated amount obligated	Estimated portion from the Recovery Act
Medicaid	\$266.6	\$36.7 ^a
Highway Planning and Construction	54.1	13.4
State Fiscal Stabilization Fund—Education State Grants	39.7 ^b	39.7 ^b
Title I Grants to Local Education Agencies	24.5	10.0
IDEA Part B	22.8	11.3
TANF	17.1	5.0
Section 8 Housing Choice Vouchers	16.6	0.0
CDBG and Neighborhood Stabilization Program	13.3	1.0
Federal Transit Formula Grants Programs	13.0	5.6 ^c
CHIP	10.6	0.0
Total	\$478.3	\$122.7

Source: OMB, *Analytical Perspectives, Budget of the United States Government, Fiscal Year 2010* (May 2009), Table 8-4, Summary of Programs by Agency, Bureau and Program and Table 8-6, Summary of Recovery Act Grants by Agency, Bureau, and Program.

Note: Because the actual obligations for fiscal year 2009 for each of these programs are not yet available from OMB, we are reporting the estimated fiscal year 2009 obligations reported in the President's Fiscal Year 2010 budget.

^aThe amount shown may include small amounts of Medicaid increases from the Recovery Act not directly related to increased FMAPs.

^bThe amount shown only includes Education State Grants and does not include the Government Services part of the State Fiscal Stabilization Fund.

^cThe estimated obligations are spread across multiple Federal Transit Administration grant programs and may include funds not allocated by formula.

Several Factors Could Affect the Role of Population in Grant Funding Formulas

Decennial census and related data play an important role in funding for the largest federal assistance programs. However, changes in population do not necessarily result in an increase or decrease in funding. Based on our prior work and related research on formula grants, we identified some of the factors that could affect the role of population grant formulas. We found that factors related to the formula equation(s) and those that modify the amount that a state or local entity would otherwise receive under the formula could affect the role of population in grant funding formulas. Further, the extent to which one particular factor can affect the role of population in grant funding varied across programs. Although at least one factor that could affect the role of population in grant funding formulas

was present in each program in our review, the number and combination of factors varied across programs.¹⁵ To illustrate how these factors can be used in formula grant funding, we selected examples from the federal assistance programs in our review. The examples presented below are illustrative and do not necessarily indicate the relative importance of a factor compared to the other factors present.

Variables Other Than Total Population Can Affect Role of Population in Grant Funding Formulas

All of the programs in our review included one or more grants with formulas containing variables other than total population. Obviously, absent other factors, funding based on these formulas will be affected less by changes in population than those that rely solely on total population. The State Fiscal Stabilization Fund formula is based on total population and a subset of total population—states' shares of individuals aged 5 to 24 relative to total population. The Federal Transit Program grants for urbanized areas with populations of 200,000 are based on total population and variables related to the level of transit service provided. TANF supplemental grants are awarded based on a formula with multiple variables.¹⁶ According to the Department of Health and Human Services's Administration of Children and Families (ACF), which administers the program, supplemental grants are awarded to states with exceptionally high population growth in the early 1990s, historic welfare grants per poor person lower than 35 percent of the national average, or a combination of above average population growth and below average historic welfare grants per poor person. Medicaid's FMAP is based on a 3-year average of a state's per capita income relative to U.S. per capita income with per capita income defined as personal income divided by total population.¹⁷ The FMAP is affected by both changes in population and personal income. Because changes in population and personal income are not correlated, the affect of a population change may be diminished or increased by a change in personal income. Finally, because per capita is squared—that is,

¹⁵We did not assess the extent to which the factors affected the particular programs in fiscal years 2008 and 2009.

¹⁶TANF supplemental grants are one of the program's four grant programs.

¹⁷On February 25, 2009, Centers for Medicare & Medicaid Services (CMS) increased FMAP grant awards to states, and states may claim reimbursement for expenditures that occurred prior to the effective date of the Recovery Act. Generally, for fiscal year 2009 through the first quarter of fiscal year 2011, the increased FMAP, which is calculated on a quarterly basis, provides for: (1) the maintenance of states' prior year FMAPs; (2) a general across-the-board increase of 6.2 percentage points in states' FMAPs; and (3) a further increase to the FMAPs for those states that have a qualifying increase in unemployment rates.

multiplied by itself—in the formula, the affect of a population change may be greater than if per capita income were not squared.

In addition to the number of variables, the number of equations can also affect the role of population in grant funding formulas. Under CDBG, metropolitan counties and cites are eligible for the greater of the amounts calculated under two different equations. The variables in the first equation are population, extent of poverty, and extent of overcrowded housing. The variables in the second equation are population growth lag,¹⁸ extent of poverty, and age of housing. The use of the dual equation structure and the variables other than population in each equation reduce the effect of population changes on grant funding.

Some formulas also have base amounts that are set at the amount of funding in a specified prior year and the remainder for funding is calculated according to a formula. For programs with set base amounts, only a portion of the funding might be affected by a change in population. Because appropriation amounts can change from year to year, the base amount portion of the grant will represent less of the total grant amount if appropriations increase, making total grant funding affected more by a change in population. When appropriations decrease, the share of the overall funding subject to the formula is lower, lessening the effect of a change in population on total funding.

Some programs we reviewed contained such base amounts in their funding formula. Under IDEA Part B, generally each state first receives the same amount it received for fiscal year 1999 for the program for children aged 3 through 21, and, for the program for children aged 3 through 5, the amount the state received in fiscal year 1997. For the remainder of the state's funding in a given year, (1) 85 percent is based on the state's share of the 3 through 21 year old population for the school-aged program, and the 3 through 5 year old population for the preschool program and (2) 15 percent is based on the state's share of those children living in poverty. In another example, the Head Start program guarantees the same base amount as in the prior year. The remainder of the funding is allocated to cost of living increases and Indian and migrant and seasonal Head Start programs depending upon the amount remaining. According to ACF,

¹⁸The Department of Housing and Urban Development defines growth lag as the shortfall in population that a city or county has experienced when comparing its current population to the population it would have had if it grew like all metropolitan cities since 1960.

which administers Head Start, when the increase in appropriation is large enough to allow for expansion of Head Start, those funds are calculated based on the relative share of children aged 3 and 4 living in poverty in each state.

Factors That Modify the Formula Amount Could Affect the Role of Population in Grant Funding

Some factors modify the amount that a state would otherwise receive under the funding formula and could affect the role of population in grant funding formulas.¹⁹ The factors include the following: (1) hold harmless provisions and caps; (2) small state minimums; and (3) funding floors and ceilings.

Hold Harmless Provisions/Caps: Hold harmless provisions and caps limit the amount of a decrease or increase from a prior year's funding. Hold harmless provisions guarantee that the grantee will receive no less than a specified proportion of a previous year's funding. If a population change resulted in a decrease in funding below a designated amount, the hold harmless provision would raise the amount of funding above what the grantee would otherwise have received under the formula and the amount of the increase would be deducted from the funding amounts of grantees not affected by the hold-harmless provision. Title I includes a hold harmless provision guaranteeing the amount made available to each local educational agency (LEA) not be less than from 85 to 95 percent of the previous fiscal year's funding, depending on the LEA school age child poverty rate.

Similarly, caps—also known as “stop gains”—limit the size of an annual increase as a proportion of a previous year's funding amount or federal share. If a population change resulted in an increase in funding above a certain amount, the cap would limit the effect of the population change. Under IDEA Part B, no state's allocation is to exceed the amount the state received under this section for the preceding fiscal year multiplied by the sum of 1.5 percent and the percentage increase in the amount appropriated under this section from the preceding fiscal year.

Small-State Minimums: Small-state minimums guarantee that each state will receive at least a specified amount or percentage of total funding.²⁰

¹⁹These factors could also affect the role of other variables in the funding formula.

²⁰When a state receives an increase due to the application of the minimum, the amount of the increase may be offset by a reduction in amount received by the states not subject to the minimum.

These minimums can typically benefit smaller states that would otherwise receive allocations below the minimum. However, whether a state is considered “small” depends upon the program and is not necessarily based directly on a state’s population or geographic size. Several components within the federal-aid highway program contain such state minimums. For example, there is a statutory 0.5 percent state minimum on the annual apportionment from the Highway Trust Fund to the Surface Transportation Program for states having less than a specified threshold of qualifying roads, vehicle miles traveled on those roads, and taxes paid into the fund.²¹ When states’ minimums are applied, grant funding formulas may be affected less by changes in population.

Floors/Ceilings: Floors and ceilings are lower and upper limits placed on the amount a state can receive under a formula. If a change in population results in funding under the formula falling below the floor, the state would be guaranteed the amount of the floor. If a population change results in the state exceeding the ceiling, the state could not receive more than the ceiling amount. The federal government’s share of Medicaid expenditures ranges from 50 percent (floor) to 83 percent (ceiling).²² Although 1973 was the most recent year that any state was affected by the ceiling, states often benefit from the FMAP floor. In fiscal year 2009, 13 states received the minimum 50 percent matching rate. In our 2003 report on federal formula grant funding, we found that in 2002, under the statutory formula, which is based on the ratio of a state’s per capita income relative to U.S. per capita income, Connecticut would have received a 15 percent federal matching rate.²³ Despite Connecticut’s relatively high per capita income—a calculation based in part on population—Connecticut received a 50 percent federal match. For Connecticut, in this particular year, the floor affected the role of population in the amount of the federal match. Similarly, because CHIP’s matching formula is based on the Medicaid FMAP, CHIP’s enhanced FMAP is also affected by Medicaid’s floor and ceiling.²⁴ For example, if a state

²¹The Surface Transportation Program provides flexible funding that may be used by states for federal-aid highway and related projects.

²²The statute also sets a 70 percent matching rate for the District of Columbia.

²³GAO, *Formula Grants: 2000 Census Redistributes Federal Funding Among States*, [GAO-03-178](#) (Washington, D.C.: Feb. 24, 2003).

²⁴CHIP’s enhanced FMAP is its Medicaid FMAP increased by 30 percent of the difference between 100 and the current FMAP for that year.

was affected by the 50 percent floor, the state would receive a matching percentage of 65 percent. As a result, funding for states benefiting from the floor would be affected less by changes in population.

As agreed with your office, unless you publicly announce the contents of this report earlier, we plan no further distribution until 7 days from the report date. At that time, we will send copies to interested parties. The report also will be available at no charge on GAO's Web site at <http://www.gao.gov>.

If you have any questions about this report please contact me at (202) 512-2757 or goldenkoffr@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. GAO staff who made major contributions to this report are listed in appendix III.



Robert Goldenkoff
Director
Strategic Issues

Appendix I: Objectives, Scope, and Methodology

Our objectives were to determine (1) how much the federal government obligates to the largest federal assistance programs based on the decennial census and related data and how the Recovery Act changed that amount, and (2) what factors could affect the role of population in grant funding formulas.

To answer our objectives, we identified 11 federal assistance programs representing the 10 largest programs in each of the fiscal years 2008 and 2009 based on the dollar amounts obligated reported in the President's budget, issued in May 2009, Office of Management and Budget (OMB), *Analytical Perspectives, Budget of the United States Government, Fiscal Year 2010* (Fiscal Year 2010 budget), Table 8-4, Summary of Programs by Agency, Bureau, and Program. We believe that these data are sufficiently reliable for purposes of our review. We included the following programs in our review:

- Children's Health Insurance Program;
- Community Development Block Grants and Neighborhood Stabilization Program;
- Education State Grants, State Fiscal Stabilization Fund;
- Federal Transit Formula Grants Programs;
- Head Start;
- Highway Planning and Construction;
- Individuals with Disabilities Education Act, Part B;
- Medicaid;
- Section 8 Housing Choice Vouchers;
- Temporary Aid for Needy Families; and
- Title I Grants to Local Education Agencies.¹

To determine whether the program's funding relied on decennial census and related census data, we reviewed statutes, GAO reports, the Catalog of Federal Domestic Assistance Programs (CFDA), Congressional Research Service (CRS) reports, and agency Web pages and reports related to each of the programs. For purposes of our analysis, we defined census and related data as (1) data obtained from the decennial census and annual updates, (2) census-related surveys—that is, those surveys that base their samples on the decennial census; or (3) their derivatives—that is, statistics

¹In total, we reviewed 11 programs. The State Fiscal Stabilization Fund, created by the Recovery Act, was one of the 10 largest federal assistance programs in fiscal year 2009. With the addition of the State Fiscal Stabilization Fund—Education State Grants, in fiscal year 2009, Head Start—one of the 10 largest programs in fiscal year 2008—was not one of the largest federal assistance programs in fiscal year 2009.

produced from data contained in the decennial census or a census-related survey. We considered funding to be based on census or related data if any part of the funding formula or eligibility requirements relied on these data sources. For the programs that relied at least in part on census and related data, we summed the total obligation amounts reported in the Fiscal Year 2010 budget, Table 8-4, Summary of Programs by Agency, Bureau, and Program, as well as Table 8-6, Summary of Recovery Act Grants by Agency, Bureau, and Program.² Because the actual obligations for fiscal year 2009 for each of these programs are not yet available from OMB, we are reporting the estimated fiscal year 2009 obligations reported in the Fiscal Year 2010 budget. We did not independently verify or assess the extent to which an agency actually distributes funds according to the statutory formula. We did not identify all possible uses of decennial census and related data to fund the selected programs. We did not conduct any simulations to determine the extent to which any particular variable relied on the funding formula.

To determine what factors could affect the role of population in grant funding formulas, from our prior work related to formula grants (see the list of related GAO products at the end of this report) and other research on formula grants,³ we first identified factors that illustrate the different ways that such factors could affect the amount of grant funding. To obtain illustrative examples of how the factors are used in the selected programs, we reviewed statutes, GAO reports, the CFDA, CRS reports, and agency Web pages and reports related to each of the programs. We asked the responsible agencies to confirm the accuracy of information being reported on the existence of the factors in and descriptions of each program. We received responses on each of the 11 programs. We did not identify all possible factors that could affect the amount of grant funding. The presentation of these factors is not intended to suggest that they are the most important either generally, or to the specific programs listed here. The number of times a factor or a program is cited in reported examples does not indicate anything judgmental about the feature or the

²Table 8-6, Summary of Recovery Act Grants by Agency, Bureau, and Program was used for fiscal year 2009 estimated obligations only.

³National Research Council, *Statistical Issues in Allocating Funds by Formula* (Panel on formula allocations), Thomas A. Louis, Thomas B. Jabine, and Marisa A. Gerstein, editors, Committee on National Statistics, Division of Behavioral and Social Sciences and Education, the National Academies Press; Washington, D.C.: 2003.

program. The presence of a factor in statute does not indicate that a factor is either significant or relevant to actual funding for the program.

We conducted our work from June 2009 to December 2009, in accordance with all sections of GAO's Quality Assurance Framework that are relevant to our objectives. The framework requires that we plan and perform the engagement to obtain sufficient and appropriate evidence to meet our stated objectives and to discuss any limitations in our work. We believe that the information and data obtained, and the analysis conducted, provide a reasonable basis for any findings and conclusions.

Appendix II: Descriptions of the Largest Federal Assistance Programs

Children’s Health Insurance Program (CHIP): CHIP is a federal-state matching grant program administered by the Department of Health and Human Services’ Centers for Medicare & Medicaid Services (CMS). The program provides funding for states to cover children (and in some states pregnant women) who lack health insurance and whose families’ low to moderate income exceeds Medicaid eligibility levels. Each state has a different federal match level based on the Medicaid Federal Medical Assistance Percentage (FMAP), called the enhanced FMAP.

Community Development Block Grant (CDBG) program: The Department of Housing and Urban Development provides CDBG funding to communities to develop decent housing, suitable living environments, and economic opportunities for people of low and moderate income. Funds are distributed among communities using a formula based on indicators of community development need.

Education State Grants, State Fiscal Stabilization Fund (State Fiscal Stabilization Fund):¹ The State Fiscal Stabilization Fund program is a new one-time appropriation under the American Recovery and Reinvestment Act of 2009. It is administered by the U.S. Department of Education. The funds are intended to help (1) stabilize state and local government budgets in order to minimize and avoid reductions in education and other essential public services; (2) ensure that local educational agencies and public institutions of higher education have the resources to avert cuts and retain teachers and professors; and (3) support the modernization, renovation, and repair of school and college facilities. According to the Department of Education, states participating in the program must provide a commitment to advance essential education reforms to benefit students from early learning through post-secondary education.

Federal Transit Formula Grants Programs: Administered by the Department of Transportation’s Federal Transit Administration, these grant programs provide capital and operating assistance for public transit systems. Three of the major formula federal assistance programs include the following: (1) the Urbanized Area Formula Program, which makes federal resources available to areas with populations of 50,000 or more

¹According to the Department of Education, the description that follows applies to the entire State Fiscal Stabilization Fund—both Education State Grants and Government Services funds.

and to governors for transit capital and operating assistance and for transportation related planning; (2) the Nonurbanized Area Formula Program, which provides formula funding to states for the purpose of supporting public transportation in areas with populations of less than 50,000; and (3) Capital Investment—Fixed Guideway Modernization Program,² which may be used for capital projects to maintain, modernize, or improve fixed guideway systems.

Head Start: Head Start is administered by the Department of Health and Human Services’s Administration for Children and Families (ACF) and provides grants directly to over 1,600 local agencies. Head Start provides funds for early childhood development services to low-income children and their families. These services include education, health, nutrition, and social services to prepare children to enter kindergarten and to improve the conditions necessary for their success later in school and life.

Highway Planning and Construction: The Department of Transportation’s Federal Highway Administration (FHWA) administers the Highway Planning and Construction Program, also known as the federal-aid highway program. According to FHWA, the federal-aid highway program provides federal financial resources and technical assistance to state and local governments for planning, constructing, preserving, and improving federal-aid eligible highways. The federal-aid eligible highway system includes the National Highway System (NHS), a network of about 163,000 miles of roads that comprises only 4 percent of the nation’s total public road mileage, but carries approximately 45 percent of the nation’s highway traffic as well as an additional 1.1 million miles of roads that are not on the NHS, but that are eligible for federal-aid.

Individuals with Disabilities Education Act (IDEA) Part B: The Department of Education has responsibility for oversight of IDEA and for ensuring that states are complying with the law. IDEA Part B grants provide funding for special education and related services for children and youth ages 3 to 21. IDEA Part B governs how states and public agencies provide special education and related services to more than 6.5 million eligible children and youth with disabilities. To receive IDEA Part B funding, states agree to comply with certain requirements regarding

²“Fixed guideway” refers to any transit service that uses exclusive or controlled rights-of-way or rails, entirely or in part.

appropriate special education and related services for children with disabilities.

Medicaid: CMS provides federal oversight of state Medicaid programs. Medicaid is a health insurance program jointly funded by the federal government and the states. Generally, eligibility for Medicaid is limited to low-income children, pregnant women, parents of dependent children, the elderly, and people with disabilities. The federal government's share of a state's expenditures for most Medicaid services is called the Federal Medical Assistance Percentage (FMAP). Federal Medicaid funding to states is not limited, provided the states contribute their share of program expenditures.

Section 8 Housing Choice Vouchers: The Section 8 Housing Choice Voucher Program is one of three key rental subsidy programs of the Department of Housing and Urban Development. The program is administered by local public housing agencies and provides rental vouchers to very low-income families to obtain decent, safe, and affordable housing. Following the discontinuation of funds for new construction of public housing and project-based Section 8, the Section 8 Housing Choice Voucher program has been the primary means of providing new rental assistance on a large scale. The program currently serves over 2 million families.

Temporary Aid for Needy Families (TANF): TANF is administered by ACF and provides funding to states through four grants—basic block, supplemental, and two contingency (recession-related). These grants are intended to: (1) provide assistance to needy families with children so they can live in their own homes or relatives' homes; (2) end parents' dependence on government benefits through work, job preparation, and marriage; (3) reduce out-of-wedlock pregnancies; and (4) promote the formation and maintenance of two-parent families.

Title I Grants to Local Education Agencies (LEA): Title I is administered by the Department of Education and provides financial assistance to LEAs that target funds to the schools with the highest percentage of low-income families. Schools use Title I funds to provide additional academic support and learning opportunities to help low-achieving children master challenging curricula and meet state standards in core academic subjects. Federal funds are currently allocated through four statutory formulas that are based primarily on census poverty estimates and the cost of education in each state, as measured by each state's expenditure per elementary and secondary student.

Appendix III: GAO Contact and Acknowledgments

GAO Contact

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