

# *Managing Arizona's Federal Funds*

Presented to  
**Citizens' Finance Review Commission**

by  
**Arizona State University**

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## **Background**

Co-chairman Bill Post and other members of the Citizens' Finance Review Commission have identified Arizona's management of its federal funds as an issue for consideration. To assist the Commission with its deliberations, the co-chairman asked Arizona State University to develop a very brief "think piece" on this matter.

As requested, this document intentionally provides only the most basic information on this complex subject. Its primary purpose is to frame the issue for discussion by the Commission and to list alternative ways the state could better manage its substantial grant activity with the federal government each year.

## **The Problem**

Federal grants should be managed in an efficient and integrated manner that meets the programmatic goals of the state. However, it is very difficult to fully grasp the scope of a state's myriad federal funding streams, let alone understand its impacts. Like many states, Arizona's management of its federal grants could be improved.

Federal aid to Arizona was over \$6.3 billion in fiscal year 2002. General fund revenues in the same year were only a bit higher, at \$6.6 billion. Federal aid has exceeded 25 percent of the state's total revenues for the past several years. Yet, actions and often contentious discussions on state public finance almost always focus on state general fund revenues and spending, virtually ignoring this very large source of revenue and its related state funded matching investments.

Viewed in total, which it seldom is, federal aid to Arizona is both a vast public resource and a large set of vaguely understood commitments. Federal aid is really many different activities flowing from specific legislation with explicit purposes, targets, constituencies, and rules that result in multiple intended and unintended consequences. When Arizona's \$6 billion of federal aid is broken down, it turns out to be many mostly small programs, doing lots of different tasks, constrained by different sets of rules. But the premise for this federal-state relationship is simple — the federal government provides the state with funds to carry out certain tasks and the state, when (if) it accepts these funds, agrees to do so.

Some federal aid to Arizona is determined by formula and some takes the form of competitive grants. In both cases, though, the state applies for funds and must meet nationally prescribed criteria, although waivers and adjustments of the criteria are sometimes granted. Ideally, the activities these federal revenues enable should be well coordinated to avoid duplication and inconsistencies in an effort to achieve broader state goals.

Federal grants management in Arizona is highly decentralized by federal and state governments to the agency level. Thus, the overall flow of this aid is difficult to track. The total amount coming into the state is estimated at different levels by different sources, both state and federal. More than one-half of the aid currently comes from the U.S. Department of Health and Human Services, with three-quarters of that a block grant for Medicaid (the AHCCCS Program).

Both the Arizona Governor's Office of Strategic Planning and Budgeting and the Arizona Auditor General provide comprehensive *accounting* of federal funds each year. However, these offices do not

have responsibility to *coordinate and plan* federal funding requests or comprehensively evaluate the relationship of federally funded programs to state policy goals.

The State Auditor General undertakes a compliance audit of major programs in conformance with OMB Circular A-133 and GASBY Statements 34 and 35. Data are reported by agency and program. This report identifies hundreds of programs that have a federal aid component in their budgets, but there is no single agency or single entrepreneurial activity. Further, some federal grants for the same program go to different agencies or sub-agencies. For example, Arizona's aid for the National School Lunch Program, which generates over \$130 million in expenditures, is divided into four small pieces and one very large piece. Finally, all of the reports are acronym loaded — the Governor's Statement of Federal Funds has five pages of acronyms; the Auditor General's report has one page. However, the acronyms are not even consistent. For example, the Governor's report acronym for Arizona State University is ASU; the Auditor General's acronym for Arizona State University is ASA.

All in all, information on federal aid in Arizona is inconsistent, jargon heavy, hard to interpret, and of little value to policymakers in the unlikely event they should use it. Put simply, Arizona's policy makers lack understandable information on this matter. Good decisions on public finance and management of a state's federal funds/grants require a policy-oriented, user-friendly tool; that is, a readable report and data base that includes financial flows, program descriptions, realistic future projections and analyses of how programs help to achieve overall state goals. At present, however, it is very hard to determine if these grants are used for purposes consistent with the best interests of the state.

## **What Other States Are Doing**

State governments around the nation have had problems similar to the ones found in Arizona with regard to the management of federal aid. The steps they have taken to remedy such problems vary.

In order to address the *information aspect* of the problem, some states have made certain agencies — such as commissions on intergovernmental relations — responsible for gathering, analyzing, and distributing information on federal aid programs for the use of policymakers in the executive and legislative branches.

To improve *management* of their federal grants, many states have moved away from a decentralized system, in varying degrees, to both improve the flow of information going to policymakers and better coordinate programmatic activities funded by federal sources. In the past, this approach has been anathema in Arizona because of a prevailing political philosophy that decentralization is preferable to centralized authority. In contrast, several states have recently taken advantage of Presidential Executive Order 12372 which encourages state governments to establish a Grants Clearing House or Single Point of Contact (SPOC) to review and coordinate proposed federal assistance. Many federal aid programs now require the applicant to contact the state SPOC, if there is one, to facilitate state review and coordination.

The following are some examples of current federal funds management programs in other states:

### **Utah**

The Utah State Clearinghouse in the Governor's Office of Planning and Budget acts as the single point of contact with the federal government and is in charge of the State Federal Assistance Management Act which, among other matters, requires a review of all state grant applications filed with the federal government. The functions of this agency include: reviewing and analyzing grant applications, identifying discrepancies in proposals, checking to make sure proposals do not conflict with legal regulations. This clearinghouse also proactively seeks out information on federal grant availability, awards, and notices.

## Delaware

The State Clearing House Committee for Federal Grant and Non-Federal Grant Coordination is headed by the Chair of the Joint Finance Committee, consisting of legislators and administrators, and is staffed by the Office of the Budget. The Committee's goal is to maximize utilization of both federal aid and non-federal aid programs. The Committee provides guidelines for state agencies applying for grants and requires detailed reports from agencies on spending and program measures. Grant applications have to be submitted to the Office of the Budget for review and approval by the Committee.

## Wisconsin

The clearinghouse function is performed in the Federal/State Relations Office, Department of Administration. The central task of the agency is to maximize federal aid. It is a high-level "super agency" and not only prepares and reviews requests for federal aid but also analyzes federal issues and their impact on the state to facilitate decisions by the Governor. This Office works proactively with state and local agencies and private stakeholders in pursuing federal aid and supports the work of the state's Federal-State Relations Office in Washington, D.C.

## California

California has a grants coordinator in the State Clearinghouse in the Governor's Office of Planning and Research. This unit has a limited role in collecting and distributing information on federal grant applications and does not assist in identifying grant opportunities or help state and local agencies prepare or "clear" applications. A recent report by the state auditor suggests that the clearinghouse should get more actively involved in identifying grants that state agencies may currently be missing and reducing the time agencies spend trying to identify grants.

## **Policy Options**

Although the experiences of other states can be instructive, the federal grants management system in Arizona should be shaped in light of our state's particular needs, practices, and objectives. Arizona has a federal grants information problem. Some suspect it also may have a problem when it comes to grant efficiency, coordination, and maximizing use of the substantial federal aid it receives.

The possible benefits of Arizona moving toward a more centralized system of managing its federal aid include improved information flow and policy-making, plus possible side benefits such as better efficiency, coordination, and the maximization of federal grants. Centralization in this case means neither actually assuming state agency functions, nor managing money on a day-to-day basis. Rather, its focus would be to help Arizona better understand how its federal grants align with and impact state goals. But such a change would have to be carefully balanced against the potential offsetting costs of increased bureaucracy, increased supervision and the possibility that it could stifle valuable entrepreneurial activity at the agency level.

The following structural options are a continuum of ideas the Commission can consider for Arizona's management of its federal grants.

- Retain the ***current decentralized system*** in which agencies apply for intergovernmental funds as they deem necessary. This system rewards entrepreneurial behavior, but non-entrepreneurs typically receive fewer grants, regardless of the merit of the program. The system also has its costs in regard to overall policy direction and possibly efficiency, duplication, and maximizing federal aid.
- Develop a ***learning governance approach*** that involves the creation of a small, but very nimble and knowledgeable, highly professional "Intergovernmental Resources Office." This office could be

staffed by only a few professionals charged with collecting and packaging federal aid information in proactive and policy-relevant ways. This ombudsman type of office would work with the budget offices of state agencies, the state congressional delegation, state lobbyists, and other potential sources of information on federal grants and potential uses. The office could have substantial independence and might be located in the Auditor General's Office. This system would keep the entrepreneurial spirit of the current methods and also promote and provide resources for better policy planning.

- To improve coordination, efficiency, and planning, major responsibilities for obtaining, managing, evaluating and *the use of federal grants could be assigned to an official in the Governor's Office*. In this scenario, each agency head would designate an official to oversee grants-in-aid and serve as a liaison with an individual in the Governor's Office who is the state's "czar" of grants management. This system would allow a more focused use of grants, but could choke entrepreneurial activities. Its success would depend heavily on the personality, knowledge and skills of a single individual.
- Establish a *super agency* that would act as a clearinghouse that serves as a single point of contact for federal grants. This agency would centralize information and control, and would probably lead to much more knowledge and debate concerning the relationships between state programs and federal investments. Entrepreneurial activities would probably be minimized under this system.

The aforementioned ideas are certainly not exhaustive. But they do provide a point-of-departure for Commission discussion. Clearly, variations on these themes could be created and evaluated.

Dr. Jeffrey Chapman, Professor and Director, School of Public Affairs

Dr. David Berman, Senior Fellow, Morrison Institute for Public Policy/Professor, Department of Political Science

Dr. John Hall, Professor, School of Public Affairs

Dr. Rob Melnick, Associate Vice President for Economic Affairs

Arizona State University

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