FUNDING TYPES AND THE IMPLICATIONS OF BLOCK-GRANTING ENTITLEMENT PROGRAMS

Federal and state funding grants are the backbone of vital social programs and services that Montana families depend upon, such as health care, food assistance, and family support programs. The way a program is funded has vast implications on program structure, services offered, eligibility, amount of people served, and more. Ultimately, funding types impact the efficiency and effectiveness of programs to meet their objectives and have successful outcomes. For these reasons, funding types and structures are an issue of critical importance that can help clarify the federal and state response to an issue and identify the most effective approach to meeting needs in our community and state.

Funding Types

There are two main types of spending that all grants fall under, discretionary and mandatory.

Discretionary

Discretionary funding is competitive and grantees are chosen by a review team based on the merits of the grant application. In the federal and state government, discretionary funding is determined by the annual appropriations acts made by the Senate and House Appropriations Committees and, therefore, are subject to budget enforcement rules. The Transportation Investment Generating Economic Recovery (TIGER) Discretionary Grant Program, a program that provides funding to support transportation planning and capital projects that will help improve a community’s connection to employment and education opportunities, is one example of a discretionary grant program.1

Discretionary funding is used to support research, training, service, conference, and construction grants.

Mandatory

Unlike discretionary funding, the authority for mandatory funding is not set by annual appropriations acts but instead by legal statute. Funding amounts for mandatory programs are determined by measure of need based on population, per capita income, and various other program-related factors. Mandatory funding
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is either in effect indefinitely or expires at the end of a given period, depending on the statute. In 2012, approximately 60 percent of all federal spending went towards mandatory grants. Entitlement and block grants are included under mandatory funding.2

Block
Block grants are fixed amounts of money that the federal government provides to states and tribal governments to fund programs and services. Block grant funding generally has fewer federal restrictions on its usage, which hands off power to state and local governments to determine program eligibility, implementation, and ultimately how to spend the grant.

Entitlement
Entitlement, or open-ended, grants do not have an upper limit on spending. All individuals who meet eligibility requirements are entitled to receive benefits. The funding structure of entitlement grants allows the program to automatically adapt and adjust funding to meet increased need. Entitlement programs help stabilize the economy after major events like natural disasters and economic downturns by responding immediately to the sudden increase in people seeking services.3

All of the aforementioned grant types are critical to funding for housing, health, and other social service programs in Montana and nationwide, however, for the purpose of this brief the focus will be on mandatory funding and examining the implications of switching grant types from entitlement to block.

Changing Funding Types:
Block Granting an Entitlement Program

On numerous occasions throughout history, policymakers have proposed changing the funding type of public assistance programs from entitlement funding to block grant. In the past month, Tennessee developed a plan to turn their state’s Medicaid program into a block grant. If the plan garners federal approval, Tennessee will become the first state to convert Medicaid into a block grant structure, an idea that has been proposed for federal implementation by the Trump Administration.4

Arguments for shifting entitlement programs to block grants include increased flexibility given to state and local governments to determine how to implement the program and spend funding. Additionally, block granting an entitlement programs ensures that there is an upper limit on spending, thus lowering costs and saving the government money.5 However, history and research caution us from switching programs that serve people in poverty from entitlement to block grants for three reasons.

1. Block grants do not adapt and respond automatically to increased need.

Entitlement structure allows programs to adapt and respond quickly to fluctuating demand. Block grants cannot guarantee this same flexibility to meet the community need since the fixed spending levels of a block grant require the state to absorb the costs that an entitlement grant would have automatically met.

2. Block grants are fixed amounts of money that commonly do not meet program need and erode over time.

The fixed amount of a block grant is often based upon the program’s spending levels at the time the block grant was created. This funding structure often fails to account for inflation and increased need. Due to this, block grants can lead to a substantial loss at the time of funding switch as well as funding degradation over time, often requiring eligibility restrictions, waiting lists, and benefit cuts.

3. Block grants lack minimum standards and oversight.

The increased flexibility of block grants is a double-edged sword as it allows states to use federal funds for other purposes or make program cuts that federal law currently prohibits. Block grant allow states a greater ability to substitute the block-grant dollars for state dollars and then use newly freed up money to fill budget gaps or spend elsewhere, thereby shrinking the resources that are put towards the intended program.6
Case Studies
Converting entitlement programs to block grants can likely cause challenges in maintaining program integrity and meeting community need for services. This trend of funding loss and erosion has been demonstrated throughout history when programs have switched funding from entitlement to block grants. In 1981, President Reagan created the Social Services Block Grant (SSBG) to give states and local governments more responsibility and flexibility over the implementation of social programs. Since 1981, funding for the SSBG grant has fallen by 73 percent, with adjustments for inflation. In the past 18 years, 13 social service, housing, and health programs that converted from entitlement to block grant have experienced a 37 percent reduction in funding, accounting for inflation and population growth. Temporary Assistance for Needy Families (TANF), which provides cash assistance and career preparation services to low-income families with children, is one of these 13 programs. The TANF program has lost over a third of its value due to inflation since becoming block grant funded. In 1996, when TANF replaced the Aid to Families with Dependent Children (AFDC) program, it shifted the responsibility of how to disperse funding to states by giving them the ability to set eligibility for cash assistance and design work programs. State funding amounts for TANF were determined based on AFDC spending in the mid 1990’s, at the time AFDC ended. In addition to not having enough funding to meet the need with the rise of inflation, states have diverted large amounts of TANF block grant to other causes. In 1990, the last year before AFDC was converted to TANF, every 68 out of 100 low-income families with children received cash assistance from TANF. By 2015, cash assistance to low-income families had fallen to just 23 out of every 100 families. Block granting TANF has contributed to a substantial erosion of the program’s ability to meet its primary objective of providing cash assistance to low-income families. TANF is an important program to look to in understanding the challenges that can arise when block granting entitlement programs that serve low-income people.

Funding structures and the potential ramifications of changing funding types are important for policymakers, service providers, and other professionals to consider as they work to improve services for Montana’s children and families.

Additional Resources
Podcast by the Bipartisan Policy Center discusses the federal response to the opioid crisis by tracking funding.

Grant Writer’s Toolkit from the Center provides information and resources that will help make the grant writing process easier and more effective for first-time grant writers and seasoned professionals.

References
1 4 types of grant funding, 2010. eCivis.
2 What is the difference between mandatory and discretionary spending? Congressional Budget Office, n.a.
4 Tennessee becomes the first state with a plan to turn Medicaid into a block grant, 2019. The Washington Post.
5 Block grants, entitlements and federalism: A conceptual map of contested terrain, 1996.
6 The problems with block-granting entitlement programs, 2017. Center on Policy and Budget Priorities.
7 Block-granting low-income programs leads to large funding declines over time, history shows, 2017. Center on Budget and Policy Priorities.
8 Lessons from TANF: Block-granting an entitlement program has significantly reduced its effectiveness, 2017. Center on Budget and Policy Priorities.