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BY THE COMPTROLLER GENERAL



# Report To The Congress OF THE UNITED STATES

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## Federal Seed Money: More Careful Selection And Application Needed

Federal seed money programs have created some self-sustaining projects and have generated significant use of non-Federal funds in priority areas. However, some projects are reduced or discontinued when Federal funds end, while many other projects receive continued or permanent Federal funding for fear they would otherwise be reduced or discontinued. This report assesses the consequences of using the seed money approach in Federal domestic assistance programs and recommends that the Congress insure that the approach, where used, is appropriate for accomplishing intended program objectives.



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To the President of the Senate and the  
Speaker of the House of Representatives

This report assesses the consequences of using the seed money approach in Federal domestic assistance programs. It recommends that the Congress see that the approach is used only when appropriate for accomplishing intended program objectives.

Copies of the report are being sent to the Director, Office of Management and Budget, and to the heads of the departments and agencies concerned.

A handwritten signature in black ink, appearing to read "Thomas A. Steyer".

Comptroller General  
of the United States

D I G E S T

The Federal Government uses seed money programs to help State and local governments start projects and services that they might not provide on their own. Seed money projects differ from other Federal assistance approaches in that projects are started with the presumption that Federal funding can end and be replaced with State, local, and other funding sources to continue the projects.

Seed money programs accounted for about \$2 billion or 3 percent of the \$70 billion in Federal assistance provided in fiscal year 1977 to State and local governments. Such programs funded emergency medical services, community mental health centers, vocational rehabilitation training services, urban rat control, alcoholism and drug abuse rehabilitation, rural health initiatives, rural public transportation, childhood lead-based paint poisoning prevention, law enforcement, and boating safety programs. (See app. I.)

GAO could not clearly identify how the Federal Government selects programs to receive seed money. Seed money programs appear to have started somewhat randomly. The Congress has chosen this approach for some programs. For other programs, Federal executive agencies have applied this approach by administrative action.

RESULTS OF SEED MONEY PROJECT FUNDING

Seed money programs have generated some self-sustaining projects which use significant amounts of non-Federal funds. For some programs, non-Federal funding ranged from 36 to 87 percent of total program costs. (See p. 3.)

At the same time, some worthwhile projects were reduced or discontinued when Federal support ended. Nationwide data for two programs showed that 81 percent of seed money

projects were reduced or discontinued when Federal funding ended. (See p. 8.)

Many other projects have been funded longer than initially planned because Federal officials fear they would otherwise be reduced or discontinued. Data for seven seed money programs showed that more than half of 1,179 projects completing planned funding periods since January 1973 had not become self-sustaining and continued to receive Federal funding. Almost all of these projects were still being federally funded at the time of this review. Officials at 16 projects GAO visited said the projects would be reduced or discontinued if Federal funding ended. (See p. 4.)

Because they felt they could not refuse to participate, some State and local officials said they felt trapped by seed money programs. Some other officials referred to seed money as a form of "blackmail." They felt pressured by special interest groups to use available Federal seed money funds which create State or local funding commitments.

As a result, States and localities have increased their efforts to control incoming Federal funds and, in some cases, have tried to avoid Federal seed money programs. Officials in most of the 32 States contacted by GAO said they were taking steps to become more informed about future effects of accepting Federal funds.

Added problems occur when State and local governments are expected to eventually fund projects which were not channeled through them. In such situations, a government has not planned to assume the costs of projects for which Federal funds are phasing out. No systematic approach exists to involve the future non-Federal funding source at the time the project is started. The Office of Management and Budget A-95 project notification and review process offers a way to deal with these problems. This process provides a means for early contact between applicants for Federal assistance and parties that might be affected by the

planned activities. Affected parties can comment and perhaps effect changes before the application is completed.

#### RECOMMENDATIONS TO THE CONGRESS

When the seed money approach has been implemented by the administrative action of Federal executive agencies, the Congress should, as part of its normal oversight processes, see that the approach is appropriate. When the seed money approach is used in new programs, the Congress should clearly express Federal funding intentions and emphasize the need for cost assumption planning. Cost assumption planning cannot be expected to result in the continuation of all seed money projects, but it should enhance the prospects for continuing worthwhile projects.

#### RECOMMENDATIONS TO THE DIRECTOR, OFFICE OF MANAGEMENT AND BUDGET

The Director should strengthen seed money program implementation by requiring Federal agencies and grantees to begin with clear agreements on the length and amount of Federal funding. The Director also should require the applicant to identify potential future funding sources through the grant application process and the A-95 process. Preliminary agreement on the need for proposed projects should be reached with the potential funding sources before the award of the grant.

#### AGENCY COMMENTS

Copies of this report were distributed for comment within the Office of Management and Budget, to appropriate Federal agencies, and to the Federal Regional Councils. Overall, the comments were supportive of GAO's basic conclusions and recommendations.

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## CHAPTER 1

### INTRODUCTION

Federal grant programs which are designed to limit the length of time Federal funding is provided are commonly called seed money programs. These programs work on the assumption that Federal support will end and that grantees will continue projects with funding from non-Federal sources. Our review of seed money programs excluded grant programs undertaken to test and demonstrate new ideas.

We could not clearly identify why the Federal Government selects the seed money approach over more conventional grant approaches. Selection of the seed money approach has not followed a consistent pattern. Rather, seed money programs appear to have started somewhat randomly.

Some Federal officials suggested that the seed money approach was selected to distinguish Federal and State responsibilities by avoiding permanent Federal control over such controversial matters as law enforcement. Others said the seed money approach limits the duration of the Federal funding commitment. This frees funds for other priority programs when they arise. Congressional staff and Office of Management and Budget (OMB) officials said the seed money approach was used to facilitate congressional acceptance of new programs.

From a Federal perspective seed money programs represent attempts to stimulate State and local governments to fund projects they would not otherwise fund. An effective seed money program could (1) provide funds for national priority programs with high startup costs, (2) alter State and local priorities so that non-Federal funds are used for Federal priorities, and (3) distribute scarce resources broadly to have a continuing impact on the population to be served.

Seed money programs accounted for about \$2 billion or 3 percent of the estimated \$70 billion of Federal assistance provided in fiscal year 1977 to State and local governments. Such programs, concentrated in the areas of health and justice, funded emergency medical services, community mental health centers, vocational rehabilitation training services, urban rat control, alcoholism and drug abuse rehabilitation, rural health initiatives, rural public transportation, childhood lead-based paint poisoning prevention, law enforcement assistance, and boating safety programs. Appendix I contains a listing of identified seed money programs and their annual funding and intended method of operation.

In establishing some seed money programs, Congress either provides timetables for phasing out Federal assistance or specifies expiration dates after which Federal funding will not be available. However, when Congress is not specific about its intent, programs are sometimes administratively implemented as seed money programs by Federal agencies.

Sometimes Federal assistance is channeled to or through a State or local government; at other times it is provided directly to nonprofit service providers. Under several programs, assistance is provided both ways.

We performed this review to assess the overall Federal experience with the seed money approach and the the Federal Government's role in providing assistance. The scope of our review is described in chapter 5.

## CHAPTER 2

### SEED MONEY APPROACH HAS LIMITED SUCCESS

#### IN GENERATING SELF-SUSTAINING PROJECTS

The lack of clear objectives and rationale for seed money programs makes evaluation difficult. One measure of success we used is the rate of project continuation with non-Federal funds when Federal support has been phased out.

Ideally, all worthwhile seed money projects should continue when Federal funding ends. While seed money programs have generated some self-sustaining projects which use significant amounts of non-Federal funds, some worthwhile projects are reduced or discontinued when Federal funding ends. Many other projects are federally funded longer than initially planned because Federal officials fear they would otherwise be reduced or discontinued.

#### SEED MONEY PROGRAM ACHIEVEMENTS

Seed money programs have generated significant amounts of non-Federal funds. Some State and local programs might not have been started without seed money. Successful programs have continued without Federal funding at or near previous operating levels. While limited data exists on what happens to projects when Federal funding ends, the following information provided by the Department of Health, Education, and Welfare (HEW) indicates that some projects underway on, or begun since January 1973, have become self-sufficient.

#### Projects Funded Since January 1973

<u>Type of project</u>	<u>Total</u>	<u>Projects for which Federal funding has ended</u>	
		<u>Total</u>	<u>Active at similar service level</u>
Emergency medical services	162	12	12
Childhood lead-based paint poisoning prevention	91	33	10
Community mental health centers	567	53	48

Our 1974 report (GGD-75-1, Dec. 23, 1974) on grants for law enforcement innovation and improvement projects administered by the Law Enforcement Assistance Administration (LEAA)

showed that 64 percent of the long-term projects were being continued without significant reductions after Federal funding ended. The Ninth Annual Report of LEAA says that in 1977, more than 80 percent of the projects considered eligible to continue with non-LEAA funds were continued by recipient units of government after Federal support ended.

Some major seed money programs have generated substantial non-Federal funds, even though some projects have been reduced and others have continued to receive Federal support. In the drug abuse program, for example, Federal funding in 1977 represented about 64 percent of total funding of federally supported treatment capacity, down from 79 percent in 1974. Non-Federal funding for drug abuse has increased from \$35.5 million in 1974 to \$67.1 million in 1977. For the rat control program, non-Federal funding has increased from 27 percent to 64 percent of total program operating costs over the program's 7-year life. An HEW study on the urban rat control program credits the seed money approach with making it possible to increase the number of project communities from the original 19 to 65 in 1977. The following table shows the growth in and extent of non-Federal funding for several seed money programs.

<u>Program</u>	<u>Non-Federal funding level as percent of total program costs</u>				<u>1977 non-Federal funding level (millions)</u>
	<u>1974</u>	<u>1975</u>	<u>1976</u>	<u>1977</u>	
Drug abuse	21	26	31	36	\$76.1
Alcohol	32	38	35	48	40.0
Boating safety	87	86	87	87	38.0
Urban rat control	54	57	59	64	23.1

Federal seed money programs can be credited with generating some or all of these non-Federal funds and, according to State and local officials, some projects that otherwise may not have started.

FEDERAL FUNDING IS CONTINUED TO PREVENT PROJECT REDUCTIONS AND DISCONTINUATIONS

Federal funding is often continued beyond the originally planned period to avoid project service reductions or discontinuations which Federal officials believed would occur

if Federal funding ended. Information developed by agency officials for seven programs shows how funding is often continued.

Projects Continued With Federal  
Funds Beyond Planned Periods  
January 1973-August 1977

	<u>Projects which had completed planned funding periods</u>	<u>Projects funded longer than originally planned</u>	<u>Percent funded longer than planned</u>
Alcohol	726	275	38
Boating safety	51	51	100
Community mental health centers	<u>a/</u> 136	92	68
Drug abuse	103	88	85
Lead-based paint	77	51	66
Urban rat control	32	12	38
Vocational rehabili- tation training services	<u>54</u>	<u>45</u>	<u>83</u>
Total	<u>1,179</u>	<u>614</u>	<u>52</u>

a/ As of September 30, 1977.

Almost all of these projects were still being funded in August 1977. For the drug abuse program, the seed money approach was discontinued and permanent Federal funding was authorized. A brief discussion of the funding experiences for some of these programs follows.

Alcohol

Between January 1973 and August 1977, 275 alcohol projects were funded longer than originally planned. As of August 1977, 257 of these were still receiving Federal support. Although program guidelines cite the need for increasing amounts of non-Federal support, the 3-year Federal phaseout plan was changed in October 1976 to 6 years of

Federal support. This change was enacted because National Institute of Alcohol Abuse and Alcoholism (NIAAA) officials feared that projects would otherwise be reduced or discontinued. In August 1977, implementation of the 6-year plan was suspended pending an assessment of its feasibility. A 1-year study was being conducted to assess the long-term viability of non-Federal sources of funds.

A November 1977 draft NIAAA policy paper refers to the seed money approach as a "bankrupt idea" which has not worked, and recommended funding through State governments with minimum Federal funding criteria.

NIAAA officials recognized that new centers can be funded only when support is shifted from old projects to new ones, and cited the need for a long-term funding policy. Further, a House Appropriations Committee report for fiscal year 1978 supported a change in the phaseout of Federal funding, stating:

"\* \* \* the Committee believes that the matching requirements proposed for implementation in fiscal year 1978 should be waived for one year, to the extent it is consistent with sound and orderly development, in order to provide local projects with sufficient time to generate local funding support."

NIAAA believes that the basic assumption behind the seed money policy--that non-Federal funds would be available to alcohol project grantees in ever-increasing amounts--has not yet been proven true.

A February 1977 NIAAA memorandum informed 8-year project grantees that a ninth year of funding was included in the administration's fiscal year 1979 budget request. The funds were appropriated and 8-year grantees were encouraged to submit applications for continued funding.

### Boating safety

Under its boating safety program, the Coast Guard provides formula grants to States to strengthen and expand their boating safety and enforcement efforts. The Congress authorized this 5-year program in 1971 to encourage the States to assume greater responsibility for boating safety by developing their own programs. In 1976, the Congress extended the original 5-year funding period to 7 years.

In response to a 1976 Coast Guard questionnaire, 33 of 34 States said that boating safety efforts would be reduced or discontinued if Federal funds ended. Only Kansas said its program could continue with non-Federal funds because registration fee income would be sufficient to offset the loss of Federal funds.

A June 1977 Coast Guard report on the boating safety program concluded that

"\* \* \* while originally intended as 'seed money' for State activities which would become self-sustaining, it now seems clear that the fulfillment of the intended Federal-State partnership requires a Federal base upon which the States can effectively build."

The report recommended that Federal funding be continued through fiscal year 1979 and also in the near future.

#### Community mental health centers

As of September 1977, 83 of the 92 community mental health center (CMHC) projects funded longer than initially planned were receiving some category of continued Federal support beyond the 8-year grant period. HEW officials contended, however, that the CMHC program is still a Federal seed money effort, and HEW's criteria for approving CMHC applications include "\* \* \* evidence of, awareness of, and planning for the ultimate phaseout of federal funding."

In Federal region X, three CMHC projects were funded beyond the 8-year staffing grant period. An April 1977 HEW letter, discussing the possibility of continued funding of another region X center, stated that while the 8-year staffing grant period could not be extended, three other categories of funding were available--conversion grants, consultation and education grants, and financial distress grants. HEW working guidelines for distress funding state that "\* \* \* applicants for distress grants must demonstrate that the grant will aid the center in becoming financially self-sufficient\* \* \*," and "\* \* \* distress grants are not to be used to prolong the temporary continuation of a service or program that has little prospect of viability in the absence of Federal support. \* \* \*" The letter noted that a financial distress grant might be approved but that the center "\* \* \* would probably face the same set of funding questions after termination of the distress grant as it is now facing \* \* \*," indicating distress funding would do little to improve the center's fiscal stability.

## Drug abuse

In 1975, HEW converted a \$140 million a year drug abuse program from a seed money program to a permanent 60-percent federally funded program, because program officials believed projects would be terminated if Federal funds were phased out. The Associate Director for Program Operations of the National Institute on Drug Abuse (NIDA) said that to reduce Federal support as originally planned would literally destroy the capacity to treat drug abuse in the United States. A 1976 report by the Strategy Council on Drug Abuse recommended that the program be maintained with an 80 percent Federal funding level because otherwise projects would not be continued at full service levels.

Officials at some drug abuse projects said that drug abuse was a Federal responsibility and that their support base would never permit total funding in the area of drug abuse because it was a low priority at the State and local level.

NIDA officials told us that drug abuse funding will now be channeled through State governments instead of directly to counties or nonprofit grantees and that the Federal share of project costs will not decline below 60 percent.

### PROJECTS REDUCED OR DISCONTINUED WHEN FEDERAL FUNDING ENDS

For most programs, Federal agency officials had not evaluated the results of seed money projects. Factors explaining why projects are continued or why projects fail have not been identified, although some studies were underway at the time of our review. For some programs, agency officials could not tell us whether projects had continued or stopped when Federal funding ended. For example, HEW officials did not know the status of 464 3-year alcoholism projects which no longer receive Federal support. At the time of our review, a study being conducted to evaluate future funding sources for alcohol centers excluded evaluation of projects no longer receiving Federal funds.

Our 1974 report on LEAA grants showed that about 36 percent of projects were terminated or substantially reduced when LEAA funding stopped, even though project officials believed the projects were worthy of being continued. LEAA officials said that in response to our report, two actions were taken to improve project planning and continuation. LEAA required each State to (1) adopt and submit a policy statement

for continuing worthwhile projects and (2) report on the prior year's experience on projects continued, reduced, or stopped.

For the urban rat control and lead-based paint poisoning prevention programs, information provided by agency officials showed that 81 percent of projects for which Federal funding had ended were later reduced or discontinued.

Projects Funded Since January 1973

	<u>Projects for which Federal funding has ended</u>				
	<u>Active at similar</u>		<u>Active at reduced level</u>		<u>Inactive</u>
	<u>Total</u>	<u>Number</u>	<u>service level</u>	<u>reduced level</u>	<u>Inactive</u>
Urban rat control	84	20	-	20	-
Lead-based paint poisoning prevention	91	33	10	10	13

Agency officials said some reductions in project service levels were appropriate because the magnitude of problems the projects were intended to address had been lessened; they were unable to tell us how much the problems had been alleviated.

Because nationwide information was not readily available on the status of many projects no longer receiving Federal funds, we requested Federal agency region X officials to determine the status of projects in existence on or started after January 1973. Information on 143 projects showed that Federal funding had ended for 45 projects, and about 44 percent of these projects were subsequently discontinued. Agency officials did not determine how many of these projects were worthwhile or how many projects' operating levels were reduced when Federal funding ended.

We also visited 35 projects in several Federal regions to determine the status of Federal funding and to see if the projects would continue if Federal support ended. Of the 35 projects, Federal support had ended for 10. Project activities had been substantially reduced for six projects. For example, two rehabilitation training services projects were each funded for 6 years with Federal grants of \$641,000 and \$650,000. Although both projects were deemed worthwhile by project and State program officials, we were told that project activities were reduced by more than one-half after Federal funding ended.

For 19 of the 35 projects visited, officials assessed the probability of continuing without Federal support. Officials of 16 projects, or 84 percent, said they would either discontinue or substantially reduce project services if Federal support were to be phased out.

## CHAPTER 3

### IMPACT OF THE SEED MONEY APPROACH ON

#### INTERGOVERNMENTAL RELATIONS AND SERVICE DELIVERY

The seed money approach has contributed to intergovernmental frictions and to uneven distribution of program services nationwide. These conditions occur even though seed money programs represent only a small percentage of total Federal assistance to State and local governments and despite the fact that Federal funding has continued longer than originally planned for many projects.

#### SEED MONEY PROGRAMS CAUSE INTERGOVERNMENTAL FRICTIONS

Intergovernmental frictions are inherent in the seed money approach because of the presumption that Federal assistance can be reduced and that State and local decision-makers will then provide more services from their own funds. The frictions are compounded by the uncertain duration and amount of Federal funding and the political and fiscal pressures associated with Federal attempts to change State and local priorities. As a result, States and localities have increased their efforts to control incoming Federal funds and, in some cases, have tried to avoid Federal seed money programs.

#### Lack of clarity on the extent of Federal funding

We visited 35 projects funded under eight seed money programs to determine the clarity of seed money funding plans. Six, or 17 percent, of the grantees said the phaseout nature of Federal grants had not been clear when the projects were initiated. At the time of our visit, officials at 14 of 25 projects still receiving Federal funding said they were not sure about the remaining amount and length of Federal support.

In some cases grantees understood that funding was to phase out, but they were hoping for continued Federal assistance anyway. Some doubted that Federal funding would actually end.

We discussed the clarity of seed money project funding plans with 19 local management and budget officials in 10 States. Fifteen of these 19 officials cited the need to clarify Federal funding plans for seed money projects. In several cases, funding plans for law enforcement projects were

clear, but for other programs, Federal funding plans were not clear. Officials in one State said that lack of clarity hampers budgeting and planning functions, contributes to project instabilities and disruptions, and inhibits project continuations.

According to officials of legislative and executive branches in six State governments, the phaseout of Federal funds was not clear. In some States, officials said they were not sure of the current Federal funding plans for drug abuse, boating safety, and mental health centers, and that they did not see the programs as seed money programs. Officials in one State said they received "mixed signals" on Federal funding plans, and this lack of clarity created friction among branches of State governments. In one State, neither executive nor legislative branch officials could tell us which programs were seed money programs. Officials in that State asked us where they could obtain information identifying seed money programs. Some State and local officials suggested that seed money provisions be included in program legislation to clarify intentions and plans at all levels. This clarification would provide guidance to Federal agencies on funding limits.

We encountered difficulties in identifying seed money programs during this review. In one program, vocational training services, HEW headquarters officials disagreed over whether the program was a seed money program. The national program coordinator said that program legislation is not clear and agency guidelines and regulations are interpreted differently. He also explained that a visit to each of the 10 regions could very likely reveal 10 different program operations. After we explored this matter in two regions, HEW officials said that the program was being operated as seed money. But a State program official in one of the regions said it only became clear recently that training services grants should be viewed as "startup" or "seed money" with Federal funding to be phased out.

The Rural Highway Public Transportation Demonstration program, according to agency headquarters officials, was not necessarily a seed money program. The officials were surprised to learn that their region X office had obtained continuation and cost assumption agreements from all grantees. Although States and local commitments to fund the projects after the Federal grant expires are discussed in the regulations for this program, funding for longer than the planned 2 years is permitted.

NIDA headquarters officials agreed that drug abuse project funding plans may be unclear to grantees, as NIDA

itself is not sure how long funding will be provided under present plans. Coast Guard officials said they were aware that boating safety project documentation did not specify the planned length of Federal funding. During the first year of a 3-year Rural Health Initiatives program, it was not clear to grantees how long Federal funding would last, according to one HEW program official. It became clearer in the program's second year, the official said, but for the third year, a new regulation allowing extended project funding modified the seed money approach.

NIAAA headquarters officials said certain alcohol programs were thought to be permanent. Some NIAAA officials were surprised when the seed money concept was clarified by OMB during the fiscal year 1975 budget formulation process. According to an Office of Education official, certain education programs were not clearly seed money programs. He cited unclear legislative intent as the cause for seed money project failures.

The National Governors' Association cited uncertainty about Federal funding levels as the biggest obstacle to effective intergovernmental program management. The Association also reported that

"\* \* \* the ability of State and local governments to make sound decisions in the allocation of fiscal and program resources is severely crippled by uncertainty about Federal funding levels at the time their budgets are prepared \* \* \*."

Because Federal funds comprise about 25 percent of State budgets, Governors and legislatures must make budget decisions when they know only about three-quarters of their revenue. The lack of clarity about seed money programs further complicates the States' budgetary processes.

#### Priority setting and budget limitations

Some State and local officials said they felt trapped by seed money programs because they found it difficult to say "no" to the services available. Other officials referred to seed money as a form of "blackmail;" they felt pressured politically to use available Federal seed money funds which create future State or local funding commitments. Thus, seed money programs can work counter to Federal policies which were established to insure that Federal priorities are consistent with State and local priorities.

State and local government officials said with seed money programs, projects that were not previously within

funding priorities are initiated. Some officials who described Federal seed money programs as highly innovative and experimental still viewed the programs as low priorities which could be phased out if Federal support were to end.

Some officials characterized seed money as a "punitive approach" to Federal financial assistance. They emphasized that the approach should be used only when the Federal agencies consider the program optional. As shown in chapter 2, Federal agencies have been reluctant to accept local decisions to discontinue projects when Federal support ended and have continued funding many projects longer than originally planned.

State and local officials strongly objected to Federal attempts to change their priorities. Local government officials said seed money programs forced them to spend money in areas where Federal money was or had been available, rather than in local high-need areas. They said the highest Federal priority may not be the highest local priority.

Additionally, States and localities are confronted with several Federal agencies that try to continue their programs with non-Federal funds. We did not find that the Federal agencies had coordinated their efforts, ranked their mutual priorities, or assessed their cumulative impact on State and local budgets.

#### Assessing impacts of future funding

We did not find any jurisdiction where State or local officials had assessed the cumulative effects of future funding of seed money programs. Officials had projected future funding requirements in only two of the locations we visited. However, the projections were only for a single program. In Georgia, an official said that because they could not identify seed money programs, there was virtually no way to project future funding commitments or cumulative impacts.

From a Federal budget perspective, shifting costs from Federal to State and local budgets may be appealing but ill-advised, unless States and localities are willing and able to assume those costs. Some State and local officials doubted that the Federal agencies had thought about where to obtain funds to continue projects. Some said Federal seed money programs result in increased taxes. This problem may worsen because State and local government resources are becoming scarcer--a result of the taxpayer revolt and the decline of some of the Nation's larger cities.

In October 1977 the National Governor's Association presented its views to OMB on the fiscal year 1979 Federal budget. The Association stated that seed money programs pressured increases in State budgets in areas that were no longer Federal priorities and that seed programs were "fishhooks"--easier to get on than off.

#### Actions by States to control incoming Federal funds

Increased efforts by States to control incoming Federal funds have resulted in struggles between the executive and legislative branches of State governments. Confusion over whether certain programs involve seed money has contributed to these State actions.

A July 1977 National Association of State Budget Officers report stated that 41 State legislatures appropriated federally derived revenues to some degree. Twenty States extend the appropriation process to all State agencies, 15 apply the process to most State agencies, and several others apply it to some State agencies. Further, a few States require legislative review before Federal grant applications are submitted.

We contacted officials in 32 States about the need for greater control over Federal funds. Most said they were taking steps to become better informed about and involved in the acceptance of Federal grants which may mandate multiyear commitments of State funds.

We reviewed the control mechanisms used in seven States to see whether seed money programs are identified; we also studied the review processes employed and the results of added control efforts. The control techniques of the seven States are described below.

#### Nebraska

The Nebraska legislature expressed concern over obligations created by non-State funds, as shown in a bill passed in 1976:

"It is the intent of the Legislature to be informed and involved in the acceptance of nonstate funds \* \* \*. The legislature \* \* \* is concerned that the acceptance of such nonstate funds may mandate multiyear commitments of funds and programs without its direct knowledge and action."

According to State officials, Nebraska established a system for joint legislative and executive branch review of all

applications from State, local, and nonprofit applicants for Federal funds. The system requires applicants to estimate the amount of State funds that would be needed when Federal funding ends.

The review system is designed to insure that the State enters into Federal funding phaseout programs only with prior legislative review. The system alerts State decisionmakers to Federal seed programs and affords them the opportunity to plan and budget for cost assumption. Also, according to State officials, the system could make applicants more responsible when making continuation commitments to Federal agencies. They stated that some applications in law enforcement and other areas were withdrawn due to the seed money approach.

### Pennsylvania

According to legislative officials, the Pennsylvania legislature in 1976 began appropriating Federal funds before expenditure by the executive branch. This practice was challenged by the executive branch. The Pennsylvania State Supreme Court held in 1978 that the legislature has the power under the State Constitution to appropriate Federal funds. In another effort to exert control over Federal funds, the legislature proposed that it review applications for Federal funds. At the time of our review, this matter had not been resolved.

Officials said the legislative fiscal office had tried since 1976 to obtain information on Federal programs but found that the State executive agencies could not identify seed money programs.

In general, State officials told us they try to review incoming Federal grants to determine if future State funding commitments are involved, but they are more concerned about getting the funds in the first place. They said the State has never refused Federal funds because of the seed money approach and probably never would.

### Oregon

Oregon law prevents grant applications from being submitted to Federal agencies without legislative approval. The Oregon Emergency Board, a legislative body, considers applications when the legislature is not in session. We observed the Oregon Emergency Board in session as it considered a 2-year LEAA grant for creating a judicial planning office. The Board approved the application with the understanding that if LEAA funding ended, the project would be phased out, and

employees hired with the Federal funds would be released.

One Oregon State Senator, who is a member of the Emergency Board, said information on Federal seed money programs is not clear about funding. He said the State executive agencies do not always fully inform the legislative branch about funding commitments. According to the Senator, the State agency may misunderstand the program or purposely distort information it gives to the legislative branch. He emphasized that the lack of clarity about the length and amount of Federal funding (1) hampered project continuation when Federal funds were phased out and (2) created intergovernmental tension.

### Washington

Elected officials and staff members in the Washington State legislature expressed the need to become more aware of the Federal dollars the State receives annually.

In budgeting for the biennium beginning July 1, 1977, the legislature took steps to protect the State from being held "captive" by more federally funded projects. The appropriations act adopting the budget included the following section:

"Any programs which are supported in whole or in part by federal funds shall not receive any additional state funds for the programs in the event that federal funds are reduced or eliminated for the program."

A legislative staff official explained that the intent of this language was to establish a State policy that allows evaluation of Federal program dollars. The State legislature will not be bound to continue programs simply because Federal funds are reduced or eliminated.

### Michigan

Michigan State officials said that until the early 1970's, Federal funds were used simply because of their availability. Agencies were getting involved in seed money programs without legislative input or direction. In response to this problem, a 1975 State law was enacted requiring legislative approval before State agencies spend Federal seed money program funds.

The executive branch provides the legislature program and budget information which identifies seed money programs

and future funding commitments. Thus, the legislature is able to guard against unexpected requests for State-matching funds or State take over of programs previously funded by the Federal Government. We were told that the legislature has rejected some programs and has been able to plan better for the cost assumption of others.

### Georgia

Georgia law requires that all State agencies intending to apply for Federal assistance (except the university system) must first notify the Director of the Office of Planning and Budget. The deputy legislative budget analyst explained that a potential applicant must also provide a statement describing future State commitment, to his office, which must analyze the impact of the proposed Federal assistance project on State budgetary and fiscal matters.

This legislative requirement has existed since 1962 but has never been fully implemented. The deputy legislative budget analyst said he notified State agencies in June 1977 that the law would be enforced because the legislature had been increasingly coerced into continuing to fund projects which they knew little or nothing about. However, the official believed that 6 months after this notification executive departments were still trying to have projects funded without any formal review by the legislative budget office.

### Idaho

In 1975 the Idaho legislature adopted a resolution which directed the Joint Senate Finance-House Appropriations Committee to review Federal grant applications submitted by State agencies, institutions, and departments. The Committee is to review applications and comment on legislative viewpoints regarding the expenditure of grant funds. The legislature took this step because it was

"\* \* \* greatly concerned about state agencies, institutions and departments instituting programs with federal grant monies, and subsequent phasing out or loss thereof, and requests being made for funding thereof in whole or in part from the general fund."

A State official told us the legislative review process puts primary emphasis on finding and rejecting Federal programs involving cost assumption by the State.

Because they have not been fully implemented, the steps taken by Idaho to become more aware of Federal seed money program impacts have not been totally effective. The Co-chairman of the Joint Senate Finance-House Appropriations Committee explained that members of the Committee do not review applications. A State budget official said the Committee has never responded with comments as the resolution directs.

In addition, other States have taken action to increase their oversight of Federal seed money grants. For example, the Advisory Commission on Intergovernmental Relations reports that in Colorado, the general assembly does not accept obligations to support or continue seed money programs if it is not initially consulted. In Vermont, grants under Federal seed money programs require prior legislative approval.

Although we did not evaluate these State control systems, we observed that seed money project funding was occasionally refused in States which had more thorough review mechanisms, such as legislative review of applications before submission to Federal agencies (Michigan, Oregon, and Nebraska). However, officials could cite no such refusals in States where review processes were less thorough or had not been fully implemented (Pennsylvania, Georgia, Washington, and Idaho).

#### Actions by local governments to control Federal funds

Some local governments have adopted procedures to control involvement in Federal seed money programs. In Multnomah County, Oregon, for example, a budget official said county policy is to not get involved in new programs funded initially by one-time or limited-time sources. A county policy statement requires that one-time-only revenues must be tied to one-time-only expenditures. Other counties cited implicit policies against Federal seed money programs and identified programs in which they have refused to become involved.

Grant application review documents in Fulton County, Ga., indicated the county would not commit itself to assume the costs of a mental health center when Federal funds end and cited the need for a contingency plan to cover that eventuality.

In 1976, Lancaster County, Nebraska, began using a new application review process designed to identify programs for which Federal funds will be phased out and to identify expected future funding sources. The Los Angeles County, Calif., Board of Supervisors established new procedures in 1977 requiring prior approval of Federal seed money grants.

Procedures also require that localities develop plans to terminate existing grant programs when Federal support ends or to eliminate lower priority programs as a budget offset. According to policy statements, Federal programs using the seed money method of financing carry the lowest county priority.

Hennepin County, Minnesota, has adopted grant application review procedures to identify future years' funding requirements. County policy statements view Federal seed money grants as "experimental" and stress that accepting such grants indicates no predisposition to continue the projects when Federal support ends.

San Joaquin County, California, uses a grant application review process which gives specific consideration to seed money programs. We were told that about one-half of the applications considered have been rejected, including several seed money project proposals.

#### Nongrantees are expected to assume funding

As discussed above, State and local governments have tried to gain control over incoming Federal funds and future funding commitments under seed money programs. Added problems occur when State and local governments are expected to eventually fund projects even though funding was not channeled through them and they were not consulted when the projects began. In such situations, the future funding source has not been involved in, and has not planned to assume the costs of, projects for which Federal funds are phasing out.

Many seed money projects have been awarded directly to nonprofit agencies--agencies which often look for State and local government support when Federal funding ends. For example, alcohol programs have been awarded directly to nonprofit grantees who later seek funding from State and local sources to continue the programs. In one county, officials said an alcohol project application for county funding had been submitted as the project's Federal funds phased out, but county officials declined to provide funding because they had not been involved in or agreed to fund the project when it was started. Similarly, grants for community mental health centers and vocational rehabilitation training service projects have frequently been awarded directly to nonprofit agencies.

Nationally, under eight seed money programs, program funds given directly to nonprofit agencies have varied from

none in the boating safety program to 86 percent in vocational training services grants, as shown in the following table.

Distribution of Funds and Project  
Awards to Nonprofit Agencies

<u>Program</u>	<u>As a percent of funding</u>	<u>As a percent of projects</u>
Alcohol	72	85
Boating safety	-	-
Community mental health centers	58	54
Drug abuse	18	61
Emergency medical services	15	14
Lead paint	7	13
Rat control	7	9
Vocational training services	86	93

Available data is inconclusive as to whether seed money projects funded through units of government are more successful than those awarded directly to nonprofit grantees. Federal agency officials, however, told us that government-channeled projects are more successful.

The Director of the Environmental Sciences Division at the Center for Disease Control emphasized that projects funded through government units are more successful; he cited projects which fail when State and local governments are not involved.

A center document on a national strategy for the rat control program states that emphasis would be placed on supporting State grants as a better approach to achieving long-range solutions to rat problems. The document also said that States have clear responsibilities and active programs in environmental health, and the Center should not bypass this financial and technical resource. Yet in recent years, more than half of the Center's rat control grants were awarded to local governments, bypassing the States.

NIDA officials said funding of drug abuse projects through government units had worked better than direct funding of nonprofit organizations. They said governmental units were able to generate funding from their own resources. The officials added that projects are more stable with government management.

An HEW official in region X said mental health center funding in that region goes directly to grantees except in Idaho, where funds go through the State government. He said Idaho's mental health centers survive without Federal funds because of State involvement. In one county, officials suggested that because mental health funding does not pass through the county, officials are not involved from the beginning and do not understand the need for the program. The county consequently declined to continue funding.

According to Federal drug abuse officials, States can get funds to the most needy areas, eliminate duplication, and stabilize projects when the duration of Federal funding has been uncertain. Nebraska officials also said that duplication is less likely when Federal funding goes through the State.

We found no systematic approach for identifying or involving future funding sources at the time projects begin. However, two States and one county identify and review grant applications for projects for which they are not the grantee but could later be asked to fund.

The OMB Circular A-95 project notification and review system offers a way to deal with this matter systematically. Early contact between applicants for Federal assistance and parties that might be affected by the projects could speed up intergovernmental review and comment. Applicants would be alerted to problems before they have invested time and money in a formal application, and affected parties would be able to comment and perhaps effect changes before the application is substantially completed.

While many seed money programs are subject to the A-95 review and comment process, the system does not alert decisionmakers to the planned phaseout of Federal support or the need for increasing amounts of non-Federal funds. The process could, however, be modified to allow for such notification.

#### UNEVEN DISTRIBUTION OF SERVICES WHEN THE SEED MONEY APPROACH IS USED

When Federal funding of seed money projects continues longer than originally planned, some eligible projects go unfunded. In selected program areas, many approved projects were never funded because existing projects were being funded indefinitely. Projects are also not funded when (1) applicants turn down grants because they do not want to later assume funding responsibility or (2) applicants are denied funding because they cannot adequately demonstrate future

funding capability. Thus, under seed money programs, services are not delivered uniformly and a minimum level of service nationwide is unlikely to be achieved.

To assess service distribution under seed money programs, we obtained data on the progress made in meeting planned levels of program activity. While agency officials said a higher appropriation level may have extended program coverage, they also said the seed money approach itself contributed to program shortfalls. The following table depicts program shortfalls.

<u>Program</u>	<u>Planned level of program activity</u>	<u>Program activity as of December 1977</u>	<u>Extent of shortfall</u>
Drug abuse	110,000-117,000 treatment slots	102,000 treatment slots	8,000-15,000 unfilled treatment slots
Urban rat control	300 communities	87 communities	213 unserved communities
Community mental health centers	1,500 centers	567 centers	933 unfunded centers
Emergency medical services	300 projects	162 projects	138 unfunded projects backlog includes 102 systems that have completed planning and are awaiting funding for initial operations
Lead-based paint	2,500,000 people	400,000 people	84% of risk population

Shortfalls due to continued project funding

As discussed in chapter 2, most seed money programs we reviewed had either continued with Federal funding longer than initially planned or had been converted entirely to permanent federally funded programs. Agency officials attributed program shortfalls, in part, to continued funding of established projects.

Similarly, officials said because the seed money approach failed in alcohol programs, they were unable to expand

services. They said that services could have been provided to some of the 400 approved but unfunded applicants if Federal funding of existing alcohol projects had been reduced as planned.

Since the inception of the rat control program, only an average of four new program communities have been funded each year. A 1977 HEW report on the program recommended that rat control funding be phased out where rat-breeding conditions have been reduced and where local resources have been generated to provide necessary surveillance activities. Substituting local or State funds would free Federal funds to be used for new projects elsewhere.

#### Shortfalls due to potential applicant refusals

Shortfalls in the seed money program can also occur when applicants refuse to apply for grants because of the seed money feature. Under the Community Mental Health Centers (CMHC) program, for example, three counties we visited had not applied for assistance because it was seed money. In one county, an official told us the county could not be assured of having needed funds when Federal funding ended. In another county, officials hesitated to apply because the program represented "precisely the kind which the county has been trying to eliminate \* \* \* one-time-only revenue source to start a continuing, baseline service."

A third county turned down mental health center funding after applying, because of the seed money approach. In this case, nongrant expenditures would be expected to grow from about \$480,000 in the first year to about \$1.3 million in the eighth year, and about \$1.7 million each year thereafter. The county withdrew the application because (1) economic conditions were not favorable, (2) the State was unable to assure future funding, and (3) certain cities had not approved financial participation.

A 1976 HEW report to the Congress recognized that most States and localities have limited resources. It said they may be reluctant to start CMHC projects because funds might not be available to continue center operations once direct Federal support ended. We were not able to measure, nor were agencies able to tell us, the national scope of such refusals for any seed money programs.

In the drug abuse program, NIDA officials saw that some potential applicants refused or were reluctant to accept funding due to the seed money feature. They said that, in

the early years, NIDA had to coerce people to take the funds. Similarly, in alcohol programs, NIAAA officials attributed some potential applicants' refusals to the phaseout aspect, but stated they had not analyzed the rationale behind the refusals.

The commissioners or other officials in 10 counties in 6 States cited the seed money approach as the reason why States and localities decide not to apply for Federal grants in LEAA, Emergency Medical Services, and community mental health programs. An official of one county said that in retrospect the county would not have applied for drug and alcohol grants if the seed money feature had been clear.

Officials of the National Association of Counties said that when Federal funds phase out, county officials become hardened against seed money programs. They said many counties "won't touch seed money." A resolution adopted in December 1977 by the Association of Oregon Counties recommended that seed money programs be discontinued and that funds be transferred to block grant and revenue sharing programs.

#### Shortfalls due to inadequate assurances of future funding

Because of inadequate assurances of grantees' abilities to assume future funding, some applicants' projects have not been funded. In the rural health initiatives program, for example, Federal officials told us that some applications were rejected because it was not evident that the applicants could provide non-Federal funding in the future. In July 1977, program guidelines were changed to allow 3-year projects to be funded for longer periods if they had not attained self-sufficiency. Thus, applicants who were refused because they could not demonstrate potential self-sufficiency remained unfunded, while grantees who did not achieve self-sufficiency received continued funding.

#### Penalties to conscientious grantees

Grantees who increase their contributions to seed money projects are penalized, in effect, when other grantees receive funding beyond planned periods. At one alcohol project, for example, State and local funds were increased to replace decreasing Federal support. HEW headquarters officials said this project was not typical in that it generated more non-Federal funds than projects elsewhere in the country which were being funded longer than initially planned.

In the drug abuse program, five grantees were being funded at less than the newly established 60-percent permanent Federal maintenance level. NIDA officials said that these projects had conscientiously reached that lower level before the seed money approach was dropped.

As of September 30, 1977, Federal support had ended for only 53 of 136 CMHCs that reached the end of planned funding periods, while 83 continued to receive Federal funding.

## CHAPTER 4

### CONCLUSIONS AND RECOMMENDATIONS

#### CONCLUSIONS

Seed money programs have generated self-sustaining projects and significant amounts of non-Federal funding. At the same time, many projects are reduced or discontinued when Federal funding ends because State and local officials decide not to continue projects after assessing local needs and funding priorities. This outcome can be expected when the seed money approach is used, and the Federal Government should be prepared to accept project reductions and discontinuations.

Past Federal actions to continue funding seed money projects beyond planned periods (1) show Federal reluctance to accept State and local decisions, (2) delay funding of other potential grantees, and (3) indicate an inappropriate use of the seed money approach. If the Federal objective is to establish a national service delivery system, then the seed money approach is not an effective method; some reductions and discontinuations are likely to occur, and potential grantees may refuse to become involved if Federal funds will phase out.

Seed money programs contribute to intergovernmental frictions. Federal efforts to alter State and local funding priorities are inherently stressful and are often seen by States and localities as inappropriate manipulations of non-Federal affairs. Intergovernmental frictions are compounded by the lack of clarity on how long Federal funding will last and who will assume funding responsibility. As a result, State and local governments are increasing their efforts to control incoming Federal funds and, in some cases, are trying to avoid seed money programs.

However, States are often not consulted before projects are awarded particularly to nonprofit agencies. Advance consultation could result in fewer projects being dropped for lack of available funds, or because the State or local government is not interested.

The seed money approach will probably always cause intergovernmental friction. Friction can be lessened, however, by appropriate use and careful administration of the seed money approach. In our opinion, the seed money approach is appropriate if the Federal objective is to stimulate and encourage new or expanded programs by reducing high startup

costs or when programs are considered optional by the Federal Government. If this approach is used, continued Federal funding beyond planned periods should be avoided.

#### RECOMMENDATIONS TO THE CONGRESS

Our findings on project continuation rates, program service distribution patterns, and adverse impacts on inter-governmental relations suggest that the seed money approach should be selected with care. We recommend that when Federal executive agencies have implemented a seed money program by administrative action, without specific Congressional direction or guidance, the Congress, as part of its normal oversight process, should see that the seed money approach is appropriate for achieving program objectives. We further recommend that when the seed money approach is to be used in new programs, the Congress should (1) clearly express Federal funding intentions and (2) emphasize the need for cost assumption planning. While cost assumption planning cannot be expected to result in the continuation of all seed money projects, it should increase the prospects for continuing worthwhile projects.

#### RECOMMENDATIONS TO THE DIRECTOR, OFFICE OF MANAGEMENT AND BUDGET

We recommend that the Director of OMB strengthen seed money program implementation by requiring Federal agencies to obtain clear agreements with grantees on how long and how much Federal support will be provided. The Director also should require applicants to identify potential future funding sources through the grant application process and the A-95 process. Preliminary agreement on the need for proposed projects should be reached with potential funding sources before awarding the grant.

#### AGENCY COMMENTS

Copies of this report were distributed for comment within OMB, to appropriate Federal agencies, and to the 10 Federal Regional Councils. The comments, as consolidated by OMB, are included as appendix II.

Overall, the comments were supportive of our conclusions and recommendations that more careful administration is necessary in using the seed money approach, that Congress should clarify funding intent, and that Federal agencies should obtain clear initial agreement and understanding with recipients on the length of Federal funding. However, there was concern that if the amount of Federal funding was included in the initial agreement with recipients, Federal agencies

might be coerced into committing funds beyond the annual appropriations cycle. We did not intend that agencies commit themselves to specific amounts of funding during the life of a project, but that agencies inform grantees of what funding could be expected subject to the availability of appropriations and the project's merit. We concur with OMB's observations that the seed money concept, if properly used, can be beneficial in developing new and untested programs.

OMB said it would consider ways to work with Federal agencies to provide appropriate information to applicants and clearinghouses on funding of seed money programs so that this information could be taken into account during project reviews.

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## CHAPTER 5

### SCOPE OF REVIEW

We conducted our review at HEW headquarters in Washington, D.C.; at HEW agency offices in Rockville, Md., and Atlanta, Ga.; at the headquarters of the Department of Transportation (DOT), ACTION, the Department of Justice, and the National Science Foundation in Washington, D.C.; at regional offices of HEW in Seattle, Wash., and Denver, Co.; at regional offices of DOT in Seattle, Wash., and Portland, Oreg.; and at the regional office of ACTION in Seattle, Wash. Our work was conducted between February and December 1977.

We met with officials and reviewed documents, reports, and files on 35 projects funded under eight seed money programs (alcohol, lead-based paint poisoning, drug abuse, boating safety, community mental health centers, emergency medical services, urban rat control, and vocational rehabilitation training services) in the States of Washington, Oregon, Idaho, California, Georgia, Massachusetts, Connecticut, and the District of Columbia. We also obtained information on, but did not visit, projects under the law enforcement assistance, rural health initiatives, and rural highway public transportation demonstrations programs. We met with State and local management, budget, and elected officials in the States of Washington, Oregon, Idaho, Michigan, Pennsylvania, Nebraska, Georgia, Tennessee, Maryland, Minnesota, and California. In addition, we obtained limited information from State officials in 21 other States.

SEED MONEY PROGRAMS IDENTIFIED, ANNUAL  
FUNDING, AND METHOD OF OPERATION (note a)

<u>Programs discussed in this report</u>	<u>Fiscal year 1977 funding</u>	<u>Intended method of operation</u>
Alcohol Abuse and Alcoholism--HEW	\$ 68,408,000	Staffing grants with phaseout over 8 years and 3-year special purpose project grants.
Childhood Lead-Based Paint Poisoning Prevention--HEW	8,500,000	Projects whose 3-year budget shows that a decreasing depend- ence on Federal funds will be given high priority.
Drug Abuse Treatment and Rehabilita- tion--HEW (note b)	138,196,000	Eight-year grants to initiate drug treatment capacity.
Boating Safety-- Department of Transportation	5,526,865	States maintain program opera- ting levels while Federal share declines over a 7-year period.
Community Mental Health Centers-- HEW	221,417,200	Staffing grants phase down over an 8-year period, other cate- gories of funding available, such as for financial distress.
Emergency Medical Services--HEW	32,290,000	Funding up to 6 years with one grant for planning and two grants for the establishment of staff, facilities, and transportation equipment to meet medical emergencies.
Law Enforcement <u>c/\$</u> Assistance Adminis- tration grants-- Department of Justice	607,000,000	Funding is provided for improve- ments in law enforcement and criminal justice with Federal funding to end after a reason- able period of time.
Urban Rat Control-- HEW	12,620,000	Five- to 8-year funding of pro- jects to reduce rat infestation; priority given to projects which show future self-sufficiency.
Vocational Rehabili- tation Training Services--HEW	6,038,000	Three-year funding for projects to train the handicapped, with priority given to projects which show future self-sufficiency.
Rural Health Initi- atives--HEW	40,129,800	Three-year project funding with goal of self-sufficiency for meeting health needs in rural areas.
Rural Highway Public Transportation Demonstrations--DOT	(d)	Projects funded for 2 years or more to develop mass transpor- tation systems in rural areas, with priority given to those which show ability to continue funding.
Total	<u>\$1,140,125,865</u>	

a/Programs were classified as seed money based on a review of  
legislation, program documentation, and discussions with agency  
officials.

b/Converted from seed money to permanent Federal funding.

c/Estimate of agency official.

d/No longer funded. Two-year funding totaled \$24,650,000.

## APPENDIX I

## APPENDIX I

<u>Programs not discussed in this report</u>	<u>Fiscal year 1977 funding</u>
Runaway Youth--HEW	\$ 8,000,000
Right to Read--HEW	26,000,000
Bilingual Education--HEW	74,300,000
Drug Abuse Education--HEW	2,000,000
Environmental Education--HEW	3,500,000
Sudden Infant Death Syndrome--HEW	1,716,000
Hemophilia Treatment Centers--HEW	3,000,000
Hypertension--HEW	9,000,000
Home Health Service--HEW	3,000,000
Health Maintenance Organization--HEW	18,100,000
Education Support and Innovation--HEW	194,000,000
Special Projects for Indian Children--HEW	16,000,000
Special Projects for Indian Adults--HEW	4,000,000
Preschool Incentive--HEW	12,500,000
Severely Handicapped--HEW	5,000,000
Early Childhood Education--HEW	22,000,000
Strengthening Developing Institutions--HEW	110,000,000
Cooperative Education--HEW	10,750,000
Metric Education--HEW	2,090,000
Gifted and Talented Children--HEW	2,560,000
Community Schools--HEW	3,553,000
Career Education--HEW	10,135,000
Consumer Education--HEW	3,135,000
Arts in Education--HEW	1,750,000
Child Abuse--HEW	18,918,000
Aging Model Projects--HEW	12,000,000
Rehabilitation Migratory Workers--HEW	530,000
Developmental Disabilities Special Projects--HEW	18,546,000
Alcohol Safety Action--DOT	a/
Urban Mass Transportation Demonstrations--DOT	b/ 1,976,126
State and Community Highway Safety--DOT	c/ 150,000,000

a/No longer funded. Funding was provided for 6 years, totaling \$92.5 million.

b/According to a DOT official, seed money funding is for exemplary projects and represents 14 percent of total program funding.

c/Some projects under the State and Community Highway Safety Program use seed money; others do not. Agency officials were not able to isolate seed money project costs.

<u>Programs not discussed in this report</u>	<u>Fiscal year 1977 funding</u>
University Year for Action--ACTION	\$ 4,690,000
Program for Local Service--ACTION	50,000
Mini-grants--ACTION	186,000
Youth Challenge Program--ACTION	223,000
Statewide Volunteer Service Coordinator-- ACTION	677,000
Comprehensive Assistance to Undergraduate Science Education--NSF	10,900,000
Minority Institution Science Improve- ment--NSF	<u>5,100,000</u>
	<u>769,885,126</u>
Total	<u>\$1,910,010,991</u>



## EXECUTIVE OFFICE OF THE PRESIDENT

OFFICE OF MANAGEMENT AND BUDGET

WASHINGTON, D.C. 20503

Mr. Victor L. Lowe  
 Director  
 General Government Division  
 U.S. General Accounting Office  
 Washington, D.C. 20548

AUG 4 1978

Dear Mr. ~~Lowe~~ <sup>Vic</sup>:

This is in response to your May 14 request to obtain comments from OMB, appropriate Federal headquarters agencies, and Federal Regional Councils (FRCs) on the draft GAO report, "Federal Seed Money: More Careful Selection and Application Needed." We sent the draft report to senior intergovernmental officials in 14 Federal agencies and to the ten FRCs, in addition to making internal distribution within OMB. Responses were received from seven agencies and seven FRCs (see enclosures).

Overall, the comments were supportive of GAO's basic conclusion that more careful administration is necessary in using the seed money approach. There were some definitional differences and several questions about certain GAO assumptions. Responses are discussed below:

Reactions to GAO Recommendations

There was general agreement with GAO's recommendation that the Congress should assure the seed money approach is appropriate for accomplishing intended program objectives. Moreover, there was concurrence that Congress should clarify, in program enabling legislation, the Federal funding intent and emphasize the need for cost assumption planning by recipients.

[See GAO note.]

While there was concurrence with the recommendation that Federal agencies should obtain clear initial agreement and understanding with recipients on the length of Federal funding, this agreement did not carry over to the amount of Federal funding. Federal agencies should

not be placed in a position that might coerce them into committing funds beyond a single appropriation cycle. Two respondents suggested that a trust fund concept might be explored if the seed money approach is to remain a viable funding alternative.

As we have mentioned to GAO and others in past communications, OMB does not impose, nor do we feel we have the authority to impose, direct requirements on A-95 clearinghouses or other non-Federal entities by means of OMB Circular No. A-95. The manner and content of clearinghouse reviews are within the discretion of those organizations, although OMB or individual Federal agencies have from time to time offered suggestions on types of comments that might be useful from the Federal standpoint. In this latter context, we will consider ways to work with the Federal agencies to provide appropriate information to applicants and clearinghouses on funding of seed money programs so that this information can be taken into account during project reviews.

#### Other Specific Concerns

As might be expected, there was some disagreement over what constitutes a Federal seed money program. HEW maintains that some of the programs on the GAO list are not seed money and should not have been included in the review. LEAA questions the seed money designation for its block grant program stating that its program is more complex, having multiple purposes (one respondent felt the report left the subtle impression that block grant and revenue sharing programs might be an appropriate substitute for seed money). Other respondents mentioned there are additional seed money programs experiencing similar problems, principally in the human service delivery area, that should have been included in the review.

Heavy reliance on project continuation rates as the primary measure of success was criticized. Program effectiveness and service delivery were suggested as other possible indicators. In this context, several respondents stressed the need for thorough evaluation using appropriate performance measures. One FRC suggested that if the evaluation so warranted, there be a provision to convert the program from seed money to a standard formula or project grant.

Somewhat arbitrary use of the terminology "worthwhile" project was also raised by a number of respondents. What is worthwhile to a Federal agency may not necessarily be worthwhile to a State or local government in the broader realm of all

program priorities. It was suggested that attempts by Federal agencies to use seed money to force social change or rearrange State/local priorities should be discouraged. It was felt that the Federal Government must collectively overcome its reluctance to accept State and local decisions by utilizing seed money programs to develop projects which are mutually acceptable to all parties impacted including the intended beneficiaries. The Federal Government should keep in mind that when a recipient decides not to pick up support for seed money programs it may not be a case of wanting to fund a series of higher priority programs but rather a conscious decision not to fund a low priority.

#### Concluding Observations

Clearly, the seed money approach should be retained for legitimate uses, e.g., to stimulate and encourage new or expanded services by reducing the burden when there are high startup costs. This intent should be specified at the outset by Congress in the program enabling legislation and by Federal agencies in published regulations, guidelines, and other documentation including program descriptions in the Catalog of Federal Domestic Assistance. The Federal Government will then be on record warning prospective applicants of the need to plan for future funding. Federal agencies should obtain clear initial agreement and understanding with recipients on the length (but not necessarily the amount) of Federal funding. Termination dates could be written into the grant agreement. Once established, these dates should be strictly enforced by Federal agencies.

Responsibility also rests with recipients in using seed money. They should maintain an open accounting of possible demands on future revenues after discontinuation of Federal funding. Recipients must take full responsibility for setting their own priorities and learn to resist undue special interest pressures to use available Federal seed money.

If properly used, the seed money approach represents a valuable opportunity to strengthen Federal/State/local relations. Seed money programs can be mutually beneficial to develop new and untested programs and to generate self-sustaining projects with significant amounts of State, local, and nonprofit funding.

We hope these comments will be helpful in finalizing this report.

Sincerely,



Wayne Granquist  
Associate Director for  
Management and Regulatory Policy

Enclosures

GAO note: Deleted comments refer to material contained in the draft report which has not been included in the final report.

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