

Managing the modern city is no easy task. As noted in Chapter 1, city officials are required to respond to a host of factors when making local policies. In fact, the assumption underlying systems theory is that government policies are a response to forces generated in the environment. Prominent among these environmental factors is *federalism*.

Federalism is as old as the Republic itself. The Framers were intent on creating a system of government in which the national government shared powers with state governments. Many at the Constitutional Convention would have it no other way. A strong federal government threatened the very rights and liberties the revolutionary Continental Army had just won from a monarch, King George III. At the founding of the Republic, many Americans viewed state governments as “laboratories of democracy;”¹ and they still do.²

What about cities? Where do they fit in the U.S. constitutional system? Cities as we know them today developed later in American history. For example, our large industrial cities were born, for the most part, between 1860 and 1920. In the past, as well as today, cities have no standing under the U.S. Constitution—they are wards of state governments. Nevertheless, the modern city is dependent *both* on a state government, from which its powers are derived, and on the federal government, from which much money is received. This chapter outlines the role of the city in the federal system, placing a special emphasis on intergovernmental relations. First, a brief discussion of federalism as a concept is required.

FEDERALISM

Any introductory American government textbook will provide a standard definition of the term “federalism” based on the concept of *shared power* between units of government. In the United States, the units of government defined in the Constitution are, of course, the national or federal government and the fifty state governments. In a world comprised of 196 independent nations, the United States is only one of about two dozen nations that use a federal system; others include Germany, Canada, Russia, India, and Australia. Most nations rely instead on a unitary system, wherein the national government is supreme (e.g., United Kingdom, Israel, Peru, and South Africa)

In the U.S. federal system, state governments are theoretically unitary governments. That is, all local governments (municipalities, towns, special districts, counties, and school districts) are creatures of the state governments. In the year 2012, the United States was made up of over 90,000 governmental jurisdictions—and more governments are being created every day. There is, of course, one federal government, fifty state governments, the District of Columbia, and a handful of U.S. territories. Local governments define the remaining tens of thousands of governmental jurisdictions, including counties (3,031), municipalities (19,519), towns and townships (16,360), independent school districts (12,880), and special districts (38,266).³ As noted above, local governments are the responsibility of state governments.

The nature of the relationships among units of government at the federal, state, and local levels has changed over time. Political scientists and public administration scholars have attempted to capture some of the complexity of changing relations among governments by using “cake” metaphors.⁴ For example, based on his review of the literature, longtime public administration expert Nicholas Henry serves up four types of federalism cake.⁵ First, we have “layer cake” or “dual federalism,” which dominated American politics from the founding of the Republic in 1789 to the Great Depression in 1930. The layers in this model represent the two levels of government, the federal government and state governments, as defined in the U.S. Constitution. For the most part, during this 140-year period the national and state governments, based on delegated and prohibited powers specified in the Constitution, operated independently within their own spheres of authority. If a dispute arose, the U.S. Supreme Court or a lower federal court acted as an umpire. The Civil War enhanced the position of the national government vis-à-vis state governments, but “dual federalism” worked well, as governments at all levels found themselves in an economic environment defined by Adam Smith’s *laissez-faire* philosophy. Then came the stock market crash of 1929.

Spurred by the ensuing depression and by the fiscal policies designed by President Franklin Delano Roosevelt (FDR) to address the economic crisis facing the nation (and the world), the second slice of federalism cake was served. FDR offered the nation “marble cake” or “cooperative federalism,” in which the layers between levels of government became much less distinct as the cake “sagged and whorled”⁶ into activities between federal, state, and local governments. This period marks the birth of intergovernmental relations (IGR), which William Anderson defines as “an important body of activities or interactions occurring between governmental units of all types and levels within the [United States] federal system.”⁷ The advent of IGR elevated local governments to a full-time, active partnership in federalism, since some of the programs FDR supported and Congress passed attempted to address unemployment at the local level. The federal government returned some of the money collected from the national government’s personal income tax to state and local governments via government programs. Similarly, state governments took a more active role in providing for

their legal offspring—local governments. A spirit of cooperation among all levels of government marked the federalism environment.

The third era of federalism, which has been labeled “pound cake” or “co-optive federalism,” is bounded by the election to the presidency of John F. Kennedy in 1960 and of Ronald Reagan in 1980. During this two-decade period, the number of specialized grant programs (generally called “categorical” grants) aimed at state and local governments grew exponentially, as did the dollar amounts flowing from the federal government to state and local governments. However, along with the money “cake” came the “pound”—programmatically rules, conditions-on-aid, and federal mandates that “pounded” state and local governments. Moreover, during this period, local problems became nationalized. The federal government took the lead in creating various grant programs to address such issues as legal aid for the poor, health care, urban redevelopment, environmental policy, employment programs, education, and so on. The weight of the national government (the top layer) of the cake seemed to crush the bottom layers (state and local governments) with rules and regulations. Many subnational governments screamed for regulatory relief and for greater control in the intergovernmental process. They believed that they were being co-opted, with money (grants-in-aid) serving as the tail that wagged the dog.

Under the banner of the “New Federalism,” in his second term President Richard Nixon offered some relief from this allegedly oppressive regulatory environment by offering grants to state and local governments with fewer strings attached. First came General Revenue Sharing (1972–1986) and then came special revenue sharing in the form of new block grants. To state and local officials, General Revenue Sharing (GRS) seemed like manna from heaven, for under this policy, the federal government returned to state governments (until 1980) and to local governments (until 1986) a portion of tax receipts based on a formula prescribed by Congress. Until GRS fell under the budget axe in the mid-1980s, this popular program allowed the subnational governments more say in how federal funds would be spent. The new block grants, called “special revenue sharing” under the New Federalism banner, also provided regulatory relief since they offered local governments more decision-making power than the previous categorical project grants had allowed.

Two of the most prominent of the new block grants were the Comprehensive Employment and Training Act of 1973 (CETA) and the Community Development Block Grant Act (CDBG) of 1974. And then along came President Ronald Reagan, to serve up his “crumble cake” federalism.

Under federalism Reagan-style, intergovernmental relations changed dramatically. Transfer payments (grants-in-aid) from the national to the state and local levels began to decline, or “crumble.” Driven by the “stagflation” of the late 1970s and by his own promise to get government “off the backs” of the people, President Reagan offered a New Federalism, in which the block grant became the centerpiece of his approach to federalism. For the most part, block grants took categorical project grants in a particular policy area

(such as employment or education) and "blocked" them together. Instead of federal agencies deciding which state and local governments received which grants, as had occurred with project categorical grants, federal dollars were now allocated to eligible subnational governments by means of formulas defined by Congress or by an administrative agency. In addition, with block grants, state and local governments had more decision-making power in determining how to spend federal largesse. In the first two years of his administration, Reagan combined seventy-seven categorical grants to create nine new or revised block grants and eliminated another sixty categorical grants altogether.⁸

In short, under Presidents Reagan and George H. W. Bush (1980–1992) cities found themselves in an IGR environment marked by "crumbling" support in terms of federal dollars, particularly in comparison to the boom years of the 1960s up until the late 1970s. This diminishing support also gave rise to the practice of "competitive" or "fend-for-yourself" federalism.⁹ Today, local governments must scramble for federal dollars in a very competitive intergovernmental environment. The rise in the number of block grants did enhance, however, state and local government officials' power in deciding what projects to fund with federal dollars. This *devolution* of power to state and local governments continued during President Clinton's second term, with the passage of a number of new block grants in the areas of health, education, and welfare.

What about federalism in the post-9/11 city during the George W. Bush administration? Because they are the first on the scene and all acts of terrorism are local (see box 2.1), "first responders" to emergencies—fire, police, and emergency medical service workers—benefited from the increasing number of federal dollars and programs to plan for and mitigate possible terrorist attacks. As the case study in box 2.1 suggests, this intergovernmental partnership for homeland security has experienced significant problems in operation. Federal grants-in-aid in other programmatic areas—such as loans and grants to small businesses and other industries that were damaged by the 9/11 terrorist attacks—also increased after 9/11. More specifically, in the three year period 2001–2003, grants-in-aid to state and local governments increased by double-digit amounts, by 11.4 percent, 10.8 percent, and 10.1 percent (8.7 percent, 8.9 percent, and 7.4 percent increases when measured in constant 2000 dollars). In contrast, in the last three years of the Bush administration (2006–2008), grants-in-aid to state and local governments increased by 1.4 percent, 2.2 percent, and 3.9 percent. Measured in constant 2000 dollars, these figures translate to –2.6 percent, –0.7 percent, and –1.1 percent. These latter percentages are similar in size to annual increases in federal grants-in-aid (measured in constant 2000 dollars) to state and local governments for the years 1996 (–1.0) and 1997 (0.9) during the Clinton administration.¹⁰ Nevertheless, during the George W. Bush administration federal grants to state and local governments did increase from \$318.5 billion in 2001 to \$461.3 billion in 2008, or \$142.8 billion.¹¹

Then came the Obama administration and P.L. 111-5, the American Recovery and Reinvestment Act of 2009 (ARRA).

"ALL ACTS OF TERRORISM ARE LOCAL . . ."

The title of this case study is a quote by Rep. John Tierney (D-Mass.) who completed his statement by saying, "so each of our communities must be fully prepared in crisis response and consequence management" (538). Since the terrorist attacks on September 11, 2001, the federal government, the level of government responsible for national security, has offered local governments, the locus of America's "first responders" to crisis events, a bevy of intergovernmental programs in the functional area of homeland security. In his article titled "Imperfect Federalism: The Intergovernmental Partnership for Homeland Security," urban politics expert Peter Eisinger argues that while the "war on terror requires a close, cooperative intergovernmental partnership," since 9/11 this partnership has been lacking in several ways (p. 537).

First, according to Professor Eisinger, at the moment of the tragedy in 2001 the national government was "no longer predisposed or well-positioned to lead and support a close intergovernmental partnership" with state and local governments (p. 537). Since the Reagan administration, the federal government had been "deaf to the fiscal crisis taking hold in the states and diffident toward the cities and their problems" (p. 537). State and local government officials' fears were confirmed when shortly after the attacks in New York City and Washington D.C., President George W. Bush established a Homeland Security Council in the Executive Office of the President without any representatives from the 50 states or over 35,000-plus cities and towns in America being invited to join the council. Moreover, as cities immediately began to develop security plans, Congress did not provide any financial assistance to help defray the development of emergency response plans until March of 2003, one and one-half years after the 9/11 attacks.

Second, once federal funds began to flow through various programs to state and local governments, a number of administrative, technical, and political issues plagued the intergovernmental partnership. For example, after 9/11, funds distributed to first-responders through the Firefighter Investment and Response Enhancement (FiRE) Act were doubled, but "critics complained that the administration of the program was plagued by bottle-necks and inflexibility and the funding was distributed inequitably" (p. 539). Authorized funds were slow to be released, funding caps meant that the "money available to any fire department was not primarily a function of the city's size or the level of threat the city faced," and some evidence points to partisanship in the distribution of grant funds (p. 539). An example of a technical administrative constraint on local governments was the requirement under the federal Cash Management Act of 1990 that "required cities that received federal funds to spend their own money for homeland security purposes and wait for federal reimbursement" (p. 540). Some cities simply did not have the cash to spend, while others had to wait months to be reimbursed for their homeland security fiscal outlay.

After passage of the PATRIOT Act in October 2001, new grant programs were passed to help cities prepare for and respond to acts of terrorism. Like the FiRE Act grants before them, "the new homeland security funds were allocated without reference to a national security plan" (p. 540). Also, like the previous FiRE Act grants, the PATRIOT Act required that the new grant monies should be broadly distributed and not necessarily targeted to those places most at risk or vulnerable to acts of terrorism. For instance, under the early State Homeland Security Grant Program (SHSGP) created by the PATRIOT Act, no state could receive less than 0.75 percent of the total funds appropriated in a fiscal year. The result was that low-population states like Wyoming, Vermont, Alaska, and North Dakota in 2005 received, respectively, \$18.23, \$15.28, \$14.99, and

(continued)

BOX 2.1 Policy and Practice (continued)

\$14.48 per capita, while the states of Texas, Florida, California, New York, Ohio, Pennsylvania, and Illinois all received less than \$3 per capita.

Finally, according to Eisinger, the federal government showed diffidence in its reluctance to advise local governments on how to prepare for a terrorist attack or what steps to take when the Department of Homeland Security raises the national alert level. The color-code system, introduced in March 2002, was raised from yellow to orange five times in the first two years without providing local government leaders specific information about triggering events. Some city officials even claim that they learn that the alert status has been raised not from the federal government, but from watching CNN or other news media (p. 541).

In conclusion, Eisinger points to subsequent changes in practices, processes, and fund allocation formula that have improved the intergovernmental partnership for homeland security. Nevertheless, he also notes, "Despite some progress toward a more rational public administration of homeland security, the partnership still reflects the deficiencies of imperfect federalism" (p. 537).

SOURCE: Peter Eisinger, "Imperfect Federalism: The Intergovernmental Partnership for Homeland Security," *Public Administration Review* 66 (July/August 2006): 537–545.

This national economic stimulus spending effort originally totaling \$787 billion was passed by Congress on February 13, 2009, and signed into law on February 17 by President Obama in Denver, Colorado, at the Museum of Nature and Science.¹² The law originally provided \$288 billion in tax benefits; \$275 billion in contracts, grants, and loans; and \$224 billion in entitlements. The total ARRA spending amount was changed in 2011 to \$840 billion to reflect President Obama's 2012 budget.¹³ As of December 31, 2013, \$816.3 billion had been spent under the law—with \$290.7 billion expended on tax benefits (e.g., \$236.2 billion going to individuals and \$32.6 billion going to business); \$261.2 billion spent on grants, contracts, and loans (e.g., \$94 billion going to education, \$33.8 for infrastructure, \$30.2 allocated for energy/environment); and \$264.4 billion for entitlements (e.g., \$105.7 billion for Medicaid and Medicare and \$61.3 billion for unemployment insurance programs).¹⁴

Most of the federal largess under the ARRA was sent to state and local governments in fiscal years 2009 and 2010. Federal outlays for federal grants to state and local governments increased from \$461.3 billion in FY 2008, the last year of the Bush administration, to \$537.9 billion in FY 2009 and \$608.4 billion in FY 2010.¹⁵ These numbers represent an almost 32 percent increase (\$141.1 billion) in federal funding to state and local government during the first two years of the Obama administration. With the drawing down of most ARRA funds by state and local governments by the end of FY 2010, grants-in-aid fell to \$606.7 billion in 2011, \$544.6 billion in 2012, \$546.2 billion in 2013, and \$576.9 billion in 2014. However, President Obama's estimated budget for fiscal year 2015 (\$628.1 billion) shows a projected \$51 billion dollar (8.8 percent) increase in federal outlays to state and local governments.

Robert Jay Dilger, a senior specialist at the Congressional Research Service, suggests that President Obama has neither “issued a formal federalism plan” nor formally advocated “a major shift in funding priorities from categorical grants to block grants” or vice versa.¹⁶ Dilger does note, however, that the Affordable Health Care Act did either authorize or amend 71 federal categorical grants to state and local governments, and thus enhanced the role of categorical grants in the intergovernmental system. The number of block grants has declined from 24 in 2009 to 21 in 2015 in the Obama administration, and the president has argued that the Preventive Health and Health Services Block Grant should be eliminated because it is duplicative with existing programs. In addition, the Obama administration “has advocated the consolidation of categorical grant programs in several functional areas as a means to reduce duplication and promote program efficiency.”¹⁷ But, instead of merging the programs and creating new block grants, the President favors adding the existing grants to other existing categorical grant programs.¹⁸ In short, rather than advocating an approach to distributing grants-in-aid (categorical or block), the Obama administration has focused on reducing duplication, promoting program¹⁹ efficiency, and targeting funds.

Having established a context for understanding the nature of federalism and identified the various eras through which federalism has evolved, let us turn our attention to a more complete understanding of the broad issues associated with intergovernmental relations in the modern city: fiscal federalism; state-local relations; mandates; and interlocal relations.

INTERGOVERNMENTAL RELATIONS

As longtime federalism expert Deil Wright so aptly reminded us in 1990: “The concept of federalism has two centuries of U.S. history, tradition, law, and practice behind it. The concept of IGR [intergovernmental relations] has a comparatively short half century [or so] of application to the American context.”²⁰ IGR is a process that involves interaction among the various levels of government—federal, state, and local. As suggested earlier, this interaction may take the form of cooperation or co-optation. State and/or local government officials may believe that they are getting “pounded” with rules, regulations, and mandates even as they are left to “fend for themselves” in an environment of, up until only recently in the first two years of the Obama administration, declining or “crumbling” federal largess. Perceptions may vary. The reality is that intergovernmental relations—the day-to-day process of city officials working *vertically* with state and federal officials and *horizontally* with local officials in other local government entities—represents a significant part of the modern city executive’s job. Similarly, the number of grants-in-aid programs and the dollars associated with the grants are substantial. In fact, IGR is sometimes called “fiscal federalism.”

FISCAL FEDERALISM

As we noted earlier, beginning in the late 1970s, federal aid to cities began to dwindle. During the 1980s and early 1990s, that decline accelerated, as state and local governments suffered cuts of unprecedented size under Ronald Reagan’s New Federalism, later supported by President George H. W. Bush. Beginning in 1992, the decline attenuated as

modest relief was granted under the Clinton administration and as a result of President George W. Bush's response to 9/11. Stimulus dollars under the Obama administration were a godsend as cities attempted to balance budgets in tough economic times during and after the "Great Recession" of 2007–2009, but the long-term ability of the national government to provide stimulus funds to state and local governments is in question, given the current \$18.3 trillion national debt. The bottom line is that compared to the "fat years" of the 1960s and 1970s, the intergovernmental environment since 1980 has been marked by the slogan "do more for less." Not only have the dollars going directly to cities dried up, but many programs have also been cut. In fact, although some critics claim that government programs never die, in the 1980s cities lost two popular and visible urban aid programs, General Revenue Sharing and Urban Development Action Grants. On September 30, 1996, even the thirty-seven-year-old Advisory Commission on Intergovernmental Relations (ACIR) closed its doors and was consigned to the so-called CyberCemetery.²¹

Some observers, who thought cities had become overly dependent on federal funds, viewed this profound change in the relationship between the national government and the cities as overdue and basically healthy. Yet the cities' newly found independence came at a price. Most cities did cut services—a step that often fell hardest on low- and moderate-income families. And to make up for lost revenue, cities tended to turn to more regressive measures, such as increased fees and charges, that again have adversely affected the economically disadvantaged. Despite all these changes, important federal urban aid programs remain, and both the number of grant programs and the dollars appropriated for various grants have increased during the Obama presidency. We next review the nature and characteristics of key federal programs designed explicitly to assist municipalities.

Federal Grant Programs

Federal grants are a mixed blessing. All cities can use outside funding, but the federal government rarely provides money without attaching guidelines for its spending. In fact, local officials frequently object to what they feel are excessive restrictions accompanying federal grants. About forty years ago, a member of the Oakland, California, city manager's staff complained:

The strings attached to most federal programs cause all kinds of trouble. For instance, there was a big build-up last year on a new jobs program, with a lot of publicity which raised a lot of hopes. But there were so many restrictions attached the program couldn't do what we had hoped it would. Sometimes there are so many strings that it's hard even to spend the money.²²

Some things never change! In April 2004, for example, James A. Garner, mayor of Hempstead, New York, and president of the U.S. Conference of Mayors, lamented the lack of homeland security funds reaching the local level to help defray the cost borne by local governments to implement the color-coded federal alert system.²³ When the alert is

raised from yellow to orange, local governments must stiffen protection of key infrastructure sites. Local officials view this federal alert system as an unfunded mandate that costs American cities hundreds of millions of dollars to implement. Cities are not getting the homeland security funds promised them by the federal government because the dollars are "stuck" at the state level as funding allocation "strings" are untangled. Or, as Mayor Garner notes: "Homeland security money went to the states by Federal Express, but came to the cities by Pony Express."

Why do local officials play the intergovernmental game? The answer is that they simply cannot afford not to—the stakes are too high. When John F. Kennedy was inaugurated as president in 1961, about 45 separate grant programs existed. When Richard Nixon took office just eight years later—following Lyndon Johnson's Great Society initiative—the number of programs had grown to 400! By 1981, that number had risen to about 540, but it then fell to 400 by 1986 under Ronald Reagan. Then the number of grant programs rose again, to 478 in 1989 under George H. W. Bush and to 660 in 2000 under Bill Clinton.²⁴ In 2006, under George W. Bush, there were about 814 grants-in-aid programs.²⁵ In 2010, the federal government's grants portal "Grants.gov" showed the availability of over 1,000 grants distributed by 26 different agencies worth over \$500 billion.²⁶ Four years later, the number of federal grants-in-aid is estimated to be 1,099 (1,078 categorical grants and 21 block grants).²⁷

In terms of dollars, federal grants-in-aid to state and local governments accounted for about \$7 billion in 1960; the amount approached \$24 billion by 1970, grew to \$91 billion by 1980, and reached \$135 billion in 1990.²⁸ In 2000, the federal grant program had risen to almost \$300 billion,²⁹ and in fiscal year 2010 the dollar amount peaked at \$608.4 billion, as noted above, as Congress approved President Obama's almost \$800 billion dollar stimulus package to help America battle the "Great Recession."³⁰ Although grants-in-aid declined in the next four fiscal years to reach \$576.9 billion in FY 2014, the federal outlays in 2015 were estimated to be \$628.1 billion—an all-time high.³¹ As a percentage of federal government outlays, grants grew from 7.6 percent in 1960 to 15.9 percent in 2000,³² reached an all-time high at 17.6 percent in 2010, and fell to 16.5 percent in 2014.³³

Not all federal money comes packaged in the same way or with the same restrictions. Federal aid can be classified either by how the money is distributed or by how the recipient spends the money. Federal funds are distributed in three ways:

1. *Formula grants* provide funds to local governments automatically on the basis of an administratively or legislatively prescribed formula. In 2011, about 13 percent of federal grant programs were formula grants.³⁴ This approach to distributing federal dollars has grown in popularity: in fiscal year 1975, about two-thirds of federal grants-in-aid were distributed by using a formula, but by fiscal year 2000, the percentage had grown to 85 percent.³⁵
2. *Project or discretionary grants* are awarded competitively—that is, at the discretion of the granting agency—and must be applied for by the recipient government.

Project grants are the most numerous type of grant-in-aid, accounting for about 86 percent of all grants in 2011.³⁶

3. *Formula/project grants* are distributed based on a formula, but at the discretion of agency officials. Formula/project grants are not very numerous and represent only about two percent of all federal grants.³⁷

When considered from the viewpoint of how local governments can spend the money, federal grants take two forms:

1. *Categorical grants* may be spent only for narrowly defined purposes. Often recipient governments must match a portion of the federal funds. About four-fifths of the money that state and local governments receive from the federal government is in the form of categorical grants.³⁸
2. *Block grants* combine several related categorical grants in the same functional area or grants-in-aid in related functional areas into a single grant program (e.g., community development, social services, law enforcement). All twenty-one currently funded block grants are distributed based on a formula. Although the federal government provides direction in spending, historically, the recipients of block grants have enjoyed considerable leeway in shifting money around within a broadly defined area. Block grants have never totaled more than 20 percent of federal aid to state and local governments.³⁹

Most of the criticism of federal financial assistance is directed at categorical grants (which represents about 98 percent of all federal grant programs—1,078 of the 1,099 grants in 2014),⁴⁰ especially categorical project grants. From an urban management perspective, as the number of grants multiplied exponentially in the 1960s, the list of complaints grew about such problems as overlap, duplication, excessive categorization, insufficient information, varying matching and administrative requirements, arbitrary federal middle-management decisions, and grantsmanship—the art of writing successful proposals. In addition, grants must be applied for (constantly it seems), implemented, and evaluated; many grants require citizen participation and other conditions-of-aid that must be met and managed. But the money is welcome, even with strings attached; cities scramble for the newly available federal dollars.

Beyond the immediate financial relief they provide for hard-pressed cities, categorical grants can be defended from an economic point of view. Many governmental activities provide benefits, called *spillover effects*, for those who do not live within the boundaries of the government providing the service. Education, pollution prevention, parks, and recreation services are just a few examples. Local voters, to the extent that they recognize the situation, may be reluctant to fund activities that offer advantages to people who do not pay for the service. Categorical grants allow the federal government to support local programs that produce large external benefits.⁴¹

Despite the continued existence of a host of categorical federal programs, considerable change has taken place in federal urban aid in recent years. First, more and more, federal grants provide funds to *individuals* rather than to state and local government programs in areas such as education, transportation, or community development. In 2015, for example, 71.5 percent of the estimated \$628.1 billion total federal outlays to state and local governments went to individuals for health programs (\$354 billion) and income security (\$105 billion).⁴² Health programs alone accounted for a whopping 56.4 percent of all federal outlays in 2015; and federal Medicaid dollars represented \$333.1 billion or 94 percent of all health payments to individuals. In 1980, only 36 percent of federal grant dollars went to people instead of programs, in 1990 the figure was 57.2 percent.⁴³ Second, the use of block grants has provided cities with more flexibility and latitude to spend the federal funds they do receive. Block grants—especially the Community Development Block Grant (CDBG)—are popular among local officials. In the words of William Althaus, mayor of York, Pennsylvania, CDBG is “our last little baby.”⁴⁴

The Housing and Community Development Act of 1974

The passage of the Housing and Community Development Act in 1974 (Public Law 93-383) is often viewed as a significant development in federal support for cities. Originally authorized as a three-year program with an \$11.3 billion budget, the act consolidated a number of categorical urban development programs—Model Cities, urban renewal, neighborhood facilities, open-space land, public-facility loans, water and sewer facilities, and code enforcement—into the Community Development Block Grant (CDBG). Eligible activities for funding had to (1) benefit low- and moderate-income persons, (2) aid the prevention or elimination of slums and blight, or (3) meet other urgent development needs that the jurisdiction is not able to fund on its own. Regardless of the principal focus, at least 70 percent of the grant funds received in a one-, two-, or three-year period had to benefit low- to moderate-income persons.⁴⁵

All *cities* with populations of 50,000 or more and *urban counties* with at least 200,000 residents—or about 1,209 jurisdictions—were automatically eligible for funds. Originally, the formula for grant distribution considered a community's population, the number of persons living in poverty, the extent of overcrowded housing, and the amount of housing built before 1940. Later, entitlements were calculated by means of two formulas, and the metropolitan city or urban county received the greater of the amounts calculated. The three factors and their weights for the first formula were: population (.25), extent of poverty (.50), and overcrowded housing (.25). The second formula also includes three factors, including growth lag (the lag in population growth from 1960 to the present), poverty, and age of housing, weighted at .20, .30, and .50, respectively. For fiscal year 2015, funding for this part of the program was \$2.1 billion.⁴⁶ Table 2.1, shows fiscal year 2015 CDBG funding for entitlement cities and counties in Oklahoma. The last column of the table also shows the state administered nonentitlement program, which is explained next.

Table 2.1 Fiscal Year 2015 CDBG Entitlement and Nonentitlement Allocations for Oklahoma Cities and Urban Counties

Entitlement Oklahoma Cities and Counties		
Edmond	OK	\$386,354
Enid	OK	\$399,384
Lawton	OK	\$636,500
Midwest City	OK	\$363,108
Moore City	OK	\$313,382
Norman	OK	\$744,314
Oklahoma City	OK	\$4,321,121
Shawnee	OK	\$279,240
Tulsa	OK	\$3,152,716
Tulsa County	OK	\$1,137,611
Oklahoma Nonentitlement Allocation		
	OK	\$12,656,192

SOURCE: U.S. Department of Housing and Urban Development, "Community Planning and Development Program Formula Allocations for FY 2015," http://portal.hud.gov/hudportal/HUD?src=/program_offices/comm_planning/about/budget/budget15.

In addition to the entitlement program, beginning in 1981 Congress amended the original CDBG act to allow state governments, instead of officials in the Department of Housing and Urban Development (HUD), the opportunity to administer the nonentitlement or discretionary funding portion of the CDBG program. Cities with populations under 50,000 and counties with 200,000 or fewer residents could receive grants based on funding priorities and award criteria established by *state governments*. The funding under this part of the CDBG program is not an entitlement, for the state governments have discretion in choosing grant recipients. Small cities and counties are not required to match grant funds with local funds in order to be eligible for these CDBG funds. As in the entitlement program, however, states must ensure that "maximum feasibility priority" goes to funding programs that benefit low- to moderate-income persons and that prevent or eliminate slums or blight. Funds are allocated to each state government using the same method as described earlier for entitlement cities and counties: whichever of the two formulas provides the greater amount of funding is used. The FY 2015 funding for the nonentitlement state-administered portion of the CDBG program is about \$898 million. Finally, about \$7 million and \$66 million in CDBG funds are set aside, respectively, for Insular Areas (American Samoa, Northern Mariana Islands, Guam, and the U.S. Virgin Islands)⁴⁷ and for Native Americans.⁴⁸

The CDBG program, and especially the entitlement portion, is immensely popular with local officials. In fact, the program is so popular that in March of 2014 at the U.S.