

# Federal Grant Funds Received by the State



**ISSUE  
MEMORANDUM  
2019-xx**

## Introduction

At the national level, grants and assistance to other entities make up a significant portion of the overall federal budget. Normal uses are focused on taking care of people, income security, highway infrastructure or transportation, education, training, social services, community and regional development, national security, and many other categories that are appropriated by the federal government.

The federal government distributed about 700 billion (17% of its budget) to states and localities each year. In 2017, about 65% of the federal funds were dedicated to health care.

This memorandum will provide an overview of federal funds that come to South Dakota, the impact that federal funds have had on the state budget, the process by which they are awarded to the state, the current legislative oversight process, and examples of federal fund oversight from other states.

## Federal Funding Levels in South Dakota

According to an analysis completed by the Federal Funds Information for States (FFIS), in Federal Fiscal Year 2018, total grants for South Dakota were approximately \$1,755 per capita. Total grants awarded came to approximately \$1.5 billion. Medicaid accounted for \$637 million or 36% of the federal funding awarded, while the remaining \$1.11 billion was used for services such as Social Services (\$244 million), Transportation (\$405 million), Education (\$240 million), Health (\$120 million), and other services (\$126 million).

The numbers above include funding that was awarded to the state, local governments, and non-governmental entities.

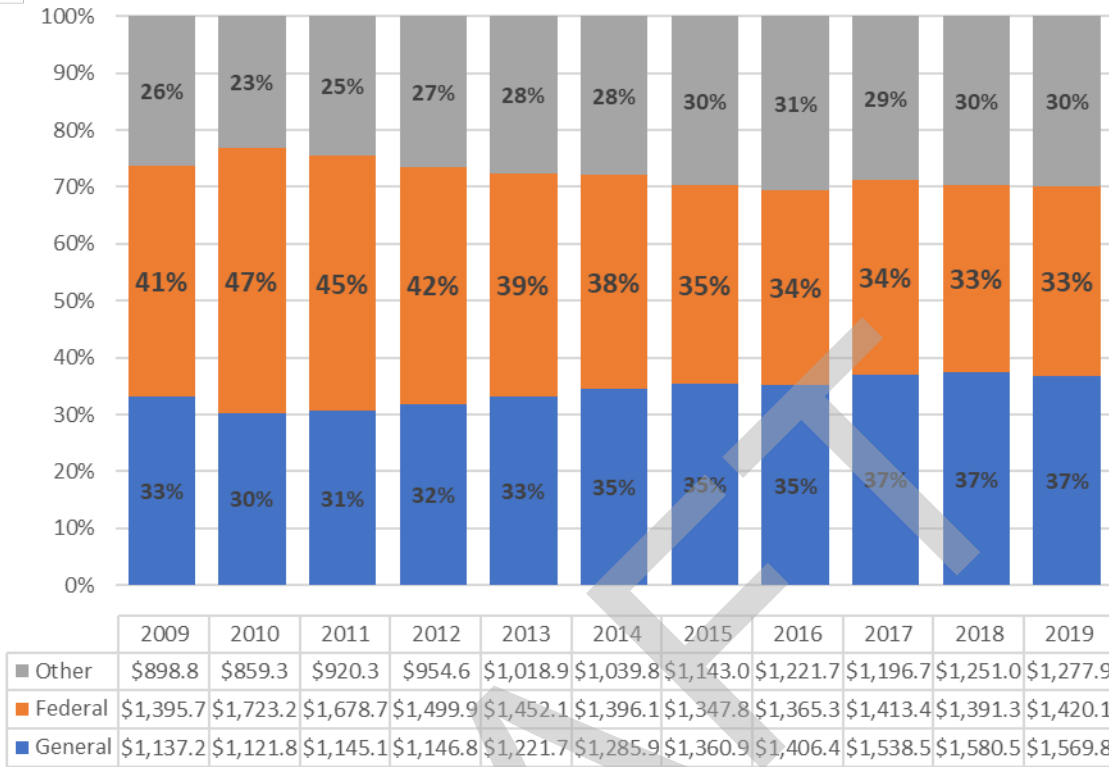
## Impact of Federal Funding to the South Dakota State Budget

The State of South Dakota relies on General, Federal, and Other types of funding to operate and provide the services to citizens, not unlike other states. General Funds are revenues generated by the state with the primary revenue source being sales and use tax in the state of South Dakota. Federal funding comes in the form of grants and other assistance from the federal government. Other funding sources can be generated by the assessment of special fees, non-federal grants, and internal service billings, to name a few.

Federal funding made up 33% of the expenditures for the State of South Dakota in FY 2019. The share of expenditures from federal funding in FY 2009 was 41%. Generally, expenditures for federal funds as a percent of total expenditures has slowly decreased over the last 10 years.

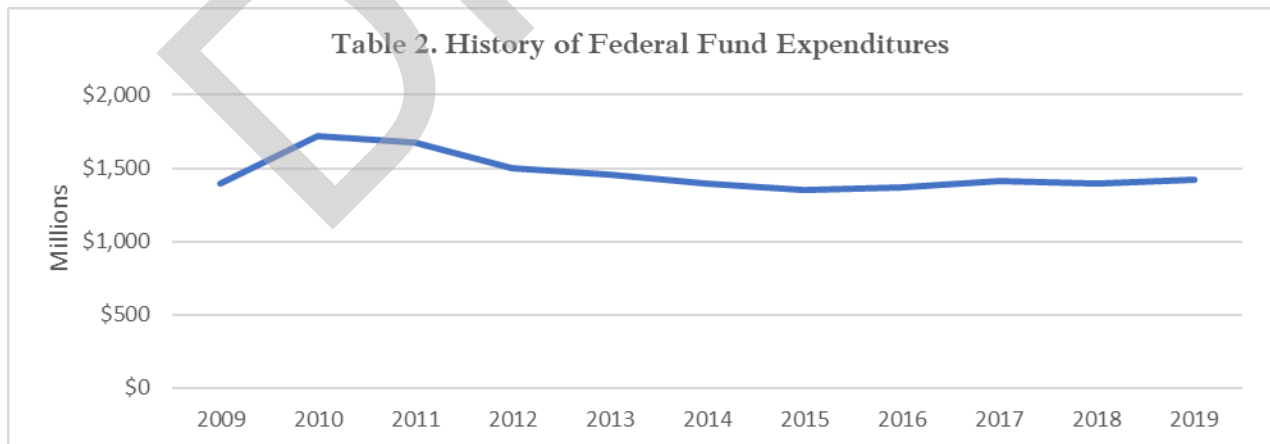
Table 1 provides the history of general fund, federal fund, other fund expenditures as a percentage of overall state expenditures for the past 10 state fiscal years.

Table 1. State Expenditures by Funding Type



In terms of actual dollars spent, federal funding levels have remained relatively consistent over the past ten years. An exception is State Fiscal Year 2010 when the federal government passed the American Recovery and Reinvestment Act of 2009. This was an economic stimulus bill created to help the US economy recover from the economic downturn that began in late 2007. A majority of these funds were spent in FY 2010 through FY 2012.

Table 2 provides a 10-year history of federal fund expenditures for South Dakota state agencies.

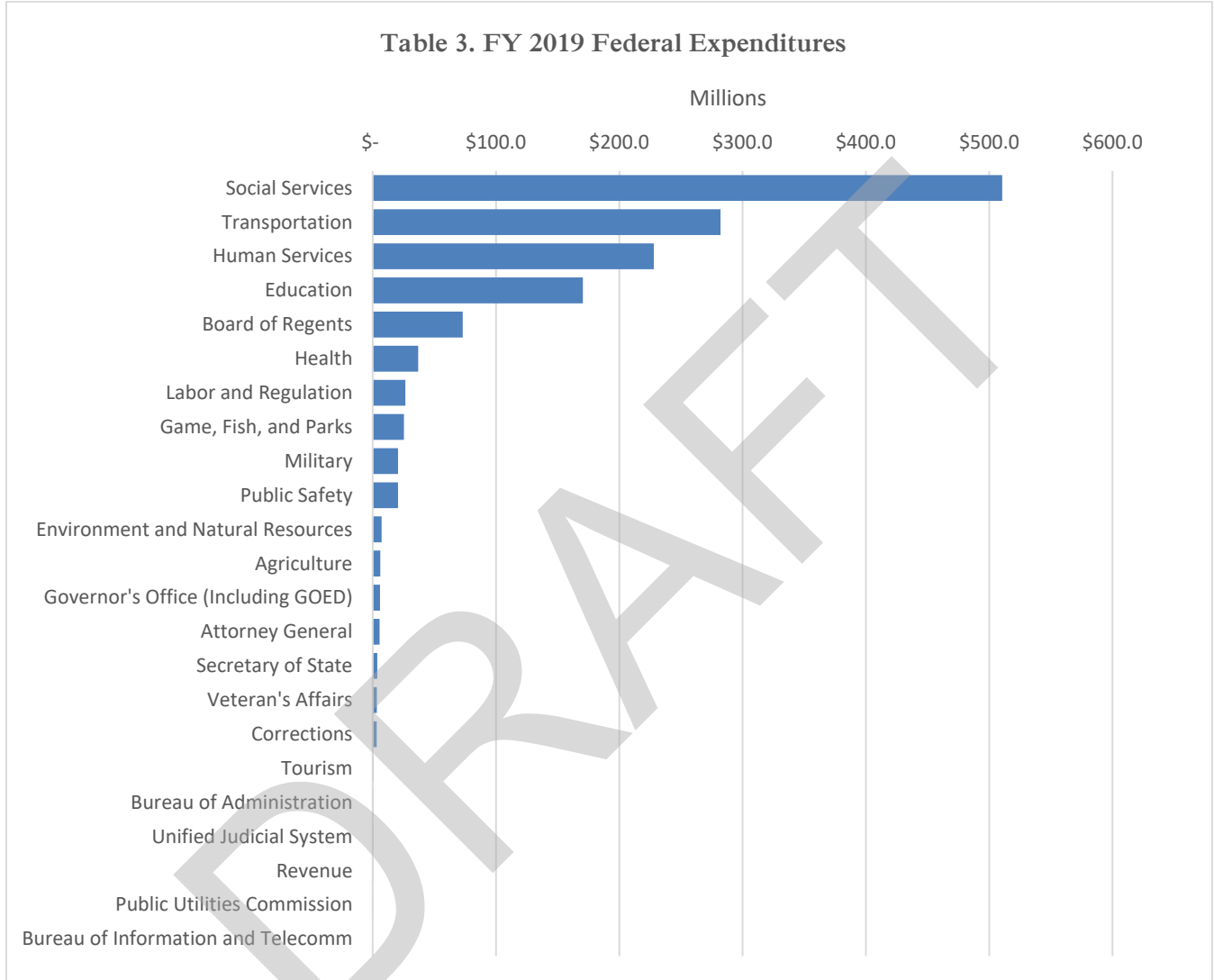


Similar to the federal level, 88.3% of federal fund expenditures at the state level occur within 5 agencies. The agency with the largest share of federal expenditures is the Department of Social Services, accounting for 35.7% of total federal fund expenditures in FY 2019. The Department of Transportation accounted for 19.7% of total



federal expenditures in FY 2019, followed by the Department of Human Services at 15.9%, the Department of Education at 11.9%, and the Board of Regents at 5.1%. The remaining 11.7% is spread across 18 other state agencies.

Table 3 provides a comparison of FY 2019 federal fund expenditures by agency.



Another impact that federal programs can have on the state budget comes in the form of matching or maintenance of effort requirements. In some cases, grants may require the state to contribute a matching share of funding, or require the state to continue to provide funding at a set dollar amount (maintenance-of-effort), in order to receive federal funding. An example of this would be the Federal Medical Assistance Percentage (FMAP). Other examples of match and maintenance of effort requirements can be found in the federal funds survey conducted by LRC and discussed later in this issue memo.

**Types of Federal Grants**

There are two main types of federal grants, categorical grants and block grants. Categorical grants are restricted to a narrow purpose. Examples would include Supplemental Nutrition programs for Women, Infants, and



Children, also known as WIC. Block grants are not project specific and provide more latitude in meeting program objectives, such as the Temporary Assistance for Needy Families (TANF) and the Community Development Block Grant (CDBG).

Categorical grants can be awarded through a formula or on a competitive basis. Formula grants are non-competitive grants based on a predetermined formula. The formula is set into law and linked to certain factors, such as the number of highway miles, school-aged children, or low-income families. One of the most commonly known types of formula funding is Medicaid. Per federal regulations, there is an open-ended formula through which the federal government provides matching funding, known as the FMAP, to states for activities that fall within Medicaid coverage. Other examples of formula grants that are awarded to the State of South Dakota include Highway Planning and Construction grants, the National School Lunch Program, and Special Education Grants to States (IDEA Part B). The majority of grants received by the state of South Dakota come in the form of formula grants. Unlike competitive grants, formula grants do not involve a competitive application process. As long as regulations are followed and services are provided in compliance, the state continues to receive funding from the grant.

Competitive grants are not awarded through a formula. Instead, the funds are awarded through a competitive application process using criteria established by the program. Entities complete a grant application based on timelines and criteria set up by the federal agency. Typically, the time for completing an application is 90 days, but can be as short as 15 days. The process includes developing a detailed explanation of the project or program the funding will be used for, conducting research to support the need for the project, communicating with other entities involved with the project, writing the grant proposal, and completion of other forms and documents as required by the grant application. Items such as letters of support from entities that the grant will impact may also be required.

Upon submission of applications, the federal agency awarding the grant reviews and assesses the quality of the grant applications. The review process will vary by federal agency and even by program. After a review of all of the applications, the federal agency selects the awardees based on the criteria outlined in the grant application. Furthermore, unlike formula grants which are available as long as the federal legislation is in place and grant requirements are met, competitive grants will have a limited timeframe for the project to be completed and the funds to be expended.

### **Legislative Oversight of Federal Funds in South Dakota**

Decisions regarding applications for federal funds takes place largely at the agency level. Grant opportunities that benefit the state are identified and pursued based on processes established by each agency. Legislative oversight of federal funding in South Dakota occurs mostly during the budgeting process.

As part of the annual budget process, agencies analyze existing, new, and anticipated grants for the current and upcoming fiscal year. Based on the available information, the agency will determine whether the overall budgeted federal funding authority level needs to increase or decrease. Many factors must be considered such as funding availability and duration of specific grant awards. Many grants can run on a multi-year basis with specific requirements and varying end dates for each grant.

Based on this analysis, the agency develops a budget request for its federal fund expenditure authority level which is submitted to the Bureau of Finance and Management and the Governor for review. By November 1 of each year, copies of the agency budget requests are provided to the Legislative Research Council for review and analysis. On the first Tuesday of December, the Governor presents a financial plan for the upcoming fiscal year to the Legislature.



The South Dakota Legislature holds session annually beginning in early January and running for up to 40 days. During this time, the Joint Committee on Appropriations holds hearings for each agency to present the Governor's budget in detail. The committee has the opportunity to ask questions and request additional information on all aspects of the agency's budget.

Based on information gathered, decisions are made on levels of funding to include in the General Appropriations Act. The General Appropriations Act authorizes levels of federal funding authority available for the agency to expend but does not approve or authorize specific federal programs.

### Examples of Legislative Oversight of Federal Funds in Other States

According to the National Conference of State Legislatures, states such as Delaware, Texas, and Utah have implemented specific processes for agencies to follow when they apply for federal funds.

**Delaware** has created a Clearing Committee that is notified whenever state agency applications are submitted for both federal and non-federal funds. The requesting agency fills out an application and submits it the Office of Management and Budget, which is under the oversight of the Governor. After approval by the Office of Management and Budget the application is forwarded to the Clearing Committee. While the application process includes grants that are received continuously through a formula grant, generally they do not need to have anyone testify to the committee.

The Clearing Committee holds informal monthly meetings to review grant applications it receives. Depending on the time of year, the committee may have 1-20 applications to review. Nearly all applications are approved, although some questions are raised if an award will have an impact on the General Fund.

**Texas** has a Legislative Budget Board (LBB). Agencies are required to notify the board of any new federal awards in order to receive a required Catalog of Federal Domestic Assistance (CFDA) designation. For federal funds in excess of \$10 million above appropriated levels, agencies are required to notify the LBB, the Governor, the Comptroller, and the Chair of the House Select Committee on State and Federal Power and Responsibility of the amount of federal funding and the proposed use of those funds.

**Utah** requires agencies to submit a master federal funds request summary with the annual budget submission. A copy of the agency federal funds request summary is provided to the legislative appropriations subcommittee responsible for that agency's budget review during each annual general session. The legislative appropriations subcommittee will make a recommendation on whether the agency should participate or not participate in the federal program for the fiscal year under consideration. The Legislative Executive Appropriations Committee reviews the recommendation of the subcommittees and determines whether or not the agency should be authorized to accept the federal funds or participate in the federal program.

After the legislative session ends, and during the interim, agencies are required to submit all grants to a centralized approval system through the Governor's Office of Management and Budget (GOMB) when the agency applies for the grant or before funding is received. The GOMB reports any new federal fund requests that are approved to the Legislative Executive Appropriations Committee, the Office of the Legislative Fiscal Analyst, and the Office of Legislative Research and General Counsel.



## Examples of Programs Started with Federal Funding and Now Supported with General Funds:

At times, federal grants used by an agency to begin a new program will have a limited time period, or funding levels will be reduced. In these instances, those programs may need to be supported with general funds or other funding authority to keep the program or service in place.

In a September of 2019 federal fund survey conducted by LRC, agencies were asked to identify programs that were federally funded but now use general funds to continue the program or activity. While the data in the survey was for the past two fiscal years, agencies were asked to identify any additional programs over the past five years where federal funding was reduced or eliminated, and general funds were used to continue the program or activity. The following instances were found in the Department of Agriculture (DOA), the Department of Education (DOE), and the Department of Corrections (DOC).

**Plant and Animal Disease, Pest Control, and Animal Care (DOA)** - Due to a reduction in federal funds, \$35,000 in general funds was used to offset annual program cost. Total expenditures for the grant in FY 2018 totaled \$150,308.

**State Mediation Grants (DOA)** - Due to a reduction in federal funds, this mandatory program had a shortfall of \$48,300 and a new funding source has yet to be identified. Total expenditures for the grant in FY 2018 totaled \$122,215.

**Cooperative Forestry Assistance (DOA)** - Due to a reduction in federal funds, in FY 2018 the Legislature appropriated \$181,480 in ongoing general funds. Total expenditures for the grant in FY 2018 totaled \$3,012,562.

**Performance Partnership Grants (DOA)** - Due to a reduction in federal funds \$100,000 in general funds was used to offset the shortfall. Total expenditures for the grant in FY 2018 totaled \$499,322.

**Statewide Longitudinal Data Systems (DOE)** - Due to the completion of a 5-year Federal grant, \$624,770 in general funds were used to continue the project.

**Byrne Grant (DOC)** – Due to reductions in the availability of Byrne Grant dollars from the Department of Public Safety (DPS), the legislature approved \$72,422 in general funds to continue the DOC PREP program for inmates becoming eligible for release. An additional \$66,324 in general funds was also approved to continue funding of a Restrictive Housing Cultural Mentor at the state penitentiary.

## Federal Program Survey

In September of 2019, LRC sent out a survey to state agencies requesting information on federal programs based on information reported in the Schedule of Expenditures of Federal Awards (SEFA) for state fiscal years 2018 and 2019. The information from the SEFA included:

- **CFDA#:** The Catalog of Federal and Domestic Assistance (CFDA) number. The CFDA is a list of all federal assistance programs available. It provides general information about the assistance such as program objectives and eligibility requirements.
- **Contract Number:** For funding awarded through a federal contract
- **Name of Federal Program:** The name the federal program is commonly known as.
- **State Department:** The department or agency within the State of South Dakota the funding was awarded to.
- **Funding Source Code:** The code used on the state accounting system to track the funding.



- **Cash Expenditures in FY 2018:** Expenditures from the federal award for state fiscal year 2018 using a cash basis of accounting.
- **Cash Expenditure in FY 2019:** Expenditures from the federal award for state fiscal year 2019 using a cash basis of accounting.
- **Amount Passed Through to Subrecipients in FY 2019:** the amount of funding awarded to subrecipients in state fiscal year 2019

In addition, agencies were asked to reply to the following questions:

- **Grant Type:** Agencies were asked to indicate if the funding was received through a formula grant, a project (competitive) grant, a block grant, or another method of funding.
- **If Project, what is the project period?:** If the funds were received as part of a project (competitive) grant, what was the period of the funding availability?
- **If "Other" please explain:** If agencies indicated that the Grant Type was "Other" they were asked to explain the other type of funding. An example would be student aid.
- **If the grant has ended, or the award amount has been reduced, have General or Other funds been used to continue the program?:** If funding for the grant has been reduced or eliminated, agencies were asked to indicate if other state funding has been used to continue the program.
- **If General or Other funds have been used to continue the program, what was the amount? Please identify by fund type.:** If the answer was yes to the previous question, agencies were asked to identify the type of funding used to continue the program.
- **Match of Maintenance of Effort Requirements:** If the program requires the state to provide matching funds, or has a maintenance of effort requirement, the agency was asked to explain the requirements.
- **If funds are passed through to subrecipients who are the subrecipients? For example: Cities, Counties, School Districts, Fire Departments, Students, Individuals:** If the funds were subawarded to other entities, agencies were asked to identify the types of entities the funds were subawarded to.

In addition, agencies were asked to identify federal programs that had ended in the past five years that did not appear on the list. Those programs are highlighted in yellow. The complete results of the survey can be found at <http://sdlegislature.gov/>

## Conclusion

Federal funds make up approximately one-third of state expenditures. This is lower than ten years ago when federal grants were 41% of total state expenditures. In looking at amount of federal funds expended, the amount has remained relatively flat. Overall, the amount of federal funds expended from FY 2009 to FY 2019 has increased by 1.7%.

Federal funds can come to the state in different forms. However, a majority of the grants that come to the state are formula grants. Medicaid makes up the largest portion of federal funds in South Dakota. Very few grants that have ended in the last five years have been replaced with state funds.



The legislature makes decisions on federal funding authority levels through the budget process. During the legislative session, the Joint Committee on Appropriations has the opportunity to ask agencies questions regarding their budgets, including questions regarding federal funding. However, there is no formal oversight process. Other states have implemented more formalized processes that could be explored as options if the Legislature wishes to impose more oversight.

DRAFT

This issue memorandum was written by Tamara Darnall, Chief Fiscal and Program Analyst, on November 18, 2019, for the Legislative Research Council. It is designed to provide background information on the subject and is not a policy statement made by the Legislative Research Council.

