Factors Determining California's Share of Federal Formula Grants

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Overview

To accomplish most of its policy objectives, Congress mandates that federal government agencies undertake specific functions, from national defense to trade negotiations. However, Congress also enlists the assistance of other entities through formula grants when programs are best administered at the state or local level. Through these grants, state and local governments are currently funded to implement federal policies in such areas as health, transportation, housing, agriculture, education, and law enforcement.

In fiscal year 2001, the federal government distributed $284 billion through 158 formula grant programs; California received $34 billion or roughly 12 percent of those funds. In the first of an ongoing series of reports examining federal funding formulas and California, this report describes the major factors used by federal formula grant programs to allocate funds and describes how California's share of programs varies by the factors employed.

A companion document illustrates California's current and historical shares of roughly 160 major federal grants. Future reports will provide objective, in-depth information on the mechanics and operation of funding formulas within individual programs, beginning with welfare funding through the Temporary Assistance for Needy Families (TANF) program. Ultimately, this series is intended to add depth and detail to our understanding of federal funding formulas—which allocate one-sixth of the federal budget—and their effect on policymaking in California.

Federal Formula Grants

Formula grants (sometimes block or categorical grants) differ from other federal grants in that they employ a predetermined mathematical construct to accomplish distributive goals. Unlike discretionary or project grants (which are

allotted on a competitive basis by a federal agency) and congressional earmarks (through which a specific recipient or program receives funding), formulas are generally employed to allocate funds on an ongoing basis.

Allocation formulas are typically prescribed in statutory language, although Congress sometimes leaves decisions regarding specific details—and occasionally the entire formula design—to the implementing agency.

Congress often distributes formula funding as block grants, which typically allocate a specified sum or percentage of total funds to a state or local entity by formula and often allow flexibility in implementation. An alternative approach is the matching grant, which may contain similar elements but requires state or local expenditure of funds before federal funds are provided as a match. The open-ended Medicaid entitlement program functions in this manner, with federal funds reimbursing state-reported expenditures at rates that vary depending on formula statistics.

Top Ten Federal Formula Grant Programs

(ranked by total federal expenditures in fiscal year 2001)

1. Grants to States for Medicaid
2. Highway Planning and Construction
3. Temporary Assistance for Needy Families—Family Assistance Grants
4. Title I Grants to Local Educational Agencies
5. Head Start
6. National School Lunch Program
7. Special Education—Grants to States
8. Foster Care—Title IV-E
9. State Children's Health Insurance Program (SCHIP)
10. Special Supplemental Nutrition Program for Women, Infants, and Children (WIC)

Formula Factors

Some federal programs distribute funding according to simple census figures; others employ more complex factors, such as total number of vehicle miles traveled or number of children in families at or below 130 percent of the poverty level established by the federal government. The following is a brief discussion of some of the most common factors employed when distributing federal funding through formula grants and how the factors operate with respect to California, with some factors working to the state's advantage and others to its disadvantage. Future reports in this series will discuss formulas used to determine funding levels in specific federal grant programs.

In some formulas, convoluted mechanisms achieve deliberate results. The Low-Income Home Energy Assistance Program formula favors "heating days" over "cooling days" by squaring the number of heating days to skew funding toward colder Northeastern states and away from warmer Southwestern states. One component of the Community Development Block Grant formula allocates funds on the basis of population loss and the stock of "pre-1940 housing," which naturally favors older Northeastern and Midwestern states, whereas an alternative calculation emphasizing poverty and overcrowding results in California receiving 16 percent of total funds.

Population

A few formulas, such as the Social Services Block Grant (SSBG), distribute funding based solely on overall state population. As the crudest benchmark for examining alternative formula allocations and federal fund distributions generally, California's population on April 1, 2000, was 33,872,000, representing approximately 12 percent of the U.S. population.[1] (The primary source for population data used in this report is the U.S. Census Bureau.[2]) Despite a dramatic slowdown in the 1990s, population growth in California outpaced

[1]U.S. Census Bureau, *Statistical Abstract of the United States: 2001,* Table 18; and U.S. Census Bureau, *Population Change and Distribution: 1990 to 2000,* Census 2000 Brief, C2KBR/01-2, April 2001.

[2]There may be some variation with statistics produced by other entities, such as the California Department of Finance's (DOF's) State Demographic Research Unit and private observers. The use of Census Bureau statistics is for consistency alone and does not represent an endorsement of one source over another. In fact, DOF statistics, which take into account driver's license registrations, often prove to be more accurate than the Census Bureau totals. The last Census Bureau estimates of the 2000 population released before the decennial census, based on extrapolations from the 1990 decennial census, predicted that California's 2000 population was 33.1 million. DOF's estimated figure of 34 million proved to be notably closer to the actual 2000 census headcount of 33.9 million.

growth in the nation for more than a generation. During the 1980s, population growth in California far exceeded that in the rest of the nation, as shown in Figure 1.1 (11.7 percent compared to 5.0 percent from 1980 to 1985 and 12.8 percent compared to 4.6 percent from 1985 to 1990). However, between 1990 and 2000, California and the nation grew at roughly similar rates:

California's population increased by 5.7 percent between 1990 and 1995 and 7.6 percent between 1995 and 2000. Population in the United States as a whole grew only slightly more slowly, by 5.6 percent between 1990 and 1995 and by 7.1 percent between 1995 and 2000.[3]

Population projections for the next two decades suggest that the state will continue to grow at a faster rate than the nation as a whole. Census Bureau demographers anticipate 5.9 percent growth for California between 2000 and 2005, slightly faster than the nation's projected 4.1 percent increase. By the middle of the decade, however, California is expected to begin to grow at a rate more than twice that of the nation as a whole, as shown in Figure 1.2. During the ten-year span between 2005 and 2015, California's population is expected to grow by 20.1 percent, whereas population within the country as a whole is projected to grow by only 8.5 percent. Similarly, the growth rate between 2015

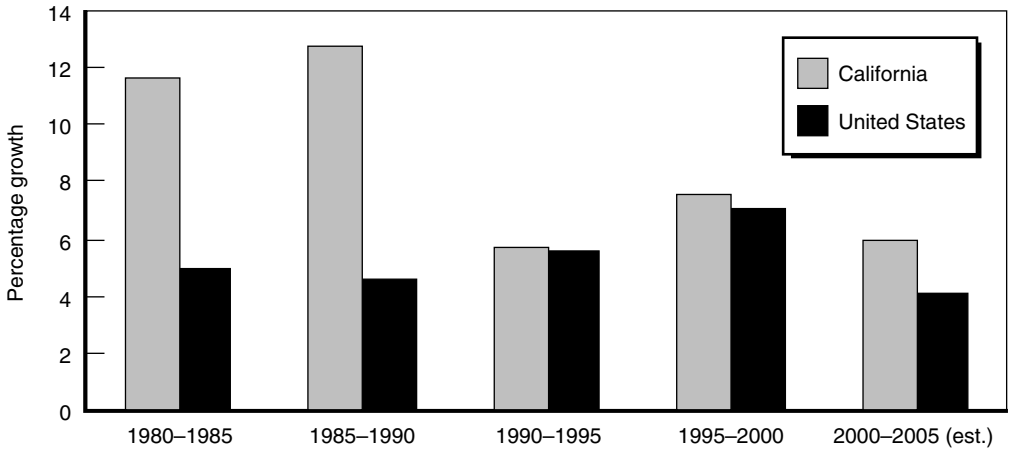

Figure 1.1—Population Growth, 1980–2005, California and the United States

[3]U.S. Census Bureau, *Statistical Abstract of the United States: 2001, 1999, and 1998;* U.S. Census Bureau, *Census of Population and Housing, 1980–1995.*

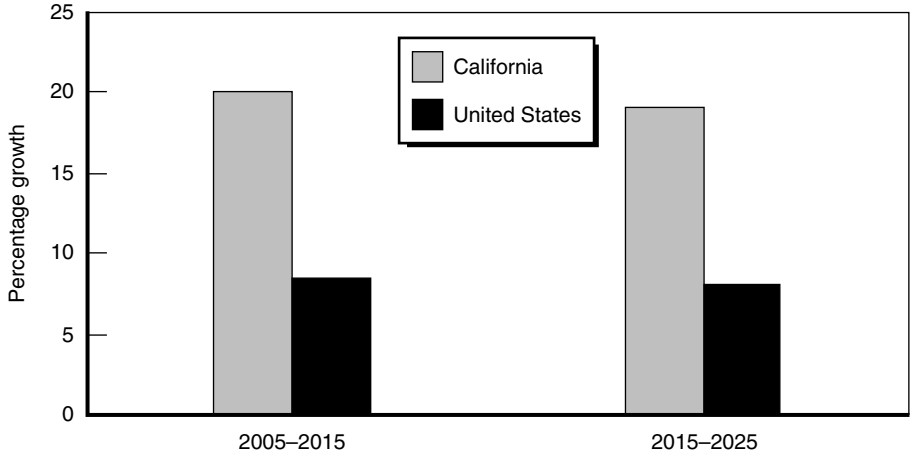

Figure 1.2—Population Growth Projections, 2005–2025, California and the United States

and 2025 is projected to be 19.1 percent in California and just 8.0 percent in the rest of the country.[4]

Overall, California's population represented 9.8 percent of the U.S. population in 1970, 10.5 percent in 1980, 12.0 percent in 1990, and 12.0 percent in 2000. The state's population is projected to remain at 12.0 percent of the nation's total population in 2005, growing to 13.3 percent in 2015, and 14.7 percent in 2025.[5]

Poverty

Poverty rates and statistics for the number of persons living in poverty are used to calculate distributions for a number of federal programs. In 1999, 14.1 percent of Californians lived in a family whose income fell below the federal poverty line—a higher concentration of poor persons than evident in the 11.8 percent rate in the nation as a whole. California was home to 4.7 million, or 14.5 percent, of the nation's 32.3 million people living in poverty in 1999, giving the state the 12th highest poverty rate in the nation.[6] Poverty statistics since then show a sharp decline for California. Between 1999 and 2001, the state's poverty

[4]U.S. Census Bureau, *Projections of the Total Population of States: 1995 to 2025,* Series A.

[5]U.S. Census Bureau, *Statistical Abstract of the United States: 2001*, Table 18; U.S. Census Bureau, *Population Change and Distribution: 1990 to 2000*, Census 2000 Brief, C2KBR/01-2, April 2001; and U.S. Census Bureau, *Projections of the Total Populations of States: 1995 to 2025*.

[6]U.S. Census Bureau, *Statistical Abstract of the United States: 2001,* Table 684; U.S. Census Bureau, *Current Population Report*s, P60-210; and http://www.census.gov/hhes/poverty/histpov/hstpov21.html.

rate declined from 14.1 percent to 12.6 percent, and the nation's poverty rate edged downward from 11.8 percent to 11.7 percent. In 2001, 13.1 percent of the nation's residents living below the poverty line were in California—down from 14.5 percent two years before—and the state's ranking fell from 12th highest poverty rate in the nation to 18th highest.[7]

Because poverty is calculated at particular levels of income, some federal allocation formulas calculate eligible populations precisely at the official poverty level, whereas others use a specified percentage of that level (say 125 percent or 185 percent of the poverty level). California's share of individuals living at each of these levels is similar to its share of persons living in families with incomes below the poverty line.

The federal government employs two slightly different measures of poverty—poverty thresholds and poverty guidelines. Poverty thresholds, calculated by the Census Bureau, estimate the number of persons in poverty based upon family size and other family circumstances. Poverty guidelines are a simplified and more current version developed by the Department of Health and Human Services (HHS) to determine eligibility for some federal programs. Both data sets are adjusted for inflation using the Department of Labor's consumer price index. HHS poverty guidelines are used to distribute funds for the Community Development Block Grant; Head Start; Low-Income Home Energy Assistance; State Children's Health Insurance Program; Food Stamps; Special Supplemental Nutrition Program for Women, Infants, and Children; National School Lunch Program; School Breakfast program; and some peripheral aspects of Medicaid.[8]

Child Poverty

The number of children living in poverty is an important factor in determining the distribution of funds under the $8 billion Title I Grants to Local Educational Agencies program—the largest federal education grant program and the fourth largest formula grant of any kind. In 1998, 22.8 percent (or

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[7]U.S. Census Bureau, "Housing and Household Statistics," *Current Population Survey,* March 2001 and March 2002. Poverty statistics for 2000 come from the March supplement to the *Current Population Survey,* a sample survey of approximately 50,000 households nationwide, conducted each month for the Bureau of Labor Statistics, and are not from the 2000 census. Moreover, the state's and nation's economies have declined considerably since 2000, so conclusions should be drawn cautiously.

[8]For additional information, see the Institute for Research on Poverty at the University of Wisconsin, http://www.ssc.wisc.edu/irp.

2,064,698) of California children ages 17 years or younger were living below the federally defined poverty line. At that time, 21.8 percent of California school-age children (ages 5 to 17) and 23.9 percent of the state's preschool-age children were living in poverty.[9] By 2001, California's child poverty rate had declined to 15.4 percent, with 1.1 million of the state's 7.1 million school-age children living below the federal poverty line. In the nation as a whole, the school-age child poverty rate was 15.1 percent in 2001, with 14 percent of the nation's school-age children in poverty residing in California.[10]

Because the Title I program ostensibly focuses on poor children, California's receipts from the program might be expected to reflect the state's relatively high share of children in poverty. Yet in fiscal year 2001, the state's $1 billion share of Title I funding was only 12.4 percent of the nation's $8.1 billion total, and that figure actually represented a high watermark for the state's Title I share.

Historically, a key reason for the state's low share of Title I funds is that poverty statistics are updated only every ten years. As late as 1992, the program was funded based on 1980 decennial census numbers for poverty, resulting in a misallocation of Title I dollars. A California-promoted remedy during the 1994 reauthorization of the Elementary and Secondary Education Act required semiannual updates of poverty data, which were to be used for Title I allocations.[11] However, in 1997, appropriators from slow-growth states inserted a 100 percent "hold harmless" clause, stating that no school district in fiscal year 1998 could receive less than it had received in fiscal year 1997, thus preventing funding shifts to school districts in California and other fast-growth states. The 100 percent hold harmless or successor language has remained attached to annual appropriations measures since that time.

Per Capita Income

Some formulas use a measure of "fiscal capacity"—the ability of a state or locality to raise revenues of its own through state or local taxes—in an attempt to

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[9]U.S. Census Bureau, "Housing and Household Statistics," *Current Population Survey*, March 2001 and March 2002.

[10]U.S. Census Bureau and Bureau of Labor Statistics, *CPS Annual Demographic Survey*, March Supplement, March 2001 (Revised December 4, 2001).

[11]Opponents of intercensal updating of these poverty figures for Title I, typically from slow-growth states, argue that because poverty data are collected from only one in every 20 census respondents, attempts to estimate persons in poverty at small geographic levels (such as a county or school district) have too great a margin for error. Supporters counter that such errors would not likely be worse than ignoring pronounced growth shifts for as much as a decade.

shift federal funding toward poorer states and away from wealthier ones. Per capita income (PCI) is commonly used as a measure of fiscal capacity, and its use in the huge Medicaid program makes it arguably the most significant formula factor used in federal grant distribution. A state's federal matching rate for Medicaid is based on the state's per capita income compared to the national average, and high-income states receive a lower reimbursement percentage than low-income states.

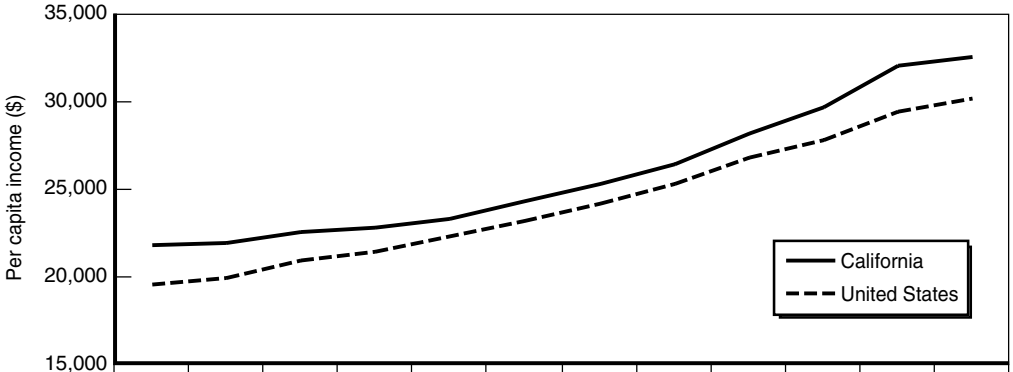
Although California remains wealthier than the national average, its relative wealth has declined considerably over the past two decades. The state had the 9th highest per capita income among states (including the District of Columbia) in 2000, a slight decline from its 8th ranking in 1990 and well down from its ranking as the 3rd richest state in 1980. (Initial projections for 2001 show California declining further, to a ranking of 11th.) As shown in Figure 1.3, California's per capita income in 2000 was $32,149, whereas the national level was $29,469. The state with the highest per capita income that year was Connecticut, where its $40,702 per capita income was nearly twice that of the state with the lowest, Mississippi, which had a per capita income of $20,900.[12]

In 2000, California's personal income per capita was 108.8 percent of the national average; it was 111.8 percent in 1990 and 118.1 percent in 1980. If preliminary estimates hold, California's income level will have fallen to 107.9 percent of the national average in 2001. The alternative measure of disposable personal income—income after taxes and other mandatory deductions—shows a steeper decline; California's 2000 level is 106.8 percent of the national average, down from the 1990 level of 111.0 percent and the 1980 level of 118.6 percent.[13] Thus, although California's ranking among the states fell by only one notch between 1990 and 2000—from 8th to 9th place—the state's income level relative to the national average declined more sharply, largely as a result of the state's deep recession in the early 1990s.

Use of per capita income figures in determining the Federal Medicaid Assistance Percentage (FMAP) to reimburse states for Medicaid spending

[12]U.S. Census Bureau, *Statistical Abstract of the United States: 2001*, Table 652; U.S. Bureau of Economic Analysis, *Survey of Current Business*, May 2001; Regional Economic Information System, Bureau of Economic Analysis, *Survey of Current Business*, Table SA1-3, April 2002; and unpublished data.

[13]U.S. Census Bureau, *Statistical Abstract of the United States: 2001*, Tables 652 and 653; U.S. Bureau of Economic Analysis, *Survey of Current Business*, May 2001; and unpublished data.



	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
———	21,882	21,983	22,650	22,833	23,348	24,339	25,373	26,521	28,240	29,772	32,149	32,678
- - -	19,572	20,023	20,960	21,539	22,340	23,255	24,270	25,412	26,893	27,843	29,469	30,271

Figure 1.3—Per Capita Income, 1990–2001, California and the United States

disadvantages California, as the formula reimburses states with lower per capita income at higher rates than higher-income states.[14] The use of per capita income also reduces California's share of funding for federal foster care, vocational education, and a range of other programs.

According to the General Accounting Office, PCI was first used in the 1950s as an indicator of states' ability to finance programs and of their poverty level (the assumption being that low-income states would have higher poverty rates).[15] Since that time, a formal poverty definition has been created, and better measures of fiscal capacity now exist. It is important to note that California has a high per capita income but also a high poverty rate—a phenomenon called income inequality.[16] Thus, formulas originally drafted to assist poor people by bettering the fortunes of low-income states actually fail in that effort and may actually drain the treasuries of the state and local governments that must then attempt to backfill the shortfall.[17]

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[14]For further information, see Tim Ransdell, *The Distribution of Federal Medicaid Dollars: California Fiscal Implications of Block Granting and Other Approaches*, California Institute, Washington, D.C., 1995.

[15]See U.S. General Accounting Office (testimony), *Medicaid Formula: Fairness Could Be Improved*, GAO/T-HRD-91-5, December 7, 1990, p. 2.

[16]See Deborah Reed, *California's Rising Income Inequality: Causes and Concerns*, Public Policy Institute of California, San Francisco, California, 1999.

[17]An alternative fiscal capacity factor proposed for use in some formula shifts would measure a version of a state's taxable resources. The most recent GAO study on the subject, dated 1990 (and thus using 1989 data), however, determined that California's per capita taxable resources were about 10 percent above the national average, and thus use of taxable revenues as a fiscal capacity factor would produce results roughly similar to use of per capita income. See U.S. General

Fiscal Effort

Some programs incorporate in their formulas a factor to represent the sacrifice or effort made by a state or locality to support the program's goals. For example, a factor might reward a state on the basis of its level of payments to eligible persons, thereby creating an incentive for a state to raise taxes to pay for the federal goal in question. A typical factor might be a ratio of the state's revenue in a certain category to that state's per capita income.

Cost Factors

An alternative to income factors (which tend to help lower-income states) is to recognize that one state might face higher costs when providing services than another. A problem with this approach is that some purported cost factors may not accurately reflect differentials in costs.

One such example can be found in the Title I education program. While technically neither an effort factor nor a cost factor, an adjustment for state per pupil expenditure was included in the Title I formula as a rough proxy for both. Use of this factor significantly reduces California's receipts from the program. California has one of the highest average class sizes among states and thus has relatively low per-pupil expenditure, which thereby suppresses Title I funding. In 1999, public elementary and secondary school spending per pupil in California was $6,045; it was $7,013 nationwide. This spending level reduced California's ranking among the 50 states and Washington, D.C., to 37th for 1999, down from 32nd in 1990, and from 22nd in 1980.[18] During revision of Title I authorizing laws in the103rd Congress, California advocates promoted the use of another proxy for the cost of providing education services—average state teacher salaries. In 2000, California ranked 4th (up from 9th in 1999) among states in average salaries for teachers of primary and secondary schools. California teachers earned an average annual salary of $47,700, whereas the national average was $41,700.[19]

Accounting Office (testimony), *Medicaid Formula: Fairness Could Be Improved,* GAO/T-HRD-91-5, December 7, 1990, p. 11.

[18]National Center for Education Statistics, *Digest of Education Statistics*, Washington, D.C., 2001.

[19]U.S. Census Bureau, *Statistical Abstract of the United States: 2001*, Table 237; and National Education Association, *Estimates of School Statistics Database*, Washington, D.C., 2000.

Employment and Unemployment

The Department of Labor calculates unemployment rates monthly, and California's unemployment rate has typically exceeded the national rate. During the early and mid-1990s, when the state experienced a deeper and more prolonged recession than the rest of the nation, California's unemployment rate exceeded the nation's by more than two percentage points. That discrepancy moderated recently. In March 2002, California's seasonally adjusted rate of unemployment was 6.4 percent, whereas the national rate was 5.7 percent. In 2001, California's unemployment rate was 5.3 percent, and the nation's was 4.8 percent. In 2000, the state's rate was 4.9 percent and the national rate was 4.0 percent[20]—a considerably wider disparity. The unemployment rate is used to calculate grants under the Workforce Investment Act of 1998 (WIA, formerly the Job Training Partnership Act), two-thirds of which is based on the number of unemployed individuals in a state and one-third on the number of poor residents. The formula includes a one-third bonus for states that experience excessive unemployment, a factor that further raised California's already large share of WIA funds. The state has received between 16 and 24 percent of U.S. funds under WIA component programs during the past decade.

Urban Versus Rural Populations

Many federal transportation/highway and agriculture dollars are allocated according to urban versus rural populations. California's population is much more concentrated in urban areas than the national average. In 2000, 96.7 percent of California residents lived in what the Census Bureau defines as a metropolitan area, compared to 80.3 percent nationwide. Only New Jersey and the District of Columbia, all of whose residents are deemed as residing in an urban area, have a higher share of urban dwellers than California.[21]

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[20]U.S. Census Bureau, *Statistical Abstract of the United States: 2001*, Table 606; U.S. Bureau of Labor Statistics, *Geographic Profile of Employment and Unemployment,* annual; U.S. Bureau of Labor Statistics, *Household Data Annual Averages and Household Data Seasonally Adjusted*, www.bls.gov; and California Employment Development Department, *California Labor Force 1983–Current,* www.edd.ca.gov.

[21]U.S. Census Bureau, *Statistical Abstract of the United States: 2001*, Table 30; U.S. Census Bureau, *1990 Census of Population and Housing, Population and Housing Unit Counts* (CPH-2-1); and unpublished data.

Age-Range Populations

Some programs are based on populations within certain age ranges (such as school-age population or residents age 65 or older).[22] In 2000, California had the 9th highest percentage of residents ages 5 to 17 (20.0 percent compared to 18.9 percent nationwide). In contrast, 10.6 percent of Californians in 2000 were age 65 or older, compared with 12.4 percent nationally. In this age group, California ranked 46th among states, including the District of Columbia.[23]

Number of Immigrants

Any formula that includes immigrants as a significant factor is likely to allocate a substantial funding share to California. But because immigrants tend to be concentrated in relatively few states, it is typically difficult to build a broad base of support for the inclusion of immigrant factors in formulas.

In 2000, California was home to 8.9 million foreign-born individuals, which was 28.4 percent of the 31.1 million foreign-born in the United States. California has the distinction of having the highest proportion of foreign-born as a share of total population—26.2 percent. New York ranked 2nd with 20.4 percent and Florida 3rd with 16.7 percent. In the nation as a whole, 11.1 percent of the population was foreign-born.[24]

An alternative, approximate proxy for immigrants in some proposed formulas—used in K–12 education programs particularly—is the Census Bureau's decennial calculations of households in which a language other than English is spoken. In 2000, California was the residence for 12.4 million persons—or 26.4 percent of the nation's total—who spoke a language other than English in the home.[25]

The Census Bureau estimates that between 9 million and 11 million undocumented immigrants reside in the Unites States. In 1996, the Immigration and Naturalization Service estimated that California was home to 40 percent of the nation's undocumented immigrants. Applying this 40 percent estimate to

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[22]For example, the Individuals with Disabilities Education Act is based in part on the number of persons ages 3 through 21 in each state.

[23]U.S. Census Bureau, *Statistical Abstract of the United States: 2001*, Tables 20 and 21; and U.S. Census Bureau, *Demographic Profiles: Census 2000,* http://www.census.gov/Press-Release/www/2001/demoprofile.html.

[24]U.S. Census Bureau, *Census 2000*, Table DP-2, Profile of Selected Social Characteristics: 2000.

[25]U.S. Census Bureau, *Census 2000*, Table DP-2, Profile of Selected Social Characteristics: 2000.

today's numbers, it is possible that in 2000, between 3.6 million and 4.4 million undocumented immigrants resided in California.[26]

The State Criminal Alien Assistance Program (SCAAP) reimburses states for the costs of incarcerating undocumented felons, on the theory that their presence in the United States is a federal responsibility. Although California received nearly half of the $565 million appropriated in 2001, less than half of the state's actual costs were reimbursed.

Percentage of Population Receiving Benefits

On occasion, one program's benefit levels are tied to the number of individuals receiving or eligible for benefits in another program. For example, the Title I education program includes a factor for children receiving welfare services who would not otherwise be eligible for Title I. Likewise, participation in Medicaid is used to assess an individual's eligibility for a number of other health- and indigent-related programs.

In 1998, California housed 7 million, or 18 percent, of the nation's 39 million Medicaid recipients (despite the fact that California's total Medicaid payments were just 11 percent of the nation's total federal payments).[27] On the other hand, although just 2.4 percent of the nation's 1999 population received welfare benefits, more than twice that percentage of Californians—5.0 percent or 1.6 million people—received benefit payments that year.[28] (California accounted for more than 25 percent of the nation's welfare recipients in 1999.) For Supplemental Security Income (SSI), California's 1.07 million recipients represented 16.3 percent of the national total in 1999.[29] On the other hand, only 12.4 percent of Californians received Social Security payments in 2000, compared to 15.8 percent nationwide.[30]

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[26]U.S. Department of Justice, Immigration and Naturalization Service, *Statistical Yearbook 1999*, http://www.ins.usdoj.gov.

[27]Centers for Medicare and Medicaid Services, *Statistical Report on Medical Care Eligibles, Recipients, Payments and Services*; and U.S. Census Bureau, *Statistical Abstract of the United States: 2001*, Table 140.

[28]U.S. Census Bureau, *Statistical Abstract of the United States: 2001*, Table 545; U.S. Administration for Children and Families, *Temporary Assistance for Needy Families (TANF)—Recipients by State and Other Area: 1995 to 2000*; and unpublished data.

[29]U.S. Census Bureau, *Statistical Abstract of the United States: 2001*, Table 543; and U.S. Social Security Administration, *Social Security Bulletin*, quarterly, and *Annual Statistical Supplement* to the *Social Security Bulletin*.

[30]U.S. Census Bureau, *Statistical Abstract of the United States: 2001*, Table 528; and U.S. Social Security Administration, *Social Security Bulletin*, quarterly.

Crime Rates

Crime rate statistics are sometimes used to distribute formula grants from the Department of Justice. Although California's crime rates still tend to exceed the national average, crime rates have fallen nationwide, a trend particularly apparent in the Golden State. In 1999, California had the 10th highest violent crime rate among the states at 627 per 100,000 persons, compared to 525 per 100,000 nationwide.[31] The state's ranking is down from 9th highest in 1998 and 1997 and from 7th highest in 1996. In 1995, when California ranked 7th highest in the nation, the violent crime rate was 966 and 685 per 100,000 in California and the United States, respectively.[32]

Transportation

Highway Planning and Construction programs and other surface transportation grants reauthorized in 1998 as the Transportation Efficiency Act for the 21st Century (TEA-21) employ an array of transportation-related factors for allocating funds. Highway funds are allocated according to states' road and highway length and usage, as well as diesel fuel usage (in an attempt to account for freight traffic), with a small factor also included to help states with small populations relative to usage. California receives approximately 9.1 percent of highway funds based on these factors, whereas mass transit, based in part on urbanization of population, has returned as much as 20 percent to the state during TEA-21's six-year term.

National Highway System funding is based on the following factors: 25 percent on a state's share of total lane miles of principal arterial routes (not including interstates), 35 percent on the share of total vehicle miles traveled, 30 percent on the share of diesel fuel consumed, and 10 percent on sparseness of population versus road mileage. The Congestion Mitigation and Air Quality (CMAQ) program distributes funds to states on the basis of the share of population living in air pollution "non-attainment and maintenance" areas as determined by the U.S. Environmental Protection Agency. For the Surface Transportation Program (STP), the Department of Transportation weights federal-aid highway lane mileage at 25 percent, lane mileage actually traveled at

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[31]U.S. Census Bureau, *Statistical Abstract of the United States: 2001*, Table 293; and U.S. Federal Bureau of Investigation, *Crime in the United States*, annual; and http://www.fbi.gov/ucr/Cius99/99crime/99cius.pdf.

[32]U.S. Census Bureau, *Statistical Abstract of the United States: 2000*, Table 331, 1999; Table 334, 1998; Tables 337 and 315, 1997; and U.S. Federal Bureau of Investigation, *Crime in the United States,* annual.

40 percent, and the state's relative contributions to the highway trust fund (other than for transit) for the most recent fiscal year at 35 percent. The Interstate Highway program is based equally on three factors—interstate lane miles (33 percent), miles traveled (33 percent), and highway trust fund contributions (33 percent).

In 2000, California accounted for 11.1 percent of the nation's 74,657 urban interstate lane miles and 8.6 percent of the nation's 186,206 lane miles of total urban lane mileage. The state has fewer rural roads—in 2000, California accounted for 4.6 percent of the nation's 134,587 lane miles of rural interstates, and 4.4 percent of the nation's 217,506 lane miles of other major rural routes. The vehicle-lane-miles-traveled factor in urban highway formulas rewards California for its large urban population and very large proportion of drivers. California accounted for 15.9 percent of the nation's 397 billion urban interstate highway miles traveled in 2000 and 11.5 percent of the nation's 1.22 trillion miles traveled.[33]

In addition to formulas based on these factors, the Highway Planning and Construction account includes an overall minimum guarantee, which seeks to prevent any state from receiving less than a certain minimum return (90.5 cents for every dollar paid in) on its contributions to the highway trust fund. California's minimum guarantee level designated by the TEA-21 law was estimated at 9.1962 percent of total national disbursements. In 2000, California contributed 10.4 percent of the nation's motor fuel tax revenues to the federal highway trust fund, and 10.0 percent of total trust fund revenues.[34]

Educational Attainment

Federal funding for the adult education program is based in large part on decennial census statistics identifying the percentage of a state's population without a high school diploma. In 1990, California's 23.8 percent rate was slightly below the 24.8 percent national rate. Both the state and the nation bettered high school graduation rates during the 1990s, but California's improvement was considerably slower than that in the rest of the nation. The percentage of Californians without a high school diploma fell from 23.8 percent in 1990 to 23.2 percent in 2000, whereas the rate in the nation as a

[33]U.S. Department of Transportation, Federal Highway Administration, *Highway Statistics 2000,* October 2001.

[34]U.S. Department of Transportation, Federal Highway Administration, *Highway Statistics 2000,* October 2001.

whole plummeted from 24.8 percent in 1990 to 19.6 percent in 2000.[35] Adult education funding shifts between states are delayed for many years because the Census Bureau does not update educational attainment data between censuses, but these newly released statistics will soon boost California's share of program funds.

Prospective Factors and Other Considerations

Although the technique has not been used to date, relative income figures could be employed in a formula to compensate for some states' higher cost of living. During the 106th Congress, Senator Daniel Patrick Moynihan (NY) introduced S. 165, which sought to require that funding allocations using sub-state poverty data be adjusted "to account for differences in the cost of living in the areas." California's share of funding would likely increase were the bill to be enacted and implemented. However, cost of living/consumer price index figures are not presently collected state by state by the Bureau of Labor Statistics. BLS produces a CPI figure for the United States and for 29 major metropolitan areas. Largely as a result of California's high housing prices, the 2000 CPI for the three California metropolitan areas listed (Los Angeles at 171.6, San Diego at 182.8, and San Francisco at 180.2) is above the national city average of 172.2.[36] A state-level CPI, should one ever be produced, would likely show an above-average CPI for the state.

In October 1999, during the House Committee on Education and the Workforce's markup of a bill to reauthorize the Elementary and Secondary Education Act, Representative Lynn Woolsey (Petaluma) offered an amendment to develop a formula factor to compensate school districts in states forced to spend more to educate children because of high costs of living. She argued that because of variances in costs of living among states, some disadvantaged students receive inadequate Title I funds compared to children in low-cost areas. The amendment proposed to add a state-level Cost of Living Adjustment (COLA) factor for allocating Title I dollars. Representative Woolsey later withdrew the amendment upon leadership commitment to support a study of the issue.

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[35]U.S. Census Bureau, *Census 2000*, Table DP-2, Profile of Selected Social Characteristics: 2000.

[36]U.S. Census Bureau, *Statistical Abstract of the United States: 2001*, Table 693; U.S. Bureau of Labor Statistics, *Monthly Labor Review*; and *CPI Detailed Report*, January issues.

Availability of and Quality of Data

Data availability is sometimes an issue for federal formula funding allocation. Many formulas rely on widely available and published data, such as those from the Census Bureau or the Bureau of Economic Analysis. Yet other formulas rely in whole or in part on unpublished data collected by the administering agency or on data collected too recently to become widely available. An agency will often collect the latter data from the jurisdictions to which the formula allocates funds, and there have been allegations of jurisdictions over- and undercounting populations to improve allocation prospects. Although jurisdictions are aboveboard on the whole, some do face charges of system abuse. Members of Congress from California and other states that may fare better under objective standards have on occasion rallied to alter the formulas. For example, when Congress reauthorized the Individuals with Disabilities Education Act in 1996, Californians worked to replace the existing subjective formula, whereby states reported the number of disabled children they served and received funds according to that count, with a more objective formula based simply on state-level census population figures for persons ages 3 to 21 and for children in poverty.[37]

A final consideration with regard to data is that agencies may in fact allocate funds without making public the data on which allocations were based.

Formula Grant Special Provisions

A number of specific factors are commonly contained in or added to federal formulas to alter the distribution, and many work to the detriment of California. Examples are discussed below.

Phase-In Periods

Phase-in periods are used to delay the effects of new data and formula changes. Such phase-ins may appear as an averaging of data over several years (for example, using a three-year average of per capita income rather than the most current data to distribute Medicaid funding) or as a specified delay (for

[37]Although California was near the national norm in identifying roughly 10 percent of its school children as eligible for IDEA funding, Massachusetts's reported figures neared 20 percent. A review of state records indicated systematic overcounting of students as disabled, with one lightning rod example where a school counted a child as disabled because he was having difficulty with the Pythagorean Theorem.

example, implementing a formula change by one-half in one year and one-half in the next).

Hold Harmless Provisions

Hold harmless provisions tend to work for the status quo by ensuring that a state's (or other jurisdiction's) allocation will not decline at all or by more than a specified percentage in any given year. Historically, hold harmless provisions have been used to retain funds for slow-growth states and to temporarily inhibit increases in funding for fast-growth states such as California. A hold harmless provision might state, for example, that all funding up to the current year's level will be distributed under the old formula, and only money above that level will be distributed under the new formula.[38] Although the relative rate of growth of California's population compared to that of other states has slowed considerably since 1989,[39] hold harmless provisions are still likely to result in less funding for the state.

Small-State Minimums

Many formulas include minimum floor levels of allocations to states, counties, territories, or other jurisdictions. These minimum allocations naturally and rather blatantly work to shift funding away from larger states and toward smaller ones. In 1998, California received barely $600 per poor child from the Title I formula, whereas small-state minimums pushed receipts for Wyoming, Vermont, and Delaware above $1,000 per child in poverty. Small-state minimums are sometimes ratcheted upward: When Title I was reauthorized in 2001, it increased the small-state minimum for all Title I programs by providing that any new money above the fiscal year 2001 level be subject to a 0.35 percent minimum per state, but funds below that level continue to be subject to the previous 0.25 percent minimum.

Growth Caps

Limiting the amount by which benefit payments, eligible populations, or other factors may grow in any given period often works against fast-growing

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[38]If increases in program funding do not materialize, the new formula or new data will be unused, thereby exacerbating funding inequities. See U.S. General Accounting Office (testimony), *Substance Abuse and Mental Health: Hold-Harmless Provisions Prevent More Equitable Distribution of Federal Assistance Among States*, GAO/T-HRD-90-3, October 30, 1989.

[39]See *Population* section above.

regions of the nation and in favor of slow-growing and declining regions. However, regions can experience growth in some factors at the same time that others are stable or declining. For example, the number of unemployed persons may decline as population growth accelerates, or the school-age population can be inversely proportional to the population over age 65.

Minimum Thresholds

Congress or an administering agency will sometimes require that a state, local government, or other jurisdiction meet a minimum threshold of eligibility before qualifying for funding. Because California jurisdictions are often larger than those in other regions of the country (the state has only 58 counties, whereas some smaller states have several hundred), minimum counts sometimes improve the state's share of funding. For example, school districts are eligible for concentration grant funding under Title I if their number of eligible children is 6,500 or higher, or if that number constitutes 15 percent or more of all school-age children in the school district. California benefits because it has somewhat higher concentrations of poverty and a smaller than average number of school districts, although a small-state minimum on the program does blunt the advantage somewhat.

Conclusion

Although California's 12 percent share of the nation's population is reflected in its share of formula grant disbursements, the natural variability of grant allocations invites focused review of both formulas and the factors that comprise them. After all, a state's success or failure at garnering federal dollars has much to do with the types of factors selected for each formula program.

California is simultaneously poor, wealthy, young, urban, and immigrant. Unfortunately for the state, the largest formula grant program of any kind uses income to measure poverty and thus misidentifies the state as not needing assistance when conventional poverty definitions would argue the opposite. California would benefit greatly if the Medicaid formula were altered to reflect federal poverty guidelines, but federal policymakers need to be mindful of political realities and national priorities.

By virtue of their mathematical nature, funding formulas can in theory serve as neutral arbiters of who deserves funding and how much. However, formulas are written in a political environment, where drafters must remain mindful of

winning sufficient support from committee members, party leadership, and the rank and file of both the House of Representatives and the Senate. On occasion, if no mathematical formula yields a politically viable result, legislation may specify a particular funding level for one, several, or even all states. At the most extreme, percentage allocations or even specified dollar levels for all jurisdictions may be specifically proscribed in legislation before approval, resulting in an allocation scheme that as a practical matter functions less as a formula than as a comprehensive list of political earmarks.

Whether policy goals are better served or whether California's target populations fare better under one approach than under another remain questions that need to be answered on a case-by-case, ongoing basis. This project will continue to present objective information to better inform the public debate in this critical area of California policy.