

(COVER LETTER)

About Federal Grants

Every year the federal government sends trillions of dollars to the states through direct payments to residents, contracts for purchasing of goods and services, salaries and wages, and grants. In fact, in Fiscal Year 2014, the federal government spent \$3.3 trillion in the states, including \$589 billion in grants, which is the subject of the Advisory Council and this report.¹

Table 1. Types of Federal Spending (Primary Categories)

Category	Explanation
Retirement Benefits	Payments to individuals including Social Security, veterans' benefits, and federal employee retirement payments.
Nonretirement Benefits	Payments to individuals including Medicare, food assistance, and unemployment.
Contracts	Payments for the purchase of goods and services ranging from defense purchases to catering.
Salaries and Wages	Payments to federal employees
Grants	Funding to state and local governments for programs such as education, housing, transportation, and research.

The federal government has sent state and local government grants totaling, on average, \$500 billion per year for each of the last ten years to fund a wide range of programs and services, such as health care, transportation, income security, education, job training, social services, community development, and environmental protection. As a result, federal grants account for about one-third of total state government funding, and more than half of state government funding for health care and public assistance.²

Broadly, there are two types of federal grants:

- *Formula grants* are grants allocated to eligible recipients based on formula factors established in statutory and regulatory provisions.
- *Discretionary grants* are grants awarded to eligible recipients based on a competitive or merit-based process.

Typically 75-80% of grants are formula based, with competitive grants making up the balance.³ Understanding the difference between the two is vital for a state that wishes to maximize federal grants. Formula grants are largely funded on population participation and revenue brought in is maximized by accurate, full, timely accounting for residents; discretionary grants are maximized by demonstrating need (often using the same numbers as formula grants), and proposing meaningful programs or services that address those needs. Notably, the competitive grant process allows states to make a case for federal investment in local communities, and for funding to be used at a local level by those who are most knowledgeable and accountable.

¹ Federal Funds Information for States (FFIS) "Grant 101: Intro to Federal Grants for State and Local Governments." 2015.

² Congressional Research Service. "Federal Grants to State and Local Governments: A Historical Perspective on Contemporary Issues". March 2015.

³ Federal Funds Information for States (FFIS) "Grant 101: Intro to Federal Grants for State and Local Governments." 2015

Table 2. Types of Federal Grants

Category	Explanation
Formula Grants	<ul style="list-style-type: none"> • Funding is set by the law that creates or reauthorizes the grant • Represents the largest share of grants, typically 75-80% • Allocations based on formulaic factors, equations and participation rates • Sample programs include Food and Nutrition Assistance, Earned Income Tax Credit, etc.
Discretionary (Competitive) Grants	<ul style="list-style-type: none"> • Congress determines how much funding each grant program receives through the appropriations process • Represents smaller share of grants, typically 25-30% • Awarded through competitive application process • Typical programs include comprehensive, multiagency program development and delivery, pilot and demonstration projects, etc.

Most federal grants are awarded to state governments, which are then passed through to public agencies, local governments, nonprofits, and private contractors to provide services for residents. This pass through structure is intended, in part, to allow for the balancing of federal and local interests, accountability, and program effectiveness. As a result, state governments effectively act as gatekeepers to federal grants flowing into the states.

Table 3. Federal Grant Funding Stream



While, the flow of federal grants change with each President and Congress, the number of federal grants and total outlay for them have steadily risen over the past three (3) decades regardless of what party has been in control. As a result, many states around the country, including Nevada’s neighbors Arizona and California, have made identifying, securing, and maintaining high rates of federal grants a priority.

Federal Grants In Nevada

For decades Nevada has been among the lowest performing states in the U.S. in terms of receiving competitive federal grants,⁴ despite having some of the highest documented need in the country. In the past five years, however, the State has taken several significant steps toward correcting this unnecessary and harmful imbalance. Under Governor Sandoval’s administration and with leadership from the

⁴ Nevada Office of Grant Procurement, Coordination and Management, 2012-2013 Biennial Report. 2013.

Legislature, Nevada has made many improvements in grant procurement and management, and is building positive momentum towards maximizing federal grant revenue in Nevada.

Currently, Nevada's top five state agency recipients for grants are:⁵

1. Health and Human Services
2. Employment, Training and Rehabilitation
3. Education
4. Conservation
5. Transportation

Progress is Happening

During the past five years the State has made notable progress in securing federal grants, and improving its grant infrastructure.

Structural improvements that have been implemented include:

- Establishing the Office of Grant Procurement, Coordination and Management (State Grants Office), a statewide grants office tasked with coordinating and supporting agencies in state and federal grants. The Grants Office has been instrumental in securing tens of millions of dollars in grants for Nevadans. In fiscal year 2015 alone the office worked with various agencies to secure nearly \$85 million in total grant awards, using a department budget of approximately \$385,000 – a return of roughly \$221 on every \$1 invested.
- Establishing the Nevada Advisory Council on Federal Assistance (Grants Council), a unique council of public, private, and nonprofit leaders to identify barriers and develop solutions to increase federal grant funding. The Grants Council is bringing together leadership from sectors across the state to craft recommendations that will further advance revenue streaming into Nevada and thus enhancing programs available to Nevadans.

In addition to large structural improvements, the State is beginning to implement uniform best practices at statewide grant trainings from the Grants Office, which thousands of professionals have participated in since 2013.

These implemented structural changes appear to be working. Federal Funds Information for States, a national organization that tracks federal grants, provided an exciting affirmation of Nevada's progress (based on an analysis for 244 major federal grant programs from 2006-2016), when it found:

- ✓ Nevada has experienced one of the largest increases in grant awards between FFY 2009-2014. It grew 51.5% where federal spending only grew 21.4% over the same timeframe;
- ✓ Nevada ranked #2 for the largest per-capita grants growth in FFY 2014 (43.6% growth); and
- ✓ Nevada is the only state to rank in the top 10 of population growth, at the same time ranking in the top as largest growth per capital for grant awards.⁶

⁵ Nevada Office of Grant Procurement, Coordination and Management, 2015 Biennial Report. 2015

⁶ <http://grant.nv.gov/About/Publications/>, retrieved October 4, 2016.

Why Continue To Improve

The State's past low rates of federal grants have cost it and its residents hundreds of millions of dollars, and reduced its ability to provide programs and services that improve quality the of life and increase opportunity for many eligible populations. Securing Nevada's fair share of federal grants has tremendous tangible implications, including:

- Funding much-needed enhancements to programs, projects, and services in the areas of health care, transportation, income security, education, job training, social services, community development, and environmental protection.
 - Increasing Nevada's position in per capita grants to 48th – an increase of just one spot – would yield an additional \$258 million in new funding.⁷
- Significantly expanding Nevada's revenue without adding tax burden to its residents and businesses.
- Creating economic impact beyond direct budget implications. Federal spending averages 19% of states' economic activity, but in Nevada it is only 17.9%. ⁸ Increasing federal grants will have considerable positive economic impact in the State.

How To Continue To Improve

More work is needed ensure that Nevada receives an equitable share of federal grant dollars and delivers the highest return on investment for those dollars. In order to increase these investments, over the next five years, Nevada must increase collaboration amongst local governments, nonprofit service organizations, and leaders in the philanthropic and business community. Overwhelming data, based on conclusions from numerous written reports, outreach and surveys conducted, Grants Council hearings discussion, and other sources, show collaborations between stakeholders must occur to:

- A. Continue to identify and address structural barriers that limit Nevada's grant applications and awards.
- B. Build professional and technological grant capacity within local and state governments and nonprofits so there are adequate databases and qualified grant writers and administrators to design, implement and manage competitive grant projects.
- C. Implement an effective and sustainable program that allows Nevada to responsibly meet grants' match fund requirements with in-kind support and/or cash from public and philanthropic sources.
- D. Have a strong State Grants Office with a statewide presence, making face-to-face connections and building and fostering relationships with public, private, nonprofit and philanthropic entities in an effort to coordinate strong and sustainable programs statewide.
- E. Support local and regional efforts to increase grant competitiveness and coordination.

⁷ The Pew Charitable Trusts, "Federal Spending in the States, 2005 to 2014." March 2016.

⁸ The Pew Charitable Trusts, "Federal Spending in the States, 2005 to 2014." March 2016.

- F. Ensure that federal grant dollars are being equitably distributed statewide, and reaching the residents and communities for whom the dollars intended.
- G. Engage and educate a broad coalition of partners and stakeholders to support progress.

The Nevada Grants Office

The Office of Grant Procurement, Coordination and Management, commonly referred to as the Nevada State Grants Office, is a revenue generating agency that serves as the authority on federal and state regulations for grant management in Nevada. They are responsible for facilitating cooperative relationships to foster grant development and planning; ensuring training to address the needs of Nevada’s grant workforce; analyzing and communicating trends in federal and state grant funding, regulations and law; and providing technical assistance to all agencies as needed – conveying concepts, principles and best practices of successful grant stewardship.

- **Overview:** Established through the unanimous passage of Senate Bill 233 (2011), the Office of Grant Procurement, Coordination, and Management was created with the intent of addressing the State of Nevada's grant performance.
- **Vision:** A Nevada in which agencies have access to resources that increase their ability to successfully and confidently procure, implement, manage, and sustain grant funding.
- **Mission:** To achieve a streamlined, efficient and sustainable grant process encouraging agencies to seek funding for programs that will contribute to vibrant and sustainable communities.

STRATEGY	OBJECTIVES
Strengthening Grant Process in Nevada	<ul style="list-style-type: none"> ⊙ Standardizing Guidance for State and Federal Funding ⊙ Standardizing Training Opportunities for Grant Management ⊙ Streamlining the Grant Management Process
Improving Collaboration Across State, Local, Non-Profit and Private Business	<ul style="list-style-type: none"> ⊙ Developing Cross-agency Partnerships ⊙ Creating a Forum for Collaboration ⊙ Enhancing Partnership Development
Identifying Optimal Level of Federal Funding for an Improved Grant Landscape	<ul style="list-style-type: none"> ⊙ Identifying, Organizing and Disseminating Grant Opportunities ⊙ Improving Data Collection and Distribution ⊙ Enhancing Outcome Reporting

Recommendations from the State of Nevada Grants Council

The Advisory Council on Federal Assistance (Grants Council) was created with near unanimous bi-partisan support during the 2015 Legislative Session. The Council is tasked with advising and assisting State and local governments with respect to obtaining and maximizing federal grants, and is comprised of appointed representatives from local government, nonprofits, and the business community, along with two elected legislators, the Chief of the Grants Office, and Director of the Governor’s Office of Finance.

Throughout its bi-monthly (six meetings during 2016) meetings the Grants Council discussed methods and models for identifying, procuring, utilizing and maintaining federal grants; received reports from the Grants Office; and frequently heard testimony from State employees and other stakeholders. Based on the discussions, research, and testimony presented during these hearings, and pursuant to its authorizing legislation, the Grants Council respectfully submits four recommendations for consideration and implementation by the 2017 Legislature and Honorable Governor Brian Sandoval:

I. *Establish a statewide grants management system; fund the establishment thereof.*

Summary:

A statewide grants management system is needed for the State to identify and coordinate grant opportunities, effectively manage and report awarded grants, and coordinate grant related work with local governments and nonprofits. The State does not currently have such a system, and as a result misses valuable grant opportunities, and struggles to streamline and manage grant administration. There are numerous options for such a system, varying greatly in price and comprehensiveness. Even the most basic system will be very productive.

Discussion:

Grants management systems allow users – across state and local governments and nonprofits – to identify grant opportunities, coordinate with each other to submit grants, and track and report grant funding and grant funded programs. The systems are also critical to understanding what grants a state is applying for, receiving, and effectively maximizing. Unfortunately, Nevada does not have such a system.

Collecting data and using it to demonstrate need for a grant application has been an imperfect and inconsistent process in Nevada, even though it is one of the most crucial aspects in successfully applying for and monitoring grant programs. Many of the State's individual systems are antiquated and need to be manually manipulated and analyzed by staff, resulting in delayed and often incomplete data. Additionally, many agencies collect and maintain data in one-off systems, which makes it unlikely for agencies to know what data is already available and how to locate it. This frequently results in duplicative work effort, inconsistently reported data, and underreported outcomes and ultimately affects program sustainability.

Further, many federal requirements of reporting are far beyond the current systems making Nevada less competitive in its reporting capabilities.

Beyond data management and reporting, the lack of a grants management system undermines the State and its local partners' ability to strategically identify worthwhile grant opportunities, let alone coordinate their actions to successfully apply for a given grant.

A centralized, state grants management system will allow for more robust grant opportunity identification, streamlined and more accurate collection of data, and simplified reporting. Additionally, the internal reporting functions will allow decision and policy makers to understand and evaluate the State's overall grant performance, and reliably evaluate program outcomes.

The Grants Office has conducted an analysis and review of grants management systems that other states utilize, and received an extensive response to its Request for Information on the subject. The Grants Office is prepared with recommendations on what system is best for Nevada.

II. *Streamline review and authorization process for grant work plans by Interim Finance Committee.*

Summary:

A streamlined process for review and authorization (or denial) of grant-related work plans by the Interim Finance Committee (IFC) is needed to substantially improve State agencies' ability to satisfy the strict processing timelines many grants require. The current oversight process makes it very difficult for agencies to successfully secure and implement a grant award, so much so that many agencies report not even applying for awards due to the State's internal processing timelines. The new process should maintain a system of checks and balances that is needed for appropriate management and oversight of the State's budget, while respecting tight timelines required by federal agencies. This can be achieved by providing agencies with provisional approvals, and/or increasing the monetary threshold for review of proposals to accept gifts and grants.

Discussion:

State agencies must prepare a work plan anytime their proposed new work will alter their legislatively approved budget. Work plans identify sources and uses of funds, and once prepared are forwarded to the Budget Division for review and further action. Typically, these work plans are then forwarded to IFC for review and approval or denial. This process almost always takes in excess of 60 days, and can sometimes range up to six months. Alternatives to fast track this process do exist – the Statutory Emergency Provision, Expeditious Action (15-day), and 45-day approval – but are generally reserved for one-off or exigent use. Every year there are scores of grant-related work plans that appear in front of IFC, so routinizing provisions intended for exceptions and emergencies does not necessarily make sense.

The duration of this process, which is largely created by the frequency of IFC meetings, is often incompatible with the timelines required by federal grants. Agencies cite these inconsistent timelines as a reason for not successfully securing a grant, and sometimes cite the timeline challenges as reason for not even applying for grants. For example, grants often specify services must begin within several months of award acceptance, but agencies cannot guarantee that will happen because sub-grants cannot be given and agencies cannot begin to spend grant funds until approval is received. Federal funding agencies do not understand this process and hold agencies accountable for not spending funding within the appropriate timeline, jeopardizing their future grant prospects. Similarly, grant opportunities that are only one year long will often not be applied for as the agency decides it is infeasible to administer services.

Streamlining this process, while preserving the IFC's important oversight function can be achieved with a combination of modifications, including: 1) providing agencies with a provisional approval to move forward until and if future review is requested; and 2) increasing the monetary threshold that requires approval, which are currently set at \$20,000 for nongovernment and \$150,000 for

governmental grants. Modifying the thresholds will allow routine grants, which often exceed these amounts, to be processed more quickly.

The ideal outcomes are: 1) reduced total processing time for grants and their funds, so as to increase the number of grant received, 2) reduced time between when grant funds are received and funds are put to work, 3) reduced overall bureaucracy, and 4) increased grant applications, resulting in further populations served.

III. *Eliminate budgetary disincentives that discourage State Agencies from pursuing federal grants.*

Summary:

The biennial Authorized Expenditures Act, which grants authority for State agencies to collect and expend monies from the General Fund and other sources, requires that agencies' General Fund appropriation be decreased to the extent that other sources, such as grants, are increased. In effect, this means that securing new grant funding has no positive net effect for an agency's budget; and, that the agency will spend precious staff resources with no positive gain. These outcomes serve as a powerful disincentive for an agency to secure new grant funding. Language in the Authorized Expenditures Act should be modified to eliminate the disincentive – that General Fund appropriation be automatically reduced in lockstep with securing new grant funding.

Discussion:

Section 7 of the biennial Authorized Expenditures Act requires that:

"... where the operation of an office, department, board, agency, commission, institution, or program is financed during the [given years] biennium by an appropriation or appropriations from the State General Fund or the State Highway Fund as well as money received from other sources, the portion provided by the State General Fund or the State Highway Fund must be decreased to the extent that the receipts of money from sources is exceeded, but such a decrease must not jeopardize the receipts of such money that is to be received from other sources."

This provision is reportedly construed by agencies to mean that, in effect, the proceeds created by securing new grant funding during a biennium will automatically be offset by a reduction in its General Fund appropriation. The harm is that the added work of grant identification, application and management yields no additional resources, and has consumed staff resources.

Additionally, replacing General Fund appropriations with temporary federal grant funding jeopardizes programming sustainability because when grant funding runs out an agency is not guaranteed to receive its General Fund appropriation back (i.e. funding is automatically decreased, but not reinstated). In fact, when this happens, an agency must submit a budget enhancement request to obtain its original funding level, and this can be difficult to secure.

It is unclear if these consequences are intended, or merely a byproduct of the Legislature's desire to responsibly maintain oversight and flexibility in budgeting. Regardless, the statute and corresponding practice creates a powerful disincentive for agencies to pursue new grant funding, which also results in fewer dollars trickling down to local regions and communities.

Section 7 of the Authorized Expenditures Act should be modified to make it more likely that when agencies secure new grant funding (additional revenue for the State), they are actually awarded new funds and not penalized with an automatic decrease in existing appropriations. This can be achieved by modifying the language to guarantee some or all of new grant funds secured during the biennium remain with an agency. Or, at the very least, exempting federal grants from the presumption/mandate that a new grant award automatically triggers a General Fund reduction.

Special Note:

Most federal grants prohibit the use of funds to supplant state and local funds, requiring instead that funds supplement the existing funds. As such, it is critically important that the State's practices not in any way fall outside of this directive, making it even more urgent that Nevada clarifies that federal grants should be used to supplement and not supplant funds to avoid penalty.

IV. Create a pilot program to provide match funding and other needed support; fund the creation thereof.

Summary:

Federal grants often require state recipients to share in the cost of delivering a program or project by contributing cash and/or in-kind contributions. So-called match funding is usually a small share of the total grant (such as 20%), but still presents a barrier for Nevada agencies to pursue federal grants. Establishing a pilot program and fund would allow state agencies to access the cash funds needed to secure high-priority, high-return competitive grants.

Discussion:

Federal grants typically require a state recipient contribute cash and/or in-kind services, products, or other valuables to help cover the cost of delivering a program or project. These match funding requirements often account for a small share of the total value of a grant, and in recent years have gravitated towards in-kind contributions in lieu of cash.

Here in Nevada match funding appears to be very difficult for state agencies to come up with, especially smaller agencies with tight budgets. In fact, many agencies cite the lack of match funding as a primary reason for not applying for grants. In order to substantially increase its receipts of federal grants, Nevada will need to help its state agencies overcome the challenges in securing (or accounting for) match funding that persistently limit their ability to secure federal grants.

Creating a pilot program and fund to provide agencies with resources for match funding will create a path to increasing federal grant recipients. Notably, the amount of new federal grant dollars should far exceed the amount of State dollars invested, because state share is typically much smaller than federal share. Responsibility for appropriating and managing such a fund can be vested with the IFC, Governor's Office of Finance, Board of Examiners, or elsewhere.

Special Note:

At the time this report is being written, the 2017 Legislature appears to be facing a budget shortfall. If that is ultimately the case, it may not appear feasible to fund a new program for match funding. Still, the Legislature and Governor's Office should advance any options they can to increase the

ability for agencies to make match funding requirements, such as support and direction, to improve access and coordination to in-kind resources.

Other Important Issues

Members of the Grants Council noted several important considerations and issues that must be addressed, but are not directly addressed by the above 2017 Legislative Recommendations, including:

- *Equitable Statewide Distribution of Grants Office' Services and Grant Funds:* Concern that the Grant's Office is isolated in Carson City was raised on several occurrences. The equitable distribution of grant dollars was also raised numerous times. The Council recognizes there are challenges of operating numerous locations of the Grants Office and that analyzing county-by-county grant distributing can be misleading, but its concerns were not adequately resolved. Taken together, these concerns indicate a serious priority to see the Grants Office and grant dollars equally serve all Nevadans.
- *Network of Partners:* Significantly increasing coordination and communication statewide among state and local government agencies, nonprofits, and other stakeholders is needed to make significant, sustainable progress. The Grants Office is working towards this end, but will need and would like considerable assistance and support in doing so.
- *Staffing Capacity:* There are not enough qualified grant professionals employed or contracted by state agencies to significantly scale Nevada's grant receipts, especially as a result of staffing cuts made in the wake of the recession. The State will need to fill and/or create dedicated grant positions, and provide professional development to upskill new and existing team members. To the extent the State's investments in positions and professional development should be reimbursed or otherwise offset by overhead the maximum amount allowed under grant awards.

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Appendix

- Agenda and Minutes from Every Meeting

DRAFT - Item 5b