Commentary: The Emerging Law of Federal Assistance

Richard B. Cappalli
COMMENTARY

THE EMERGING LAW OF FEDERAL ASSISTANCE

RICHARD B. CAPPALLI*

Professor Catz's wonderfully detailed demonstration of grantee due process rights could not be more timely. The budget holocaust of 19811 undoubtedly will produce funding cutoffs as federal administrators struggle to meet their severe spending limits, as did their predecessors during the Nixon economic retrenchment.2 While the Impoundment Control Act3 has created a process for congressional-executive collaboration on wholesale funding reductions, called “rescissions” and “deferrals,” the Act does not address the question of actions on individual grants and does contain its own ambiguities.4 Cutoffs will result not only from efforts to comply with statutory mandates, but also from self-initiated budget actions of agency heads eager to please the chief by trimming program fat.

We are pleased that Catz's legal exploration confirms many of the thoughts we set forth in Rights and Remedies Under Federal Grants.5 The core of the idea is simple enough: the Supreme Court offers procedural due process to statutory entitlements, and the grant-in-aid qualifies as such an entitlement.6 The challenge is the idea’s elaboration in a

© Copyright 1982 by Richard B. Cappalli.
* Professor of Law, Temple University. B.A., 1962, Williams College; J.D., 1965 Columbia University; LL.M., 1972, Yale University.

1153
field as richly complex as federal assistance. Our earlier writing and
the Catz effort should together offer a firm analytical foundation for
courts and agencies interested in creating satisfactory hearing proce-
dures for grantees facing adverse fiscal action.

This commentary offers some additional thoughts and information
about the main article. While these are reportorial and disconnected,
they suggest important dimensions of the problem. Following these
addenda, we attempt to place the due process issue in the broader
framework we refer to as the emerging law of federal assistance.7 The
right to due process is but one element of a broader trend toward the
formalization and legalization of the assistance system. Seeing the
Catz theories in this broader mosaic confirms their viability and
significance.

I.

The setting of the main article is the dramatic, sympathy-provoking
termination of the financing of a struggling community organization.
The article’s scenario excludes the funding termination or audit disal-
lowance of a state or local government administering “entitlement”
grants. As to volume, this latter situation is by far the most important.
In the years following the Great Society program explosion, the
formula grant to state and local governments maintained its position as
the dominant form of federal aid,8 and, outside the research and
development field, the discretionary project grant slipped in impor-
tance.9 In terms of quantitative value, therefore, the most relevant

7. Also known as the “slumbering giant.” See Southern Mut. Help Ass’n v. Califano, 574
F.2d 518, 522 (D.C. Cir. 1977). The metaphor has attracted a large and growing number of ad-
mirers. See, e.g., ADVISORY COMMISSION ON INTERGOVERNMENTAL RELATIONS, AWAKENING
THE SLUMBERING GIANT: INTERGOVERNMENTAL RELATIONS AND FEDERAL GRANT LAW (1980);
R. CAPPALLI, supra note 5, at 1; Catz, Due Process and Federal Grant Termination: Challenging

8. Compare 1 ADVISORY COMMISSION ON INTERGOVERNMENTAL RELATIONS, FISCAL BAL-
ANCE IN THE AMERICAN FEDERAL SYSTEM 151-53, 294 table A-22 (1967) (280 project grant pro-
grams distributing $2.8 billion; 99 formula programs distributing $9.8 billion, 78% of total) with
ADVISORY COMMISSION ON INTERGOVERNMENTAL RELATIONS, CATEGORICAL GRANTS: THEIR
ROLE AND DESIGN 44 table I-17, 92 table IV-1 (1978) (296 project grant programs distributing
$11.6 billion; 157 formula programs distributing $37.6 billion, 76% of the total).

9. The heyday of the project grant was the latter part of the 1960s in programs such as
model cities, urban renewal, community action, and vocational training. Many of these were
absorbed into formula entitlements such as the Housing and Community Development Act of
1974, 42 U.S.C. §§ 5301-5317 (1976), and the Comprehensive Employment and Training Act of
question is whether process is owed state and local governments when federal administrators attempt to strip them of entitlements in whole or part. While this question is preliminarily posed in the same way as for a nonprofit organization—is the grant a property which cannot be deprived without due process?—the additional issue arises as to whether a government agency is a "person" to whom fifth amendment protections extend. In its 1966 decision South Carolina v. Katzenbach, the Supreme Court thought not. Fortunately, the Court's analysis in that case was perfunctory and superficial, making, we think, the decision surmountable. Apart from precedent, one confronts the argument that states and cities have little need for due process because they can use their political influences to protect themselves in Washington. We demonstrate the analytical falsity of this reasoning in our earlier writing, and congressional action in 1981 was a strong practical demonstration of its falsity in practice.

Two further distinctions between the state (or other entitlement recipient) suffering a formula grant cutoff and the nonprofit organization suffering a project grant cutoff deserve mention. First, in the typical case the former gets a statutory right to pretermination notice and hearing, while the latter gets nothing. This makes the constitutional due process protection less significant but not insignificant, because many statutes do not protect formula grantees with the boiler plate hearing clause. Also, the constitutional right acts as a backup in cases in which there is a statutory due process right. When the federal administrator has begrudgingly implemented the statutory right with procedures perceived by an entitlement recipient to be inadequate, the Constitution is available to test the reasonableness of the agency proce-

11. See R. Cappalli, supra note 5, at 225-43.
14. The states got their block grants, see note 20 infra and accompanying text, but only in hybrid form. Multiple federal "strings" continued to be attached resulting in a severe financial cost and sharp reductions in total appropriations. See Stanfield, The Dry End of the Deal, 13 NAT'L. J. 1554 (1981).
15. See R. Cappalli, supra note 5, at 245-46 n.2; note 22 infra.
16. See R. Cappalli, supra note 5, at 272-79.
17. See id. at 247 n.3. See also note 21 infra.
The second distinction is that nonprofit organizations do not have the taxing power. The state agency can preserve its program through new assessments, but the nonprofit organization has no alternative but to disband. The economic realities of state and local finances, however, make the distinction purely theoretical in many cases.

In 1981, Congress shifted 7.5 billion dollars out of the categorical grant system (both formula and project) and into several new "block" grants. What effects will this have on grantee rights to notice and an opportunity to be heard? With only one exception, a statutory right to prior notice and opportunity to be heard at the primary level is given to the states when the federal secretary is contemplating withholding part or all of a block grant. This simply follows the statutory pattern

---


of the replaced and remaining formula entitlement programs.\textsuperscript{23}

On the secondary level, at which funds flow through the state to political subdivisions and the private nonprofit sector, the block grant seems to strip subgrantees of federal procedural protection. The fifth amendment no longer applies because the United States' involvement after sending the state its block grant payments is minimal. If a fund cutoff occurs at the subgrant level, the deprivation is not the handiwork of the federal government. Federal statutory protection will be unavailable to subrecipients because the streamlined block grants are free from such mandates.\textsuperscript{24} Federal administrative protection will be absent because, in catching the block grant spirit, agencies will not use their discretion to add management and procedural mandates.\textsuperscript{25} Consequently, if the disputes circular of the Office of Management and Budget is ever finalized,\textsuperscript{26} it will probably not extend to the block grants.

Nevertheless, the fourteenth amendment prevents deprivation by states without due process. What may happen is that states, prodded by the federal bureaucracy, will set up distribution systems parallel to those in the federal assistance system for parceling out their own block grants, and in this process create entitlements. The entire due process scenario, including Catz-like articles of lesser dimension, will become a road show in each of the states. While the blocks may have decongested the federal assistance system somewhat, the price will be congestion and confusion at the state level.

\textsuperscript{23} See R. CAPPALLI, \textit{supra} note 5, at 245-46 n.2, 289-90 n.1.


\textsuperscript{26} See note 27 \textit{infra} and accompanying text.
At the federal level, two events are in process which bear importantly upon the subject of the main article. One is the creation of an administrative directive that will promote uniformity in agency dispute mechanisms. In September of 1980, the Office of Management and Budget announced the initiation of a policy review that would explore the desirability of a government-wide assistance policy on handling disputes between federal agencies and assistance recipients. This review had produced a draft set of guidelines and standards and had started lively debate when it apparently lost momentum because of the change of administration in Washington. This policy review did result in a modern regulation for the Grant Appeals Board of the Department of Health and Human Services, which should be the model for dispute resolution processes in the years to come.

The second event is congressional contemplation of across-the-board treatment of grantor-grantee disputes, although the proposed measures at the time we write are disappointingly modest. The latest version of the Federal Assistance Improvement Act contains a section entitled “Procedural Safeguards.” Our pulse quickened when we first noticed the clause, which was added by the Senate Committee on Governmental Affairs. Here, we thought, was the grantee bill of procedural rights and the government-wide disputes board we passionately advocated in Rights And Remedies. Not quite. What parades under the procedural safeguards banner is merely an advance statement of reasons to state and local governments when federal administrators contemplate withdrawing aid, refusing to renew aid, and reneging on an announced entitlement. States and localities can also get an explanation of why their applications for discretionary funds have been rejected. The Senate Committee desires to prevent the grants system from being converted into a regulatory system, to preserve its present flexibility and informality, and to avoid unnecessary tension, “delays,” and “confusion.” This view is a far cry from the regimen of legal

32. See R. Cappalli, supra note 5, at 331-59.
entitlements that Professor Catz and I perceive. The grant system is still being controlled by the public administrators, who are nervously looking over their shoulders as the lawyers close in.

The public administrators misperceive both the nature of the assistance system and the intent of the lawyers, or at least that of some of us. To describe grants as nonregulatory ignores the thousand or so mandates attached to federal aid for cities, counties, and other users. These cannot be ignored, for it is such mandates, and not procedural safeguards, that produce tension, delay, confusion, and inflexibility. As we stated in *Rights And Remedies*,

[a]ccording procedural fairness... does not alter the fundamental relationships between the national government and its partners in governance. On the contrary, it promises to avoid dislocation of whatever working balance has been politically struck at any point in time. Insisting that the states be given a voice in the partnership simply affirms their dignity, essentiality, and ability to contribute. Perhaps the public administrators fear the importation of the rituals of medieval legal systems. It need not happen that way, however. The Health and Human Services Department has an appellate process that is flexible, efficient, streamlined, responsive, and easily understandable to the layman.

II.

The Catz article is important in its own right. Recognition of a right to a hearing prior to grant termination will appreciably raise the fairness quotient of the federal assistance system, whether it occurs in one or more statutes, an OMB directive, a program regulation, or an adjudication. Yet the article attains even more significance when viewed as part of a broader development, which we can call the emerging law of federal assistance.


36. See note 29 *supra*.

37. For some of my earlier thoughts on the lawyer's place within the grant system, see Cappalli, *Federal Grant Disputes: The Lawyer's Next Domain*, 11 Urb. Law. 377 (1979). The infelicitous title may explain some of the nervousness of the public administrators. See text accompanying notes 32-33 *supra*.
The field of federal assistance has moved out of the era graphically described in the Cahns' seminal 1968 article as "the antithesis of democracy" and as a lawless "no man's land." We believe that one may fairly characterize today's federal assistance both as a "system" and as a "body of law." These elements combine to produce the systematic application of a body of common rules, thereby enabling us to speak of the emerging "federal assistance law." Here, we will sketch the main characteristics that federal assistance law shares in common with older branches of American law. The details will have to await our forthcoming treatise on the topic.

First, a set of fundamental purposes informs federal assistance law, and these purposes have, in turn, spawned central concepts and precepts. One example is the basic purpose of support: federal aid transfers economic resources, produced by the powerful sixteenth amendment taxing power, to subnational institutions that have constitutional responsibility for basic governmental functions but suffer from impoverished treasuries. From the support rationale derive the basic precepts of grantee autonomy and voluntary grantee participation in federal assistance. The optional nature of grantee participation in federal economic support has resulted in a doctrine of construction.

39. The treatise is tentatively to appear in three volumes under the title FEDERAL ASSISTANCE and is scheduled to be published in the fall of 1982.
   Each executive agency shall use a type of grant agreement as the legal instrument reflecting a relationship between the Federal Government and a State or local government or other recipient whenever—
   (1) the principal purpose of the relationship is the transfer of money, property, services, or anything of value to the State or local government or other recipient in order to accomplish a public purpose of support . . . .
   Id. See also R. Cappalli, supra note 5, at 34-42.
42. See, e.g., Pennhurst State School & Hosp. v. Halderman, 101 S. Ct. 1531, 1536-37, 1539-
under which the terms of support, unilaterally established by the United States, will be strictly interpreted against the United States when grantee responsibilities are sought to be implied from vague statutory language.\(^{43}\)

Second, the law of federal assistance is unified and made coherent by a set of operational rules common to all programs. This enables knowledge, interpretations, and solutions to be transferred between programs, and it makes viable the teaching and practice of federal assistance administration and law. One body of common principles is the product of statutes that apply to all federal financial assistance, thereby sweeping under their mandates the hundreds of separate aid programs.\(^{44}\) A second body comes from repetitive patterns in the statutes that authorize aid: common statutory style, structure, mechanics, and boiler plate. Cost-sharing ("matching"), maintenance of effort, nonsupplantation, federal audit, and access to grantee records are but a few examples. A third body of common principles is the inspiration of the Office of Management and Budget in the form of circulars. These are directives to the federal agencies on topics such as grant administration,\(^{45}\) intergovernmental cooperation,\(^{46}\) and cost principles.\(^{47}\) Finally, there is even a comprehensive statute that contains a potpourri of rules tagged onto assistance programs.\(^{48}\)

---


43. See Pennhurst State School & Hosp. v. Halderman, 101 S. Ct. 1531, 1540 (1981) which stated that "[b]y insisting that Congress speak with a clear voice, we enable the States to exercise their choice [of accepting or rejecting federal assistance] knowingly, cognizant of the consequences of their participation."


Third, democratic systems of law involve sets of rights and duties possessed by interacting parties. If all rights are held by one side, we have monarchy, oligarchy, or other forms of absolutism. This may have been an accurate description of federal aid in its earlier years, although practical and political constraints were often asserted as holding absolute federal power in check. 49 Today's federal assistance has been democratized through the vesting of substantive rights in recipients of federal aid. The key substantive right is that of receiving funds upon compliance with all preconditions. 50 Such right may be successfully asserted in court to release an impoundment, 51 collect an allocation, 52 stop a termination, 53 or recover monies due. 54 The grant-in-aid has matured into a type of defeasible property. The grantee has a defeasible right to collect the proceeds from the United States. The defeasance occurs when the grantee commits a violation of the grant conditions, and it may be partial or full depending upon the nature of the violation. 55 To the extent that the program vests implementation discretion in the grantee—permissible ranges of choice on fund uses, on policies such as civil rights, and on procedures—these may also be seen as substantive powers of the grantee in that federal efforts to dictate actions contrary to the grantee's desires can be thwarted by appropriate judicial action. 56

Fourth, a body of law must have a content of sufficient clarity to be understood and applied consistently and uniformly. Federal assistance law has lacked precision in expression and definition because its bulk is of recent creation and the raw material from which statutes and regula-

52. See, e.g., City of Los Angeles v. Adams, 556 F.2d 40 (D.C. Cir. 1977).
54. See, e.g., Arizona v. United States, 494 F.2d 1285 (Cl. Cl. 1974).
56. In hundreds of cases, grantees have been given standing to seek declaratory and injunctive relief against allegedly illegal action by federal sponsors. See generally R. CAPPALLI, supra note 5, at 108-71.
tions are created comes mostly from the soft sciences. 57 Nonetheless, each day brings new definitions, new court and board interpretations, and increased custom and usage. These, in combination with the reasonably clear understanding of assistance’s purposes and central concepts, result in a legal system with a precision at least equivalent to areas such as torts.

Fifth, the body of law must be dependable and enforceable. Otherwise, it is merely a body of morals or ethics upon which parties cannot confidently plan their actions. Concerning recipient responsibilities, the federal government has been able to enforce the standards attached to the aid from an early date. 58 This coin’s flip side, however, has borne a different stamp. The national government has claimed its ancient prerogatives to alter the rules through revised regulations, 59 to issue informal, unenforceable rules by way of manuals, instructions, and guidelines, 60 and to refuse to be bound by the statements and assurances of its officials. 61 This too has changed considerably. Increasingly, the agencies are publishing their rules in the Federal Register and are thereby binding themselves by giving their rules the force of law. 62

Finally, sets of procedures are evolving for the application of the law of federal assistance. Without a forum for dispute resolution, a body of purposive, defined, mutual, and dependable rules dissolves into pure power politics. On the other hand, the most solicitous procedural protections go for naught if the body of substantive rules to be applied therein is amorphous, shapeless, arbitrary, and uninspired by com-

58. See, e.g., Oklahoma v. United States Civil Serv. Comm’n, 330 U.S. 127 (1947) (collection of fiscal penalty for Hatch Act violation); In re School Bd., 475 F.2d 1117 (5th Cir. 1973) (voiding of grant); United States v. Harrison County, 399 F.2d 485 (5th Cir. 1968) (injunction to enforce agreed use of aided public beach); Utah State Bd. for Vocational Educ. v. United States, 287 F.2d 713 (10th Cir. 1961) (recovery of federal funds used for unauthorized purpose).
59. See, e.g., Thorpe v. Housing Auth., 393 U.S. 268 (1969) (grantee bound to follow agency directives issued subsequent to grant).
60. See, e.g., Massachusetts Dep’t of Correction v. Law Enforcement Assistance Admin., 605 F.2d 21 (1st Cir. 1979) (agency need not follow its written, internal grant selection procedures).
61. The “estoppel” argument drifts like smoke through federal assistance disputes. The courts blow it away with the ancient canard that the government is not bound by unauthorized acts and statements of its officials. See, e.g., Robinson v. Vollert, 602 F.2d 87, 93-94 (5th Cir. 1979). Perhaps there is enough fire—agencies backing away from assurances upon which grantees have relied—to justify a revamping of the doctrine.
monly accepted purposes and concepts. Within this broader frame-
work of the emergent law of federal assistance, we finally see the full
significance of the main article. The assistance system now provides a
body of legal principles of a content and character suitable for applica-
tion in due process hearings. And without such hearings the advances
in lawfulness made in the past two decades by the assistance system
will be severely blocked, for, as elsewhere, rights without remedies are
meaningless in the assistance field.