

Distribution of Block Grant Funding: Considerations for Rural Communities

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Block grants are a type of funding mechanism that awards funds from the federal government to state and local governments to be used for a variety of purposes, such as alleviating the causes and conditions of poverty, increasing the availability, affordability, and quality of child care services, planning and implementing activities that prevent and treat substance use, and addressing unique public health needs.¹ Block grants were created to provide flexibility for state and local governments, with fewer federal administrative conditions attached to these funds compared to other federal funding mechanisms. While, at the direction of Congress, the federal government can guide how states allocate funds to local jurisdictions, within-state allocations are largely a function of state decision-making. Block grants were first established in 1966, and as of fiscal year 2022, there were 22 federal block grant programs totaling \$59 billion per year.²

Federal administrators have general oversight of the recipients of block grant funds, with most funding being allocated to recipients by a formula.² The formulas and other parameters related to how the funds can be used are written into legislation by Congress. After passing legislation authorizing a block grant, Congress exercises oversight to ensure that the federal agency administering the funds is achieving the objectives set for that funding. Once a state receives block grant funds, it uses discretion when allocating the funds to different programs and local areas.² To date, there has been some limited assessments of how rural considerations are accounted for in this funding approach.³ This policy brief examines the block grant mechanism through a rural lens.

Key Takeaways

- Rural populations were identified as a priority for funding in several states and block grant programs, but not all.
- Several states reported using formulas to allocate block grant funding to local agencies and communities. Formulas varied on whether and how they accounted for rurality.
- Mechanisms used to distribute funding within states varied across block grants.
- Staffing issues were commonly reported as a barrier to funding distribution and use, which may be particularly impactful for rural agencies and communities.
- The flexibility of block grant funding and the ability of state agencies to work with and support local agencies that receive block grant funding were noted as facilitators for funding distribution and use.

One argument for block grants is that state and local governments are more in touch with their communities and are therefore better equipped to identify state and local needs and make decisions about how to use the funding.¹ They may also allow for long-term planning at the state and local levels. Because block grants are written into legislation and funding is allocated to states by formula, there is a greater sense of continuity with the funding. State and some local governments can feel confident that they will continue to receive the funding year-to-year and can plan programming that operates on a long-term basis.² A counterargument is that recipients and policymakers may face challenges in exercising the flexibility of block grant structures and also ensuring accountability.²

Given that block grant mechanisms are designed to provide maximum flexibility for states, their reach and impact largely fall within the purview of state authorities as long as it is done so in accordance with the Congressionally authorized statute. There are a few studies that examine how state authorities distribute and local organizations use block grant funds after receiving them from the federal level. It is also unclear whether block grant funding adequately reaches rural areas and other areas of need within states. The purpose of this study was two-fold: 1) describe the funding mechanisms and factors underlying the distribution of block grant resources from states to local communities, with a focus on implications for rural communities; and 2) note policy considerations related to distribution and use of block grant funding in rural communities.

Using a case study approach, this study examined three block grants: 1) Preventive Health and Health Services (PHHS) Block Grant administered by the Centers for Disease Control and Prevention (CDC); 2) Community Services Block Grant (CSBG) administered by the Administration for Children and Families (ACF); and 3) Substance Abuse Prevention and Treatment Block Grant (SABG, now referred to as the Substance Use Prevention, Treatment, and Recovery Services Block Grant, SUBG) administered by the Substance Abuse and Mental Health Services Administration (SAMHSA). More information about these block grants was previously published.⁴ The selected block grants are not meant to be representative of the broader range of state grants, nor is this an assessment of the relative value or impact of any of these programs. Rather, this analysis seeks to better understand how states account for rural considerations within their allocation of funding for these programs and how those findings might inform policymakers in the future.

Methods

Study Design

This study applied a case study approach to characterize the distribution of block grant funding from states to local communities, yielding a case study for each block grant of interest. For each block grant, funding distribution was explored in six states through key informant interviews with representatives of state and local agencies. This study was deemed non-human subjects research by the Institutional Review Board at East Tennessee State University.

Data Collection

State Agency Interviews. A total of 22 key informant interviews were conducted with respondents from state agencies that managed block grant funding across 14 states during May-August 2022. Interviews were conducted in six states for each block grant, with states varying to some degree by block grant

based on responses to interview requests. A list of potential states was developed by reviewing a variety of characteristics of state structures and population to achieve maximum variation. Characteristics considered included: region, public health governance structure, Medicaid expansion status, measures of state-level rurality, and demographic characteristics. With the exception of SABG, one interview was conducted in each of six states for a given block grant. For SABG, up to two interviews were conducted as state agencies were often found to separately manage primary prevention and treatment activities. Potential respondents from state agencies were selected based on their role in managing block grant funding. A semi-structured interview guide was used to conduct interviews. It covered various topics related to the distribution of block grant funding from states to local agencies, such as funding goals, priority populations, transfer mechanisms (including formulas), and factors facilitating or hindering distribution. Interviews were voluntary, conducted virtually, and recorded for transcription purposes.

Local Agency Interviews. To achieve a more comprehensive view of how block grant funding flows within states, state-level interviews were supplemented with local-level interviews. Seven key informant interviews were conducted with respondents from local agencies that received block grant funding across six states during August-October 2022. For CSBG and PHHS, interviews were conducted in up to two states per block grant. For SABG, interviews were conducted separately on primary prevention and treatment activities, yielding four interviews for SABG. During state agency interviews, respondents were asked to recommend up to two local agencies, if possible, in rural communities, to participate. For each block grant, states were prioritized for local agency interviews to maximize variation in distribution mechanisms from state to local agencies (e.g., states that do and do not use formulas). A semi-structured interview guide that covered topics similar to those for state agency interviews was used to conduct interviews. Interviews were voluntary, conducted virtually, and recorded for transcription purposes.

Data Analysis

While data derived from state and local agency interviews were analyzed separately, a similar approach was applied across datasets.^{5,6} Specifically, a rapid analytic approach was used, and a series of summary matrices of responses was generated.^{5,7} Two Excel templates, one per dataset, were drafted based on interview questions to develop a summary of each transcript. A subset of interviews per block grant was independently summarized by two researchers. Discrepancies were discussed until consensus was achieved, including template revisions. The rest of the transcripts were then summarized. For state agency interviews, summary templates were combined as appropriate into a matrix per block grant (total of three), and domains in each matrix were summarized.^{5,7} For local agency interviews, summary templates were combined across block grants into one matrix, with select domains summarized.⁵

Results

Priority Areas and Populations for Block Grants

States described priorities for block grant funding. Consistent with the flexibility of block grants, locally driven priorities were commonly highlighted across the three programs. States suggested that local communities or funded agencies use data to tailor grant goals or outcomes, identify priority populations, or both for block grant funding. Rural individuals and communities were specifically identified as priority populations within several states and block grant programs, though not all.

Preventive Health and Health Services (PHHS). States typically did not report specific state-level funding goals or outcomes for PHHS, but rather allowed communities to develop their own goals and outcomes based on needs assessments or other data sources. Similarly, when considering populations of interest, most states reported that priority populations are selected by local communities, with a focus on those who are high-risk or with significant health-related social needs, including people who live in rural areas.

Community Services Block Grant (CSBG). States generally indicated that the goals and outcomes for CSBG are not determined at the state level, but rather locally driven by funded agencies to address the needs of their communities, including “gaps.” Funded agencies are federally required to perform a community needs assessment every three years to assist in determining their goals and outcomes. CSBG funding is focused on populations with lower incomes, which is typically defined as 125% of the federal poverty level (FPL), but was increased to 200% FPL during the COVID-19 pandemic and reverted back to 125% FPL on October 1, 2023.⁸ Local agencies may decide, based on their assessments, to focus on specific populations.

Substance Abuse Prevention and Treatment Block Grant (SABG): Prevention. Several states discussed having statewide priorities for SABG-Prevention, with priorities varying across states (e.g., tobacco, alcohol, mental health, suicide prevention, and training and workforce development). All states described the use of data to identify high-risk populations and funding priorities. Most states further reported that priority populations were not chosen at the state level, but that funded agencies, using data, established their priority populations. These populations included people who live in rural areas.

Substance Abuse Prevention and Treatment Block Grant (SABG): Treatment. States generally described goals and outcomes for SABG-Treatment that included ensuring access to substance use disorder (SUD) services and supporting recovery community organizations. States noted that this program has federal priorities or requirements that they must meet. While federal guidance identifies various populations, people who live in rural areas are not specifically identified as a priority population.

Funding Mechanisms for Block Grants

States described various mechanisms used to distribute block grant funding, including competitive and non-competitive mechanisms. Additionally, states frequently reported using formulas to allocate block grant funding to local agencies. Rurality or rural populations were considered, either directly (e.g., formula includes a measure of rurality) or indirectly (e.g., all counties are covered by funding), within multiple, though not all, state mechanisms and formulas.

Preventive Health and Health Services (PHHS). States used various mechanisms to distribute PHHS funds. While these mechanisms generally resulted in the distribution of funding to local agencies, funding at times remained at the state level. Mechanisms included non-competitive mechanisms that funded local public health agencies across the state, funding state-level positions that worked directly with local agencies, or funding community-based partners with longstanding relationships with the state. Two states also use some form of competitive grants for which local agencies can apply.

Three states used a formula to allocate funds, all of which adjusted for rurality in some manner, either directly or indirectly. Other formula factors included population size, various measures of poverty, years of potential life lost (YPLL), and the number of counties covered by local health agencies. Across these states, the formulas have remained the same for decades.

Community Services Block Grant (CSBG). It is federally required that 90% of CSBG funding be passed through states to local agencies in a non-competitive manner, with the remaining percentage used as discretionary funding and for state administration. Beyond designation as a community action agency or eligible agency, few factors appeared to influence state funding decisions.

States reported using formulas to allocate the 90% pass-through funding to agencies. Factors included in formulas varied by state, though generally included an indicator of poverty or CSBG eligible population; rurality was often not directly considered. However, the majority of states described a minimum or base amount of funding that was provided to each agency (e.g., base amount plus percentage formula). Such amounts could indirectly support rural communities by ensuring that each agency, regardless of the size of the geographic area or population served, receives a meaningful amount of funding. These formulas have remained relatively unchanged for years, with some states describing potential plans to change them but also noting challenges to making changes.

Substance Abuse Prevention and Treatment Block Grant (SABG): Prevention. Funding mechanisms for SABG-Prevention varied to some extent across states, but all states reported using either a request for proposal (RFP) or a contract to transfer funds. The most common model was to identify government entities across the state to receive funding via a contract.

Most states reported using a formula. Formulas varied based on the factors considered, but the most common factors were population density and a measure of need. While not a formula factor specific to rurality, states described other funding approaches that could support rural areas. Examples include having a base amount that is the same across funding recipients, considering socioeconomic factors (e.g., high school dropout rate and poverty levels) that often correlate with rurality, and dedicating a portion of funding to high-need areas with limited resources, which often includes rural areas. States differed in how recently they had updated their formulas, with some stating that they had not been changed in a long time, and two states stating that they had recently updated their formulas.

Substance Abuse Prevention and Treatment Block Grant (SABG): Treatment. While mechanisms varied to some extent across states, states generally reported that SABG-Treatment funds were distributed in non-competitive mechanisms. Some states noted scenarios where RFPs may be used, such as for when extra funds are available, or for specific projects or priorities. The historical nature of funding allocations was often acknowledged. For example, states may fund the same organizations over time, distribute similar funding amounts over time, or rely on historical utilization patterns. Efforts to address historical "deficits" or transition away from historical models were noted in a couple of instances. Further, states varied on whether they explicitly consider rurality or geography in funding decisions.

Two states used formulas, one of which described a rural differential where agencies serving rural communities received a base amount of funding. Those states also reported that the formulas had not changed in over a decade.

Barriers to Block Grant Funding Distribution and Use

Various barriers to block grant funding distribution and use were described, with some respondents describing barriers in general and others discussing barriers specific to rural areas. Because many of the general barriers were also described as potentially applying to urban areas, general and rural-specific barriers are presented in combination.

State Agencies. State respondents identified various barriers to the distribution and use of block grant funding in rural and other communities, including the capacity of local agencies. Many local agencies were reportedly short-staffed or had small staff sizes that limited what they could accomplish, given continued turnover and hiring difficulties. A lack of trained staff and providers can subsequently impede service provision. Challenges related to the “economy of scale,” particularly in rural communities, were also noted. This extends to limited capacity and expertise to develop strong grant proposals when funding is competitive. Other barriers mentioned included technology and transportation, particularly for more isolated communities and the agencies serving them.

Local Agencies. Local agency respondents identified several common barriers. Similar to barriers reported by state agencies, workforce shortages were cited as a challenge. Difficulties with retaining staff and hiring new staff were described. Legislative budget finalization was also mentioned as a barrier because it delayed the release of funds, leaving local agencies in a difficult position until funding could be secured.

Most local agency respondents interviewed were located in rural areas and provided important insight into rural-specific barriers. Infrastructural issues were commonly cited, with many local agencies serving communities with limited internet access and transportation barriers. Broad geographic areas were also noted as a barrier -- some service areas cover hundreds of miles, and with a lack of available transportation, it is impossible to serve everyone who needs services. Rural agency respondents also reported that it was more difficult to organize their community due to their population being spread out geographically. Additionally, they indicated that community members often filled multiple leadership roles (e.g., same person being both the mayor and the school principal), limiting their capacity to partner with agencies.

Facilitators to Block Grant Funding Distribution and Use

State Agencies. State respondents identified multiple facilitators and strategies that could support the distribution and use of block grant funding in rural and other communities. Compared to barriers, there appeared to be more variability in what state respondents identified as facilitators and strategies, both within and across block grants. State respondents highlighted the flexibility inherent in block grants as a facilitator. This flexibility, as well as the ability to combine funds, either at the state level or by local agencies, can help extend the block grant funds and allow local agencies to focus on their community priorities.

Beyond flexibility, some state respondents identified opportunities for streamlining their processes to support the allocation of funds to local agencies. Other facilitators identified included their ability to use some funds for working with and supporting local agencies by providing technical assistance, training, funds for conference attendance, and other resources. When discussing local agencies, some state respondents highlighted the value of collaboration and partnerships. They also described their local agencies as having strong boards or infrastructure, commitment to their communities, and since often the same agencies are funded every cycle, familiarity with the grant mechanisms and requirements.

Local Agencies. Local agency respondents described several facilitators to successfully securing and using block grant funding. Similar to state respondents, the flexibility of the block grant funds was cited as a facilitator. For example, local agency respondents described using funds to create pilot programs to target newly identified needs in their community. Funding was also used to address gaps that lacked other sources of funding.

Strong partnerships, both with local community partners and state administration, were also cited as a major facilitator for successful outcomes. Seasoned and experienced staff at the local agency who have been working in the community for a long time were also described as facilitators. Further, local agency respondents reported using block grant funding to support endeavors, such as grant writing capacity, that enabled them to be more competitive when applying for other funding. Using the block grant funds in this manner helped local agencies become more sustainable as well.

Discussion

Block grants are funding awarded to states and local governmental agencies by the federal government.¹ Block grants provide funds that are typically viewed as flexible to address community-level needs, but little is known about how these funds are distributed from states to local agencies. This study sought to understand how these funds are distributed within states, how they address priorities at the state and local levels, and any barriers and facilitators to distributing and using them, particularly in rural communities.

Case studies of three federal block grant programs suggest that there is significant variability in how these funds are distributed and used, both within and across block grant programs. For example, some state respondents described the majority or all of the funding staying at the state level, while others described satisfying a federal requirement that 90% of funding is allocated to local agencies and organizations. Some states allocated block grant funds to the same set of local agencies or organizations for decades, while others used a competitive RFP process. While this variation highlights the flexibility that many block grant programs allow, it could have implications for how rural considerations could be accounted for. Building on findings from prior research,³ the funding mechanisms and associated allocation formulas used by states may not always support distribution to and use of block grant funds in rural communities.

Rural individuals and communities were identified as priority populations for funding in several states and block grant programs, but not all. At the federal level, there are few instances of rurality being an explicit consideration for funding allocation and use. In lieu of this, the flexibility allowed through these block grant programs allows state and local agencies and organizations to prioritize rural communities, if they

so choose. We identified many instances of states prioritizing rural populations, such as through base amounts of funding, ensuring that all counties or areas of the state are covered by agencies with this funding, including measures of rurality in allocation formulas, and building state capacity for technical assistance and other supports that can be available to local agencies, regardless of their size or capacity. Collectively, these instances highlight the variety of potential strategies that could be leveraged by states to help ensure that block grant funding reaches and serves rural individuals and communities.

State and local recipients underscore the importance of this funding, including for rural communities. Respondents, for example, emphasized the role of this funding in filling gaps that other funding does not cover, piloting new programs, or building grant writing capacity to be competitive for other funding mechanisms. As the direct recipient of these federal resources, state agencies play an important role in facilitating the use of block grant funds to support rural communities. As such, several considerations for state agencies were identified to facilitate the distribution of block grant funding to rural areas.

Limitations

This study has several important limitations to consider. First, this study includes interviews from six states for each block grant program. We used a maximum variation sampling approach to capture experiences across states with different characteristics, but findings from our sample may not capture the full variation in structures, processes, and use of funding across all states and may not be generalizable to states not included in the sample. In addition, the states that were reflected for each block grant differed. Second, individuals interviewed had varying amounts of experience with block grant programs. Third, data are self-reported, and some of the decisions and policies described were developed many years ago, often before the individuals interviewed were in their role in administering or managing the block grants of interest. The individuals who participated in interviews also had varying levels of experience in administering or managing the block grants.

Considerations

- ***Consider integrating or expanding mechanisms that could account for rural considerations.***

Although block grants do not always include rural populations as a priority population, their flexibility can offer states the autonomy to focus on rural populations. There may be multiple mechanisms to promote the distribution of block grant funding to rural individuals and communities, including the following, notwithstanding that the administering agencies may or may not have the statutory authority to make these changes:

- Review existing block grant formulas to determine whether modifications are needed to address the current needs of local populations and, in particular, rural populations. Multiple state respondents reported using formulas to allocate funding to local agencies within the state; however, they did not consistently account for rurality and were often unchanged for years.
- Consider establishing a base or floor amount when allocating block grant funds to local agencies or communities. A base amount could help ensure that each locally funded agency, regardless of the size of the geographic area or population served, receives a meaningful amount of funding.

- Consider carve-outs for rural populations when allocating block grant funds.
- Consider accounting for geography when allocating block grant funds. For example, formulas may include a measure of rurality to facilitate funding reaching rural communities.
- ***Consider additional strategies to facilitate block grant funding receipt, use, and reporting among local agencies and organizations to the extent practicable within current statutory authority.***

There may be opportunities to review existing structures and processes involved in the distribution of block grant funding to local agencies and organizations. Modifying those structures or processes to the extent possible to minimize the burden and maximize the support available to funded agencies and organizations could enhance the reach and impact of block grant funding for rural populations. This may include the following options:

 - Ensure robust non-financial resources (e.g., training and technical assistance) are available to agencies and organizations to support their participation in block grant programs, including resources specific to serving rural populations.
 - Ensure robust non-financial resources are available to support block grant administration and reporting requirements among local agencies and organizations, particularly smaller and often more rural agencies that may have less capacity or experience to fulfill reporting requirements.
 - Identify opportunities to support collaboration and networking among state and local agencies and organizations, particularly those located in rural areas or serving rural populations.
- ***Include rurality or geography in state and local planning for block grant funding.*** State and local agencies may use mechanisms such as needs assessments, planning councils, or public hearings to inform the use of block grant funding, and be intentional about including rural populations and other populations in need during the planning efforts.
- ***Engage State Offices of Rural Health and/or state rural health associations when deciding how to use block grant funding.*** States could engage their State Office of Rural Health, rural health association, and/or other rural partners and community members when planning and prioritizing how to distribute and use block grant funding.

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