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Observations on the Environmental
Protection Agency's Budget Request
for Fiscal Year 1991

Statement for the Record by
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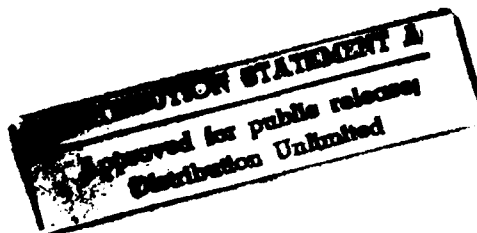
Before the
Committee on Environment and Public Works
United States Senate

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Mr. Chairman and Members of the Committee:

We appreciate the opportunity to offer our views on the President's fiscal year 1991 budget request for the Environmental Protection Agency (EPA).

There is now widespread agreement that the nation has reached a crossroads in environmental policy and that fundamental changes must be made in the way we deal with environmental problems. In response to these heightened expectations for strong environmental action, the fiscal year 1991 budget request proposes \$5.6 billion for EPA. This proposal includes a 12 percent increase in EPA's operating budget--from \$1.92 billion to \$2.15 billion--cited as one of the largest increases for any federal agency. The remainder of the proposed budget for EPA primarily supports the agency's Superfund and Wastewater Construction Grants programs.

As we discuss in detail later, this increase needs to be put in perspective. A number of EPA's programs are receiving additional funding, but when inflation and federal pay increases are accounted for, funding for most programs is being increased marginally or is being cut. In many cases, the funds to be provided represent only a small downpayment on the long-term costs of protecting the environment. Furthermore, the proposal does not acknowledge the difficulties that state and local governments are having in coming up with their share of the required resources, which in the aggregate may run into billions of dollars. As a

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result, if environmental cleanup and protection continue to be funded at current levels, the pace and extent of environmental improvement may not meet public expectations.

Because of the extent and magnitude of our environmental problems and the level of resources available to EPA, the agency needs to more effectively direct its resources to the most pressing problems and to look for opportunities to better leverage private, state, and local funds to adequately deal with them. Based on our 1988 management review of EPA, we recommended a number of actions that EPA could employ to better manage its resources.¹

OVERVIEW

Public opinion polls consistently identify protection of the environment as one of the nation's top priorities. In part, this concern is prompted by the tremendous costs the nation has had to pay to clean up the environment as well as by its inability to rectify past problems, much less deal effectively with emerging pollution issues. Over the last 20 years, the United States (industry, the federal government, states, and localities) has invested some \$700 billion in pollution control; it currently spends close to \$90 billion a year, or about 2 percent of its gross national product, to correct and prevent environmental problems.

¹Environmental Protection Agency: Protecting Human Health and the Environment Through Improved Management (RCED-88-101, August 16, 1988)

Reflecting a desire to more effectively address these environmental challenges, legislation--which GAO supports--has been introduced to elevate EPA to cabinet status and create a Department of Environment. Many other bills have been introduced and the Congress has demonstrated a strong interest in dealing with new environmental problems, such as global warming. The Congress' environmental agenda over the next few years promises to be full.

Notwithstanding the additional emphasis that the administration has given to environmental issues, it has been pointed out that the proposed 12 percent increase in EPA's operating programs budget only brings the budget back to the level it was in fiscal year 1979, taking inflation into account. Yet, since that time the agency has seen its workload expand enormously, with new and substantial responsibilities for hazardous waste regulation and drinking water protection, among others.

In addition, EPA's total budget request of \$5.6 billion is essentially the same as the amount appropriated for fiscal year 1990. Thus, the 12 percent operating programs budget increase occurs because funding for construction of wastewater treatment plants is being reduced from \$2.0 billion to \$1.6 billion. In other words, this \$400 million reduction would be offset by almost equal increases in Superfund and EPA's operating programs.

UNMET NEEDS

Six key areas illustrate the staggering but largely unmet needs facing the nation and how EPA's proposed budget addresses them.

Safe Drinking Water

First, safe drinking water. Recent amendments to the Safe Drinking Water Act will not only cost communities hundreds of millions of dollars a year to bring their water systems into compliance, but they will also require significant expenditures by EPA and the states for enforcement of the federal requirements. EPA officials acknowledge that the 10 percent increase proposed for the drinking water program--from the current estimate of \$120.8 million for fiscal year 1990 to \$132.6 million for fiscal year 1991--may not cover EPA's increasing enforcement resource needs, considering its other responsibilities and initiatives to protect drinking water. Moreover, the budget request does not address the multi-billion dollar costs currently facing communities in their efforts to comply with the new federal drinking water requirements.

Sewage Treatment Plant Construction

Sewage treatment plants are another area of serious financial concerns. Since 1973, EPA has provided over \$50 billion in grants to states and localities for construction of sewage treatment

plants. Based on an extensive 1986 survey, EPA estimated that about \$60 billion was needed to meet the need for new plant capacity required for the current (1986) population and an additional \$16 billion by the year 2005. These need estimates represent the capital costs needed to build publicly owned municipal wastewater treatment facilities to comply with the Clean Water Act. In addition, the estimates are limited to facilities for which a known water quality or public health problem could be documented.

The Water Quality Act of 1987 significantly changed the way wastewater treatment plant construction will be funded in the future. It replaced direct federal construction grants to communities with grants to states to capitalize state revolving loan funds, from which communities can borrow funds to construct needed plants.

State and local officials have expressed concern that these loan funds may not sufficiently replace construction grants. In addition, the administration has consistently proposed cutting federal funding, and the fiscal year 1991 request of \$1.6 billion for plant construction represents a proposed decrease of about 20 percent from the appropriation for fiscal year 1990.

Beyond the cost of constructing plants, communities have the additional responsibility for operating, maintaining, and eventually replacing existing plants. These costs are also in the

billions of dollars. Based on our work, it is doubtful that localities are setting aside sufficient funds through user fees to cover these costs. To the extent that adequate fees are not being collected for these purposes, the demand for federal assistance may increase in the future.

Nonpoint Source Water Pollution

Nonpoint source water pollution, such as runoff from agricultural lands and urban development, is another area in which needs are not being fully addressed. Billions of dollars have been spent to reduce water pollution from municipal sewage treatment and industrial plants (point source water pollution). However, EPA and other organizations have said that, even if further improvements occur in point source controls, pollution from nonpoint sources would still leave many of our lakes, rivers, streams, and estuaries polluted.

Because statutory authorities for nonpoint source control do not provide direct federal regulatory responsibility, EPA must rely on state and local programs. Under the Clean Water Act, the states were required to submit nonpoint source assessment and management programs to EPA for approval. Implementing these programs has been difficult for the states.

EPA has estimated that by 1994 states will face an 81 percent increase in their overall water pollution operating budget costs,

excluding water treatment plant construction, because of new federal requirements and more complex operations. At the same time, federal funding has been declining. As a result, EPA estimates that the states will have a \$322 million funding shortfall in 1994, not including project funding needs such as those for construction grants. In addition, the proposed fiscal year 1991 budget calls for a reduction of approximately \$22.6 million in state nonpoint source management grants from \$36.9 million estimated for 1990 to \$14.3 million proposed for 1991. With the reduction in state grants, nonpoint source funding represents about 4 percent of EPA's proposed Water Quality budget, even though nonpoint source pollution is recognized as a significant contributor to water quality degradation.

Asbestos Abatement

One of EPA's functions is to build a coordinated federal and state program to manage the abatement of asbestos in buildings. The proposed fiscal year 1991 budget would continue this effort but with substantially less resources. After providing a total of about \$245 million under its Asbestos-in-Schools Loans and Grants Program (\$43.4 million in fiscal year 1990), EPA is requesting no additional funds for the program in fiscal year 1991. EPA's activities related to asbestos in schools are to be funded under its Asbestos-in-Buildings program, which is to receive about \$7.7 million, a \$4.3 million reduction from fiscal year 1990.

EPA estimates that 35,000 schools and 733,000 public and commercial buildings require asbestos abatement at a cost of over \$50 billion. The extent to which states, localities, and building owners will be able to meet asbestos abatement requirements without some form of federal financial assistance is not known.

Superfund

The President's 1991 budget provides about \$1.7 billion for the Superfund program, an increase of over \$200 million. Although the long-term costs of the Superfund program are unknown, EPA recently estimated that federal costs for the 1,200 present Superfund sites will total \$30 billion. This figure is understated because it omits future inflation and is based on the cost of cleaning up earlier sites that may be less complex than those now coming up for work. More importantly, the \$30 billion estimate is for sites already in Superfund and thus should be viewed as only a current installment. About two years ago, we reported that the potential number of hazardous waste sites in the United States may be as high as 425,000. Even if only a small portion of this universe requires cleanup under Superfund, the budget consequences would be staggering.²

²Hazardous Waste Problem Still Unknown (RCED-88-44, December 17, 1987)

Pesticides

EPA's proposed budget also reflects \$14 million in additional user charges that would help offset EPA's costs to register new pesticides. However, in 1988 amendments to federal pesticide law, the Congress prohibited EPA from establishing any more fees on pesticide manufacturers who were required, under the amendments, to pay fees for reregistering existing pesticides. Consequently, unless the Congress is willing to reverse itself on this point, EPA will receive about \$14 million less in revenues than the administration has estimated.

NEED FOR IMPROVED MANAGEMENT

When the magnitude of the problem greatly exceeds the resources available to deal with it, it is essential that every dollar be spent wisely. As mentioned earlier, our 1988 EPA management review identified several management initiatives that would help make the most of EPA's limited resources.

One such practice would be to better link planning--the development of goals and creation of priorities--with EPA's budget process. The budget process should be driven by decisions on what has been and what needs to be accomplished. But we found at EPA that the development of operating budgets drives operational planning, rather than the other way around. As a result, resources continue to be focused on traditional program activities

rather than on the highest priorities. For example, of three air and radiation priorities that were included in the agency's priority lists for fiscal years 1987 and 1988, none were included as key issues in the budgets for either year.

We also found that EPA needs a better basis for evaluating its programs. Many of the agency's efforts are now assessed according to activity-based indicators--the kind of assessment usually referred to as "bean counting"--such as numbers of enforcement actions taken or permits issued. We have argued, however, that to manage its programs for environmental results, EPA needs to develop indicators of progress that are based on environmental conditions--improvements in air or water quality, for example. This kind of information, in our judgment, is not only more useful but is essential for making resource decisions based on effectiveness.

Finally, EPA needs to institute better financial and other management information systems, as well as better internal controls. All federal agencies should be using such systems and controls to guard against fraud, waste, and abuse. For this reason, we have endorsed the designation of a Chief Financial Officer and Chief Information Resources Officer within the Department of Environment that has been proposed in Senate Bill 2006.

CONCLUSION

In summary, EPA's proposed 1991 budget does not appear to match up well against the total costs required to address the nation's environmental problems and EPA's expanding legislative responsibilities. Because of this apparent mismatch, we believe it is more important than ever that EPA manage its programs, apply its resources, and coordinate with states and localities as effectively and efficiently as possible.