

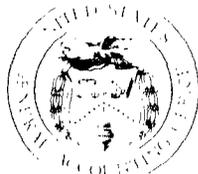
GAO

Fact Sheet for the Chairman,
Committee on the Budget,
House of Representatives

July 1990

BUDGET ISSUES

Effects of the Fiscal Year 1990 Sequester at EPA



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United States
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Washington, D.C. 20548

Resources, Community, and
Economic Development Division

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July 26, 1990

The Honorable Leon E. Panetta
Chairman, Committee on the Budget
House of Representatives

Dear Mr. Chairman:

By letter dated January 2, 1990, you requested that we study the effects of the fiscal year 1990 sequester under the Balanced Budget and Emergency Deficit Control Act of 1985, as amended. The sequester was initially ordered in October 1989 and modified in December 1989. Specifically, you asked us to identify (1) how the resources of selected agencies were reduced by implementation of the sequester and (2) what impact the resource reductions had on the agencies' ability to fulfill their missions and on those served by agency programs. This fact sheet on the Environmental Protection Agency (EPA) is one of a series of reports in response to your request.

As agreed with your office, we examined five agencies. You specified the Department of Health and Human Services and the Internal Revenue Service; in addition, we selected the Department of Education, EPA, and the Department of Housing and Urban Development. These agencies collectively provide a cross-section of large and small agencies and various types of programs that affect the public.

In summary, the sequester resulted in a \$73 million, or 1.3 percent, reduction in EPA's fiscal year 1990 appropriations. Although all but one of EPA's accounts still showed an increase in obligational authority over fiscal year 1989, agency officials identified a number of impacts from the sequester, as not all activities originally planned for the fiscal year with the larger amount of funds could be carried out. These officials indicated that expense funds for such items as employee training and travel and the purchase and repair of computers and other equipment absorbed the largest impact. This situation occurred because EPA offices took most of the reduction in the Salaries and Expenses account in the expenses portion of the account to protect funds for employee salaries and benefits.

SEQUESTER IMPLEMENTATION

The Balanced Budget and Emergency Deficit Control Act, as amended, established federal budget deficit targets to lead to a balanced, unified budget by fiscal year 1993. The deficit target set for fiscal year 1990 by the act was \$100 billion. However, in October 1989, the Office of Management and Budget (OMB) estimated that the fiscal year 1990 deficit would be \$116 billion. According to OMB's October 1989 report, a sequester of 4.3 percent in defense accounts and 5.3 percent in all other accounts subject to sequestration would have been required to reduce budgetary resources sufficiently to reach the target deficit level. Sequestration of this magnitude was never fully implemented, however, because of passage of the Omnibus Budget Reconciliation Act of 1989. The Reconciliation Act reduced the mandatory sequester amount, effectively reducing the sequester requirements to 1.5 percent in defense accounts and 1.4 percent in others.

Implementation of the modified sequester resulted in a reduction of \$73 million in EPA's fiscal year 1990 appropriations. This reduction amounted to 1.3 percent, rather than 1.4 percent, of EPA's appropriations because of the provisions in the Balanced Budget Act for applying a sequester to an agency's full-year appropriations enacted after the effective date of the sequester in October. EPA's appropriations act was enacted in November 1989.

After the sequester and reductions in EPA's appropriations for the government's war on drugs program, the agency's obligational authority for fiscal year 1990 was 5.1 percent less than in fiscal year 1989. However, this decrease occurred because of a large reduction in the Construction Grants account. All the other accounts had an increase in obligational authority. Section 1 of this fact sheet provides further details on the sequester's implementation.

SEQUESTER IMPACTS

Attributing reductions in activities planned for fiscal year 1990 solely to the sequester is difficult because, as provided by EPA's appropriations act, reductions in the agency's budget authority for the war on drugs program-- which at 1.55 percent were larger than the sequester reductions--also occurred during the fiscal year. Agency

officials, however, identified what they believed were the sequester's impacts. These impacts included the following:

- The curtailment, postponement, or cancellation of some planned program activities. For example, Office of Solid Waste and Emergency Response budget officials estimated that cleanup of from one to two Superfund sites would be delayed until fiscal year 1991.
- The inability to hire and fully maintain the planned workforce. The Office of Enforcement, for example, reported that 5 of the 15 new criminal investigators planned to be hired this fiscal year will not be hired.
- Reductions in travel and training, purchase of office supplies and furniture, and purchase and repair of computers and other equipment by various offices.
- Reduced resources and/or technical assistance planned for state environmental programs. For example, Office of Air and Radiation officials reported that because of the sequester, they are providing less support than planned to state and local officials in radon measurement and mitigation methods for schools.
- The administrative costs associated with carrying out the sequester. For example, several offices cited the need to revise fiscal year 1990 workplans.

The largest impact of the sequester appears to have been in the expenses portion of the Salaries and Expenses account. To avoid the need to reduce existing staffing levels, EPA offices have made most of the account's reduction in the expenses portion. Because most of the account is for personnel compensation and benefits, the reduction resulted in up to a 21.5-percent cut in expense funds for some offices. Office of Research and Development budget officials told us that these reductions have been difficult for the agency's laboratories because repair costs to keep aging equipment in operation are high. A more detailed discussion of the sequester's impact is in section 2.

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To obtain information on the sequester's implementation, we reviewed EPA's appropriations act, OMB guidance, internal

EPA instructions, OMB sequester reports, and the President's sequester orders. In addition, we discussed the sequester's implementation with EPA budget officials and obtained data on sequester reductions by account and programs, projects, and activities. Further, we obtained data depicting EPA's obligational authority for fiscal years 1988, 1989, and 1990 after the sequester. Except for the allocation of the sequester by program, these data were obtained directly from the Budget of the United States Government, Fiscal Years 1990 and 1991.

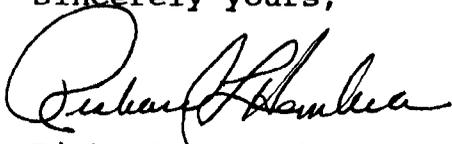
To obtain the information on the sequester impacts, EPA's budget office solicited for us written statements from offices, agencywide, on how programs and activities were affected by the spending reductions. In addition, we discussed the impacts with budget officials of the Offices of Air and Radiation, Water, Solid Waste and Emergency Response, Pesticides and Toxic Substances, Research and Development, and Enforcement. As agreed with your office, we did not verify agency statements on the impacts.

Our work was conducted between March and May 1990. We discussed the results of the work with EPA officials, who generally agreed with the data presented in this fact sheet.

As agreed with your office, unless you publicly announce its contents earlier, we plan no further distribution of this fact sheet until 30 days from its issue date. At that time, we will provide copies to the Administrator, Environmental Protection Agency; the Director, Office of Management and Budget; the Director, Congressional Budget Office; and other interested parties. Copies will also be made available on request.

If you have any questions about this fact sheet, please contact me on (202) 275-6111. Major contributors to this fact sheet are listed in appendix III.

Sincerely yours,



Richard L. Hembra
Director, Environmental Protection
Issues

CONTENTS

	<u>Page</u>	
LETTER	1	
SECTION		
1	IMPLEMENTATION OF THE FISCAL YEAR 1990 BUDGET SEQUESTER AT EPA	7
	The Budget Sequester Process	7
	EPA's Fiscal Year 1990 Appropriation	8
	The Sequester Reductions for EPA	10
2	IMPACTS OF THE SEQUESTER AS CITED BY EPA OFFICIALS	14
	Curtailment, Postponement, or Cancellation of Planned Program Activities	15
	Inability to Hire and Maintain the Planned Workforce	18
	Concentration of Reductions in the Expense Budgets	18
	Reduction of State Grants and Technical Assistance	20
	Administrative Costs of Carrying Out the Sequester	22
APPENDIX		
I	EPA'S FISCAL YEAR 1990 SEQUESTER AND SECTION 517 REDUCTIONS BY PROGRAM AREAS	23
II	CALCULATION OF SEQUESTER AMOUNTS UNDER CONTINUING RESOLUTIONS	24
III	MAJOR CONTRIBUTORS TO THIS FACT SHEET	26
TABLE		
1.1	EPA's Fiscal Year 1990 Gross Appropriations by Account	9
1.2	The Fiscal Year 1990 Sequester and Section 517 Budget Authority Reductions by EPA Appropriation Account	11
1.3	EPA's Fiscal Years 1988, 1989, and 1990 Obligational Authority by Appropriation Account	13
II.1	Calculation of Sequester Amounts for Three EPA Accounts	25

ABBREVIATIONS

EPA	Environmental Protection Agency
FY	fiscal year
OMB	Office of Management and Budget
PC&B	Personnel Costs and Benefits

SECTION 1

IMPLEMENTATION OF THE FISCAL YEAR 1990 BUDGET SEQUESTER AT EPA

For fiscal year 1990, the Environmental Protection Agency (EPA) and other federal agencies were subjected to a budget sequester. Reductions in agencies' budgetary resources were made to reduce the federal deficit to the target level specified under the Balanced Budget and Emergency Deficit Control Act of 1985, as amended. For EPA, the reduction amounted to \$73 million, or 1.3 percent, of the funds appropriated to carry out its programs and activities.

THE BUDGET SEQUESTER PROCESS

The Balanced Budget and Emergency Deficit Control Act of 1985, as amended, establishes deficit targets to lead to a balanced, unified budget by fiscal year 1993. Each year, the Office of Management and Budget (OMB) is required to submit an initial report on August 25 and a final report on October 15 projecting the fiscal year deficit. If OMB projects a deficit in excess of the target amount plus \$10 billion, the President must issue a sequester order to reduce budgetary resources sufficiently to reach the target deficit level. The amount to be sequestered must be divided evenly between defense and nondefense accounts. Sequestration has been implemented only once before, in fiscal year 1986, when defense and nondefense budgets were reduced by 4.9 and 4.3 percent, respectively.

The act set the fiscal year 1990 deficit target at \$100 billion. The August OMB report estimated a \$116.2 billion deficit, exceeding the target by \$16.2 billion; the October report slightly reduced the overall estimate to \$116.1 billion. Both reports would have required a sequester of 4.3 percent in defense accounts, and 5.3 percent in all others subject to sequestration. Sequestration of this magnitude was never fully implemented, however, because of passage of the Omnibus Budget Reconciliation Act of 1989.

The 1989 Reconciliation Act, enacted on December 19, 1989, reduced the mandatory sequester amount to 130/365 of the original \$16.1 billion requirement. This change effectively reduced sequester requirements to \$5.7 billion, or 1.5 percent in defense accounts and 1.4 percent in others. OMB responded to this legislation with a "Revised Final Sequester Report," published December 27, 1989, that sequestered the lower amounts.

EPA's and most other agencies' appropriations acts had not been enacted by the October 15 sequestration deadline and were operating under continuing resolutions. (EPA's appropriations act was signed into law on November 9, 1989.) In such cases, the Balanced Budget Act requires that an assumed appropriation level be

used for making the sequester computation. That level, in most cases, is the prior year's appropriation adjusted upward for pay raises and price inflation as specified in the act. In the event that the full-year appropriation finally enacted¹ is less than the assumed level, the decrease is counted toward, or "credited to," the sequestration requirement. Depending on the degree of the enacted decrease, the sequestered amount and percentage are reduced or totally eliminated. On the other hand, if the final appropriation is larger than the assumed level, the increase is protected from sequestration. Calculation of sequester amounts for agencies operating under continuing resolutions at the time of the sequestration deadline is discussed in more detail in appendix II.

EPA'S FISCAL YEAR 1990 APPROPRIATION

The Departments of Veterans Affairs and Housing and Urban Development and Independent Agencies Appropriations Act, 1990, which was enacted on November 9, 1989, provided fiscal year 1990 funding for EPA. The amount of funds appropriated for EPA by appropriation account is shown in table 1.1.² These amounts are the gross appropriations before the reductions for the government's war on drugs program, which were provided by Section 517 of the appropriations act. The Section 517 reductions, as shown in table 1.2, totalled \$88.3 million, or 1.55 percent of the gross appropriations. Other federal agencies were affected by similar drug war program provisions.

¹For EPA and other agencies that were subjected to the reductions for the war on drugs program, the net appropriated amounts, that is, the amounts after subtracting the war on drugs reductions, were used to calculate actual sequester amounts. In EPA's case, the war on drugs reductions were made by Section 517 of its appropriations act, which reduced the amounts otherwise provided by the act by 1.55 percent.

²Not included in tables 1.1, 1.2, and 1.3 is the Miscellaneous Contributed Funds account. This account includes (1) gifts for pollution control programs which are, for the most part, designated for a specific use by the donor and (2) deposits from pesticide registrants to cover the cost of petition hearings when such hearings result in unfavorable decisions to the petitioner. Appropriation of these funds is permanent and indefinite rather than being provided by the appropriations act. The account's budget authority for fiscal year 1990 is \$10,000. The account was not sequestered at all because the sequester amount would have been less than \$1,000.

Table 1.1: EPA's Fiscal Year 1990 Gross Appropriations by Account

<u>Appropriation account^a</u>	<u>Amount of appropriation^b</u>
<u>Salaries and Expenses:</u> employee salaries and related costs associated with administering EPA programs exclusive of grant programs, program-specific contractual agreements, hazardous substance response actions, and costs associated with the Leaking Underground Storage Tank Trust Fund and the Office of the Inspector General.	\$ 874,583,000
<u>Research and Development:</u> financing of research and development through contracts, grants, and intergovernmental agreements to provide the scientific basis for EPA's regulatory activities.	241,500,000
<u>Abatement, Control and Compliance:</u> funds for contracts, grants, and cooperative agreements for pollution abatement, control, and compliance activities.	829,940,000
<u>Buildings and Facilities:</u> construction, repair, improvement, extension, alteration, and purchase of fixed equipment or facilities of, or used by, EPA.	15,000,000
<u>Hazardous Substance Response Trust Fund (Superfund):</u> funds to respond to and clean up hazardous substance emergencies and uncontrolled waste sites.	1,575,000,000
<u>Construction Grants:</u> funds for grants to local public agencies to construct municipal wastewater treatment facilities. For fiscal year 1990, two-thirds of the funds are to capitalize State Revolving Funds, from which local agencies can borrow funds to build treatment plants.	2,050,000,000
<u>Leaking Underground Storage Tank Trust Fund:</u> funds for responding to releases from underground petroleum tanks.	76,000,000

Office of the Inspector General: 31,734,000
funds for EPA audit and investigative
functions to identify and correct
management and administrative
deficiencies.

Total \$ 5,693,757,000

^aNot included in this table and tables 1.2 and 1.3 is the Miscellaneous Contributed Funds account, a permanent, indefinite account with budget authority for fiscal year 1990 of \$10,000.

^bThese amounts represent the appropriations before the Section 517 reductions. The net appropriations, derived by subtracting the Section 517 reductions, were used to calculate sequester amounts.

The appropriations act also provided that EPA could transfer up to \$15 million of the funds to the Salaries and Expenses account from other accounts: \$5 million from Research and Development and \$10 million from Abatement, Control and Compliance.

THE SEQUESTER REDUCTIONS FOR EPA

The December 1989 sequester ordered by the President resulted in a \$73 million reduction in EPA's fiscal year 1990 budget authority. Overall, the reduction for EPA amounted to 1.3 percent of its appropriation for fiscal year 1990. The reduction varied from a low of 0.79 percent for the Buildings and Facilities account to a high of 1.35 percent for Salaries and Expenses. None of EPA's accounts were exempted from sequestration.

The combined reductions for the sequester and the war on drugs program totalled \$161.3 million. After these reductions, EPA's total fiscal year 1990 obligational authority was 5.1 percent less than its obligational authority for fiscal year 1989. This decrease occurred, however, because of a large decrease in Construction Grants. All the other accounts received an increase over fiscal year 1989.

Table 1.2 shows the sequester reductions for EPA by appropriation account. Also shown are the Section 517, or war on drugs program, reductions. (These reductions are shown by program areas in app. I.) The sequester reduced EPA's budget authority by less than the 1.4 percent ordered by the President in December 1989, because of the rules for calculating the sequester amount for agencies whose full-year appropriations have not been enacted by the October sequestration deadline.

Table 1.2: The Fiscal Year 1990 Sequester and Section 517 Budget Authority Reductions by Appropriation Account

<u>Account</u>	<u>Gross appropriation amount</u>	<u>Section 517 amount</u> (amounts in thousands)	<u>Net appropriation amount</u> (amounts in thousands)	<u>Sequester reduction</u>		<u>Budget authority after reductions</u>
				<u>Amount</u>	<u>Percent^a</u>	
Salaries and Expenses	\$874,583	\$13,556	\$861,027	\$11,618	1.35	\$849,409
Research and Development	241,500	3,743	237,757	2,937	1.24	234,820
Abatement, Control and Compliance	829,940	12,864	817,076	10,442	1.28	806,634
Buildings and Facilities	15,000	232	14,768	116	0.79	14,652
Hazardous Substance Superfund	1,575,000	24,412	1,550,588	20,360	1.31	1,530,228
Construction Grants	2,050,000	31,775	2,018,225	26,505	1.31	1,991,720
Leaking Underground Storage Tank Trust Fund	76,000	1,178	74,822	725	0.97	74,097
Office of Inspector General	<u>31,734</u>	<u>492</u>	<u>31,242</u>	<u>339</u>	1.09	<u>30,903</u>
Total	<u>\$5,693,757</u>	<u>\$88,252</u>	<u>\$5,605,505</u>	<u>\$73,042</u>	1.30	<u>\$5,532,463</u>

^aPercentages represent the sequester amounts relative to net appropriation amounts.

As authorized by the appropriations act, EPA transferred to the Salaries and Expenses account \$5 million from the Research and Development account and \$10 million from the Abatement, Control, and Compliance account. After the sequester and Section 517 reductions, the total amount transferred to the account was \$14.59 million. According to EPA officials, the transferred funds were used toward the increased employee salary and benefit costs associated with the January 1990 federal pay raise.

EPA does not have the authority to transfer funds from one appropriation account to another unless specifically authorized by law. However, the agency does have general authority to reprogram funds, that is, to move funds within an account from one program, project, or activity to another. However, a reprogramming of over \$500,000 has to have prior congressional approval.

EPA typically reprograms funds because of changes in priorities, responsibilities, or needs from the time the budget was prepared. This year, however, EPA also made some reprogramming adjustments because of the sequester and Section 517 reductions. EPA officials said that they did not maintain information on the amount of reprogramming done as a direct result of sequestration. According to EPA budget officials, a sequester may be only one among several reasons for reprogramming funds. In addition, the decision to reprogram may come some time after the sequester reductions are made. A budget official told us that the justification contained in a request for reprogramming may or may not cite the sequester as a reason even if it were one of the reasons.

Table 1.3 compares the fiscal years 1988, 1989, and 1990 obligational authority after the sequester and Section 517 reductions.

Table 1.3: EPA's Fiscal Years 1988, 1989, and 1990 Obligational Authority by Appropriation Account^a

<u>Account</u>	<u>FY 1988</u>	<u>FY 1989</u>	<u>FY 1990</u>	<u>Percentage</u>	
				<u>increase/decrease</u>	<u>increase/decrease</u>
				<u>FY 1988-89</u>	<u>FY 1989-90</u>
	(amounts in thousands)				
Salaries and Expenses	\$7,231,377	\$ 814,504	\$ 883,945	5.8	8.5
Office of Inspector General	22,617	23,144	30,903	2.3	33.5
Research and Development	189,024	208,209	238,379	10.1	14.5
Abatement, Control and Compliance	624,184	735,390	824,412	17.8	12.1
Buildings and Facilities	26,762	16,663	24,723	-37.7	48.4
Hazardous Substance Superfund	1,658,116	1,602,755	1,608,239	-3.3	0.3
Leaking Underground Storage Tank Trust Fund	44,076	53,466	77,555	21.3	45.1
Construction Grants	<u>3,896,875</u>	<u>3,342,680</u>	<u>2,759,471</u>	-14.2	-17.4
Total	<u>\$7,234,377</u>	<u>\$6,796,811</u>	<u>\$6,447,627</u>	-6.0	-5.1

^aObligational authority includes appropriations, offsetting collections, beginning unobligated balances, and net transfers; less rescissions, other reductions, Section 517 reductions, and the sequester.

As shown by table 1.3, all of EPA's appropriation accounts, except Construction Grants, show increases in obligational authority for fiscal year 1990 over fiscal year 1989. Because of the large decrease in the unobligated balances of the Construction Grants account, the agency's total fiscal year 1990 obligational authority after the sequester and Section 517 reductions is 5.1 percent less than the agency's fiscal year 1989 obligational authority.

SECTION 2

IMPACTS OF THE SEQUESTER AS CITED BY EPA OFFICIALS

EPA provided us information on the impacts of the fiscal year 1990 sequester through written statements from its 12 major headquarters offices and during interviews with budget officials of the agency's 6 major operating program offices: Enforcement, Research and Development, Solid Waste and Emergency Response, Air and Radiation, Pesticides and Toxic Substances, and Water. In some cases, the offices had not compared in detail and summarized what specific activities or actions had been planned and then were cancelled or delayed by the reduction in resources from the sequester. In addition, all the specific activities or actions that will have to be cancelled or delayed will not be known until the end of the fiscal year, when the offices will have made all their spending decisions. However, all the offices reported negative effects of varying degrees on their programs. The reported impacts were in five areas:

- The curtailment, postponement, or cancellation of program activities planned for fiscal year 1990.
- The inability to hire and maintain the planned workforce.
- The concentration of budget reductions in the operating expense budgets, with adverse programmatic effects in some areas.
- The reduction of state grants and technical assistance to state and municipal environmental programs from planned levels.
- The administrative costs of carrying out the sequester.

According to EPA officials, the impact of the sequester, which reduced agency resources by 1.3 percent, was more significant than the cut's size would imply for several reasons. First, the cut was on top of the 1.55-percent Section 517 reductions for the government's war on drugs program. Second, the agency had to absorb the 1990 federal pay increase. Third, the cut was substantially intensified in expense funds, which are used for such items as employee travel and training and the purchase and repair of computers and equipment. Programs that are more dependent on their expense funds to carry out their activities were affected more than others. Fourth, the impact is potentially larger with regard to grant programs requiring states or municipalities to match the federal funds with their own funds. As the federal funds are reduced, the amount of the state or local funds required to match them is likewise reduced.

CURTAILMENT, POSTPONEMENT, OR CANCELLATION OF PLANNED PROGRAM ACTIVITIES

According to EPA officials, the sequester directly affected the operating activities of most programs planned for fiscal year 1990. Specifically, they said that fewer research and development projects will be carried out, some statutory deadlines may not be met, not as many audits will be performed, planned enforcement activities have been curtailed, fewer Superfund sites will be addressed, and the transfer of information to the public will be less than planned. Absent a detailed comparison of activities planned before the sequester with activities carried out after the sequester reductions, the cited impacts, in many cases, were not quantified in terms of specifically how many activities were cancelled or curtailed or how long an activity was delayed. It should also be noted that the cited impacts are generally references to activities that were originally planned for fiscal year 1990 or that could be achieved with the larger amount of resources available if a sequester had not occurred rather than reductions in the level of activity for fiscal year 1989. As pointed out in Section 1, the fiscal year 1990 obligational authority, after the Section 517 reductions, was greater than the fiscal year 1989 obligational authority for all but one of EPA's accounts.

Research and Development

Reductions in research and development were cited as having impacts in various areas throughout EPA. Office of Research and Development officials, for example, stated that delays in research projects will affect their work in ozone attainment, municipal solid waste, radon mitigation, and water quality. Other officials cited impacts such as the following:

- New chemical reviews: the Office of Toxic Substances stated in a February 28, 1990, memo to the budget office that decreased testing may result in some new chemicals going on the market with inadequate reviews.
- Superfund: the Superfund management review emphasized the need for technical assistance and research and development in solving problems associated with the Superfund program. The reduction in research activity impairs the ability to solve those problems.
- Air and radiation: research efforts have been reduced in the areas of spark ignition and cold start capability that could affect the Ozone/Carbon Monoxide Standards Attainment Program. Studies in the Indoor Air Program have been reduced, and support for the development of a credentials program for contractors and the implementation of an Indoor Air Information Clearinghouse have been affected. In

addition, work on ozone depletion aimed at meeting the guidelines of the Montreal Protocol have been reduced, as well as work in the modeling of greenhouse gases.

Statutory Deadlines

Statutory deadlines which may be enacted as part of the pending Clean Air Act Amendments may not be met in two major areas:

- Air toxics: funding reductions may delay the publication of high-priority listings of potentially hazardous air pollutant sources which the proposed amendments would require after enactment of the amendments.
- Ozone and particulate matter: reduction of agency support for states in the preparation of State Implementation Plans may prevent states from meeting the deadlines which would be imposed by the proposed amendments.

Audits

The number of internal and external audits planned for 1990 will be reduced:

- From 20 to 30 audits planned by the Office of Inspector General will be cancelled or postponed to future periods. According to EPA officials, the agency's audits recover over \$20 in costs for each dollar spent on audits.
- The Office of Administration and Resources Management stated that environmental compliance audits, security audits, and health and safety reviews of laboratory and field locations will be curtailed.

Enforcement Activities

Agency officials also cited eight areas where enforcement activities would be reduced or eliminated, including the following examples:

- Corrective action/hazardous waste: the number of facilities receiving corrective action oversight will decrease by approximately 2 percent.
- Litigation: litigation support will be adversely affected in the area of evidence audit for both Superfund and non-Superfund judicial cases.
- Toxics enforcement: grant funding will be available to one less state to cover new Toxic Substances Control Act enforcement programs. In addition, the number of enforcement inspections carried out by contractors and the

National Enforcement Investigations Center will be reduced, which, according to EPA officials, will affect the effectiveness of the enforcement effort.

- Heavy-duty vehicle recall enforcement: the implementation of a program to assess in-use compliance of truck and bus emissions standards has been eliminated.
- Federal facilities enforcement: technical assistance and guidance by the Office of Federal Activities will be reduced, which, according to EPA officials, will result in overall lower compliance by the facilities.

Hazardous Waste Cleanup

A senior budget official at the Office of Solid Waste and Emergency Response stated that the average cleanup cost per Superfund site is approximately \$10 million. According to information provided by the official, the sequester reduced the \$1 billion Superfund program by about \$13 million, which will postpone the cleanup of from one to two sites until the next fiscal year. He stated that the combined effect of the Section 517 and sequester reductions would cause them to clean up two to three less sites this year. In addition, the official reported that regional offices will conduct a reduced number of spill prevention, containment, and countermeasure inspections, and fewer contingency plans will be developed to deal with spills.

Issuance of Guidance

EPA officials cited three cases where the issuance of guidance will be postponed by the sequester, as follows:

- Deferring the development of guidance for newly regulated Mixed Waste and Organic Toxicity Characteristics.
- Delaying the completion of guidance for implementing the final Radionuclide National Emissions Standards for Hazardous Air Pollutants.
- Reducing the amount of guidance to states for implementing national standards for particulate matter and ozone.

Information Transfer

The transfer of information to the public will be reduced. For example, the Office of Pesticide Programs reported that the reduction in communications activities due to the sequester will negatively affect plans to provide outreach efforts for the new worker protection regulations and expanded public communications efforts on pesticide risks.

Management Improvement Programs

Two management support and improvement programs have been curtailed, as follows:

- Cutbacks in the Productivity Improvement Fund, decreasing EPA's ability to foster agencywide management improvement efforts.
- Reductions in support for a public-private partnership conference.

INABILITY TO HIRE AND MAINTAIN THE PLANNED WORKFORCE

Officials of six EPA offices stated that they would have to let authorized positions lapse or not hire the personnel required to carry out their workplans, with varied impacts on their ability to meet program objectives. The general effect appears to be one of restriction rather than reduction, as no reductions in force were reported. The following impacts were cited:

- The Office of Enforcement reported that 5 of the 15 new criminal investigators planned for fiscal year 1990 will not be hired.
- The Office of General Counsel has had to freeze existing vacancies that would otherwise be filled, with the net impact being that the office will be unable to provide at least two additional full-time equivalent additional attorney positions to support agency needs for review, advice, interpretation, and counsel.
- The Office of Policy, Planning, and Evaluation had to stop hiring in important areas such as pollution prevention, climate change, and strategic planning.
- The Water Program Divisions will be able to fill only 90 to 95 percent of its workyears.

CONCENTRATION OF REDUCTIONS IN THE EXPENSE BUDGETS

At the program level, managers and budget officers make their reduction decisions over a budget structure that divides resources into intramural (internal) and extramural (external) operations. The budget of the Office of Pesticides and Toxic Substances provides a representative example:

Intramural: Salaries and Expenses

- Personnel Compensation and Benefits.
- Operating Expenses (travel, training, equipment, maintenance, support contracts, other expenses).

Extramural: Abatement, Control and Compliance

- External Contracts.
- State Grants and Cooperative Agreements.

In deciding how to best absorb the cuts on the intramural side, the offices placed first priority on maintaining their personnel costs and benefits, with the result that the bulk of the dollar reductions to the Salaries and Expenses account was taken from the operating expenses budget. For example, the Office of Pesticide Programs took its entire \$473,200 reduction in Salaries and Expenses from an expenses component of \$2.2 million; therefore, the sequester was manifested as a 21.5-percent reduction in operating expenses. In other examples, the 1.3-percent sequester cut translated into a 17.8-percent reduction in the operating expenses of the Office of Water and a 9.5-percent reduction in the operating expenses of the Office of Research and Development.

EPA offices reported 10 areas where the reductions in the expense budgets adversely affect performance. In commenting on the tradeoffs made in its budget for Operating Expenses and Personnel Costs and Benefits (PC&B), the Office of Executive Support stated:

As a result of the PC&B situation, the majority of the cuts were taken from the already deficient expense object classes. This has put a strain on all of the offices in meeting programmatic goals.

In addition, the Office of Research and Development reported that limited funds to purchase and maintain essential laboratory equipment, purchase necessary supplies, conduct facility repairs, and provide a minimal amount of necessary scientific and engineering training for researchers are adversely affecting their ability to perform in-house research. These functions for their 12 major laboratories and 5 field stations are funded through the expenses budget. According to Office of Research and Development budget officials, 60 to 70 percent of the laboratory equipment is over 8 years old in a field where scientific equipment becomes obsolete within 5 to 7 years.

Similarly, an official from the Office of Enforcement stated that expense fund cuts have been particularly severe on the operations of their National Enforcement Investigations Center, where a modern criminal investigations laboratory is operated to serve a staff of criminal investigators. Operation of the laboratory has been adversely affected by the expense fund reductions in a manner similar to the Office of Research and Development laboratories. The Center's inability to replace aging laboratory equipment is creating large repair costs, which also come out of the expense balance. Field investigators will also be adversely affected because their transportation and equipment, a primary requirement in field investigations, are affected. The purchase, maintenance, and repair of vehicles and equipment for the investigators are funded through operating expenses, which have taken the brunt of the cuts.

Three offices cited eight cases in which the reduction in operating expenses will negatively affect performance and output of automated data processing systems, including the following:

- The Office of Administration and Resources Management reported that the reductions have impaired funding for support, development, and enhancement to EPA's mission for critical data systems, specifically in new developments in the Integrated Administration Systems, and the ability to assist regional offices with state EPA data management programs. An official reported that data storage and telecommunications expansion in the programmatic areas will be severely curtailed.
- The Office of Pesticide Programs stated that the automated data processing reductions will delay systems maintenance and upgrades that were planned to support the implementation of the Federal Insecticide, Fungicide and Rodenticide Act Amendments of 1988.
- Set-up and integration of the Automated Registration Tracking System for coordination between the Office of Pesticide Programs and the Office of Enforcement will be slowed.

One office reported that the cuts in operating expenses did not significantly affect their programs. The office of International Activities reported that office activities and program operations received only minor impacts as a result of the sequester.

REDUCTION OF STATE GRANTS AND TECHNICAL ASSISTANCE

The EPA-state funding and technical assistance relationship was cited by a number of agency officials interviewed as an area where the sequester could produce a proportionally greater impact

than on headquarters operations, because of the leveraged funding structure required by many federal-state agreements. Senior budget officials from the Offices of Solid Waste and Emergency Response, Pesticides and Toxic Substances, and Water stated that many federal grants to states require a proportionally larger funding match by the states, sometimes in ratios requiring up to \$5 in state funding for every federal dollar appropriated. The officials stated that because most states are fiscally constrained, their legislatures tend to appropriate only the amounts required by the agreements in matching federal grant funds. When reductions are taken in federal funding, most state legislatures subsequently reduce funding in a proportional manner, so the effect of the sequester is leveraged.

In addition, agency officials cited specific impacts from the reduction of funding to states in the following areas:

- Toxics enforcement grants: funds available will cover new Toxic Substances Control Act enforcement programs in one less state, thus reducing the coverage of the enforcement programs and slowing their decentralization from EPA to the states.
- Asbestos abatement: the number of loans to public and private schools for eliminating asbestos in buildings has been reduced.
- Radon: the transfer of radon program responsibilities from EPA to the states has been slowed.
- Leaking Underground Storage Tank Trust Fund: reductions will be taken primarily from state cooperative agreements, with the overall effect of increasing the backlog of unaddressed Leaking Underground Storage Tank sites.

EPA officials reported reductions in technical assistance to states in several areas; specifically, the following areas were affected:

- Radionuclide national emissions standards for hazardous air pollutants: the completion of guidance for implementation of the standards will be delayed, resulting in reduced ability to delegate implementation authority to states. According to EPA officials, the strong participation of the states is critical to the successful nationwide implementation of the standards.
- Underground storage tanks: assistance to states in their implementation of the underground storage tank prevention program was reduced. Headquarters staff normally support state pilot programs to develop improved methods of implementation. Specifically, officials report that two or

three fewer state pilots will be developed than could have been accomplished before the cut.

- Radon: the provision of radon measurement and mitigation methods to states and localities will be reduced. Agency officials cite this as a critical shortfall because EPA had recommended that all schools be tested for radon this winter. According to the officials, fewer schools will have the tools necessary to address radon.
- Aerometric Information and Retrieval System: funding was reduced for the facility subsystem, which includes data necessary for air quality planning and compliance, resulting in fewer states coming on line with the subsystem in fiscal year 1990.
- Emergency Planning and Community Right to Know programs: a lower degree of technical assistance and training will be provided by regions to state and local organizations in the development of their programs.

The sequester may also affect state programs in other ways. According to representatives from the Association of State and Interstate Water Pollution Control Administrators, states must often borrow money to meet outlays if federal appropriations are delayed while the size of the sequester is determined. When federal appropriations become available, these funds cannot be used to pay interest incurred by state borrowing, so the state program must absorb the interest costs.

ADMINISTRATIVE COSTS OF CARRYING OUT THE SEQUESTER

Five offices cited significant operating costs and/or burdensome administrative problems associated with implementing the sequester, including the confusion caused by the late timing, the uncertainty over the size of the cuts, the inability to plan effectively, and the need to revise workplans to reflect the change in resources. The Office of Policy, Planning, and Evaluation stated that:

The impact has not only been felt on programmatic activities but on administrative activities as well. The late timing of these reductions and untimely approval of our FY operating plan has caused us to delay commitments, to delay reprogrammings, and to delay hiring decisions--all with a negative impact on our programs.

Budget officials at the Offices of Solid Waste and Emergency Response, Enforcement, and Water echoed the above sentiment, stating that the administrative costs were as significant as the programmatic costs.

EPA'S FISCAL YEAR 1990 SEQUESTER
AND SECTION 517 REDUCTIONS BY
PROGRAM AREAS

(Amounts in thousands)

<u>Program area</u>	<u>Gross appropriation amount</u>	<u>Section 517 amount</u>	<u>Net appropriation amount</u>	<u>Sequester reduction</u>		<u>Available after reductions</u>
				<u>Amount</u>	<u>Percent^a</u>	
Air	\$298,632	\$4,631	\$294,001	\$3,710	1.26	\$290,291
Water Quality	355,812	5,520	350,292	4,534	1.29	345,758
Drinking Water	124,325	1,925	122,400	1,569	1.28	120,831
Hazardous Waste	278,101	4,314	273,787	3,489	1.27	270,299
Pesticides	108,616	1,684	106,932	1,387	1.30	105,546
Radiation	36,426	564	35,862	462	1.29	35,401
Toxic Substances	160,860	2,491	158,369	2,025	1.28	156,344
Energy	34,008	527	33,481	770	2.30	32,711
Construction Grants	2,050,000	31,775	2,018,225	26,505	1.31	1,991,720
Superfund	1,585,317	24,572	1,560,745	20,459	1.31	1,540,286
LUST Trust Fund ^b	76,000	1,178	74,822	725	0.97	74,097
Multimedia	125,570	1,945	123,625	1,461	1.18	122,164
Agency Management	149,926	2,321	147,605	1,933	1.31	145,672
Program Management	17,621	273	17,348	234	1.35	17,114
Regional Management	36,136	560	35,576	480	1.35	35,097
Other ^c	<u>256,407</u>	<u>3,973</u>	<u>252,434</u>	<u>3,301</u>	1.31	<u>249,132</u>
Total ^d	<u>\$5,693,757</u>	<u>\$88,252</u>	<u>\$5,605,505</u>	<u>\$73,042</u>	1.30	<u>\$5,532,463</u>

^aPercentages represent sequester amounts relative to net appropriation amounts.

^bLeaking Underground Storage Tanks Trust Fund.

^cIncludes: Support Costs, Unallocated Actions, New Facilities, and Repairs and Improvements.

^dBecause of rounding, sums of the numbers in the gross and net appropriation amount columns vary slightly from the actual totals shown for the columns.

CALCULATION OF SEQUESTER AMOUNTS
UNDER CONTINUING RESOLUTIONS

Under the Balanced Budget and Emergency Deficit Control Act of 1985, as amended, certain rules apply for calculating sequester amounts when an agency's full-year appropriations have not yet been enacted and the agency is operating under a continuing resolution at the October 15 sequester deadline. In such cases, applying the sequester to the full-year appropriation when enacted involves the use of the three following calculations as points of reference:

1. Sequester base: this amount is equal to the prior year's net appropriation to the account, adjusted for pay raises and price inflation.
2. Sequester amount: this amount is derived by multiplying the sequester base by the percentage mandated in the President's sequester order.
3. Post-sequester base: this amount is derived by subtracting the sequester amount as calculated above from the sequester base for each account.

After the appropriations act has been enacted, the size of the actual sequester amount for each account depends on how the final amount appropriated compares with the sequester base and the post-sequester base, as follows:

- A. If the final net appropriation¹ is higher than the sequester base for the account, then the appropriation is reduced by the full sequester amount.
- B. If the final net appropriation is equal to or lower than the sequester base but higher than the post-sequester base, then the reduction is taken only by the amount needed to reach the post-sequester base.
- C. If the final net appropriation is lower than the post-sequester base, then no further reduction is taken.

¹For fiscal year 1990, the final net appropriation for EPA represented the gross appropriation for each account after subtracting the Section 517 reduction.

EXAMPLES AT EPA

Table II.1 shows how these rules applied to three EPA appropriation accounts in fiscal year 1990. The method used in calculating the sequester for the Construction Grants account was method (B), while calculations for the Buildings and Facilities and Leaking Underground Storage Tanks Trust Fund accounts used method (A). Method (C) was not utilized because no account at EPA was appropriated less than its post-sequester base.

Table II.1: Calculation of Sequester Amounts for Three EPA Accounts

<u>Category</u>	(amounts in thousands)		
	<u>Construction Grants</u>	<u>Buildings and Facilities</u>	<u>Leaking Underground Storage Tanks Trust Fund</u>
Sequester base	2,020,000	8,288	51,819
Sequester amount (projected)	28,280	116	725
Sequester percentage (projected)	1.4	1.4	1.4
Post-sequester base	1,991,720	8,172	51,094
.....			
Final net appropriation ^a	2,018,225	14,768	74,822
Sequester amount (actual)	26,505	116	725
Sequester percentage (actual) ^b	1.3	0.8	1.0
Adjusted appropriation	1,991,720	14,652	74,097

^aFinal gross appropriations minus the Section 517 reductions.

^bFigures rounded to the nearest tenth of one percent.

MAJOR CONTRIBUTORS TO THIS FACT SHEET

RESOURCES, COMMUNITY, AND ECONOMIC DEVELOPMENT DIVISION,
WASHINGTON, D.C

Peter F. Guerrero, Associate Director
Edward A. Kratzer, Assistant Director
Raymond H Smith, Jr., Evaluator-in-Charge
Thomas H. Black, Evaluator

ACCOUNTING AND FINANCIAL MANAGEMENT DIVISION,
WASHINGTON, D.C.

Edith A. Pyles, Assistant Director
Barbara D. Bovbjerg, Project Manager

(160035)

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