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STATE ENVIRONMENTAL EXPENDITURES, 2005-2008

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STATEMENT OF ISSUE

State environmental agencies conduct a significant amount of work on behalf of the U.S. Environmental Protection Agency (EPA). This report looks at how much states spent on environmental regulation during the period 2005-2008, as well as the sources of those funds.

SUMMARY

State environmental agencies' funding has risen during the period 2005-2008 by relying on non-traditional fund sources. General funds have increased slightly, while federal funds have declined. "Other" funds – such as permit fees, bonds, and state trust funds – have doubled during this period. The federal government is decoupling issuance of environmental rules from the cost of their implementation, by gradually transferring the cost of federal environmental rules to the states.

REPORT

Introduction

States conduct much of the nation's environmental protection work. The environmental agency in each state reviews and issues permits, conducts inspections and monitoring, and undertakes enforcement. States now operate 96% of the federal programs that are delegable to them, such as the Clean Water Act, the Clean Air Act, the Resource Conservation and Recovery Act, and the Safe Drinking Water Act, to name the most significant acts.

In the course of conducting this work on behalf of the federal government, state environmental agencies must develop budgetary plans. This *ECOS Green Report* focuses

on the funding patterns of the states' environmental agencies during the fiscal years 2005- 2008. The report looks at the source of the funds, whether state general fund, federal fund, or some other category.

Methodology

This report differs from previous ECOS reports¹ on this subject in several significant ways. In 2000 and 2003, ECOS conducted research on state agency budgets using a format that the author developed at the Council of State Governments for a series of reports² on state environmental and natural resource spending dating as far back as fiscal 1986. All of these reports included natural resource expenditures (forestry, fish and wildlife, etc.), but did not address the source of funds. These reports were comparable from state to state and year to year because the methodologies were consistent.

In the current report, we look only at regulatory environmental agency work. This includes work pursuant to the federal acts listed above and related activities. Work on forestry and fish and wildlife and other natural resource protection programs is not included.

Another significant difference is that in the current format we include the source of funds. Typically, the sources are "state general fund," "federal," and "other." "Other" is a category that includes permit fees and state funds that are not appropriated from general fund sources. "Federal" sources are mostly grants from EPA. They may also include trust funds expenditures, as well as some grants from other federal agencies.

Finally, we also collected information regarding the number of employees of the agency for each of the fiscal years.

Because the funds for water infrastructure are comparatively large, we specifically asked states to tell us if those drinking water and clean water state revolving loan funds were included. The answer is noted for each state.

Readers are cautioned against comparisons among states for several reasons. States are organized differently, and so the programs in one agency may be in another agency in another state. To the extent possible, we have tried to include all typical environmental regulatory programs. More importantly, the water infrastructure funds may not be included for each state. It is quite common for these funds to be in another agency – some states were able to provide data on these funds, while others were not. These funds can be a significant portion of a state agency's totals.

Most of the states (49 of 50) supplied data. In a few cases data from one or more fiscal years are missing, and those are noted and adjustments have been made to account for

¹ Brown, R. Steven. "State Environmental Spending," *ECOSStates* Spring 2001, pp. 22-28; Brown, R. Steven, "One Billion Dollars Short," *ECOSStates* Winter 2004, pp. 3-8.

² Brown, et al. *Resource Guide to State Environmental Management*, First, Second, Third, Fourth, and Fifth Editions. Lexington, Kentucky: The Council of State Governments. 1988-1999.

their absence. The author obtained data via email contact with the chief officer of each state agency or his/her representative in most cases.

Background

State environmental agencies obtain their funding from three primary sources: the state general fund (i.e., direct appropriations), federal grants and aid, and “other” funding. This latter category includes funds authorized by the legislature, but which do not come from the general fund. For example, permit fees paid by applicants for environmental permits would be a typical source of “other” funding.

In the late 1960s and early 1970s most of the nation’s key environmental laws were enacted. Most of these were designed to allow the states to assume the operation of the programs upon demonstrating their capability to the satisfaction of EPA. For simplicity’s sake, we will call this process “delegation.”

In 1994, EPA found that about 40% of the programs that could be delegated to the states had been delegated.³ ECOS reviewed this data in 2000 and found that states had obtained about 70% of the programs in the intervening six years. In 2007, ECOS updated the survey again, and found that 96% of the main programs had been delegated by that date. In other words, nearly every state is now operating nearly every program on behalf of the federal government, and under its oversight.

To assist the states with these endeavors, Congress has included aid to states in EPA’s annual budgets for many years. Starting in 1993 this aid was consolidated into the State and Tribal Assistance Grants, usually called STAG funds.⁴ STAG funds are a substantial part of EPA’s annual budget.

However, STAG funding is not nearly enough to cover the states’ costs. States have many other sources of funds for the environment besides STAG – and this is fortunate, because STAG funds have been declining in both nominal and real purchasing power in recent years. This report presents four years of data on these trends, representing three years of actual spending (fiscal 2005, 2006, and 2007), and one year of budgeted spending (2008).

Findings

State spending on the environment continues to increase, in spite of inflation and cuts in federal support since fiscal 2004.

³ Unpublished by EPA, but as referenced in Brown, R. Steven, et al. *Resource Guide to State Environmental Management, Third Edition*. Lexington, Kentucky: The Council of State Governments, 1993, pp. 104-107.

⁴ Copeland, Claudia. *Water Infrastructure Financing: History of EPA Appropriations*, Congressional Research Service report 96-647, May 21, 2003.

ECOS collected data directly from 49 of the 50 states. For the remaining state, we substituted the average from the other 49, in order to achieve a projected total for the 50 states as a whole. These data, along with a similar projected total for environmental agencies' employees, are presented in Table 1. (For state-by-state details see attached tables.)

Table 1. State Environmental Agency Spending and Sources, 2005-2008

Normalized Data (projected totals for 50 States)	2005	2006	2007	2008
General Revenue	\$1,615,286,693	\$1,860,780,611	\$1,714,007,636	\$1,707,182,455
Federal Funds	\$1,906,040,255	\$2,026,350,018	\$2,161,063,122	\$3,056,273,849
Other Funds	\$3,975,451,703	\$6,377,608,321	\$6,746,661,033	\$7,890,521,526
Projected Total Expenditures, 50 States	\$7,496,778,650	\$10,264,738,951	\$10,621,731,791	\$12,653,977,830

Projected Total Employees	48,764	54,145	51,271	52,262
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Adjusting Federal Funds

EPA provides federal funds to STAG. EPA reports that a greater amount of funding is provided to the states than the states are reporting under the category "federal sources." The most likely explanation for this is the reporting we received on the Clean Water and Drinking Water State Revolving Loan Funds (SRF), which is a very large part of STAG. Some state environmental agencies operate these programs, but in a significant number of states, these assistance programs are in a different state agency. The same is true for certain other programs, such as control of agricultural pesticides. When this occurs, these funds are most often not reported as part of the state federal total. The net result is that federal expenditures may have been underreported in the raw data. Whether each state included these SRF funds is noted in the full tables which are a separate part of this report.

The easiest way to address this discrepancy is to substitute known federal appropriations for state-reported federal sources. This assures that federal funds that are not part of the state environmental agency, but are spent on environmental outcomes within the state, are included. Table 2 compares reported data for "federal sources" to known amounts of federal assistance.

Table 2. Comparing Appropriated Federal Sources to Reported Amounts

	FY2005	FY2006	FY2007	FY2008
STAG Funds as Appropriated to US EPA	\$3,575,348,500	\$3,213,553,367	\$3,213,606,367	\$2,926,222,518
State Reported Sources of Federal Spending	\$1,096,040,255	\$2,026,350,018	\$2,161,063,122	\$3,056,273,849

Table 3 shows the projected totals when we substitute appropriated levels of federal funds for reported data on federal spending.

Table 3. Project Total Expenditures, 50 States

	FY 2005	FY 2006	FY 2007	FY 2008 Budgeted
General Revenue	\$1,615,286,693	\$1,860,780,611	\$1,714,007,636	\$1,707,182,455
Federal Funds as Appropriated	\$3,575,348,500	\$3,213,553,367	\$3,213,606,367	\$2,926,222,518
Other Funds	\$3,975,451,703	\$6,377,608,321	\$6,746,661,033	\$7,890,521,526
Projected Total Expenditures, 50 States	\$9,166,086,895	\$11,451,942,299	\$11,674,275,036	\$12,523,926,499

Table 4. Sources of State Environmental Funding by Percentage

	FY2005	FY2006	FY2007	FY2008
% from Federal	39.0%	28.1%	27.5%	23.4%
% from General Funds	17.6%	16.2%	14.7%	13.6%
% from All Other Sources	43.4%	55.7%	57.8%	63.0%
Number of States with Budget Increases	n/a	35	33	34
Number of States with Budget Decreases	n/a	9	15	11

During the years 2005-2007, the inflation rates were 3.39%, 3.24%, and 2.85%, respectively. Therefore, we tested to see if states were increasing spending to keep up with inflation, as displayed in Table 5.

Table 5. Comparison of Actual Expenditures to Inflation

	2005	2006	2007	2008
Expenditures Needed to Stay Even with Inflation	n/a	\$9,476,817,241	\$11,840,163,143	\$12,070,032,960
Projected Expenditures	n/a	\$11,451,942,299	\$11,674,275,036	\$12,523,926,499

These tables show that state spending on the environment kept pace with inflationary pressures, except in 2007. However, state environmental agencies continue to receive new rules from EPA for implementation. This increase in workload averages 40 new federal rules each year.⁵ There is no simple way to quantify that workload, but we can say that there is new work associated with implementing those rules, and that there is a reasonable doubt as to whether funding from any source is available to cover it and that there certainly are not sufficient federal funds to do so.

Conclusions

State governments continue to meet their commitments to environmental protection. During the period of this study (2005-2008), states are providing more resources, from both general fund and particularly non-general fund sources, which are expected to nearly double from 2005 to 2008. During this time, federal appropriations will have declined by about \$650 million. Federal funds now average about 23% of the source of all state agency funds.

The federal government is decoupling issuance of environmental rules from the cost of their implementation, by gradually transferring the cost of federal environmental rules to the states. In such a scenario, we can expect a continued trend in which the federal portion of a state environmental agency budget continues to shrink. Those states able to acquire alternate funding sources (such as increased permit fees) will be able to continue implementing new federal rules, while other states will be faced with progressively more difficult implementation pressures. Their alternatives will eventually narrow to program delays, difficulties with program quality, or return of programs to EPA for implementation.

⁵ Brown, R. Steven. "State Environmental Trends," in *Book of the States, 2008* (Lexington, Kentucky: The Council of State Governments), in press.