

# EPA'S BUDGET STRUCTURE CONSTRAINTS

## ISSUE SUMMARY:

The EPA's ability to protect human health and the environment is constrained by flat or declining base resources, rising fixed costs, and a rigid budget structure.

- Adjusting for inflation, the EPA's annual funding has declined about 25% since the 1990s (\$12 Billion to \$9 Billion).
- Payroll increased from 20% of the total budget in FY 2000 to 28% in FY 2024 despite nearly 2,600 fewer employees.
- The EPA's budget structure and numerous additional congressional controls makes it difficult to realign resources.
  - The EPA currently is controlled through 10 appropriation accounts (not including fee revenues or permanent indefinite appropriations), with 146 program projects organized into 31 program areas.<sup>1</sup>
  - Congress limits any movements to \$1 million or 10% of a program area (reprogramming maximum). The agency has no transfer authority across appropriations.
  - The budget structure makes it difficult for the EPA to address emerging needs or shortfalls as Congress limits the agency's ability to shift funding between program areas and some program projects.
- Any budget structure changes would need to be approved by the Office of Management and Budget as well as the House and Senate Appropriations Committees.

## UPCOMING MILESTONES:

Because the FY 2026 President's Budget request development will likely be on a fast track for a Spring submission, the agency's first opportunity to propose detailed budget structure changes would likely be during the FY 2027 budget or the new strategic plan processes.

## BACKGROUND:

**Decline in Resources:** The decline in the purchasing power of agency's budget creates difficult tradeoffs, such as:

- Balancing grants to state and tribal partners versus funding for core agency programs and operations
- Agreeing on identifying appropriate staffing levels.
  - Staffing has been reduced by almost 12% (17,000 to a bit over 15,000 FTE over the last 15 years).
- Postponing modernization of, or deploying less than ideal, IT systems and infrastructure
- EPA has a dedicated building and facilities account that has had stagnant funding and not kept pace with maintenance or consolidation needs. EPA has developed a proposal for a new fund that could support the facilities and IT funding gap called a non-recurring expense fund.

**Payroll and Fixed Costs Continue to Rise:** The agency has continued to see increasing costs of pay, benefits, rent, utilities, building security, and other fixed costs. The EPA continually looks to mitigate these increases by consolidating offices and physical space, reducing staffing levels, and by looking for inefficiencies. Typically, OMB and Congress have not provided funds to fully fund payroll cost of living adjustments, benefits cost increases (such as healthcare), or increases in other fixed costs. This means EPA must continue to look at how to reduce costs and leave fewer resources for core program and operations activities.

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<sup>1</sup> An appropriation account may fund multiple program areas, which in turn may be made up of multiple program projects.

**Rigid Budget Structure:** The ability to re-allocate resources is constrained by many factors, including:

- Absent explicit statutory authority, the EPA may not move any funds between appropriation accounts (transfer authority). For example, the EPA does not have the statutory authority to move dollars from the Science and Technology account to the Environmental Programs and Management account.
- Congress prescribes minimum or maximum funding for certain programs.
- Congress prescribes funding set-asides to limit salaries, expenses, and administrative work necessary to carry out program objectives.
- Congressional committees limit annual reprogramming of funds between program areas (and some specific program projects) to \$1 million or 10 percent, whichever is lower. This includes shifting funds to support fluctuations in payroll, rent, or other fixed cost needs.

**Impacts:** Combined, these trends create challenges in doing our work.

- Payroll-heavy offices have difficulty funding operating expenses. (Payroll accounts for more than 80% of some offices' operating budgets).
  - In some cases, funding levels in program areas did not fully fund payroll and fixed costs due to targeted reductions in these payroll-heavy programs.
  - Contract and/or grant resources are frequently diverted to cover shortfalls.
- Funding for emergency responses requires difficult trade-offs due to reprogramming guidelines and other instructions in the appropriations act and/or committee reports.
  - Resources may not be available for immediate use if relevant program areas are close to reprogramming limits - House and Senate Appropriations Committees must approve even emergency requests. For example, this limited the agency's ability to divert resources from other priorities for the Maui wildfires, Red Hill, and East Palestine train derailment.
- Large Support Offices, such as OMS, must manage agency support through numerous funding line items, limiting the agency's ability to adjust support investments for new opportunities and challenges.

#### KEY EXTERNAL STAKEHOLDERS:

☒ Congress
 ☐ Industry
 ☒ States
 ☒ Tribes
 ☐ Media
 ☒ Other Federal Agency
 ☐ NGO
 ☒ Local Government
 ☐ Other (name of stakeholder) \_\_\_\_\_

- States and tribes meet with agency senior leaders during each year's formulation process and are extremely interested in the level of funding provided to them through grants. Input and feedback are also obtained through organizations representing states and Tribes, such as the Environmental Council of the States, the Local Government Advisory Committee, and National Tribal Council.
- OMB must approve all proposals to change budget structures and expresses great interest in the EPA's programs.
- Congressional Appropriations committees must approve changes to structure and will want assurances that they can maintain oversight and control of the EPA's funding.

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## MOVING FORWARD:

To increase flexibility, the following are potential solutions to the current budget structure constraints:

Request greater flexibility in appropriations language:

- Raise reprogramming limits.
- Exclude payroll or payroll cost fluctuations from reprogramming calculations.
- Allow limited movements across appropriation accounts for emergencies.
- Provide some flexibility for specific programs where Congress is currently mandating specific funding levels.

Consolidate similar program projects – Consolidate program projects to capture the major components of each program, allowing flexibility using funds and fewer budget lines. This consolidation would streamline and better align the budget structure for program projects with similar missions and objectives. However, consolidation could further reduce reprogramming flexibility across programs.

LEAD OFFICE/REGION: OCFO

OTHER KEY OFFICES/REGIONS: N/A