

**INVESTING IN THE
ENVIRONMENT:
ENVIRONMENTAL QUALITY
GRANT AND LOAN PROGRAMS**

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REPORT DIGEST

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STATE OF WASHINGTON

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ENVIRONMENTAL QUALITY GRANT AND LOAN PROGRAMS PERFORMANCE AUDIT

Twelve capital budget programs administered by six agencies provide grants and loans to local governments and other entities to maintain, restore, or enhance environmental quality. Examples of the broad range of projects and activities funded by the programs include construction of sewage treatment plants, hazardous waste cleanup, dairy waste management, environmental education, and salmon habitat restoration. Approximately \$440 million has been budgeted for these programs in the 1999-01 Biennium – the largest amount in their history.

This audit was initiated by the Joint Legislative Audit and Review Committee (JLARC) in response to legislative interest in the performance of the programs. The audit focuses on two primary themes: the investment performance of the programs (their effectiveness in financing projects with high environmental quality returns), and their collective ability to serve local government environmental investment needs.

Program Overview

Most of the programs have been created since the mid-1980s to respond to emergent environmental issues in the areas of water quality, solid and hazardous waste management, habitat loss, and, most recently, endangered species recovery. The programs play an important role in a complex environmental quality system. They distribute the vast majority of the funding the state provides to local governments for environmental quality purposes, and consume **over one-fourth of the state's overall natural resources budget**.

Requests for program funding have been growing. The number of funding applications increased 37 percent over the past five years. During this time, programs were able to accommodate 59 percent of the \$1.4 billion in total funding requested.

There are large variations in the amount of funding provided to projects across the state's 39 counties. There are, however, **no comprehensive environmental indices** that might be used to explain these variations or gauge the impacts of expenditures. Our analysis shows that program funding allocations closely follow population – more funding is consistently allocated to projects taking place within counties with higher populations.

Distributing Versus Investing

Environmental investments are intended to produce a return of quality improvements in water, land, or species resources. Without measurable returns, it is impossible to determine if investments have been effective. Measuring investment returns can be difficult, particularly within large and complex environmental systems.

It is often not clear how individual projects contribute to long-term solutions over time. Many of the **systemic environmental issues** we are now facing in Washington, such as salmon recovery and water quality planning for entire river basins, pose significant new challenges to making investments and measuring their returns.

Solid data is missing for monitoring environmental quality, learning from past projects, and coordinating investments across programs. While some steps have been taken towards developing meaningful environmental performance measures and coordinating projects, these efforts are only in their infancy.

At this time, the one output that is most clearly and consistently documented across programs is that money has been distributed. Thus, the programs under this audit can be characterized as being primarily **distributional** in nature.

Program Investment Practices

Based on our research of environmental funding programs in Washington and other states, we developed a **model** for evaluating program investment practices. The model's 16 key investment practices represent a new program benchmark—a **framework for deliberate environmental investment decision making**. In comparing program structures and operations to the model, we found that many **programs performed well on basic practices related to funding distribution, but poorly in practices that ensure the effectiveness of investments**. Adoption of some of the missing key investment practices could shift the focus of program activities away from distribution and towards investment results.

Local Government Perspectives

Eighty-two local jurisdictions and organizations across Washington that have applied for and/or received program funding commented on their capacity to make sound environmental investments, as well as on program services. These 82 local entities identified a number of barriers to making strategic long-term

environmental investments at the local level. Several cross-program service issues that increase the time, complexity, and cost of accessing program funding were also identified. Individuals from local entities offered a series of structural and process improvements to increase local capacity to make sound investments and improve program services.

Recommendations

The report includes six recommendations intended to achieve the following:

- **Increase the systematic collection and sharing of information** about applications for funding, project locations, baseline conditions, and investment outcomes that can be used to plan and design projects, coordinate investments across programs, evaluate investment performance, and learn from past investments;
- **Integrate practices from the investment model into program structures and operations** to shift the focus of program activities towards making sound environmental investments;
- **Streamline and better integrate program services** to local governments; and
- **Ensure that funding agencies work together** to achieve these goals.

By implementing these recommendations, **confidence surrounding the state's environmental investments can be increased and services to local governments can be improved**. Being able to more clearly define and efficiently produce desired long-term environmental results across programs can help **increase certainty that policy-makers' intent to spend scarce public resources effectively will be achieved**.