

**ENVIRONMENTAL PROTECTION AGENCY  
ENVIRONMENTAL FINANCIAL ADVISORY BOARD  
STRATEGIC ACTION AGENDA  
Fiscal Years 2002-2003**

**INTRODUCTION**

The Environmental Protection Agency (EPA) can be justifiably proud of its accomplishments to control pollution discharges and to restore environmental quality. Much of the credit for this success can be attributed to implementation of regulatory and enforcement tools, and to the transfer of resources from the federal government to help construct needed environmental infrastructure. These mechanisms will continue for the foreseeable future, and will be supplemented by new tools such as: environmental management systems; performance-based environmental regulation; market forces aligned to achieve environmental outcomes; information and environmental education in support of voluntary measures; and expanded use of traditional and innovative environmental finance techniques.

Environmental protection is a costly enterprise. America now spends roughly two percent of its GDP on environmental controls, with increases projected as EPA engages in solving more complex and intractable problems. Even as economic policy becomes more fully integrated into environmental policy, the costs will be formidable. There is a clear need to sponsor innovative projects and technologies, improve efficiencies, leverage resources, and apply techniques of finance in service of EPA's environmental portfolio.

A significant percentage of EPA's annual budget is dedicated to fund environmental infrastructure, remediation and restoration of land, and grant assistance for capacity building in state and local agencies. These annual appropriations are commonly viewed as expenditures or outlays; however, the efficient employment of these funds is an **investment** opportunity because the utilization of finance tools and techniques in conjunction with these funds can lead to sustainable financing systems.

The Environmental Financial Advisory Board (EFAB) and the Environmental Finance Center (EFC) Network will be an integral part of EPA's evolving mission. EFAB is chartered under the Federal Advisory Committee Act to provide advice and recommendations to EPA on environmental finance issues, options, proposals, and trends. The EFC Network consists of nine university-based programs that deliver traditional and innovative financial outreach services to the regulated community.

Created in 1989, EFAB is dedicated to assisting the regulated community in identifying practical ways of lowering costs and increasing investments in public purpose environmental facilities and services. EFAB is supported by EPA's Office of the Chief Financial Officer, Office of the Comptroller, headed by Joseph Dillon, Comptroller. EFAB's Chair is Robert O. Lenna, Executive Director of the Maine Municipal Bond Bank. EFAB's Executive Director and Designated Federal Official is A. Stanley Meiburg, Acting Regional Administrator, Region 4 in Atlanta, Georgia.

At the beginning of each fiscal year, EFAB updates its Strategic Action Agenda. The process has evolved

to a point where major environmental finance themes and issues have clearly emerged, helping guide the identification and development of the specific projects outlined in this Agenda.

## **THEMES AND ISSUES**

EFAB's work is organized around five major themes:

- i Education and Outreach
- i Environmental Stewardship
- i Cost-Effective Environmental Management
- i Sustainable Environmental Finance
- i International Initiatives

I. ***Education and Outreach***: Information presented to the public and private sectors in accurate, useful, and understandable ways will build broad acceptance and support for environmental programs and goals. A well-informed regulated community will be more willing to accept the need for environmental protection and be willing to support the necessary significant investments it takes. A fundamental purpose of EFAB projects is to better inform the public and private sectors of the need and the cost of environmental protection and at the same time, point to ways of lowering its costs and increasing environmental investments.

II. ***Environmental Stewardship***: Sound education and outreach foster both the ethic and practice of stewardship. Without a commonly held and applied sense of the worth of environmental protection, no amount of regulatory and enforcement actions will achieve success for EPA. The Board views stewardship in a broad sense that ranges from traditional measures to preserve land and encourage responsible land management practices on private property to incentives that promote the redevelopment of abandoned inner city industrial areas and discourage the loss of valuable green spaces. The view extends as well to corporate stewardship and the role of the commercial and industrial sectors in acting responsibly in their management and utilization of environmental resources under their control and influence.

III. ***Cost-Effective Environmental Management***: The goal of cost-effective environmental management is to reduce the life cycle costs of environmental protection without sacrificing its benefits. The question of how to pay for environmental facilities and services goes far beyond the basic question of how to raise the money to pay. What is being purchased or financed, as well as when and how it is delivered or built are critical cost issues. Many practical opportunities exist to lower the capital, operating, and maintenance costs of environmental protection. Alternative procurement methods, expanded use of private activity bonds, system optimization and consolidation, public-private partnerships, new techniques of asset management based on life cycle costs, improved government accounting standards, and demand management pricing policies are all excellent examples. EFAB has taken a special initiative to identify useful (and in some cases innovative) ways for states and municipalities to practice cost-effective

environmental management.

**IV. *Sustainable Environmental Finance:*** Environmental finance is the art and practice of paying for the capital costs and operation and maintenance expenses associated with providing environmental services. As such, it focuses on ways to achieve and maintain the necessary level of public and private investment consistent with the desired level of environmental protection. Sustainability has two dimensions. It refers to the development of financial assistance mechanisms that will eventually operate as free-standing enterprises, and it refers to building the financial capacity of local governments to permanently run their environmental systems in compliance with applicable state and federal standards. EFAB has a core interest in the theme of sustainable environmental finance, beginning with the main source of capital - the bond market and the efficient use of tax-exempt bonds as the traditional means of paying for environmental infrastructure. The Board is also interested in the impressive performance and potential of the State Revolving Funds and in general, the creative use of financing mechanisms and subsidies that reduce costs to affordable levels and promote the financial self sufficiency of state and local government environmental programs.

**V. *International Initiatives:*** With the dramatic expansion of the global economy has come the increasing realization that many serious environmental problems have international consequences. The United States, by virtue of its longstanding regulatory programs to protect the environment, has a major interest and role in encouraging the adoption of sound international environmental policies. Yet, the United State has another role that is perhaps equally as important. Through its sophisticated system of environmental finance, this country is in an excellent position to help emerging and even more advanced nations with the tough issues of sustainable environmental finance. This obviously produces benefits for the recipient nation and the environment, but less clearly understood is the economic boost given to US businesses in the financial services and environmental goods and services industries and the strategic support given to advancing US foreign policy objectives. As a consequence, EFAB has recently initiated several advisory projects aimed at reducing financial barriers to environmental protection in other nations. A new area EFAB will explore is finding creative funding for curbing global warming and contribute to the development of policy to reduce CO2 and other greenhouse gas emissions.

Through its strategic planning process, EFAB annually considers and applies these themes in the context of the following major environmental financial issues:

- Developing and delivering effective information and outreach to the regulated community, helping it to build the financial and administrative capacity to own, operate, and maintain public-purpose environmental systems;
- Making more effective the practice of stewardship in urban, rural, and corporate settings;
- Financing of the investment required for the prevention of nonpoint source pollution;
- Developing economic incentives that effectively encourage the conservation and restoration of watershed

lands and associated habitats, discourage the loss of valuable open space, and make better use of already developed or abandoned properties;

- Developing and implementing cost-effective environmental management techniques and practices to significantly lower the costs of environmental protection;
- Achieving the widespread adoption of asset management techniques by public and private environmental utilities;
- Helping define the federal role with respect to implementing sustainable financing systems and providing financial assistance for public-purpose environmental infrastructure, including the eligibilities, conditions, duration, types, and magnitude of funding;
- Making improvements to the federal tax code to improve the efficiency of tax-exempt bonds as a means of paying for public purpose environmental infrastructure;
- Designing and providing states options for expansion and improvement to their State Revolving Funds; and
- Designing and expanding the use of financing techniques that would be most effective in achieving affordability and promoting financial self-sufficiency.

Based on these issues and input from the Agency, EFAB develops its Strategic Action Agenda describing the workgroup structure and listing completed, ongoing, and new projects. Each citation gives the project title, lead workgroup, the Agency's strategic plan goal, and the primary customer to be served. Given the number, scope, and nature of the issues, four workgroups are taking on the majority of projects, while six are considered by the Board acting as a "Committee of the Whole."

## **WORKGROUP STRUCTURE AND PROJECT LISTING**

### **EFAB's Four Standing Workgroups**

- i Brownfields/Smart Growth.** Chaired by Evan Henry, Bank of America, Irvine, California.
- i Public Finance.** Chaired by Sonia Toledo, Lehman Brothers, New York, New York.
- i Cost-Effective Environmental Management.** Chaired by Michael Deane, United Water, Washington, DC.
- i International.** Chaired by Jim Tozzi, Multinational Business Services, Inc., Washington, DC

## Completed Projects FY 2001

**1. *Financing Options for the North American Development Bank.*** Consultation/Verbal Presentation, October 2000.

- i **Lead:** International Workgroup
- i **Agency Strategic Goal:** Reduction of Global and Cross-Border Environmental Risks
- i **Primary Customer:** Office of International Activities

**2. *Removing Barriers to Investment in Environmental Infrastructure in Western Europe.*** White Paper, December 2000.

- i **Lead:** International Workgroup
- i **Agency Strategic Goal:** Reduction of Global and Cross-Border Environmental Risks
- i **Primary Customer:** Agency

**3. *The Use of Tax Incentives to Help Spur Investment in Brownfields Redevelopment.*** Letter, April 2001

- i **Lead:** Brownfields/Smart Growth Workgroup
- i **Agency Strategic Goal:** Better Waste Management, Restoration of Contaminated Waste Sites, and Emergency Response
- i **Primary Customer:** Office of Solid Waste and Emergency Response

**4. *Environmental State Revolving Funds: Developing a Model to Expand the Scope of the SRF.*** Report, June 2001

- i **Lead:** Public Finance Workgroup
- i **Agency Strategic Goal:** Clean and Safe Water
- i **Primary Customer:** Office of Water

**5. *Private Sector Initiatives to Improve Efficiencies in Providing Public-Purpose Environmental Services.*** Report, July 2001

- i **Lead:** Cost-Effective Environmental Management Workgroup
- i **Agency Strategic Goal:** Sound Science, Improved Understanding of Environmental Risk and Greater Innovation to Address Environmental Problems
- i **Primary Customer:** Agency

**6. Conservation Savings Increment Loans: A Proposal Concerning the State Revolving Funds.** Report, September 2001

- i **Lead:** Public Finance Workgroup
- i **Agency Strategic Goal:** Clean and Safe Water
- i **Primary Customer:** Office of Water

**7. Small Business Innovative Research Program Topics.** Letter, September 2001

- i **Lead:** Full Board
- i **Agency Strategic Goal:** Sound Science, Improved Understanding of Environmental Risk, and Greater Innovation to Address Environmental Problems
- i **Primary Customer:** Office of Research and Development

**8. Arbitrage Relief Would Increase Funds Available to Meet Critical Water and Sewer Funding Needs.** Report, September 2001

- i **Lead:** Public Finance Workgroup
- i **Agency Strategic Goal:** Clean and Safe Water
- i **Primary Customer:** Office of Water

**Ongoing Projects FY 2002**

**1. Stewardship Financing**

- i **Lead:** Full Board
- i **Agency Strategic Goal:** Community-Based Environmental Protection Program
- i **Primary Customer:** Agency

**2. Research and Innovation in the Water Industry**

- i **Lead:** Full Board
- i **Agency Strategic Goal:** Clean and Safe Water
- i **Primary Customer:** Office of Water

**3. Guidebook of Financial Tools**

- i **Lead:** Full Board
- i **Agency Strategic Goal :** Quality Environmental Information
- i **Primary Customer:** Agency

**4. *Expanding Lending for Non-Point Source Projects***

- i **Lead:** Public Finance Workgroup
- i **Agency Strategic Goal:** Effective Management
- i **Primary Customer:** Office of Water

**5. *Coordination of EPA, USDA and HUD Water and Sewer Loan Assistance***

- i **Lead:** Public Finance Workgroup
- i **Agency Strategic Goal:** Effective Management
- i **Primary Customer:** Office of Water

**6. *Joint Operations of the SRF Programs***

- i **Lead:** Public Finance Workgroup
- i **Agency Strategic Goal :** Effective Management
- i **Primary Customer:** Office of Water

**7. *Follow-up to Gap Analysis***

- i **Lead:** Public Finance Workgroup
- i **Agency Strategic Goal :** Clean and Safe Water
- i **Primary Customer:** Office of Water

**8. *Brownfields Legislation***

- i **Lead:** Brownfields/Smart Growth Workgroup
- i **Agency Strategic Goal :** Better Waste Management, Restoration of Contaminated Waste Sites and Emergency Response
- i **Primary Customer:** Office of Solid Waste and Emergency Response

**9. *Public Sector Initiative Report***

- i **Lead:** Cost-Effective Environmental Management Workgroup
- i **Agency Strategic Goal:** Sound Science, Improved Understanding of Environmental Risk, and Greater Innovation to Address Environmental Problems
- i **Primary Customer:** Agency

## ***10. International Environmental Finance Program***

- i Lead:** International Workgroup
- i Agency Strategic Goal:** Reduction of Global and Cross-Border Environmental Risks
- i Primary Customer:** Office of International Activities

## ***11. North American Development Bank Options***

- i Lead:** International Workgroup
- i Agency Strategic Goal:** Reduction of Global and Cross-Border Environmental Risks
- i Primary Customer:** Office of International Activities

# **New Projects FY 2002/2003**

### ***1. Small Business Innovate Research Program: Technologies for Stormwater Infrastructure***

- i Lead:** Full Board
- i Agency Strategic Goal :** Sound Science, Improved Understanding of Environmental Risk, and Grater Innovation to Address Environmental Problems
- i Primary Customer:** Office of Research and Development

### ***2. Financial Checklist for Consent Decrees***

- i Lead:** Full Board
- i Agency Strategic Goal :** A Credible Deterrent to Pollution and Greater Compliance with the Law
- i Primary Customer:** Office of Enforcement, Compliance and Assurance

### ***3. Financing Long-term Response Actions at Superfund Sites***

- i Lead:** Brownfields/Smart Growth Workgroup
- i Agency Strategic Goal :**
- i Primary Customer:** Office of Solid Waste and Emergency Response

### ***4. Public Sector Initiatives/Environmental Management Systems Workshop***

- i Lead:** Cost-Effective Environmental Management Workshop
- i Agency Strategic Goal :** Sound Science, Improved Understanding of Environmental Risk, and Grater Innovation to Address Environmental Problems

- i **Primary Customer:** Agency

**5. *Public Sector Initiatives/Governmental Accounting Standards Board 34 Workshop***

- i **Lead:** Cost-Effective Environmental Management Workgroup
- i **Agency Strategic Goal :** Sound Science, Improved Understanding of Environmental Risk, and Greater Innovation to Address Environmental Problems
- i **Primary Customer:** Agency

**6. *Environmental Finance Options for US Greenhouse Gas Emission Policy***

- i **Lead:** International Workgroup
- i **Agency Strategic Goal :** Reduction of Global and Cross-Border Environmental Risks
- i **Primary Customer:** Office of International Activities

**Notes:**

- C The strategic action agenda is a flexible planning tool and, occasionally during the fiscal year, it is revised and updated. Any revisions will be shown on the Board's home page at: <http://www.epa.gov/efinpage/efabstra.htm>.
- C On November 8, 2001 the Cost-Effective Environmental Management Workgroup will cohost a workshop on Environmental Management Systems and financial performance with the Office of Water and Region 9 at EPA Headquarters in Washington, DC.
- C On March 4, 2002, the Cost-Effective Environmental Management Workgroup will host a workshop on the General Accounting Standards Board 34 at the National Press Club in Washington, DC.
- C The next full Board meeting is March 5-6, 2002 at the National Press Club in Washington, D.C. The primary purpose of this meeting is to assess progress with the strategic action agenda and make any necessary revisions thereto.
- C In addition to the above projects, EFAB members contribute their time to assisting other EPA initiatives, most notably the Environmental Finance Center (EFC) Network. The EFC Executive Directors serve as expert witnesses to the Board, and along with other experts, they provide key assistance to EFAB. The Board gratefully acknowledges the valuable contribution of its expert witnesses. The home page for the EFC Network is: [www.epa.gov/efinpage/efc.htm](http://www.epa.gov/efinpage/efc.htm). Your comments are important and welcome. Please call or e-mail Vanessa Bowie, EFAB Coordinator at (202) 564-5186 or [bowie.vanessa@epa.gov](mailto:bowie.vanessa@epa.gov).