

ENVIRONMENTAL FINANCIAL ADVISORY BOARD
STRATEGIC ACTION AGENDA
Fiscal Years 2001-2002

Introduction

As the Environmental Protection Agency (EPA) celebrates its 30th anniversary, we can be justifiably proud of our accomplishments to control pollution discharges and to restore environmental quality. Much of the credit for this success can be attributed to implementation of our 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, Acting 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 John C. Wise of EPA, Region 9 in San Francisco, California.

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, and demand management pricing policies are 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 Fund programs and in general, the creative use of subsidies that reduce costs to affordable levels and promote the financial self sufficiency of recipients.

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.

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;
- 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 seven 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 2000

Pace of Lending Issues Regarding State Revolving Funds. Report, January 2000.

- i **Lead:** State Revolving Fund Workgroup
- i **Agency Strategic Goal:** Clean and Safe Water
- i **Primary Customer:** Office of Water

Brownfields Tax Incentives. Report, March 2000.

- i **Lead:** Brownfields/SmartGrowth 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

Financing Options for the North American Development Bank. Consultation/Letter, May 2000.

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

Gap Analysis Proposals. Report, May 2000.

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

Completed Projects FY 2001

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

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

Ongoing Projects FY 2001/2002

Corporate Environmental Performance

- 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:** National Advisory Council on Environmental Policy and Technology and Office of Cooperative Environmental Management

Guidebook of Financial Tools

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

Follow-up to Gap Analysis (10-Point Plan, Total Maximum Daily Load)

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

Follow-up to Better America Bonds

- i **Lead:** Public Finance Workgroup
- i **Agency Strategic Goal:** Community-Based Environmental Protection Program
- i **Primary Customer:** Agency

Follow-up to Brownfields Tax Incentives Letter/Summary of Brownfields Recommendations

- i **Lead:** Brownfields/Smart Growth

- 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

Brownfields Legislation

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

Public-Private Partnerships

- 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 and Community-Based Environmental Protection Program
- i **Primary Customer**: Agency

Russia - Newly Independent States / Environmental and Public Health Protection

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

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 2001/2002

Stewardship Financing

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

Futures Analysis (Research Delivery, Water Supply)

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

Top Finance Issues

- i **Lead:** Full Board
- i **Agency Strategic Goal :** Effective Management
- i **Primary Customer:** Agency

EFAB Quarterly Newsletter

- i **Lead:** Full Board
- i **Agency Strategic Goal :** Effective Management
- i **Primary Customer:** Agency, EFAB

EFAB Annual Report

- i **Lead:** Full Board
- i **Agency Strategic Goal :** Effective Management
- i **Primary Customer:** Agency, EFAB

State Revolving Fund Projects (Environmental State Revolving Fund, Arbitrage Rebate, SRF/Municipal Credit Support for Non-Traditional Borrowers, Joint SRF Operation, SRF/USDA Consultation)

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

Public Sector Initiatives

- 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 and Community-Based Environmental Protection Program
- i **Primary Customer:** Agency

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- i **Lead:** Cost-Effective Environmental Management Workgroup
- i **Agency Strategic Goal :** Effective Management

- i **Primary Customer:** Office of Water and Office of Solid Waste and Emergency Response

Asset Management

- i **Lead:** Cost-Effective Environmental Management
- i **Agency Strategic Goal :** Effective Management
- i **Primary Customer:** Office of Water

Sub-Saharan Africa

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

China

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

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 March 5, 2001, the Cost-Effective Environmental Management Workgroup will hold a meeting on public sector initiatives, at the National Press Club in Washington, DC.
- C The next full Board meeting is March 6-7, 2001 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. Your comments are important and welcome. Please call or e-mail Vanessa Bowie, EFAB Coordinator at

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