

**Management Board Charge to
Environmental Finance Symposium Report Action Team**

- **Background:** In July 2015, the Chesapeake Executive Council (EC) charged the Chesapeake Bay Program (CBP) Principals' Staff Committee (PSC) with holding an environmental financing symposium in 2016. A grant was awarded to the University of Maryland Environmental Finance Center (EFC) in September 2015, to conduct this symposium and prepare a final report and recommendations to the PSC following the symposium. The EFC held the Chesapeake Bay Environmental Finance Symposium in April 2016, and provided the CBP with draft reports for Program review and comment on July 8, and August 8, 2016. Following the receipt of comments and the preparation of a response to comment document by the EFC, the final symposium report and recommendations were provided to the CBP on September 1, 2016 (1-page summary attached).

The PSC Chair reported to the EC on the Symposium Report at the October 2, 2016 EC Meeting and informed them that the PSC would be reporting back to them on the Program's response to the report recommendations in 2017.

- **The Charge:** The Management Board will convene an action team that will include the members of the GIT 6 Budget and Finance Workgroup and other interested partners to propose a "path forward" regarding the recommendation in the report and the issues raised at the symposium. The action team will report to the Management Board by March 2017. The Action Team will seek input on priorities from the PSC and consult with symposium attendees and others with financing and environmental market expertise.
- In developing its proposed response and path forward, the Environmental Finance Symposium Report Action Team shall undertake, at a minimum, the following actions:
 1. **Draft a plan and a "path forward"/schedule** for further analysis, studies, or other actions that may need to be taken by the CBP to address these recommendations over time Present the draft plan at the March 2017 Management Board Meeting and at the Spring 2017 PSC Meeting.
 2. **Identify those recommendations that are most likely to benefit from a coordinated CBP partnership approach** vs. those that may be best addressed through separate actions by individual jurisdictions, agencies or other partners.
 3. **Assess challenges of and opportunities** to support selected recommendations, including, but not limited to, cost, workload, and resource implications.
 4. **Prioritize which recommendations should be acted on first** so that other responses can build upon those actions as well as any that can be pursued simultaneously.
 5. **Consider short-term vs. long term actions** that may be taken to address each recommendation.
 6. **Identify work being done by the CBP, our partners, and in other regions of the country** that may serve as models for others seeking to address recommendations.
 7. **Identify which Goal Team, workgroup or other partner** within the CBP organization would take the lead in responding to recommendations. Also identify those actions that may require use of an external entity through use of a grant, contract or other vehicle.

REPORT SUMMARY IN BRIEF

Chesapeake Bay Environmental Finance Symposium Recommendations and Final Report ~ August 2016 Prepared for the Budget and Finance Workgroup of GIT 6

Overarching Recommendation: Create a Chesapeake Bay Program Finance Advisory Board comprised of finance, economic, and policy experts charged with advancing Bay restoration financing solutions.

CORE RECOMMENDATIONS FOR SCALING AND ACCELERATING PUBLIC – PRIVATE ENGAGEMENT

Core Recommendation 1: Advance a Chesapeake Bay restoration economic development effort.

Strengthen the linkage between the Bay restoration effort and the region's economy and economic development framework – a paradigm shift that water quality as economic development. Three opportunities are identified: develop industries and products that are naturally linked with a clean and healthy Bay; target investment in BMPs that also support the local and regional economy; and local and state governments can create incentives to grow innovative initiatives that both generate revenue and function as restoration practices in and of themselves.

Core Recommendation 2: Create a credit-based financing system and market infrastructure, basin-wide.

Sub-recommendation 2a: The first part of this recommendation is to **establish a credit-based financing system** in order to explicitly tie water quality restoration investments with the desired Chesapeake Bay Environmental Finance Symposium Final Report 17 outcome of reduced nutrient and sediment loading to the Bay.

Sub-recommendation 2b: Hand-in-hand with adopting a credit-based financing system is a **shift toward a performance-financing approach**, which focuses on the desired outcome rather than the means to get here.

Sub-recommendation 2c: To enable water quality trading and other Bay-wide restoration investments, it will be necessary for local and state leaders to **create water quality market infrastructure**.

Core Recommendation 3: Establish implementation and performance standards, basin-wide.

Performance standards for a stormwater or water quality market can be modeled on those in the mitigation banking system, which address three main areas: legal standards; financial standards; and biological or physical standards.

Core Recommendation 4: Reduce unnecessary transaction costs.

The EFC recommends two main process changes that could significantly improve private sector engagement: streamlining permitting processes, and transforming local and state procurement systems.

Core Recommendation 5: Facilitate the flow of capital through innovative institutional structures.

Bay jurisdictions should make sure that: state and local investments to restore the Bay are in nonpoint pollution reduction projects only when viable projects are ready, and that they have the institutional structure that have the capacity to hold funds through multiple fiscal years. The capacity they should have includes the ability to: hold or bank revenue without concern that funding will be sequestered or reallocated; leverage revenue; and, purchase, hold, and distribute water quality credits as needed.

SYMPOSIUM THEME-SPECIFIC RECOMMENDATIONS

Theme Recommendation 1: Pilot pay for success investment models.

A social impact bond, also known as a pay for success contract, is an agreement between a public agency and a private firm, in which a commitment is made to pay for improved social outcomes that result in public sector savings.

Theme Recommendation 2: Establish proactive stormwater banking programs.

In a stormwater banking system, property owners construct BMPs capable of treating more stormwater than is required by their own permit, thereby generating credits that can be sold to others who need to meet their own stormwater management requirements, such as developers seeking a lower-cost alternative to managing stormwater onsite.

Theme Recommendation 3: Advance public-private partnerships, where appropriate.

A P3 is a "contractual arrangement between a public agency (federal, state or local) and a private sector entity. Through this agreement, the skills and assets of each sector (public and private) are shared in delivering a service or facility for the use of the general public."

Theme Recommendation 4: Incentivize commercial landowners to mitigate nutrient and sediment emissions.

This recommendation differs from the others in that enabling depreciation for water quality practices will require federal authorization and legislation. States can create conservation tax credit programs independent of the federal government; however, the most effective program would include federal income tax relief.