

Activity 2: Develop and Propose a Comprehensive Conowingo WIP Financing Strategy and Associated Implementation Plan

Lead Grantee: Chesapeake Bay Trust

Sub-Activities: (1) Develop, Propose, and Implement Conowingo Finance Strategy; (2) Identification of the Necessary Financing Approaches; (3) Assessment of Legal Authorities, Restrictions, and Processes Necessary to Propose a Multijurisdictional and Multi-Sector Finance and Investment System; and (4) Link Economic Development to Restoration Finance

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Other Project Partners: Center for Global Sustainability/School of Public Policy at the University of Maryland; Throwe Environmental, LLC; others

Chesapeake Bay Trust's Conowingo WIP Financing Project is designed to establish an innovative financing system that will result in greater financing scale and efficiency in support of water quality and pollution reductions defined in the upcoming Conowingo Dam Watershed Implementation Plan. This financing system will presumably be founded on the creation of a new financing institution or authority, which will be charged with allocating and investing fiscal resources in support of water quality restoration. This work plan describes the project team's proposed efforts to: 1) assess the existing financing systems that will presumably support Conowingo restoration activities; 2) propose a design and implementation strategy for a new Conowingo WIP financing system; 3) develop a process for assessing the viability of a establishing a new interstate financing institution; and, an identification of the resource necessary to launch and sustain this new financing system and institution. Finally, the project team will develop an implementation plan and a proposed investment process and timeline.

Our objective is to establish a Conowingo WIP financing system with the goal of advancing water quality restoration and protection efforts in the most efficient and effective manner possible. In other words, the system must be designed to achieve the greatest level of pollution reduction per dollar invested. In addition, this system must have the parallel goal of ensuring that water quality restoration investments maximize economic development within the investment zone. The Conowingo WIP financing system that can effectively achieve these goals requires addressing key financing attributes and components, including:

Revenue generation: ultimately restoration investments require sufficient revenue streams and sources. Technically, revenue streams are virtually unlimited, especially as they relate to infrastructure investment. What limits the use of capital and revenue is the necessary return that market-based investments require. As a result, our objective is to identify and expand revenue sources and to maximize efficiency in regard to investments within multiple sectors.

Regulation and policy: the entire Chesapeake Bay restoration system is founded on local, state, and ultimately federal regulation and law; and, the structure of these regulations has an often profound impact on the restoration financing system. Our objective is to ensure that the regulatory system facilitates financing efficiency and scale.

Institutional structures and capacity: finally, our objective is to create financing institutions that have the capacity to implement financing and investment processes. One potentially transformational

institutional structure is the formation of a financing authority. The purpose of a financing authority is to achieve the primary goals of the financing system, in the case of the Conowingo effort increasing water quality investment scale and efficiency. Authorities do this by aggregating public capital and pooling that capital with private investment. A water quality infrastructure financing authority would also have the capacity to accelerate project implementation timelines by making projects more bankable and appropriate for investment and financing. Finally, an authority or infrastructure bank can help link economic development with water quality goals and financing. In short, a financing authority, at least in concept, will have the capacity to institutionalize, organize, and implement the various elements of the financing system.

Working with other activity leads: The project will only be successful if each of the three activity leads works closely together. For example, the type of financing system proposed will could strongly depend on the types of activities called for in the Conowingo WIP, and the types of activities proposed in the WIP (Center for Watershed Protection's role) very well could depend on the types of activities most likely to attract funds, as the cost effectiveness of certain practices would be affected by this likelihood. As a result, the Trust plans to engage frequently with both teams, the Center for Watershed Protection and the Chesapeake Conservancy. Having their input regularly will be important.

Assess the current financing capacity and associated system as it relates to supporting the Conowingo WIP goals and desired outcomes. Any effort to establish a financing system charged with implementing the Conowingo WIP must begin with a thorough and objective assessment of the existing financing system. To that end, the Project Team will assess the capacity of the current financing system, focusing on key processes, including: diversification and scale of revenue flows; institutional capacity, including the ability to address inter-jurisdictional financing; the capacity to engage the private sector and investment; and, the ability to develop and implement market-based financing processes such as ecosystem service payments and water quality trading. The assessment processes will be implemented in three primary steps:

Step 1: assess current system strengths. The foundation for establishing an innovative, efficiency-based Conowingo WIP financing system has been established through multiple programs and financing efforts across the watershed. We will develop and implement a systematic approach to identify those assets, resources, and programs that function efficiently and effectively in regard to identifying and allocating fiscal resources in support of water quality restoration.

Step 2: identify gaps and weaknesses in the system. The logical next step in our process will be to identify the weaknesses in the current financing system. Again, we will take a systematic approach to assess how well the current financing system addresses the key financing outputs and outcomes, including: the capacity to incentivize investment from each sector; how well the system creates financing efficiency as measured by pollution reductions per dollar invested; success in enabling and incentivizing innovation in regard to policy and management practices; and, the capacity to incubate ingenuity in the financing and implementation processes.

Step 3: identify the elements of an efficient, innovative, and sufficient financing system. Finally, the Project Team, in partnership with the advisory committee and key experts across the region, will identify, define, and structure the key elements that must be part of the Conowingo financing system. Presumably some of these elements will be structural in nature, thereby focusing on institutions, policies and regulations, and technical expertise. Others will be more process in nature, thereby

addressing the enabling conditions that are necessary for creating a culture of innovation and ingenuity in the financing and water quality restoration and implementation processes.

The completion of the financing assessment will provide the Bay States and other essential stakeholders with the basis of moving forward with changes and adjustments to the financing process. Therefore, the financing assessment itself will serve as the foundation of the new financing system. To that end, the assessment will be provided as a stand-alone product, preceding the anticipated financing business plan.

Develop a Conowingo financing system implementation plan and strategy. Using the financing assessment as a foundation, the Project Team will design a financing system that will have the capacity to leverage, receive, manage, and disburse public, nonprofit and private funds to implement the Conowingo WIP. Again, using the capacity assessment as a starting point, we will develop the template for establishing a financing system that is based on key financing processes and elements, including: sufficient and sustainable revenues and sources of investment; institutional capacity necessary to allocate and invest fiscal resources appropriately; the capacity to link water quality financing with economic development and diversification; the capacity to implement market-based financing processes; the ability to develop and implement financing processes across jurisdictional boundaries; and, the ability to work in partnership with private investors and businesses that are either appropriate for the financing process or directly involved with the Conowingo restoration and mitigation effort.

Subtask: The complexity and scale of the implementing the Conowingo WIP will require the engagement of experts from across an array of disciplines. This project will be implemented under the guidance of an advisory committee comprised of industry experts from across multiple disciplines and policy needs and issues. The Committee will be managed by the Project Team leaders; initial Advisory Committee members will be joined by new experts as the process/project moves forward. The project team will convene the committee on a regular basis both in person and electronically as appropriate.

The Advisory Committee will include participation from organizations and institutions leading the implementation of the project outputs. In addition, the Committee will have an active role in the design and implementation of the recommendations and processes that are developed through this project. Committee members will serve as a source of innovative new ideas across multiple disciplines. In addition, the Committee will enable connections to multiple interests, public and private, that will be essential for moving the financing system forward. In short, the Advisory Committee will serve as the foundation of the project team's outreach efforts, thereby ensuring that the proposed financing system is inclusive and focused on the needs of the entire restoration community.

A critical function of the financing system will be to reduce the transaction costs associated with implementing practices and projects designed to improve water quality. In a traditional sense this would include reducing cost of capital, land acquisition, labor, and operations and maintenance. However, one of the most important transaction costs is associated with community acceptance, political support, and institutional cooperation. To that end, the Advisory Committee will serve as a direct conduit to the community experts from across the region that are integral for identifying areas of resistance to the financing and restoration process and leveraging opportunities for overcoming that resistance.

Finally, the financing system must be designed and implemented in a manner that accounts for the financing requirements and restoration needs of the Bay states and jurisdictions. In fact, the Bay states

have more to gain, and potentially lose, than any other entities engaged in the Conowingo and Bay restoration processes. Therefore, a specific role and function of the Advisory Committee will be to ensure the continuous engagement and participation of State leaders in the entire financing system development process. Representatives from the Bay states will be included on the committee to ensure that issues and concerns are continuously addressed throughout the process.

Develop a Financing Authority implementation and business plan. Perhaps the most unique element of the financing system will be the potential creation of a financing or infrastructure authority. As a result, developing a financing authority business and implementation plan will be the cornerstone of this project. A financing authority can serve multiple roles in the financing process. First, it can serve as a mechanism for pooling and disseminating public capital, thereby creating investment scale. This in and of itself would make the investment process more efficient. Second, financing authorities can link public infrastructure projects to private capital by making projects “bankable” or investable. Finally, when structured appropriately, financing authorities can advance economic development initiatives by targeting investments to specific industries.

Assess the potential legal potential barriers and opportunities associated with the proposed financing system. The complexity of the Conowingo WIP and the associated financing system will require a thorough understanding of the legal issues associated with establishing a regional financing system as well as establishing (potentially) a regional financing authority. Our analysis will focus on the key attributes of a regional financing system, with a focus on: inter-jurisdictional engagement and financing; establishing market-based financing processes and systems; and, working in partnership with state and federal agencies.

Create a process for linking water quality restoration investments to economic growth and development. One of the more unique developments related to the existing water restoration financing system is the expanded focus on linking restoration practices to the region’s economic growth (defined as economic productivity or output) and economic development (the quality of life of the region’s citizens). In fact, this is perhaps one of the most, if not the most important areas of our work, and it is directly connected to the financing effort, including the capacity to generate new investment. As long as the restoration financing system is predicated on regulatory compliance, the financing process will be the primary responsibility of the public sector. Private participation in this scenario will be focused exclusively on reducing risk and expanding efficiency in regard to public investment. Though this is necessary for creating an innovative and efficient Conowingo financing system, it is insufficient in the long-term. Therefore, expanding the investment to the private sector will require expanding the economic opportunities associated with restoration; this is where private capital has the capacity to expand investment dramatically. Therefore, the focus on economic development is not just on jobs, but on financing and investment. There have been very successful efforts across the region to leverage the economic impact of restoration activity itself on a defined area; the next step was to expand this impact to address long-term growth and development needs. The project team will develop processes for the Authority to create the financial incentives necessary to develop and expand new industries and investment opportunities.