

# Environmental Financing 101

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**ENVIRONMENTAL  
FINANCE CENTER**

# Introduction

- Finance vs budgeting
- Components of the financing process
- Public and private engagement



# Financing Process

- Basic financing *system*:

Revenue generation

Budgeting

Investment



# Financing Process

- Basic financing *system*:

## Revenue generation

In the public sector there are two sources of revenue: **fees and taxes**



# Budget vs. Finance

- Completely connected, yet mutually exclusive
- **Budget:** an amount of money *available* for spending based on how that money will be spent
  - An internal process



# Budget vs. Finance

- Completely connected, yet mutually exclusive
- **Finance:**
  - The system that includes the circulation of money, the granting of credit, the making of investments, and the provision of banking facilities
  - The science or study of the management of funds
  - **An external process**

# Public Sector Finance

Public finance: the role of the government in the economy

Three parts:

- **Efficient allocation of resources**
- Distribution of income
- Macroeconomic stabilization



# Private Sector Finance

Two categories:

- **Personal:** financial planning at the individual level
- **Business:** It tries to optimize the goals (*profit, sales*, etc.) of a corporation or other business organization by estimating future asset requirements and then allocating funds in accordance to the availability of funds.



# Public vs. Private

What differentiates public vs. private finance?

- Private finance: income determines expenditure
- Public finance: expenditures determine income



# Public vs. Private

What differentiates public vs. private finance?

- Private finance: relatively rigid income
- Public finance: relatively variable income



# Public vs. Private

What differentiates public vs. private finance?

- Private finance: relatively high discount rate
- Public finance: relatively low discount rate



# Public vs. Private

What differentiates public vs. private finance?

- Private finance: deficit-bad; surplus-good
- Public finance: deficit-not so bad; surplus-not so good

# Public vs. Private

## Public Sector Drives the Financing Process



# Public Sector Finance

Public finance: the role of the government in the economy

Three parts:

- **Efficient allocation of resources**
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# Public Sector Finance

Efficient allocation of resources:  
\$ / outcome

Two approaches to achieving efficiency:  
Internal  
External

# Creating Internal Efficiencies

Generate more money or reduce administrative costs

- Budgeting: allocate more money  
*Example: Bay Restoration Fee*
- Program/operational: reduce administrative costs  
*Example: multi-municipal stormwater programs*



# Creating External Efficiencies

Reduce implementation costs and push innovation

- Reduce implementation costs:
  - Example: use of public lands for BMPs*
  - Example: market/performance-based financing*
- Reduce cost of capital:
  - Example: state revolving loan funds*
- Incentivize innovation (more outcome per \$ invested)
  - Example: market/performance-based financing*

# Public Sector Finance

Public finance: the role of the government in the economy

Three parts:

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# Wrap-Up and Questions

PREINKERT FIELD HOUSE



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