

Conowingo Finance Advisory Committee

Meeting Minutes

January 8, 2021

Attendees: Jana Davis, Chesapeake Bay Trust (CBT)
Dan Nees, University of Maryland
Joanne Throwe, Throwe Environmental
Mark Bryer, The Nature Conservancy
Gabe Cohee, Maryland Department of Natural Resources
Jeff Corbin, Restoration Systems
Jens H. Damgaard, Eckert Seamans
George Kelly, Bespoke Mitigation Partners
Tim Male, Environmental Policy Innovation Center
Erik Michelsen, Anne Arundel County Government
Sam Merrill, Northgate Environmental Management, Inc.
Bonnie Norman, E3 International

Meeting Summary:

This meeting was virtual and started with an overview and key highlights from the draft Conowingo Finance Strategy. Dan Nees the key financing issue, i.e. the need for a public commitment to invest and take responsibility for CWIP restoration activities. Public investment is essential but will not be sufficient and requires investing in processes that have the potential to create efficiencies and leverage untapped revenue streams. The opportunity to engage the private sector in order to have a primary implementation role in the financing and implementation process. Because of the unique interstate nature of the Conowingo WIP, the core recommendation of the report is to establish the Conowingo Financing Authority. This Authority should reside in a single jurisdiction with the capacity to receive revenues and invest in restoration activities across the region and the Bay watershed. Its mission will be to facilitate and execute water quality restoration funding and financing transactions in support of the Conowingo WIP. Nees talked about the four components that will serve as the basis for the Conowingo WIP financing process. This includes rules and regulations; sufficient, diverse, and sustainable revenues; procurement systems; and institutions.

Following this was discussion of the Authority's restoration funding and investment activities will be supported through a dedicated pool of revenue called the Restoration Fund. The purpose of the Fund will be to fund and finance restoration practices and activities in support of water quality and ecosystem restoration. The Fund will be the mechanism that receives money to support restoration practices, and through the fund, investments will be made in support of those practices. It will serve as the link between private investment and public funding and will support a portfolio of projects that collectively will advance Conowingo WIP implementation in the most efficient and effective way possible.

Discussion began about Phase 2 of this project. It was reiterated that this committee was established to provide input during all the phases. The project team spoke to investment leaders, investment banks, etc. to get the information needed for the report. The committee

was made up heavily of private sector as public sector representation is primarily the Conowingo Steering Committee. Project Team is aware that everything has changed with Covid-19 and the economic situation the states find themselves in now will be difficult. This strategy offers a way for states to get through this without crushing them. The financing strategy offers a path that's doable for the states.

The Project Team recognized that the current Conowingo WIP has inaccuracies of cost estimates. The number one thing to be remembered is that the states made a decision to collectively address the 6 million pounds of nitrogen yet there is no single agency that has authority or capacity to finance across state lines. There is Pennvest and the Water Quality Administration of Maryland but they are state-focused.

Following the overview of the report, comments and feedback from committee members included the following:

- Should we as a committee try to incorporate some of the recommendations of the report into the Conowingo WIP?
- Concern about the next PSC meeting where the financing strategy will be discussed and whether there is the right messaging and how this will be addressed. States may not understand that saving money is the same as finding new money and that the real pot of gold is in the savings by getting the most restoration per dollar spent. Nees agreed with this and said it's what guided our work.
- New investment is required by the public to reduce the 6 million pounds of nitrogen and if you take these recommendations to heart and establish a financing system, then that lets you increase efficiency and effectiveness.
- Many from the public sector have the belief that the private sector will spend its money without compensation—i.e. a return on its investment. This is not how it works and the finance team should work hard to educate and drive the point home. Use an example of how private sector engagement works best, such as transportation.
- Need more of these ideas added to public comment period while it's open.
- None of the financing strategy works if states don't make a commitment to pay for this. If no public funds are made available for the Conowingo WIP then they should endorse private funds to pay for this and let them get the job done right. The private sector can save states money if they do it this way. If states can just commit to interstate cooperation, the private sector can do a much better job saving states money on implementation.
- While it's the public sector's responsibility to invest in CWIP, it is also the public sector's responsibility to ensure that the participation of private firms in all capacities must be done within the interest and the benefit of the public trust.
- There was significant discussion around the idea that private sector implementation and financing have been foundational to public infrastructure development for generations. Therefore, the goal of the CWIP financing system must be to ensure that the existing

system serves the needs of the ecosystem and the public in the most efficient and effective way possible.

- All good things can happen if states make a commitment. Members agree with idea that a new institution is necessary at some point in the future as institutional structure is everything here since the infrastructure is not currently in place for states to pay across state lines.
- Regarding the four necessary components discussion, it was suggested that the report could use a little more clarity on why each of the four components so important. Particularly regarding procurement systems, “alternatives in procurement system are important because those alternatives can deliver more cost efficiency” but this narrative doesn’t really say that. It just raises the point that changes in procurement are needed but not why it makes it so important to change. The report can be made more explicit. How a finance system is capitalized depends on procurement systems. Another example is how alternatives in the procurement system can help support diverse revenue streams, lower costs, more parties paying, etc. - make it more obvious. The reason we are talking about procurement is because it can give us more bang for buck depending on the approaches chosen. Make these more obvious in report.
- There seems to be voices on the Conowingo Steering Committee that think the private sector will pay for it all, but report is worded a little too strongly in opposite direction. It seems to tamp down expectations and can be interpreted as there being no space for private sector to provide money, but there is some money from private sector for ESG goals, carbon, bankable practices etc. Saying there is none is too dramatic, so the narrative should be softened in report. Recommends we make it 90%-10%.. There is some money out there.
- About four components and the questions whether those were sufficient or were there others? The value of time isn’t captured as well as it could be. The connection with financing and private sector is if you can deliver more upfront, that has an environmental benefit and you can pay that with public money over time. Elaborate the temporal benefit.
- Even if the states come up with public money, concern was raised that if they don’t assign loads. That’s the backbone of what is needed. That’s why states need a financing strategy. How can you put the onus on a state (PA) that is so behind that they are being sued? Everything else aside, they don’t have mechanism to pay for the load reduction the way it’s structured. Central to what needs to be done. You can’t finance now.
- Need to know how to message all of this correctly so it resonates.
- Members liked the financing authority. In reviewing the proposed charter and the narrative in the report starting on page 10, suggestion was to make a much stronger case that an authority like this that works across state lines still has enormous accountability back to each state. In other words, the report could talk more about accountability.

- The proposed finance authority is also intended to do procurement.
- Most people don't understand the difference between water quality trading and the existence and use of credits (defined quantified units). The trading section sounds as if there wouldn't be credits.
- Water Quality trading language in report was brought up by several members who questioned how it was written. This sentence may get pulled from report or better clarified.
- It could be a mistake to frame this strategy as a binary, or "everything or nothing" plan. If there is an Authority and only 10% the boundary-less funding is provided to it, that still better than the status quo where PA has to pay for 90% of actions and MD 10% and litigation is the arbiter of progress. So, spending more time explaining the value (and accountability) of a transboundary institution is helpful.
- In the appendix is the list of green bank/finance authorities interviewed. Recommendation was made to add a component under the financing section that has each one listed (name in bold) and one sentence that says [state] was able to create a financing authority that created X benefits...it has delivered Y activity. Just one sentence like that about a half dozen institutions will help convince the readers of this that they wouldn't be alone in doing this.
- More comments noted that the water quality trading section of report can be misleading.
- PSC has little or no experience in private finance and there could be a lot of people who misconstrue words and contexts. In the report, try to clarify words so all understand definition. Perhaps a glossary of terms and be clear on how we are defining the terms. It was noted that a Financing 101 may be provided by the CBP, ahead of the PSC meeting, focused on the Conowingo Financing System review.

After the discussion, Throwe then talked about the 21 key questions developed to better understand ways that the private sector and private capital can best engage in the Conowingo WIP financing effort. She shared that there were 17 private sector organizations recently interviewed as part of Phase 2. The findings from these interviews will be used as a starting point in four upcoming forums with a small group of experts who will come together to provide guidance on "proof of concept" recommendations as part of the implementation process. The first forum is to be held on January 29, 2021. University of Maryland is working closely with the Environmental Law Institute and Hogan Lovells, LLC to implement these closed session invitation-only forums. The recommendations from the forums will be shared with the Advisory Committee at a later date.

The meeting concluded by thanking members for being part of this committee and Throwe asked about whether there were recommendations for new members whose expertise should be added to year two to be sent to the project team.