

THE PATH FORWARD

***Chesapeake Bay Program Response to
Chesapeake Bay Environmental Finance Symposium Recommendations and Final Report, August 2016
Response Report Date***

PURPOSE AND CHARGE

The purpose of this document is to respond to the charge of the Management Board (MB). This document is the collective product of the Action Team (AT).

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. (Appendix X)

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.

BACKGROUND

Chesapeake Executive Council (EC) resolution for Environmental Finance Symposium

In 2015, the EC resolved:

That the Chesapeake Bay Program, under the leadership of the Principals’ Staff Committee conduct a symposium on environmental financing within the next 12 months and report any findings and

recommendations at the next meeting of this council. That the symposium include representatives from federal, state and local governments, private capital firms, non-profit organizations, academic institutions and others. (Appendix X)

Environmental Finance Symposium, report and recommendations

On April 25---26, 2016, the Environmental Finance Center (EFC) at the University of Maryland, in collaboration with the EPA Chesapeake Bay Program (CBP), convened the **Chesapeake Bay Environmental Finance Symposium**. The event gathered more than 130 creative, successful leaders from diverse fields including finance, business, policy, and resource protection to discuss options for advancing a more market---like approach to achieving Bay restoration goals. Symposium participants engaged in robust and fruitful discussions, both during and following the event, and these conversations have provided the foundation for the analysis and recommendations the final report. (Appendix X)

The report recommendations were organized into one overarching recommendation to Create a Chesapeake Bay Program Financing Advisory Board, with five core recommendations and four theme recommendations.

The five core recommendations are:

1. Advance a Chesapeake Bay restoration economic development effort.
2. Create a credit-based financing system and market infrastructure, basin-wide.
3. Establish implementation and performance standards, basin-wide.
4. Reduce unnecessary transaction costs.
5. Facilitate the flow of capital through innovative institutional structures.

The four theme recommendations are:

1. Pilot pay for success investment models.
2. Establish proactive stormwater banking programs.
3. Advance public-private partnerships, where appropriate.
4. Incentivize commercial landowners to mitigate nutrient and sediment emissions.

Management Board commissions the Action Team

In October of 2016, the MB provided the above stated charge to Environmental Finance Symposium Report AT.

The AT immediately sought input on the priorities from the Principal's Staff Committee (PSC) who narrowed focus to three recommendations of the report recommendations for first action.

Those three priority recommendations are:

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

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

Theme Recommendation #1: Pilot pay for success investment models.

Remaining recommendations

While the above recommendations from the EFC report have been prioritized by the PSC, the remaining recommendations are important steps towards meeting water quality goals for the Chesapeake Bay and may be implemented in the future. Many of the recommendations made in the report are interconnected, with some creating enabling conditions for others. For example, it would likely be necessary for implementation and performance standards to be established for a watershed-wide credit based finance and market system to be successful. Standards will also help to facilitate pay for success models and would further the restoration as economic development effort. Creating a credit based finance and market system for the watershed (Core Recommendation #2) is systemically transformational, integrating the currently separate state nutrient trading programs and restoration finance mechanisms. This would be a major shift, and potentially difficult, but was identified as being foundational to meeting Bay goals in an economical way. Establishment of a standard credit finance system for the watershed was acknowledged as being the most important component of Core Recommendation #2, and could be pursued independent of an integrated market or performance financing. A standard credit based finance system is an enabling condition for many of the other recommendations, including those being prioritized. It may not be necessary for the prioritized recommendations to be implemented, but it is likely that credit based financing would allow for greater success, particularly in engaging private finance.

Certain recommendations were determined to be most appropriately addressed at the scale of the states, rather than the Bay Program. In particular, the states would be best able to address reducing procurement costs (Core Recommendation #4), establishing proactive stormwater banking programs (Theme Recommendation #2), and incentivizing commercial landowners to mitigate nutrient and sediment emissions (Theme Recommendation #4).

THREE PRIORITY RECOMMENDATIONS

Core Recommendation #1: Advanced 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 views 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.

Summary of and examples of related and ongoing work being implemented in the Chesapeake Bay watershed
EDITORIAL NOTE: Consider using only one or two examples in the body of the report to same length and to send people to appendix for additional examples.

Summary of Action Team response to recommendation – place holder

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.”

Summary of and examples of related and ongoing work being implemented in the Chesapeake Bay watershed
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Summary of Action Team response to recommendation – place holder

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.

Summary of and examples of related and ongoing work being implemented in the Chesapeake Bay watershed
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Summary of Action Team response to recommendation – place holder

ACTION ITEMS LIST AND PROPOSED RESPONSIBLE LEADS FOR EACH

Format to be determined

Place holder for single list of action items – (list merged to address PFC comment to merge EFC Final Report Recommendations -- since the EFC Report Recommendations cannot be merged)

Short-term (12 to 18 months)

Action Item place holder – multiple items to be listed

Lead:

Purpose:

Priority level:

Intermediate (1.5 to 3 years)

Action Item place holder – multiple items to be listed

Lead:

Purpose:

Priority level:

Long-term (>3 years)

Action Item place holder – multiple items to be listed

Lead:

Purpose:

Priority level:

APPENDICES

1. Recommendations Matrix with List of Contributing Organizations
2. Public Private Partnership STAC one-pager
3. PENNVEST examples on fresh water mussel hatchery and revenue-generating riparian buffers
4. Action Team Charge and Report Summary in Brief, October 2016
5. Action Team Membership
6. Chesapeake Bay Environmental Finance Symposium Recommendations and Final Report, August 2016
7. EC Financing Resolution - 2015 #2