

PROPOSAL

CHESAPEAKE BAY ENVIRONMENTAL FINANCE ADVISORY COMMITTEE

DRAFT—JUNE 26, 2013

CHESAPEAKE BAY PROGRAM

ANNAPOLIS, MD

1 Executive Summary

1.1 Chesapeake Bay Program Partnership

The Chesapeake Bay Program is a unique regional partnership that has led and directed the restoration of the Chesapeake Bay since 1983. The Chesapeake Bay Program partners include the states of Maryland, Pennsylvania and Virginia; the District of Columbia; the Chesapeake Bay Commission, a tri-state legislative body; the Environmental Protection Agency, representing the federal government; and three participating advisory committees: Citizens (CAC); Local Government (LGAC); and Science and Technical (STAC). The Chesapeake Bay watershed also includes parts of Delaware, New York, and West Virginia.

1.2 Issue

The governments, private interests, and general public of the Chesapeake Bay watershed face numerous critical environmental financing challenges. Concerns related to high costs associated with financing Chesapeake Bay restoration activities have prompted the proposed development of an advisory committee to provide more focused attention, expertise, and specific guidance on compelling financing issues facing the watershed. The scale and complexity of the Chesapeake Bay restoration effort will require a concerted effort to develop innovative financing structures, strategies, and processes to reduce costs, generate revenue, and incentivize innovation.

Currently, a specific entity does not exist within the Chesapeake Bay Program partnership with the sole purpose to provide consistent, long-term, objective advice to state and local government leaders on Chesapeake Bay restoration financing issues that would allow local governments to go beyond traditional restoration funding mechanisms on important issues related to air, water, agriculture, and other topics. The Partnership currently does not have financing expertise well represented among its members. The financing conversation must be ongoing, and should include the continual exploration of how both public and private capital and institutions can be employed to the greatest benefit and affect as possible.

1.3 Anticipated Outcomes

The anticipated outcome will be the formation of an advisory committee that will focus only on the ongoing finance issues and will make recommendations that result in innovative solutions to financing Chesapeake Bay restoration activities.

The outcomes associated with establishing the proposed committee are expected to result in state of the art and timely research and recommendations on a variety of financing issues associated with the Bay restoration effort that include, but are not limited to:

- Identifying strategies to reduce costs of implementation;
- Effectively engaging the private sector in all facets of the financing process;
- Developing tools tailored to fit the unique needs of those at the local level in the Chesapeake Bay watershed in financing the installation and maintenance of restoration projects and best management practices; and,

- Assessing innovative institutional structures and financing mechanisms, specifically targeted at the local level, which will incentivize innovation and create efficiency.

The Chesapeake Bay Program partners will be essential in identifying issues to be addressed by this new advisory committee.

1.4 Recommendation

It is recommended that the Chesapeake Bay Environmental Finance Advisory Committee be created by the Chesapeake Bay Executive Council to provide ongoing and current financial advice and guidance on innovative ways to pay for water quality improvement and Bay restoration activities. This committee would be solely utilized for its expertise in finance and would bring new ways of thinking about how we finance and improve the Chesapeake Bay that is both innovative yet achievable.

Due to the broad mandates of the new group, the annual budget for this advisory committee is expected to be between \$150,000 and \$300,000, which would be provided by federal Chesapeake Bay Program funds.

2 Problem Definition

2.1 Problem Statement

Governments, businesses, and citizens across the region face numerous critical financing issues associated with achieving Chesapeake Bay restoration goals. The capacity of local, state, and federal governments to allocate and invest fiscal resources will continue to be a significant issue. Recent budget cuts at all levels of government have reduced traditional funding sources, adding to the restoration financing challenge. Financial methods designed to pay for environmental infrastructure, best management practices, and restoration activities are not well understood by those local jurisdictions with the greatest need. Most of the concepts and recommendations offered in the *Chesapeake Bay Watershed Blue Ribbon Financial Panel* report and by EPA's Environmental Financial Advisory Board have been exhausted. Without bringing in additional expertise from finance experts who can provide practical yet innovative solutions to restoration efforts, the problems in the watershed will continue to grow in size and cost. In spite of this critical need for developing, implementing, and coordinating new and innovative financing systems and interventions, the Chesapeake Bay Partnership has been limited in its ability to effectively engage additional financing expertise to deal with this growing problem. The Chesapeake Bay Environmental Financial Advisory Committee (CBEFAC) would be a way to fill this technical assistance gap. The time is right for new ideas and implementation options.

2.2 Impacts to the Chesapeake Bay Partnership

The Chesapeake Bay Environmental Finance Advisory Committee (CBEFAC) is anticipated to have a positive impact on the organizations in the Chesapeake Bay Partnership. This will be achieved by identifying the Bay-wide and jurisdictionally unique financial issues that are barriers to restoration. Additionally, this advisory committee will be charged to respond directly to the issues identified as being the most timely and critical to the Chesapeake Bay restoration effort. The result will be a set of deliverables that include the development of actionable targeted recommendations, including but not limited to:

- Innovative financial tools;
- Incentives to increase private investment;
- New and innovative financing approaches;
- Ways to reduce the cost of best management practices; and
- Recommendations to federal and jurisdictional partners on optimal policies for environmental improvements with an eye toward those that make the most financial sense.

3 Chesapeake Bay Environmental Finance Advisory (CBEFAC) Committee Overview

3.1 CBEFAC General Description

It is recommended that the Chesapeake Bay Environmental Finance Advisory Committee be created by the Chesapeake Bay Executive Council to provide ongoing and current financial advice and technical guidance on ways to pay for water quality improvement and Bay restoration.

The CBEFAC is intended to advise the Executive Council and support the Principal's Staff Committee and Management Board. The Committee is to be composed of no more than 13 selected individuals, with one member appointed by each Governor of the watershed jurisdictions and the Mayor of the District of Columbia. It is envisioned that a minimum of one-third of the CBEFAC's formal members will demonstrate expertise in public finance and that the remainder will possess specific expertise in private finance.

The CBEFAC will operate in a manner that allows its workplan to include projects raised both by program partners and by the Committee members through the governance structure. The CBEFAC operating model would be similar to that used by the Science and Technical Advisory Committee (STAC), only with fewer members and a less ambitious (in terms of number of projects) annual workplan.

3.2 Goals and Objectives

The major objectives of the CBEFAC are to:

- 3.2.1 Advise the Executive Council and Chesapeake Bay Program and its Partners.
- 3.2.2 Provide input on how to reduce the cost of financing Chesapeake Bay restoration efforts.
- 3.2.3 Assist Federal and state agencies to identify best practices for optimizing policy for environmental improvement and financial sense.
- 3.2.4 Create incentives to increase private investment in the provision of environmental improvement in the Chesapeake Bay watershed.
- 3.2.5 Develop new and innovative environmental financing approaches; and, supports the expansion of existing cost-effective financing processes and systems.
- 3.2.6 Identify approaches specifically targeted to small community financing.

4 Identify approaches specifically targeted to small community financing

4.1 Funding Requirements

Since FY2009, the Citizens Advisory Committee and the Local Government Advisory Committee have each received between \$150,000 and \$169,000 per year in Chesapeake Bay Program funds. During the same time period, the Science and Technical Advisory Committee have received between \$303,000 and \$401,000 per year. The new CBEFAC is expected to conduct much of its business via teleconference and video conference. Due to the board mandates of the new group, the budget is expected to be between \$150,000 and \$300,000. These funds are to be provided by federal Chesapeake Bay Program funds.

4.2 Assumptions

CBEFAC will act as a quasi-independent committee that will be given significant guidance and support by the Executive Council, the Chesapeake Bay Program, and its partners but allowed to think freely and creatively as an advisory committee. Workgroups within the larger committee will be tasked with a project or problem that should have recommendations completed within a year of officially receiving a specific charge.