

**ENVIRONMENTAL PROTECTION AGENCY
ENVIRONMENTAL FINANCIAL ADVISORY BOARD**

**FULL BOARD MEETING
WASHINGTON, D.C.
MARCH 15-16, 2005**

The Environmental Financial Advisory Board (EFAB) of the Environmental Protection Agency (EPA) held its winter meeting at the Radisson Barcelo Hotel in Washington, DC on March 15-16, 2005. EFAB is a federal advisory committee, chartered with providing analysis and advice to the EPA Administrator and program offices on environmental finance.

EFAB hold two full board meetings annually with its winter meeting in Washington, DC and its summer meeting in San Francisco, CA. EFAB's Chair is Lyons Gray of Winston-Salem, North Carolina. The Designated Federal Official (DFO) and Executive Director is Stan Meiburg, Deputy Regional Administrator in EPA's Region IV, Atlanta, GA. The Board has a website as part of the Environmental Finance Program, which can be found at www.epa.gov/efinpage.

Tuesday, March 15, 2005

DFO Stan Meiburg called the meeting of the Environmental Financial Advisory Board (EFAB) to order at 1:00 p.m. with introductory remarks and welcomed EFAB's newest members to the Board and the public. The new members are John Boland, Helen Sahi, and Justin Wilson. Jennifer Hernandez, also a new member, was introduced, but was not present at the meeting. The returning Board members, staff, and others, in the room, then introduced themselves. EFAB's Chair, Lyons Gray provided an overview of the meeting by going over the agenda.

Agency Priorities

Charlie Johnson, Chief Financial Officer for EPA, thanked the Board for having him again as a guest speaker to talk about EPA's budgetary priorities and restraints that they will be facing in the coming years. Mr. Johnson informed the Board that EPA is now issuing Mercury Rules. This being a first for the United States. He stated that the Administrator has told them firmly that results and measurements will dictate what we do in the future. His remarks about the direction that the Agency will need to move to address the growing environmental and funding challenges suggested that EFAB can continue to add value to the Agency priorities in exploring new areas of interest in helping EPA accomplish its mission. Mr. Johnson also let the Board know that the Agency continues to clean up the easy Superfund sites, but the ones that remain to clean are very costly.

In his closing remarks, Mr. Johnson expressed that the Agency continues to need the Board and its environmental, innovative ways of thinking to continue to address the important issues of environmental financing.

Use of the SRF Guaranty Authority

Jim Gebhardt, Chief Financial Officer, New York State Environmental Facilities Corporation,

addressed the Board on using the SRF as a loan guaranty authority. He stated that its time to look at this authority as another means to finance problems and that there is existing statutory authorities to use the guaranty. The concept on how the SRF could utilize the statutory authorities contained in the Clean Water Act and the Safe Drinking Water Act to support credit enhancements such as financial guaranties to local governments is very creative.

Some possible applications of the guaranty authority that Mr. Gebhardt spoke on were: (1) offer local governments that opt to fund DW projects with 30 years financing; (2) offer local governments and private water companies whose projects are SRF eligible but score below loan line; (3) offer local government multi-purpose bond issues and contract with Aaa guarantor to reinsure non SRF portions; and (4) credit enhance SRF bond issues in lieu of a SRF reserve allocation providing assistance from SRF earnings.

In his closing remarks, Mr. Gebhardt gave specifics on what EPA and other parties would need to do to make this SRF guaranty concept a reality. He also commended the Board for their creative use of available financing tools.

U.S./Mexico Border Infrastructure Financing

Jane Moore, Deputy Director, Office of Wastewater Management spoke briefly to the Board about the U.S./Mexico Border Facilities Construction Program which provides grant support to communities in the U.S. and in Mexico to build environmental infrastructure to address water quality problems. Ms. Moore stressed to the Board that their goal is to create a long term sustainable funding program and to limit reliance on grant funds. Her main goal at the meeting was to solicit help from the Board to obtain expert advice on how to chart a course for the future of EPA's border program that would allow leveraging of financial resources in the most productive manner to achieve water quality benefits for the environment and human populations in the border.

The Board welcomed the opportunity to hear about the current initiatives, and agreed to consider whether these initiatives can create some new opportunities for the Board to assist EPA with recommendations on how to structure the border infrastructure program to optimize the full use and accessibility of environmental resources to border communities.

Progress of Board Projects

The remainder of the afternoon consisted of reports to the full board by workgroup chairs and selected EFAB members on the status of Board projects.

Combined Operations of the SRF Programs: Jim Smith, workgroup member of the Joint Operations project, reviewed with the Board the results of the state survey where several EFAB members held informal discussions with a number of States to identify the benefits and issues inherent in the joint operation of the Clean Water and Drinking Water SRFs. Mr. Smith

revealed that several states already manage the funds jointly and they see the benefits in that they: (1) have greater flexibility; (2) significantly enhance their investment returns, and (3) save on staff resources. EFAB, in turn, has drafted a paper urging EPA to undertake a comprehensive review of the operations of the SRF program in terms of its own management, to determine if moving toward a joint operation of the two loan programs might achieve a more efficient and effective use of resources and improved financial management techniques. The workgroup will circulate the draft paper to the full board for review and comments. All comments should be submitted by the middle of April.

Non-Point Source Financing: Lang Marsh, Chair of the Non-Point Source Financing project, summarized the letter sent to the Agency in support of the activities of the Sustainable Finance Team in the Office of Wetland, Oceans, and Watersheds(OWOW). In the letter, EFAB offered to provide advice, support and assistance as appropriate, since OWOW's efforts parallel EFAB's planned work. The letter also included four recommendations for the Agency to consider: (1) have a roundtable on exploring the full range of possible financing options and partnerships available to those confronted with the challenges of financing projects; (2) expand training for watershed groups & managers; (3) urge EPA to continue to work with interest groups; and (4) do more case studies of successful projects and activities that have moved in a position direction to restore watersheds to good health. From these recommendations, an OWOW representative indicated that the Office of Water would be interested in funding part of the roundtable/workshop possibly at the next EFAB meeting in San Francisco. The workgroup agreed to have a teleconference to develop the scope of the workshop and the goals that it wants to accomplish for interested parties.

Affordability: John McCarthy and Andrew Sawyers, Co-Chairs of the Affordability project, gave a brief report out of the Affordability Workshop that took place at the last EFAB meeting in San Francisco. The question before the workgroup now is what do we do with what we learned from the workshop and where to go from here. The group has identified several areas to pursue: (1) provide guidance to states regarding loan forgiveness; (2) refund bonds and share proceeds with consumers; (3) provide better information on needs and ability to pay from the customers; (4) SRF set-asides; and, (5) focus subsidies on people, not systems. The workgroup agreed to prepare a paper on its findings, recommendations, and lessons learned from the workshop and present it at the next EFAB meeting in August. The objective of the paper will be to submit it to the Agency asking for EPA to play a significant role in finding ways to help low income users, as well as system operators.

After a brief summarization of the next day's agenda, DFO Stan Meiburg adjourned the meeting at 5:00 pm.

Wednesday, March 16, 2005

DFO Stan Meiburg opened the meeting at 8:30 am with a brief overview of the previous days activities. Mr. Meiburg then introduced Mr. Jag Khuman, Director, Water Quality Financing

Administration, Maryland Department of the Environment. Mr. Khuman presented an information discussion with the Board on the issues related to the creation and implementation of the State of Maryland's new Bay Restoration Fund. The key purpose of the Fund is to create a dedicated source of State funding to undertake Enhanced Nutrient Removal (ENR) upgrade at Maryland's major wastewater treatment plants discharging into the Chesapeake Bay.

Mr. Khuman stated in his presentation that the goal of the Bay and River Water Quality Committee is to correct the nutrient and sediment related problems in the Chesapeake Bay and its tidal tributaries sufficiently to remove the Bay and the tidal portions of its tributaries from the list of impaired waters under the Clean Water Act by 2010. Ways in which they plan to achieve nutrient reductions are by: (1) providing grants to upgrade wastewater treatment plants (WWTPs) with ENR technologies; (2) providing grants/loans to upgrade onsite septic systems in the critical areas with nitrogen removal technologies; and (3) providing grants to farmers for planting cover crops on agricultural land.

Chairman Gray commented that the Board found Mr. Khuman's presentation very insightful about the innovative uses of the dedicated user fee financing mechanism that will help capitalize the Fund, as well as other sources of funding that may be used in the future. He offered Mr. Khuman the Board's assistance in moving ahead with their goals.

Innovative Financing Tools: Michael Curley, Chair of the Innovative Financing Tools project, submitted to the Board, the workgroups final report, "Application of Innovative Finance Techniques in the Transportation Infrastructure & Financial Innovation Act of 1998 to Environmental Finance Issues". The report has been approved by EFAB's Chair and DFO and ready for signature and distribution to the Agency. The report recommends that the Agency seek to obtain TIFIA-like authority as a complement to its infrastructure assistance programs. The workgroup also recommends that EPA should consider developing the means to deploy backload repayment schedules and implement various guaranty mechanisms. By doing so, these mechanisms could enable EPA to address immediate environmental needs while structuring the solutions to financial issues to a later stage of the project. Mr. Curley expressed that EFAB would be happy to provide additional assistance with this innovative financing tool.

EFCN Update

Peter Meyer, President of the Environmental Finance Center Network (EFCN), gave a brief summary to the Board on the Network's accomplishments in providing financial outreach services to various communities. Some of the work being done are: (1) the University of Southern Maine is preparing a self guided online course on smart growth; (2) the University of Maryland is working on a series of sustainable financing workshops. They are also doing some follow-up work on the Blue Ribbon Panel; (3) the University of North Carolina at Chapel Hill is working with the University of Southern Maine on financial management planning for water utilities. They are also launching a disadvantaged communities database for North Carolina; (4) Cleveland State continues to work on lead abatement and brownfields issues; (5) California State at Hayward is coordinating the "green business" efforts in Region 9; and (6) Boise State University continues to develop new tools on watershed issues.

After giving a report out on the work of the Network, Mr. Meyer informed the audience that his tenor as President would be ending, and Sarah Diefendorf, from California State would be the new President. Chairman Gray and DFO Meiburg thanked the Network for their hard work and encouraged them to continue to work side-by-side with EFAB.

Useful Life Financing of Water Facilities: George Butcher, Chair of the Useful Financing project, briefly went over the “Outline for Application of Useful Financing Concept to State Revolving Funds”. This paper will describe general recommendations regarding useful life financing; history with respect to 30 year loans for clean water; discussion of EPA concerns with 30 year loans; history with respect to 30 year loans for disadvantaged communities; arguments advanced by SRFs to support 30 year financing; and, discussion and recommendations, if any, as to making 30 year loans more generally available for SRF borrowers. The workgroup will make revisions to the outline based on comments received from board members and redistribute to the group before putting it in final.

The Future of Superfund and RCRA

Next, Barry Breen, Principal Deputy Assistant Administrator, Office of Solid Waste and Emergency Response, spoke to the Board on the future outlook for the Superfund and RCRA programs, as well as the status of current and ongoing Superfund projects. The Superfund program operations are funded by appropriations from the general revenue fund and the Superfund trust fund. The trust fund continues to receive revenues in the form of cost recoveries, interest on the fund balance, fines and penalties, and general revenue fund appropriations that supplement the trust fund balance. Mr. Breen informed the Board that Superfund has a negative equity balance due to a \$90 million tax return to a corporation for overpayment. In FY '04, 19 sites could not start cleanup because of a lack of funds. To make the money stretch, Mr. Breen suggested that they don't list new sites until existing sites are completed. He also believes that Superfund is broken and will not recover unless they make sure that Superfund taxes begin collecting again and applied them to the fund.

DFO Meiburg thanked Mr. Breen for his comments and assured him that the Boards current partnership with OSWER relating to financial assurance will continue and be fully supported.

PFNAS-Financial Assurance: Jim Barnes and Mary Francoeur, Co-Chairs of the Financial Assurance project, gave a brief status on the draft letter, that is almost ready for finalization, to the Administrator regarding financial tests. The goal of the tests is to ensure that an obligated party has the financial capacity to meet its obligations under law. In particular, the workgroup has focused on the financial tests and corporate guarantees for closure and post-closure care. A panel of experts have been assembled to discuss the effectiveness of the tests for predicting an obligated party's ability to fulfill its obligations. The workgroup will also commence an examination of other financial assurance mechanisms, such as insurance, as well as the more fundamental issue of the adequacy of the cost estimates in the coming months. The Co-Chairs have asked the full board for a final review and comment period not to exceed thirty days. The general consensus of the group is to push this as a policy options paper with strong recommendations to the Agency.

After final comments and board members and the public were addressed, DFO Meiburg adjourned the meeting at 3:30 pm. The next full board meeting will be in San Francisco, California on August 15-16, 2005.