U.S. EPA Environmental Financial Advisory Board
Pollution Prevention Finance Forum Workshop #1
Wednesday, March 9, 2022
12:00 PM - 1:30 PM ET

Introduction

Ed Chu (EFAB Designated Federal Officer; Deputy Regional Administrator, EPA Region 7) opened the meeting and welcomed the attendees. Ed gave an overview of the P2 Finance Forum webinar series. Ed asked participants to send any questions or comments to efab@epa.gov. Ed then handed it over to Ashley Allen Jones (Chair, EFAB Pollution Prevention Workgroup; Founder and CEO, i2 Capital) to introduce the speakers.

Ashley Allen Jones introduced herself and provided some insight on Pollution Prevention (P2). Ashley then gave an overview of the agenda and introduced the topic: challenges and opportunities for financing P2 opportunities.

Ashley then introduced the speakers and participants:

- David Widawsky (Division Director, EPA Office of Chemical Safety and Pollution Prevention)
- Kerry O'Neill (Chair, EFAB; CEO, Inclusive Prosperity Capital)
- Craig Hrinkevich (Panel Moderator; Member, EFAB Pollution Prevention Workgroup; Managing Director, Baird)
- Stacy Brown (Member, EFAB Pollution Prevention Workgroup; President and CEO, Freberg Environmental)
- Chris Meister (Member, EFAB Pollution Prevention Workgroup; Executive Director, Illinois Finance Authority)
- Matt McKenna (Executive in Residence, Rural Opportunity Initiative)
- Jeremy Gilpin (Executive Vice President, Greater Commercial Lending)
- Aldric Seguin (Managing Partner, Global Sustainable Future)
- Kelsie Bouchard (Portfolio Manager, Coastal Enterprises, Inc.)

David Widawsky
Presentation: Financing Small Manufacturer Pollution Prevention Projects

- David thanked the group and began the presentation.
- David started by providing an overview of P2.
- EPA's P2 program focuses on providing P2 technical assistance to businesses through grant programs. EPA focuses on key industrial sectors to highlight best practices and drive voluntary change.
- P2 impacts include economic and environmental benefits.
- P2 topics can include process management, materials substitution, manufacturing modifications, and resource recovery.
- Participating mid-market businesses might require financing for new equipment, etc.
- Challenges include making the business case for P2 projects. Businesses can be hesitant to make investments in P2, and risk identification can be difficult.

- Common examples of P2 projects:
    - Metal manufacturing and fabrication example:
        - Investing in new technologies for metal cutting systems.
        - Adding new technologies to the finishing process to reduce drag-out and loss of bath chemicals.
    - Breweries beverage manufacturing and processing example:
        - Converting to high efficiency boilers and heating systems for increased efficiency.
    - Medical and dental radiology services example:
        - Conversion from x-ray to digital radiology technologies. Reduces the cost of material and waste handling and provides high quality imaging.
    - Dry cleaning services example:
        - Conversion to wet cleaning systems to eliminate hazardous detergents. Provides economic and environmental benefits for small community businesses.

Discussion

Craig Hrinkevich highlighted P2 stakeholders and attendees and thanked everyone for listening. Craig introduced the guest speakers.

Matt McKenna (Government perspective)

- Matt McKenna started the speaker/discussion forum.
- The primary themes Matt highlighted were representation of the private sector and introducing the private sector to existing government programs.
- Cash availability and surplus of investment willingness drives people to invest in "impact" finance.
- Matt's macro perspective: highlighted different ways the private sector can be engaged and how the government can act as a catalyst to encourage private sector financing.
- Matt's micro perspective: pointed to specific examples where the above exists.
- Matt spoke about federal debt at USDA and how this has a significant impact on federal investing in the United States.
- Problems faced with private sector engagement:
    - Scale requirement.
- How can the government function as a catalyst to impact financing?
    - Example of success:
        - USDA's Rural Business Investment Program's Rural Business Investment Company (RBIC) – The goal was to create an asset class to attract private sector engagement in a public policy goal.
    - Areas of opportunity: American Rescue Plan, Partnership for Climate Smart Commodities.
- Matt left us with two main points:
    - Think of the private sector.
    - Look to federal programs that can serve as a catalyst. Encouraged EPA to look to USDA.

Jeremy Gilpin (Banking perspective)

- Greater Commercial Lending serves rural and underserved communities and provides government-backed financing to small businesses and communities.
- Jeremy provided examples of project involvement:
    - A manufacturer that produces water slides on a commercial level had a paint booth that was emitting particles in the air. From the improvements added to the booth they were able to recapture heat from the booth to offset the cost of heating the facility.
    - They've also had involvement with USDA's 9003 Biorefinery, Renewable Chemical, and Biobased Product Manufacturing Assistance Program.
- Greater Commercial Lending provides construction financing for direct funding to occur after completion.
- His company also works with USDA and the Small Business Administration to provide guaranteed lending.
    - Business and Industry Program
        - Available to most communities with a population under 50,000.
        - This covers for-profit businesses in the community.
        - USDA guarantees 8 percent of credit for borrower.
        - Lender-driven program with guarantee to lender, which allows them to operate with credit that would typically be outside the normal credit box.
        - Puts capital back into the community.
- Other examples include the Community Facilities program and WEB program.

Aldric Seguin (Alternative finance perspective)

- When it comes to financing technology, the key points to consider are credit and risk profile of the entity getting the money.
- How can EPA help facilitate deploying technology for P2?
    - EPA should focus on reducing the risk of the credit risk profile of the user.
- Aldric mentioned the EPA may be seen historically as a policing agency.
    - EPA can reposition itself as an ally and partner to industry.
    - Gave the example that Department of Energy has become the go-to for energy funding.
- Suggested providing loan guarantees.
    - This would de-risk loans.
    - EPA could then encourage end users, the developer community, and other entities to offer P2 as a service or shared savings.
    - EPA can use subject matter experts to vet opportunities for a seal of approval.
        - Could be an "EPA-certified P2 program" with a guarantee it will be de-risked in financing.

Kelsie Bouchard (CDFI perspective)

- CEI is a CDFI based in Maine.
- Their lending and investing typically focuses on:
    - Deals that grow good jobs.
    - Deals that create economic equity.
    - Deals that focus on environmentally sustainable enterprises.

- CDFIs can focus on an array of topics—for example, housing or small business.
- CEI does consider credit list but also reviews deals based on mission fit and overall impact. As a result, they tend to have a higher tolerance for risk.
- Kelsie mentioned that, in the case of P2, it is easy to envision credit worthy borrowers. But because banks might see the project as novel, they might not have the appetite to lend. This is where the role of a CDFI differs due to their focus on impact.
- CEI has subject matter experts who are risk mitigants and lend expertise as they consider deals.
- Four ways EPA could play a role in financing P2:
    - Establish a low-cost fund source and make it available to CDFI's who already have relationships with small business owners.
    - Grant capital directly to businesses to supplement cash flow associated with debt service cost of taking on a loan.
    - Provide grant funds to those focused on relationships and deal development.
    - Credit enhancement. An EPA guarantee would increase appetite.
- Kelsie provided examples of potential benefits from these structures:
    - When funding solar projects, risk is typically associated with the construction phase. CEI considered installers expertise to mitigate this risk. Providing grant funds to the borrower could encourage investing and encourage small business to move off the grid. Credit enhancements during the construction period can incentivize the lender to absorb the risk.
    - CEI established relationships with other technical assistance organizations, and subject matter experts to help provide insight for projects. These relationships can help mitigate entrepreneurial risk.
    - Considering capacity of technology can also be considered a risk mitigant.

<u>Q&A</u>

- Question from Craig: How can stakeholders like state government programs and colleges/universities contribute to the P2 financing effort?
    - Jeremy: Small Business Development Centers (SBDCs) have expertise and resources. EPA could provide funding to small groups to conduct feasibility studies.
    - Matt: Land grant schools have economic development centers, which are also great resources for expertise and assistance.
- Question from Craig: Are there loans that can be obtained without government assistance or grants to fund projects involving new technologies? And are lenders willing to take this risk?
    - Jeremy: Yes, there are some projects that we consider like this. However, there are many factors that lenders and regulators look at.
- David transitioned to the subject of loan guarantee programs. These would need to be authorized and funded by Congress. However, Congress has not indicated that this kind of work will be supported. The P2 workgroup is discussing topics such as P2 certification, providing subject matter expertise, credit worthiness, and loan size.
- Question from Craig: Do any panelists have thoughts in respect to bundling loans?
    - Jeremy: I do this all the time. The issues to consider are size and ability to match asset class.

- Question from Ashley (asking on behalf of the Ohio Air Quality Development Authority) for David: Does EPA have any financial resources for states such as credit enhancement programs?
    - David: EPA does not have a program like this; we are focusing more on subject matter expertise and technical assistance which may include a focus around finance. Funding for states is through P2 technical assistance grants.
- Question from Ashley (on behalf of the University of Maryland Environmental Finance Center): Do any of the panelists see a role for the Environmental Finance Center Network to advance P2 opportunities?
    - Kelsie: We do not know these folks specifically, but our understanding is that technical expertise relationships are valuable.
    - Ashley: We have had internal discussions about this.
- Question from Chris: Many P2 projects aim to prevent toxic chemicals from entering the water table. Is there an argument that pilot programs which divert toxics from public water sources could be included under the state revolving fund (SRF)?
    - David: I am not involved with our SRF program. There is an interest in these kinds of projects from the American Recovery and Reinvestment Act.
- Question from Ashley: Given that EPA does not have authority to do credit enhancements now, how can we align the P2 agenda with big existing lending programs to get leverage across agencies?
    - Matt: Talk to USDA. On an agency-to-agency basis, those conversations are welcome, and most agencies are looking to expand their impact. USDA has a climate initiative so there is a confluence of policy goals.
    - Aldric: From the point of the solution provider, EPA might consider collaborating with technical experts to de-risk the solutions.
- Question from Stacy: How do lenders view environmental liabilities? Many times, lenders ask for environmental coverage.
    - Jeremy: We ask for insurance coverage and if there are options to help offset risk or costs. This is part of our feasibility statement. EPA could utilize technical experts to conduct a feasibility study of potential environmental and technology issues.
- Question from Stacy: What is the collateral for the loans?
    - Jeremy: Equipment, facility, etc.
- Kelsie: Also, to respond, there may be a question to the insurance companies. Can the insurance industry incentivize small businesses to invest in P2 tech?

Kerry O’Neill thanked the group and panelists and summarized themes.

Ed thanked the group and made closing remarks before closing the webinar.