

**ENVIRONMENTAL PROTECTION AGENCY
ENVIRONMENTAL FINANCIAL ADVISORY BOARD**

**FULL BOARD MEETING
MARCH 4-5, 2003 - WASHINGTON, D.C.**

MINUTES

The Environmental Financial Advisory Board (EFAB) of the Environmental Protection Agency (EPA) held its winter meeting at the National Press Club in Washington, D.C., March 4-5, 2003. EFAB is a federal advisory committee of EPA, chartered to provide advice and recommendations to the Administrator and program offices on ways of lowering the costs of and increasing investment in environmental facilities and services. 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.

EFAB holds two full board meetings a year with its winter meeting in Washington, D.C. and summer meeting in San Francisco, CA. The Board has a website as part of the Environmental Finance Program, which can be found at www.epa.gov/efinpage.

Tuesday, March 4, 2003

Introductions and Overview

DFO Stan Meiburg gavelled the meeting to order promptly at 8:30 am and introduced EFAB's new Chairman, Lyons Gray, to the board and the public. The returning Board members, new board members, staff and others attending the meeting, in turn, introduced themselves. Then, Lyons and Stan provided an overview of the meeting via a detailed review of the agenda.

The minutes of the August 19-20, 2002 EFAB meeting in San Francisco were presented to the Board and entered into the record. The DFO also reminded the Board and the public that the main purpose of the winter meeting is to listen to informed opinions and new ideas from authoritative speakers and to review the status of all Board projects, making adjustments in content and scheduling, as may be required and approved by the full Board.

State Environmental Funding

Dona DeLeon, Deputy Associate Administrator in EPA's Office of Congressional and Intergovernmental Relations spoke to the Board about the tough funding issues states are facing and how the Agency is dealing with those issues. She cited as specific examples of Agency actions in this area the intense discussions with the States on how to operate smarter and in a more cost-effective way and the development of performance partnership grants.

NACEPT Review on Superfund

Next, Barry Breen, EPA's Deputy Assistant Administrator in the Office of Solid Waste and Emergency Response addressed the Board on the work of the Superfund Subcommittee of the National Advisory Council for Environmental Policy and Technology (NACEPT). This subcommittee is charged with examining the role of the national priorities list; the handling megasites (sites involving cleanups costing more than \$50 million); and measuring program performance. This NACEPT subcommittee is made up of a distinguished group of experts from around the country and is chaired by Raymond Loehr from the University of Texas at Austin. The subcommittee expects to produce a draft by June 2003.

The Board engaged Mr. Breen in a lively discussion on such issues as the challenges that states are facing in sharing the operations and maintenance costs at sites; incentives to delay clean ups; and leveraging of funds. Since it is not within the scope of the NACEPT subcommittee to examine the funding relevance, EFAB offered its financing expertise with regards to this area within the limits of its charter.

In addition, Mr. Breen discussed the subject of Financial Assurance at Industrial Sites. Specifically, the amount of financial assurance that we need/can expect. A number of questions arose during the discussion, e.g., are there any rules or guidelines?; how do you track over time?; and are there other sources of funding out there? Board member Terry Agriss suggested that EFAB pursue the issue of liability transfer. Staff was instructed to follow-up on this issue with Ms. Agriss and report out at the meeting in August.

Water Infrastructure Gap

Following a break, Steve Allbee, Project Officer on the Gap Analysis in EPA's Office of Water, addressed EFAB on the gap analysis and situation assessment of water and wastewater infrastructure issues; the emerging water utility management paradigm; and asset management. next steps. The purpose of the Gap report that was released this past September was to reach a common, quantitative understanding of the investment needed to address growing population and economic needs and renew our existing infrastructure. The data in the report is comparable, at order of magnitude level, with reports produced by the Water Infrastructure Network and the General Accounting Office.

In a follow-up to the GAP Report, EPA convened a very successful forum in late January that focused on approaches for efficient, effective management of water and infrastructure assets and strategies to ensure sustainable infrastructure financing. The Agency is also collaborating with governments and the private sector on various activities to promote asset management and environmental management systems.

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.

Historical Review of EFAB Projects: Board member John Wise conducted an in-depth review of EFAB projects completed over the past ten years, to discern if there are any opportunities for further work. He presented the findings of his review to the board and a lively discussion ensued. Board members agreed to further study the review of EFAB projects and continue discussions at the August meeting.

Financing Combined Heat & Power: Dr. Jim Tozzi, chair of the International/Energy Workgroup submitted a technical review paper to the Board that compared the impacts of supporting investment in combined heat and power (CHP) applications with investment tax credits versus accelerated depreciation. The paper found that over the life of CHP investment there was little difference between a ten percent tax credit and a seven- year depreciation schedule. After discussing the paper the Board decided that it be modified to accommodate recent events, include an expanded description of findings and then be submitted to the Office of Air and Radiation. The Board also decided that special emphasis be added to the paper to convey the clear understanding that it does not endorse either the tax credit or depreciation.

Financing Long-term Response Actions at Superfund Sites: Evan Henry, Chair of the Brownfields/Superfund Workgroup, noted that this project has not progressed on the planned scheduled due to member time constraints and a number of other factors. He stated that he is not personally able to devote adequate attention to it and questioned whether further work was warranted given findings to date. EFAB staff agreed to review the work completed to date, develop a draft paper summarizing findings and recommendations based on that work, and present it to Evan and the Board for further consideration.

Environmental Management Systems(EMS): Michael Deane, Chair of the Cost-Effective Environmental Management Workgroup submitted the final draft of this letter to the full Board. The workgroup explored EMS as a tool that can serve to improve environmental performance by realizing financial savings through improved efficiency, among other things. A number of findings and recommendations to the Agency were developed based on results from a workshop held by EFAB and the Office of Water. Following some discussion, the Board agreed that the letter is ready to be submitted to the Agency.

Governmental Accounting Standards Board (GASB 34) Statement No 34: Michael Deane, Chair of the Cost-Effective Environmental Management Workgroup submitted the final draft of this letter to the full Board. GASB 34 is a requirement where EPA has an opportunity to help promote improved financial reporting by environmental utilities to

regulatory agencies. A number of recommendations to the Agency were developed based on results from the workshop. Following some discussion, the Board agreed that the letter is ready to be submitted to the Agency.

Coordination of USEPA/SRF and USDA/RUS Water & Sewer Loan Assistance: The final draft of this paper was submitted to the Board by John McCarthy on behalf of the Public finance Workgroup. Following considerable discussion, the Board determined that the paper is ready to be submitted to the Agency after including a piece on the independence of state programs, stressing greater independence of the SRFs, and putting added emphasis on the variation of competition/cooperation problems. The recommendations in this paper are very timely.

Joint Operations of the SRF Programs: An updated paper looking at this important issue was presented to the Board by Sonia Toledo, Chair of the Public Finance Workgroup. Board members acknowledged in their discussions that a lot of ground still has to be covered in developing this paper. Sonia emphasized that comments and suggestions are welcome from members on how to approach this project. Several members volunteered to work on the project and Jim Smith offered to help develop an outline for presentation at the August meeting.

Partnership and Collaboration of Non-Point Source Financing: Langdon Marsh presented this issue paper that looks at leveraging financing solutions for watersheds. He stressed that the Office of Water has been established as the client noting that he had plans to meet with Deputy Assistant Administrator Ben Grumbles and Diane Regas, Director of the Office of Wetlands, Oceans and Watersheds. Following their review and discussion of the paper, the Board decided that this issue needs to be scoped out and better refined and asked that a detailed outline and/or a preliminary report be developed for discussion at the next meeting.

Water Conservation Financing: John Wise presented to the Board a draft issue paper on financing water conservation. This wide-ranging paper outlined everything from reasons for water conservation, to conservation tactics, to water end-use sectors. The paper also discussed financing mechanisms, ownership issues, supply alternatives, and wastewater utility impacts. All of the Board members agreed that as of right now the scope of this project is too big. Members agreed to define and narrow the scope and prepare for further discussion at the August meeting.

No new projects were added.

Environmental Finance Center Network Report

Kim Farrell, newly elected President of the Environmental Finance Center Network briefed the Board on the Network's accomplishments in providing financial outreach services (individual and collaborative) to the regulated community. Examples include source water program, land use planning, watershed management financing, to name a

few. She described how the Network leverage their EPA grants by receiving funding from other agencies for additional work.

Following a brief review of the next day's activities, DFO Stan Meiburg adjourned the meeting at 5:00 pm.

Wednesday, March 5, 2003

DFO Stan Meiburg opened the meeting at 8:00 am introducing Linda Combs, EPA's Chief Financial Officer. Ms. Combs welcomed the Board's new Chairman, Lyons Gray and its three other new members: Kelly Downard, A. James Barnes and James Strock. She briefed the board on her office's many accomplishments over the past year and presented an overview of EPA's FY 2004 budget request with special emphasis on areas of interest to the Board (e.g., funding for states, tribes, localities and universities; the State Revolving Fund and Brownfields programs). She encouraged the Board to press on with projects that help further the Administration's and EPA's priorities.

Board Strategic Direction and Restructuring – Open Discussion

The remainder of the morning was devoted to brainstorming (1) the project areas on which the board should focus; (2) a new structure to accomplish its work; and (3) the role of the Board working on project requests from the Agency versus those activities for which members have an independent interest. Some of the ideas and suggestions discussed included:

- assist the Agency as consumers not taxpayers
- local versus private standpoint; what should they pay for?
- focus on issues that raise political sensitivity (e.g., regulations and tax laws that prohibit EPA from doing its work)
- must face legislative impediments
- focus on efficiencies in environmental finance
- should not be a policy advisory board; we should work on projects that are Agency priority and those that interest members individually
- find ways to efficiently leverage money; take a look at risk; concentrate on things at which members are good
- get locals to put more dollars in; look at incentives to get them going; how to get more commitment at the local level?
- EFCs should share more of what they know; need an opportunity to tell EFAB what they know and what is going on locally. EFCs can get the info to EFAB by serving more on workgroups
- with constrained resources, focus on how to get more partners in environmental finance (private and non-private sectors and foundations)
- focus on outreach and education, they are essential
- need to address tax issues

- how to meet the gap through rate setting and other issues
- existing workgroup structure has run its course; keep public finance though
- look at Breen issues since he suggested it
- Regional Water Directors do not know anything about the SRFs or ways to make the funds more efficient
- get down to the project level of financing
- look at leveraging state government; under utilization of the SRF program and asset management and EMS
- can not escape water infrastructure
- when the Board gets requests from the Agency, the issue needs to be framed in such a way that it is not the universe

The dialogue was substantive and very helpful. The DFO and Chairman announced that they will work with the Environmental Finance Team to take the ideas and suggestions and put them into an outline format that can be shared and used for the August meeting.

DFO Stan Meiburg wrapped up the meeting, asking for any final comments from members and the public. He announced that the next full Board meeting will be held in San Francisco, August 4-5, 2003. There being no further business to come before the Board, he adjourned the meeting promptly at 11:00 am.