

**ENVIRONMENTAL PROTECTION AGENCY
ENVIRONMENTAL FINANCIAL ADVISORY BOARD**

SEP 28 2001

Dr. James Gallup, PE
SBIR Program Manager
National Center for Environmental Research (8722R)
1200 Pennsylvania Avenue, NW
Washington, DC 20460

Dear Dr. Gallup:

Thank you for your letter of July 11, 2001, requesting the assistance of the Environmental Financial Advisory Board (EFAB) and the Environmental Finance Centers (EFC).

The full EFAB met in mid-August and discussed your request to review the current Small Business Innovative Research (SBIR) program research topics and suggest additional topics that meet EPA's mission or a stated Agency need. As you know, Sarah Diefendorf, the EFC Director from California State University, Hayward has been involved with the SBIR program, serving on the project review panel for several years. The EFC Directors regularly attend EFAB meetings as expert witnesses to the Board. Ms. Diefendorf thus was able to provide EFAB members with additional insight into the SBIR solicitation process at the August EFAB meeting.

The EFAB and EFC members generally agreed that there is a need to encourage "soft" technologies in the marketplace, particularly with respect to the significant benefits they offer in the cost-effective management of public-purpose environmental utilities.

A specific, and very important example, is that all municipalities will be required to meet the GASB (Government Accounting Standards Board) 34 provisions by 2005. GASB 34 is an accounting standard which will require that municipalities provide more comprehensive information about the true and total costs of governmental services. It requires municipalities to create an asset inventory, review the condition of these assets, establish a financial plan to sustain the assets at a specific level, and report this information to the public. There is a clear market need for professional advisory services to municipalities in this area which currently is unmet. Larger municipalities either have in-house accounting and asset management expertise or have the financial resources to hire large consulting firms to assist in this process. Most smaller municipal environmental systems (serving less than 50,000) have neither option.

Smaller municipalities may need consulting firms with affordable fees to help them comply with the mandatory asset management requirements of GASB 34. There are currently several small consulting firms such as EMA, Inc. which assist small communities in complying

with environmental requirements; however, it is our understanding that nationwide few firms offer these kinds of services to this segment of the market. Municipalities are already working to comply with the GASB 34 requirements and are looking for this expertise. For example, the First Annual Conference on Infrastructure Priorities is scheduled to be held in Washington, D.C. on October 24-26. This Conference will provide a forum to discuss valuing and financing environmental infrastructure, institutional change, and community involvement. All these topics are part of the GASB 34 process.

Recommendations: We recommend that the 2002 SBIR solicitations include strategic management tools for the public and private sectors in its list of eligible research topics. In addition to GASB 34 compliance assistance, other examples of soft technologies include: Capital asset management strategies, system optimization techniques, condition assessments, utility rate setting in support of full cost pricing, benchmarking and management information systems. We also recommend supporting development of innovative environmental accounting techniques, lifecycle analyses, environmental management systems and other techniques and systems that support the environmental industry and/or promote cleaner business. Small consulting businesses that have begun development of promising tools and techniques in these areas should be encouraged because they are the most likely vendors of such services to smaller municipalities and small businesses, a niche market not presently well served in this regard. We also recommend that the SBIR review panels include individuals with appropriate experience to review soft technology proposals.

We appreciate very much your offering this opportunity to make suggestions to the SBIR program and hope that you find these recommendations useful. Both EFAB and the EFCs would like to continue working with your Office, especially in the area of commercialization of promising environmental technologies. Please let us know if you are interested in further collaboration by contacting George Ames at (202-564-4998).

Sincerely,



Robert O. Lenna,
Chair, EFAB



A. Stanley Meiburg
Executive Director

cc: EFAB Members
EFC Directors
Mike Ryan, Deputy Chief Financial Officer
Joe Dillon, Comptroller