

ENVIRONMENTAL FINANCIAL ADVISORY BOARD

February 26, 2016

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Dr. Andrew Sawyers, Director
Office of Wastewater Management
United States Environmental Protection Agency
1200 Pennsylvania Avenue, NW
Washington, DC 20460

Dear Dr. Sawyers:

The Environmental Financial Advisory Board (EFAB) is pleased to present you with recommendations on how the Water Infrastructure Resiliency and Finance Center (WIRFC) can best support communities across the country in identifying and accessing funding for project predevelopment activities.

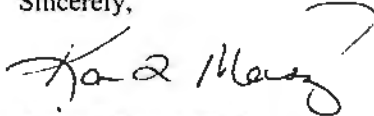
Under your leadership, EFAB was issued a charge from the U.S. EPA's Office of Water in May 2015 to identify ways WIRFC could help local governments find and gain access to funding for project pre-development activities, such as planning, environmental and cost/benefit studies, financial evaluations, and other up-front development tasks that are often critical to successful project delivery and implementation. A work group was formed and charged with developing a set of recommendations for how WIRFC could assist local communities in this regard.

The EFAB notes that significant funding sources for predevelopment activities already exist, but that local communities often are not aware of the resources available to them. Further, the types of funding resources and the requirements for accessing them vary significantly from state to state. Therefore, many of the recommendations in the attached report center on the important role WIRFC can play as both an information clearinghouse and as a facilitator between state, local and federal funding sources.

While helping communities access funding is obviously important, the EFAB also noted that it is, perhaps even more critical that WIRFC play a leading role in educating communities about the value and importance of investing thoughtfully in predevelopment activities. The EFAB members cited many examples of communities that have not grasped the importance of investing in the right kinds of predevelopment activity and, as a result, have either failed to implement needed projects or have implemented projects that failed to meet their community's needs.

We are pleased to provide you with the details of our recommendations in a document entitled "Financing Pre-development Activities in Communities." We hope that you find our specific recommendations valuable and thank you for the opportunity to assist you with this charge.

Sincerely,



Karen Massey, Chair
Environmental Financial Advisory Board

Enclosure

Financing Pre-Development Activities in Communities

Agency Charge:

How can the Water Infrastructure and Resiliency Finance Center (the “Center”) best support financing of pre-development activities for environmental infrastructure projects in communities?

The Center requests that EFAB identify ways that the Center can assist local governments with project planning and financial analysis for their environmental infrastructure projects.

EFAB Response:

1. Introduction – Summary of the Challenge

Pre-development activities, which include but are not limited to, planning and visioning, project prioritization, alternatives analysis, procuring professional services, engineering and design, legal and contracting reviews, permitting and entitlement, financing, and completion of various types of studies, such as environmental, are those activities intended to get a project ready for construction. Pre-development activities are important for any project, but take on added significance when the project involves innovative infrastructure, emerging technologies, or alternative financing. While these pre-development costs generally account for only a small portion of the total project costs, their importance cannot be overstated. The greatest influence on a project occurs in the pre-development stage when costs of the influence are the lowest. Pre-development activities will influence which alternative is chosen and how it will be delivered and financed as well as how it will be operated over the long-term.

While pre-development activities are extremely important and have a major influence on how much money a community will have to spend over the life of the project, many state, local, and tribal governments under-invest in this important component. Fiscal constraints, coupled with risk aversion and the extent of overall needs, often cause these governmental entities to under-invest in pre-development and tend to favor conventional approaches over innovative, green, or alternative project approaches.

One solution to this concern is increasing the availability of pre-development funding. While this is an important component, as many communities require outside funding to be able to complete pre-development activities, it must be understood that funding alone will not be enough to fully address this issue. Elected officials and other decision-makers will need a greater awareness of the importance of pre-development as well as best management practices in this area. Community personnel also need to have information regarding ways to procure these services and how to engage with the professionals they hire. Additionally, they need to have a willingness to try new or innovative approaches.

Although it is recognized that lack of pre-development funding is not the only issue facing communities, it is a major concern and the remainder of this paper will focus on this specific issue, which is the charge given to the EFAB.

2. Suggestions for how the Center could help

Following is a list of potential actions that the Center could undertake to assist local governments in addressing the need for funding of pre-development activities. For each proposed activity, we also address: the rationale for including the topic (why it is important and what need it addresses); a general overview of the suggested actions the Center could undertake, with examples where appropriate; and suggestions for how the Center could implement the proposed actions.

- (i) **Compile information on sources of funding/financing for pre-development activity, including how to contact/request such funding.**

The Center could compile state by state information on funding sources for pre-development activities and offer a link to this information, including the general contact information for key individuals and agencies in each state. Funding information and requirements varies from state to state and from year to year. The contact information also changes so it is best to give a general contact to the agency. In New Mexico for example, the NM Finance Authority has funding for pre-development which is a one hundred percent grant for communities fewer than 250 connections. Because there are a lot of details that the Center would need to know and keep current with, our recommendation would be to offer a high level overview of the funding programs with a link and contact information.

Another important resource that should be utilized to promote funding and financing information would be through the Environmental Finance Centers (EFCs). The EFCs will be a valuable partner for the Center to disseminate and keep current the information on each state's contact and year-to-year funding. This could be done through the EFC's websites, newsletters, and workshops.

Although a list of financial resources for pre-development would be helpful to communities, it should be recognized that the list alone will not reduce the barriers for communities to access the funding. The communities will have a hard time wading through the choices to determine the best one and how to apply for the funding. The Center should consider ways in which assistance can be provided in choosing the most appropriate source(s) of funding.

- (ii) **Compile information that identifies which pre-development activities are most critical to securing project capital financing (this list will vary depending on project type and capital funding source).**

In some cases, the choice of pre-development activities may impact the ability of local government to access capital for project design and construction. Knowing which pre-

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development activities are required for certain types of capital funding would be very useful for local project sponsors who are trying to decide which pre-development activities they prioritize. The Center could compile information on various sources of capital funding and what pre-development activities are required in order to access those funds. Some of this information might have already been compiled by the EFCs so it will be important to coordinate this idea with them.

- (iii) **Providing case studies of how various communities have financed pre-development costs.**

Sometimes, communities do not know what options may be available to them for financing pre-development costs. To provide information and context about the various options, the Center could work with the EFCs to develop case studies of how other communities have financed their pre-development costs. Also, as financing options may vary from state to state, or even community to community, the Center could ask each State Revolving Fund to compile a list of financing options for their state. These state-specific lists could be posted to the web and made accessible from a central Center website.

- (iv) **Develop generic estimates of how much the pre-development activities of various types of projects may cost.**

Sometimes communities might not set aside sufficient funding for pre-development activities because they may not have an idea of how much such work will cost. The Center could compile a fact sheet about the cost ranges of various pre-development activities. While such costs will vary depending on the scale and location of the project, an estimate by region could be helpful. The Center could gather this information prospectively by utilizing the contact that the EPA has with each municipality when the municipality submits a plan to the EPA; the EPA could request that each project's cost breakdown, including pre-development costs, be included in such submission.

It might be useful to cross-reference this information with the case studies proposed in (iii).

- (v) **Developing guidelines, manuals, handbooks, etc., for conducting pre-development activity.**

Handbooks and manuals should indicate what pre-development is, why communities should care about pre-development, what the benefits of pre-development may be over the long-term, and how the community can ensure that pre-development activities include the communities' needs over the long term (not the designer's needs.) The handbooks should also include: resources available to help fund the activities and the technical assistance available.

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It might be useful for any manuals to begin by explaining some of the pre-development activities and the potential benefits to project sponsors of investing in them. For example, USDA RD requires a Preliminary Engineering Report (PER) and an Environmental Report (ER) plus an application, 3 years of audited or non-audited financials, etc. However, the PER must be completed by a professional engineer hired following the USDA RD hiring process or the state approved process. Plus the PER must follow USDA RD format. In some cases the communities have a local engineer complete the PER and that may not work for some funders.

The first step in this process would be to look at what is already available. Every funding agency has different pre-development activities and stages. Perhaps one of the most comprehensive guidelines is provided by USDA Rural Development since they have been in operation for over 60 years. Tables are always useful and easy to follow. Try to use a table format especially for small systems.

While these sources will provide a good beginning, the pre-development must go further to talk about the initial conception of the project. For example, rather than deciding a community needs a particular type of treatment system, the pre-development activities should consider whether another solution could be applied.

- (vi) **Consider how other federal agencies have addressed the need to provide technical assistance and how they have delivered it.**

The Center might find useful examples for providing technical assistance from other federal agencies. The Center should consider canvassing other federal agencies to understand what has been done to provide technical assistance to state and local governments, how it has been done, and what techniques have been most effective. Obviously the form and substance of technical assistance will be very different for these other agencies, but the focus should be on learning about the tools, processes and resources that have been used. Again, the EFCs might have visibility on other federal technical assistance programs that they have been involved in and consulting the EFC Network should be included.

EPA also provides funding to foundations and nonprofits for technical assistance. For example, the National Fish and Wildlife Foundation (NFWF) have a cooperative agreement with EPA to deliver grants and technical assistance to local governments. The coordination between EPA and NFWF regarding disbursement of these funds should include a dialogue emphasizing the need to provide technical assistance on pre-development practices. For those who get the technical assistance, follow-up on most important areas of need should be collected and used to influence future technical assistance opportunities.

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- (vii) **Establish a “customer service” function (in collaboration with the EFCs), wherein Center staff assist local government agencies in exploring and accessing various federal grant and assistance programs.**

Accessing federal programs, information and technical assistance can be a daunting task for communities and local utilities that are unfamiliar with federal programs and processes. As a result, those in need of assistance may not know which questions to ask or how to pursue assistance, and as a result might not get the full benefit of support that is available to them. The Center could address this challenge by providing staff that offer “concierge” services to communities, helping them navigate the myriad federal programs and assistance options. An example of how this could be done is at US DOT, where the new BATIC (Building America’s Transportation Infrastructure Center) has been created to coordinate federal assistance for state and local entities seeking federal funding, credit or approval support.

For this any many other of these recommendations to succeed, it will be imperative for the Center to collaborate with state and local agencies to make local communities aware of the Center’s offerings. The EFAB encourages the Center to explore various forms of outreach through the SRFs, EFCs and other entities to inform and promote the Center’s initiatives with local communities.

- (viii) **Develop educational modules for local government and provide training/educational sessions for local government staff on how to access pre-development funding most effectively.**

For many local governments, especially small communities, there is not sufficient time or expertise to research the tangle of various funding opportunities. When faced with trying to assess solutions to urgent or future needs, most will either rely on paid consultants or do nothing. Relying on consultants to do the research is a valid method but utilizes valuable resources that could be used toward correcting the problem. Along the lines of (i), (iii), and (viii), the Center should develop and maintain educational guidelines and provide training on access to funding for a host of activities, including pre-development.

- (ix) **Develop guidance for EPA offices, SRFs and other funding sources on the value and importance of funding pre-development activities, and provide recommendations for process and priority of funding decisions for these costs.**

The EFAB strongly feels that without proper attention and emphasis placed on pre-development, the risk of poor project execution is greatly increased. Funding agencies that ignore the importance of funding these activities up front place a burden on local communities that many cannot assume and thus they may ignore or miss opportunities for innovative, alternative or sustainable solutions. The EFCs should develop guidance and strongly suggest to the various SRF offices that pre-development funding is

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important and should be an eligible, up-front funding option for entities accessing the SRF.

3. Conclusion

The Center has a unique opportunity to influence and enhance the efforts of local communities to invest in pre-development activities in order to enhance their ability to deliver value for their customers and stakeholders. Simply emphasizing the value of these early stage investments may help motivate many local communities to pursue funding for pre-development activities. The Center's core efforts should be aimed at becoming a clearinghouse of information, educating local communities on the nature and impact of pre-development activities, providing information and connections with other resources, and assisting them in navigating the various funding options available. The potential cost / benefit relationship could provide significant benefits with relatively modest investment by the Center.

To assess the impact and success of the Center's efforts in this regard, the EFAB suggests that the Center develop and track measures of effectiveness. These could include the following:

- Tracking the number of inquiries for information and technical assistance from local governments that the Center has responded to
- Evidence of broader adoption of asset management plans and other planning tools
- Evidence that SRFs increase upfront funding for pre-development activities
- Community and local governments are better informed about available financing opportunities, as evidenced by:
 - Number of local communities participating in Center-sponsored training or peer to peer meetings
 - Number of training and technical assistance interactions by the Center with local communities