



UNITED STATES ENVIRONMENTAL PROTECTION AGENCY
WASHINGTON, D.C. 20460

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OFFICE OF THE
CHIEF FINANCIAL OFFICER

MEMORANDUM

SUBJECT: Innovations in Watershed Financing

FROM: Charles E. Johnson
Chief Financial Officer

TO: Stephen L. Johnson
Acting Administrator

I am pleased to transmit the attached Environmental Financial Advisory Board (EFAB) letter. This letter presents the Board's recommendations to the Agency and the Office of Water on innovative ways to build the capacity of watershed organizations by developing and implementing finance strategies to obtain and leverage funding. This also includes influencing funders to support plans and projects that will improve water quality and achieve other goals found in the Clean Water Act and other statutes.

The Board believes that the collaborative efforts currently between its Non-Point Source Financing Workgroup and the Office of Water's Sustainable Finance Team will continue to provide and promote effective activities that will support the vital work of watershed-based groups in restoring and enhancing the nation's water quality.

As the Agency moves forward in continuing and expanding work in the area of non-point source financing, EFAB offers its assistance consistent with its charter. If you have questions or comments regarding this letter, please call me or have your staff contact Joseph Dillon of my staff at 564-9673.

Attachment

**UNITED STATES ENVIRONMENTAL PROTECTION AGENCY
ENVIRONMENTAL FINANCIAL ADVISORY BOARD**

January 10, 2005

Mr. Stephen L. Johnson
Deputy Administrator
United States Environmental Protection Agency
1200 Pennsylvania Avenue, NW
Washington, DC 20460

Re: Innovations in Watershed Financing

Dear Mr. Johnson:

The Environmental Financial Advisory Board (EFAB), through its Non-Point Source Financing Workgroup, has been looking at innovative ways to finance the wide variety of improvements needed to restore watershed health. We have undertaken this project based on our conclusion that financing infrastructure and related natural resources projects to improve and restore watershed health presents a major challenge for EPA, the states, municipalities, and watershed management groups. We believe that there is a huge potential for maximizing available financing for watershed management by informing and training watershed managers, coordinators and groups to overcome the multiple financing challenges they face in getting coordinated projects underway.

Since the early 1990s, the EPA's Environmental Finance Team (EFT) in the Office of the Chief Financial Officer has explored ways to encourage innovative and effective financing of important environmental projects. In the course of EFAB's recent review of ongoing activities, we became aware of the Office of Water's recent creation of the Sustainable Finance Team in the Office of Wetlands, Oceans and Watersheds (OWOW). The Team's charter is broad enough to encompass most of the concerns that EFAB has identified to meet the challenge and potential noted above. We have reviewed the Team's ambitious and well-targeted work plan, which gives EPA an excellent start on implementing the goal of assisting watershed groups and managers to increase their knowledge and use of all available financing tools.

We would like to urge you to continue to support and, in certain areas, expand work in the area of non-point source financing, including the work of OWOW's Sustainable Finance Team. For its part, EFAB is willing to assist and supplement the work of the Team and others with financial expertise and other contributions.

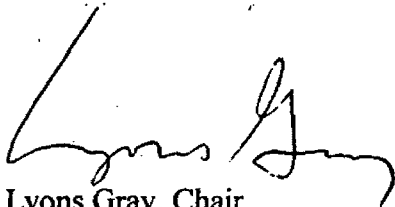
In addition to the excellent work they are already undertaking, there are a few areas where we would like to see the Agency and its Sustainable Finance Team focus its efforts, with appropriate contributions from EFAB's Non-Point Source Workgroup and other experts in the area, including the EPA-supported, university-based, Environmental Finance Center Network (EFCN). These include:

- a. Continue to develop a new paradigm for watershed-based finance that moves from a limited grant-funded approach to a portfolio strategy that builds partnerships and targets public funds, private financing and other resource contributions from a range of potential sources. The Team has properly emphasized leveraging financing and funding at local, regional, state levels, i.e., government programs, business investment decisions, bank loans. A roundtable involving representatives from states, localities, financial institutions, businesses, nonprofits and others to explore the full range of possible financing options and partnerships would be a good beginning. EFAB is considering convening such a roundtable, and will work with the Office of Water and the Office of the Chief Financial Officer to help stage and facilitate this effort.
- b. Expand training for watershed groups, managers and coordinators in the use of innovative financing and funding tools and of local resources and networks to increase financing and funding options. The greatest sources of innovation in assembling a portfolio of nontraditional, nongovernmental and leveraged financing are likely to be at the watershed level. Increasing the capacity of watershed groups and managers to identify and develop these sources will be crucial to long-term success. The EFCs and others are working on this issue, and in Region 10, for example, the EFC's Plan2Fund watershed financing tool and Directory of Watershed Resources represent two excellent foundations for much-needed training. These are tools that not only help watershed groups do the right things, but also make the best use of the limited time that volunteers at the local level can commit to meeting local watershed goals. Existing training capacity through the Association of State and Interstate Water Pollution Control Administrators (ASWIPCA), the Council of Infrastructure Financing Authorities (CIFA) and other groups should be utilized and expanded.
- c. Develop additional case studies to provide practical experiences and lessons learned for watershed managers. The EFCs and other university watershed and finance centers should be asked to contribute case studies to an EPA database.
- d. A complementary approach you may want to consider is to encourage or require recipients of EPA watershed grants to receive training in financing tools and approaches like the EPA Watershed Academy distance learning module on watershed financing or other learning tools.

EFAB believes that these approaches are well in line with Enlibra principles, such as putting markets before mandates, recognizing true benefits and costs, and pursuing solutions that transcend political boundaries. Watershed financing offers the kind of challenge where Enlibra principles can work, and the EFAB/EFCN/EFT team can add value to the efforts of the Agency and its Sustainable Finance Team in this regard.

The Board thanks you for the opportunity to provide our comments and recommendations to you. We hope they will promote activities that will support the vital work of watershed groups and managers in restoring and enhancing the nations water quality.

Sincerely,



Lyons Gray, Chair
Environmental Financial Advisory Board



A. Stanley Meiburg
Executive Director

cc: Charles E. Johnson, Chief Financial Officer
Benjamin H. Grumbles, Acting Assistant Administrator, OW
Diane Regas, Director, OWOW