



UNITED STATES ENVIRONMENTAL PROTECTION AGENCY
WASHINGTON, D C 20460

OFFICE OF
CHIEF FINANCIAL OFFICER

AUG - 2 2006

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Room 3340 EPA West Building
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Dear Sir/Madam:

Enclosed are two copies of the Environmental Financial Advisory Board's (an EPA Federal Advisory Committee), report titled, "*Combined Operations of the Clean Water and Drinking Water State Revolving Loan Fund (SRFs)*" for your records. If you have any questions, please call me at 202-564-5186

Sincerely,

A handwritten signature in black ink that reads "Vanessa Y. Bowie".

Vanessa Y. Bowie, Director
Environmental Finance Staff

Enclosures

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June 12, 2006

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Assistant Executive Director

Honorable Benjamin Grumbles
Assistant Administrator for Water
U.S. Environmental Protection Agency
1200 Pennsylvania Avenue NW.
Washington, DC 20460

Dear Mr. Grumbles:

As you suggested in your letter of July 21, 2005, members of the Combined Operations Workgroup of the Environmental Financial Advisory Board (EFAB) presented our advisory paper on joint Clean Water and Drinking Water State Revolving Fund (SRF) operations to the State/EPA Work Group on November 2, 2005, in Chicago. Your office had forwarded the paper to the Work Group for comment, and we appreciated the opportunity to meet with them to present the results of the Board's work.

Following the presentation, a lively discussion ensued. The majority of the Work Group found merit in the concept as set out in the advisory paper. Specifically, the Work Group adopted a motion that EPA "undertake an examination of what opportunities and advantages exist across a broad array of alternatives for combined SRF operations, including but not limited, to the combination of both funds into one single fund"

Many States at the Work Group meeting reported that they have found benefits and efficiencies through combining some aspects of fund operations. The Board is gratified by the positive action of the Work Group and strongly reaffirms its view that there are significant benefits to be achieved by moving, however incrementally, toward joint operations of the two SRF programs. The potential for these efficiencies is even more important given the reduced capitalization contributions for the two programs in recent years and because budget constraints have become more apparent throughout the federal government.

We appreciate that questions, and some apprehension, remain about the concept of combining operations. As we acknowledged in our Advisory, we believe that this area would benefit from a more intensive analysis that goes beyond the anecdotal evidence provided in the EFAB report. We concur with the State/EPA Work Group recommendation that EPA undertake an in-depth study of potential benefits of combining certain aspects of the operations of the two loan programs, and to the extent possible, attempt to quantify them. Such an analysis should also strive to explicitly address the real or perceived barriers to combining operations.

Ideally, the analysis would be undertaken by a neutral organization chosen by EPA with a reputation for analytical skill and objectivity, and would proceed with the active input of the State/EPA Workgroup. Ultimately, we hope the study would describe and quantify the financial implications of joint State Revolving Fund operations in the areas of fund investment, management, leveraging, accounting and reporting, loan generation, loan monitoring, legal review and other areas EPA and the States consider important.

Thank you again for your referral to the State/EPA Workgroup and for your continued interest in this important area. EFAB continues to strongly support the concept that potential benefits and efficiencies could accrue from the expanded use of combined operations. We would be pleased to lend our expertise to support efforts to promote combined operations in any way you think useful.

Sincerely,

A handwritten signature in black ink, appearing to read 'A. Stanley Meiburg', written in a cursive style.

A. Stanley Meiburg
Executive Director

cc James Hanlon, Office of Wastewater Management
Cynthia Dougherty, Office of Drinking Water and Ground Water
Lyons Gray, Chief Financial Officer