

REPORT SUMMARY IN BRIEF

Chesapeake Bay Environmental Finance Symposium Recommendations and Final Report ~ August 2016

Prepared for the Budget and Finance Workgroup of GIT 6

Overarching Recommendation: Create a Chesapeake Bay Program Finance Advisory Board comprised of finance, economic, and policy experts charged with advancing Bay restoration financing solutions.

CORE RECOMMENDATIONS FOR SCALING AND ACCELERATING PUBLIC – PRIVATE ENGAGEMENT

Core Recommendation 1: Advance a Chesapeake Bay restoration economic development effort.

Strengthen the linkage between the Bay restoration effort and the region's economy and economic development framework – a paradigm shift that water quality as economic development. Three opportunities are identified: develop industries and products that are naturally linked with a clean and healthy Bay; target investment in BMPs that also support the local and regional economy; and local and state governments can create incentives to grow innovative initiatives that both generate revenue and function as restoration practices in and of themselves.

Core Recommendation 2: Create a credit-based financing system and market infrastructure, basin-wide.

Sub-recommendation 2a: The first part of this recommendation is to **establish a credit-based financing system** in order to explicitly tie water quality restoration investments with the desired Chesapeake Bay Environmental Finance Symposium Final Report 17 outcome of reduced nutrient and sediment loading to the Bay.

Sub-recommendation 2b: Hand-in-hand with adopting a credit-based financing system is a **shift toward a performance-financing approach**, which focuses on the desired outcome rather than the means to get here.

Sub-recommendation 2c: To enable water quality trading and other Bay-wide restoration investments, it will be necessary for local and state leaders to **create water quality market infrastructure**.

Core Recommendation 3: Establish implementation and performance standards, basin-wide.

Performance standards for a stormwater or water quality market can be modeled on those in the mitigation banking system, which address three main areas: legal standards; financial standards; and biological or physical standards.

Core Recommendation 4: Reduce unnecessary transaction costs.

The EFC recommends two main process changes that could significantly improve private sector engagement: streamlining permitting processes, and transforming local and state procurement systems.

Core Recommendation 5: Facilitate the flow of capital through innovative institutional structures.

Bay jurisdictions should make sure that: state and local investments to restore the Bay are in nonpoint pollution reduction projects only when viable projects are ready, and that they have the institutional structure that have the capacity to hold funds through multiple fiscal years. The capacity they should have includes the ability to: hold or bank revenue without concern that funding will be sequestered or reallocated; leverage revenue; and, purchase, hold, and distribute water quality credits as needed.

SYMPOSIUM THEME-SPECIFIC RECOMMENDATIONS

Theme Recommendation 1: Pilot pay for success investment models.

A social impact bond, also known as a pay for success contract, is an agreement between a public agency and a private firm, in which a commitment is made to pay for improved social outcomes that result in public sector savings.

Theme Recommendation 2: Establish proactive stormwater banking programs.

In a stormwater banking system, property owners construct BMPs capable of treating more stormwater than is required by their own permit, thereby generating credits that can be sold to others who need to meet their own stormwater management requirements, such as developers seeking a lower-cost alternative to managing stormwater onsite.

Theme Recommendation 3: Advance public-private partnerships, where appropriate.

A P3 is a “contractual arrangement between a public agency (federal, state or local) and a private sector entity. Through this agreement, the skills and assets of each sector (public and private) are shared in delivering a service or facility for the use of the general public.”

Theme Recommendation 4: Incentivize commercial landowners to mitigate nutrient and sediment emissions.

This recommendation differs from the others in that enabling depreciation for water quality practices will require federal authorization and legislation. States can create conservation tax credit programs independent of the federal government; however, the most effective program would include federal income tax relief.