

MEMORANDUM

TO: Matt Rowe, Maryland Department of the Environment
Jill Whitcomb, Pennsylvania Department of the Environment

FROM: Dan Nees, University of Maryland
Joanne Throwe, University of Maryland

RE: **Structure of the CWIP Financing Strategy**

DATE: October 19, 2020

As you know, over the next several months, the Conowingo Watershed Implementation Plan (WIP) Financing Team will begin the second phase of its work, which specifically involves delivering a proposed financing strategy to the Steering Committee and ultimately the PSC by the end of the calendar year, and taking the first steps towards launching that strategy in early 2021. Given the compressed schedule, we believe it is essential that our approach and the assumptions we are making moving forward are in synch with the assumptions being made by the Steering Committee throughout the CWIP process.

Financing Strategy Assumptions. The Conowingo WIP development process over the past year has been influenced by a diversity of opinions and interests on the part of the Bay States. The financing process has the potential to cause confusion and misunderstanding, especially as fiscal resources become more scarce. Therefore, as we begin finalizing a financing strategy, we thought it might be helpful for the Financing Team to identify some key principles and conditions that will be the foundation of our work. Our hope is that by getting the Steering Committee and the PSC to embrace these guiding issues from the start, we can effectively move forward with an actionable financing strategy. Again, consensus on these issues at this point in the process by both the Conowingo WIP Steering Committee and the Principals' Staff Committee, will allow us to move forward with more certainty.

We begin with three assumptions about the Conowingo WIP process that we believe are foundational to our efforts to create the financing system.

- First, our assumption is that the Chesapeake Bay Program Partnership will have the ultimate responsibility for funding the Conowingo WIP. More specifically, the financing process must be founded on the obligation—collective or otherwise—of the public sector to implement the restoration activities. Without this commitment, however it is compelled, the Conowingo WIP financing system will be very limited in scale and impact. There is no question that the private sector will play an essential role in ensuring scale and long-term efficiency, but the impact of the private sector is in many ways completely dependent on the assurance of public investment.
- Second, though public funding responsibility will be essential, it will not be nearly sufficient.

Long-term sustainable implementation success will require investing in the most innovative industries and processes that have the potential to create efficiencies, identify and leverage as of yet untapped revenue streams, and utilize long-term financing and investment tools. In short, the Conowingo WIP must result in a transition from publicly subsidized grant funding to publicly incentivized restoration investments.

- Finally, long-term restoration success will require very close collaboration and partnership between the public and private sectors. It is the public sector's responsibility to put the parameters around the restoration financing process in the form of regulation, policies, and long-term funding. It is the private sector—the businesses, investors, farmers, landowners, churches, nonprofits, and citizens—that have the primary implementation role in the financing process.

Enabling Conditions. In addition to the assumptions described above, we thought it would be helpful to reiterate the basic metrics or conditions by which the financing strategy or system will be measured and evaluated. The process of creating a new financing system would suggest that there is the possibility of improving on existing financing systems. To that end, we believe there are three fundamental enabling conditions or characteristics that in effect serve as the metrics for evaluating the financing process: efficiency; scale; and, long-term durability.

- Efficiency. Reducing the costs associated with pollution reductions is foundational to the entire financing process. Maximizing efficiency will not only ensure that new water quality investments have the greatest impact, but will also maximize efficiency and impact of existing revenues and investments. The result is more pollution reductions per dollar invested, which is the equivalent of more money being injected into the financing system. Therefore, when we reference maximizing efficiency, we are suggesting that we strive to identify and implement the most efficient and/or cost-effective approach for achieving a goal. This requires having the capacity to track and compare implementation results.
- Implementation and investment scale. Implementation and investment scale refer to the level of fiscal resources necessary for achieving desired return on investment. Achieving implementation and investment scale is the issue that has received the most attention in regard to the Chesapeake restoration process, and the Conowingo WIP Steering Committee has been no exception. In addition to improving the efficiency of restoration investments, the most important way to ensure implementation and investment scale is to generate sufficient public revenue flows. Though it is well beyond the scope of our project to assign funding responsibility, what is certain is that ultimately the scale of the financing effort will depend entirely on the scale of public funding and investment, specifically on the part of the Bay States.
- Financing duration. Finally, the financing system must ensure long-term water quality restoration success. It is essential that actions on the ground ***permanently*** solve the pollution problem, while at the same time ensure that the fiscal and financial resources are equally sustainable and durable. This requires long-term dedicated revenue flows as well as access to credit and borrowed capital and financing. Effectively connecting the two is what ensures implementation success over the long-term.

These conditions are the metrics by which the performance of the entire restoration financing system will be gauged, and therefore, they serve as the structure for our proposed financing system. Coupled with the three financing assumptions and issues above, they represent the structure of the financing system that we will be working with the advisory committee to design over the coming months. We welcome having a direct conversation with you to address any specific questions or concerns you may have.