

# The Path Forward (DRAFT) May 17, 2017

## Summary Action Items

### Assigned Lead or Role to Budget & Finance Workgroup from Three Priority Recommendations

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The purpose of this document is to provide a **very concise summary of the action items** from *The Path Forward* (DRAFT) May 17, 2017, report. **Highlighted in red are action items where** the lead or key role was assigned to the Budget and Finance Workgroup of the Enhance Partnering & Leadership Team (GIT 6). For more detailed information about the action item, supporting documentation, and examples related to the action item, please refer back to the source document.

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#### *Summary Three Priority Recommendations*

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#### **Core Recommendation #1** *Advanced 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 views 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 best management practices that also support the local and regional economy; and create local and state government incentives to grow innovative initiatives that both generate revenue and function as restoration practices.

#### **Theme Recommendation #3** *Advance P3, 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.” P3 can be used for various aspects of a project, including financing, design, construction, operations and maintenance, and/or monitoring and evaluation.

#### **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.

## Short-term (12 to 18 months)

### A. *Action: Identify and develop implementable business cases for revenue-generating Bay restoration activities.*

**Recommendation Addressed:** Core Recommendation #1 – Advancing a Chesapeake Bay restoration economic development effort.

**Lead:** Jurisdictions, through existing grant vehicles like the Chesapeake Research Consortium or similar organizations, to access university business school administration or related entities that have the personnel, resources and expertise to engage the business communities in the Bay jurisdictions. One or more such entity could be identified as the sole lead or as a partnership.

**Purpose:** The lead entity would be charged with identifying financially self-sustaining revenue generating activities, while simultaneously contributing to Bay restoration. One example of this would be riparian buffers that generate revenues from crops grown on the buffers while simultaneously reducing nutrient discharges into the Bay watershed. The revenues generated would have to cover both initial investment expenses as well as on-going operation and maintenance. The lead entity could undertake tasks:

- Engage the U.S. Department of Agriculture and other potential sources of data to help build business cases.
- Look for models or pilots elsewhere in the U.S. or internationally to identify revenue-generating water quality benefitting activities.
- Explore use of green infrastructure tools and alternative financing mechanisms including, U.S. EPA provided funding under the Water Infrastructure Finance and Innovation Act, <https://www.epa.gov/wifia>, which is intended to accelerate investment in our nation's water and wastewater infrastructure by providing long-term, low-cost supplemental credit assistance to water and wastewater projects of national and regional significance.
- Involve Bay state departments of commerce and chambers of commerce to identify industries within their states that could either benefit financially from Bay restoration or generate revenues from Bay restoration activities, or both.
- Consult with economic development and education professionals to determine what, if any, business climate and workforce development needs should be addressed to foster this effort.
- Ultimately, the lead entity would be charged with identifying and developing defensible business cases for investment opportunities that would lead to Bay restoration.

Please note a business case is a standard tool or template used in the business community to define the reasons, investment, and expected return when starting a new project.

*B. Action: Compile successful pay for success pilot project case studies from across the country. Share the compiled information through workshops or other appropriate means with those Chesapeake Bay Program partnership organizations or local governments which may undertake similar pay for success pilot projects or efforts in the Chesapeake Bay watershed.*

**Recommendation Addressed:** Theme Recommendation #1 – Pilot pay for success investment models.

**Lead:** Budget and Finance Workgroup of the CBP Goal Implementation Team 6, in coordination with the jurisdictions and with possible contact or grant support.

**Purpose:** Enable use of the pay-for-success model into standard practice more broadly through the watershed, where feasible.

*C. Action: Evaluate statutes in each jurisdiction to determine current authority for P3 projects addressing water quality, stormwater and related issues. Identify ways to advance successful P3 models, including potential issues and lessons learned through local government implementation. Disseminate this information through existing Chesapeake Bay Program partnership networks and private entities.*

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

**Lead:** Budget and Finance Workgroup of the CBP Goal Implementation Team 6 will lead, with support of Region 3, and the CBP Local Government Advisory Committee.

**Purpose:** To identify jurisdictions current authorities for P3 projects and lessons learned. This information will assist interested jurisdictions advance P3 projects through a better understanding of their legislative authorities.

### **Intermediate (1.5 to 3 years)**

*D. Action: Create enabling conditions for engaging private finance in Bay restoration by developing a standardized water quality credit system for the watershed. Establishing standards for water quality credits is important to increasing the predictability of return on investment for private entities investing in restoration, helping stabilize a market for restoration activities in the watershed (different from a nutrient credit trading market). This reduces risk for private investment, helping engage private finance, a critical step in using Bay restoration to enhance economic development.*

**Recommendation Addressed:** Core Recommendation #1 - Advancing a Chesapeake Bay restoration economic development effort.

**Lead:** Budget and Finance Workgroup of Goal Implementation Team 6 in collaboration with the jurisdictions, and the CBP Science and Technical Advisory Committee.

**Purpose:** Build a watershed-wide water quality credit system into the routine operations for CBP. A water quality credit system is considered by many to be a critical element and fundamental building block to advance and economic development effort.

*E. Action: Undertake a pilot project using nutrient purchases (cost/pound) as a commodity for cash, in lieu of funding a best management practice.*

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

**Lead:** Maryland Department of Environment.

**Purpose:** First in Maryland, pilot the use of nutrient and sediment load purchases at a lower cost/pound (or cost/ton for sediments) than using grant funds for implementing higher capital cost best management practices. Measure success by evaluating growth of private equity investments in Bay restoration and the decreasing cost per pound (or ton) over time. Maryland plans to share lessons learned with Bay jurisdictions and other partners.

## Long-term (>3 years)

*F. Action: Measure project-specific finance metrics of success for the following:*

- Goals of the project (nutrients reduced, etc.) are clear and status of the goals are regularly reported*
- Project goals delivered at or below cost projected*
- Private enterprise profits from exchange*
- Synthesize factors of success or failure and amend funding programs using this information (adaptively manage)*

**Recommendations Addressed:** Theme Recommendation #1 – Pilot pay for success investment models. Theme Recommendation #3 – Advance P3, where appropriate.

**Lead:** Budget and Finance Workgroup of Goal Implementation Team 6 in coordination with the Bay Funders Network, with the jurisdictions.

**Purpose:** Ensure the success or failure of individual projects and the driving economic factors of either result are being reported and used to guide the overall effort.

*G. Action: Measure overall finance metrics of success for the following.*

- Growth of private equity invested in Bay restoration*
- Decreasing cost of pounds of nutrients reduced over time*
- Bay TMDL goals being met at or below cost projected*
- Other programmatic goals met in timeframe projected*

**Recommendations Addressed:** Core Recommendation #1 – Advance a Chesapeake Bay restoration economic development effort. Theme Recommendation #1 – Pilot-pay-for success investment models. Theme Recommendation #3 – Advance P3, where appropriate.

**Lead:** Budget and Finance Workgroup of Goal Implementation Team 6.

**Purpose:** Ensure the decisions being made are yielding desired economic results in terms of watershed-wide Bay restoration efforts.