

ENVIRONMENTAL PROTECTION AGENCY ENVIRONMENTAL FINANCIAL ADVISORY BOARD

April 30, 2002

Honorable Christine Todd Whitman
Administrator
U.S. Environmental Protection Agency
1200 Pennsylvania Avenue, NW
Washington, D.C. 20460

Dear Administrator Whitman:

The Environmental Financial Advisory Board (EFAB) is pleased to provide you with its report on a proposal to expand lending of the Clean Water State Revolving Fund (SRF) program for projects designed to prevent or reduce pollution from non-point sources. The Board wishes to clearly recognize the highly effective efforts of the Office of Water in opening up and realizing the potential of the SRF program in the support of non-point source control. Great progress has been made in this regard underscoring the flexibility of the revolving fund concept to the efficient financing of many environmental and public health projects.

The proposal outlined in the attached report builds on that broad foundation of progress already in place. The proposal envisions a cooperative arrangement between a Clean Water State Revolving Fund and a municipality where the latter borrows from the SRF and in turn passes the loan funds on, in a subsidiary lending arrangement, to a non-point source discharger to finance implementation of best management practices (BMP). Essentially, this is a conduit lending structure which could be adaptable to many communities, but would seem to have most application to municipalities faced with the prospects of stricter permit limitations, making the determination that it would be more cost-effective to use SRF loan funds to finance BMPs. The conduit lending arrangement would provide a means to fund these important non-point source control measures where financing is frequently a critical problem. This type of cooperative arrangement, imbedded in an implementation plan, could be directly targeted toward achieving total maximum daily load goals for a watershed. The report recommends that the Office of Water support and help facilitate a demonstration project with a SRF and municipality to implement this strategy. To our knowledge, conduit lending through a municipal government has not been undertaken with SRF loan funding; although it has worked using other governmental or quasi-governmental entities and that model could be expanded.

When the Board discussed this report, it generated considerable comment and suggestions from the members and expert witnesses. Other possibilities were suggested to improve the original concept. Areas of interest included expanded use of nonprofits, credit enhancements, and the use of best

management credits. Additionally, in a future report we would like to profile innovative state programs, such as Ohio's Water Resource Restoration Sponsor Program, as prototypes for reaching nontraditional SRF borrowers.

This report, then, is intended as the first product of an ongoing project. We earnestly hope you will find it informative and helpful and will pursue the Board's recommended action.

The Board wishes to express its appreciation to Jim Smith who is the principal author of the report. Jim is a nationally recognized authority on SRF lending and the development of new ways of using the programs to more efficiently and effectively finance water quality improvement projects. We also want to sincerely thank Rich Kuhlman, Kit Farber, and Jordon Dorfman who provided valuable advice and insight to this project.

We would like to suggest meeting with you to review this and other EFAB projects to discuss additional ways that we may be of assistance. In that regard, our goal is to increase the impact of EFAB as a resource to EPA.

Sincerely,

Robert O. Lenna
Chair, EFAB

A. Stanley Meiburg
Executive Director, EFAB

Attachment

cc: Tracy Mehan, III, Assistant Administrator, OW
Ben Grumbles, Deputy Assistant Administrator, OW
Diane Regas, Deputy Assistant Administrator, OW
Thomas Gibson, Associate Administrator, OPEI
Linda Combs, Chief Financial Officer
Mike Ryan, Deputy Chief Financial Officer
Joe Dillon, Comptroller

