

# ENVIRONMENTAL FINANCIAL ADVISORY BOARD

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Edward H. Chu

April 13, 2020

The Honorable Andrew R. Wheeler  
Administrator  
U.S. Environmental Protection Agency  
1200 Pennsylvania Avenue, NW  
Washington, D.C. 20460

Subject: Consultation on Financing and Governance Options for the Backhaul  
Alaska Program

Dear Administrator Wheeler:

The Environmental Financial Advisory Board (EFAB) held a public meeting on February 11-13, 2020 in part to engage in a consultation with EPA staff on financing and governance options for the Backhaul Alaska program. Backhaul Alaska is a cooperative effort, led by the Solid Waste Alaska Task Force with financial assistance from the EPA and others federal agencies, to facilitate the backhaul and proper disposal or recycling of hazardous household wastes from remote Alaska communities.

At the request of EPA Region 10, the Board had previously conducted a review of the program and in an August 2019 report to the Regional Administrator recommended a number of revenue options that might be developed to support Backhaul Alaska. Region 10 subsequently requested that the Board provide additional advice on options for the structure, organization, and financing for the Backhaul Alaska program. The EPA's charge questions for the consultation are provided in Enclosure A and the discussions of the Board members are documented in the meeting minutes and summarized in Enclosure B.

After much consideration, EFAB strongly recommends that EPA and the State of Alaska **identify additional grant funds to support the start-up of Backhaul Alaska over the first few years of operations** until another long-term sustainable funding source is developed. While EFAB recommends that the program cultivate opportunities for private-sector assistance and funding, the Board believes that governments have primary responsibility for assuring protection of human health and the environment in all communities, especially the most vulnerable.

The challenges posed by the Backhaul Alaska program are indicative of issues that face other small, rural communities who—because of low or declining population levels and/or socio-economic conditions—are unable to pay for critical environmental services. In the case of remote Alaska villages, the Board members observe that government at all levels has failed to protect communities near local residential landfills from exposure to hazardous materials.


During the consultation, EFAB suggested the elements of a business plan and ideas for potential financial approaches to generate the needed capital for Backhaul Alaska. For

example, Board members discussed the possibility of creating an endowment fund or trust that would provide a sustainable revenue stream for Backhaul Alaska for the long term. Members generally felt that support for Backhaul Alaska should come primarily from state and local entities. However, given the situation on the ground, the Board recommends that the EPA work with other federal partners and the State of Alaska to identify grant funds that could serve as seed money for such an endowment or other sustainable, long-term solution.

The consultation method is an effective mechanism for an advisory committee such as the EFAB to provide oral advice to the Agency at a public meeting, with the discussions being documented in meeting minutes rather than a formal advisory report. A consultation is conducted under the normal requirements of the Federal Advisory Committee Act (FACA), as amended (5 U.S.C. App.), which include advance notice of the public meeting in the *Federal Register*.

We thank the EPA for the opportunity to provide advice on the financial sustainability of the Backhaul Alaska program.

Sincerely,

A handwritten signature in black ink, appearing to read "Joanne M. Throwe". The signature is written in a cursive style with a large, looped initial "J".

Joanne M. Throwe, Chair  
Environmental Financial Advisory Board

Enclosures

cc: Edward H. Chu, Designated Federal Officer, Environmental Financial Advisory Board  
Chris Hladick, Regional Administrator, EPA Region 10

**U.S. Environmental Protection Agency  
Environmental Financial Advisory Board**

**Backhaul Alaska Consultation**

February 12, 2020

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**Edward Chu**, Deputy Regional Administrator, EPA Region 7

## Environmental Finance Advisory Board Backhaul Alaska Consultation

### Overview

On February 12, 2020, the Environmental Finance Advisory Board (EFAB) will engage in a consultation with EPA on financing options for the Backhaul Alaska program. Prior to this consultation, the EFAB prepared an advisory report in 2019 on revenue options for a waste service backhaul program in rural Alaska, called Backhaul Alaska. At the request of EPA Region 10, the EFAB has agreed to engage in further discussions on financing and governance options for the Backhaul Alaska program. A consultation is a form of advisory activity that provides oral advice and feedback from the EFAB members at a public meeting.

### Product

The product of the Backhaul Alaska consultation will be a summary of the consultation discussions. During the consultation, EPA seeks recommendations for the Backhaul Alaska program in each of the following areas: (1) Structure, (2) Organization and Administration, and (3) Finance and Sustainability.

### Session Framework

During the Backhaul Alaska consultation session, EFAB members will be presented with a scenario and then the board will be broken into small groups to discuss tailored questions for each topic area.

### Scenario:

The Backhaul Alaska program will be fully functional in March of 2021 (one year from now). It is estimated that operations will cost approximately \$1,000,000 per year to backhaul materials initially. At full capacity, the program will cost about \$3,700,000 per year. There will be an estimated \$500,000 available for startup costs which will be funded through government grants. For the purpose of this scenario, assume there will be an estimated \$500,000 available for startup costs, funded through government grants. Also assume that the first two years need to be funded via grants. Past that, the ongoing funds will be a combination of (1) Government Funding (federal, state, tribal, or local grants or appropriations), (2) Other funding, such as income from other Backhaul Alaska services (including EPR support<sup>1</sup>), donations, and/or foundation grants, and (3) Program fees, collected from villages for backhauling services. For purposes of this exercise, assume the below source funding ratio:

- 40% government
- 50% other funding and
- 10% program fees

Unless EFAB recommends differently, the organization will be set up as a non-profit with a Board of Directors with advisory committees for each stakeholder group. Administration would be centralized with possible contracting/sub-awarding of all or some program functions.

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<sup>1</sup> The Solid Waste Alaska Taskforce is pursuing a statewide Extended Producer Responsibility (EPR) initiative that will legislate electronic manufacturer support of e-waste recycling. If successful, funding supplementation could be significant.

## Task:

EFAB members are tasked with helping Backhaul Alaska partners design an organization that maximizes the usefulness of each of the funding sources, is run efficiently within known legal constraints, and leverages the opportunities inherent in having a multi-stakeholder funded organization.

## Process:

EFAB members will be divided into three groups to each discuss one of the consultation's three focus areas, using a set of structured questions. Each EFAB member will be assigned to a section to work on for the first 30 minutes. After the first 30 minutes, each group will report out then EFAB members will rotate to another group. One EFAB member will stay to be the "history". There will be a total of three rotations so that all members have an opportunity to consider questions in all three topic areas.

Group report outs will answer the following questions:

1. What did you discuss?
2. What questions did you not get to?
3. What should the next rotation focus on first?

During the third and final group report out rotation, Groups will provide:

1. Summary of what was discussed by the group **with recommended next steps**
2. Recommendations for further information gathering.
3. Key take-aways especially related to opportunities or obstacles.

## Group 1: Structure

- A. Should Backhaul Alaska be organized as a not-for-profit or quasi-governmental authority (in the latter case, with responsibilities delegated to it by the state)?
- B. How do the structure and governance of Backhaul Alaska expand or limit alternative models for long-term sustainability?
- C. What not-for-profit (or hybrid) models might be appropriate for Backhaul Alaska and what tradeoffs are involved?
- D. What are the advantages/disadvantages of different corporate forms in funding Backhaul Alaska? E.G. quasi-governmental, special districts, for profit, etc.
- E. Should Backhaul Alaska be structured within or affiliated with an existing governmental or nongovernmental organization in order to share capacities and improve effectiveness?
- F. What other key issues should be addressed in this area?

## Group 2: Organization and Administration

- A. What technical and administrative capacities should Backhaul Alaska maintain internally, and what functions might be contracted out?
- B. How would an oversight board for Backhaul Alaska be organized to ensure stakeholder representation as well as organizational accountability?
- C. What external linkages will be critical for Backhaul Alaska and how can they be cultivated and maintained over time?
- D. How would Backhaul Alaska communicate and interact with its stakeholders and constituents?
- E. How should Backhaul Alaska prioritize its work and what challenges and risks are likely to arise?
- F. How should Backhaul Alaska monitor and evaluate program performance?
- G. What other key issues should be addressed in this area?

### Group 3: Finance and Sustainability

- A. How should capital expenses be funded by Backhaul Alaska, particularly startup expenses?
- B. How should operational expenses be funded by Backhaul Alaska?
- C. What combination of existing and innovative tax instruments, grants (governmental and nongovernment), and fees should be used to support and sustain Backhaul Alaska, initially and over time?
- D. How should fee assessments in support of Backhaul Alaska be structured given locational and resource disparities among villages?
- E. Should Backhaul Alaska build an invested endowment fund in support of operations?
- F. Can financial incentives for industry (positive or negative) be built into the Backhaul Alaska program?
- G. Can Backhaul Alaska transition from governmental support to be financially independent and sustainable, and if so, how?
- H. What other key issues should be addressed in this area?

### Desired Outcome

EFAB will provide financial and organizational advice to help ensure that the Backhaul Alaska organization is both fiscally sound and resilient to financial and other challenges.

Backhaul Alaska  
Preliminary Cost Projections  
for  
Environmental Finance Advisory Board February 2020 Meeting

**Comparison of Program Costs**

Component	2020	2030
Program Operations	\$ 785,825	\$ 1,136,169
Recycling, shipping	\$ 51,107	\$ 557,869
Direct village investment	\$ 181,752	\$ 1,673,716
Administration Indirect	\$ 101,868	\$ 336,775
<b>Total</b>	<b>\$ 1,120,552</b>	<b>\$ 3,704,529</b>
Number of villages	17	162
Per village backhaul costs	\$ 65,915	\$ 22,867
Per person backhaul costs	\$ 218	\$ 66

Note: Program operations include state and regional coordination, training, outreach. Village investment includes supplies, labor, O&M

**Dollar Investment per Village**

Component	2020	2030
Administration	\$ 52,217	\$ 17,345
Recycling and Shipping	\$ 3,006	\$ 3,444
Investment	\$ 10,691	\$ 10,332

Note: At full program, the median village size is larger and more difficult logistics (costlier) villages are added, so the recycle and shipping costs are higher

**Environmental Financial Advisory Board  
Consultation on Governance and Financing for Backhaul Alaska**

**February 12, 2020**

**Summary of Discussions**

Background

At a public meeting on February 12, 2020 the EPA Environmental Financial Advisory Board (EFAB or the Board) discussed possible governance arrangements for the Backhaul Alaska program that would foster long-term sustainability for the program. At the request of EPA Region 10, the Board had previously conducted a review of the program and in an August 2019 report to the Regional Administrator recommended a number of revenue options that might be developed to support Backhaul Alaska. Region 10 subsequently requested that the Board provide additional advice on options for the structure, organization, and financing for the program.

Backhaul Alaska is a collaborative effort led by the Alaska Solid Waste Task Force to coordinate the backhauling of hazardous materials from remote Alaska communities. EPA provides financial support for the program through existing grant programs, including the Indian Environmental General Assistance Program (IGAP) and Environmental Justice grants. A consultation is a process where an advisory group such as the EFAB provides oral advice to the agency at a public meeting. The Backhaul Alaska consultation was guided by a series of discussion questions developed by staff from EPA Region 10.

The following summary provides highlights of the group discussions in response to each of three sets of charge questions. Although there was general consensus on many of the points, the suggestions discussed by the groups were not necessarily agreed to by all participants. The meeting minutes provide additional information on the process used for the consultation and the Board's discussions and report-out summaries for each of the three charge areas.

Charge Area 1: Structure

EFAB members were asked to consider the following questions:

- A. *Should Backhaul Alaska be organized as a not-for-profit or quasi-governmental authority (in the latter case, with responsibilities delegated to it by the state)?*
- B. *How do the structure and governance of Backhaul Alaska expand or limit alternative models for long-term sustainability?*
- C. *What not-for-profit (or hybrid) models might be appropriate for Backhaul Alaska and what tradeoffs are involved?*
- D. *What are the advantages/disadvantages of different corporate forms in funding Backhaul Alaska? (e.g., quasi-governmental, special districts, for profit)*
- E. *Should Backhaul Alaska be structured within or affiliated with an existing governmental or nongovernmental organization in order to share capacities and improve effectiveness?*
- F. *What other key issues should be addressed in this area?*



The following is a list, in no priority order, of topics discussed in response to the charge questions:

- a not-for-profit corporate structure was recommended, primarily for its perceived ability to attract capital grants and donations
- an endowment was discussed as a means to create ongoing financial support
- a quasi-governmental entity or district, likely created by the not-for-profit as a subsidiary entity, would provide an opportunity to obtain tax revenues and user fees, and a way to enforce those provisions, and may need to be set up immediately.
- alternatives to the not-for-profit structure: for-profit enterprises would likely run into monopoly concerns; coops are another option but might be more difficult to govern
- short-term versus long-term: set up a core entity for long-term existence and do it now
- define the stakeholders because that should drive the corporate form; the state will have involvement and some control, donors also may have some control, and villages should be represented (not as individual villages because of the large number, but via some organization)
- considerations if using trusts as a way of holding the money: not-for-profit preferred to quasi-governmental organization so that funds are not raided in times of budget shortfall; consider duration of the trust (if accepting tax-exempt donations, is the intent to cycle the funds forever to keep tax-free status for donors?), what happens to the trust corpus and is it possible to use state funds to seed the trust (with the trust gaining more independence over time)?
- consider fully socialized versus individualized costs, and how that affects the complexity of implementation
- the program needs careful legal support and independent auditor
- as the program introduces private sector involvement, look for ways to consider local jobs, local contracts, etc.
- a subsidy will probably always be needed, so take the long view when setting up the financing and governance structure
- consider ways for private entities to contribute to the fund in lieu of a tax or penalty (extended producer responsibility fees or settle with a one-time fee to the fund, tax benefit in the year of the donation, etc.)

#### Charge Area 2: Organization and Administration

EFAB members were asked to consider the following questions:

- A. What technical and administrative capacities should Backhaul Alaska maintain internally, and what functions might be contracted out?*
- B. How would an oversight board for Backhaul Alaska be organized to ensure stakeholder representation as well as organizational accountability?*
- C. What external linkages will be critical for Backhaul Alaska and how can they be cultivated and maintained over time?*
- D. How would Backhaul Alaska communicate and interact with its stakeholders and constituents?*

- E. *How should Backhaul Alaska prioritize its work and what challenges and risks are likely to arise?*
- F. *How should Backhaul Alaska monitor and evaluate program performance?*
- G. *What other key issues should be addressed in this area?*

The following is a list, in no priority order, of topics discussed in response to the charge questions:

- the group started with the idea of a foundation or trust, and the need for a motivating purpose beyond proper disposal of the waste (e.g., preservation of a way of life and rural Alaska environment); the big idea may drive large private contributions to a corporate entity
- board governance is important, but the program needs a champion
- composition of stakeholders represented on the board: as discussed in response to charge topic 1, the state will want representation on the board but the public (government) members should be the minority, not the drivers; subcommittees could be set up to involve outsiders (e.g., investment trust committee)
- environmental advocates will help structure bylaws that will outlast the initial members and will serve as drivers of good governance and outcomes
- functions of the board include oversight, strategic planning, and monitoring outcomes
- the program will be a new entity, new service, and new cost so the board will need to be very public about this, set benchmarks and look for public wins
- internal functions of the board will include hiring an executive director, grant writing and management, documenting program outcomes, vendor management (transportation and recycling vendors), community outreach/help desk (e.g., container not picked up, container only half full)
- external functions of the board: if a large financial corpus, will need IT, lawyers, investment management, financial management/audit, and contractors (transportation and recycling)
- once the program has mission, board, staff and vendors in place, set up for early wins (rewards for early adopters, focus on incentives not punishment), consider remedies for noncompliance
- focus on outcomes/quality control, and getting local buy-in
- some feeling that the state has not met its obligations to monitor water quality, etc.; there is some essential public role for the state here
- develop metrics based on the program objectives (e.g., potential waste, percent of waste being accepted, normalized cost per pound over time of backhauled waste)

### Charge Area 3: Finance and Sustainability

EFAB members were asked to consider the following questions:

- A. *How should capital expenses be funded by Backhaul Alaska, particularly startup expenses?*
- B. *How should operational expenses be funded by Backhaul Alaska?*

- C. *What combination of existing and innovative tax instruments, grants (governmental and nongovernment), and fees should be used to support and sustain Backhaul Alaska, initially and over time?*
- D. *How should fee assessments in support of Backhaul Alaska be structured given locational and resource disparities among villages?*
- E. *Should Backhaul Alaska build an invested endowment fund in support of operations?*
- F. *Can financial incentives for industry (positive or negative) be built into the Backhaul Alaska program?*
- G. *Can Backhaul Alaska transition from governmental support to be financially independent and sustainable, and if so, how?*
- H. *What other key issues should be addressed in this area?*

The following is a list, in no priority order, of topics discussed in response to the charge questions:

- actual costs and expenses need to be considered; there are 3 types of expenses, with different potential funding sources
  - O&M costs: some would be continuing and would need support from continuing revenue stream (e.g. from users/participants)
  - Intermittent expenses, including grant writing, contract negotiation etc.: not needed monthly so maybe fund through a different organization or revenue source; maybe grant writing could be done as an in-kind contribution
  - Capital costs/expenditures: best funded through direct revenue sources
- capital costs: examples include purchase of containers, training program, site preparation, development of SOPs/procedures/management approaches
- operating expenses: examples include tax benefits for haulers, hauling/shipping costs, administration, training (ongoing), employees (to segregate waste, prepare/package waste), accounting and reporting of in-kind services
- revenue sources: one-time (grants from government, corporations, or foundations) versus ongoing (user fees, recycling revenue, interest on endowment, EPR revenue, tourist tax, fines from wildlife or other violations, hunting/boating/fishing licenses)
- program costs likely could be supported by a small fee (e.g., \$1 per piece of luggage on a cruise ship); a small fee is unlikely to impact tourism
- considerations for fee assessment: use a sliding scale, based on village size/income/backhaul amount, possible regional/economies of scale, how to enforce (so that waste is not left at locations other than the landfill)
- desirability of some sort of endowment fund that would have the correct tax incentives for donors; if \$75 million is placed in an endowment or restricted fund, the interest would pay for the estimated program costs (would generate approximately \$4 million per year if assume 4% annual interest, plus revenue from fees)
- seek one-time contributions from donors interested in supporting indigenous peoples; seek donations from a company like Amazon, which is a very large hauler and shipper
- revenue usage: in addition to using monies for clean-up/removal efforts, monies can also be used for educational purposes (e.g., “no dumping campaigns”) and direct incentives (e.g., “cash for computers”) to mitigate future challenges