U.S. Environmental Protection Agency

State Innovation Grant Program; Solicitation Notice

OVERVIEW

U.S. Environmental Protection Agency - State Innovation Grant Program

O-1. AGENCY: U.S. Environmental Protection Agency (EPA)
National Center for Environmental Innovation (NCEI)

O-2. ANNOUNCEMENT TYPE: Initial Announcement

O-3. FUNDING OPPORTUNITY TITLE: State Innovation Grant Program

O-4. FUNDING OPPORTUNITY NUMBER: USEPA-AO-OPEI-05-01

O-5. CFDA NUMBER AND TITLE: This solicitation of proposals for an assistance agreement program is offered under the Catalogue of Federal Domestic Assistance Number 66.940, "Environmental Policy and Innovation Grants."

O-6. DATES:

Solicitation Announcement of Federal Funding Opportunity - February 24, 2005

Initial Proposal or Pre-Proposal Due Date - April 25, 2005

Selection Decisions - Spring 2005

Request for Final Proposal and Application Packages - Late Spring 2005

Final Application Package Due Date - Summer 2005.

O-7. EXECUTIVE SUMMARY:

O-7.1. Program Overview: The U.S. Environmental Protection Agency (EPA) is soliciting proposals for an assistance agreement program (the "State Innovation Grant Program") in an effort to support innovation by State environmental regulatory agencies. EPA's National Center for Environmental Innovation (NCEI) is managing the competition for the State Innovation Grants in

collaboration with the National Program Offices at headquarters and the EPA Regional Offices. In April 2002, EPA issued its plan for future innovation efforts, published as *Innovating for Better Environmental Results: A Strategy to Guide the Next Generation of Innovation at EPA (EPA 100-R-02-002;* http://www.epa.gov/innovation/pdf/strategy.pdf).

This assistance agreement program strengthens EPA's partnership with the States by assisting State innovation that supports the *Strategy*. EPA would like to help States build on previous experience and undertake strategic innovation projects that promote larger-scale models for "next generation" environmental protection and promise better environmental results. EPA is interested in funding projects that go beyond a single facility experiment to promote change that is "systems-oriented" and provides better results from a program, process, or sector-wide innovation. EPA is particularly interested in innovation that promotes integrated (cross-media) environmental management with high potential for transfer to other States.

As in previous rounds of this competition, the 2005-2006 program will retain "innovation in permitting" as the theme for the solicitation. Under this theme, EPA remains interested in proposals that explore the relationship between Environmental Management Systems and permitting, or apply the Environmental Results Program model, an alternative to permitting scheme for small business sectors, as it was in the two earlier rounds of solicitation. In addition, EPA is adding an additional topic area of interest for this solicitation - projects that seek to build State support for EPA's National Environmental Performance Track Program or similar State environmental leadership programs. EPA anticipates that total funding for this round of awards

will be between eight hundred thousand ($800,000) to one million dollars ($1,000,000). Depending on the total budget requested from grant recipients, this level of funding may support five (5) to ten (10) projects that can produce results in one to three years.

This year's program continues the program initiated by EPA in 2002 that provided assistance agreements for projects featuring innovations in permitting. For additional information on the prior solicitations and awards, please see the highlights of previous awards in the full text of this announcement, see the EPA State Innovation Grants website at http://www.epa.gov/innovation/stategrants, or contact the EPA point of contact identified in section 4.4 below. Projects that received awards in the 2002-03 and 2003-04 competitions included: Environmental Results Program models, Environmental Management Systems, Watershed-Based Permitting, and Streamlined and Enhanced Permitting Through Application of Innovative Information Technology Systems. For a general discussion of each topic area, see the summary below:

Environmental Results Program (ERP) Models (seven projects funded in previous competitions). The Environmental Results Program (ERP) is an integrated system of compliance assistance, self-certification, and statistically-based performance measurement first created by the Massachusetts Department of Environmental Protection for small business sectors. The multimedia ERP approach replaces facility-specific State permits with industry-wide environmental performance standards and annual certifications of compliance which supplement the State's traditional compliance inspection and compliance assistance efforts. Compliance

assistance is conducted through outreach and sector-specific workbooks that contain regulatory requirements for all media as well as pollution prevention best practices. ERPs include an annual self-certification of compliance by companies to increase awareness and accountability. They also include a statistically-based performance measurement methodology to track results, determine priorities, and inform strategic targeting of inspections and future compliance assistance efforts. For more information on ERPs, see http://www.epa.gov/permits.

Environmental Management Systems (EMS) (six projects funded in previous competitions). An Environmental Management System (EMS) is a practical tool that provides a systemic approach to environmental management, based on a Plan-Do-Check-Act (PDCA) cycle. An EMS is a set of management processes and procedures that allows an organization to integrate environmental decisions into daily decisions and practices. This tool includes processes for developing and continuously improving an organization's environmental policy and goals under all media, and reducing negative environmental impacts, regulated and unregulated. From a business perspective, EMSs can often help make organizations more efficient and more competitive. EMSs do not replace the need for regulatory and enforcement programs, but they complement them. EPA is interested in exploring the relationship between EMS and permitting. For a full discussion of EPA's policies and approaches to EMS development including *EPA's Position Statement on EMS*, *EPA's Own EMS Policy*, and *EPA's Strategy for Determining the Role of Environmental Management Systems (EMSs) in Regulatory Programs (EMS Strategy)*, and *Fact Sheet*, see http://www.epa.gov/ems/policy/index.htm.

Watershed-Based Permitting (two projects funded in previous competitions). Watershed-based National Pollutant Discharge Elimination System (NPDES) permitting is a process that emphasizes addressing all stressors within a hydrologically-defined drainage basin, rather than addressing individual pollutant sources on a discharge-by-discharge basis.

Streamlined and Enhanced Permitting Through Application of Innovative Information Technology (IT) Systems (one project funded in a previous competition). EPA funded a web-based screening and application system that simplifies and enhances storm water permitting through the application of a Geographical Information System (GIS).

National Environmental Performance Track Program and State Performance-Based Environmental Leadership Programs. Performance-based environmental leadership programs, such as EPA's National Environmental Performance Track (http://www.epa.gov/performancetrack), are voluntary partnership programs that recognize and reward private and public facilities that demonstrate strong environmental performance beyond current requirements. EPA encourages States to propose projects that test new innovative approaches relating to the goals and objectives of EPA's National Environmental Performance Track and similar State environmental leadership programs. One area that proposals could address would be the implementation of newly promulgated Federal Performance Track incentives at the State level. Other possible ideas include new approaches to measuring performance, encouraging flexibility in the way that performance-based programs are evaluated, and solutions that address State environmental priorities or key challenges for specific sectors.

O-7.2. Grants or Cooperative Agreements and the Substantive Federal Involvement: EPA may award assistance as either grants or cooperative agreements as appropriate for the nature of each selected proposal. If the award is a cooperative agreement, the recipients may expect the substantial involvement of the Federal Grants Project Officer in activities such as: review of project plans and analysis plans, review of quality assurance plans, information acquisition planning, identification of candidate peer reviewers; coordination with other points within EPA and other Federal Agencies; development of project evaluations; and other similar activities. While this solicitation makes frequent reference to this funding opportunity as a "Grants" Program for the sake of simplification, it should be understood that EPA retains the flexibility to select the most appropriate assistance agreement mechanism.

O-7.3. **Eligible Applicants:** Only the principal environmental regulatory agency from each State government, the District of Columbia and the U.S. Territories are eligible for this 2005-2006 assistance program. EPA will attempt to expand this program to support innovation by federally-recognized Native American Tribes, but to do so by a separate mechanism. States are encouraged to partner with Native American Tribes in developing proposals for this solicitation.

O-7.4. Cost Sharing: There is no requirement for cost sharing however, State proposals will be evaluated more favorably if financial or in-kind leveraging is offered.

O-7.5. Limitations on the Number of Applications Per Applicant: For the 2005-2006 application process, each State's principal environmental regulatory agency (generally, where

delegated authorities from the U.S. Environmental Protection Agency exist for Federal environmental statutes) may submit only one proposal. There is one exception to this limitation: to encourage States to team with other State government agencies in that State or with neighboring States or Native American Tribes, States choosing to submit a team proposal may submit one (1) team proposal in addition to their individual proposal.

O-7.6. Contents of Solicitation: The 2005-2006 solicitation may be found at http://www.epa.gov/innovation/stategrants/solicitation2005.pdf. The full text of this solicitation includes the following:

- background information on the State Innovation Grant Program;
- a description of the 2005-2006 program;
- the process for preparing and submitting proposals;
- the State Innovation Grant Program selection criteria;
- a description of the selection and award process;
- a pre-proposal checklist to help States prepare effective proposals (Attachment 1);
- a list of definitions for purposes of this solicitation (Attachment 2).

SOLICITATION ANNOUNCEMENT - FULL TEXT

1. FUNDING OPPORTUNITY DESCRIPTION:

1.1. Program Description: The U.S. Environmental Protection Agency (EPA) is soliciting proposals for an assistance program (the "State Innovation Grant Program"), in an effort to support innovation by State environmental regulatory agencies. In April 2002, EPA issued its plan for future innovation efforts, published as *Innovating for Better Environmental Results: A*

Strategy to Guide the Next Generation of Innovation at EPA (EPA 100-R-02-002; http://www.epa.gov/innovation/pdf/strategy.pdf). The Agency's *Strategy* presents a framework for environmental innovation consisting of four major elements:

(1) Strengthen EPA's innovation partnerships with States and Tribes;

(2) Focus on priority environmental issues:
- Reduce greenhouse gases
- Reduce smog
- Restore and maintain water quality
- Reduce the cost of water and wastewater infrastructure;

(3) Diversify environmental protection tools and approaches:
- Information resources and technology
- Environmental technology
- Incentives
- Environmental Management Systems
- Results-based goals and measures;

(4) Foster a more "innovation-friendly" organizational culture and systems.

This assistance program strengthens EPA's partnership with the States by supporting State innovation compatible with the *Strategy*. EPA would like to help States build on previous experience and undertake strategic innovation projects that promote larger-scale models for "next generation" environmental protection and provide better environmental results. EPA is interested in funding projects that go beyond a single facility experiment and provide change that is "systems-oriented" and provides better results from a program, process, or sector-wide innovation. EPA is particularly interested in innovation that promotes integrated (cross-media) environmental management with a high potential for transfer to other States.

The 2005-2006 program will retain "innovation in permitting" as the theme for the solicitation. Under that theme, EPA remains interested in proposals that explore the relationship between Environmental Management Systems and permitting, or apply the Environmental Results Program model, an alternative to permitting scheme for small business sectors, as it was in the two earlier rounds of solicitation. In addition, EPA is adding an additional topic area of interest for this solicitation - projects that seek to build State support for EPA's National Environmental Performance Track Program or similar State environmental leadership programs.

This year's program continues the program initiated by EPA in 2002 that provided assistance agreements for projects featuring innovations in permitting. In continuing the theme of "innovation in permitting" for the 2005-2006 solicitation, EPA intends to interpret "innovation in permitting" broadly to include permitting programs, pesticide licensing programs, and other alternatives or supplements to permitting programs. EPA is interested in creative approaches that both (1) achieve mandatory Federal and State standards and (2) encourage performance and address environmental issues above and beyond minimum requirements.

With this 2005-2006 program, EPA is advancing the use of assistance agreements to support several types of innovations in environmental programs at the State level. Following the pilot round of State Innovation Grants in 2002, EPA consulted with the States through the Environmental Council of the States (ECOS) and through a comment period announced in the Federal Register (FRL 7510-7, June 11, 2003) (see http://www.epa.gov/innovation/stategrants). Additionally, in October 2004 EPA through a subsequent federal register notice (FRL 7827-4, October 13, 2004) asked States to provide additional input on topic areas for this solicitation.

During the months of October and November, EPA held a series of six informational calls for the States. Questions and answers from these six calls are posted at the program website http://www.epa.gov/innovation/stategrants. The purpose of the conference calls was to offer a streamlined proposal development workshop to all States prior to publication of our solicitation, and to answer any questions that the States may have prior to the competition, in keeping with Federal requirements that we afford assistance fairly in a competition process. Through this effort, our primary focus was to encourage individual States (and/or State-led teams) to submit well-developed pre-proposals that effectively describe how their project would achieve measurable environmental results.

EPA's new policy (E.O. 5700.5A1) requires that a competition remain open for at least 45 calendar days. Based on comments that EPA received from States on our grant solicitation process prior to the 2003-04 State Innovation Grant solicitation, we are choosing to continue our process of keeping the competition announcement open for a minimum of sixty (60) calendar days to ensure that States have a sufficient response period.

EPA received support in comments from a large number of the responding States for maintaining *innovation in permitting* as a subject of the next solicitation in order to build and sustain a stable resource base for testing new ideas that can improve this critical core function. Within this topic there was considerable support for EPA assistance to help States explore the relationship between Environmental Management Systems (EMS) and permitting (see: http://www.epa.gov/ems/) and to support adoption of the Environmental Results Program (ERP) model (see: http://www.epa.gov/ooaujeag/permits/masserp.htm). Other topics were suggested by the States,

but because of the strong support for the *innovation in permitting* theme, the relatively limited amount of funding available for this year for the program, and the availability of other funding mechanisms to address at least some of those other issues, EPA has decided to retain this theme and associated focus areas rather than diffuse the resources available over a broader range of topics which might prohibit adequate funding for projects of significant scale. The EPA National Center for Environmental Innovation (NCEI) is managing the competition for the State Innovation Grants in collaboration with the National Program Offices at headquarters and the EPA Regional Offices.

For information on the prior solicitations and awards, please see the highlights of previous awards below, see the EPA State Innovation Grants website at http://www.epa.gov/innovation/stategrants, or contact the EPA point of contact identified in section 4.4 below. Projects that received awards in the 2002-03 and 2003-04 competitions included: Environmental Results Program models, Environmental Management Systems, Watershed-Based Permitting, and Streamlined and Enhanced Permitting Through Application of Innovative Information Technology Systems:

Environmental Results Program (ERP) Models (7). The Environmental Results Program (ERP) is an integrated system of compliance assistance, self-certification, and statistically-based performance measurement first created by the Massachusetts Department of Environmental Protection for small business sectors. The multimedia ERP approach replaces facility-specific State permits with industry-wide environmental performance standards and annual certifications of compliance which supplement the State's traditional compliance inspection and compliance

assistance efforts. Compliance assistance is conducted through outreach and sector-specific workbooks that contain regulatory requirements for all media as well as pollution prevention best practices. ERPs include an annual self-certification of compliance by companies to increase awareness and accountability. They also include a statistically-based performance measurement methodology to track results, determine priorities, and inform strategic targeting of inspections and future compliance assistance efforts. For more information on ERPs, see http://www.epa.gov/permits. Seven ERP projects that have received previous awards include:

- Delaware for applying the Environmental Results Program to a small business sector that is facing new air quality requirements - auto body repair shops. This approach is based on the Massachusetts ERP is using an integrated system of multi-media compliance assistance, self-certification, and performance measurement to assess and promote compliance with environmental requirements across a sector (2002 award),
- Maine for applying the Environmental Results Program to the auto body and auto repair facilities (2004 award),
- Michigan for applying the multi-media Environmental Results Program (ERP) to the dry cleaner sector Statewide. This project would be the first new application of ERP for the dry cleaning sector outside of Massachusetts, and could spur desired diffusion of ERP to other States following formal exemption of dry cleaners from the Title V area sources provisions of the Clean Air Act (CAA). Michigan has 903 known perchloroethylene and 68 petroleum solvent dry cleaning facilities. The State hopes to move this sector from low compliance to 100% compliance rate (2004 award),

- Minnesota for testing and implementing an Environmental Results Program applied to Animal Feedlot Operations (2004 award),
- Rhode Island for applying the Environmental Results Program model to the auto salvage sector. The three part program would include: 1) facility certification, 2) statistically-based performance measurement, and 3) on-site compliance, pollution prevention, and technical assistance. This proposal adds a third sector to the State's ERP portfolio (2004 award),
- Vermont for applying the Environmental Results Program model to the retail gasoline sales sector, as well as for other facilities regulated by the VT Underground Storage Tank (UST) program. This proposal expands UST -ERPs to cover all environmental impacts of gas stations (2004 award),
- Wisconsin for addressing priority air pollutants from the printing sector using the ERP approach for smaller operations and Environmental Management Systems (EMS) to address major facilities (see http://www.epa.gov/ems). Wisconsin aims to streamline the air permitting process and find innovative air permitting alternatives; reduce the air permit burden while providing regulatory flexibility and improving the environmental stewardship of participants; adopt a more comprehensive approach to environmental regulation; allow easy application to other industrial sectors and other media; and reduce emissions of volatile organic compounds and hazardous air pollutants (2004 award).

Environmental Management Systems (EMS) (6). An Environmental Management System (EMS) is a practical tool that provides a systemic approach to environmental management, based on a Plan-Do-Check-Act (PDCA) cycle. An EMS is a set of management processes and procedures that allows an organization to integrate environmental decisions into daily decisions and practices. This tool includes processes for developing and continuously improving an organization's environmental policy and goals under all media, and reducing negative environmental impacts, regulated and unregulated. From a business perspective, EMSs can often help make organizations more efficient and more competitive. EMSs do not replace the need for regulatory and enforcement programs, but they complement them. EPA is interested in exploring the relationship between EMS and permitting. For a full discussion of EPA's policies and approaches to EMS development including *EPA's Position Statement on EMS*, *EPA's Own EMS Policy*, and *EPA's Strategy for Determining the Role of Environmental Management Systems (EMSs) in Regulatory Programs (EMS Strategy)*, and *Fact Sheet*, see http://www.epa.gov/ems/policy/index.htm. Six projects which explore the relationship between EMS and permitting that have received previous awards include:

- Colorado for developing a multi-facility permitting project that applies a whole-facility EMS approach to achieve performance beyond regulatory compliance (2003 award),
- Illinois for developing an EMS approach with specified permitting flexibility using advance authorization for the participating entities with Concentrated Animal Feeding Operations (CAFOs) (2003 award),
- Indiana for developing and implementing a community-based approach to Environmental Management Systems. The program would be designed to

encourage positive environmental actions by municipalities and businesses including reduced air emissions, reduced land and water discharges. The proposal addresses not only environmental impacts from municipal government but individual citizen behavior as well (2004 award),

- South Carolina for incorporating multi-media environmental management into permit decisions. Project goals include: 1) improving overall environmental performance by a facility, 2) interpreting and potentially streamlining permit requirements based on an effective Environmental Management System (EMS), and 3) incorporating EMS as an incentive for permitting options (2004 award),
- Texas for developing an innovative permitting initiative that would bridge the State's activities under 2 new laws that promote EMS and encourage the State to set enforcement priorities for air and water on the basis of risk and performance (Texas' "Strategically Directed" Regulatory Structure) (2003 award),
- Wisconsin for addressing priority air pollutants from the printing sector using both ERPs to address smaller facilities and EMS's for larger operations (2004 award).

Watershed-Based Permitting (2). Watershed-based National Pollutant Discharge Elimination System (NPDES) permitting is a process that emphasizes addressing all stressors within a hydrologically-defined drainage basin, rather than addressing individual pollutant sources on a discharge-by-discharge basis. Watershed-based permitting can encompass a variety of activities ranging from synchronizing permits within a basin to developing water quality-based effluent limits using a multiple discharger modeling analysis. The type of permitting activity will vary depending on the unique characteristics of the watershed and the sources of pollution impacting it.

The ultimate goal of this effort is to develop and issue NPDES permits that better protect entire watersheds. Two watershed-based permitting projects that have received previous awards include:

- Massachusetts for developing a watershed-based permitting system to integrate non-point source control with point-source permitting to achieve a nutrient Total Maximum Daily Loads (TMDL). This project combines an innovative permitting approach with strong community partnership to adopt strategies that complement point source controls for the protection of the Assabet River, a National Heritage River (2002 award),
- Wyoming for implementing a watershed-based NPDES permitting approach to protect water quality in the Powder River Basin (2005 award).

Streamlined and Enhanced Permitting Through Application of Innovative Information Technology (IT) Systems (1). Emerging information technology tools hold promise for making permitting systems more streamlined, user-friendly, and effective. One innovative information system project that received a previous award is:

- Arizona which developed a web-based screening and application system that simplifies and enhances storm water permitting through the application of a Geographical Information System (GIS). The web-based system allows potential applicants to conduct a preliminary screening on-line to determine if they must apply for a permit. The system automatically assesses the applicant's permitting status and if a permit is needed, it guides the applicant through the permit

application process and often the permit is granted at the time of application (2002 award).

National Environmental Performance Track Program and State Performance-Based Environmental Leadership Programs. Performance-based environmental leadership programs, such as EPA's National Environmental Performance Track (http://www.epa.gov/performancetrack/), are voluntary partnership programs that recognize and reward private and public facilities that demonstrate strong environmental performance beyond current requirements. EPA encourages States to propose projects that test out new innovative approaches relating to the goals and objectives of Performance Track and similar State programs. One area that proposals could address would be the implementation of newly promulgated Federal Performance Track incentives at the State level. Other possible ideas include new approaches to measuring performance, encouraging flexibility in the way that performance-based programs are evaluated, and solutions that address State environmental priorities or key challenges for specific sectors.

1.2. 2005-2006 Project Category for the State Innovation Grant: EPA intends to support State proposals that involve **innovation in environmental permitting** (including alternatives to permitting) related to one of the *Innovation Strategy* priority environmental areas (see Section 5.2.1), or to other priority areas identified previously by individual States in collaboration with EPA such as in a Performance Partnership Agreement (PPA). State Innovation Grant proposals can incorporate several concepts in one package. Proposals that do include several concepts, will be considered favorably. Projects should propose to test these concepts in Federally-

delegated/authorized programs or State programs (voluntary or regulatory), while working within the current statutory framework.

Environmental Management Systems.

Under this theme, EPA is very interested in promoting the further testing of Environmental Management Systems (EMS) as they relate to permitting programs. In prior rounds of competition, some States have initiated programs that incorporate EMSs into permitting programs (see highlights of prior awards in Section 1.1 of this announcement) and more are expected to do so in the future.

On April 12, 2004, the United States Environmental Protection Agency (EPA) released a new *Strategy for Determining the Role of Environmental Management Systems (EMSs) in Regulatory Programs* (*EMS Strategy*), available at http://www.epa.gov/ems. The *EMS Strategy* responds to increasing stakeholder interest in EMS use in permits and rules. The *Strategy* explains the issues and considerations of interest to EPA as the Agency explores whether and how EMSs can play a role in our regulatory programs. The *EMS Strategy* encourages thoughtful, carefully designed EMS experimentation to determine whether EPA and our State partners can achieve better environmental results at less cost, improve compliance, use our resources more effectively, and enhance public involvement by considering EMSs in regulatory programs. EPA policy is to encourage the widespread use of EMSs, across a range of organizations and settings, with particular emphasis on adoption of EMSs to achieve improved environmental performance and compliance, pollution prevention through source reduction, and continual improvement. EMSs do

not replace the need for regulatory programs but can complement them and indicate opportunities to streamline regulations.

The *EMS Strategy* provides a number of potential ideas and examples to test, which are meant not to be exhaustive, but to encourage further idea generation and testing by State partners. Some of the policy ideas that could be tested in such a proposal include:

- Can EMSs, in tandem with performance standards, achieve better and more efficient regulatory/permitting environmental results than prescriptive operational controls?
- Can the multimedia analysis that is the hallmark of an EMS support cross-media tradeoffs to achieve higher overall environmental performance and pollution prevention?
- Under what conditions could regulators rely on EMSs in permits and rules to redirect regulatory oversight from lower to higher priority areas?
- Can EMS elements improve performance and efficiency by substituting for overlapping administrative and information-gathering requirements in rules and permits?
- Does incorporating an EMS into a permit yield better public involvement procedures and environmental results than traditional permit models?
- Can regulated facilities use their EMSs to enhance the environmental performance of third parties such as suppliers, customers, or environmental quality trading partners? and
- Can EMSs achieve voluntary reductions in emissions and releases (consistent with or beyond existing regulations) in environmentally overburdened communities (including communities with environmental justice issues) or geographic areas with high concentrations of facilities and nearby populations?

Environmental Results Program (ERP) Models.

Another area EPA is particularly interested in is promoting and evaluating further applications of the Environmental Results Program (ERP) model. The Environmental Results Program model is an integrated system of compliance assistance that encourages pollution prevention, self-certification (sometimes where permissible in lieu of permitting), and statistically-based performance measurement to gauge performance of an entire business sector. The approach was originally designed by Massachusetts Department of Environmental Protection for improving the environmental performance of several small business sectors.

As a State-derived innovation, ERP offers a practical alternative to the traditional environmental challenges of small business permitting. Using ERP allows States to focus on a large number of small sources of pollution often overlooked or by traditional regulation and environmental protection programs. ERP is typically adapted by each State to include all of the conditions inherent in permitting, with the added benefit of comprehensive measurable results at the sector, facility, or environmental media levels. ERP offers a single or multi-media approach for encouraging small sources to achieve environmental compliance and can further reduce adverse environmental impacts by adopting beyond compliance pollution prevention techniques.

Currently, more than fourteen States are planning or implementing ERPs. Efforts are underway to learn from the growing State ERP experiences and to develop an ERP Strategic Plan to aid in scaling up ERP applications nationwide.

EPA's goal for ERP is to have this innovation become widely-known and used, self-sustaining, and a convenient alternative regulatory approach for improving environmental performance and compliance. EPA's scale-up interests for ERP include:

- Expanding the application of ERP within and across business sectors;
- Finding new tools or mechanisms that lower transaction costs of ERP in priority environmental sectors and lend themselves to State-to-State export of technical assistance and sharing of data and results;
- Establishing consistent measurement and reporting metrics across common business sectors for environmental results; and
- Exploring the application of ERP in conjunction with other priority innovations.

EPA is interested in building a national ERP constituency among States and achieving economies of scale through multiple state projects in a common business sector. To date, the auto body/auto repair sector includes five state projects, dry cleaning two states, and underground storage tanks (UST) three states. Details on States who have won grants for ERP projects are available at www.epa.gov/innovation/stategrants. For more about ERP, go to www.epa.gov/permits/.

Replicating ERP projects in a common business sector has many benefits. States can share existing ERP tools (i.e., workbooks, certification questions, and implementation plans), as well as operational experiences. This is coherent with EPA's desire to reduce ERP project startup costs and gain efficiency in implementation across several States. EPA is working toward the preparation of a *National Underground Storage Tank ERP Workbook*, a *State Guide for ERP Statistical Approaches*, an *ERP Roadmap*, and an *ERP Users' Guide*. However, more work needs

to be done in other project implementation issues such as developing ERP data automation systems and creating ERP electronic workbooks.

Measurement is an integral part of the ERP approach. Development of Environmental Business Practice Indicators (EBPIs), metrics to measure responses environmental performance and compliance are an inherent part of the ERP performance measurement tools. Many state ERP projects include EBPI metrics but a consistent measurement and reporting metric has yet to be created for a common business sector.

Some States are experimenting with the combination of ERP and other environmental innovations, such as Environmental Management Systems, as synergistic examples of how these innovations can be applied to complex environmental problems. More research is needed to investigate whether ERP can be successfully applied to business sectors that present complex environmental problems that may not be readily solved through self-certification approaches alone.

National Environmental Performance Track Program and State Performance-Based Environmental Leadership Programs. Performance-based environmental leadership programs, such as EPA's National Environmental Performance Track (http://www.epa.gov/performancetrack), are voluntary partnership programs that recognize and reward private and public facilities that demonstrate strong environmental performance beyond current requirements.

The fundamental goal of Performance Track and other State performance-based programs is to achieve better environmental results. As such, these programs tend to focus on environmental outcomes (reduced emissions or higher compliance rates) rather than operationally-based output measures (number of inspections or permits). These programs often provide regulatory flexibility, creating opportunities for high performers to go beyond the compliance measures that are typically established by regulations. A main objective is to encourage and reward strong and sustained environmental performance improvement among the regulated community that goes beyond compliance and addresses unregulated environmental issues. They also provide opportunities for State and federal government, as well as the regulated community, to target financial and human resources more strategically to produce better overall environmental results.

In general, proposals in this area should test out new approaches relating to the goals and objectives of Performance Track and similar State programs. Emphasis should be on cost-effective approaches that reduce or eliminate barriers to implementation of performance-based programs and improvements in overall environmental performance. Preference will be given to those proposals that produce the maximum results in the shortest time-frame. Generally there are a number of innovative policy ideas that could be tested in an innovation project.

First, exploring innovative approaches for developing and implementing regulatory incentives for member facilities or other benefits that will help encourage additional facilities to participate in performance-based programs and to achieve meaningful beyond-compliance performance. Specific examples include projects that:

- Facilitate and expand the adoption of Federal Performance Track incentives at the State level in the most timely and efficient manner;
- Identify and remove potential State regulatory or other barriers that could inhibit the effectiveness of a particular incentive;
- Develop or expand the use of incentives that reduce time, uncertainty, and administrative burden such as flexibility in permitting, monitoring, record keeping, or reporting requirements;
- Expand the application of the "low priority for routine inspections" for members in Performance Track or similar State programs.

Second, exploring new approaches to measuring performance, encouraging flexibility in the way that performance-based programs are evaluated, relying more on outcomes rather than outputs. Specific examples include projects that:

- Develop and implement innovative agreements with EPA that would enable State agencies to receive credit for performance-based work;
- Modify enforcement goals and targets so that Performance Track or performance based program site visits and related activities can count towards inspection quotas.

Third, exploring ways to utilize performance-based programs to work with regulated entities to develop creative and effective solutions that address State environmental priorities or key challenges for specific sectors. Specific examples include projects that:

- Extend the use of existing performance-based programs to address regional and State priorities and sector-based environmental improvement opportunities;

- Engage new sectors in performance-based programs.

Areas Beyond Consideration.

These assistance agreements will not be applied to the development or demonstration of new environmental technologies. These assistance agreements will not be applied to the development of information systems or data unless the link to innovation in specific permitting programs is clear (e.g., development of web-based permit application screening and permitting systems).

Measurable Results.

EPA Order 5700.7, "Environmental Results under EPA Assistance Agreements", is a new policy to ensure accountability and productivity for public dollars. This new policy affects all providers and recipients of EPA assistance including public agencies and non-profits. It requires that all agency competitions include a commitment to demonstrate results as a criterion for selection. The purpose of the EPA Order is to establish agency policy for addressing environmental results under assistance agreements, to ensure that grants are results-oriented, to align grants with Strategic Plan/Government Performance Results Act (GPRA) architecture, and to help implement the agency's Strategic Plan. Specifically, the policy requires (1) that the work plan contains well-defined outputs, and, to the maximum extent practicable, well-defined outcomes; (2) an identification of EPA Strategic Plan goal(s), objective(s) and, where available, sub-objective(s), that the agreement supports; and (3) a description of how the agreement fits within those goal(s), objective(s) and sub-objective(s).

2. AWARD INFORMATION:

2.1. Total Amount of Funding, Number of Awards: EPA anticipates that total program funding in the range of eight hundred thousand ($800,000) to one million dollars ($1,000,000) may be available for the State Innovation Grant Program for the 2005-2006 competition and awards. Based upon the amounts requested in previous years, EPA anticipates that five (5) to ten (10) proposals from this competition may be funded in 2005 (depending upon the size of each award).

2.2. Funding Range: The acceptable range for proposed project budgets will be $50,000.00 to $250,000.00. No matching funds are required, but States may offer voluntary "leverage" funding which will be considered more favorably (see, Section 5.2., "Description of the Review, Selection, and Award Process") as part of the evaluation leading up to selection.

2.3. Term and Renewability of Awards: Funded projects are expected to be structured for a period of one to three years, although States may propose projects with final outcomes on a longer timescale but the final proposal will commit to a report on final project outcomes within a reasonable time of the completion of the total project. Funding will not be provided to renew any State Innovation Grant project award beyond the term of the initial award. The EPA will consider a short-term (not to exceed 90 days) no-cost project extension at a recipient's request with justification.

2.4. Grants or Cooperative Agreements and the Substantive Federal Involvement: EPA may award a grant or cooperative agreement depending upon the nature of the proposal. If the award is

a cooperative agreement, the recipients may expect the substantial involvement of the Federal Grants Project Officer in activities such as: review of project plans and analysis plans, information acquisition planning, identification of candidate peer reviewers; coordination with other points within EPA and other Federal Agencies; development of project evaluations; and other similar activities. While this solicitation makes frequent reference to this funding opportunity as a "Grants" Program for the sake of simplification, it should be understood that EPA retains the flexibility to select the most appropriate assistance agreement mechanism.

2.5. Reject or Award Right. The U.S. EPA reserves the discretion to select potential awardees from this solicitation for funding that may not occur until fiscal year 2006. EPA reserves the right to make no awards under this solicitation.

3. ELIGIBILITY INFORMATION:

3.1. Eligible Applicants: Only the principal environmental regulatory agency from each State, the District of Columbia and the U.S. Territories are eligible for this 2005-2006 grant program. EPA will attempt to expand this program to support innovation by federally-recognized Native American Tribes, but will do so by a separate mechanism. However, States are encouraged to partner with Native American Tribes in developing team proposals for this solicitation.

3.2. Cost Sharing: There is no requirement for cost sharing, however, State proposals may be evaluated more favorably if financial or in-kind leveraging is offered (see Section 5.2 below).

3.3. Other Eligibility Information: For the 2005-2006 application process, each State's principal environmental regulatory agency (generally, where delegated authorities from the U. S. Environmental Protection Agency exist for Federal environmental regulations) may submit only one proposal. A State's environmental regulatory agency is encouraged to team with other Agencies in that State or with neighboring States and Native American Tribes. An exception to the "only-one-proposal-per-State" requirement will be granted to States choosing to submit a team pre-proposal. A State may be a participant in one (1) team pre-proposal in addition to their individual pre-proposal. Project proposals submitted from ineligible sources will not be considered and will be returned to the sender.

4. APPLICATION AND SUBMISSION INFORMATION:

4.1. Address to Request an Application Package: Although they are not required for a submittal with this pre-proposal, application packages are available from the EPA website at: http://www.epa.gov/ogd/AppKit/index.htm . EPA also has a grant writing tutorial available at this website: http://www.epa.gov/seahome/grants.html . You can also request an application package be sent to you by fax or by mail by contacting NCEI as indicated below. The full application package will be required for submittal by States selected in the pre-proposal process, but will be required later (See Section O-6 for Dates).

Sherri Walker
National Center for Environmental Innovation
Office of the Administrator
U.S. EPA, MC 1807T
1200 Pennsylvania Avenue, NW
Washington, D.C. 20460
(202) 566-2186
(202) 566-2220 FAX
or by e-mail request to: Innovation_State_Grants@epa.gov.

4.2. Content and Form of Application Submission:

4.2.1. Submission of Pre-Proposals. The two-phased process for the 2005-2006 solicitation is designed to expedite the proposal and award process for the assistance agreements that EPA anticipates awarding. For the 2005-2006 application process, each State's principal environmental regulatory agency may submit only one pre-proposal. This pre-proposal package submitted by a State should consist of no more than seven (7) pages total, including a project summary page, a narrative of up to five (5) pages (single-spaced), and a one-page preliminary budget proposal. Each State's environmental regulatory agency is encouraged to team with other Agencies in that State or with neighboring States and/or Native American Tribes. States choosing to submit a team proposal may submit one (1) team proposal in addition to their individual proposal. A team proposal must come from the principal environmental regulatory agency of one State in the team, and should list the other agencies and points of contact within those partner-agencies and, as appropriate, Native American Tribes. Each principal State Agency in a team proposal may submit an individual State proposal in addition to participating on a team proposal.

EPA strongly encourages States to make electronic pre-proposal submissions, as an attachment to e-mail, sent simultaneously to the designated EPA Regional Office and EPA headquarters National Center for Environmental Innovation (NCEI) points of contact (see Section 4.6.1 below). Electronic submittals (including a preliminary budget) should be presented in Word Perfect (TM) or MS Word (TM) format. As an alternative, States choosing to mail pre-proposals or send them by courier should provide an electronic copy on hard media (CD, diskette, zipdisk) or paper original and two (2) copies of their entire

pre-proposal package to the EPA Regional representative, and a single copy of the entire pre-proposal package to the NCEI contact identified in Section 4.6.1. An acknowledgment of receipt for your proposal will be sent by NCEI within two weeks from the date of receipt. Receipt of electronic (e-mail) pre-proposals will be acknowledged by a return e-mail notification from NCEI.

Pre-proposals will be ranked by the Regions for States within those Regions (e.g., Region 2 will rank pre-proposals for NY, NJ, PR, VI) using the Program Criteria (see Section 5.2 below). Regional rankings will be submitted to NCEI as part of the phase-one evaluation process. The second part of the phase-one evaluation will be conducted at EPA Headquarters using the qualitative selection factors identified in Section 5.3.1. States with pre-proposals identified by EPA as finalists based upon the quality of their pre-proposals may be contacted with questions for clarification by NCEI. States identified as selections from among the finalists will be asked to prepare and submit a complete, phase-two final proposal package which will include proposal narrative (including plans for public participation), budget, and an application for Federal assistance [SF-424A] with all appropriate certifications and representations (http://www.epa.gov/seahome/grants/src/msieopen.htm). Further instructions on the submittal of the phase-two, final application package will be provided to State agencies selected in phase-one. EPA expects to announce the final selections in spring 2005, and to complete the entire assistance agreement award process, including assistance agreement workplan negotiations between the States, EPA Regions and EPA Headquarters by Late-summer 2005.

4.2.2. Preparing the State Innovation Grant Proposal. Applicants should refer to the pre-proposal checklist to facilitate preparation of their pre-proposal (see, Attachment 1). The entire pre-proposal should not exceed seven (7) pages in length.

- Please do not use covers, binders or folders;
- Pre-proposals may be submitted electronically through e-mail, as instructed above; as an alternative, pre-proposals (in hard copy) should be submitted on 8 ½ x 11" paper (single-spaced), or may be submitted as electronic copy on a physical media (CD, diskette, or Zipdisk) (hard-copy submittals should include a diskette);
- Use no smaller than 11-point font and have one inch page margins all around.

The project pre-proposal should contain the following in the given order:

4.2.2.1. Project Summary Information Page. (Length not to exceed: one (1) page of the total seven (7) pages.) The summary page should include:

- Project title and location;
- Name of applicant State agency (For multi-State and multi-governmental agency pre-proposals, one State lead should be identified as the main contact and the other Agencies' contacts listed, as well;
- Name of project contact, address, telephone and fax numbers, and e-mail address;
- Indicate if the project is being executed in cooperation with or funded by another Federal program; if so, please identify the program;
- Indicate whether, and what types, of regulatory flexibility (from the Federal government) potentially may be needed to implement the project;

- Indicate by a statement that the Commissioner (or Secretary or Administrator, as appropriate) or senior deputy of the State agency endorses the project (for finalists selected from this competition, a letter will be required with the final application and proposal).

4.2.2.2. Pre-proposal Project Narrative (not to exceed 5 pages **-** *Where a pre-proposal narrative exceeds five pages, additional pages will not be considered.*) It would be very useful if in the introductory paragraph, the proposal describes how the project builds on the concepts identified in the *Innovation Strategy* by addressing the following:

- Identify how your project demonstrates broad, strategic innovation (e.g., application of the innovation across an entire sector or regulatory program rather than for a single facility) and what vision you have for the overall impact of the project. Include a clear statement of project goals and expected outcomes focusing on environmental change (e.g., what are the specific goals for environmental improvement) but also describe improvements in management and regulatory processes. Under the new EPA Order 5700.7, "Environmental Results under EPA Assistance Agreements", the agency is required to ensure a direct link to EPA's Strategic Plan. Consequently, we are requiring States to clearly demonstrate a link to 1 or more of EPA's 5 strategic goals. Applicants must include a statement regarding how they meet the threshold and program criteria. See the Strategic Plan at http://www.epa.gov/ocfopage/plan/2003sp.pdf. Alternatively, the project

may focus on other priority issues identified through other State-Federal collaborative priority-setting processes such as development of a Performance Partnership Agreement (PPA). The core of the proposed project should be innovation in permitting or alternatives to permitting that will provide measurably better results than conventional program approaches. EPA Order 5700.7 also requires that an applicants proposal include a plan for measuring and tracking its progress in achieving expected outputs/outcomes.

- In the narrative of the pre-proposal, the State should explain how the activities will be accomplished. Identify target dates for key milestones. The milestone summary should identify the key process and outcome milestones (not all of them, just the key ones) and when they will be accomplished in the implementation of the project. Provide specific information on how the environmental outcomes will be measured and how the project's specific outcomes will be evaluated against current conditions (baseline). Outcomes must reflect what are the benefits, impacts, or changes in environmental conditions for individuals and populations. Performance goals should focus on outcomes (e.g., change in environmental conditions; reductions in pollutant releases) rather than outputs (e.g., reports, numbers of participants). The EPA Environmental Results Order for grant programs (EPA 5700.7) requires that grant recipients report the results and outcomes of their grants to demonstrate performance and accountability. It is absolutely essential that some measures, either direct or through surrogates, be devised to measure the performance outcomes to see

if the goals have been met. While the use of outputs as measures of milestones are important, it is critical that outcome goals and measures be included in the pre-proposal.

Please note that submittal of a Federal Form SF-424A is not required with this pre-proposal but will be required of finalists when they submit their more detailed proposal with their final application package. State agencies are advised that under new guidelines from the Office of Management and Budget (OMB), finalists will be required to submit their Data Universal Numbering System (DUNS) number with their final application package however it is not required for the pre-proposal submission.

- **Project Schedule and Time Frame.** As part of the pre-proposal narrative, identify timelines for tasks, key activities for project completion, milestones, products, measures, and outcomes. Identify the proposed project start date and duration (the exact dates of beginning and end will be negotiated with EPA if your project is selected). Provide an overall estimate of the time needed to affect the outcome. Use this as an opportunity to communicate program substance and context. Consider factors relating to timing, potential barriers (organizational, management, cultural, political), likely costs (systems development, installation, operation), and possible benefits (better, less costly, more accountable service). Think in terms of explaining and making clear what it takes to deliver the end outcome. Identify the performance indicators that confirm

significant milestones along the way. Project durations of one to three years will be permitted under the 2005-2006 competition for the State Innovation Grant Program. After the award is made, we would expect the recipient to account for the expenditure of funds in the same structure used for the budget request.

- **Meeting Program Criteria Requirements.** As part of the pre-proposal narrative, address the program criteria factor-by-factor. The specific criteria are found in Section 5.2, "Program Criteria" of this notice. Include any criteria subheadings and refer specifically to the criteria in organizing your responses. Definitions of some of the key terms included in the criteria are provided in Attachment 2.

4.2.2.3. Proposal Budget Summary Page. (Length: one (1) page of the total seven (7) pages.) Be sure to review Section 2.2 of this notice, "Funding Range," before preparing your budget. Prepare a proposed budget showing expected costs by major categories (personnel, travel, supplies, rent, subcontracts, etc.). States may offer a voluntary "leverage" in their budget - a contribution of partial State funding or other resources (no matching funds are required but States may provide any level of voluntary "leverage" funding which may be considered along with in-kind contributions as part of the qualitative selection factors identified in Section 5.3 below. The budget summary page should indicate the amount of EPA money requested, the dollar value of any State leverage funding and the total cost of the project.

Here is an example of a budget summary format:

State:
Agency:
Project Title:

	Total Project Costs	Proposed State Leverage Funds	EPA Funding
Staff Salaries and Benefits	$41,000	$ 5,000	$36,000
Travel	$ 7,000		$ 7,000
Supplies	$ 4,000		$ 4,000
Service Contract	$ 8,000	$ 7,000	$ 1,000
TOTAL:	$60,000	$12,000	$48,000

4.3. **Submission Dates and Times.** This assistance agreement program will use a two-phased proposal process. The first phase calls for development of brief pre-proposals. The period for submission of pre-proposals for the first phase of the 2005-2006 competition will close 60 calendar days following publication of this solicitation notice on April 25, 2005. The principal environmental regulatory agency for each State may submit one pre-proposal electronically (e-mail preferred, fax accepted), by 4:30 PM EST on April 25, 2005. As an alternative, States may mail pre-proposals to EPA, and they must arrive at the NCEI Office no later than 6:00 PM EST and at the appropriate EPA Regional Office by 5 PM local time on April 25, 2005. For courier delivery, State pre-proposals should arrive at EPA Headquarters and at EPA regional offices, by 6:00 PM EST on April 25, 2005 (see, Section 4.6.1 for addresses for mail and courier service. Note that the courier delivery address is different than the mail address for EPA Headquarters). Proposals received after the designated times on that date will not be considered in the selection process without prior approval by NCEI. NCEI may grant an exception to this deadline in the form of a brief extension under extenuating circumstances such as local power outages or internet interruptions, providing documentation can be provided by the State Agency.

EPA expects that by June 2005, States with pre-proposals selected for further consideration will be asked to prepare a more detailed proposal, and will be given approximately six (6) to eight (8) weeks to develop and submit their detailed proposal (including an application for Federal assistance).

4.4. For Further Information: For questions about responding to this solicitation, contact Sherri Walker, National Center for Environmental Innovation, Office of the Administrator, U.S. EPA (MC 1807T), 1200 Pennsylvania Ave., NW, Washington, D.C. 20460 (202-566-2186). Questions may be submitted as well, in written correspondence by mail, e-mail (innovation_state_grants@epa.gov) or fax [(202) 566-2220]. EPA will respond to all questions in writing and all questions and EPA responses will be posted on the EPA website at http://www.epa.gov/innovation/stategrants. State Agencies are advised to monitor that website for information posted in response to questions received during the assistance agreement competition period.

4.5. Funding Restrictions: Even though a proposal may involve an eligible applicant, eligible activity, and eligible purpose, assistance agreement funds cannot necessarily pay for all of the costs which the recipient might incur in the course of carrying out the project. Allowable costs are identified in the EPA regulations cited below and in OMB Circular A-87, "Cost Principles for State, Local, and Indian Tribal Governments." Generally, costs which are allowable include salaries, equipment, supplies, training, rental of office space, etc., as long as these are "necessary and reasonable." Entertainment costs are an example of unallowable costs. EPA can not approve expenditure of funds prior to the actual award.

4.6. Other Submission Requirements:

4.6.1. Contacts for Pre-proposal Submittal: Please submit pre-proposals to the appropriate Regional contact and to the EPA HQ National Center for Environmental Innovation:

EPA Regional Contacts

George Frantz
U.S. EPA Region I
1 Congress Street, Suite 1100
Boston, MA 02114-2023
(617) 918-1883
frantz.george@epa.gov
States: ME, NH, VT, MA, CT, RI

Grace Smith
U.S. EPA Region 2
290 Broadway, 26th Floor
New York, NY 10007-1866
(212) 637-3589
smith.grace@epa.gov
States & Territories: NY, NJ, PR, VI

Marie Holman
U.S. EPA Region 3
1650 Arch Street (3EA40)
Philadelphia, PA 19103
(215) 814-5463
holman.marie@epa.gov
States: DE, DC, MD, PA, VA, WV

Melissa Heath
U.S. EPA Region 4
61 Forsyth Street, SW
Atlanta, GA 30303
(404) 562-8381
heath.melissa@epa.gov
States: AL, FL, GA, KY, MS, NC, SC, TN

Marilou Martin
U.S. EPA Region 5, B-19J
77 West Jackson Blvd.
Chicago, IL 60604-3507
(312) 353-9660
martin.marilou@epa.gov
States: MN, WI, MI, IL, IN, OH

David Bond
U.S. EPA Region 6
Fountain Place, Suite 1200
1445 Ross Avenue
Dallas, TX 75202-2733
(214) 665-6431
bond.david@epa.gov
States: AR, LA, NM, OK, TX

David Erickson
U.S. EPA Region 7
901 N. 5th Street
Kansas City, KS 66101
(913) 551-7162
erickson.david@epa.gov
States: KS, MO, NE, IA

Whitney Trulove-Cranor
U.S. EPA Region 8 (8P-SA)
999 18th Street, Suite 300
Denver, CO 80202-2466
(303) 312-6099
trulove-cranor.whitney@epa.gov
States: CO, MT, ND, SD, UT, WY

Julie Anderson

Bill Glasser

U.S. EPA Region 9
75 Hawthorne Street (SPE-1)
San Francisco, CA 94105
(415) 947-4260
anderson.julie@epa.gov
States & Territories: CA, NV, AZ, HI, AS, GU

U.S. EPA Region 10
1200 Sixth Avenue (ENF-T)
Seattle, WA 98101
206-553-7215
glasser.william@epa.gov
States: AK, ID, OR, WA

EPA Headquarters Office:

State Innovation Grants Program
National Center for Environmental Innovation
Office of the Administrator
U.S. EPA (MC 1807T)
1200 Pennsylvania Ave., NW
Washington, D.C. 20460

(202) 566-2186
(202) 566-2220 FAX
Innovation_State_Grants@epa.gov.

For courier delivery only:
Sherri Walker
U.S. EPA
EPA West Building, room 4214D
1301 Constitution Ave., NW
Washington, DC 20005

4.6.2 Submitting the Pre-proposal. As noted above in section 4.2.1, Pre-proposals may be submitted electronically through e-mail. As an alternative, pre-proposals (in hard copy) should be submitted on 8 ½ x 11" paper (single-spaced), or may be submitted as electronic copy on a physical media (CD, diskette, or Zipdisk). Proposals received after the designated times on April 25, 2005 will not be considered in the selection process without prior approval by NCEI. NCEI may grant an exception in the form of a brief extension to this deadline under extenuating circumstances such as local power outages or internet interruptions, providing that documentation can be provided by a State Agency.

5. APPLICATION REVIEW INFORMATION:

5.1. Threshold Criteria:

These criteria are distinct from eligibility criteria (Section 3.0) that are addressed before an application is accepted for review. An applicant's project must meet the following two important threshold criteria to be considered for funding, in addition to the program criteria listed in Section 5.2 below. Applicants that fail to meet any of the threshold criteria will not be scored. EPA should be able to determine from the pre-proposal whether the project meets these threshold criteria:

5.1.1. Threshold Criteria #1. A project must consist of *activities* authorized under one or more of the six EPA grant authorities cited in Section 6.2.1 below. Most of the statutes authorize assistance agreements for the following activities: *"...research, investigations, experiments, training, demonstrations, ..."* These *activities* relate generally to the gathering or transferring of information or advancing the state of knowledge. Assistance agreement proposals should emphasize a "learning" concept associated with a new approach or innovation, as opposed to only "fixing" an environmental problem using a well-established method. The project's activities should advance the state of knowledge or transfer information. The statutory term "demonstration" may encompass the first use of a new innovation, or the application elsewhere of a previously-used innovation. The term "research" may include the application of established practices when they contribute to "learning" about an environmental concept or problem.

5.1.2. Threshold Criteria #2. In order to be funded, a project's *focus* generally should be included among the ones that are specified in the statutes cited in Section 6.2.1 below.

For most of the statutes, a project must address the causes, effects, extent, prevention, reduction, and elimination of air, water, or solid/hazardous waste pollution, or, in the case of assistance agreements under the Toxic Substances Control Act or the Federal Insecticide, Fungicide and Rodenticide Act, "carrying out the purposes of the Act." While the purpose of the State Innovation Grant Program is to promote innovative approaches to environmental protection, an overarching goal of the program is to focus on the statutory purpose of the applicable grant authority, in most cases "to prevent or control pollution." In light of this, proposals relating to other topics which are sometimes included within the term "environment" such as recreation, conservation, restoration, protection of wildlife habitats, etc., should describe the relationship of these topics to the statutorily required purpose of pollution prevention and/or control. Proposals with an integrated, multi-media (and/or multi-statute) approach are encouraged. For assistance in understanding statutory authorities under which EPA is providing these assistance agreements, please contact the EPA representative listed in Section 4.6.1 of this notice.

5.2 Description of the Review, Selection, and Award Process:

As it did in the prior two competition cycles, EPA will select State recipients of the 2005-2006 State Innovation Grants through a national competition. The competition will be conducted using a two-phased application and review process. In phase one, EPA is soliciting short "pre-proposals" and preliminary budgets from fifty-five (55) jurisdictions including the States, the District of Columbia, and U.S. territories. All pre-proposals submitted by States, DC and the territories will be evaluated by the respective EPA Region and ranked according to the Program Criteria, Section 5.2.1 below. The Regions will forward their rankings to EPA Headquarters for

review by Agency panels that will make recommendations for selection of finalists to the decision officials in NCEI based upon qualitative selection factors described below.

5.2.1 Evaluation using Program Criteria (Phase One of Pre-Proposal Evaluation): As referenced in the Executive Summary in Section O-7, or Program Description in Section 1.1, the selection criteria for the State Innovation Grant Program are intended to advance the goals and priorities of EPA's *Innovation Strategy* and build on lessons EPA and States have learned from previous innovation initiatives. Building on this premise, all State proposals should address the program criteria described in detail below. EPA will evaluate and rank the proposals based on the four criteria in this section. (After reading the criteria below, States interested in submitting a proposal should review the *Innovation Strategy* at http://www.epa.gov/innovation/pdf/strategy.pdf. An interested State should also see: Section 5.1, Threshold Criteria; and Section 5.2, Description of the Review, Selection, and Award Process; Section 6.2.1, Statutory Authority.)

5.2.1.1 Target Priority Environmental Issues. 25 points

Generally, the proposal should focus on priority environmental issues identified in the *Innovation Strategy*. Alternatively, the project may focus on other priority issues identified through other State-Federal collaborative priority-setting processes such as development of a Performance Partnership Agreement (PPA). The core of the proposed project should be innovation in permitting or alternatives to permitting that will provide measurably better results than conventional program approaches.

In selecting projects for funding under this competition, EPA will consider favorably, proposals that are multi-media, or multi-State, or multiple-agency. (Please note States may be party to one multi-agency, multi-State or State-Tribal project proposal in addition to their individual proposal). A State project may focus on a single environmental media program (e.g., water, or air, or waste, or toxics), although multi-media projects are preferred. States must propose projects that integrate innovation into permitting programs or apply innovation as an alternative to permitting to achieve environmental performance superior to conventional approaches to environmental control. Under the general subject of innovation in permitting, EPA hopes that States will propose projects that expand participation in performance-based, beyond-compliance programs such as EPA National Environmental Performance Track. As EMSs are a principal component of the National Environmental Performance Track program, we see this as an opportunity to increase the number of facilities that develop and implement EMSs. We are also interested in how EMSs may play a role in, or become specific components of any package of incentives offered to facilities performing beyond-compliance, e.g., a flexible permit. Additionally, we are interested in how States might make connections between EMSs and any other incentives offered to encourage facilities to exceed compliance standards, which will hopefully expand participation in EPA National Environmental Performance Track and State performance-based programs. EPA expects to fund some variety of project types, including projects that apply the principles of environmental management systems for integrated environmental management and performance and applications of the Environmental Results Program model. To the extent that State priorities related to environmental justice may be addressed within the context of the theme of innovation in permitting, EPA encourages project proposals of this type.

5.2.1.2. Improvement in Results from Project Implementation. 25 points

The proposal should identify what permitting programs or activities are involved in the project. Using the new EPA Environmental Results Order (EPA Order 5700.7), the project proposal should clearly identify how the innovation will result in measurable improvements in environmental results with respect to water and energy use, reduction in waste generation or disposal, reduction in releases of contaminants into the air or water, or in protection of habitat quality. Wherever possible the projects should also demonstrate any improvement in administrative efficiency and reduced program costs, or cost savings to the permitted entity. The proposal should specifically address the following questions:

5.2.1.2.1. How does the proposed tool or approach differ from traditional approaches?

5.2.1.2.2. How does the project build on "lessons learned" from prior experience (not limited to the proposing State's own experience)? For specific examples of EMS and ERP projects, refer to at http://www.epa.gov/innovation/stategrants.

5.2.1.2.3. Are the quantifiable improvements in environmental outcomes expected to result from implementation of this innovation clearly described?

5.2.1.2.4. Are any measurable improvements in administrative efficiency and program operational costs that may result from the program clearly described?

5.2.1.2.5. Are the likely savings in costs and efficiency for the permit holders/ regulated entities resulting from implementation of this innovation clearly described?

5.2.1.2.6. What are the public involvement processes that will be used to ensure public knowledge of and participation in the project?

5.2.1.2.7. If applicable, what are the factors that will be taken into consideration in the design and implementation of the project as it relates to concerns in communities with environmental justice issues?

5.2.1.3. Measuring Improvement and Accountability. 25 points

The proposal should establish outcome goals for the innovation and indicators to measure progress toward meeting these goals. Proposals should identify clear objectives, and performance indicators to be used to facilitate later independent evaluation of the success of the project. The proposal should clearly identify what baseline and final outcome measures are to be used, and provide a commitment from the sponsor to track, measure, report, and evaluate the results. The State should identify:

- how it will make information about the project, including performance data, available to stakeholders in a form that is easily accessible and understandable.
- a timeframe within which results will be achievable.

The proposal should also specifically address the following questions:

5.2.1.3.1 What are the indicators of environmental improvement that will be used to show environmental improvement, and is the relationship to the specified outcome goal clear? (Goal and objective measures should be both qualitative and quantitative and should assess the project's measurable benefits.)

5.2.1.3.2. How and when will the baseline measurements be developed?

5.2.1.3.3. What is the plan, timeline, and commitment for measuring and evaluating how well the project meets its goals and objectives?

5.2.1.3.4. What are the expected short-term (within one to three years) measurable results to be obtained through this innovation and how will they be measured?

5.2.1.3.5. What are the expected long-term measurable results to be obtained through this innovation, how will they be measured, and what is the time span for those results?

5.2.1.4. Transferring Innovation. 25 points

The proposal should describe how the innovation potentially could be replicated or more broadly applied by the proposing State, other States, or EPA. To address this issue, the proposal should answer the following questions:

5.2.1.4.1. What methods will be used to document and publicize the outcomes and methods of this innovation and make the information available to other jurisdictions?

5.2.1.4.2. What is the potential for widespread application or use of the tool/approach as a model for "next generation" environmental protection?

5.2.1.4.3. How will the application of this innovation be used to promote organizational system change, or develop a culture of innovative environmental problem-solving as a "way of doing business" within the State or more broadly?

5.2.1.4.4. What commitments can the proposing State make to provide consultation and mentoring to other States wishing to adopt similar innovations?

State recipients may also be required to assist EPA or an EPA-designated third party evaluator in conducting a project evaluation during the course of, and/or immediately following completion of the project by providing data, interviews and assistance in contacting project cooperators or stakeholders.

5.2.2 Evaluation using Qualitative Selection Factors (Phase Two of Pre-Proposal Evaluation): In the second phase of the pre-proposal evaluation, EPA Headquarters workgroups will apply a qualitative evaluation process to identify State finalists. Here, EPA will consider qualitative selection factors, such as:

- geographic diversity,
- project diversity,
- project cost,
- amount of State voluntary leveraging funds,
- feasibility (likelihood of project success within the proposed budget and timeframe),
- institutional readiness and commitment (existing capacity or infrastructure within the State that supports the development and implementation of the project, including factors such as people, knowledge, skills, partnerships, and previous innovation experience)
- indication of collaboration with other government organizations (e.g., regional, local, or other State, or Tribal agencies) with responsibility for areas of environmental protection or regulation
- taking into consideration the concerns in communities with environmental justice issues, by proactively addressing the concepts of "fair treatment" and "meaningful involvement" of the communities that they may impact with their proposed innovation project.

5.3. Anticipated Announcement and Award Dates. States selected in the phase one evaluation will be asked to submit a more detailed proposal, budget, and an Application for

Domestic Federal Assistance (SF-424A). In phase two, EPA expects to solicit final proposals including budgets from up to ten (10) finalists in the competition some time in spring 2005. States will be given six to eight weeks to complete and submit the final proposal package. Final proposal packages will be submitted to the NCEI in compliance with requirements that will be transmitted with the solicitation for the final proposal process. EPA will provide guidance on the preparation of final technical proposals, including guidance on outcome monitoring and evaluation. EPA expects to complete the entire assistance agreement award process, including final evaluations, budget, workplan negotiations, and award to the finalists in summer 2005.

6. AWARD ADMINISTRATION INFORMATION:

6.1. Award Notices: Although the selections will be made nationally, State Innovation Grants selected by NCEI will usually be awarded and managed by the respective EPA Regional Office. States selected to receive Innovation Grants will be contacted by the appropriate EPA Regional Office with the decision about their awards. EPA will provide each State finalist with any necessary information for the preparation of the final proposal package and will be available to answer any questions.

6.2. Administration and National Policy Requirements:

6.2.1. Statutory Authority: EPA expects to award State Innovation Grants under the following six assistance agreement authorities: Clean Air Act, Section 103(b)(3) (*42 U.S.C. §7403(b)(3)*); Clean Water Act, Section 104 (b)(3) (*33 U.S.C. §1254 (b)(3)*); Solid Waste Disposal Act, Section 8001 (*42 U.S.C §6981*); Toxics Substances Control Act, Section 10 (*15 U.S.C. §2609*); Federal Insecticide, Fungicide, and Rodenticide Act,

Sections 18 and 20 (*7 U.S.C. §136p and 136r*); and Safe Drinking Water Act, Sections 1442(a) and (c) *(42 U.S.C. §1(a) and (c)*).

6.2.2. Freedom or Information Act (FOIA) and Confidential Business Information (CBI). Applicants should be aware that proposals submitted under this or any other EPA assistance agreement program are subject to the Freedom of Information Act (FOIA) (*5 U.S.C. §552*). This means that subject to certain exemptions under Section 552(b) of the Act, the public can request and receive copies of all the information submitted in your assistance agreement proposal. In accordance with 40 CFR 2.203, applicants may claim all or a portion of their application/proposal as confidential business information. EPA will evaluate confidentiality claims in accordance with 40 CFR Part 2. Applicants must clearly mark applications/proposals or portions of applications/proposals they claim as confidential. If no claim of confidentiality is made, EPA is not required to make the inquiry to the applicant otherwise required by 40 CFR 2.204(c)(2) prior to disclosure. EPA intends to post all of the submitted pre-proposals (with financial information redacted) to the State Innovation Grants website at the time selection is announced to promote sharing of information and collaboration among the States.

6.2.3. Applicable Grant Regulations and Orders. 40 CFR part 31 establishes uniform administrative rules for Federal grants and cooperative agreements. Applicants will also comply with EPA Order 5360.1AZ which requires development and implementation of quality assurance plans in the acquisition and analysis of environmental data.

6.2.4. Paperwork Reduction Act. The information collection provisions in this document for solicitation of proposals have been approved by the Office of Management and Budget (OMB) pursuant to the Paperwork Reduction Act, 44 U.S.C. 3501 et seq. in a generic Information Collection Request titled , "Generic Administrative Requirements for Assistance Programs" (ICR No. 938.06 and OMB Approval No. 2030-0020). A copy of the Information Collection Request (ICR No. 938.06) may be obtained from Monica Lewis in the Office of Environmental Information , EPA, 1200 Pennsylvania Ave., NW (Mail Code 2822T), Washington, DC 20460 or by calling (202) 566-1678. EPA is not requiring that States perform a "collection of information" as that term is defined by 5 CFR 1320.3(c) to qualify for funding under this solicitation.

6.2.5. Disputes. Assistance agreement competition-related disputes will be resolved in accordance with the dispute resolution procedures published in 70 FR (Federal Register) 3629, 3630 (January 26, 2005) which can be found at http://a257.g.akamaitech.net/7/257/2422/01jan20051800/edocket.access.gpo.gov/2005/05-1371.htm. Copies of these procedures may also be requested in written correspondence by contacting Sherri Walker at National Center for Environmental Innovation, Office of the Administrator, U.S. EPA (MC 1807T), 1200 Pennsylvania Ave., NW, Washington, D.C. 20460. Requests may also be submitted by fax to (202) 566-2220, or by e-mail request to: Innovation_State_Grants@epa.gov.

6.2.6. Compliance With Executive Order 12372. To the extent required by individual States for their State agencies, final successful applicants will be required to contact

affected State, regional, and local governments as required under Executive Order (E.O). 12372.

6.2.7 Compliance with EPA Order 5700.5A1. This competition is in compliance with the requirements of EPA Order 5700.5A1; Policy for Competition of Assistance Agreements, (effective date January 15, 2005).

6.2.8. Reject or Award Right. The U.S. EPA reserves the discretion to select potential awardees from this solicitation for funding that may not occur until fiscal year 2006. EPA reserves the right to make no awards under this solicitation.

6.2.9. Duration. Funded projects are expected to be structured for a period of one to three years, although States may propose projects with final outcomes on a longer timeline. The proposal should indicate what types of interim or surrogate measures of performance will be used while a multi-year project is in operation. Funding duration will not exceed three years, and follow-on funding from EPA in later assistance agreement cycles is not possible. The EPA may consider a short-term (not to exceed 90 days), no-cost project extension at a recipient's request with justification.

6.3. Reporting: Award recipients will be required to report both quarterly for the duration of the project and at the project's completion. Reports are due to EPA within 30 calendar days following the quarterly date and 30 days following completion of the project. Reports are to be made to the EPA designated Federal Project Officer (FPO) for an award with copies provided simultaneously by the recipient to NCEI. Reports are to include assessments of how project time

lines and milestones are being met; a financial report documenting the rate of expenditure and how well project expenditures are matching expected rates of spending, and an assessment of progress toward reaching the final project goals and an assessment of any impediments encountered in attaining project milestones. Quarterly and Final reports should include data tables and supporting documentation as necessary. Electronic reporting is preferable to paper reporting. A final format requirement for these reports will be negotiated between the State agency and EPA during preparation of the final, detailed proposal. State recipients may also be required to assist EPA or an EPA-designated third party evaluator in conducting a project evaluation during the course of, and/or immediately following completion of the project by providing data, interviews and assistance in contacting project cooperators or stakeholders.

7. AGENCY CONTACTS:

7.1. For Information or Questions about Responding to this Solicitation: The EPA contact for questions regarding this solicitation is:

Sherri Walker,
National Center for Environmental Innovation
Office of the Administrator
U.S. EPA (MC 1807T)
1200 Pennsylvania Ave., NW
Washington, D.C. 20460
202-566-2186
202-566-2220 FAX.

7.2. Alternative Contact: Additionally, interested parties may contact the State Innovations Grant Program in the following ways through NCEI's general program number at:(202) 566-0495; by FAX at (202) 566-2220; or by e-mail at this address:

innovation_state_grants@epa.gov.

Attachment 1 Pre-Proposal Checklist for State Innovation Grant Program

1. **Project Category** (Section 1.2)

G Read "2005-2006 Project Category for the State Innovation Grant" re: permitting innovation.

2. **Summary Page** (1 page) (Section 4.2.2.1)

•**Summary Information** (Section 4.2.2.1)

G Project title and location.
G State agency applicant (multi-State projects count as the one and only project for each State involved); contact name, phone and fax numbers, e-mail, address.
G Indicate if the project is focused on hazardous waste management and permitting under the Resource Conservation and Recovery Act.
G Indicate if the project is being executed in cooperation with or funded by another federal or EPA program and, if so, identify the program.
G Indicate if and what types of regulatory flexibility (from a federal requirement) are potentially needed to implement the project.
G Indicate in a cover message or letter that the Commissioner (or Secretary or Administrator, as appropriate) or senior deputy of the State agency knows of and supports the project. A letter of commitment from Agency Senior Management will be required only for finalists when they submit a final proposal and Application for Federal Assistance.

•**Summary Budget Information** (1 page) (Section 4.2.2.3)

G State Contact Information
G Project Title
G Review Section 2.2, "Funding Range" before preparing your budget.
G Show expected costs by major categories.
G Include how State funds will be spent and what the sources of those funds are.
G Dollar amount requested from EPA.
G Dollar amount of voluntary leverage funding offered by the State.
G Dollar amount of total project budget.

3. **Pre-proposal narrative** (no more than five (5) pages) (Section 4.2.2.2)

G **Introductory paragraph** (one paragraph).
G **Project Schedule and Timeframe** (Section 4.2.2.2.)
G **Program Criteria**. (Sections 5.2.1)

• Target Priority Environmental Areas (Sections 1.1 and 5.2.1.1)
• Improvement in Results from Project Implementation (Section 5.2.1.2)
• Guaranteeing Measures and Accountability (Section 5.2.1.3).
• Transferring Innovation (Section 5.2.1.4).

4. **Threshold Criteria** (Section 5.1)

G These should be ascertainable in pre-proposal, not individually addressed.

5. **Qualitative Selection Factors.** (Section 5.2.2)

G In addition to the Program Criteria, EPA may consider other factors in selecting pre-proposals, such as geographic diversity; project diversity; project cost; amount of State voluntary leveraging funds; feasibility; multi-media, multi-State, or multi-governmental agency projects; institutional readiness and commitment; and the amount of federal funding available.

6. **Total Pre-proposal Page Limit**: not to exceed 7 pages

G One page Project Summary

G One page Budget Summary

G Narrative (not to exceed 5 pages)

G A one-page cover letter or message will not count against the 7-page limit.

Attachment 2 Definitions.

Environmental Innovation - The integration of alternative regulatory and non-regulatory strategies that promise better environmental and public health protection than that provided through existing regulatory approaches.

Environmental Justice - The **fair treatment** and **meaningful involvement** of all people regardless of race, color, national origin, or income with respect to the development, implementation, and enforcement of environmental laws, regulations, and policies. Environmental justice is achieved when everyone enjoys the same degree of protection from environmental and health hazards and equal access to the decision-making process to have a healthy environment in which to live, learn, and work.

> ***Fair treatment*** means that no group of people, including a racial, ethnic, or a socioeconomic group, should bear a disproportionate share of the negative environmental consequences resulting from industrial, municipal, and commercial operations or the execution of federal, state, local, and tribal programs and policies.
>
> ***Meaningful involvement*** means that: (1) potentially affected community residents have an appropriate opportunity to participate in decisions about a proposed activity that will affect their environment and/or health; (2) the public's contribution can influence the regulatory agency's decision; (3) the concerns of all participants involved will be considered in the decision making process; and (4) the decision makers seek out and facilitate the involvement of those potentially affected.

Environmental Management Systems (EMS) - A continual cycle of planning, implementing, reviewing and improving the processes and actions that an organization undertakes to meet its business and environmental goals. Most EMSs are built on the "Plan, Do, Check, Act" model. For more information see: http://www.epa.gov/ems/

Environmental Results Programs (ERP) - An innovative program in which State regulatory agencies: educate regulated facilities about their environmental impact and obligations; require the facilities to self-evaluate and certify compliance; and measure environmental performance change. The approach may involve the development of industry-wide performance standards as an alternative to regulation. For more on ERPs see http://www.epa.gov/ProjectXL/massdep/100698.pdf.

Government Performance and Results Act (GPRA) – 1993 management reform initiative that holds federal agencies accountable for using resources wisely and achieving program results. GPRA requires agencies to develop plans for what they intend to accomplish, measure how well they are doing, make appropriate decisions based on the information they have gathered, and communicate information about their performance to Congress and to the public.

Indicators – measures, usually quantitative, that provide information on program performance and evidence of a change in the “state or condition” in the system.

Innovation Strategy – In 2002, EPA laid out a strategy for achieving better environmental results through innovation. This framework recognizes that environmental problems are becoming increasingly complex, and that new ways of thinking and doing are needed to fully address them. The four major elements include: strengthen EPA's innovation partnerships with States and Tribes; focus innovation efforts on priority environmental problems; diversify environmental protection tools and approaches; and foster a more "innovation-friendly" organizational culture and systems. For more on the Strategy, see http://www.epa.gov/innovation/strategy.htm.

Logic Model – A logic model is a diagram and text that describes/ illustrates the logical (causal) relationships among program elements and the problem to be solved, thus defining measurements of success.

Outcomes – Changes or benefits resulting from activities and outputs.

Outcome Structure

Short-term – Changes in learning, knowledge, attitude, skills
Intermediate – Changes in behavior, practice, or decisions
Long-term – Changes in condition

Outputs – Product or service delivery/implementation targets you aim to produce.

Performance-based Programs - Environmental management programs that shift the focus of environmental permitting toward the measurement and assurance of performance by providing the regulated facility flexibility in how they meet performance standards.

Performance measurement – the ongoing monitoring and reporting of program progress and accomplishments, using pre-selected performance measures.

Pollution Prevention - Any practice that (1) reduces the amount of any hazardous substance, pollutant or contaminant entering any waste stream or released into the environment (including fugitive emissions) prior to recycling, treatment or disposal, and (2) reduces the hazards associated with such substances, pollutants or contaminants; and (3) other practices that reduce or eliminate the creation of pollutants through increased efficiency in the use of raw materials, energy, water or other resources; or (4) protection of natural resources by conservation.

Regulatory Flexibility - Providing alternatives to prescribed regulatory requirements for a regulated facility that will provide for superior environmental performance, cost savings, and expedited regulatory permitting and review**.**

Strategic Plan – serves as the Agency's road map. EPA's Strategic Plan identifies five long-term goals, centered on the themes of air and global climate change, water, land, communities and ecosystems, and compliance and environmental stewardship. These themes reflect EPA's mission, "to protect human health and the natural environment." The Strategic Plan helps the agency to measure how far it has come towards achieving its goals and to recognize where the agency may need to adjust approaches or directions to achieve better results. Finally, this Plan provides a basis from which EPA can focus on the highest priority environmental issues and ensure that the

agency uses taxpayer dollars effectively. For more information on the agency's Strategic Plan, see http://www.epa.gov/ocfopage/plan/2003sp.pdf.