

New Tools for the Conservation Finance Tool Box: Innovative Sources of Funding

MAY 16, 2019

MARYLAND LAND CONSERVATION CONFERENCE



Panelists



Nick Dilks
Managing Partner,
Ecosystem Investment
Partners



Bill Kilby
President,
Cecil Land Trust



Craig Highfield
Chesapeake Forests
Director, Alliance for the
Chesapeake Bay

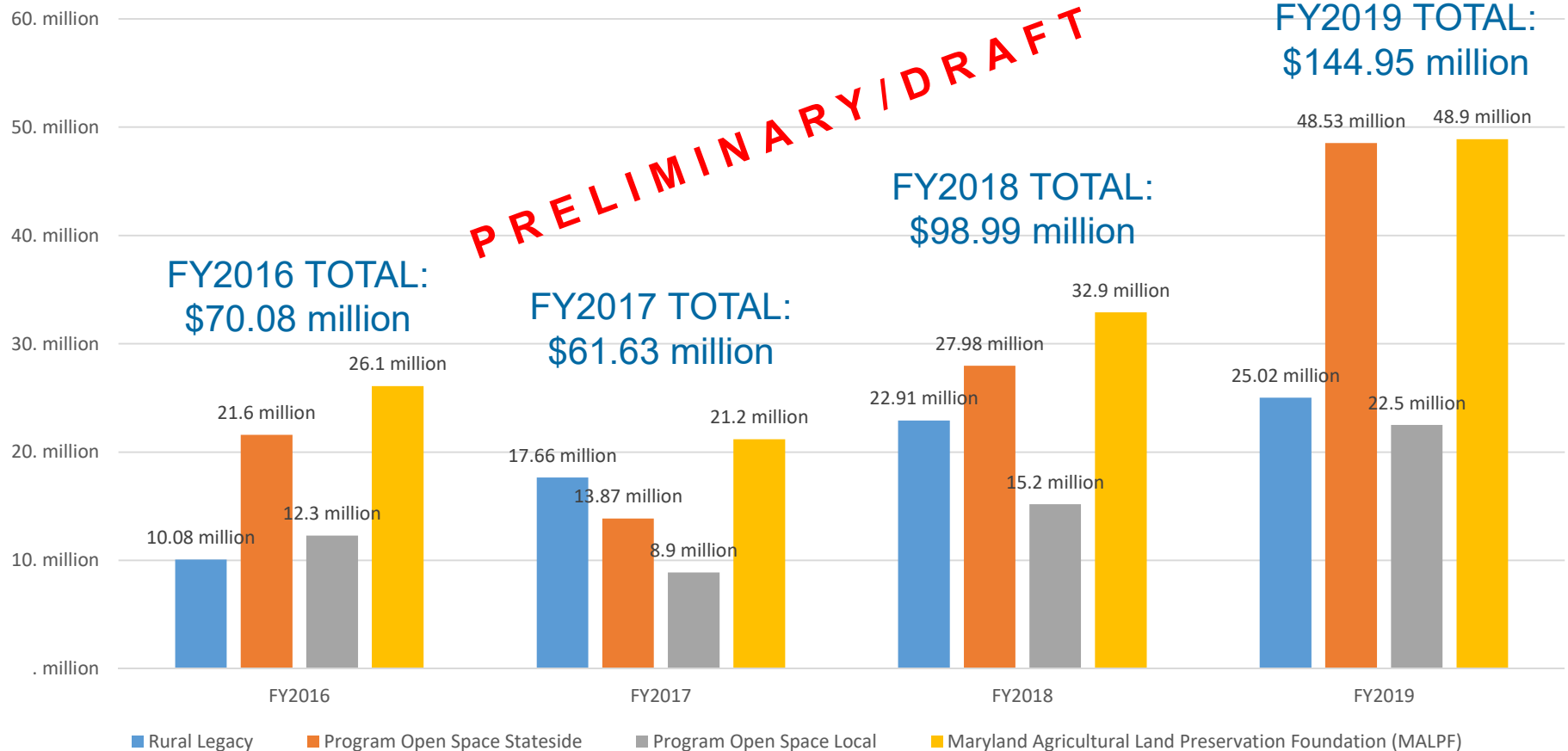
Overview

1. Introduction
2. Environmental Offsets and the Chesapeake Bay
3. Case Study #1
4. Case Study #2
5. Q&A, Moderated discussion



Public funding in Maryland

Maryland State Funding for Land Conservation



(Forthcoming in the new "State of Chesapeake Conservation" report from the Chesapeake Conservation Partnership)

Conservation Finance Sources

Donations and Grants

- Individuals, Foundations, and Corporations
- Voluntary Surcharges
- Voluntary Private Transfer Fees
- Donor-Advised Funds and Aggregators

Tax Benefits

- Federal/State Tax Deductions
 - Bargain Sale/Easement Donations
- State Tax Credits
- New Market Tax Credits

Public Funding

- Federal/State Conservation Programs, Other Funding
- State/Local Ballot Measures
- State/Local Specific Use Taxes/Fees/Incentives
- State/Local Conservation Programs
- Local Improvement Districts

Private Capital

- Ecosystem Services Payments:

- Trading (water, nutrients, carbon)
- Habitat, Forest, Species Mitigation/Banking
- Natural Resources Damage, other Settlements
- Tradable Land Use/Development right (TDRs, etc.)
- Conservation Development/Buyers
- Agriculture, Timber, Energy, and other income
- Water Transactions
- Cause-related Marketing
- Impact Investing

Bridge Financing and Loans

- **Philanthropic**
 - External Revolving Loan Funds
 - Internal Land Trust Protection Funds
 - Foundations, including PRIs
 - Conservation Lenders and Guarantors
- **Private**
 - Commercial and Farm Credit Lending
 - Seller Financing
- **Public**
 - Federal/State Revolving Loan Funds
 - Tax-Exempt Debt

List compiled by Conservation Finance Network

Case studies

#1:

Private capital investment in restoration projects

-- outcomes purchased by public funding sources under a pay-for-success model to meet regulatory compliance requirements (TMDL)

#2:

Environmental mitigation banking (specifically for forest loss); in-lieu fee-funded projects to meet compliance requirements (Forest Conservation Act)



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Ecosystem Investment Partners

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New and Innovative Sources of Funding



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How do Land-Based Environmental Offset Markets Work?

- Long-standing Federal and state environmental laws (e.g. the 1972 Clean Water Act and 1973 Endangered Species Act) protect our nation's land and water resources (e.g. wetlands, streams and endangered species habitat) from development or destruction
- If it can be demonstrated that a proposed impact is unavoidable and has been minimized, a permit (e.g. a Section 404 Clean Water Act "fill permit") can be obtained allowing the impacts to occur
- A condition of these permits is that the environmental impacts must be offset by the restoration and protection of ecological functions of equal or greater value to achieve a minimum of "no net loss" of resources
- Enterprising, land-owning investors (like EIP) can acquire, restore and conserve ecologically degraded land to generate the credits required by entities needing to offset their impacts in order to obtain permits

Land-Based Environmental Offset (LEO) Markets

MARKET	REGULATORY FRAMEWORK
Wetland and Stream Mitigation Banking	<ul style="list-style-type: none"> • Enabled by Clean Water Act (1972) and administered by US EPA and Army Corps of Engineers • Section 404 requires “no net loss” of aquatic resources (wetlands and streams) • 1995 guidance allows use of mitigation bank credits to achieve compensatory mitigation of unavoidable impacts • 2008 Rule prioritizes use of 3rd-party mitigation banks (vs. permittee-responsible or “do-it-yourself” compliance) • Between 1995 and 2015, 1,988 wetland and stream banks have been established¹
Conservation (Endangered Species) Banking	<ul style="list-style-type: none"> • Enabled by Endangered Species Act (1973) and administered by US Fish & Wildlife Service • Sections 7 and 10 require mitigation of “incidental take” of individual animals or acres of critical habitat • Banking established in 2003 to offset “incidental take” • Between 2003 and 2015, 141 conservation banks have been established¹

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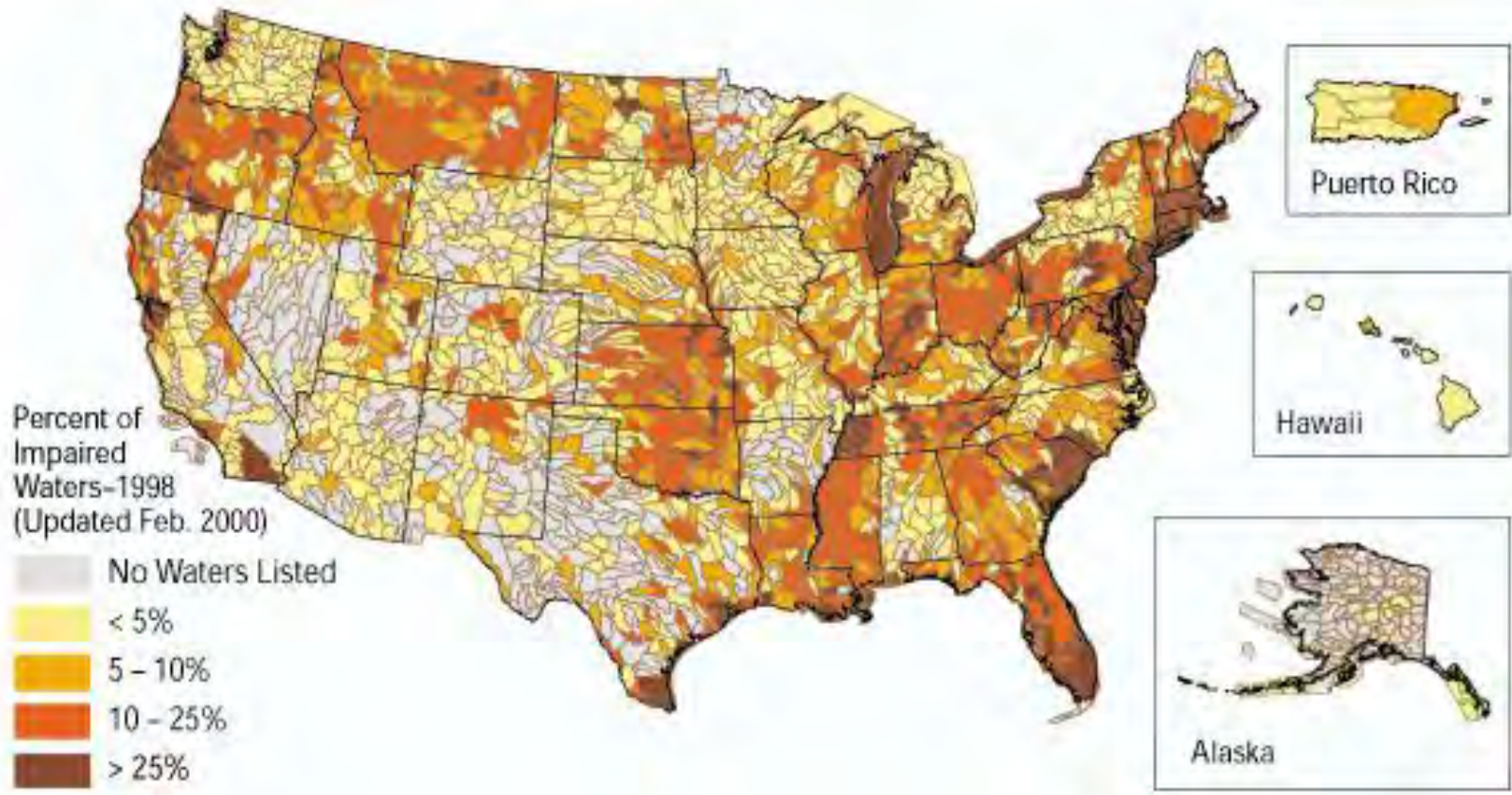
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Nutrient & Sediment (i.e. Water Quality) Offsets	<ul style="list-style-type: none">• Enabled by the Total Maximum Daily Load (TMDL) requirements of the Clean Water Act
Water Quantity (In-Stream Flow) Offsets	<ul style="list-style-type: none">• \$562 million in environmental water rights transactions since 2003, mostly in western US
Terrestrial Carbon Sequestration	<ul style="list-style-type: none">• Kyoto Protocol and state regulations (AB32 in CA)

Drivers for water quality offsets

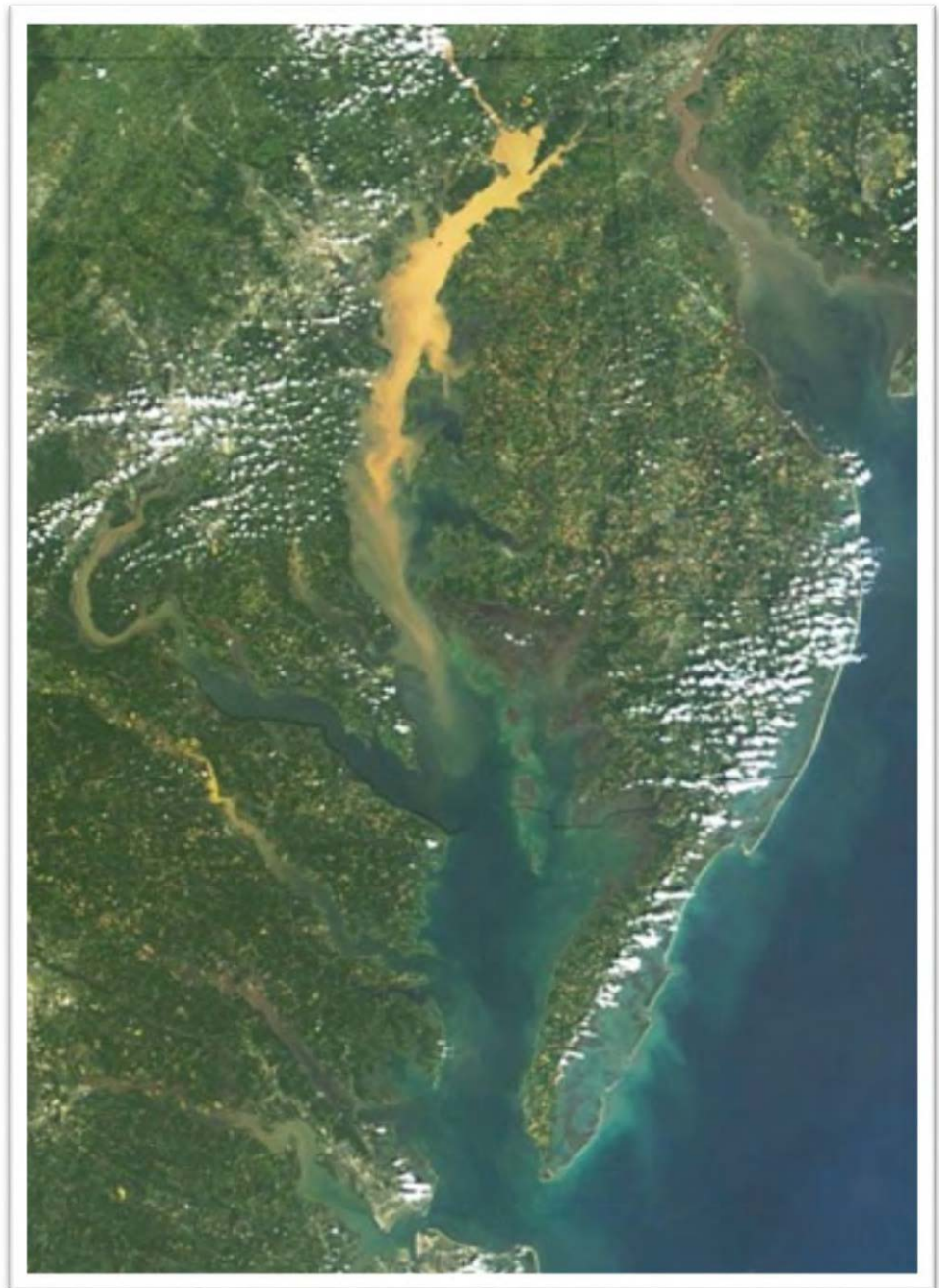
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Impaired waters in the US (percent by watershed)



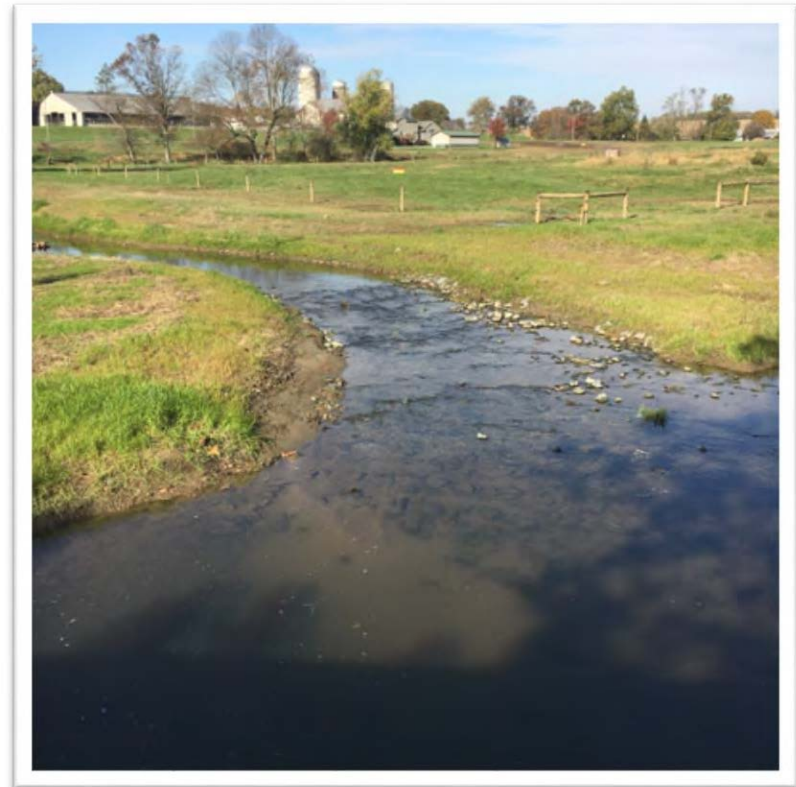
Chesapeake Bay



Chesapeake Bay TMDL

Maryland, New York, Pennsylvania, Virginia, West Virginia and Washington D.C.

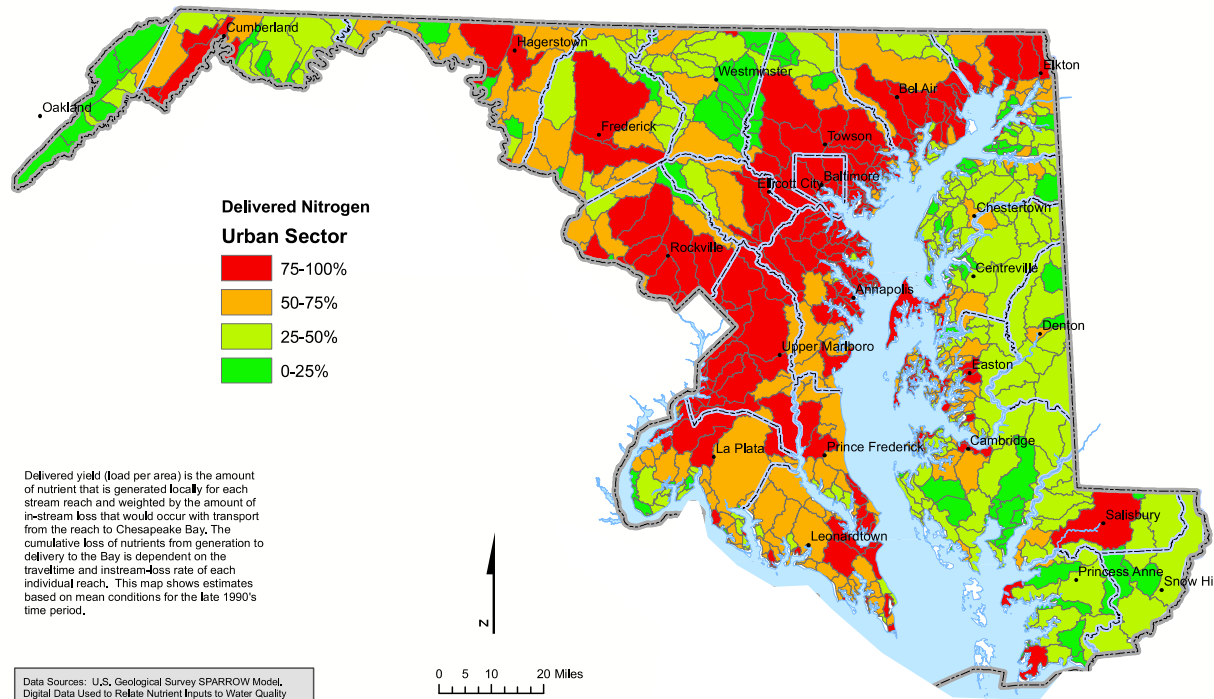
- 2010 EPA established a Chesapeake Bay TMDL.
- Set annual load limits at:
 - 185.9 million pounds of Nitrogen
 - 12.5 million pounds of Phosphorus
 - 6.45 billion pounds of Sediment
- 25% reduction in Nitrogen
- 24% reduction in Phosphorus
- 20% reduction in sediment.



Chesapeake Bay

Urban Sources of Total Nitrogen

Quartile Ranking within Maryland



Data Sources: U.S. Geological Survey SPARROW Model, Digital Data Used to Reallocate Nutrient Inputs to Water Quality in the Chesapeake Bay Watershed, Version 3.0 (2004) (<http://md.water.usgs.gov/publications/ofr-2004-1433/>)

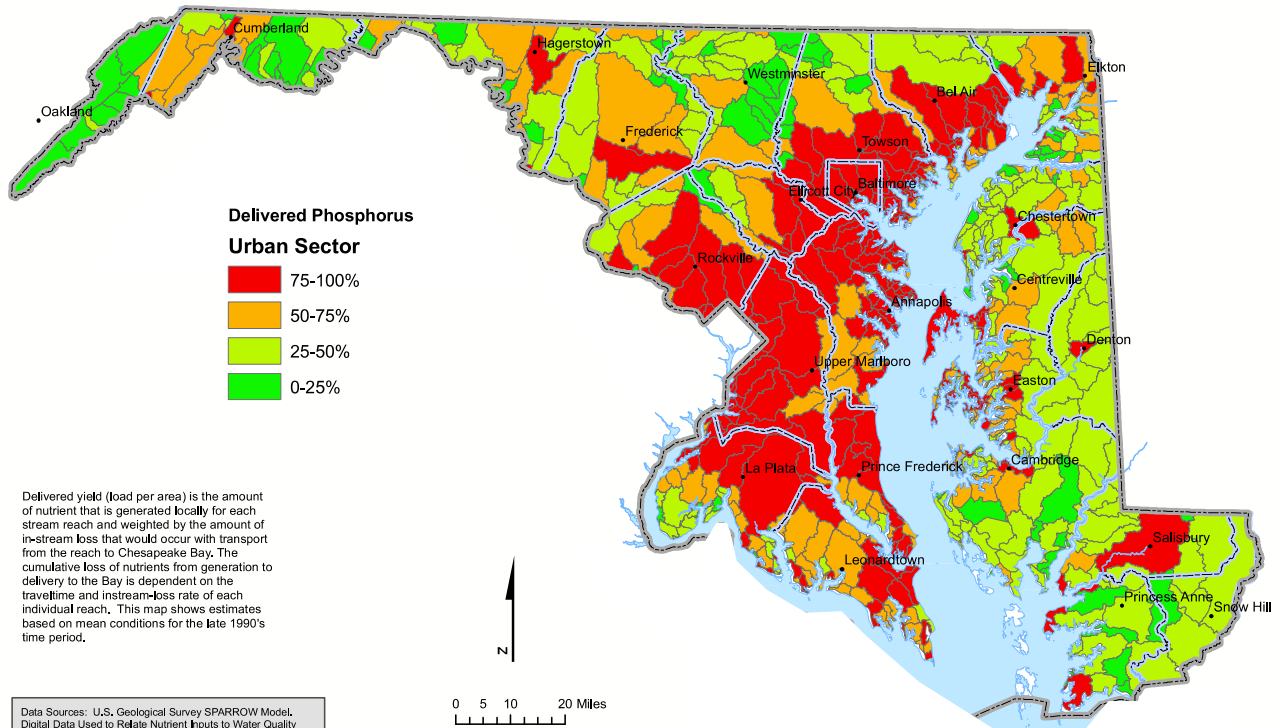
For more information, visit www.chesapeakebay.net
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Created by JW, 03/05/2009

Chesapeake Bay

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Principio Creek

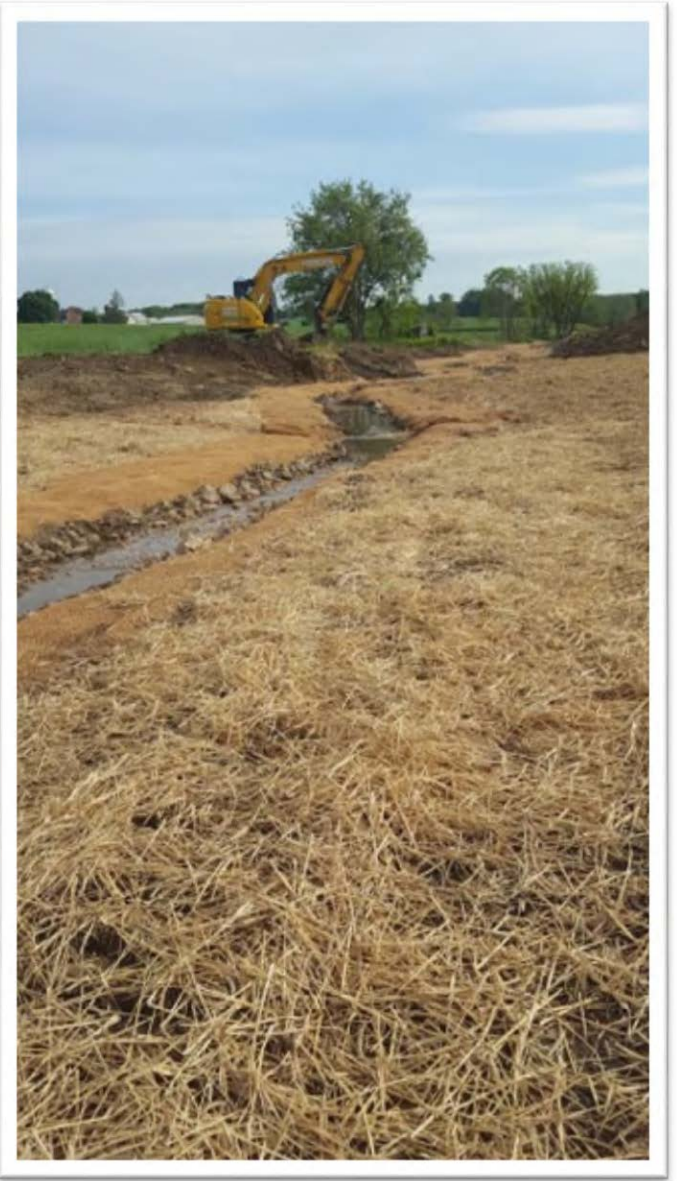
Cecil County

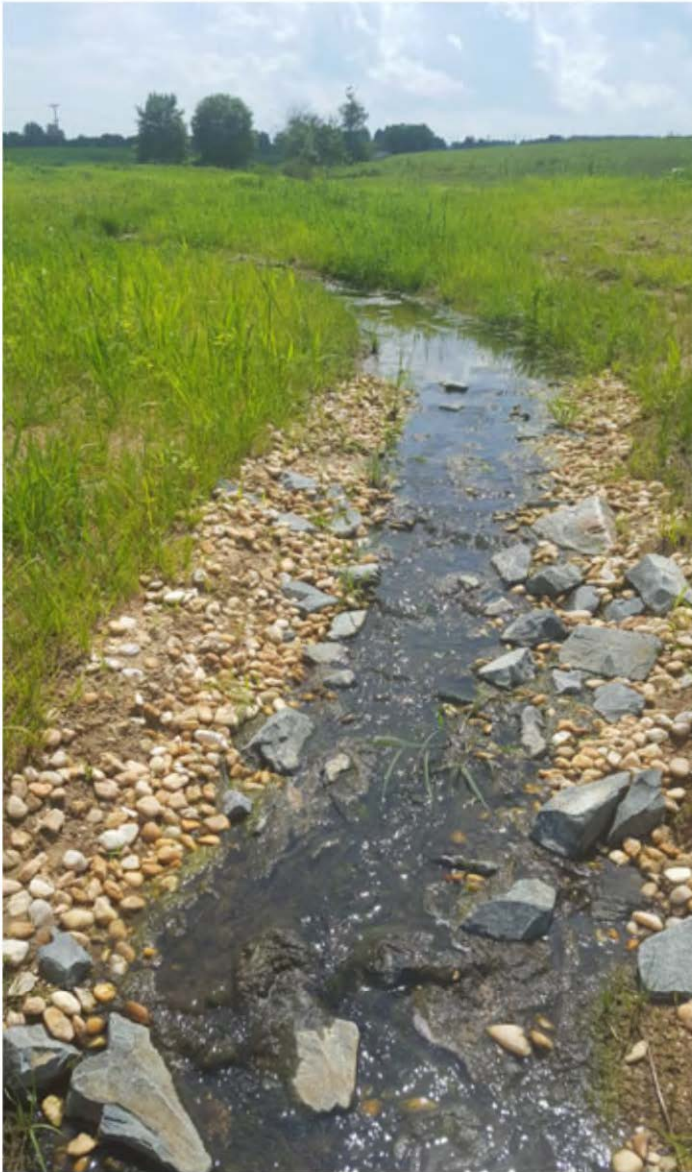


Horst Property – before restoration

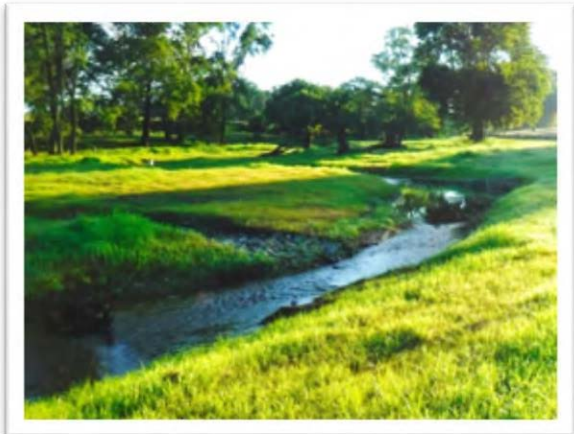


Construction





Results



Paying for long-term success and accountability

<u>Task</u>	<u>Payment</u>
Post Construction as built	75%
1st year monitoring	12.5%
2nd year monitoring	5%
5th year monitoring	7.5%
	100%



A Team Effort



How do Land Trusts Participate?

Land Trust

- Watershed planning
- Landowner outreach
- Land protection (riparian easements)
- Long-term stewardship

Investor

- Provides capital
- Takes all financial and delivery risk
- Agnostic provider of regulatory compliance

Customer

- Needs to acquire units of ecological uplift
- Willing to be a buyer, not a do-er
- Looks to regulator to determine success

Regulator

- Sets standards and compliance requirements
- Determines whether success has been achieved or not

Thank You

Questions?



Questions?



Photo: Shutterstock/Mark Yes



Contacts



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Bill Kilby
President
c/o Executive Coordinator Alisa Webb
alisa@cecilandtrust.org



Jennifer Miller Herzog
Chesapeake Program Manager
jmillerherzog@lta.org

Forest Mitigation Banking

Addressing the barriers to entry



Craig Highfield
Director of Forests Programs
chighfield@allianceforthebay.org

Forests Program

Our mission is to improve forest health, create new forests, increase tree canopy and communicate the public benefits provided by the forests and trees in our landscape



Forests Program

1. Outreach and Education
2. Forest Restoration



157,500

THE MARYLAND FOREST CONSERVATION ACT:

the law that conserves forests during development

1991



Land Use Type	Conservation Threshold	Afforestation Threshold
Agricultural and Resources Areas	50%	20%
Medium Density Residential Areas	25%	20%
Institutional Development Areas	20%	15%
High Density Residential Areas	20%	15%
Mixed Use and Planned Unit Development Areas	15%	15%
Commercial and Industrial Use Areas	15%	15%

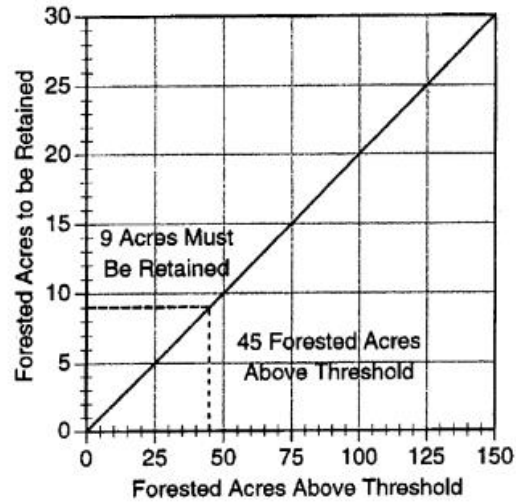
Agricultural and Resource Areas – undeveloped areas zoned for densities of less than or equal to one dwelling unit per five acres.

Medium Density Residential Areas – areas zoned for densities greater than one dwelling unit per five acres and less than or equal to one dwelling unit per acre, including both existing and planned development and their associated infrastructure, such as roads, utilities, and water and sewer service.

Institutional Development Areas – schools, colleges, universities, military installations, transportation facilities, utility and sewer projects, government offices and facilities, golf courses, recreation areas, parks, and cemeteries.

High Density Residential Areas – areas zoned for densities greater than one dwelling unit per acre, including both existing and planned development and their associated infrastructure, such as roads, utilities, and water and sewer service.

Mixed Use Development Areas – single, relatively high density development projects, usually commercial in nature, which include two or more types of uses.



A simple relationship exists between the number of forested acres above the Conservation Threshold and the amount of forests required to be retained in order to be exempt from reforestation requirements. One acre of retention is required for every 5 acres of forest above the threshold (1:5 = 20%). The dashed lines above indicate how an applicant would calculate the break even point for the site used as an example

Source: Adapted from Forest Conservation Manual, 1991

State regulation administered at the county level

Reforestation mitigation options

- On site
- Off site
- Fee in lieu
- Credit from a established Forest Bank

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Reforestation mitigation options

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Perceived Landowner Barriers to Entry

- High upfront costs to establish forest credits.
- Lack of reliable and easy-to-understand resources on the local forest banking programs.
- Insufficient number of services providers in the region available to guide interested landowners through the process.
- Risk of no economic return.

*Investing in the Chesapeake
Bay's Conservation Marketplace*



The D.N. Batten
FOUNDATION

Arabella
PHILANTHROPIC INVESTMENT ADVISORS

McDaniel's Singleton Matthews Farm - What is it good for?

TOPICS: [Campus](#) [Farm](#) [Singleton Matthews Farm](#)



The Singleton Matthews Farm is owned by McDaniel College and is located just ten minutes from the campus, just

How do you feel about the new semester?

- Great!
- Okay.
- Overwhelmed.
- Horrible.
- Not sure yet.

Vote

View Results

MCDANIEL FREE PRESS ON TWITTER

Tweets by @mcdfreepress

 McDaniel Free Press
@mcdfreepress

Paradise in January: Bahamas Jan Term.
goo.gl/jjDory



Embed

View on Twitter

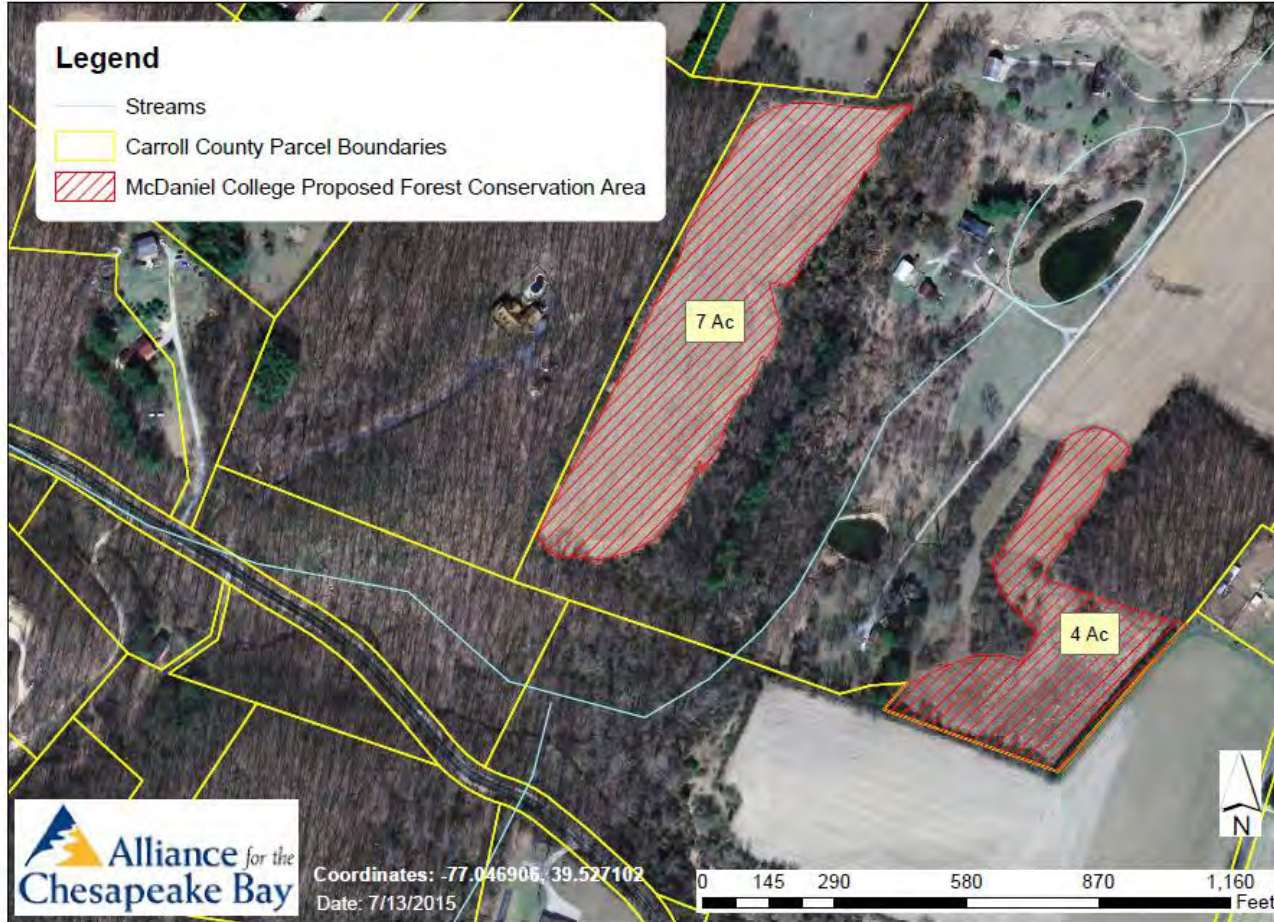
FOLLOW US ON FACEBOOK



Carroll County Forest Conservation Ordinance

- On site
- Off site
- ~~Fee in lieu~~
- Credit from a established Forest Bank
- Afforestation only

McDaniel College- Singleton Farm



Size	Number Required Per Acre	Approximate Spacing feet on center	Survivability Requirement	
			At the end of the second growing season	
Bare Root Seedlings or whips	700	8 x 8	55%	385
When using Tubex	436	10 X 10	75%	327
Bare Root Whips Container grown seedling tubes (minimum cavity width 1.5")	450	10 x 10	65%	290
When using Tubex	350	12 X 12	75%	263
Container Grown 1, 2, 3 Gallon	350	12 x 12	75%	260
Container Grown 5, 7 Gallon or 1" Caliper B & B	200	15 x 15	85%	170
Container Grown 15, 25 Gallon or 1.5 - 2" Caliper B & B	100	20 x 20	100%	100













**Sustainable Conservation Investment Fund:
An impact investment Approach for Chesapeake Farms and Forests**



CONSERVATION INNOVATION GRANTS



Our Goals

- Plant more forests
- Use existing markets as a conservation opportunity for agricultural producers and landowners
- Revolving loan (investment)
- Work in collaboration with Land Trusts
- Benefit both

Ecosystem Markets

- Virginia Nutrient Trading Program
- Maryland Forest Conservation Banking programs
- Maryland Critical Areas Banking Program
- Maryland Nutrient Trading Program*

Ecosystem Markets

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Jurisdiction	Allows Private Landowner Banking (Y/N)	Eligibility Requirements [In addition to the following state eligibility criteria: (1) Establishing or enhancing a riparian forest buffer along streams and floodplains with a minimum width of 50 feet on each side of the stream. (2) Buffers between conflicting land uses, e.g. industrial and residentials, or adjacent to highways or utility rights-of-way. (3) Increase contiguous forest cover by adding new forest adjacent to an existing forest.]					
		MUST be a forest buffer along streams and floodplains with a minimum width of 50 feet on each side of the stream.	May not be enrolled in CREP	Buffers between conflicting land uses, e.g. industrial and residentials, or adjacent to highways or utility rights-of-way.	Increase contiguous forest cover by adding new forest adjacent to an existing forest.	Fores 3 conifores	
1 Allegheny	N						
2 Aberdeen	N			x	x		
3 Annapolis	N						
4 Anne Arundel	Y			x	x		
5 Baltimore County	Y						
6 Baltimore City	N						
7 Bel Air	N						
8 Calvert	Y			x	x		
9 Charles	Y						
10 Caroline	Y						
11 Carroll	Y		x	x	x		
12 Cecil	Y		x	x	x		
13 Elkton	Y						
14 Gaithersburg	N						
15 Garrett	N						
16 Harford	Y			x	x		
17 Havre de Grace	Y				x		
18 Howard	Y				x		
19 Dorchester	Y		x		x		
20 Frederick	Y	x	x				
21 Kent	Y	www.forestsforthebay.org					
22 Montgomery	Y			x	x		
23 Prince George's	Y			x	x		

Heishman Forest
Bank
Westminster, MD
Carroll County





39.455401, -77.069902

Field B
4 acres

Field A
7 acres

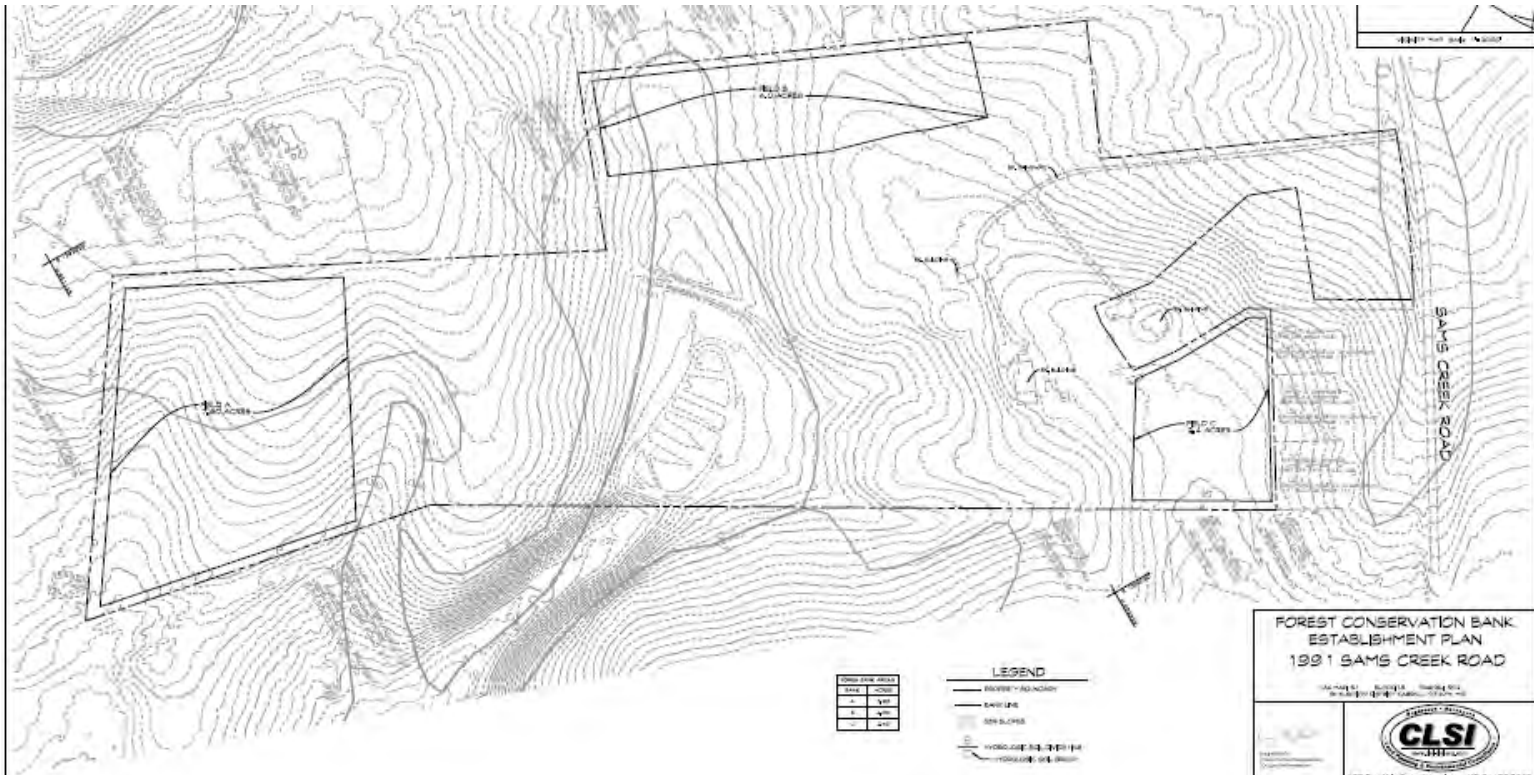
Field C
3 acres



**Landowner Agreement for the
*Alliance for Chesapeake Bay (Alliance) Chesapeake Forest Fund Program***

This Forest Conservation Bank Agreement ("FCBA"), dated this _____ day of _____, 20____ is made by and among the *Alliance for the Chesapeake Bay, Inc.* (Alliance) 501 6th Street, Annapolis, MD and *Brett Heishman* (Cooperator) of 1991 Sams Creek Road, Westminster, MD. The Alliance and Cooperator are hereinafter referred to jointly as the "Parties". This FCBA sets forth the agreement of the Parties regarding the establishment, use, operation and maintenance of the *Heishman* Forest Conservation Bank (the "Bank") that is to be certified in Carroll County's Forest Conservation Banking Program.

- A. The Cooperator is the owner of real property (the "Property"), located at 1991 Sams Creek Road, Westminster, MD; Tax Map 61, Block 18, Parcel 502. The Property is shown on the Forest Conservation Bank Establishment Plan (**Exhibit A**) attached hereto.
- B. The Cooperator desires to create the Bank on 14 acres of the Property (the "Bank Property"). The Bank Property is shown legally described in the Forest Conservation Bank Establishment Plan. The Cooperator agrees to record an easement on the Bank Property with the Carroll County Attorney's Office in accordance to Carroll County's Forest Banking Program (Carroll County Forest Conservation Ordinance: Chapter 150)
- C. Alliance offers to invest \$***** ("Investment") from its Chesapeake Forest Fund to pay for expenses supporting the establishment of the Bank on the Bank Property. The Investment will be used for payment of 1) the requisite Forest Conservation Bank Establishment Plan submitted to the Carroll County Bureau of Resource Management and 2) implementation and maintenance of the forest planting as described in Exhibit B in accordance with the Forest Conservation Bank Establishment Plan. The Alliance will assume all responsibility for hiring contractors and administering the Investment for the aforementioned limited purposes. All other expenses associated with establishing the Bank will be incurred by the Cooperator.
- D. Once the Bank becomes certified by the Carroll County Bureau of Resource Management, the Cooperator agrees to initiate repayment of the Alliance's \$***** investment from the Cooperator's sale of forest bank credits or by other means. Once the reimbursement to the Alliance has been made, the Cooperator is entitled to all proceeds from the sale of remaining forest bank credits.



100' CONTOUR	100'
200' CONTOUR	200'
300' CONTOUR	300'
400' CONTOUR	400'

LEGEND

- BOUNDARY
- - - - - EXISTING LINE
- - - - - NEW LINE
- - - - - SLOPE
- HYDROLOGIC BOUNDARY
- HYDROLOGIC SUB-DIVISION

**FOREST CONSERVATION BANK
ESTABLISHMENT PLAN
199 1 SAMS CREEK ROAD**

DATE: 03/10/2010
DRAWN BY: [Name]
CHECKED BY: [Name]



199 1 SAMS CREEK ROAD, WEST HUNTER, NY 12588
(518) 486-1234 FAX: (518) 486-1235

Owner/Developer

BRITT ROBERTSON
199 1 SAMS CREEK ROAD
WEST HUNTER, NY 12588

NO.	DATE	DESCRIPTION

CONSULTANTS & ENGINEERS

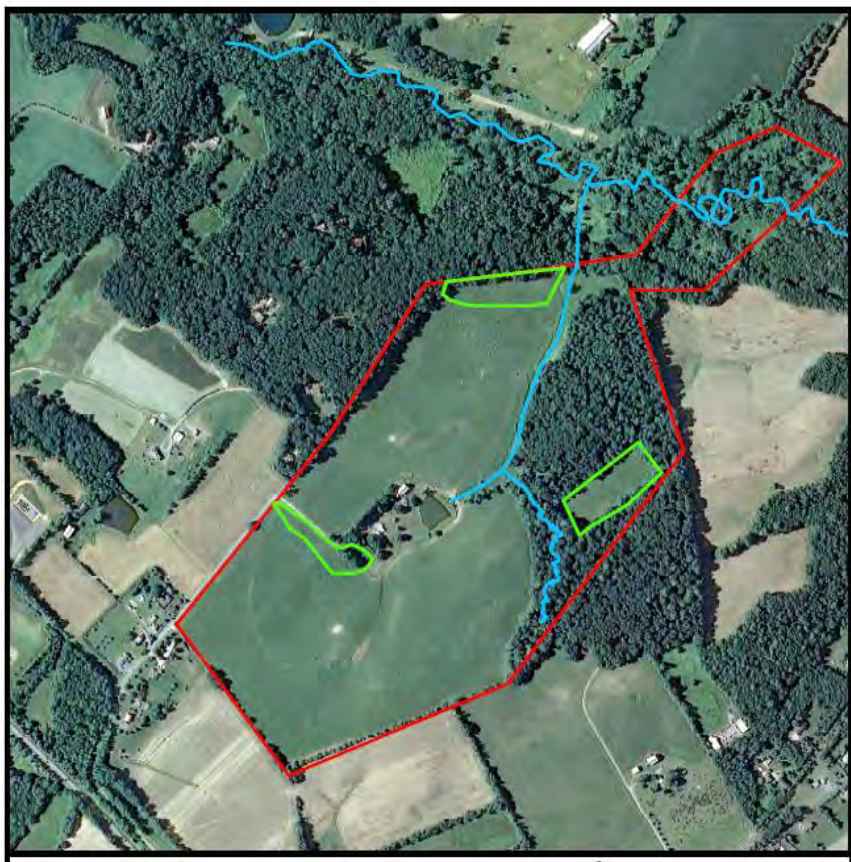


REFORESTATION
BANK



Empty Cupboards Farm
Westminster, MD
Carroll County



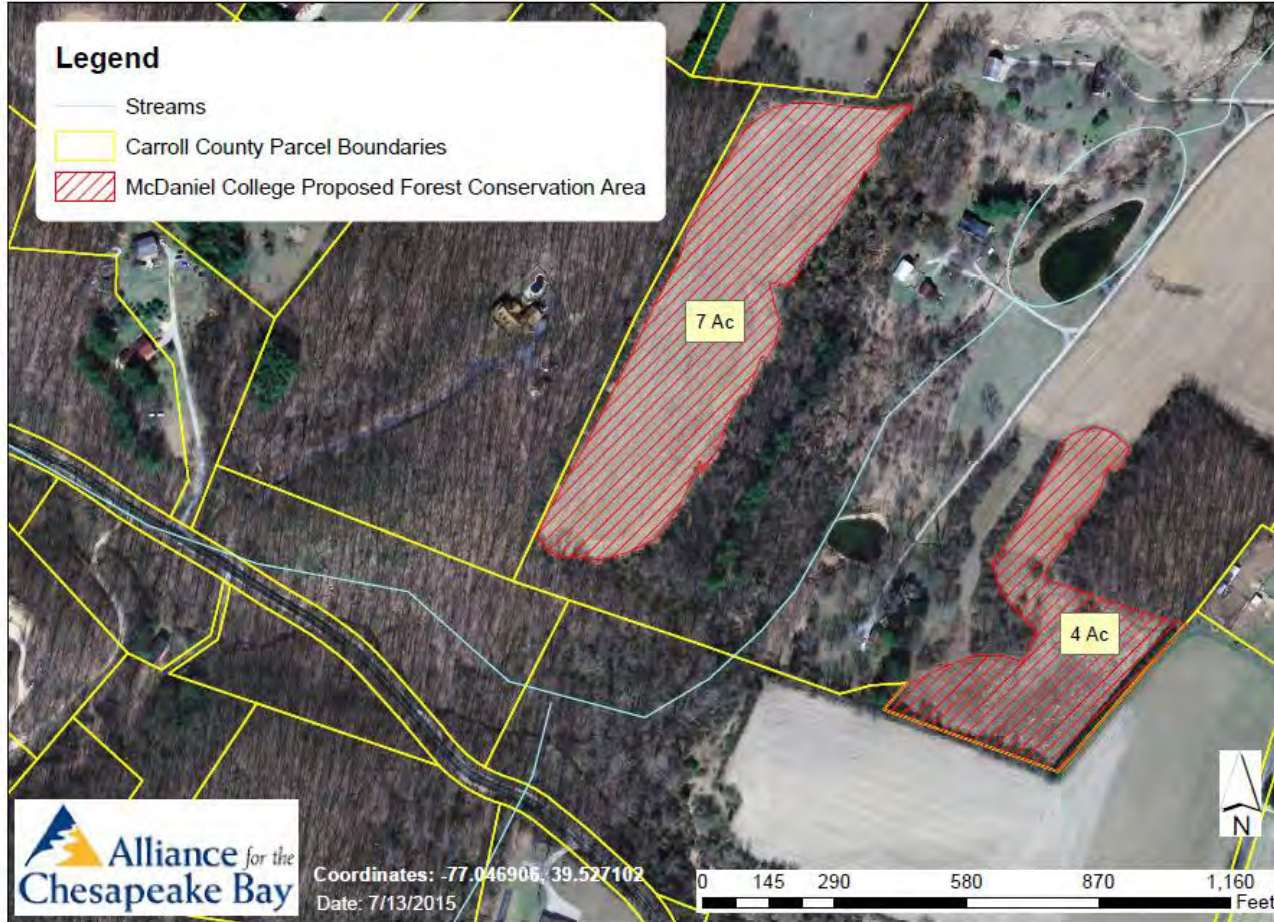


Pikesville, MD
Baltimore County





McDaniel College- Singleton Farm



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Ecosystem Investment Partners

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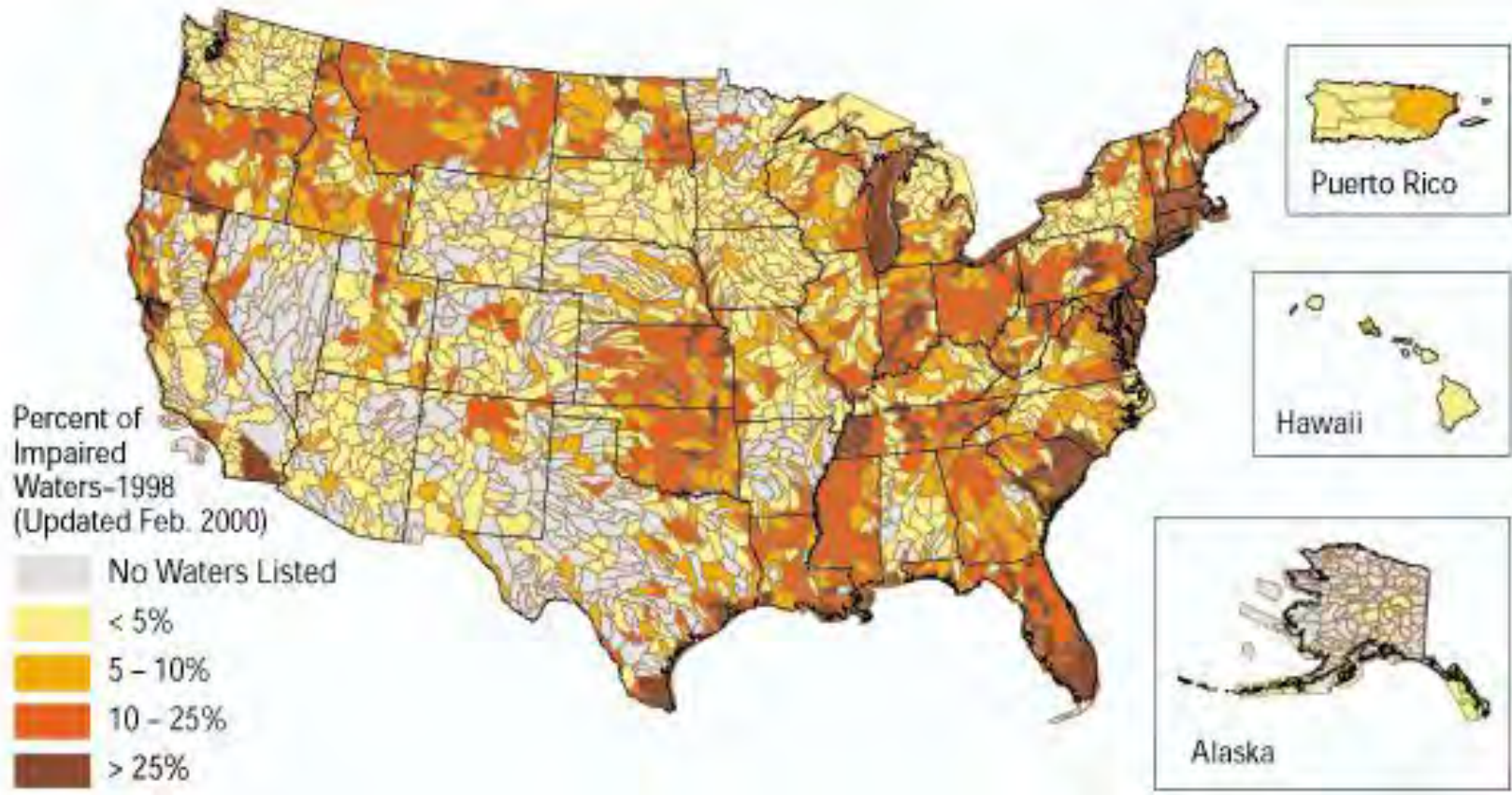
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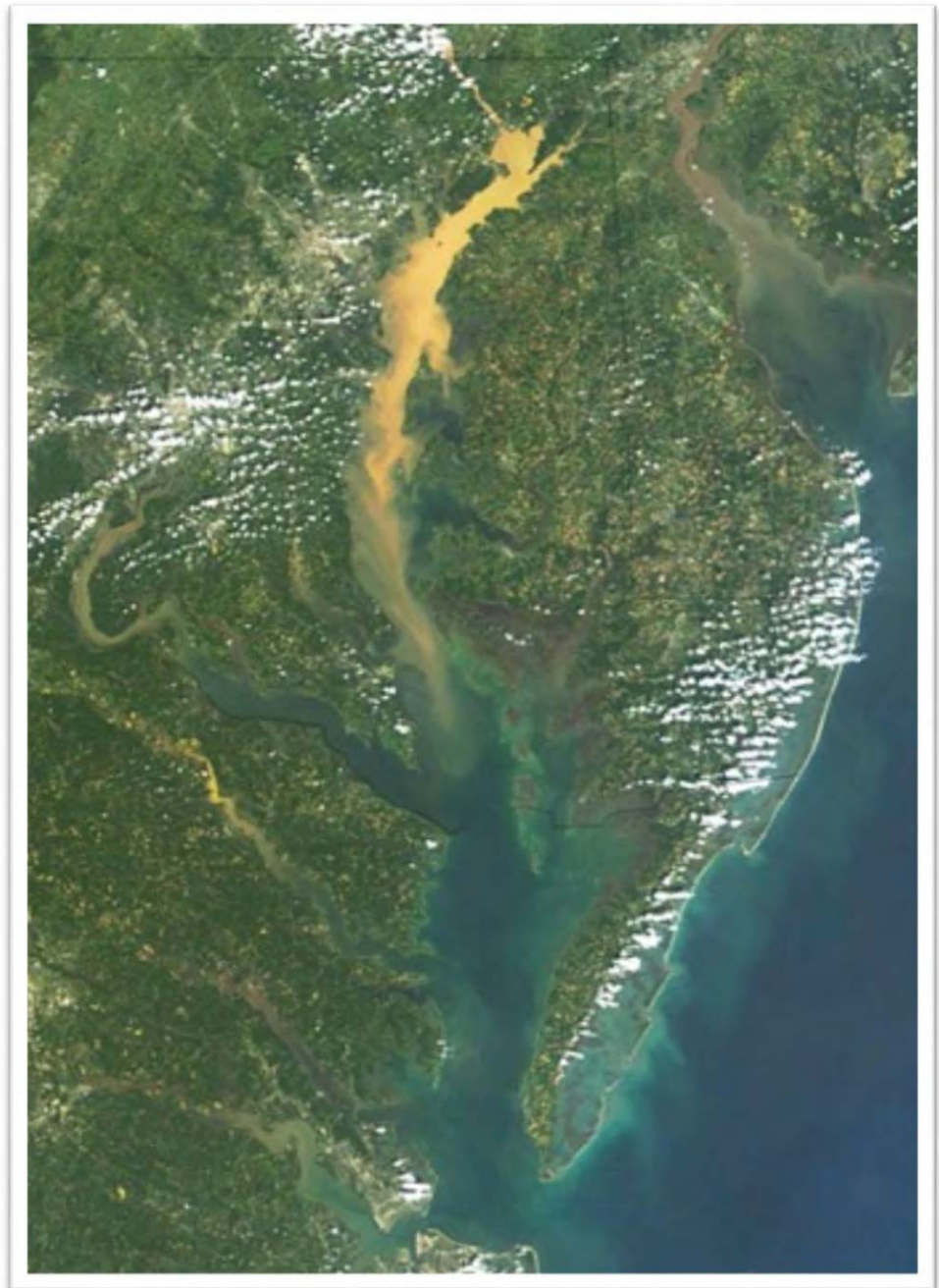
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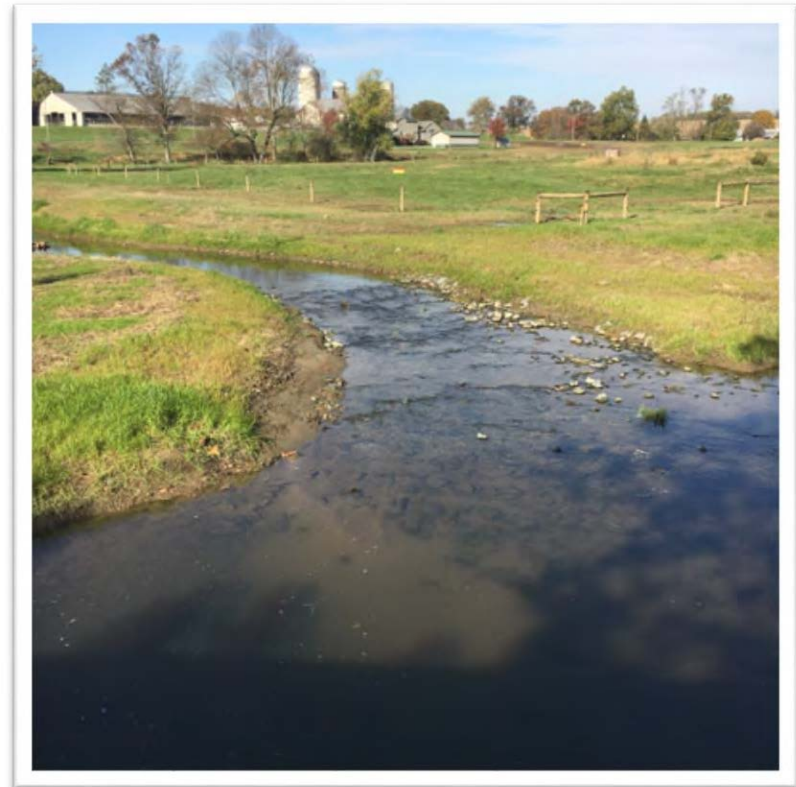
Chesapeake Bay



Chesapeake Bay TMDL

Maryland, New York, Pennsylvania, Virginia, West Virginia and Washington D.C.

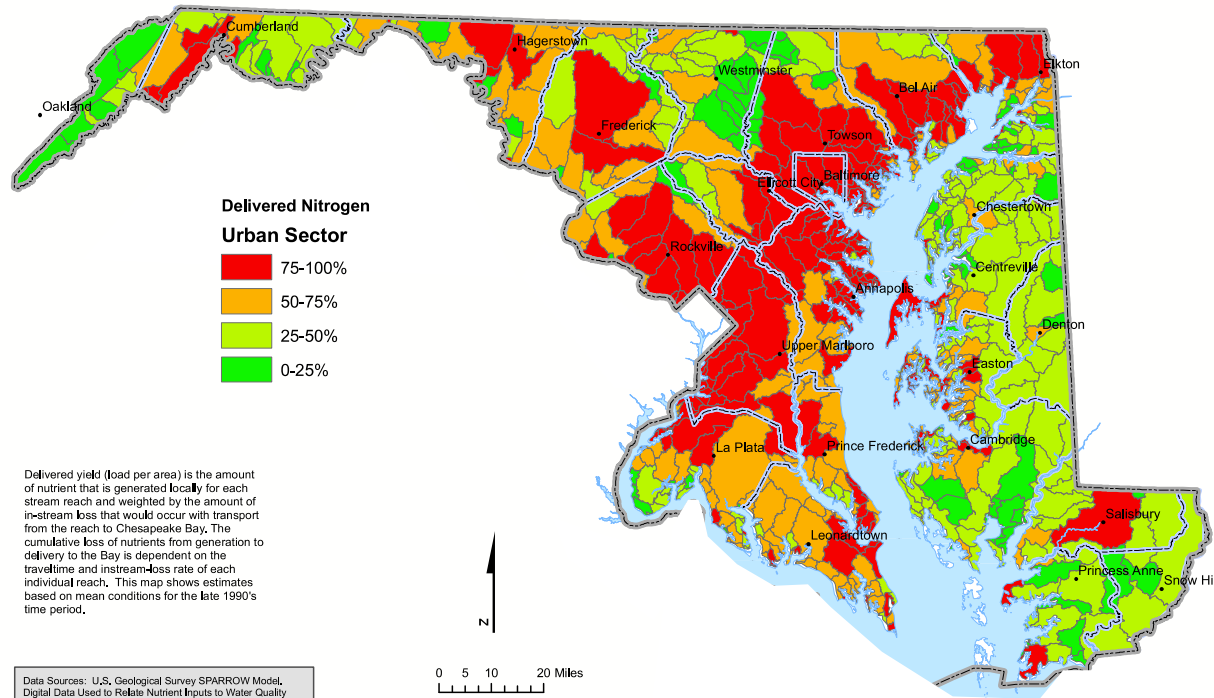
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Chesapeake Bay

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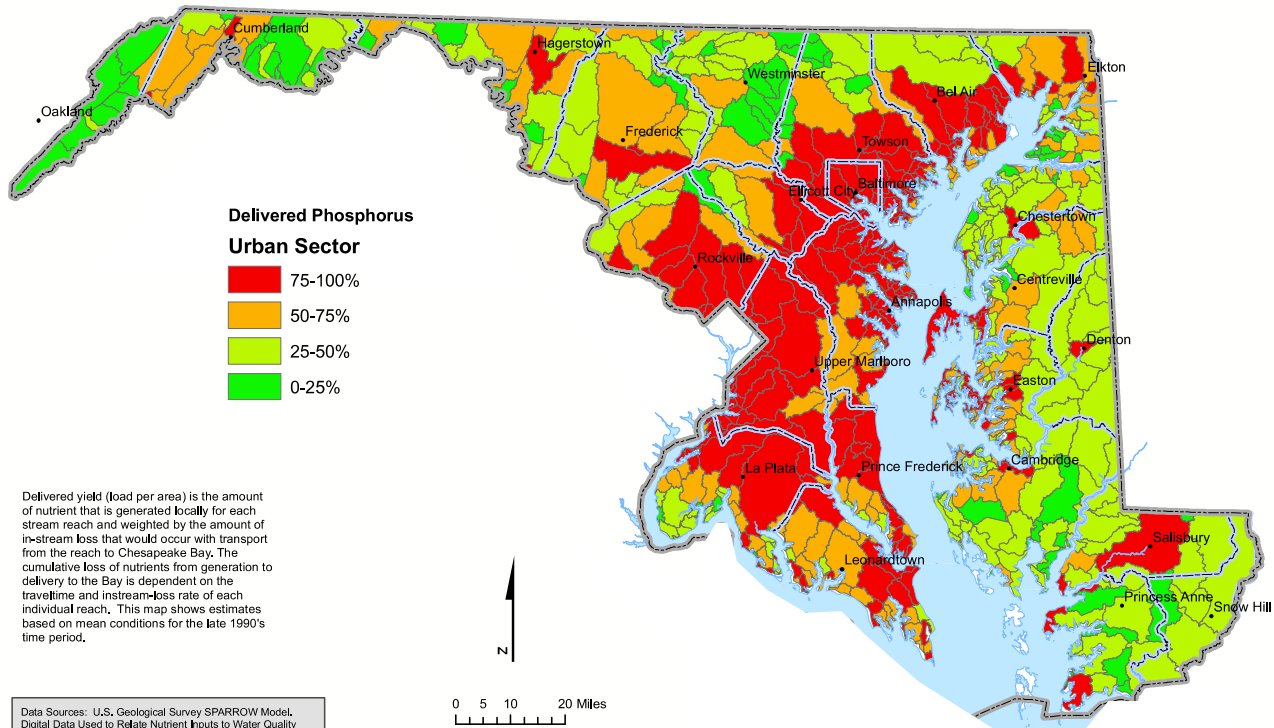
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Created by JW, 03/05/2009

Chesapeake Bay

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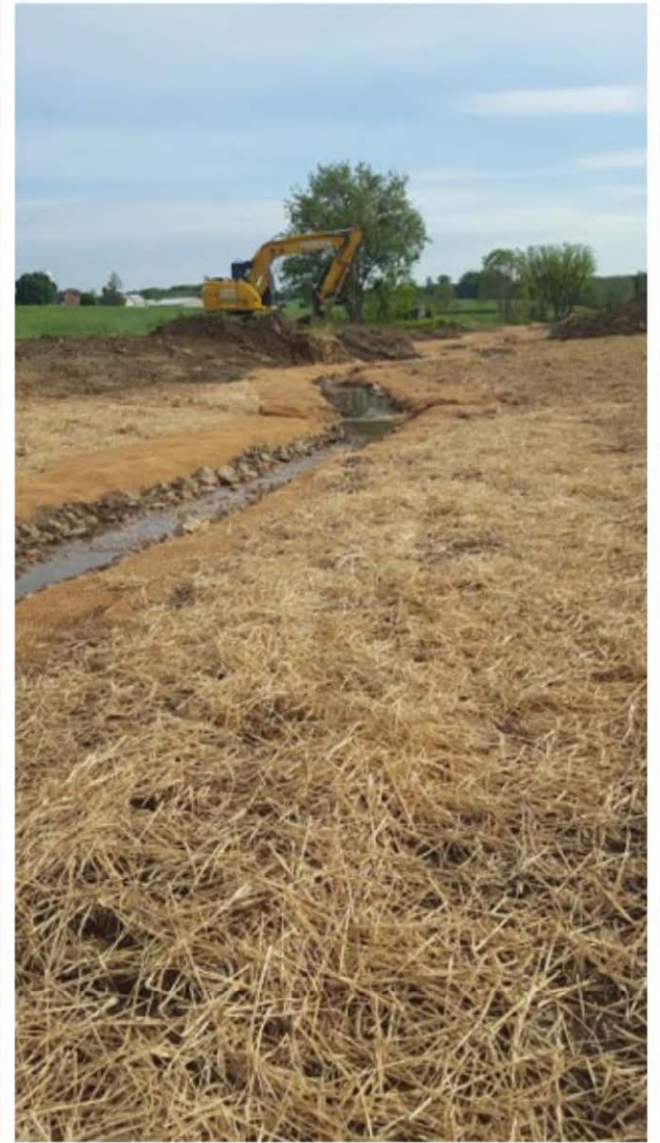
Cecil County

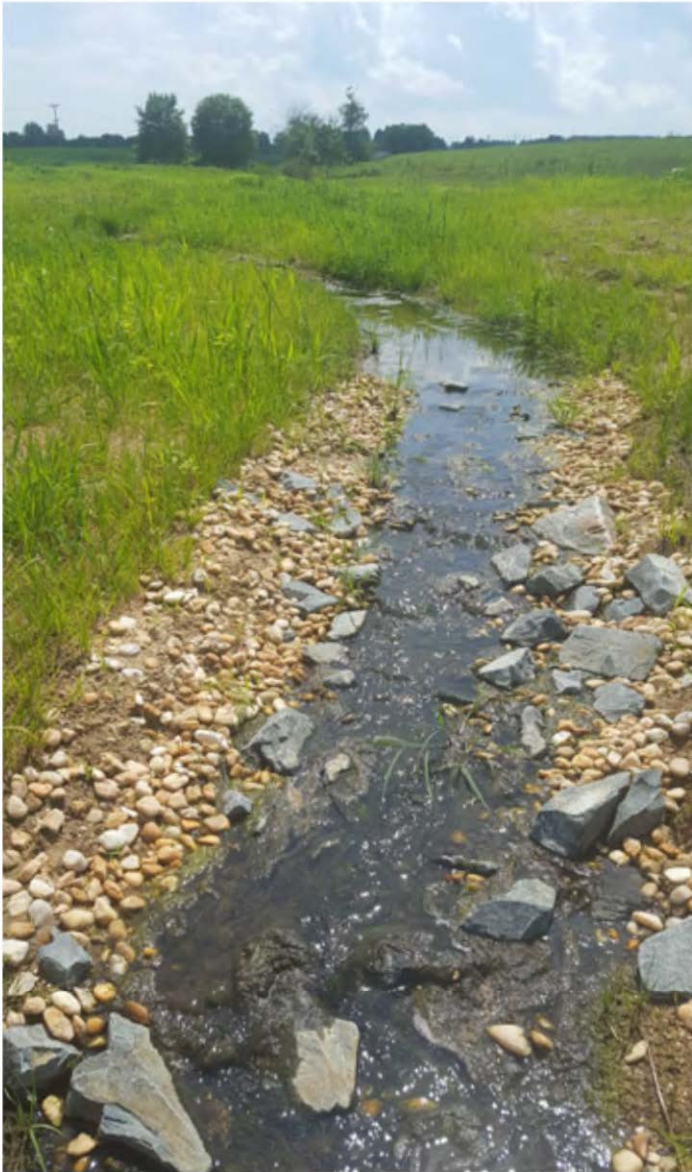


Horst Property – before restoration



Construction





Results



Paying for long-term success and accountability

<u>Task</u>	<u>Payment</u>
Post Construction as built	75%
1st year monitoring	12.5%
2nd year monitoring	5%
5th year monitoring	7.5%
	100%



A Team Effort



How do Land Trusts Participate?

Land Trust

- Watershed planning
- Landowner outreach
- Land protection (riparian easements)
- Long-term stewardship

Investor

- Provides capital
- Takes all financial and delivery risk
- Agnostic provider of regulatory compliance

Customer

- Needs to acquire units of ecological uplift
- Willing to be a buyer, not a do-er
- Looks to regulator to determine success

Regulator

- Sets standards and compliance requirements
- Determines whether success has been achieved or not

Thank You

Questions?

