Innovative Finance for Nature-Based Solutions in Summit County, UT

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FEBRUARY 2020 COUNTY WORKING MEETING
Agenda

I. ‘Why’ Conservation Finance in Summit County
II. Conservation Finance 101
III. Case Studies
IV. Priorities and Readiness for Scale
V. Discussion and Questions
Why Conservation Finance in Summit Co.

NATURAL INFRASTRUCTURE ASSETS
FUNDING CONSTRAINTS
RESOURCE NEEDS
GLOBAL CONTEXT
Natural Infrastructure Assets

- **DRINKING WATER FOR A LARGE NUMBER OF UTAHNS**
- **1 MILLION VISITS/ YR ON THE MIRROR LAKE HIGHWAY**
- **RECREATIONAL OPPORTUNITIES**
- **TIMBER AND CONTRACTOR JOBS CREATED IN SUMMIT COUNTY**
Funding Constraints

- USFS funding dependent on annual appropriations
- Increasing percentage to wildfire response
Resource Needs

- Backlog of forest restoration
- Deferred maintenance backlog
- Decline in non-fire personnel since 1995
Conservation Finance 101

WHAT IS CONSERVATION FINANCE
FUNDING AND FINANCING TOOLS
SCALE OF PRIVATE CAPITAL OPPORTUNITY
What is Conservation Finance?

Conservation finance is the practice of raising, managing, and deploying capital for conservation outcomes.

Investments with no direct financial return/profit

Investments with a financial return/profit
Funding & Financing

Traditional funding for conservation

Public
- Federal, state, municipal funds
- Ballot measures
- Water utility payments
- Taxes

Private/Philanthropic
- Individual giving
- Foundation grant-making
- Corporate social responsibility

Consumer-based
- Voluntary surcharges
- Certification/labeling

New ideas for financing conservation

Return-driven investments
- Impact investing
- Impact bonds/pay for success
- Environmental markets (carbon trading, mitigation banking)
Scale of Opportunity for Private Capital

Growing interest in investments that generate financial returns + social/ecological outcomes

- Socially responsible investing – $22.89T of global assets as of 2016
- Impact investing – $77.4B in impact portfolios in US
- Green bond market – $167B in 2018

Growing interest in conservation investing

- Pace of growth accelerating
- $3.1B of undeployed committed capital
Case Studies

UTILITY FINANCING
FOREST RESILIENCE BOND
PAY FOR SUCCESS
BALLOT MEASURE
Utility Financing Overview

- **Value to Utilities**
  - Integrate grey and green infrastructure into one investment/project
  - Enable cost sharing between beneficiaries
  - Work towards outcomes-based performance measures
  - Meet sustainability targets; reputational benefits as sustainability leader

- **Potential finance models/partnerships**
  - Forest Resilience Bond
  - Pay for Success
  - Ballot Measure
  - Municipal Finance (green bonds, Joint Powers Authority, Joint Benefits Authority)
  - Carbon and Environmental Markets
  - Loan Structures (SRFs)
Little Rock AR Case Study

- Central Arkansas Water
- Land protection adjacent to Ouachita NF
- Recreation, road stabilization, wildlife habitat
- Potential green bond issuance
- Repayment
  - Carbon credit sales
  - Water user fee surcharge
  - Timber sales
# Forest Resilience Bond Overview

<table>
<thead>
<tr>
<th><strong>WHAT</strong></th>
<th>The Forest Resilience Bond (FRB) is an investment vehicle that deploys private capital to fund upfront costs of forest restoration activities to improve forest health and reduce wildfire risk.</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>HOW</strong></td>
<td>Upfront investments through the FRB fun forest health treatments. Treatments are planned and implemented through a collaborative framework. Stakeholders that benefit share in costs of reimbursement to investors over time.</td>
</tr>
<tr>
<td><strong>USFS PARTNER</strong></td>
<td>Blue Forest Conservation (BFC) with World Resources Institute. BFC signed national-level MOU with FS in 2017 – signed by the Chief.</td>
</tr>
</tbody>
</table>
How the FRB Works

How Does the FRB Work?

1. Investors provide capital to FRB to cover full cost of restoration
2. FRB pays implementation partner to cover restoration costs
3. Implementation partner pays restoration crews as work is completed
4. Beneficiaries make annual contracted payments to FRB as environmental and social benefits are realized
5. FRB repays investors principal plus a return
Yuba River Case Study – Tahoe NF

<table>
<thead>
<tr>
<th>Yuba Restoration Treatments</th>
<th>Acres</th>
</tr>
</thead>
<tbody>
<tr>
<td>Aspen Work</td>
<td>404</td>
</tr>
<tr>
<td>Invasive Plant Treatments</td>
<td>89</td>
</tr>
<tr>
<td>Meadow Restoration</td>
<td>345</td>
</tr>
<tr>
<td>Powerline Hazard Tree/Veg Removal</td>
<td>323</td>
</tr>
<tr>
<td>Prescribed Burn</td>
<td>4,104</td>
</tr>
<tr>
<td>Thinning</td>
<td>1,848</td>
</tr>
<tr>
<td><strong>TOTAL TREATMENT</strong></td>
<td><strong>7,114</strong></td>
</tr>
</tbody>
</table>
# Pay for Success Overview

<table>
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<th>WHAT</th>
<th>Pay for Success (PFS) is upfront financing for on the ground projects or ‘interventions’. Investor returns are linked to outcomes.</th>
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<td>HOW</td>
<td>Stakeholders agree to pay investors back based on certain outcomes. They only pay as these outcomes are measured and delivered. PFS is best suited to helping scale activities with proven results OR determine whether untested activities deliver outcomes as predicted.</td>
</tr>
<tr>
<td>USFS PARTNER</td>
<td>Quantified Ventures</td>
</tr>
</tbody>
</table>
How PFS Works

1. Investors provide the upfront capital to cover project costs
2. Implementation partner conducts project activities
3. Project delivers environmental, social, and financial outcomes
4. Independent evaluator measures outcomes using agreed-upon metrics
5. Beneficiaries/payors make payments to investors as outcomes delivered
6. Outcome payments made at rates contingent on project performance allow investors to recover principal and a return
Baileys Mountain Case Study – Wayne NF
Baileys Mountain Case Study – Wayne NF

**Economic Impacts**
- $24.8M local economic spending
- $8.6M additional wages
- $6.9M increased government revenue
- 65 jobs created/retained

**Other Benefits**
- Urban-rural connectivity
- Economic revitalization
- Public health and wellness
- Youth engagement
- Community pride and local identity
Ballot Measures

Ballot measures – also called ballot referenda, initiatives, propositions, or questions – are bills that are directly approved or rejected by voters when they go to the polls. This instrument of direct democracy is employed at both local and state levels and can raise large-scale, reliable public funding for land protection and management.
Flagstaff Watershed Protection Project

- $10M municipal bond
- 74% approval
- 10,500 acres treatment in two watersheds
- Coconino National Forest
- Leveraged over $5M in partner funding
Readiness and Priorities in Summit County

READINESS CRITERIA
LANDSCAPE MANAGEMENT PRIORITIES
IMPLEMENTATION CAPACITY
VALUE FOR SUMMIT COUNTY
### Readiness Checklist

This checklist provides an initial screen to help determine whether an FS project is ripe for conservation finance

<table>
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<tr>
<th>Checklist for Conservation Finance Readiness</th>
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<td><strong>Landscape/Project</strong></td>
</tr>
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</table>
| Defined ecological/social challenge and need for action  
  (i.e. declines in water quality, natural disturbances, increasing visitation, etc.) |
| NEPA decisions signed, projects planned and “shovel ready”  
  (i.e. NEPA record of decision published and individual project plan complete) |
| >$3M in funding required to address challenge  
  (if <$3M required, consider philanthropic sources instead) |
| **Business Case**                             |
| Market demand  
  (i.e. regulatory drivers, municipal targets, costs incurred, sustainability commitments) |
| Potential for ecological/social AND financial outcomes  
  (i.e. timber revenue, market credits, avoided costs, tourism spending, etc.) |
| Beneficiaries willing and able to pay  
  (i.e. entities benefit from outcomes and can enter contracts) |
| **Capacity**                                  |
| FS positioned to be a value added partner  
  (i.e. staffing, plan revision timing, local leadership, regional support, etc.) |
| Local capacity to implement on-the-ground project  
  (i.e. dedicated project managers, contractors available) |
| Collaborative capacity and socio-political support  
  (i.e. partners, elected officials, community buy-in) |
| **Data**                                      |
| Ability to predict and monitor project outcomes  
  (i.e. baseline analysis complete, monitoring process/expertise available) |
GTAC Readiness Map

Local capacity:
- Socio-Political Support: Voting History for Environment (Trust for Public Land data)
- Local Conservation Capacity: Conservation easement % lands protected

Partner capacity:

Priority Landscapes Identified by our non-profit partners
- National Wild Turkey Federation Priority Areas
- NFF Priority Landscapes
- TNC Conservation Priority Areas

Landscapes Identified By & Owned by Federal Agencies or Tribal/State
- DOI, DOD, Ownership
- Tribal Lands
- State Forest Action Plan Priority Areas (Forest Stewardship Priority Areas from RDW)
- USDA RD Opportunity Zones

USFS capacity:

Demonstrated ability to work there previously:
- Collaborative Forest Landscape Restoration Projects
- Joint Chief’s Restoration Initiatives

Revenue potential:
- Forest Carbon Conservation Investments
- Habitat Conservation Investments
- Wetland Restoration and Conservation Investments
Landscape Management Concerns

How do we address these concerns?

What needs to be accomplished to reach this goal?

How do we develop a strategic long term landscape approach focused on the natural function?

Where do we start?
Management Priorities

Management Activities:

- Fuels Breaks, Hazardous Fuels Reduction, Mechanical Thinning, and Pre-Scribed burning.

Outcomes:

- Improved wildfire management, recreation, water system, private land protection.

Benefits:

- Watershed function, improved water quality/quantity, and continued recreation opportunities.
Implementation Capacity

- Shared stewardship agreement with State of Utah
- Mule Deer Foundation, National Wild Turkey Federation, and Forest Service shared specialist
- Remaining 4,505 acres NEPA completed, 3000 additional acres in NEPA planning
- Contract crews are available
Value for Summit County

- Accelerate **pace and scale** of on-the-ground priority work
- Engage **private capital** to grow the total pot of resources
- Promote **shared stewardship** with diverse stakeholders
- Make **outcomes-based decisions** using ecological/economic data
- Bring **new tools** to address the set of challenges we face
- Recognize and **account for values** that flow from forests
- Improve **public relations** through leadership in innovative finance
Discussion and Questions