Show Me The Money – Innovative Funding Models to Deliver Needed Restoration Outcomes Faster, Cheaper and Better

Inspiring Action, Creating Resilience
Restore America's Estuaries and the Coastal Society

John Campagna, Nick Dilks, and George Kelly
November 4, 2014
Gaylord National Convention Center
Washington, DC
Overview

- Framing the issue and introductions
- Role of private capital in restoration
- Risk
- Capital structure vs. risk relationship
- Case studies
  - Municipal P3 model
  - Turnkey project delivery
  - Speculative project development
Private Capital and Conservation:

Two important evolutions in conservation and restoration…..

- **Paying for Program**
- **Paying for Performance**

- **Dollars spent and acres “conserved”**
- **Function of ecosystem services protected or restored**
Private Capital and Conservation:

…….. have hugely valuable consequences:

- Opportunity for profitable conservation attracts new sources of capital to efforts traditionally limited to philanthropic and public resources

- Competition will drive down cost to the “buyers” of conservation and restoration
Private Capital and Conservation:

“Conservation will ultimately boil down to rewarding the private landowner who conserves the public interest. It asserts the new premise that if he fails to do so, his neighbors must ultimately pay the bill. It pleads that our jurists and economists anticipate the need for workable vehicles to carry that reward.”

- Aldo Leopold,
"Conservation Economics",
Journal of Forestry, circa 1934
CRITICAL MARKET ELEMENTS

• Clear policy goals and strict enforcement

• Evolution to uniform standards of mitigation

• Rigorous certification process of mitigation process

• Mitigation easily understandable by impactors (Compensation ratio 1-2 times impact)

• Understandable currency

• Transfer of liability to mitigation project sponsor
**Market Risk**
- Pricing
- Sell-through rate

**Site Risk**
- Maintenance and repair costs over project life

**Operational Risk**
- Implementation cost variance

**Regulatory/Design Risk**
- Credit yield change

**Elements of Risk**
- Weather variability
- Operator competency
- Regulator biases
- Changing Monitoring protocols
- Invasive Species Issues
- Hydrologic performance across site
- Design validity & Imperfect science
- Vegetative success

**Other Risk Elements**
- Credit Supply
- Demand
- Politics
- Timing
- Invasive Species Issues
- Vegetative success
Range of Project Deployment Models

- High (15%+)
- Capital Cost
- Lower
- Stormwater Public/Private Partnerships

- Low (3-4%)
- Risk Transfer
- Performance Payments

- “Turn Key” Mitigation
- EcoCredit Purchase
- Mitigation Banks

Lower

Higher
Overview of P3
Structures & Benefits
Benefits of P3 for Clients…

• **True Partnership**
  P3 allows public sector client to maintain management and advisory control in order to meet its compliance and community/economic development needs.

• **Certainty of Implementation**
  Deployment of solution is responsibility of private sector partner

• **Fixed, Performance based Repayment**
  Repayment based on performance which is measured through 3rd party monitors and trustees

• **Certainty of Funding**
  Funding accesses all markets (private, muni, equity, debt, etc.) ensuring cost effectiveness

• **Innovative, Adaptive Structure**
  Allows for new technology, practices, funding and participants to join during the entire life-cycle
Public/Private Partnership (P3) Structure

Regulated Entity

- Master Agreement
- Performance Payments
- Oversight & Approvals
- Fixed Payments (from taxes, fees)

Private Partner

- Operation & Risk Mgmt
- Identifying & Managing
- Financing & Repayments

Trustee ("lock box")

- Program Management
- Advice & Guidance

Funders

- Solution (projects)

Community Groups

NGO's

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Step 1 – Establish Partnership

The goal of a P3 is to allow a true partnership to drive solutions and efficiencies.

Master Agreement (“contract”) establishes the partnership:

- Regulatory Goals
- Metrics
- Scope/Practices
- Management/Oversight
- Economic Dev Goals
- Maint/Operation

The contract needs to be flexible and adaptive in order to provide guidance, and recourse for a long term relationship.
Step 2 – Creating Funding Methodology
Once the contract is agreed to and repayment strategy is in place (performance payments), financing can be structured based on the client’s needs. Sources of funding could include: Private Equity, Debt, Bonds, and/or Grants. Funding sources could be blended in order to provide the appropriate risk/return cost.

Optionally, financial supports such as use of balance sheet, guarantees, additional reserves, etc. could all be factored in to drive down cost.
**Step 3 – Implementing Solution**
The private partner in the P3 leads the implementation, operation and maintenance of the assets over the contract’s life (20 to 30 years). This includes engaging the community to provide guidance and advice.

The program management will drive efficiencies through:
- Procurement
- Construction
- Innovations over time
- O&M

Risk management of those processes is the responsibility of the Private Sector Partner, and drives down cost/risk for Client.
Conceptual Graphic: Traditional Execution

Identify Need → Create Solution → Program Management

Issue:

Bifurcated, management intensive process

Project 1
- RFP
- Design
- RFP
- Build
- Maintain

Project 2
- RFP
- Design
- RFP
- Build
- Maintain

Project N
- RFP
- Design
- RFP
- Build
- Maintain

Public Sector Task
Private Sector Task

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Conceptual Graphic: P3 Execution

Identify Need → RFQ → Program Oversight

Choose:
- P3 Partner

Create Solution

Program Management

Adaptive Master Planning (1 To 3 years)

Unified DFBOM Lifecycle Process

Year 1

Annual Plans → Project 1, 2 … n

Year N

Annual Plans → Project 1, 2 … n

Public Sector Task

Joint Task

Private Sector Task

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Such Partnerships complement traditional public methods and funding, and allow adaptive flexibility needed to solve large challenges.

- **True Partnership**
  Clients can structure the partnership via a long term contract to their unique needs: regulatory needs, resources available, community development goals, funding, etc.

- **Certainty of Implementation**
  Client has oversight, but not responsibility for ensuring success. Private Partner “on the hook”.

- **Fixed, Performance based Repayment**
  Payments based on performance eliminating risk of paying for cost overruns, and project failures.

- **Certainty of Funding**
  Based on contract and repayment sources funding can access any capital market (private, muni, equity, debt, etc.) ensuring cost effectiveness based on desired risk/return model.

- **Innovative, Adaptive Structure**
  Allows for new technology, practices, funding and participants to join during the entire life-cycle.

*Strategies helps clients solve their most pressing needs*
George Kelly
Environmental Banc & Exchange, LLC
TURNKEY PROJECT CONCEPT

- Project Sponsor identifies and controls environmental offset sties.

- Project Sponsor is responsible for all aspects of project success:
  - Land acquisition and control
  - Permitting
  - Design
  - Construction
  - Monitoring and Maintenance
  - Success Criteria
  - Financial Assurances
  - Long-term Liability

- Allows Buyers to remain focused on what they do best.
LAND ACQUISITION AND CONTROL

- Project Sponsor finds best possible targeted areas
- Project Sponsor is the Independent Purchaser
- Flexibility in deal making – not tied to industry
- Customized land acquisition to acquire only what is needed and what is best suited to the crediting methodology
- Ability to assign interest in land to Client
- Build long-term relations with landowners for future construction, monitoring and maintenance needs.
COST & PAYMENTS

- Provide fixed pricing for project
- Provides all inclusive costs which includes payment milestones
- Payment schedule does not require one upfront payment
- Payments tied to achieving project milestones
- Performance risk is real and requires expertise to be managed effectively. Covering performance risk through a lump sum structure alleviates exposure to these risks
CAPITAL BENEFITS

- Project Sponsor takes on funding of all early stage commitments
- Project Sponsor takes on performance risks
- Project Sponsor takes on capital risk associated with project and sometimes does not recoup costs until actual implementation stage of project
- Fixed price for budgeting purposes
FINANCIAL ASSURANCES / LONG-TERM STEWARDSHIP

- Turnkey concept allows a Project Sponsor to provide financial assurances in the form of a construction phase performance bond, if necessary.

- The established performance bonds provide significant protections to the client entering into a turnkey services contract with Project Sponsor.

- The bonds ensure that funds and mechanisms are available to complete the Site in the event of a default by the Project Sponsor.

- Long term Stewardship may also be provided, if required.

- Contractual transfer of responsibility is available to Client.
A turnkey project can be designed to integrate a broad range of distinct environmental objectives, including the following:

- Wetlands restoration, enhancement and preservation
- Restoration and enhancement of streams and watercourses
- Endangered or threatened species habitat restoration, enhancement and preservation
- Allowing for selective timber management, oil and gas and cattle operations
- Selection and scale is an important issue
PROCUREMENT MANAGEMENT

- Focus on end product and delivery of product
- Minimize unnecessary procurement on each task item
- Milestone payments
- Performance based result
EXAMPLE – CITY OF CHARLOTTE TURNKEY

McDowell Tributary Stream and Wetland Restoration

- 7,410 SMUs
- 3 WMUs
- 26.5 acre easement on 4 parcels
- Catawba River Basin, North Carolina
- Hydrologic Unit Code #03050101
PROJECT TIMELINE

- March 2009: 1st site visit
- July - Oct 2009: Negotiate land contracts
- Nov 2010: Begin discussions with City of Charlotte
- July 2011: Contract with City
- Nov 2011 – June 2012: Redesign, rewrite Mitigation Plan, Permits
- Sept 2012 – Jan 2013: Construction
CITY OF CHARLOTTE AGREEMENT

- Incorporate site into City / County Umbrella Mitigation Bank
- EBX receives payment as credits are released
- City of Charlotte obtains credits for municipal use
BEFORE AND AFTER
BEFORE AND AFTER
ENOREE RIVER BASIN MITIGATION PROJECT

Location:
Newberry, South Carolina

Mitigation:
53,780 Linear Feet of Stream
203.45 Acres of Wetlands
ENOREE RIVER BASIN MITIGATION PROJECT

Overview

- SOP Compliant
- Located within the same HUC/Level IV Ecoregion as clients impacts
- In-Kind
- Landscape Scale Conservation in High Priority Area
  - Protecting and restoring 540 acres within the focus area of the US-Forest Service Indian Creek Watershed Restoration Plan
- Over-Mitigating to facilitate the permitting process
  - Protecting 203.4 acres of wetlands to offset 9.67 acres of impacts (30% more credits than required)
  - Including an additional 30 acres of wetlands (not included in credit calculations) in conservation easement for habitat connectivity
- To reduce implementation risk, the client has outsourced the mitigation work to an experienced mitigation provider (EBX)
ENOREE RIVER BASIN MITIGATION PROJECT

Legend:
- Mitigation Sites
- Impact Site
- State/Federal Land
- Level IV Ecosystem County Boundary
- Approved TMDL
- WQMS
- WQMS impaired

Figure 1. Overview of the Enoree Watershed (HUC 8)

Enoree River Basin Mitigation Project
Newberry County
South Carolina

Job No.: 0250-13-0941
Drawn By: RSM
Reviewed By: AVG
Date: 01/27/2015
**ENOREE RIVER BASIN MITIGATION PROJECT**

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TURNKEY PROJECTS

- Applicable to all forms of environmental offsets (wetland, stream, nutrient, habitat, buffer, forest)

- A solution particularly applicable to nutrients and MS-IV obligations

- Cost savings by eliminating market risk

- Facilitates permit approval

- Fixed price for budgeting purposes

- Can lead to capital cost savings

- Installment payment schedule

- Reduces administrative and internal overhead costs (permitting, land, and operations)

- Transfers performance obligation to the Project Sponsor
In 1952 the Chef Menteur Property consisted primarily of healthy marsh. This is similar to the 1898 USGS map of the area, which shows a similar distribution of marsh to water.
By 2008, over 64% of the healthy marsh on the Chef Menteur Property had degraded either into open water, low marsh or degraded marsh.

Causes: Intracoastal waterway dredging, lack of sediment re-nourishment, hurricanes, sea level rise.
Techniques for marsh restoration have been developed and practiced over twenty years; permits are obtained from USACE and from the Louisiana Office of Coastal Management.
Restoration Underway

- The EIP mitigation bank on the property has completed restoration of 68 acres, and is actively restoring 508 additional acres for CWA 404 credits.
- 7-8,000 additional acres of restoration are needed on this site.
- The large-scale restoration opportunity provided by the site enables cost-effective and ecologically significant action.
Questions?

John Campagna – johnc@restorecapital.com

George Kelly – george@ebxusa.com

Nick Dilks – nick@ecosystempartners.com