Encouraging Private Investment in Restoration

Don Ross
President/CEO EarthBalance
President of National Mitigation Banking Association
Private Investment Model allows . . .

- Restoration successfully completed *before* end-user funds are expended
- Scientifically exacting standards
- Long-term maintenance included in the initial cost
- Risk born by the project proponent
- More (private) money available for restoration
Standards are the key to opening the private market . . .

• Outcome standards are best
• Same standards must apply to all potential project sponsors
• Clear, objective, and practically attainable standards encourage investment
• *Without clear standards*, private investment actors will assume higher risks, i.e.,

  The standards become a risk factor
Why do we need private capital?
The private capital pool is quite large... 

- U.S. pension funds comprise **$22 trillion**
- U.S. Savings Accounts: **$8 trillion**
- Top three sovereign wealth funds: **$2.4 trillion**
- University endowments: **$415 billion**
- CALSTR (CA Teacher Retirement): **$190 billion**
Public funds are more limited . . .

- Total federal discretionary spending: $1.2 trillion
  - For the environment ~ $38 billion
    - EPA ~ $8 billion
    - DOI ~ $12 billion
Managing risk is the challenge

All Projects Risk Factors
- Environmental vagaries
- Outcome specification
- Project management risks (cost overruns, delays)
- Funding continuity
- Responsible party identification
- Inadequate maintenance funding

Private-funded Risk actors
- Investment risk for mitigation credits
  - Timing of credit sales
  - Credit pricing
Returns are sensitive to time

Expected Return vs Years to Sell Credits

- Returns decrease as the years to sell credits increase.
- At 7 ½% return, the years to sell credits are approximately 10 years.

Graph by EarthBalance®
Returns are sensitive to price
The “take-homes” are . . .

• Private investment in restoration could greatly increase restoration funding
• Pay for Performance shifts risk away from the public sector
• The cost of private capital is largely a function of investment risk
  – Price sensitive
  – Timing sensitive
Conclusions

• Without reducing project standards, reducing risk would
  – Lower the cost of capital
  – Make more private capital available

• Lower risk = more private capital = more restoration investment
What if we made investing in restoration as easy as investing in resource extraction?