

Incentivizing Forestland Retention in the Chesapeake Bay Watershed



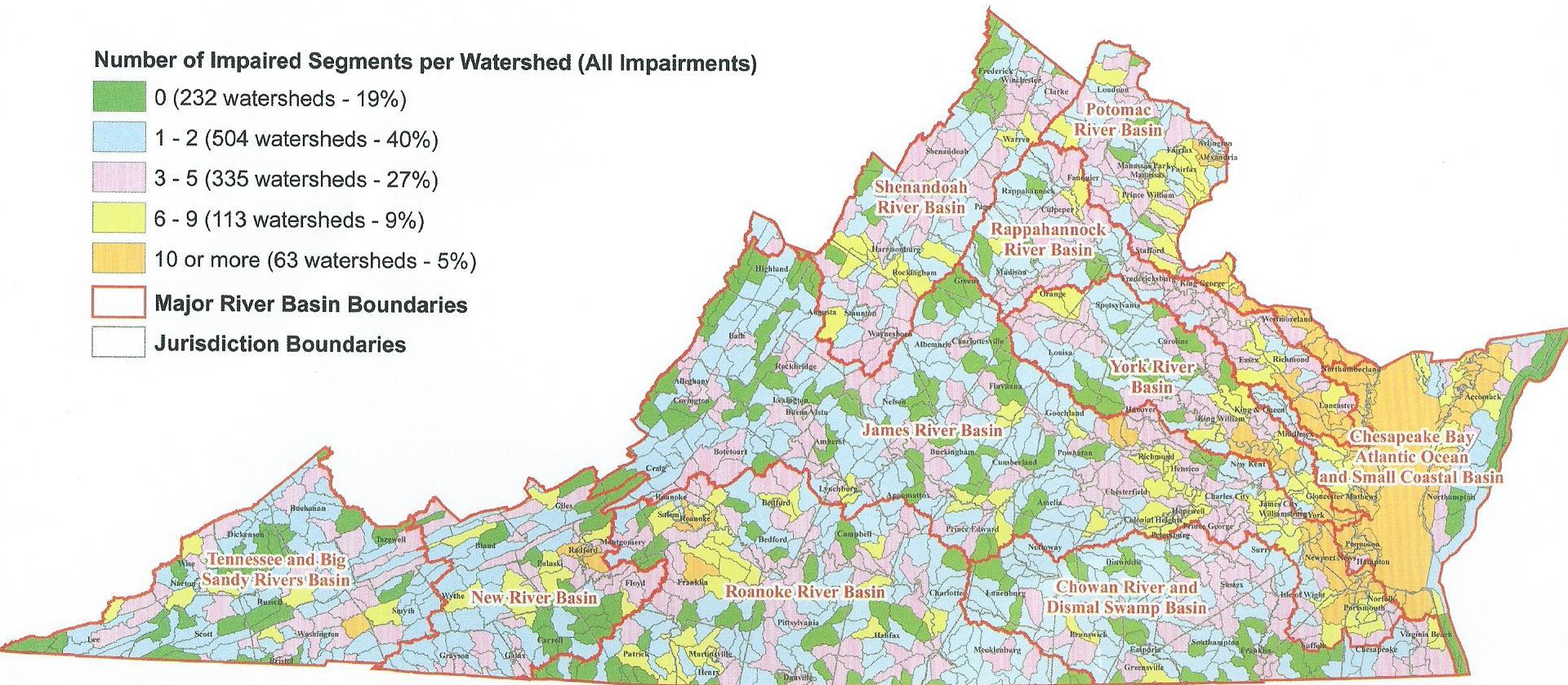
Photo by Will Parson
Chesapeake Bay Program

The Healthy Watersheds Forest Project
Project Update

More Forests = Better Water Quality

Distribution of Impaired* Waters In Virginia's Watersheds

Number of Impaired Segments per Watershed (All Impairments)



* Excludes Category 4B Waters

Sources: Virginia Department of Environmental Quality, 2006 Water Quality Assessment
Virginia Department of Conservation and Recreation



Why This? Why Now?

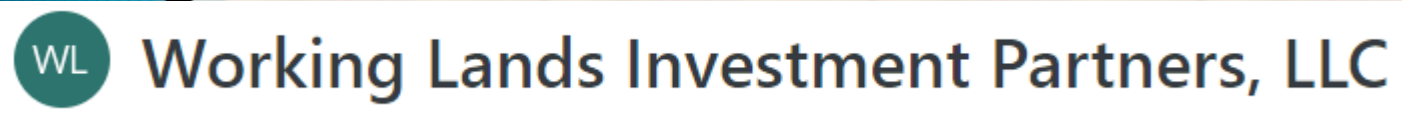
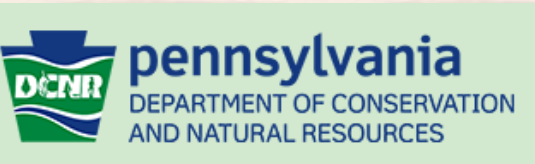


VA FOREST ECONOMICS: 108,000 jobs, \$21.5 billion (#3 industry).

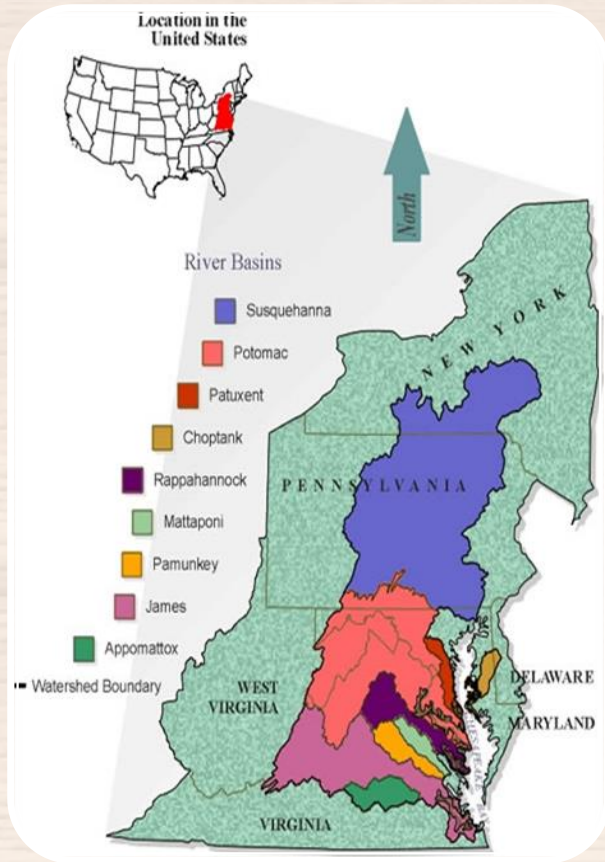
ENVIRONMENT: water quality, habitat, climate

- ▶ A prosperous and diverse forest industry depends on healthy, sustainable, working forests. Those forests require investments
- ▶ Virginia forestland losses: 16,000 ac/year for over a decade
- ▶ 16 million acres of forestland in VA (just over 13 million acres, privately owned)
- ▶ Landscape scale management has large impacts for: watersheds, Chesapeake Bay, landowner financial gains, wildlife habitat, rural economic development

Phase I, II, or III Project Partners

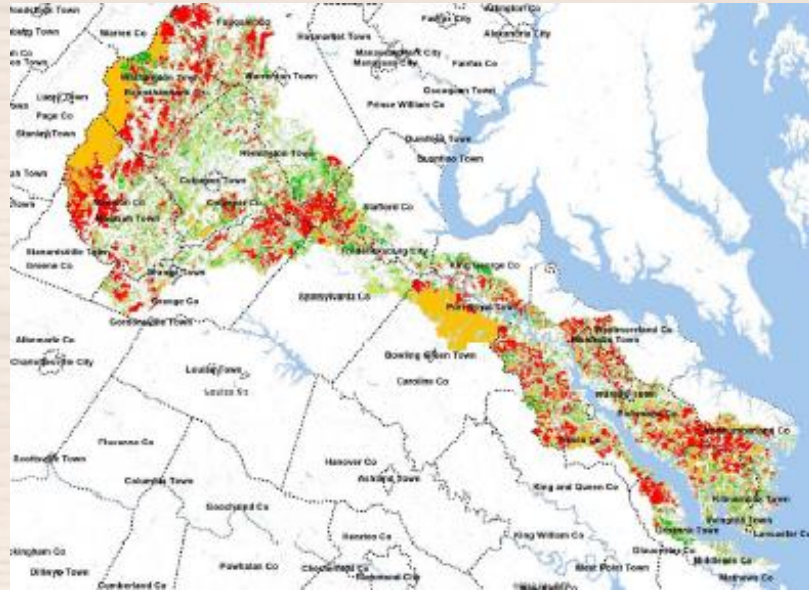


Project Objectives

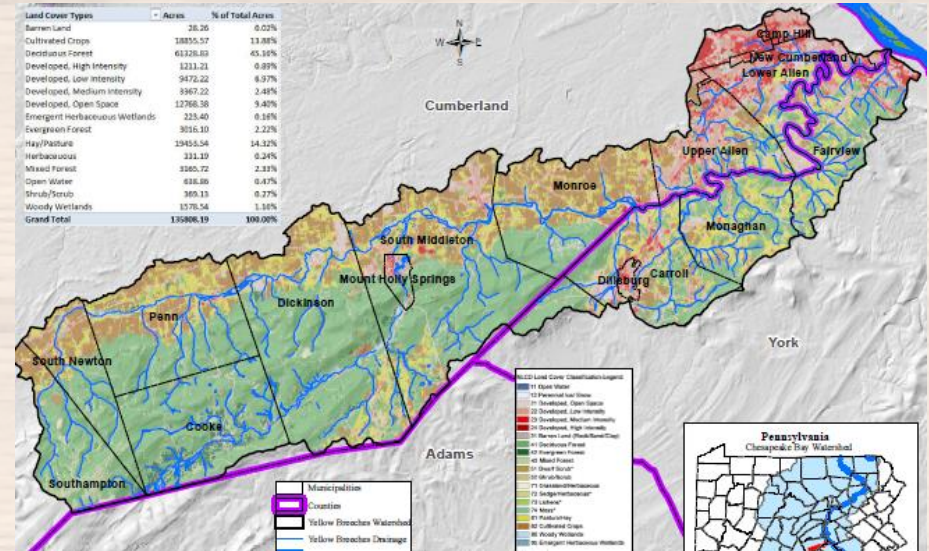


- Phase I: Built economic case for crediting land conservation in the Chesapeake. Bay TMDL Model
- Phase II: VA/PA partnership – Worked with localities to identify needed policy tools and incentives to retain forestland
- Phase III: Implement tools in the field and develop/test financing model to attract large scale private capital investment

Phase II Project Study Areas:



Virginia
Rappahannock
River Basin



Pennsylvania
Yellow Breeches
Watershed

Phase II Potential “Tool Box” Mechanisms



Phase III Tasks

TASK ONE: Work with two Virginia Counties(Orange and Essex) to revise policies & ordinances to incentivize retention of forest and agricultural lands.

TASK TWO: Create working financial model to incentivize private sector investment (\$500M+) in conservation on a landscape scale and on a long-term sustainable basis.

TASK THREE: Coordinate with other Chesapeake Bay Program workgroups to integrate findings with those of other initiatives to institutionalize results across all Bay jurisdictions.

Phase III Issues and Opportunity

Key investment concern: risk management

- For the landowner - what are the tradeoffs, the opportunity costs incurred with participation?
- For the Counties, what are the legal liabilities, and the administrative costs involved – can these be managed and generate revenue?
- For the private investor, what are the regulatory, market, and project risks – how can these be mitigated?

Carbon values were selected as water quality proxy to provide additional income streams and incentives for landowners and rural localities

- Offers potential to aggregate individual landowner interests so they can be offered at scale and with the market convenience required to attract large-scale private capital investments

Phase III Financial Mechanism Overview

Mechanism must be able to:

- Aggregate individual landowner interests and offer them at a scale large enough to attract private capital (>\$50MM) on an ROI rather than a philanthropic basis.
- Provide alternative revenue source for rural localities to meet budget shortfalls stemming from reduced taxes on forest and agricultural lands
- Provide market rates of return (ROI) by paying landowners acceptable value for land management practices via environmental 'credits' sold in regulatory and/or voluntary markets.

Success Outcomes – Ripple Effect

**Empowered governments at
local level**

**Policies at all government levels
provide incentives for forestland
retention**

**Quality communities and healthy
watersheds at reduced cost**

**Private sector financing on landscape
scale sustainable basis**

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