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Healthy Watersheds Phase III

The Healthy Watersheds project began in 2015 as an effort to quantify the value of forest cover for achieving Chesapeake Bay (CB) water quality and healthy watershed goals and outcomes. Localities in the watershed have long maintained that unless total maximum daily load (TMDL) credit is given for retaining forestland, which has already been thought of as one of the best land use solutions for clean water, there is little local incentive for preserving forestland.

In phase I, Virginia successfully quantified the value of crediting forestland conservation in the Chesapeake Bay TMDL demonstrating that such actions could save millions of dollars for both public and private Bay watershed stakeholders. In phase II, Virginia and Pennsylvania, worked with local jurisdictions (in over 60 meetings with stakeholders) to identify the suite of policy and economic incentive tools that could be used to stimulate conservation. These efforts contributed significantly to the recent decision by the Chesapeake Bay jurisdictions to formally credit existing forest conservation as a best management practice (BMP) in the TMDL for the first time.

The goal of phase III is to complete the successes of phases I & II by addressing challenges associated with creating the policy and financial infrastructure needed to facilitate forest & agricultural land conservation/retention on a sustainable, Chesapeake Bay-wide basis. Phase III will work with land owners and other County stakeholders to develop specific policies and financial benefits to landowners and taxpayers to achieve the environmental goals that have been established.

Phase III will have two tasks: (1) Work with two Rappahannock river basin localities to develop and implement plans, policies and ordinances to foster high quality (HQ) forest and HQ agricultural land retention; and (2) Develop long-term funding mechanisms supported by the private sector. The task 1 team will work with the Rappahannock River Basin Commission and its member jurisdictions to select two Virginia counties who participated with the Phase II project. The localities will be assisted through the process of evaluating and potentially revising its Comprehensive Plan and key implementing ordinances (e.g., zoning and subdivision ordinances) to prioritize protection of HQ Forest and HQ Ag land drawing on the Phase II suite of policy tools.

Task two will focus on developing a transferable financial model in the pilot counties to incentivize private capital markets to invest in the retention of HQ Forest and HQ Ag lands to offset future forecasted growth and development based on the Bay TMDL model. The objective is to harness the power of the economy to drive conservation of HQ Forest and HQ Ag lands, as opposed to relying on philanthropic motives or further regulations. Transactions must be able to occur much faster if the level of private capital investment needed to sustain conservation on a long-term basis is to move into the financing role for forestland conservation.

Step one is to account for existing land use programs and current tax programs. These will be inventoried, including subsidies, and a compatibility matrix developed identifying the potential mix and match of those programs which work, or not, with the others. Consideration will be given to real and perceived competition for funds. Budget limits on programs that appear to provide a funding opportunity but actually have limited impact will also be considered. By reviewing the total funds available, a realistic assessment of the competition for these funds, and the interplay of the programs, the team will develop financial scenarios that characterize the opportunity for private financing of HQ Forest retention, reforestation and HQ Ag retention. The team's hypothesis is that there is sufficient fragmented demand that, when aggregated, can reach an economic scale to attract investment. The key is aggregation of landowners' potential ecosystem services offerings, e.g. carbon credits, water quality credits, habitat enhancement, etc. This demand must be matched to the investment market's structural protocol(s) (e.g. trade regulations, trade restrictions, liquidity, tax treatment, secondary markets, etc.). The goal is to develop a financial conduit to link the aggregated demand with money. Done correctly, this will involve favorable tax treatment for landowners and investors, a fund source to help rural communities meet basic service needs, and a reduced cost for meeting TMDL regulations.

By the end of Phase III, land use policy options will have been validated in Virginia and Pennsylvania, model plans and ordinances will have been created and piloted in Virginia and a "How-to" manual will be available to communities across the Rappahannock River Basin and Chesapeake Bay watersheds. Financing mechanism model(s) will have been developed drawing on needs from localities in Virginia and Maryland, as well as the private financial sector, and will be ready for piloting on a Bay watershed-wide scale.