

NISQUALLY COMMUNITY FOREST ADVISORY COMMITTEE MEETING

Meeting Notes

Wednesday, June 27, 2012

12:30 to 2:30 p.m.

Nisqually Wildlife Refuge Visitor Center

Attendees:

Bryan Bowden – Mount Rainier National Park
Nicole Hill – Nisqually Land Trust
Jean Shaffer – Nisqually River Council, Forester
Kirk Hanson – Northwest Natural Resource Group
Justin Hall – Nisqually River Foundation/Nisqually River Council
George Walter – Nisqually Tribe
Joe Kane – Nisqually Land Trust
Charly Kearns – Nisqually Land Trust
Owen Fairbank – Jefferson Land Trust
Nick Bond – Town of Eatonville
Sarah Scott – Ashford, Upper Nisqually Community Forum
Tom Tuchmann – U.S. Forest Capital
Sheila Jackson – Nisqually Land Trust

Welcome/Introductions/Review Agenda

Joe Kane welcomed everyone and facilitated introductions. Bryan Bowden reviewed the agenda.

Presentation and Discussion: Tools for Creating a Community Forest – Tom Tuchmann, U.S Forest Capital

U.S. Forest Capital is a private forestry and financial services company based in Portland, Oregon. They counsel clients on how to purchase and monetize forest properties that have high conservation values and they help clients develop business opportunities within the natural resource conservation sector and take advantage of the burgeoning ecosystem services market place.

They have several primary goals:

- Provide private incentives for conservation
- Identify and manage transactions
- Create/improve governance related to community forestry
- Help to arrange financing options

Important Statistics:

- 84% of industrial timberlands have sold since 1996
- Of that, only 3% sold for conservation purposes
- 51% were sold to Timber Investment Management Organizations (TIMO's).
- When TIMO's acquire forest land, it is with a short-term investment horizon of usually 10-15 years

- Herein lies a brief ‘window of opportunity’ for establishing community forests over the next decade.
- There is an urgent need for private capital that is “engineered” to finance acquisition of community forests.

Since 2008, the pricing for industrial timberland has remained relatively stable. However, the number of deals has dropped by 50-75%. Additionally, most deals have been smaller transactions (\$10million-\$50million), which leads to a fragmented ownership landscape. Furthermore, many of the sales were TIMO-TIMO, betting that the land value will continue to rise (looks like a bubble might be forming?).

Two notable exceptions to the above:

1. GMO Renewable Resources (a privately held global investment management firm) made a large sale to the Campbell group.
2. Forest Capital (TIMO) made a \$2.5 billion sale to Hancock.

These sales may help to change the climate in timberland sales.

1. Governance:

Community Forestry can have different meanings:

- Community of place – public acquisition
- Community of interest – private acquisition that represents diverse public interests.

Governance options for Community Forests (Beginning with least amount of public involvement)

- Private, for profit
- Private, nonprofit
- Instrumentality – publically authorized, privately run
- Forest authority – Government subsidiary
- Public

Differences:

- Who owns it?
- Who controls the decisions?
- How is it financed?
- How are revenues distributed?

Similarities (of three middle road options):

- Lower cost of capital (flexible, long-term loans)
- Municipal financing
- Taxes paid
- Forest management plan for public benefit
- Willing sellers

- Board includes – timber, financing, conservation, public
- Must be credit worthy business
- Include appropriate financial oversight

Distinctions

Private, Nonprofit:

- Board self-selecting
- State/local issuing authority to issue debt on its behalf

Instrumentality:

- State-based nonprofit
- State/local issuing authority to issue debt on its behalf
- Board appointed by municipality

Forest Authority:

- Independent government organization
- Authority to issue debt on its own behalf
- Board appointed by municipality

2. Financing

“Downhill lever of forest financing.” – How to finance for conservation management when costs exceed return? **Access to financing sources at lower cost if governance structure is one of the middle road options.**

Financing tools (to make up the difference):

- Private equity with conservation return (e.g., TNC, conservation easements)
- Client buy-back – sell land, buy back use restrictions
- Fee/easement buy down
- Taxable/tax exempt revenue financing
- Other debt – nonpoint source revolving fund
- Bonds for property
- Public

Additional revenue streams:

- Conservation sales
- Green development
- Wetland mitigation banking
- Conservation banking
- Water trusts
- Carbon
- Wind

3. Examples

Usal Redwood Forest:

- \$65 million, 50,000 acres.
- Buyer – Redwood Forest Foundation Inc.
- Seller – Georgia Pacific

Financing:

- Private equity at close
- 50% conservation equity buy down
- 50% serviced with timber harvest
- 3 loans, 20 year buy down

Mt. St. Helens:

- 20,000 acres
- Columbia Land Trust
- USDA loan guarantee – gives commercial lenders some comfort, gives capital to buyers.

4. What the future may hold

It seems that the market may be picking up (GMO, Forest Capital sales). However, prices may still demand small land sales for some time. There will soon be many TIMO's looking to divest from timber lands. **Result: higher number of small transactions (\$10-\$75 million)**

Recommendations:

- Board must recognize community forest is a business, and should include a diverse group of representatives
- Board should take a flexible and long-term perspective
- Community acquisitions can compete, but boards must take conservative risks.
- Combine private equity, debt, and conservation equity
- More successful when targeting “problem tracts” – riparian areas, endangered species habitats.
- Successful financing requires open mind – Access for ORVs, amount of harvest that may be required, amount and type of financing required.
- Think of conservation features as a ‘floor’, not a ‘ceiling – add values over time.

Challenges:

- Board needs to be on the same page
- Conservation equity
- Need to run a business – maintain credit worthiness
- May have to harvest more today, conserve more tomorrow
- Have to develop a track record to attract private equity

Next Steps: Bryan Bowden

The Planning team will draft additional documents regarding the ownership model and conceptual financing options and post to the website for comments. Still planning to have a public meeting in October to showcase what has been done thus far, and to invite public comments. Hope to have a draft of final plan by December/January.

Adjourn

Meeting adjourned at 2:30 p.m.