

NISQUALLY COMMUNITY FOREST ADVISORY COMMITTEE MEETING

Meeting Notes

Thursday, May 10, 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
Mark Thibo – WDNR
Brad Hunter – CRAFT3
Judy Scavone – Ashford/NLT
Steve Pruitt – Small forest landowner
Deborah Crosetto – CAC, NRC
Paul Crosetto – CAC, small forest landowner
Nick Bond - Eatonville

Welcome/Introductions/Review Agenda

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

Presentation and Discussion: Tools for Conservation Finance – Brad Hunter, Craft3

Craft3 is a Community Development Financial Institution (CDFI), not a bank, and has three bottom lines: Economy, Environment, and Equity. Craft3 focuses on conservation financing in a couple different ways:

- Conservation Bridge Fund: short-term financing for non-profits to secure property ahead of private and public grants.
- Conservation Investments: wetland mitigation, water quality trading

Timberland Finance: What matters to lenders?

- Two most important factors are equity (money raised before acquisition) and cash flow (how much cash will be generated from harvest/commercial activities on property).
 - Need these numbers before attempting financing
- They also look at management capacity (i.e., your ability to manage the asset)

- Lenders like to invest in timberland because it requires less collateral (land won't go away)

What lenders measure:

- Loan to Value ratio: <50% (More than 50% should be equity)
- Debt Service Coverage Ratio (DSCR): an individual or group's ability to produce enough cash to cover debt – lenders want a minimum of **1.2**
 - In theory, a DSCR over 1 means that the entity generates sufficient cash flow to pay its debt obligations
 - Often requires heavy harvest for the first 10-15 years, and can be a challenge for sustainably managed forestland.
 - Important to have a good appraisal/inventory prior to financing.
- Track Record – transaction history, experienced partners

Options for overcoming low DSCR:

- Increase % equity investment – more \$ upfront
- Subsidized debt – lower rates, longer terms (Program Related Investments [PRI] from foundations)
- Supplemental revenue – easements, hunting/recreation leases, etc.
- Environmental Services? Carbon mitigation?
 - Usually not factored into cash flow analysis, unless entity already has a signed contract with a buyer.

New Market Tax Credits

The New Markets Tax Credit (NMTC) program, established by Congress in December 2000, gives individual and corporate taxpayers the opportunity to receive a credit against income taxes by investing in qualified investment entities.

Criteria:

- 1) Project needs to be located in a qualified zone (low income and rural areas) as determined by census tracts (if project is not located in qualified zone, then NMTC **can't be used.**)
 - Qualifying zones will be based on most recent census – according to the 2003 census it appears most of the Upper Nisqually project area **IS NOT** in a qualifying zone.
- 2) Cash flow to support interest payments
- 3) Commitment from Community Development Entity (CDE), which receives NMTC allocations.
- 4) Commitment from an investor (usually a bank)

IMPORTANT – NMTC are extremely complicated – approach a consultant or CDE to walk you through process from the beginning.

Pros

- Reduced upfront debt service costs (interest only)
- Upfront equity investment
- Proven use in community forest financing

Cons

- Minimum deal size \$10 million
- High transaction costs (legal fees)
- Competition for limited credits
- Need for long-term take out financing at year 7

Environmental benefits may not be enough to secure NMTC financing – need to show how project will provide economic benefits/job creation – one reason why community forests may be a good fit.

Financing Resources:

Community Development Entities (CDE)

- Coastal Enterprises Inc (www.ceimaine.org/NMTC)
- EcoTrust
- Craft3
- Rural Development Partners

Timberland Lenders

- Northwest Farm Credit
- Metlife
- GE Capital
- Local Banks

NMTC Consultants

- Sustainable Forestry Futures

Note: Brad's presentation will be posted on the Nisqually Community Forest website for future reference.

Presentation and Discussion: Existing Community Forest Models – Joe Kane

Joe talked about a community forest in New Hampshire owned and managed by the town of Errol. The forest had gone through multiple transfers, and because the local economy largely depends on forestry, this was a major concern. The town forest is a link between state and federal land in a matrix of preserved natural areas and working forest.

Financing

- Private TIMO interim ownership (able to react quickly when Hancock put forest on the market)
- Acquisition managed by the Trust for Public Land
- Consulting forester provided technical assistance

Complicating factors

- Project wasn't eligible for conventional commercial loans or bonding
- No tax support available
- Town lacked sufficient capacity for private fundraising

Solutions

- Forest legacy program
- LCHIP – State community investment program
- New Market Tax Credits

Lessons learned

- Develop a portfolio of forestland investment firms
- Develop “patient capital” – long term, low interest loans.
- Cultivate institutional support and teams of technical advisors

Ownership

- To qualify for New Market Tax Credits, a new nonprofit organization had to be established to own and manage the forest for the community for seven years.
- Nonprofit is now seven years old and facing a decision about how to continue management of the forest
 - As a nonprofit entity, with “profits” going to the town, or
 - As a town program

Management

The forest is managed according to a stewardship plan required by the Forest Legacy Program. Some of the goals articulated during the planning process include:

- Open space, open access, working forest, recreational opportunities, wildlife habitat, community and economic development.
- There were heavy initial harvests conducted to reduce loan principal and monthly mortgage.
- Forest is managed by a part-time contract forester.

Presentation and Discussion: DNR Community Forest Trusts – Steve Pruitt

Steve Pruitt led a lively discussion about the new DNR “Community Forest Trust” program which was established last year by the Washington State Legislature. The legislation established a new category of working forestland that can be owned by the state and managed by DNR. Unfortunately, the legislation was not accompanied with an appropriation. DNR is currently soliciting proposals for community forest pilot applications that they can take to the legislature next year to demonstrate the need to fund the program. Proposals are due to DNR by early July.

The ensuing discussion focused largely on how and if the DNR Community Forest program could play any role in our planning effort. Some of the important features of the new legislation include:

- DNR prioritizes working forestland that is adjacent to developing areas and at a high risk of conversion to commercial and/or residential development
- One of the goals is to identify the buffer regions surrounding quickly developing regions. These areas tend to be marginal for working forest lands, due to the possible real estate value. However, if the buffers are placed into community forest, then real estate value can be moderated and development can possibly be slowed.
- Local community partners must provide at least a 50% match of the non-timber real estate value of the property
- If the objectives of the community forest fail to perform, the lands can be divested from the trust.
- The legislation also includes a section authorizing creation of ‘Community Forest Districts’. These would establish target zones for current and future property acquisition.

Due to the July deadline, the Advisory Committee recommended that we pursue a single pilot project, and not focus on the “Forest District” idea. The small group of Steve Pruitt, Bryan Bowden, and Jean Shafer will try to identify a pilot project to submit by the July deadline. They will also discuss this opportunity at the upcoming Nisqually River Council meeting. Any other interested individuals are welcome to join the group.

Meeting Adjourned at 2:30