Linkages to Other Markets & Stacking
-Role of Finance-
Patrick Coady-Financing Conservation
Stacking and Finance

- Policy debate vs. access to finance
  - Creating an asset
  - Creating cash flow

- Double dipping vs.
  - Policy goals
  - Landowner value
  - Seller
  - Buyer
Financing Gap

- Getting early involvement
- Show me the spread sheet
- Understand what makes a viable investment
- Getting to sustainable finance (market size, repeatability, transaction cost, time line)
One Minute Drill on Ecosystem Financing

- **Demand-Cost-Price-Market-Returns (Show me Spreadsheet)**
- Demand drivers (Currently Federal regulation)
- High transaction costs
- The time value of money: Approvals and commitment
- Creating non-liquid asset (credits)
- Project size issues (Small, local and very customized)
- Melding science, metrics, regulation, monitoring
- Generally not for institutional capital

- **Summing Up**: Thin markets. Not an easy slog, stacking does not make it simpler or better.
Most Prevalent Private Capital Models

- Mitigation bankers (project developers)
  - Opportunistic
  - Need to minimize development costs

- Ecosystem funds
  - Management fee covers project development
  - Need scale and predictability
Imagining Markets

- Wetlands/stream mitigation (ha or linear m) CWAa; CERCLAb
- Floodplain trading (ha leveed agricultural land TMDLc
- restored to floodplain) (Cheng et al. 2001)
- Marshes, coast line
- Variety of species habitat banks (ha habitat) ESAa
- Carbon-CO2 (tons of CO2 equivalent) CARBe; voluntaryf
- Copper (kg) TMDL
- Heavy metals (kg) TMDL
- Ammonia (kg) TMDL
- Selenium (kg) TMDL
- Biological/chemical oxygen demand (kg) TMDL
- Phosphorus (kg) TMDL
- Sediment (tons) (Cheng et al. 2001) TMDLg
- Water temperature (thermal; kCal day–1 m–1) TMDL
- Nitrogen – including point source, non-point TMDL
- source, and floodplain sources (lbs N; ha of upland
- buffer in wetlands or m of linear stream buffer)
- Impervious surface (ha) (Welty et al. 2005) TMDL
Financing Brainstorming
Water Quality Finance
Beyond the Credit Trading

- Taxpayer driven implementation vs. private capital and markets (debt versus equity understanding)
- Convergence and Green Infrastructure
- Pay for performance
- Avoided costs and how to capture
- Green bonds: The latest best and greatest idea
- Role of “impact” investors?
- Public private partnerships
- Special purpose authorities
Ruminating on Finance Considerations

- Water Trading Market size: $10’s of million?
- Policy, regulation (predictability, leakage timeliness), project developer views
- Cost of creating asset (time and money)
- Maintaining functionality, verification, monitoring
- Conservation goals vs cost of creating the credit asset and marketing the credit
Issues

- Integrate System “silos”- Policy, Politics, Regulation, Stakeholders, Science, Goals, Economic Models, Business Models, Finance
- Stacking adds time (=more money and risk)
- Equivalency and consistency (permitting, leakage)
- Verification and monitoring-maintaining functionality
- Flexibility-perpetuity vs. term
- And so on..................
Investable-Repeatable-Scalable

- Involved in project to move conservation finance including ecosystem services from the current state of affairs to investable, repeatable and scalable.

- If I gave you a check for $300 million, how would use it in the realm of payments for ecosystem services? Nature of investments? What return would I get?
Summing Up

• For the immediate future, fix existing marginally functioning markets. I don’t see stacking helping the finance dilemma.

• Work toward convergence and overcome the “Silo” problem

• Get business models, finance considerations and long term viability into the process earlier and more substantively.
Adirondack Park

Perhaps First and Largest Payment for Ecosystem Services—America’s First Wilderness Or, Protection of Shipping?
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