

Forest Conservation in the Upper Great Lakes: *The Role of and Tools for Conserving Lands*

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Outline of Talk

- Trends in Timberland Tenure
- Role of Conservation
 - Tools
 - Example projects
- Questions?

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The Conservation Fund Real Estate Projects

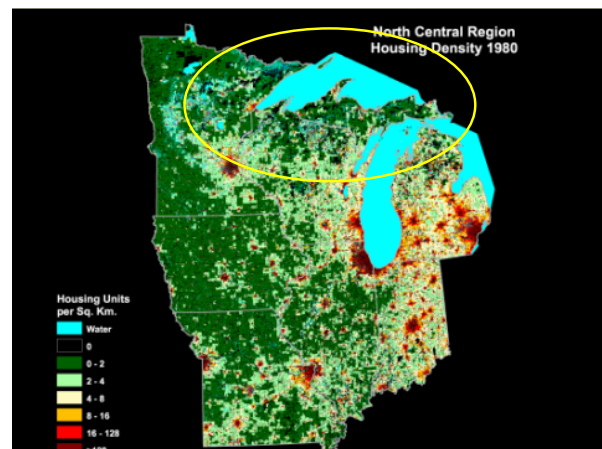
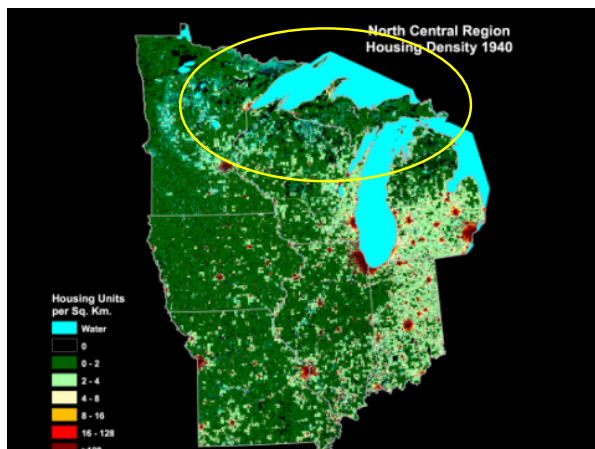
- ALL in partnership...
- >6 million acres conserved since 1985 (as of 1/1/2008)
- 2007: 160 projects; 411,492 acres; cost of \$369 million and Fair Market Value of \$437 million
- Typical year: 120 projects; 200,000 acres; \$300 million.
- Most are co-ops with state or federal agencies
- Growing business with:
 - local land trusts - 13 loans, protecting 7,235 acres, \$17 million FMV (2007)
 - municipal agencies (South Florida WMD, Milwaukee Sewer District, City of Atlanta, Ann Arbor)
 - local community forest organizations
 - Investment community
- 135 staff; mostly in the field

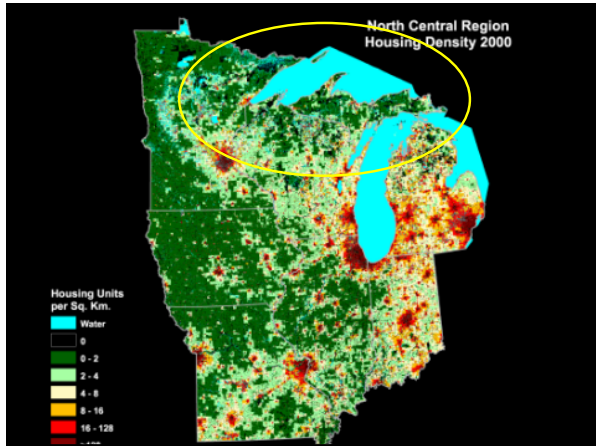
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Working forest conservation projects

- High priority for organization.
- 1.7 million acres.
- Have developed considerable expertise and innovations.
- Projects in Southeast/Texas, Upper Midwest, Northeast and California.
- Often in partnership with TIMOs.
- Seen a major increase in the sophistication of the partners and market acceptance, and now *preference*, of conservation.
- Own 3 significant working forest properties (CA, NC, NY)

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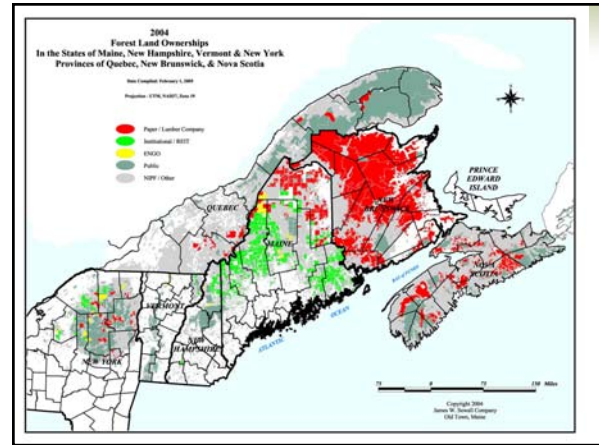
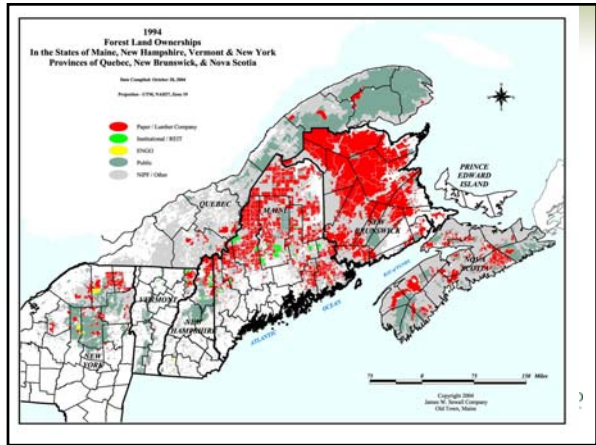




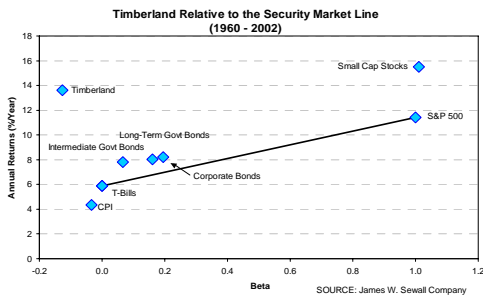
Trends in Timberland

- **Shift in owner types** (Over five million acres changed hands in 2007, on top of almost eight million acres in 2006)
- **Significant shortening of ownership tenure** (A reasonable estimate of timberland turnover is 20 million acres over the next ten years - 20% of the total "industrial" timberlands)
- **Acceleration of parcelization** (44 million acres forestland projected to be converted to housing in next 3 decades ...)
- **Recognition that there is more in the woods than stumpage...**
- **Family forests about to turn over**

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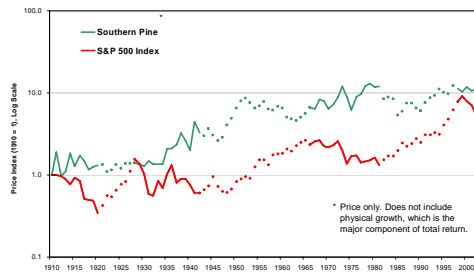


Low Correlation With Equity Markets



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Timber: A Good Hedge in Bear Markets



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As of 12/31/02

Source: U.S. Forest Service and Standard & Poor's

Other Issues

- How land is purchased by investors:
 - Dirt, timber, appreciation potential, HBU sales, risk, ROI, management costs, *conservation sales*
 - Factored together to model overall returns and hence an acceptable purchase price
- Length of tenure:
 - 5 to 15 years vs. 75+....
 - *rotational age for aspen = 30-60 years.*

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Role of Conservation

- Tools/Types of Projects
 - Easements
 - Joint Ventures
 - Acquisitions
- Perspectives:
 - Investor
 - Forester
 - Public
- Example Projects

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Working with the Conservation Community: types

- **Activist Groups**
 - Examples - Sierra Club, Audubon, Rainforest Action Network, GreenPeace, etc.
 - Tactics - education, public policy, protest
 - Funding - Membership, philanthropic donations
- **Acquisition Groups**
 - Examples - The Conservation Fund, local land trusts, The Nature Conservancy, Trust for Public Land
 - Tactics - land acquisition, land management
 - Funding -
 - Traditional - philanthropic donations, public acquisition programs
 - Recent - Conservation funds, new market tax credits, municipal debt, carbon, mitigation

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Source: B. Vicary, James Sewall, co.

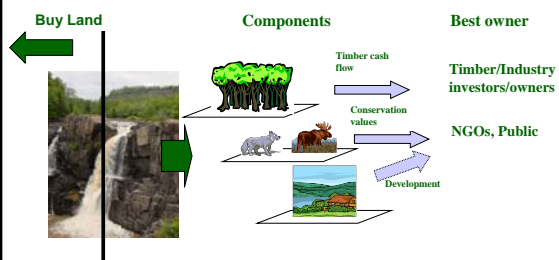
Working with the Conservation Community: motivations

- **Activists**
 - Maintain regulatory floor
 - Endangered Species, Clean Water & Air acts, wetlands acts, local control, etc.
 - Maintain philosophical distinctions
 - Set a bar of acceptability
- **Acquisition Groups**
 - Accountability
 - Maintain federal funding
 - Local bonding initiatives
 - Maintaining large scale working forest lands
 - Partnerships w/private sector
 - Relationships w/rural communities
 - Creating funding mechanisms to participate in large transactions

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Source: B. Vicary, James Sewall, co.

Conservation Easements



Working forest easements allow us to direct "returns" to the best benefactors

Tools/Types of Projects

- Purchase* of forestland for permanent conservation
- Purchase/gift of conservation easement
- Purchase with later sale of land subject to conservation easement
- Joint purchase with private investor with a "dividing up" of rights
- Purchase with later sale of conservation easement, carbon credits, wetland mitigation credits, endangered species credits....and sale of land to a private party.

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* By NGO or public land agency

Show Me The Mon\$y: Where does the capital come from?

- Private charity
- Federal Forest Legacy Program (LWCF)
- State/Local bonds (e.g Knowles-Nelson Stewardship Fund)
- State lottery funds (e.g. MN)
- Alternative Financing - New Markets Tax Credits, revenue bonds, state water revolving loan funds
- Sale of credits (e.g. carbon)
- Private debt and equity from NGO's

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Why Participate in Conservation? Perspectives...

• Financial

- Leverage alternative sources of cash
- Unique opportunity to enter asset class
- Risk adjustment
 - For properties w/high environmental and/or HBU values
- Potential tax benefits
- Goodwill
- Pure timber play

• Forester

- continuity of management
- client services
- tax planning, asset management
- Help secure fiber base for markets
- community

• Public

- "Win-Win"
- Environmental Conservation
- Opens space
- Recreation
- Jobs
- Community tax base
- Education
- Water

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Examples - small/mid-scale projects

- Brule River State Forest (WI): 6,000 acres, \$6 million. Sale of asset by paper company to The Conservation Fund and subsequently to the state for continued working forest.
- Sugar Hills (MN): 1,600 acres, \$1.7 million. Conservation easement sale by small sawmill company using federal Forest Legacy Program, state and private dollars.
- WolfWood (MN): 6,200 acres, \$3.3 million. Purchase by TCF with sale of conservation easement to TNC and sale of land to county.
- Encampment Forest (MN): Donated property exchanged for 430 acres of conservation easement on adjacent property.
- Thaler (WI): conservation easement donation on 15 properties in 6 counties totaling 3,500 acres (80-350 acres in size). Income and estate tax incentives.
- Fau Galle River (WI): 450 acres funded half by donation and half by Knowles-Nelson Stewardship Fund.
- Lundberg (WI): 260 acre easement gift including Ice Age Trail; intensive resource/forest management.

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Examples - large-scale projects

- Champion Northern Forest: 300,000 acres, \$76 million, NY, NH, VT. First large implementation of working forest easement in a market transaction.
- Chesapeake Forest: 76,000 acres, \$44 million, DE, MD, VA. First large joint venture with TIMO.
- Garcia River Forest (CA): \$48 million, 40,000 acres. Sold conservation easement to TNC and 200,000 tons carbon credits to PG&E. Half funded by low interest State Water Revolving Fund loan and timber returns.
- Adirondacks (NY): TCF brokered 257,000 acre, \$34 million conservation easement acquisition between State of New York and International Paper/Lyme Timber Co. Largest such deal.
- Goodman (WI): 65,000 acres, joint purchase by TNC, DNR and timber investors. Conservation fee and easement \$39 million of \$83 million.
- Katahdin Forest (ME): 240,000 acres, \$50 million. TNC, Great Northern Paper, Goldman Sachs. First use of New Markets Tax Credits to refinance debt in exchange for conservation.

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