THE LYME TIMBER COMPANY

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March 29, 2021

The Honorable Kumar P. Barve, Chair, and Members
Maryland House Environment and Transportation Committee
The Honorable Maggie McIntosh, Chair, and Members
Maryland House Appropriations Committee
House Office Building Rm 251
6 Bladen Street
Annapolis, Maryland 21401

Re: SB0737 The Comprehensive Conservation Finance Act of 2021

Dear Chair Barve, Chair McIntosh and Committee Members:

The Lyme Timber Company LP is a private timberland investment manager that focuses on the acquisition and sustainable management of lands with unique conservation values. Our portfolio includes approximately 1.5 million acres throughout the US. Lyme Timber Advisory Services, a separate consulting arm of the company, has been engaged by the Environmental Policy Innovation Center to help offer a practitioner's perspective on SB0737 The Comprehensive Conservation Finance Act of 2021 (CCFA).

Conservation investing—intentional investments in companies, funds, and organizations with the goal of generating both a financial return and a measurable environmental result—is growing dramatically. In just two years, the total private capital committed to conservation investments jumped by 62%, to a total committed private capital of $8.2 billion.[1] It is not a lack of capital holding back conservation investing. Public policy has a critical role to play in unlocking the potential for conservation investing - bolstering demand, improving transaction efficiency and reducing risk.

Our analysis of the CCFA suggests that the proposed legislation strengthens these enabling conditions and would attract significantly more private investment capital for conservation in

[1] Kelley Hamrick, "State of Private Investment in Conservation 2016: A Landscape Assessment of an Emerging Market," Forest Trends' Ecosystem Marketplace, (2016) https://www.forest-trends.org/wp-content/uploads/2017/03/doc_5474.pdf

Maryland. The following memo summarizes the most important ways the CCFA, if enacted, would be likely to trigger higher levels of investment.

Bolstering demand

Government policy can encourage private investment by signaling consistent and dependable demand for conservation outcomes. By authorizing Pay-for-Success as a competitive procurement practice, the CCFA creates the opportunity for the state to buy completed environmental outcomes. If private investors perceive the state as a predictable buyer of environmental commodities, they will start investing in the delivery of water quality and similar outcomes in advance of the state's need. The legislation bolsters demand for forest banks by making those banks a priority when a developer or state agency needs to purchase credits and by ensuring that public in-lieu-fee programs are not subsidizing prices. Nationally, that same preference hierarchy led to a very rapid expansion of the marketplace for wetland and stream mitigation credits and private investment in wetland restoration.[2] By setting a preference for third-party forest banks, the CCFA decreases the level of risk in market-based investments and establishes a secure and stable footing for investments to occur.

Improving transaction efficiency

Overly high transaction costs are a significant barrier in preventing private investment in public goods.[3] The CCFA seeks to improve transaction efficiency in a number of ways. By defining "environmental outcome" as a commodity, it creates a way for agencies to use commodity or supply contracting authorities, which should dramatically simplify the paperwork needed for them. The legislation encourages the formation of public/private partnerships to aggregate projects for carbon market offset sales. Given the importance of scale for successful carbon development projects, aggregation is critical to reducing transaction costs. The Green Infrastructure and Restoration Task force recommended by the CCFA is, among other things, tasked with identifying overlapping areas of state and local procedures that could be simplified to make restoration easier. Similarly, the working group on carbon offset sales is charged with reducing barriers for Maryland landowners to participate in growing carbon markets.

Reducing Risk

Publicly funded mechanisms that reduce risk have the potential to leverage significant private capital.[4] The CCFA proposes changes to the state revolving funds for drinking water and clean water to clarify all the ways these funds can be used for source water protection. These federally-backed programs provide very low interest rate financing (typically less than 2% and

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[2] Ibid.

[3] Thornley, Ben and Wood, David. Impact Investing: A Framework for Policy Design and Analysis. Insight at Pacific Community Ventures and The Initiative for Responsible Investment at Harvard University, 2011. https://iri.hks.harvard.edu/files/iri/files/impact-investing-policy-framework.pdf. Accessed September 22, 2020.

[4] Whelpton, Leigh and Ferri, Andrea. Private Capital for Working Land Conservation: A Market Development Framework. Washington DC: The Conservation Finance Network, 2017. https://www.conservationfinancenetwork.org/sites/default/files/Private_Capital_for_Working_Lands_Conservation.pdf, accessed September 22, 2020.

down to 0% for certain projects) that has largely been used for traditional water infrastructure. Out of the $2.5 billion provided over the last 20 years in Maryland, only $130 million has gone toward green infrastructure. State revolving funds have been critical to large conservation efforts in other states because they reduce risk to private partners by offering them access to concessionary rate financing. For example, Lyme accessed financing from Pennsylvania's clean water revolving loan fund to acquire 67,500 acres of timberland in northwest Pennsylvania. In addition to managing the timberland sustainably, Lyme donated a conservation easement on 9,400 acres and agreed to fund $75,000 of acid mine drainage remediation work.

Maryland has committed significant public financial resources toward safeguarding the Chesapeake Bay. However, public funding is limited and will be stretched even further to keep up with the growing need in the current economic environment. Markets that encourage conservation and support ecosystem functions on private lands are critical to protecting the Bay and safeguarding natural resources and community health throughout Maryland. We think the changes proposed in the CCFA will help Maryland become a leader in the region – and perhaps the country - in attracting private conservation dollars. Maryland would be the first state in the country to introduce comprehensive legislation like this and we hope others will follow its lead.

Sincerely,

Managing Director
The Lyme Timber Company LP

CC: Vice Chair Dana M. Stein, Environment and Transportation Committee
Vice Chair Mark S. Chang, Appropriations Committee
Subcommittee Chair Marc A. Korman, Transportation and Environment Appropriations Subcommittee