



American Forest Foundation

March 24, 2021

Testimony to the Committee on Education, Health, and Environmental Affairs

From: Robert Sherman, Policy Manager, American Forest Foundation

Re: HB 0094 - Environment - Water Quality Revolving Loan Fund - Use of Fund

Position: SUPPORT

The American Forest Foundation (AFF) strongly supports HB 0094. HB 0094 would allow for the marshalling of private capital from institutional markets to make critical investments in forest conservation in Maryland, helping to achieve state-wide carbon reduction goals while enhancing the state's clean water and without costing taxpayers.

AFF, in partnership with The Nature Conservancy, is currently piloting a program called the Family Forest Carbon Program, which would allow small family landowners to access carbon markets and provide them with financial incentives to implement conservation practices that sequester carbon and protect clean water.

Maryland alone has nearly 150,000 private and family forest owners with 1.2 million acres of forest. Maryland's forest-based sector provides employment for over six thousand people, generating a payroll of more than \$324 million, and outdoor recreation generates nearly \$10 billion dollars in consumer spending every year. Maryland's forests also provide massive clean air and water benefits, which while difficult to directly quantify, are critical to the health of Maryland communities and the state's economy.

To scale the Family Forest Carbon Program (FFCP) in Maryland, which would bring millions of dollars to rural families, protect water systems, and reduce the state's carbon footprint, there is a need for private capital which AFF plans to raise from the green bond market. A key component of issuing rated bonds that appeal to the bond market is to ensure the that appropriate level of credit enhancement, or assurance, for the bonds is furnished.

The guarantee provision under the current Clean Water State Revolving Fund (SRF) is our best option for a financing agreement whereby the guarantor promises to meet the borrower's obligations if it defaults on a loan. With the passage of HB 0094, Maryland's SRF program could guarantee a bond or other financial agreement for an entity such as the Family Forest Carbon Program. In the event of a default, the SRF would meet the terms of the Program's bond, thereby assuring bond investors that their investment is protected.

Due to the guarantee, the Program's bond, as a new entrant to the bond market, would adopt the favorable credit rating of the state's SRF program. As SRF programs are typically AAA rated, the

guarantee can therefore be a powerful tool in reducing the interest rate for the Program, meaning capital from private markets can flow more easily.

Unless the Program defaults on the bond, an event which is extraordinarily unlikely, the SRF would not be on the hook for any cash outlays, and the guarantee provision can be recycled for use by other programs and entities. If the guarantee product security is established as subordinate to the lending program, guarantee capacity is not created at the expense of loan capacity. Future SRF loan capacity would not be adversely impacted.

For these reasons, we fully support HB 0094 and want to highlight two sections in particular: firstly, the removal of “for the purpose of financing all or a portion of the cost of a wastewater facility” which would broaden the application of the SRF guarantee provision and allow other non-point source clean water projects to be supported by the SRF.

Secondly, the inclusion of “to serve as a guarantee for long-term Pay for Success contracts, green bonds, or environmental impact bonds by any public, private, or nonprofit entity for the purchase of outcomes that provide a water quality benefit.” This new language will allow for new sources of private capital to invest in Maryland’s clean water and forest carbon without increasing taxpayer burden.

We thank the Maryland House of Delegates for their unanimous approval of this bill, which will bring investment to rural Maryland, provide a significant water quality benefit, and play a role in the urgent effort to reduce the state’s overall carbon footprint.

Therefore, we urge a favorable report on HB 0094.

