Sierra Institute
for Community and Environment

FOREST RESILIENCE BOND WEBINAR

October 24, 2017

ZACH KNIGHT, BLUE FOREST CONSERVATION

zach@blueforestconservation.com

- Graduate of UC Berkeley's Haas School of Business (MBA)
- Employed his background in finance and trading to co-found the philanthropically supported Blue Forest Conservation (BFC)

FOREST RESILIENCE BOND

- The Forest Resilience Bond (FRB) is BFC's pilot project, introducing private capital as a novel funding source to implement tried-and-true restoration techniques on National Forest Service land
- Implementing parties (i.e. United States Forest Service) receive funding from private investors for projects that are NEPA-ready, or nearly so
  - Work is currently limited to California, though BFC hopes to expand its geographic scope in the future
- The FRB seeks to create tools, currently missing from the marketplace, to facilitate these partnerships, including:
  - Metrics and measurements capable of quantifying restoration benefits/ecosystem services
  - Contracts that encapsulate benefits, monetizing them as payments
  - Financial vehicles that generate investor returns
- Contracts with private investors:
  - Restoration work with relatively reliable impacts, e.g. erosion control, are funded through a cost-sharing mechanism
  - "Riskier" investments are funded through a pay-for-success structure
  - Over time, as results are proven, a greater percentage of projects may be funded through cost-sharing
- USFS contracts:
  - Conform to the existing structure of USFS contracting but achieve the same work at a lower cost by supplying private funding sources
- Financial Vehicle:
  - Agreements and contracts precede funding supply

        - FRB supplies funding from private investors to implementation partners
            - Forest collaboratives are not considered implementation partners, but may be involved in designing projects
        - Benefits are determined by a third-party evaluator
        - Stakeholders (e.g. utilities, USFS, state government, etc.) make return payments to FRB → investors
        - Each project is distinct, funds are not commingled
        - FRB is a bankruptcy remote vehicle, keeping project success independent of the financial health of BFC
    - Current Capacity:
        - Projects are being developed throughout California (Stanislaus NF, Tahoe NF, Sierra NF, Cleveland/San Bernardino NF)
        - 1,000 – 5,000 acre projects with an aim to increase scale in the future
    - Future Potential:
        - Partnerships with the Natural Resource Conservation Service to perform restoration work on private lands

DISCUSSION

- Major questions:
    - Does the mechanism work, can it be done in a timely manner?
    - Can stakeholders and investors agree to the same contracts?
    - Can the benefits be quantified?
- Not all projects are a good fit: for example, FRB funding may be better suited for projects where no merchantable timber is available to offset restoration costs
- Contracting mechanisms for implementation partners already exist; utilities' contracts are currently being drafted and must be agreed upon
- BPC puts projects together but is not involved in on-the-ground implementation, contracting, etc.
- California is falling behind other states in terms of involving investor owned utilities in restoration projects on public lands
    - Clear and present threats (e.g. wildfire) may be incentives, though education and outreach are certainly preferable
- Biomass is *currently* a cost, not a value, driver
    - It would be beneficial to do more than pile and burn restoration byproducts, though it is important to be cognizant of the financial limitations