



Institute for Sustainable Forestry

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Working Forest Bonds: A new concept to protect working forests

ISF proposes a new funding mechanism to protect working forests, maintain timber jobs and forestall the conversion of forestland to residential development.

Working Forest Bonds leverage public investment in forest values and ecosystem services with private capital and mitigate a key economic driver of intensive forest management practices. The program would reward sustainable long-term management plans such as NTMP's and enable community-based investments in forest acquisition for Sustainable Forest Management.

Research into the true social and environmental costs and benefits of energy production from biomass and the development of emerging markets for ecosystem services give hope to the optimistic: future forest management practices will have an economic basis for targeting environmental and social objectives. Yet the recent offering of 15,000 acres of Palco / Scopac forestland clearly indicates that the conversion of working forests to alternative land uses is happening now. Conversion of forestland to residential development will be an irreversible shift in land use.

Last fall during ISF's Future Forests working session on acquiring forestland for Sustainable Forest Management and the Buckeye Forest Project's workshop on reforming THPs and NTMPs several points were made.

1. There are multiple benefits that accrue to the public from maintaining large parcels of productive forest land in Sustainable Forest Management.
2. Many landowners are reluctant to invest in long-term management plans due to uncertainty about their ability to harvest under future regulatory requirements.
3. Patient investors are willing to invest in relatively low risk efforts to acquire and manage forest land for both sawlog productivity and conservation values.
4. The combination of high real estate values, interest payments on debt financing and investor ROI expectations drive more intensive forest management which often leads to short rotations.
5. Transitioning young even aged stands to longer rotation uneven aged management requires a period of reduced production and reduced or even negative cash flows.
6. There is significant interest in exploring mechanisms that can deliver publicly funded financial support to landowners and managers willing to make long-term commitments to uneven aged sustainable forest management—a commitment to maintain existing parcel sizes and provide multiple conservation, social and economic benefits to the public.

In an effort to forestall forestland conversions in the near term ISF offers the following proposal. ISF proposes the development of a Working Forest Bonds program to provide a mechanism to support 1) public investment in community-based acquisition projects, and 2) public investment in operational management costs – both of which would lead to working forests being placed under long-rotation all-age Sustainable Forest Management.



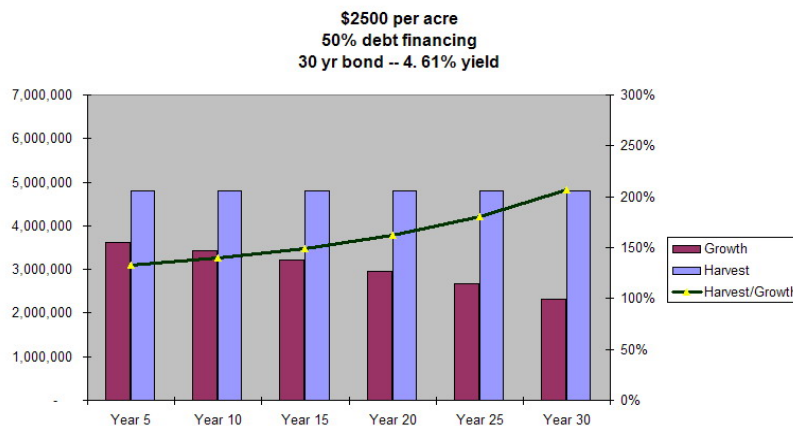
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The basic concept:

1. The Working Forest Bonds program issues tax-exempt Working Forest Bonds.
2. Investors looking for low-risk long-term investments in sustainable development as a portion of their portfolio purchase Working Forest Bonds.
3. The Working Forest Bonds program uses the capital raised to deliver loans to qualified Working Forest Projects.
4. Working Forest Projects apply for financing linked to meeting program criteria. Each project's financing is structured as a loan at a yield or interest rate commensurate with current tax exempt bond yields.
5. Public Interest Payments: Public funds provide the yield for qualified projects. Public funds pay a larger share of initial loan payments.
6. Project Principal Payments: Working Forest Projects pay the principal. Working Forest Projects pay an increasing portion of loan payments as cash flows increase and the bond, and the forest, matures.

The following charts show the impact that a principal only loan payment structure can have on a community based forest acquisition project. The project modeled purchases forestland at 2,500 an acre and finances 50% of the cost through the Working Forests Bond program. The stand modeled is a 25 year old even-aged Douglas fir stand over a period of 30years – the term of the loan. The harvest volume (blue column) is driven by the need to sell timber to pay off the loan to purchase the property. The green line represents the percentage of stand growth (purple column) that needs to be harvested to retire project debt.

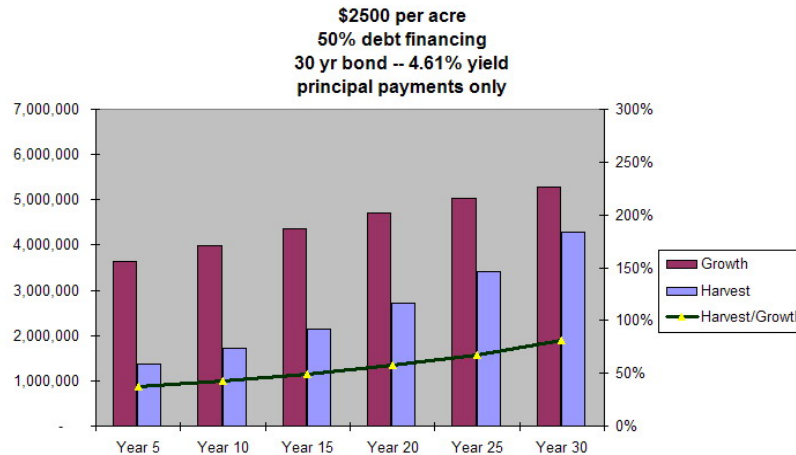


Scenario One: Standard loan payments at 4.61% interest



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Scenario Two: Principal only payments at 4.61 % interest

In Scenario Two Working Forest Bonds Program combined with conservation easements could enable community-based groups to take ownership of forested parcels with a 20-40% equity investment.

While the particulars of each project will vary these graphs show the potential impact the Working Forest Bonds program can have on the ability of owners and managers to keep initial harvests below growth rates, restore standing inventories and increase stand productivity. If the Working Forest Bonds program were used to finance Non-industrial Timber Management Plans landowner concerns regarding significant upfront commitments for long-term management planning and future uncertainty regarding ability to harvest would be mitigated. Land owner cash outlays could be brought in line with projected harvests and certainty regarding the regulatory environment for future harvests embedded in the NTMP process would enable long-term harvest planning.

Back of the envelope calculations indicate that developing a capital pool of 1 billion dollars using Working Forest Bonds would require a 40-50 million dollar a year commitment of public funds.

A billion dollar RLF could:

- Finance long-term management plans for *all* non-industrial forestland owners – these management plans would lock in long rotation Sustainable Forest Management.
- Provide immediate financing for the purchase of 453,000 acres of community owned forestland, and
- Provide financing for community based groups to purchase an additional 667,000 acres of community owned forestland over a 30-year period.

If successful this program could put 59% of private forestland into long-term sustainable management over a 30-year period.