W E T L A N D S / S P E C I E S

Mitigation

The Ecosystem Marketplace's Daily Coverage of the 2007 Mitigation/Conservation Banking Conference

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Timber Investing & Conservation

By Cameron Walker

Peter Stein has inked 86 innovative conservation partnerships on working forestlands for Lyme Timber. Is there a model in his work for investors interested in mitigation banks? The Ecosystem Marketplace investigates.

In 1990, Peter Stein's job change must have sparked serious water-cooler gossip in the conservation world. One of the founders of the nonprofit land conservancy the Trust for Public Land, Stein had just landed a job with timber management organization, Lyme Timber Company. "I went from a permanently enslaved NGO employee to a capitalist," Stein says. Some colleagues and friends, he says, "thought I had lost my mind."

But things have changed. When he began working for the Trust for Public Land in the 1970s, a big land deal could mean five or ten thousand acres. Now, as a general partner at New Hampshire-based Lyme Timber Company, he's helped orchestrate the company's largest conservation transaction ever: a deal in the Adirondacks in New York that combines conservation easements, working forestlands and preserved areas to protect 276,000 acres from development.

"I went from a permanently enslaved NGO employee to a capitalist"

Over the course of his career, Stein has become known for innovative deals that preserve large tracts of land (and the ecosystem services flowing off them) through unique partnerships that bring together timber companies, land conservancies, and state and local agencies.

"[Lyme Timber] has been an excellent organization and Peter Stein is one of the reasons," says Robert Davies, director of the New York State Department of Environmental Conservation. Stein's conservation background helps state agencies navigate the many conflicting interests that influence forestlands, he says. "He's very sensitive to that."

Making the Switch

Stein was one of the early graduates of University of California at Santa Cruz and later became a senior vice president of the Trust for Public Land, a land

Update on the Farm Bill

by Alice Kenny, from New York City on assignment for the Ecosystem Marketplace

While mitigation bankers were thinking yesterday in St. Louis about how to access the financial markets and implement new tools to achieve landscape scale conservation, Agriculture Undersecretary Mark Rey was discussing the 2007 Farm Bill's bold new approach to market-based conservation in front of a small group at a swank office building in New York City. Specifically, the Farm Bill proposes creating a new standard-setting board for ecosystem service markets. Similar to the concept of an "energy czar," the board would set standards for all ecosystem service markets, both mandatory and voluntary. The standards, said Rey, would give consumers and investors confidence that ecosystem-based markets are real and that the credits they trade are correctly quantified and priced. It would create a "seamless infrastructure to make markets occur and reduce transaction costs."

According to Rey, the new ecosystem services board will set standards for current as well as evolving markets. For example, it will coordinate efforts to set standards for air-emission (carbon-credit) markets, water-quality credits, wetlands mitigation banking and conservation banking. The Bill does not contain specific requirements regarding these standards, said Rey. Instead, it proposes a board with the expectation that the finer details will be worked out later.

Farm bills last for five years. The last Farm Bill was passed in 2002 and is due to expire on September 30, 2007. President Bush and the USDA are hopeful that Congress will pass this proposed Farm Bill before the 2002 Farm Bill expires. They sent the proposal to Congress on January 31, 2007 and it is currently under review. Following the meeting, Rey said that after creating a standard-setting board, "it would not be a long leap" to moving towards the type of carbon-reducing market that currently functions in Europe under the Kyoto Protocol.

Michael Jenkins of Forest Trends (the parent organization to the Ecosystem Marketplace) moderated the discussion and summarized the announcement in his remarks by saying, "This brings a new chapter for conservation, and the ability to bring private sector investment to preserve the public good."

Mark Rey, who has a guest editorial in this issue, will also be making a presentation on the Farm Bill in St. Louis today.

Timber Investing

(continued from page 1)

conservation organization that has protected 2.2 million acres of land since 1972.

The Trust for Public Land is one of several land conservancies known for purchasing conservation easements—legal agreements that forever protect an area of land from development.

During Stein's tenure at the Trust for Public Land, he started working with Lyme Timber to negotiate easements on the company's lands in the Adirondacks and in Wisconsin. "The Lyme Timber Company, every now and then, found itself owning something that was coveted by a conservation NGO or a public natural resource agency," Stein says. One of these spots was a "gap property" in Virginia that was one of the missing pieces of the Appalachian Trail. The Trust for Public Land and Lyme Timber worked together, got government funding for the deal, and set aside some of the key lands as permanent conservation land. When Stein was considering a return to the Trust for Public Land's headquarters in San Francisco, Lyme Timber offered him a job.

Aside from the chance to move with his young family to "one of these cute little postcard-like New England communities," Stein says he made the switch because he realized timber investors like Lyme Timber had the purchasing power to fund bigger projects. In the land conservancy world, "it was easy to find the deals, but difficult to put together the dollars to do the deals." On the private investment side, the money was there, but high-quality deals were missing. With Lyme Timber, he could combine his conservation experience with investment capital to form conservation-oriented partnerships with land trusts, conservationists and natural resource agencies around the country.

Forests for Sale

Partnering with timber companies isn't new for nonprofits, says Bill Ginn, director of the Global Forest Initiative at The Nature Conservancy. "We've always had partnerships with timber companies, because timber companies have always been owners of tremendous biodiversity," he says.

Changes in the economy, however, have increased the need to work together.

Two decades ago, a conservancy or a timber investor searching for forestland to buy might have been out of luck. "If you went to the Adirondacks 25 years ago, lands just didn't trade hands," Stein says. Now forest companies have been shedding their lands and institutional investors have been stepping up to buy them as a way to diversify portfolios. But sellers often price forestlands higher than what the timber's worth, so many investors split up the land and sell some of it to real estate developers to make their investments pay.

This can leave land trusts looking to buy conservation easements out in the cold. Many sellers don't want to split up their land, negotiating with one buyer for the easement, another for timber, and still another for the land itself. "They just want to cash out of the property," Stein says. New owners may not want to be subject to a conservation easement's restrictions. And nonprofits can't usually outbid a well-funded investment company.

Unless, that is, they partner with a group like Lyme Timber.

Lyme Timber, like any other company, could carve up part of the land and sell it for development. But Stein says, "I couldn't go home and face my family, and we wouldn't be getting any referral phone calls from the Trust for Public Land anymore." Instead,

Lyme Timber works with nonprofits and state agencies, selling back the conservation easements on forestlands, while continuing to have working forests, not new developments, on the land.

"We get paid not to develop the real estate," Stein says. For Lyme Timber, it's a way to reduce timberland investments without being subject to real estate market fluctuations, development approval from state agencies, and rocky relationships with groups interested in conservation. "We're a little bit chicken. So we decide that there's a safer way to turn the real estate value into cash through the sale of conservation easement."

And, conservancies and state agencies get easements and other public land access that they might not have been able to afford otherwise. "We're always looking for ways to extend our conservation dollars," says Ginn, who has worked with Lyme Timber on partnerships in New Hampshire and New York. "The bad news, of course, is that Peter

Stein is one of only a handful of timber investors who partner with conservation."

Paul Young, a managing member at Conservation Forestry, a New Hampshire-based timber investment group that focuses on conservation-oriented deals, says pairing conservation easements with timber can also make these deals more palatable for the local community. Locals can be concerned that conservancies coming in can mean the land's shut off from hunting, fishing, and recreation—and that local timber jobs will disappear. Community groups worried about development and environmental values could be cheered by the involvement of conservancies in forest deals.

In the Adirondacks

Many of these multiple benefits came together during Lyme Timber's recent work in the Adirondacks. New York's Adirondack Mountains host centuries-old hunting camps, lakes for swimming and fishing, and hardwood forests of maple, oak, and cherry.

Within these mountains is the Adirondack Forest Preserve, a 2.7 million acre expanse of land protected by the state. The state's open space plan recognizes that, along with acquiring new lands for the preserve, "there are very important working forestlands that should continue to be working forestlands," says Davies. The state can protect the land from development and fragmentation by buying conservation easements and other land rights, he says.

With Lyme Timber, Peter Stein could combine his conservation experience with investment capital to form conservation-oriented partnerships with land trusts, conservationists and natural resource agencies around the country.

International Paper was the state's largest landowner, owning lake-filled lands packed with recreation opportunities, as well as working forests. A few years ago, the state began negotiating with International Paper for conservation easements on 260,000 acres of this land. On Earth Day 2004, then-governor George Pataki announced that the state had lined up nearly all of these acres—257,000 of them—in conservation easements with the help of the Virginia-based Conservation Fund.

In April 2006, International Paper sold these and other forestlands to Lyme Timber for an estimated $137 million. Lyme Timber assumed the conservation easements; this March, the state closed the easements in a $28 million purchase, cutting Lyme Timber's purchase price for the land and letting the state protect recreation opportunities while preventing development on the land.

The state's ability to partner with timber investors and conservancy groups has helped protect forest resources. "Because we were able to get ahead of the curve on all this, we're in a much better place, and have a much better outlook for the future of our forests and our forest resources than some of the states that have not had the opportunity to put these protections in place," Davies says. In other states, he says, "lands that have historically been open for public access and recreation are now being lost."

Will We See More?

In the early 1990s, Lyme Timber was the only company working intensively to put together conservation-meets-forestry arrangements; now, several timber management organizations are turning to partnerships like these to keep forestlands working, Stein says, and more might be on the horizon.

One reason for the shift may be that more states and communities are recognizing the importance of forests—and putting up the money to protect them. In 2000, Gallatin County, Montana voters passed a $10 million initiative to protect open space; on California's November ballot, a multi-billion dollar bond act aimed at environmental protection targeted $450 million to wildlife and forest conservation. "People are reaching into their pockets and taxing themselves to pay solely for the environmental or public interest values that they need," Stein says.

People may soon be reaching into their pockets in Tennessee as well. In February, Governor Phil Bredesen proposed an $82 million bond measure that would help protect the North Cumberlands area, a biodiversity hotspot. More than 123,000 acres could be part of a partnership that would make use of conservation easements, outright protection and, for Lyme Timber, innovative leaseback agreements on 75,000 acres of forestlands, according to the Tennessee Department of Environment and Conservation.

Research in conservation biology has also increased understanding that whole watersheds need to be protected, not just single species. "Science has driven us to a larger scale," Stein says. These large-scale land partnerships are particularly important in a time when forests are increasingly under threat.

Market Futures

These partnerships may also come in handy as markets for carbon and other ecosystem services develop. Lyme Timber retains ecosystem services function rights on its conservation easements, and its partners, like the state of New York, are interested as well. "If at some point in time, there is a carbon sequestration cap-and-trade system in the United States," he says, "we're hoping to be able to participate in those new, emerging markets," Stein says. Lyme Timber also is pursuing emerging markets for wetland and species-specific mitigation.

Already, Lyme Timber has been looking in the Catskill and Delaware watersheds for New York City. In these areas, the city has been buying land and easements to protect the natural filtration services that forests here provide for the city's public water supply system.

These and other projects bring a little more effort into Lyme Timber's work—in exchange for making conservation a part of the company's mission, Stein says, he and his colleagues make it up by attending scores of meetings with stakeholders and partners to bring together forestry and land protection. Stein has stayed involved with the Land Trust Alliance, which coordinates land trusts across the country, and sits on a new land trust accreditation commission. He also advises private investors and nonprofits on conservation purchases through a consulting branch of Lyme Timber.

All the time he's put in has resulted in 86 conservation partnerships for Lyme Timber. "It's worked out wonderfully," Stein says. And, as for the friends who questioned his sanity? "Oh, they got over that."

Cameron Walker is a regular contributor to the Ecosystem Marketplace. She may be reached at cwalker@nasw.org

Sessions I and II

Primer 102 and Thinking Outside the Box

I. The Business of Banking

Thursday's kick-off session was billed as a "Primer 102" on the business of banking, but it ended up being more like a primer 105, or even a 200-level session; exploring in detail complex issues such as bank marketing, the use of conservation easements, and innovative approaches to financing banks.

The session began with a presentation from Sheri Ford Lewin of Mitigation Marketing LLC. Before getting into the session entitled the three "Ps" of mitigation,, Lewin told the story of her 4-year old daughter who, upon seeing the presentation on her mother's computer, offered to help by providing "P" words: namely, Paper, Purple, and Pizza. Since Lewin had promised to use them in her presentation, she talked about getting procedures on **paper**, lifting the **purple** haze surrounding banks, and still having enough money for **pizza**.

Moving on to the more serious parts of her presentation, she explained that in her many years of mitigation banking experience, this business is one that depends to a very large extent on repeat customers. For this reason, she said, it is extremely important that bankers pay close attention to making the banking experience as clear and transparent as possible. In her view, this means having open and --most importantly-- consistent policies and procedures on things like: does the bank take reservations (and, if so, in what cases), how it handles deposits, escrows, the distribution of funds, etc..

She ended by talking about pricing and providing a good mantra for bankers to live by:"Long-term success requires daily attention."

Lewin was followed by Jeff Kauttu of Kauttu Valuation who talked about the potential use of the tax write-offs in the creation of mitigation banks. Saying that banking is a purely land-based business that is messy and not made up of buying up "neat nature condos", he said that success in banking requires creativity and if you have "mitigation blinders, you will leave money on the table."

To illustrate his point, he told the story of two projects that have used easements as a way of increasing returns. One he called a conservative "bunt", and another an aggressive "home run". The "bunt" was a project in Colorado that used a straightforward $7 million tax write-off on a 3,000 acre easement as a sweetener for a real-estate deal worth $20 million. The "home run" involved aggressive investors that wanted to buy an easement for $40 million and take a $120 million tax write off. While he told these investors this scenario was "improbable" and hinted that it might land them in jail, he did, in the end, help them craft a profitable deal involving easement write-offs.

The session ended with a rousing and extremely candid presentation by Dixon Harvey, one of the founders of Environmental Banc and Exchange (EBX), Black Oak partners, and the Sustainable Land Fund. Harvey began by making reference to this newsletter (thanks for the plug) and the deal signed between Wildlands and Parthenon Capital, citing that as a sea-change in the industry, where, for the first time in a decade, "the money is here, at the conference." He went on to talk in surprisingly candid detail on how EBX, SLF and his other businesses have lately managed to use a mix of debt and equity to undertake their endeavors. After sharing lessons learned, his closing message was that traditional banks were, for the first time, beginning to take the time to understand mitigation banking (so debt financing is an option), and large institutional and individual investors are beginning to take an interest. "The capital is here," he repeated in closing, "just look around the room."

II. Outside the Box Banking

Session 2 explored several novel approaches to banking. Peter Beesley of Pacific Gas & Electric moderated a discussion of North Carolina's statewide mitigation program, efforts to locate banks for habitat connectivity, and Australia's biodiversity banking scheme.

Bill Gilmore, director of the North Carolina Ecosystem Enhancement Program (EEP), spoke about his program's ability to streamline a huge amount of mitigation need, involving many stakeholders, while ensuring that mitigation occurs in advance of resource impacts. In 2003 the EEP set out to "see if [they] could use the department of transportation as a mechanism for advance funding." Now after four years and $160 million in contracts, the EEP is "already into the decline of the aggressiveness of the program." Interestingly Gilmore said that, "we're starting to move from design to implementation and starting to see violations and fines, but we [the EEP] think that with a little more attention to construction practices we'll be okay." Looking to the future evolution of the EEP, Gilmore said, "We will conform to all new regulatory change... [and] we are interested in new types of mitigation, such as the carbon markets and TMDLs (referring to the cap under which water-quality credits might be traded)."

Doug Bruggeman, a post-doc at the University of Michigan continued the discussion on new approaches to mitigation banking with a presentation on the importance of habitat connectivity to species conservation. In his words, "the question is how do we allow trading without causing or increasing the jeopardy to species survival and connectivity?"

Key to this question, said Bruggeman, is an understanding of genetic variation within meta-populations. To demonstrate how tradeoffs between habitat area and connectivity can be made, Bruggeman has developed a modeling tool called Landscape Equivalency Analysis, which assigns value to tradable credits in a way that reflects the contribution an individual habitat patch makes to the regional sustainability of populations.

Louisa Mamouney, project manager for the Department of Environment and Conservation in New South Wales (NSW), Australia, added an international touch to the discussion by describing the state of NSW's system of biodiversity credit trading. While there have been some past examples of offsets in NSW, she said, "offset impacts have mainly been ad hoc and one-off." To bring some consistency to mitigation efforts, the state government developed Regional Conservation Plans. "What was needed was a system to involve local land owners in regional planning and provide incentives for conservation," Mamouney explained. Accordingly, the state recently passed biodiversity credit trading legislation that is slated to start in September of this year following the completion of a small pilot program.

Mamouney pointed out that other Australian states are not far behind on this idea: "Victoria has a similar scheme called Bushbroker which is quite advanced, and Queensland will likely follow in our footsteps…and it's good to know that we're being watched internationally!"

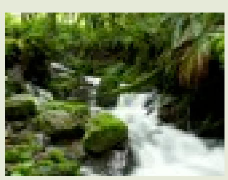
Keynotes: Industry Must Think Big

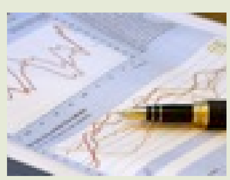
By Amanda T. Hawn

To many in the audience on Thursday morning, the 8:00 a.m. plenary felt different from many past sessions at the National Mitigation & Conservation Banking Conference. The focus was on how to drive the mitigation industry to the next level by taking a big picture approach to mitigation banking's place within a larger suite of landscape-scale conservation tools, and by developing its potential as a new type of asset class for institutional investors. "For the last twelve years we have been a mom and pop business," said George Platt, a partner at Shutts & Bowen LLP. "We are now on the cusp of being attractive to institutional investors."

Colonel Lewis Setliff, district engineer of the U.S. Army Corps of Engineers' St. Louis District, set the tone by describing mitigation banking as an opportunity to create win-win environmental and economic solutions for the American people. Mitigation banking, he said, is helping push legislators past the outdated idea that economic development and environmental restoration represent competing needs.

Jason Scott: The time has come for banks to make themselves "investor-ready"





Larry Selzer, president and CEO of The Conservation Fund, agreed with the notion that Americans want smarter environmental protection that unearths the synergies between economic growth and natural resource conservation. "From Main Street to Wall Street, from the living room to the board room," Selzer said there was a buzz in the air about new opportunities to protect the environment. The challenge for the mitigation banking industry, he felt, was, "to connect with this buzz across the country." The very local approach of bankers to their restoration work, he said, has left too many people viewing mitigation banking as "a band-aid for broken bones."

While Selzer generally agreed with Setliff's assessment that the industry was at a crossroads characterized by a great deal of opportunity, he also said, "We need to re-brand mitigation banking as the business of restoration rather than accommodation." He urged bankers to think on larger landscape scales that incorporated the most pressing needs of the communities in which they worked, and advised the industry to think about how to develop long-term connections with the booming market for ecotourism and the emerging market for carbon sequestration in the United States. "But the challenge we should address the soonest is the staggering divide between children and nature," said Selzer. "Replenishing the capital in that bank represents a tremendous opportunity for this industry."

Jason Scott of Generation Investment Management, who took the stage after Selzer, also urged the industry to think big when defining its relationship to global society's ongoing effort to build a new paradigm for natural resource use in the 21st Century. In particular, he urged bankers to come up with a better way to articulate their business goals and environmental aims to potential investors. "I am here to give you the good word on mitigation banking," said Scott. "We think it is the place for green investment in the next few years."

Scott highlighted a number of recent developments – emerging regulatory certainty, ongoing information dissemination about the market, and the beginning of mainstream capital allocations – which he thinks will help build investor confidence in the mitigation industry. He encouraged bankers interested in attracting the mainstream investment community to drive increased transparency and demonstrate liquidity in the market, and to better define the risks and returns associated with various mitigation banking models. The time has come, he said, for banks to make themselves investor-ready: "We'd like to help get you there."

Sessions III and IV

Conservation Banking and Tracking Progress

III. Conservation Banking

Banks in California, Texas, and Florida have helped protect habitat for listed species through preservation and restoration. Ken Sanchez, assistant field supervisor for the U.S. Fish and Wildlife Service, moderated a panel that included private sector experts involved in all stages of bank development – from planning to long-term management.

California Central Valley case studies were presented by Matthew Gause of Wildlands, Inc. "California currently has 308 listed species, second only to Hawaii," stated Gause, who went on to comment that the Central Valley's landscape has been dramatically altered. Historically, riparian forests were common in the area; however, few exist today because of manipulation of fluvial systems with dams and levees for agriculture and settlement.

Habitat banks for the Valley Elderberry Longhorn Beetle and Giant Garter Snake have been successful, but as Gause noted, "long-term management is very management intensive." If you build, it they (beetles and snakes) will come, but if you build it, you should also plan for future long-term management.

The Hickory Pass Ranch Conservation Bank, just outside of Austin, Texas, has successfully protected Golden-Cheeked Warbler habitat – resulting in approximately 2,300 mitigation credits. This central Texas bank is a creative market-based solution that serves the landowner, the credit purchaser, and, most importantly, the warbler. Presenter Kevin Ramber, reiterating the importance of demand, stated: "the bank has been a success because the market allowed it to be.

The session concluded with Vivienne Handy presenting an example of a Scrub-jay habitat bank in Florida. The bank, set to come on line in the near future, will be the first example of such a bank in the Sunshine state. The bank will protect 1,650 acres currently under private ownership, said Handy before adding, "the bank would immediately result in doubling scrub-jay habitat on protected land."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Mitigation Mail

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From The Editors

The Ecosystem Marketplace's Mitigation Mail
Conservation and Wetland News You Can Bank On

We want to be the first to put the proposed regulations in your hands. The new rule, *Compensatory Mitigation for Loss of Aquatic Resources*, was announced yesterday by the U.S Environmental Protection Agency and U.S Army Corps of

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IV. Tracking Progress

How do we, as an industry, monitor and evaluate our performance? And how are we doing? These are the questions explored in Session 4 moderated by Daniel Hayes of the U.S. Army Corps of Engineers.

Jon Soderberg of U.S. Army Corps of Engineers kicked off the session on Tracking Progress by describing the RIBITS effort "as a paradigm shift in the way we track and manage data" and the status of RIBITS as "going into production phase, nationally, no longer in research" Soderberg showed screenshots of RIBITS mapping and real time data updating and display capabilities. "It is a change in culture" stated Soderberg.

"What does this mean for the bankers? There will be data sharing connections and GIS layers available… we will need your [banker] involvement for it to be successful."

John Mack of Ohio Environmental Protection Agency then shifted the focus to an on-the-ground ecological assessment of how some banks are doing, specifically 12 mitigation banks in Ohio. Of these 12, he found only 3 to be 'mostly successful' at the time of the study.

Mack points out that "the risk of failure is great with banks… because failure of a large bank represents a substantial net loss of wetland acreage and function." An interesting twist on the usual claim that mitigation banks increase economies of scale, ecological value and function, and the likelihood of success. While the results were poor, there were some good lessons learned such as: performance must be linked to credit release, adaptive management should be actively employed, and finally there must be robust monitoring and evaluation.

George Howard pointed out that, by his informal analysis, the private mitigation banks in Mack's study tended to be the most successful.

Vicki Tauxe, Environmental Manager for Florida Department of Environmental Protection, moved the session's focus to the status and evaluation of ecological success in Florida. Her study included 29 banks around the state. Tauxe pointed out that, in comparison to the previous Ohio study, "typical [Florida's] mitigation banks are big, generally about 2000 acres… more a form of enhancement than wholesale restoration"

Tauxe summarized her results as "we found 71% of banks got a 'C,' 14% got a 'B,' and 15% got an 'A,' …so that sounds pretty good, but the thing to remember is we weren't starting from zero, we were looking for a 30% ecological lift." Tauxe was referring to the study's banks being more enhancement based than restoration.

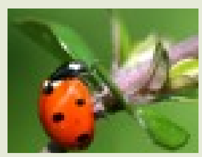
Tauxe's report is not yet public, but she felt that their methodology (despite the fact that it could use improvement) was a good start.

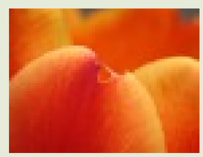
Guest Editorial: Farm Bill is Bullish on Market-based Conservation

By Mark E. Rey, Undersecretary for Natural Resources and Environment, US Department of Agriculture

Market based conservation is an innovative way to take conservation beyond the boundaries of the farm, ranch or forest. Environmental markets preserve productivity and enhance landowner livelihoods while producing numerous environmental benefits. Market based solutions can provide flexibility to undertake actions that have the lowest cost and result in more cost-effective achievement of natural resource conservation and environmental goals compared to traditional command and control approaches.

Currently, a number of barriers limit the emergence of robust environmental credits markets including limited demand, high start-up costs and long-term risks, and a lack of information. Experience from other markets shows a solid institutional framework – currently missing in the marketplace – benefits all market participants. While a handful of environmental markets have been established in the United States, a robust mechanism to take environmental credit trading mainstream has yet to emerge.





"The next major advance in conservation will come through market-based approaches"

We are in the fifth and final year of the 2002 Farm Bill; Congress will pass new legislation this year. USDA has put forth a significant proposal for the future of agriculture and conservation in this country. Our 2007 Farm Bill proposal is constructed from the ideas and information conveyed to us by landowners, the very people who are most affected by farm policy. During the summer of 2005, Secretary Johanns and I, along with other USDA officials traveled the countryside and held 52 forums in 48 states, listening to what you had to say. The message was clear: Customers want our support to be more predictable, more equitable, and better able to withstand challenge, and they want us to focus on the wise and effective use of taxpayer dollars.

Our proposal for the Conservation Title of the 2007 Farm Bill does just that. It simplifies and increases funding of our conservation programs to better serve farmers, ranchers, stakeholders and the environment. It also includes making the investment of an additional $50 million over ten years to encourage new private sector environmental markets. The additional funding will be utilized to develop uniform standards for quantifying environmental services, establishing credit registries, and evaluating audit and certification options. We also want to continue exploring new ways to supplement existing conservation and forestry programs by allowing for market-based and price discovery mechanisms, such as bidding and reverse auctions.

We know that partnerships are essential for these markets to succeed and USDA is reaching out to other Federal Agencies and conservation organizations to work together as enablers of environmental markets. Recently, the Natural Resources Conservation Service (NRCS), the Fish and Wildlife Service and the Association of Fish and Wildlife Agencies signed a partnership agreement committing to work cooperatively toward the promotion and development of habitat credit trading markets. This agreement enables the agencies to coordinate related programs and activities that consider possible habitat credit trading markets. Lands currently used for farming, ranching and timber operations may also function much like a bank does if the habitat is managed for endangered or at-risk species. By managing their land in an environmentally-friendly way, landowners will be able earn additional revenue for their stewardship efforts.

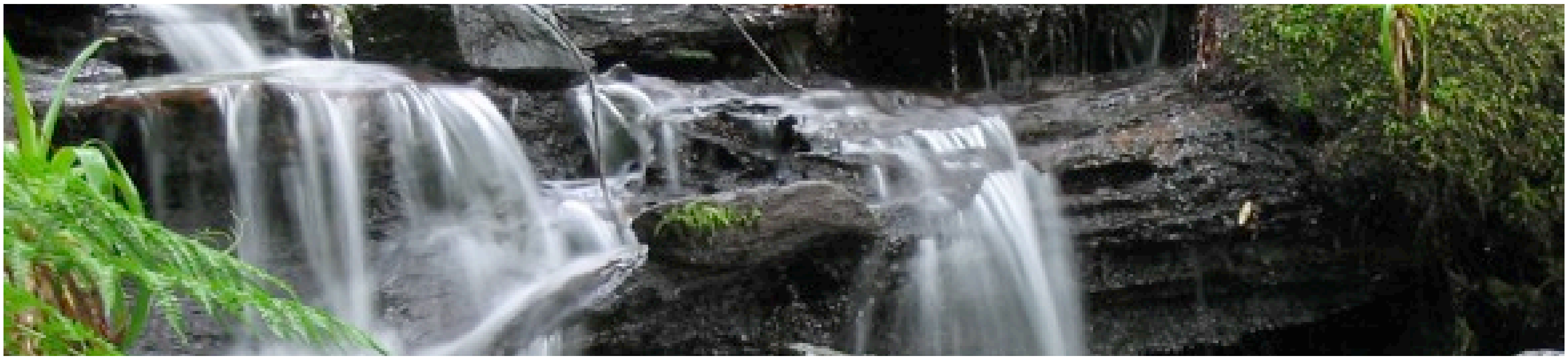
The preservation of open space provides ecosystem services that benefit us all and I believe that providing these incentives is essential for the future of sound environmental stewardship. Offering these market-based incentives will generate interest among a greater number of participants, and will expand endangered species habitat to more acres of our nations working lands.

In addition to habitat credit trading, last October NRCS and EPA's Office of Water signed a partnership agreement that formalizes their shared commitment to improving water quality by encouraging the development of water quality trading markets. Both agencies are focusing efforts toward water quality activities that encourage the development of trading markets. We are working together to establish uniform standards and metrics for quantifying water quality credits and the development of a pilot program in the Chesapeake to demonstrate the potential for water quality credit trading and to show how to bring buyers and sellers of ecosystem services together.

Market mechanisms should supplement, but not replace federal efforts to encourage conservation and environmental protection. We all know that the demand for conservation is far greater than funding that is typically available. There is almost always an unmet need. This is especially true these days when budgets are tight, and they are now. And it's likely to be this way for years to come. I believe that creating viable markets for ecosystem services such as habitat and mitigation banking will encourage more conservation without overwhelming taxpayers.

I look forward to the day when credits for clean water, lower levels of greenhouse gases, and protected wetlands can be traded as freely as corn or soybeans are today. To get there, we must work together to overcome the barriers that today still limit the development of ecosystem service markets. One barrier today is the lack of transparency. By that I mean the fog that tends to descend when we start talking about who owns what, when it comes to environmental benefits. Our position is very clear. USDA considers environmental credits from agriculture, whether for carbon, water quality, biodiversity, or wetlands preservation, the property of the farmer, the landowner, the one who applied the conservation practices on the land, regardless of the federal cost-share dollars that were invested. A key feature of a workable market is just straightforward simplicity. It is not a good use of resources to get all tied up over which piece or percentage the farmer paid for and which part a federal program paid for. My goal is to keep it simple: the farmer owns it.

The next major advance in conservation will come through market-based approaches. I plan to do all that I can to advance ecosystem service markets during my remaining time in the Administration.



Sessions V and VI

Streams and the IRT (MBRT) Process

V. Stream Mitigation Banking

With a nod to the Cardinals' home ballpark down the street, Lawrence Urban of the Montana Department of Transportation, introduced Adam Riggsbee of North Carolina based Restoration Systems, LLC as his "opening pitcher" in the last session of the day on stream mitigation banking. Riggsbee stepped onto the mound and promptly warned the crowd, "I have a PhD; I could talk about dam removal all day."

After several plenary sessions spent thinking about the larger framework governing mitigation banking, Riggsbee brought the stream mitigation session back to the on-the-ground details of restoration. He pitched a talk full of technical details about "Large-scale Dam Removal as Mitigation" to a crowded room. Restoration Systems, LLC is currently working on eight dam removals throughout the Southeast, but Riggsbee focused on two completed dam removals – the Carbonton Dam and Lowell Mill Dam – in North Carolina. Both projects used a 2004 Corps' issued guidance document entitled "Determining Appropriate Mitigation Credit for Dam Removal" to inform their restoration work. In particular, the document sets forth four goals for dam removal projects: facilitate fish passage for migratory species; improve water-quality; increase endangered species habitat; and expand habitat for site-appropriate species. Riggsbee cautioned would-be stream bankers that, "it is going to take some time for these systems to work themselves out." The good news, he said, is that both dam removal sites show, "The first year results are promising on all fronts."

John Hutton, senior project manager at Acer Environmental, Inc., relieved Riggsbee but kept the case study focus during the second speaking slot. In a presentation peppered with aerial shots of the Etowah River Watershed, Hutton took the audience through the planning process for one of the "most comprehensive stream mitigation banks" in Georgia. Where Riggsbee had focused on the construction phase of the dam removal projects in North Carolina, Hutton instead detailed the careful planning that went into the design of a stream mitigation bank prior to breaking ground in northwest Georgia. The key during this stage, he said, "was to demonstrate the project's integration with surrounding residential and retail development."

Shawn Sullivan, project manager for the U.S. Army Corps of Engineers in St. Louis, MO, then stepped in as the session's closer (are you tired of the baseball analogy yet?), providing insight into the planning process for stream mitigation projects from the perspective of those issuing development permits and banking credits. Specifically, he spoke about the Lead District Initiative within the Missouri Corps office "to ensure consistency among the Corps Districts." Addressing questions about how to assign credits for both in-stream work and the restoration of riparian buffer zones, he walked the crowd through the Mitigation Bank Credit Assessment Worksheet his team had designed. "As regulators, we need an assessment method that is rapid, repeatable and reliable," said Sullivan. "I am happy to say that as of March 2007, we have implemented a method."

VI. The IRT Process

Mitigation Bank Review Teams (MBRTs) play a critical role in the planning of wetland mitigation banks. Improving the function of these teams is a realistic goal that would result in better banking by streamlining the process through consolidated, consistent rules of engagement.

Steve Martin, environmental scientist for the U.S. Army Corps of Engineers, noted that, "Virginia is truly a microcosm of the national effort for mitigation banking." Virginia currently boasts over 40 banks – providing for tidal, non-tidal, and stream mitigation. MBRTs in Virginia are often cited as being some of the most efficient in the nation.

Craig Denisoff followed Martin with a banker's perspective of the MBRT process. Presenting data from an informal survey of bankers and regulators, Denisoff outlined the need for increased collaboration among agencies and a formal training regime. Successful teams usually have some common characteristics: a strong, single lead agency; standard templates; and team members who work well together. "Banks are an extension of agencies," said Denisoff, who concluded that the process could be further improved by using a timeline for milestones during the approval process.

A course for banking regulators may not be too far off according to Erik Meyers, the final presenter. The pilot training program to which he referred when making this prediction is an effort of The Conservation Fund and the Environmental Law Institute. "The objectives [of the course] are to provide a thorough grounding in the relevant federal policy, to provide process expertise, and to build on solid experience," noted Meyers. The course, taught in a hands-on environment by real practitioners, will emphasize relationship building and collaborative learning.

Luncheon Plenary: State of Play

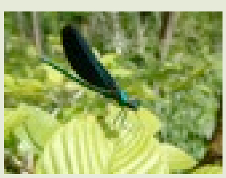
By Amanda T. Hawn

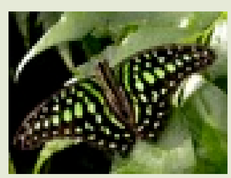
Chip Smith, Peggy Strand and Trisha White kept the audience entertained over lunch on Thursday in a plenary session moderated by the National Mitigation Banking Association's new President: Don Ewoldt.

Smith, assistant for environment, tribal and regulatory affairs at the U.S. Army Corps of Engineers, took the podium first to offer an overview of mitigation banking's state of play in the mind of the 1,200 regulators at the Corps. "A lot of times we get wrapped up in the laws and regulation, and we forget the reason we are doing what we are doing," said Smith. "When it comes down to it, that reason is the will of the American public." According to Smith, the public has expressed its desire for a more comprehensive approach to the management of water resources in this country, an approach that, "moves beyond acres and linear feet."

Admitting that the limited resources and staff at the Corps have made monitoring wetland mitigation projects of all kinds difficult in the past, Smith said he hoped new performance standards in the pending Department of Defense (DOD) regulation concerning mitigation procedures would improve the situation. "Are mitigation projects successful? Well, we don't know frankly," said Smith, before saying the Corps would begin collecting the kind of data that will allow the agency to answer this question with hard data in the future. He also underscored the importance of the proposed regulations' new watershed approach, which would foster partnerships between banks and encourage the intelligent development of new banks adjacent to public lands and protected areas. "Development is moving into more complex ecosystems and more sensitive areas now, so the new watershed approach will be important to ensuring real mitigation at the landscape scale." Before passing the microphone on to Strand to speak about mitigation banking in the courts, Smith answered the $64,000 dollar question of the conference – namely, when will the new regs finally hit the federal register? Expect the draft preamble by midsummer, said Smith, and look for a revised or final rule between September and December 2007.

Trisha White: "In my view, the word should is unacceptable... We must put the integrity of ecosystems first."





Strand, a partner with the D.C.-based law firm Venable, said that a review of recent case law concerning mitigation banking suggests that the final DOD regulation could not come soon enough from the perspective of the mitigation banking industry. Two recent cases – the Rapanos case in the Supreme Court (June 2006) and the NMBA v. Corps case in Illinois (Feb. 2007) – have undermined the regulatory certainty on which market demand depends in the mitigation banking industry. More specifically, the Rapanos case challenges the scope of the federal permit program under section 404 of the Clean Water Act, and the NMBA case suggests that the federal guidance under which the mitigation banking industry currently operates is non-binding for agencies overseeing the permitting process. "What we thought and what we got, were very different," said Strand. "Both inform what we need…we need regulations, we need to know."

While the delay in the release of the new regulations is disappointing to many at this year's conference, others in the larger conservation community continue to stress the importance of revising last year's draft regulations. Speaking as "your token tree-hugger," White of Defenders of Wildlife offered her organization's take on the proposed rules. Among her recommendations for the revision of the proposed rule, several stood out as representative of the larger conservation community's concerns about the new regulations. First and foremost, White said it was important to consider very carefully that, "We can never really replace what we have lost" when it comes to developing pristine wetlands. In addition to placing greater emphasis on the avoidance of wetland impacts, White said she hoped that the final rules would: make monitoring mandatory; do away with one-to-one trading ratios; forbid the use of public lands for mitigation; and keep in-lieu fees on the table as a viable alternative to mitigation banking. And on a more general level, White said that the language of the regulations was far too wishy-washy. "In my view, the word should is unacceptable," she said. "We must put the integrity of ecosystems first."

John Ryan of Land and Water Resources Inc. and Peggy Strand of Venable LLP discuss... the benefits of non-alcoholic beer?

Bob Kessler, a Mitigation Banking Consultant, shows off his “Blue Heron” award for ten years of service to industry. The Arch behind him is nice too!

Steve Morgan of Wildlands talks shop with Thomas Slater and Hwan-Yoon Chung of Metalmark Capital

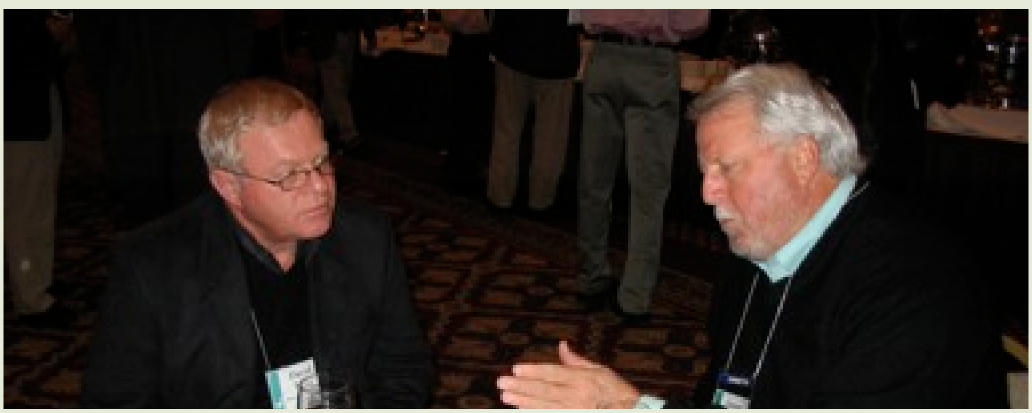
George Howard and Kristen Poillon of Restoration Systems show off their mascot, “Bucky”. After Buckminster Fuller, no doubt

Kemper McMaster of the US Fish and Wildlife Service gets close to Sherry Teresa of the Center for Natural Lands Management

Jon Soderberg of the US Army Corps of Engineers speaks with the Ecosystem Marketplace's very own Nathaniel Carroll. Databases, I'm sure.

Corrie Veenstra of the US Army Corps of Engineers wins the night's big prize. Don't worry, her suitcase is pretty big.

George Platt of Wetlandsbank Group makes a point to his colleague, David John



Denis Benbow of Mitigation Marketing and Victoria Colangelo of NMBA listen intently as an unidentified participant waxes lyrical

Jessica Crosby of Wetlands Solutions, Suky Basrai, and Marie Pritchett of Georgia-Pacific

Agenda for Today (Friday, April 13, 2007)

8:00 AM - 8:20 AM

Special Address: "Opportunities for Bankers in the 2007 Farm Bill" (Grand Ballroom)

The Honorable Mark E. Rey, Undersecretary for Natural Resources & Env., USDA

8:30 AM - 10:00 AM
CONCURRENT SESSIONS

SESSION 7: Urban Banking *(Miss. Ballroom)*
Moderator: Charles Bruton, Mulkey Engineers and Consultants

Tarlton Stream and Wetland Restoration Project Richard K. Mogensen, Earthmark Companies Mid-Atlantic Mitigation Division
Incentives for Urban Banking: Developing an Urban Stream Bank: Alan Miller, US Army Corps of Engineers
Problems and Opportunities for Urban Banking: John Ryan, Land and Water Resources, Inc.

SESSION 8: Sold Out Banks (*Meramec Ballroom*)
Moderator: Ron Abrant, US Army Corps of Engineers

Flint Creek Wetland Mitigation Bank: The Good (ecology), the Bad (business), and the Ugly (circumstances): Jo Somers, Robinsong Ecological Resources
Sold Out and Closed! The Process and Transfer to Long-term Manager David Urban, Land and Water Resources
Long-term Manager's Experience in Many transfers: Sherry Teresa, Center for Natural Lands Management

10:00 AM - 10:30 AM
BREAK in Exhibit Area

10:30 AM. -Noon
CONCURRENT SESSIONS

SESSION 9: Obstacles, Threats, or Opportunities? *(Miss. Ballroom)*
Moderator: Royal Gardner, Stetson University

Not In My Backyard: Local Control of Mitigation Banking: Wendy Lee Bogdan, Downey Brand, LLP

Banking on Public Lands (a moderated discussion):

- Raymond A. Pavelka, Mariner Properties Development
- John Ryan, Land and Water Resources Inc.

SESSION 10: Next Markets *(Meramec Ballroom)*
Moderator: Robert Kessler, LG2 Environmental Solutions

Carbon Sequestration: George Kelly, EBX
EPA-NRCS Water Quality Trading Agreement: What does it mean to banking? Carl Lucero, NRCS
International Markets: Wayne White, W2 Consulting

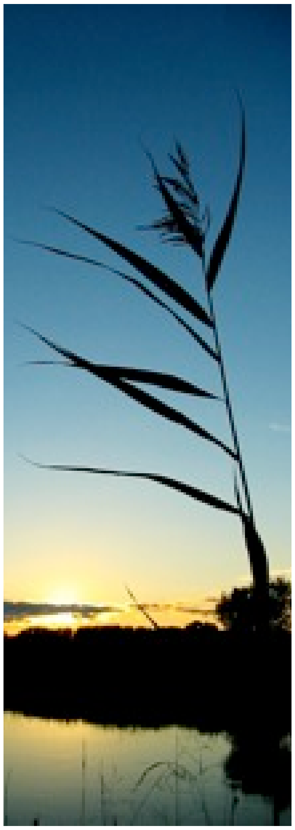
Noon - 2:00 PM
LUNCHEON PLENARY (Grand Ballroom)

The "McGeorge Group" — Banking in 2017: Where are we Headed?
Fast moving Q&A with direct answers and comment

McGeorge: George Howard, Restoration Systems, LLC

GUEST PANEL:
- Steve Martin, U.S. Army Corps of Engineers
- Derb S. Carter, Southern Environmental Law Center
- George Kelly, EBX
- Ricardo Bayon, The Ecosystem Marketplace

2 PM: Conference Adjourns



About the Ecosystem Marketplace

The Ecosystem Marketplace is the world's leading source of information on markets and payment schemes for ecosystem services; services such as water quality, carbon sequestration and biodiversity. We believe that by providing solid and trust-worthy information on prices, regulation, science, and other market-relevant issues, markets for ecosystem services will one day become a fundamental part of our economic and environmental system, helping give value to environmental services and thereby helping conserve them.

The Ecosystem Marketplace is a project of:

FOREST TRENDS

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