SLIDES: The Downhill Lever of Current Forest Finance

Tom Tuchmann

Follow this and additional works at: https://scholar.law.colorado.edu/community-owned-forests

Part of the Business Organizations Law Commons, Forest Management Commons, Land Use Law Commons, Natural Resource Economics Commons, Natural Resources and Conservation Commons, Natural Resources Law Commons, Natural Resources Management and Policy Commons, Property Law and Real Estate Commons, Public Administration Commons, Public Policy Commons, Recreation, Parks and Tourism Administration Commons, State and Local Government Law Commons, and the Urban Studies and Planning Commons

Citation Information

Reproduced with permission of the Getches-Wilkinson Center for Natural Resources, Energy, and the Environment (formerly the Natural Resources Law Center) at the University of Colorado Law School.
The Downhill Lever of Current Forest Finance

- Wilderness
  9% Capital Cost
  0% Return

- Cons. Mgt.
  9% Capital Costs
  4-6% Return

- Commercial Mgt.
  9% Capital Costs
  9% Return

- Conversion
  15% Capital Costs
  15% Return

Stocks and Taxable Bonds

US Forest Capital
Governance Options

• Who owns the forest
• Who controls decisions
• How is it financed
• Where are revenues distributed
Examples of Financing Options

Goal – Opportunistically integrate options in a manner that raises purchase price & achieves community goals

- Private w/commercial return
- Client buy back
- Revolving Loan Funds
- Tax incentives
- Fee and/or Easement Buy Down
- Taxable or Tax Exempt Revenue Financing
- Bonds for Property
- Public (*For leverage purposes*)
Community Forestry Bonds

Extrapolate existing revenue bond financing to forests

Hospital Application ➔ Forestry Application

Nonprofit Hospital ➔ Nonprofit Forestry Co.

Patient Care ➔ Resource Care

Patient Revenue ➔ Timber Revenue

Taxable or Tax-exempt Bond Investors ➔ Taxable or Tax-exempt Bond Investors

($$ billions/year)
1 Example - What a Buyer Could Pay: Municipal Rates at Work

<table>
<thead>
<tr>
<th>Harvest Scenario</th>
<th>Municipal Rates @ 5.5% (PNV)</th>
<th>Commercial Rates @ 8.5% (PNV)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Light</td>
<td>$58 million</td>
<td>$46 million*</td>
</tr>
<tr>
<td>Medium</td>
<td>$69 million</td>
<td>$53 million*</td>
</tr>
<tr>
<td>Commercial</td>
<td>Not Applicable</td>
<td>$69 million*</td>
</tr>
</tbody>
</table>

* These valuations include $15 million in development value. For example, the commercial scenario had a PNV of $54 million from timber cashflow + $15 million from development value.

Source: Forest Analytics, White Salmon, Washington for: *Saving our Working Landscapes: Assessing a New Financing Tool for Farm and Forest Conservation*, Fox, Nancy and Eugene Duvernoy, King County Department of Natural Resources, Seattle, WA
Conservation Financing Seeks to Alter Lever

- Wilderness
  9% Capital Cost
  0% Return

- Cons. Mgt.
  6% Capital Costs
  6% Return

- Commercial Mgt.
  9% Capital Costs
  9% Return

- Conversion
  15% Capital Costs
  15% Forest

Stocks and Taxable Bonds