SLIDES: Ecotrust Forests

Bettina Von Hagen

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Community owned forests conference
Missoula, June 2005
A Western perspective

Transition from integrated forest companies to TIMOs and REITs accelerating:
Boise Cascade, Crown Pacific, Rayonier

Billions rushing into TIMOs -> upward pressure on forestland prices, leading
to increased pressure to cut hard and fragment on exit

Conservation transactions emerging, but still relatively small: higher
forestland prices, less conservation funding, political resistance to forest
conservation finance (exceptions: Pacific Forest Trust, Cascade Land
Conservancy, Conservation Fund/TNC, Potlatch/TPL)

Decline of federal forest harvests: impact on diversity of mills and renewed
conflict over fire risk & forest health

Continued decline of rotation age & intensification of management on
industrial lands

Strong industry resistance to FSC and growing resistance to LEED green
building certification

Climate for innovation not good, but some promising dialogue emerging
Enhancing knowledge and understanding

Analysis & Mapping

Publications
Investing in the financial infrastructure for the triple-bottom line economy

**Growth of Natural Capital Fund**

- 1992: $0
- 1993: $5,000,000
- 1994: $10,000,000
- 1995: $15,000,000
- 1996: $20,000,000
- 1997: $25,000,000

**Allocation of Natural Capital Fund**

- Real Estate: 63%
- Income: 11%
- Partnerships: 19%
- Venture: 7%

**Supporting Institutions**

- **ShoreBank Pacific**: The first environmental bank
- **Venture: EcoTimber**
- **Real estate: The Natural Capital Center**
Pacific Northwest Forests in Decline

Decline in harvest ages

Decline in employment

Decline in habitat
Forest management alternatives

**Industrial forest management**

**Ecological forest management**

**LOGGING**

**LANDSCAPES**
Two views of the Dickeyy River
Trends support transition to ecological forestry

- **Capital:** rise of forestland investing and socially responsible investing
- **Land acquisition:** forestland is changing hands
- **Green certification:** forest and building certification systems provide market benefits
- **Emergence of ecosystem service markets**
Ecosystem services: key to the transition
The Strategy

- Raise capital into open, perpetual fund
- Acquire and manage forestland
- Generate competitive returns for investors
- Make strategic acquisitions in high-conservation value watersheds, and restore health and productivity
- Develop full range of forest products and services: timber, non-timber, ecosystem services, recreation
- Generate jobs and wealth for local residents
Status of company

- Closed first round of fund with $10.5 million and 8 investors
- Ecotrust invested $1.3 million
- Purchased 1,100 acre property on Dickey River in Washington
- Harvested 500,000 board feet of lumber
- Raise additional $65 million by year-end
- Place at least $10 million by year-end
Key elements

- Influence forest management
- Measure results & tell story
- Raise capital
- Acquire land
- Manage forests
- Sell forest products & services
- Create jobs & wealth for local residents
Raise capital: an expanding opportunity

Ecotrust Forests, LLC

Timberland investing

Socially responsible investing

$45 billion

$15 billion
Target geography

- Significant watersheds with high conservation values
- High level of public ownership
- Younger properties
- Low-income communities
- Potential for tribal/community partnership
Primary criteria in land acquisition
Manage forests

- Planning
- Logging
- Replanting
- Loading
Sell certified wood: from niche to mainstream

Housing starts

Certified wood market

Market Connections Placements
Sell ecosystem services

**Working forest easements**

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**Project-based carbon sales**

**Non-timber forest products**

*Figure 6: Total market value (estimate) per year in million U.S. dollars (nominal)*
Cumulative number of conservation banks

Value per acre: $3,000 - $125,000
$50 million New Market tax credit award to Ecotrust CDE

Ecotrust sees a forest full of possibilities

Group seeks long-term timber investments

BY SHELLY STROM
Business Journal staff writer

A local environmental activist organization wants to save the trees by logging them.
Instead of working to lock up forests, as forest activists historically have done, Portland-based Ecotrust thinks it can do more good by snapping up forest lands to manage them for the long term, not merely short-term financial gain.

“We have begun conversations with entities with a significant tax burden and an interest in furthering our goals,” said Bettina von Hagen, Ecotrust vice president.
Earlier this month, the U.S. Treasury Department announced that it will award the group $50 million in New Market Tax Credits. The program was established by Congress in 2000 to help spur new markets.

The tax credits will allow Ecotrust — via its recently formed Ecotrust Forests LLC — to provide investors a better return. Investors will be eligible to claim 39 percent of the amount placed with Ecotrust Forests in federal income tax credits over a seven-year period.

“An investment that doesn’t at first offer market returns suddenly becomes viable” because tax credits provide gains for investors, said Stuart Cowan, an expert hired by Ecotrust to navigate the New Markets Tax Credit application process.

Ecotrust is a 14-year-old organization that seeks environmental conservation by employing a strategy called a “triple-bottom-line-oriented system” along the temperate rain forest of the West Coast. The system weights environmental stewardship and social equity with the economic bottom line.

Through the new organization, Ecotrust plans to purchase significant forest parcels along the western edges of California, Oregon and Washington in a range of sizes between 1,000 and 20,000 acres. Ecotrust will hire firms to manage the forests in each of the communities nearest its lands.

The project is in early stages. Ecotrust is shopping for land tracts and pitching qualified investors.

“It is pretty tough to do this sort of thing for the kinds of money available through charitable grants and government funding. So we are going to capital markets,” said Ecotrust President Spencer Beebe.

Von Hagen said current trends in forest ownership emphasize economics to the point of “almost being half the reason” for owning forests, but that trees can be steadily harvested for maximum benefit.

Ecotrust President Spencer Beebe said the forest investment initiative accomplishes the desire to “address the needs of both people and nature.”

“Timos certainly aren’t thinking very long term,” said Grant Munro, president of Port Angeles, Wash.-based Munro LLC. Munro manages the timbering operation.

By engaging in long-term management for optimum forest health, we think we can allow trees to grow to their maximum potential.
Combined Ecotrust Forests, LLC and NMTC Structure

- **Ecotrust Forests, LLC**
  - **Investor**
  - Returns
  - Equity

- **Ecotrust Forest Management, Inc.**
  - **Ecotrust**
  - Managing member
  - Returns
  - Equity

- **Ecotrust CDE, LLC**
  - **Investment Partnership**
  - Controlling entity
  - Returns
  - Loan

- **Forest Holding 1, LLC (QALICB)**
  - **Economic investor**
  - Loan
  - Returns

- **Forest Parcel**
  - Income
  - Investment

**Notes:**
- **QEI**
- **NMTC**

**Key Terms:**
- EBITDA
- Ecotrust CDE, LLC
- Ecotrust Forests, LLC
- Ecotrust Forest Management, Inc.
- Ecotrust Investor
- Ecotrust Economic investor
- Ecotrust Tax Credit Investor
- Ecotrust Investment
- Ecotrust Partnership
- Ecotrust QEI
- Ecotrust Managing member
- Ecotrust Returns
- Ecotrust Equity
- Ecotrust Loan
- Ecotrust Investment
- Ecotrust Income
- Ecotrust Returns
- Ecotrust Loan
- Ecotrust Investment
- Ecotrust Income
Community forestry potential

Timber Dependent Communities

County Timber Dependency Ratio
- Low (0 - 1.0)
- Medium (1.01 - 2.50)
- High (> 2.50)

Community Distress Index
- 1 - 1.2
- 1.2 - 1.5
- 1.5 - 2.0
- > 2.0

NOTE:
See text on INDICATOR #46 for a complete description and listing of community names.