

January 27, 2022

Senator Sarah Elfreth

103 James Senate Office Building
11 Bladen Street
Annapolis, MD 21401

Delegate Sara Love

210 Lowe House Office Building
6 Bladen Street
Annapolis, MD 21401

Delegate Regina Boyce

316 Lowe House Office Building
6 Bladen Street
Annapolis, MD 21401

Re: SB0348 Conservation Finance Act

Dear Senator Elfreth, Delegates Boyce, and Delegate Love,

On behalf of Quantified Ventures, an outcomes-based capital firm based in Chevy Chase, Md., we are writing to voice our strongest support for the proposed Conservation Finance Act. This legislation will have dramatic positive impact on Maryland's environment, economy, and population by incentivizing new environmental projects, facilitating projects of greater scale and impact, and unlocking capital from federal programs and private impact investors. By passing this Act, Maryland will be the standard for environmental conservation finance that other states and federal agencies look to as a model for innovation and vision.

Quantified Ventures develops and structures financing for transformative environmental projects across the country using an outcomes-based approach (also known as Pay-for-Success). An outcomes-based approach aligns project financing with the actual results – or outcomes – of the project. For example, a municipality issuing a bond for a project with environmental benefits would repay that bond based on the actual and verified environmental outcomes from the project. Using an outcomes-based approach transfers execution risk (i.e., the risk that a project does not get completed or completed on budget) and performance risk (i.e., the risk that a project does not produce desired results) from the project sponsor (e.g., municipalities, states) to third-party impact investors. This transfer of execution and performance risk makes outcomes-based financing more efficient than traditional financing for ambitious and innovative environmental projects.

An additional benefit of an outcomes-based approach is verified, data-driven reporting on project results. Since the repayment of loans and investments are tied directly to actual environmental results, all our projects include a monitoring and verification process that provides project sponsors, impact investors, public entities, and citizens with tangible data on the environmental outcomes from specific projects.

The Conservation Finance Act has several positive implications for our work and for environmental projects across the state.

- A Pay-For-Success procurement code that allows the state to buy environmental outcomes will create a defined income stream that will spur new investment and projects. Developers will engage in new environmental projects knowing there is a customer and a transparent price for outcomes produced. These projects will become more efficient as developers eliminate costs that are superfluous to generating outcomes. Investors and banks will finance these projects knowing there is a future income stream to repay their loans if the outcomes are achieved. We have seen the benefits of this type of code in our Soil and Water Outcomes Fund. The USDA's Natural Resources Conservation Services (USDA-NRCS) is providing \$15.8 million through the Regional Conservation Partnership Program Alternative Funding Arrangement (RCP-FA) to buy verified water quality outcomes in Illinois, Indiana, Iowa, Missouri, and Ohio that allowed us to scale that program by 10x in 2021 and to expand to additional states in 2022/2023. This code also has the potential to save money for the state. In Iowa, the Iowa Department of Agriculture found that buying verified water quality outcomes from the

Soil and Water Outcomes Fund is up to 30% cheaper than current programs aimed at achieving similar outcomes.

- Greater scope and flexibility in the use of state revolving funds (including use for loan guarantees) can launch projects that today struggle with financing due to the nature of the project and timing of the associated environmental outcomes. In Quantified Ventures' Forestry and Land Use practice, we have seen several innovative forest conservation projects stall despite the carbon and water quality benefits. Because the benefits from environmentally-focused forestry projects accrue over a long period of time, long-term and low- cost financing is required to make the economic model work. In the Soil and Water Outcomes Fund, the Iowa Finance Authority's flexibility in structuring the working capital investment has been critical to supporting the project growth. This financing allows us to expand faster within Iowa and allocate a greater proportion of upfront funding to paying farmers for implementing conservation practices.
- Encouraging and incentivizing programs that address environmental justice and equity is a welcome feature of this Act and will focus development on projects that address water quality and quantity challenges in disadvantaged communities. In our Atlanta, Buffalo, and Hampton Environmental Impact Bonds, environmental justice played an important role in defining the project scope, investments, and outcome metrics to monitor and verify. Leaders in these cities were attracted to the outcomes-based approach (i.e., Pay-for-Success) to align the city investments with verified environmental equity outcomes (e.g., reduced flooding, improved water quality, access to green space) in communities that had suffered from years of underinvestment.
- Facilitating landowner participation in carbon markets can result in new projects that have both water quality and carbon benefits. We have found a large corporate market for voluntary carbon credits as companies set ambitious carbon reduction goals. Combining carbon outcome revenues with water quality outcomes can unlock enough total revenue to fund upfront costs of a project. Corporate carbon outcome sales also have the benefit of subsidizing costs for the state agency or municipality buying the water quality outcomes. In the Soil and Water Outcomes Fund, selling the carbon outcome benefits to corporations such as Cargill makes the project economically feasible and helps subsidize the water quality outcome costs to the downstream municipalities.


Examples of Quantified Ventures outcomes-based projects include the DC Water Environmental Impact Bond, Atlanta Environmental Impact Bond, and the Soil and Water Outcomes Fund.

- **DC Water Environmental Impact Bond:** Quantified Ventures structured the very first Environmental Impact Bond (EIB) with the Washington, DC, Water and Sewer Authority (DC Water), which financed green infrastructure in support of its stormwater management goals and EPA consent decree obligations to stem combined sewer overflows. Recognizing the potential cost-effectiveness and the environmental, economic, and health benefits of green infrastructure compared to traditional grey infrastructure, DC Water had several green infrastructure projects planned and ready to go. However, they lacked capital to deploy those projects and were concerned about taking on debt, given that the performance of green infrastructure in capturing stormwater in DC had not been tested. Using the funds raised through the EIB, DC Water has developed green infrastructure such as permeable pavement, green roofs, and landscaped retention facilities on 20 acres. If the project underperforms – that is, the reduction in stormwater runoff is significantly less than anticipated – then DC Water will pay reduced interest payments to investors. If the project significantly exceeds expectations, investors will be compensated through a performance payment from DC Water.

- **Atlanta Environmental Impact Bond:** Quantified Ventures structured the first-ever publicly offered EIB with Atlanta’s Department of Watershed Management (DWM) in 2019. Several historic but distressed neighborhoods suffered from environmental justice issues stemming from increased rainfall and urbanization and a lack of stormwater and wastewater infrastructure investment to manage flooding and poor water quality. The Atlanta EIB financed six green infrastructure projects to manage stormwater, reduce local flooding, alleviate water quality impacts, increase access to green space, and create local green jobs in these economically and environmentally distressed neighborhoods. Similar to DC Water’s EIB, the effective interest rate on the Atlanta EIB was tied to verified environmental outcomes including flood reduction and water quality improvement.
- **Soil and Water Outcomes Fund:** Quantified Ventures, in partnership with the Iowa Soybean Association, created the Soil and Water Outcomes Fund to incentivize farmers to implement conservation agriculture practices that result in water quality benefits (i.e., reduced nitrogen, phosphorus and sediment runoff) and carbon sequestration. The Fund monetizes the environmental outcomes produced by the conservation practices by selling the verified carbon outcomes to corporations such as Cargill, Nutrien, Ingredion, and PepsiCo, and the verified water quality outcomes to downstream municipalities and state departments of agriculture. The Fund launched in Iowa in 2020 with 9,500 acres enrolled and has scaled to more than 120,000 acres enrolled across 6 states, backed by purchase agreements of over \$10 million. The Fund is projected to grow to more than a million acres enrolled by 2025. The Iowa Finance Authority is playing a central role in providing the annual working capital to finance upfront farmer incentives, farmer enrollment costs, and monitoring and verification costs.

We are excited to see this legislation facilitate transformative environmental projects and attract new capital to the state. Thank you for your consideration of this Act and its impact on Maryland’s environment, economy, and communities.

Sincerely,



Eric Letsinger
CEO



George Kelly
Managing Director