



February 14, 2022

The Honorable Kumar Barve
Chair, Environment and Transportation Committee
Room 251 House Office Building
Annapolis, Maryland 21401

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The Honorable Maggie McIntosh
Chair, Appropriations Committee
Room 121 House Office Building
Annapolis, Maryland 21401

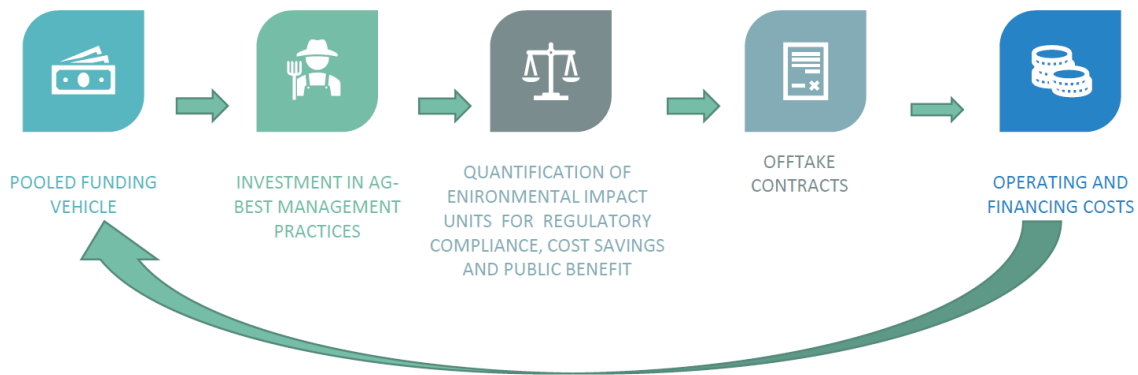
Re: SB0653 The Conservation Finance Act of 2022

Dear Chair Barve, Chair McIntosh and Members of the Committees,

i2 Capital is a conservation finance firm that works at the intersection of public and private sectors to advance innovative solutions that bring additional private capital to bear on the conservation challenge. As part of that work, i2 Capital designed and operates the Revolving Water Fund (RWF), a funding mechanism that invests in natural infrastructure solutions (e.g. conservation projects on agricultural properties) that provide water quality benefits to surrounding communities and downstream water bodies.

The RWF model, developed in the Delaware River Watershed with funding from an NRCS Conservation Innovation Grant, the William Penn Foundation, Dupont, the Bunting Family Foundation and i2 Capital, is at once a finance, governance, and operating mechanism. The RWF aligns natural infrastructure development practices with compliance guidelines (in this case PADEP offset rules), to deliver “full-service” quantified pollution reductions (sediment, nitrogen, phosphorous) to regulated MS4s. Contracts include long-term operating and maintenance commitments and manage for non-compliance risk. Importantly – MS4 “offtake” of such reductions under Pay-for-Performance contracts, is triggered by receipt of regulatory approval, thereby reducing regulatory risk for the RWF’s regulated partners, while providing a ready on-ramp for adoption of such price-efficient contract practices.

The RWF has now executed pilot contracts with three municipalities: (i) the City of Newark, DE; (ii) Kennett Township, PA; and (iii) East Marlborough Township, PA. Each of these contracts reflects close working partnerships with regulators, MS4s, conservation experts and engineers, supported by RWF’s deep expertise in finance, legal and regulatory realms.



We believe that the RWF model reflects a material breakthrough in conservation finance practice, with broad applicability across the Delaware and Chesapeake Bay watersheds and beyond. The model provides regulated permittees a cost-effective and efficient approach to meet a portion of their MS4 compliance obligations with reduced risk and lower strain on operating capacities. The process of project identification, quantification, contracting, verification, and regulatory alignment becomes part of RWF project development, relieving municipalities of this often complex and time-consuming practice. Regulated entities can enter contracts for pollution reductions, with cash obligations contingent upon regulatory approval.

The RWF also provides an efficient on-ramp for agricultural producers and private landowners to install conservation practices on their farms. Many producers are interested in installing such practices, but the economics of agricultural production, coupled with the traditional funding environment that combines Federal or state cost-share, philanthropic grants and farmer co-payments, often restrict conservation adoption to the largest, most well-capitalized producers. Our alignment of agricultural conservation priorities with funding velocity and installation efficiency supports broad practice adoption by willing farmers who were previously capacity constrained.

We have reviewed HB0653 and based on our experience in the conservation finance field and our deep interest in expanding private capital support for conservation, we strongly encourage the Legislature to pass this bill. The policy changes and initiatives contained within it will make it easier for Maryland to attract private funding and finance of conservation, and for innovative efforts like the RWF to provide turnkey compliance options for permit holders.

While not panaceas, these types of market-based solutions provide a welcome compliment to non-profit and state cost-share efforts to achieve compliance objectives and address water quality priorities. Indeed, the EPA has expressed strong support for “accelerated adoption of market-based programs that will incentivize implementation of technologies and land use practices that reduce nonpoint pollution in our Nation’s waterways.” Recent announcements from major technology companies, airlines and other commercial market actors suggests that



with basic policy improvements, Maryland also will see increased purchases under voluntary markets.

We believe private investment and funding of conservation outcomes depends on:

- (i) clear pipeline of demand for “quantified offtake;”
- (ii) risk reduction around contracting;
- (iii) regulatory compliance;
- (iv) ESG adoption of voluntary purchase practices;
- (v) relevant “conservation finance” pools; and
- (vi) aligned intellectual capital.

The Conservation Finance Act addresses (i), (ii) and (iii), in terms of government as a first in line “purchaser” of environmental products, contract practice clarity and regulatory compliance clarity, and (v) in the expansion of State Revolving Loan Fund pools to facilitate project development and/or product offtake. It also addresses (vi) in terms of providing for a Task Force that aligns intellectual capital. In short, passage of HB0653 will position Maryland as an innovative problem solver and de facto leader in the conservation finance field and will create powerful incentives for the private sector to join in that effort.

Sincerely,

A handwritten signature in black ink, appearing to read 'Ashley Jones', with a long, sweeping horizontal line extending to the right.

Ashley Allen Jones
CEO

i2 Capital

Advisor, Chesapeake Bay Program Water Quality Goals Implementation Team
Member, EPA Environmental Financial Advisory Board