A sunset scene over a body of water. The sun is a large, bright yellow-orange sphere in the upper right, partially obscured by thin, wispy clouds. Its reflection is a bright, shimmering patch on the water's surface. The horizon is a dark, silhouetted line of land with some distant structures. The foreground shows the dark, silhouetted grass of a shoreline.

Program-Related Investments for Conservation: Lessons from Deepwater Horizon and the Warren Ranch

TEXAS LAND TRUST CONFERENCE
MARCH 1, 2018
10:30 AM – 12:00 PM

PARTICIPANTS

MODERATOR

Merrill Gregg

Conservation Finance Manager, Texas Parks and Wildlife Foundation

SPEAKERS

Sarah Richards

Water Program Officer, The Cynthia & George Mitchell Foundation


Jay Kleberg

Associate Director, Texas Parks and Wildlife Foundation

Mary Anne Piacentini

President, Katy Prairie Conservancy

SESSION TOPICS

- 
- I. Introduction to Program-Related Investments
 - II. Jumping in!: A Foundation's Perspective
 - III. Case Studies in Texas
 - A. Gulf Coast Conservation Loan Fund
 - B. The Warren Ranch
 - IV. Are You Ready?: Organizational Capacity, Risks and Best Practices
 - V. Audience Q&A

INTRODUCTION TO PROGRAM-RELATED INVESTMENTS



WHAT IS A PROGRAM-RELATED INVESTMENT (PRI)?

- Investment made by a foundation that seeks a charitable outcome as the primary objective
- Majority are loans or loan guarantees
- Extension of grant-making; sometimes PRIs are converted to grants (but don't depend on that)
- Part of the Alphabet Soup (PRI, MRI, SRI) of “Impact Investing”

ADVANTAGES OF PRIs	
Borrower (Non-profit)	1. Access to money!
	2. Concessionary borrowing rates (usually)
	3. Mission-aligned lender “patient capital”
Lender (Foundation)	1. Unlocks more philanthropic dollars
	2. Increase amount of support vs. typical grant size
	3. Count towards 5% mandatory annual distribution

BRIEF HISTORY OF PROGRAM-RELATED INVESTMENTS

Product of Tax Reform Act of 1969 (IRS creation)

Originally utilized by handful of large progressive foundations to catalyze and support programmatic work

Adoption of PRIs has increased steadily, including to support conservation projects

In 2016, IRS provided guidance (specific examples) that clarified how PRIs can be used

Higher use by smaller foundations* though average amount of endowment invested in PRIs is <5%

**do not need a dedicated staff person*

DUE DILIGENCE PROCESS AND DEAL TERMS



PRI 101 – Deal Terms

1. Amount (\$)
2. Duration (defined time period vs. outcome-based)
3. Interest Rate (%)
4. Collateral
5. Repayment Structure
 - Amortized, Balloon, Bullet
6. Prepayment penalty
7. Loan Forgiveness



THE CYNTHIA & GEORGE
MITCHELL
FOUNDATION

Jacob's Well

Wimberley, TX

- \$2 million low-interest bridge loan (LIBOR averaging rate of 3-5%)
- Successfully supported acquisition of land surrounding Jacob's Well & requirements to remove nearby impermeable cover
- \$30 million county land conservation bond issue enabled take-out of the investment less than 3 years later



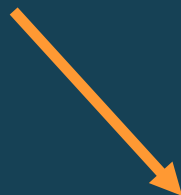
Cynthia & George Mitchell



THE CYNTHIA & GEORGE
MITCHELL
FOUNDATION



Investments
= high
return rate



Minimum 5%
Grants =
0% return



The Investment Spectrum

The spectrum of investment approaches

Source: Adapted from Bridges Ventures (2012)
and Sonen (2013)

en (2013)

		Responsible Investment			Impact Investing		
FOCUS	APPROACHES	Classic Investing	Screening “Do no Harm”	ESG Integration	Blended returns	Impact-first	Traditional Philanthropy
		Competitive returns			Targeted social and/or environmental impact		
		Emphasis on profit-maximization without an ESG lens	Consideration of ESG risk and/or personal values across a range of factors to screen out investments	Targeting investments best positioned to benefit from the integration of ESG factors and broad-based macro trends	Focus on issue areas where social or environmental needs offer commercial growth opportunities	Where impact is the primary objective of an investment or a mix of giving and investment to achieve a pre-defined impact.	Impact through giving with no financial returns
		<ul style="list-style-type: none">• Traditional debt, equity and asset management	<ul style="list-style-type: none">• Metrics, portfolio review, other mechanisms to screen investments for risk and/or shareholder resolutions	<ul style="list-style-type: none">• More proactive search for investments that meet commercial returns while delivering impact	<ul style="list-style-type: none">• Search for direct deals, funds or other investments that deliver both return and impact	<ul style="list-style-type: none">• MRIs, PRIs, funds, direct deals, and other investments designed to deliver a given impact	<ul style="list-style-type: none">• Grants, projects, campaigns, and other philanthropic initiatives

Cynthia & George Mitchell



Traditional
Investments
= high
return rate

Impact
Investments
= wide range in
return rate

Grants =
0% return



Creating a PRI Program

2016

Develop an process to support CGMFs mission and grantmaking programs

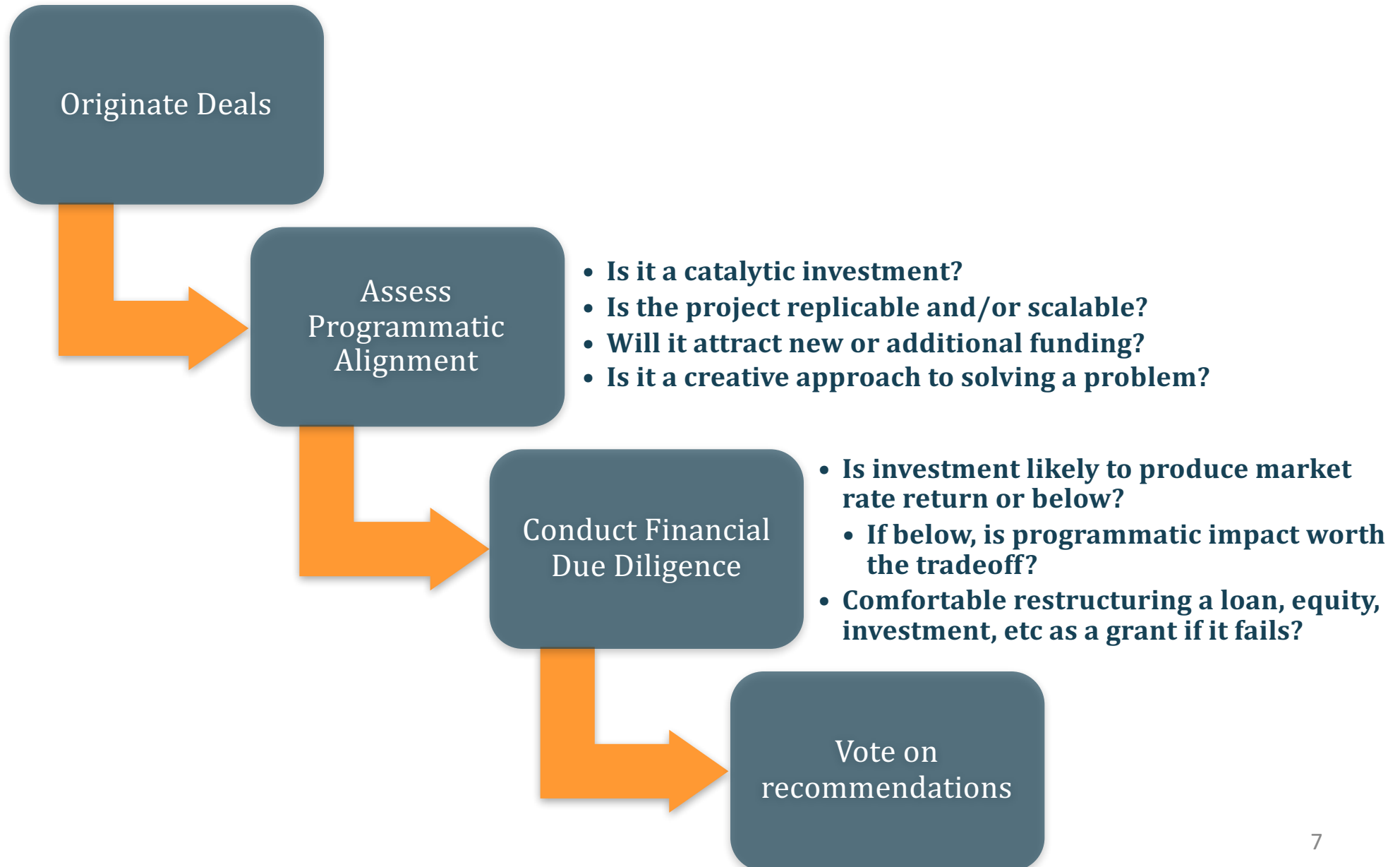
2017

Modest level of funding to kick of program

First official PRI made ~
Gulf Coast Conservation Loan Fund



Impact Investing Process & Key Assessment Questions



Gulf Coast Conservation Loan Fund

Advantages of a Loan Fund

- Holistic approach to coast-wide needs
- Can deploy \$ quickly in time-sensitive situations
- Enables grant trustees to think strategically
- Positions conservation projects favorably for competitive funding
- NGO collaboration via Loan Fund committee

Benefits to Philanthropic Investors

- Economy of scale for smaller funders
- Opportunity to impact multiple projects
- Outsourced loan due diligence
- Standardized legal agreements, lending policies



Impact Investing Opportunities for Land Conservation

LOAN



REVOLVING LOAN FUND



BUSINESS VENTURE



Liquid Assets Project

LONG TERM GOAL:

Use impact investing to **drive sustainable water management** changes through:

- (1) Demonstrating new approaches & solutions;
- (2) Taking new & traditional solutions to scale; and
- (3) Helping drive policy change through changing players who are at the table

THREE YEAR GOAL:

Identify and **stand up initial investments** that can provide the foundation for self-sustaining investment funds



Liquid Assets Project Pipelines



Agriculture & Ranching Investment

- **Sustainable ranching:** Focus on high-watershed areas; improving ranch operations to restore grasslands, enhance tributary conditions & downstream yields
- **Crop switching/ag infrastructure:** Focus on mid-watershed areas; farm improvement via crop conversion and modernized irrigation



Water Sharing Investment Partnership

- Creation of **investment-friendly water trusts** to focus on acquisition, development, and deployment of environmental water portfolios in market-friendly watersheds

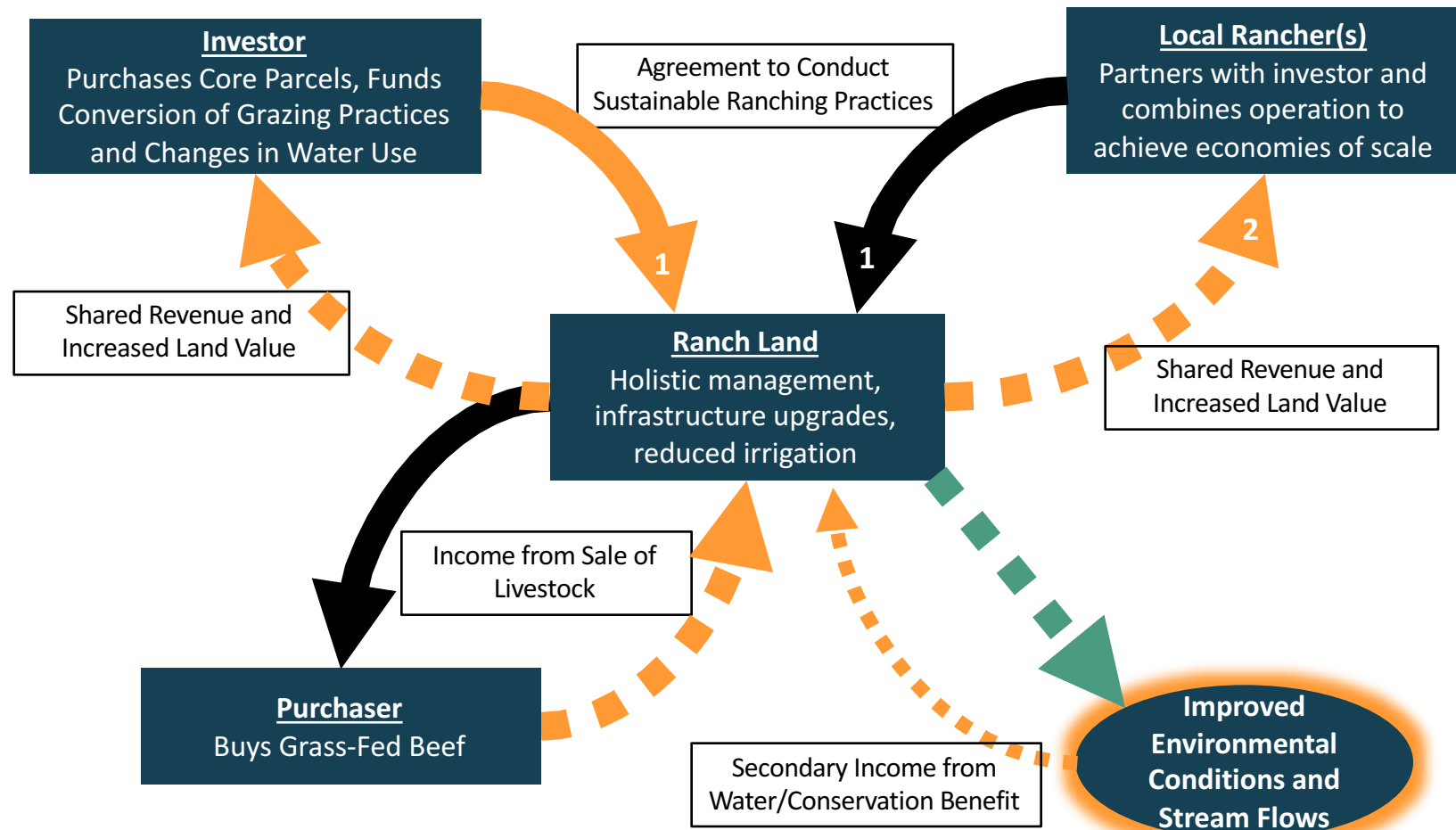


Innovative Municipal Infrastructure

- Focus on deployment of green infrastructure solutions: (1) stormwater capture & recharge; (2) wastewater reuse/recharge; & (3) tertiary treatment wetlands
- **Green Bond** financing for smaller capital-constrained communities
- **Environmental Impact Bond financing** for larger risk-constrained communities

Liquid Assets Project

Ag & Ranchland Investment: *Sustainable Ranching*



Liquid Assets Project

Sustainable Ranching Project Screening Criteria

IMPACT

Water Impact Potential

- Local: location in watershed, opportunity to improve condition/flow of tributary streams, improve local water security
- Systemic: opportunity to conserve significant/measurable volumes, benefit downstream reservoirs

Conservation Impact Potential

- Opportunity to improve grassland conditions/riparian corridors
- Benefits to fish/wildlife/E&T species

Community Impact Potential

- Preservation of working landscapes & associated communities
- Benefits to recreation values
- Improvement of local ranch economics/partnerships with local producers
- Assisting entry of young ranchers to manage intergenerational transition

ECONOMICS

Ranch Operations

- Existing revenue streams, livestock markets, & alternative market options
- Existing stocking rates, operating strategy, & potential for enhancement
- Ability to achieve economies of scale
- Room for improvement in grazing/irrigated pasture practices

Economics and Alternative Revenues

- Land availability, pricing vs. ag value, trends
- Potential for water monetization, shepherding issues
- Mitigation/easement potential
- Realization of recreational value
- Disposal of amenity value to rationalize land prices

Local Partner Opportunities

- Suitable local ranching partner(s)
- Local conservation partners with existing relationships, funders with interest in area



THE CYNTHIA & GEORGE
MITCHELL
FOUNDATION

Sarah Richards
Water Program Officer

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Gulf Coast Conservation Loan Fund: Innovative Philanthropy for Transformative Coastal Conservation

Texas Land Trust Conference – March 1, 2018
Jay Kleberg, Associate Director



Mission: provide private support to Texas Parks and Wildlife Department to ensure that all Texans, today and in the future, can enjoy the wild things and wild places of Texas.

Since 1991, Texas Parks and Wildlife Foundation (TPWF) has invested over \$170 million in projects and diverse strategic initiatives including:

- Land conservation
- Habitat restoration and enhancement
- Wildlife research and safeguarding
- Outdoor recreation and education
- Law enforcement (Texas Game Wardens)

TPWF works closely with many nonprofit partners to deliver conservation outcomes that are priorities for the state of Texas.

DEEPWATER HORIZON SETTLEMENT FUNDING FOR TEXAS

Unprecedented funding dedicated to Texas and the four other affected Gulf States through 2031 from DH Oil Spill for conservation and restoration priorities

	Funding Source				
	NRDA ⁽¹⁾	NFWF GEBF ⁽²⁾	RESTORE ⁽³⁾		
Year			Bucket 1	Bucket 3	Yearly Totals
2013		\$12,640,000			\$12,640,000
2014		\$28,240,000			\$28,240,000
2015		\$27,120,000			\$27,120,000
2016	\$48,726,015	\$24,000,000			\$72,726,015
2017	\$8,984,413	\$40,000,000	\$20,533,333	\$6,700,000	\$76,217,746
2018	\$4,492,206	\$71,520,000	\$20,533,333	\$6,700,000	\$103,245,539
2019	\$8,984,413		\$20,533,333	\$6,700,000	\$36,217,746
2020	\$8,984,413		\$20,533,333	\$6,700,000	\$36,217,746
2021	\$8,984,413		\$20,533,333	\$6,700,000	\$36,217,746
2022	\$8,984,413		\$20,533,333	\$6,700,000	\$36,217,746
2023	\$8,984,413		\$20,533,333	\$6,700,000	\$36,217,746
2024	\$8,984,413		\$20,533,333	\$6,700,000	\$36,217,746
2025	\$8,984,413		\$20,533,333	\$6,700,000	\$36,217,746
2026	\$8,984,413		\$20,533,333	\$6,700,000	\$36,217,746
2027	\$8,984,413		\$20,533,333	\$6,700,000	\$36,217,746
2028	\$8,984,413		\$20,533,333	\$6,700,000	\$36,217,746
2029	\$8,984,413		\$20,533,333	\$6,700,000	\$36,217,746
2030	\$8,984,413		\$20,533,333	\$6,700,000	\$36,217,746
2031	\$8,984,410		\$20,533,333	\$6,700,000	\$36,217,743
Totals	\$179,000,000	\$203,520,000	\$308,000,000	\$100,500,000	\$791,020,000

\$288 M (nearly 40%) from 2017-2021

PLUS: \$1.6 billion in RESTORE funding available to all Gulf States through a competitive process

LAND CONSERVATION PRIORITIES

Conservation NGOs and natural resource agencies agree on a consensus list of land projects to prioritize for DH Funding

List is formulated in partnership with Texas Parks and Wildlife Department (TPWD), Texas Commission on Environmental Quality (TCEQ), Texas General Land Office (GLO), and US Fish and Wildlife Service

Projects largely focused in priority bay systems

- Upper Texas Coast
 - Chenier Plain
 - Galveston Bay
- Middle Texas Coast
 - East Matagorda Bay
 - Matagorda/San Antonio Bay
 - Corpus Christi Bay
- Lower Texas Coast
 - Bahia Grande

Focal Priority Conservation Areas



EVALUATION CRITERIA FOR LAND CONSERVATION PROJECTS

1. **Biological and Geographic Attributes** – habitat types and health, restoration and management needs, coastal frontage, support or criticality for target species
2. **Setting** – context within larger priority landscape(s) and relation to other conservation projects
3. **Scale** – focus on large tracts that preserve critical ecosystems, mosaics of interdependent habitats, and landscape-scale natural processes such as fire and predator-prey relationships
4. **Timeliness** – status of landowner negotiations and threat of property conversion
5. **Cost Effectiveness** – cost per acre for investment relative to benefits derived
6. **Project Logistics** – local and statewide political sensitivities, landowner privacy, management goals and philosophies, public access and public perception.

MULTI-YEAR SETTLEMENT FUNDING: CHALLENGES FOR TIME-SENSITIVE, CAPITAL-INTENSIVE PROJECTS

- 1) Transactions can be seller driven, often time-sensitive, and may not align with grant schedules
- 2) For large projects, a Deepwater Horizon grant may be paid out in multi-year installments following notification of project approval
- 3) Interim financing is required to bridge gap between a transaction closing and grant disbursements
- 4) Interest payment costs are considerable!
 - Most Deepwater Horizon grants will not cover interest payments
 - Cost is born by NGOs and private donors, reducing funding for other deserving projects
 - Potential interest costs could be upwards of \$9 million, excluding additional expenses incurred by multiple closings



A REVOLVING LOAN FUND: A PROVEN MODEL IN CONSERVATION

Successful Geographic-Focused Loan Funds



\$7 million PRI from Packard Foundation to benefit Greater Yellowstone land acquisition



\$3.5 million PRI from Geraldine R. Dodge Foundation and William Penn Foundation for NJ land conservation

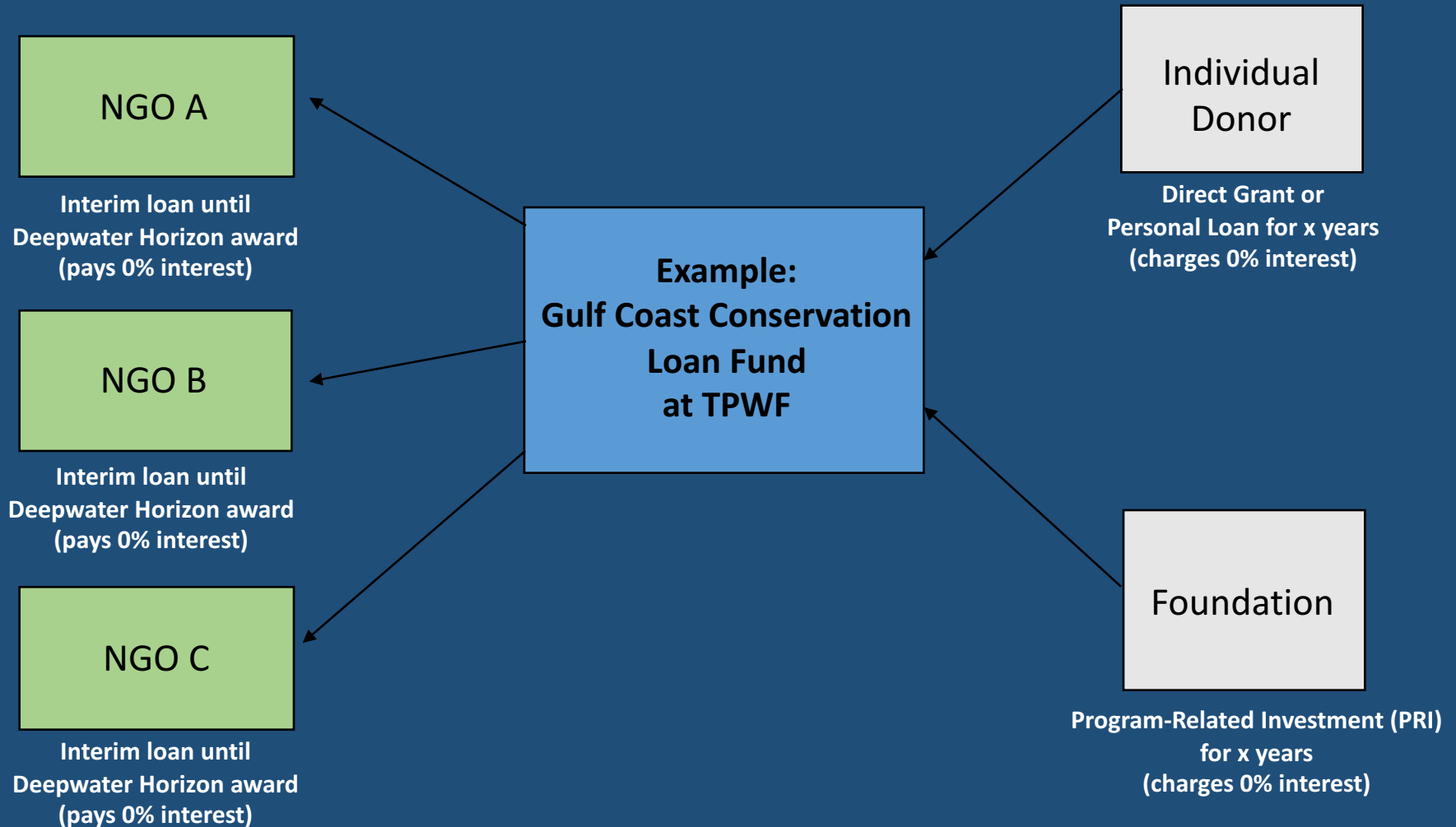


\$2 million permanent fund to aid 85 local land trusts on Maine Coast

Why TPWF is uniquely positioned to administer Texas Gulf Coast Loan Fund:

- History of collaboration with public agencies and NGOs
- Consensus through **Loan Fund Committee**
 1. Texas Parks and Wildlife Foundation
 2. The Nature Conservancy – Texas Chapter
 3. Texas Land Trust Council
 4. Texas Agricultural Land Trust
 5. Texas Audubon
 6. Meadows Center for Water & Environment
- Established dialogues with Deepwater Horizon trustees
- Staff expertise to due diligence projects, manage operations and engage funders

MECHANICS OF THE REVOLVING LOAN FUND



LOAN FUND TRANSACTIONS SINCE INCEPTION

- TPWF has secured **\$4,605,000** from **8** Texan investors (6 foundations and 2 individuals)
- Loan Fund Committee approved 2 loans for projects awarded funding from 2017 Deepwater Horizon cycle

Tract	Loan Date	Loan Amount	Acreage Conserved	Interest Rate	Repayment Source	Anticipated Repayment Date
Follets Island Parcel	3/31/2017	\$670,000	154	0%	NRDA	March 22, 2018
Matagorda Bay System Parcel	6/12/2017	\$875,000	430	0%	RESTORE Bucket II	Q2 2018
TOTAL		\$1,545,000	584			

MODEL OF INNOVATIVE CONSERVATION FINANCING FOR TEXAS

In July 2017, TPWF was awarded a **Conservation Innovation Grant** from USDA's Natural Resource Conservation Service recognizing this as an innovative financing model:

Key Benefits of Loan Fund

1. **Cost Savings** – 0% interest loans free up private funding and NGO resources for other priorities
2. **Acceleration** – Jump-start critical projects that might otherwise be delayed by the bureaucratic process
3. **Credibility** – High confidence of reimbursement
4. **Flexibility** – Private investors may retain right to select projects that benefit from their PRI/loan
5. **Investment Multiple** – Impact more than one project
6. **Efficiency** – “One-stop-shop” for stakeholders, increasing likelihood of participation
7. **Inclusiveness** – Economy of scale for smaller funders

Goals for 2018

1. Extend 1-2 new loans for critical, at-risk projects approved for 2018 Deepwater Horizon funding
2. Raise additional PRIs for Loan Fund if pipeline and/or cost of anticipated projects merits it

Explore Applicability of Expanding Loan Fund Model Gulf-Wide

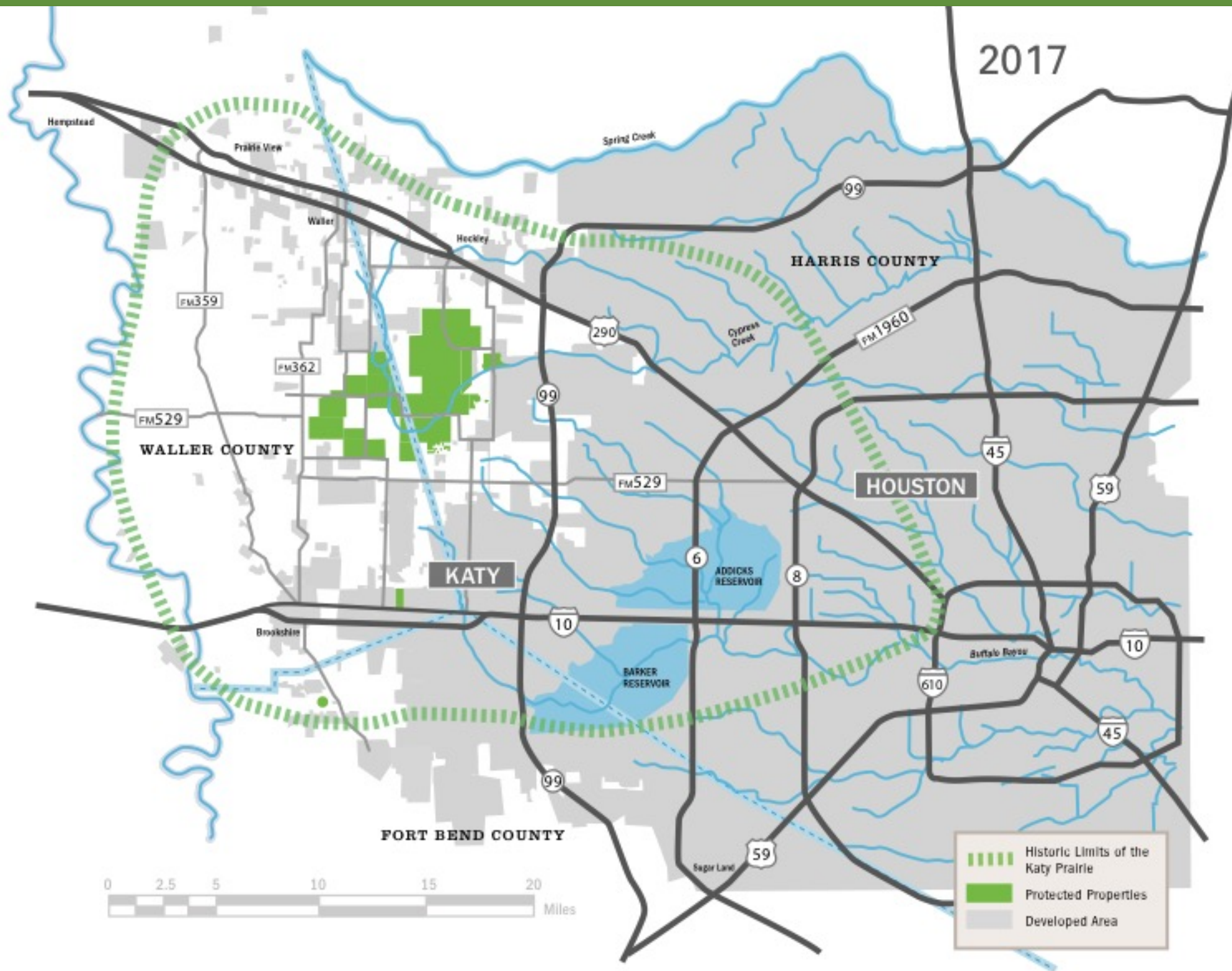
- Other Gulf States (AL, MS, LA, FL) could benefit without duplicating resources
- Discussion with public and private stakeholders across Gulf region
- Identify and collaborate with an institutional partner to manage possible Gulf-Wide Fund
- Secure leadership financial support to plan and launch possible Gulf-Wide Fund



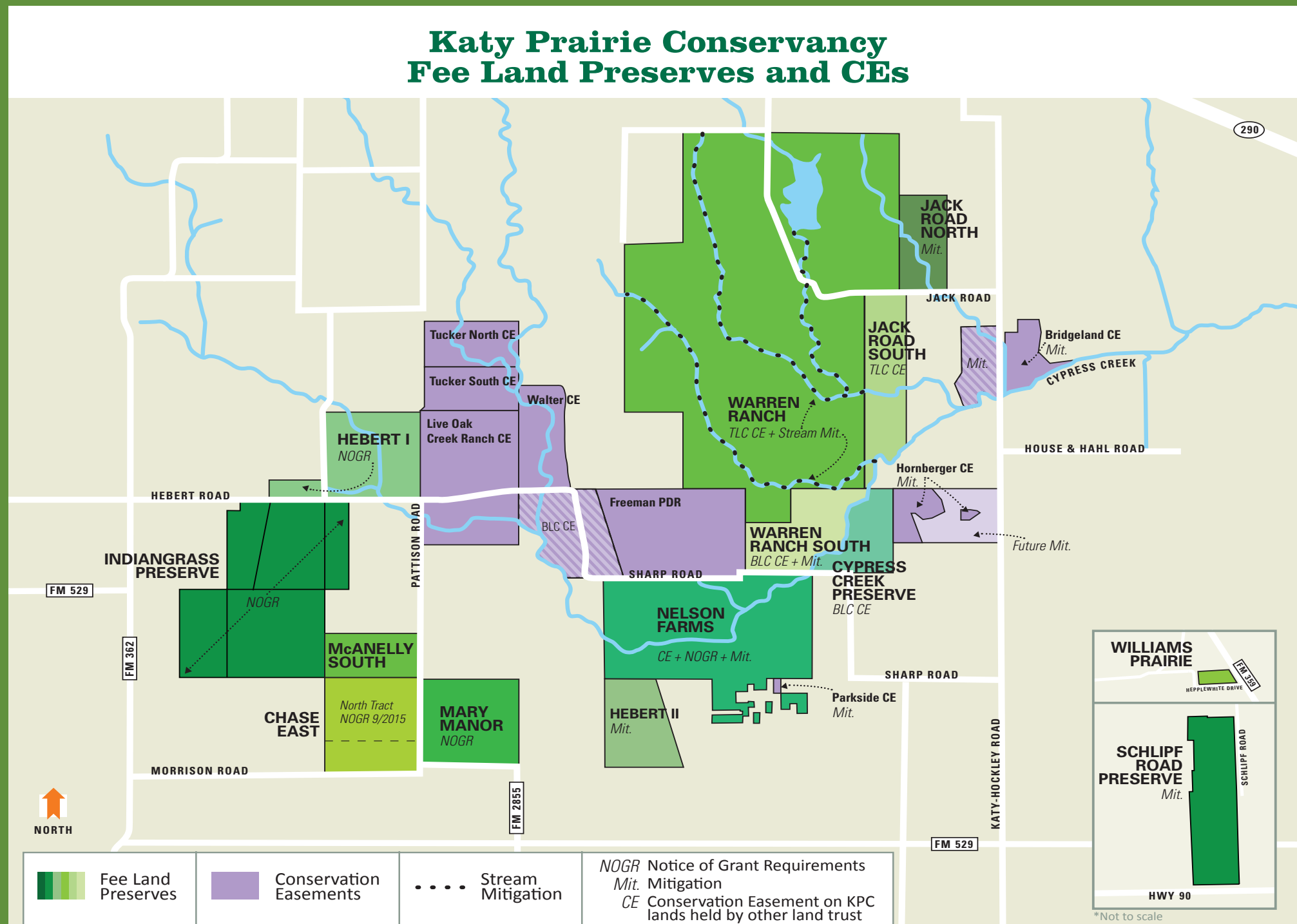
Is Your Land Trust Ready for Program-Related Investments?

Mary Anne Piacentini, President & CEO

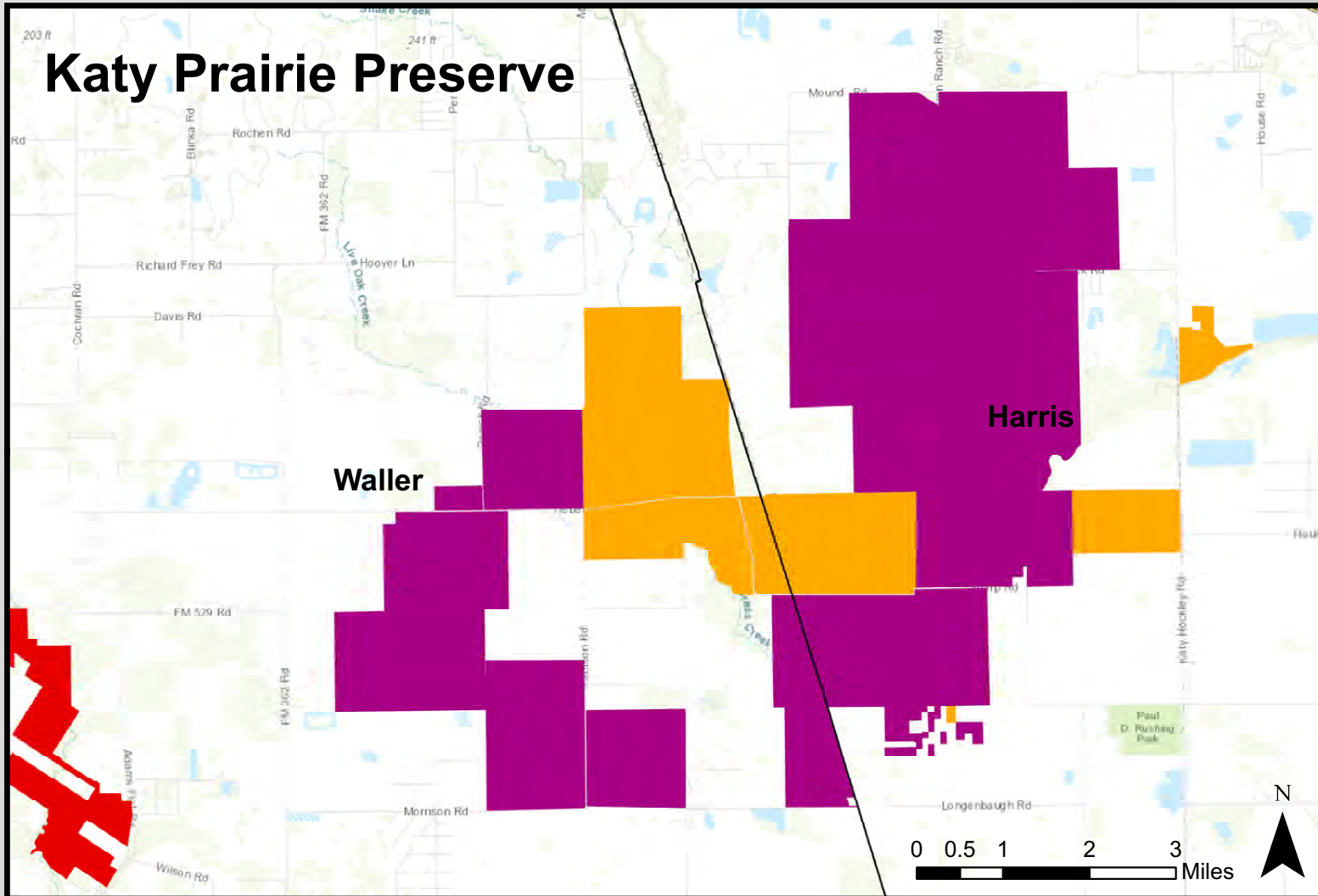




THE KATY PRAIRIE PRESERVE SYSTEM

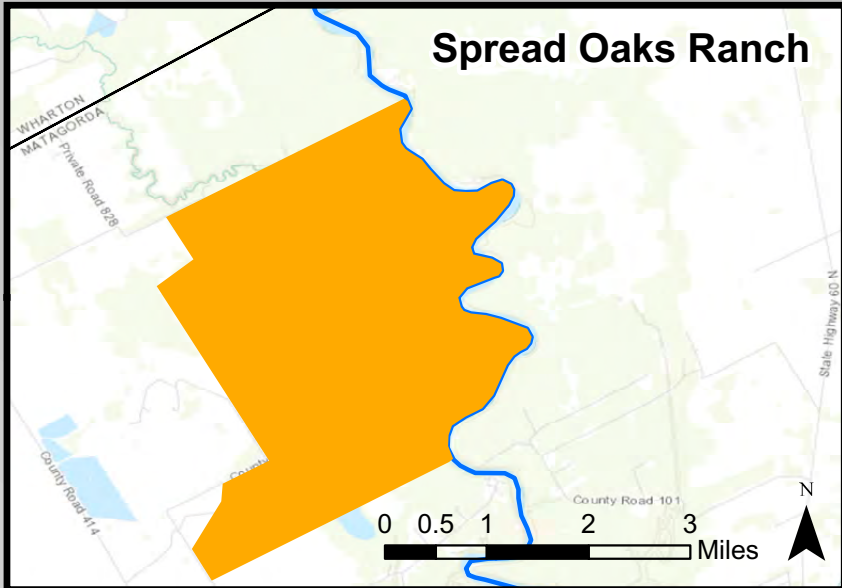


Katy Prairie Preserve



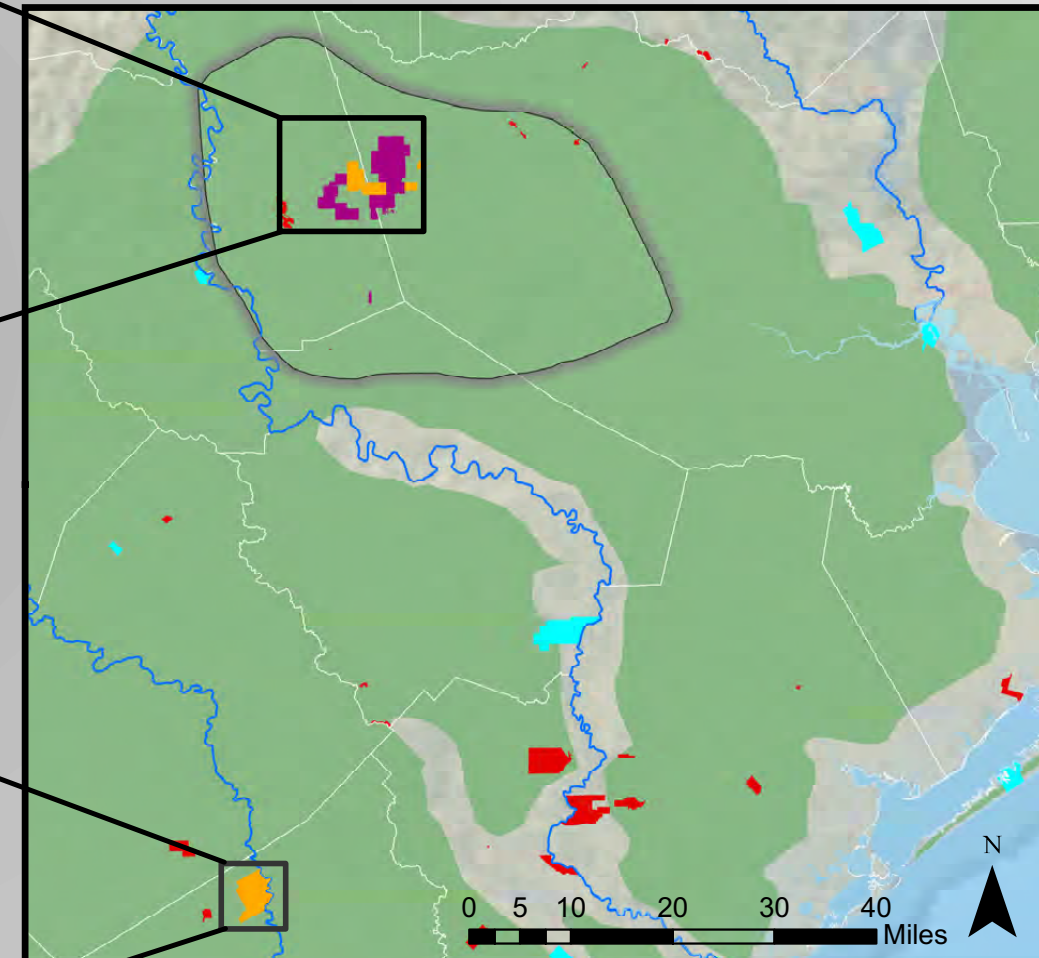
KPC Mission:
To protect a sustainable portion of the Katy Prairie for the benefit of its wildlife and all Texans forever.

KPC Goals:
To protect 30,000 - 50,000 acres of the Katy Prairie, provide public access to enjoy the Katy Prairie, manage land to preserve and enhance its natural resources, restore and improve habitat for upland and wetland species, educate participants on the importance of conserving the prairie, participate in research that helps KPC achieve its mission, collaborate with organizations and individuals to meet KPC's objectives



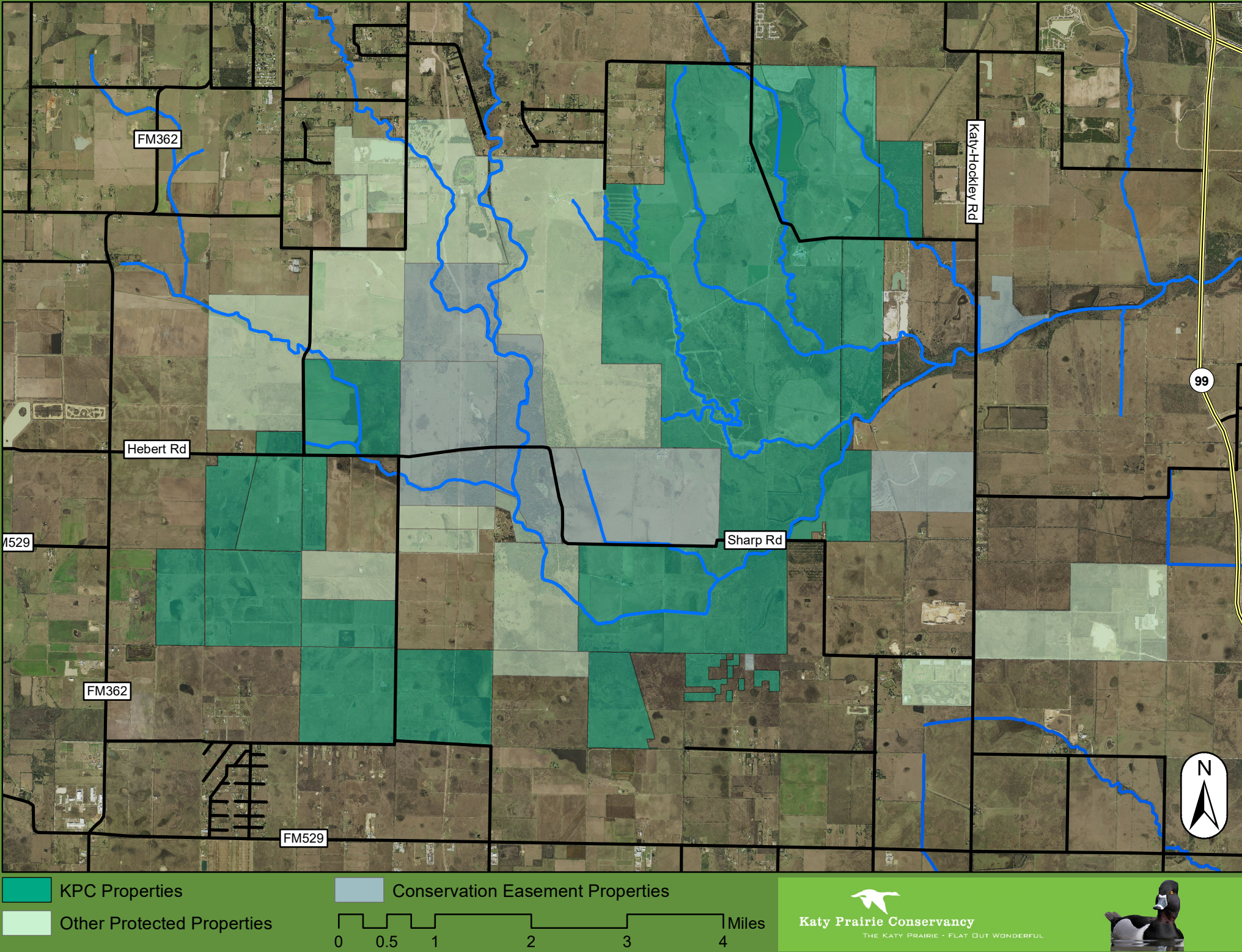
Katy Prairie Conservancy (KPC) 2018 Protected Properties

- KPC Easement Property
- KPC Owned Property
- Other Registered Conservation Easements
- Government Protected Property
- Historic Coastal Prairie
- Historical Katy Prairie Boundary



katyprairie.org

KPC AND ITS NEIGHBORS



WARREN RANCH – OPPORTUNITY OR CHALLENGE

- Initial fundraising plan
- Lack of early philanthropic support
- Mortgage
- Funding Debt
- Loss of unrestricted money
- Conservation Boot Camp - 2007
- PRI in 2007 – ahead of the region



- Stream Mitigation
- Wetlands Mitigation
- Working Cattle Ranch
- Agricultural and Hunting Leases
- Green Notes
- Rural Development



2016 – NEW STRATEGY NEEDED

- Mortgage
- Easy Money
- Looming Deadlines
- Earned Income Stalled
- Donor Advice
- “Found” Foundation



WHAT DID PRI ENTAIL?

- 12 year interest only payment
- Interest rates
- Collateral
- Repayment Plan



LESSONS LEARNED

- Raise funds upfront if at all possible
- Don't be lured by easy money
- Always have a reserve – operating, endowment, stewardship, land protection fund
- Prepare good financials and cash flows
- Plan your exit strategy
- Try to anticipate external factors beyond your control



KATY PRAIRIE.ORG



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PROTECTING THE PRAIRIE FOR PEOPLE AND WILDLIFE

Join Us



ARE YOU READY?



FIRST STEPS...

Questions to Ask Before Embarking on PRIs

1. Does your organization have the ability to borrow money?
2. Getting your Board comfortable
3. Understanding staff resources/expertise
 - Reporting requirements (lender and financial)
4. Potential costs to your organization
 - Legal document preparation and review
 - Increased staff time
5. Donor Base
 - In many cases, but not all cases, PRIs are made to organizations where there is an established relationship



IS A PROJECT APPROPRIATE FOR A PRI?

Communicating the Need

- Lost opportunity

Repayment Source/Strategy (examples)

- Government-sponsored grant
- Environmental settlements (e.g. SEP funds)
- Ecosystem services (e.g. carbon credits, mitigation banking)
- Fundraising (binding pledges or prospects)

Repayment Strategy

- Aligning cash flows with PRI loan structure

Collateral

- Ring-fencing the risk!

Relationship with PRI lender

- Ability or willingness to refinance

QUESTIONS?

RESOURCES ON PROGRAM-RELATED INVESTMENTS

Mission Investors Exchange (missioninvestors.org)



A national network of over 250 foundations and affiliate members. MIE offers a robust platform for sharing tools and best practices, provides access to investment opportunities, and promotes the policy and market conditions necessary to grow the impact investing field.

GrantCraft (grantcraft.org)



GrantCraft combines the practical wisdom of funders worldwide with the expertise of Foundation Center to improve the practice of philanthropy. Since 2001, GrantCraft has delivered the knowledge funders need to be strategic and effective in their work, addressing questions funders face across various strategies and issue areas.

Council on Foundations (cof.org)



Whether called impact investing, mission investing, program-related investing, or sustainable and responsible investing, foundations increasingly seek to leverage financial markets for social gains. These resources help your foundation explore the emerging strategies and diverse options available.