



May 30, 2018

Honorable John A. Lawrence
Harrisburg Office
211 Ryan Office Building
Post Office Box 202013
Harrisburg, PA 17120-2013

Dear Representative Lawrence,

Thank you for contacting me regarding two funding awards unanimously approved by the Pennsylvania Infrastructure Investment Authority ("PENNVEST") Board of Directors for projects involving the Lyme Timber Company, LP. Issues and concerns related to this project were raised by Representative Oberlander and discussed by the members at the April 18, 2018, PENNVEST Board Meeting, and follow-up materials were requested by the Board Chairman.

I have attached a copy of the resulting memorandum and information that I have provided to the Board Members in response to the Chairman's request.

I appreciate you contacting me regarding your concerns and hope I have provided you with some additional perspective.

Please contact me with any additional questions on this project or any PENNVEST program.

Sincerely,

Brion Johnson
Executive Director
Pennsylvania Infrastructure Investment Authority

cc:

Chairman Menzer
William Danowski

**To: The Pennsylvania Infrastructure Investment Authority
Board of Directors**

**From: Brion Johnson
Executive Director**



Date: April 25, 2018

RE: LFF IV Timber Holding Company d/b/a Lyme Emporium Highlands II LLC

On April 18, 2018, during a regularly scheduled meeting of the Board of Directors of the Pennsylvania Infrastructure Investment Authority ("PENNVEST" and the "PENNVEST Board"), Representative Oberlander, in her capacity as a member of the PENNVEST Board, raised certain concerns with two loan awards previously made by the PENNVEST Board to LFF IV Timber Holding Company d/b/a Lyme Emporium Highlands II, LLC ("Lyme Timber"). Specifically, Representative Oberlander mentioned her concern with the eligibility of the projects, the calculation of the interest rate included in the PENNVEST funding offers, the term of the loans associated with the projects, and whether brick and mortar projects were skipped in ranking and awarding loans for the two Lyme Timber projects. Representative Oberlander also asked about the responses to certain concerns raised in a letter sent to PENNVEST by Senator Hutchinson on April 12, 2018.

The two projects being discussed are loan numbers 72810 and 72812. The PENNVEST Board approved the award of loan number 72810 to Lyme Timber at a special meeting of the PENNVEST Board on October 27, 2017, for a loan in the amount of \$25,450,115 at 1% interest and a twenty-year term with interest only payments for up to 5 years and 15 years of repayment. The proceeds of loan number 72810 are to be used to purchase a portion of 60,102 acres of privately owned forestland in Cameron, Clinton, Elk, Jefferson, McKean, Potter and Venango Counties. The PENNVEST Board approved the award of loan number 72812 to Lyme Timber at a regular meeting of the PENNVEST Board on January 31, 2018, for a loan for \$24,549,885 at 1% interest and a twenty-year term with interest only payments for up to 5 years and 15 years of repayment. The proceeds of loan number 72812 are to be used for the purchase of 28,054 acres in Cameron, McKean and Potter Counties. Both projects were ranked and approved by the PENNVEST Board based on their ability to protect existing water quality, improve water quality in certain areas affected by acid mine drainage issues and the projects readiness to proceed.

Chairman Menzer asked that staff prepare a response to address the concerns raised by Representative Oberlander. The PENNVEST Board agreed to the course of action. This letter is structured to address those concerns on the projects' eligibility, interest rate calculations and loan terms and whether any brick and mortar projects were skipped or not funded because of the award of funds to Lyme Timber.

Eligibility

I am attaching for your review and consideration a legal memo which Jayne Blake, PENNVEST Chief Counsel provided to me on the project eligibility. We have since learned that there are concerns about PENNVEST's ability to fund private activity, and that the Lyme Timber projects were not in fact projects because, in their opinion, they were not systems or facilities.

PENNVEST has the legal authority to fund private activity. While PENNVEST's original enabling legislation from 1988, as amended in 1992, did not authorize the funding of private activity for stormwater projects, the legislation was further amended in 2005 and again in 2013 to indicate and confirm that PENNVEST has the authority to fund all projects whether they are publicly or privately owned. A standalone piece of legislation was enacted in 2008 also addressing the eligibility of nonpoint source projects. A review of projects that PENNVEST has funded historically will demonstrate that we have a long history of funding privately owned water, sewer and nonpoint source projects.

Nonpoint source projects may include structural stormwater projects, but also include agricultural best management practices, brownfield remediation, and other innovative techniques to improve water quality. The acquisition of timberland, conservation easements and acid mine drainage components of the Lyme Timber projects are agricultural best management practices identified in Pennsylvania's Nonpoint Source Management Program Update as required under section 319(b) of the Federal Water Pollution Control Act which update is titled *The Pennsylvania's Nonpoint Management Plan, 2014 Update* ("the 319(b) Plan").

When PENNVEST first started funding nonpoint source projects under the Section 319(b) Plan, the idea of system and facility had to be considered more broadly because brownfield remediation, riparian buffers, agricultural best management practices, urban tree plantings and other innovative techniques most often do not include the creation of structural systems and facilities akin to drinking water and sewer treatment plants. Instead, the 319(b) Plan projects each had to be considered a system or facility because each project type or best management practice is the methodology or system deemed needed to provide the water quality benefit being sought in Pennsylvania. Therefore, each project under the 319(b) Plan is considered a system or facility for that methodology to be implemented and is an eligible project. Further, the U.S. Environmental Protection Agency ("EPA") has oversight responsibility on Pennsylvania's use of the federal revolving funds and has approved the use of the same for the implementation of the methodologies identified in the section 319(b) Plan as fundable projects .

Interest Rate and Loan Term

PENNVEST statute dictates the interest rate charged on loans for projects. The highest rate is applied to projects that are without user fees, and have financial capacity to warrant county cap rates. The PENNVEST Act mandates how the county cap rates must be calculated and imposed on a project. The PENNVEST Act does not discriminate between private and public projects for purposes of applying the interest rate. Further, whenever PENNVEST has a multi-county project, we must impose the lowest county cap rate to comply with the PENNVEST Act. Both Lyme Timber projects include part of the acid mine drainage remediation work and independent conservation easements in the Sterling Run Tract located in

Cameron County. The cap rate for that area is 1%, which happens to also be the lowest rate PENNVEST can apply to a loan.

The loan term for the Lyme Timber projects is 20 years from the date of origination with up to five years of monthly interest only payments and fifteen years of monthly principal and interest repayment. The term is akin to the terms applied to brownfield projects under the 319(b) Plan, except that in the case of some brownfields, we authorized the interest payment to be deferred for up to five years. Here we did not authorize the deferral of the interest payments. We are requiring monthly payments of interest. Most projects have an additional interest-only period added to their approved term. In this case, also consistent with the brownfield remediation 319(b) Plan projects, the twenty-year term is not extended by an additional period of interest only. Further, Lyme Timber must repay PENNVEST the loan in full should they sell the land which is expected to occur in 10 to 12 years given the depletion of asset calculations used in the industry.

Ordering with Brick and Mortar Projects

The PENNVEST staff brings projects to the PENNVEST Board for approval based upon their ranking order for approval and their readiness to proceed. Each funding round stands independent of the other funding rounds and eligible projects that are ready to proceed to construction are funded in rank order based upon the budgeted amount of money available for each PENNVEST Board meeting.

In the funding rounds for both October of 2017 and January of 2018, all other eligible projects that were ready to proceed were approved for funding for the full amount of financial assistance requested. PENNVEST has been funding all projects that are ready to proceed in each funding round since July 2015. Given that all other projects, which were ready to proceed, were funded in each funding round in the full amount requested, there were no projects of any type skipped in order of priority ranking for either PENNVEST Board meeting at which the Lyme Timber projects were awarded funding and each other project received the full amount of financial assistance requested.

Letter from Senator Hutchinson

Representative Oberlander also mentioned correspondence from Senator Hutchinson to PENNVEST dated April 12, 2018, which expressed the Senator's concern with PENNVEST providing funding for these projects and requesting an immediate end to the transactions. Senator Hutchinson's letter raised questions regarding eligibility, which have been addressed above, and whether the projects were fully vetted.

As previously touched upon under the eligibility section above, EPA supports and encourages the practice of using the federal Clean Water State Revolving fund (CWSRF) for best management practices, including the purchase of timberlands which will be used in sustainable forestry, the creation of conservation easements and acid mine drainage remediation. The projects, and each best management practice mentioned, are individually and collectively, considered valid and appropriate projects under the Section 319(b) Plan for the protection and remediation of water quality by EPA. Using the Section 319(b) Plan funds under the CWSRF in such a manner is also supported by the Pennsylvania Department of

Environmental Protection (DEP), the Pennsylvania Department of Conservation and Natural Resources (DCNR) and the Pennsylvania Department of Community and Economic Development (DCED) as being consistent with each departments' mission, goals and objectives for Pennsylvania and a means to leverage Commonwealth initiatives using federal funds.

Senator Hutchinson was concerned that he was misled on how the projects were vetted for funding and who was contacted locally by PENNVEST as it relates to the projects. Before any project may be recommended and approved by the PENNVEST Board for funding under the CWSRF, the project must be reviewed and processed in accordance with an Intended Use Plan (IUP) that is subject to comment at a public meeting. The projects that are ready to proceed are ranked and reviewed by DEP, DCED and PENNVEST staffs and recommended to the PENNVEST Board for consideration. The Lyme Timber projects proceeded under the same process.

As a matter of protocol, PENNVEST staff reaches out to local government and county planning commissions to ensure that recommended construction projects are consistent with local land use planning initiatives. The construction activities on this approval relate to mitigation of legacy acid mine drainage in Shippen Township, Cameron County. PENNVEST received formal sign-off and support from Shippen Township, the Cameron County Conservation District and the Cameron County Commissioners. The balance of the effort behind the Lyme Timber projects supports sustainable timbering operations as a best management practice on land tracts that have been for sale for the past 5 years and places certain land in conservation easements as a best management practice. Even though no construction is involved in sustainable timbering or conservation easements, PENNVEST staff touched base with the county planning departments in the counties where conservation easements were being proposed to ensure conservation easements are generally consistent with their land use planning. The response to PENNVEST staff indicated that the practice was consistent with the land use planning for each county department. In addition, PENNVEST received unsolicited letters of support from the following businesses and organizations backing these projects: FORECON Inc., The Forestland Group, Northern Appalachian Log & Forestry Co., LandVest, F&W Forestry Services, Inc., Generations Forestry, Matson Lumber Company, The Wagner Companies, Audubon Pennsylvania, Western Pennsylvania Conservancy, Foundation of Pennsylvania Watersheds, Chesapeake Conservancy, Richard King Mellon Foundation and the Pennsylvania Council of Trout Unlimited.

I hope this helps to provide sufficient insight as to the basis of staff review and the recommendation of funding for the Lyme Timber projects. We believe it is our mission to develop and bring all eligible projects to the PENNVEST Board for consideration. In doing so, we follow the same process for review and consideration for all projects of the same type. The determination of eligibility for funding is separate from the evaluation of the financial package. All eligible projects are then reviewed for the financial package we can offer. As discussed previously, we have statutory constraints on what interest rate may be imposed and loan terms are generally for twenty years unless an additional subsidy is being offered

PENNVEST utilizes additional subsidies in the form of reduced interest rates, extended terms and grants when we determine an applicant does not have sufficient capacity to cover debt service. All other projects not eligible for additional subsidies are funded at the prescribed county cap interest rates. The Lyme Timber projects were not eligible for additional subsidies, so the county cap interest rate was used for these projects. Once the Board approves an award of funding, the recipient receives a funding offer from PENNVEST. Funding recipients rely upon the funding offer and incur obligations as they move toward settlement to document their compliance with all terms of the award. PENNVEST has never rescinded a funding offer where the funding recipient has complied with the terms set forth in the funding offer.

For your convenience, I am enclosing my response submitted to the House Agricultural and Rural Affairs Committee in response to their concerns raised at an informational meeting, a Q&A document provided by Lyme Timber, and some information on other similar scoped projects funded in surrounding states utilizing information and guidance from EPA regarding alternative uses of the CWSRF.

April 3, 2018

Memorandum

Follow up information to the House Agriculture and Rural Affairs Committee meeting 3/26/18

Executive Director Golden,

Thank you for giving me the opportunity to share with you some additional information regarding the PENNVEST program related to our funding of Non-Point Source clean water projects in Pennsylvania. As I understand, the committees' main concerns relative to the Lyme Timber Projects are as follows: 1) project eligibility; 2) the determination of the interest rates on the loans; and, 3) the concern that traditional brick and mortar projects were bypassed to pick up the Lyme Timber funding approvals. I will address each below.

Project Eligibility

As I understand it, there was a concern about PENNVEST's authority to fund Non-Point Source projects in general, and these two Lyme Timber Non-Point Source projects in particular.

Generally, PENNVEST has the legal authority to fund Non-Point Source projects under the PENNVEST Act and specifically under the definition of Project. I am including that definition below for convenience because the section referred to at the meeting may have been a prior iteration.

35 PS Section 751.3. Definitions:

"Project." The eligible costs associated with the acquisition, construction, improvement, expansion, extension, repair, rehabilitation or security measures of all or part of any facility or system, whether publicly or privately owned.

(1) for the collection, treatment or disposal of wastewater, including industrial waste;

(2) for the supply, treatment, storage or distribution of drinking water;

(3) for the control of pollution associated with storm water, which may include, but need not be limited to, the transport, storage and the infiltration of storm water; or

(4) for the best management practices to address pollution, including innovative techniques developed to comply with the act of June 22, 1937 (P.L. 1987, No. 394),¹ known as The Clean Streams Law, or identified in the county-prepared watershed plans pursuant to the act of October 4, 1978 (P.L. 884, No. 167),² known as the Storm Water Management Act, or as identified in Pennsylvania's Nonpoint Source Management Program Update, as required under section 319(b) of the Federal Water Pollution Control Act (62 Stat. 1155, 33 U.S.C. § 1329(b)).

The Non-Point Source Projects are also addressed in 35 PS Section 751.10(b.2)

(b.2) Nonpoint source management program projects.--A project that is consistent with Pennsylvania's Nonpoint Source Management Program Update, as required under section 319(b) of the Federal Water Pollution Control Act (62 Stat. 1155, 33 U.S.C. § 1329(b)), that has a water quality benefit as determined by the department, shall be eligible for funding.

Specifically, the two Lyme Timber Projects are eligible Non-Point Source Projects under the PENNVEST Act. As a matter of protocol, each project is vetted by the Department of Environmental Protection ("DEP"), thereafter reviewed by PENNVEST staff including PENNVEST legal counsel for among other things, eligibility of the project for the PENNVEST programs. This is done prior to recommendation for funding to the Board. As requested, I have attached a memorandum specific to this project from PENNVEST Chief Counsel addressing program eligibility of Lyme Timber and other non-point source projects.

These projects were brought to PENNVEST sponsored by a private concern seeking funding for eligible costs to protect existing water quality and improve water quality in certain areas of concern related to legacy acid mine drainage issues.

PENNVEST staff worked with the DEP and the Department of Conservation and Natural Resources to fully evaluate the water quality benefits of these projects. Based upon DEP's evaluation of the water quality impact and the consideration that these projects are consistent with the Stormwater Management Plan Update of 2014, the projects were recommended to PENNVEST for consideration of funding.

As is always the case, the projects were also reviewed by the Department of Community and Economic Development ("DCED") for economic impact. In this case, it was determined that the projects would support the hardwood lumber industry, create jobs and leverage large private investment.

PENNVEST compiled the DEP and DCED information and PENNVEST staff performed its regular underwriting review, legal, tax, land use and local government support due diligence.

As it relates to land use due diligence, PENNVEST received the letters of support from the Commissioners from Potter, McKean and Cameron Counties and reached out to planning agency staff from Clinton, Elk, Jefferson and Venango Counties'. In each instance the planning agencies had no concern with the projects or the purported ownership changes from one private entity to another.

By way of further information, The Acid Mine Drainage project takes place in Shippen Township, Cameron County. Both the County Conservation District and the Township support these projects.

In addition, PENNVEST received letters of support from the following industry entities: Generations Forestry, Kane PA, the Forestland Group, Wellsboro PA, F&W Forestry Services, Strattenville, PA, Matson Lumber, Brookville PA, LandVest, Kane PA, Forecon, Smethport PA, Northern Appalachian Log and Forestry Co., Coudersport Wagner Companies, Owego NY, Foundation for Pennsylvania Watersheds, Alexandria PA, Richard King Mellon Fdn, Pittsburgh PA, PA Council of Trout Unlimited, Bellefonte, PA, Audubon Pennsylvania, Audubon, PA, Chesapeake Conservancy, Annapolis MD, Western PA Conservancy, Pittsburgh, PA, Hancock Timber Resource Group, Boston MA.

Interest Rate Determination.

Separate from the question of eligibility, PENNVEST compiled the financial package to be offered for these projects which in this case provided for loan funds only at the highest interest rate authorized under the PENNVEST Act, given the projects locations. Below is the controlling section of the PENNVEST Act.

35 PS Section 751.10(f).

(f) Loans.—Subject to any agreements with the holders of bonds, the board shall have the power to set terms applicable to loans in any manner it deems appropriate, subject to the provisions of this subsection. The board may consider such factors as it deems relevant, including current market interest rates, the financial and economic distress of the area which the project serves, and the necessity to maintain the authority funds in a financially sound manner. Loans may be made based on the ability to repay the loan from future revenue to be derived from the project, by a mortgage or other property lien, or on any other fiscal matters which the authority deems appropriate. The board shall have the power to defer principal on loans for up to five years. In the event of a default on the repayment of a loan, the board may apply to the court of common pleas of the county where the project is located for the appointment of a receiver to assume operation and supervision of the facility under the supervision of the court. The minimum rate of interest to be paid on any loan made pursuant to this act shall be 1%. The maximum rate of interest shall not exceed the following:

(1) For projects in counties whose unemployment rate exceeds the Statewide unemployment rate by 40% or more, 1% for the first five years and 25% of the bond issue rate for the remainder of the loan.

(2) For projects in counties whose unemployment rate exceeds the Statewide unemployment rate, but exceeds it by less than 40%, 30% of the bond issue rate for the first five years and 60% of the bond issue rate for the remainder of the loan.

(3) For all other projects, 60% of the bond issue rate for the first five years and 75% of the bond issue rate for the remainder of the loan.

(4) For projects located within municipalities for which unemployment rates exist which would qualify the project for lower interest rates than if the relevant county unemployment rate were used, the unemployment rate of that municipality may be used in determining the interest rate on the loan.

For purposes of this subsection, the phrase "unemployment rate of the county" shall mean the average unemployment rate for the county in the most recent calendar year for which data has been finalized. For the projects which serve multiple counties, the highest unemployment rate of the counties involved shall be used. The unemployment data utilized shall be data reported by the Department of Labor and Industry. For purposes of this subsection, the phrase "bond interest rate" shall be the rate of interest paid by the Commonwealth immediately preceding the date of the loan for the bonds issued under sections 16 and 17.

Also, one member of the committee requested a copy of the Lyme Timber's financial statement which was submitted to PENNVEST with the funding request.

As per protocol for any purported confidential information, applicants may request that their financial statements remain confidential if they contain confidential and proprietary information. Lyme Timber submitted such a request to keep their information confidential:



23 South Main Street
Harrisburg, PA 17135
603.643.3200

VIA E-MAIL

September 8, 2017

David L. Henning
Project Specialist
Pennsylvania Infrastructure Investment Authority (PENNVEST)
Commonwealth of Pennsylvania
Room 434 Forum Building
507 South Drive
Harrisburg, PA 17120

Re: Confidential and Proprietary Information

Dear Mr. Henning:

As you know, we are submitting a completed application today for a PENNVEST loan in connection with a water quality improvement project, which derives from the planned acquisition and conservation of 60,000 acres of forestland. Along with our application, we are submitting over 75 supporting documents that collectively describe the property, the project, the borrower, and various affiliated parties.

Of these documents, nine consist of audited financial statements for several privately-held companies:

- The Lyme Forest Fund IV LP (loan guarantor) – 2015 and 2016
- The Lyme Forest Fund IV TE LP (loan guarantor) – 2015 and 2016
- The Lyme Forest Fund IV FS LP (loan guarantor) – 2015 and 2016
- The Lyme Timber Company LP (investment manager for the guarantors) – 2014, 2015, 2016

The above-referenced financial statements are subject to various confidentiality restrictions and are considered to contain confidential and proprietary information (CPI). Accordingly, we are submitting both complete and redacted versions of these documents. The redacted versions contain only the cover page of each document, as it is not meaningful to redact selective numbers from financial statements. By this letter, we respectfully request that only the redacted versions of these documents be furnished in response to any requests under Pennsylvania's Right-to-Know law.

Please feel free to contact me if you have any questions.

Very truly yours,

David P. Hoffer
General Counsel

cc: Shawn Reis, Esq., Assistant Counsel
Jocann Brown, Right-to-Know Officer

I am compelled to honor their request to keep the information confidential and am not able to supply the financial statements as requested. Feel free to contact Lyme Timber Company directly for release of this information.

No By-pass of Any Traditional Projects

As I mentioned in our conversation last week, there were no brick and mortar projects that were bypassed as a result of the Lyme Timber projects being brought to the Board. All projects ready for Board approval were brought to the Board for funding consideration.

By way of additional information, after eligibility is reviewed, the projects are ranked and proposed for funding in order of ranking, thereafter, financial packages are developed and the projects are submitted to the Board for review and consideration of funding award. Both of the Lyme Timber projects were submitted to the Board and approved unanimously.

Also, I was asked if we had any other pending projects of this type. I have been informed that the Conservation Fund has decided to withdraw their funding request for consideration by the PENNVEST Board of Directors. Therefore, we have no requests for funding for working forestland projects presently pending with the agency. The contact for the previously submitted Conservation Fund funding request for a project in Elk County is as follows: The Conservation Fund, 105 North Front Street, Suite 400 Harrisburg, PA. 17101, Kyle Shenk : 717-230-8166 / kshenk@conservationfund.org.

Thank you again for allowing me the opportunity to provide further information on the PENNVEST program, feel free to reach out to me if you have any further questions or concerns.

Sincerely,



Brion Johnson
Executive Director, PENNVEST
bjohnson@pa.gov
717-783-6798

Memo

To: Brion Johnson, Executive Director
From: Jayne B. Blake, Chief Counsel
Date: April 2, 2018
Re: Lyme Timber Projects

Privileged and Confidential Attorney Client Communication

The purpose of this memo is to provide you with legal guidance on the eligibility of two projects previously approved by the PENNVEST Board. The project sponsor in each case is LFF IV Timber Holding LCC d/b/a/ Lyme Emporium Highlands II, LLC ("Lyme Pennsylvania Headwaters"). The projects have separate funding offers numbered 72810¹ and 72812² but the projects have substantially similar components.

¹ Offer 72810 was approved by the PENNVEST Board on October 27, 2017 for a loan in the amount of \$25,450,115 with a twenty-year term at the county cap rate of 1% interest for the term of the loan.

Description of Project 72810: The purchase of 23 large tracts of privately owned forest land, totaling 60,102 acres in Cameron, Clinton, Elk, Jefferson, McKean, Potter and Venango Counties, putting over 15%, or 9,362 acres of that land immediately into a working forest conservation easement. In addition, Lyme Timber will offer conservation easement option rights to purchase future working forest conservation easements and invest \$550,000 in acid mine drainage restoration projects within the Sterling Run property, which is located within the Chesapeake Bay watershed. Lyme Timber Company is the parent company of Lyme Pennsylvania Headwaters and a 40-year-old timberland investment manager with working forest conservation easements and other conservation assets in 14 different states. ...

² Offer 72812 was approved by the PENNVEST Board on January 31, 2018 for a loan in the amount of \$24,549,885 with a twenty-year term at the county cap rate of 1% interest for the term of the loan.

Description of the Project 72812: The purchase of 11 large tracts of privately owned forest land, totaling 28,054 acres in Cameron, McKean, and Potter Counties spread out over 11 municipalities. Lyme Timber will place 5,135 acres of land purchased into a permanent working forest conservation easement. In addition, Lyme Timber will offer conservation easement option rights to purchase future working forest conservation easements and invest \$200,000 in acid mine drainage restoration projects within the Sterling Run property, which is located within the Chesapeake Bay watershed. Lyme Timber Company is the parent company of Lyme Pennsylvania Headwaters and a 40-year-old timberland investment manager with working forest conservation easements and other conservation assets in 14 different states. ...

Lyme Pennsylvania Headwaters is a private corporation. PENNVEST has the statutory authority to provide financial assistance to private entities with eligible projects.³ Both projects include the acquisition of land for which Lyme Pennsylvania Headwaters has agreed to take part in forest stewardship certification programs for private entities aimed at conservation minded forest resource management as referred to in section 3.9 of Pennsylvania's Nonpoint Source Management Plan, 2014 Update⁴ and otherwise the projects include placing land in conservation easements and acid mine drainage restoration which along with other things are included in the Programs and Project types described in Pennsylvania's Nonpoint Source Management Plan, 2014 Update.⁵

Consequently, since the projects include best management practices for storm water and nonpoint source water management that are identified in Pennsylvania's Nonpoint Source Management Plan, 2014 Update, as required under section 319(b) of the Water Pollution Control Act and they are incorporated into the definition of eligible costs associated with "Projects" as defined in the PENNVEST Act, the two projects are eligible to receive PENNVEST financing

³ 35 P.S. Section 751.3: The following words and phrases when used in this act shall have the meanings given to them in this section unless the context clearly indicates otherwise:

"Project" The eligible costs associated with the acquisition, construction, improvement, expansion, extension, repair, rehabilitation or security measures of all or part of any facility or system, whether publicly or privately owned:

- (1) for the collection, treatment or disposal of wastewater, including industrial waste;
- (2) for the supply, treatment, storage or distribution of drinking water;
- (3) for the control of pollution associated with storm water, which may include, but need not be limited to, the transport, storage and the infiltration of storm water; or
- (4) for the best management practices to address pollution, including innovative techniques developed to comply with the act of June 22, 1937 (P.L. 1987, No. 394), 1 known as The Clean Streams Law, or identified in the county-prepared watershed plans pursuant to the act of October 4, 1978 (P.L. 864, No. 167), 2 known as the Storm Water Management Act, or as identified in Pennsylvania's Nonpoint Source Management Program Update, as required under section 319(b) of the Federal Water Pollution Control Act (62 Stat.1155, 33 U.S.C. Section 1329(b)).

⁴ *Pennsylvania's Nonpoint Management Plan, 2014 Update*, p. 24.

Goal 3: Improve and protect the waters of the commonwealth from nonpoint source pollution associated with stormwater run-off, as well as streambank and shoreline degradation.

Goal 3.9. Through a forest land-owner stewardship program, develop 30 new plans annually addressing approximately 5,000 new acres of privately owned forest land each year for the next five years.

Pennsylvania, through the efforts of the DCNR will continue to implement a forest stewardship program aimed at conservation-minded forest resource management. This program will work with private landowners and encourage those land owners to obtain and implement forest stewardship plans.

⁵ *Pennsylvania's Nonpoint Management Plan, 2014 Update*, pp. 40-45.

Questions and Answers on The Lyme Timber Company's Investment in Northwest Pennsylvania and the associated PENNVEST loan

**Prepared by The Lyme Timber Company LP
April 9, 2018**

Who is The Lyme Timber Company LP?

The Lyme Timber Company LP ("Lyme") is a private timberland investor based in Hanover, NH. Lyme was founded in 1976 and is one of the oldest timberland investment management organizations (TIMOs) in the US. The Company has developed an expertise in structuring working forest conservation easements ("WFCEs") that extinguish development rights, restrict or eliminate property subdivision, allow public recreation, and elevate forest management standards to ensure sustainability and enhanced protection for wildlife, clean water, and other natural features. To date, Lyme has structured conservation transactions on over 900,000 acres of timberland throughout the US. Conservation easements help to ensure that lands remain in private ownership and under active management to support forest-related jobs and sustainable forestry. The easement holder (usually a state agency) secures public access and ensures that conservation values like clean water and wildlife habitat are secured forever.

Because conservation easements largely eliminate the potential for land appreciation from subdivision or development, Lyme focuses its management efforts on forestry operations, supply chain improvements, and log merchandizing. Lyme's managers have backgrounds in logging, log yard operations, and on-the-ground forest management. Sawmills, paper mills, logging contractors, log truckers, and others in the forest products industry regard Lyme as a trusted partner with a proven track record of supporting quality jobs in rural communities where Lyme invests. More information about Lyme, including its current timberland portfolio and the backgrounds of its staff, can be found at www.lymetimber.com.

What lands did Lyme purchase?

In mid-2017, Lyme entered into contracts to acquire approximately 63,500 acres in Northwest Pennsylvania and approximately 4,000 acres in Southwest New York (67,500 acres in total). The combined purchase price for these lands was approximately \$158 million.

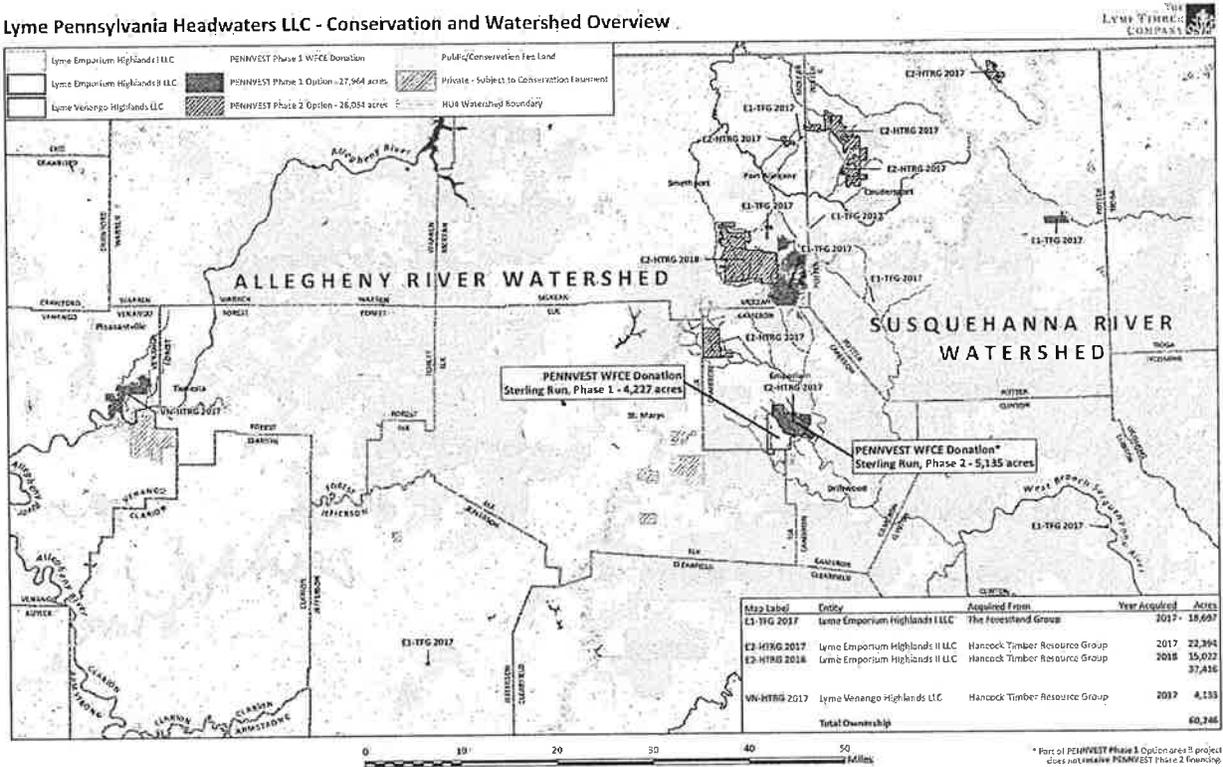
The lands were being sold by two unrelated timberland investment management organizations (TIMOs). Lyme contracted with Hancock Timber Resource Group (HTRG) to acquire approximately 48,000 acres (44,000 acres in Pennsylvania and 4,000 acres in New York) in two phases, the first in late 2017 and the second in mid-2018. The HTRG lands were formerly owned by the Hammermill Paper Company. The Pennsylvania portion of the lands are located primarily in McKean, Potter, Cameron, and Venango counties. Smaller tracts are located in Elk, Erie, and Warren counties.

Separately, and as part of a larger transaction involving timberlands in West Virginia, Lyme contracted with The Forestland Group (TFG) to acquire approximately 19,500 acres of lands primarily in McKean and Potter counties from two affiliates of TFG (additional tracts are located in Jefferson and Clinton counties). These lands include the "Gardeau" and "Scaffold" Lick tracts in southwest McKean County.

When did the land purchases occur?

In December, 2017, Lyme acquired 33,000 acres of the HTRG lands and all 19,500 acres of the TFG lands. Lyme expects to acquire the remaining 15,000 acres of the HTRG lands later in 2018.

Lyme Pennsylvania Headwaters LLC - Conservation and Watershed Overview



What lands are being conserved?

As depicted on the map above, Lyme is pursuing a strategy to place working forest conservation easements on approximately 60,250 acres of the HTRG and TFG lands in Northwest Pennsylvania. Separately, Lyme is pursuing a conservation strategy in New York on approximately 3,250 acres of lands in Cattaraugus County. Lyme is not pursuing a conservation strategy on approximately 4,000 acres of scattered parcels in New York and Pennsylvania. These lands may be sold off over time.

The largest block of the HTRG land (the “McKean 14” tract) is adjacent to the largest blocks of the TFG lands (the “Gardeau” and “Scaffold Lick” tracts) in southeast McKean County. The combination of these properties creates a unique 30,000+ acre block of industrial scale, private timberland. Other large blocks include the 9,500-acre “Sterling Run” tract in Cameron County and large blocks in Potter and Venango counties.

Why are these lands important?

Conserving these lands helps to protect watersheds within the Allegheny and Susquehanna river systems. The lands include approximately 150 miles of Chapter 93 designated streams, 65% of which have been designated as exceptional or high quality. In general, the lands targeted for conservation easements are adjacent to public lands or lands that are already subject to conservation easements in the region.

Protecting these lands in combination with already protected lands will create large, contiguous areas for water quality, wildlife, sustainable forestry, and public recreation.

What does it mean to conserve land through a working forest conservation easement?

A working forest conservation easement (WFCE) is a permanent encumbrance, the terms of which are enforceable against all future owners of the timberland. The land remains in private hands, but the owner must adhere to the specific terms and conditions of the WFCE.

The specific terms of the WFCEs that Lyme expects to convey include:

- a) grant of rights for public recreational access (similar to public access on DCNR-owned lands)
- b) extinguishment of development rights
- c) restrictions on future divisions of the timberland
- d) water quality protection through implementation of BMP's and other measures
- e) sustainable forest management, including provisions for third party forest certification
- f) prohibited conversion of the timberland to agricultural uses that could impair water quality

Why are large blocks of private timberland important?

Large, industrial private ownerships, alongside a mixture of smaller, private ownerships are key components of a healthy forest products economy. Owners of industrial lands tend to manage their lands for the continuous supply of forest products, thereby sustaining employment and business profitability among logging contractors, log truckers, mill customers and related businesses. Owners of large blocks of timberland can also justify investments in supply chain improvements, new harvesting technology, silvicultural and forest management research, and infrastructure (e.g. roads, log yards) that can benefit landowners of all sizes.

The lands acquired by Lyme were formerly part of two ownerships that totaled approximately 300,000 acres. The former Hammermill lands are regarded as some of the most well-managed timberland in the region. Like many former paper company ownerships, these lands have been divided into smaller and smaller parcels over the past 15-20 years. In 2005, the Hammermill lands were divided into four separate HTRG client ownerships ranging from approximately 15,000 acres to 48,000 acres.

The use of working forest conservation easements was the number one recommendation of the Pennsylvania Green Ribbon Task Force Report on Forest Products, Conservation and Jobs. The task force included a coalition of experts from industry, academia, state government, and conservation in Pennsylvania. Its report, "Woods that Work" was published in 2016 and can be found at the link below.

http://www.docs.dcnr.pa.gov/cs/groups/public/documents/document/dcnr_20032157.pdf

What is the connection between forestland conservation and water quality?

Responsibly managed forested ecosystems are the source of high-quality fresh water, which they provide at a fraction of the cost of water treatment systems. Forests naturally filter out sediments, moderate surface water temperatures, decrease runoff, and store water for later release. Forest soils allow water to pass below ground quickly, which reduces sediment transport, increases the natural absorption of pollutants, and provides for groundwater recharge. The result is the sustained release of large volumes of clean water, without the need for artificial treatment or purification.

Who will hold the easements?

The Pennsylvania Department of Conservation and Natural Resources (DCNR) and potentially others.

Who will enforce the terms of the easement?

The holder of the easement has enforcement rights. Therefore, it is expected that DCNR or another agency will have enforcement rights.

Are conservation easements forever?

Yes; the conservation easements are recorded legal instruments that run with the land.

Will the lands remain in private hands?

Yes; ownership of the timberlands will remain in private hands. The conservation easement is an encumbrance on the title of the lands, but is not a transfer of the ownership. Conservation easements may reduce the likelihood of public/ government ownership because conservation objectives are achieved through the conservation easement instead of full public ownership of the land.

Will the lands remain on local tax rolls?

Yes; the tax status of the timberlands will not change as a result of the conservation easement sale.

Will the conservation easements provide public access?

Yes; the easements will include a grant of public recreational access for hunting, fishing, and other recreational uses of the property.

What portion of the lands are currently leased to private hunt clubs?

About 2/3 of the property is currently leased to private hunt clubs and other lessees for exclusive hunting rights. These leases were established by the former owners of the properties.

Have the lands always been leased to private hunt clubs?

No; when the HTRG timberlands were owned by the Hammermill Paper Company in the 1950's through the 1980s, they were entirely open to the public. Many community members remember their "free" access to the lands during that time.

What will happen to the leases held by private hunt clubs?

In most cases, it is expected that leases will be terminated to allow for public recreational access for hunting fishing and other recreational uses. Some of the leases may be phased out over a 2-3 year period to allow the private hunt clubs time to secure other lands to lease or purchase. Some clubs may continue to operate on adjacent lands that are not subject to conservation easements, but they will no longer have exclusive access to the conserved lands.

Do members of hunt clubs support the conservation easements?

Opinions on the conservation easements differ among private hunt club members. Some have expressed concern about the loss of exclusive hunting rights held by their private club. Other hunt club members support the conservation easements and see them as a way of guaranteeing access to the property for generations to come (albeit on a non-exclusive basis). Without conservation easements, the continuation of hunt club leases on private lands is entirely at the discretion of the private landowner. The landowner (Lyme or someone else) can elect not to renew leases or to lease lands to another party.

How are gas and mineral rights affected by the conservation easements?

Lyme did not acquire the gas and mineral rights to the timberlands as these rights were previously severed from the surface interests. Therefore, Lyme cannot convey gas or mineral rights as part of the conservation easement transactions. The owners of these rights will continue to hold them, and the conservation easements will be subject to these existing rights.

What would have happened to these lands if Lyme had not acquired them?

The sellers of the timberlands that Lyme acquired indicated that they were preparing to sell the lands in smaller components as a means of maximizing sale value. Lyme's conservation strategy enabled it to pay a price that was competitive with the alternative disposition options available to the sellers.

What was the purchase price of the conservation lands acquired by Lyme?

Lyme's allocated purchase cost for the 41,550 acres of conservation lands acquired from Hancock was approximately \$106.4 million (\$2,560/ acre); Lyme's allocated purchase cost for the 18,700 acres of conservation lands acquired from The Forestland Group was approximately \$27.6 million (\$1,475/ acre). The higher price for the Hancock lands reflected the higher timber stocking and the higher concentration of high value black cherry timber.

What is the cost of a working forest conservation easement?

On small tracts of timberland (generally under 500 acres), landowners sometimes donate conservation easements to land trusts. On larger timberland ownerships, such as the lands acquired by Lyme, landowners typically sell conservation easements for cash. The sale price for conservation easements range from 30% to 50%+ of the fair market value of the property before the sale of the conservation easement. Easement values vary based on a variety of factors, including the restrictiveness of the easement, timber stocking and quality, lease income to be foregone under the easement, and marketability of the lands. The landowner who sells a conservation easement generally foregoes the right

to realize additional value from recreational leasing, subdivision, and land conversion and may generate less income from timber harvesting due to the forest management obligations defined in the easement.

What is the value of the conservation easement on these lands?

The fair market value of easements on the lands acquired by Lyme will be determined by an independent, third-party appraiser. It is expected that the fair market value of the easements will range from 30% to 35% of Lyme's purchase cost for the associated timberlands. The tract-specific easement values will vary based on a variety of factors, including timber stocking and quality, species composition, lease income to be foregone under easement, and marketability of the tract.

What is the value of the timber resource on these lands?

Lyme believes that the value of the timber resource (assuming sustainable forestry practices under the terms of the conservation easements) is approximately \$90 million, or \$1,500/ acre. Depending on the tract, the timber resource value is approximately 65-70% of the total purchase cost for the tract.

Who is PENNVEST?

PENNVEST, or the Pennsylvania Infrastructure Investment Authority, is an agency within the Commonwealth of Pennsylvania that has access to Federal clean water revolving loan funds. PENNVEST's mission is to make loans and grants to support clean drinking water in Pennsylvania. According to PENNVEST's website:

PENNVEST's low cost financial assistance helps make the water that is consumed every day by thousands of Pennsylvanians safe to drink. It helps clean rivers and streams in communities for the enjoyment of our citizens and the protection of our natural resources. PENNVEST funding also assists businesses to locate and expand their operations in Pennsylvania to create permanent, well-paid jobs for our workers.

Why did Lyme seek PENNVEST financing?

Lyme sought PENNVEST financing as a means of advancing a conservation outcome for these lands. In recognition of limited funding available for the cash purchase of easements, Lyme agreed to donate a conservation easement over approximately 9,500 acres (about 16% of the total area targeted for conservation easements) in exchange for access to low-cost PENNVEST financing. Lyme received letters of support for this strategy from a broad range of private businesses and property owners, including sawmills, forester, forest management companies, landowners, loggers, and other private businesses. Many recognized that conservation easements were an underutilized tool for conservation in Pennsylvania and this project represents an innovative approach to balancing public and private interests. The use of working forest conservation easements was also the number one recommendation of the Pennsylvania Green Ribbon Task Force Report on Forest Products, Conservation and Jobs.

Who is on the PENNVEST Board of Directors?

The PENNVEST Board of Directors, which unanimously approved the loan applications from Lyme on two separate occasions, consists of the following individuals:

- Mr. Eric Menzer, Chairman (private citizen)
- Secretary Patrick McDonnell, Vice-Chairman (Secretary of Pennsylvania Department of Environmental Protection)
- Secretary Dennis M. Davin, Secretary/ Treasurer (Secretary of Pennsylvania Community and Economic Development)
- Secretary Curtis Topper (Secretary of Pennsylvania General Services)
- Honorable Don White (Senator, Senate of Pennsylvania)
- Honorable Anthony DeLuca (Representative, Pennsylvania House of Representatives)
- Mr. M Joel Bolstein (private citizen)
- Mr. Donald V. Gennuso (private citizen)
- Honorable Randolph C. Albright (Secretary for the Budget)
- Honorable Lisa Boscola (Senator, Senate of Pennsylvania)
- Mr. Tim Moury (private citizen)
- Honorable Donna Oberlander (Representative, Pennsylvania House of Representatives)

What role did DCNR play in the financing?

Lyme contacted DCNR in 2017 to discuss the potential to sell working forest conservation easements on approximately 60,000 acres that Lyme sought to purchase. DCNR indicated that the lands were a major priority given their location and proximity to already conserved public lands. They also indicated that one of their key objectives securing public recreational access and conservation outcomes through working forest conservation easements, as opposed to more fee ownership by the Commonwealth, was a key objective of the Pennsylvania Green Ribbon Task Force Report on Forest Products, Conservation and Jobs. Despite their enthusiasm, however, DCNR staff indicated that near-term funding for conservation easement purchases by the agency was limited.

In subsequent meetings in the spring of 2017, Lyme described its plan to pursue PENNVEST financing. If Lyme secured the financing, Lyme would donate a conservation easement for public recreational access and to protect water quality on 9,500 acres of the 67,000+ acres of lands it targeted for purchase. Given the alignment with DCNR's objectives, DCNR expressed its support for such an approach. In its PENNVEST application, Lyme named DCNR as the agency that would most likely accept and hold the donated conservation easement.

What role did The Conservation Fund play in the financing?

The Conservation Fund (TCF), a non-profit organization with a dual mission to support conservation and economic development, supported Lyme's application and participated in meetings with DCNR. TCF has agreed to facilitate Lyme's conveyance of conservation easements on the timberlands, by sale and donation, to the Commonwealth. TCF also provided Lyme with additional debt financing to support the conservation strategy on lands that would not be secured by the PENNVEST loans.

What process did Lyme follow to secure the financing?

Lyme followed the process described on the PENNVEST website for submitting a funding application in a competitive process administered by PENNVEST. Lyme provided detailed information about the conservation easement to be donated, the proposed AMD restoration work, and the option rights for additional conservation that would be secured as part of the financing. Following submission of its first application in August, 2017, PENNVEST staff requested additional information from Lyme, including parcel lists, title reports, timber information, additional financial projections, and corporate documentation.

Because the PENNVEST loans would deliver conservation outcomes on, and be secured by, lands in McKean, Potter, and Cameron counties, Lyme sought and received letters of concurrence from the McKean, Potter, and Cameron County commissioners. Lyme met with and answered questions from commissioners in each of the counties. In addition, Lyme sought and received letters of support from a broad range of businesses and individuals in the forest products industry, including mills, private landowners, loggers, foresters, and log yard operators. Lyme provided maps of the area to be conserved and a detailed Project Summary (which was included in the PENNVEST application) to the commissioners and others. The letters of concurrence and letters of support were provided to PENNVEST in advance of the October, 2017 PENNVEST Board vote on the project.

Following the PENNVEST staff review of the project, the Lyme application, along with a number of other applications submitted in the August funding cycle, was brought to the PENNVEST Board of Directors at an October 18, 2017 regular board meeting. The PENNVEST Board approved all of the other applications, but elected to table a vote on the Lyme application to allow Board members more time to review the application due to the volume of information supplied.

In the weeks following the October 18 meeting, Lyme provided additional information to PENNVEST staff and met with some of the Board members and others who raised questions. The PENNVEST Board then scheduled a follow-up meeting for October 27, 2017. At this meeting, the Board unanimously approved a \$25.4 million funding award for the Lyme project. Although this amount of funding was approximately half of Lyme's \$50 million loan request, Lyme agreed to proceed with its purchase transaction and to deliver a pro rata share of the original conservation and clean water deliverables.

Lyme submitted a second PENNVEST application in the November financing round for the remaining \$24.6 million. Lyme's two applications were independent of one another, but when combined, delivered a set of conservation outcomes that exceeded the outcomes described in Lyme's original \$50 million application. The PENNVEST Board unanimously approved Lyme's November round financing application at its January 31, 2018 regular Board meeting.

What did Lyme get from PENNVEST?

In two separate funding decisions (October 27, 2017 and January 31, 2018), the PENNVEST Board of Directors unanimously approved a total of \$50 million in loans to be extended to affiliates of Lyme. The following is a summary of the terms of these loans:

- The interest rate on the loan is 1.0%, interest only for the first 5 years, then amortizing for the subsequent 15 years. The loan must be repaid in full within 20 years and there are certain conditions that require early repayment.
- The loans are to be secured by mortgages on timberlands acquired by Lyme
- Lyme is required to provide an \$8 million letter of credit from a bank as additional security
- Parent entities within the Lyme structure are required to provide additional loan guarantees

What did the Commonwealth get from Lyme?

Lyme agreed to deliver three benefits to the Commonwealth in exchange for access to the low interest PENNVEST financing:

1. Donation of a conservation easement worth approximately **\$8.0 million** on 9,500 acres known as the "Sterling Run" tract in Cameron County. This conservation easement will provide enhanced stream protection, allow public recreational access, and ensure that the property remain forested and sustainably managed in perpetuity.
2. Fund **\$750,000** of remediation work to cleanup streams impacted by acid mine drainage (AMD) contamination on the Sterling Run tract in Cameron County. A 2004 Growing Greener project identified sites on or adjacent to the Sterling Run Tract where AMD abatement projects would improve trout habitat. Three of these sites have either been constructed or funded, leaving three sites - known as FIN52, FIN53, and MAYH10 - as the final missing pieces of the Sterling Run watershed restoration plan. Lyme agreed to invest \$750,000 in the restoration of these sites. The restoration work will include the installation of passive treatment systems containing vertical flow wetlands (VFWs) and oxidation/ precipitation basins (OPBs).
3. Grant the Commonwealth the right (but not the obligation) to purchase conservation easements on an additional 50,700 acres for a period of 7 years. During this time, Lyme would agree to forego subdivision, sale, or development on the 50,700 additional acres and would manage the lands as if they were subject to working forest conservation easements. If DCNR elected to purchase the easements, the easements would provide permanent recreational access to the public and, in combination with the donated conservation easement, ensure that over 60,000 acres of private timberlands remain as working forests. Although valuing such an option right, in combination with the value of easement restrictions for 7 years, is difficult, Lyme believes that these rights have a fair market value of at least **\$2.0 million** (5.0% of the potential fair market value of the contemplated conservation easements and 1.5% of the timberland purchase price).

What is the financial benefit to Lyme of the PENNVEST financing?

Relative to Lyme's 3.5% net borrowing cost through the Farm Credit agricultural lending system, the PENNVEST loans produce a savings of about \$1.25 million per year during the first five years. This savings is reduced beginning in year six as the loans are repaid. The savings are further reduced by the cost to Lyme of providing an \$8.0 million letter of credit to the PENNVEST as part of the security for the loans. During the first five years, the cost to Lyme of providing such letters of credit are expected to be approximately \$350,000 per year. Thus, the net savings to Lyme from the PENNVEST loans is approximately \$900,000 per year during the first five years, with lower savings in future years.

Depending on how long Lyme holds the loan, and assumptions about conventional borrowing costs, the present value to Lyme of the financing is between \$5.0 million and \$8.75 million. Under all circumstances, Lyme believes that it is delivering at least as much value to the Commonwealth as it is receiving in the form of lower borrowing costs.

Were the Conservation Easements Finalized before the PENNVEST award?

No; but Lyme's loan application included a set of proposed terms that The Conservation Fund (TCF) and DCNR had reviewed. Subsequently, Lyme and TCF agreed to a draft conservation easement that would be used as a template for final negotiations with DCNR as the holder of the easements. This draft easement reflected the terms of the PENNVEST loan and described the public access, sustainable forest management, and other benefits that would be secured for the Commonwealth.

Did Lyme seek public and industry input prior to securing the financing?

Yes, in advance the PENNVEST Board votes, Lyme met with and explained its loan application to the county commissioners of McKean, Potter and Cameron counties. Lyme provided maps and the project summary information that was included with its PENNVEST application. Lyme received concurrence letters from each of these counties.

Lyme also met with businesses, industry associations, conservation organizations, and community members. In advance of the PENNVEST Board approvals, Lyme obtained letters of support from the following organizations and businesses:

- Cameron County Commissioners
- Potter County Commissioners
- McKean County Commissioners
- Cameron County Conservation District
- Matson Lumber Company
- Northern Appalachian Log and Forestry Company
- Generations Forestry
- The Wagner Companies
- Forecon Forestry and Natural Resource Consultants
- Hancock Timber Resource Group
- The Forestland Group
- LandVest

- F&W Forestry
- Chesapeake Conservancy
- Audobon Pennsylvania
- Foundation for Pennsylvania Watersheds
- Western Pennsylvania Conservancy
- Pennsylvania Council of Trout Unlimited

Lyme has since secured additional support from additional forestry businesses, logging contractors, sawmills and many others in the regions forest products industry. Lyme presented its business model and described the PENNVEST financing structure to the Board of Directors of the Pennsylvania Forest Products Association (PFPA) in January 2018.

How will Lyme Manage and Operate the timberlands?

Lyme is differentiated among timberland investment management organizations (TIMOs) because of its focus on forest operations and its investments in businesses related to its timberland holdings. Following its acquisition of the timberlands, Lyme created and invested in Three Rivers Forest Management LLC, an affiliated company that employs a staff of foresters who will manage the property. Three Rivers is headquartered in Coudersport, PA and currently employs two experienced foresters, David Andrus (General Manager) and Nancy McCloskey (Senior Forester). Three Rivers will be hiring 3-4 additional employees in the next year and expects to grow more in years to come. Lyme is also looking to make additional investments in other operating businesses in the region. Through unique contractual arrangements, Lyme and Three Rivers are supporting the expansion of logging businesses to provide harvesting services on the timberlands.

How many jobs will Lyme's strategy support?

Lyme estimates that between 50 and 60 jobs will be supported or created as a result of its investment. This estimate is based on the following assumptions (none of which include multipliers):

- 11,000 MBF sawtimber per year/ 4MBF per load = 2,750 sawlog loads per year
- 78,000 pulpwood tons/ 24 tons per load = 3,250 pulpwood loads
- 6,000 loads per year/ 4 loads per day by conventional 4.5-person operation (including admin/ mgmt) = 1,500 crew days = 6,750 person days
- 6,750 person days / 44 weeks per year and 5 days per week = 31 loggers per year
- 6,750 loads per year / 3 loads hauled per truck day and 220 days per year = 10 truck drivers
- 5 foresters; 1 administrative assistant
- 3 road building other service workers; 8 log yard employees and admin

58 total, direct employees

Given the prior owners' less active management approach, Lyme believes that 20-30 of the jobs above are new jobs. In addition, Lyme maintains a focus on supporting high quality jobs by providing benefits to its subsidiary company employees and paying contractors rates that allow them to invest in job training and provide workers' compensation and other benefits to employees.



STORIES OF PROGRESS IN ACHIEVING HEALTHY WATERS

EPA Region 3 Water Protection Division

Preventing Pollution to Local Waters, Bay; Preserving Historic Natural Bridge in Virginia

Rockbridge County, Virginia · April 30, 2015

In helping to preserve one of the oldest tourist destinations in the country – a spectacular natural land bridge in Virginia – EPA funding is protecting the surrounding land from development that would have impacted local waters and the Chesapeake Bay.

Using a \$9.1 million EPA Clean Water State Revolving Fund (CWSRF) loan, the historic Natural Bridge in Rockbridge County, Virginia (just north of Roanoke) has been preserved as part of a larger land conservation project involving 1,500 mostly forested acres.

Without the CWSRF loan to close the funding gap for the conservation easement, the private property could have been sold, making the forest available for residential and commercial development.

The property, valued at \$21 million and once owned by Thomas Jefferson, features a 215-foot limestone arch, a Native American village and a waterfall, among other popular attractions. It will be preserved as part of the Commonwealth of Virginia's state park system by June of next year.

The Natural Bridge and the surrounding property are located in the James River watershed, which feeds into the Chesapeake Bay. The conservation effort will prevent would-be nutrient pollution from affecting the Bay.

The Natural Bridge was declared a National Historic Landmark in 1998. According to its [website](#), just before the American Revolution and writing of the Declaration of Independence, Jefferson purchased 157 acres of land including the Natural Bridge from King George III of England for 20 shillings. Legend has it, the website states, that a young George Washington surveyed the site for Lord Fairfax. The land bridge had been included in several "Seven Natural Wonders of the World" lists.

Using the EPA funds, the \$9.1 million land conservation loan was made through the Virginia Department of Environmental Quality's Clean Water Revolving Loan Fund (CWRLF). It was part of a complex purchase by a newly-formed conservation non-profit, the Virginia Conservation Legacy Fund, Inc. The non-profit was recognized for its Natural Bridge efforts with a 2015 Governor's Environmental Excellence Award.

The Virginia CWRLF has been financing land conservation projects since 2005. The Natural Bridge is the eighth such project, bringing the total to over \$33.5 million. Virginia has plans for eight more land conservation projects next year.



AT A GLANCE

- Natural Bridge and surrounding property preserved with help of CWSRF loan.
- Virginia clean water program includes land conservation



U.S. Environmental Protection Agency
EPA Region 3 Water Protection Division
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New York CWSRF Makes \$75 Million Land Acquisition Loan in Pine Barrens

*Suffolk County has
borrowed \$75 million
from the New York
CWSRF to protect land
in the main recharge
zone for its drinking
water supply*

The New York Clean Water State Revolving Fund made a loan of \$75 million for land acquisition in the Pine Barrens Wilderness and Water Protection Preserve on Long Island. The acquisition is part of a larger plan by state, local and private organizations to protect the main recharge zone for Suffolk County's drinking water supply. This system is the sole source aquifer for 2.6 million people.

The Pine Barrens is a valuable natural resource because its sandy, porous soil readily absorbs precipitation, acting as a recharge area for the underground water supply. The water is purified as it passes through layers of soil until it reaches the underground water stored in the aquifer system. This characteristic of the porous soil also creates an added risk from leaking septic tank effluent reaching the aquifer untreated.

Road paving, housing and commercial development are disrupting this natural process by vastly reducing the rate at which water is being recharged in the underlying aquifer. At the same time, water continues to be withdrawn at an increasing rate as the population and commercial/industrial activity increases. In coastal areas, when withdrawal increases and recharge cannot keep up with it, salt water intrusion results. A second impact of increased development on the porous soils of the Pine Barrens is that septic tank effluent can reach the aquifer relatively untreated.

In addition, because development lowers the absorption rate, more of the precipitation becomes runoff. Runoff becomes contaminated by oils, animal



feces, and garbage as it passes over less permeable land and road surfaces before it enters Long Island Sound, Great South Bay, Peconic Bay or the Atlantic Ocean.

The Long Island Pine Barrens aquifers are so precious that in 1993 a referendum was passed to preserve 100,000 acres of the Pine Barrens as the third largest state park. The Pine Barrens hosts the greatest diversity of plants and animals in New York State, including a number of endangered or threatened species.

As part of a statewide partnership to protect the Pine Barrens, New York's CWSRF has made a loan of \$75 million to Suffolk County to acquire land in priority aquifer recharge areas. The loan addresses nonpoint source pollution and is consistent with the New York's Nonpoint Source Management Plan. The loan is guaranteed by a General Obligation pledge from the county.



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Ohio CWSRF Provides Loan for Riparian Zone Conservation

The Nature Conservancy of Ohio recently received three CWSRF loans for riparian zone conservation totaling \$264,000. The conservation organization used the loan funds to protect 383 acres along Ohio Brush Creek in Adams County, Ohio – it purchased conservation easements on 321 acres and purchased another 62 acres outright. These purchases have enabled The Nature Conservancy to undertake restoration efforts such as the planting of the riparian corridor with hardwood trees for streambank stabilization. This was the first time The Nature Conservancy obtained financing from the CWSRF.

The Nature Conservancy used a CWSRF loan to protect 385 acres along Ohio Brush Creek, a significant state-wide water resource

By Ohio EPA water quality standards, this section of Ohio Brush Creek almost achieves an exceptional warm-water aquatic habitat classification. The creek is a significant state-wide water resource and is known to contain four endangered aquatic species, including one mussel that occurs in only 12 streams nationwide.

“Conservation easements are an effective way to protect the quality of streams and their adjacent areas,” said Ohio EPA Director Donald R. Schregardus. “Restoring and preserving these riparian areas is an important part of controlling contaminated runoff that threatens water quality and stream habitat.”

These lands will also act as a buffer for the Edge of Appalachia Preserve, a series of eleven nearly contiguous properties owned and managed by The Nature Conservancy and the Cincinnati Museum Center. The nearly 13,000-acre preserve is the largest privately-owned protected area in Ohio. It is located at the edge of the Appalachian plateau and contains one of the most biologically diverse



collections of natural systems in the Midwestern United States. It provides critical habitat for more than 100 rare species of plants and animals.

Land acquisition efforts in the preserve have focused on consolidating land holdings and linking critical areas in the landscape in the interest of creating a more functional preserve system. The conservation of these properties contributes to that goal.

These purchases with CWSRF funds were a key part of a larger acquisition effort on Ohio Brush Creek. For example, on one property, The Nature Conservancy used its own resources to purchase land abutting the river and a piece of upland forest but used CWSRF funds to purchase a conservation easement on the farmland that comprised the remainder of the parcel.

These loans from Ohio’s Water Pollution Loan Control Fund address nonpoint source pollution and are consistent with the state’s Nonpoint Source Management Plan. The loans to The Nature Conservancy carry an interest rate of 3.2 percent and have a repayment term of 5 years. The loans will be repaid by The Nature Conservancy with funds from membership fees and from its Wills and Bequeaths Program.



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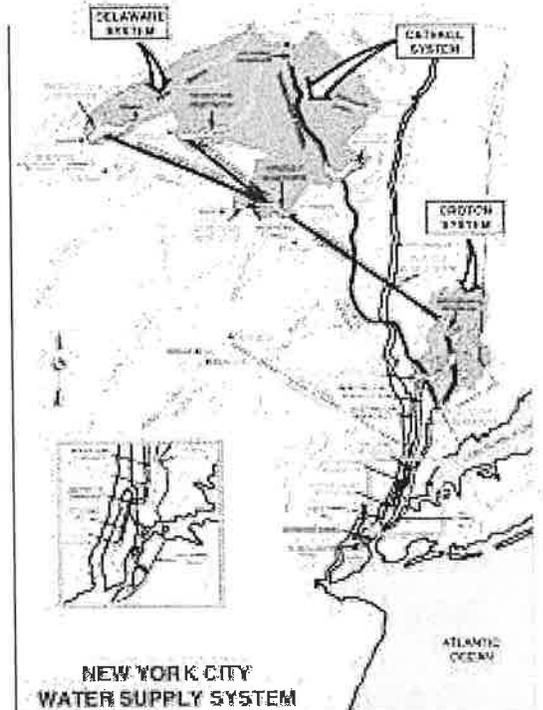
New York City Applies for \$27 Million CWSRF Loan for Watershed Land Acquisition

New York City is acquiring land and conservation easements and providing financial support for BMPs as an alternative approach to ensuring the safety of its drinking water

The city of New York has set aside \$260 million for land acquisition and conservation easements in high priority areas to protect its Delaware/Catskill water supply. It has applied for \$27 million in the form of low interest CWSRF loans. The City is acquiring land and conservation easements and providing financial support for BMPs as an alternative approach to ensuring the safety of its drinking water. The City hopes that this project will result in compliance with the surface water treatment rule without employing a more costly filtration option. This alternative will provide both environmental benefits (e.g., water quality improvements, open space and habitat protection) and economic benefits. In this approach, the City will spend \$1 billion over the next 10 years, instead of \$5-8 billion for the construction of a new filtration plant. After five years, EPA will conduct a final filtration avoidance determination to evaluate whether this approach will work for the long term.

In 1995, New York City, the Governor and upstate communities created a partnership to reduce pollutants in the Catskills watershed. They signed a Memorandum of Agreement in 1997 that included land acquisition, new watershed regulations, development of a watershed protection partnership council, and funding for upstate communities to implement pollution reduction activities. New York City is still designing a filtration plant for the Catskill/Delaware system in case the filtration avoidance process does not work.

Drinking water for New York City is provided by the Croton, Catskill and



Delaware watersheds and supplies nine million people—half of the state's population. These watersheds cover 2000 square miles and 19 reservoirs and supply the city with 1.6 billion gallons of water per day. In these watersheds, New York City owns 7 percent of the watershed lands and the state of New York owns another 20 percent. 355,000 of the 1.2 million acres in the watershed have been determined priority areas and eligible for acquisition. These priority areas are adjacent to reservoirs and major tributaries in the system. 6,000 acres have been purchased and other lands are under contract.

These loans would address nonpoint source pollution and are consistent with the New York's Nonpoint Source Management Plan.



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