

The Liquid Assets Project: Year 2 Lessons Learned

August 2018



The Liquid Assets Project

The Liquid Assets Project (LAP) is a partnership between Encourage Capital, Trout Unlimited, and the water law firm Culp & Kelly, LLP and several agricultural and municipal water expert consultants. LAP was established to originate and design sustainable water deals that deliver environmental, social and economic returns. Across the American West, natural and human-made hydrological systems are on the brink of crisis, and in some cases, system failure – and, in many regions, these conditions are being exacerbated by the continued effects of drought, climate change, economic growth, and population increases. We are committed to developing and scaling financially innovative, environmentally-sustainable water management solutions. Our core strategies are:

- *Innovative Municipal Financing*
- *Agricultural and Ranchland Investments*

In October 2017, the Liquid Assets Project (LAP) released a Lessons Learned report with support from the Walton Family Foundation. The purpose was to share our experiences and key lessons after LAP's inaugural year (2016-2017) conducting extensive due diligence, legal research, policy analysis and building partnerships to develop impact investments that advance water sustainability across the American West. We now offer this document, an update – sharing lessons learned after Year Two of the Liquid Assets Project.

Lessons Learned, Year Two (2017-2018)



1. Overarching Lesson: Building water sustainability investments is resource- and time-intensive.

LAP is trying to introduce the combination of innovative financing mechanisms, ecologically-sustainable solutions and private capital participation into a system of water use and management that has, largely, been unchanged for decades and is not naturally inclined to quickly adopt innovative financing approaches. Developing new tools and financial models and creating vehicles and markets, where none exist, takes a significant amount of time, energy, and resources. These efforts are not solely a matter of investment due diligence (sourcing, structuring, and closing deals), but also, require a broad suite of stage-setting activities, including education and outreach, creating new partnerships and working within traditional systems and decision-making processes that move slowly and may be resistant to new approaches. These activities demand constant attention, diligence and time to:

- identify geographies that are ripe for investment **and** where investment can deliver meaningful environmental benefits;
- develop trust and relationships with key players, whether complex municipal entities or agricultural producers;
- tailor solutions to specific problems facing a landowner, company, municipalities or other public agency;
- change deeply held beliefs and practices around water use and management.

2. Both private impact and philanthropic capital are necessary to promote system change.

We believe that mobilizing private impact capital holds significant promise for solving many of the water management challenges facing the American West. However, after significant effort to develop impact investments, we also recognize, given their innovative nature, complexity, risk profile, and time horizon to develop deals, that risk-tolerant, patient philanthropic capital is essential. Philanthropic support (including grants, Program Related Investments, Mission Investments and Impact Investments) allows the Liquid Assets Project, and others like us, the necessary time to build partnerships, change thinking and design initial, groundbreaking deals that will “prime the pump” for private investment and philanthropic investment capital, and ultimately, create solutions that begin to have impact at scale. Sole reliance on private impact capital, in the very near term, provides too narrow of a platform on which to build – yet, private impact capital, once mobilized, can achieve a scale of investment that philanthropy alone cannot. Engaging the full spectrum of philanthropic resources and private impact capital provides the broadest platform, and maximum flexibility, from which to develop a mix of creative approaches to solving our water management challenges and promoting water sustainability.



3. Geographic-focused or theme-specific funds hold promise.

Each region throughout the West faces different water challenges. LAP has learned that tailoring investments to the specific issues of a place is critical for success. With this lens, LAP sees opportunity in pursuing project-specific investments that are either geographically focused (i.e., a particular irrigation region in the Colorado River Basin) and/or theme focused (i.e., crop switching, green infrastructure). This approach allows investments to be designed around specific, on-the-ground challenges and has the added advantage of pushing a few discrete projects across the finish line and beginning to create a network of projects that demonstrate how these creative approaches can work.

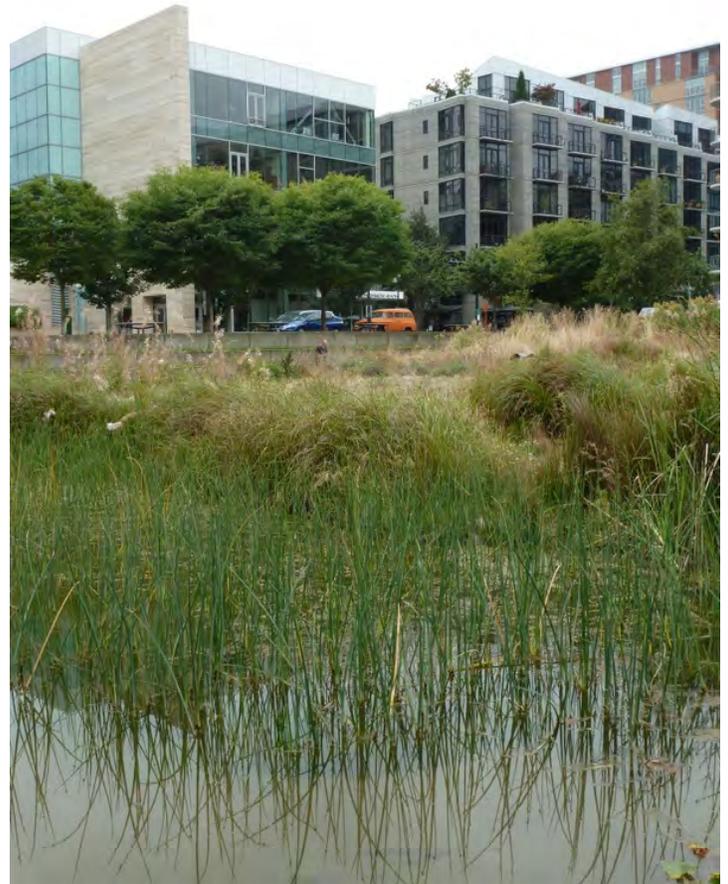


4. ***Field-building activities are prerequisite for success.***

Beyond the financial, technical and legal due diligence, a much broader set of foundation-building activities are required in order to advance creative solutions and innovative financing, particularly in the municipal sector. Technical assistance, education, meeting coordination and facilitation, partnership-building and outreach are needed to create the conditions that will allow these strategies to move forward and ultimately attract impact investors. We see an expanded need for the nonprofit sector, which has the expertise, on-the-ground presence and local relationships, to play a vital role in working with municipalities to advance understanding of the role that innovative finance strategies can play

5. ***Building and supporting progressive-minded municipal leaders is critical.***

Most water utility staff face significant day-to-day demands on their time and energy. Without support from above (decision-makers, elected officials), innovation on the scale we are proposing will be difficult to achieve, in spite of the best intentions. We need to identify, support and elevate a network of progressive-minded leaders and build an ecosystem of players that begins to reach a critical mass. Several NGO-led initiatives have begun to independently build this network, including the WaterNow Alliance, the US Water Alliance, World Resources Institute, and sustainability/green infrastructure initiatives of organizations and associations such as the National League of Cities, AWWA, WEF, and ICMA. In addition, academic institutions at Harvard, Yale, Stanford, Duke and elsewhere are helping train a new generation of progressive municipal leaders. Connecting and harnessing this momentum will help move and expand sustainable water projects forward faster.



6. *There is no “one-size-fits-all” solution for municipalities*

No single tool will work across the entire municipal sector. Rather than going to the municipalities with a single strategy, we need to start with their unique situation, and build out the solution, the financing, and the approach to address their specific problems. For example, after working with one large municipality for several months and realizing that the major problem was that green infrastructure was seen as the “more expensive” approach to addressing stormwater management, we developed a new approach. We are pioneering the Joint Benefits Authority (JBA) approach to help overcome a water utility's understandable bias against funding 100% of a green infrastructure project that provides multiple benefits to a community, but not 100% attributable to their water user fees. The JBA unites multiple municipal departments behind one green infrastructure (GI) project and allows for each department to pay for the specific co-benefits that the GI project will deliver to their specific department.

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