Message

From: John Ettinger [Ettinger.JohnLNDU@usepa.onmicrosoft.com]
Sent: 9/5/2012 8:44:45 PM
To: Hough, Palmer [Hough.Palmer@epa.gov]
CC: Sharon Parrish [Parrish.SharonLNDU@usepa.onmicrosoft.com]; CN=Tamara Mick/OU=R6/O=USEPA/C=US@EPA; Gutierrez, Raul [Gutierrez.Raul@epa.gov]; Keeler, Barbara [Keeler.Barbara@epa.gov]
Subject: A Policy Question re: Initial Credit Release Rates

Hi Palmer,

I have a couple of questions regarding initial credit release rates.

Construction costs for coastal marsh banks in Louisiana can be quite high relative to forested banks. This is because marsh restoration in coastal LA typically involves dredging, transporting, and depositing sediments to recreate appropriate soil elevations. Depending on the size of the bank, this can be in the millions to tens of millions of dollars. This is a sizeable investment risk.

At least two bankers are seeking to capture some portion of the marsh mitigation needs generated by the Corps' post-Katrina levee upgrades. (Incidentally, these levee upgrades paid for themselves on the 29th of August 2012.) The Corps has said that to be eligible for consideration as a levee mitigation option, the banks must have sufficient available credits.

In order to have sufficient available credits in this case, a banker must either invest in actual marsh restoration activities up front or convince the Corps (and IRT) to release sufficient credits prior to implementation of the marsh mitigation project. Given the sizeable risk associated with the former, the bankers are naturally interested in the latter.

I am reviewing a proposed modification to the Chef Menteur marsh bank (which would be under new ownership). The proposed modification would have the Corps releasing 45% of the total potential credits upon signing of the MBI, establishment of the conservation servitude, and only after the sponsor has obtained a letter of credit representing 100% of the costs of the released credits.

An initial credit release of 45% is higher than usual down here (the existing MBI has it at 25%). But, given that this form of marsh mitigation is preferable to the options, I am interested in trying to make it work. I don't see any substantial or unusual risk since we would have sufficient funds (via the letter of credit) to compensate for all credits initially released in the event of bank default.

My questions for you are whether (1) a 45% initial release rate poses any issues in terms of precedents we would rather not establish and (2) if you agree that a letter of credit could adequately minimize risks of bank default (assuming the cost calculations behind the credit amount are accurate)?

Thanks in advance for your feedback on this. Please call me at your convenience if you wish to discuss.

John Ettinger
U.S. EPA Region 6
(504) 862-1119
ettinger.john@epa.gov