

Prospectus

Kentucky Stream and Wetland Mitigation Bank USACE ID: LRL-2013-739

Project Sites:

Big Sandy Mitigation Project – USACE ID: LRL-2012-606

Little Sandy Mitigation Project – USACE ID: LRL-2012-607

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1. Description of the Umbrella Mitigation Bank and Project Sites

The Kentucky Stream and Wetland Mitigation Bank (KSWMB) is proposed as an umbrella mitigation bank that would encompass several sites within the jurisdiction of the U.S. Army Corps of Engineers Louisville District, specifically within the Commonwealth of Kentucky. Initially, two project sites are proposed under the KSWMB: the Big Sandy Mitigation Project (LRL-2012-606) and the Little Sandy Mitigation Project (LRL-2012-607). Both of these projects were field reviewed by the Interagency Review Team (IRT) in 2012. Public notices were independently issued for each site in 2012. However, the sites were withdrawn so that they could be re-submitted as part of the KSWMB. The purpose of this prospectus is to describe the proposed KSWMB, incorporate the two previously public noticed sites, to address changes in sponsorship of the bank and to propose changes in the service area for the two sites.

1.1 Big Sandy Mitigation Project Site Description

1.1.1 Site Location

The 664-acre site is located near Martha in Lawrence County, KY in the Big Sandy watershed (8-digit HUC 05070204). The site is in the East Kentucky Coalfield Physiographic Area and the Western Allegheny Plateau Ecoregion (Level III). Site coordinates: NAD83 Latitude: 38.0415, NAD83 Longitude: -82.9223. The site is located in the Maize quadrangle and the property boundary is shown on a USGS map in Figure 1.

1.1.2 Driving Directions

From Louisville, take I-64 East. Take exit 137 for KY-32 toward Morehead/Flemingsburg. Turn left onto W. Wilkinson Blvd and continue onto E. Main St. Turn right onto KY-32 E/Christy Creek Rd. Continue to follow KY-32 E. Turn left onto Collier Creek Rd in Lawrence County. The entrance to the Big Sandy Mitigation Bank property is located near the northern end of Collier Creek Rd on the right (NE) side. End at coordinates: NAD83 Latitude: 38.0415, NAD83 Longitude: -82.9223.

1.1.3 Baseline Conditions

The site contains four small headwater systems with drainage areas approximately 0.51, 0.33, 0.42, and 0.19 square miles, respectively, at their mouths. The site was chosen primarily for its high ecological potential for restoration of habitats for a wide range of fishes, invertebrates, plants and wildlife that utilize the corridors of headwater streams in the Upper Blaine Creek Watershed, namely, tributaries of Collier Creek, Knob Branch and Left Fork Cains Creek. Most tributaries in the Blaine Creek Watershed have been impacted by agricultural, silvicultural and mining manipulations, both ongoing and historic. A large portion of the site was logged in the early 1990's. Several nearby tributaries in the Blaine Creek watershed are listed by the EPA 303d program as impaired due to sediment and pathogens.

The Sponsor proposes to restore aquatic and riparian functions and values to streams and wetlands on the site and preserve the entirety of the site outside of the aquatic riparian zone.

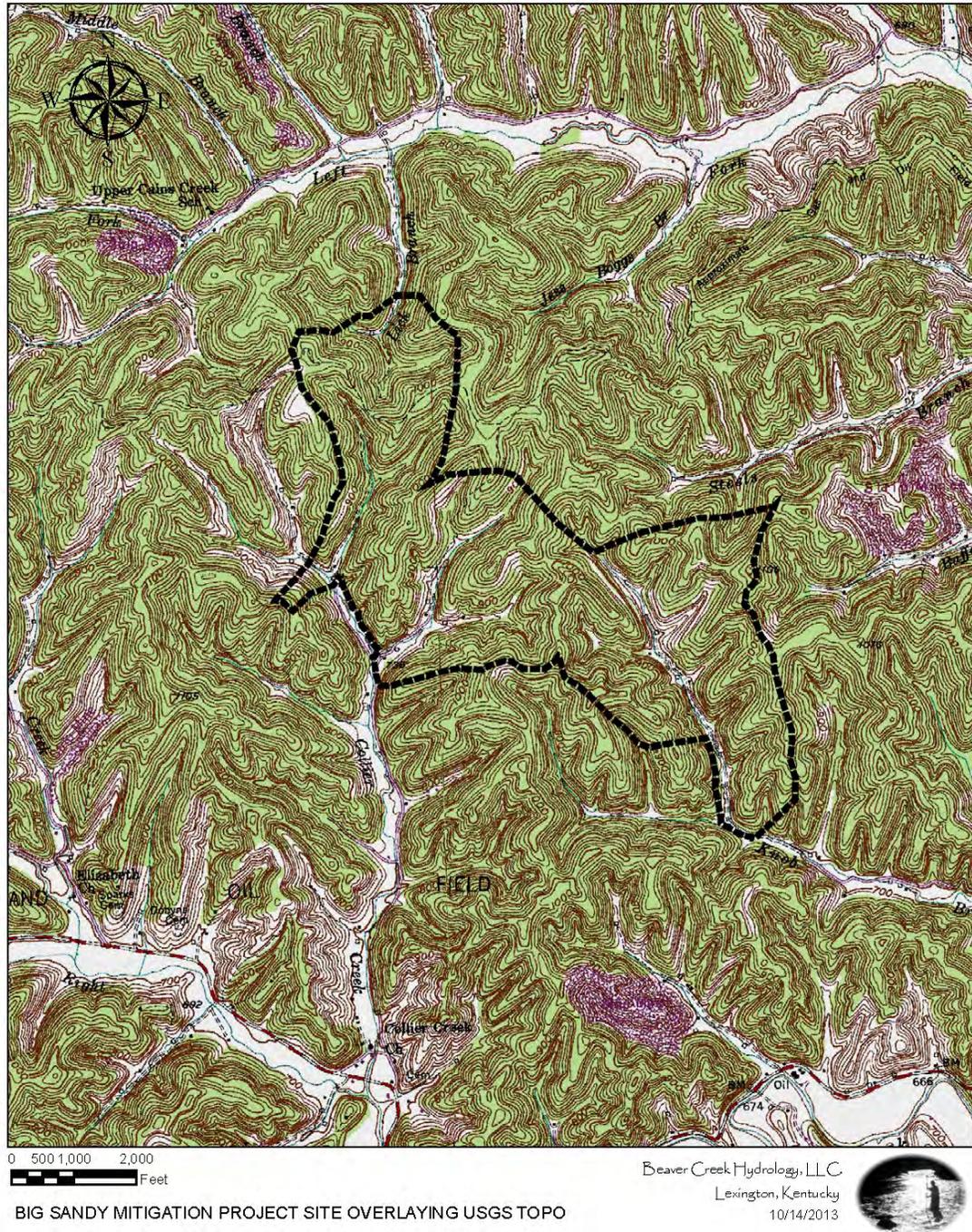


Figure 1. Big Sandy Mitigation Project Property Boundary LRL-2012-606

1.2 Little Sandy Mitigation Project Site Description

1.2.1 Site Location

The 224-acre site is located near Sarah in Elliot County, KY in the Little Sandy watershed (8digit HUC 05090104). The site is in the East Kentucky Coalfield Physiographic Area and the Western Allegheny Plateau Ecoregion (Level III). Site entrance coordinates: NAD83 Latitude: 38.055178, NAD83 Longitude: -82.974667. The property is located within the Maize USGS quadrangle and the property boundary is shown on Figure 2.

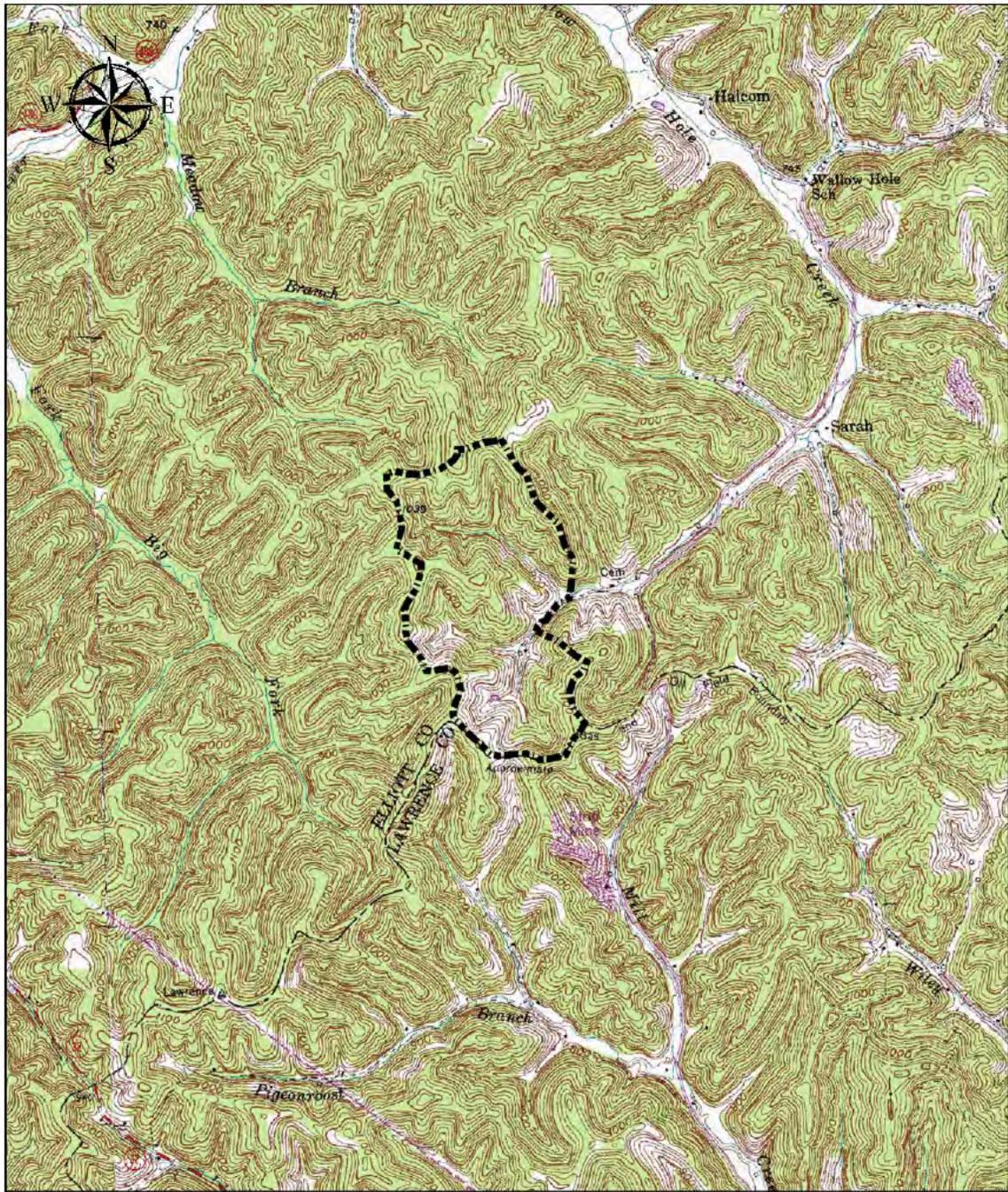
1.2.2 Driving Directions

From Louisville, take I-64 East. Take exit 137 for KY-32 toward Morehead/Flemingsburg. Turn left onto W. Wilkinson Blvd and continue onto E. Main St. Turn right onto KY-32 E/Christy Creek Rd. Continue to follow KY-32 E. Turn left onto Mill Creek Rd. Continue in Elliot County on Wallow Hole Road. Turn left on Walter Barker Road in Elliot County. The entrance to the Little Sandy Mitigation Bank property is located at the end of Walter Barker road.

1.2.3 Baseline Conditions

The site contains headwater streams in the upper Wallow Hole Creek watershed with total drainage area approximately 0.35 square miles at the downstream end (eastern side) of the property. The site is primarily used for agriculture, timber production, and hunting and the surrounding area is predominately forested and used for timber production and coal mining. The site was chosen primarily for its high ecological potential for restoration of habitats for a wide range of fishes, invertebrates, plants and wildlife that utilize the corridors of headwater streams in the Upper Little Fork Little Sandy watershed. Most tributaries in this watershed have been impacted by agricultural and silvicultural manipulations, both ongoing and historic. Several nearby streams in the Little Sandy watershed are listed by the EPA 303d program as impaired due to sediment and pathogens.

The Sponsor proposes to restore aquatic and riparian functions and values to streams and wetlands on the site and preserve the entire site outside of the riparian zone.



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Feet

LITTLE SANDY MITIGATION PROJECT SITE OVERLAYING USGS TOPO

Beaver Creek Hydrology, LLC
Lexington, Kentucky
10/14/2013



Figure 2. Little Sandy Mitigation Project Property Boundary LRL-2012-607

2. Objective of the KSWMB

The primary objective of the umbrella mitigation bank is to develop projects for the purpose of providing compensatory mitigation credits in advance of authorized impacts to “Waters of the US” and similar resources in the Commonwealth of Kentucky within the jurisdiction of the Louisville Corps District. The Sponsor (EIP Credit Co.) proposes to provide projects that preserve, restore or enhance perennial, intermittent and ephemeral stream habitats and adjacent wetlands. The sponsor will utilize a natural channel design approach to restore and enhance the streams on the project sites. A priority one restoration approach will be utilized to restore connectivity with the floodplain along most of the streams. This will provide for stable channels with improved habitat features, reduced sediment load to the stream system and an increase in the groundwater levels within the valleys. Wetland systems will be restored adjacent to the channel where appropriate. The Sponsor will also preserve the entire site to prevent future disturbance to the watershed.

3. Establishment of the Mitigation Bank

The Sponsor of the mitigation bank is EIP Credit Co. EIP Credit Co. is a subsidiary of Ecosystem Investment Partnership located in Baltimore, Maryland. The landowner of the bank property will be EIP Kentucky, LLC. Both of the Project sites presented in this Prospectus are currently owned by EIP Kentucky, LLC. The Sponsor will develop a deed restricted conservation easement with the landowner to preserve the mitigation work in perpetuity. This deed restriction will be for the entire parcel.

The Sponsor has hired Beaver Creek Hydrology, LLC. to develop this Prospectus and upon approval to further develop the Umbrella Mitigation Banking Instrument. In addition, Beaver Creek Hydrology will provide all of the conceptual planning, mitigation plans and design for each proposed project and will also provide construction management and long term monitoring.

The Sponsor will procure contractors trained and experienced in stream restoration projects to construct each project. Details of construction will be provided in the mitigation plan for each project.

4. Operation of the Mitigation Bank

The Sponsor will own and operate the Bank until the time of final credit release. A qualified contractor will construct the stream restoration projects. Beaver Creek Hydrology will provide the designs, mitigation plans and banking instrument(s), construction oversight and management, and long term monitoring of the sites. The Umbrella Mitigation Banking Instrument will provide all of the details of Bank operation.

4.1 Monitoring Requirements

Success of the stream restoration projects will be determined by comparing the as-built survey conditions to the future conditions through five (5) consecutive years of monitoring. The as-built survey will be submitted with the first year monitoring report. Items to be evaluated during the monitoring period include geomorphologic measurements, hydrological measurements, habitat scores, visual assessments and vegetation survival and density measurements. Monitoring requirements will be further defined in the UMBI and each project Mitigation Plan.

5. Description of the Service Area for the Mitigation Bank

The KSWMB will have project sites located in several different watersheds within the limits of the Louisville District. Each project site developed for the KSWMB will have a mitigation plan that will define the service area for that site. The Sponsor will develop guidelines for service area within the UMBI that are similar to the Comprehensive Planning Framework (CPF) found in the instrument governing the Fee-In-Lieu-Of (FILO) Program administered by the Kentucky Department of Fish and Wildlife Resources (KDFWR) for each watershed in which it intends to develop a project site. At this time additional sites are being considered in the Big Sandy River Basin, the Salt River Basin, and the Kentucky River Basin. Future projects may be located in other basins under jurisdiction of the Louisville District.

For the Big Sandy Mitigation Project and the Little Sandy Mitigation Project, the service area will include all of the Fee-In-Lieu-Of (FILO) Program Big Sandy River Basin Service Area. This is different than what was originally public noticed for these two properties, as the original public notice only contained one eight digit HUC for each property (Little Sandy: 05070204 and Big Sandy: 05090104). The new proposed service area corresponds to the KDOW's Big Sandy-Little Sandy-Tygarts Basin Management Unit that is within the Eastern Kentucky Coalfield physiographic region and includes the portion of the 8-digit HUC 05090201 that is within Lewis County. This service area encompasses all or a portion of the following 8-digit HUC watersheds: 05090103, 05090104, 05090201, 05070201, 05070202, 05070203, 05070204. A map showing the limits of the service area for the two initial sites is shown in **Error! Reference source not found.**

The Sponsor has conducted a thorough economic evaluation of the proposed service area and has concluded that the service area is justifiable for these sites. The strategy of the Sponsor to develop banks in several watersheds in Kentucky requires a large economic investment and development at a watershed scale. The Sponsor does not agree that the single 8-Digit HUC that was originally proposed for these two sites was large enough to support the development of a bank in these locations. In addition, the following factors were considered when developing the proposed service area:

1. The Sponsor is developing two large scale mitigation sites with plans on one to three more sites within the basin in the near future. These sites will be of similar size and spaced across the watershed where possible. In addition, the Sponsor will be developing several other large sites in other watersheds across the state.
2. Sites are difficult to find and develop in the Big Sandy Service Area due to physical constraints on properties in the area. Most properties have had the mineral estate (both coal and oil/gas rights) severed from the deed and locating properties with the mineral estate attached is extremely difficult. In addition to finding larger tracts that have the mineral estate intact is finding tracts that have low conductivity values that indicate water quality appropriate for restoration. High conductivity values across the region eliminate many potential mitigation sites. The Sponsor has identified only a handful of other potential sites after exhaustive searches by land acquisition professionals. In addition, the FILO program has had difficulty locating appropriate restoration sites in the basin due to these same hardships.
3. Need for mitigation is high in the Big Sandy Service Area and with the physical constraints that are encountered a larger service area is needed to make a private mitigation bank successful economically.



Figure 3. Service Area for Big and Little Sandy Mitigation Project Sites

In general, the Big and Little Sandy Mitigation Projects were selected based on prioritization as detailed in the CPF. There are five categories of prioritization listed in the CPF for the Big Sandy Service Area. These include:

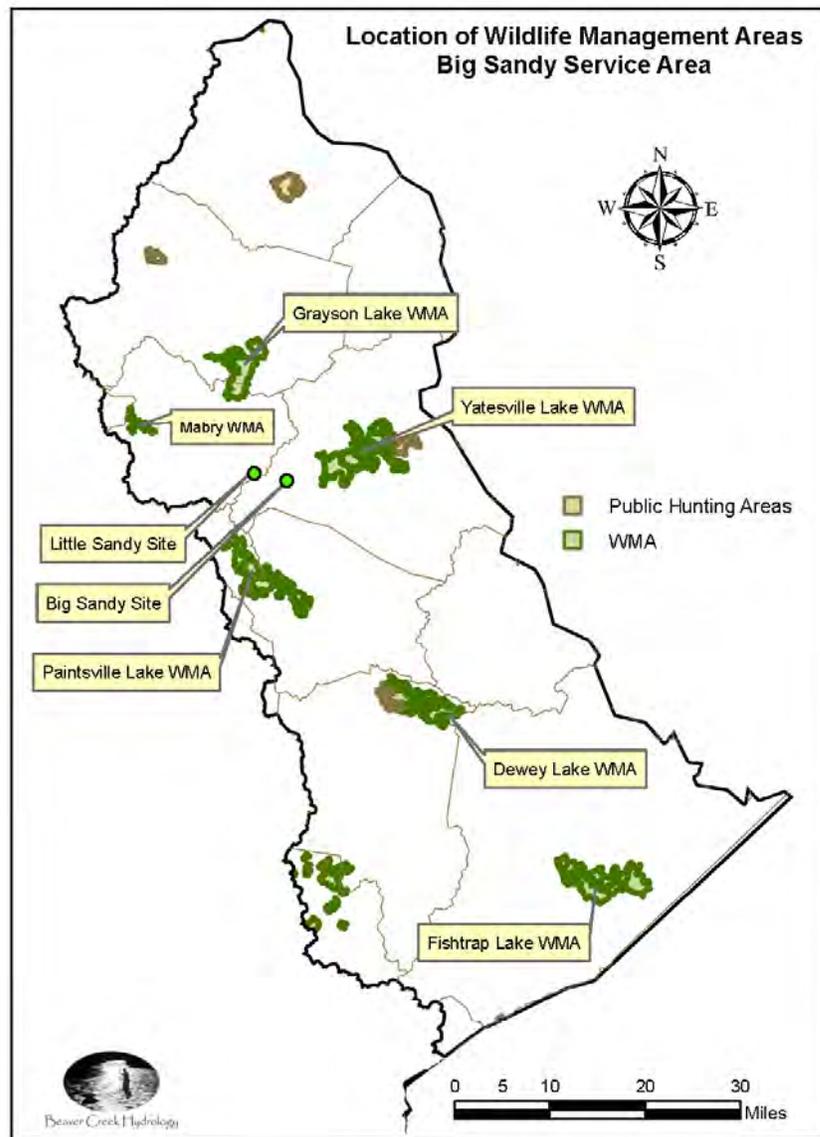


Figure 5. Location of Wildlife Management Areas in the Big Sandy Service Area

2. **Preservation of High Quality WOUS:** The Big and Little Sandy Project Sites are located in forested areas with some Ephemeral Streams that are high quality. However, most of the streams on these sites have had major logging impacts in the past.
3. **Watershed Based Targets:** The Little Sandy Site is located within one mile of Meadow Branch in Elliot County that is considered a special use water by the Kentucky Division of Water. In addition, both sites provide habitat for Indiana Bats and the entire sites outside of the stream corridor will be preserved.
4. **Cost Effective Mitigation:** These sites are large sites that provide large ecological lift for minimal disturbance and cost.

5. **Impaired waters:** Both sites are located upstream of highly impaired streams. Little Fork Little Sandy is downstream of the Little Sandy Mitigation Project Site and Blaine Creek is just downstream of the Big Sandy Mitigation Project Sites. These sites are impaired due to pathogens and siltation.

In addition to these priorities, these streams are typically similar to streams that are impacted in the proposed service area and preservation of the entire site will prohibit future predicted impacts including logging, mining and other development. These sites have the mineral estate intact and have low conductivity measurements.

6. Need for the Mitigation Bank

The Sponsor proposes the KSWMB in anticipation of future 404 impacts in the area. Various sources from the coal industry, the Kentucky Transportation Cabinet, and other private developers have indicated that they anticipate generating impacts within the service area over the next decade. Independent research following historic trends has also concluded that impacts are anticipated within the watersheds where bank project sites are being developed.

7. Technical Feasibility of the Mitigation Bank

The technical feasibility of the Big and Little Sandy project sites are considered to be reasonably assured based on several factors: (1) the absence of the presence of rare species or their habitats within the stream corridors and the absence of nationally significant historical or archaeological resources; and (2) the presence of highly impacted headwater streams and the possession of knowledge of how best to restore sufficient functionality with demonstrated success in restoration of that function. The feasibility to restore the stream ecosystem was determined from careful site evaluations by Beaver Creek Hydrology, LLC, including geomorphic, biological, geotechnical and hydrological characteristics. Additional sites will be evaluated on similar criteria and criteria outlined in the Comprehensive Framework of the KDFWR In-Lieu Fee program governing instrument.

7.1 Cultural Resources

The Sponsor will coordinate with the Louisville District and the Kentucky State Historic Preservation Office (SHPO) regarding archaeological resources.

7.2 Threatened and Endangered Species

The Sponsor will coordinate with U.S. Fish and Wildlife to obtain Section 7 clearance on each project site chosen for the KSWMB. Projects will be chosen that can enhance habitats on the project sites for any known species that are threatened or endangered and all reasonable care will be taken to establish and protect critical habitat within the project site boundaries.

8. Mitigation Bank Ownership/Long-term Management Strategy

All project sites operated by the KSWMB will be purchased by EIP Kentucky, LLC and protected from development, timber/mineral extraction and other destructive uses (ATVs, horseback riding, etc.). The stream preservation, enhancement and restoration areas and all wetland areas will be permanently conserved and protected via deed restrictions or a conservation easement, which will protect the site from development. The Sponsor will also own the mineral rights along with fee-simple ownership of the property. Long term management of each property will be administered by a third party non-profit organization or governmental agency as will be defined in the mitigation banking instrument. Several options are available for long term management, including the Kentucky Department of Fish and Wildlife Resources has indicated that there is a potential for them to provide long term management of the sites as Wildlife Management Areas due to the large size and nature of the properties that are involved.

9. Qualifications of Sponsor to Successfully Complete Bank

The Sponsor, EIP Credit Co LLC, is owned and managed by Ecosystem Investment Partners (EIP), which has successfully permitted, constructed and operated numerous mitigation banks nationally, including the Calcasieu Wetland Mitigation Bank, the Mossy Hill Wetland Bank, and the Chef Menteur Pass Wetland Mitigation Bank in the New Orleans District, the Dover Farm Mitigation Bank in the Norfolk District, and the Upper Clark Fork Mitigation Bank in the Omaha District. EIP is currently permitting banks in the Huntington District, the Louisville District, and the Jacksonville District. Information on these projects can be found at: <http://www.ecosystempartners.com/projects.html>.

In addition EIP's team of eight principals and staff bring a wealth of knowledge and experience in all of the aspects required for successful project design, establishment and implementation. EIP's Managing Partner Nick Dilks has extensive experience in land conservation finance and real estate. Mr. Dilks spent 10 years with The Conservation Fund, most recently as its Vice President for Real Estate, completing some of TCF's most complex and innovative transactions. EIP's other Managing Partner Fred Danforth has extensive banking and investing background. Mr. Danforth was a co-founder of Capital Resource Partners, a private equity investment firm and owner of the Upper Clark Fork Wetland and Stream Mitigation Bank in Montana. EIP's Director of Operations, David Urban, has successfully permitted, designed, and operated 25 mitigation banks located in the Chicago, Mobile, New Orleans, Norfolk, Omaha, and Rock Island Districts. Mr. Urban is a past President of the National Mitigation Banking Association.

In addition to the qualifications of the Sponsor, the Sponsor has hired Beaver Creek Hydrology, LLC to provide oversight of all aspects of the Bank development and operation. This oversight will include development of the banking instrument, project design and permitting, construction oversight and monitoring of the project success. Beaver Creek Hydrology, LLC (BCH) has been providing stream mitigation services in Kentucky and Tennessee since 2006. BCH is familiar with all aspects of stream mitigation and has experience working on projects of similar size and scope for in-lieu fee providers, including the Kentucky Department of Fish and Wildlife Resources Stream Mitigation Program and the Tennessee Stream Mitigation Program. BCH

utilizes a team of engineers, land surveyors, biologists, and fluvial geomorphologists to provide natural channel design solutions to mitigation needs.

BCH specializes in stream restoration and has successfully developed and implemented mitigation projects and habitat restoration projects in Kentucky, Tennessee, Ohio, and Colorado. Projects include:

- Murfrees Fork Stream Mitigation Project (3rd year of monitoring - TN)
- Mill Creek Stream Mitigation Project (3rd year of monitoring - TN)
- Harpeth River Restoration and Dam Removal (Franklin, TN)
- Salt Lick Stream Mitigation Project (near construction completion - KY)
- Elisha Creek Stream Mitigation Project (1st year of monitoring - KY)
- Cranes Nest Stream Mitigation Project (1st year of monitoring - KY)
- East Fork Indian Creek Stream Mitigation Project (design/permitting phase - KY)
- Golden Mile Trout Habitat Restoration Project (Golden, CO)
- Courtney Riley Cooper Habitat Restoration Project (Idaho Springs, CO)
- Jefferson County Stream Restoration Project (Clear Creek near Golden, CO)

In addition to these projects, BCH's Principle Engineers have been involved in many other successful stream restoration and mitigation projects in the United States while with other firms.

10. Ecological Suitability of the Bank to Achieve Objectives

In general, all of the sites chosen for the KSWMB will contain streams in a range from poor to excellent condition as determined by the Rapid Bioassessment Protocol or other appropriate methods. The KSWMB will target mostly headwater stream systems and systems with drainage areas less than 10 square miles. Due to the size and nature of headwater streams, relatively modest alterations to the physical characteristics and reestablishment of native riparian corridor will result in measurable ecological gains in aquatic functions and values. Silvicultural, livestock and agricultural practices will be precluded from any future encroachments into aquatic resources on all of the sites. Water quality parameters and biological function will be monitored where required to show appropriate ecological uplift.

11. Assurances of Sufficient Water Rights

On all of the Bank sites, water rights within the property will be assured by property ownership of the land. Beyond a reliance on normal weather patterns and existing regulatory controls, there is nothing practicable that a bank sponsor can do to assure perpetual availability of sufficient water. No water rights issues are anticipated in headwater stream systems. On project sites where larger streams intersect the property and are able to be restored, water rights will be assumed due to property ownership and the current regulatory environment within the Commonwealth of Kentucky that prevents alterations to aquatic resources without a valid permit.