



Oregon

Theodore R. Kulongoski, Governor

Oregon Watershed Enhancement Board

775 Summer St NE, Suite 360

Salem, OR 97301-1290

(503) 986-0178

FAX (503) 986-0199

www.oregon.gov/OWEB

August 19, 2010



MEMORANDUM

TO: Oregon Watershed Enhancement Board

FROM: Tom Byler, Executive Director
Renee Davis-Born, Ecosystem Services Coordinator

SUBJECT: **Agenda Item G, Ecosystem Services Update
September 14-15, 2010 OWEB Board Meeting**

I. Introduction

This report provides updates about recent work by the Senate Bill 513 Ecosystem Services Markets Working Group and the status of the Conservation Innovation Grant proposal to develop a pilot market for ecosystem services in the Willamette Basin. Brief updates about other ecosystem services-related items also are included.

II. Senate Bill 513 Ecosystem Services Markets Working Group

OWEB is staffing the Ecosystem Services Markets Working Group (Working Group), which was convened by the Oregon Sustainability Board to implement Senate Bill 513 (SB 513). At the June 2009 meeting, the OWEB Board awarded Research non-capital funds to support the Working Group, which is developing policy recommendations intended to advance the development of integrated ecosystem services markets in Oregon in order to produce positive ecological and economic outcomes. In addition to the Working Group, OWEB also convened an Ad Hoc Group to advise and help frame policy issues under consideration by the Working Group.

The Working Group has met seven times, and the Ad Hoc Group three times, since December 2009, to deliberate on the state's sustainability goals and the challenges to and opportunities for facilitating development of ecosystem services markets in Oregon to help meet these goals. In addition, staff and/or members of the Working Group have provided regular updates to the Sustainability Board at each of its meetings since September 2009.

The Working Group developed a Vision Statement and Guiding Principles for ecosystem services markets in Oregon. They completed review of several case studies offered by group members that demonstrate impediments that currently exist to development of an ecosystem marketplace and also areas where agencies and market practitioners are making progress. They identified four priority policy areas that must be addressed in order to create integrated ecosystem service markets: 1) Overarching ecological, economic, and integration goals to guide the development of integrated ecosystem services markets in Oregon; 2) Agency processes and interactions to address appropriate roles at local, regional, state, and national scales; 3) Public/private financing issues; and 4) Private and government roles in developing standards,



methodologies, metrics, and tools. Small subgroups were formed around each of these policy areas and have suggested preliminary solutions—including policy recommendations, administrative changes, and other actions—to address challenges to marketplace development.

The Working Group is in the process of refining its draft report and recommendations, which incorporate the subgroups' work and input from the Ad Hoc Group and the Sustainability Board. Although not yet finalized, the high-priority policy proposals and action items included in the current draft of the report include:

1. Facilitate coordinated, proactive investment to achieve shared conservation goals.
2. Identify statutory impediments to state agencies' ability to employ ecosystem market approaches and tools and propose solutions to these limitations.
3. Encourage partnerships to develop standardized tools and processes for approving ecosystem credits and payments.
4. Provide authority and direction to state agencies to purchase credits and invest in ecological outcomes.
5. Allow state agencies to sell credits under limited circumstances.
6. Encourage state and local governments to cost and compare natural infrastructure as a preferred alternative to hard engineering for new development projects.
7. Encourage state and local governments to consider and, if possible, quantify impacts to ecosystem services at the watershed scale when making land use and management decisions.
8. Provide a testing ground and stimulate demand for payments for ecosystem services through pilot projects, proofs of concept, and scoping efforts.
9. Further facilitate development of ecosystem services market approaches by 1) guiding implementation of the recommendations of this report and subsequent legislative action; 2) deliberating and providing guidance on unresolved and emerging policy issues for ecosystem services markets; and 3) ensuring connection with processes related to the development of standards, protocols, and accounting systems for the marketplace.

Several of these preliminary recommendations connect to existing OWEB priorities or areas that may emerge as important initiatives for the agency in the coming months. For example, Proposal #1 regarding shared conservation goals proposes to build upon the integration process that is underway to meld ecological priorities identified in OWEB Basin Restoration Priorities, Total Maximum Daily Load plans, and the Oregon Conservation Strategy, and further expand this to include priorities included in the State of Oregon Statewide Forest Assessment and Resource Strategy, the Oregon Integrated Water Resources Strategy (in-development), and other key planning documents. Shared restoration and conservation goals would further enable strategic investment in ecosystem services projects.

Another example is Proposal #4, which encourages public agencies to purchase ecosystem service credits and invest in ecological outcomes. Agencies could use the purchase of ecosystem service credits and/or investment in ecological outcomes to achieve their missions. A market-based approach such as this could enable OWEB to continue meeting its statutory requirements of providing funding for restoration and conservation by "purchasing" ecological outcomes, such

as restored ecosystem functions, which are quantified and tracked used performance standards, metrics, and accounting systems such as those recommended in Proposal #3. Again, such tools could help ensure accountable and strategic state investments in restoration and conservation.

Finally, Proposal #8 suggests the use of pilot projects to test the ecosystem services concepts and approaches recommended elsewhere in the report, and as a way to stimulate demand for payments for ecosystem services. One public-private partnership that is highlighted in this policy option is the proposed project involving the Willamette Partnership, The Freshwater Trust, and OWEB that would build on existing watershed restoration work and grow ecosystem services markets in the Willamette Basin (see Section III of this report). Another potential project that could provide an opportunity to test market-based approaches in a voluntary market-type setting involves renewable energy (especially wind energy) and transmission line development in the sagebrush ecosystems of eastern Oregon. A proof-of-concept project here could develop and test methods and metrics for site-specific assessment of habitat function and/or ecosystem services such as that discussed as part of the soil-carbon pilot project scoping work completed by Ecosystem Services LLC and Ecotrust as part of their research contract with OWEB. Pilot projects such as these would provide lessons learned which then would be used to refine and adapt ecosystem services approaches and tools to better meet the needs of buyers and sellers in the marketplace, and ensure that ecosystem services markets achieve both the ecological and economic goals for which they are intended.

The Working Group will convene for two meetings—on September 2, 2010, and October 20, 2010—before finalizing its report. In November 2010, the Sustainability Board will review and be asked to approve the final report and policy options that result from the SB 513 Working Group process. At the January 2011 Board meeting, staff will provide an update about the final recommendations that were advanced to the Oregon Legislature.

III. Willamette Pilot Project

At the March Board meeting, staff provided an update about a late-breaking opportunity for OWEB to partner with the Willamette Partnership (Partnership) and The Freshwater Trust (TFT) on a proposal to the 2010 U.S. Department of Agriculture (USDA) Conservation Innovation Grant (CIG) program of the Natural Resources Conservation Service (NRCS). The proposed project seeks funding to implement a pilot market for ecosystem services in the Willamette Basin by encouraging private investors to fund restoration work that results in ecosystem services credits that could be sold in a marketplace.

OWEB's role in the proposed project is to provide grant funds that could be used as a backstop option to reimburse private investors for high-quality restoration work if the market for ecosystem services credits fails to appear. OWEB would allocate funds dedicated to the purchase of completed and verified restoration projects as a backstop option only if private investors decide to no longer pursue the sale of credits on the market, and only for completed projects that meet agreed upon ecological and fiscal accountability criteria at a defined future point in time. Staff proposed that the pilot project be conducted within the framework of the tributary initiative of the Willamette Special Investment Partnership (SIP) and the Meyer Memorial Trust/Bonneville Environmental Foundation "Model Watershed Program." The Partnership and TFT requested a commitment of \$200,000–\$400,000 from OWEB, which staff recommended be made available from capital funds already allocated by the Board to the Willamette SIP.

At the March meeting, the Board agreed to support OWEB's participation in this project for the purpose of the development of a pre-proposal for submission to USDA. On April 26, 2010, a pre-proposal for the CIG was submitted to USDA and on May 10, 2010, NRCS requested a full application package for this project. On August 12, 2010, staff learned that NRCS declined funding for this project.

Clear consensus emerged from the SB 513 Working Group discussions that this particular pilot project presented an especially good opportunity to 1) build on and expand the capacity for watershed restoration being undertaken by watershed councils and other local groups in the Willamette Basin; 2) secure private funding for additional restoration; and 3) ensure that restoration outcomes emerging from projects can be quantified. At the writing of this report, staff are working with the Partnership and TFT to evaluate alternatives for pursuing such a project.

IV. Other Ecosystem Services Initiatives

The contractors provided a briefing to a small group of OWEB staff on July 22, 2010 as a wrap-up for the Ecosystem Services LLC and Ecotrust research contract about carbon related ecosystem services and co-benefits. This meeting presented an opportunity for staff to learn about ecosystem services and markets, hear about the findings from the research contract, and ask questions about these topics to enhance their understanding of how ecosystem services connect with OWEB's grantmaking and other initiatives. The final report and "Ecosystem Services Roadmap" developed under this research contract are now available on the OWEB website at www.oregon.gov/OWEB/ecosystem_services.shtml.

Second, staff are organizing an Ecosystem Services session for the November 2010 OWEB Biennial Conference. The session will include an orientation to ecosystem services and markets for participants; an interactive walk-through of the project scoping and development sections of the "Ecosystem Services Roadmap" created under the OWEB research contract mentioned above; a discussion of how local groups such as watershed councils and soil and water conservation districts can play a role in ecosystem services-related projects being developed as part of the Willamette Partnership's Counting on the Environment process; and a presentation about policy recommendations from the SB 513 process.

V. Recommendation

This is an informational item. No Board action is requested at this time.