

August 27, 2009

## **MEMORANDUM**

**TO:** Oregon Watershed Enhancement Board

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

**SUBJECT: Agenda Item H: Ecosystem Services Report and Board Discussion  
September 15-16, 2009 OWEB Board Meeting**

### **I. Introduction**

This report provides an update about two ecosystem services initiatives with which OWEB is involved. The first part of the report is a progress update on the OWEB Research Module on Ecosystem Services. The second portion of this report is a status update about activities related to implementation of Senate Bill 513, which convenes an Ecosystem Services Markets Working Group for the Sustainability Board that will be staffed by OWEB.

### **II. Background**

At the June 2009 Board meeting, Director Byler briefed Board members on the potential involvement of OWEB in Senate Bill 513 sponsored by Senator Devlin. SB 513 defines ecosystem services as “benefits that human communities enjoy as a result of natural processes and biological diversity.” Ecological values are defined as “clean air, clean and abundant water, fish and wildlife habitat and other values that are generally considered public goods.” An ecosystem services market is “a system in which providers of ecosystem services can access financing to protect, restore and maintain ecological values, including the full spectrum of regulatory, quasi-regulatory, and voluntary markets.”

#### **A. OWEB Research Project on Ecosystem Services**

In recent months, the OWEB Board and staff have begun to explore the potential for ecosystem services markets to enhance restoration and conservation opportunities in Oregon. At the March 2009 Board meeting, the Board approved \$165,000 of Measure 66 Research non-capital funds for an Ecosystem Services Module within the agency’s Research Program. This funding was intended to support work to investigate how traditional OWEB restoration and acquisition projects may provide ecosystem services and how these investments may converge with ecosystem services markets. At the direction of the Board at the March meeting, staff, in consultation with the Monitoring and Research Subcommittee, developed a Request for Proposals to explore these topics. The RFP outlined three project objectives:

1. Develop a description of the current ecosystem services and the potential markets in Oregon that might be closely aligned with OWEB projects;

2. Conduct an evaluation of the contributions that OWEB land acquisition and restoration projects can provide in the ecosystem services marketplace; and
3. Create business application models that provide OWEB and its grantees an approach to participating in ecosystem service marketplace transactions.

This project will benefit the OWEB Board and staff, local partners, and restoration and conservation practitioners by providing a better understanding of ecosystem services market challenges and opportunities, and areas of alignment between OWEB programs and projects and these markets. Also, through the use of models, the project will outline pathways by which local entities could enter into ecosystem services markets for revenue generating purposes, and test these models through pilot projects.

### **B. Senate Bill 513**

SB 513 charges the Sustainability Board with convening an Ecosystem Services Markets Working Group, and names OWEB to provide staff support to this group. The working group will:

1. Study and propose overarching goals to guide the development of integrated ecosystem services markets in Oregon that are efficient, coordinated, and designed to produce positive ecological and economic outcomes with reasonable administrative costs to all participants;
2. Address entities that would be most appropriate to guide, facilitate, and implement an ecosystem services market in Oregon;
3. Address the need for a consistent methodology to describe and quantify ecological values and in doing so will consider methodologies that have been developed or are in the process of being developed;
4. Make recommendations concerning the development of appropriate ecological evaluation and accounting systems;
5. Consider the appropriate role of government participation in ecosystem services markets in order to ensure that the activities of state agencies are well-coordinated and maintain a positive influence in maximizing ecological, social and economic benefits for the public and private sectors; and
6. Propose potential policies to help stimulate demand for payments for ecosystem services, in particular the development of regulatory and voluntary ecosystem services markets” (from SB 513).

At the June meeting, the Board awarded \$290,000 in 2007–2009 Research non-capital funds to cover costs associated with staffing and contracted services to support implementation of SB 513. This Board allocation was contingent upon final passage of SB 513 by the Legislature and signature by the Governor.

### **III. Update about Ecosystem Services Research Project**

In June, staff and the Monitoring and Research Subcommittee selected Ecosystem Services LLC as the contractor (with Ecotrust as a subcontractor) to assist OWEB in understanding and negotiating the marketplace of ecosystem services that have a likely connection to the restoration and conservation actions funded by OWEB. The scope of the contract was refined to focus on

carbon-offset ecosystem services, but will take into account co-benefit ecosystem services that result from carbon-related projects. For example, this project will assess the carbon-offset ecosystem service delivered through a riparian restoration project that involves tree planting, but also will identify additional co-benefit services, such as water temperature benefits through shading, that would occur. The total contract amount is \$117,000.

The project commenced on August 12, 2009, and will include three phases of work. Phase I will identify current ecosystem services markets and potentially eligible OWEB projects that have carbon-offset and co-benefit ecosystem services. Phase II will evaluate the market opportunities for ecosystem services credits emerging from OWEB funded projects. Phase III will develop up to two pilot projects focused on carbon offsets and co-benefit ecosystem services for market transactions. Already the project team has initiated outreach to other players in the ecosystem services markets arena, such as The Willamette Partnership, Defenders of Wildlife, The Nature Conservancy, and the Institute for Natural Resources at OSU. Staff are working with the contractors to identify appropriate OWEB restoration projects from the Agency's 2008 and 2009 project portfolio, and OWEB acquisition projects awarded during the last several years, for inclusion in this analysis.

The Board will be briefed by staff (and possibly contractors) on project progress at the January and March 2010 meetings. During spring of 2010, the contractor will convene a "Supply Chain" event that will bring together Board and staff from OWEB, local partners, landowners, agency and NGO staff, and representatives of the "demand side" of ecosystem services markets. Participants will share lessons learned from actual Oregon-based carbon transactions, discuss tools for quantifying and monetizing several ecosystem services in a market-based setting, and identify resources and collaborations required to accelerate the practical monetization of carbon offsets and opportunities for future projects.

Project findings will be presented to the Board at the June meeting, with the final report due in mid-June 2010. The report will capture information about OWEB projects and insights gained from the pilot projects, identify carbon-offset services and potential market opportunities in context of OWEB's mission and programs, and provide a "bridge" for connecting with existing regulatory frameworks and standards for co-benefit ecosystem services related to carbon-focused projects.

#### **IV. Implementation of SB 513**

SB 513 passed out of the Legislature on June 5, 2009 and was signed into law by the Governor on July 23, 2009. The Ecosystem Services Markets Working Group to be convened under SB 513 is intended to articulate the need and advance policy recommendations for creating a framework of integrated ecosystem services markets in Oregon that produce positive ecological and economic outcomes.

Staff have begun working with members of the Sustainability Board's Ecosystem Services Subcommittee and staff from the Oregon Solutions program at Portland State University to identify membership of the working group and develop a process and timeline for implementation of SB 513. A proposed approach for implementing SB 513 will be presented to the Sustainability Board at its meeting on August 21, 2009, for consideration and approval. The first meeting of the working group is expected to occur in September 2009.

Staff also have begun outreach to practitioners in the ecosystem services arena to learn about initiatives already underway to quantify ecosystem services and account for their values in a marketplace setting, and identify information gaps and analysis needs that could inform the working group's deliberations. It is anticipated that the working group will have a draft report and preliminary policy recommendations for review by the Sustainability Board and interested parties in early fall of 2010. The Sustainability Board will submit a final report, which may include recommendations for legislation, to the Legislature by January 1, 2011.

**V. Recommendation**

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