



Oregon

Theodore R. Kulongoski, Governor

Oregon Watershed Enhancement Board

775 Summer Street NE, Suite 360

Salem, OR 97301-1290

(503) 986-0178

FAX (503) 986-0199

www.oregon.gov/OWEB



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MEMORANDUM

TO: Oregon Watershed Enhancement Board

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

**SUBJECT: Agenda Item J: Ecosystem Services Update
June 2-3, 2010 OWEB Board Meeting**

I. Introduction

This report provides updates about two ecosystem services initiatives: OWEB's Ecosystem Services LLC research contract and the Senate Bill 513 Ecosystem Services Markets Working Group. The report also updates the Board on the Conservation Innovation Grant proposal to develop a pilot market for ecosystem services in the Willamette Basin.

II. OWEB Research Project on Ecosystem Services

In August 2009, OWEB contracted with Ecosystem Services LLC and Ecotrust to investigate how traditional OWEB restoration and acquisition projects may provide ecosystem services and how these investments may converge with ecosystem services markets. This contract is supported by Research non-capital funds approved by the Board in March 2009 for an Ecosystem Services Module within the agency's Research Program. The contract's scope focuses on carbon-offset ecosystem services, but takes into account multiple benefits to ecosystem services that result from carbon-related projects.

The research project includes three phases of work:

- I) Identify current ecosystem services markets and potentially eligible OWEB-funded projects that have carbon-offset and other ecosystem services benefits.
- II) Evaluate the market opportunities for ecosystem services credits emerging from OWEB funded projects.
- III) Develop up to two pilot projects, focused on carbon offsets and other ecosystem services benefits, for market transactions.

Preliminary results were provided to the Board at the January and March meetings. At the June meeting, representatives from Ecosystem Services LLC and Ecotrust will brief the Board about their research findings and recommendations regarding the intersection between OWEB investments and ecosystem services and markets.

III. Senate Bill 513 Ecosystem Services Markets Working Group

OWEB convened and is staffing the Ecosystem Services Markets Working Group (Working Group) created as part of Senate Bill 513 (SB 513). At the June 2009 meeting, the 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 addition to the Working Group, which is comprised of individuals who are knowledgeable about and active in improving the ecological effectiveness of ecosystem services markets, an Ad Hoc Group has been convened to advise and help frame policy issues to be addressed by the Working Group.

The Working Group has met five times since December 2009. Priority policy areas have been identified to guide the Working Group's deliberations and frame its recommendations; these areas include:

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.

Subgroups were formed around each of these policy areas. The subgroups have begun drafting policy recommendations and will finalize their work in advance of the May 27, 2010 meeting of the Working Group. At that meeting, the full Working Group is expected to come to general agreement on priority policy recommendations that will be advanced as part of its final report.

OWEB staff provided a very well-received presentation about the SB 513 process to the Oregon Sustainability Board at their March 26, 2010 meeting. Staff will also give a presentation about the SB 513 process to a joint meeting of the Senate Environment and Natural Resources and House Environment and Water Committees on May 25, 2010.

Following authorization from the Board at the March meeting, staff submitted a legislative concept placeholder to the Department of Administrative Services on behalf of the Working Group to preserve this as a possible option by which policy recommendations from the SB 513 process could be advanced. OWEB will learn by May 28 if the proposed concept is approved. Staff will update the Board on the status of the placeholder concept at the June meeting.

IV. Other Ecosystem Services Markets Initiatives – 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 and The Freshwater Trust 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. OWEB's role is to only pay for completed projects that meet agreed upon ecological and fiscal accountability criteria at a defined future point in time. The pilot project will "test drive" the potential for ecosystem services markets to attract private funding for restoration. If successful, the approach would stimulate private investment in restoration and conservation and ensure that restoration outcomes emerging from projects can be quantified. This pilot effort is proposed to reduce risk and help establish the market.

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 proposed pilot project connects well with the Willamette SIP by aligning restoration projects developed under the pilot with the restoration priorities identified in the model watersheds. If markets develop, this alignment could supplant public restoration funding with private funding.

The Willamette Partnership and The Freshwater Trust 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, the Willamette Partnership, The Freshwater Trust, and OWEB submitted a CIG pre-proposal to USDA requesting funding to support implementation of the pilot project. The pre-proposal demonstrates an equivalent amount of non-federal matching funds, including OWEB's commitment, for planning and implementation of on-the-ground projects, ecosystem services protocol development, and verification of ecosystem services credits emerging from restoration projects. On May 10, 2010, NRCS requested a full application package for this project. Staff are working with the Willamette Partnership and The Freshwater Trust to develop the proposal materials, which are due on June 4, 2010.

V. Recommendation

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