



April 30, 2010

MEMORANDUM

TO: S.B. 513 Working Group Members

FROM: Debra Nudelman and Peter Harkema, Kearns & West

SUBJECT: S.B. 513 Working Group – April 21 Meeting Action Items

Thank you for your participation and efforts at the S.B. 513 Working Group meeting held April 21, 2010 at the Department of State Lands building in Salem, Oregon. This memo includes the upcoming meeting dates, agreed-upon action items, and flipchart notes.

Upcoming Meeting Dates	Who	Location
<ul style="list-style-type: none"> • May 27, 2010 • July 21, 2010 • September 2, 2010 • October 20, 2010 	Working Group	Aurora, OSU North Willamette Ext. Center Salem, Dept. of Forestry Salem, Dept. of Forestry Portland, TBD
<ul style="list-style-type: none"> • July 29, 2010 • September 2010 	Ad Hoc Group	Salem, State Lands Bldg. TBD

Action Items	Who	When
1. <u>Information follow up</u> <ul style="list-style-type: none"> • Develop and distribute action items and meeting summary 	OWEB/K&W	By cob, April 28
2. <u>Case Studies</u> <ul style="list-style-type: none"> • Revise case studies to be incorporated into the final report 	Sally/INR	Strive for in advance of May 27 meeting

Action Items	Who	When
3. <u>Recommendations</u> <ul style="list-style-type: none"> Develop a template/matrix for recommendation organization and distribute for review Conduct gaps analysis Further refine recommendations for full group consideration at May meeting Develop list of key topics and questions for group discussion at May meeting 	Project Team Project Team Subgroup members Project Team with Working Group members	By cob, April 30 By cob, May 7 By cob, May 18 By cob, May 20
4. <u>Methodologies</u> <ul style="list-style-type: none"> Define scope, identify existing methodologies, and identify desirable characteristics Narrow to six methodologies Articulate specific questions to aid in determining if methodologies meet criteria/have desirable characteristics Post methodologies to Ecosystem Commons website Group discussion on posted methodologies Compile summary of methodologies and discussion 	Subgroup IV with INR INR Subgroup IV with INR INR Working Group and others, as invited INR	By cob, April 28 By cob, April 28 By cob, May 5 By cob, May 5 May 5 – May 19 For May 27 meeting
5. <u>Subgroup Overview</u> <ul style="list-style-type: none"> Develop overview of subgroups, including requests to INR 	Project Team	For May 27 meeting

Meeting Documents
<p>The following documents were distributed at this meeting:</p> <ul style="list-style-type: none"> Proposed Agenda SB513 Working Group 4.20.10 Meeting Action Items Memo – SB 513 Working Group 3.25.10 Meeting Enrolled Senate Bill 513 Subgroup 1: Overarching Goals – draft recommendations Subgroup 2: Recommendations and Ratings Average Subgroup 3: Priorities Subgroup 4: Draft Recommendations <p><i>Copies of these documents can be obtained by contacting Kearns & West</i></p>

Flipchart Notes:

SB 513

- 2(a)
 - Subgroup I – tier 1, #1
- 2(b)
 - Subgroup I – tier 1, #2
 - Subgroup III – tier 1, #3 and #5
 - Subgroup IV – tier 1, #2
- 2(c)
 - Subgroup II – category 2 , #2 and #3
 - Subgroup IV – tier 1, #1
- 2(d)
 - Subgroup II – category 8 and category 9
 - Subgroup IV – tier 1, #1 and #2
- 2(e)
 - Subgroup II – category 1 through 9 (everything 1.0 – 1.2)
 - Subgroup III – tier 1, #1 through #8
- 2(f)
 - Subgroup II – category 5, #1
 - Subgroup II – category 7, #1
 - Subgroup III – tier 1, #3 and #4

Subgroup IV Process/Next Steps

- Define scope/context:
 - Identify methodologies that exist – week #1
 - Identify desirable characteristics – week #1
 - Narrow to six methods to compare – week #1
 - Articulate specific questions to be answered regarding if these methodologies meet criteria/have desirable characteristics – week #2
 - Commons dialogue (consider making password protected) – weeks #3 and #4
 - Compile summary – week #5

Meeting Summary

Working Group Members: Joe Zisa (for Paul Henson, US Fish and Wildlife Service [USFWS]), Brent Davies (Ecotrust), Catherine Macdonald (The Nature Conservancy), Kendra Smith (Bonneville Environmental Foundation), Ken Faulk (Oregon Small Woodlands Association), Meta Loftsgaarden (Natural Resources Conservation Service [NRCS]), Bob Deal, US Forest Service, Louise Solliday (OR Department of State Lands [DSL]), Ruben Ochoa (OR Water Resources Department), Gina LaRocco (for Sara Vickerman, Defenders of Wildlife), Damon Hess (Parametrix), Ranei Nomura (OR Department of Environmental Quality), Jim Cathcart (OR Department of Forestry [ODF]), Patty Snow (for Jon Germond, OR Department of Fish and Wildlife), Tom Byler (OR Watershed Enhancement Board [OWEB]), Ray Jaendl (OR Department of Agriculture), David Primozich (Willamette Partnership), Rick Glick (Davis Wright Tremaine), Katie Fast (Oregon Farm Bureau), Chris Jarmer (Oregon Forest Industries Council), Hal Gard (OR Dept. of Transportation), Mike Karnosh (for Mike Wilson, Grand Ronde Tribes).

Staff/Other Attendees: Renee Davis-Born (OWEB), Devin Judge-Lord (Willamette Partnership), David Wade, Sue Lurie (Institute for Natural Resources [INR]), Bobby Mauger (INR), Amanda Ettestad (NRCS), Dan Vizzini (City of Portland Environmental Services)

Facilitation Team: Debra Nudelman and Peter Harkema, Kearns & West

Deb Nudelman welcomed the group and reviewed the agenda. She explained that during today's discussion, the group would hear individual reports from each of the subgroups, and consider all Tier 1 policy recommendations together with the intent of aligning and integrating these. The goal of the meeting today was to begin identification of key recommendations from the Working Group. Deb then asked for comments about the meeting summary. No concerns were expressed. By way of follow-up to the 3/25/10 discussion about the Ad Hoc Group process, Renee Davis-Born described a proposal by the Project Team for interaction between the Ad Hoc and Working Groups. The Project Team would convene a separate, fourth meeting of the Ad Hoc Group in September and invite select Working Group members to participate in this discussion. The meeting would provide an opportunity for group members to provide a description of the process, share near-final report and recommendations, and discuss next steps in terms of outreach in advance of the 2011 Legislative session. Four to six Working Group members would be invited to attend, ensuring coverage of various stakeholder groups represented on the group (i.e., Federal and State agencies, business, NGO's) and subgroups. The Working Group agreed to this proposed approach. Staff will proceed with planning for the September Ad Hoc Group meeting.

Working Group members were invited to provide brief updates. David Primozych, on behalf of the Coordinating Team for the Counting on the Environment (COTE) process, shared preliminary information about funding discussions underway by that group. The discussion was initiated to ensure avoidance of net loss of resources in instances where public funding is used to support restoration. The Project Team invited an update from the COTE group because of the potentially complementary nature of this group's work to issues being discussed by the 513 Working Group. The COTE discussion focused on priorities related to public funding for use in restoration (e.g., OWEB, 319 funds) and shared some preliminary findings:

- The net benefit on conservation projects should be creditable
- Landowners should be able to sell credits related to permanence. For example, for an acquisition project, landowners should be allowed to sell the credit for the net benefit above the baseline ecosystem services credits quantified at the time of acquisition. For restoration projects, if an easement is put in place on the land following a restoration project supported with public funds, the net benefit following restoration should be available for sale by the landowner.
- A clear time distinction should be established that defines when a project's credit can go into the marketplace. This would allow restoration projects to achieve "free to grow" state.

After further discussion, the COTE group will identify a set of issues and recommendations based on their work and share this with the Working Group for consideration.

Ken Faulk let the group know about the upcoming capstone lecture and tour for the OSU's Starker Lecture Series, which is focused on ecosystem services this year. Information is available at <http://starkerlectures.forestry.oregonstate.edu/>. Tom Byler informed Working Group members that he has been asked to provide an update about the SB513 Working Group process to the joint House/Senate Environment Committee on May 25th. He noted that the presentation likely will have only a 15-minute slot on the agenda, but said that OWEB staff may ask a few Working Group members to attend and represent the group.

Tom Byler reported to the group about the update provided to the Sustainability Board about the 513 process by Tom, Sara Vickerman, and Renee on 3/26/10. He noted that the update was very well received by Board members and that they will be helpful to the Working Group and staff in navigating the outreach to decision-makers that will be necessary prior to and during the Legislative session. In July, staff will present preliminary recommendations from the Working Group to the Sustainability Board to obtain their feedback and keep them informed about the group's direction. The final report and recommendations will be advanced to the Sustainability Board for consideration and approval at their November meeting. A few Working Group members asked about the creation and authority of the Board. The Sustainability Board was created by statute and members are appointed by the Governor. They are charged with initiating sustainability projects, including but not limited to those related to natural resources. The Board has no rule-making authority and is staffed by the Oregon Department of Administrative Services.

Deb invited the subgroups to begin their reports out (refer to summaries provided by the subgroups for more detail). Cathy Macdonald said that Subgroup I (Overarching Goals) focused its discussion on two recommendations: developing policy goals for the marketplace and directing OWEB to fund an analysis of the commonalities, gaps and conflicts in key natural resource agency assessments and strategic plans with the intent of better aligning state agency priorities in a way that builds on existing processes. The subgroup invited input from Working Group members about a central "authority" that would promote the definition and integration of ecological goals and mitigation, restoration, and conservation priorities.

Louise Solliday (on behalf of Bobby Cochran) reported on work by Subgroup II (Agency Processes and Interactions). Their recommendations fall into nine categories: Improving agency interactions, Crediting environmental improvements in advance of impacts, Crediting preservation, Clarifying avoidance and minimization criteria, Policy gaps in wind and wave power development, Sale of credits from public lands, Purchase of credits by public agencies, Third-party verification, and Central credit registration. She noted that recommendations scoring between 1.0 and 1.2 were akin to Tier 1, but that the subgroup had additional work to do to filter and group the recommendations. The subgroup members noted that they may request assistance from INR in the form of informal analysis to inform their additional filtering of recommendations.

Further refining of recommendations by this and other groups would focus on such issues as unintended consequences, political feasibility, etc. In addition, Working Group members discussed the importance of considering their recommendations in light of the spectrum of Payments for Ecosystem Services and, more specifically, three particular components of this: 1) Incentives programs, 2) Voluntary markets, and 3) Regulatory markets.

Kendra Smith walked the group through Subgroup III (Financing)'s priorities. She noted five themes related to financing: 1) transparency in funding, 2) clarity around ownership of credits, 3) establish how to get a return on investment to support long-term stewardship, 4) grant / restoration funding streamlining across State agencies, and 5) backstop funding as insurance for the market. This subgroup will be working to further filter by tiers (e.g., fewer Tier 1 recommendations).

Damon Hess provided an update for Subgroup IV (Standards/Methodologies). They are advancing two Tier 1 recommendations: 1) Adopt a calculation method that quantifies ecosystem services that calculates in individual ecosystem services and as an overall ecosystem service and which does not include any policy considerations about who can buy or sell and what ratios need to be applied (this should be determined when the method evolves into a protocol) and 2) Apply the calculation method to an existing, non-controversial program that doesn't involve private enterprise trading in

order to provide examples of outcomes. Subgroup IV also is working with INR to assess limitations to the ability to bundle and stack credits.

The Working Group had a lengthy discussion about the approach proposed by Subgroup IV in exploring a “pure” accounting system. The intent is to assess what can be separated out by way of individual ecosystem services and how these could be rolled up into an overall ecosystem service. Evaluation of the potential for such an approach can inform decisions related to the feasibility of stacking and bundling credits. Several group members noted that the subgroup’s approach needs to take advantage of good work on accounting system development that has been completed previously. The group discussed how such an approach can be especially helpful for incentives program and voluntary markets in which integration of ecosystem services may be more desirable. Working Group members provided useful input about how to ensure the approach and evaluation process proposed by Subgroup IV is transparent, efficient, and results in useful products (see Subgroup IV Process/Next Steps for a description of the refined evaluation approach that reflects input from the group). Subgroup members also agreed to provide a more detailed overview of their proposed approach for consideration by the full Working Group.

The full Working Group then completed a process to review the charge to the group as laid out in Section 5(2) of SB513 and determine which recommendations interface with the different components of the charge to the group (see “SB513” Flip Chart notes above). Staff will create a matrix describing these connections between SB513 and the recommendations. Between the April and May meetings, subgroups will use this matrix to complete additional work:

- Connect individual recommendations to Section 3(1-6) of SB513 to determine which real-world issues each recommendation addresses,
- Assess the feasibility of each recommendation using filters such as unintended consequences, political feasibility, cost/benefit analysis, etc., and
- Use this information to further refine proposed recommendations into Tier 1, Tier 2, and bin list categories for advancement to the Working Group at the May meeting.

Upon receiving the completed matrices from each subgroup, the Project Team will conduct a gap analysis to determine if any holes remain in terms of the recommendations addressing Sections 3 and 5 of SB513. At the May meeting, the group will strive to come to general agreement about which subgroup recommendations would be adopted as part of a full package of recommendations from the Working Group.

Working Group members offered several key issues about which discussion by the full group will be important: differences between incentives programs, voluntary markets, and regulated markets and the requirements of each; the oversight entity for establishing statewide conservation and mitigation goals; and the role of government, including in stimulating demand and selling ecosystem services. The group began discussing the differences between incentives programs, voluntary markets, and regulated markets. They acknowledged that some sources of funding will need more certainty (e.g., regulated entities will bear less risk). Regulated entities want a ready pool of available credits, but credit providers (i.e., landowners) do not want an accounting and registration process that is overly burdensome. The group discussed the potential for building costs for accounting and registration into the transaction costs such that landowners and project developers can recoup their costs. They also discussed the need for aggregators or local project developers that can help providers navigate the programs that span the spectrum of payments for ecosystem services. Group members highlighted the need for pilots to demonstrate the utility of such approaches. Several members wondered if it is possible to begin creating the infrastructure for an integrated accounting system in the incentives or voluntary arena, and then transfer it to a regulated market where more requirements would then be overlaid because of the need for more certainty / less risk. This

approach would enable credit providers to learn the system and become more prepared and familiar with markets before operating in a more rigid regulatory market. The group raised the challenge of developing a marketplace in areas where demand currently isn't high (e.g., wetland mitigation in eastern Oregon) prior to a problem arising. Finally, they posed the question about how much should government address ecological needs through incentives programs as opposed through market based approaches (e.g., is one more successful than another to avoid loss of at-risk habitats to development?).