



## *Changing the Game: Transformative Strategies to Stop Forest Losses*

October 18-19, 2010

University of Washington Botanic Gardens, Seattle, Washington

### **MAJOR FINDINGS & PROPOSALS FOR 2011 LEGISLATIVE CONSIDERATION AND COLLECTIVE ACTION**

This Northwest Environmental Forum convened more than 60 natural resource managers and policymakers representing the interests of small forest landowners, non-profits, industry, tribes and local, state and federal governments. [See the agenda, handouts, presentations, streaming video and participant list at [www.nwenvironmentalforum.org](http://www.nwenvironmentalforum.org).] This Forum report summarizes the findings and makes recommendations for future action that we hope will be considered by the Washington State Legislature, the Commissioner of Public Lands and the Governor. In addition, these Forum recommendations call out for action by the participants in the Forum and their constituencies.

#### **Forum Focus – An Environmental Services Marketplace in Washington State**

This is the ninth Forum dedicated to working on issues relevant and critical to Washington State's working forests. Two 2009 Forums laid the foundation for the 2010 meeting, focusing on:

- Advancing Forest Restoration and Wildfire Threat Reduction in Eastern Washington, and
- Strategies for the 2010 Washington Legislature to address Environmental Services Markets

This 2010 Forum built on the realization that forest losses to non-forest uses cannot be stemmed by regulation alone, and an Environmental Services Marketplace could both enhance forest landowners' income and protect many diverse attributes of the forest, such as water, carbon, biodiversity, recreation and cultural and medicinal values that depend on sustainable forest management.

An Environmental Services Marketplace in Washington State can only be realized if we begin to conceptualize transformational strategies that build upon past research and discussions. To date, Forum research and proposals have stimulated marginal actions toward the development of a market.

The 2010 Legislature enacted Substitute House Bill 2541<sup>1</sup>, a very positive action addressing ecosystem services markets. Many of these 2010 Forum recommendations align with the HB 2541 legislative directions.

**Key Characteristics** of a functioning Environmental Services Marketplace must include:

- A commitment to a cohesive policy with clear regulatory standards, to protect forested watersheds across a landscape fragmented by diverse ownerships and jurisdictions;

- Willing buyers and willing sellers;
- Funds secured from several possible sources (e.g., governments, private foundations and corporations;)
- Administrative structures to allocate the funds, monitor results and maintain a registry.

*Many details* accompany establishment of an Environmental Services Marketplace. These include:

- Accepting that payments for environmental services will not supplant the growing and harvesting of forest products as the primary use of these lands. This requires managing, harvesting, transporting and processing at the scale and locations required to keep forest land use viable
- Understanding that market trading of development rights and environmental services may raise environmental justice considerations that must be addressed
- Addressing the likelihood of multiple credit markets and bundling of environmental services
- Acknowledging that most landowners do not favor perpetual contract lengths
- Accepting that different landowners have differing objectives and attitudes towards selling environmental services, and payments will not entice all landowners to keep their land in forestry
- Recognizing that government policies and programs are critical to create a demand for many environmental services (e.g., in the Clean Water Act)
- Coordinating across governments is important; e.g., metrics, guidelines and registry standards by USDA and others for the Chesapeake Bay may provide useful scenarios for the Puget Sound region
- Defining how to address the additionality of a forest practice for an environmental benefit, if the existing baseline is already set at a high mark, and how to gain a benefit from such a standard
- Raising funds at the state level and applying them at the local level to provide an equitable system where, for example, a purchase or transfer of development rights would be allowed between separated land areas.
- Engaging stakeholders in local environmental services initiatives (e.g., districts) is essential, to maintain a coherence of purpose and respect for the uniqueness of resources, places and expertise
- Resolving and removing regulatory inconsistencies to help unify market acceptance
- Addressing terminology and messaging will be a major shared responsibility, to demonstrate the relationships of sustainable and un-fragmented forests to ensuring sustainable environmental services

To frame these complex questions and details to the Forum, we invited presenters from the USDA Office of Environmental Markets, Forest Trends and the Willamette Initiative to respectively, provide the state of national, regional and Pacific Northwest innovations toward the establishment of Environmental Markets. Conservation leaders explained recent successes and capital financing issues, followed by forest landholding interests, who outlined the diversity of financial objectives that characterize forestry today. These discussions set the stage for the group dialogue over the two days.

## **Transformative Strategy 1: Revenue from environmental services will provide an income stream from forests, offset land development values and advance environmental protections**

Working forest ownership is often socially and culturally-determined. One way to express this is: ***Satisfaction = Well being/Cost***,<sup>ii</sup> where satisfaction represents the willingness of forest land owners to maintain their land as forest. Well being measures income generated from forestry, but also a diversity of motivations and values, particularly among small forest land owners, who collectively hold more than half of Washington's private forests. Cost reflects risk and uncertainty, as well as the financial outlays associated with management.

### **Action - Water quality banking and mitigation payments would protect forest watersheds and the Puget Sound**

In the Pacific Northwest, there is increasing attention and funding directed towards Puget Sound restoration and water quality improvements. More attention should be focused on funding watershed projects targeted towards working forests. Water quality mitigation projects hold great promise for funding forest environmental services credits. Carbon banking, however, should not be abandoned. The Forum proposes that some potential mitigation and water quality-focused restoration funds might be redirected to working forest land. We have included carbon banking incentives here as well.

- Conservation Reserve Enhancement Program (CREP)
- Department of Defense mitigation funds
- Washington State Department of Transportation (WSDOT) mitigation banking
- Watershed Resource Inventory Area (WRIA) payments
- Engaging large corporations or business to buy carbon or water quality credits
- Voluntary carbon offset payments

### **Transformative Strategy 2: A Conservation Easement Fund and a Development Rights Market will help stem forest conversion and fragmentation**

#### **Action - A Working Forest Conservation Easement Fund with a dedicated source of funding**

There is a clearly identified need for working forest conservation easements and funds to support them. Payments need to be developed that will keep land in forestry and incentivize it as the preferred land use. Developing a Working Forest Conservation Easement Fund, as well as fully funding the existing Forest Riparian Easement Program (FREP) and Family Forest Fish Passage Program (FFFPP) will help offset rising real estate values and encourage forest management while still providing an economic incentive for forest landowners to manage for multiple objectives, including timber and other environmental benefits.

#### **Action - A Development Rights Market to help landowners gain from high real estate values in an orderly way**

Fragmented forests diminish the ecological benefits that forests provide in the aggregate, and add development pressure upon adjacent forests. A development rights market is essential for addressing land

conversion and the subdivision and development of the forest land base. The Puget Sound Partnership is developing a watershed-based water rights trading mechanism. The Forum agrees that a development rights market can also work for forest lands. This development rights market would not be restricted to regional areas and would be a commodity market set up around a regulatory threshold that would quantify a suite of environmental services and help to stimulate demand. Removal of development rights in order to promote continued forest management should be accompanied by a set of environmental services from the forest that can be compensated in the marketplace.

Transfers of Development Rights (TDRs) are an important element in the retention of working forestlands. The Forum supports legislation such as SB 6602, which will enable cities to have access to infrastructure money, with a TDR program, and enable local jurisdictions to borrow against expected tax revenues that come from development.

## **Tactical Issues: Coordination and collaboration are essential**

### **Action - Coordinate to compete effectively for existing grant funds**

To compete more effectively and efficiently for available federal grant programs, the State should target funding sources that are directed at land use conservation, including agriculture and forestry. These funds sources include:

- Land and Water Conservation Fund (LWCF),
- Forest Legacy funds,
- Endangered Species Act Sec. 6 funds,
- Environmental Quality Incentives Program (EQIP) funds,
- Conservation Reserve Enhancement Program (CREP) funds.

Competing more effectively requires collaborating with existing stakeholders, including organizations involved in land management, agriculture and salmon recovery. The 2010 Forum identified several other private and public funds that might be utilized:

- Puget Sound Partnership or other watershed-based funds, including funds administered through the Department of Ecology and the EPA.
- Conventional bond financing for watershed projects (2013 ballot measure?)
- Provide new authority, as needed, to existing water-oriented Local Improvement Districts (Utilities) to carry out watershed projects
- State Clean Water Revolving Fund from Federal Clean Water Act (Department of Health)
- Expand the purposes of existing capital grant programs to allow expenditures for forested upper watershed projects.
- Authorize transferrable state tax credits for private land watershed protection, such as donation of a conservation easement.
- Voluntary mitigation payments for environmental services
- A commission for expanding wood products market values

The 2008 Forum <sup>iii</sup> illustrated that over \$26 million in annual cost-sharing monies was distributed within the state. The 2008 Forum report also identified several other states' initiatives for working forests.

### **Action - Employ an Environmental Services Coordinator**

Several 2010 Forum participants propose to assemble scarce funds to employ a full-time neutral policy entrepreneur and facilitator to examine funding opportunities and build networks among stakeholders. The person might be housed in any of several organizations. This Environmental Services Coordinator might help assist a "gatekeeper" for a funding source. This position would help coordinate the discussions about an environmental services marketplace with Forum participants and other leaders in industry, local, state and federal government, tribes, non-governmental entities, landowners and policymakers.

### **Action - A collaborative communication strategy is essential**

If the State is to support a comprehensive means to fund a market for increasing the environmental services of forest management in the State of Washington, a public campaign will need to explain to the public the risks associated with losing our forests and the ecological benefits these forests provide, in addition to producing wood products. There is a great need to build on collaborative efforts, such as those of the Northeast Washington Forestry Coalition and the Tapash collaborative, to reduce doubt and confusion surrounding facts and science, such that the public is able to comprehend and accept complex policy issues. The Forum has many participants who could collaborate in such an effort.

- Non-governmental organizations
- State and Federal agencies (e.g., Washington DNR, USDA Forest Service)
- WFPA and WFFA
- Washington Conservation Caucus
- Washington Forest Practices Board

### **What You Can Look Forward To**

- Further engagement in the 2011-2013 Legislative processes
- An mid-2011 Forum to address details of these recommendations, followed by a Fall 2011 Forum
- Forum participants working with the Washington State Department of Natural Resources in interpreting and responding to HB 2541 for the 2012 Legislative session
- Forum coalitions presenting these findings and recommendations
- We welcome suggestions for future Forums.

**Questions or Comments** Please contact Northwest Environmental Forum Leader Brian Boyle at (206) 616-8640 or [bboyle@u.washington.edu](mailto:bboyle@u.washington.edu).

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<sup>i</sup> <http://apps.leg.wa.gov/documents/billdocs/2009-10/Pdf/Bills/Session%20Law%202010/2541-S.SL.pdf>

<sup>ii</sup> Dr. Gary Morishima, Quinault Nation; Forum synthesis comments, October 18, 2010

<sup>iii</sup> Northwest Environmental Forum "Retaining Working Forest Land and Protecting Biodiversity", October 29-31, 2008