Individual State Agency Fiscal Note

Bill Number: 1789 HB	Title: Ecosystem services	Agency: 490-Department of Natural Resources

Part I: Estimates

☒ **No Fiscal Impact**

Estimated Cash Receipts to:

NONE

Estimated Operating Expenditures from:

NONE

Estimated Capital Budget Impact:

NONE

The cash receipts and expenditure estimates on this page represent the most likely fiscal impact. Factors impacting the precision of these estimates, and alternate ranges (if appropriate), are explained in Part II.

Check applicable boxes and follow corresponding instructions:

☐ If fiscal impact is greater than $50,000 per fiscal year in the current biennium or in subsequent biennia, complete entire fiscal note form Parts I-V.

☐ If fiscal impact is less than $50,000 per fiscal year in the current biennium or in subsequent biennia, complete this page only (Part I).

☐ Capital budget impact, complete Part IV.

☐ Requires new rule making, complete Part V.

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Part II: Narrative Explanation

II. A - Brief Description Of What The Measure Does That Has Fiscal Impact

Significant provisions of the bill and any related workload or policy assumptions that have revenue or expenditure impact on the responding agency by section number.

Section 3 authorizes the Department of Natural Resources to enter into contracts for payment for ecosystem services projects on terms and conditions acceptable to the department for the purpose of generating revenue by providing ecosystem services that directly or indirectly benefit humans or enhance social welfare.

II. B - Cash receipts Impact

Cash receipts impact of the legislation on the responding agency with the cash receipts provisions identified by section number and when appropriate, the detail of the revenue sources. Description of the factual basis of the assumptions and the method by which the cash receipts impact is derived. Explanation of how workload assumptions translate into estimates. Distinguished between one time and ongoing functions.

Cash receipts are indeterminate. The annual rate of revenue generation will be driven by the number of projects, the types of projects, the size of those projects, and frequency with which we develop new projects. We know that private forest managers that sell carbon credits on both the regulatory and voluntary markets have generated millions of dollars per year through those projects in addition to revenue generated from more traditional business lines. We anticipate generating revenue in a similar fashion as those projects due. DNR could also reap additional long-term revenue from increased volume due to improved forest management practices (the cost of which would be offset by revenue from carbon projects), unproductive lands being made productive again through inputs (e.g. seedlings) paid for by revenue from the sale of credits, or other yet unforeseen co-beneficial conditions introduced by ecosystem services projects.

Numbers vary in the voluntary carbon market range from $2 per carbon credit in an emerging market to upwards of $29 per carbon credit in an established market (California). A current 10,000 acre carbon project on private industrial forestland in southwest Washington is earning approximately $128,000 per year at the $2 rate. After broker’s fees the actual net earnings to the landowner was approximately $103,000. At the high-end ($29), this same project could potentially earn $1.63 million per year for the landowner. If this were a DNR project, the department would retain 25-31 percent and the remaining would be distributed to the trust beneficiaries.

II. C - Expenditures

Agency expenditures necessary to implement this legislation (or savings resulting from this legislation), with the provisions of the legislation that result in the expenditures (or savings) identified by section number. Description of the factual basis of the assumptions and the method by which the expenditure impact is derived. Explanation of how workload assumptions translate into cost estimates. Distinguished between one time and ongoing functions.

Work will be conducted within existing staff capacity.

Part III: Expenditure Detail

III. A - Operating Budget Expenditures

NONE

III. B - Expenditures by Object Or Purpose

NONE

III. C - Operating FTE Detail: *FTEs listed by classification and corresponding annual compensation. Totals agree with total FTEs in Part I and Part IIIA.*

NONE

III. D - Expenditures By Program (optional)

NONE

Part IV: Capital Budget Impact

IV. A - Capital Budget Expenditures

NONE

IV. B - Expenditures by Object Or Purpose

NONE

IV. C - Capital Budget Breakout

Acquisition and construction costs not reflected elsewhere on the fiscal note and description of potential financing methods.

NONE

IV. D - Capital FTE Detail: *FTEs listed by classification and corresponding annual compensation. Totals agree with total FTEs in Part IVB.*

NONE

This bill may help to offset capital expenditures when it comes to acquiring lands at risk of conversion because those lands can be entered into carbon markets that will generate revenue. At this time the impact is indeterminate.

Part V: New Rule Making Required

Provisions of the bill that require the agency to adopt new administrative rules or repeal/revise existing rules.