

Individual State Agency Fiscal Note

Bill Number: 1789 E S HB AM; ENET S2584.3	Title: Ecosystem services	Agency: 490-Department of Natural Resources
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Part I: Estimates

No Fiscal Impact

Estimated Cash Receipts to:

Non-zero but indeterminate cost and/or savings. Please see discussion.

Estimated Operating Expenditures from:

	FY 2024	FY 2025	2023-25	2025-27	2027-29
FTE Staff Years	3.9	3.9	3.9	1.3	1.3
Account					
General Fund-State 001-1	627,900	677,900	1,305,800	309,000	309,000
Total \$	627,900	677,900	1,305,800	309,000	309,000

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.

Changes from ESHB 1789 to S2584.3:

Section 2 (1) expands the limit of project types that the department could enter into to afforestation, reforestation, biochar, urban forestry, and aquatics projects. This increases potential revenue but revenue impacts remain indeterminate.

Section 2 (10) is added authorizing the board to develop an ecosystem service credit and ecosystem services policy and requiring the board to make recommendations to the legislature by June 30, 2025 on the types of ecosystem service projects the legislature may consider adding to those authorized in Section 2 (1). In development of the recommendation the board must solicit feedback from the public and stakeholders reflecting diverse interests and expertise. The recommendations must also include the manner in which the department will offer early, meaningful, and fully informed tribal consultation for ecosystem service credits and ecosystem service projects. Department of Natural Resources will provide research and coordinate these efforts in support of the board.

NEW DESCRIPTION:

Section 2 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.

Section 2 requires the board of natural resources to make recommendations to the legislature by June 30, 2025 on the types of ecosystem service projects the legislature may consider adding to those authorized in section 2 (1). In development of the recommendation the board must solicit feedback from the public and stakeholders reflecting diverse interests and expertise. The recommendations must also include the manner in which the department will offer early, meaningful, and fully informed tribal consultation for ecosystem service credits and ecosystem service projects.

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.

The annual rate of revenue generation will be driven by the number of projects, the types of projects, the size of those projects, the rates as they develop in Washington State, and frequency with which we develop new projects. Due to the large number of variables, revenue has the potential to reach between \$100,000 to \$10,000,000 per year in the future. 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.

Numbers vary in the voluntary carbon market. In the southeast United States, the GreenTrees afforestation and reforestation for carbon removal program generated an average of \$60.91 per acre in revenue for the landowner. This project covers over 134,000 acres in Mississippi, Arkansas, and Louisiana and has a revenue range of \$13.47 to \$199.75 per acre after broker fees. Depending on the site conditions and calculated carbon reduced through reforestation, a comparable 10,000 acre project could potentially earn \$134,700 to \$2.0 million per year, using the same revenue range per acre. If this were a DNR project, the department would retain 25%-31% and the remaining would be distributed to the trust beneficiaries. DNR would then use revenue to increase amount of trees replanted and generate revenue from these stands with future harvests that would have higher volume.

Based on studies done by PNW Blue Carbon (SCOPING ASSESSMENT FOR PACIFIC NORTHWEST BLUE CARBON FINANCE PROJECTS (pnwbluecarbon.org)), "potential revenues over 40 years for a project are estimated at \$0.0-\$0.5 million for a 100-ha tidal wetland restoration project depending on baseline soil carbon accumulation and project

soil CH4 emission rates.” Assuming a project size of 100-acres, revenue generated over 40 years could be estimated at up to \$200,000. Due to the high cost of completing these projects, potential revenue may not be sufficient to cover costs unless project sizes are increased to better account for baseline costs. Larger projects with lower baseline soil carbon and higher carbon prices could generate carbon revenues that exceed carbon costs and provide additional net funding for the project. The carbon market on aquatic lands is not well developed in the Puget Sound region, and DNR anticipates a better return on the cost of doing restoration work in the future. Additionally, just being able to cover the cost of restoration will help ensure the work can be accomplished without seeking new funding sources.

Other benefits to blue carbon projects include bolstering ecosystem services in sensitive habitats. The revenue generation of these services are incalculable, but would at minimum, reduce costs associated with climate change.

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.

In support of the board of natural resources requirements in Section 2 (10) DNR would require 1.0 FTE WMS 2 Policy Advisor in fiscal years 2024 and 2025 to assist in drafting an ecosystem service credit and ecosystem services policy. Additionally, they will gather research to make recommendations to the legislature by June 30, 2025 on the types of ecosystem service projects the legislature may consider adding to those authorized in Section 2 (1). They will also assist in soliciting feedback from the public and stakeholders reflecting diverse interests and expertise, and providing the manner in which the department will offer early, meaningful, and fully informed tribal consultation for ecosystem service credits and ecosystem service projects.

In support of these efforts a contract will be made for facilitating the solicitation of public feedback for \$50,000 per year in fiscal years 2024 and 2025. A contract for economic analysis and viability in Washington State’s markets to recommend types of ecosystem service projects the legislature may consider adding to those authorized in Section 2 (1) will also be required totaling \$50,000 in fiscal year 2024 and \$100,000 in fiscal year 2025.

Section 2 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.

To expedite the implementation of Section 2 DNR would require 1.0 FTE Management Analyst 4 in fiscal years 2024 and 2025 to project manage existing staff in the implementation of authorized projects under Section 2 (1). 1.0 FTE of contract Specialist 3 in fiscal year 2024 and ongoing would be added to increase capacity for facilitating these contracts.

Similar to other business lines currently active on State Trust Lands (e.g. timber sales), management fees would be collected as a portion of the revenues generated from the sales of ecosystem services as described. Core work funded under our administration authority is to develop contracts for the sale of valuable materials, leases, and other revenue generating activities on state trust lands. This current expertise and capacity will also be used to develop contracts for ecosystem services with no further change to required authority levels.

Contracts for ecosystem services often utilize brokers who develop the contracts and bring the credits to market in exchange for a portion of the revenue generated. There is no up-front investment required of the department. These developers bring their expertise in the ecosystem services markets and DNR brings its vast expertise in land management, contract negotiations, and scientific consultation.

Total Costs -

Policy Advisor – 1.0 FTE - \$311,200 (one-time)

Management Analyst 4 – 1.0 FTE - \$223,500 (one-time)

Contracts Specialist 3 – 1.0 FTE - \$219,100

Contracted Services - \$250,000 (one-time)
 Average Goods & Services + Travel - \$17,600 in 2023-25 (\$5,100 in 2025-27 ongoing)
 Total in 2023-25 - \$1,021,400
 Total costs in 2025-27 - \$224,200 (ongoing)

Goods and services and travel are calculated on actual program averages per person.

Administrative costs are calculated at 31% of staff salary and benefits and staff-related goods and services and travel. For fiscal note purposes, this cost is represented as a Fiscal Analyst 2 position (.93 FTE in FY 24 & FY 25, .31 FTE in FY 26 (ongoing)).

Current expertise we will be distributing these efforts funded through trust management accounts:

- At least 10 Program Managers analyze business decisions for Special Use Leasing, Rights of Way, Conservation Land Management, Clean Energy, Agriculture, Scientific Consultation, Forest Health, Timber Sales, Silviculture, and Aquatics.
- 2 Forest Scientists – analyze carbon and other ecosystem benefits.
- 1 Product Sales & Leasing Division Manager – negotiates complex lease and business agreements.
- 1 Chief Appraiser – appraises and negotiates complex land acquisitions, lease rental rates, and provides other consultative services.
- 2 Economic & Forest Estate Modelers – develop complex financial and growth and yield models to set the department’s decadal Sustainable Harvest levels.
- 1 State Uplands Budget Manager – analyze revenues and expenditures to funds for managing impacts to operating budget.
- 1 Assistant Deputy Supervisor – market research, preliminary research of private industry standards for carbon leasing, etc.
- 1 State Uplands Strategic Advisor – market research, preliminary research of private industry standards for carbon leasing, etc.

Current expertise funded through agency indirect:

- 1 Budget and Business Manager
- 1 Deputy Policy Director
- 1 Agency Economist

Part III: Expenditure Detail

III. A - Operating Budget Expenditures

Account	Account Title	Type	FY 2024	FY 2025	2023-25	2025-27	2027-29
001-1	General Fund	State	627,900	677,900	1,305,800	309,000	309,000
Total \$			627,900	677,900	1,305,800	309,000	309,000

III. B - Expenditures by Object Or Purpose

	FY 2024	FY 2025	2023-25	2025-27	2027-29
FTE Staff Years	3.9	3.9	3.9	1.3	1.3
A-Salaries and Wages	283,900	283,900	567,800	162,000	162,000
B-Employee Benefits	93,100	93,100	186,200	57,400	57,400
C-Professional Service Contracts	100,000	150,000	250,000		
E-Goods and Other Services	28,200	28,200	56,400	18,200	18,200
G-Travel	3,100	3,100	6,200	1,800	1,800
J-Capital Outlays					
M-Inter Agency/Fund Transfers					
N-Grants, Benefits & Client Services					
P-Debt Service					
S-Interagency Reimbursements					
T-Intra-Agency Reimbursements	119,600	119,600	239,200	69,600	69,600
9-					
Total \$	627,900	677,900	1,305,800	309,000	309,000

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

Job Classification	Salary	FY 2024	FY 2025	2023-25	2025-27	2027-29
Contracts Specialist 3	80,952	1.0	1.0	1.0	1.0	1.0
Fiscal Analyst 2	55,872	0.9	0.9	0.9	0.3	0.3
Management Analyst 4	82,896	1.0	1.0	1.0		
WMS Band 2 - Policy Advisor	120,000	1.0	1.0	1.0		
Total FTEs		3.9	3.9	3.9	1.3	1.3

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

Part V: New Rule Making Required

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