

# HOUSE BILL REPORT

## HB 2454

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**As Reported by House Committee On:**  
Agriculture & Natural Resources

**Title:** An act relating to developing a water quality trading program in Washington.

**Brief Description:** Developing a water quality trading program in Washington.

**Sponsors:** Representatives Blake, Buys, Lytton and Smith.

**Brief History:**

**Committee Activity:**

Agriculture & Natural Resources: 1/30/14, 2/4/14 [DPS].

**Brief Summary of Substitute Bill**

- Directs the State Conservation Commission, in partnership with the Department of Ecology, to further explore where the concept of regulatory compliance through water quality trading can be tested.

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### HOUSE COMMITTEE ON AGRICULTURE & NATURAL RESOURCES

**Majority Report:** The substitute bill be substituted therefor and the substitute bill do pass. Signed by 10 members: Representatives Blake, Chair; Lytton, Vice Chair; Buys, Ranking Minority Member; MacEwen, Assistant Ranking Minority Member; Dunshee, Haigh, Hurst, Pettigrew, Stanford and Van De Wege.

**Minority Report:** Without recommendation. Signed by 5 members: Representatives Chandler, Kretz, Orcutt, Schmick and Warnick.

**Staff:** Jason Callahan (786-7117).

**Background:**

Generally speaking, a conservation market is a program that facilitates payments to landowners for environmental improvements. The theory behind conservation markets is that regulatory requirements can be met by paying landowners for conservation projects.

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*This analysis was prepared by non-partisan legislative staff for the use of legislative members in their deliberations. This analysis is not a part of the legislation nor does it constitute a statement of legislative intent.*

Conservation markets are also known as ecosystem service markets, conservation and mitigation banks, and water quality trading programs.

In 2008 the State Conservation Commission (Commission) was directed by the Legislature to conduct a study on the feasibility and desirability of establishing farm and forestry-based conservation markets in Washington. To carry out this study, the Commission was given the authority to enter into a contract with an entity that has knowledge and experience in agriculture and of conservation markets. The study required the Commission to:

- evaluate agricultural conservation markets operating in other states;
- collaborate with farm and small forest landowners' organizations and agricultural special purpose districts to determine interest in and to assess market-ready products;
- identify opportunities for conservation markets that could provide ongoing revenue to farm and small forestry operations to improve their long-term viability; and
- work with public agencies to determine potential demand and their willingness to use these products.

The Commission was to present its findings and recommendations by December 1, 2008. If the study determined that conservation markets were feasible and desirable, the Commission was to conduct two demonstration projects. In its official report, the Commission found that pilot projects were warranted and that the Commission, together with the Department of Natural Resources, should lead efforts to identify and pursue projects in farm and forest communities. The Commission recommended that particular attention should be focused on pilots that could demonstrate the potential of greenhouse gas and water quality markets. The pilot projects were not completed due to budget concerns.

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### **Summary of Substitute Bill:**

The Commission, in partnership with the Department of Ecology (Department), is directed to build upon the conservation market report it delivered to the Legislature in 2009 and further explore whether there are a sufficient number of potential buyers and sellers for a water quality trading program to be successful in watersheds where total maximum daily loads have been established. The assessment must be conducted in coordination with other interested entities.

The final report must be delivered to the Legislature by October 31, 2017. Prior to issuing the report, the Commission must ensure that the Department concurs with its determinations.

### **Substitute Bill Compared to Original Bill:**

The original bill directed the Commission, in partnership with the Department, to develop at least three site-specific proposals for actual sites where the concept of regulatory compliance through water quality trading can be tested.

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**Appropriation:** None.

**Fiscal Note:** Available.

**Effective Date of Substitute Bill:** The bill takes effect 90 days after adjournment of the session in which the bill is passed.

**Staff Summary of Public Testimony:**

(In support) The basic goal is to bridge the gap between urban and rural communities when it comes to water quality. Shared sacrifice is an American value, so animosity is created when farming areas see large land-use buffers imposed on private property while urban areas are allowed to build right up to the water's edge. The animosity can be defeated if the rural landowners are compensated for their efforts. It is often said, if farmers are paid to grow fish and wildlife habitat, they will overproduce the stuff. Solving urban water quality problems by paying farmers to grow habitat is a win-win situation. Water quality trading programs are operational in at least 18 states.

Many natural resource issues can be solved with market-based solutions such as water pollution trading programs. The Commission completed a report along these lines, but no funding was made available to take the report findings to the pilot project stage. At the time of the report, cities showed interest in participating. However, there were questions as well about how such a program would operate.

Phosphorus pollution is one wise target. Cities have to spend large sums of money to remove small amounts of phosphorous from their soil, while instead, they could pay dairy farmers far less money to remove far more phosphorus from the environment. America will soon be dependent on foreign phosphorus for the nation's fertilizer, yet it can be effectively mined out of the soil. There only needs to be a market to get the activity started.

There is a lot of work that has to be done to get from where we are to a having an effective water pollution trading program up and running. This bill is merely a first step in that process.

(With concerns) There are over 40,000 farms in Washington, but only 12 are permitted for lawful pollution discharge. That means many other farms are illegally functioning as a non-point source of pollution. Trading systems that pay these farms to do what the law already requires them to do is not beneficial and actually reduces water quality.

The Department has explored water pollution trading program in the past and the big issue that emerged was a lack of interested buyers for what the seller had to offer. Many details have to be worked out.

(Opposed) None.

**Persons Testifying:** (In support) Representative Buys, prime sponsor; Jim Jesernig, Washington Association of Wheat Growers, Washington Potato Commission, and Washington Association of Conservation Districts; Ron Shultz, Washington State Conservation Commission; Jay Gordon, Dairy Farmers of Washington; and Jack Field, Washington Cattlemen's Association.

(With concerns) Bruce Wishart, Puget Sound Keeper, Sierra Club, Center for Environmental Law and Policy; and Don Seeberger, Department of Ecology.

**Persons Signed In To Testify But Not Testifying:** None.