

Puget Sound Partnership
Ecosystem Recovery Board Management Brief
February 27th, 2020 – Topic 4

TOPIC:

Mobilizing Funding Update

MEMO STAFF CONTACT:

Larry Epstein, Deputy Director, larry.epstein@psp.wa.gov, (360) 480-0487

Ahren Stroming, Special Projects Assistant, ahren.stroming@psp.wa.gov, (360) 918-1337

PRESENTERS:

Larry Epstein, Deputy Director, Puget Sound Partnership

Bill Dewey, Director of Public Affairs, Taylor Shellfish

TYPE OF PRESENTATION:

- Oral presentation for a decision
- Oral presentation for discussion
- Oral presentation for information only
- Written briefing only
- Other: _____

ISSUE/QUESTION:

Inadequate funding is a primary obstacle to achieving the recovery and resilience of Puget Sound. In this session, we will present an update on the development of a portfolio of strategies meant to increase the availability of funds and improve the effectiveness of investments. We will be seeking feedback and guidance from the ECB on the prioritization and next steps for these strategies.

ALTERNATIVES:

No decision is requested

BACKGROUND AND KEY CONTEXT:

The Puget Sound Partnership leads the region's collective effort to restore and protect Puget Sound by acting as a backbone organization for the recovery community. The Partnership brings together hundreds of partners to mobilize action around a common agenda. As the backbone organization, we are committed to increasing the availability and effectiveness of financial resources for partner actions which lead to the protection, recovery, and resilience of Puget Sound.

The Partnership's strategies to mobilize funding cut across the agency's programs. These efforts include pursuing increases in federal and state appropriations, using an array of effectiveness and accountability tools to direct funding to improve the results of investments, supporting partners in their funding efforts, diversifying funding sources by developing new and innovative funding mechanisms, and strong and transparent fiscal management.

This discussion focuses specifically on one aspect of the Partnership's mobilizing funding initiative, the five recommendations which were identified in the *Alternative Funding Report*, August 2019 (Attachment 1).

- Creating and funding of a Puget Sound Recovery/Resilience Fund
- Applying performance measures to determine the return-on-investment from alternative investment options
- Developing and implementing an offset compliance marketplace
- Partnering with retailers to generate contributions through 'Orca Dollars'
- Strengthening the Partnership's effectiveness and accountability role

These recommendations include strategies for both **increasing the amount of funding** and **improving the effectiveness of investments**.

ANALYSIS:

The Partnership staff analyzed the five strategies from the Alternative Funding Report. This analysis identified strategies that are aligned with the Partnership's backbone role, and provide a potential for near-term funding benefits for the recovery community. These include:

- Developing and implementing an offset compliance marketplace - **Salish Sea Nearshore Marketplace**
- Applying performance measures to capture the return-on-investment from alternative investment options - **Water 100**
- Strengthening the Partnership's effectiveness and accountability role through an enhanced **accountability program**

While we develop these initiatives, the Partnership will also continue to scope opportunities through developing a corporate partnership strategy, and work with the management conference on a Puget Sound Recovery/Resilience Fund. For more details on the staff analysis of the five strategies, please see Mobilizing Funding SWOT Staff Analysis (Attachment 2).

FINANCIAL AND ADMINISTRATIVE IMPACTS:

Feedback from the ECB will help us make prioritization decisions, and continue determining next steps.

NEXT STEPS:

- Partnership staff will consider ECB feedback and discussion.
- Partnership staff will continue to identify opportunities to work with ECB members to successfully increase funding and improve the effectiveness of investments

ATTACHMENTS:

Attachment 1: Alternative Funding Report

Attachment 2: Mobilizing Funding SWOT Staff Analysis

Attachment 3: Mobilizing Funding SWOT Chart

MEMORANDUM

DATE	August 30, 2019
FROM	Eoin Doherty (Environmental Incentives); Susan O'Neil (Environmental Science Associates)
TO	Laura Blackmore, Larry Epstein (Puget Sound Partnership)
RE	Alternative Funding Strategies

Environmental Incentives and ESA have prepared this Alternative Funding Strategies Memo as a deliverable for contract #2018-30 to the Puget Sound Partnership as part of the Mobilizing Funding Initiative. This memo describes the alternative funding strategies that the Puget Sound Partnership (PSP) has selected for further exploration and potential implementation. The memo also describes the method used to identify the alternative funding strategies selected for analysis. The goal of this memo is to support the next steps of PSP's efforts to explore and implement alternative funding strategies by providing description, benefits, risk and limitations, and next steps for each of the selected strategies.

This memo contains the following sections:

- Overview of Alternative Funding Strategy Task
 - Context for Alternative Funding Strategies
- Methodology to Select Strategies to Further Explore
- Write-ups of Strategies Selected
- Next Steps for Selected Strategies

The Write-ups of Strategies Selected section of the memo was developed to be distributed to agency staff or external partners who may only be interested in the strategies, but this entire memo. The overall methodology and analysis conducted by the contract team in coordination with PSP leadership and staff during the course of the contract is provided in this memo and is intended for internal use by PSP staff only. Similarly, the five individual strategies may be referenced or distributed as standalone elements for future phases of the Mobilizing Funding Initiative.

Overview of Alternative Funding Strategy Task

The objective of this task, as defined in the scope of work, is to initiate development of alternative funding strategies that will accelerate Puget Sound recovery, and support or complement private philanthropy contributions to the Development Program. This task was not included in the original request for proposals; rather, our team proposed using a portion of the budget to explore a wide range of funding strategies. The goal of the new task was to identify strategies that may complement or be independent of corporate and foundation donations, generate meaningful funding for the Action Agenda, and have the potential to provide other benefits to PSP and Puget Sound recovery.

Our team employed a light-weight approach for this task in order to identify promising alternative funding strategies and provide information that will assist with further exploration and implementation of selected strategies within the available contract resources (Figure 1). The approach included the following steps:

Step 1. Explore a range of potential alternative funding strategies and define PSP’s objectives and decision drivers.

Step 2. Investigate the viability and evaluate alternative funding strategies based on PSP’s objectives and decision drivers.

Step 3. Identify the most attractive strategies with PSP leadership using results of the investigation and evaluation and PSP leadership’s unique understanding and perspective.

Final Deliverable: Write-up vision, benefits, and limitations & risks for the two or three most promising alternative funding strategies.

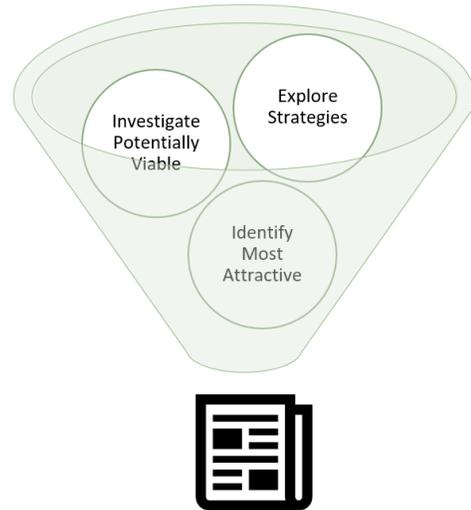


Figure 1. Approach to identify promising alternative funding strategies for PSP

The following sections describe each step, including the methods and results. To provide PSP with what it needs to further explore and implement the identified strategies, the final deliverable for this task includes a write-up of the most promising strategies.

Context for Alternative Funding Strategies

During our team’s first engagement with PSP, we discussed a broad spectrum of alternative funding strategies in order to gain initial feedback and identify PSP’s objectives and decision drivers (listed below in Step 1). To frame this initial engagement, our team presented an overview of alternative funding strategies, and how a range of strategies can be employed to increase both available funding and the outcomes generated by implementing Near-Term Actions (NTAs).

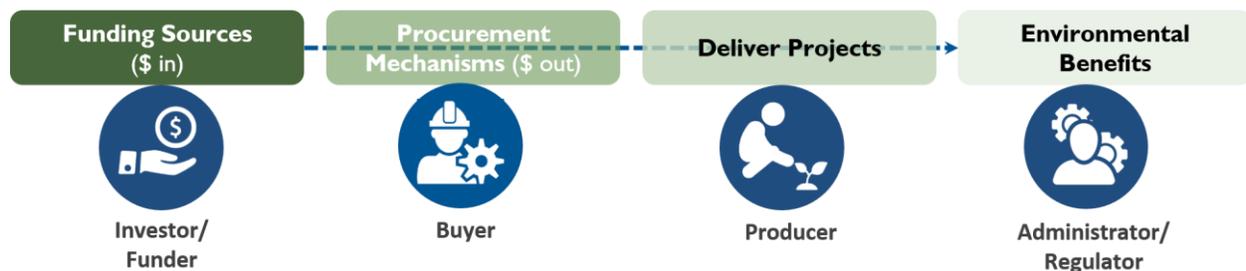


Figure 2. Key Elements of Conservation Program Implementation. The row of green ovals names the project implementation phases necessary to produce environment outcomes, and the row of blue circles identifies the primary participant at each step of the process.

The roles depicted in Figure 2 (third row of blue circles) include:

- **Investor/Funder** can be a traditional funder (e.g., federal government, foundation donor) or an investor (e.g., private investor) who provides upfront capital to implement a project and expects to be reimbursed or generate a profit based on the terms of an upfront contract or expected demand for the outcomes of their investment.

- **Buyer** can be non-profit organization or foundation and is typically a government agency (e.g., Washington Department of Ecology) that solicits projects using a public procurement process and defines the desired project outcomes.
- **Producer** can be a government agency, a non-profit organization, or private sector player that delivers at least one phase of a project.
- **Administrator/Regulator** is a party interested in understanding and tracking the environmental benefits generated.

Figure 3 below includes example strategies to increase funding or the effectiveness of funding invested within the key elements of project implementation. The specific strategies discussed during the initial engagement with PSP are provided below in Step 1B.

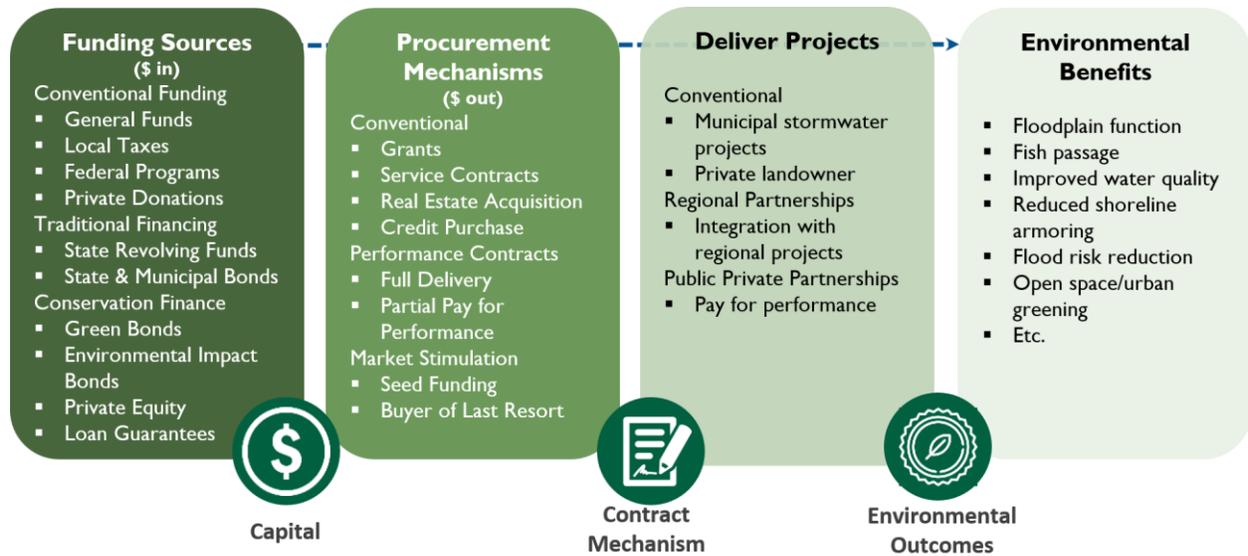


Figure 3. Example strategies/mechanisms at each phase of project implementation.

Methodology to Select Strategies to Explore Further

To select strategies to write-up and for PSP to further explore, our team implemented the following steps:

- Step 1: Explore a Range of Potential Strategies**
 - 1A:** Compile Comprehensive List of Potential Funding Strategies
 - 1B:** Define Objectives and Decision Drivers
- Step 2:** Evaluate Potential Alternative Funding Strategies
- Step 3:** Select the Most Promising Strategies

The methodology and results for each step are described below.

Step 1A: Compile Comprehensive List of Potential Funding Strategies

Our first step was to compile a comprehensive list of potential funding strategies to understand the world of possibilities that PSP may want to consider. Our team began with a portfolio of funding and partnering strategies developed by Environmental Incentives to assist other clients with similar efforts in the past (Figure 4). This example portfolio of strategies was presented to PSP staff during meeting on December 10, 2018 to provide a vision of the range of strategies we intended to explore.

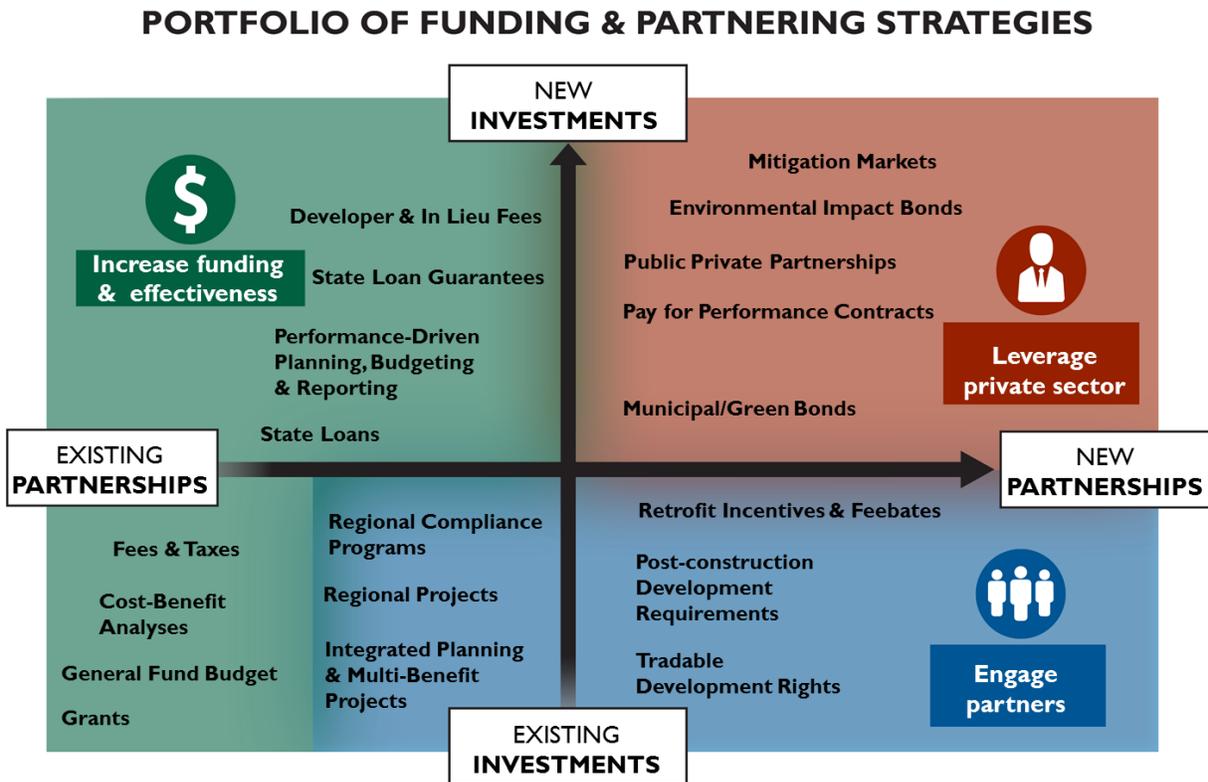


Figure 4. Example portfolio of funding and partnering strategies organized by type of investment and partnership.

Prior to the first focused engagement with PSP on alternative funding strategies, the project team reviewed materials for several past and ongoing funding efforts to: (1) develop the comprehensive list of alternative funding strategies, and (2) gain an understanding of which strategies have been previously been proposed or implemented in Puget Sound. The resources reviewed included:

- [Snohomish Basin Protection Plan.](#)
- [King County Land Conservation Initiative Report.](#)
- [Puget Sound Regional Council Open Space Conservation Plan.](#)
- [Funding Strategy for the Strategic Initiatives from the 2012-2013 Puget Sound Action Agenda.](#)
- [Funding for Salmon Recovery in Washington State.](#)
- Action Agenda: Financing Strategy (2008 report, not available online).

Our team also met with approximately two dozen governmental and non-profit stakeholders to better understand the alternative funding strategies that have been implemented or are currently under exploration in the Puget Sound.

In addition to developing a comprehensive list of alternative funding strategies for consideration, our team investigated the existing use of many of the potential alternative funding strategies in the Puget Sound as well as the legal viability of implementing many of the strategies. This goal of this research was to understand the strengths and weaknesses of these strategies to inform selection of strategies potentially useful for PSP.

Step 1B: Define Objectives and Decision Drivers

The next step was to define PSP’s objectives and decision drivers to guide our team’s evaluation and selection of alternative funding strategies to explore further. Our team met with more than a dozen PSP staff on February 6 to discuss the comprehensive list of alternative funding strategies identified in Step 1A and illustrated in Figure 5. During the discussion, PSP staff suggested additional alternative funding strategies for consideration (orange text in Figure 5).

The alternative funding strategies in Figure 5 are placed on a spectrum and grouped by potential categories for organizing and evaluating the strategies. It is important to note that several of the strategies encompass many specific strategies in order to limit the number of strategies discussed and eventually evaluated. For example, Mitigation/Offsite Compliance Market represents a range of potential environmental markets and mitigation approaches that PSP may be interested in improving or establishing to increase the conservation outcomes from existing and new mitigation mechanisms. If the high-level strategy is selected for further exploration, then a next step will be to evaluate and refine the scope of the high-level strategy.

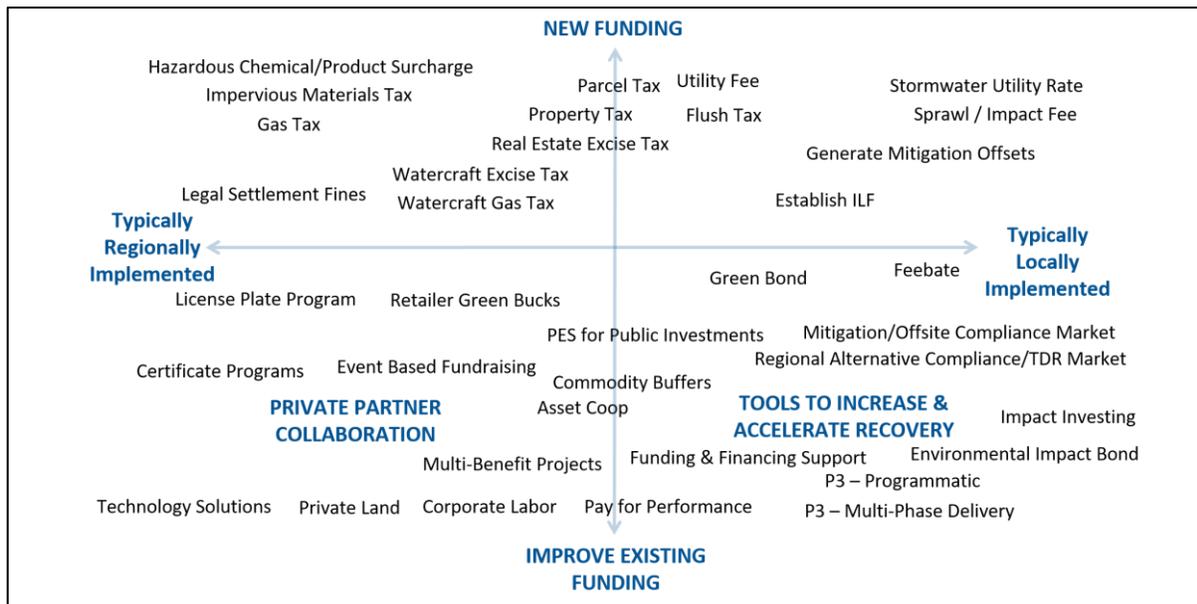


Figure 5. Alternative funding strategies compiled for PSP consideration, placed on spectrum of funding type (Y axis): new to existing funding, and implementer (X axis): regional to local.

The discussion focused on the important components and differences of the funding strategies to understand the root of PSP’s objectives and decision drivers, captured below. During the meeting, no strategies were explicitly chosen to be removed from consideration, although the perceived benefits and challenges of many were discussed, including the effort, role of PSP, and risk of establishing taxes. The objectives and decision drivers captured during the meeting were shared with PSP via a meeting summary and confirmed by PSP leadership. The objectives and decision drivers listed below are used in

the following steps to identify a shortlist of the most viable funding strategies. The objectives are listed in order of importance; the decision drivers are not ordered in any particular sequence.

Objectives for alternative funding strategies

- **Generate new sources of funding** in order to implement NTAs.
- **Develop corporate partnerships** that increase the funding and other resources invested in Puget Sound recovery.
- Identify approaches to **accelerate and increase cost-effectiveness** of project delivery.

Decision drivers for initially narrowing the alternative funding strategies

- Funding NTAs is the primary objective because NTAs are aligned with the implementation strategies, and keeping NTA owners engaged is paramount.
- The magnitude of funding is a critical factor due to the expected project delivery costs and amount of lift needed for recovery.
- Identifying both near-term and long-term funding strategy(ies) may be a useful framework because of the desire to make an immediate impact while also pursuing strategies that can make a greater impact but require more time to implement. For example, a long-term strategy could focus on generating significant new funding for NTAs from a regional tax, while a near-term strategy could focus on developing packages for potential corporate funders to invest in or helping NTA owners improve the cost-effectiveness of existing funding.
- Prioritize funding strategies that can be applied Puget Sound-wide and in a variety of landscapes, and ideally flexible to fund efforts related to different implementation strategies.
- PSP wants to play a meaningful role in implementation of the strategy as the “backbone” organization as opposed to just advocating for and/or supporting other agencies or non-profits.
- Linking funding to a specific issue that inspires action is attractive, and then to use that funding for NTAs associated with that issue. For example, the orca decline demands a big response and creates a unique opportunity to generate funding for Puget Sound recovery. The Governor’s Southern Resident Orca Task Force may be well-positioned to advocate for a large, sustainable funding source.
- Less regressive tax/fee approaches and those focused on the impact are preferred, such as a tax on impervious construction materials or the size of the footprint.
- Focusing on new and innovative strategies for which PSP is uniquely positioned to advance is likely more viable because other organizations are likely working on existing strategies and better positioned to continue implementing existing strategies, or there is a valid reason for the strategy not succeeding in the past.

Step 2: Evaluate Potential Alternative Funding Strategies

Our team then used PSP’s objectives and decision drivers to evaluate the potential alternative funding strategies. The objective of this step was to identify a shortlist of promising alternative funding strategies to review with PSP and assist PSP with the selection of two or three priority strategies for our team to research and write-up as part of Step 3.

Because a comprehensive evaluation with detailed results for all potential alternative funding strategies was not feasible with the budget available, our team worked with PSP to define the following evaluation approach and criteria, and to determine the structure of an evaluation table (an MS Excel spreadsheet). This methodology ensured that PSP received the key information for screening alternative funding strategies. With that said, if a strategy was not believed to be viable due to any specific weakness, then

the strategy was not further evaluated. This enabled our team to use our limited resources efficiently. In addition, many of the identified strategies can take several different shapes and forms or are high-level categories that reflect several specific strategies. For these cases, a single variation was defined for the purpose of the evaluation and other potential variations or more specific strategies are noted in the description field of the evaluation table.

Evaluation Criteria

The following evaluation criteria reflect PSP’s objectives and decision drivers (determined in Step 1B), and were used to consistently and transparently evaluate the alternative funding strategies as well as to identify those to include in the shortlist to review with PSP leadership.

- **Magnitude of impact** including new funding, cost-efficiency, and delivery acceleration.
- **Potential challenges** including existing efforts/players, legal, economic, and equity.
- **PSP alignment/interest** including PSP’s role, scale, and degree of innovation.

Other Key Information for Strategies

To ensure common understanding of each strategy and facilitate grouping of strategies by key attributes, the evaluation table contains the following columns:

- a) Strategy title
- b) Brief description
- c) Existing/relevant examples
- d) Likely PSP role
- e) Geographic scale (Sound-wide or limited extent)
- f) Primary Vital Sign (flexible, multiple are also options)
- g) Implementation timeline (short-term, mid-term, long-term)
- h) Pros to the strategy
- i) Cons to the strategy

Evaluation Results

The results of the evaluation are based on the project team’s experience with evaluating and developing alternative funding programs and understanding of the context in the Puget Sound. The initial results include subjective information, some of which was checked and verified by PSP and some that require additional exploration before implementing the strategy.

Because of the need for a portfolio of strategies rather than a single strategy to pursue, as well as the range of interests heard from PSP leadership, the list of strategies to consider is longer than initially expected. However, this longer list ensures that potentially valuable strategies are not excluded from the shortlist and discussing the range of strategies included is expected to provide additional clarity amongst strategies.

Step 3: Select, Research, and Write-up Select Strategies

Taking into account the landscape of what other partners are working on; the interest of staff, boards, and subcommittees; and the funding needs, seven strategies were chosen for further analysis. These strategies represent the broad portfolio of private and public funding strategies, and a mix of big, “game changing” strategies as well as those that provide pragmatic, near-term options.

The seven selected strategies were:

- Parcel tax (“Puget Sound Recovery Fund”)
- Innovation and Accountability Center
- A type of Payment for Ecosystem Services for Public Investment (“Investment-Grade Performance Measures”)
- Offset compliance market (“Nearshore credit program”)
- Retailer orca dollars
- Commodity buffers
- Technology solutions

Why Weren’t Financing Strategies Selected?

Financing strategies were considered but not selected for exploration as part of this project because early in the project it was decided that the project team should not focus on financing strategies. However, there is potential for regional and local agencies in Puget Sound with sustainable long-term revenue sources to leverage financing strategies to obtain the benefits listed below. In particular, as the Mobilizing Funding Initiative matures and the partnership develops future funding streams such as the Puget Sound Recovery Fund described in this section, financing may be a useful tool to explore to accelerate recovery. High-level descriptions of two financing strategies often cited - Green Bonds and Environmental Impact Bonds - are provided below as example financing strategies.

What is Financing?

Financing is a type of funding source in which investors provide upfront funding and then the investors are repaid the principal amount and interest accrued over time. A government agency must have a long-term, sustainable revenue source (e.g., taxes or offset payments) to access financing.

Financing of a conservation project works similarly to a home mortgage loan. A home mortgage is a loan provided by a financial institution (investor) to purchase the home, and then the homeowner repays the financial institution for the principal amount required to purchase the home as well as interest accrued during the life of the mortgage loan. However, instead of using a long-term revenue source to secure the loan, the property title is transferred to the lender on the condition that the title be transferred back to the homeowner once the mortgage loan is repaid.

What are the Benefits of Financing?

Conservation planning and investment within the traditional annual budgeting process using relatively stable annual budget levels is costly and constraining. Whereas financing allows for multi-year planning processes and larger, more strategic investments.

In other words, capital projects require a large up-front expenditure for design/construction services, followed by smaller expenditures over the course of the life of the projects for operations and maintenance (O&M). With financing, the total cost of the project is spread out over the life of the project, which effectively “smooths” out the otherwise “lumpy” expenditures.

These strategies were further edited and refined so that the broad strategy of the offset compliance market became an element of the Innovation and Accountability Center, with a specific nearshore offset program identified as a pilot project with a separate write-up. After some initial research, commodity

buffers and technology solutions were not advanced to a final write-up, but partners such as Long Live the Kings and Snohomish Conservation District continue to advance those concepts in the region.

See below for the final five strategies and a graphic showing where they fall on the spectrum of public to private funding and improving existing to generating new funding. The diversified portfolio of final strategies includes an Innovation and Accountability Center which is a broad strategy focused on improving existing public funding and mitigation programs through a range of services. One of those services, or the standalone strategy to develop and integrate Investment-Grade Performance Measures into public funding and mitigation programs. An early opportunity for the Partnership to work with partners on developing a federal nearshore credit program is a current priority for NOAA and could serve as a useful pilot offset program to help design and launch other offset programs.

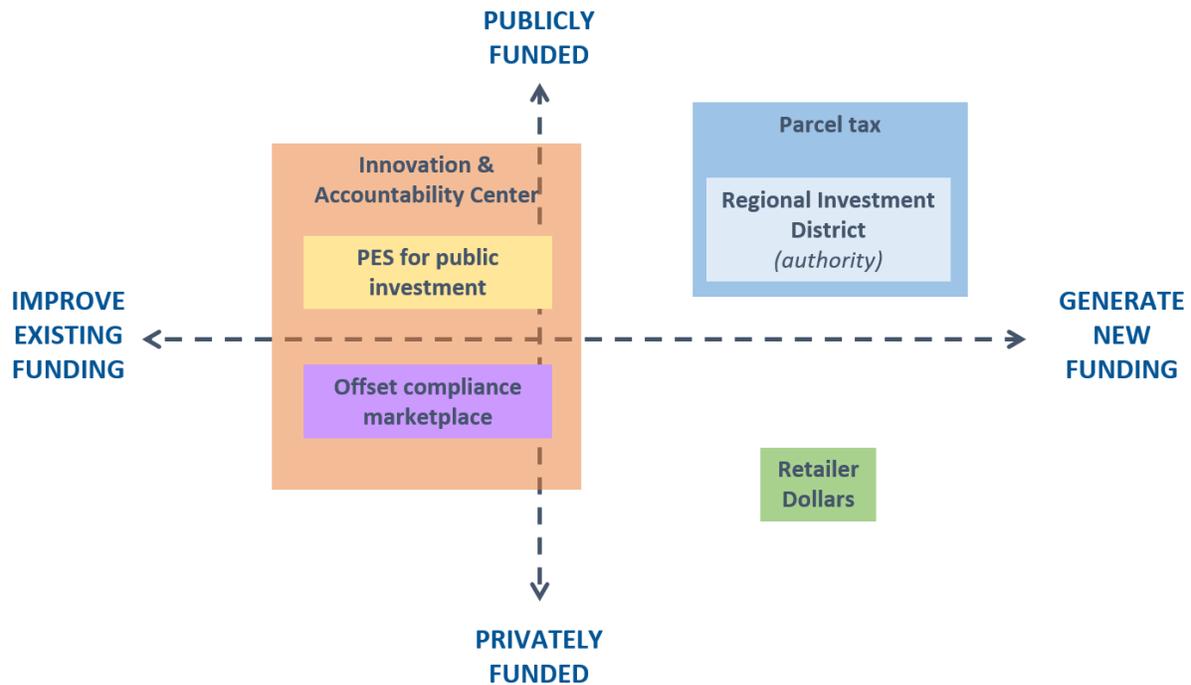


Figure 6. Final alternative funding strategies showing relationships between the strategies and diversification amongst the funding sources.

The Parcel Tax or “Puget Sound Recovery Fund” encompasses the establishment of a special purpose district which is explored further in a separate memo to PSP (Special Districts and Local Funding Sources Memo 8/30/2019). The write-up in this document remains focused on how revenue would be generated within the district, in this case through a parcel tax. The strategy write-up acknowledges that other taxing mechanisms could be utilized within a district, but the interest and focus was a parcel tax in this case.

The strategies are also diverse in terms of the amount of new funding or cost-saving from improving existing funding. This varies dramatically for most strategies based on how they are ultimately designed and operated so the estimates are a mid-point expectation. Similarly, the time to design, launch and realize on-the-ground environmental benefit will also vary for many strategies and depends on how aggressively they are pursued. See below for a range of funding and time horizons for each of the five strategies.

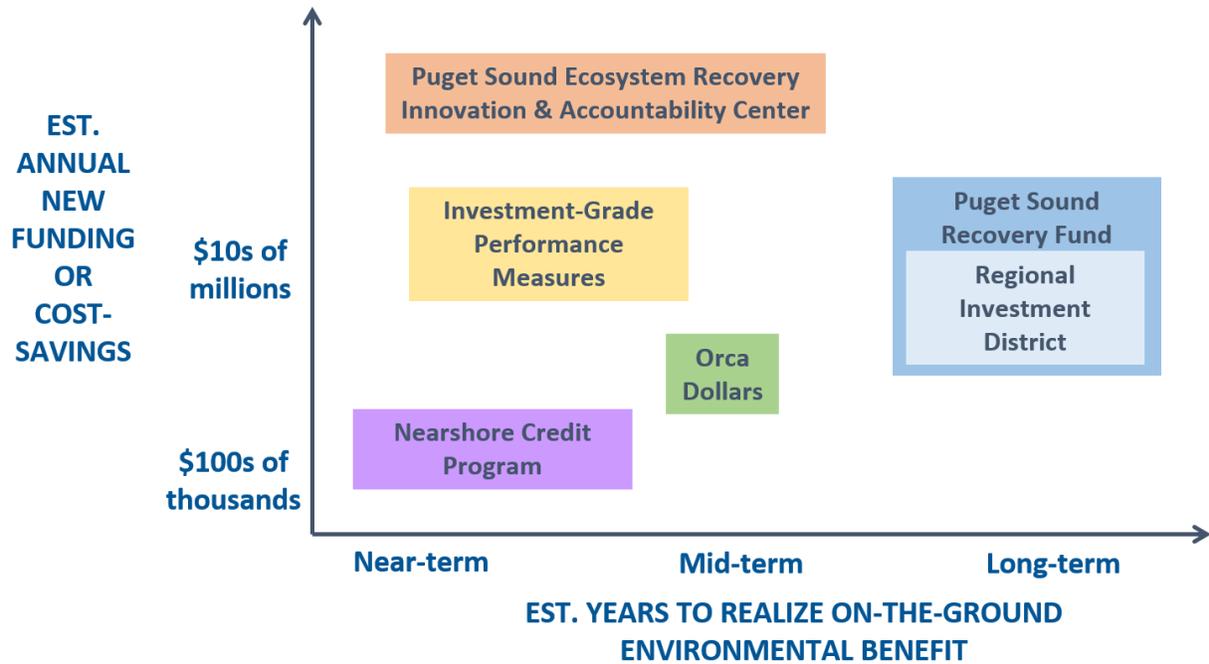


Figure 7. Final alternative funding strategies showing estimated funding or cost-savings and time to realize on-ground-benefit

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Write-ups of Selected Strategies

Puget Sound Recovery Fund (Parcel Tax)

Strategy Summary

Primary Benefit: Generate new funding

Est. New Funding or Cost-Savings: \$25,000,000/year

Funding Source: Public

Timeline: Long-term (5-10 years)

PSP's Role: Support establishment and lead implementation

In order to completely fund the Action Agenda and Puget Sound Recovery, existing funding sources must be expanded. However, doubling the largest single funding source (EPA funding) would address less than half of the funding gap. Thus, new and significant long-term funding sources are also needed to meaningfully change the trajectory of Puget Sound recovery.

Currently residents of the Puget Sound region help fund Puget Sound recovery efforts through state and local taxes such as stormwater utility rates and the Conservations Futures Tax. The Conservation Futures Tax is used by 10 of the 12 counties in Puget Sound (and 13 of the 39 counties in the state) to fund local conservation efforts. However, the funding generated from local taxes is highly variable from county to county and the investment of that funding is influenced by each county's or district's specific priorities which align with Puget Sound-wide conservation priorities to varying degrees. Statewide funding programs, appropriated every two years, also focus on specific elements of Puget Sound recovery, including Puget Sound Acquisition and Restoration Fund (managed by PSP), Estuary & Salmon Restoration Program (managed by WDFW), and Floodplains by Design (managed by Department of Ecology). However, availability of statewide funds is subject to changing political circumstances. There is no significant regional funding source centrally distributed and strategically invested to address the most pressing and current Puget Sound recovery needs.

In addition, while locally administrated investments play an important role, the amount of funding generated and invested by most counties and districts individually is relatively small which constrains investment opportunities. Further, significant effort is required to establish, update and operate each county or district program, which limits the funding used to implement projects and programs. Thus, there is also an important role for a single, large pool of funding that is centrally managed and funds larger, more cost-effective projects. A significantly lower portion of the total funding would be required to manage and deploy the funding.

Overview

The Puget Sound Recovery Fund strategy would establish a regional authority and an approach to cost-effectively invest new, significant funding in the most critical and timely Puget Sound recovery needs. The Puget Sound Recovery Fund is funded by a nominal annual non-ad valorem tax (not based on property value and instead a “flat tax”) applied to all parcels in the Puget Sound basin. A nominal flat tax applied to all parcels in Puget Sound regardless of the value, size or use of the parcel is simple and replicates the approach taken by the San Francisco Bay Clean Water, Pollution Prevention and Habitat Restoration Program highlighted below. An annual flat fee of \$10 per parcel creates a significant and sustainable funding source (e.g., approximately \$25,000,000 per year). This tax also increases broad local awareness of pressing Puget Sound recovery needs.

A funding source of this scale would be operated by a single entity and invested exclusively on unfunded Puget Sound basin priorities. It would be guided by an investment plan that focuses on high-priority Puget Sound basin threats and uses innovative investment approaches (e.g., *reverse auctions*) to ensure the funding is invested cost-effectively. Further, a decision-making process open to the public and real-time reporting of results produced by Puget Sound Recovery Fund investments will build broad support for the Puget Sound Recovery Fund and help residents of Puget Sound understand what was achieved by their tax dollars. Lastly, this funding source could be leveraged to secure other meaningful public and private funding sources (e.g., federal SOS bill, EPA Geographic Program, Pacific Coast Salmon Recovery Funds).

Definitions

Reverse Auction: A funder identifies and funds priority projects through a competitive bidding process. The funder specifies the desired outcomes using performance measures (PMs) and potentially other selection criteria. Bidders then compete to provide the specified PMs at the lowest cost to the funder. Bids can be submitted by local governments, Tribes, nongovernmental organizations, or the private sector.

Implementation Details

The Puget Sound Recovery Fund is implemented by a regional authority created by the Washington State Legislature that is responsible for raising and investing local resources to accelerate the ecological recovery and improvement of human health in Puget Sound. The regional (inter-county) authority is a new benefit assessment district, which is a type of special purpose district under Washington property tax law, like a Flood Control or Diking and Drainage District.

According to the Department of Revenue’s Property Tax Levies Manual¹, benefit assessments are not considered regular property tax levies. They are special charges created to recover monies to pay for services or improvements that have a particular, direct benefit to lands and their owners. Rather than basing the charge on assessed value like property taxes, an assessment plan meant to charge amounts to a parcel of property that reflects the actual benefit that property will receive determines benefit assessments. These assessments are usually based on a flat-fee per parcel, an amount per acre, or a combination of characteristics like these; rarely are they based on assessed value. The regressive nature of a flat-fee can be mitigated through a variety of tools, like exemptions or rebates, and a progress model such as a fee based on the amount of impervious coverage should be considered when further exploring this strategy.

¹ Washington State’s Department of Revenue. (2018). Property Tax Levies Operations Manual. https://dor.wa.gov/sites/default/files/legacy/Docs/Pubs/Prop_Tax/LevyManual.pdf

The new benefit assessment district, like all benefit assessment districts, has its own unique process for establishing the district and assessment (tax), including district boundary, voter approval requirements, and governing body form and membership. It is likely necessary to gain 60% voter approval (defined by enabling legislation, 60% is standard for excess levies but not all benefit assessments require greater than simple majority) from cumulative votes within the district boundary (Puget Sound basin). The regional authority is staffed by PSP staff and governed by PSP's Leadership Council in order to avoid creating a new organization and governance structure (there are approximately 678 special purpose districts in the Puget Sound) and ensure the investment plan and execution is well-aligned with the Action Agenda. The new regional authority works with each county in Puget Sound to include a measure on the ballot to gain approval for the Puget Sound-wide parcel tax and if the parcel tax is approved, collect tax revenue each year.

The investment plan guiding Puget Sound Recovery Fund investments is aligned with the Action Agenda but has unique criteria for the purpose of this funding source. The investment plan may include specific requirements such as all funds are allocated to implementation of capital projects, or all projects include recreation or human health benefits. It could also fund unfunded activities in the Action Agenda that do not currently have a sufficient funding source or a dedicated special purpose district. Defining Puget Sound Recovery Fund investment guidelines based on the sentiment of residents and priorities of the Action Agenda will be critical to gain legislative support for the authority and voter support for the parcel tax.

PSP works with partners as part of a coalition to complete exploration, design and launch the Puget Sound Recovery Fund in order to build broad support for the enabling legislation and voter approval of the parcel tax. PSP leadership throughout the Puget Sound Recovery Fund development process is critical to ensure effective program design, and partners play key roles including advocacy and others that a public agency cannot, or PSP is not as well positioned to do.

Two case studies are provided in text boxes below that represent recently adopted programs on the west coast that generate significant funding for conservation efforts based on nominal parcel fees. Additional details on current special use districts and recent legislative and political obstacles are further described in a complementary memo (Special Districts and Local Taxing Authorities Memo).

San Francisco Bay Clean Water, Pollution Prevention and Habitat Restoration Program

Background: California [legislation](#) created the San Francisco Bay Restoration Authority in 2008 with the purpose to “raise and allocate resources for the restoration, enhancement, protection, and enjoyment of wetlands and wildlife habitats in the San Francisco Bay and along its shoreline.” Several years of planning and polling were conducted to determine when it was the right time to put the parcel tax measure on the ballot. A local non-profit, Save the Bay, lead the planning effort and collaborated with industry leaders to ensure the business community supported the measure.

Funding Source: Annual fixed parcel tax (\$12 per parcel) for nine counties in the San Francisco Bay Area.

Ballot Measure: To protect San Francisco Bay for future generations by reducing trash, pollution and harmful toxins, improving water quality, restoring habitat for fish, birds and wildlife, protecting communities from floods, and increasing shoreline public access, shall the San Francisco Bay Restoration Authority authorize a parcel tax of \$12 per year, raising approximately \$25 million annually for twenty years with independent citizen oversight, audits, and all funds staying local.

Ballot Measure Approval: Voters approved June 7, 2016 with 70% majority

Investment Summary: Several defined criteria guide investments including greatest positive impact on the Bay as a whole, leveraging state and federal resources and public/private partnerships, workforce development, student education and alignment with existing regional natural resource plans. In addition, each region receives the following minimum percentage of total net revenue generated during the 20-year term of the Special Tax: North Bay: 9%, East Bay: 18%, West Bay: 11%, South Bay: 12%.

Governance Summary: A Governing Board determines allocation of funds through a public process. In addition, an Advisory Committee advises the Governing Board and an Independent Citizens Oversight Committee provides public oversight of the program. The local National Estuary Program entity, San Francisco Bay Partnership, is a member of the Governing Board.

For more information: <http://www.sfbayrestore.org/>

Los Angeles County’s Safe, Clean Water Program

Background: County of Los Angeles’ Department of Public Works developed a proposed Safe, Clean Water Program that the County of Los Angeles’ Board of Supervisors adopted in July 2018. The proposed program was based on a 2017 California Assembly Bill that authorized Los Angeles County Flood Control District to levy a tax subject to voter approval, and the proposed program included a parcel tax ballot measure to fund the program.

Funding Source: Annual parcel tax (2.5¢ per square foot of impermeable area) for Los Angeles County.

Ballot Measure: Shall an ordinance improving/protecting water quality; capturing rain/stormwater to increase safe drinking water supplies and prepare for future drought; protecting public health and marine life by reducing pollution, trash, toxins/plastics entering Los Angeles County waterways/bays/beaches; establishing a parcel tax of 2.5¢ per square foot of impermeable area, exempting low-income seniors, raising approximately \$300,000,000 annually until ended by voters, #requiring independent audits, oversight and local control be adopted?

Ballot Measure Approval: Voters approved November 6, 2018 with 69% majority

For more information: <https://safecleanwaterla.org/>

Benefits

- **New, significant and sustainable funding.** The Puget Sound Recovery Fund generates an additional estimated \$25,000,000 of funding for Puget Sound recovery annually.²
- **Cost-effective investment approach.** The scale of this new funding source, a centralized decision-making body and a single administrative entity along with strategic investment guidelines facilitate funding of high-priority, cost-effective projects.
- **Increased public awareness.** A per parcel tax and online reporting of investment results generates increased public awareness of Puget Sound ecosystem threats and needs which will translate to additional contributions to Puget Sound recovery.
- **Secure additional public and private funding.** This new funding source is used to match or leverage federal funding sources, corporations and other public and private funding sources.
- **Easy to understand.** A flat tax makes the program easy to understand for voters, simplifies tax collection and creates a predictable level of future funding.
- **Limited overhead.** In addition, a centralized decision-making body and a single administrative entity reduces transaction costs to deploy funding.
- **Leverage financing to accelerate outcomes.** This creates a predictable, long-term funding source which can be used to access financing to accelerate implementation of projects.

Limitations & Risks

- Gaining 60% voter approval from cumulative votes within the Puget Sound basin is difficult and is highly uncertain.
 - Many believe that there are too many conservation and non-conservation related property taxes and too many special districts, and it is notable that the special parks district legislation proposed during the last legislative session failed. See details on the parks district legislation in the Special Districts and Local Funding Sources Memo.
 - The current effective property tax rate in Washington State is 19th highest in the United States³ and an additional annual \$10 tax would not change its ranking.
 - Achieving 60% voter approval from cumulative votes within Puget Sound basin may be easier than achieving 60% voter approval within each of the 12 counties within the Puget Sound basin.
 - Initiative 1631 (Carbon Emissions Fee), a recent attempt at establishing a new fee for conservation benefits albeit one with a higher cost per household than the proposed fund, resulted in a cumulative 51.6% voter approval for the 12 counties in the Puget Sound basin. The analysis demonstrates that significant advocacy, education, and polling would be needed ahead of a ballot measure so that it is built in a way and proposed at a time when 60% can be reached.
 - In 2017, Washington State solved the gap in education funding (known as “the McLeary decision” based on a State Supreme Court case) through increasing property taxes in a complicated series of increases and relief packages that ultimately put much of the burden in more populous, higher cost counties (Puget Sound). This and other taxes and fees are

² The estimated funding generated by this strategy is based on a \$10 annual tax on all parcels, and a very rough estimated number of parcels in Puget Sound. The number of parcels in Puget Sound used to calculate the estimated funding generated by this strategy needs to be revised based on better data, and the annual tax per parcel could be amended.

³ <https://finance.yahoo.com/news/states-lowest-property-taxes-090000277.html>

used to generate revenue in Washington State since there is no income tax and should be considered when comparing the voter appetite for a new parcel tax.

- King County recently explored new funding sources for open space, parks and trails and decided to not establish a new funding source because of a perceived lack of public appetite due to the McLeary education funding agreement (see below) and the Parks Levy renewal which passed on August 6, 2019 with 67% voter approval. They did, however, decide to increase the Conservation Futures Tax over a series of future elections in order to reach the maximum allowed percentage which effectively will increase property taxes, though it will be done under an already-established taxing authority.
- It will take several years to develop the coalition, conduct public opinion research and communications, draft legislation and an investment plan, gain legislative approval for authority, gain voter approval for a parcel tax and collect tax revenue.
 - A colleague involved in the San Francisco Bay Restoration Authority estimated that 10 years of effort led to the establishment of the authority and parcel tax, including attitude surveys, extensive public outreach, and, most notably, the business community underwriting the campaign on Measure AA with a very specific, convincing message, “The Economy of San Francisco Bay is San Francisco Bay”.
 - Nearly ten years ago when PSP was first formed, several of the major environmental groups and the PSP worked on ideas for large scale funding for and regional management of restoration work in anticipation of the first action plan. Attorneys currently with Pacifica Law Group were commissioned (while still at their former firm) to draft State legislation to form a basin-wide entity (Regional Estuary Protection and Restoration District) that would have access to numerous optional revenue sources including taxes. Martha Kongsgaard and Bill Ruckelshaus, the original PSP co-chairs took the proposal to then Governor Gregoire who declined to forward it to the Legislature. The legislation is outdated but attached as a reference in the Special Districts and Local Funding Sources Memo developed as a separate deliverable.
 - WRIA 9 and others are working on the concept of Watershed Investment Districts which would allow for a similar authority with funds collected and distributed at the WRIA/watershed scale. Draft legislation exists for this and may conflict with the idea of a regional entity. It is unlikely that voters would consider both, so it is important to collaborate with these stakeholders.
- A flat fee is regressive (imposing a greater burden relative to resources on the poor than on the rich), and it is not related to the specific impact a parcel has on Puget Sound (as opposed to a fee per square feet of impervious coverage).
 - A nominal flat fee is currently proposed because the simplicity is appealing for gaining voter approval and simplifies tax collection, but there may be some push back from constituents concerned that it is regressive and not related to impact of a specific parcel.
 - Business interests have recently mentioned to Laura Blackmore that they support a “flush tax” to fund stormwater management and a greater level of accountability for stormwater permittees. It is unclear exactly how they envisioned the design of a flush tax, which has been used to describe a flat fee parcel tax like currently described for the Puget Sound Recovery Fund, or a parcel tax based on water consumption or a different design.
 - To reduce the regressive nature of a parcel tax and stay true to the decision drivers, consideration may be given to exempt low-income households or determine other options for tax relief to ensure more alignment with social and environmental justice goals.

- Legislators and/or voters may not support PSP staffing and the Leadership Council as the board of the new benefit assessment district, and alternative approaches would likely reduce PSP's influence on how funding is distributed.
- Legislators and/or voters may not support a regional, centralized funding source as opposed to the typical approach of channeling funding through local jurisdictions which then are able to incorporate their specific priorities into funding distribution.

Summary of Washington State Property Tax Levies

(Informed by the Washington State Department of Revenue's Property Tax Levies Manual)

Types of Tax Levies: There are three primary types of taxes levied in the State of Washington.

Regular Property Tax Levies

- An "ad valorem tax", whose amount is based on the value of a transaction or of property. It is typically a percentage of the fair market value of the property including the building and land and is typically imposed annually.
- Most "regular property tax levies" do not require approval of the voters.
- Examples of "non-voted regular levies" include Fire Protection Districts and Land Conservation Futures Districts, and examples of "voted regular levies" include Parks and Recreation Districts.

Excess Levies

- Also an "ad valorem tax", see description above.
- "Excess levies" impose property taxes over and above the regular property tax levies described above. They are in excess of the many limits we on regular levies and require not only voter approval; but most also require a 60 percent super majority for approval.
- Examples of "excess levies" include Air Pollution Control Districts and Water-Sewer Districts.

Benefit Assessment Districts

- "Benefit assessments" recover monies to pay for services or improvements that have a particular, direct benefit to lands and their owners. Rather than basing the charge on assessed value like property taxes, an assessment plan meant to charge amounts to a parcel of property that reflects the actual benefit that property will receive determines benefit assessments. These assessments are usually based on a flat fee per parcel, an amount per acre, or a combination of characteristics like these (e.g. amount per square foot of impervious surface or water consumption); rarely are they based on assessed value. They are not subject to the same limits and procedures that control property tax levies.
- Examples of "benefit assessment districts" include Conservation Districts and Flood Control Districts.

Levy exemptions and incentives: Exemptions and incentives are common, such as excluding non-profit organization and low-income landowners, and providing opportunity zone tax and onsite stormwater treatment incentives.

Fairness and progressiveness: Parcel taxes also don't legally require any relationship between the tax amount paid (or the ability to pay) and the benefits received. However, fairness and progressiveness (based on property value or parcel size vs. flat/fixed amount) are important considerations.

Note: The term "flush tax" has been used to describe a flat fee special assessment like currently proposed, as well as a fee based on water consumption."

For more information:

https://dor.wa.gov/sites/default/files/legacy/Docs/Pubs/Prop_Tax/LevyManual.pdf

Timeline

The following timeline is a rough estimate to provide a vision for how long it will likely take to conduct additional exploration, design and launch the Puget Sound Recovery Fund and realize on-the-ground benefits to Puget Sound Recovery.

Long-term (5-10 years) - It will take 2-4 years to develop a coalition and investment plan and gain legislative approval to establish the authority (district), another 1-3 years to gain voter approval for the parcel tax depending on polling and other political and socio-economic factors, and another 1-4 years to collect tax revenue, deploy funding and see projects funded by the Puget Sound Recovery Fund deliver on-the-ground benefits.

Work Plan

The figure below contains a draft high-level work plan to provide a general understanding of the tasks likely necessary to design, launch and operate a successful Puget Sound Recovery Fund. Details for immediate next steps are provided after the figure.

PROGRAM EXPLORATION

- Strategy concept development
- Partner engagement and supporting materials
- Coalition, champion and legislative sponsor
- Public opinion research

PROGRAM LAUNCH

- Execute communications plan
- Legislative approval
- Establish governance structure and staff the program
- Engage counties on ballot measure and tax collection
- Ballot measure approval



PROGRAM DESIGN

- Investment plan
- Legislation establishing the benefit assessment district and authorities
- Communication plan and materials incl. website
- Ballot measure language

PROGRAM EXECUTION

- Collect, manage and invest funds
- Report program activities and results
- Adapt investment plan

Near-term Task Details

Strategy concept development – This task began when the Puget Sound Recovery Fund strategy was selected for development of a write-up as part of the Mobilizing Funding Project. This write-up should continue to be revised when conducting the other program exploration tasks. For example, the type of special purpose district, governance and other aspects of the district, type of tax and method for determining the per parcel amount will continue to be refined throughout the other program exploration tasks. Once the program exploration tasks are completed, the content in this write-up will migrate to the “Investment plan” and significantly more detail will be added to clearly and comprehensively describe how the Puget Sound Recovery Fund will work.

Partner engagement and supporting materials – This task entails engaging key stakeholders to collect feedback on and build support for the Puget Sound Recovery Fund. Key stakeholders should include individuals and organizations that have unique perspective on what will and will not resonate with legislators and voters, and how to build broad support necessary to gain legislative and voter approval. Key stakeholders to consider include:

- Leadership Council members, particularly Jay Manning, former ECB member Fred Jarrett, Mindy Roberts and Darcy Nonemacher with Washington Environmental Council, and Puget Sound Salmon Recovery Council Funding Subcommittee members who have worked on the concept of a Watershed Investment District.
- Reuven Carlisle and agency partners with similar interests in state-wide funding such as Kaleen Cottingham and the Salmon Recovery Network.
- Dee Frankfourth, Associate National Director for Conservation Finance at the Trust for Public Land (Seattle office) would be an excellent resource to strategize tax initiatives, local polling, and help form a strategy.
- Peter Dykstra, attorney with Plauche & Carr could offer advice from his experience with the Washington “Big Water” funding negotiations with the legislature.
- King County staff involved in developing the King County Land Conservation Initiative which recently explored a range of tax-related funding options; they should be engaged early to determine level of support and get advice.

This task likely includes developing materials (e.g., slides, straw proposal brief) that will be helpful with engaging key stakeholders in order to clarify the concept and support partners asked to help develop and build support for the Puget Sound Recovery Fund. This task is directly related to the “Coalition, champion and legislative sponsor” and “Public opinion research” tasks as this task will inform who will be needed and engaged to play those important roles and inform the particular concepts that would be valuable to gather public perception on.

Coalition, champion and legislative sponsor – This task aims to develop and gain commitment from the best individuals and organizations necessary to build public support for and ultimately gain legislative and voter approval for the benefit assessment district and parcel tax. The coalition will likely benefit from including environmental and business associations, as well as the Tribes and the Northwest Indian Fisheries Commission and other Tribal partners. This task will also include identifying champion(s) who can effectively build support and is willing to put the time and political capital into leading this initiative. Lastly, this task will include identifying a legislative sponsor who will ensure the legislation is well supported and pushed through the legislative process.

Public opinion research – This task is critical to shape the Puget Sound Recovery Fund in a way that maximizes the likelihood that the legislature will establish the benefit assessment district, and voters will approve the parcel tax. It is important that the Puget Sound Recovery Fund is focused on the most pressing threats and needs of Puget Sound; however, there will not be a Puget Sound Recovery Fund if the legislature and voters do not support it. Thus, it will be important to understand the level of voter support is for different types of ecological and human health outcomes, what their willingness to pay is at different fee levels and what their perspective is on different types of governance structures. It will also be important to gain this information from a random sample that reflects voters in each county within Puget Sound and the voter population at-large in Puget Sound. This information will help shape the district and parcel tax, as well as the communications strategy. For example, the marketing message for the voter initiative that approved the parcel tax that funds the Los Angeles County’s Safe, Clean Water Program highlighted above and the recent King County Parks Levy emphasized recreation benefits before water quality or open space benefits.

Investment plan – This task entails clearly and thoroughly defining and documenting how the Puget Sound Recovery Fund will operate to build broad support for the Puget Sound Recovery Fund and ensure the future legislation enables the Puget Sound Recovery Fund as desired. The investment plan will include elements such as plan goals, fund distribution guidelines (e.g., minimum % allocated to each county over 10 or 20 year periods), eligible expenditures (e.g., implementation type activities, recreation benefit must be included), governance structure and staffing, performance reporting requirements, match funding requirements, and financing options (e.g., future projected revenue can be used to secure financing to accelerate and do bigger projects).

Legislation establishing benefit assessment district and authorities – This task entails drafting the legislation that establishes the benefit assessment district and authorities required to implement the Puget Sound Recovery Fund. The legislation will include elements such as the geographic boundary, governance structure and authority and process to establish a parcel tax.

Strategy Summary

Primary Benefit: Improve cost-effectiveness of existing funding

Est. New Funding or Cost-Savings: \$30,000,000/year after several years of implementation

Funding Source: Public and private

Timeline: Short-term (2-4 years)

PSP's Role: Lead development and implementation with partner participation

Significant resources are invested every year in the recovery of Puget Sound ecosystems. Approximately a quarter billion dollars is invested through the Action Agenda each year and that reflects only a portion of public spending, often not counting local taxing authorities. It also leaves out public and private sector investments required by local, state and federal regulations.

Funding programs implemented by public agencies often do not have significant internal experience implementing similar programs and minimal time and resources to rigorously evaluate and improve their programs. Thus, there is an opportunity to provide useful resources and consultation to facilitate learning across conservation programs in Puget Sound basin with the goal of increasing the efficacy of local conservation programs.

There is a particularly significant opportunity to improve public and private sector investments required by law because of the scale and repetition of these investments. The term “ecosystem offset” is used within this strategy write-up to describe any environmental benefit project or program required by a local, state or federal regulatory agency to offset the impacts to a natural resource. This includes compensatory mitigation requirements for a new project (e.g., private development that impacts a wetland) and public agency programs required to comply with environmental laws (e.g., county that must comply with National Pollutant Discharge Elimination System [NPDES] permit). Further, it includes the full range of ecosystem offset approaches from permittee-responsible mitigation to in-lieu fee programs to environmental markets.

We did not identify the magnitude of investment in ecosystem offsets in Puget Sound. However, the figure below illustrates the relative scale of the primary categories of conservation spending world-wide, of which 32% is from the United States and Canada. Ecosystem offset spending as defined by this strategy write-up includes a portion of the domestic budget allocation (e.g., public conservation spending to comply with environmental laws) and direct market spending (e.g., compensatory mitigation). The combination is more than double the total philanthropic spending. While the figure reflects global conservation spending, conservation spending (excluding overseas development aid) is expected to look something similar in Puget Sound. Thus, increasing the requirements and improving the effectiveness of ecosystem offsets in Puget Sound is a significant opportunity.

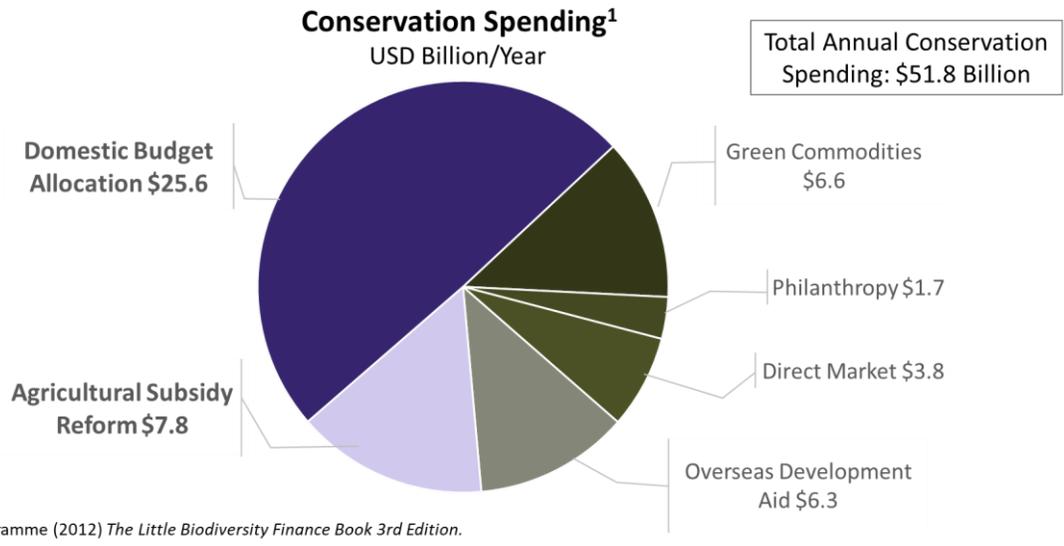


Figure 8. Graphic showing types and proportions of conservation spending (in 2012). Ecosystems offsets as defined for this strategy are represented in both direct market and a portion of the domestic budget allocation.

In addition to the opportunity to improve how public and private sector conservation funding is invested in the Puget Sound, there are also other opportunities to work with partners to increase investment in Puget Sound ecosystem recovery. For example, the State has created several funding mechanisms for local agencies; however, many are not utilized or utilized to the maximum extent, such as Conservation Futures and others.

Overview

The Puget Sound Ecosystem Recovery Innovation and Accountability Center (Innovation & Accountability Center) increases the efficacy of existing and new public funding and ecosystem offset programs in Puget Sound. The Innovation & Accountability Center achieves this by performing several functions including providing several services to partner agencies and providing information to encourage partner agencies to improve their programs. The services can range from publishing best practices and other resources to providing technical consultation (e.g., evaluation and recommendations). In addition, the Innovation & Accountability Center can track and publish information on use of best practices (e.g., use of investment-grade performance measures to guide investment), use of available local funding sources and the effectiveness of public funding and ecosystem offset programs to increase transparency and accountability, and celebrate effective programs and identify opportunities to improve programs. The following figure illustrates an initial set of functions for the Innovation & Accountability Center to evaluate and consider performing, and the partners that PSP could utilize to provide the functions.

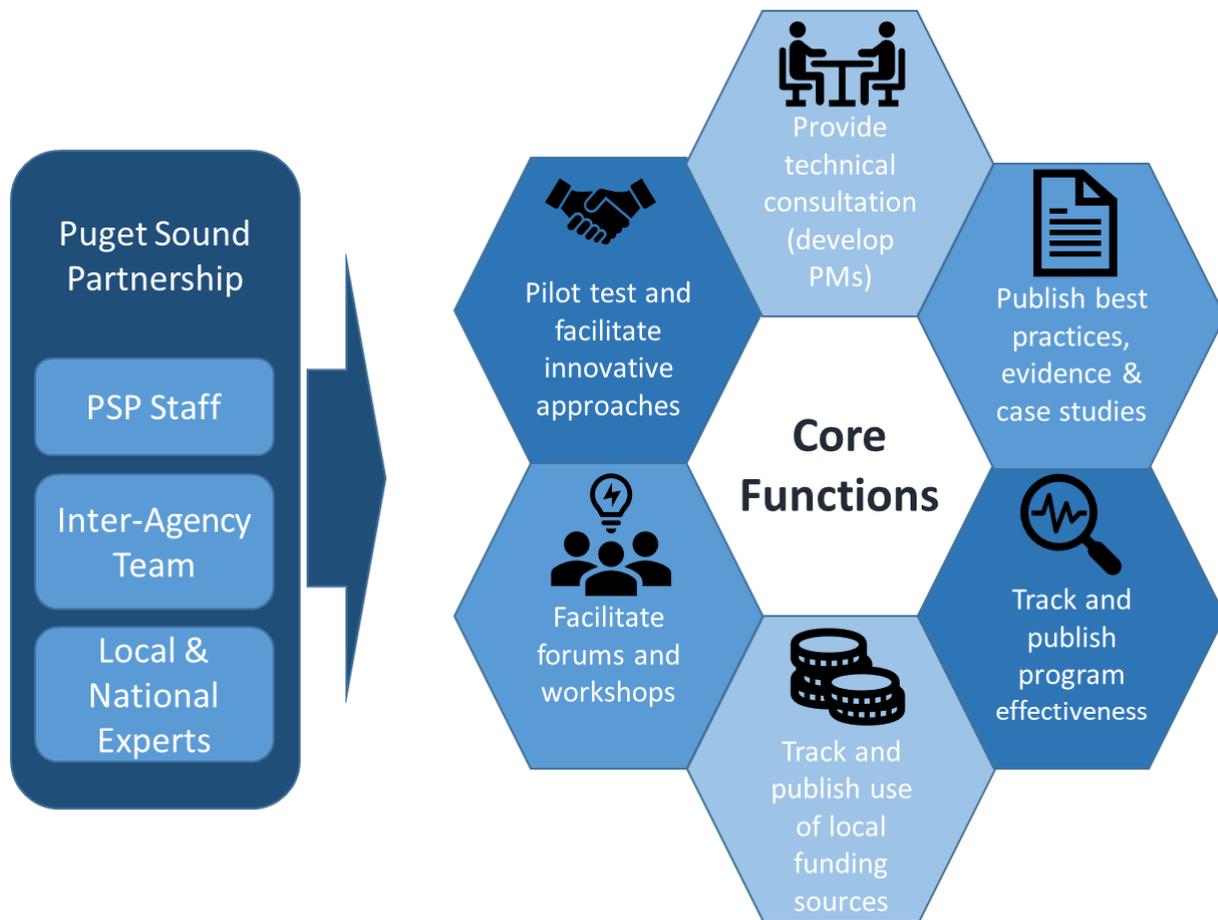


Figure 9. Possible functions and participants of a Puget Sound Innovation & Accountability Center

The Innovation & Accountability Center includes the Investment-Grade Performance Measure strategy. Investment-grade performance measures and performance reporting are typically fundamental elements of effective both public funding and ecosystem offset programs. The Investment-Grade Performance Measure strategy could be implemented without the Innovation & Accountability Center.

Implementation Details

The Innovation & Accountability Center is a bold, new role for PSP. It encompasses several elements as illustrated above; however, it will be critical to prioritize opportunities to improve public funding and ecosystem offset program based on the magnitude of opportunity and likelihood of improvement amongst other criteria, and ensure the Innovation & Accountability Center focuses on the most valuable opportunities.

The following is a description of the core functions illustrated above and which PSP is well-positioned as a backbone agency to lead in close collaboration with partner agencies:

- Provide technical consultation services to partner agencies and stakeholders developing or evaluating existing public funding and ecosystem offset programs. Partner agencies could request a collaborative approach, or an independent third-party evaluation based on their needs.

- Publish best practices and other public funding and ecosystem offset program development resources (e.g., ecosystem offset principals, case studies). These resources could be generated by other entities, or by PSP and partners.
- Track and report the results of conservation programs to increase transparency and accountability, highlight successes and identify areas of improvement. For example, for ecosystem offset programs, detriment (if applicable) and benefit projects in dollars and relevant metrics could be reported to daylight if the program goals are being achieved.
- Track and report the use of available funding sources by local agencies throughout Puget Sound to increase awareness and encourage the use of available funding sources.
- Facilitate forums and technical workshops for partner agency staff to learn and collaborate on effective and innovative public funding and ecosystem offset approaches (e.g., stormwater regional compliance, alternative compliance programs, stormwater parcel “feebates”).
- Facilitate pilot testing and other approaches to demonstrate the implementation and benefit of, or jumpstart emerging conservation programs or changes to existing conservation programs.

An example of state funding mechanisms that the Innovation & Accountability Center could increase awareness of and encourage increased use of is the Conservation Futures Tax (CFT). This is a significant funding source, generating approximately \$32,000,000 in revenue in 2017 across 10 of 12 counties in Puget Sound that utilize a CFT. However, none of the counties with a CFT exercise the CFT to the cap (.06525 of property value), two counties in Puget Sound do not utilize the CFT at all. Counties can also learn from each other and employ new practices to increase the environmental benefit achieved by these programs or ensure that the RCW intent of salmon preservation is fulfilled. Thus, PSP could support counties interested in utilizing or increasing a CFT or interested in more effective investments of CFT revenue. For example, counties with conservative leaning voter bases have had success gaining voter approval for a CFT by developing coalitions with timber companies and agricultural landowners interested in selling less productive land that is valuable to the community, and Tribes interested in preserving valuable ecological land. Additional details on local taxing authorities and opportunities for improvements are described in the Special Districts and Local Funding Sources Memo as a separate deliverable.

Examples of existing ecosystem offset programs that the Innovation & Accountability Center could help improve include the Nearshore Credit Program for offsetting development in inland marine waters (see separate strategy write-up in this memo), groundwater banking, Total Maximum Daily Load implementation plans, and stormwater alternative compliance programs. The Innovation & Accountability Center could help these existing programs with the development of science-based credit/debit methodologies (or “currencies”) for determining and trading in-kind and out-of-kind offsets, setting in-lieu fee schedules based on full life-cycle accounting, and developing durability and additionality standards. For example, there is a perception that public funds cannot be used along with ecosystem offset funds to implement conservation projects even though there is an opportunity to implement bigger and better projects by combining these pools of funding. There are specific rules such as some public grants prohibit ecosystem offset funds to be used to fulfill match requirements. Further, combining ecosystem offset funds and public funds is often challenging because stakeholders can be rightfully concerned public funds are subsidizing ecosystem offset requirements and it is typically subjective and costly to demonstrate that the ecosystem offset funds produced sufficient ecosystem offsets. Thus, this is a great example of how the Innovation & Accountability Center could help improve the effectiveness of ecosystem offsets by developing objective rules for combining public funding and ecosystem offset funding to facilitate bigger and better projects.

Another example is wetland mitigation banking. Since 2014 public agencies around Puget Sound have invested approximately \$200,000,000 in attempt to permit wetland mitigation banks incorporating

approximately 1,000 acres of valuable wetland habitat to offset future development needs; however, no bank has been approved since 2014 due to inadequate staffing at the Army Corps of Engineers' (Corps) Seattle Regulatory Branch and Washington State Department of Ecology (ECY).⁴ The Innovation & Accountability Center could encourage Corps and ECY and develop objective standards and tools modeled after more effective review processes employed by Corps districts in other parts of the country, and add capacity to accelerate the review process.

The Innovation & Accountability Center will require PSP to develop internal ecosystem offset expertise and build the capacity to develop and distribute content, train and consult partner agencies, and track and reporting public funding and ecosystem offset program implementation data.

Ecosystem offsets, or mitigation, is a loaded term and there is a broad range of perspectives on the subject, including that mitigation does not work. Thus, it will be necessary to develop effective messaging that clearly articulates the scope and purpose of the Innovation & Accountability Center to stakeholders. For example, it will necessary to help stakeholders understand that central to improving ecosystem offset programs is to ensure avoidance and minimization is achieved to the maximum extent possible under current law, and when residual impacts exist then it is important to determine if the ecosystem offsets fully compensate for the impacts and improve the program if the impacts are not fully compensated.

Lastly, it is incredibly useful to pilot test and initiate implementation as early as possible in the Innovation & Accountability Center development process. Currently there are active discussions related to improving the RGP 6 ecosystem offset program and PSP has been encouraged to participate in development and implementation of that program. This is a unique and valuable opportunity to begin implementing the Innovation & Accountability Center with a narrow scope while designing the program, which will provide a tangible experience to shape the design of the Innovation & Accountability Center.

Benefits

- **Increase effectiveness of existing public and private sector investments.** The Innovation & Accountability Center generates an additional estimated \$30,000,000 of environmental benefit for Puget Sound recovery annually.⁵
- **Increase transparency and accountability for mitigation and other programs which will improve public support and increase effectiveness and total funding.**
- **Increase total conservation funding by securing new funding for innovative and effective programs, and identifying programs generating insufficient funding to fully compensate for impacts.**
- **Increase certainty for private sector which will improve public support and facilitate increased mitigation standards and thus increase funding for ecosystem offset programs.** With clear and objective policies and tools we avoid costly and lengthy negotiations which slow down implementation.
- **Create cover and legitimize program improvements for partner agencies interested in improving their public funding or ecosystem offset programs.** PSP can serve as an independent third-party expert to develop program improvement recommendations, which can make it easier for partner agency leadership to make desired improvements to their program.

⁴ Thomas, Jennifer. 2019. Wetland Mitigation Banking Brief prepared for Laura Blackmore.

⁵ Estimated increase in environmental benefit is based on an estimated total of one billion dollars of conservation spending in Puget Sound annually, 15% effected by this strategy and a 20% improvement in conservation outcomes.

Limitations & Risks

- The federal, state and local agencies administrating and participating in existing public funding and ecosystem offset programs may feel threatened and unsupportive of PSP playing this role and thus make it difficult for PSP to engage.
 - It will be important to evaluate the willingness of potential partners to improve their programs and gain commitment from those partners before investing resources.
 - Federal partners have recently demonstrated interest in PSP playing an active role in improving the ecosystem offsets required by RGP 6 permits.
- This requires deep understanding of different conservation investment approaches, in particular mitigation models, historical understanding of successes and failures, and emerging models. This also requires capacity to track and report the implementation of existing programs, and ability to effectively engage other agencies. This can be partially addressed by building an interagency team and utilizing existing resources within other agencies.
- This requires legal support or expertise to develop a defensible strategy for areas where multiple regulators may be involved in mitigation offsets.
- Progress has been slow on previous efforts to improve mitigation, such as those identified in the “Making Mitigation Work: The Report of the Mitigation that Works Forum.”⁶
- PSP may conduct research and provide recommendations to existing public funding and ecosystem offset programs with great intentions; however, the information would theoretically be public and thus litigious stakeholders could use it in counter-productive ways.

Timeline

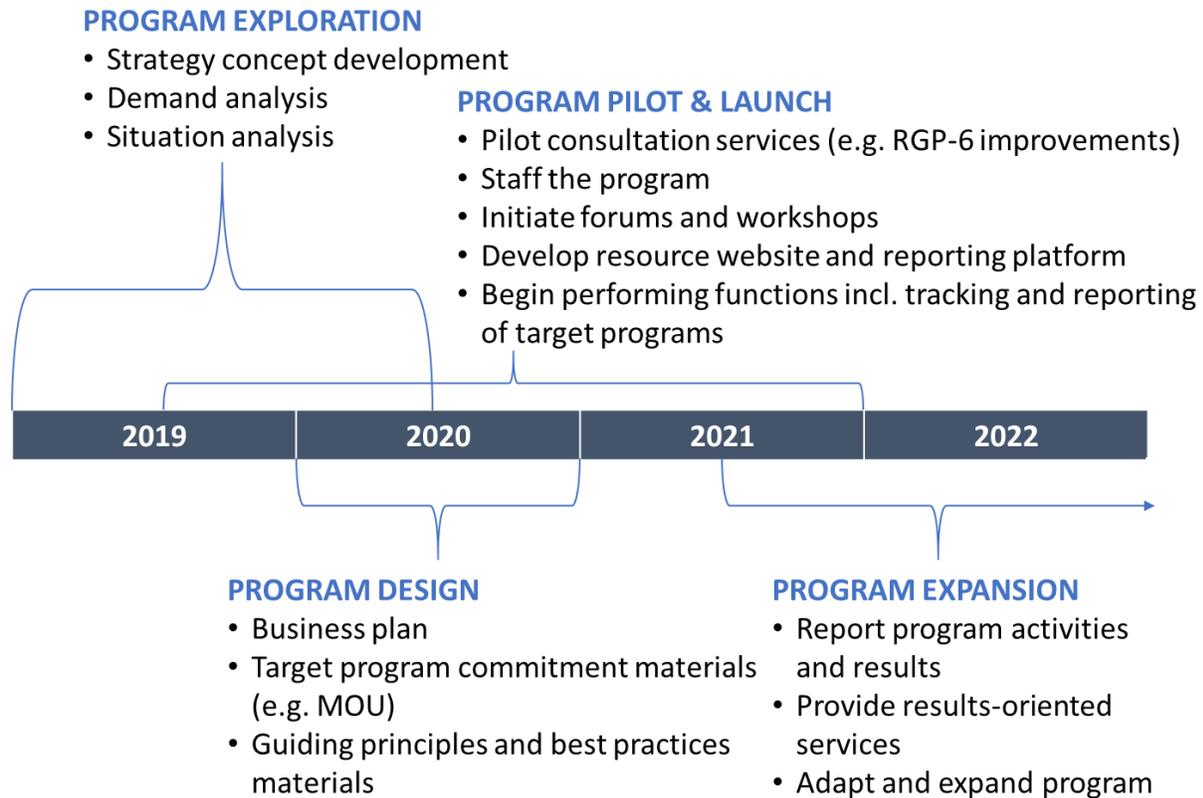
The following timeline is a rough estimate to provide a vision for how long it will likely take to conduct additional exploration, design and launch the Innovation & Accountability Center and realize on-the-ground benefits to Puget Sound Recovery.

Short-term (2-4 years) - It will take 6-12 months to develop a business plan for the Innovation & Accountability Center, another 6-12 months to develop capabilities and initial resource library, another 6-12 months to identify initial programs and provide technical consultation, and another 1-2 years to realize on-the-ground benefits from program improvements.

Work Plan

The figure before contains a draft high-level work plan to provide a general understanding of the tasks likely needed to design, launch and operate a successful Innovation & Accountability Center. Details for immediate next steps are provided after the figure.

⁶ Washington Department of Ecology. (2008). Making Mitigation Work Forum Report. <https://fortress.wa.gov/ecy/publications/summarypages/0806018.html>



Near-term Task Details

Strategy concept development – This task began when the Innovation & Accountability Center was selected for development of a write-up as part of the Mobilizing Project. This write-up contains the current proposed vision, and it should continue to be revised when conducting the other program exploration tasks. For example, the types of functions performed, and the types of partner programs serviced will continue to be refined throughout the other program exploration tasks. Once the program exploration tasks are completed, the content in this write-up will migrate to the “Business plan” and significantly more detail will be added to clearly and comprehensively describe how the Innovation & Accountability Center will operate.

Demand analysis – This task is critical to ensure limited resources are used to develop and perform functions that will make maximum impact to Puget Sound. Thus, it is important to identify and describe potential functions that could be performed, and then engage a sample of the target audience of each potential service to measure the interest in and magnitude of impact that the service can make, and engage key partners on the functions that are intended to encourage partners to improve their programs.

Situation analysis – This task is important to ensure the Innovation & Accountability Center is well-positioned relative to other organizations currently influencing, providing and demanding each function performed by the Innovation & Accountability Center. The Innovation & Accountability Center wants to complement other organizations as opposed to directly compete (unless justified), and make sure they are providing unique value to the overall system. The situation analysis will identify all relevant organizations and how they are related to the functions under consideration, and this will inform the functions performed by the Innovation & Accountability Center.

Business Plan – This task entails clearly and thoroughly defining and documenting how the Innovation & Accountability Center will operate to ensure that resources are used strategically to maximize benefit to Puget Sound, get PSP staff focused on the same goals and secure additional funding needed to achieve the Innovation & Accountability Center’s goals. The business plan will include elements such as program goals, functions performed, the Innovation & Accountability Center’s position within each function amongst other relevant organizations, governance structure and staffing, partner agency engagement and communication plan, target program selection criteria and commitment requirements, budget and funding plan.

Investment-Grade Performance Measures

Strategy Summary

Primary Benefit: Improve cost-effectiveness of existing funding

Est. New Funding or Cost-Savings: \$20,000,000/year after several years of implementation

Funding Source: Public and private

Timeline: Short-term (2-4 years)

PSP's Role: Lead development and implementation with partner agency participation

There is a significant opportunity to use performance measures (PMs) to maximize the environmental return on investment of conservation investments in Puget Sound. Not only can performance measures increase the environmental benefits generated by existing funding but achieving and demonstrating more cost-effective investments can help secure new funding for Puget Sound recovery.

During outreach conducted by the Mobilizing Funding project, a senior manager of a large environmental non-profit said, “The Puget Sound conservation community doesn’t do performance management; a performance framework would be really valuable, so we understand the return on investment”. With that said, it is useful to note that Puget Sound is not alone. While there are more and more examples in other regions of performance measures being used to increase the environmental benefit of public and private sector investments, it is still rare in the field of conservation.

PSP is currently involved in the development of performance measures that align with the Investment-Grade PM strategy. Thus, this strategy builds on existing PSP efforts and capabilities to create a formal initiative to develop investment-grade PMs and integrate them into public funding and regulatory programs to generate greater environmental return on investment.

Overview

Focusing public-sector expenditures on scientifically measurable environmental benefits using investment-grade performance measures increases the cost-effectiveness of public-sector expenditures (e.g., Near-Term Actions). In addition, integrating units of environmental performance using PMs into regulatory programs produces more cost-effective compliance, facilitates development of innovative practices, ensures achievement of avoidance, minimization and mitigation standards (e.g., “no net loss”) and streamlines permitting processes. Further, it enables the development of ecosystem service markets, alternative compliance mechanisms and other innovative ecosystem offset programs that more effectively achieve public policy goals.

Investment-grade performance measures can also better align public-sector funding and regulatory programs and facilitate truly integrated funding and implementation of multi-benefit projects which produce more strategic and cost-effective conservation outcomes.

What are investment-grade performance measures?

The term “investment-grade performance measures” is used to describe performance measures that are designed in such a way that they can be used in multiple ways to improve conservation outcomes, including evaluating alternative project designs to maximize outcomes, estimating and verifying actual change (or “uplift”) achieved, and employing performance-based contracts that transfer implementation risk to the project proponent and provide the project proponent more flexibility to modify implementation of the project without contract amendments.

In order to use investment-grade PMs in the ways described above, they must fulfill specific characteristics. The following is an initial list of characteristics to guide development of investment-grade PMs; however, the list needs to be built out and each characteristic needs further description before use, and the specific use of the PM is a key factor not considered here.

- ❑ Incorporate quantity (e.g. acres) and quality (e.g. condition), which often requires key landscape-scale factors as well as site-specific factors that are changed by a project.
- ❑ Ability to estimate uplift based on pre-project and post-project condition, and differentiate change estimated for different project designs.
- ❑ Factors influencing PM are under direct control of the project proponents (as opposed to climatic conditions or other confounding variables).
- ❑ Ability to verify actual post-project uplift achieved and within a useful timeframe (often within a year or two after project completion is necessary depending on use).
- ❑ Cost to apply PM is appropriate relative to cost to implement project.

These characters differentiate investment-grade performance measures from other types of performance measures and indicators, which may be valuable but for different uses. For example, performance measures that included predictive models as opposed to site observations may be useful planning tools and/or for evaluating and selecting projects; however, because they are based on predictive models, they often cannot verify actual project outcomes unless an associated verification protocol is available. Another example is monitoring indicators, which may be useful to understand changes in a system; however, they are typically influenced by factors outside of the project proponents’ control and thus may not differentiate uplift produced by the actions of the project proponent versus other factors (e.g. climatic conditions) influencing the indicator.

Simply put, investment-grade PMs ensure funders and project proponents are focused on results that matter (outcomes-based) and less on specifics of the project design and interventions proposed (strict process and rules around project implementation). To meet our recovery goals, it is critical to focus limited resources on the most important outcomes and in the most impactful locations (maximize *return on investment*, and spend less time and effort negotiating and contracting for specific interventions. Tracking and monetizing a more cost-effective and flexible approach to delivering outcomes is the goal. As funders seek clear outcomes, the restoration and enhancement projects to invest in become clear, meanwhile the regulations still apply in all locations to ensure protective management of the resource.

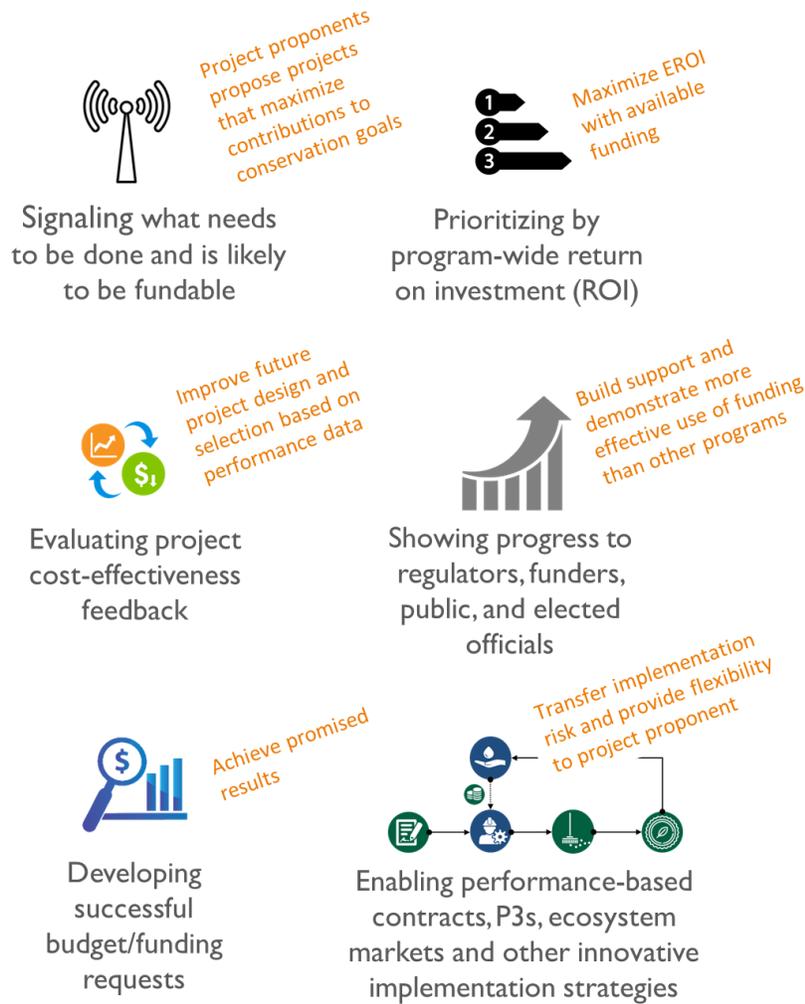


Figure 10. Summary of the uses and benefits of investment-grade performance measures

To illustrate the use of an investment-grade PM, the figure below is of the reporting of an investment-grade PM integrated into the total maximum daily load (TMDL) implementation plan in Lake Tahoe, CA. The performance measure is pounds of fine sediment, and is used by regulated jurisdictions to evaluate and select stormwater investments. Verified results are compared to targets in each jurisdiction's NPDES permit to determine compliance. The use of this PM has dramatically increased the environmental benefit from the limited resources invested in stormwater compliance and aligned the interests of

Definitions

Return on Investment (ROI): ROI is a measure of the amount of return on a particular investment, relative to the investment's cost. To calculate ROI, the benefit of an investment (measured using the investment-grade PM in this context) is divided by the cost of the project.

Public-private Partnerships (P3): Public-private partnerships involve collaboration, typically of a long-term nature, between a government agency and a private-sector company to finance, build, and maintain projects that provide a public benefit.

jurisdictions, regulators and other stakeholders. This is an example of an investment-grade PM integrated into a regulatory program; however, a similar investment-grade PM and reporting could be used to maximize and demonstrate outcomes generated by a public funding program.

Fine Sediment Load Reduction Achieved

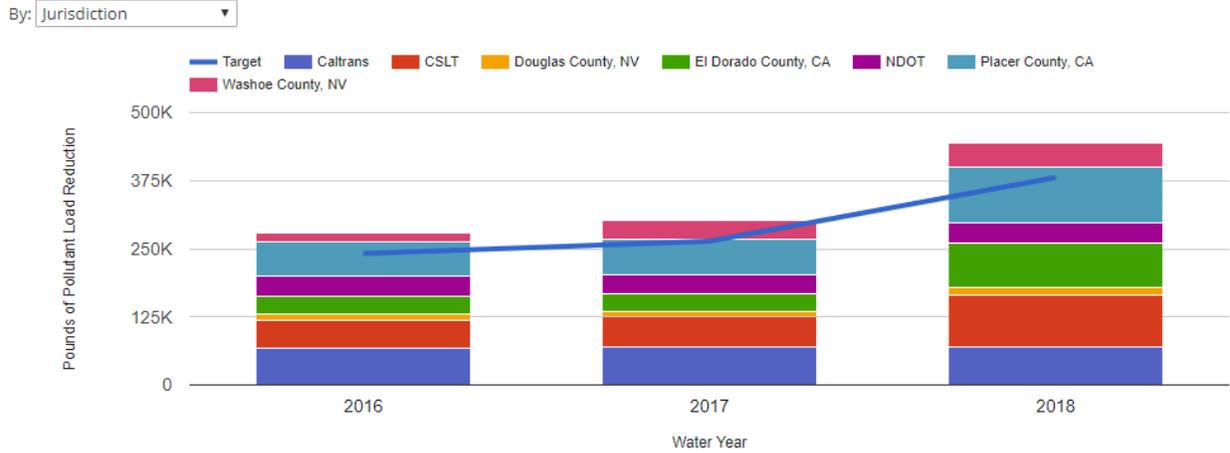


Figure 11. Example of reporting and accountability benefits of performance measures

Investment-grade PMs provide project proponents with the information they need to optimize project site selection, design, implementation and maintenance. They also enable funders to direct funding to the most cost-effective projects (e.g., using *reverse auction* – definition provided in Puget Sound Recovery Fund write-up) and create financial incentives that optimize conservation outcomes, which can include transferring liability of project failure to the project proponent (e.g., *performance-based contract*).

Definitions

Performance-based Contract: A contract between the funder and project proponent in which payment to the project proponent is at least partially based on the verified outcomes produced and defined using performance measures.

While the most significant expected benefit of using investment-grade PMs is increasing conservation outcomes from existing funding sources, a more rigorous and transparent conservation investment framework can also build stakeholder support and attract additional public (e.g., EPA) and private (e.g., corporate philanthropy) investment because stakeholders and funders more clearly understand how to focus resources on Puget Sound ecosystem recovery and are more confident that funding is generating greater conservation outcomes compared to other conservation programs or regions they could be funding. To secure more funding, this innovative, quantitative approach and evidence of increased cost-effectiveness is emphasized in funding proposals. This approach and evidence of increased cost-effectiveness is particularly attractive to public funders frustrated that their funding in other regions is not changing the trajectory of the local natural resource goals, and to philanthropic investors whom are moving away from simply giving money and requiring measurable impact outcomes.

Investment-grade PMs can also help funding program staff think of themselves as “investors” with the goal of optimizing the environmental return of investment of taxpayer fund. Evaluating potential projects based on the cost per outcome and designing projects to optimize the cost per outcome is not currently a common practice amongst staff responsible for selecting projects to fund.

The Investment-Grade PM strategy is directly related to and is a priority element of the Puget Sound Ecosystem Recovery Innovation and Accountability Center strategy because these measures improve and increase accountability of public funding and ecosystem offset programs.

Lastly, investment-grade PMs are typically more appropriate for implementation type activities (e.g., ecological restoration) as opposed to enabling condition type activities (e.g., facilitating working groups or conducting research) because the cost to develop a sophisticated performance measure is more likely to be worth the investment when it will influence one or projects with a total budget of at least two million dollars. In addition, the vision for these investment-grade PMs is to benefit projects in the Action Agenda and outside the Action Agenda when the opportunity exists to meaningfully benefit Puget Sound.

Implementation Details

Investment-grade PMs are developed to be used for clearly defined uses, and the benefits of those uses are worth the cost to develop and maintain the PMs. Further, the intended users and other key stakeholders need to be committed to using the PMs to make the investment worthwhile.

Investment-grade PMs are based on defined guidelines and thoughtfully integrated into public funding and regulatory programs to influence the behavior of the targeted users. In addition, projects that use investment-grade PMs and the estimated and actual outcomes produced by each project are published on an online registry in order to enable funders to compare and select the most cost-effective projects to fund, and enable funders, project proponents and adaptive management staff to evaluate the results of previous investments to improve best practices, funding guidelines and PMs. Additional details on the online registry are provided below.

Ultimately, investment-grade PMs can be used in performance-based contracts in order to transfer implementation risk to the project proponent and create more flexible contracts for project proponents, which limits taxpayer risk and allows the project proponent to seek the most cost-effective implementation techniques during design, implementation and maintenance. However, this is the focus of a future phase of implementing the Investment-grade PM program since it is important to test the use of investment-grade PMs before integrating them into performance-based contracts in order to avoid unintended consequences. Also, while performance-based contracts are another technique to increase the cost-effectiveness of existing funding, performance-based contracting also provides another compelling reason for public and private sector funders to increase funding in Puget Sound since it is rarely used by other conservation programs and regions.

The Investment-Grade PM strategy consists of the following primary tasks for which PSP is well-positioned as a back-bone agency to lead in close collaboration with project proponents and partner agencies:

- Develop investment-grade PMs, including clear documentation and tools, and making them accessible to potential users.
- Facilitate the funding of pilot projects in order to demonstrate the use of and develop evidence of the benefits realized by using investment-grade PMs and communicate those benefits to funders and stakeholders.
- Integrate investment-grade PMs into existing and new public-sector funding programs and regulatory programs directing private-sector investments.
- Develop an online registry to track projects and their estimated and actual investment-grade PM results generated, along with location, regulatory offset buyers (if relevant) and other information useful to future funders and conservation practitioners. The Action Agenda Tracker

and Puget Sound Info can fulfill this function with minimal to modest enhancement to the existing system.

- Evaluate the cost-effectiveness of projects that use investment-grade PMs and relevant historical projects, and compile evidence of increased cost-effectiveness that can be easily used in funding proposals to increase public and private sector funding in Puget Sound.
- *(Second Phase)* Adaptively manage investment-grade PMs to ensure new science and changes in relevant policy are incorporated, and publishing and integrating cost-effectiveness lessons learned into existing and new uses of investment-grade PMs.
- *(Second Phase)* Facilitate the funding of projects that generate mitigation credits based on investment-grade PMs planned or recently integrated into regulatory programs in order to test, demonstrate the use of and develop a bank of credits that are readily available for mitigation buyers. Funding is reimbursed at time of credit purchase and can be used to establish a revolving fund used to fund the next round of projects generating mitigation credits in order to implement projects in advance of the need for the credits and streamline permitting for mitigation buyers.
- *(Third Phase)* Facilitating the use of performance-based contracts in order to demonstrate the use of and develop evidence of the benefits realized by employing performance-based contracts.

Examples of potential investment-grade PMs include functional acres of floodplain habitat, thermal load benefits from riparian vegetation shading, tons of carbon dioxide equivalents (CO₂e), and acre-feet of flow reduced from low-impact development (LID) projects.

In order to qualify, investment-grade PMs must fulfill critical characteristics in order to effectively guide project siting, design, implementation and long-term maintenance. These characteristics will be carefully crafted to effectively guide investment-grade PM development and integration into funding and regulatory programs. Example characteristics are provided in a text box above for illustrative purposes. In addition, it is critical that investment-grade PMs are designed to fulfill the intended use which may be specific to each intended use.

Relationship to existing Progress Measure Development in the Puget Sound

Substantial investment has produced a wide range of environmental and social performance indicators in Puget Sound. A subset of these indicators may qualify as an investment-grade PM as currently designed or with modification. For example, there is a clearly defined protocol for measuring the linear feet of shoreline armor in Puget Sound. The existing protocol may suffice as a PM to guide shoreline removal project siting, design, implementation and maintenance, or it may need to be modified to quantify the relative impact of different shoreline armor sites within Puget Sound and/or quantify the quality of the shoreline habitat post-project.

PSP is currently working with partners to develop performance measures to estimate the effectiveness of conservation actions including the Puget Sound Stormwater Pollution Reduction Tool and the Salmon Benefit Index. However, without further evaluation, it is not clear if these performance measures fulfill all recommended characteristics above and therefore might require modification in order to serve as an investment-grade PM. For example, the Salmon Benefit Index might be a great planning tool to inform project selection; however, it might not be able to verify the actual benefits of a project because it is based on models.

PSP also released Puget Sound Info and Action Agenda Tracker in June 2019 which contain much of the functionality of the online registry referenced above. The Action Agenda Tracker currently includes activity progress measures to measure and report the contributions of the Action Agenda towards Vital Sign targets. A subset of investment-grade PMs developed will likely be useful to add to the Action

Agenda Tracker as additional activity type progress measures in order to evaluate NTAs using the investment-grade PMs. The functionality of the Action Agenda Tracker will likely need to be expanded, but limited improvement is anticipated. An additional online registry like the Action Agenda Tracker may be developed within Puget Sound Info in order to track and report projects beyond the scope of the Action Agenda. Thus, the online registry required to publish and evaluate projects using investment-grade PMs would be an expansion of work already performed by PSP.

Benefits

- **Increase environmental return on investment of existing funding.** Using investment-grade PMs to guide project design, select projects and report project results focuses project proponents and other stakeholders on the most cost-effective projects and produces more outcomes per dollar invested. The Investment-Grade PM strategy generates an additional estimated \$20,000,000 of environmental benefit for Puget Sound recovery annually.⁷
- **Utilize performance-based contracts to reduce taxpayer risk, accelerate project delivery and increase environmental return on investment.** Basing a portion of the payment to project proponents on verified outcomes enables less funder oversight and overhead, and implementation risk is transferred to the project proponent. These benefits will accelerate implementation and increase outcomes per dollar invested.
- **Facilitate cost-effective and streamlined regulatory compliance.** By using a measurable unit of environmental benefit to define regulatory compliance requirements, less oversight and overhead is required, and compliance projects are delivered faster and at lower cost.
- **Align existing and disparate public-sector funding and regulatory programs.** By using the same or related measurable unit of environmental benefit in public-sector funding and regulatory programs related to a specific resource (e.g., shoreline armor removal), project proponents, funding agencies and regulatory agencies will speak the same language and focus public and private investment in the most cost-effective projects.
- **Build public and stakeholder support.** Using measurable units of environmental benefit to select projects and report investment results increases transparency and accountability and helps the public and stakeholders understand what was produced with taxpayer funds and by regulatory programs.
- **Secure additional funding from existing and new sources.** Pairing a rigorous and transparent investment approach with clear reporting of investment results is appealing to funders and creates a competitive advantage when compared with other regions for federal (e.g., NEP) and other programs.

Limitations & Risks

- Developing and maintaining sophisticated PMs takes meaningful resources and time.
 - Clearly defined guidelines for developing investment-grade PMs must be developed, and staff with deep understanding of the characteristics of investment-grade PMs will need to work closely with the end users, science community and regulatory agencies (if relevant) to develop and test investment-grade PMs ensure effective investment-grade PMs are developed.

⁷ Estimated increase in environmental benefit is based on an estimated total of public sector conservation spending in Puget Sound being twice the amount of funding of the Action Agenda (\$500,000,000 annually), 10% of public sector conservation spending influenced by investment-grade PMs and a 20% increase in investment-grade for projects influenced by investment-grade PMs.

- Securing adoption of investment-grade PMs by public funding and regulatory programs takes meaningful resources and time.
 - Staff must work closely with relevant public funding and regulatory agencies, as well as end users, to clearly define the business processes for which the investment-grade PMs will be used and ensure the investment-grade PMs are appropriately integrated into funding guidelines and regulatory policy (if relevant).
- Collecting and reporting the use of investment-grade PMs, both pre-project projections and post-project actual results can be challenging and take meaningful staff time.
 - It may require developing reporting (e.g., map-based reports) to highlight watersheds and municipalities which are and are not using investment-grade PMs developed and providing investment-grade PM data.

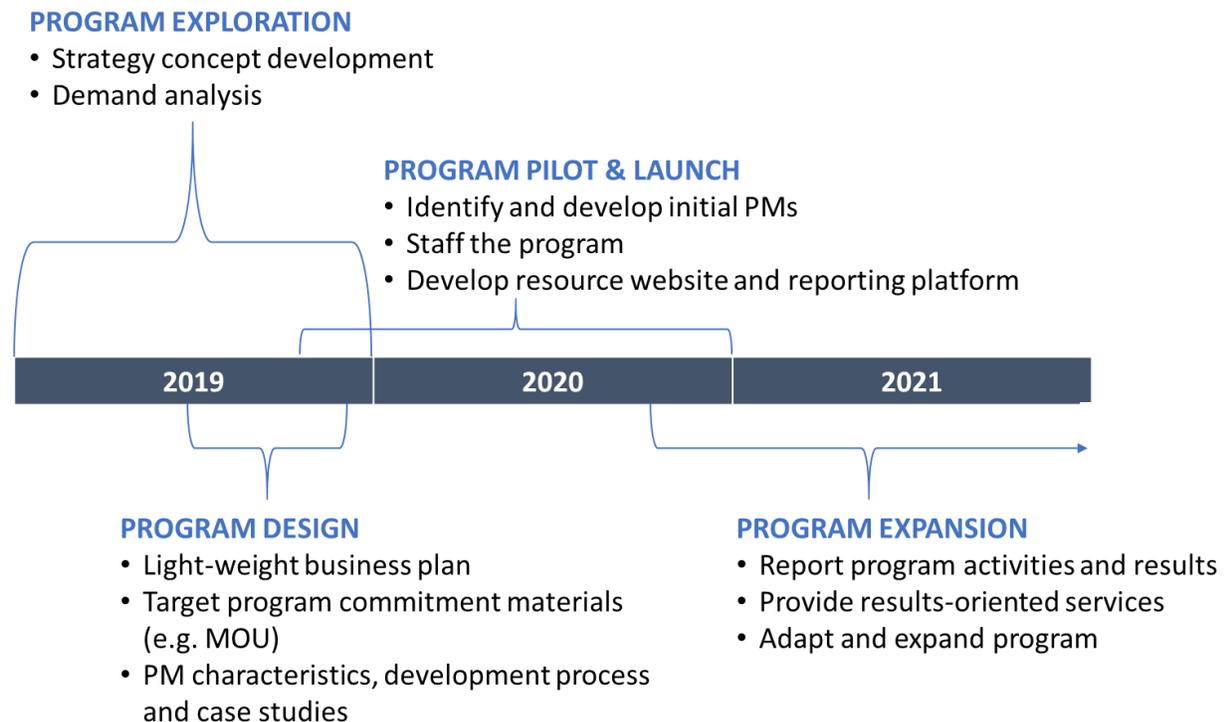
Timeline

The following timeline is a rough estimate to provide a vision for how long it will likely take to conduct additional exploration, design and launch the program and realize on-the-ground benefits to Puget Sound Recovery.

Short-term (2-4 years) – It will take at least 6-12 months to develop a business plan and key program resources, another 6-12 months to develop (modify) the first investment-grade PMs, another 6-12 months to pilot test and integrate the investment-grade PMs into a public funding programs, and another 6-12 months to see projects influenced by investment-grade PMs to deliver on-the-ground benefits.

Work Plan

The figure below contains a draft high-level work plan to provide a general understanding of the tasks likely needed to design, launch and operate a successful program. Details for immediate next steps are provided after the figure.



Near-term Task Details

Strategy concept development – This task began when the Investment-Grade PM strategy was selected for development of a write-up as part of the Mobilizing Project. This write-up contains the current proposed vision, and it should continue to be revised when conducting the other program exploration tasks. For example, the different opportunities for leveraging investment-grade PMs and their relative priority will continue to be refined throughout the other program exploration tasks. Once the program exploration tasks are completed, the content in this write-up will be migrated to the “Light-weight business plan” and significantly more detail will be added to clearly and comprehensively describe how Investment-grade PMs will be developed and used.

Demand analysis – This task is critical to ensure limited resources are used to develop, integrate and adaptively manage Investment-grade PMs that will make maximum impact to Puget Sound. Thus, it is important to identify different opportunities to leverage Investment-grade PMs, and then engage a sample of the target audience of each potential opportunity to measure the interest in and magnitude of impact that Investment-grade PMs can make.

Light-weight business plan – This task entails clearly and thoroughly defining and documenting how PSP will facilitate development and use of Investment-grade PMs to ensure that resources are used strategically to maximize benefit to Puget Sound, get PSP staff focused on the same goals and secure additional funding needed to develop and ensure use of Investment-grade PMs. The light-weight business plan will include elements such as plan goals, opportunities to leverage Investment-grade PMs by priority, governance structure and staffing, partner agency engagement and communication plan, target performance measure/program selection criteria and commitment requirements, budget and funding plan.

Orca Dollars (Point of Sale Donations)

Strategy Summary

Primary Benefit: Generate new funding

Est. New Funding or Cost-Savings: Potentially significant but very difficult to estimate

Funding Source: Private

Timeline: Mid-term (3-5 years)

PSP's Role: PSP develop PSP foundation to implement, or PSP partner with existing non-profit entity

The annual cost of the Action Agenda for Puget Sound is approximately one billion dollars; currently more than half of the projected budget is unfunded. In order to completely fund the Action Agenda, existing funding sources must be expanded. However, doubling the largest current funding source (NEP funding) would address less than half of the funding gap. Thus, new and significant long-term funding sources are needed to meaningfully change the trajectory of Puget Sound recovery.

There are many voluntary opportunities for residents to contribute to Puget Sound recovery; however, most are marketed to select individuals or require significant marketing and overhead costs to reach potential donors. Further, there are very few voluntary opportunities that reach visitors to Puget Sound. A direct, convenient and broad voluntary opportunity for residents and visitors to contribute to Puget Sound recovery could generate meaningful funding from a much broader untapped donor base.

Overview

Orca Dollars harnesses the passion of residents and visitors to Puget Sound to generate a new, significant and sustainable funding source for Puget Sound recovery by creating a mechanism for residents and visitors to easily make small financial donations. PSP establishes a non-profit entity to build partnerships with local businesses (e.g., professional sports teams, hotels, ferries, grocery stores, whale watching tours, etc.) which offer their customers a voluntary one dollar “opt-out” contribution at time of purchase of goods and services. The local businesses collect one dollar, unless the “opt-out” option is selected, from their customers and transfers the net amount collected each quarter to the new non-profit entity.

Orca Dollars generates significant funding for Puget Sound recovery by reaching a significant portion of Puget Sound residents and visitors and receiving repeat contributions from many donors. Orca Dollars also increases awareness amongst residents and visitors of Puget Sound recovery threats and needs because of they will be reminded every time they are prompted for a contribution. The funding generated by Orca Dollars is invested by the non-profit entity established by PSP according to defined investment guidelines outlined in an investment plan that is aligned with and complements the Action Agenda. The investment plan entirely controlled by the non-profit entity and is adapted regularly based on evolution of the Action Agenda and other relevant context.

In addition, Orca Dollars is a great way for local businesses that benefit from the beauty of Puget Sound to participate in Puget Sound recovery in a meaningful way. Local businesses can not only provide donations from their customers but also have the option to provide additional “match” funding based on the funding they collect from their customers.

A relevant example of a program similar to Orca Dollars is Lake Tahoe's *Green Bucks* program described in the textbox below.

Lake Tahoe *Green Bucks* Program

Overview: *Green Bucks* is a [program](#) of the Tahoe Fund and the Truckee River Watershed Council to harness the passion of visitors and residents to help care for our extraordinary environment. Local businesses collect one dollar from their guests from purchases of lift tickets, hotel accommodations, and other items at participating resorts and businesses in the Tahoe and Truckee region. As an “opt-out” program, guests may choose not to participate, and the contribution will be removed from their bill. Proceeds from the *Green Bucks* program will support the efforts of the Tahoe Fund and the Truckee River Watershed Council in their missions to improve conservation, recreation, and stewardship education throughout the Lake Tahoe Basin and the Truckee River Watershed.

Funding Generated: The total annual funding was not identified based on an initial review of information available online. However, the following are useful reference point. Participating businesses in Olympic (Squaw) Valley raised \$75,000 between 2012 and 2014, and the Hard Rock Hotel and Casino (539 rooms) raised \$29,310 in 2016.

Note: Lake Tahoe’s *Green Bucks* program is administrated by the Tahoe Fund. The Tahoe Fund focuses on building broad support and funding for projects and programs that restore and enhance the Lake Tahoe Basin. The Tahoe Fund is not to be confused with the League to Save Lake Tahoe, which focuses on advocating for sensible environmental policy supported by science and community engagement and implements the Keep Tahoe Blue campaign.

Implementation Details

PSP establishes a non-profit entity per RCW 90.71.240 (5) to implement Orca Dollars, including raising and investing funding generated. Utilizing a non-profit avoids the need for the legislature to give PSP the authority to receive and deploy charitable funding and because some local businesses are expected to be interested in working with a non-profit, and some residents and visitors are expected to be interested in donating to a non-profit as opposed to a government agency. Alternatively, or as an initial structure to pilot test Orca Dollars, PSP could partner with a non-profit entity to act as a fiscal agent. A number of environmental caucus members (The Nature Conservancy, Long Live the Kings, Washington Environmental Council, or Puget Soundkeeper Alliance) or potential new partners like Seattle Foundation may be appropriate depending on the focal issue of the funding and their interests.

The non-profit develops and maintains partnerships with local businesses. Local businesses are prioritized by their transaction volume, type of customer and willingness to “match” funding generated from their customers, which influence the total funding that they are likely to generate. The ability of a local business to provide the voluntary one dollar “opt-out” option to their customers at time of payment is an eligibility requirement, although the non-profit can also provide them with vendors to help them develop this capability if they are interested. Hotel chains, grocery chains, and sports teams (e.g., new hockey team if their name is associated with salmon) are examples of preferred potential partners.

To entice local businesses to participate, Orca Dollars provides local business partners marketing products and media exposure so that the local business partners can gain direct business value from participating in the program. For example, the program can provide local business partners with an Orca Dollars logo and content to use in their marketing aimed at environmentally conscious customers.

Further, Orca Dollars can facilitate a publicity event each year to announce and celebrate the local business partners that generate the most funding and the great projects funded by Orca Dollars.

There may be an opportunity to partner with other types of businesses to promote Orca Dollars and scale the number of local businesses interested in participating. For example, leading online travel company TripAdvisor recently launched an initiative called the GreenLeaders Program designed to identify travel accommodation businesses committed to environmental conservation. TripAdvisor GreenLeader businesses receive a variety of benefits such as improved search rankings. PSP could explore working with TripAdvisor to enable Orca Dollars corporate partners to earn points toward the GreenLeader designation like Tahoe's Green Bucks program, which would make it more appealing for local businesses to participate. Alternatively, a similar program could be established by Orca Bucks for partners that achieve specific criteria, or unique partnerships could be established such as a visitor offset program with local technology and travel company Expedia.

An investment plan would be developed and maintained in order to build confidence in potential local business partners that their participation contributes to meaningful improvements to Puget Sound, and to guide investment of funding generated. The investment plan may be as simple as funding the highest priority unfunded NTAs or be customized to the interests of target local business partners and their customers.

Benefits

- **Minimal effort and time required to launch program.** Orca Dollars does not require legislation or voter approval. PSP currently has the authority to establish a non-profit to raise charitable donations, or PSP could partner with a non-profit entity who could act as fiscal agent for at least the beginning of the program.
- **New, significant and sustainable funding.** Orca Dollars generates significant additional funding for Puget Sound recovery annually, potentially in the tens of millions of dollars per year depending on partnerships developed.
- **Generate funding from visitors to Puget Sound.** A unique characteristic of Orca Dollars is that it directly reaches the visitors to Puget Sound, which is a significant, untapped donor base and a meaningful portion visit Puget Sound because of its natural beauty and tremendous recreation resources.
- **Cost-effective investment approach.** The scale of this new funding source, a centralized decision-making body and a single administrative entity along with strategic investment guidelines facilitate funding of cost-effective projects (e.g., large, truly multi-benefit projects).
- **Increased public awareness.** Directly engaging a broad spectrum of residents and travelers and potentially repeated several times (e.g., grocery stores) generates increased public awareness of Puget Sound ecosystem threats and needs which will translate to additional contributions to Puget Sound recovery.
- **Secure additional funding from local business partnerships.** Participating local businesses may elect to match all or a portion of the contributions from their customers.
- **Minimal overhead after partnerships are initially developed.** Developing partnerships with local business will require meaningful effort; however, the effort to reach each potential donor and collect funding generated is minimal. In addition, a centralized decision-making body and a single administrative entity reduces transaction costs to deploy funding.

Limitations & Risks

- Developing and maintaining partnerships with local businesses will require meaningful effort. Significant communications and outreach will be necessary to secure a critical mass of participating businesses. Other overhead to maintain the program to consider includes the management and reporting of funds generated and deployed.
- This type of program is often administrated by a non-profit and non-profits in Puget Sound may compete for this funding source or not support it because they feel that they are better suited to administrate this type of program.
 - Similar programs exist at individual retailers like Cabela's and REI, with recipients being national or local non-profit organizations, like Rocky Mountain Elk Foundation, Forterra or Mountains to Sound Greenway Trust, with whom the retailer has existing relationships.
 - Non-profits who aggregate retailers around a cause like KEXP (local, non-profit radio station) or Bicycle Benefits often engage retailers in providing discounts to members rather than collecting donations at point of sale.

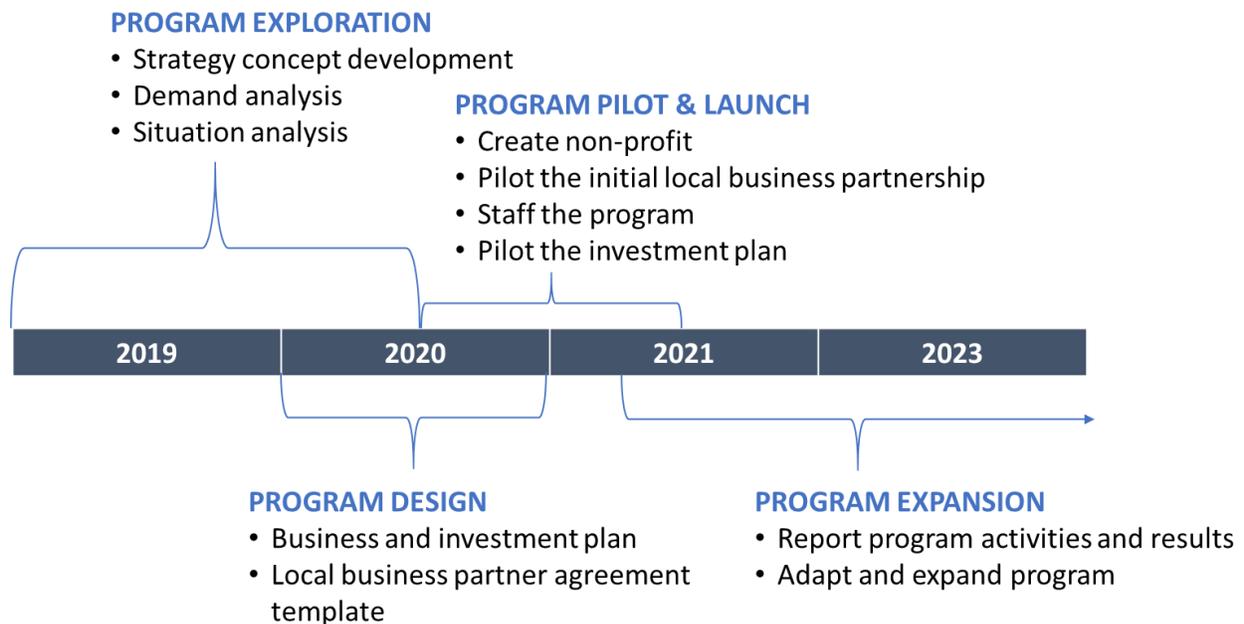
Timeline

The following timeline is a rough estimate to provide a vision for how long it will likely take to conduct additional exploration, design and launch the program and realize on-the-ground benefits to Puget Sound Recovery.

Mid-term (3-5 years) - It will take 6-12 months to develop initial partnerships, another 6-12 months to receive initial funding, another 6-12 months to begin deploying the funding, and another 1-2 years to see projects funded by Orca Dollars deliver on-the-ground benefits.

Work Plan

The figure below contains a draft high-level work plan to provide a general understanding of the tasks likely needed to design, launch and operate a successful program. Details for immediate next steps are provided after the figure.



Near-term Task Details

Strategy concept development – This task began when Orca Dollars was selected for development of a write-up as part of the Mobilizing Project. This write-up contains the current proposed vision, and it should continue to be revised when conducting the other program exploration tasks. For example, the types of local business partners and their priority will continue to be refined throughout the other program exploration tasks. Once the program exploration tasks are completed, the content in this write-up will be migrated to the “Business plan” and significantly more detail will be added to clearly and comprehensively describe how Orca Dollars will operate.

Demand analysis – This task is critical to ensure there are local businesses that are interested in partnering and have transaction volume to raise sufficient funding to justify the cost to administer Orca Dollars. This task will also inform the development of a strategy for engaging different types of local business. Thus, it is important to identify potential types of local businesses (e.g., professional sports teams, hotels, ferries, grocery stores, whale watching tours, etc.) that could be worthy partners, and then engage a sample of each type of local business to measure the interest in participating, ability to provide the voluntary one dollar “opt-out” option to their customers at time of payment and magnitude of funding that they could generate.

Situation analysis – This task is important to ensure Orca Dollars is well-positioned relative to other non-profits currently raising funding for Puget Sound, and potentially competing for the same local business partners. Orca Dollars does not want to try to enter a saturated market and wants to avoid damaging important relationships with existing non-profits. The situation analysis will identify all relevant non-profits and how they are related to Orca Dollars, and this will inform the development of potential partnerships with other non-profits and how Orca Dollars operates including prioritization of local corporate partners.

Business and investment Plan – This task entails clearly and thoroughly defining and documenting how Orca Dollars will operate to ensure that resources are used strategically to maximize funding generated and the benefit from investments in Puget Sound. The business plan will include elements such as plan goals, Orca Dollars position amongst other non-profits raising funding for Puget Sound, eligible expenditures (e.g., implementation type activities, recreation benefit must be included), performance reporting requirements, governance structure and staffing, marketing and partner development plan, target local business partner selection criteria, budget and funding plan. A key decision will be if it is worthwhile for PSP to create a foundation to implement Orca Dollars, or partner with an existing non-profit entity to serve as the fiscal agent and administer Orca Dollars. The projected revenue determined by the demand analysis and evaluation of potential non-profit partners by the situation analysis will inform this decision considering organizational development, funding requirements for overhead and other requirements to implement Orca Dollars.

Nearshore Credit Program (RGP-6+)

Strategy Summary

Primary Benefit: Generate new funding

Est. New Funding or Cost-Savings: Varies by number and types of permits, current backlog is \$500K

Funding Source: Private

Timeline: Near-term (1-5 years)

PSP's Role: Enters into MOU with NOAA; administers program to fund nearshore projects

There are currently more estuary and nearshore projects, large and small, identified for the benefit of salmon, forage fish, and shellfish throughout Puget Sound than public or private funding can support. Similarly, there is high demand for nearshore offset projects that can mitigate certain activities permitted by the federal agencies. While it is deemed less than ideal to use offsets to fund restoration projects due to the funding being predicated on the loss of existing habitat, it is unlikely that these impacts will cease to continue and a structured approach to identifying and delivering appropriate projects will provide better outcomes from Puget Sound recovery.

NOAA and the US Army Corps of Engineers currently operate Regional General Permit #6 (RGP-6) for Structures in Inland Marine Waters. This program authorizes “the construction of new residential in- and over-water structures through a streamlined permitting process that includes Section 7 Endangered Species Act and Magnuson-Stevens Fishery Conservation and Management Act essential fish habitat consultation, provided impacts have been avoided, minimized, and mitigated to the maximum extent possible from the purpose of providing residential waterfront access and recreational uses.” These structures include pier and piles, floats, watercraft lifts and other impacts that degrade riparian and submerged aquatic vegetation. Permittees must offset the impacts using a calculator developed by NOAA and pay for restoration of habitat elsewhere. Details on RGP6, including the calculator can be found here: <https://www.nws.usace.army.mil/Missions/Civil-Works/Regulatory/Permit-Guidebook/RGP/>

To date the permittees have had to find offset projects on their own and there has not been a strategy for project selection or regional oversight by the salmon recovery community. NOAA is currently exploring the idea of expanding RGP-6 to permitting and re-permitting commercial structures which would provide additional demand and funding for projects. For the purposes of this write-up the expanded program which remains conceptual on this stage is called the Nearshore Credit Program.

Overview

The Nearshore Credit Program as conceived will rely on a new NOAA calculator (under development by the agency) to define both debits and credits. Once approved as a “programmatic” through a NOAA Biological Opinion, this new permit system will provide the regulatory framework to generate a conservation marketplace of permittees seeking offset projects that qualify (replacement of old structures with limits on new). A regional organization well acquainted with project benefits, funding needs, project sponsor reputations, and salmon recovery priorities in each of the 5 services areas defined by the Chinook biogeographical regions (or major population groups) is best equipped to administer an exchange.

Rather than building a new program or initiative, the Partnership would improve an existing and expanding program. By providing much needed coordination and administration at the right scale,

outcomes will be improved and much needed funding will be available to projects to expedite restoration where appropriate. Through the current project lists identified in salmon recovery plans and the action agenda and/or hosting a call for additional projects in specific locations, the funding generated from the permittees can be put to highest and best use. In addition, as the program evolves and projects are tracked by the location and type of impact, outcomes can be improved in the right geography or habitat type to improve overall program outcomes. As a non-regulatory partner, the Partnership also provides a trusted program administrator for the transfer of funds and agreements with project sponsors implementing restoration actions. As an example of the number and cost of projects that may qualify as offsets, see the table below. There are undoubtedly additional projects and opportunities that exist outside of the NTAs, and as the Partnership builds out a program they can help identify the most appropriate projects. This project identification would remove projects for which the local sponsors or the Tribes have concerns over utilizing fees acquired for offsetting impact elsewhere. This may be the case where project sponsors would want to avoid securing funds that cannot be used as match for other funding sources or where the Tribes or other entities object to funding 4-year work plan projects or others with these funds. In those cases, additional projects or other locations may be more appropriate and identified through a call for projects or other processes with the Lead Entities, Local Integrating Organizations, Marine Resource Committees, or other agencies.

The figure below summarizes how a nearshore credit program would function and the role of PSP in funding salmon recovery projects and near-term actions.

Benefits

- This would be a new role for Partnership staff, but would align well as both the Regional Organization for Salmon Recovery and as a backbone organization serving to expedite recovery for and with partners through identifying new or improved funding mechanisms.
- As noted in the table, there is at least \$80M in potentially qualifying offsets that are shovel-ready or near-shovel-ready; by increasing funding sources to these projects using an existing offset program more recovery progress can be accomplished now while other funding sources are built out.
- This program already exists and provides a relatively easy way for the agency to test a more active role in program administration, similar to the Puget Sound Acquisition & Restoration project identification and administration.
- The MOU with NOAA would only be 5-years, so the program could be modified or handed off to another entity if it is not meeting the objectives for the Partnership.
- This program provides an early opportunity to pilot and test some of the concepts put forward in the Innovation & Accountability Center strategy described above.
- Adding value to an existing program by compiling and identifying projects that are as close to the impact as possible and shifting the program from Sound-wide to a sub-basin specific program will improve recovery outcomes.
- Where damage or re-permitting is more or less inevitable, this tool could be harnessed for additional uplift and added benefits that exceed the damage if managed correctly.
- The focus on nearshore habitat aligns with recent science showing the importance of forage fish in the foodweb for Chinook diets and as a potential buffer prey for pinnipeds. Increasing foodweb function is a key strategy necessary for salmon and orca recovery.
- A second phase could take advantage of the revenue stream from permittees to do advanced mitigation investing in high-priority, larger-scale projects funded by investors willing to finance

recovery thereby expediting project delivery and saving money because the cost of projects tend to increase over time.

- As the Partnership gains experience in offsets and program delivery, additional elements of a conservation marketplace can be built out that could include financing stormwater, water quantity and other potential offset programs, providing an opportunity to explore relationships with partners such as TNC and others who have experience in implementing similar programs.

Limitations & Risks

- There may be concerns, particularly from the Tribes, in using a tool to fund restoration projects that relies on damage elsewhere. Most recovery plans assume no net loss, and some Tribes may not allow some projects – particularly those from the salmon recovery 4-year work-plans to be funded with mitigation dollars. This may pose less of a concern if the bulk of permits are for replacement structures or if adequate outcomes showing not just offsets but additional lift for certain habitat type or geographies.
- While this tool may ease the process for federal regulators, it is worth exploring whether it would actually optimize the process with state or local regulation requirements such as critical areas and HPAs. Work with other agencies and jurisdictions would clarify whether this risk could raise a problem for generating funds and where in Puget Sound this risk is greatest.
- The cost of program administration, tracking, and reporting may be high. Overhead fees and administration have not worked well on a project by project level as pursued by the South Sound Salmon Enhancement Group, but a regional approach may have the ability to scale and manage the overall project rather than also delivering and constructing each project.
- The agency is not currently in a position to receive and allocate funds without legislative approval, so the initial approach will need to work with NOAA on an MOU that values the points and receives funds in an account with either a partner entity or using a state account that delivers funds to project sponsors only after the authorization for the amount is granted from the legislature.
- Similarly, PSP may not have the capacity to administer several new contracts, so a partner should be identified to contract with the project implementers to manage and transfer funds. This partner could be the Recreation & Conservation Office, Washington Department of Fish & Wildlife or a private partner. Overhead rates, policies of the institution, and additional reporting requirements delay in contracting or other pitfalls should be considered.

Timeline

The following timeline is a rough estimate to provide a vision for how long it will likely take to conduct additional exploration, design and launch the program and realize on-the-ground benefits to Puget Sound Recovery.

Near-term (1-3 years) – NOAA is interested in getting agreement from the agency by October and signing an MOU. Details of the program can continue to be worked out in the first half of 2020, it would take another 6-12 months to receive initial funding and get legislative approval to spend it and develop contracts with project sponsors, and another 6 months to 2 years to see projects deliver on-the-ground benefits, depending on project type.

Work Plan

Because this strategy takes advantage of an existing program and many project partners such as NOAA are already actively working on this strategy, a different approach is taken to describe the near-term work

plan for this strategy with a focus on immediate next steps should the Partnership choose to execute this strategy:

Near-term Task Details

- Identify additional risks or benefits and develop talking points for internal and external audiences as a decision is made.
- NOAA and PSP should meet with Tribes individually and collectively to determine level of concern, identify negotiation points, and further develop the details as appropriate.
- Work with NOAA on a draft MOU to present a more complete decision package to the Leadership Council and other interested Boards for decision-making and feedback.
- Work with King County who has an MOU with NOAA to manage a program for overwater structures in Lakes Washington and Sammamish. Identify lessons learned and identify program administration staffing and cost estimates.
- Develop criteria for project selection and seek feedback from NOAA, Lead Entity Coordinators, LIO Coordinators, and others for an appropriate project inventory and selection. Start with the list below and refine using the 4-year work plans, Estuary & Salmon Restoration Program list, Marine Resource Committee projects, and further refine with partners.
- Explore tools used by other agencies such as Department of Ecology, Department of Natural Resources, and the Recreation and Conservation Office to add to existing contracts or streamline the development of new contracts with project sponsors.
- Train staff in the credit calculator so that projects can be assigned points accurately.
- Work with NOAA to determine geographies for tracking loss and gain in similar sub-basins and/or habitat types.

Potential projects

The table below includes relevant nearshore projects from the Near-Term Action list showing number of projects and total cost as reported by LIO Coordinators for a separate but related effort conducted in the summer of 2019. The table is for illustrative purposes only to demonstrate demand; actual projects may or may not qualify and have not been assessed for points using the NOAA calculator. Additional projects from salmon recovery 4-year work plans, the Estuary & Salmon Restoration Program, the Marine Resource Committees, and other programs⁸ should be considered and analyzed in the context of the proposed service areas as this strategy moves forward.

Nearshore Project Category	Cost*	Number of projects reported
Acquisitions	\$28,112,002	9
Armoring/bulkhead removal	\$19,607,063	17
Creosote piling removal	\$2,436,900	3
Estuary/pocket estuary restoration	\$25,947,640	6
Other (multi-benefit design/build)	\$1,850,000	4
Totals	\$77,953,605	39

*Cost estimates note available for all projects

⁸ Additional nearshore project identification and prioritizations have been completed in several areas of Puget Sound, such as East Kitsap:

<https://kitcowa.maps.arcgis.com/apps/View/index.html?appid=9468e4cae29841ae80a3a4afefe7239f>

Next Steps for Selected Strategies

The process and level of investment to implement each selected strategy will depend on the strategy. When determining the next steps and the needed level of investment to implement a strategy, it is important to consider the phases of program design and implementation. Figure contains a generalized four step process that is typically required to design and implement an effective conservation program. A list of frequent tasks related to the first phase is included in the figure to illustrate the potential tasks relevant to the first phase depending on the strategy.

It is important to note that the write-ups included here are broadly exploratory and additional work and refinement will be needed for each before the agency should make a go/no go decision. It is also important to highlight that much of the focus of these strategy write-ups is on new funding and program improvements to increase project delivery. These are generally capital projects, and we acknowledge that it will be critical for PSP and regional partners to also consider the need for increased capacity and improved enabling conditions and simultaneously address these issues in order to successfully implement the necessary work for recovery. We also suggest that the tools are matched to the appropriate need in Puget Sound and that piloting and testing strategies at the right location for both scale and willing partners is the most likely path to success. Building on a foundation of experience and lessons learned will allow the agency to ultimately realize some of the bigger and bolder strategies included in this memo.

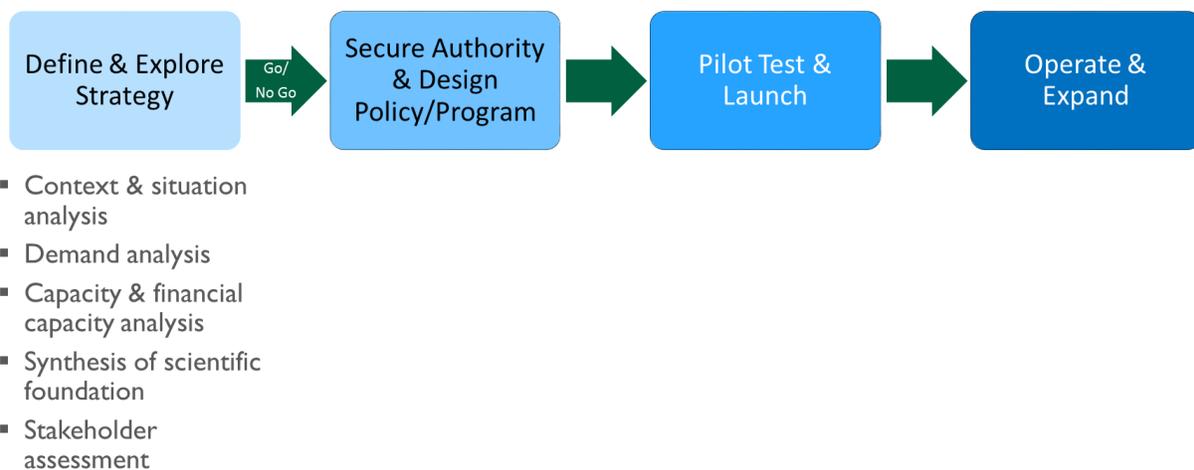


Figure 12. Generalized Program Design and Implementation Steps. Bulleted list shows the details steps, and are only included for the 'define and explore strategy' because this is the next step in the process for PSP.

Human-centered Design

We recommend that PSP incorporate human-centered design thinking into the design and implementation of the identified strategies. By focusing on the needs, motivations and barriers of primary users throughout design and implementation, this approach ensures the strategy will work for key users. A particularly valuable aspect of human-centered design employed by experts in program design is to prototype and test the proposed strategy early and throughout the development process. The idea is to mock-up an example and engage key stakeholders before investing significant resources in designing a strategy in the theoretical context. Not only does this provide incredibly useful information about the viability and interest in potential funding strategies that will be useful in designing a strategy, it creates an opportunity for PSP to evaluate their capability and interest to implement the strategies

(understanding that outside expert support may be needed to develop and test potential strategies during strategy exploration and design).

Human-centered Design in Practice

For example, before establishing a foundation, we recommend that PSP develop a pitch deck or investment proposal for funding a custom bundle of NTAs as well as other related strategies such as contributing land, staff time and other resources to existing or new NTAs and purchasing NTA outcomes defined using investment-grade performance measures (e.g. pounds of sediment reduced). Then testing the appetite of each proposed strategy with several corporations. This will enable PSP to gain critical feedback from relevant stakeholders on the relative interest of each strategy and on specific aspects of each strategy.

Additional Details on Green Bonds & Environmental Impact Bonds

What are Green Bonds and Environmental Impact Bonds?

Several financing sources exist for conservation projects, ranging from general municipal bonds to the Clean Water State Revolving Fund. Green bonds and environmental impact bonds have generated a lot of interest recently and are described below.

Green bonds are financing instruments for capital improvements and other activities that are deemed green. A water utility could issue green bonds to fund capital improvements such as green infrastructure to reduce flooding and improve water quality. A stormwater utility fee repays the bonds over 20 years, or in the case of [DC Water](#), 100 years.

Green bonds are attractive to investors who desire to invest their money in projects with environmental benefits; however, financially they are no different than typical municipal bonds.

Standard Green Bond

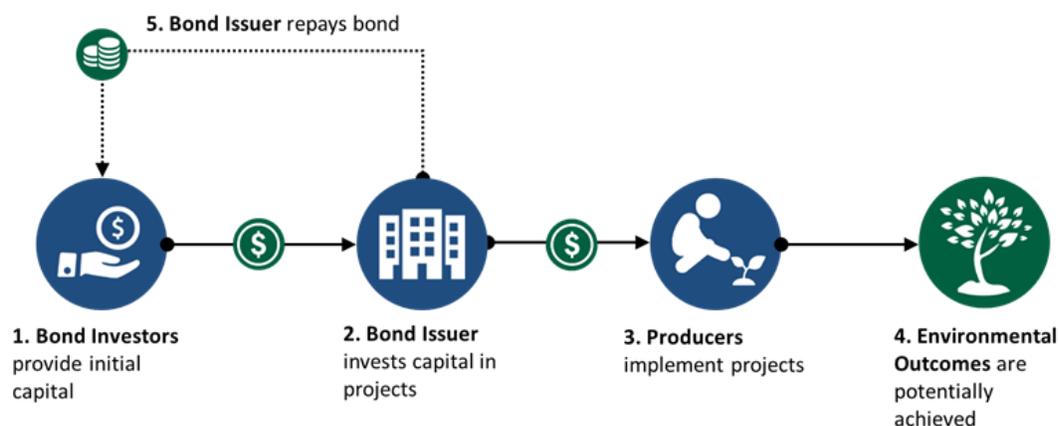


Figure 13 Description of Standard Green Bond

Environmental impact bonds are bonds (although most implementations to date have been funded by a small set of investors as opposed to issuing bonds to capital markets) that use of pay for performance contracts to tie payments to investors to defined environmental outcomes. This way, the investors are paid more or less depending on the quantity of environmental outcomes produced. If the project underperforms the investors are paid less, and they are paid more if the project exceeds expectations. Environmental impact Bonds that also use pay for performance contracts with the producers who implement the project and thus have the most control over environmental outcomes produced will be more effective.

Environmental Impact Bond with Pay for Performance

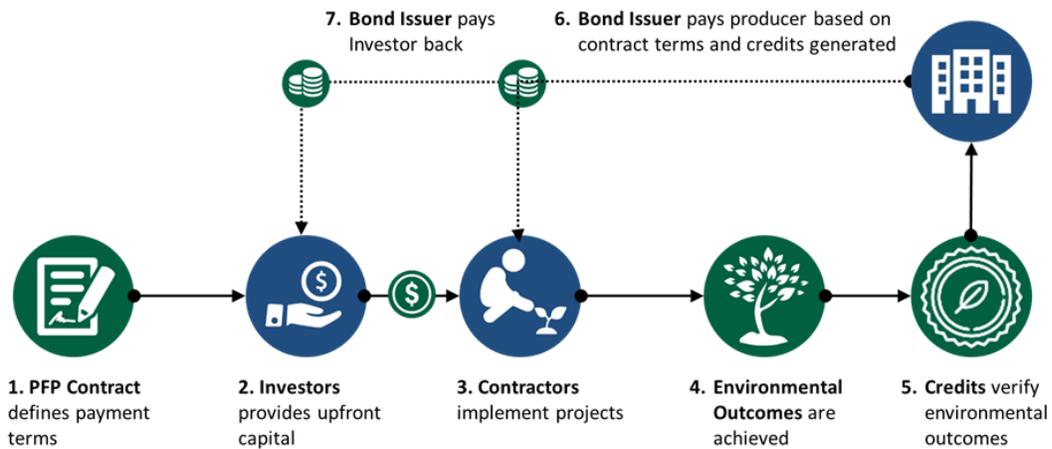


Figure 14 Description of Environmental Impact Bond

**Mobilizing Funding
Partnership Staff Analysis Summary
3 December 2019**

The Puget Sound Partnership leads the region's collective effort to restore and protect Puget Sound by acting as a backbone organization for the recovery community. The Partnership brings together hundreds of partners to mobilize action around a common agenda. As the backbone organization, we are committed to increasing the availability and effectiveness of financial resources for partner actions which lead to the protection, recovery, and resilience of Puget Sound.

The Partnership's strategies to mobilize funding cut across the agency's programs. These efforts include pursuing increases in federal and state appropriations, using an array of effectiveness and accountability tools to direct funding to improve the results of investments, supporting partners in their funding efforts, diversifying funding sources by developing new and innovative funding mechanisms, and strong and transparent fiscal management.

This summary focuses specifically on one aspect of the Partnerships mobilizing funding initiative, the five recommendations which were identified in the *Alternative Funding Report* (August 2019). These recommendations include strategies for both **increasing the amount of funding** and **improving the effectiveness of investments**.

Crosscutting Strategic Considerations for All Five *Alternative Funding* Concepts

- The Partnership should align funding opportunities with actions and priorities in the Action Agenda, Salmon Recovery Plans, and Implementation Strategies
- All strategies will only be as successful as the Partnership's ability to address weaknesses and threats, and all come with caveats
- Consider all legal implications
- There are limitations on Partnership capacity – we are going to need more people
- These initiatives will generate increased scrutiny and potential impacts to Agency reputation
- High levels of transparency in processes and relationships are critical to justify new programs
- All of these strategies are based on relationship building, and there will be challenges for communicating these initiatives to partners and the recovery community.

Puget Sound Recovery Fund via Parcel Tax

The Puget Sound Recovery Fund would establish a regional authority and an approach to cost-effectively invest new, significant funding in the most critical and timely Puget Sound recovery needs. The Puget Sound Recovery Fund is funded by a nominal annual non-ad valorem tax applied to all parcels in the Puget Sound basin.

Strengths/Opportunities

A Puget Sound Recovery Fund administered through a parcel tax would potentially raise a significant amount of new funding. The Partnership would be able to focus those funds on near term actions and partner with the strategic initiatives to fund their priorities. The fund would offer flexibility and adaptability for the growth of Agency programs. Partnerships and a strong coalition concerned about Puget Sound would emerge through the campaign for the tax, including taxpayers interested in how their money is spent. The Partnership has the regional standing to play a role in that coalition, which would bolster the agency's regional leadership.

Weaknesses/Threats

This proposal is that it is a tax. People don't like taxes and politics could very likely influence spending. Moreover, it could be regressive and inequitable if imposed without exceptions for low-income households. Special districts are challenging to implement, complex, require more bureaucracy, and demand extensive reporting for public scrutiny. Leading the effort to pass a parcel tax is not consistent with the other work of the agency or the strengths of the staff. Our involvement will be a reputational risk, and ultimately it could very well fail.

How do we strengthen this idea?

- Widespread coalition building and support including environmental justice and worker groups (to avoid a regressive tax), conservation/recovery groups who may feel a specific Puget Sound recovery tax is unnecessary, and corporate partners to build support and avoid their spending against a measure.
- Clarify the unique need for a district
- Do it as a legislative mechanism, and not a district
- Instead of the Parcel Tax, consider something where polluter or user pays (tire sales, Amazon funds oil risk response/prevention fund, etc.)
- Consider shifting emphasis towards raising public funds through a revenue-neutral (re-distributive), progressive (wealth transfer w/ substitution), use-tax (carbon), and other similar mechanisms

Innovation & Accountability Center

The Puget Sound Ecosystem Recovery Innovation and Accountability Center increases the efficacy of existing and new public funding and ecosystem recovery programs in Puget Sound. The Center achieves this by performing several functions including providing services to partner agencies and providing information to encourage partner agencies to improve their programs.

Strengths/Opportunities

This idea is very strongly aligned with statutory obligations and the Partnership's backbone role. The center would provide an important public service to our partners and strengthen our connections to them, including providing data that would improve the effectiveness and impact of decisions and investment. It would leverage existing funding and generate cost savings. Because we already are doing a lot of these functions, it would not necessarily require substantial new funding.

Weaknesses/Threats

This is a set of activities we already do. The center might be a way of organizing and ordering them differently, but it could be seen as just a repackaging of existing activities, and that the mobilizing finding initiative was a wasted effort. The impact of the center will largely be around cost savings, and not generate new money or necessarily accomplish new projects. And those saving could take a long time to achieve, generating frustration. Playing a role that implies making recommendations on existing public funding and programs could be a reputational and relationship risk for the Partnership, and the results could potential be misused by adversaries of the recovery community. This strategy may require more capacity to amplify efforts and communicate about them effectively.

How do we strengthen this idea?

- Create an accountability center but consider expanding or redefining its programs.
- Resurrect ideas that were developed for [I-1631](#) (or in I-732, previously), and strengthen them to address the main criticisms from opponents. I-1631 language required any project in the Clean Water and Healthy Forests Investments of the "clean up pollution fund" was to be reviewed by PSP for alignment with the Action Agenda.
- Leverage our relationships with our partners to encourage participation in the development and implementation of these tools. Consistent with the Agency's backbone role, there was enthusiasm for supporting partners with this tool.

Investment-Grade Performance Measures

Focusing public-sector expenditures on scientifically measurable environmental benefits using investment-grade performance measures increases the cost-effectiveness of public-sector expenditures. In addition, integrating units of environmental performance into regulatory programs produces more cost-effective compliance and facilitates development of innovate practices. Investment-grade performance measures can also better align public-sector funding and regulatory programs and facilitate truly integrated funding and implementation of multi-benefit projects.

Strengths/Opportunities

Investment-grade performance measures build on our existing work (vital signs, accountability, and progress measures), tools (Salmon Benefit Index, Puget Sound Stormwater Pollution Reduction) and priorities; and moreover could fold neatly into the Adaptive Systems workplan. There was nearly universal appreciation for the potential for this initiative to improve effectiveness, accountability, and performance of investments by bringing more focus on outcomes than actions. Several teams pointed to the potential to leverage investment-grade performance measures to incentivize new investment, including from the private sector. Finally, consistent with the Agency's backbone role there was enthusiasm for supporting partners with this tool.

Weaknesses/Threats

This strategy does increase funding. The weaknesses/threats analysis focused on potentially significant shifts in agency philosophy and theory of change, as well as questions around the basis for using the measures. Using investment-grade performance measures could create a strong preference for shovel-ready projects over actions with less tangible impacts like education, behavior change, planning, policy change, etc. Potentially, for example, requiring a major shift from "no watershed left behind" to

“focusing limited resources on most important outcomes and most impactful locations”. These types of measures take a long time to develop (per the experience of the SBI), and not all vital signs and indicators can be measured through an investment-grade approach. This factor could reduce our ability to justify and fund work outside these measures. Using these measures could create a perception that we are a policing agency, deciding winners and losers. Performance measures assume regulations are adequate, and they could become moving targets which diminish confidence in them.

How do we strengthen this idea?

- Build widespread trust from funders and partners so they support and align with our funding decisions
- Align with other performance measures and allow for activities that cannot have investment grade performance measures
- Use adaptive management so that measures are not seen as a moving target
- Include performance measures that resonate with others to secure funding from new sources
- Consider the context of why some projects/areas/teams achieve performance measures better than others, including ensuring considering the DEI context
- Pair the ecosystem conservation marketplace with investment grade performance measures

Orca Dollars

Orca Dollars harnesses the passion of residents and visitors to Puget Sound to generate a new, significant and sustainable funding source for Puget Sound recovery by creating a mechanism for residents and visitors to easily make small financial donations.

Strengths/Opportunities

The greatest area of consensus was around the benefits of expanding the constituency and partners connected to the recovery community. Orca Dollars would also provide a platform for education and awareness about Puget Sound and the Partnership. The analysis noted the opportunity to create a new source of nimble, flexible funds; and the social acceptability of voluntary contributions.

Weaknesses/Threats

The downsides of Orca Dollars focused on management challenges and administrative difficulties. It is difficult to establish and maintain relationships with local businesses, tracking and monitoring donations is administratively complex, and it might require the establishment and management of the foundation. There was also general agreement that public perception of a donation program might be unfavorable, erode public will, or create a moral hazard (slacktivism, greenwashing). There was also some doubt about whether it would be successful.

How do we strengthen this idea?

- Make a concerted commitment to a new Puget Sound Foundation.
- Widespread, multi-media, consistent external advertising and communication for the program to drive public engagement; but maintain focus on how Orca Dollar accelerate the work of Puget

Sound restoration and resilience. Tell consumers what specific programs or actions their contribution would support.

- Span numerous retail categories
- To entice local businesses to participate, the Orca Dollars program should provide business partners marketing products and media exposure so they gain direct business value from participating in the program
- Publish Orca Dollar funded projects in an online directory and track and communicate their effectiveness and/or outcomes

Nearshore Enhanced Conservation Marketplace

The National Oceanic and Atmospheric Administration's Nearshore Credit Program will provide the regulatory framework to generate a conservation marketplace of permittees seeking offset projects that qualify. The Partnership is well acquainted with recovery project benefits, funding needs, project sponsor reputations, and salmon recovery priorities in each of the Chinook biogeographical regions (or major population groups), and is well equipped to administer an exchange.

Strengths/Opportunities

The nearshore enhanced conservation marketplace generates new, predictable funding for projects that partners in the recovery community have already identified. The Leadership Council has expressed support. The focus on nearshore habitat restoration aligns with science-driven priorities. The program may lend Partnership additional credibility with the business community by showing willingness to utilize market-based solutions, and could serve as pilot/model for a larger Puget Sound restoration marketplace. This program has a good chance to be effective given the many pieces already in place.

Weaknesses/Threats

This program is predicated on some level of damage to some existing nearshore habitat and many in our recovery community, especially the tribes, do not support a program which permits further damaging impacts to imperiled ecosystems. Vocal opposition from tribal partnership would strain relationships with Partnership staff/boards. If we implement this strategy, the Partnership should fully understand the consequences of opposition from tribes. It could erode public will and impact our partner's ability to trust the motivations of the Partnership. There is a risk that restoration projects fail to mitigate damage sufficiently. This may be a very inflexible fund source (and consequently could not be used for things like education, policy change, etc.) because mitigation dollars are used in very specific ways. There are administrative challenges including new systems needed to support this work, including a fiscal agent and contract manager.

How do we strengthen this idea?

- Actively and persistently engage tribes and other concerned partners. The Partnership should plan ahead and be prepared to make a decision contingent on lack of tribal support.
- Be transparent about intents. Is there a defined stopping point if we cannot gain support? Or will we decide to push forward regardless?
- Demonstrate early wins to build and increase support and confidence
- Hire staff with mitigation experience

- Clear messaging around value and weaknesses of mitigation, and focus our efforts on improving mitigation programs overall
- Support mitigation performance at much better than 1:1 offset – go far beyond no net loss
- Direct restoration dollars to similar geographies and ecosystems
- Pair the ecosystem conservation marketplace with investment grade performance measures

Summary Table

This table summarizes the analysis from the Partnership staff teams through a simple stoplight system. It is based on a careful reading of staff analyses, but it is still interpretive. Its intent is to provide a snapshot summary, and not to serve as a decision tool.

	Backbone Role	Advancing and Accelerating Recovery	Integration and Effectiveness of Systems and Programs
Recovery Fund/Parcel Tax			
Innovation and Accountability Center			
Performance Measures			
Orca Dollars			
Nearshore Conservation Marketplace			

