



Water Quality Trading and Federal Farm Policy

Summary from the Summer 2017 Webinar Series

The National Network on Water Quality Trading started in 2013 with 18 organizations representing the diversity found in most emerging trading programs in the country, including agriculture, wastewater and stormwater utilities, environmental groups, regulatory agencies and practitioners delivering water quality trading programs. The purpose of the Network is to establish a national dialogue on how water quality trading can best contribute to clean water goals.

The Network has identified “supportive policy” as an important aspect of successful water quality trading programs. In the Network’s first analysis of federal policy, individuals from the Network Steering Committee and guests participated in a voluntary discussion to brainstorm ideas for ways existing federal farm programs could better support water quality trading.

The Network is not an advocacy organization and as such this document does not provide specific policy recommendations, but highlights opportunities the discussion participants see to advance trading and markets. The participants recognize that the implementation of these ideas is dependent on the availability of funding to these programs in the federal budget.

Context

Federal farm programs have been an important vehicle for policy, funding, and progress in developing environmental markets – a flexible approach to meeting environmental goals, saving money, and generating economic growth. This summary is a gathering of initial ideas organized under the important factors shaping success in markets for water quality:

- Clear demand: Clarity in water quality goals, authority to use market-based approaches, and willingness of buyers and the private sector to invest in water quality;
- Clear risk: The policies and people clearly manage risk so that the private sector and buyers want to participate; and
- Clear path: The tools, systems, and capacity needed to develop and support markets.

Participants in two webinars identified the ideas below, and sorted them into priorities based on potential to improve water quality, clarity, and readiness for implementation.

Important Areas to Support Markets in Federal Farm Policy

Clarify the Environmental Quality Incentives Program (EQIP) and Regional Conservation Partnership Program's (RCPP) ability to support markets

Current USDA policy states that USDA does not own any environmental credits generated through its programs, but that does not clarify that EQIP funds can be used explicitly to prepare producers to participate in markets. EQIP authorities could be clarified to state:

- EQIP funds can be used by producers, NRCS, and other partners to meet the baseline requirements needed to participate in environmental markets, and the NRCS Chief and/or State Conservationists may allocate portions of EQIP for that express purpose;
- Completed EQIP-funded projects may be sold for credits if the credit revenue is returned to a revolving investment fund available for future EQIP projects.

The RCPP statutes allow for alternative funding arrangements for proposals from multi-state water authorities. This provision could be clarified and expanded to state:

- Up to 5% of RCPP investments can be used to support partnership development, quantification of outcomes, and reporting necessary to demonstrate conservation effects;
- RCPP proposals that quantify and communicate outcomes can be prioritized; and
- Alternative funding arrangements include private investment, pay for performance, environmental markets, and other innovative approaches, and are an important objective of RCPP.

Support innovations AND innovation transfer via the Conservation Innovation Grants (CIG) program

The Conservation Innovations Grants program is essential to fostering new market innovations, but it can also be expanded to support innovation transfer. In the last 13 years of the CIG program, great strides have been made in technologies, market tools and rules, and program demonstrations. The CIG program can also be used to scale and transfer innovations to expand markets.

Expand Rural Development's Utilities program and include natural infrastructure and on-farm solutions

The Utilities program currently funds important wastewater and drinking water infrastructure for rural communities (towns with <5,000 people). Aging infrastructure is a significant barrier to economic development. Rural Development could expand funding within the Utilities program to replace aging infrastructure, include green infrastructure and on-farm BMPs in the definition of fundable infrastructure, and prioritize watershed-based solutions that expand opportunities for rural towns and surrounding farm communities via lower interest rates, loan guarantees, and/or priorities for grants.

As part of an expanded utilities program, NRCS could ensure usable methods to quantify nutrient and sediment reductions from green infrastructure and on-farm BMPs are used to facilitate implementation of the Utilities program. Rural Development policy could also clarify the Utilities program's ability to purchase and resell environmental credits as part of its rural economic development mission.

Ideas on How Federal Farm Programs Could Support Markets

Below is the complete list of ideas brainstormed by the webinar participants, broadly sorted by priority from high to low, based on the potential to improve water quality, clarity, and readiness for implementation.

Highest Priority

Dedicate a portion of EQIP to meeting baseline requirements in markets

The EQIP program can help meet baseline requirements by investing in conservation practices in emerging water quality markets. The EQIP program purpose might expand on language letting producers “meet their own regulatory requirements and other eligibility criteria for conservation programs” with EQIP.

Allow flexibility to resell new EQIP projects to WQT credit buyers

Assign EQIP-funded projects a credit value and allow for a short period of time after the BMP is installed during which buyers of water quality trading credits could purchase those credits. If credits are sold, the EQIP funded would be “paid back,” starting a revolving investment fund for the next projects. This would create a ready supply of projects available to buyers, and could also be used to mitigate risk of replacing credits in case of failed projects. This is a new idea to explore and it’s not entirely clear how it would work.

Expand and increase flexibility for the Regional Conservation Partnership Program (RCPP)

The RCPP program is already creating innovative partnerships between cities and farmers to improve water quality. Continuing and expanding RCPP could help support water quality markets. Current RCPP statutes allow for “alternative funding arrangements” for proposals from multi-state water authorities. RCPP could include more explicit language authorizing pay for performance or other innovative financing approaches. Currently, RCPP does not fund monitoring for outcomes or other important support for these backbone partnerships. RCPP could be expanded to fund some of these activities.

Defining outcomes for RCPP

Supportive policy could provide guidance on the quantification of outcomes for RCPP and call for reporting of outcomes. RCPP could also provide the funding needed to do that quantification and reporting. Water quality improvements could be explicitly woven into selection criteria for new RCPP projects.

Improve RCPP Administration

Guidance on RCPP project administration could facilitate the approval, implementation, and management processes to remove administrative barriers to participation.

Continue Conservation Innovation Grants program and expand to innovation transfer

The Conservation Innovations Grants program is essential to fostering new market innovations, but it can also be used to scale and transfer innovations to expand markets. The CIG program calls for transfer, but supportive policy could ensure dedicated funds for innovation outreach and transfer.

Authorize investment in watershed solutions as part of Rural Development's Utilities program

Rural Development provides technical assistance, grants, and loans for communities with less than 20,000 people across the US to improve water and wastewater infrastructure. Supportive policy could encourage consideration of watershed solutions and markets, and provide dedicated funding for those solutions and/or explicit authorization to invest in water quality markets.

Significantly increase the RD Utilities program

There is a huge backlog of infrastructure investment needed in rural communities. Supportive policy could significantly increase funding, and expand eligibility to any community smaller than 50,000 people.

Build out a usable method to quantify nutrient and sediment reductions from practices

Supportive policy could direct NRCS to complete nutrient and sediment quantification tool(s) that work at the farm scale and are regionally relevant to the different agricultural zones and watersheds in the US.

Medium Priority

Creation of a program improvement team

Create a program improvement team at USDA to provide voluntary assistance and program improvement recommendations to trading programs.

Dedicate a portion of CIG money to fund quantification methods for water quality

Conservation Innovation Grants have been awarded to fund model development and adaptation to quantify nutrient and other pollution reductions from on-farm activities. Locally-adapted tools to quantify reductions from BMPs is still a barrier to water quality markets in many places. CIG could use a year or two of funding to prioritize development of quantification methods.

Practice standards for instream restoration

Practice standards exist for riparian forest restoration and on-farm BMPs. NRCS could provide additional guidance on instream restoration (e.g., floodplain reconnection, augmenting instream flows, or increasing channel complexity and instream habitat) to standardize practices that qualify for conservation program funding.

Provide capacity to Rural Water Associations and Conservation Districts to support markets

Rural communities may have limited capacity to support entry into markets and access to private capital. Rural Development can provide technical assistance funds and support to state rural water associations and conservation district associations to help their members to access markets. Rural Development currently offers grants for community facility technical assistance. There are also Environmental Finance Centers in each EPA region, but they do not have the funding or a link to USDA programs that could make them stronger technical assistance providers to markets.

Create a large scale pilot (e.g., \$50 million) for a water quality market

Allocate funds through NRCS to purchase water quality credits using existing market infrastructure (e.g., in the Mississippi Basin). Rather than direct purchase, NRCS could also explore ways to leverage funds to reduce risk in markets—similar to ideas being floated by Environmental Defense for carbon and past ideas floated for the Chesapeake Bay. There are some current Conservation Innovation Grants looking at options to reduce market risk. Short of a large pilot, funds could be allocated to build feasibility studies/develop a proposal for a large scale pilot.

Request a report from USDA to Congress on potential for environmental markets

The report could explore the possible impact on achieving resource management goals if markets were used. The report could also explore the potential for cost savings and make further recommendations on where and how to use markets.

Clarify ability of USDA to buy and sell environmental credits

Current USDA policy states that USDA does not own any environmental credits generated through its programs. The policy could be clarified to state that USDA has the ability to buy and sell credits generated through programs such as EQIP.

Lowest Priority

Regulatory assurances for participants in an RCPP program

In markets, farmers want to ensure they have assurances that participation in markets does not increase any regulatory requirements. For utilities and cities, they are nervous about investing in watershed solutions if they remain liable for the performance of those watershed projects. The RCPP program could include regulatory assurances for all farmers and permitted dischargers who participate. Beyond RCPP, there may be interest in some form of agreement between EPA and USDA assuring the presence of credits on BMP projects and the ability to use those credits in permits.

Add an RCPP + Watershed Protection Plan option

To get the assurances mentioned above, RCPP partners would need to develop a Watershed Protection Plan with clear water quality goals, milestones toward achieving those goals, a plan for tracking progress, and provisions for what happens if milestones are not met. That Watershed Protection Plan would need to be approved by the state water quality agency or other water quality permitting authority.

Neighboring Landowner Assurances

For landowners adjacent to a conservation project, they cannot be subject to additional regulation as a result of the conservation action taken by their neighbor. For example, riparian restoration and protection of endangered species cannot lead to additional requirements for the neighbor beyond what they were subject to prior to the conservation action.